

OPERATION CALIFORNIA, INC.
(dba OPERATION USA)

FINANCIAL STATEMENTS

FISCAL YEARS ENDED
JUNE 30, 2012 and 2011

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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, 2012 and 2011 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, 2012 and 2011, 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 28, 2012

OPERATION CALIFORNIA, INC.
 Statements of Financial Position
 June 30, 2012 and 2011

ASSETS

	<u>2012</u>	<u>2011</u>
Current Assets		
Cash	\$1,047,575	\$1,918,546
Accounts Receivable	53,290	-
Inventory (Note A)	3,175,325	3,439,454
Prepaid expenses	16,597	21,475
	<u>4,292,787</u>	<u>5,379,475</u>
Total Current Assets		
Equipment (Note A):		
Office Furniture and equipment	9,717	9,717
Computer equipment	79,532	88,689
Leasehold improvement	0	0
Other equipment & supplies	337,318	337,318
Less: accumulated depreciation	<u>(84,710)</u>	<u>(85,365)</u>
	<u>341,857</u>	<u>350,359</u>
Total Property and Equipment		
Other Assets		
Security deposits	<u>5,800</u>	<u>8,100</u>
TOTAL ASSETS	<u><u>\$4,640,444</u></u>	<u><u>\$5,737,934</u></u>

OPERATION CALIFORNIA, INC.
Statements of Financial Position
June 30, 2012 and 2011

LIABILITIES AND NET ASSETS

	<u>2012</u>	<u>2011</u>
Current Liabilities		
Accounts payable	<u>\$32,227</u>	<u>\$45,821</u>
Total Current Liabilities	<u>32,227</u>	<u>45,821</u>
Net Assets:		
Unrestricted:	976,482	3,051,812
Temporarily Restricted	<u>3,631,735</u>	<u>2,640,301</u>
Total Net Assets	<u>4,608,217</u>	<u>5,692,113</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u><u>\$4,640,444</u></u>	 <u><u>\$5,737,934</u></u>

See accompanying accountants' report and notes to financial statements.

OPERATION CALIFORNIA, INC.
 Statements of Activities
 Years Ended June 30, 2012 and 2011

	2012		Total
	Unrestricted	Temporarily Restricted	
<u>SUPPORT AND REVENUE</u>			
Support:			
Contributions- Individuals	\$256,516	\$100,122	\$356,638
Organizations	147,568	891,312	1,038,880
Total support	<u>404,084</u>	<u>991,434</u>	<u>1,395,518</u>
 In-Kind Donations (Note A)	 <u>1,661,276</u>	 -	 <u>1,661,276</u>
 Revenue:			
Revenue - interest	506	-	506
- other	55,208	-	55,208
Unrealized gain (loss) on investment		-	-
Total revenue	<u>55,714</u>	<u>-</u>	<u>55,714</u>
 Net asset released from restrictions			 <u>-</u>
 TOTAL SUPPORT AND REVENUE	 2,121,074	 991,434	 3,112,508
<u>EXPENSES</u>			
Program	\$1,803,326	-	1,803,326
Administrative	295,971	-	295,971
Fund raising	171,702	-	171,702
In-Kind Contributions (Note A)	1,925,405	-	1,925,405
 Total Expenses	 <u>4,196,404</u>	 -	 <u>4,196,404</u>
 INCREASE (DECREASE) IN NET ASSETS	 (2,075,330)	 991,434	 (1,083,896)
 Net assets, beginning of year	 3,051,812	 2,640,301	 5,692,113
 NET ASSETS, END OF YEAR	 <u>\$976,482</u>	 <u>\$3,631,735</u>	 <u>\$4,608,217</u>

2011		
Unrestricted	Temporarily Restricted	Total
\$405,251	\$179,698	\$584,949
184,581	3,278,612	3,463,193
589,832	3,458,310	4,048,142
9,037,651	-	9,037,651
1,886	-	1,886
-	-	-
(210)	-	(210)
1,676	-	1,676
4,005,657	(4,005,657)	-
13,634,816	(547,347)	13,087,469
4,080,874	-	4,080,874
523,072	-	523,072
153,005	-	153,005
11,070,339	-	11,070,339
15,827,290	-	15,827,290
(2,192,474)	(547,347)	(2,739,821)
5,244,286	3,187,648	8,431,934
<u>\$3,051,812</u>	<u>\$2,640,301</u>	<u>\$5,692,113</u>

See accompanying accountants' report and notes to financial statements.

OPERATION CALIFORNIA, INC.
 Statements of Functional Expenses
 Years Ended June 30, 2012 and 2011

	2012			Total
	Program Expense	Adminis- trative Expense	Fund Raising	
Accounting & legal	\$ -	\$32,277	\$ -	\$32,277
Advertising & promotion	-	-	37,487	37,487
Bank charges	-	5,540	-	5,540
Contributions to other non-profit organizations and direct project costs	1,073,982	-	-	1,073,982
Conferences & meetings	1,542	1,068	356	2,966
Depreciation	4,421	3,060	1,020	8,501
Dues & subscriptions	-	13,139	-	13,139
Equipment & supplies	501	-	-	501
Freight & transportation	58,437	-	-	58,437
Health Insurance	21,480	14,871	4,957	41,308
Insurance	24,967	17,285	5,762	48,014
Mailing service	-	-	-	0
Miscellaneous	7,752	5,367	1,788	14,907
Office supplies	5,265	3,645	1,215	10,125
Outside services	32,275	22,344	7,449	62,068
Payroll taxes	18,819	13,028	4,343	36,190
Pension plan contribution	5,684	3,935	1,312	10,931
Postage	3,740	1,680	1,772	7,192
Printing	12,414	8,594	2,865	23,873
Professional fees & consultants	20,745	14,362	4,787	39,894
Rent-space & equipment	34,479	23,870	7,957	66,306
Salaries	383,789	103,108	85,923	572,820
Security	-	671	-	671
Taxes & licenses	1,931	1,337	446	3,714
Telephone & telex	9,807	6,790	2,263	18,860
Travel & automobile	59,218	-	-	59,218
Warehouse expenditures	22,078	-	-	22,078
Total Expenses	1,803,326	295,971	171,702	2,270,999
In-Kind Contributions	1,925,405	-	-	1,925,405
Total Expenses	\$3,728,731	\$295,971	\$171,702	\$4,196,404

2011			
Program Expense	Adminis- trative Expense	Fund Raising	Total
\$ -	\$20,545	\$ -	20,545
0	0	3,671	3,671
-	12,359	-	12,359
3,238,193	-	-	3,238,193
6,002	4,155	1,386	11,543
7,794	5,396	1,799	14,989
-	15,301	-	15,301
13,826	-	-	13,826
57,957	-	-	57,957
31,643	21,907	7,302	60,852
19,939	13,804	4,602	38,345
-	7,448	0	7,448
4,377	18,019	1,073	23,469
6,559	4,541	1,514	12,614
56,302	38,979	12,993	108,274
26,191	18,132	6,045	50,368
6,904	4,780	1,593	13,277
2,071	930	981	3,982
15,257	10,562	3,521	29,340
57,181	39,587	13,195	109,963
51,009	35,314	11,771	98,094
346,124	239,102	77,670	662,896
-	544	-	544
2,772	1,919	640	5,331
14,080	9,748	3,249	27,077
97,577	-	-	97,577
19,116	-	-	19,116
4,080,874	523,072	153,005	4,756,951
11,070,339	-	-	11,070,339
<u>\$15,151,213</u>	<u>\$523,072</u>	<u>\$153,005</u>	<u>\$15,827,290</u>

See accompanying accountants' report and notes to financial statements.

OPERATION CALIFORNIA, INC.
 Statements of Cash Flows
 Years Ended June 30, 2012 and 2011

	2012	2011
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Increase (decrease) in net assets	(\$1,083,896)	(\$2,739,821)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	8,501	14,989
(Increase) decrease in operating assets		
Inventory	264,129	2,032,688
Accounts receivable	(53,290)	3,838
Prepaid expenses	4,879	(5,990)
Deposits	2,300	
Increase (decrease) in operating liabilities		
Accounts payable	(13,594)	43,102
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(870,971)	(651,194)
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Purchase of equipment - net	-	9,803
Proceeds from maturity of investment	-	719,347
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	-	729,150
NET INCREASE (DECREASE) IN CASH	(870,971)	77,956
Cash at beginning of year	1,918,546	1,840,590
CASH AT END OF YEAR	\$1,047,575	\$1,918,546

OPERATION CALIFORNIA, INC.
Notes to Financial Statements
Year Ended June 30, 2012

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

The accompanying financial statements are presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Accordingly, the financial statements reflect all significant receivables, payables, and other liabilities.

Basis of Presentation

The Organization is required to report information regarding its financial position and activities according to three classes of assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

The costs of the program and supporting services have been reported on a functional basis. This required the allocation of certain of the costs among the various programs and supporting services based on estimates made by management. Actual results could differ slightly from those estimates.

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, 2012

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, 2012

NOTE C. COMMITMENTS AND CONTINGENT LIABILITIES

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 \$63,050 for the year ended June 30, 2012.

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

<u>Year ended June 30,</u>	
2013	\$60,000
2014	60,000
2015	60,000
2016	60,000
2017	<u>10,000</u>
	<u>\$250,000</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.

NOTE D. TEMPORARILY RESTRICTED NET ASSETS

For the year ended June 30, 2012, temporarily restricted net assets increased by \$991,434 to a total of \$3,390,730. 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	\$ 3,130,702
California Clinic Program	<u>501,033</u>
	<u>\$ 3,631,735</u>