OLIVE CREST USA AND RELATED ENTITIES

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED

JUNE 30, 2014

OLIVE CREST®

Strong Families, Safe Kids

TABLE OF CONTENTS

ONISKO & SCHOLZ, LLP
Certified Public Accountants

5000 E. Spring Street Suite 200
Long Beach, California 90815-5213

Telephone (562)420-3100
Facsimile (562)420-3232

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Olive Crest USA and Related Entities

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Olive Crest USA and Related Entities (the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2014, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Olive Crest USA and Related Entities as of June 30, 2014, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2014, on our consideration of Olive Crest USA and Related Entities' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Olive Crest USA and Related Entities' internal control over financial reporting and compliance.

Onisko & Scholz, LLP

Long Beach, California
December 22, 2014

OLIVE CREST USA AND RELATED ENTITIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
ASSETS				
Current Assets				
Cash and cash equivalents	$ 4,127,934	$ 1,521,702	$ 57,800	$ 5,707,436
Investments	55,055	-	-	55,055
Receivables:				
Fees	1,981,798	-	-	1,981,798
Contributions, current portion	2,887	88,977	-	91,864
Grants, net allowance of $85,000	2,208,544	-	-	2,208,544
Other	39,552	-	-	39,552
Inventory	141,166	-	-	141,166
Prepaid expenses and other assets	511,221	-	-	511,221
Total Current Assets	9,068,157	1,610,679	57,800	10,736,636
Noncurrent Assets				
Contributions receivable, net of current portion	-	32,591	-	32,591
Split-dollar insurance receivable	227,545	-	-	227,545
Property and equipment, net	10,945,537	-	-	10,945,537
Other assets	52,550	-	-	52,550
Total Noncurrent Assets	11,225,632	32,591	-	11,258,223
TOTAL ASSETS	$ 20,293,789	$ 1,643,270	$ 57,800	$ 21,994,859
LIABILITIES AND NET ASSETS				
Current Liabilities				
Accounts payable	$ 554,442	$ -	$ -	$ 554,442
Accrued expenses	1,933,127	-	-	1,933,127
Overpayments reserve	608,001	-	-	608,001
Current portion of long-term debt	445,999	-	-	445,999
Due to others	10,444	-	-	10,444
Deferred revenue	44,098	-	-	44,098
Total Current Liabilities	3,596,111	-	-	3,596,111
Capitalized lease obligation, net of current portion	51,442	-	-	51,442
Notes payable, net of current portion	4,432,762	-	-	4,432,762
Total Long-Term Debt	4,484,204	-	-	4,484,204
Total Liabilities	8,080,315	-	-	8,080,315
Net Assets				
Unrestricted	12,213,474	-	-	12,213,474
Temporarily restricted	-	1,643,270	-	1,643,270
Permanently restricted	-	-	57,800	57,800
Total Net Assets	12,213,474	1,643,270	57,800	13,914,544
TOTAL LIABILITIES AND NET ASSETS	$ 20,293,789	$ 1,643,270	$ 57,800	$ 21,994,859

The accompanying notes are an integral part of these financial statements.

OLIVE CREST USA AND RELATED ENTITIES
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUES				
Fees from government programs	$ 21,896,471	$ -	$ -	$ 21,896,471
Government grants	15,332,471	-	-	15,332,471
Contributions	2,280,257	1,032,390	-	3,312,647
Special events, net	1,254,087	-	-	1,254,087
Donated goods, facilities, services	923,575	-	-	923,575
Facilities	340,502	-	-	340,502
Investment income	5,157	-	-	5,157
Loss on disposal of capital assets	(118,395)	-	-	(118,395)
Other	664,089	-	-	664,089
Subtotal - support and revenues	42,578,214	1,032,390	-	43,610,604
Net assets released from restrictions	478,287	(478,287)	-	-
TOTAL SUPPORT AND REVENUES	43,056,501	554,103	-	43,610,604
EXPENSES				
Program services	34,354,552	-	-	34,354,552
Management and general	5,395,664	-	-	5,395,664
Fundraising	2,368,025	-	-	2,368,025
TOTAL EXPENSES	42,118,241	-	-	42,118,241
OPERATING INCOME	938,260	554,103	-	1,492,363
LOSS ON DECONSOLIDATION	(596,722)	-	-	(596,722)
INCREASE IN NET ASSETS	341,538	554,103	-	895,641
BEGINNING NET ASSETS	11,871,936	1,089,167	57,800	13,018,903
ENDING NET ASSETS	$ 12,213,474	$ 1,643,270	$ 57,800	$ 13,914,544

The accompanying notes are an integral part of these financial statements.

OLIVE CREST USA AND RELATED ENTITIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2014

	Program Services	Management and General	Fundraising	Total
Salaries and wages	$ 18,794,991	$ 2,294,099	$ 1,077,625	$ 22,166,715
Payroll taxes and related costs	1,322,832	153,610	80,479	1,556,921
Other employee benefits	2,407,209	289,505	80,135	2,776,849
Services and supplies	6,324,806	246,813	319,106	6,890,725
Professional fees	960,844	952,343	614,072	2,527,259
Facilities	1,879,525	339,941	53,133	2,272,599
Utilities and telephone	673,525	262,238	37,402	973,165
Transportation	1,227,044	43,434	20,188	1,290,666
Conferences and meetings	134,029	44,738	76,256	255,023
Bad debt expense	85,000	249,471	-	334,471
Interest expense	33,291	249,253	973	283,517
Depreciation	511,456	270,219	8,656	790,331
TOTAL EXPENSES	$ 34,354,552	$ 5,395,664	$ 2,368,025	$ 42,118,241

The accompanying notes are an integral part of these financial statements.

OLIVE CREST USA AND RELATED ENTITIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	$ 895,641
Adjustments to reconcile changes in net assets	
to net cash provided by operating activities	
Depreciation	790,331
Loss on deconsolidation	596,722
Loss on disposal of capital assets	118,395
Receipt of donated stock	(30,731)
(Increase) decrease in:	
Fees receivable	1,606,111
Contributions receivable	93,488
Grants receivable	(191,986)
Other receivables	6,237
Inventory	(27,723)
Prepaid expenses and other assets	(36,531)
Other assets	12,669
Increase (decrease) in:	
Accounts payable	(756,256)
Accrued expenses	92,590
Overpayments reserve	114,369
Due to others	249,728
Deferred revenue	44,098
NET CASH PROVIDED BY OPERATING ACTIVITIES	3,577,152
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases and improvements of property and equipment	(962,187)
Deconsolidation of Nova cash	(7,620)
Proceeds from sales of property and equipment	81,964
NET CASH USED IN INVESTING ACTIVITIES	(887,843)
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds of notes payable	356,178
Principal payments of notes payable	(265,284)
Principal payments of capital lease obligations	(200,263)
NET CASH USED BY FINANCING ACTIVITIES	(109,369)
INCREASE IN CASH AND CASH EQUIVALENTS	2,579,940
BEGINNING CASH AND CASH EQUIVALENTS	3,127,496
ENDING CASH AND CASH EQUIVALENTS	$ 5,707,436
SUPPLEMENTARY DISCLOSURES OF CASH FLOW INFORMATION	
Interest paid	$ 283,517

The accompanying notes are an integral part of these financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Activities

Since 1973, Olive Crest has transformed the lives of over 60,000 abused, neglected, and at-risk children and their families. We work tirelessly to meet the individual needs of kids in crisis by providing safe homes, counseling, and education for both youth and parents. Our many innovative programs reflect our conviction that strengthening the family is one of the most powerful ways to help heal children. With unwavering compassion, the Olive Crest family maintains a lifelong commitment to the youth and families we serve even after they have graduated from our programs.

Established, proven, and respected, Olive Crest serves nearly 2,000 children and families each day throughout California, Nevada, and the Pacific Northwest.

The Olive Crest Abused Children's Foundation (the "Foundation") founded in 1990 was organized for the purpose of raising funds for Olive Crest and the other related entities. Beginning July 1, 2008, most of the general fundraising functions have been moved to Olive Crest and the Foundation's focus is on raising funds to build an endowment.

Approach Learning and Assessment Centers, Inc. ("Approach") also doing business as Therapeutic Educational Center and Olive Crest Academy K-12, was founded in 1982. It was organized for the purpose of providing youth educational services, vocational training, and therapy for at-risk children. It receives revenues under government fees and grants for its nonpublic school.

Nova Academy ("Nova") operates early college high school charter schools located in Santa Ana and Coachella, California. The Santa Ana campus works in partnership with Santa Ana Unified School District. In 2010, Nova Academy Inc. was granted authority from the Coachella Valley Unified School District to open an early college high school charter school in the Coachella Valley. Charter school students can be currently enrolled in courses at the school and local community colleges to receive both high school and college credits and assist in a successful transition into a higher education after high school. The schools depend on State of California and various foundations grant monies in order to finance its operations. See Note 12 regarding the deconsolidation of Nova Academy.

Olive Crest USA, Inc. (USA) was established in 2012. USA provides back office and development services to the other related entities. Olive Crest, the Foundation, and Approach are controlled entirely by USA via sole corporate membership. USA's sole corporate membership in Nova was ceded as of December 31, 2013 (see Note 12).

Olive Crest, the Foundation, Approach, USA, and Nova are each organized as not-for-profit tax-exempt charitable corporations under Section 501(c)(3) of the Internal Revenue Code. The Organizations were formed pursuant to the general not-for-profit corporation laws of the State of California.

Over the years, Olive Crest has grown and evolved into a multi-faceted organization that meets the needs of its communities through a full continuum of care featuring six core programs: Foster/Adoption, Residential, Schools, Family Preservation, Safe Families for Children, and Counseling.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Principles of Consolidation
The consolidated financial statements include the accounts of USA, Olive Crest, the Foundation, Approach, and Nova. The financial statements include Nova activity for the six months ended December 31, 2013. See Note 12 regarding Nova deconsolidation. Collectively the entities are referred to as "the Organization" or "the Organizations" throughout these notes. Significant intra-entity accounts and transactions have been eliminated in consolidation.

Basis of Accounting
The financial statements of the Organization have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP) and follow the recommendations of the Accounting Standards Codification (ASC) 958-205, Financial Statements of Not for Profit Organizations.

Description of Net Asset Classes
The net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions as follows:

Unrestricted - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted - Net assets subject to donor-imposed stipulations that can be fulfilled by actions of the Organization pursuant to those stipulations or that expire by the passage of time.

Permanently restricted - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of such assets permit the Organization to use all or part of the income earned on assets.

Accounting for Contributions
Generally accepted accounting principles require that the Organization reports information about its financial position and activities in three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. Contributions are recognized when the donor makes a promise to give to the Organization that is unconditional. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Cash and Cash Equivalents
For purposes of the statement of financial position and the statement of cash flows, cash and cash equivalents consist of cash and other highly liquid resources, such as investments in certificates of deposit and money market funds, with an original maturity of three months or less when purchased.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fees and Grants Receivable

The fees and grants receivable consist primarily of amounts due from government agencies for counseling, education, therapy, foster care and adoption, less an allowance for doubtful accounts. The Organization provides for losses on accounts receivable using the allowance method. The allowance is based on experience, third-party contracts, and other circumstances. Receivables are considered impaired if full principal payments are not received in accordance with the contractual terms. It is the Organization's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected.

Inventory

Inventories consist primarily of gift cards, certificates and supplies. Gift cards and certificates are recorded at estimated fair value at the date of donation. Supplies inventories are recorded at cost as of the date of purchase.

Investments

Investments are reported in the accompanying statement of financial position at fair value. Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon liquidation, maturity, or sale of investments.

Property and Equipment

Property and equipment are recorded at cost, if purchased, or at fair value at the date of the gift, if donated and significant. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support.

Depreciation has been recorded using the straight-line method over the estimated useful lives of the assets, generally ten to thirty years for buildings and improvements, three to seven years for machinery, equipment and software. Land has an indefinite useful life and is therefore not depreciated. The cost of property and equipment purchased in excess of $5,000 is capitalized. Repairs, maintenance and minor acquisitions are expensed as incurred, and the Organization uses the direct expensing method to account for planned major maintenance activities.

Long Lived Assets

The Organization reviews long lived assets such as property and equipment to determine if there has been an impairment of value whenever events or changes occur that indicate the carrying value of the assets may have declined and not be recoverable. No circumstances have occurred during the year causing the Organization to believe there has been any impairment of the carrying value of its long lived assets. There can be no assurance, however, that market or other conditions will not change in the future resulting in impairment of long lived assets.

Loan fees

Loan origination fees are recorded in the consolidated statement of financial position at cost, net of accumulated amortization. Amortization is calculated on a straight-line basis over the life of the loan. As of June 30, 2014, the balance was $30,000, including accumulated amortization of $10,000. Loan fees are included in other assets on the consolidated statement of financial position.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Split-Dollar Insurance Receivable

In 1987, the Organization entered into an agreement to establish split-dollar life insurance policies on the two founders of Olive Crest. The insurance policies have been assigned to Olive Crest as collateral for the premiums paid by Olive Crest. In the event of death, sale, or cancellation of the policies, the Organization would receive the premiums paid to date, which approximates the cash surrender value.

Overpayment Reserve

Grant revenues received from the Los Angeles and Riverside County Mental Health programs provide monthly provisional payments based on units of service. The Organization reconciles provisional payments received to actual costs incurred on a monthly basis. The overpayment reserve account tracks provisional payments received in excess of actual costs incurred.

Income Taxes

The Olive Crest, the Foundation, Approach, USA, and Nova are exempt from federal and state income tax under Section 501(c)(3) of the Internal Revenue Code ("IRC") and Section 23701(d) of the California Tax Code. The Organization uses the same accounting methods for tax and financial reporting.

ASC 740, *Accounting for Uncertainty in Income Taxes*, provides accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by the Organization in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. The Organization's returns for years ending June 30 2010, 2011, 2012, and 2013, are subject to examination by federal and state taxing authorities, generally for three and four years after they are filed, respectively.

During the year ended June 30, 2014, the Organization earned rental income from debt-financed property, which is considered to be unrelated to the Organization's exempt purpose, and any net income earned by the rental property is subject to unrelated business income tax. The rental property generated a net income during the year ended June 30, 2014, which will be offset by the Organization's net operating loss carry forward. Therefore no income tax liability has been recorded in the financial statements.

Marketing Costs

The Organization uses marketing to inform the audiences it serves of its programs. Marketing costs are expensed as incurred. Marketing expense for the year ended June 30, 2014 was $477,193.

Indirect Costs

The Organization complies with 2 CFR Part 230 Cost Principles for Non-Profit Organizations (The Code) concerning the allocation of indirect costs. The Simplified Allocation Method as permitted by the Code is utilized using the proportion of direct salaries to total salaries for each cost center as the basis for allocation. Indirect costs consist of costs to operate the Human Resources, Accounting, Information Technology, and Executive Staff functions. Indirect costs for the fiscal year ended June 30, 2014 were $4,106,796.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Expense Allocation

The cost of providing various programs and other activities has been summarized on a functional basis in the statement of activities and the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services based on estimates made by management.

Donated Goods, Facilities, and Services

The Organizations receive periodic donations of noncash assets, such as use of facilities, materials, and goods, from local vendors and from the community. The donations are recorded at estimated fair market value at the date of donation, if significant.

Contributions of donated services that create or enhance non-financial assets, or that require specialized skills and are provided by individuals possessing those skills, typically needing to be purchased if not provided by donation, are recorded at their fair values in the period received. In addition, a substantial number of volunteers have donated significant amounts of their time to the Organizations and its programs. The donated volunteers services are not reflected in the financial statements since these services do not meet the criteria for recognition as contributed services.

The total value of donated goods, facilities, and services received during the year ended June 30, 2014 was $923,575, of which $440,135 is recorded as special events revenue on the consolidated statement of activities.

Fair Value of Financial Instruments

Financial assets and liabilities are recorded at their fair market value in accordance with ASC 820, *Fair Value Measurements*. This standard defines fair value and establishes a hierarchy for reporting the reliability of input measurements used to assess fair value for all assets and liabilities. ASC 820 defines fair value as the selling price that would be received for an asset, or paid to transfer a liability, in the principal or most advantageous market on the measurement date. The hierarchy prioritizes fair value measurements based on the types of inputs used in the valuation technique. The inputs are categorized in the following levels:

- Level 1 – Observable inputs such as quoted prices in active markets for identical assets or liabilities.
- Level 2 – Directly or indirectly observable input for quoted and other than quoted prices for identical or similar assets and liabilities in active or non-active markets.
- Level 3 – Unobservable inputs not corroborated by market data, therefore requiring the entity to use the best information available in the circumstances, including the entity’s own data.

Certain financial instruments are carried at cost on the balance sheet and thus are not categorized. These instruments include cash and cash equivalents, fees receivable, grants receivable, other receivables, prepaid expenses, other assets, account payable, accrued expenses and long-term debt.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value of Financial Instruments (continued)

The fair value of the Organization's split dollar insurance receivable is based on the cash surrender value as of June 30, 2014. This input is based on premiums paid for identical assets and thus is a Level 1.

The fair value of contributed supplies, facilities and services has been measured on a nonrecurring basis using prices for similar assets in inactive markets (Level 2 input).

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual events and results could differ from those assumptions and estimates.

NOTE 2 – CONTRIBUTIONS RECEIVABLE

Contributions receivable as of June 30, 2014 are expected to be collected in the following periods:

Less than one year	$ 91,864
One to five years	32,591
Total contributions receivable	$ 124,455

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2014, is summarized as follows:

Land	$2,666,666
Buildings	9,255,303
Improvements	2,555,808
Vehicles	1,436,039
Computer equipment	1,369,884
Furniture and office equipment	701,878
Construction in progress	88,093
	18,073,671
Less accumulated depreciation	(7,128,134)
Net property and equipment	$10,945,537

Depreciation expense for the year ended June 30, 2014 was $790,331.

NOTE 4 – ACCRUED EXPENSES

Accrued expenses as of June 30, 2014 consisted of the following:

Accrued salaries and related expenses	$ 948,792
Accrued vacation	944,390
Other accrued expenses	39,945
Total accrued expenses	$1,933,127

NOTE 5 – COMMITMENTS AND CONTINGENCIES

Operating Leases

The Organization leases various commercial and residential space and vehicles under non-cancelable operating leases. The commercial and residential space leases also require payment of a share of common area operating costs. Minimum rental commitments exclusive of the allocation of these operating costs are as follows:

Year Ending June 30,	Office Buildings	Vehicles	Equipment	Total
2015	$ 481,936	$ 5,226	$ 10,256	$ 497,418
2016	210,217	-	6,761	216,978
2017	32,633	-	-	32,633
Thereafter	-	-	-	-
	$ 724,786	$ 5,226	$ 17,017	$ 747,029

Rental expenses were $1,510,464 for the year ended June 30, 2014.

Contingencies

The Organization received an Affordable Housing Program grant in the amount of $1,000,000 from Union Bank of California in December 2008. This grant was given to finance the construction of four children's homes built in Coachella Valley as part of the Coachella Valley Children's Center. As a condition of receiving the grant, the Organization agreed to use the facilities for at risk kids and low income families for a minimum of a 10 year period. The Organization is currently using the homes to provide housing for that purpose and has no plans of changing the purpose of the facilities in the future.

Line of Credit

The Organization has a $3,000,000 line of credit with a commercial bank, which is secured by a deed of trust on real property, fixtures, equipment, and gross rental revenues on eight of the Organization's properties located in Riverside, Perris, Orange County, and Santa Ana, California. The line matures March 6, 2015, and the Organization is required to maintain certain financial covenants. The line bears interest at the Lender's Prime Rate (currently 5.00%). During the year, the Organization did not borrow any funds on the line on credit. As of June 30, 2014 there was no outstanding balance on the line of credit.

NOTE 6 – CAPITAL LEASES

Equipment under capital leases consists of copiers, servers, telephone equipment, and networking equipment, with a combined capitalized cost of $604,776. Accumulated depreciation in the statement of financial position relating to the equipment is $288,845, and depreciation expense reported in the statement of activities is $111,254. The leases are capitalized as a result of bargain purchase options at the end of the lease periods or because the present value of the minimum lease payments equals or exceeds 90% of the asset's fair value. Future minimum lease payments are as follows:

Year Ended June 30,	Amount
2015	$ 166,609
2016	51,442
Thereafter	-
	$ 218,051

Interest rates on capitalized leases vary from 5.2% to 7.7% and are imputed based on each leases implicit rate or the incremental borrowing rate.

NOTE 7 – EMPLOYEE RETIREMENT PLANS

403(b) Plan

The Organization sponsors a 403(b) salary deferral plan whereby employees may contribute up to the amount as allowed under Internal Revenue Service regulations. The Organization does not match employee contributions.

Defined Benefit Pension Plans

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Certificated public school employees are members of the California State Teachers' Retirement System (CalSTRS), and classified public school employees are members of the California Public Employees' Retirement System (CalPERS).

California Public Employees Retirement System (CalPERS)

The Organization contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information.

NOTE 7 – EMPLOYEE RETIREMENT PLANS (continued)

The contribution requirements for plan members are established by state statute, and the Organization is required to contribute an actuarially determined rate adopted by the CalPERS Board of Administration. The required employee contribution rates for fiscal year 2013-2014 were 7% for employees enrolled prior to January 1, 2013 and 6% for employees enrolled after January 1, 2013. The required employer contribution rate for fiscal year 2013-2014 was 11.44% of annual payroll. The Organization's contributions to CalPERS for the fiscal year ending June 30, 2014 were $20,876.

California State Teachers' Retirement System (CalSTRS)
The Organization contributes to the California State Teachers' Retirement System (CalSTRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement, disability and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information.

The contribution requirements for plan members are established by state statute. The required employee and employer contribution rates for fiscal year 2013-2014 were 8% and 8.25% of annual payroll, respectively. The Organization's contributions to CalSTRS for the fiscal year ending June 30, 2014 were $81,717.

NOTE 8 – CONCENTRATIONS

Cash
The Organization maintains its cash balances in financial institutions and money market investments. The balances at the financial institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. At various times there were balances in the bank that were over the FDIC limit. At June 30, 2014, the uninsured cash balance was $5,797,032.

Grants Receivable and Revenue
The Organization received 87% of its revenues in the form of fees and grants from government programs for the year ended June 30, 2014. The balance due from those programs accounted for 97% of accounts receivable at June 30, 2014. Without these sources of revenue, the Organization would have difficulty maintaining its operations.

NOTE 9 – LONG-TERM DEBT

Long-term debt consists of the following as of June 30, 2014:

Note payable to Malaga Bank, bearing interest at the Current Index plus 2.6%, with a maximum rate of 11.95% and a minimum rate of 6.35% (currently 6.35%), payable in monthly installments of $25,031, principal and interest, maturing November, 2016, secured by a Deed of Trust on real property, fixtures, equipment, and gross rental revenues of three properties located in Moreno Valley, Bellflower, and Santa Ana, California.	$ 3,586,549
Note payable to F&M Bank, bearing interest at 5%, subject to a 0.75% discount if deposit requirements are met, payable in monthly installments of $7,057, principal and interest, maturing February, 2023, secured by a Deed of Trust on real property, fixtures, equipment, and gross rental revenues of eight properties located in Riverside, Perris, Orange, and Santa Ana, California. The Organization is required to maintain certain financial covenants.	602,610
Loans payable, collateralized by vehicles, maturing at various dates through 2018, with interest rates between 0% and 4.9%	522,993
	4,712,152
Less portion considered current	(279,390)
Total long-term liabilities	$ 4,432,762

Maturities of long term debt for the next five years are as follows:

Year Ended June 30,	Amount
2015	$ 279,390
2016	280,264
2017	267,383
2018	236,625
2019	213,864
Thereafter	3,434,626
	$ 4,712,152

NOTE 10 – RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2014 are available for the following purposes:

Restricted until collected and available for use	$ 121,568
Adoptions	3,007
Children's Center	33,610
Community Homes	497,894
Differential Response	26,947
Family Preservation	65,624
Family Resource Center	74,985
Foster Families	222,246
Foster Parent Recruitment	25,762
Independent Living	7,041
Intensive Treatment	52,264
Los Angeles Region	68,250
Mental Health	45,151
Safe Families	48,472
Transitional Living	316,374
Wraparound	34,075
	$ 1,643,270

Permanently restricted net assets consist of the following at June 30, 2014:

Restricted endowment fund	$ 57,800

NOTE 11 – SPECIAL EVENT REVENUE

Special event revenues for the year ended June 30, 2014 are detailed as follows:

	Seattle Gala	Golf Tourna-ments	Volunteer Groups	Outside Events	Other Events	Silent Auction Donations (noncash)	Total
Special event revenue	$323,635	$255,853	$337,598	$42,669	$1,051,962	$440,135	$2,451,852
Direct event costs	(114,209)	(140,692)	(98,772)	(1,041)	(402,915)	(440,135)	(1,197,764)
Net revenue	$209,426	$115,161	$238,826	$41,628	$649,047	$ -	$1,254,088

NOTE 12 – DECONSOLIDATION OF FORMERLY RELATED ENTITY

As of December 31, 2013, the Organization released its sole corporate membership in Nova Academy resulting in a loss of controlling financial interest. The Organization recognized a $596,722 loss on the transaction. The Organization does not have a continuing involvement in Nova Academy.

As of the date of deconsolidation, the assets and liabilities of Nova Academy were as follows:

Total assets	$ 1,125,617
Total liabilities	(528,895)
Excess assets	$ 596,722

As of June 30, 2014, the Organization had the following balances with Nova Academy:

Amount due from Nova Academy to USA	$ 249,471
Less allowance for doubtful accounts	(249,471)
Net amount due from Nova Academy to USA	$ -
Amount due to Nova Academy from Olive Crest	$ 6,950
Amount due to Nova Academy from USA	$ 3,236

NOTE 13 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 22, 2014, the date the financial statements were available to be issued.