

OPERATION WARM, INC.

FINANCIAL STATEMENTS

**FOR THE YEAR ENDED MARCH 31, 2023
WITH COMPARATIVE TOTALS FOR 2022**

(WITH INDEPENDENT AUDITOR'S REPORT)

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Operation Warm, Inc.
Glen Mills, Pennsylvania

Opinion

We have audited the accompanying financial statements of Operation Warm, Inc. (“Operation Warm”), a nonprofit organization, which comprise the statement of financial position as of March 31, 2023, and the related statement 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 financial statements referred to above present fairly, in all material respects, the financial position of Operation Warm as of March 31, 2023, 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. 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 Operation Warm 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 Operation Warm’s ability to continue as a going concern within 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 generally accepted auditing standards 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, including omissions, 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 generally accepted auditing standards, 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 Operation Warm'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 Operation Warm's ability to continue as a going concern for a reasonable period of time.

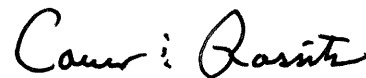
We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Emphasis of Matter

As discussed in the notes to the financial statements, Operation Warm has adopted Financial Accounting Standards Board Accounting Standards Codification Topic 842, *Leases*. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited Operation Warm's March 31, 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 22, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended March 31, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Certified Public Accountants

June 22, 2023
Wilmington, Delaware

OPERATION WARM, INC.
STATEMENT OF FINANCIAL POSITION
MARCH 31, 2023, WITH COMPARATIVE TOTALS FOR 2022

	2023	2022
ASSETS		
Current assets		
Cash and cash equivalents	\$ 7,084,422	\$ 8,187,491
U.S. Treasuries	2,929,384	-
Accrued interest receivable	11,430	-
Contributions receivable	376,950	226,509
Inventory	1,908,737	1,344,272
Prepaid expenses	511,201	89,318
Total current assets	12,822,124	9,847,590
Property and equipment		
Furniture and equipment	24,126	11,376
Less: accumulated depreciation	(11,178)	(6,636)
	12,948	4,740
Other		
Right-of-use asset - operating	1,638,045	-
Security deposit	14,784	14,784
Total assets	\$ 14,487,901	\$ 9,867,114
LIABILITIES		
Current liabilities		
Accounts payable	\$ 103,462	\$ 184,116
Accrued expenses	103,339	86,899
Program deposits	1,019,074	439,747
Lease liability - operating, current portion	165,589	-
Total current liabilities	1,391,464	710,762
Lease liability - operating	1,536,237	-
Total liabilities	2,927,701	710,762
NET ASSETS		
Without donor restrictions	11,560,200	9,156,352
Total liabilities and net assets	\$ 14,487,901	\$ 9,867,114

See accompanying notes

OPERATION WARM, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED MARCH 31, 2023, WITH COMPARATIVE TOTALS FOR 2022

	2023	2022
OPERATING REVENUE AND OTHER SUPPORT		
Contributions	\$ 1,173,242	\$ 1,394,334
Grants	2,669,558	2,141,814
Events	9,938,974	7,851,852
	13,781,774	11,388,000
In-kind contributions:		
Children's clothing	31,029,209	26,332,979
Services	395,791	288,393
Interest income	158,471	3,163
Miscellaneous income	26,139	11,179
	45,391,384	38,023,714
OPERATING EXPENSES		
Program services	40,620,964	34,539,358
Supporting services	2,325,090	1,975,999
	42,946,054	36,515,357
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	2,445,330	1,508,357
NONOPERATING ACTIVITIES		
Unrealized gain on investments	2,094	-
Paycheck Protection Program loan forgiveness income	-	797,245
	2,094	797,245
CHANGE IN NET ASSETS	2,447,424	2,305,602
NET ASSETS WITHOUT DONOR RESTRICTIONS, BEGINNING OF YEAR	9,156,352	6,850,750
Cumulative adjustment for change in accounting principle	(43,576)	-
NET ASSETS WITHOUT DONOR RESTRICTIONS, END OF YEAR	\$ 11,560,200	\$ 9,156,352

See accompanying notes

OPERATION WARM, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED MARCH 31, 2023, WITH COMPARATIVE TOTALS FOR 2022

	2023					2022 Total Expenses
	Program Services	Supporting Services		Total Supporting Services	Total Expenses	
		Management and General	Fundraising			
Children's clothing	\$ 36,609,895	\$ -	\$ -	\$ -	\$ 36,609,895	\$ 31,419,817
Packaging and transportation	786,738	-	-	-	786,738	647,774
Warehousing	436,728	-	-	-	436,728	264,735
Salaries	1,796,578	324,645	1,030,668	1,355,313	3,151,891	2,766,730
Payroll taxes and employee benefits	240,416	43,443	137,922	181,365	421,781	367,066
Bad debt expense	-	-	-	-	-	-
Bank fees	45,562	-	30,375	30,375	75,937	68,326
Consultants	89,013	-	13,706	13,706	102,719	25,498
Development initiatives	32,133	-	230,993	230,993	263,126	163,857
Fees and licenses	13,048	-	-	-	13,048	11,972
Insurance	18,531	3,348	10,630	13,978	32,509	29,357
Interest	-	-	-	-	-	-
Marketing and communication	-	-	111,000	111,000	111,000	119,781
Occupancy	103,147	18,639	59,174	77,813	180,960	159,627
Office expenses	51,995	31,925	29,828	61,753	113,748	66,006
Printing and postage	7,138	7,138	7,138	14,276	21,414	10,879
Professional fees	24,075	74,004	-	74,004	98,079	71,032
Programs and events	171,878	-	-	-	171,878	77,946
Small equipment purchases	30,941	5,591	17,751	23,342	54,283	27,366
Technology	92,239	16,668	52,916	69,584	161,823	143,897
Telephone	10,931	1,975	6,271	8,246	19,177	18,556
Travel	57,389	-	57,389	57,389	114,778	51,343
Volunteers	-	-	-	-	-	-
	40,618,375	527,376	1,795,761	2,323,137	42,941,512	36,511,565
Depreciation	2,589	468	1,485	1,953	4,542	3,792
Total expenses by function	<u>\$ 40,620,964</u>	<u>\$ 527,844</u>	<u>\$ 1,797,246</u>	<u>\$ 2,325,090</u>	<u>\$ 42,946,054</u>	<u>\$ 36,515,357</u>

See accompanying notes

OPERATION WARM, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED MARCH 31, 2023, WITH COMPARATIVE TOTALS FOR 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 2,447,424	\$ 2,305,602
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	4,542	3,792
Unrealized (gain) on U.S. Treasuries	(2,094)	-
Paycheck Protection Program loan forgiveness income	-	(797,245)
(Increase) decrease in operating assets:		
Contributions receivable	(150,441)	8,315
Accrued interest receivable	(11,430)	-
Inventory	(564,465)	(1,041,278)
Prepaid expenses	(421,883)	(32,260)
Right-of-use asset - operating	170,768	-
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(64,214)	(181,497)
Program deposits	579,327	119,148
Lease liability - operating	(150,563)	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,836,971	384,577
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of U.S. Treasuries	(2,927,290)	-
Payments for property and equipment	(12,750)	-
NET CASH USED BY INVESTING ACTIVITIES	(2,940,040)	-
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,103,069)	384,577
CASH AND CASH EQUIVALENTS - BEGINNING	8,187,491	7,802,914
CASH AND CASH EQUIVALENTS - ENDING	\$ 7,084,422	\$ 8,187,491
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	\$ -	\$ -
Income taxes paid	\$ -	\$ -
Right-of-use assets obtained in exchange for operating lease liabilities	\$ 1,808,813	\$ -

See accompanying notes

OPERATION WARM, INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2023

NOTE 1 – THE ORGANIZATION

Operation Warm, Inc. (“Operation Warm”) was formed on November 15, 2002 as a nonprofit organization for the purpose of supporting, managing, and supervising programs of a philanthropic, charitable, or educational nature without regard to race, creed, color, sex, or national origin. Specifically, Operation Warm provides warmth, confidence, and hope through basic need programs, including the provision of brand-new winter coats and shoes, that connect underserved children to community resources they need to thrive.

Operation Warm receives funding primarily from grants and contributions for the promotion of its mission.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting and conform to accounting principles generally accepted in the United States of America as applicable to not-for-profit organizations.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value of Financial Instruments

The Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 825-10 requires disclosure of an estimate of fair value of certain financial instruments. Operation Warm’s significant financial instruments are cash, receivables, prepaid expenses, accounts payable, accrued expenses, and other short-term assets and liabilities. For these financial instruments, carrying values approximate fair value.

Cash and Cash Equivalents

Operation Warm considers all highly liquid debt instruments purchased with an original maturity of twelve months or less to be cash equivalents.

OPERATION WARM, INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2023

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Hierarchy

As of March 31, 2023, Operation Warm held U.S. Treasuries measured at fair value. The U.S. Treasuries are measured using Level 1 inputs and have varying short-term maturities less than 12 months. Fair value is defined as the price that would be received to sell an asset in the principal or most advantageous market for the asset in an orderly transaction between market participants on the measurement date. Fair value should be based on the assumptions market participants would use when pricing an asset. US GAAP establishes a fair value hierarchy that prioritizes investments based on those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets (observable inputs) and the lowest priority to an entity's assumptions (unobservable inputs). Operation Warm groups assets at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2: Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly;

Level 3: Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

Inventory

It is Operation Warm's policy to record inventory at the lower of cost or market. Due to the nature of Operation Warm's operations, inventory is usually purchased from manufacturers and wholesalers at an amount below market value.

Donated inventory is recorded at its estimated fair value on the date of donation. Inventory is determined on the average cost method.

Property and Equipment

Operation Warm capitalizes all property and equipment at cost in excess of \$10,000 and with a useful life no less than three years. Expenditures for repairs and maintenance are charged against current year operations. Depreciation is provided on a straight-line basis over the estimated useful life of the related asset.

OPERATION WARM, INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2023

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net assets without donor restriction – Net assets available for use in general operations and not subject to donor restrictions.

Net assets with donor restriction – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The Organization had no net assets with donor restrictions at March 31, 2023 or 2022.

Revenue and other support are reported as increases in net assets without donor restriction unless the use of the related assets is limited by donor-imposed restrictions. Expirations of restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as releases from net assets with donor restriction to net assets without donor restriction. Expenses are reported as decreases in net assets without donor restriction.

Revenue Recognition

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor-restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Conditional gifts or promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend are met. Grants may be conditioned upon certain performance requirements or occurrence of external events and the incurrence of allowable qualifying expenses. As of March 31, 2023 and 2022, Operation Warm has conditional gifts of \$897,290 and \$325,580, respectively, which are reflected in program deposits on the statement of financial position. No amounts on these conditional gifts have been recognized in the accompanying financial statements.

OPERATION WARM, INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2023

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

Contributed property and equipment are recorded at fair value at the date of donation. Contributions with donor-imposed stipulations regarding how long the contributed assets must be used are recorded as net assets with donor restrictions; otherwise, the contributions are recorded as net assets without donor restrictions.

Contributions Receivable

Contributions receivable are stated at unpaid balances. Operation Warm estimates that all contributions receivable are collectible; accordingly, there is no provision for an allowance for doubtful accounts. If amounts become uncollectible, they will be charged to operations when that determination is made.

In-Kind Contributions

Operation Warm receives significant in-kind contributions, primarily in the form of reduced purchase price for coats and shoes, free shipping, and donated clothing. It is Operation Warm's policy to recognize charitable contributions for the difference between the actual cost and the estimated retail value at the date of donation. Operation Warm similarly records the difference between the actual cost and the estimated retail value as a program expense when the coats and shoes are provided to children.

Leases

Operation Warm determines if an arrangement is a lease, or contains a lease, at inception of a contract and when the terms of an existing contract are changed. Operation Warm recognizes a lease liability and a right-of-use (ROU) asset at commencement date of the lease. The lease liability is recognized based on the present value of its future lease payments. The discount rate is the implicit rate if it is readily determinable or, otherwise, Operation Warm uses the risk-free U.S. Treasury rate based on the term of the lease. The ROU asset is amortized over the lease term using the straight-line method net interest accretion. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

Operation Warm has elected, for all underlying classes of assets, to not recognize ROU assets and lease liabilities for short-term leases that have a lease term of 12 months or less at lease commencement and do not include an option to purchase the underlying asset that is reasonably certain to be exercised. Operation Warm recognizes lease costs associated with short-term leases on a straight-line basis over the lease term.

OPERATION WARM, INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2023

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

Operation Warm is exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying statements. Operation Warm files a Form 990, as well as all required state filings. Operation Warm did not have any unrelated business income for the fiscal years ended March 31, 2023 and 2022.

Allocation of Functional Expenses

The costs of providing program and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated between the program and supporting services benefited.

Marketing and Communications

Marketing and communications costs are charged to expense as incurred. Marketing and communication expense for the years ended March 31, 2023 and 2022 was \$111,000 and \$119,781, respectively.

Comparative Financial Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with Operation Warm's financial statements for the year ended March 31, 2022 from which the summarized information was derived.

NOTE 3 – LIQUIDITY AND AVAILABILITY

As part of Operation Warm's liquidity management, it invests cash in excess of daily requirements in short-term investments. To help manage unanticipated liquidity needs, Operation Warm has a committed line of credit in the amount of \$1.5 million. Operation Warm strives to maintain liquid financial assets sufficient to cover 6 months of general expenditures. Financial assets in excess of daily cash requirements are invested in money market funds and other short-term investments, including U.S. Treasuries.

OPERATION WARM, INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2023

NOTE 3 – LIQUIDITY AND AVAILABILITY (CONTINUED)

The following information reflects Operation Warm’s financial assets as of March 31, 2023, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date because of contractual restrictions. Amounts not available include net assets with donor restrictions, if any.

Cash	\$ 7,084,422
U.S. Treasuries	2,929,384
Contributions receivable	<u>376,950</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 10,390,756</u></u>

NOTE 4 – INVENTORY

Inventory value at March 31, 2023 and 2022 was \$1,908,737 and \$1,344,272, respectively. Inventory is stated at the lower of cost or market. Cost is determined by the average cost method.

NOTE 5 – CONCENTRATION OF RISK

Operation Warm maintains cash and cash equivalents deposited in several financial institutions, which are insured by the FDIC up to \$250,000 or the SIPC up to \$500,000. Operation Warm regularly monitors the financial condition of the banking institutions, along with their balances in cash and cash equivalents and tries to keep this potential risk to a minimum. In the normal course of business, Operation Warm may have deposits that exceed the insured balances. Operation Warm believes it is not exposed to any significant credit risk on its cash balances.

Operation Warm utilizes five vendors in four foreign countries, two of which are in the same country and hold 73% of the outstanding inventory purchase orders. One other vendor has 15% of committed purchase orders as of March 31, 2023.

Among other risks, Operation Warm’s inventory supply is subject to various political, economic, regulatory, and other risks and uncertainties inherent in foreign relations with other countries.

NOTE 6 – CONTINGENCIES AND COMMITMENTS

As of March 31, 2023 there were signed purchase orders outstanding with suppliers for a total cost of approximately \$6 million, 88% of which were held by three vendors in two foreign countries.

OPERATION WARM, INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2023

NOTE 7 – NEW ACCOUNTING PRONOUNCEMENTS - LEASES

During the year ended March 31, 2023, Operation Warm adopted the Financial Accounting Standards Board Accounting Standards Codification (ASC) Topic 842, *Leases*. Operation Warm elected to adopt this standard effective April 1, 2022 and utilized all available practical expedients. Adoption of the standard did not materially impact the statement of activities and had no impact on cash flows. The most significant impact was the recognition of a right-of-use (ROU) asset and a lease liability for operating leases. Adoption of the standard required Operation Warm to restate amounts as of April 1, 2022, resulting in an increase in operating ROU assets of \$1,808,813 and an increase in operating lease liabilities of \$1,852,389 as of that date. The difference between the ROU asset and lease liability was recorded as a \$43,576 reduction to beginning net assets without donor restrictions.

Operation Warm’s operating lease is for office space with a twelve-year term and an option for a five-year renewal. The calculated imputed interest rate based on the United States Treasury rate for 10 years was .55% on the lease commencement date of August 1, 2020. The five-year option to renew was not considered when assessing the value of the ROU asset because Operation Warm was uncertain that it would exercise its option to renew the lease.

Cash paid for amounts included in measuring the operating lease liability was \$160,755 and interest accretion on the lease liability was \$10,188, which were included with occupancy costs on the statement of functional expenses for the year ended March 31, 2023. Rent expense recognized for office space during the years ended March 31, 2023 and 2022 was \$180,960 and \$159,627, respectively.

The following is a schedule of future minimum lease payments required under the lease for the years ending March 31:

Year	Amount
2024	\$ 165,589
2025	170,558
2026	175,656
2027	180,929
2028	186,353
Thereafter	873,616
Total undiscounted lease payments	1,752,701
Less: current portion	(165,589)
Less: imputed interest	(50,875)
Total lease liability, noncurrent	\$ 1,536,237

OPERATION WARM, INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2023

NOTE 8 – LINE OF CREDIT

Operation Warm has a line of credit agreement with a local financial institution. The agreement allows advances up to a total of \$1,500,000 and has an interest rate of Daily BSBY Rate plus 250 (7.42% at March 31, 2023) due monthly. Principal and interest is due in full on the maturity date of October 31, 2023. No draws were made and no balances were outstanding as of and for the years ended March 31, 2023 or 2022.

NOTE 9 – POST RETIREMENT BENEFITS

Operation Warm has a defined contribution plan (the “Plan”) covering all employees attaining age 21 with at least six months of service. Operation Warm matches 100% of employee contributions up to the first 3% and 50% of employee contributions up to an additional 2% for a maximum match of 4%. Participants are immediately vested in all matching contributions. Total employer contributions for the years ended March 31, 2023 and 2022, were \$84,077 and \$57,912, respectively.

NOTE 10 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at March 31:

	<u>2023</u>	<u>2022</u>	<u>Estimated Useful Life</u>
Furniture and equipment	\$ 12,750	\$ -	10 years
Computers and software	11,376	11,376	3 years
	<u>24,126</u>	<u>11,376</u>	
Less: accumulated depreciation	<u>(11,178)</u>	<u>(6,636)</u>	
Net property and equipment	<u>\$ 12,948</u>	<u>\$ 4,740</u>	

Depreciation expense for the years ended March 31, 2023 and 2022 was \$4,542 and \$3,792, respectively.

OPERATION WARM, INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2023

NOTE 11 – IN-KIND CONTRIBUTIONS

For the years ended March 31, information regarding contributed in-kind assets recognized within the statement of activities was as follows:

	<u>Revenue Recognized</u>		Utilization in Programs / Activities	Donor Restrictions	<u>Valuation Techniques and Inputs</u>
	<u>2023</u>	<u>2022</u>			
Children's clothing	\$ 31,029,209	\$ 26,332,979	Program	None	Fair value is estimated on basis of averaged retail values that would be received for selling similar products in the United States.
Packaging and transportation	300,000	230,000	Program	None	Fair value is determined on basis of contract value at published prices by vendor.
Marketing and communication	55,261	58,393	Fundraising	None	Fair value is determined on basis of contract value at published prices by vendor.
Training	22,530	-	Management & General	None	Fair value is determined on basis of contract value at published prices by vendor.
Consulting	18,000	-	Program and Fundraising	None	Fair value is determined on basis of contract value at published prices by vendor.
	<u>\$ 31,425,000</u>	<u>\$ 26,621,372</u>			

Operation Warm also receives donated services from a variety of unpaid volunteers assisting Operation Warm in the operation of coat and shoe distribution programs. Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by Operation Warm. Services of 31,178 volunteers, representing collectively an estimated 124,712 hours, have been donated to distribute essential clothing for the year ended March 31, 2023. The estimated value of these services, based on hourly volunteer rates reported by the Independent Sector, was \$3,965,842 for the year ended March 31, 2023. These services have not been reported in the financial statements as they do not meet the requirements for recognition.

OPERATION WARM, INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2023

NOTE 12 – FUNCTIONALIZED EXPENSES

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated on the basis of estimated time and effort include salaries and wages, benefits, payroll taxes, occupancy, office, telephone, and depreciation.

NOTE 13 – PAYCHECK PROTECTION PROGRAM

The Coronavirus Aid, Relief, and Economic Security (CARES) Act and the Consolidated Appropriations Act (“CAA”) were signed into law to provide assistance in response to COVID-19. Operation Warm applied for and was approved for two loans under the Paycheck Protection Program (“PPP”) provisions. The proceeds of these loans amounted to \$404,500 and \$392,745, received on April 13, 2020 and February 25, 2021, respectively. Terms of the notes were virtually identical and could be forgiven in whole or in part by expending the funds for qualifying expenses, including payroll (with certain qualifications), certain utilities and other expenses. Operation Warm applied for and received loan forgiveness of the first and second PPP loans on July 14 and October 27, 2021, respectively, and recognized the amounts as revenue during the fiscal year ended March 31, 2022.

NOTE 15 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 22, 2023, the date the financial statements were available to be issued.

In April 2023, Operation Warm entered into an agreement with a sports franchise to distribute sports bras for girls participating in youth sports while attending under-resourced schools in designated areas. The agreement is for a two-year term and automatically renews for three additional one-year terms unless terminated by either party. The total agreement provides an estimated \$1,680,000 over five years.

In May 2023, Operation Warm entered into a sponsorship agreement with a corporation in support of gifting events across the U.S. providing Operation Warm coats, shoes, and socks to children in need during the period January 1, 2024 through December 31, 2024. The initial sponsorship fee associated with the agreement is \$545,000 and the arrangement includes additional sponsorship fees based on program participation.