

OPERATION CALIFORNIA, INC.
(dba OPERATION USA)

FINANCIAL STATEMENTS

FISCAL YEARS ENDED
JUNE 30, 2011 and 2010

INDEX TO FINANCIAL STATEMENTS

	Page <u>No.</u>
Independent auditor's report	1
Statements of Financial Position At June 30, 2011 and 2010	2
Statements of Activities Years Ended June 30, 2011 and 2010	3
Statements of Functional Expenses Years Ended June 30, 2011 and 2010	4
Statements of Cash Flows Years Ended June 30, 2011 and 2010	5
Notes to Financial Statements For the Year Ended June 30, 2011	6 - 9



STARR JUDSON & Co., LLP
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Operation California, Inc.
Culver City, California

We have audited the accompanying statements of financial position of Operation California, Inc., dba: Operation USA, (a non-profit organization) as of June 30, 2011 and 2010 and the related statements of activities, functional expenses, and cash flows for the years then ended. The financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Operation California, Inc. as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Starr Judson Co., LLP

Valley Village, California
December 16, 2011

OPERATION CALIFORNIA, INC.
 Statements of Financial Position
 June 30, 2011 and 2010

ASSETS

	<u>2011</u>	<u>2010</u>
Current Assets		
Cash	\$1,918,546	\$1,840,590
Accounts Receivable	-	3,838
Investment (Note E)	-	719,347
Inventory (Note A)	3,439,454	5,472,142
Prepaid expenses	21,475	15,485
	<u>5,379,475</u>	<u>8,051,402</u>
Equipment (Note A):		
Office Furniture and equipment	9,717	43,331
Computer equipment	88,689	94,811
Leasehold improvement	0	8,202
Other equipment & supplies	337,318	337,318
Less: accumulated depreciation	<u>(85,365)</u>	<u>(108,511)</u>
	<u>350,359</u>	<u>375,151</u>
Other Assets		
Security deposits	<u>8,100</u>	<u>8,100</u>
TOTAL ASSETS	<u><u>\$5,737,934</u></u>	<u><u>\$8,434,653</u></u>

OPERATION CALIFORNIA, INC.
Statements of Financial Position
June 30, 2011 and 2010

LIABILITIES AND NET ASSETS

	<u>2011</u>	<u>2010</u>
Current Liabilities		
Accounts payable	<u>\$45,821</u>	<u>\$2,719</u>
Total Current Liabilities	<u>45,821</u>	<u>2,719</u>
Net Assets:		
Unrestricted:	3,051,812	5,244,286
Temporarily Restricted	<u>2,640,301</u>	<u>3,187,648</u>
Total Net Assets	<u>5,692,113</u>	<u>8,431,934</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u><u>\$5,737,934</u></u>	 <u><u>\$8,434,653</u></u>

See accompanying accountants' report and notes to financial statements.

OPERATION CALIFORNIA, INC.
 Statements of Activities
 Years Ended June 30, 2011 and 2010

	2011		Total
	Unrestricted	Temporarily Restricted	
<u>SUPPORT AND REVENUE</u>			
Support:			
Contributions- Individuals	\$405,251	\$179,698	\$584,949
Organizations	184,581	3,278,612	3,463,193
Total support	<u>589,832</u>	<u>3,458,310</u>	<u>4,048,142</u>
 In-Kind Donations (Note A)	 <u>9,037,651</u>	 -	 <u>9,037,651</u>
 Revenue:			
Revenue - interest	1,886	-	1,886
- other	-	-	-
Unrealized gain (loss) on investment	(210)	-	(210)
Total revenue	<u>1,676</u>	<u>-</u>	<u>1,676</u>
 Net asset released from restrictions	 <u>4,005,657</u>	 <u>(4,005,657)</u>	 <u>-</u>
 TOTAL SUPPORT AND REVENUE	 13,634,816	 (547,347)	 13,087,469
<u>EXPENSES</u>			
Program	4,080,874	-	4,080,874
Administrative	523,072	-	523,072
Fund raising	153,005	-	153,005
In-Kind Contributions (Note A)	11,070,339	-	11,070,339
 Total Expenses	 <u>15,827,290</u>	 <u>-</u>	 <u>15,827,290</u>
 INCREASE (DECREASE) IN NET ASSETS	 (2,192,474)	 (547,347)	 (2,739,821)
 Net assets, beginning of year	 5,244,286	 3,187,648	 8,431,934
 NET ASSETS, END OF YEAR	 <u>\$3,051,812</u>	 <u>\$2,640,301</u>	 <u>\$5,692,113</u>

2010		
Unrestricted	Temporarily Restricted	Total
\$410,287	\$1,082,267	\$1,492,554
122,457	1,564,989	1,687,446
532,744	2,647,256	3,180,000
19,492,339	-	19,492,339
1,982	-	1,982
-	-	-
6,549	-	6,549
8,531	-	8,531
1,677,832	(1,677,832)	-
21,711,446	969,424	22,680,870
2,490,476	-	2,490,476
434,172	-	434,172
69,447	-	69,447
17,323,651	-	17,323,651
20,317,746	-	20,317,746
1,393,700	969,424	2,363,124
3,850,586	2,218,224	6,068,810
\$5,244,286	\$3,187,648	\$8,431,934

See accompanying accountants' report and notes to financial statements.

OPERATION CALIFORNIA, INC.
 Statements of Functional Expenses
 Years Ended June 30, 2011 and 2010

	2011			Total
	Program Expense	Adminis- trative Expense	Fund Raising	
Accounting & legal	\$ -	\$20,545	\$ -	\$20,545
Advertising & promotion	-	-	3,671	3,671
Bank charges	-	12,359	-	12,359
Contributions to other non-profit organizations and direct project costs	3,238,193	-	-	3,238,193
Conferences & meetings	6,002	4,155	1,386	11,543
Depreciation	7,794	5,396	1,799	14,989
Dues & subscriptions	-	15,301	-	15,301
Equipment & supplies	13,826	-	-	13,826
Freight & transportation	57,957	-	-	57,957
Health Insurance	31,643	21,907	7,302	60,852
Insurance	19,939	13,804	4,602	38,345
Mailing service	-	7,448	-	7,448
Miscellaneous	4,377	18,019	1,073	23,469
Office supplies	6,559	4,541	1,514	12,614
Outside services	56,302	38,979	12,993	108,274
Payroll taxes	26,191	18,132	6,045	50,368
Pension plan contribution	6,904	4,780	1,593	13,277
Postage	2,071	930	981	3,982
Printing	15,257	10,562	3,521	29,340
Professional fees & consultants	57,181	39,587	13,195	109,963
Rent-space & equipment	51,009	35,314	11,771	98,094
Salaries	346,124	239,102	77,670	662,896
Security	-	544	-	544
Taxes & licenses	2,772	1,919	640	5,331
Telephone & telex	14,080	9,748	3,249	27,077
Travel & automobile	97,577	-	-	97,577
Warehouse expenditures	19,116	-	-	19,116
Total Expenses	4,080,874	523,072	153,005	4,756,951
In-Kind Contributions	11,070,339	-	-	11,070,339
Total Expenses	\$15,151,213	\$523,072	\$153,005	\$15,827,290

2010

Program Expense	Adminis- trative Expense	Fund Raising	Total
\$ -	\$18,675	\$ -	18,675
0	0	1,585	1,585
-	19,355	-	19,355
1,021,819	-	-	1,021,819
21,888	6,896	1,199	29,983
16,045	5,055	879	21,979
-	16,267	-	16,267
170,950	-	-	170,950
43,613	-	-	43,613
41,188	12,977	2,257	56,422
40,231	12,676	2,204	55,111
-	17,703	0	17,703
3,865	1,218	212	5,295
7,277	2,293	398	9,968
227,026	71,529	12,439	310,994
41,917	13,207	2,296	57,420
20,384	6,422	1,117	27,923
3,516	1,108	192	4,816
11,571	3,646	633	15,850
84,344	26,574	4,622	115,540
70,568	22,234	3,866	96,668
540,660	168,863	34,309	743,832
-	360	-	360
5,663	1,784	311	7,758
16,918	5,330	928	23,176
83,646	-	-	83,646
17,387	-	-	17,387
2,490,476	434,172	69,447	2,994,095
17,323,651	-	-	17,323,651
<u>\$19,814,127</u>	<u>\$434,172</u>	<u>\$69,447</u>	<u>\$20,317,746</u>

See accompanying accountants' report and notes to financial statements.

OPERATION CALIFORNIA, INC.
 Statements of Cash Flows
 Years Ended June 30, 2011 and 2010

	2011	2010
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Increase (decrease) in net assets	(\$2,739,821)	\$2,363,124
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	14,989	21,979
(Increase) decrease in operating assets		
Inventory	2,032,688	(2,168,688)
Accounts receivable	3,838	(3,838)
Prepaid expenses	(5,990)	(5,564)
Increase (decrease) in operating liabilities		
Accounts payable	43,102	1,634
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(651,194)	208,647
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Disposal of equipment - net	9,803	(2,168)
Proceeds from maturity of investment	719,347	177,139
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	729,150	174,971
NET INCREASE (DECREASE) IN CASH	77,956	383,618
Cash at beginning of year	1,840,590	1,456,972
CASH AT END OF YEAR	\$1,918,546	\$1,840,590

OPERATION CALIFORNIA, INC.
Notes to Financial Statements
Year Ended June 30, 2011

NOTE A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Operation California, Inc. is a not-for-profit public benefit corporation exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code. Its principal activities are to solicit, collect and distribute donated supplies and make cash grants for relief to the victims of natural disasters in the United States and throughout the world. The cash donations collected by the Organization are spent primarily on their programs to carry out relief and development activities and to pay for the distribution of goods; for the cost of transportation of supplies; for field visits required to monitor the distribution of such supplies; and, for domestic and international grants and training programs in the relief and development field. The Organization also uses its dba: Operation USA, by which it is primarily known to the public.

Basis of Accounting and Financial Statement 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.

The Organization has adopted Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations". Under SFAS No. 117, the Organization is required to report 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. In addition, the Organization is required to present a statement of cash flows. As permitted by the statement, the Organization does not use fund accounting.

Donated Inventory and In-Kind Donations

The Organization measures its material aid program by the value of products physically delivered to intended beneficiaries. These products are donated by corporations and supplemented by procurement and cash grants to partner non-profit agencies. Products which Operation California, Inc. is storing for later delivery to intended beneficiaries are shown as inventory in these financial statements. The Organization has always received substantial amounts of donated services from health care professionals and from transportation companies. No amounts have been reflected in these financial statements for donated services or volunteer time.

OPERATION CALIFORNIA, INC.
Notes to Financial Statements
Year Ended June 30, 2011

NOTE A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Furniture and Equipment

Most office furniture and equipment have been donated and are recorded at the fair market value at the time of the donation. Purchased items are recorded at cost. Depreciation is computed using the straight-line method over the estimated lives of the individual assets, ranging from 5 to 10 years.

Concentration of Credit Risk:

The Organization maintains its cash in deposit accounts, which, at times, may exceed federally insured limits of \$250,000, as guaranteed by the Federal Deposit Insurance Corporation (FDIC). The Organization has not experienced any losses in such accounts. Management believes the Organization is not exposed to any significant credit risk related to cash.

Functional Allocation of Expenses

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

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE B. GOVERNMENT FUNDING

The Organization does not seek nor accept US government program funding for its international relief and development efforts.

OPERATION CALIFORNIA, INC.
Notes to Financial Statements
Year Ended June 30, 2011

NOTE C. COMMITMENTS AND CONTINGENT LIABILITIES

In April 2006, the Organization leased office facilities under a 5-year operating lease. Under the lease term, the Organization was required to pay a base rent of \$7,343 per month plus a prorated share of common area operating expenses. This lease expired on April 15, 2011 but was extended to July 15, 2011.

In July 2011, the Organization leased office facilities under a 5-year operating lease. Under the lease term, the Organization is required to pay a base rent of \$5,000 per month plus a prorated share of common area operating expenses.

Lease payments totaled \$88,231 for the year ended June 30, 2011.

The following is a schedule by years of future minimum lease payments required under the lease.

<u>Year ended June 30,</u>	
2012	\$52,500
2013	60,000
2014	60,000
2015	60,000
2016	60,000
2017	<u>10,000</u>
	<u>\$302,500</u>

The Organization has the use of a storage facility at 326 West "C" Street, Wilmington, California. The use of this facility has been provided free of charge from the Harbor Commission of the port of Los Angeles.

We are not aware of any pending claims or legal actions against the organization. The Organization carries a \$2,000,000 general liability policy as protection against such claims or lawsuits should they arise.

OPERATION CALIFORNIA, INC.
Notes to Financial Statements
Year Ended June 30, 2011

NOTE D. TEMPORARILY RESTRICTED NET ASSETS

For the year ended June 30, 2011, temporarily restricted net assets decreased by \$547,347 to a total of \$2,640,301. Such temporarily restricted net assets relate to contributions specified for disasters rebuilding and program services of the California Community Clinic Support program in future years as follows:

Disasters Response and Rebuilding	\$ 2,144,328
California Clinic Program	495,973
	<u>\$ 2,640,301</u>

NOTE E. INVESTMENTS

As of June 30, 2010, the statement of financial position reflected investments in certificates of deposit at readily determinable fair values. During the current fiscal year, these investments were converted to cash due to their poor performance and the balances are included in cash in the statement of financial position as of June 30, 2011. Unrealized gain (loss) for the short period that they were held as investments during the current fiscal year is included in the accompanying statement of activities.