

OPERATION CALIFORNIA, INC.
(dba OPERATION USA)

FINANCIAL STATEMENTS

FISCAL YEARS ENDED
JUNE 30, 2010 and 2009

INDEX TO FINANCIAL STATEMENTS

	Page No.
Independent auditor's report	1
Statements of Financial Position At June 30, 2010 and 2009	2
Statements of Activities Years Ended June 30, 2010 and 2009	3
Statements of Functional Expenses Years Ended June 30, 2010 and 2009	4
Statements of Cash Flows Years Ended June 30, 2010 and 2009	5
Notes to Financial Statements For the Year Ended June 30, 2010	6 - 8

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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, 2010 and 2009 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, 2010 and 2009, 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
September 17, 2010

OPERATION CALIFORNIA, INC.
 Statements of Financial Position
 June 30, 2010 and 2009

ASSETS

	<u>2010</u>	<u>2009</u>
Current Assets		
Cash	\$1,840,590	\$1,456,972
Accounts Receivable	3,838	-
Investment (Note E)	719,347	896,486
Inventory (Note A)	5,472,142	3,303,454
Prepaid expenses	15,485	9,921
	<u>8,051,402</u>	<u>5,666,833</u>
Equipment (Note A):		
Office Furniture and equipment	43,331	43,331
Computer equipment	94,811	92,643
Leasehold improvement	8,202	8,202
Other equipment & supplies	337,318	337,318
Less: accumulated depreciation	(108,511)	(86,532)
	<u>375,151</u>	<u>394,962</u>
Other Assets		
Security deposits	8,100	8,100
	<u>8,100</u>	<u>8,100</u>
TOTAL ASSETS	<u><u>\$8,434,653</u></u>	<u><u>\$6,069,895</u></u>

OPERATION CALIFORNIA, INC.
Statements of Financial Position
June 30, 2010 and 2009

LIABILITIES AND NET ASSETS

	<u>2010</u>	<u>2009</u>
Current Liabilities		
Accounts payable	<u>\$2,719</u>	<u>\$1,085</u>
Total Current Liabilities	<u>2,719</u>	<u>1,085</u>
Net Assets:		
Unrestricted:	5,244,286	3,850,586
Temporarily Restricted	<u>3,187,648</u>	<u>2,218,224</u>
Total Net Assets	<u>8,431,934</u>	<u>6,068,810</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u><u>\$8,434,653</u></u>	 <u><u>\$6,069,895</u></u>

See accompanying accountants' report and notes to financial statements.

OPERATION CALIFORNIA, INC.
 Statements of Activity
 Years Ended June 30, 2010 and 2009

	2010		Total
	Unrestricted	Temporarily Restricted	
<u>SUPPORT AND REVENUE</u>			
Support:			
Contributions- Individuals	\$410,287	\$1,082,267	\$1,492,554
Organizations	122,457	1,564,989	1,687,446
Total support	<u>532,744</u>	<u>2,647,256</u>	<u>3,180,000</u>
 In-Kind Donations (Note A)	 <u>19,492,339</u>	 -	 <u>19,492,339</u>
Revenue:			
Revenue - interest	1,982	-	1,982
- other	-	-	-
Unrealized gain (loss) on investment	6,549	-	6,549
Total revenue	<u>8,531</u>	<u>-</u>	<u>8,531</u>
 Net asset released from restrictions	 <u>1,677,832</u>	 <u>(1,677,832)</u>	 <u>-</u>
 TOTAL SUPPORT AND REVENUE	 21,711,446	 969,424	 22,680,870
<u>EXPENSES</u>			
Program	2,490,476	-	2,490,476
Administrative	434,172	-	434,172
Fund raising	69,447	-	69,447
In-Kind Contributions (Note A)	17,323,651	-	17,323,651
 Total Expenses	 <u>20,317,746</u>	 <u>-</u>	 <u>20,317,746</u>
 INCREASE (DECREASE) IN NET ASSETS	 1,393,700	 969,424	 2,363,124
 Net assets, beginning of year	 3,850,586	 2,218,224	 6,068,810
 NET ASSETS, END OF YEAR	 <u>\$5,244,286</u>	 <u>\$3,187,648</u>	 <u>\$8,431,934</u>

2009		
Unrestricted	Temporarily Restricted	Total
\$339,993	\$156,034	\$496,027
179,203	963,318	1,142,521
<u>519,196</u>	<u>1,119,352</u>	<u>1,638,548</u>
<u>12,431,164</u>	-	<u>12,431,164</u>
46,939	-	46,939
-	-	-
41,252	-	41,252
<u>88,191</u>	-	<u>88,191</u>
<u>1,141,041</u>	<u>(1,141,041)</u>	<u>-</u>
14,179,592	(21,689)	14,157,903
2,014,521	-	2,014,521
448,099	-	448,099
128,265	-	128,265
12,720,164	-	12,720,164
<u>15,311,049</u>	-	<u>15,311,049</u>
(1,131,457)	(21,689)	(1,153,146)
4,982,043	2,239,913	7,221,956
<u>\$3,850,586</u>	<u>\$2,218,224</u>	<u>\$6,068,810</u>

See accompanying accountants' report and notes to financial statements.

OPERATION CALIFORNIA, INC.
 Statements of Functional Expenses
 Years Ended June 30, 2010 and 2009

	2010			
	Program Expense	Adminis- trative Expense	Fund Raising	Total
Accounting & legal	\$ -	\$18,675	\$ -	\$18,675
Advertising & promotion	-	-	1,585	1,585
Bank charges	-	19,355	-	19,355
Contributions to other non-profit organizations	1,021,819	-	-	1,021,819
Conferences & meetings	21,888	6,896	1,199	29,983
Depreciation	16,045	5,055	879	21,979
Dues & subscriptions	-	16,267	-	16,267
Equipment & supplies	170,950	-	-	170,950
Freight & transportation	43,613	-	-	43,613
Health Insurance	41,188	12,977	2,257	56,422
Insurance	40,231	12,676	2,204	55,111
Mailing service	-	17,703	-	17,703
Miscellaneous	3,865	1,218	212	5,295
Office supplies	7,277	2,293	398	9,968
Outside services	227,026	71,529	12,439	310,994
Payroll taxes	41,917	13,207	2,296	57,420
Pension plan contribution	20,384	6,422	1,117	27,923
Postage	3,516	1,108	192	4,816
Printing	11,571	3,646	633	15,850
Professional fees & consultants	84,344	26,574	4,622	115,540
Rent-space & equipment	70,568	22,234	3,866	96,668
Salaries	540,660	168,863	34,309	743,832
Security	-	360	-	360
Taxes & licenses	5,663	1,784	311	7,758
Telephone & telex	16,918	5,330	928	23,176
Travel & automobile	83,646	-	-	83,646
Warehouse expenditures	17,387	-	-	17,387
Total Expenses	2,490,476	434,172	69,447	2,994,095
In-Kind Contributions	17,323,651	-	-	17,323,651
Total Expenses	\$19,814,127	\$434,172	\$69,447	\$20,317,746

2009			
Program Expense	Adminis- trative Expense	Fund Raising	Total
\$ -	\$18,979	\$ -	18,979
985	9,886	27,878	38,749
-	15,221	-	15,221
863,483	-	-	863,483
9,783	1,393	144	11,320
-	23,458	-	23,458
-	10,069	-	10,069
27,307	-	-	27,307
26,841	-	-	26,841
54,477	23,233	2,403	80,113
31,587	13,471	1,394	46,452
-	-	15,739	15,739
2,971	1,237	127	4,335
9,470	4,039	417	13,926
40,390	9,804	45,644	95,838
38,576	16,451	1,703	56,730
28,658	12,222	1,264	42,144
2,766	974	101	3,841
7,850	2,931	303	11,084
144,632	34,191	3,537	182,360
75,836	28,778	2,977	107,591
500,631	213,546	23,821	737,998
-	360	-	360
7,938	3,385	351	11,674
16,078	4,471	462	21,011
101,993	-	-	101,993
22,269	-	-	22,269
2,014,521	448,099	128,265	2,590,885
12,720,164	-	-	12,720,164
<u>\$14,734,685</u>	<u>\$448,099</u>	<u>\$128,265</u>	<u>\$15,311,049</u>

See accompanying accountants' report and notes to financial statements.

OPERATION CALIFORNIA, INC.
 Statements of Cash Flows
 Years Ended June 30, 2010 and 2009

	2010	2009
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Increase (decrease) in net assets	\$2,363,124	(\$1,153,146)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	21,979	23,458
(Increase) decrease in operating assets		
Inventory	(2,168,688)	289,000
Accounts receivable	(3,838)	-
Prepaid expenses	(5,564)	9,762
Increase (decrease) in operating liabilities		
Accounts payable	1,634	898
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	208,647	(830,028)
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Payments for equipment	(2,168)	(342,583)
Proceeds from maturity of investment	177,139	1,746,228
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	174,971	1,403,645
NET INCREASE (DECREASE) IN CASH	383,618	573,617
Cash at beginning of year	1,456,972	883,355
CASH AT END OF YEAR	\$1,840,590	\$1,456,972

OPERATION CALIFORNIA, INC.
Notes to Financial Statements
Year Ended June 30, 2010

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 solicitation of goods to be distributed; 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, 2010

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, 2010

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 is required to pay a base rent of \$7,343 per month plus a prorated share of common area operating expenses.

Future minimum lease payments under the lease is \$73,430

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.

NOTE D. TEMPORARILY RESTRICTED NET ASSETS

For the year ended June 30, 2010, temporarily restricted net assets increased by \$969,424 to a total of \$3,187,648. 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	\$ 2,710,996
California Clinic Program	476,652
	<u>\$ 3,187,648</u>

NOTE E. INVESTMENTS

The statement of financial position reflects investments in certificates of deposit at readily determinable fair values as of June 30, 2010. Unrealized gain (loss) is included in the accompanying statement of activities. Aggregate market values for such investments at June 30, 2010 is \$719,347.