

**OPERATION CALIFORNIA, INC.**  
**(dba OPERATION USA)**

FINANCIAL STATEMENTS

FISCAL YEARS ENDED  
JUNE 30, 2017 and 2016

OPERATION CALIFORNIA, INC.  
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## **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 statements of financial position as of June 30, 2017 and 2016, 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, 2017 and 2016, 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.

## **Report on Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on pages 6-7 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Goldman Kurland & Miraglia LLP*

Goldman Kurland and Miraglia, LLP  
Encino, California

October 31, 2017

OPERATION CALIFORNIA, INC.  
 Statements of Financial Position  
 June 30, 2017 and 2016

ASSETS

	2017	2016
Current Assets		
Cash	\$ 269,812	\$ 780,445
Accounts receivable	2,100	-
Inventory	4,306,743	3,826,443
Prepaid expenses	7,268	6,557
Total Current Assets	4,585,923	4,613,445
Equipment		
Office Furniture and equipment	9,717	9,717
Computer equipment	79,533	79,533
Less: accumulated depreciation	(89,250)	(89,250)
Total Property and Equipment	-	-
Other Assets		
Security deposits	6,900	6,900
<b>TOTAL ASSETS</b>	<b>\$ 4,592,823</b>	<b>\$ 4,620,345</b>

See accompanying accountants' report and notes to financial statements.

OPERATION CALIFORNIA, INC.  
Statements of Financial Position  
June 30, 2017 and 2016

LIABILITIES AND NET ASSETS

	<u>2017</u>	<u>2016</u>
Current Liabilities		
Accounts payable	<u>\$ 12,221</u>	<u>\$ 9,423</u>
Total Current Liabilities	<u>12,221</u>	<u>9,423</u>
Net Assets		
Unrestricted	<u>4,580,602</u>	<u>4,610,922</u>
Total Net Assets	<u>4,580,602</u>	<u>4,610,922</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u><u>\$ 4,592,823</u></u>	 <u><u>\$ 4,620,345</u></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, 2017 and 2016

	2017	
	Unrestricted	Total
<b><u>SUPPORT AND REVENUE</u></b>		
Support		
Contributions - Individuals	\$ 432,495	\$ 432,495
Contributions - Organizations	279,148	279,148
Total support	711,643	711,643
 In-Kind Donations	 2,595,367	 2,595,367
 Revenue		
Interest	254	254
Other	1,100	1,100
Total revenue	1,354	1,354
 TOTAL SUPPORT AND REVENUE	 3,308,364	 3,308,364
<b><u>EXPENSES</u></b>		
Program	906,682	906,682
Administrative	230,472	230,472
Fund raising	86,462	86,462
In-Kind Contributions	2,115,068	2,115,068
Total Expenses	3,338,684	3,338,684
 DECREASE IN NET ASSETS	 (30,320)	 (30,320)
 NET ASSETS, BEGINNING OF YEAR	 4,610,922	 4,610,922
 NET ASSETS, END OF YEAR	 \$ 4,580,602	 \$ 4,580,602

See accompanying accountants' report and notes to financial statements.

OPERATION CALIFORNIA, INC.  
 Statements of Activities and Changes in Net Assets  
 Years Ended June 30, 2017 and 2016

	2016	
	Unrestricted	Total
<b><u>SUPPORT AND REVENUE</u></b>		
Support		
Contributions - Individuals	\$ 323,100	\$ 323,100
Contributions - Organizations	902,019	902,019
Total support	1,225,119	1,225,119
 In-Kind Donations	 3,246,672	 3,246,672
 Revenue		
Interest	366	366
Other	-	-
Total revenue	366	366
 TOTAL SUPPORT AND REVENUE	 4,472,157	 4,472,157
<b><u>EXPENSES</u></b>		
Program	1,459,070	1,459,070
Administrative	244,531	244,531
Fund raising	218,485	218,485
In-Kind Contributions	3,094,469	3,094,469
Total Expenses	5,016,555	5,016,555
 DECREASE IN NET ASSETS	 (544,398)	 (544,398)
 NET ASSETS, BEGINNING OF YEAR	 5,155,320	 5,155,320
 NET ASSETS, END OF YEAR	 \$ 4,610,922	 \$ 4,610,922

See accompanying accountants' report and notes to financial statements.



OPERATION CALIFORNIA, INC.  
 Statements of Functional Expenses  
 Years Ended June 30, 2017 and 2016

	2017			
	Program Expense	Adminis- trative Expense	Fund Raising	Total
Accounting & legal	\$ -	\$ 22,296	\$ -	\$ 22,296
Advertising & promotion	3,107	888	1,332	5,327
Bank charges	-	11,646	-	11,646
Contributions to other non-profit organizations and direct project costs	265,989			265,989
Conferences & meetings	1,618	462	231	2,311
Depreciation	-	-	-	-
Dues & subscriptions	-	20,670	-	20,670
Equipment & supplies	2,887	825	412	4,124
Freight & transportation	12,919	3,691	1,845	18,455
Health Insurance	25,556	7,302	3,651	36,509
Insurance	22,659	6,474	3,237	32,370
Office supplies	9,223	2,635	1,318	13,176
Outside services	43,789	12,454	6,227	62,470
Payroll taxes	23,964	6,847	3,423	34,234
Payroll service fees	5,027	1,436	718	7,181
Pension plan contribution	5,319	1,520	760	7,599
Postage	7,623	2,178	1,089	10,890
Printing	2,540	726	363	3,629
Professional fees & consultants	8,855	2,530	1,265	12,650
Rent-space & equipment	57,260	16,360	8,180	81,800
Salaries	350,425	100,121	50,061	500,607
Security	-	1,854	-	1,854
Taxes & licenses	5,807	1,659	830	8,296
Telephone & telex	10,637	3,039	1,520	15,196
Travel & automobile	21,334	-	-	21,334
Utilities	-	2,859	-	2,859
Warehouse expenditures	19,304	-	-	19,304
Website	840	-	-	840
Total Expenses	<u>906,682</u>	<u>230,472</u>	<u>86,462</u>	<u>1,223,616</u>
In-Kind Contributions	2,115,068	-	-	2,115,068
Total Expenses	<u>\$ 3,021,750</u>	<u>\$ 230,472</u>	<u>\$ 86,462</u>	<u>\$ 3,338,684</u>

See accompanying accountants' report and notes to financial statements.

OPERATION CALIFORNIA, INC.  
Statements of Functional Expenses  
Years Ended June 30, 2017 and 2016

	2016			
	Program Expense	Adminis- trative Expense	Fund Raising	Total
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
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	4,229	17,619
Travel & automobile	23,070	-	-	23,070
Utilities	-	2,936	-	2,936
Warehouse expenditures	17,389	-	-	17,389
Website	630	-	-	630
Total Expenses	<u>1,459,070</u>	<u>244,531</u>	<u>218,485</u>	<u>1,922,086</u>
In-Kind Contributions	3,094,469	-	-	3,094,469
Total Expenses	<u>\$ 4,553,539</u>	<u>\$ 244,531</u>	<u>\$ 218,485</u>	<u>\$ 5,016,555</u>

See accompanying accountants' report and notes to financial statements.

OPERATION CALIFORNIA, INC.  
Statements of Cash Flows  
Years Ended June 30, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Decrease in net assets	\$ (30,320)	\$ (544,398)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	-	347
(Increase) decrease in operating assets		
Inventory	(480,300)	(152,202)
Accounts receivable	(2,100)	-
Prepaid expenses	(711)	10,040
Deposits	-	(1,101)
Increase (decrease) in operating liabilities		
Accounts payable	2,798	(23,391)
	(510,633)	(710,705)
NET CASH USED IN OPERATING ACTIVITIES		
NET DECREASE IN CASH	(510,633)	(710,705)
CASH AT BEGINNING OF YEAR	780,445	1,491,150
CASH AT END OF YEAR	\$ 269,812	\$ 780,445

See accompanying accountants' report and notes to financial statements.

OPERATION CALIFORNIA, INC.  
Notes to Financial Statements  
Year Ended June 30, 2017 and 2016

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 temporarily and permanently restricted assets as of June 30, 2017 and 2016.

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, as the amounts were not material.

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, 2017 and 2016

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Restricted and temporarily restricted net assets are reclassified to unrestricted net assets upon satisfaction of the time or purpose of restrictions.

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).

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.

Reclassification

Certain prior year amounts were reclassified to conform to the manner of presentation in the current period including the reclassification of temporary restricted net assets to unrestricted net assets. These reclassifications had no effect on the Company's balance sheets and statements of activities.

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 \$81,800 and \$80,160 for the year ended June 30, 2017 and 2016, respectively.

OPERATION CALIFORNIA, INC.  
Notes to Financial Statements  
Year Ended June 30, 2017 and 2016

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

<u>Year ended June 30,</u>	
2018	\$ 80,000
2019	<u>82,400</u>
	<u>\$ 162,400</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. SUBSEQUENT EVENTS**

The Organization has evaluated events subsequent to June 30, 2017 to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through October 31, 2017, 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.