OPERATION WARM more than a coat

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
MARCH 31, 2018 AND 2017

CONTENTS

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INDEPENDENT AUDITORS' REPORT

BOARD OF DIRECTORS
OPERATION WARM, INC.
CHADDS FORD, PA

We have audited the accompanying consolidated financial statements of Operation Warm, Inc. (a nonprofit organization), and subsidiary, which comprise the consolidated statements of financial position as of March 31, 2018 and 2017, and the related consolidated statements of activities, cash flows and functional expenses for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting polices used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Operation Warm, Inc., and subsidiaries as of March 31, 2018 and 2017, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Umbreit, Korengel & Associates, P.C.

June 27, 2018

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OPERATION WARM, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
MARCH 31, 2018 AND 2017

ASSETS

	2018	2017
CURRENT ASSETS		
Cash and cash equivalents	$ 5,291,331	$ 3,770,534
Accounts receivable	19,714	55,890
Inventory	277,227	833,838
Accrued interest receivable	5,023	1,080
Prepaid expenses	108,305	73,345
TOTAL CURRENT ASSETS	5,701,600	4,734,687
PROPERTY AND EQUIPMENT, at cost		
Furniture and equipment	187,885	167,931
Less: Accumulated depreciation	(150,384)	(127,857)
	37,501	40,074
SECURITY DEPOSIT	16,858	13,758
TOTAL ASSETS	$ 5,755,959	$ 4,788,519

LIABILITIES AND NET ASSETS

	2018	2017
CURRENT LIABILITIES		
Accounts payable	$ 553,135	$ 527,251
Accrued expenses	138,411	76,878
Program deposits	411,992	69,111
TOTAL CURRENT LIABILITIES	1,103,538	673,240
NET ASSETS		
Unrestricted	4,652,421	4,103,473
Temporarily restricted	-	11,806
TOTAL NET ASSETS	4,652,421	4,115,279
TOTAL LIABILITIES AND NET ASSETS	$ 5,755,959	$ 4,788,519

OPERATION WARM, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED MARCH 31, 2018 AND 2017

	Unrestricted	Temporarily Restricted	2018 Total	Unrestricted	Temporarily Restricted	2017 Total
OPERATING REVENUE, GAINS AND OTHER SUPPORT						
Contributions	$ 6,998,399	$ -	$ 6,998,399	$ 6,285,219	$ 25,000	$ 6,310,219
Donated stock	132,887	-	132,887	85,828	-	85,828
In-kind contributions	14,917,950	-	14,917,950	14,142,942	-	14,142,942
Interest income	30,854	-	30,854	11,567	-	11,567
Net assets released from restrictions	11,806	(11,806)	-	268,194	(268,194)	-
TOTAL REVENUE AND SUPPORT	22,091,896	(11,806)	22,080,090	20,793,750	(243,194)	20,550,556
EXPENSES						
Program services	20,424,950	-	20,424,950	19,594,550	-	19,594,550
Supporting services	1,117,998	-	1,117,998	934,646	-	934,646
TOTAL EXPENSES	21,542,948	-	21,542,948	20,529,196	-	20,529,196
OPERATING INCOME	548,948	(11,806)	537,142	264,554	(243,194)	21,360
NET ASSETS						
Beginning of period	4,103,473	11,806	4,115,279	3,838,919	255,000	4,093,919
End of period	$ 4,652,421	$ -	$ 4,652,421	$ 4,103,473	$ 11,806	$ 4,115,279

OPERATION WARM, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MARCH 31, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	$ 537,142	$ 21,360
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	24,612	30,853
(Increase) decrease in operating assets		
Accounts receivable	36,176	418,625
Accrued interest receivable	(3,943)	420
Prepaid expenses	(34,960)	21,300
Inventory	556,611	(418,420)
Security deposit	(3,100)	-
Increase (decrease) in operating liabilities		
Accounts payable and accrued expenses	87,417	68,928
Program deposits	342,881	(255,889)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	1,542,836	(112,823)
CASH FLOWS USED BY INVESTING ACTIVITIES		
Payments for property and equipment	(22,039)	(21,494)
NET INCREASE (DECREASE) IN CASH	1,520,797	(134,317)
CASH - Beginning of Period	3,770,534	3,904,851
CASH AND CASH EQUIVALENTS - End of Period	$ 5,291,331	$ 3,770,534
SUPPLEMENTAL DATA		
Interest paid	$ 6,650	$ 9,542

See Independent Auditors' Report and Notes to Financial Statements

OPERATION WARM, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED MARCH 31, 2018

		Supporting Services			
	Program Services	Management and General	Fundraising	Total Support Services	Total Expenses
Children's clothing	$ 17,837,257	$ -	$ -	$ -	$ 17,837,257
Packaging and transportation	430,105	-	-	-	430,105
Warehousing	208,735	-	-	-	208,735
Salaries	1,139,939	178,116	463,101	641,217	1,781,156
Payroll taxes and employee benefits	173,942	27,178	70,663	97,841	271,783
Consultants	28,714	3,208	16,525	19,733	48,447
Fees and licenses	14,338	-	-	-	14,338
Insurance	14,208	1,857	4,829	6,686	20,894
Interest expense	6,650	-	-	-	6,650
Marketing and communication	13,678	2,745	129,208	131,953	145,631
Occupancy	59,530	9,302	24,184	33,486	93,016
Office expense	63,304	9,530	24,778	34,308	97,612
Printing and postage	3,642	3,642	3,753	7,395	11,037
Professional fees	22,943	2,250	10,849	13,099	36,042
Programs and events	242,728	-	-	-	242,728
Technology expense	70,399	10,999	40,466	51,465	121,864
Telephone	16,301	2,547	6,623	9,170	25,471
Travel and entertainment	62,785	-	62,785	62,785	125,570
	20,409,198	251,374	857,764	1,109,138	21,518,336
Depreciation and amortization	15,752	2,461	6,399	8,860	24,612
	$ 20,424,950	$ 253,835	$ 864,163	$ 1,117,998	$ 21,542,948

OPERATION WARM, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED MARCH 31, 2017

		Supporting Services			
	Program Services	Management and General	Fundraising	Total Support Services	Total Expenses
Children's clothing	$ 17,246,150	$ -	$ -	$ -	$ 17,246,150
Packaging and transportation	321,972	-	-	-	321,972
Warehousing	209,041	-	-	-	209,041
Salaries	952,078	122,385	403,957	526,342	1,478,420
Payroll taxes and employee benefits	123,360	15,857	52,341	68,198	191,558
Consultants	17,303	2,224	7,342	9,566	26,869
Fees and licenses	13,440	-	-	-	13,440
Insurance	13,278	1,711	5,628	7,339	20,617
Interest expense	9,542	-	-	-	9,542
Marketing and communication	54,806	-	116,371	116,371	171,177
Occupancy	57,807	7,431	24,527	31,958	89,765
Office expense	60,704	7,824	25,733	33,557	94,261
Printing and postage	2,942	2,941	3,030	5,971	8,913
Professional fees	41,450	2,648	8,741	11,389	52,839
Programs and events	298,173	-	-	-	298,173
Technology expense	71,949	8,855	29,887	38,742	110,691
Telephone	14,442	1,856	6,128	7,984	22,426
Travel and entertainment	66,244	-	66,245	66,245	132,489
	19,574,681	173,732	749,930	923,662	20,498,343
Depreciation and amortization	19,869	2,554	8,430	10,984	30,853
	$ 19,594,550	$ 176,286	$ 758,360	$ 934,646	$ 20,529,196

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2018 AND 2017

NOTE 1 – THE ORGANIZATION

On November 15, 2002, Operation Warm, Inc. (the Organization) was formed 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, Inc. provides resources for indigent children, including the provision of winter coats.

The Organization receives funding primarily from grants and contributions for the promotion of its mission.

Coats For Kids Foundation was acquired by Operation Warm in April, 2011. Coats for Kids Foundation is a nonprofit organization for the purpose of providing coats to needy children.

On a separate basis, for the fiscal year ended March 31, 2018, revenues identified with Coats for Kids Foundation totaled \$20,429; expenses totaled \$20,335. On a separate basis, for the fiscal year ended March 31, 2017, revenues identified with Coats for Kids Foundation totaled \$17,326; expenses totaled \$16,802.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Operation Warm, and Coats For Kids Foundation (together, the Organization). Intercompany transactions and accounts have been eliminated during consolidation.

Financial Statement Presentation

The accompanying consolidated 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. All significant intercompany accounts and transactions have been eliminated upon consolidation.

As required by the Financial Statements of Not-for-Profit Entities Topic of the FASB ASC, the Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Use of Estimates

The preparation of consolidated 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.

Cash and Cash Equivalents

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

Inventory

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

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

Property and Equipment

The Organization capitalizes all property and equipment at cost in excess of $1,000. 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. For the years ended March 31, 2018 and 2017, depreciation expense was $24,612 and $30,853, respectively.

Revenue Recognition

As required by the Financial Statements of Not-for-Profit Entities Revenue Recognition Topic of the FASB ASC, the Organization records contributions received as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Contributions, which include unconditional promises to give (pledges), are recognized as revenue in the year received or promised, whichever is earlier. Contributions are considered to be unrestricted unless specifically restricted by the donor.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Revenue Recognition (Cont'd)

The Organization reports contributions in the temporarily or permanently restricted net asset class if they are received with donor stipulations as to their use. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are released and reclassified to unrestricted net assets in the statement of activities.

Accounts Receivable

Accounts receivable are stated at unpaid balances. The Organization estimates that all of its accounts 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. As of March 31, 2018 and 2017, the Organization has deemed all monies collectible.

Contributed Services and Materials

Certain contributed property and use of property are recorded as support and expensed at fair market value when determinable, otherwise at values indicated by the donor.

In-Kind Contributions

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

For the fiscal year ended March 31, 2018 and 2017, the Organization recorded the cost of the coats at retail value when they are provided to the children. For the years ended March 31, 2018 and 2017, the difference between the actual cost to the Organization and the retail value amounted to $14,841,272 and $14,007,576. Accordingly, the difference is reported as charitable contributions on the statement of activities.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

In-Kind Contributions (Cont'd)

The Organization receives donated transportation services from professional carriers. Donated transportation is recorded as contribution revenue at its market value. The cost of transportation is recorded as program expense at the time coats are delivered. At times, other professional services are donated to the Organization. The market value of these donated services is recorded as contribution revenue at the time services are received. The Organization records the related expense to the appropriate functional expense area.

Income Taxes

Operation Warm, Inc. 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.

The Organization recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Management has determined that the Organization had no uncertain tax positions that would require financial statement recognition.

Operation Warm, Inc. files a separate 990, as well as all required state filings. The Organization did not have any unrelated business income for the fiscal years ended March 31, 2018 and 2017.

Coats For Kids Foundation is exempt from Federal income tax under section 501 (c)(3) of the Internal Revenue Code. Coats for Kids Foundation files a separate 990, as well as required state filings. The foundation did not have any unrelated business income for the fiscal years ended March 31, 2018 and 2017.

Allocation of Functional Expenses

The costs of providing program and supporting services has 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, 2018 and 2017 was $145,631 and $171,177, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2018 AND 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Reclassifications

Certain reclassifications have been made to the 2017 financial statement presentation to correspond to the current year's format. Net assets and changes in net assets are unchanged due to these reclassifications.

Date of Management's Approval

As required by the Subsequent Events Topic of the FASB ASC, the Organization has evaluated those events and transactions that occurred after the statement of financial position date of March 31, 2018 through June 27, 2018 the date the financial statements were available to be issued and determined there were no other items to be disclosed.

NOTE 3 – INVENTORY

At March 31, inventories consisted of the following:

	2018	2017
Raw materials	$ 125,585	$ 656,923
Finished goods	151,642	176,915
	$ 277,227	$ 833,838

Inventories are stated at the lower of cost or market. Cost is determined by the average cost method.

NOTE 4 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were restricted as follows at March 31:

	2018	2017
West coast expansion	-	11,806
	$ -	$ 11,806

Net assets released from donor restrictions by meeting the time restrictions or by incurring expenses satisfying the restrictions specified by donors are as follows:

	2018	2017
Race event	$ -	$ 255,000
West coast expansion	11,806	13,194
	$ 11,806	$ 268,194

There were no permanently restricted assets at March 31, 2018 and 2017.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2018 AND 2017

NOTE 5 – CONCENTRATION OF RISK

The Organization 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. The Organization 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, the Organization may have deposits that exceed the insured balances.

There were no balances in excess of insured amounts at March 31, 2018. Balances in excess of insured amounts at March 31, 2017 were $11,270. The Organization believes it is not exposed to any significant credit risk on its cash balances.

NOTE 6 – COMMITMENTS

As of March 31, 2018 there were signed purchase orders outstanding with suppliers for a total cost $3,247,516.

NOTE 7 – VOLUNTEER SERVICES

Donated services are not recognized as revenue unless the services received create or enhance the value of a nonfinancial asset or require specialized skills which are provided by individuals possessing those skills and would typically need to be purchased if not provided by donations. Due to the nature of the Organization's operations, individuals may volunteer their time and perform a variety of tasks that assist the Organization.

NOTE 8 – LEASING ARRANGEMENTS

The Organization leases office space under an operating lease. A new office lease was signed for a seven-year term in April 2013, with a provision to terminate at the end of five years. Rent expense for office space for the years ended March 31, 2018 and 2017 was $93,016 and $89,765, respectively.

The following is a schedule of future minimum lease payments required under the lease:

2019	$ 97,334
2020	$ 101,235

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2018 AND 2017

NOTE 9 – LINE OF CREDIT

The Organization 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 LIBOR plus 250 (4.38% at March 31, 2018) due monthly. Principal and interest is due in full on the maturity date of October 31, 2018. The line of credit is secured by cash and investment accounts held at the same financial institution valued at approximately $745,000 at March 31, 2018. There was no balance on the line at March 31, 2018 and 2017.

NOTE 10 – POST RETIREMENT BENEFITS

The Organization has a defined contribution plan (the Plan) covering all employees attaining age 21 with at least six months of service. The Organization matches 100% of employee contributions up to 3% and 50% of employee contributions up to 5% with a maximum match of 4%. Participants are immediately vested in all matching contributions. Total employer contributions for the years ended March 31, 2018 and 2017, was $53,524 and $36,697, respectively.

NOTE 11 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at March 31, 2018 and 2017:

	2018	2017
Furniture and equipment	$ 90,512	$ 90,512
Computers and software	97,373	77,419
	187,885	167,931
Less: accumulated depreciation	(150,384)	(127,857)
Net property and equipment	$ 37,501	$ 40,074

Depreciation expense for the years ended March 31, 2018 and 2017 was $24,612 and $30,853, respectively.