OLIVE CREST AND RELATED ENTITIES

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED

JUNE 30, 2015

OLIVE CREST®

Strong Families, Safe Kids

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Olive Crest and Related Entities

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Olive Crest and Related Entities (the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2015, 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 and Related Entities as of June 30, 2015, 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 January 20, 2016, on our consideration of Olive Crest 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 and Related Entities' internal control over financial reporting and compliance.

Adjustments to Prior Period Consolidated Financial Statements

As discussed in Note 13 to the consolidated financial statements, Olive Crest and Related Entities has restated its 2014 financial statements during the current year to adjust overpayments payable and notes payable, in accordance with accounting principles generally accepted in the United States of America.

As part of our audit of the 2015 consolidated financial statements, we also audited adjustments described in Note 13 that were applied to restate the 2014 consolidated financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

Onisko & Scholz, LLP

Long Beach, California
January 20, 2016

OLIVE CREST AND RELATED ENTITIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2015

	Unrestricted	Temporarily Restricted	Total
ASSETS			
Current Assets			
Cash and cash equivalents	$ 3,727,503	$ 2,054,228	$ 5,781,731
Investments	1,668	-	1,668
Receivables:			
Fees	2,424,269	-	2,424,269
Contributions, current portion	27,351	180,477	207,828
Grants, current portion	3,163,868	-	3,163,868
Other	11,785	-	11,785
Inventory	67,108	-	67,108
Prepaid expenses and other assets	560,603	-	560,603
Total Current Assets	9,984,155	2,234,705	12,218,860
Noncurrent Assets			
Receivables:			
Contributions receivable, net of current portion	-	32,614	32,614
Grants receivable, net of current portion	469,872	-	469,872
Split-dollar insurance receivable	227,545	-	227,545
Property and equipment, net	10,541,100	-	10,541,100
Other assets	79,775	-	79,775
Total Noncurrent Assets	11,318,292	32,614	11,350,906
TOTAL ASSETS	$ 21,302,447	$ 2,267,319	$ 23,569,766
LIABILITIES AND NET ASSETS			
Current Liabilities			
Accounts payable	$ 771,056	$ -	$ 771,056
Accrued expenses	2,018,998	-	2,018,998
Overpayments reserve	173,715	-	173,715
Current portion of long-term debt	428,478	-	428,478
Deferred revenue	16,357	-	16,357
Total Current Liabilities	3,408,604	-	3,408,604
Capitalized lease obligation, net of current portion	12,671	-	12,671
Notes payable, net of current portion	4,403,675	-	4,403,675
Total Long-Term Debt	4,416,346	-	4,416,346
Total Liabilities	7,824,950	-	7,824,950
Net Assets			
Unrestricted	13,477,497	-	13,477,497
Temporarily restricted	-	2,267,319	2,267,319
Total Net Assets	13,477,497	2,267,319	15,744,816
TOTAL LIABILITIES AND NET ASSETS	$ 21,302,447	$ 2,267,319	$ 23,569,766

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

OLIVE CREST AND RELATED ENTITIES
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUES				
Fees from government programs	$ 21,096,996	$ -	$ -	$ 21,096,996
Government grants	16,103,975	-	-	16,103,975
Contributions	1,913,177	1,132,606	-	3,045,783
Special events, net	1,718,468	-	-	1,718,468
Donated goods, facilities, services	1,092,561	-	-	1,092,561
Facilities	447,925	-	-	447,925
Gain on disposal of capital assets	433,102	-	-	433,102
Other	256,456	-	-	256,456
Subtotal - support and revenues	43,062,660	1,132,606	-	44,195,266
Net assets released from restrictions	508,557	(508,557)	-	-
TOTAL SUPPORT AND REVENUES	43,571,217	624,049	-	44,195,266
EXPENSES				
Program services	35,108,980	-	-	35,108,980
Management and general	5,216,165	-	-	5,216,165
Fundraising	2,626,687	-	-	2,626,687
TOTAL EXPENSES	42,951,832	-	-	42,951,832
INCREASE IN NET ASSETS	619,385	624,049	-	1,243,434
BEGINNING NET ASSETS PREVIOUSLY REPORTED	12,213,474	1,643,270	57,800	13,914,544
PRIOR PERIOD ADJUSTMENT	644,638	-	(57,800)	586,838
BEGINNING NET ASSETS AS RESTATED	12,858,112	1,643,270	-	14,501,382
ENDING NET ASSETS	$ 13,477,497	$ 2,267,319	$ -	$ 15,744,816

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

OLIVE CREST AND RELATED ENTITIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2015

	Program Services	Management and General	Fundraising	Total
Salaries and wages	$ 19,367,921	$ 2,516,953	$ 1,295,746	$ 23,180,620
Payroll taxes and related costs	1,432,506	171,646	95,560	1,699,712
Other employee benefits	2,429,632	195,005	119,683	2,744,320
Services and supplies	6,458,840	231,382	272,153	6,962,375
Professional fees	965,869	773,006	609,193	2,348,068
Facilities	1,851,536	468,857	60,008	2,380,401
Utilities and telephone	709,616	217,934	47,973	975,523
Transportation	1,272,968	51,541	25,320	1,349,829
Conferences and meetings	93,595	35,113	93,863	222,571
Bad debt expense	-	21,258	-	21,258
Interest expense	28,068	205,826	595	234,489
Depreciation	498,429	278,749	6,593	783,771
Other	-	48,895	-	48,895
TOTAL EXPENSES	$ 35,108,980	$ 5,216,165	$ 2,626,687	$ 42,951,832

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

OLIVE CREST AND RELATED ENTITIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	$ 1,243,434
Adjustments to reconcile changes in net assets	
to net cash provided by operating activities	
Depreciation	783,771
Gain on disposal of capital assets	(433,102)
Receipt of donated stock	(4,127)
(Increase) decrease in:	
Fees receivable	(442,471)
Contributions receivable	(115,987)
Grants receivable	(1,425,196)
Other receivables	27,767
Inventory	74,058
Prepaid expenses and other assets	(49,382)
Other assets	(27,225)
Increase (decrease) in:	
Accounts payable	216,614
Accrued expenses	85,871
Overpayments reserve	157,278
Due to others	(10,444)
Deferred revenue	(27,741)
NET CASH PROVIDED BY OPERATING ACTIVITIES	53,118
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases and improvements of property and equipment	(260,821)
Proceeds from sales of property and equipment	534,754
Proceeds from sales of investments	57,514
NET CASH PROVIDED BY INVESTING ACTIVITIES	331,447
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds of notes payable	3,650,000
Principal payments of notes payable	(3,818,515)
Principal payments of capital lease obligations	(141,755)
NET CASH USED BY FINANCING ACTIVITIES	(310,270)
INCREASE IN CASH AND CASH EQUIVALENTS	74,295
BEGINNING CASH AND CASH EQUIVALENTS	5,707,436
ENDING CASH AND CASH EQUIVALENTS	$ 5,781,731
SUPPLEMENTARY DISCLOSURES OF CASH FLOW INFORMATION	
Interest paid	$ 234,489
Vehicles acquired through long-term notes	$ 220,165

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Activities

Since 1973, Olive Crest has transformed the lives of over 70,000 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 3,000 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.

Approach Learning and Assessment Centers, Inc. (the "Academy") also doing business as 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.

Olive Crest USA, Inc. (USA) was established in 2012 and provided back office and development services to the other related entities. The Board of Directors approved merging USA into Olive Crest, and Olive Crest as successor became the sole member of the Academy and the Foundation.

Olive Crest, the Foundation, the Academy, and USA, 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 Project Independence.

Principles of Consolidation

The consolidated financial statements include the accounts of Olive Crest, USA, the Foundation, and Approach. 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2015, the balance was $25,200, including accumulated amortization of $4,932. Loan fees are included in other assets on the consolidated statement of financial position.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, and USA 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 2011, 2012, 2013, and 2014, 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, 2015, 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, 2015, 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, 2015 was $482,386.

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, 2015 were $4,255,323.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2015 was $2,191,324, of which $1,098,763 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, 2015. This input is based on premiums paid for identical assets (Level 1 input).

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, 2015 are expected to be collected in the following periods:

Less than one year	$ 207,828
One to five years	32,614
Total contributions receivable	$ 240,442

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2015, is summarized as follows:

Land	$ 2,572,625
Buildings	9,221,800
Improvements	2,743,646
Vehicles	1,524,903
Computer equipment	1,369,884
Furniture and office equipment	701,878
	18,134,736
Less accumulated depreciation	(7,593,636)
Net property and equipment	$10,541,100

Depreciation expense for the year ended June 30, 2015 was $783,771.

NOTE 4 – ACCRUED EXPENSES

Accrued expenses as of June 30, 2015 consisted of the following:

Accrued salaries and related expenses	$ 1,073,227
Accrued vacation	934,558
Other accrued expenses	11,213
Total accrued expenses	$ 2,018,998

NOTE 5 – COMMITMENTS AND CONTINGENCIES

Operating Leases

The Organization leases various commercial and residential space under non-cancelable operating leases. The commercial and residential space leases also require payment of a share of common area operating costs. The following is a schedule by years of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2015.

Year Ending June 30,	
2016	$ 346,836
2017	102,789
2018	10,500
Thereafter	-
	$ 460,125

Rental expenses for all operating leases, except those with terms of a month or less that were not renewed, were $940,391 for the year ended June 30, 2015.

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 seven of the Organization's properties located in Riverside, Perris, Orange, and Santa Ana, California. The line matures March 6, 2016, and the Organization is required to maintain certain financial covenants. The line bears interest at the Lender's Prime Rate (currently 5%). During the year, the Organization did not borrow any funds on the line on credit. As of June 30, 2015 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 $393,075, and depreciation expense reported in the statement of activities is $105,136. 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
2016	$ 63,625
2017	12,671
Thereafter	-
	$ 76,296

Interest rates on the capitalized leases is 5.2% 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.

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, 2015, the uninsured cash balance was $5,476,697.

Grants Receivable and Revenue
The Organization received 84% of its revenues in the form of fees and grants from government programs for the year ended June 30, 2015. The balance due from those programs accounted for 96% of accounts receivable at June 30, 2015. 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, 2015:

Note payable to F&M Bank, bearing interest at 4.75% until May 2022, then at the Current Index plus 2.5%, payable in monthly installments of $23,733, principal and interest, maturing April 2025, secured by a Deed of Trust on real property, fixtures, equipment, and gross rental revenues of five properties located in Moreno Valley, Bellflower, Orange, and Santa Ana, California. The Organization is required to maintain certain financial covenants.	$ 3,628,006
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 seven properties located in Riverside, Perris, Orange, and Santa Ana, California. The Organization is required to maintain certain financial covenants.	547,836
Loans payable, collateralized by vehicles, maturing at various dates through 2019, with interest rates between 0% and 3.9%	592,686
	4,768,528
Less portion considered current	(364,853)
Total long-term liabilities	$ 4,403,675

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

Year Ended June 30,	Amount
2016	$ 364,853
2017	353,025
2018	322,714
2019	295,412
2020	216,412
Thereafter	3,216,112
	$ 4,768,528

NOTE 10 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2015 are available for the following purposes:

Restricted until collected and available for use	$ 213,091
Adoptions	3,032
Children's Center	15,535
Community Homes	694,261
Differential Response	38,526
Family Preservation	68,136
Family Resource Center	87,204
Foster Families	321,064
Foster Parent Recruitment	32,435
Independent Living	61,541
Intensive Treatment	52,264
Los Angeles Region	68,250
Mental Health	59,401
Respite	4,773
Therapeutic Education Center	15,082
Transitional Housing Placement and Foster Care	80,164
Transitional Living	418,345
Wraparound	34,215
	$ 2,267,319

NOTE 11 – SPECIAL EVENT REVENUE

Special event revenues for the year ended June 30, 2015 are detailed as follows:

	Seattle Gala	Golf Tourna-ments	Volunteer Groups	Outside Events	Other Events	Silent Auction Donations (noncash)	Total
Special event revenue	$379,242	$185,449	$391,398	$147,832	$1,357,038	$1,098,763	$3,559,722
Direct event costs	(138,462)	(148,975)	(118,519)	(927)	(335,608)	(1,098,763)	(1,841,254)
Net revenue	$240,780	$36,474	$272,879	$146,905	$1,021,430	$ -	$1,718,468

NOTE 12 – APPROACH LEARNING & ASSESSMENT INC.

Summarized operating results for Approach Learning & Assessment Inc. for the year ended June 30, 2015 are as follows:

Nonpublic school revenue	$ 6,267,632
Government grants	123,497
Contributions	14,033
Donated goods, facilities, services	2,147
Gain on disposal of capital assets	2,500
Other	9,894
Total revenue	6,419,703
Salaries and wages	2,988,210
Payroll taxes and related costs	217,191
Other employee benefits	348,996
Services and supplies	295,581
Professional fees	62,975
Facilities	385,810
Utilities and telephone	50,188
Transportation	185,580
Conference and meetings	2,067
Interest expenses	4,054
Depreciation	123,642
Indirect expense	613,527
Other	185,618
Total expenses	5,463,439
Increase in net assets	$ 956,264

NOTE 13 – PRIOR PERIOD ADJUSTMENTS

Net assets beginning July 1, 2014 have been adjusted for corrections to the prior year. The previously issued financial statements have been restated. The effect of these corrections was to increase net assets by $586,838 as of July 1, 2014.

After performing a detailed analysis of the overpayments payable account for the previous seven years for the Los Angeles Mental Health contracts, which included additional documents previously unavailable or unutilized for analysis, it was determined that the cumulative overpayments payable balance was overstated during this period by $591,564, which has been reflected by an increase in beginning unrestricted net assets of the same amount.

NOTE 13 – PRIOR PERIOD ADJUSTMENTS (continued)

Notes payable was incorrectly calculated in the prior year, causing notes payable to be understated by $4,726. Notes payable was adjusted to match the balance owed to F&M Bank. The effect of the correction was to increase notes payable by $4,726 and decrease beginning unrestricted net assets by $4,726.

Permanently restricted net assets were incorrectly classified in the prior year, causing permanently restricted net assets to be overstated by $57,800. Net assets were previously misclassified as permanently restricted and were corrected to temporarily restricted net assets spent in the prior year. The effect of the correction was to increase unrestricted net assets by $57,800 and decrease beginning permanently restricted net assets by $57,800.

NOTE 14 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 20, 2016, the date the financial statements were available to be issued.

On November 16, 2015, the Organization purchased a property in Bellevue, WA for the Pacific Northwest Region. The purchase price of the property was $2,090,000 and the Organization incurred long-term debt on the property of $1,605,000.