

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

FINANCIAL STATEMENTS

**Six-Month Period Ended
June 30, 2023**



Gurseley | Schneider LLP
CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

CONTENTS

	<u>Pages</u>
INDEPENDENT AUDITOR'S REPORT	1 – 2
FINANCIAL STATEMENTS	
Statement of Financial Position	3
Statement of Activities and Changes in Net Assets	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7 – 17

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 June 30, 2023, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the six-month period 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 June 30, 2023, and the changes in its net assets and its cash flows for the six-month period 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 Organization'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

November 20, 2023
Los Angeles, California

OPERATION GRATITUDE, INC.
(A California Nonprofit Public Benefit Corporation)
Statement of Financial Position
June 30, 2023

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$	4,144,931
Investments, at fair value		3,235,038
Contributions receivable, net		452,110
Prepaid expenses and other assets		225,145
Inventory		<u>6,822,201</u>

Total Current Assets		<u>14,879,425</u>
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OTHER ASSETS

Property and equipment, net		79,632
Right-of-use asset, operating lease		<u>108,219</u>

Total Other Assets		<u>187,851</u>
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TOTAL ASSETS		<u><u>\$ 15,067,276</u></u>
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable and accrued expenses	\$	390,009
Right-of-use liability, operating lease, current portion		<u>117,546</u>

TOTAL LIABILITIES		<u>507,555</u>
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NET ASSETS

Without donor restrictions		13,102,569
With donor restrictions		<u>1,457,152</u>

TOTAL NET ASSETS		<u>14,559,721</u>
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TOTAL LIABILITIES AND NET ASSETS		<u><u>\$ 15,067,276</u></u>
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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 Six – Month Period Ended June 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND SUPPORT:			
Contributions	\$ 1,164,692	\$ 1,005,549	\$ 2,170,241
Contributed goods for distribution	4,053,904	-	4,053,904
Contributed services	204,628	-	204,628
	<hr/>	<hr/>	<hr/>
Subtotal - Contributions	5,423,224	1,005,549	6,428,773
Investment income (loss), net	363,308	-	363,308
Net assets released from restriction	1,299,289	(1,299,289)	-
	<hr/>	<hr/>	<hr/>
TOTAL REVENUES AND SUPPORT	7,085,821	(293,740)	6,792,081
	<hr/>	<hr/>	<hr/>
FUNCTIONAL EXPENSES:			
Program services	5,962,964	-	5,962,964
Management and general	890,724	-	890,724
Fundraising	429,775	-	429,775
	<hr/>	<hr/>	<hr/>
TOTAL FUNCTIONAL EXPENSES	7,283,463	-	7,283,463
	<hr/>	<hr/>	<hr/>
CHANGES IN NET ASSETS	(197,642)	(293,740)	(491,382)
NET ASSETS, BEGINNING OF PERIOD	13,300,211	1,750,892	15,051,103
	<hr/>	<hr/>	<hr/>
NET ASSETS, END OF PERIOD	\$ 13,102,569	\$ 1,457,152	\$ 14,559,721
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See Accompanying Notes to Financial Statements

OPERATION GRATITUDE, INC.
(A California Nonprofit Public Benefit Corporation)
Statement of Functional Expenses
For the Six – Month Period Ended June 30, 2023

	Program Services	Management and General	Fundraising	Total
PERSONNEL EXPENSES				
Salaries	\$ 994,108	\$ 412,445	\$ 328,333	\$ 1,734,886
Fringe benefits	57,611	23,902	19,028	100,541
Payroll taxes	85,129	35,320	28,116	148,565
Subtotal	<u>1,136,848</u>	<u>471,667</u>	<u>375,477</u>	<u>1,983,992</u>
OTHER EXPENSES				
Bad debt	-	5,653	-	5,653
Bank and credit card charges	-	12,419	-	12,419
Corporate event shipping costs	55,986	-	-	55,986
Depreciation	78,529	4,133	-	82,662
Development and advertising	3,856	3,856	11,568	19,280
Dues and subscriptions	-	840	-	840
Equipment rental	17,238	907	-	18,145
Goods donated	3,782,668	-	-	3,782,668
Insurance	38,482	15,965	12,710	67,157
Obsolete inventory	26,447	-	-	26,447
Occupancy	258,866	13,624	-	272,490
Office supplies	3,471	1,813	1,084	6,368
Packaging and supplies	36,287	-	-	36,287
Postage and shipping	384,557	-	-	384,557
Printing	1,700	705	561	2,966
Professional services	13,658	330,401	7,981	352,040
Taxes and licenses	-	3,122	-	3,122
Telephone	3,335	1,384	1,102	5,821
Temporary help	21,115	-	-	21,115
Travel	41,509	-	-	41,509
Website and software	58,412	24,235	19,292	101,939
Subtotal	<u>4,826,116</u>	<u>419,057</u>	<u>54,298</u>	<u>5,299,471</u>
TOTAL EXPENSES	<u><u>\$ 5,962,964</u></u>	<u><u>\$ 890,724</u></u>	<u><u>\$ 429,775</u></u>	<u><u>\$ 7,283,463</u></u>

See Accompanying Notes to Financial Statements

OPERATION GRATITUDE, INC.
(A California Nonprofit Public Benefit Corporation)
Statement of Cash Flows
For the Six – Month Period Ended June 30, 2023

CASH FLOWS FROM OPERATING ACTIVITIES	
Changes in net assets	\$ (491,382)
Adjustments to reconcile changes in net assets to net cash provided by (used for) operating activities:	
Depreciation - property and equipment	82,662
Amortization - right-of-use leased asset - operating	(17,506)
Reserve for obsolete inventory	48,921
Net realized and unrealized investment (gains) losses	(252,024)
(Increase) / decrease in assets:	
Contributions receivable, net	789,861
Prepaid expenses	19,156
Contributed inventory	(477,128)
Increase / (decrease) in liabilities:	
Accounts payable and accrued expenses	<u>(30,079)</u>
NET CASH USED FOR OPERATING ACTIVITIES	<u>(327,519)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sale of investments	243,273
Cash paid for purchases of investments	<u>(224,398)</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>18,875</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(308,644)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>4,453,575</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u><u>\$ 4,144,931</u></u>

See Accompanying Notes to Financial Statements

OPERATION GRATITUDE, INC.
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
June 30, 2023

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 direct volunteerism, lifting the spirits of 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 six-month period ended June 30, 2023, Operation Gratitude assembled and distributed care packages or their equivalents to over seventy-five thousand service members, first responders, and families, ultimately surpassing the notable milestone of over 3.8 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”).

Fiscal Year – In June 2023, Operation Gratitude’s Board of Directors elected to change the fiscal year end of the organization to June 30 of each year. As a result, the financial statements as presented herein are for the six-month period ended June 30, 2023.

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.

OPERATION GRATITUDE, INC.
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
June 30, 2023

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

- **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.

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 \$16,169. Note 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 June 30, 2023, the Organization evaluated the collectability of grants receivable and determined an allowance amount of \$13,085. 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.

OPERATION GRATITUDE, INC.
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
June 30, 2023

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

At June 30, 2023, 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.

Additionally, the Organization receives a significant amount of contributed time from volunteers who do not meet the two recognition criteria described below. 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 six-month period ended June 30, 2023, 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.

Contributions of Non-Financial Assets – In September 2020, the FASB issued Accounting Standards Update (ASU) 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The purpose of ASU 2020-07 is to clarify the presentation and disclosure of contributed nonfinancial assets with an intention to provide the reader of the financial statements a clearer understanding of what type of nonfinancial assets were received and how they are used and recognized by not-for-profit organizations. ASU 2020-07 does not change the accounting and recognition of nonfinancial assets but rather the presentation and disclosure requirements in the financial statements. This accounting standards update is effective for fiscal years beginning after June 15, 2021. During the six-month period ended June 30, 2023, the Organization received \$4,258,532, in contributed non-financial assets and adopted the presentation and disclosure requirements under ASU 2020-07.

- *Donated Goods for Distribution* - Donations of goods for distribution recorded as contributions at their estimated fair value at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose. See Note 7 for details about donated goods.
- *Donated Services* - Contributed services are recognized if the services received (a) increase or enhance long-lived assets, or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. See Note 7 for details about donated services.

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 six-month period ended June 30, 2023 that would give rise to impairment of its long-lived assets.

OPERATION GRATITUDE, INC.
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
June 30, 2023

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

Leases – The Organization has an operating lease for warehouse and office space which expired on September 30, 2023. This lease contained 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.

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 the course and scope of their employment, use of space based on square foot of space, or other non-financial measures.

Income Taxes – As a public charity, 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.

The Organization's federal income tax and informational returns for tax years 2019 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 2018 and subsequent.

OPERATION GRATITUDE, INC.
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
June 30, 2023

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

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 June 30, 2023, three donors accounted for approximately 78% of contributions receivable. No other donors accounted for more than 10% of contributions receivable.

During the six-month period ended June 30, 2023, the three largest donors accounted for approximately 26% of total donations. No other donors accounted for 10% or more of total cash contributions.

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 June 30, 2023. 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 November 20, 2023, the date the financial statements were available to be issued. See Note 11 for details about the subsequent event.

OPERATION GRATITUDE, INC.
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
June 30, 2023

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 63% of total revenue and support for the six-month period ended June 30, 2023 and inventory on hand accounted for approximately 45% of total assets as of June 30, 2023.

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 June 30, 2023, reduced by amounts not available for general use within one year of June 30, 2023 because of donor-imposed restrictions:

Financial assets as of June 30, 2023	\$ 7,832,079
Less assets unavailable for general expenditures within one year:	
Restricted by donors with purpose restrictions	<u>(1,457,152)</u>
	<u>\$ 6,374,927</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 and related costs of distribution. 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
June 30, 2023

NOTE 5 – INVESTMENTS

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 June 30, 2023 are summarized as follows:

	Cost Basis	Fair Value Hierarchy			Total
		Level 1	Level 2	Level 3	
Mutual funds	\$ 1,012,875	\$ 933,225	\$ -	\$ -	\$ 933,225
Exchange traded funds	881,510	882,721	-	-	882,721
Equity securities	980,918	1,268,339	-	-	1,268,339
Real estate investment trusts	165,504	150,753	-	-	150,753
	<u>\$ 3,040,807</u>	<u>\$ 3,235,038</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,235,038</u>

Net investment income for the six-month period ended June 30, 2023 consists of the following:

Interest and dividends	\$ 127,453
Realized gains (losses), net	(22,391)
Unrealized gains (losses), net	274,415
Investment management fees	<u>(16,169)</u>
	<u><u>\$ 363,308</u></u>

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2023:

Warehouse fixtures and equipment	\$ 264,368
Automobiles	33,770
Software	201,832
Website	162,698
Leasehold improvements	<u>14,408</u>
	677,076
Less accumulated depreciation	<u>(597,444)</u>
	<u><u>\$ 79,632</u></u>

Depreciation expense for the six-month period ended June 30, 2023 was \$82,662.

OPERATION GRATITUDE, INC.
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
June 30, 2023

NOTE 6 – PROPERTY AND EQUIPMENT – (CONTINUED)

At June 30, 2023, leased property consists of the following:

Right-of-use asset - operating	\$ 1,498,656
Less: accumulated amortization	<u>(1,390,437)</u>
	<u>\$ 108,219</u>

NOTE 7 – CONTRIBUTED NON-FINANCIAL ASSETS

For the six-month period ended June 30, 2023, contributed non-financial assets recognized in the accompanying statement of activities included:

	Program Services	Management and General	Fundraising	Total
Contributed inventory	\$ 4,053,904	\$ -	\$ -	\$ 4,053,904
Legal services	-	174,614	-	174,614
Advertising	1,669	1,669	5,008	8,347
Warehouse space and services	18,114	953	-	19,067
Office supplies	<u>2,600</u>	<u>-</u>	<u>-</u>	<u>2,600</u>
	<u>\$ 4,076,287</u>	<u>\$ 177,237</u>	<u>\$ 5,008</u>	<u>\$ 4,258,532</u>

Unless otherwise noted, contributed nonfinancial assets did not have donor-imposed restrictions.

Contributed Inventory – The Organization receives most of the items it sends in care packages from private donations from corporations and individuals. All contributed inventory is used for programmatic activities. 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. Refer to Note 3 for a detailed description of the inventory fair value methodology.

Legal services – These contributed professional services are comprised of legal services from attorneys advising on various legal matters. Contributed legal services are valued and reported at their estimated fair value based on the hours and hourly billing rates for similar services.

Advertising – These contributed services are comprised of advertising services for programmatic (20%), administrative (20%), and fundraising (60%) activities. Contributed services are valued and reported at their estimated fair value based on the hours and hourly billing rates for similar services.

Warehouse Space and Services – The donated warehouse space is used to store excess inventory. The donor also provides warehouse personnel to move incoming and outgoing inventory in the warehouse. The donated warehouse space is valued and reported at estimated fair value based on the price per square-foot for a similar commercial rental space in the area. The donated services are valued and reported at their estimated fair value based on the hours and hourly billing rates for similar services. The warehouse space and services are allocated 95% to programs and 5% to administrative activities.

OPERATION GRATITUDE, INC.
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
June 30, 2023

NOTE 7 – CONTRIBUTED NON-FINANCIAL ASSETS

Office Supplies – Donated office supplies are used 100% for programmatic activities. Contributed supplies were valued based on estimated wholesale prices for identical or similar products if purchased in the region.

NOTE 8 – NET ASSETS WITH DONOR RESTRICTIONS – TEMPORARILY RESTRICTED

At June 30, 2023, the Organization had net assets with donor restrictions as follows:

	Available at December 31, 2022	Contributions	Released from Restriction	Available at June 30, 2023
Corporate events	\$ 1,544,944	\$ 1,005,549	\$ (1,093,341)	\$ 1,457,152
Capital campaign	205,948	-	(205,948)	-
	<u>\$ 1,750,892</u>	<u>\$ 1,005,549</u>	<u>\$ (1,299,289)</u>	<u>\$ 1,457,152</u>

Corporate Events – Operation Gratitude enters 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 \$1,457,152 of sponsored funds are restricted until all obligations are satisfied. Management expects to fulfill the remaining obligations under these sponsorship agreements by June 30, 2024.

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 current location in Chatsworth, California 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. By June 30, 2023, the Organization was able to fully use the funds raised from the Capital Campaign for facilities and technology infrastructure projects.

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 expired on September 30, 2023. Management estimates the discount rate at 3.5% and amortized the lease liability using the effective interest method over the remaining 33-month term.

OPERATION GRATITUDE, INC.
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
June 30, 2023

NOTE 9 – COMMITMENTS – (CONTINUED)

Maturities of lease liabilities as of June 30, 2023, were as follows:

<u>Fiscal Year Ending June 30,</u> 2024	\$ 118,232
Less: Imputed interest	<u>(686)</u>
	<u>\$ 117,546</u>

Total rent and occupancy expense (which includes the pass-through of certain building operating costs charged by the landlord) incurred for the six-month period ended June 30, 2023 was \$272,490.

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

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 expired on June 30, 2023, and as a result there are no future commitments under the agreement. The Organization expects to enter into a new agreement for advisory services with the founder.

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 \$52,612 for the six-month period ended June 30, 2023.

NOTE 11 – SUBSEQUENT EVENTS

In September 2023, the Organization entered into a standard lease agreement for 28,350 square feet of warehouse and office space. The agreement has a commencement date of November 1, 2023, and has a term of 37 months. Pursuant to ASC 842, the Organization has determined that the lease agreement should be classified as an operating lease, and the net present value of the lease payments will be recorded as a right-of-use asset and a lease liability as of the lease commencement date. Rent expense under the new lease will be on substantially similar monthly payment terms as the current lease.

OPERATION GRATITUDE, INC.
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
June 30, 2023

NOTE 11 – SUBSEQUENT EVENTS – (CONTINUED)

The future rent payments required under this standard lease agreement are summarize below:

<u>Fiscal Year Ending June 30,</u>		
2024	\$	328,864
2025		506,448
2026		526,704
2027		<u>224,088</u>
	\$	<u>1,586,104</u>