

OPERATION CALIFORNIA, INC.
(dba OPERATION USA)

FINANCIAL STATEMENTS

FISCAL YEARS ENDED
JUNE 30, 2016 and 2015

OPERATION CALIFORNIA, INC.
INDEX TO FINANCIAL STATEMENTS

	<u>Page</u>
Independent auditor's report	1
Statements of Financial Position At June 30, 2016 and 2015	2 - 3
Statements of Activities Years Ended June 30, 2016 and 2015	4 - 5
Statements of Functional Expenses Years Ended June 30, 2016 and 2015	6 - 7
Statements of Cash Flows Years Ended June 30, 2016 and 2015	8
Notes to Financial Statements and Changes in Net Assets For the Year Ended June 30, 2016 and 2015	9 - 11



GOLDMAN | KURLAND & MIRAGLIA
LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Operation California, Inc.
Los Angeles, California

Report on the Financial Statements

We have audited the accompanying financial statements of Operation California, Inc., dba: Operation USA, (a non-profit organization), which comprise the statement of financial position as of June 30, 2016, and 2015 which include the related statements of activities and changes in net assets, functional expenses, and cash flows 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 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 financial statements based on our audits. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 policies used and the reasonableness of significant accounting estimates made by management, examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used in 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 financial statements referred to above present fairly, in all material respects, the financial position of Operation California, Inc. as of June 30, 2016 and 2015, and the results of its operations 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.

Goldman Kurland & Miraglia LLP

Goldman Kurland and Miraglia, LLP
Encino, California

November 30, 2016

OPERATION CALIFORNIA, INC.
 Statements of Financial Position
 June 30, 2016 and 2015

ASSETS

	2016	2015
Current Assets		
Cash	\$ 780,445	\$ 1,491,150
Inventory	3,489,125	3,336,923
Prepaid expenses	6,558	16,597
	4,276,128	4,844,670
 Total Current Assets	 4,276,128	 4,844,670
 Equipment		
Office Furniture and equipment	9,717	9,717
Computer equipment	79,532	79,532
Other equipment & supplies	337,318	337,318
Less: accumulated depreciation	(89,250)	(88,902)
	337,317	337,665
 Total Property and Equipment	 337,317	 337,665
 Other Assets		
Security deposits	6,900	5,800
	6,900	5,800
 TOTAL ASSETS	 \$ 4,620,345	 \$ 5,188,135

See accompanying accountants' report and notes to financial statements.

OPERATION CALIFORNIA, INC.
Statements of Financial Position
June 30, 2016 and 2015

LIABILITIES AND NET ASSETS

	<u>2016</u>	<u>2015</u>
Current Liabilities		
Accounts payable	<u>\$ 9,423</u>	<u>\$ 32,814</u>
Total Current Liabilities	<u>9,423</u>	<u>32,814</u>
Net Assets		
Unrestricted	(4,497,143)	(4,098,435)
Temporarily Restricted	<u>9,108,065</u>	<u>9,253,756</u>
Total Net Assets	<u>4,610,922</u>	<u>5,155,321</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,620,345</u>	<u>\$ 5,188,135</u>

See accompanying accountants' report and notes to financial statements.

OPERATION CALIFORNIA, INC.
 Statements of Activities and Changes in Net Assets
 Years Ended June 30, 2016 and 2015

	2016		Total
	Unrestricted	Temporarily Restricted	
<u>SUPPORT AND REVENUE</u>			
Support			
Contributions - Individuals	\$ 192,416	\$ 130,684	\$ 323,100
Contributions - Organizations	84,639	817,379	902,018
Total support	<u>277,055</u>	<u>948,063</u>	<u>1,225,118</u>
In-Kind Donations	<u>3,246,672</u>	-	<u>3,246,672</u>
Revenue			
Interest	366	-	366
Other	-	-	-
Total revenue	<u>366</u>	<u>-</u>	<u>366</u>
TOTAL SUPPORT AND REVENUE	3,524,093	948,063	4,472,156
<u>EXPENSES</u>			
Program	435,644	1,023,427	1,459,071
Administrative	211,712	32,819	244,531
Fund raising	180,976	37,508	218,484
In-Kind Contributions	3,094,469	-	3,094,469
Total Expenses	<u>3,922,801</u>	<u>1,093,754</u>	<u>5,016,555</u>
DECREASE IN NET ASSETS	(398,708)	(145,691)	(544,399)
NET ASSETS, BEGINNING OF YEAR	(4,098,435)	9,253,756	5,155,321
NET ASSETS, END OF YEAR	<u>\$ (4,497,143)</u>	<u>\$ 9,108,065</u>	<u>\$ 4,610,922</u>

See accompanying accountants' report and notes to financial statements.

OPERATION CALIFORNIA, INC.
 Statements of Activities and Changes in Net Assets
 Years Ended June 30, 2016 and 2015

	2015		Total
	Unrestricted	Temporarily Restricted	
<u>SUPPORT AND REVENUE</u>			
Support			
Contributions - Individuals	\$ 257,200	\$ 573,000	\$ 830,200
Contributions - Organizations	55,978	1,120,376	1,176,354
Total support	<u>313,178</u>	<u>1,693,376</u>	<u>2,006,554</u>
In-Kind Donations	<u>12,579,618</u>	-	<u>12,579,618</u>
Revenue			
Interest	405	-	405
Other	-	-	-
Total revenue	<u>405</u>	<u>-</u>	<u>405</u>
 TOTAL SUPPORT AND REVENUE	 12,893,201	 1,693,376	 14,586,577
<u>EXPENSES</u>			
Program	1,713,884	-	1,713,884
Administrative	189,846	-	189,846
Fund raising	184,830	-	184,830
In-Kind Contributions	15,654,021	-	15,654,021
Total Expenses	<u>17,742,581</u>	<u>-</u>	<u>17,742,581</u>
 INCREASE (DECREASE) IN NET ASSETS	 (4,849,380)	 1,693,376	 (3,156,004)
 NET ASSETS, BEGINNING OF YEAR	 <u>750,945</u>	 <u>7,560,380</u>	 <u>8,311,325</u>
 NET ASSETS, END OF YEAR	 <u>\$ (4,098,435)</u>	 <u>\$ 9,253,756</u>	 <u>\$ 5,155,321</u>

See accompanying accountants' report and notes to financial statements.

OPERATION CALIFORNIA, INC.
Statements of Functional Expenses
Years Ended June 30, 2016 and 2015

	2016			Total
	Program Expense	Adminis- trative Expense	Fund Raising	
Accounting & legal	\$ -	\$ 19,737	\$ -	\$ 19,737
Advertising & promotion	990	378	432	1,800
Bank charges	-	8,563	-	8,563
Contributions to other non-profit organizations and direct project costs	916,633	-	-	916,633
Conferences & meetings	2,316	884	1,011	4,211
Depreciation	191	73	83	347
Dues & subscriptions	-	20,459	-	20,459
Equipment & supplies	10,916	4,168	4,763	19,847
Freight & transportation	27,271	10,413	11,900	49,584
Health Insurance	24,156	9,223	10,541	43,920
Insurance	22,568	8,616	9,848	41,032
Miscellaneous	-	-	-	-
Office supplies	9,105	3,475	3,972	16,552
Outside services	25,225	9,383	10,724	45,332
Payroll taxes	18,991	7,251	8,287	34,529
Payroll service fees	3,560	1,359	1,553	6,472
Pension plan contribution	4,042	1,543	1,764	7,349
Postage	12,570	4,800	5,485	22,855
Printing	296	113	129	538
Professional fees & consultants	5,233	1,998	2,283	9,514
Rent-space & equipment	44,088	16,834	19,238	80,160
Salaries	275,999	105,381	120,436	501,816
Security	-	1,663	-	1,663
Taxes & licenses	4,141	1,581	1,807	7,529
Telephone & telex	9,690	3,700	4,228	17,618
Travel & automobile	23,070	-	-	23,070
Utilities	-	2,936	-	2,936
Warehouse expenditures	17,389	-	-	17,389
Website	631	-	-	631
Total Expenses	<u>1,459,071</u>	<u>244,531</u>	<u>218,484</u>	<u>1,922,086</u>
In-Kind Contributions	3,094,469	-	-	3,094,469
Total Expenses	<u>\$ 4,553,540</u>	<u>\$ 244,531</u>	<u>\$ 218,484</u>	<u>\$ 5,016,555</u>

See accompanying accountants' report and notes to financial statements.

OPERATION CALIFORNIA, INC.
Statements of Functional Expenses
Years Ended June 30, 2016 and 2015

	2015			
	Program Expense	Adminis- trative Expense	Fund Raising	Total
Accounting & legal	\$ -	\$ 19,461	\$ -	\$ 19,461
Advertising & promotion	1,358	410	388	2,156
Bank charges	-	16,887	-	16,887
Contributions to other non-profit organizations and direct project costs	1,108,294	-	-	1,108,294
Conferences & meetings	4,415	1,332	1,261	7,008
Depreciation	137	41	39	217
Dues & subscriptions	-	15,657	-	15,657
Equipment & supplies	9,940	2,998	2,840	15,778
Freight & transportation	20,219	-	-	20,219
Health Insurance	29,211	8,810	8,346	46,367
Insurance	20,784	6,268	5,938	32,990
Miscellaneous	164	49	47	260
Office supplies	13,366	4,031	3,819	21,216
Outside services	41,554	12,532	11,873	65,959
Payroll taxes	22,003	6,636	6,287	34,926
Payroll service fees	4,381	1,321	1,252	6,954
Pension plan contribution	4,931	1,487	1,409	7,827
Postage	8,375	2,526	2,393	13,294
Printing	3,734	1,126	1,067	5,927
Professional fees & consultants	5,117	1,543	1,462	8,122
Rent-space & equipment	46,379	13,987	13,251	73,617
Salaries	273,040	62,940	118,684	454,664
Security	-	1,771	-	1,771
Taxes & licenses	4,976	1,501	1,422	7,899
Telephone & telex	10,680	3,221	3,052	16,953
Travel & automobile	61,175	-	-	61,175
Utilities	-	3,311	-	3,311
Warehouse expenditures	19,651	-	-	19,651
Website	-	-	-	-
Total Expenses	1,713,884	189,846	184,830	2,088,560
In-Kind Contributions	15,654,021	-	-	15,654,021
Total Expenses	\$ 17,367,905	\$ 189,846	\$ 184,830	\$ 17,742,581

See accompanying accountants' report and notes to financial statements.

OPERATION CALIFORNIA, INC.
 Statements of Cash Flows
 Years Ended June 30, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Decrease in net assets	\$ (544,399)	\$ (3,156,005)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	347	217
(Increase) decrease in operating assets		
Inventory	(152,202)	3,074,403
Accounts receivable	-	115,000
Prepaid expenses	10,040	-
Deposits	(1,100)	-
Increase (decrease) in operating liabilities		
Accounts payable	(23,391)	12,984
	(710,705)	46,599
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
NET INCREASE (DECREASE) IN CASH	(710,705)	46,599
CASH AT BEGINNING OF YEAR	1,491,150	1,444,551
CASH AT END OF YEAR	\$ 780,445	\$ 1,491,150

See accompanying accountants' report and notes to financial statements.

OPERATION CALIFORNIA, INC.
Notes to Financial Statements
Year Ended June 30, 2016 and 2015

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 Company did not have any permanently restricted assets as of June 30, 2016 and 2015.

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.

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.

OPERATION CALIFORNIA, INC.
Notes to Financial Statements
Year Ended June 30, 2016 and 2015

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

NOTE A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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. The Organization updated the lease on February 1, 2016 and extended the term for 3 years commencing September 1, 2016.

Lease payments totaled \$80,160 for the year ended June 30, 2016.

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

<u>Year ended June 30,</u>	
2017	\$ 75,000
2018	80,000
2019	82,400
	<u>\$ 237,400</u>

OPERATION CALIFORNIA, INC.
Notes to Financial Statements
Year Ended June 30, 2016 and 2015

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, 2016, temporarily restricted net assets decreased by \$145,691 to a total of \$9,108,065. 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:

	June 30,	
	2016	2015
Disasters Response and Rebuilding	\$ 7,492,972	7,560,380
California Clinic Program	1,615,093	1,693,376
	<u>\$ 9,108,065</u>	<u>9,253,756</u>

NOTE E. SUBSEQUENT EVENTS

The Organization has evaluated events subsequent to June 30, 2016 to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through November 30, 2016, the date the financial statements were available to be issued. Based upon this evaluation, it was determined that no subsequent events occurred that require recognition or additional disclosure in the financial statements.