

**OPERATION CALIFORNIA, INC.
DBA OPERATION USA, INC.**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Operation California, Inc., dba Operation USA, Inc., which comprise the statement of financial position as of June 30, 2021, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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, as well as evaluating the overall presentation of the combined 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, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements of Operation California, Inc. for the year ended June 30, 2020, before the restatement described in Note 11, were audited by another auditor whose report dated December 23, 2020, expressed an unmodified opinion on those statements. As part of our audit of the June 30, 2021 financial statements, we also audited the adjustments described in Note 11 that were applied to restate the June 30, 2020 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the June 30, 2020 financial statements of the entity other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the June 30, 2020 financial statements as a whole.

Ozurovich & Associates

Rancho Santa Margarita, California
December 21, 2021

OPERATION CALIFORNIA, INC.
dba OPERATION USA, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2021

	<u>WITHOUT DONOR RESTRICTIONS</u>	<u>WITH DONOR RESTRICTIONS</u>	<u>TOTAL</u>
ASSETS			
<i>Current assets</i>			
Cash and cash equivalents	\$ 850,827	\$ 818,988	\$ 1,669,815
Inventory	4,403,559	691,243	5,094,802
Total current assets	<u>5,254,386</u>	<u>1,510,231</u>	<u>6,764,617</u>
Other Assets	6,900	-	6,900
TOTAL ASSETS	<u>\$ 5,261,286</u>	<u>\$ 1,510,231</u>	<u>\$ 6,771,517</u>
LIABILITIES			
<i>Current liabilities</i>			
Accounts payable	\$ 19,019	\$ -	\$ 19,019
Accrued expenses (Note 3)	8,376	-	8,376
Total current liabilities	<u>27,395</u>	<u>-</u>	<u>27,395</u>
TOTAL LIABILITIES	<u>27,395</u>	<u>-</u>	<u>27,395</u>
NET ASSETS			
Without donor restrictions	\$ 5,233,891	\$ -	\$ 5,233,891
With donor restrictions (Note 7)	-	1,510,231	1,510,231
Total net assets	<u>5,233,891</u>	<u>1,510,231</u>	<u>6,744,122</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,261,286</u>	<u>\$ 1,510,231</u>	<u>\$ 6,771,517</u>

**OPERATION CALIFORNIA, INC.
dba OPERATION USA, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2021**

	<u>WITHOUT DONOR RESTRICTIONS</u>	<u>WITH DONOR RESTRICTIONS</u>	<u>TOTAL</u>
SUPPORT AND REVENUES			
<i>Support</i>			
Contributions	\$ 579,251	\$ 582,130	\$ 1,161,381
Grants	75,700	-	75,700
In-kind donations	360,000	4,508,097	4,868,097
<i>Total support</i>	<u>1,014,951</u>	<u>5,090,227</u>	<u>6,105,178</u>
<i>Investment return</i>	<u>827</u>	<u>-</u>	<u>827</u>
<i>Net assets released from donor restrictions (Note 7)</i>			
Satisfaction of program restrictions	4,930,191	(4,930,191)	-
<i>Total net assets released from donor restrictions</i>	<u>4,930,191</u>	<u>(4,930,191)</u>	<u>-</u>
TOTAL SUPPORT AND REVENUES	<u>5,945,969</u>	<u>160,036</u>	<u>6,106,005</u>
OPERATING EXPENSES			
<i>Program Services</i>			
Philanthropy	5,885,606	-	5,885,606
<i>Supporting Services</i>			
Management and general	175,774	-	175,774
Fund raising	88,599	-	88,599
<i>Total supporting services</i>	<u>264,373</u>	<u>-</u>	<u>264,373</u>
TOTAL EXPENSES	<u>6,149,979</u>	<u>-</u>	<u>6,149,979</u>
CHANGE IN NET ASSETS	(204,010)	160,036	(43,974)
NET ASSETS, Beginning of year (as restated)	<u>5,437,901</u>	<u>1,350,195</u>	<u>6,788,096</u>
NET ASSETS, End of year	<u>\$ 5,233,891</u>	<u>\$ 1,510,231</u>	<u>\$ 6,744,122</u>

See accompanying notes and independent auditor's report.

**OPERATION CALIFORNIA, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2021**

	<u>Program Services</u>	<u>Supporting Services</u>		<u>TOTAL</u>
	<u>Philanthropy</u>	<u>Management and General</u>	<u>Fund Raising</u>	
Salaries	\$ 366,324	\$ 104,664	\$ 52,332	\$ 523,320
Payroll taxes	28,163	8,047	4,023	40,233
Employee benefits	30,895	8,827	4,414	44,136
<i>Total salaries, payroll taxes and benefits</i>	<u>425,382</u>	<u>121,538</u>	<u>60,769</u>	<u>607,689</u>
Accounting and legal	18,673	5,335	2,668	26,676
Advertising	1,493	427	213	2,133
Bank fees	-	5,577	-	5,577
Contributions	114,500	-	-	114,500
Conferences and meetings	932	266	133	1,331
Dues and subscriptions	7,613	2,175	1,088	10,876
Equipment and supplies	21,959	6,274	3,137	31,370
Freight and transportation	41,362	-	-	41,362
In-kind contributions	4,746,338	-	-	4,746,338
Insurance	23,097	6,599	3,300	32,996
Miscellaneous	347	99	50	496
Office	9,411	2,689	1,344	13,444
Outside services	-	3,100	-	3,100
Payroll service fees	5,305	1,516	758	7,579
Postage and delivery	3,968	1,134	567	5,669
Printing	848	242	121	1,211
Professional fees and consultants	2,518	719	360	3,597
Rent-space and equipment	422,495	11,118	11,118	444,731
Security	-	1,020	-	1,020
Taxes and licenses	5,153	1,472	736	7,361
Telephone	11,384	3,253	1,626	16,263
Travel and auto	1,922	549	275	2,746
Utilities	2,353	672	336	3,361
Warehouse expenses	18,553	-	-	18,553
TOTAL EXPENSES	<u>\$ 5,885,606</u>	<u>\$ 175,774</u>	<u>\$ 88,599</u>	<u>\$ 6,149,979</u>

See independent auditor's report and accompanying notes

**OPERATION CALIFORNIA, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2021**

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ (43,974)
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Donated inventory	(4,508,097)
In-kind contributions	4,746,338
Increase (decrease) in liabilities	
Accounts payable	9,385
Accrued expenses	(2,274)
Net cash provided by operating activities	201,378
NET INCREASE IN CASH	201,378
CASH AND CASH EQUIVALENTS, beginning of year	1,468,437
CASH AND CASH EQUIVALENTS, end of year	\$ 1,669,815

See independent auditor's report and accompanying notes.

**OPERATION CALIFORNIA, INC.
DBA OPERATION USA, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021**

NOTE 1 – ORGANIZATION

Operation California, Inc. (the “Organization”) is a California nonprofit public benefit corporation exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code, which was founded on May 5, 1980. 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of the Organization is presented to assist in understanding the Organization’s financial statements. The financial statements and notes are representations of the Organization’s management who is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

Basis of Accounting

The financial statements of the Organization have been prepared 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.

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 2 continued on the following page)

**OPERATION CALIFORNIA, INC.
DBA OPERATION USA, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation

The Organization is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net Assets Without Donor Restrictions – Include contributions, fundraising, fees and other forms of unrestricted revenue and expenditures related to the general operations and fundraising efforts of the Organization.

Net Assets With Donor Restrictions – Include gifts and grants received that are restricted with respect to time or use by the donor or grantor. When the restrictions expire, the net assets of this fund are reclassified to unrestricted net assets. Restricted gifts and grants received are reported as unrestricted revenue if the restriction is met in the same reporting period.

Tax Status

The Organization is a nonprofit benefit organization organized under the laws of California and, as such, is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. However, the Organization is subject to income taxes on any net income that is derived from a trade or business, regularly carried on, and not in furtherance of the purposes for which it was granted exemption.

The Organization's federal income tax and informational returns for tax years ending June 30, 2018 and subsequent remain subject to examination by the Internal Revenue Service. The returns for California, the Organization's most significant jurisdiction, remain subject to examination by the California Franchise Tax Board for tax years ending June 30, 2017 and subsequent.

The Organization has adopted the provisions of Accounting Standards Codification ("ASC") 740-10-05 relating to accounting and reporting for uncertainty in income taxes. For the Organization, these provisions could be applicable to the incurrence of any unrelated business income attributable to the Organization. Because of the Organization's general tax-exempt status, the provisions of ASC 740-10-05 are not anticipated to have a material impact on the Organization's financial statements.

Cash and Cash Equivalents

For the purpose of the financial statements, the Organization considers all investments purchased with a maturity date of three months or less to be cash equivalents. Commercial banks have FDIC coverage up to \$250,000 per depositor per bank. At June 30, 2021 the uninsured amount was \$1,431,548.

(Note 2 continued on the following page)

**OPERATION CALIFORNIA, INC.
DBA OPERATION USA, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted and Unrestricted Revenue and Support

Contributions that are restricted by the donor are reported as increases in net assets with donor restrictions even if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reported period in which the revenue is recognized. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the combined statement of activities as net assets released from restrictions.

Contributed Services and Gifts In-Kind

Contributed services are recognized if the services (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. A substantial number of volunteers have donated significant amounts of their time and services in the Organization's core activities. Only those amounts that meet the criteria above are recorded in the accompanying financial statements. The Organization recognized \$360,000 as in-kind rental income during the year then ended June 30, 2021.

Inventory

The Organization's inventory is valued at its fair value on the date it is donated to the Organization or net realizable value using the first-in, first-out (FIFO) method. Inventory consists of various medical and disaster relief supplies. During the year ended June 30, 2021, the Organization recognized no losses resulting from valuing the Company's inventory at its net realizable value, which was the fair value of donated items expected to be contributed by the Organization at year end.

Grant Revenues

The Organization receives funding through private and Government grants. Grant revenue includes conditional contributions under which revenue is recognized when earned and expenses are recognized when incurred. Grant receipts from conditional contributions not earned are reported as deferred income, if any.

Vacation and Sick Leave Benefits

Neither vacation pay nor sick pay accumulates or vests. Therefore, no accrual has been recorded.

(Note 2 continued on the following page)

**OPERATION CALIFORNIA, INC.
DBA OPERATION USA, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising

The Organization uses advertising to promote its programs among the communities it serves. The production costs of advertising are expensed as incurred. During the year ended June 30, 2021, advertising costs totaled \$2,133.

Risks and Uncertainties

Conditions created by the COVID-19 environment could contribute to short-term financial challenges that adversely affect the Organization's cash flows. Specifically, there is the potential for reductions in institutional grants and private donations if program activities are forced to be significantly curtailed due to government mandated shutdowns. The Organization's Board of Directors has discussed these risks and uncertainties and has formulated alternative strategic plans to mitigate the effects of these concerns.

Expense Allocation

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries, payroll taxes and employee benefits which are allocated based on estimates of time and effort for the Organization's personnel. The Organization's following expenses are allocated using the same percentages as the personnel costs described above because they are incurred in support of the day-to-day job functions of the Organization's employees: accounting and legal, advertising, conferences and meetings, dues and subscriptions, equipment and supplies, insurance, miscellaneous, payroll service fees, postage and delivery, printing, professional fees and consultants, taxes and licenses, telephone, travel and auto, and utilities. The following expenses are allocated using the estimated square footage of facilities used for program and supporting functions: rent-space and equipment.

New Accounting Pronouncements

Leases – In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which requires organizations that lease assets (lessees) to recognize the assets and related liabilities for the rights and obligations created by the leases on the statement of financial position for leases with terms exceeding 12 months. ASU No. 2016-02 defines a lease as a contract or part of a contract that conveys the right to control the use of identified assets for a period of time in exchange for consideration. The lessee in a lease will be required to initially measure the right-of-use asset and the lease liability at the present value of the remaining lease payments, as well as capitalize initial direct costs as part of the right-of-use asset. ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2021. Early adoption is permitted. The Organization is currently evaluating the impact that the adoption of ASU 2016-02 will have on its combined financial statements.

**OPERATION CALIFORNIA, INC.
DBA OPERATION USA, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021**

NOTE 3 – ACCRUED EXPENSES

The Organization’s accrued expense balance consists of the following categories at June 30, 2021.

Deferred rent	\$ <u>8,376</u>
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NOTE 4 – LEASE COMMITMENTS

The Organization is committed under a noncancelable operating leases for facilities used in day-to-day operations. The current lease is currently scheduled to expire on August 31, 2022. The monthly minimum lease payment range from \$7,100 to \$7,532.

The future minimum lease payments under these capital leases and the net present value of the future minimum lease payments are as follows at June 30, 2021:

2022	\$ 89,950
2023	<u>15,065</u>
	<u>\$ 105,015</u>

Rent expense for the year ended June 30, 2021 was \$84,732 .

NOTE 5 – RETIREMENT PLAN

The Organization has a defined matching contribution plan as established under Internal Revenue Code Section 401(k) (the Plan). Under the plan, eligible employees may elect to defer a portion of their compensation, subject to the Internal Revenue Service limits. The assets of the plan vest immediately as they are accrued. For each Plan year, the Organization matches each employee's contribution to the plan up to 4% of each employee's salary. Retirement plan expense for the year ended June 30, 2021 was \$7,621.

NOTE 6 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes or periods, as of June 30, 2021.

Subject to expenditure for a specified purpose:

Disaster response relief	\$ <u>1,510,231</u>
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**OPERATION CALIFORNIA, INC.
DBA OPERATION USA, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021**

NOTE 7 – NET ASSETS RELEASED FROM DONOR RESTRICTIONS

Net assets released from donor restrictions during the year ended June 30, 2021 are as follows:

Expenditure for a specified purpose:

Disaster response relief	\$ <u>4,930,191</u>
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NOTE 8 – AVAILABILITY OF FINANCIAL ASSETS

The following reflects the Organization’s financial assets as of June 30, 2021, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date. Amounts not available include amounts set aside for long-term investing in board designated funds that could be drawn upon if the governing board approves that action. However, amounts already appropriated from a board designated fund for general expenditure within one year of June 30, 2021 have not been subtracted as unavailable. There were no such board designated funds as of June 30, 2021.

The Organization’s financial assets available within one year of June 30, 2021 for general expenditure are as follows:

Financial assets, at year end

Cash and cash equivalents	\$ 1,669,815
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Less those unavailable for general expenditures within one year due to:

Contractual or donor-imposed restrictions:

Restricted by donor with time or purpose restrictions	<u>(818,988)</u>
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Total	\$ <u>850,827</u>
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As part of The Organization’s liquidity management practices, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, The Organization invests cash in excess of daily requirements in short-term investments.

**OPERATION CALIFORNIA, INC.
DBA OPERATION USA, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021**

NOTE 9 – PPP LOAN AND SUBSEQUENT EVENT

On April 6, 2021, the Organization received loan proceeds in the amount of \$75,700 under the Paycheck Protection Program (“PPP”). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The loans and accrued interest are forgivable after twenty-four weeks as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the twenty-four-week period. The unforgiven portion of the PPP loan is payable over two years at an interest rate of 1%, with a deferral of payments for the first six months.

On October 20, 2021, the Company received notice from the Small Business Administration that its entire PPP loan amount was forgiven. Furthermore, according to the Organization’s PPP loan forgiveness application, all allowable costs were incurred during the covered period April 6, 2021 to May 31, 2021. Therefore, in accordance with ASC 958-605 *Not-for-Profit Entities – Revenue Recognition* the entire amount of the Organization’s PPP funds, \$75,700, was recognized as grant revenues in the statement of activities for the year ended June 30, 2021.

NOTE 10 – LITIGATION

The Organization may be subject to certain outside claims and litigation arising in the ordinary course of business. In the opinion of the Organization’s management and its counsel, there are no matters which could have a material effect on the accompanying financial statements.

NOTE 11 – PRIOR PERIOD ADJUSTMENT

As of June 30, 2020, note payable has been restated from the amounts previously reported. \$75,700 in PPP funds were not properly recognized as conditional grant revenue during the year end June 30, 2020 under ASC 958-605 *Not-for-Profit Entities – Revenue Recognition* and instead were booked as debt under ASC 470 *Debt*. The effect of this restatement is as follows:

**OPERATION CALIFORNIA, INC.
DBA OPERATION USA, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021**

NOTE 11 – PRIOR PERIOD ADJUSTMENT (Continued)

<u>Account</u>	<u>As Previously Reported</u>	<u>As Restated</u>
Note payable – SBA current portion	\$ 40,816	\$ -
Total current liabilities	\$ 61,100	\$ 20,284
Note payable – SBA	\$ 34,884	\$ -
Total liabilities	\$ 95,984	\$ 20,284
Net assets without donor restrictions	\$ 5,362,201	\$ 5,437,901
Total net assets	\$ 6,712,396	\$ 6,788,096
Grant revenues	\$ -	\$ 75,700
Total support and revenues	\$ 2,647,728	\$ 2,723,428
Change in net assets	\$ 267,273	\$ 342,973

NOTE 12 – SUBSEQUENT EVENTS

Events subsequent to June 30, 2021 have been evaluated through December 21, 2021, the date at which the Organization's audited financial statements were to be issued. Except as described in Note 9 above, no events requiring disclosures have occurred through this date.