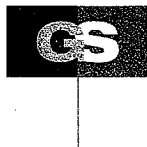


**Operation Gratitude, Inc.**  
(A California Nonprofit Public Benefit Corporation)

**FINANCIAL STATEMENTS**

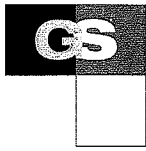
**As of and for the Year Ended  
December 31, 2008**



Gurseley | Schneider <sup>LLP</sup>  
CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

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**Independent Auditors' Report**

To the Board of Directors  
Operation Gratitude, Inc.:

We have audited the accompanying statement of net assets of Operation Gratitude, Inc. (a California nonprofit public benefit corporation) (the Organization) as of December 31, 2008, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, 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 also 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.

As disclosed in Note 3 to the financial statements, in estimating the value of contributed goods and services, the Organization relies on estimates provided by the donors, or other indicators of value when donor values are not provided. More thorough appraisals to ascertain fair values are not always available to the Organization and/or may not be sufficiently reliable or complete to enable the Organization to better ascertain fair values of contributed goods and services. Consequently, it was not practicable to extend our auditing procedures to satisfy ourselves as to the reliability and completeness of the information used to estimate these fair values in the accompanying financial statements. Such amounts enter into the determination of net assets and results of activities.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to apply adequate procedures to estimate, on a reasonable basis, the fair values of contributed goods and services, as discussed in the third paragraph, the financial statements referred to above in the first paragraph present fairly, in all material respects, the financial position of the Organization and the results of its activities and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

*Gursey | Schneider LLP*

April 15, 2009  
Los Angeles, California

PARTNERS  
David E. Blumenthal, CPA, ABV  
Roseanna L. Purzycki, CPA  
David J. Swan, CPA, ABV  
Stephan H. Wasserman, CPA, ABV  
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Tracy Farryl Katz, Esq., CPA  
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**OPERATION GRATITUDE, INC.**  
**(A California Nonprofit Public Benefit Corporation)**  
Statement of Financial Position  
December 31, 2008

**ASSETS**

Cash and cash equivalents	\$ 885,028
Contributions receivable	28,074
Prepaid postage	1,000
Prepaid insurance	2,879
Donated inventory	<u>2,157,680</u>
<b><i>Total Current Assets</i></b>	<b>3,074,661</b>
Property and equipment, net	<u>32,542</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 3,107,203</u></b>

**LIABILITIES AND NET ASSETS**

Accounts payable	<u>\$ 27,386</u>
<b><i>Total Current Liabilities</i></b>	<b><u>27,386</u></b>
<b>Net assets - unrestricted</b>	<b><u>3,079,817</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 3,107,203</u></b>

See Accompanying Notes to Financial Statements

**OPERATION GRATITUDE, INC.**  
**(A California Nonprofit Public Benefit Corporation)**  
Statement of Activities  
For the Year Ended December 31, 2008

	<u>Unrestricted Operating Fund</u>
<b>SUPPORT AND REVENUES:</b>	
Contributions	\$ 1,139,349
Interest income	<u>7,850</u>
<b>SUBTOTAL</b>	1,147,199
Donated goods for distribution	10,248,155
Donated management services	850,000
Donated use of facilities	120,000
Donated meals, supplies and other services	69,413
Donated equipment	<u>35,500</u>
<b>TOTAL SUPPORT AND REVENUES</b>	<u>12,470,267</u>
<b>EXPENSES:</b>	
Program services	12,200,801
Supporting services:	
Management and general	146,852
Fundraising	<u>95,659</u>
<b>TOTAL EXPENSES</b>	<u>12,443,312</u>
<b>INCREASE IN NET ASSETS - UNRESTRICTED</b>	26,955
<b>NET ASSETS, DECEMBER 31, 2007</b>	<u>3,052,862</u>
<b>NET ASSETS, DECEMBER 31, 2008</b>	<u><u>\$ 3,079,817</u></u>

See Accompanying Notes to Financial Statements

**OPERATION GRATITUDE, INC.**  
**(A California Nonprofit Public Benefit Corporation)**  
**Statements of Functional Expenses**  
**For the Year Ended December 31, 2008**

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>TOTAL EXPENSES</u>
Goods delivered	\$ 10,524,965	\$ -	\$ -	\$ 10,524,965
Salaries	637,500	127,500	85,000	850,000
Postage and shipping supplies	773,680	-	-	773,680
Rent	120,000	-	-	120,000
Advertising	25,680	8,560	8,560	42,800
Supplies	37,940	-	-	37,940
Management services	31,125	-	-	31,125
Meals / volunteers	20,236	-	-	20,236
Equipment rental	16,560	-	-	16,560
All other	1,265	3,450	2,099	6,814
Security	6,800	-	-	6,800
Professional fees	-	5,250	-	5,250
Insurance	2,092	2,092	-	4,184
Depreciation	2,958	-	-	2,958
<b>TOTAL EXPENSES</b>	<u>\$ 12,200,801</u>	<u>\$ 146,852</u>	<u>\$ 95,659</u>	<u>\$ 12,443,312</u>

See Accompanying Notes to Financial Statements

**OPERATION GRATITUDE, INC.**  
**(A California Nonprofit Public Benefit Corporation)**  
Statement of Cash Flows  
For the Year Ended December 31, 2008

**CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES:**

Increase in unrestricted net assets \$ 26,955

Adjustments to reconcile change in unrestricted net assets  
to net cash provided by operating activities:

Depreciation	2,958
Donated property and equipment	(35,500)
Increase in contributions receivable	(28,074)
Decrease in donated inventory	276,810
Increase in accounts payable	27,386

**NET CASH PROVIDED BY OPERATING ACTIVITIES** 270,535

**CASH AND CASH EQUIVALENTS, DECEMBER 31, 2007** 614,493

**CASH AND CASH EQUIVALENTS, DECEMBER 31, 2008** \$ 885,028

See Accompanying Notes to Financial Statements

**OPERATION GRATITUDE, INC.**  
**(A California Nonprofit Public Benefit Corporation)**  
Notes to Financial Statements  
As of and For the Year Ended  
December 31, 2008

**NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES**

Operation Gratitude, Inc., a California non-profit public benefit corporation (the Organization), seeks to lift troops' morale by sending care packages to U.S. armed service members overseas. The care packages contain food, toiletries, clothing, entertainment items and personal letters of appreciation. During the year ended December 31, 2008, the Organization distributed approximately 90,000 care packages.

Through Collection Drives, Letter Writing Campaigns and Donations of requested items or funds for shipping expenses, the Organization provides civilians anywhere in America a way to express their respect and appreciation to the men and women of the U.S. military in an active, hands-on manner.

The Organization is a 501(c)(3) not-for-profit corporation, funded entirely by private donations. For safety and security, the assembling of all packages occurs at the Operation Gratitude headquarters located at the California Army National Guard armory located in Van Nuys, California.

**NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation** – The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

**Net Assets** – The Organization recognizes contributions, including unconditional promises to give, as revenue in the period received. Revenues, gains, expenses and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

- Unrestricted net assets - represent the portion of expendable funds that are available to support the operations and are not subject to donor-imposed restrictions
- Temporarily restricted net assets - consist of contributions that are restricted for use in specific programs or whose restrictions expire with the passage of time. The Organization records temporarily restricted cash contributions that are received and expended in the same year as temporarily restricted revenue. As the donor restrictions are satisfied, net assets are released from restrictions.
- Permanently restricted net assets - comprise funds that are subject to restrictions that the principal may be maintained in perpetuity and invested for the purpose of producing present and future income that may be expended by the Organization.

All net assets are unrestricted at December 31, 2008.

**OPERATION GRATITUDE, INC.**  
**(A California Nonprofit Public Benefit Corporation)**  
Notes to Financial Statements  
As of and For the Year Ended  
December 31, 2008

**NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)**

**Contributed Goods** - The Organization receives all of the items it sends in care packages from private donations from corporations and individuals. Donated goods are recorded as unrestricted contributions when they are received. Donated goods are valued at management's estimate of fair value at the time they are received, net of goods that are unusable for the Organization's purposes. Upon distribution, the goods are recorded as a decrease in unrestricted net assets. Goods that are unusable for the Organization's purposes are donated to other military charities or sold through public sale. All proceeds from the sale of donated goods are reflected as contributions.

The Organization also receives rent-free use of the California Army National Guard facilities. This facility is used to receive, store and distribute inventory throughout the year. This facility is also used to stage assembly operations during the Organization's bi-annual package drives. Management estimates the value of contributed rent at \$10,000 per month.

During 2008, a major automobile manufacturer offered a vehicle to a U.S. armed services members who received the 300,000<sup>th</sup> care package. Although notification of award was made by Operation Gratitude, the Organization never maintained title or risk of loss to the vehicle and the vehicle was delivered directly by the automobile manufacturer to the recipients. As a result, no amounts are reflected in the financial statements for the values of this vehicles donated through Operation Gratitude's care package program.

**Contributed Services** – Substantially all management services provided to the Organization are donated. Contributed services are recognized by the Organization if the services received (a) increase 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. Management estimates the fair value of such services to be \$850,000 for 2008.

These amounts include the services of the following individuals that have donated over 1,000 hours of time during 2008:

- Executive Director
- Director of Operations and Logistics
- Director of Finance and Development
- Distribution Manger
- Product Procurement Manager
- Warehouse Manager
- Warehouse Supervisor

Also included are individuals with supervisory level responsibility or specialized technical skills, without whom the Organization would not be able to operate.

**OPERATION GRATITUDE, INC.**  
**(A California Nonprofit Public Benefit Corporation)**  
Notes to Financial Statements  
As of and For the Year Ended  
December 31, 2008

**NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)**

Additionally, the Organization receives a significant amount of contributed time from volunteers that does not meet the two recognition criteria described above. Accordingly, the value of this contributed time is not reflected in the accompanying financial statements. Management estimates that approximately 25,000 volunteer hours for solicitation, collection, staging, letter writing, and package assembly were received last year by a support network of volunteers around the country. The purpose of the Organization could not be fulfilled without the significant contributions of volunteer time, which is not reflected in the accompanying financial statements.

**Functional Allocation of Expenses** – The costs of providing the programs and other activities have been summarized on a functional basis in the statement of activities and detailed in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on management's estimates.

**Inventory** – Inventory is valued based on management's estimate of fair value for each item received. At December 31, 2008, inventory consists primarily of home health products, consumer confectionary items, small electronic devices, music, movies, small dry grocery items, and other miscellaneous gifts. All inventory is warehoused at the California Army National Guard facilities.

Included in ending inventory is 10,780 completed care packages which were assembled but not distributed at year-end. Management estimates finished care packages on hand to be valued at \$916,000 (or approximately \$85 each) at December 31, 2008.

**Income Tax** – The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, as amended. The Organization is also exempt from California Franchise taxes under Section 23701(d) of the State Revenue and Taxation Code. Therefore, no provision for federal or state income taxes is reflected in the accompanying financial statements.

**Cash Equivalents** – For the purposes of the statement of cash flows, cash equivalents consist of highly liquid, short-term money market investments.

**Property and Equipment** — Property and equipment consists of ten donated taping machines valued at management's estimate of fair value. The machines are depreciated on a straight-line method over five years.

**OPERATION GRATITUDE, INC.**  
**(A California Nonprofit Public Benefit Corporation)**  
Notes to Financial Statements  
As of and For the Year Ended  
December 31, 2008

**NOTE 3 – USE OF ESTIMATES**

The preparation of financial statements in conformity with GAAP require management to make estimates and assumptions that affect reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

As the operations of the Organization are conducted primarily by volunteers engaged to distribute donated goods, the most significant estimates related to the valuation of contributed goods, contributed labor and other services, and the valuation of inventory on hand.

The valuation of contributed goods is based on management's estimate of fair value for each item received. Items are valued upon receipt. Fair values are determined based numerous factors which may include a) amounts specified by the donor, b) current retail or selling price of similar items, if known, or c) management's own subjective appraisals. Additionally, items of a unique or personal nature which do not have readily determinable fair values, and goods which do not conform to the Organization's size or quality requirements for shipping are not assigned values.

The valuation of donated salaries is based on prevailing labor costs of executive and supervisory employees engaged in non-profit and logistics management roles. The key roles of contributed service which meet the criteria for recognition discussed would include a minimum level of employed staffing required to run the Organization. Amounts recognized include a full-time executive director, a full-time logistics and operations manager, a full-time development and communications manager, IT support personnel, and supervisors required to coordinate the efforts of all the volunteers at the bi-annual staging events.

**NOTE 4 – RELATED PARTY TRANSACTIONS**

Administrative operations are conducted in the residences of the Directors and Executive Officers without cost. No provision for donated rent, utilities, and small office equipment is included in the accompanying financial statements.

**NOTE 5 – COMMITMENTS**

During campaign drive periods, the Organization will lease various industrial equipment for warehousing and distribution of goods. Such equipment, consisting of storage containers, staging equipment, fork-lifts and other vehicles are rented on a month-to-month basis as needed.

**OPERATION GRATITUDE, INC.**  
**(A California Nonprofit Public Benefit Corporation)**  
Notes to Financial Statements  
As of and For the Year Ended  
December 31, 2008

**NOTE 6 – CONCENTRATIONS OF CREDIT RISK**

Financial instruments that potentially subject the Organization to concentrations of credit risk consist of cash deposits in checking accounts in excess of FDIC insured limit of \$250,000, and money market investment securities which are not insured.

At December 31, 2008, approximately \$334,000 was held in one money market investment account and \$288,000 was held in one checking account in excess of the FDIC insured limit.