CONTENTS

INDEPENDENT AUDITORS’ REPORT 1

STATEMENT OF FINANCIAL POSITION 2

STATEMENT OF ACTIVITIES 3

STATEMENT OF FUNCTIONAL EXPENSES 4

STATEMENT OF CASH FLOWS 5

NOTES TO FINANCIAL STATEMENTS 6 - 11
INDEPENDENT AUDITORS’ REPORT

To the Board of Directors of
Operation Gratitude, Inc.

We have audited the accompanying financial statements of Operation Gratitude, Inc. (a California non-profit corporation), which comprise the statement of financial position as of December 31, 2014, 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 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.

Auditors’ Responsibility

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 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, as well as 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 Gratitude, Inc. as of December 31, 2014, 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.

Rose, Snyder & Jacobs LLP

Encino, California
June 26, 2015
## ASSETS

### CURRENT ASSETS
- Cash and cash equivalents: $1,513,754
- Investments: 197,939
- Pledges receivable: 60,418
- Prepaid expenses: 40,002
- Donated inventory: 5,752,355

**TOTAL CURRENT ASSETS**: $7,564,468

### PROPERTY AND EQUIPMENT, net
- 31,300

**TOTAL ASSETS**: $7,595,768

---

## LIABILITIES AND NET ASSETS

### CURRENT LIABILITIES
- Accounts payable and accrued expenses: $27,242

**TOTAL LIABILITIES**: 27,242

### COMMITMENTS AND CONTINGENCIES, note 7

### NET ASSETS
- Unrestricted: 7,568,526

**TOTAL LIABILITIES AND NET ASSETS**: $7,595,768

---

See independent auditors' report and notes to financial statements.
OPERATION GRATITUDE, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2014

<table>
<thead>
<tr>
<th>SUPPORT AND REVENUES:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Contributions</td>
<td>$ 2,312,809</td>
</tr>
<tr>
<td>Donated goods</td>
<td>8,512,192</td>
</tr>
<tr>
<td>Donated services</td>
<td>933,875</td>
</tr>
<tr>
<td>Interest income</td>
<td>6,319</td>
</tr>
<tr>
<td><strong>TOTAL SUPPORT AND REVENUES</strong></td>
<td><strong>11,765,195</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>EXPENSES:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Program services</td>
<td>10,510,294</td>
</tr>
<tr>
<td>Management and general</td>
<td>224,454</td>
</tr>
<tr>
<td>Fundraising</td>
<td>158,793</td>
</tr>
<tr>
<td><strong>TOTAL EXPENSES</strong></td>
<td><strong>10,893,541</strong></td>
</tr>
</tbody>
</table>

| INCREASE IN NET ASSETS         | 871,654  |
| **NET ASSETS, BEGINNING OF YEAR** | **6,696,872** |
| **NET ASSETS, END OF YEAR**    | **$ 7,568,526** |

See independent auditors' report
and notes to financial statements.
## STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2014

<table>
<thead>
<tr>
<th></th>
<th>Program Services</th>
<th>Management and General</th>
<th>Fundraising</th>
<th>Total Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advertising</td>
<td>$552,596</td>
<td>$34,724</td>
<td>$7,562</td>
<td>$594,882</td>
</tr>
<tr>
<td>Depreciation</td>
<td>4,374</td>
<td>904</td>
<td>1,213</td>
<td>6,491</td>
</tr>
<tr>
<td>Equipment rental</td>
<td>17,626</td>
<td>3,345</td>
<td>3,091</td>
<td>24,062</td>
</tr>
<tr>
<td>Goods delivered</td>
<td>8,038,386</td>
<td>-</td>
<td>-</td>
<td>8,038,386</td>
</tr>
<tr>
<td>Insurance</td>
<td>39,846</td>
<td>7,071</td>
<td>5,590</td>
<td>52,507</td>
</tr>
<tr>
<td>Merchant fees</td>
<td>15,267</td>
<td>2,586</td>
<td>2,317</td>
<td>20,170</td>
</tr>
<tr>
<td>Payroll and payroll taxes</td>
<td>580,616</td>
<td>113,578</td>
<td>105,927</td>
<td>800,121</td>
</tr>
<tr>
<td>Postage and shipping supplies</td>
<td>632,474</td>
<td>1,398</td>
<td>1,213</td>
<td>635,085</td>
</tr>
<tr>
<td>Professional fees</td>
<td>194,977</td>
<td>25,386</td>
<td>16,297</td>
<td>236,660</td>
</tr>
<tr>
<td>Project and office administration</td>
<td>75,219</td>
<td>6,710</td>
<td>5,536</td>
<td>87,465</td>
</tr>
<tr>
<td>Rent</td>
<td>224,284</td>
<td>876</td>
<td>912</td>
<td>226,072</td>
</tr>
<tr>
<td>Repairs and maintenance</td>
<td>2,126</td>
<td>403</td>
<td>349</td>
<td>2,878</td>
</tr>
<tr>
<td>Supplies</td>
<td>65,959</td>
<td>16,632</td>
<td>3,516</td>
<td>86,107</td>
</tr>
<tr>
<td>Taxes and licenses</td>
<td>-</td>
<td>5,327</td>
<td>-</td>
<td>5,327</td>
</tr>
<tr>
<td>Telephone and internet services</td>
<td>10,432</td>
<td>2,071</td>
<td>2,000</td>
<td>14,503</td>
</tr>
<tr>
<td>Travel</td>
<td>56,112</td>
<td>3,443</td>
<td>3,270</td>
<td>62,825</td>
</tr>
</tbody>
</table>

**TOTAL EXPENSES**  
$10,510,294 $224,454 $158,793 $10,893,541

96.5% 2.1% 1.4% 100%

See independent auditors’ report
and notes to financial statements.
CASH FLOWS FROM OPERATING ACTIVITIES:

Increase in net assets $ 871,654

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

Depreciation expense 6,491
Net change in donated inventory (503,806)
Changes in assets - (increase) decrease:
Contributions receivable (53,835)
Prepaid expenses (35,034)
Changes in liabilities - increase (decrease):
Accounts payable and accrued expenses 1,394

NET CASH PROVIDED BY OPERATING ACTIVITIES 286,864

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of property and equipment (35,730)

NET CASH USED IN INVESTING ACTIVITIES (35,730)

NET INCREASE IN CASH AND CASH EQUIVALENTS 251,134

Cash and cash equivalents, beginning of period 1,262,620

Cash and cash equivalents, end of period $ 1,513,754

SUPPLEMENTARY DISCLOSURES:

Interest paid in cash $ -
Income taxes paid in cash $ -

See independent auditors' report and notes to financial statements.
1. ORGANIZATION

Operation Gratitude, Inc., a California non-profit public benefit corporation (the “Organization”), seeks to lift spirits and meet the evolving needs of our active duty and veteran communities, and provide volunteer opportunities for all Americans to express their appreciation to our military.

The Organization now sends approximately 150,000 care packages each year. These care packages are filled with food, hygiene products, entertainment and handmade items, plus personal letters of support, addressed to individual Soldiers, Sailors, Airmen and Marines deployed overseas, to their children left behind, and to Veterans, Recruits, First Responders, Wounded Warriors and their Caregivers. From its inception in 2003 through December 31, 2014, the Organization distributed approximately 1,186,468 care packages.

During the year ended December 31, 2014, the Organization assembled and distributed 118,571 care packages. This amount included approximately 54,429 care packages to deployed troops, 23,016 to veterans, 20,675 to New Recruits, 9,049 to military families, 763 to wounded warriors and their Caregivers, 3,573 “Battalion Buddy” stuffed animals to military children, and 7,066 candy and disaster relief packages to military communities. Additionally, the Organization distributed goods in bulk quantities to U.S. military bases and to other military support charitable organizations.

The Organization is a 501(c)(3) not-for-profit corporation, funded entirely by private donations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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.

The Organization had no temporarily restricted net assets, or permanently restricted net assets at December 31, 2014.

See independent auditors’ report.
2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributed Goods

The Organization receives most 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 support charities.

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 and maintain an administrative office. This facility is also used to stage assembly operations during the Organization’s monthly packaging events. Management estimated the value of contributed rent during 2014 at $219,998.

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 $713,877 for the year ended December 31, 2014.

The Organization receives donated advertisements including online advertisements, the production of a promotional video, public service announcements, and social media promotion on high-traffic websites. Management estimates the fair value of such services to be $508,981 for the year ended December 31, 2014. The Organization received donated legal, travel, management and consulting services valued at $204,896 for the year ended December 31, 2014.

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. The Organization received a significant number of volunteer hours for solicitation, collection, staging, letter writing, knitting scarves, 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.

Income Tax

The Organization 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. The Organization is classified be the Internal Revenue Service as other than a private foundation. The Organization’s Federal Forms 990, Return of Organization Exempt Form Income Tax, for the years ended December 31, 2010 through 2014 are subject to examination by the IRS, generally for three years after they are filed. The California Forms 199, California Exempt Organization Annual Information Return, for the years ended December 31, 2010 through 2014 are subject to examination by the Franchise Tax Board, generally for four years after they are filed. At December 31, 2014 and for the year ended, the Organization had no material unrecognized tax benefits, tax penalties or interest.

See independent auditors’ report.
2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value of Financial Instruments

The Organization has adopted guidance issued by the FASB that defines fair value, establishes a framework for measuring fair value in accordance with existing GAAP, and expands disclosures about fair value measurements. The adoption of this guidance for the Organization’s financial assets and liabilities did not have a material impact on its financial position or changes in net assets. Assets and liabilities recorded at fair value in the statement of financial position are categorized based upon the level of judgment associated with the inputs used to measure their fair value. The categories are as follows:

<table>
<thead>
<tr>
<th>Level</th>
<th>Input Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level I</td>
<td>Inputs are unadjusted, quoted prices for identical assets or liabilities in active markets at the measurement date.</td>
</tr>
<tr>
<td>Level II</td>
<td>Inputs, other than quoted prices included in Level I, that are observable for the asset or liability through corroboration with market data at the measurement date.</td>
</tr>
<tr>
<td>Level III</td>
<td>Unobservable inputs that reflect management’s best estimate of what market participants would use in pricing the asset or liability at the measurement date.</td>
</tr>
</tbody>
</table>

For certain of the Organization’s financial instruments, including cash and cash equivalents, investments, pledges receivable, accounts payable and accrued expenses, the carrying amounts approximate fair value due to their immediate or short-term nature.

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 or actual cost for items that are purchased. Inventory consists primarily of home health products, consumer confectionary items, small electronic devices, music, movies, small dry grocery items, and other miscellaneous gifts. All inventories are warehoused at the California Army National Guard facilities in Van Nuys, California.

Pledges Receivable

Unconditional promises to give are recognized as revenue in the period pledged. Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. An allowance for doubtful amounts is determined using the age of the pledge, creditworthiness of the donor and historical collection experience.

Cash Equivalents

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

See independent auditors’ report.
2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

   Investments

   Investments, totaling $197,939 consist of various publicly traded common stock, mutual funds and bonds. These investments are valued at the fair market value. This represents a Level 1 fair value measurement. The cost basis of these investments is $200,515 at December 31, 2014.

   Property and Equipment

   Property and equipment are valued at cost or management’s estimate of fair value at the time of donation. Property and equipment are depreciated on a straight-line method over three to five years.

3. USE OF ESTIMATES

   The preparation of financial statements in conformity with GAAP requires the 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 relate to the valuation of contributed goods, contributed labor and other services, and the valuation of inventory on hand. Contributed goods, labor, and services account for 80% of total contributions and contributed goods in inventory accounted for 76% of total assets for the year 2014.

   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 include a minimum level of employed staffing required to run the Organization. Amounts recognized include 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.

See independent auditors’ report.
4. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

<table>
<thead>
<tr>
<th>Equipment</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taping machines</td>
<td>$35,500</td>
</tr>
<tr>
<td>Automobile</td>
<td>$33,700</td>
</tr>
<tr>
<td>Storage containers</td>
<td>$20,626</td>
</tr>
<tr>
<td>Other equipment</td>
<td>$8,070</td>
</tr>
<tr>
<td>Forklifts and pallet jack</td>
<td>$3,100</td>
</tr>
<tr>
<td>Printer</td>
<td>$1,960</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$102,956</strong></td>
</tr>
<tr>
<td>Less accumulated depreciation</td>
<td>(71,656)</td>
</tr>
<tr>
<td><strong>Total property and equipment</strong></td>
<td><strong>$31,300</strong></td>
</tr>
</tbody>
</table>

Depreciation expense was $6,491 during the year ended December 31, 2014.

5. 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.

6. INVESTMENTS

Following is a summary of the fair value of investments measured on a recurring basis at December 31, 2014:

<table>
<thead>
<tr>
<th>Investment Type</th>
<th>Level I</th>
<th>Level II</th>
<th>Level III</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity securities</td>
<td>$169</td>
<td>-</td>
<td>-</td>
<td>$169</td>
</tr>
<tr>
<td>Bond funds</td>
<td>$101,444</td>
<td>-</td>
<td>-</td>
<td>$101,444</td>
</tr>
<tr>
<td>Diversified loan fund</td>
<td>$96,326</td>
<td>-</td>
<td>-</td>
<td>$96,326</td>
</tr>
<tr>
<td><strong>Total investments</strong></td>
<td><strong>$197,939</strong></td>
<td>-</td>
<td>-</td>
<td><strong>$197,939</strong></td>
</tr>
</tbody>
</table>

7. COMMITMENTS AND CONTINGENCIES

Legal Contingencies

The Organization is involved in a workers’ compensation legal claim, which has arisen in the normal course of its operations. The Organization believes that any loss that could result from the legal claim will not have a material adverse effect on its financial position. Any loss that may arise from this claim is covered by insurance.

Major Donors

The pledges from two donors accounted for approximately 93% of total pledges receivable at December 31, 2014.

See independent auditors’ report.
7. COMMITMENTS AND CONTINGENCIES (Continued)

Concentration of Credit Risk

The Organization maintains its cash accounts with high quality insured depository institutions and may occasionally exceed the FDIC insured amounts. The Organization does not expect any losses from these accounts.

8. SUBSEQUENT EVENTS

The Organization has evaluated events occurring after the date of the accompanying statement of financial position through June 26, 2015, the date the financial statements were available to be issued. The Organization did not identify any material subsequent events requiring adjustment to the accompanying financial statements.