

**OPERATION WARM, INC.**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED MARCH 31, 2024  
WITH COMPARATIVE TOTALS FOR 2023**

**(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, 2024, 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 financial statements referred to above present fairly, in all material respects, the financial position of Operation Warm as of March 31, 2024, 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.

***Report on Summarized Comparative Information***

We have previously audited Operation Warm's March 31, 2023 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 22, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended March 31, 2023, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Cam: Rosit*

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Certified Public Accountants

June 27, 2024  
Wilmington, Delaware

**OPERATION WARM, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**MARCH 31, 2024, WITH COMPARATIVE TOTALS FOR 2023**

	<b>2024</b>	<b>2023</b>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 9,731,329	\$ 7,084,422
U.S. Treasuries	4,906,910	2,929,384
Accrued interest receivable	8,187	11,430
Contributions receivable	912,888	76,950
Inventory	692,034	1,908,737
Prepaid expenses	128,733	511,201
	16,380,081	12,522,124
<b>Property and equipment</b>		
Furniture and equipment	24,126	24,126
Less: accumulated depreciation	(13,412)	(11,178)
	10,714	12,948
<b>Other</b>		
Right-of-use asset - operating	1,466,449	1,638,045
Security deposit	14,784	14,784
	1,481,233	1,652,829
Total assets	\$ 17,872,028	\$ 14,187,901
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 138,442	\$ 103,462
Accrued expenses	132,593	103,339
Refundable deposits	962,311	719,074
Lease liability - operating, current portion	170,558	165,589
	1,403,904	1,091,464
<b>Lease liability - operating</b>	1,375,039	1,536,237
Total liabilities	2,778,943	2,627,701
<b>NET ASSETS</b>		
Without donor restrictions	15,093,085	11,560,200
Total liabilities and net assets	\$ 17,872,028	\$ 14,187,901

See accompanying notes

**OPERATION WARM, INC.**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**YEAR ENDED MARCH 31, 2024, WITH COMPARATIVE TOTALS FOR 2023**

	<b>2024</b>	<b>2023</b>
<b>OPERATING REVENUE AND OTHER SUPPORT</b>		
Contributions	\$ 1,048,955	\$ 1,173,242
Grants	2,902,902	2,669,558
Events	14,716,287	9,938,974
	18,668,144	13,781,774
In-kind contributions:		
Children's clothing	47,382,151	31,029,209
Services	582,942	395,791
Interest income	413,927	158,471
Miscellaneous income	23,225	26,139
Total operating revenue and other support	67,070,389	45,391,384
<b>OPERATING EXPENSES</b>		
Program services	60,881,956	40,620,964
Supporting services	2,937,023	2,325,090
Total operating expenses	63,818,979	42,946,054
<b>CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES</b>	3,251,410	2,445,330
<b>NON-OPERATING ACTIVITIES</b>		
Realized and unrealized gain on U.S. Treasuries	107,512	2,094
Employee Retention Tax Credit income	173,963	-
Total non-operating activities	281,475	2,094
<b>CHANGE IN NET ASSETS</b>	3,532,885	2,447,424
<b>NET ASSETS WITHOUT DONOR RESTRICTIONS, BEGINNING OF YEAR</b>	11,560,200	9,156,352
<b>Cumulative adjustment for change in accounting principle</b>	-	(43,576)
<b>NET ASSETS WITHOUT DONOR RESTRICTIONS, END OF YEAR</b>	<b>\$ 15,093,085</b>	<b>\$ 11,560,200</b>

See accompanying notes

**OPERATION WARM, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED MARCH 31, 2024, WITH COMPARATIVE TOTALS FOR 2023**

	2024					2023 Total Expenses
	Program Services	Supporting Services		Total Supporting Services	Total Expenses	
		Management and General	Fundraising			
Children's clothing	\$ 55,503,083	\$ -	\$ -	\$ -	\$ 55,503,083	\$ 36,609,895
Packaging and transportation	1,183,267	-	-	-	1,183,267	786,738
Warehousing	609,184	-	-	-	609,184	436,728
Salaries	2,560,658	412,598	1,280,329	1,692,927	4,253,585	3,151,891
Payroll taxes and employee benefits	341,117	54,964	170,559	225,523	566,640	421,781
Bank fees	48,996	-	32,664	32,664	81,660	75,937
Consultants	88,558	-	26,620	26,620	115,178	102,719
Development initiatives	-	-	173,735	173,735	173,735	263,126
Fees and licenses	12,196	-	-	-	12,196	13,048
Insurance	22,112	3,563	11,056	14,619	36,731	32,509
Marketing and communication	-	-	231,220	231,220	231,220	111,000
Occupancy	108,935	17,553	54,468	72,021	180,956	180,960
Office expenses	60,234	92,448	30,117	122,565	182,799	113,748
Printing and postage	5,150	5,151	5,151	10,302	15,452	21,414
Professional fees	2,007	114,545	-	114,545	116,552	98,079
Programs and events	167,756	-	-	-	167,756	171,878
Small equipment purchases	28,292	4,559	14,146	18,705	46,997	54,283
Technology	125,875	20,282	62,938	83,220	209,095	161,823
Telephone	13,191	2,125	6,596	8,721	21,912	19,177
Travel	-	46,267	62,480	108,747	108,747	114,778
	<u>60,880,611</u>	<u>774,055</u>	<u>2,162,079</u>	<u>2,936,134</u>	<u>63,816,745</u>	<u>42,941,512</u>
Depreciation	1,345	217	672	889	2,234	4,542
Total expenses by function	<u>\$ 60,881,956</u>	<u>\$ 774,272</u>	<u>\$ 2,162,751</u>	<u>\$ 2,937,023</u>	<u>\$ 63,818,979</u>	<u>\$ 42,946,054</u>

See accompanying notes



**OPERATION WARM, INC.**  
**STATEMENT OF CASH FLOWS**  
**YEAR ENDED MARCH 31, 2024, WITH COMPARATIVE TOTALS FOR 2023**

	<b>2024</b>	<b>2023</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 3,532,885	\$ 2,447,424
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	2,234	4,542
Realized and unrealized gain on U.S. Treasuries	(107,512)	(2,094)
(Increase) decrease in operating assets:		
Contributions receivable	(835,938)	149,559
Accrued interest receivable	3,243	(11,430)
Inventory	1,216,703	(564,465)
Prepaid expenses	382,468	(421,883)
Right-of-use asset - operating	171,596	170,768
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	64,234	(64,214)
Refundable deposits	243,237	279,327
Lease liability - operating	(156,229)	(150,563)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>4,516,921</b>	<b>1,836,971</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of U.S. Treasuries	(6,797,678)	(2,927,290)
Redemption of U.S. Treasuries	4,927,664	-
Payments for property and equipment	-	(12,750)
<b>NET CASH USED BY INVESTING ACTIVITIES</b>	<b>(1,870,014)</b>	<b>(2,940,040)</b>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>2,646,907</b>	<b>(1,103,069)</b>
<b>CASH AND CASH EQUIVALENTS - BEGINNING</b>	<b>7,084,422</b>	<b>8,187,491</b>
<b>CASH AND CASH EQUIVALENTS - ENDING</b>	<b>\$ 9,731,329</b>	<b>\$ 7,084,422</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
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, 2024**

**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, shoes and sports bras, that connect under-resourced 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 three months or less to be cash equivalents, except for those held as part of an investment portfolio.

**OPERATION WARM, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**MARCH 31, 2024**

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

**Fair Value Hierarchy**

FASB ASC 820-10 establishes a fair value hierarchy and specifies that a valuation technique used to measure fair value shall maximize the use of observable inputs and minimize the use of unobservable inputs. The objective of a fair value measurement is to determine the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). Accordingly, the fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy under FASB ASC 820-10 are described below:

**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.

**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.

**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, 2024**

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

**Investments**

In accordance with FASB ASC 958-320, investments with readily determinable market values are reported at market value. Donated securities are also reported at fair market value on the date of receipt.

**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, 2024 or 2023.

Revenues 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. 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.

**OPERATION WARM, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**MARCH 31, 2024**

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

**Revenue Recognition (Continued)**

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, 2024 and 2023, Operation Warm had conditional gifts of \$1,735,311 and \$1,019,074, respectively, for which \$962,311 and \$719,074, respectively, had been received in advance and are reflected in refundable deposits on the statement of financial position. No amounts of outstanding conditional gifts have been recognized in the accompanying financial statements.

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.

**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, shoes and sports bras 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 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, 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, 2024**

**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, 2024 and 2023.

**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, 2024 and 2023 was \$231,220 and \$111,000, 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, 2023 from which the summarized information was derived.

**Reclassifications**

Contributions receivable and refundable deposits recognized in the 2023 financial statements have each been reduced by \$300,000 to conform with the current year presentation of the statement of financial position. This was a conditional grant for which no amounts were received in advance. Total net assets and changes in net assets were unchanged due to these reclassifications.

**OPERATION WARM, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**MARCH 31, 2024**

**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 to a year 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.

The following information reflects Operation Warm’s financial assets as of March 31, 2024, 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		\$ 9,731,329
U.S. Treasuries		4,906,910
Contributions receivable		912,888
Financial assets available to meet cash needs		<u>912,888</u>
for general expenditures within one year		<u>\$ 15,551,127</u>

**NOTE 4 – INVENTORY**

Inventory value at March 31, 2024 and 2023 was \$692,034 and \$1,908,737, respectively. Inventory is stated at the lower of cost or market. Cost is determined by the average cost method.

**NOTE 5 – PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following at March 31:

	<u>2024</u>	<u>2023</u>	<u>Estimated Useful Life</u>
Furniture and equipment	\$ 12,750	\$ 12,750	10 years
Computers and software	11,376	11,376	3 years
	<u>24,126</u>	<u>24,126</u>	
Less: accumulated depreciation	<u>(13,412)</u>	<u>(11,178)</u>	
Net property and equipment	<u>\$ 10,714</u>	<u>\$ 12,948</u>	

Depreciation expense for the years ended March 31, 2024 and 2023 was \$2,234 and \$4,542, respectively.

**OPERATION WARM, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**MARCH 31, 2024**

**NOTE 6 – INVESTMENTS**

Investments consisted of the following at March 31:

	2024	2023
U.S. Treasury Note, stated interest	\$ 997,300	\$ 2,929,384
U.S. Treasury Bills, zero coupon	3,909,610	-
Total	\$ 4,906,910	\$ 2,929,384

Stated interest rates on U.S. Treasury Notes range from 0.125% to 2.75%.

As required by FASB ASC 820-10, investments are classified within the level of the lowest significant input considered in determining fair value. In evaluating the level at which Operation Warm’s investments have been classified, management has assessed factors including, but not limited to, price transparency, subscription activity, redemption activity and the existence or absence of certain restrictions. All of Operation Warm’s investments are valued using Level 1 inputs.

**NOTE 7 – 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.

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 0.55% 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 the option.

Cash paid for amounts included in measuring the operating lease liability was \$165,589 and \$160,755 and interest accretion on the lease liability was \$9,360 and \$10,188, which were included with occupancy costs on the statement of functional expenses for the years ended March 31, 2024 and 2023, respectively. Rent expense recognized for office space during the years ended March 31, 2024 and 2023 was \$180,956 and \$180,960, respectively.



**OPERATION WARM, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**MARCH 31, 2024**

**NOTE 7 – LEASES (CONTINUED)**

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

Year	Amount
2025	\$ 170,558
2026	175,656
2027	180,929
2028	186,353
2029	191,950
Thereafter	681,665
Total undiscounted lease payments	1,587,111
Less: current portion	(170,558)
Less: imputed interest	(41,514)
Total lease liability, noncurrent	\$ 1,375,039

**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 (7.85% at March 31, 2024) due monthly. Principal and interest is due in full on the maturity date of October 31, 2024. No draws were made and no balances were outstanding as of and for the years ended March 31, 2024 or 2023.

**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, 2024 and 2023, were \$103,012 and \$84,077, respectively.

**OPERATION WARM, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**MARCH 31, 2024**

**NOTE 10 – 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>2024</u>	<u>2023</u>			
Children's clothing	\$ 47,382,151	\$ 31,029,209	Program	None	Fair value is estimated on basis of averaged retail values that would be received for similar products in the United States.
Packaging and transportation	300,000	300,000	Program	None	Fair value is determined on basis of contract value at published prices by vendor.
Marketing and communication	182,200	55,261	Fundraising	None	Fair value is determined on basis of contract value at published prices by vendor.
Training	61,590	22,530	Management & General	None	Fair value is determined on basis of contract value at published prices by vendor.
Consulting	18,000	18,000	Program and Fundraising	None	Fair value is determined on basis of contract value at published prices by vendor.
Other	21,152	-	Management & General	None	Fair value is determined on basis of contract value at published prices by vendor.
	<u>\$ 47,965,093</u>	<u>\$ 31,425,000</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 37,880 volunteers, representing collectively an estimated 151,520 hours, have been donated to distribute essential clothing for the year ended March 31, 2024. The estimated value of these services, based on hourly volunteer rates reported by the Independent Sector, was \$5,074,405 for the year ended March 31, 2024. These services have not been reported in the financial statements as they do not meet the criteria for recognition.

**OPERATION WARM, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**MARCH 31, 2024**

**NOTE 11 – 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 12 – 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 69% of the outstanding inventory purchase orders. Two other vendors have 29% of committed purchase orders as of March 31, 2024.

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.

Concentrations in revenues or in the volume of transactions with a specific customer, supplier, grantor, or contributor may occur from time to time in the course of carrying out Operation Warm's mission. A single donor accounted for 23% of total revenues during the year ended March 31, 2024. No one donor accounted for a significant amount of total revenues during the year ended March 31, 2023. In addition, three open balances each year accounted for 78% and 74% of total contributions receivable as of March 31, 2024 and 2023, respectively.

**NOTE 13 – CONTINGENCIES AND COMMITMENTS**

As of March 31, 2024 there were signed purchase orders outstanding with suppliers for a total cost of approximately \$8.4 million.

**OPERATION WARM, INC.**  
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**NOTE 14 – EMPLOYEE RETENTION TAX CREDIT**

Operation Warm applied for payroll tax credits under the Employee Retention Tax Credit (“ERTC”) provisions of the CARES Act. Such credits are available for organizations which experienced either declines in gross receipts or a closure or significant curtailment in operations due to government orders related to COVID-19. Operation elected not to recognize these credits as revenue until such time as they are approved and paid by the IRS.

Operation Warm recognized ERTC revenue of \$173,963 during the year ended March 31, 2024, when the IRS paid all outstanding claims.

Following receipt of ERTC funds, the IRS has an extended window of five years to conduct audits for this program.

**NOTE 15 – SUBSEQUENT EVENTS**

Management has evaluated subsequent events through June 27, 2024, the date the financial statements were available to be issued.