

**OPERATION GRATITUDE, INC.**  
(A California Nonprofit Public Benefit Corporation)

**FINANCIAL STATEMENTS**

**December 31, 2021**



Gurseley | Schneider <sup>LLP</sup>  
CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

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## **Independent Auditor's Report**

To the Board of Directors  
Operation Gratitude, Inc.  
Chatsworth, California

### ***Opinion***

We have audited the financial statements of Operation Gratitude, Inc. (the Organization), which comprise the statement of financial position as of December 31, 2021, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of December 31, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Basis for Opinion***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

*Gursey | Schneider LLP*

April 28, 2022  
Los Angeles, California

**OPERATION GRATITUDE, INC.**  
(A California Nonprofit Public Benefit Corporation)  
Statement of Financial Position  
December 31, 2021

**ASSETS**

**CURRENT ASSETS**

Cash and cash equivalents	\$ 4,036,777
Investments, at fair value	7,139,766
Contributions receivable, net	229,627
Prepaid expenses and other assets	246,155
Inventory	<u>8,087,113</u>

**Total Current Assets** 19,739,438

**OTHER ASSETS**

Property and equipment, net	285,187
Deposits	78,822
Right-of-use asset, operating lease	<u>736,949</u>

**Total Other Assets** 1,100,958

**TOTAL ASSETS** \$ 20,840,396

**LIABILITIES AND NET ASSETS**

**CURRENT LIABILITIES**

Accounts payable and accrued expenses	\$ 281,866
Right-of-use liability, operating lease, current portion	<u>418,634</u>

**Total Current Liabilities** 700,500

**OTHER LIABILITIES**

Right-of-use liability, operating lease	<u>348,435</u>
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**TOTAL LIABILITIES** 1,048,935

**NET ASSETS**

Without donor restrictions	18,053,005
With donor restrictions	<u>1,738,456</u>

**TOTAL NET ASSETS** 19,791,461

**TOTAL LIABILITIES AND NET ASSETS** \$ 20,840,396

See Accompanying Notes to Financial Statements

**OPERATION GRATITUDE, INC.**  
(A California Nonprofit Public Benefit Corporation)  
Statement of Activities and Changes in Net Assets  
For the Year Ended December 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
<b>REVENUES AND SUPPORT:</b>			
Contributions	\$ 4,580,617	\$ 1,712,577	\$ 6,293,194
Contributed goods for distribution	12,898,096	-	12,898,096
Contributed professional services	236,340	-	236,340
	<u>17,715,053</u>	<u>1,712,577</u>	<u>19,427,630</u>
Subtotal - Contributions			
Investment income, net	682,034	-	682,034
Forgiveness of debt - PPP loan	427,557	-	427,557
Net assets released from restriction	2,187,471	(2,187,471)	-
	<u>21,012,115</u>	<u>(474,894)</u>	<u>20,537,221</u>
<b>TOTAL REVENUES AND SUPPORT</b>			
<b>FUNCTIONAL EXPENSES:</b>			
Program services	18,578,056	-	18,578,056
Management and general	936,495	-	936,495
Fundraising	1,002,458	-	1,002,458
	<u>20,517,009</u>	<u>-</u>	<u>20,517,009</u>
<b>TOTAL FUNCTIONAL EXPENSES</b>			
<b>CHANGES IN NET ASSETS</b>	495,106	(474,894)	20,212
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>17,557,899</u>	<u>2,213,350</u>	<u>19,771,249</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 18,053,005</u>	<u>\$ 1,738,456</u>	<u>\$ 19,791,461</u>

See Accompanying Notes to Financial Statements

**OPERATION GRATITUDE, INC.**  
(A California Nonprofit Public Benefit Corporation)  
Statement of Functional Expenses  
For the Year Ended December 31, 2021

	Program Services	Management and General	Fundraising	Total
<b>PERSONNEL EXPENSES</b>				
Salaries	\$ 1,564,623	\$ 538,095	\$ 677,001	\$ 2,779,719
Fringe benefits	67,568	23,237	29,236	120,041
Payroll Taxes	115,778	39,818	50,097	205,693
<b>Subtotal</b>	<b>1,747,969</b>	<b>601,150</b>	<b>756,334</b>	<b>3,105,453</b>
<b>OTHER EXPENSES</b>				
Bad debt	-	12,200	-	12,200
Bank and credit card charges	-	43,482	-	43,482
Corporate event shipping costs	51,083	-	-	51,083
Depreciation	63,878	3,362	-	67,240
Development and advertising	12,587	12,587	37,763	62,937
Dues and subscriptions	-	4,620	-	4,620
Equipment rental	48,324	2,543	-	50,867
Goods donated	14,086,898	-	-	14,086,898
Insurance	53,291	18,327	23,058	94,676
Obsolete inventory	880,370	-	-	880,370
Occupancy	477,272	25,120	-	502,392
Office supplies	24,485	7,494	9,428	41,407
Packaging and supplies	109,107	-	-	109,107
Postage and shipping	649,564	-	-	649,564
Printing	318	110	138	566
Professional services	214,525	151,566	116,353	482,444
Taxes and licenses	-	6,736	-	6,736
Telephone	6,346	2,183	2,747	11,276
Temporary help	21,147	-	-	21,147
Travel	59,138	20,338	25,589	105,065
Website and software	71,754	24,677	31,048	127,479
<b>Subtotal</b>	<b>16,830,087</b>	<b>335,345</b>	<b>246,124</b>	<b>17,411,556</b>
<b>TOTAL EXPENSES</b>	<b>\$ 18,578,056</b>	<b>\$ 936,495</b>	<b>\$ 1,002,458</b>	<b>\$ 20,517,009</b>
<i>Percentage of total expenses</i>	<i>90.5%</i>	<i>4.6%</i>	<i>4.9%</i>	<i>100.0%</i>

See Accompanying Notes to Financial Statements

**OPERATION GRATITUDE, INC.**  
(A California Nonprofit Public Benefit Corporation)  
Statement of Cash Flows  
For the Year Ended December 31, 2021

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Changes in net assets	\$ 20,212
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Depreciation - property and equipment	67,240
Amortization - right-of-use leased asset - operating	9,498
Net realized and unrealized investment gains	(682,034)
Forgiveness of debt - Paycheck Protection Program	(427,557)
(Increase) / decrease in assets:	
Contributions receivable	159,952
Prepaid expenses	(3,214)
Contributed inventory	1,865,896
Increase / (decrease) in liabilities:	
Accounts payable and accrued expenses	<u>117,521</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>1,127,514</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Proceeds from sale of investments	1,206,371
Cash paid for purchases of investments	(2,458,640)
Cash paid for purchases of property and equipment	<u>(208,733)</u>
<b>NET CASH USED FOR INVESTING ACTIVITIES</b>	<u>(1,461,002)</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(333,488)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>4,370,265</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u><u>\$ 4,036,777</u></u>

See Accompanying Notes to Financial Statements

**OPERATION GRATITUDE, INC.**  
(A California Nonprofit Public Benefit Corporation)  
Notes to Financial Statements  
December 31, 2021

**NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES**

Operation Gratitude, Inc., a California nonprofit public benefit corporation (the “Organization”), continued its mission to honor our military and first responders by providing opportunities for Americans to express their gratitude.

In March of 2003, Operation Gratitude sent its first four care packages to deployed service members in Iraq. Since its inception, the organization has provided Americans across our country the opportunity to say “thank you for your service” through hands-on volunteerism, lifting the spirits of more than 3 million deployed troops, recruit graduates, veterans, military families, and first responders.

Volunteers are the heart and soul of the organization. Through donation drives, letter-writing campaigns, craft projects, service projects, and other activities, the grassroots nonprofit creates opportunities for citizens, in and out of uniform, to serve together, make meaningful connections, and better understand one another. In doing so, Operation Gratitude strengthens communities across the country by building bridges between civilians, military, veterans, first responders and their families.

During the year ended December 31, 2021, Operation Gratitude assembled and distributed care packages or their equivalents to hundreds of thousands of service members, first responders, and families, ultimately surpassing the notable milestone of over 3.4 million recipients impacted since Operation Gratitude’s inception.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation** – The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

**Net Assets** – The Organization recognizes contributions, including unconditional promises to give, as revenue in the period received. Revenues, gains, expenses, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

- **Without Donor Restrictions** – Net assets without donor restriction represent the portion of expendable funds that are available to support the operations and are not subject to donor-imposed restrictions. Additionally, the Organization recognizes a restricted contribution directly in net assets without donor restrictions if the restriction is met in the same period that revenue is recognized.
- **With Donor Restrictions** – Net assets that are subject to donor-imposed restrictions that limit the use of their contributions. Donor restrictions may result in temporarily restricted net assets, where the use of contributions is limited by donor-imposed stipulations that either expire by the passage of time or when used for specified purposes. Donor restrictions may also result in permanently restricted net assets, where the donor stipulations neither expire by the passage of time nor can be fulfilled or otherwise removed by the Organization’s actions.

**OPERATION GRATITUDE, INC.**  
(A California Nonprofit Public Benefit Corporation)  
Notes to Financial Statements  
December 31, 2021

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)**

**Cash and Cash Equivalents** – For financial statement purposes, the Organization considers cash on hand, cash held in checking accounts, deposits in transit from donation processing platforms, and highly liquid, short-term money market investments to be cash and cash equivalents.

**Investments** – The Organization accounts for its investments at fair value, determined by quoted market prices. Purchases and sales of investments are recorded on the trade date. Dividend income is recorded based on the record date. Interest income is recorded as earned on an accrual basis. Bond premiums and discounts are amortized to the first call date using a method that approximates the effective interest method. Realized gains and losses are recorded upon disposition of securities. Investment income and realized and unrealized gains and losses are recognized as net assets without donor restrictions unless their use is temporary or permanently restricted by donors to a specified purpose or future period.

Net investment income consists of interest, dividends, realized and unrealized gains and losses. Net investment income is presented net of related investment fees of \$54,943. Footnote 5 includes a summary of net investment activity.

**Revenue Recognition** – Contributions and pledges are recognized as revenue when they are unconditionally communicated. Grants represent contributions if resource providers receive no value in exchange for the assets transferred. Contributions and pledges are recorded at their fair value as support without donor restriction or support with donor restriction, depending on the absence or existence of donor-imposed restrictions as applicable. When a restriction expires (when a stipulated restriction ends or purpose restriction is accomplished), restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

**Contributions Receivable** – Unconditional contributions, including grants recorded at fair value, are recognized as revenues in the period received. The Organization reports unconditional contributions as restricted support if they are received with donor stipulations that limit the use of the donated assets. At December 31, 2021, the Organization evaluated the collectability of grants receivable and determined an allowance was not required. All grants and contributions receivable will be collected within one year.

**Contributed Inventory** – The Organization receives most of the items it sends in care packages from private donations from corporations and individuals. Contributed inventory is recorded as contributions without donor restrictions when they are received and is valued at management's best estimate of fair value at the time they are received (a Level 3 fair value measure), net of inventory that is unusable for the Organization's purposes. Upon distribution, the inventory is recorded as a decrease in net assets without donor restriction. Inventory that is unusable for the Organization's purposes is donated to other local community agencies, with special attention to directly support the Military, Veteran, and/or First Responder communities if possible.

At December 31, 2021, inventory on hand consisted primarily of home health products, consumer confectionary items, small dry grocery items, toiletries and other sundries and miscellaneous gifts, and hand-crafted items such as paracord-survival bracelets and hand-knit scarves and hats. Most inventories are warehoused in Chatsworth, California, with select items stored at partner facilities and/or are directly shipped from donors to mutually agreed upon event / distribution locations.

**OPERATION GRATITUDE, INC.**  
(A California Nonprofit Public Benefit Corporation)  
Notes to Financial Statements  
December 31, 2021

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)**

**Property and Equipment** – Property and equipment are valued at cost or management's best estimate of fair value at the time of donation. Property and equipment are depreciated on a straight-line method over three or five years. Software developed for internal use is capitalized. Normal repairs and maintenance, as well as property and equipment purchase that are less than \$1,000 are expensed as incurred.

**Impairment of Long-Lived Assets** – Long-lived assets such as property and equipment are reviewed for events or changes in circumstances, which indicate that their carrying value may not be recoverable. The Organization has determined that no events occurred during the year ended December 31, 2021 that would give rise to impairment of its long-lived assets.

**Leases** – The Company has an operating lease for warehouse and office space which expires on September 30, 2023. This lease may contain provisions for periodic adjustments to rental rates and occupancy use charges. The Organization adopted ASU 2016-02, "Leases (Topic 842)," on January 1, 2020, using a modified retrospective transition method. Under this transition method, its financial results reported in periods prior to 2019 were unchanged.

The Organization determines if an arrangement is a lease at inception. Right-of-use ("ROU") assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent its obligation to make lease payments arising from the lease. Lease assets and liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term.

The Organization uses its own estimated incremental borrowing rate, which is derived from information available at the lease commencement date, in determining the present value of lease payments, as the rate implicit in the lease is not readily available for such leases.

The Organization's lease terms include options to extend or terminate the lease when it is reasonably certain that it will exercise that option. The current lease does not contain an option to extend.

The Organization also leases short-term equipment and warehouse leases on month-to-month terms. The Company uses the short-term lease exemption practical expedient for leases with a term of twelve months or less. The Organization accounts for the lease and non-lease components as separate lease component.

**OPERATION GRATITUDE, INC.**  
(A California Nonprofit Public Benefit Corporation)  
Notes to Financial Statements  
December 31, 2021

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)**

**Donated Goods and Services (Other than Contributed Inventory)** – Donated services are recognized if the services received create or enhance long-lived assets, require specialized skills, and are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Donated goods are recognized at fair value at the time of contribution. These amounts are included in in-kind contributions in the accompanying statements of activities.

Donated goods and services for the year ended December 31, 2021 consist of the following:

Legal services	\$ 146,078
Consulting services	45,000
Advertising	27,750
Warehouse space	11,232
All other	<u>6,280</u>
	<u><u>\$ 236,340</u></u>

Additionally, the Organization receives a significant amount of contributed time from volunteers who do not meet the two recognition criteria described above. Accordingly, the value of this contributed time is not reflected in the accompanying financial statements. Management estimates hundreds of thousands of volunteer hours for service projects and activities to include staging of donated items, letter writing and screening, knitting scarves and creating other hand-made items, and packaging, assembling, and distributing care packages during the year ended December 31, 2021, by a support network of volunteers around the country. The purpose of the Organization could not be fulfilled without the significant contributions of volunteer time throughout the country, which is not reflected in the accompanying financial statements.

**Functional Allocation of Expenses** – The costs of providing program and supporting services have been summarized on a functional basis in the accompanying statement of functional expenses. The Organization incurs expenses that relate to, and can be assigned to, a specific program or supporting activity. Operation Gratitude also conducts a few activities which benefit both its program objectives as well as supporting activities. These costs, which are not specifically attributable to a specific program or supporting activity, are allocated by management on a consistent basis among program and supporting activities benefited, based on either financial or nonfinancial data, such as estimates of time and effort incurred by personnel in their employment, use of space based on square foot of space, or other non-financial measures.

**Income Taxes** – The Organization is exempt from taxation under Internal Revenue Code ("IRC") Section 501(c)(3) and California Revenue and Taxation Code Section 23701(d). In accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic No. 740, "Income Taxes," the Organization recognizes the impact of tax positions in the financial statements if those positions will more likely than not be sustained on audit, based on the technical merits of the position. The Organization is exempt from income taxes but is subject to unrelated business income tax for income from operating activities not related to their exempt purpose. Unrelated business income is taxed based on the applicable statutory federal and state income tax rates for for-profit organizations. The Organization has no unrelated business income, and has no recognized or derecognized tax benefits, tax penalties or related interest.

**OPERATION GRATITUDE, INC.**  
(A California Nonprofit Public Benefit Corporation)  
Notes to Financial Statements  
December 31, 2021

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)**

The Organization's federal income tax and informational returns for tax years 2018 and subsequent remain subject to examination by the Internal Revenue Service. The returns for California remain subject to examination by the California Franchise Tax Board for years 2017 and subsequent.

**Concentration of Credit Risks** – The Organization maintains its cash in bank deposit accounts which, at times may exceed federally insured limits. The Federal Deposit Insurance Corporation (FDIC) guarantee bank accounts up to \$250,000. Investments in money market funds are not insured by the FDIC.

As of December 31, 2021, five donors accounted for approximately 69% of contributions receivable. No other donors accounted for more than 10% of contributions receivable.

**Fair Value of Financial Instruments** – FASB ASC Topic No. 820, "*Fair Value Measurements*" ("ASC 820"), applies to all assets and liabilities that are recognized or disclosed at fair value on a recurring basis. ASC 820 defines fair value as the price that would be received upon sale of an asset or paid upon transfer of a liability in the orderly transactions between market participants at the measurement date and in the principal or most advantageous market for that asset or liability. In addition to defining fair value, ASC 820 expands the disclosure requirement around fair value and established a fair value hierarchy for valuation inputs. The statement requires that assets and liabilities carried at fair value be classified and disclosed in one of the follow three categories:

- Level 1: Quoted market prices in active markets for identical assets or liabilities
- Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data
- Level 3: Unobservable inputs that are not corroborated by market data

In general, and where applicable, the Organization uses quoted prices in active markets for identical assets or liabilities to determine fair value. If quoted prices in active markets for identical assets or liabilities are not available to determine fair value, then they use quoted prices for similar assets or inputs other than the quoted prices that are observable either directly or indirectly.

In accordance with ASC 820, the Organization has classified all of its cash and cash equivalents and investments in the Level 1 fair value hierarchy measured at fair value on a recurring basis at December 31, 2021. The carrying amounts of the Organization's other financial instruments such as contributions receivable, and accounts payable approximate their fair value because of the short maturity of these instruments.

**Risks and Uncertainties** – Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in values of investment securities will occur in the near term. Such changes could materially affect the amounts reported in the statements of financial position and statements of activities.

**Subsequent Events** – Subsequent events have been evaluated through April 28, 2022, the date the financial statements were available to be issued.

**OPERATION GRATITUDE, INC.**  
(A California Nonprofit Public Benefit Corporation)  
Notes to Financial Statements  
December 31, 2021

**NOTE 3 – USE OF ESTIMATES**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The most significant estimates relate to the valuation of contributed inventory, professional and other donated services, and the valuation of inventory on hand. Contributed inventory and donated services accounted for approximately 64% of total revenue and support for the year ended December 31, 2021 and inventory on hand accounted for approximately 39% of total assets as of December 31, 2021.

The valuation of contributed inventory is based on management's best estimate of fair value for each item received. Items are valued upon receipt. Fair values are determined based on numerous factors which may include (a) amounts specified by the donor as being the wholesale selling price, (b) current retail or selling price of similar items, if known, or (c) management's own subjective appraisals based on research. Additionally, items of a unique or personal nature which do not have readily determinable fair values and goods which do not conform to the Organization's size or quality requirements for shipping are either assigned a nominal value or not assigned a value.

The valuation of donated services is based on prevailing labor costs of consultants engaged in non-profit advisory services.

**NOTE 4 – LIQUIDITY AND AVAILABILITY**

Financial assets consist of the Organization's cash and cash equivalents, investments, and contributions receivable. The following table summarizes the Organization's financial assets as of December 31, 2021, reduced by amounts not available for general use within one year of December 31, 2021 because of donor-imposed restrictions:

Financial assets as of December 31, 2021	\$ 11,406,170
Less assets unavailable for general expenditures within one year:	
Restricted by donors with purpose restrictions	<u>(1,738,456)</u>
	<u>\$ 9,667,714</u>

Financial assets available to meet cash needs for general expenditures within one year represent funding available for ongoing operational requirements and planned increases. Program expenditures are comprised mostly of goods distributed. Most goods distributed are received from private in-kind donations from corporations and individuals.

The Organization has an investment policy authorized by the board of directors that provides guidance and oversight for the management of cash and cash equivalents, and investments. The policy provides that the Organization maintain an adequate level of cash to meet on-going operational and liquidity requirements.

**OPERATION GRATITUDE, INC.**  
(A California Nonprofit Public Benefit Corporation)  
Notes to Financial Statements  
December 31, 2021

**NOTE 5 – INVESTMENTS AND INVESTMENT INCOME**

All investments were classified by type within the Level 1 fair value hierarchy. The cost basis and corresponding fair value of the Organization’s investment holdings as of December 31, 2021 are summarized as follows:

	Cost Basis	Fair Value Hierarchy			Total
		Level 1	Level 2	Level 3	
Mutual funds	\$ 3,318,006	\$ 3,470,823	\$ -	\$ -	\$ 3,470,823
Exchange traded funds	628,432	651,815	-	-	651,815
Equity securities	1,821,378	2,618,478	-	-	2,618,478
Real estate investment trusts	279,791	398,650	-	-	398,650
	<u>\$ 6,047,607</u>	<u>\$ 7,139,766</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,139,766</u>

Net investment income for the year ended December 31, 2021 consists of the following:

Interest and dividends	\$ 137,874
Realized gains, net	219,619
Unrealized gains, net	379,484
Management fees	<u>(54,943)</u>
	<u>\$ 682,034</u>

**NOTE 6 – PROPERTY AND EQUIPMENT**

Property and equipment consist of the following at December 31, 2021:

Warehouse fixtures and equipment	\$ 247,815
Automobiles	33,770
Software	201,832
Website	153,398
Leasehold improvements	<u>14,408</u>
	651,223
Less accumulated depreciation	<u>(366,036)</u>
	<u>\$ 285,187</u>

Depreciation expense for the year ended December 31, 2021 was \$67,240.

At December 31, 2021, leased property consists of the following:

Right-of-use asset - operating	\$ 1,498,656
Less: accumulated amortization	<u>(761,707)</u>
	<u>\$ 736,949</u>

**OPERATION GRATITUDE, INC.**  
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Notes to Financial Statements  
December 31, 2021

**NOTE 6 – PROPERTY AND EQUIPMENT – (CONTINUED)**

Amortization expense of the right of use asset for the year ended December 31, 2021 was \$401,211. This amount is included as a component of occupancy expense in the accompanying statement of functional expenses.

**NOTE 7 – LOAN PAYABLE – PAYCHECK PROTECTION PROGRAM**

On May 1, 2020, the Organization borrowed \$427,557 through the Paycheck Protection Program (“PPP”) offered by the United States Small Business Administration. On March 9, 2021, the lender fully forgave this loan and related accrued interest. The accompanying statement of activities reflect this loan forgiveness as other income for the year ended December 31, 2021. This amount is shown as a non-cash income as the proceeds were received during the prior year.

**NOTE 8 – NET ASSETS WITH DONOR RESTRICTIONS**

At December 31, 2021, the Organization had net assets with donor restrictions as follows:

	Available at December 31, 2020	Contributions	Released from Restriction	Available at December 31, 2021
Capital campaign	\$ 205,948	\$ -	\$ -	\$ 205,948
Corporate events	<u>2,007,402</u>	<u>1,712,577</u>	<u>(2,187,471)</u>	<u>1,532,508</u>
	<u>\$ 2,213,350</u>	<u>\$ 1,712,577</u>	<u>\$ (2,187,471)</u>	<u>\$ 1,738,456</u>

*Capital Campaign* – Operation Gratitude launched a two-year Capital Campaign in 2015 to purchase its own warehouse facility, which would provide room for growth in programming and volunteerism. Due to changing operational needs of the National Guard, Operation Gratitude moved into its new location in Chatsworth, CA that would accommodate the Organization’s needs for at least the next three to five years.

The Board suspended the Capital Campaign during the fiscal year ended December 31, 2016 and notified all donors that their funds could either be refunded or held in the Capital Campaign account to be used for tenant improvements, technology infrastructure, or a future building purchase. If at the end of five years, no building purchase is underway, the remaining funds would seed an endowment, the interest from which would be used to further Operation Gratitude’s mission. All donors have agreed to leave their funds in the Capital Campaign account. The amounts will be included as temporarily restricted net assets until such time that (a) the funds are spent according to its intended purpose, or (b) converted to a permanently restricted endowment at the conclusion of the five-year period.

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**NOTE 8 – NET ASSETS WITH DONOR RESTRICTIONS – (CONTINUED)**

Management and the Board of Directors are currently reaching out to the original capital campaign donors in an effort to extend the initial capital campaign gifts for an additional two (2) years. This process is ongoing. Until such time that the donors have agreed to amend the terms of the original gift, management will retain all these funds on account until a determination is made. There is no guarantee that each donor can be contacted or will agree to the amended terms. If successful in receiving permission to retain these funds in the Capital Campaign account for an additional two (2) years, funds will be used for tenant improvements, technology or capital expenditures. Unused funds will be deposited into an Endowment account after the two (2) year extension with interest used to further Operation Gratitude’s mission.

*Corporate Events* – In 2021, Operation Gratitude entered into agreements with corporate sponsors to develop and administer care package volunteer programs for employees of the corporate sponsors. The Organization satisfied a portion of the obligations and \$1,532,508 of sponsored funds are restricted until all obligations are satisfied. Management expects to fulfill the remaining obligations under these sponsorship agreements by December 31, 2022.

**NOTE 9 – COMMITMENTS**

*Lease* – On November 19, 2019, the Organization entered into a standard sublease agreement for 34,349 square feet of space in Chatsworth, California. The new lease agreement commenced on February 1, 2020, and ends on September 30, 2023.

Management estimates the discount rate at 3.5% and amortizes the lease liability using the effective interest method over the remaining 33-month term.

Maturities of lease liabilities as of December 31, 2021, were as follows:

<u>Years Ending December 31,</u>	
2022	\$ 438,909
2023	<u>353,549</u>
Total lease payments	792,458
Less: Imputed interest	<u>(25,389)</u>
	<u><u>\$ 767,069</u></u>

Total rent and occupancy expense (which includes the pass-through of certain building operating costs charged by the landlord) incurred for the year ended December 31, 2021 was \$502,392.

In addition, the Organization leases industrial equipment for warehousing and distributing goods throughout the year. Such equipment, such as staging equipment, forklifts, and other vehicles are rented on month-to-month terms.

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**NOTE 9 – COMMITMENTS – (CONTINUED)**

*Employment Agreement* – The Organization has an employment contract with its founder that provides for a salary, subject to annual increases, and customary benefits provided to all employees. The contract expires on June 30, 2023. The future salary commitments under this employment agreement as of December 31, 2021, are summarized as follows:

<u>Years Ending December 31,</u>	
2022	\$ 170,222
2023	<u>90,218</u>
	<u>\$ 260,440</u>

**NOTE 10 – EMPLOYEE BENEFIT PLAN**

The Organization sponsors a 401(k)-profit sharing plan that covers full time employees meeting certain eligibility requirements. Employees may contribute a portion of their compensation to the plan, limited to the maximum annual amount as set forth in the adoption agreement. The Organization has elected to satisfy the safe harbor contribution requirements by making a non-elective deferral. In addition, the Organization elected to make an elective contribution to the plan. The Organization recognized contribution expenses of \$89,189 for the year-ended December 31, 2021.