

OLIVE CREST AND RELATED ENTITIES
Consolidated Financial Statements

June 30, 2016

OLIVE CREST®

Strong Families, Safe Kids



An Independent CPA Firm

OLIVE CREST AND RELATED ENTITIES
Consolidated Financial Statements

June 30, 2016

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
Consolidated Financial Statements:	
Consolidated Statement of Financial Position	2
Consolidated Statement of Activities	3
Consolidated Statement of Functional Expenses	4
Consolidated Statement of Cash Flows	5
Notes to the Consolidated Financial Statements	6



An Independent CPA Firm

Board of Directors
Olive Crest and Related Entities

INDEPENDENT AUDITORS' REPORT

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, 2016, 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.

Auditor's 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 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 financial statements are free of 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 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, 2016, 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.

Other Reporting Required By Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 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.

Gruber and Associates, Inc.

Gruber and Associates, Inc.

Newport Beach, California
November 2, 2016

BASIC FINANCIAL STATEMENTS

OLIVE CREST AND RELATED ENTITIES
Consolidated Statement of Financial Position
June 30, 2016

	Total
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 6,910,053
Receivables:	
Fees	2,245,957
Contributions, current portion	429,579
Grants, current portion	2,231,471
Other	66,079
Prepaid expenses and other assets	885,885
Total current assets	12,769,024
Noncurrent assets:	
Receivables:	
Contributions, net of current	89,233
Grants, net of current	550,631
Split-dollar insurance receivable	227,545
Property and equipment, net	12,359,593
Other assets	207,935
Total noncurrent assets	13,434,937
Total assets	\$ 26,203,961
LIABILITIES AND NET ASSETS	
Current liabilities:	
Accounts payable	\$ 814,398
Accrued expenses	2,007,304
Overpayments reserve	180,744
Deferred revenue	25,336
Current portion of long-term debt	348,439
Current portion of capital lease obligations	79,091
Total current liabilities	3,455,312
Non-current liabilities:	
Long-term debt, net of current	5,994,546
Capital lease obligations, net of current	294,708
Deposits	57,126
Total noncurrent liabilities	6,346,380
Total liabilities	9,801,692
Net Assets:	
Unrestricted	15,950,300
Temporarily restricted	451,969
Total net assets	16,402,269
Total liabilities and net assets	\$ 26,203,961

See independent auditors' report and notes to consolidated financial statements

OLIVE CREST AND RELATED ENTITIES

Consolidated Statement of Activities

Year ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and revenues:			
Fees from government programs	\$ 21,303,234	-	21,303,234
Government grants	15,391,289	-	15,391,289
Contributions	3,905,546	192,019	4,097,565
Special events, net	1,629,935	-	1,629,935
Donated goods, facilities, and services	1,132,348	-	1,132,348
Facilities	566,893	-	566,893
Gain (loss) on the disposal of assets	(50,482)	-	(50,482)
Other	289,556	-	289,556
Subtotal support and revenues	<u>44,168,319</u>	<u>192,019</u>	<u>44,360,338</u>
Net assets released from restrictions	<u>2,007,369</u>	<u>(2,007,369)</u>	<u>-</u>
Total support and revenues	<u>46,175,688</u>	<u>(1,815,350)</u>	<u>44,360,338</u>
Expenses:			
Program services	35,026,329	-	35,026,329
Management & General	5,327,043	-	5,327,043
Fundraising	3,250,078	-	3,250,078
Total expenses	<u>43,603,450</u>	<u>-</u>	<u>43,603,450</u>
Increase (decrease) in net assets	2,572,238	(1,815,350)	756,888
Net assets (deficit) at beginning of year, as restated	<u>13,378,062</u>	<u>2,267,319</u>	<u>15,645,381</u>
Net assets (deficit) at end of year	<u>\$ 15,950,300</u>	<u>451,969</u>	<u>16,402,269</u>

See independent auditors' report and notes to consolidated financial statements

OLIVE CREST AND RELATED ENTITIES

Consolidated Statement of Functional Expenses

Year ended June 30, 2016

	Program Services	Management & General	Fundraising	Total
Salaries and wages	\$ 19,399,820	2,820,543	1,560,314	23,780,677
Payroll taxes and related costs	1,429,603	190,516	113,346	1,733,465
Other employee benefits	2,437,585	250,760	130,442	2,818,787
Services and supplies	6,127,136	235,263	532,291	6,894,690
Professional fees	919,242	494,282	649,340	2,062,864
Facilities	2,072,871	523,916	75,795	2,672,582
Utilities and telephone	687,903	213,113	56,967	957,983
Transportation	1,231,670	48,715	21,702	1,302,087
Conferences and meetings	100,702	86,020	84,002	270,724
Interest expense	48,779	173,857	11,327	233,963
Depreciation	571,018	289,001	14,552	874,571
Other	-	1,057	-	1,057
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total expenses	<u>\$ 35,026,329</u>	<u>5,327,043</u>	<u>3,250,078</u>	<u>43,603,450</u>

See independent auditors' report and notes to consolidated financial statements

OLIVE CREST AND RELATED ENTITIES

Consolidated Statement of Cash Flows

Year ended June 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES:

Increase (decrease) in net assets	\$ 756,888
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:	
Depreciation	874,571
(Gain) loss on disposal of capital assets	50,482
(Increase) decrease in:	
Fees receivable	163,860
Contributions receivable	(278,370)
Grants receivable	766,655
Other receivables	(54,294)
Prepaid expenses and other assets	(258,174)
Other assets	(126,492)
Increase (decrease) in:	
Accounts payable	62,967
Accrued expenses	(11,694)
Overpayments reserve	7,029
Deferred revenue	8,979
Deposits	<u>37,501</u>
Net cash provided by operating activities	<u>1,999,908</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchases and improvements of property and equipment	(2,230,610)
Proceeds from sales of property and equipment	<u>48,337</u>
Net cash used in investing activities	<u>(2,182,273)</u>

CASH FLOWS FROM FINANCING ACTIVITIES:

Proceeds of long-term notes	5,853,750
Principal payments of long-term debt	(4,427,868)
Principal payments of capital lease obligations	<u>(115,195)</u>
Net cash used in financing activities	<u>1,310,687</u>

Net increase in cash 1,128,322

Cash and cash equivalents, beginning of year 5,781,731

Cash and cash equivalents, end of year \$ 6,910,053

SUPPLEMENTAL CASH FLOWS DISCLOSURE:

Interest paid	\$ 233,963
Vehicles acquired through long-term notes	148,575
Equipment acquired through capital lease obligations	412,698

See independent auditors' report and notes to consolidated financial statements

OLIVE CREST AND RELATED ENTITIES

Notes to the Consolidated Financial Statements

June 30, 2016

(1) Summary of Significant Accounting Policies

(a) 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. Olive Crest works tirelessly to meet the individual needs of kids in crisis by providing safe homes, counseling, and education for both youth and parents. Olive Crest's 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 they serve even after they have graduated from their programs.

Established, proven, and respected, Olive Crest serves nearly 3,000 children and families each day throughout California, Nevada, and the Pacific Northwest.

Approach Learning & 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 and the Academy 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.

(b) Principles of Consolidation

The consolidated financial statements include Olive Crest and the Academy. Collectively the entities are referred to as "the Organization" throughout these notes. Significant intra-entity accounts and transactions have been eliminated in consolidation.

(c) 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*.

OLIVE CREST AND RELATED ENTITIES

Notes to the Consolidated Financial Statements

June 30, 2016

(1) Summary of Significant Accounting Policies. (Continued)

(d) 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.

(e) 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 to 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 reported in the statement of activities as net assets released from restrictions.

(f) Cash and Cash Equivalents

For purposes of the statement of financial position and the statement of cash flows 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.

OLIVE CREST AND RELATED ENTITIES

Notes to the Consolidated Financial Statements

June 30, 2016

(1) Summary of Significant Accounting Policies, (Continued)

(g) 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.

(h) Investments

Investments are reported in the accompanying statement of financial position as 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.

(i) Property and Equipment

Property and equipment are recorded at cost if purchased or at fair value at the date of 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.

OLIVE CREST AND RELATED ENTITIES

Notes to the Consolidated Financial Statements

June 30, 2016

(1) Summary of Significant Accounting Policies. (Continued)

(j) 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.

(k) Loan Fees

Loan origination fees are recorded at cost, net of accumulated amortization. Amortization is calculated on a straight-line basis over the life of the loan. As of June 30, 2016, the balance was \$44,599, net of accumulated amortization of \$2,763. Loan fees are included in other assets on the consolidated statement of financial position.

(l) 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 of the premiums paid by Olive Crest. In the event of death, sale, or cancelation of the policies, the Organization would receive the premiums paid to date, which approximates the cash surrender value.

(m) 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.

OLIVE CREST AND RELATED ENTITIES

Notes to the Consolidated Financial Statements

June 30, 2016

(1) Summary of Significant Accounting Policies. (Continued)

(n) Income Taxes

Olive Crest and the Academy 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, 2012, 2013, 2014, and 2015, 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, 2016, 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, 2016, which will be offset by the Organization's net operating loss carry forward. Therefore no income tax liability had been recorded in the financial statements.

(o) 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, 2016 was \$543,752 and were included in professional fees in the consolidated statement of activities.

(p) Indirect Costs

The Organization complies with 2 CFR Part 200 Subpart E 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, 2016 were \$4,241,191.

OLIVE CREST AND RELATED ENTITIES

Notes to the Consolidated Financial Statements

June 30, 2016

(1) Summary of Significant Accounting Policies. (Continued)

(q) 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.

(r) Donated Goods, Facilities, and Services

The Organization receives 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. The total amount of donated goods, facilities and services recognized during the year ended June 30, 2016 was \$1,132,348.

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 do not meet the criteria for recognition as contributed services.

(s) 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.

OLIVE CREST AND RELATED ENTITIES

Notes to the Consolidated Financial Statements

June 30, 2016

(1) Summary of Significant Accounting Policies. (Continued)

(s) Fair Value of Financial Instruments. (Continued)

Certain financial instruments are carried at cost on the balance sheet which approximates fair value because of the short-term nature of these financial instruments and hence, are not categorized. These instruments include cash and cash equivalents, fees receivable, grants receivable, other receivables, prepaid expenses, other assets, accounts payable, accrued expenses and long-term debt.

The fair value of the Organization's split dollar insurance receivable is based on the cash surrender value as of June 30, 2016. 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)

(t) Exchange Transactions

Amounts received for various grants are reported as exchange transactions and are recognized as the related reimbursable expenses are incurred.

(u) 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.

(2) Contributions Receivable

Contributions receivable as of June 30, 2016 are expected to be collected in the following periods:

Less than one year	\$429,579
One to five years	<u>89,233</u>
Total	<u>\$518,812</u>

OLIVE CREST AND RELATED ENTITIES

Notes to the Consolidated Financial Statements

June 30, 2016

(3) Property and Equipment

Property and equipment at June 30, 2016, is summarized as follows:

Land*	\$ 3,553,025
Buildings	10,223,450
Improvements	2,918,027
Vehicles	1,566,265
Computer equipment	1,053,363
Furniture and office equipment	523,861
Construction in progress*	15,000
Accumulated depreciation	<u>(7,493,398)</u>
	<u>\$12,359,593</u>

* - Not depreciated

Total depreciation expenses for the year ended June 30, 2016 was \$874,571.

(4) Accrued Expenses

Accrued expenses as of June 30, 2016 consisted of the following:

Accrued salaries and related expenses	\$1,039,514
Accrued vacation	945,155
Other accrued expenses	<u>22,635</u>
Total accrued expenses	<u>\$2,007,304</u>

It is the policy of the Organization to record accrued vacation when earned.

(5) Commitments and Contingencies

Operating Leases

The Organization leases various commercial and residential spaces 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 non-cancelable lease terms in excess of one year as of June 30, 2016.

Year ending June 30:

2017	\$ 296,078
2018	251,786
2019	214,610
2020	214,610
2021	<u>125,189</u>
	<u>\$1,102,273</u>

Rental expenses for all operating leases, except those with terms of a month or less that were not renewed, were \$1,601,236 for the year ended June 30, 2016.

OLIVE CREST AND RELATED ENTITIES

Notes to the Consolidated Financial Statements

June 30, 2016

(5) Commitments and Contingencies, (Continued)

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.

The Organization is also subject to legal proceedings, claims, and assessments which arise in the ordinary course of its business. In the opinion of management, the amount of ultimate liability with respect to these actions, should they occur, will not materially affect the Organization's financial statements.

Line of Credit

The Organization has a \$3,000,000 line of credit with a commercial bank. The line matures December 1, 2017, 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 of credit. As of June 30, 2016 there was no outstanding balance on the line of credit.

(6) Capital Leases

Equipment under capital leases consists of copiers, with a capitalized cost of \$412,698. Accumulated depreciation in the statement of financial position relating to the copiers is \$41,283, and depreciation expense reported in the statement of activities is \$41,283. 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 ending June 30:

2017	\$ 88,147
2018	88,147
2019	88,147
2020	88,147
2021	<u>51,419</u>
	<u>\$404,007</u>

Interest rates on the capitalized leases are 2.61% and are imputed based on each lease's implicit rate or the incremental borrowing rate.

OLIVE CREST AND RELATED ENTITIES

Notes to the Consolidated Financial Statements

June 30, 2016

(7) Long-Term Debt

Long-term debt consists of the following as of June 30, 2016:

Note payable to Union Bank, bearing interest at 2.0% in excess of the LIBOR rate, payable in monthly installments ranging from \$19,021 to \$20,305 of principal and interest, with a balloon payment of \$2,642,708 due in November 2025. The note is secured by a Deed of Trust on real property, and improvements of two properties located in Bellflower and Santa Ana, California. The Organization is required to maintain certain financial covenants. \$3,607,617

Note payable to Union Bank, bearing interest at 2.0% in excess of the LIBOR rate, payable in monthly installments ranging from \$8,367 to \$8,932 of principal and interest, with a balloon payment of \$1,162,466 due in November 2025. The note is secured by a Deed of Trust on real property, and improvements of a property in Bellevue, Washington. The Organization is required to maintain certain financial covenants. 1,586,907

Note payable to Union Bank, bearing interest at 2.0% in excess of the LIBOR rate, payable in monthly installments ranging from \$3,128 to \$3,339 of principal and interest, with a balloon payment of \$434,566 due in November 2025. The note is secured by a Deed of Trust on real property, and improvements of a property in Riverside, California. The Organization is required to maintain certain financial covenants. 593,236

Loans payable, collateralized by vehicles, maturing at various dates through 2020, with interest rates between 0% and 3.9%. 555,225

6,342,985

Less portion considered current (348,439)

Long long-term liabilities \$5,994,546

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

Year Ended June 30,	Principal
2017	\$ 348,439
2018	315,473
2019	284,247
2020	188,618
2021	164,750
Thereafter	<u>5,041,458</u>
Total	<u>\$6,342,985</u>

OLIVE CREST AND RELATED ENTITIES

Notes to the Consolidated Financial Statements

June 30, 2016

(8) Employee Retirement Plans

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.

(9) 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, 2016, the uninsured cash balance was \$7,054,519.

Grants Receivable and Revenue

The Organization received 83% of its revenues in the form of fees and grants from government programs for the year ended June 30, 2016. The balance due from those programs accounted for 90% of accounts receivable at June 30, 2016. Without these sources of revenue, the Organization would have difficulty maintaining its operations.

(10) Compliance with Laws and Regulations

By accepting funds from the various federal grantor agencies, the Organization is required to comply with certain laws and regulations provided for under 2 *CFR* 200 and the respective grant agreements. Management believes that it has complied with such laws and regulations.

Financial assistance from federal, state, and local governmental entities in the form of grants are subject to special audit. Such audits could result in claims against the Organization for disallowed costs or noncompliance with grantor restrictions. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined at this date.

OLIVE CREST AND RELATED ENTITIES

Notes to the Consolidated Financial Statements

June 30, 2016

(11) Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2016 are available for the following purposes:

Adoptions	\$ 3,032
Children's Center	22,802
Differential Response	44,733
Family Preservation	88,371
Family Resource Center	60,877
Foster Parent Recruitment	37,542
Independent Living	43,772
Los Angeles Region	63,255
Mental Health	47,957
Respite	1,496
Special Education	<u>38,132</u>
Total Temporarily Restricted Net Assets	<u>\$ 451,969</u>

During the year ended June 30, 2016, \$2,007,369 of temporarily restricted net assets were released to unrestricted net assets as a result of the satisfaction of grantor imposed restrictions. There were no permanently restricted net assets during the fiscal year ended June 30, 2016.

(12) Special Event Revenue

Special event net revenues for the year ended June 30, 2016 are detailed as follows:

	Special Event Revenue	Direct Event Costs	Net Revenue
Golf Tournaments	\$ 541,814	(213,607)	328,207
Galas	879,226	(305,516)	573,710
Wine, Women & Shoes	222,117	(97,678)	124,439
Outside Events	128,089	(1,286)	126,803
Silent Auction			
Donations (non-cash)	797,844	(797,844)	-
Other Events	<u>706,545</u>	<u>(229,769)</u>	<u>476,776</u>
	<u>\$3,275,635</u>	<u>(1,645,700)</u>	<u>1,629,935</u>

OLIVE CREST AND RELATED ENTITIES

Notes to the Consolidated Financial Statements

June 30, 2016

(13) Approach Learning & Assessment Center Inc.

Summarized operating results for Approach Learning & Assessment Center Inc. for the year ended June 30, 2016 are as follows:

Revenues	
Nonpublic school revenue	\$ 6,968,544
Government grants	125,469
Contributions	15,011
Donated goods, facilities and services	9,789
Gain (loss) on disposal of assets	(7,338)
Other	<u>8,888</u>
Total revenue	<u>7,120,363</u>
Expenses	
Salaries and wages	3,498,034
Payroll taxes and related costs	255,559
Other employee benefits	408,461
Services and supplies	403,687
Professional fees	41,205
Facilities	350,460
Utilities and telephone	18,315
Transportation	203,630
Conference and meetings	2,354
Interest expense	621
Depreciation	175,168
Indirect expense	<u>703,606</u>
Total expenses	<u>6,061,100</u>
Increase in net assets	<u>\$ 1,059,263</u>

OLIVE CREST AND RELATED ENTITIES

Notes to the Consolidated Financial Statements

June 30, 2016

(14) Prior Period Adjustments

Net assets beginning July 1, 2015 have been adjusted for corrections to the prior year. The previously issued financial statements have been restated. After performing an analysis of the accounts receivable balance for each program, it was determined that in the prior year revenue for two programs had been miscalculated. The effect of this correction was to decrease net assets by \$99,435 and to decrease accounts receivable by the same amount as of July 1, 2015 as noted below:

Net assets at July 1, 2015, as previously reported	\$15,744,816
Overstatement in accounts receivable	<u>(99,435)</u>
Net assets at July 1, 2015, as restated	<u>\$15,645,381</u>

(15) Subsequent Events

Management has evaluated subsequent events through November 2, 2016, the date the financial statements were available to be issued and has determined that there are no transactions that will have a significant impact on the Organization.