

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

FINANCIAL STATEMENTS

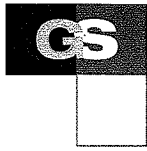
**As of and for the Year Ended
December 31, 2009**



Gurseley | Schneider ^{LLP}
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, 2009, 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.

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.

In our opinion, the financial statements referred to above, 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.

As disclosed in Note 3 to the financial statements, 87% of total assets and 89% of total revenues are derived from donated goods. The valuation of these donated goods is subject to estimation. The Organization estimates the value of donated goods by obtaining estimates of wholesale selling prices provided by the donors, or other indicators of value when donor estimated wholesale values are not provided. The Organization also undertakes its own research when practical in order to better ascertain fair values. Additionally, some items, due to their uniqueness in nature are assigned a nominal value when third-party information to ascertain value is not available. As a result, there is significant judgment and uncertainty in arriving at fair values of contributed goods, and such values materially enter into the determination of net assets and results of activities.

July 9, 2010
Los Angeles, California

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OPERATION GRATITUDE, INC.
(A California Nonprofit Public Benefit Corporation)
Statement of Financial Position
December 31, 2009

ASSETS

Cash and cash equivalents	\$ 899,002
Contributions receivable	359
Prepaid postage	1,000
Prepaid insurance	3,327
Donated inventory	<u>6,751,017</u>
<i>Total Current Assets</i>	7,654,705
Property and equipment, net	<u>43,866</u>
TOTAL ASSETS	<u><u>\$ 7,698,571</u></u>

LIABILITIES AND NET ASSETS

Accounts payable	<u>\$ 43,868</u>
<i>Total Current Liabilities</i>	<u>43,868</u>
Net assets - unrestricted	<u>7,654,703</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 7,698,571</u></u>

OPERATION GRATITUDE, INC.
(A California Nonprofit Public Benefit Corporation)
Statement of Activities
For the Year Ended December 31, 2009

	Unrestricted
SUPPORT AND REVENUES:	
Contributions	\$ 1,237,930
Interest income	789
	1,238,719
SUBTOTAL	1,238,719
Donated goods for distribution	15,066,341
Donated management services	385,781
Donated use of facilities	120,000
	16,810,841
TOTAL SUPPORT AND REVENUES	16,810,841
EXPENSES:	
Program services	12,065,238
Supporting services:	
Management and general	116,393
Fundraising	54,324
	12,235,955
TOTAL EXPENSES	12,235,955
INCREASE IN NET ASSETS - UNRESTRICTED	4,574,886
NET ASSETS, DECEMBER 31, 2008	3,079,817
NET ASSETS, DECEMBER 31, 2009	\$ 7,654,703

See Accompanying Notes to Financial Statements

OPERATION GRATITUDE, INC.
(A California Nonprofit Public Benefit Corporation)
Statement of Functional Expenses
For the Year Ended December 31, 2009

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>TOTAL EXPENSES</u>
Goods delivered	\$ 10,454,896	\$ -	\$ -	\$ 10,454,896
Postage and shipping supplies	986,737	-	-	986,737
Salaries and outside services	388,126	84,171	52,884	525,181
Rent	120,000	-	-	120,000
Supplies	38,302	-	-	38,302
Travel	19,081	-	-	19,081
Repair and maintenance	14,428	-	-	14,428
Project and office administration	6,221	8,205	-	14,426
Equipment rental	13,964	-	-	13,964
Professional fees	-	7,517	425	7,942
Depreciation	17,300	-	-	17,300
Merchant Fees	-	6,870	-	6,870
Telephone and internet services	-	6,648	-	6,648
Advertising	3,045	1,015	1,015	5,075
Insurance	3,138	1,332	-	4,470
Taxes and license	-	635	-	635
TOTAL EXPENSES	<u>\$ 12,065,238</u>	<u>\$ 116,393</u>	<u>\$ 54,324</u>	<u>\$ 12,235,955</u>

The statement of functional expenses reflected above includes non-cash expenses for good delivered (\$10,454,896), salaries and outside services (\$385,781), rent (\$120,000) and advertising (\$5,000).

OPERATION GRATITUDE, INC.
(A California Nonprofit Public Benefit Corporation)
Statement of Cash Flows
For the Year Ended December 31, 2009

CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES:

Increase in unrestricted net assets	\$ 4,574,886
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities:	
Depreciation	17,300
Decrease in contributions receivable	27,715
Increase in prepaid expense	(448)
Increase in donated inventory	(4,593,337)
Increase in accounts payable	16,483
NET CASH PROVIDED BY OPERATING ACTIVITIES	42,599
 CASH FLOWS USED IN INVESTING ACTIVITIES	
Purchase of storage containers	(28,625)
INCREASE IN CASH AND CASH EQUIVALENTS	13,974
CASH AND CASH EQUIVALENTS, DECEMBER 31, 2008	885,028
CASH AND CASH EQUIVALENTS, DECEMBER 31, 2009	\$ 899,002

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, 2009

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, 2009, the Organization distributed approximately 96,000 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, 2009.

OPERATION GRATITUDE, INC.
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
As of and For the Year Ended
December 31, 2009

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.

Contributed Services – Some 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 \$385,781 for 2009.

These amounts include the services of the following individuals that have donated over 1,000 hours of time during 2009:

- Executive Director
- Director of 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, 2009

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 (a Level 3 fair value measure) for each item received. At December 31, 2009, 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 6,761 completed care packages which were assembled but not distributed at year-end. Management estimates finished care packages on hand to be valued at \$676,100 (or approximately \$100 each) at December 31, 2009.

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.

OPERATION GRATITUDE, INC.
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
As of and For the Year Ended
December 31, 2009

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

Property and Equipment — Property and equipment consists of ten donated taping machines, ten portable storage containers, and approximately 800 storage bins valued at cost or management's estimate of fair value at time of donation. The taping machines and storage containers are depreciated on a straight-line method over two to five years. At December 31, 2009, property and equipment consists of the following:

Taping machines	\$ 35,500
Storage containers	<u>28,625</u>
	64,125
Less accumulated depreciation	<u>(20,259)</u>
Total property and equipment	<u><u>\$ 43,866</u></u>

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. Contributed goods account for 89% of total revenues and 87% of total assets.

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 on numerous factors which may include (a) amounts specified by the donor as being the wholesale selling price, (b) current retail or selling price of similar items, if known, or (c) management's own subjective appraisals based on research. 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 either assigned a nominal value or not assigned a value.

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 development and communications manager, IT support personnel, and supervisors required to coordinate the efforts of all the volunteers at the bi-annual staging events.

OPERATION GRATITUDE, INC.
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
As of and For the Year Ended
December 31, 2009

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 staging equipment, fork-lifts and other vehicles are rented on a month-to-month basis as needed.

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, 2009, approximately \$568,000 was held in one money market investment account and \$301,000 was held in one checking account (approximately \$51,000 in excess of the FDIC insured limit).