

OPERATION CALIFORNIA, INC.
(dba OPERATION USA)

FINANCIAL STATEMENTS

FISCAL YEARS ENDED
JUNE 30, 2018 and 2017

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, (the Organization), which comprise the statements of financial position as of June 30, 2018 and 2017, 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, 2018 and 2017, 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 statements of functional expenses on pages 4-5 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

November 29, 2018

OPERATION CALIFORNIA, INC.
 Statements of Financial Position
 June 30, 2018 and 2017

ASSETS

	2018	2017
Current Assets		
Cash	\$ 1,602,226	\$ 269,812
Accounts receivable	2,000	-
Inventory	4,217,205	3,969,425
Prepaid expenses	7,590	9,368
Total Current Assets	5,829,021	4,248,605
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
TOTAL ASSETS	\$ 5,835,921	\$ 4,255,505

LIABILITIES AND NET ASSETS

Current Liabilities		
Accounts payable	\$ 2,593	\$ 11,423
Other liabilities	7,808	798
Total Current Liabilities	10,401	12,221
Net Assets		
Unrestricted	5,825,520	4,243,284
Total Net Assets	5,825,520	4,243,284
TOTAL LIABILITIES AND NET ASSETS	\$ 5,835,921	\$ 4,255,505

See accompanying accountants' report and notes to financial statements.

OPERATION CALIFORNIA, INC.
 Statements of Activities and Changes in Net Assets
 Years Ended June 30, 2018 and 2017

	2018	2017
	Unrestricted	Unrestricted
<u>SUPPORT AND REVENUE</u>		
Support		
Contributions - Individuals	\$1,536,201	\$ 432,495
Contributions - Organizations	1,377,463	279,148
Total support	2,913,664	711,643
 In-Kind Donations	 2,198,023	 2,595,367
 Revenue		
Interest	833	254
Other	448	1,100
Total revenue	1,281	1,354
 TOTAL SUPPORT AND REVENUE	 5,112,968	 3,308,364
<u>EXPENSES</u>		
Program	1,260,647	906,682
Administrative	232,686	230,472
Fund raising	87,157	86,462
In-Kind Contributions	1,950,242	2,115,068
Total Expenses	3,530,732	3,338,684
 INCREASE/(DECREASE) IN NET ASSETS	 1,582,236	 (30,320)
 NET ASSETS, BEGINNING OF YEAR	 4,243,284	 4,273,604
 NET ASSETS, END OF YEAR	 \$5,825,520	 \$4,243,284

See accompanying accountants' report and notes to financial statements.

OPERATION CALIFORNIA, INC.
Statements of Functional Expenses
Years Ended June 30, 2018 and 2017

	2018			
	Program Expense	Adminis- trative Expense	Fund Raising	Total
Accounting & legal	\$ -	\$ 21,943	\$ -	\$ 21,943
Advertising & promotion	670	191	96	957
Bank charges	-	24,321	-	24,321
Contributions to other non-profit organizations and direct project costs	564,574	-	-	564,574
Conferences & meetings	2,031	581	290	2,902
Dues & subscriptions	-	18,103	-	18,103
Equipment & supplies	3,723	1,064	532	5,319
Freight & transportation	18,092	5,169	2,585	25,846
Health Insurance	21,199	6,057	3,028	30,284
Insurance	22,445	6,413	3,207	32,065
Office supplies	7,567	2,162	6,168	15,897
Outside services	80,700	22,436	11,218	114,354
Payroll taxes	23,178	6,622	3,311	33,111
Payroll service fees	4,972	1,420	710	7,102
Pension plan contribution	4,301	1,229	614	6,144
Postage	3,130	894	447	4,471
Printing	7,517	2,148	1,074	10,739
Professional fees & consultants	9,641	2,755	1,377	13,773
Rent-space & equipment	59,696	17,056	8,528	85,280
Salaries	293,593	83,884	41,942	419,419
Security	-	1,224	-	1,224
Taxes & licenses	5,430	1,551	776	7,757
Telephone & telex	8,778	2,508	1,254	12,540
Travel & automobile	101,372	-	-	101,372
Utilities	-	2,955	-	2,955
Warehouse expenditures	17,932	-	-	17,932
Website	106	-	-	106
Total Expenses	<u>1,260,647</u>	<u>232,686</u>	<u>87,157</u>	<u>1,580,490</u>
In-Kind Contributions	1,950,242	-	-	1,950,242
Total Expenses	<u>\$ 3,210,889</u>	<u>\$ 232,686</u>	<u>\$ 87,157</u>	<u>\$ 3,530,732</u>

See accompanying accountants' report and notes to financial statements.

OPERATION CALIFORNIA, INC.
 Statements of Functional Expenses
 Years Ended June 30, 2018 and 2017

	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
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 Cash Flows
Years Ended June 30, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase/(Decrease) in net assets	\$ 1,582,236	\$ (30,320)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	-	-
(Increase) decrease in operating assets		
Inventory	(247,780)	(480,300)
Accounts receivable	(2,000)	-
Prepaid expenses	1,778	(2,811)
Increase (decrease) in operating liabilities		
Accounts payable	(1,820)	2,798
	1,332,414	(510,633)
NET CASH PROVIDED/(USED) IN OPERATING ACTIVITIES		
NET INCREASE/(DECREASE) IN CASH	1,332,414	(510,633)
CASH AT BEGINNING OF YEAR	269,812	780,445
CASH AT END OF YEAR	\$ 1,602,226	\$ 269,812

See accompanying accountants' report and notes to financial statements.

OPERATION CALIFORNIA, INC.
Notes to Financial Statements
Year Ended June 30, 2018 and 2017

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 restricted nor permanently restricted assets as of June 30, 2018 and 2017.

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, 2018 and 2017

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.

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 \$5,000 per month plus a prorated share of common area operating expenses. The Organization renewed the lease on February 1, 2016 and extended the term for 3 years commencing September 1, 2016. Under the renewed lease, base rent per month is \$6,700 commencing September 1, 2017 and \$6,900 commencing September 1, 2018.

Lease payments totaled \$85,280 and \$81,800 for the year ended June 30, 2018 and 2017, respectively.

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

<u>Year ended June 30,</u>		
2019	\$	82,400

OPERATION CALIFORNIA, INC.
Notes to Financial Statements
Year Ended June 30, 2018 and 2017

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, 2018 to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through November 29, 2018, 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.