

ORANGEWOOD CHILDREN'S FOUNDATION AND AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS

As of June 30, 2012

(With Comparative Financial Information as of June 30, 2011)

with

INDEPENDENT AUDITORS' REPORT THEREON

ORANGEWOOD CHILDREN'S FOUNDATION AND AFFILIATES

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Independent Auditors' Report

Board of Directors
Orangewood Children's Foundation

We have audited the accompanying consolidated statement of financial position of Orangewood Children's Foundation and affiliates (the "Foundation") as of June 30, 2012, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative information has been derived from the Foundation's June 30, 2011 financial statements and, in our report dated November 7, 2011, we expressed an unqualified opinion on those financial statements.

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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Orangewood Children's Foundation and affiliates as of June 30, 2012, and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards* we have also issued our report dated November 13, 2012 on our consideration of the Foundation's 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplementary information contained on pages 28-31 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

KMJ Corbin & Company LLP

KMJ | Corbin & Company LLP

Costa Mesa, California
November 13, 2012

ORANGEWOOD CHILDREN'S FOUNDATION AND AFFILIATES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2012

(With Comparative Financial Information as of June 30, 2011)

	<u>2012</u>	<u>2011</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 265,052	\$ 102,226
Investments	301,223	157,523
Current portion of contributions receivable, net of allowance for doubtful accounts of \$70,000 and \$63,000, respectively	3,017,217	2,509,040
Contracts receivable	232,554	597,507
Prepaid expenses and other current assets	<u>417,356</u>	<u>335,494</u>
Total current assets	4,233,402	3,701,790
Contributions receivable, net of current portion	1,730,368	1,113,119
Property and equipment, net	13,279,917	3,967,722
Beneficial interest in perpetual trust	141,670	140,884
Restricted investments	<u>2,250,964</u>	<u>2,273,397</u>
	<u>\$ 21,636,321</u>	<u>\$ 11,196,912</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 759,789	\$ 1,089,827
Line of credit borrowings	92,782	375,634
Related-party note payable	750,000	-
Current portion of loans payable	2,440,000	120,000
Custodial funds payable	339,713	299,502
Deferred revenue	<u>276,267</u>	<u>160,919</u>
Total current liabilities	4,658,551	2,045,882
Related-party notes payable	-	500,000
Loans payable, net of current portion	<u>9,090,589</u>	<u>1,940,000</u>
Total liabilities	<u>13,749,140</u>	<u>4,485,882</u>
Commitments and contingencies		
Net assets (see Notes 12 and 13):		
Unrestricted	2,344,554	2,040,481
Temporarily restricted	2,593,508	1,716,750
Permanently restricted	<u>2,949,119</u>	<u>2,953,799</u>
Total net assets	<u>7,887,181</u>	<u>6,711,030</u>
	<u>\$ 21,636,321</u>	<u>\$ 11,196,912</u>

See accompanying notes to financial statements

ORANGEWOOD CHILDREN'S FOUNDATION AND AFFILIATES

CONSOLIDATED STATEMENT OF ACTIVITIES

For The Year Ended June 30, 2012

(With Summarized Comparative Financial Information For The Year Ended June 30, 2011)

	2012				2011
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Revenue and support:					
General contributions	\$ 1,786,471	\$ 2,762,096	\$ 3,743	\$ 4,552,310	\$ 3,194,895
Special events/auxiliaries, net	227,049	1,057,087	-	1,284,136	1,189,972
Government contracts	2,595,939	-	-	2,595,939	2,846,051
Investment income (loss), net	(330)	(14,420)	-	(14,750)	410,358
Rental income	29,770	-	-	29,770	133,097
Other, including property tax refunds	528	-	-	528	6,129
In-kind contributions	196,981	-	-	196,981	112,434
Net assets released from restrictions, net	<u>2,936,428</u>	<u>(2,928,005)</u>	<u>(8,423)</u>	<u>-</u>	<u>-</u>
Total revenue and support	<u>7,772,836</u>	<u>876,758</u>	<u>(4,680)</u>	<u>8,644,914</u>	<u>7,892,936</u>
Expenses:					
Program services:					
Independent Living Programs	1,689,803	-	-	1,689,803	2,105,507
Children in Foster Care	841,427	-	-	841,427	326,704
Child Abuse Prevention	2,014,498	-	-	2,014,498	2,241,402
Education of Underserved Youth	<u>2,017,947</u>	<u>-</u>	<u>-</u>	<u>2,017,947</u>	<u>1,874,717</u>
Total program services	6,563,675	-	-	6,563,675	6,548,330
Supporting services	436,220	-	-	436,220	445,989
Fundraising	<u>468,868</u>	<u>-</u>	<u>-</u>	<u>468,868</u>	<u>536,486</u>
Total expenses	<u>7,468,763</u>	<u>-</u>	<u>-</u>	<u>7,468,763</u>	<u>7,530,805</u>
Change in net assets	304,073	876,758	(4,680)	1,176,151	362,131
Net assets, beginning of year	<u>2,040,481</u>	<u>1,716,750</u>	<u>2,953,799</u>	<u>6,711,030</u>	<u>6,348,899</u>
Net assets, end of year	<u>\$ 2,344,554</u>	<u>\$ 2,593,508</u>	<u>\$ 2,949,119</u>	<u>\$ 7,887,181</u>	<u>\$ 6,711,030</u>

See accompanying notes to financial statements

ORANGEWOOD CHILDREN'S FOUNDATION AND AFFILIATES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2012

(With Summarized Comparative Financial Information For The Year Ended June 30, 2011)

	2012									
	Program Services									
	Independent Living Programs	Children in Foster Care	Child Abuse Prevention	Education of Underserved Youth	Total Program Services	Supporting Services	Fundraising	Total Expenses	2011 Total	
Annual audit fee	\$ 8,981	\$ 3,267	\$ 17,505	\$ 4,069	\$ 33,822	\$ 7,443	\$ 4,935	\$ 46,200	\$ 37,050	
Bad debt expense	-	-	-	-	-	31,725	-	31,725	43,100	
Banking and merchant fees	7,725	2,810	6,025	10,827	27,387	5,913	4,244	37,544	56,034	
Board and donor recognition	2,911	1,255	477	10,882	15,525	5,987	4,782	26,294	6,398	
Board recruitment	389	5,976	523	228	7,116	963	595	8,674	9,272	
Conferences/training	1,000	2,448	3,629	2,698	9,775	4,012	1,762	15,549	19,750	
Consulting	72,227	40,362	429,260	217,265	759,114	8,013	11,172	778,299	727,586	
Depreciation and amortization	43,465	18,137	9,244	6,181	77,027	21,285	7,713	106,025	121,434	
Children's Trust Fund grants	-	56,002	-	725,982	781,984	-	-	781,984	1,099,133	
Academy	-	-	-	103,409	103,409	-	-	103,409	23,634	
Transitional housing costs	261,177	-	-	-	261,177	-	-	261,177	261,408	
Girls/Boys Court	5,427	11,891	-	-	17,318	-	-	17,318	20,340	
Independent living programs	89,846	-	-	-	89,846	-	-	89,846	108,322	
Community programs	-	-	328,096	-	328,096	-	-	328,096	446,088	
Support to community	-	61,635	-	-	61,635	-	-	61,635	60,041	
Other direct program costs	-	3,947	-	-	3,947	-	5,744	9,691	9,279	
Direct salaries and benefits	863,571	385,656	777,412	600,943	2,627,582	-	-	2,627,582	2,222,654	
Facility expense	44,678	20,388	17,415	42,679	125,160	23,928	8,671	157,759	133,618	
Insurance expense	21,623	12,604	6,333	4,235	44,795	14,584	5,285	64,664	69,470	
Marketing/public relations	12,816	5,530	6,189	52,064	76,599	26,369	25,635	128,603	107,909	
Interest expense	19,427	11,164	5,690	3,805	40,086	13,102	4,748	57,936	69,284	
Office equipment leases	8,812	5,064	3,221	1,726	18,823	5,943	2,154	26,920	23,993	
Office expense	26,163	8,726	53,172	22,595	110,656	17,668	8,704	137,028	90,053	
Property tax	1,115	640	326	8,539	10,620	751	272	11,643	-	
Indirect salaries and benefits	166,678	160,022	142,690	187,275	656,665	242,205	366,841	1,265,711	1,473,057	
Telephone expense	12,014	7,695	15,750	3,589	39,048	3,576	2,412	45,036	49,493	
Travel and mileage	14,036	14,672	12,133	5,521	46,362	835	1,256	48,453	37,920	
Technology	5,722	1,536	179,408	3,435	190,101	1,918	1,943	193,962	204,485	
	<u>\$ 1,689,803</u>	<u>\$ 841,427</u>	<u>\$ 2,014,498</u>	<u>\$ 2,017,947</u>	<u>\$ 6,563,675</u>	<u>\$ 436,220</u>	<u>\$ 468,868</u>	<u>\$ 7,468,763</u>	<u>\$ 7,530,805</u>	

See accompanying notes to financial statements

ORANGEWOOD CHILDREN'S FOUNDATION AND AFFILIATES

CONSOLIDATED STATEMENT OF CASH FLOWS

**For the Year Ended June 30, 2012
(With Comparative Financial Information For The Year Ended June 30, 2011)**

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Change in net assets	\$ 1,176,151	\$ 362,131
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Bad debt expense	31,725	43,100
Amortization of discount on contributions receivable	63,470	4,180
Depreciation and amortization	106,025	121,434
Net unrealized and realized loss (gain) on investments	67,117	(318,307)
Change in operating assets and liabilities:		
Contributions receivable	(1,220,621)	(675,810)
Contracts receivable	364,953	(234,245)
Prepaid expenses and other current assets	(81,862)	(125,437)
Accounts payable and accrued expenses	(330,038)	222,273
Custodial funds payable	40,211	21,144
Deferred revenue	<u>115,348</u>	<u>31,810</u>
Net cash provided by (used in) operating activities	<u>332,479</u>	<u>(547,727)</u>
Cash flows from investing activities:		
Purchase of property and equipment	(9,418,220)	(51,873)
Escrow deposit on land	-	(500,042)
Purchase of investments	(3,089,636)	(1,776,265)
Proceeds from sale of investments	<u>2,900,466</u>	<u>2,133,207</u>
Net cash used in investing activities	<u>(9,607,390)</u>	<u>(194,973)</u>
Cash flows from financing activities:		
(Repayments) proceeds from line of credit borrowings, net	(282,852)	269,761
Proceeds from related-party notes payable	750,000	500,000
Principal payments on related-party note payable	(500,000)	-
Proceeds from loans payable	9,590,589	-
Principal payments on loans payable	<u>(120,000)</u>	<u>(120,000)</u>
Net cash provided by financing activities	<u>9,437,737</u>	<u>649,761</u>
Net change in cash and cash equivalents	162,826	(92,939)
Cash and cash equivalents, beginning of year	<u>102,226</u>	<u>195,165</u>
Cash and cash equivalents, end of year	\$ <u><u>265,052</u></u>	\$ <u><u>102,226</u></u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest, net of amounts capitalized	\$ <u><u>57,936</u></u>	\$ <u><u>69,284</u></u>

See accompanying notes to financial statements

ORANGEWOOD CHILDREN'S FOUNDATION AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of June 30, 2012

(With Comparative Financial Information For The Year Ended June 30, 2011)

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Orangewood Children's Foundation ("Orangewood") is a non-profit organization that was incorporated in the State of California on November 20, 1980 for the purpose of ending the cycle of child abuse by providing innovative programs focused on:

- Independent Living Programs – successfully transitioning foster teens into independent adulthood;
- Care – supporting children in foster care and at the Orangewood Children's Home;
- Child Abuse Prevention – providing skills to strengthen at-risk families and increasing awareness of child abuse; and
- Education – strengthening at-risk families to prevent abuse before it starts.

Beginning in 2011, Orangewood has the following consolidated affiliates (where Orangewood is the sole member) that were formed to perform charitable and educational activities in furtherance of Orangewood's activities (together, the "Foundation"): Orangewood Education LLC, Orangewood Real Property LLC, and Orangewood Residential LLC. In October 2011, Orangewood Education LLC was terminated as an entity. In late 2011, Orangewood created a new legal entity, The Academy Charter School, which was approved by the California Secretary of State in February 2012. The Internal Revenue Service ("IRS") filing for this entity to become a separate 501(c)(3) non-profit organization is in process.

The following are descriptions of the programs the Foundation offers:

Independent Living Programs

Independent Living Program – This program provides workshops, special educational events and support services for foster youth, ages 16-21, to help them prepare for their release from the dependency system and support them after they have turned eighteen. This program has numerous regularly scheduled events and activities focusing on four areas – education, career, relationships and daily living – which provide vital information and experience these young people will need when facing life on their own.

Rising Tide Communities – This residential program offers selected young adults, who have "aged-out" of the foster care system at age 18, a unique housing program that provides subsidized apartment living, education opportunities and mentoring during an 18-24 month period to help them transition successfully into life on their own.

ORANGEWOOD CHILDREN'S FOUNDATION AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of June 30, 2012

(With Comparative Financial Information For The Year Ended June 30, 2011)

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Peer Mentor Program – This program began in 1992 when Children's Trust Fund recipients, former foster children themselves, approached the Foundation wanting to give back and help other young abuse victims. Peer mentors are powerful role models who conduct mentoring sessions at Orangewood Children's Home and at Independent Living workshops.

Orangewood Resource Center – This is a drop-in center for current and former Orange County foster youth up to age 25 offering services they need to become independent adults, including educational activities and resources for jobs, college, housing, health, etc.

Children in Foster Care

Girls Court – This program works with a group of high needs adolescents in the Orange County foster care system. The program provides specialized, individualized mental health services to help stabilize youth and move them toward their goals for education, career and long-term housing.

California Youth Connection – This is a statewide organization of young adults whose mission is to advocate to legal and political authorities on behalf of foster children throughout the state and nation. The Foundation sponsors the Orange County chapter.

Children's Trust Fund – This program provides grants to eligible foster youth for special activities such as counseling, school supplies, extracurricular activities and graduation expenses.

Mentoring – This is a program for selected current and former foster youth who are 14-25 years old where they are carefully matched with an adult volunteer in order to create a meaningful 1-on-1 relationship. This mentor receives intensive training from Orangewood and will provide a stable adult influence in the foster youth's life. The mentor will guide the foster youth through the various challenges he/she will encounter prior to and after emancipation from the foster care system.

Orangewood Children and Families Center – When the Foundation was established in 1980, its initial primary objective was the construction of a facility to house Orange County foster youth that needed temporary residential and educational assistance while awaiting permanent placement in the foster care system. Upon completion in 1985, the Orangewood Children's Home (the "Home") was deeded back to the County of Orange, which is now responsible for the operation and administration of the Home. The Foundation continues to provide additional financial support to the Home to assist with extracurricular activities for the children and other projects. The Home's name was changed in 2011 to the Orangewood Children and Families Center to properly reflect the other foster youth services that now reside on the campus in addition to the emergency shelter operation.

ORANGEWOOD CHILDREN'S FOUNDATION AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of June 30, 2012

(With Comparative Financial Information For The Year Ended June 30, 2011)

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Child Abuse Prevention

Bridges Maternal Child Health Network (“MCHN”) – This program developed by the Children and Families Commission of Orange County, assists families to provide quality care and a healthy start in life for their babies and children up to the age of 5. MCHN is comprised of four community based organizations, two family resource centers, Public Health Field Nursing, and twelve birthing hospitals in Orange County. The Foundation provides program management, evaluation, training and marketing expertise to the network, and subcontracts with the Hospital Association of Southern California for co-administration of the hospital component.

CONNECT: Partnership for Non-profit Solutions – This program provides leadership development and coaching, capacity building assistance, consultation and training to non-profit organizations in Orange County. CONNECT’s vision is that all Orange County non-profit and community-based organizations are connected with the assistance they need to fulfill their missions and realize their full potential. CONNECT is currently funded by the Children and Families Commission of Orange County and Families and Communities Together.

Families and Communities Together (“FaCT”) – This is a partnership among more than 60 community-based social service agencies and the County of Orange Social Services Agency. Since 1994, FaCT has provided support services to children and families through a network of local family resource centers. FaCT partners work together to build stronger families and prevent child abuse.

Education of Underserved Youth

Children’s Trust Fund – This program offers financial assistance to current and former foster children, scholarships for college and trade school, and emergency funds for living expenses.

Guardian Scholars – This is a partnership with local educational institutions that provides comprehensive support and resources to former foster youth in their efforts to gain a university, community college or trade school education. Current partners include: CSU Fullerton, UC Irvine, UC Riverside, USC, UCLA, UC Davis, UC Santa Barbara, Cal Poly Pomona, CSU San Bernardino, CSU San Francisco, CSU San Marcos, CSU San Diego, Concordia, Orange Coast College, Irvine Valley College, Saddleback College, Golden West College, Fullerton College, Santa Ana College, Cypress College, Santiago Canyon College, Taller San Jose and American Career College.

ORANGEWOOD CHILDREN'S FOUNDATION AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of June 30, 2012

(With Comparative Financial Information For The Year Ended June 30, 2011)

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Advanced Studies – Similar to the Children's Trust Fund, this program provides former foster youth with educational assistance in the pursuit of an advanced degree or certification beyond their undergraduate course work.

Academy – The Academy will be a public charter high school in Santa Ana that will provide numerous unique features to prepare foster and underserved youth for a brighter future that will include an opportunity for higher education and a self-sufficient, healthy adult life. Some of the unique features of this project are:

- An individualized approach to academic instruction that utilizes the STEM and Project Based Learning curriculum;
- An on-campus, family-style residential housing program for up to 80 foster youth students of the school;
- A wide array of afterschool programs and extracurricular activities to provide our students with additional academic support and numerous athletic and arts opportunities; and
- Participation in classroom-based training and real-life experiences to provide youth the knowledge and tools for successful independent living.

The Academy was awarded the first-ever charter from the Orange County Department of Education in February 2012. In addition, the Santa Ana City Council unanimously approved the project in September 2012. Construction is scheduled to begin in Spring 2013 with the first class of 100 students to begin classes in September 2013. See Note 2 for further developments.

Funding

The Foundation is funded primarily from contributions from the public, grant awards, special events and government contracts.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Orangewood and its affiliates. All significant intercompany balances and transactions have been eliminated in consolidation.

ORANGEWOOD CHILDREN'S FOUNDATION AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of June 30, 2012

(With Comparative Financial Information For The Year Ended June 30, 2011)

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Basis of Presentation

The consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations. These assets are available to support the Foundation's activities and operations at the discretion of the Board of Directors.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that will be met either by actions of the donor, the Foundation and/or the passage of time, and cumulative unappropriated investment earnings of endowment net assets (see Note 12).

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that the corpus be maintained permanently by the Foundation. At June 30, 2012 and 2011, permanently restricted net assets consist entirely of donor-restricted endowment investments and receivables (see Note 12). The donors of these assets permit the Foundation to use all or part of the income or gains earned on related investments for general (unrestricted) purposes or for other specific donor-restricted purposes (temporarily restricted). Permanently restricted net assets released from restrictions are related to management's analysis of historical donor contributions, changes in requests from donors, and changes in previously recorded endowment receivables.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on non-endowment investments and other assets are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law. Expirations of temporary restrictions on net assets are reported as reclassifications between the applicable classes of net assets.

ORANGEWOOD CHILDREN'S FOUNDATION AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of June 30, 2012

(With Comparative Financial Information For The Year Ended June 30, 2011)

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Significant estimates embodied in these consolidated financial statements include the collectibility of receivables, the realizability of long-lived assets and the allocation of expenses to program expenses. Actual results could differ from those estimates.

Contributions

Contributions are recognized when the donor makes an unconditional promise to give to the Foundation. All donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

The Foundation uses the allowance method to determine uncollectible unconditional promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made. Management has determined that an allowance of \$70,000 and \$63,000 is necessary as of June 30, 2012 and 2011, respectively.

Cash and Cash Equivalents

The Foundation considers cash on hand, in banks and other short-term securities with original maturities of three months or less to be cash and cash equivalents.

From time to time, the Foundation maintains balances in various operating and money market accounts. The total cash balances are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000 per commercial bank. In addition to the basic insurance coverage, effective December 31, 2010, the FDIC is providing temporary unlimited coverage for non-interest bearing transaction accounts through December 31, 2012. As of June 30, 2012, the Foundation had approximately \$16,000 in these accounts in excess of the FDIC insurance limits. The Foundation periodically reviews the quality of the financial institutions it has deposits with to minimize risk of loss.

ORANGEWOOD CHILDREN'S FOUNDATION AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of June 30, 2012

(With Comparative Financial Information For The Year Ended June 30, 2011)

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Contracts Receivable

The Foundation's contracts receivable are primarily reimbursements due from contracted government contract reimbursement requests. The Foundation provides for an allowance for uncollectible receivables based on historical experience. As of June 30, 2012 and 2011, there was no allowance for uncollectible contracts receivable.

Property and Equipment

Property and equipment are stated at cost. Donated assets are recorded at their fair market value when received. The cost of purchased assets or fair market value of donated assets is being depreciated using the straight-line method over the estimated useful lives of the related assets, which are five years for furniture, fixtures and equipment and thirty years for the building and improvements. Maintenance and repairs are charged to expense as incurred. Significant renewals and betterments are capitalized. The Foundation capitalizes all expenditures for and donations of property and equipment with a fair value in excess of \$1,000. At the time of retirement or other disposition of property and equipment, the cost and accumulated depreciation or amortization are removed from the accounts and any resulting gain or loss is reflected in the consolidated statement of activities. As of and for the year ended June 30, 2012, the Foundation capitalized interest cost incurred during the construction of the Academy on debt borrowed specifically to finance the Academy in the amount of \$346,871.

Deferred Revenue

Deferred revenue represents funds received prior to being expended under specific contractual requirements, from sponsorship related to the Foundation's future special events and from other programs where the Foundation has not been named the beneficiary or there are specific grant requirements that would preclude the funds from being recorded under temporarily restricted contributions.

Contributed Goods and Services

Contributions of services are recognized in the consolidated financial statements if the services enhance or create non-financial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Recognizable contributed goods and services totaled \$196,981 and \$112,434 for attorney-related support services and donations to support the Academy construction for the years ended June 30, 2012 and 2011, respectively.

ORANGEWOOD CHILDREN'S FOUNDATION AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of June 30, 2012

(With Comparative Financial Information For The Year Ended June 30, 2011)

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Income Taxes

The Foundation is a public charity that has obtained an exemption from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code and California state income taxes under Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision has been made for Federal or state income taxes. The Foundation is subject, however, to Federal and California income taxes on net unrelated business income as stipulated in Internal Revenue Code Section 511 and Regulation Section 1.511. During the years ended June 30, 2012 and 2011, the Foundation had no unrelated business income.

The Foundation annually evaluates tax positions as part of the preparation of its exempt tax return. This process includes an analysis of whether tax positions the Foundation takes with regard to a particular item of income or deduction would meet the definition of an uncertain tax position under current accounting guidance. The Foundation believes its tax positions are appropriate based on current facts and circumstances. The Foundation's policy is to recognize interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. At June 30, 2012, the Foundation did not have any unrecognized tax benefits. The Foundation is no longer subject to U.S. federal, state or local income tax examinations by tax authorities for years before 2008.

Allocated Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited based upon estimated usage.

Risks and Uncertainties

Certain of the Foundation's services are governed by contracts with governmental agencies. All such contracts to which the Foundation currently is a party are for fixed terms and expire at the end of those terms. There can be no assurances that the Foundation will be able to obtain future contracts as deemed necessary by management. The loss of some of the current contracts or the inability to obtain future contracts could have an adverse effect on the Foundation's financial position and results of activities. Failure of the Foundation to comply with applicable regulatory requirements can result in, among other things, loss of funding, warning letters, fines, injunctions, and civil penalties which could have an adverse effect on the Foundation's financial position and activities.

ORANGEWOOD CHILDREN'S FOUNDATION AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of June 30, 2012

(With Comparative Financial Information For The Year Ended June 30, 2011)

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Reclassifications

Certain amounts in the fiscal 2011 financial statements have been reclassified to conform with the fiscal 2012 presentation.

NOTE 2 – THE ACADEMY

As described in Note 1, the Foundation is in the process of developing the Academy to serve foster and underserved youth as both a charter school and a residential program. The Foundation has created three LLCs and is in the process of creating a separate 501(c)(3) organization to administer the creation and activities of the Academy. As of June 30, 2012, the Foundation has acquired real property located in Santa Ana, California for approximately \$7.6 million and has begun various design, planning and construction-related activities for the real property totaling approximately \$2.3 million (see Note 6). The acquisition and construction activities were financed primarily through two separate, short-term promissory notes totaling \$1,250,000 from private foundations (one of which is a related party) (see Notes 10 and 16) and an approximately \$9,100,000 promissory note from a bank (see Note 10).

NOTE 3 – INVESTMENTS

Investments consist of equity securities, mutual funds and alternative investments which are carried at fair value in accordance with current accounting guidance (see Note 4). Donated investments are recorded at the fair value at the date of donation.

Investment income (loss) consists of the following for the years ended June 30, 2012 and 2011:

	<u>2012</u>		
	<u>Endowments</u> <u>(see Note 13)</u>	<u>Other</u>	<u>Total</u>
Interest and dividends	\$ 74,624	\$ 3,443	\$ 78,067
Investment fees	(23,825)	(1,875)	(25,700)
Net realized and unrealized loss	<u>(65,219)</u>	<u>(1,898)</u>	<u>(67,117)</u>
	<u>\$ (14,420)</u>	<u>\$ (330)</u>	<u>\$ (14,750)</u>

ORANGEWOOD CHILDREN'S FOUNDATION AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of June 30, 2012

(With Comparative Financial Information For The Year Ended June 30, 2011)

NOTE 3 – INVESTMENTS, continued

	<u>2011</u>		
	<u>Endowments (see Note 13)</u>	<u>Other</u>	<u>Total</u>
Interest and dividends	\$ 78,787	\$ 13,264	\$ 92,051
Net realized and unrealized gain	<u>272,441</u>	<u>45,866</u>	<u>318,307</u>
	<u>\$ 351,228</u>	<u>\$ 59,130</u>	<u>\$ 410,358</u>

NOTE 4 – FAIR VALUE MEASUREMENTS

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal market, or in the absence of a principal market, the most advantageous market for the asset or liability, in an orderly transaction between market participants on the measurement date. Current accounting guidance also establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value and three levels of inputs in priority that may be used to measure fair value:

Level 1 – Quoted prices in active markets for identical assets or liabilities;

Level 2 – Observable inputs other than quoted prices included within Level 1, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; inputs other than quoted prices that are observable for the asset or liability (such as interest rates and yield curves, credit risks, and default rates) or other inputs that are principally derived from or corroborated by observable market data by correlation or by other means; and

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following is a description of the valuation methodologies used for the investments and liability measured at fair value, including the general classification of such instruments pursuant to the valuation hierarchy.

Cash and Short-term Investments

Cash and short-term investments consist of cash and highly liquid short-term investments with original purchased maturities of three months or less. These investments have been classified within Level 1 of the valuation hierarchy.

ORANGEWOOD CHILDREN'S FOUNDATION AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of June 30, 2012

(With Comparative Financial Information For The Year Ended June 30, 2011)

NOTE 4 – FAIR VALUE MEASUREMENTS, continued

Mutual Funds and Equity Securities

The fair value of investments in mutual funds and equity securities is based upon quoted prices in active markets. The quoted prices of the mutual fund shares represent their closing net asset value. These investments have been classified within Level 1 of the valuation hierarchy.

Alternative Investments

Alternative investments consist of various funds that specialize in several asset classes such as managed futures, commodities including gold, real estate and inflation-hedge assets. The fair market value of several alternative investment funds are readily available in active markets so those investments have been classified within Level 1 of the valuation hierarchy. The fair value of the managed futures is based on the reported performance of the futures investment. This investment has been classified within Level 2 of the valuation hierarchy as the values are based on quoted prices in markets that are not active.

Beneficial Interest in Perpetual Trust

The fair value of the beneficial interest in perpetual trust fluctuates based on investment returns reported to the Foundation by a third party. This investment is subject to change based on decisions made by the third party and has been classified within Level 3 of the valuation hierarchy.

The following tables present the fair value hierarchy for those assets measured at fair value on a recurring basis:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
As of June 30, 2012:				
Cash and short-term investments	\$ 367,203	\$ -	\$ -	\$ 367,203
Mutual funds:				
Fixed income – taxable	310,659	-	-	310,659
Fixed income – other	609,081	-	-	609,081
International	48,416	-	-	48,416
Equity securities:				
U.S. large-cap	699,200	-	-	699,200
U.S. mid- and small-cap	49,972	-	-	49,972
International	102,212	-	-	102,212
Alternative investments	263,492	101,952	-	365,444
Beneficial interest in perpetual trust	-	-	141,670	141,670
	<u>\$ 2,450,235</u>	<u>\$ 101,952</u>	<u>\$ 141,670</u>	<u>\$ 2,693,857</u>

ORANGEWOOD CHILDREN'S FOUNDATION AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of June 30, 2012
(With Comparative Financial Information For The Year Ended June 30, 2011)

NOTE 4 – FAIR VALUE MEASUREMENTS, continued

	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	<u>Total</u>
As of June 30, 2011:				
Cash and short-term investments	\$ 99,536	\$ -	\$ -	\$ 99,536
Mutual funds:				
Fixed income – taxable	381,486	-	-	381,486
Fixed income – other	341,077	-	-	341,077
Equity securities:				
U.S. large-cap	685,533	-	-	685,533
U.S. mid- and small-cap	132,967	-	-	132,967
Fixed income – taxable	427,980	-	-	427,980
International	259,184	-	-	259,184
Alternative investments	-	103,157	-	103,157
Beneficial interest in perpetual trust	-	-	140,884	140,884
	<u>\$ 2,327,763</u>	<u>\$ 103,157</u>	<u>\$ 140,884</u>	<u>\$ 2,571,804</u>

The following is a reconciliation of investments in which significant unobservable inputs (Level 3) were used in determining fair value for the years ended June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Balance, beginning of year	\$ 140,884	\$ 126,142
Purchases, sales, issuances and settlements (net)	-	-
Net unrealized gains	<u>786</u>	<u>14,742</u>
Balance, end of year	<u>\$ 141,670</u>	<u>\$ 140,884</u>
Total net gains included in investment income attributable to Level 3 assets held at end of year	<u>\$ 786</u>	<u>\$ 14,742</u>

NOTE 5 – CONTRIBUTIONS RECEIVABLE

Long-term contributions receivable (those expected to be collected over more than the next twelve months) have been discounted using the Foundation's borrowing rate in effect at the time of the pledge. As of June 30, 2012, the discount rate in effect ranged from 2.25% to 3.5%.

ORANGEWOOD CHILDREN'S FOUNDATION AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of June 30, 2012

(With Comparative Financial Information For The Year Ended June 30, 2011)

NOTE 5 – CONTRIBUTIONS RECEIVABLE, continued

Future expected receipts on contributions receivable are as follows:

Years Ending June 30,		
2013	\$	3,323,217
2014		589,000
2015		500,000
2016		405,000
2017		<u>220,000</u>
		5,037,217
Less allowance for doubtful accounts		(70,000)
Less discount		<u>(219,632)</u>
	\$	<u>4,747,585</u>

As of June 30, 2012, the Foundation has classified \$236,000 of contributions receivable expected to be collected in the next twelve months related to the Children's Trust Fund Endowment ("CTF Endowment") (see Note 13) as long-term contributions receivable.

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	<u>2012</u>	<u>2011</u>
Land	\$ 9,118,136	\$ 1,491,694
Escrow deposit on land	-	500,042
Furniture, fixtures and equipment	683,560	683,560
Building	1,444,267	1,444,267
Building improvements	1,189,252	1,189,252
Construction in progress	<u>2,337,833</u>	<u>46,013</u>
	14,773,048	5,354,828
Less accumulated depreciation and amortization	<u>(1,493,131)</u>	<u>(1,387,106)</u>
	\$ <u>13,279,917</u>	\$ <u>3,967,722</u>

ORANGEWOOD CHILDREN'S FOUNDATION AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of June 30, 2012

(With Comparative Financial Information For The Year Ended June 30, 2011)

NOTE 7 – BENEFICIAL INTEREST IN PERPETUAL TRUST

The Foundation was named as a beneficiary of the Orangewood Foundation Endowment Fund (the "OCCF Fund"), established in 1995 (see Notes 12 and 13). The Foundation is entitled to a distribution of the income on an annual basis as determined by the Board of Directors of the Orange County Community Foundation, which are the OCCF Fund administrators. The assets of the OCCF Fund as of June 30 are as follows:

	<u>2012</u>	<u>2011</u>
Permanently restricted endowments:		
Initial contribution	\$ 38,000	\$ 38,000
Foundation match	45,000	45,000
Contribution - Dorothy M. Booth Charitable Trust	<u>7,500</u>	<u>7,500</u>
	<u>90,500</u>	<u>90,500</u>
Temporarily restricted unappropriated earnings on endowment investments:		
Cumulative gain on investments	110,365	109,579
Cumulative distributions	<u>(59,195)</u>	<u>(59,195)</u>
	<u>51,170</u>	<u>50,384</u>
	<u>\$ 141,670</u>	<u>\$ 140,884</u>

NOTE 8 – CUSTODIAL FUNDS PAYABLE

The Foundation acts as an agent for several resource providers. As agent, the Foundation receives transfers of assets and donations to be distributed to third-party recipients specified by the resource provider or donors. At June 30, 2012 and 2011, custodial funds payable relating to these pass-through transactions was \$339,713 and \$299,502, respectively.

NOTE 9 – LINE OF CREDIT

The Foundation has a line of credit (the "LOC") from a bank. The LOC has an aggregate principal limit of \$500,000 and expires in February 2013. The Foundation was in compliance with the LOC's covenants at June 30, 2012. During fiscal 2012, the daily outstanding principal balance bore interest at 2.00% above the 30-day LIBOR rate (totaling 2.25% at June 30, 2012). The LOC is secured by the Foundation's two administrative office buildings. The outstanding balance on the LOC as of June 30, 2012 and 2011 was \$92,782 and \$375,634, respectively.

ORANGEWOOD CHILDREN'S FOUNDATION AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of June 30, 2012

(With Comparative Financial Information For The Year Ended June 30, 2011)

NOTE 10 – LOANS PAYABLE

Loans payable consist of the following at June 30:

	<u>2012</u>	<u>2011</u>
Promissory note with bank, maximum borrowing of \$9,500,000, secured by a deed of trust on the real property purchased in fiscal 2012 (see Note 2), guaranteed by Orangewood and a related party (H&S Investments I, LP), interest payable monthly at 1% below the bank's prime rate (totaling 2.25% at June 30, 2012), principal due in July 2013. The Foundation was in compliance with the associated loan covenants at June 30, 2012.	\$ 9,090,589	\$ -
Term note payable to bank, secured by a deed of trust on the related buildings and building improvements, payable in monthly installments of \$10,000 plus interest at either the bank's prime rate or 2.0% above the LIBOR rate (totaling 2.25% at June 30, 2012), with the final installment of all remaining principal of \$1,870,000 due in February 2013.	1,940,000	2,060,000
Unsecured promissory note payable to a private foundation, principal and interest at 3% due in January 2013.	<u>500,000</u>	<u>-</u>
Total	11,530,589	2,060,000
Less current portion	<u>(2,440,000)</u>	<u>(120,000)</u>
	<u>\$ 9,090,589</u>	<u>\$ 1,940,000</u>

ORANGEWOOD CHILDREN'S FOUNDATION AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of June 30, 2012
(With Comparative Financial Information For The Year Ended June 30, 2011)

NOTE 10 – LOANS PAYABLE, continued

Future minimum annual principal payments on the loans payable are as follows:

Years Ending June 30,	
2013	\$ 2,440,000
2014	<u>9,090,589</u>
	<u>\$ 11,530,589</u>

NOTE 11 – COMMITMENTS AND CONTINGENCIES

Lease Agreements

The Foundation leases a portion of its building to various unaffiliated non-profit corporations under agreements with monthly payments of approximately \$200, which expired in July 2012 and are currently on a month-to-month basis. Total rental income for the years ended June 30, 2012 and 2011 was \$29,770 and \$133,097, respectively.

Guarantees and Indemnities

During the normal course of business, the Foundation has made certain indemnities and guarantees under which it may be required to make payments in relation to certain transactions. These indemnities include certain agreements with the Foundation's officers, under which the Foundation may be required to indemnify such person for liabilities arising out of their employment relationship. Additionally, the Foundation indemnifies banks under the line of credit agreement and promissory note agreement against certain claims as a result of the violation of any law. The Foundation has also indemnified a bank for certain environmental liability losses which may be incurred related to the corresponding land, building and improvements. The duration of these indemnities and guarantees varies and, in certain cases, is indefinite. The majority of these indemnities and guarantees do not provide for any limitation of the maximum potential future payments the Foundation could be obligated to make. The Foundation hedges some of the risk associated with these potential obligations by carrying general liability insurance. Historically, the Foundation has not been obligated to make significant payments for these obligations and no liabilities have been recorded for these indemnities and guarantees in the consolidated statement of financial position.

ORANGEWOOD CHILDREN'S FOUNDATION AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of June 30, 2012
(With Comparative Financial Information For The Year Ended June 30, 2011)

NOTE 12 – TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following at June 30:

	<u>2012</u>	<u>2011</u>
Academy	\$ 1,835,000	\$ 1,068,965
Unappropriated investment earnings of endowment net assets (see Note 13)	412,971	547,391
Advanced Studies	149,096	47,052
Children's Trust Fund	127,781	-
Rising Tide	68,660	-
Orangewood Resource Center	<u>-</u>	<u>53,342</u>
	<u>\$ 2,593,508</u>	<u>\$ 1,716,750</u>

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

	<u>2012</u>	<u>2011</u>
CTF Endowment corpus (see Note 13)	\$ 1,889,163	\$ 1,776,390
OCCF Fund corpus (see Notes 7 and 13)	90,500	90,500
Donor-approved loan receivable from unrestricted net assets (see Note 13)	-	100,000
Endowment contributions receivable	<u>969,456</u>	<u>986,909</u>
	<u>\$ 2,949,119</u>	<u>\$ 2,953,799</u>

NOTE 13 – ENDOWMENTS

The Foundation's endowments are exclusively donor restricted, consisting of the CTF Endowment and the OCCF Fund (see Note 7).

In approving endowment spending and related policies, as part of the prudent and diligent discharge of its duties, the Foundation's Board of Directors, as authorized by California law, has relied upon the actions, reports, information, advice and counsel taken or provided by its duly constituted committees and officers, and in doing so has interpreted the law to require the preservation of the historic dollar value of donor-restricted endowment funds, absent explicit donor direction to the contrary.

ORANGEWOOD CHILDREN'S FOUNDATION AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of June 30, 2012

(With Comparative Financial Information For The Year Ended June 30, 2011)

NOTE 13 – ENDOWMENTS, continued

As a result of this interpretation, for accounting and financial statement purposes, the Foundation classifies as permanently restricted net assets the historic dollar value of assets held as donor-restricted endowment, including any subsequent gifts and any accumulations to donor-restricted endowments made in accordance with the direction of the applicable gift instruments.

Net investment income (loss) on endowment net assets is reported as an increase in temporarily restricted net assets until those amounts are appropriated for expenditure under the Foundation's spending policy by the Foundation's Investment Committee.

Changes in endowment net assets are as follows for the years ended June 30, 2012 and 2011:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets at July 1, 2010	\$ 296,163	\$ 1,957,079	\$ 2,253,242
Contributions and collections of endowment receivables	-	9,811	9,811
Donor-approved loan to unrestricted net assets	-	(100,000)	(100,000)
Investment income, net	351,228	-	351,228
Appropriation of endowment assets for expenditure	<u>(100,000)</u>	<u>-</u>	<u>(100,000)</u>
Endowment net assets at June 30, 2011	547,391	1,866,890	2,414,281
Contributions and collections of endowment receivables	-	12,773	12,773
Investment loss, net	(14,420)	-	(14,420)
Appropriation of endowment assets for expenditure	(120,000)	-	(120,000)
Repayment of donor-approved loan to unrestricted net assets	<u>-</u>	<u>100,000</u>	<u>100,000</u>
Endowment net assets at June 30, 2012	<u>\$ 412,971</u>	<u>\$ 1,979,663</u>	<u>\$ 2,392,634</u>

ORANGEWOOD CHILDREN'S FOUNDATION AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of June 30, 2012

(With Comparative Financial Information For The Year Ended June 30, 2011)

NOTE 13 – ENDOWMENTS, continued

Endowment net assets are recorded as follows in the consolidated statements of financial position at June 30:

	<u>2012</u>	<u>2011</u>
Restricted investments	\$ 2,250,964	\$ 2,273,397
Beneficial interest in perpetual trust (see Note 7)	<u>141,670</u>	<u>140,884</u>
	<u>\$ 2,392,634</u>	<u>\$ 2,414,281</u>

During fiscal 2011, the Foundation entered into a non-interest bearing loan agreement with a CTF Endowment donor to transfer previously donated CTF Endowment funds to the Foundation's unrestricted net assets as needed to continue to provide its services. The Foundation repaid this loan in July 2011.

Investment Policy

The Foundation's investment and spending policies are set by the Foundation's Investment Committee, which seeks to preserve the real purchasing power of the endowment assets, net of inflation, fees and annual distributions for grants and expenses. In accordance with the Foundation's investment policy, the endowment assets shall be considered as two parts: an "equity fund" and a "fixed income fund." The equity fund may be diversified with investments in global marketable equities, which should account for between 40% and 65% of the portfolio. A 0-10% allocation can be made to marketable alternative assets, non-marketable alternative assets, inflation-hedging assets and other "opportunistic" investments. The fixed income fund should account for at least 20%, but not more than 45%, of the portfolio.

Spending Policy

The Foundation's Spending Policy allows for an annual transfer from accumulated earnings on endowment assets of an amount representing 0-5% of the CTF Endowment assets to the Foundation to fund current year scholarship obligations. However, if the balance of the CTF Endowment investments is below the corpus, all earnings will first replenish the CTF Endowment investments until all amounts required by law are replenished. As of June 30, 2012 and 2011, there were no deficiencies in the CTF Endowment corpus.

ORANGEWOOD CHILDREN'S FOUNDATION AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of June 30, 2012

(With Comparative Financial Information For The Year Ended June 30, 2011)

NOTE 14 – SPECIAL EVENTS/AUXILIARIES

Special events/auxiliaries include revenue and expenses from events sponsored and managed by the Foundation and other events where the Foundation is a beneficiary of the event, but does not incur substantial costs or bear significant responsibility in facilitating the event.

Income and expenses from special events/auxiliaries for the years ended June 30 are as follows:

	<u>2012</u>	<u>2011</u>
Revenues	\$ 2,342,351	\$ 2,123,185
Expenses	<u>(1,058,215)</u>	<u>(933,213)</u>
	<u>\$ 1,284,136</u>	<u>\$ 1,189,972</u>

NOTE 15 – RETIREMENT PLANS

The Foundation has adopted a tax deferred annuity plan under Section 403(b) of the Internal Revenue Code as of October 1, 2001 whereby employees may elect to defer a portion of their compensation to be invested in annuity contracts on their behalf. Employees must be employed by the Foundation for three months to be eligible to participate. The amount of contributions made by the Foundation, if any, is at the sole discretion of the Foundation. There were no employee or employer contributions made to this plan during the fiscal years ended June 30, 2012 and 2011.

On July 30, 2007, the Foundation started a 403(b) plan (the "Plan"). The Plan provides a discretionary employer match of up to 75% of employee contributions to a maximum of \$1,500 each calendar year. Vesting in the employer match is over five years at 20% per year. Employees become eligible as of the first of the month following the date of hire. The Foundation made no matching contributions to the Plan during each of the years ended June 30, 2012 and 2011.

On October 1, 2007, the Foundation established a tax deferred 457(b) Retirement Plan for certain key executives. There have been no employer contributions made to this plan. Employee contributions made to the plan are immediately 100% vested.

ORANGEWOOD CHILDREN'S FOUNDATION AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of June 30, 2012

(With Comparative Financial Information For The Year Ended June 30, 2011)

NOTE 16 – RELATED PARTY TRANSACTIONS

Various board members make contributions to the Foundation through donations, fundraising events and volunteer time. General contributions recorded from board members during the years ended June 30, 2012 and 2011 totaled approximately \$1,363,000 and \$811,000, respectively, which are recorded in general contributions in the accompanying consolidated statements of activities. Contributions receivable from board members totaled approximately \$2,021,000 and \$1,469,000 as of June 30, 2012 and 2011, respectively. In addition, the Foundation receives contributions from two entities that have certain common directors. Contributions from these entities totaled approximately \$503,000 and \$330,000 for the years ended June 30, 2012 and 2011, respectively.

For one of the Foundation's special events, a Board member holds an ownership interest in the entity which runs the event. For the years ended June 30, 2012 and 2011, management fees paid to this entity totaled \$240,597 and \$108,219, respectively. The net proceeds to the Foundation from this event (net of management fees) for the years ended June 30, 2012 and 2011 were \$509,708 and \$289,379, respectively.

During fiscal 2011, the Foundation borrowed \$500,000 under two separate, non-interest bearing, unsecured short-term promissory notes from the private foundation of a board member to pay for the escrow deposit of the real property that was acquired in fiscal 2012 (see Note 2). These notes were repaid in early fiscal 2012 from the proceeds of the long-term bank line of credit (see Note 10); as a result, the balance of these loans was reflected as a long-term liability in the June 30, 2011 statement of financial position. Later in fiscal 2012, the Foundation borrowed another \$750,000 under a non-interest bearing, unsecured short-term promissory note from the same private foundation. The proceeds of that loan were used for the development of the Academy. In October 2012, the private foundation made a contribution prior to the due date of the note, which the Foundation used to repay the note.

NOTE 17 – SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events after the balance sheet date of June 30, 2012 through November 13, 2012, the date the consolidated financial statements were issued. Except as described herein, management has determined that no subsequent events have occurred that would require recognition in the accompanying consolidated financial statements or disclosure in the notes thereto.

ORANGEWOOD CHILDREN'S FOUNDATION AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of June 30, 2012

(With Comparative Financial Information For The Year Ended June 30, 2011)

NOTE 17 – SUBSEQUENT EVENTS, continued

During 2012, the Foundation was approached by the YWCA of Central Orange County (“YWCA”) to assume the operation of their Beverly’s House transitional housing program for emancipated foster youth as the YWCA is planning to dissolve their non-profit entity. This program is operated out of a single-family home in Orange, California that is owned by the YWCA. After the appropriate due diligence was completed, the Foundation’s Board voted in September to begin operating the Beverly’s House program, effective November 1, 2012. The YWCA Board has approved the transfer of the Beverly’s House assets, primarily the single-family home, to the Foundation as part of their dissolution in early 2013. An appraisal to obtain the market value of the home will be done near the time of the asset transfer, but it is estimated that the Beverly’s House home has a current market value of approximately \$750,000.

ORANGEWOOD CHILDREN'S FOUNDATION AND AFFILIATES

SCHEDULE I – CONSOLIDATING STATEMENT OF FINANCIAL POSITION

As of June 30, 2012

	<u>Orangewood Children's Foundation</u>	<u>The Academy Charter School</u>	<u>Orangewood Real Property LLC</u>	<u>Orangewood Residential LLC</u>	<u>Subtotal</u>	<u>Eliminations</u>	<u>Total</u>
ASSETS							
Current assets:							
Cash and cash equivalents	\$ 264,702	\$ -	\$ 175	\$ 175	\$ 265,052	\$ -	\$ 265,052
Investments	301,223	-	-	-	301,223	-	301,223
Current portion of contributions receivable, net of allowance for doubtful accounts	3,017,217	-	-	-	3,017,217	-	3,017,217
Contracts receivable	232,554	-	-	-	232,554	-	232,554
Investments in affiliates	259,183	-	-	-	259,183	(259,183)	-
Prepaid expenses and other current assets	<u>196,535</u>	<u>-</u>	<u>220,821</u>	<u>-</u>	<u>417,356</u>	<u>-</u>	<u>417,356</u>
Total current assets	4,271,414	-	220,996	175	4,492,585	(259,183)	4,233,402
Contributions receivable, net of current portion	1,730,368	-	-	-	1,730,368	-	1,730,368
Property and equipment, net	3,315,642	-	9,964,275	-	13,279,917	-	13,279,917
Beneficial interest in perpetual trust	141,670	-	-	-	141,670	-	141,670
Restricted investments	<u>2,250,964</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,250,964</u>	<u>-</u>	<u>2,250,964</u>
	<u>\$ 11,710,058</u>	<u>\$ -</u>	<u>\$ 10,185,271</u>	<u>\$ 175</u>	<u>\$ 21,895,504</u>	<u>\$ (259,183)</u>	<u>\$ 21,636,321</u>

ORANGEWOOD CHILDREN'S FOUNDATION AND AFFILIATES

SCHEDULE I – CONSOLIDATING STATEMENT OF FINANCIAL POSITION, continued

As of June 30, 2012

	<u>Orangewood Children's Foundation</u>	<u>The Academy Charter School</u>	<u>Orangewood Real Property LLC</u>	<u>Orangewood Residential LLC</u>	<u>Subtotal</u>	<u>Eliminations</u>	<u>Total</u>
LIABILITIES AND NET ASSETS							
Current liabilities:							
Accounts payable and accrued expenses	\$ 624,633	\$ 8,500	\$ 124,656	\$ 2,000	\$ 759,789	\$ -	\$ 759,789
Inter-fund payable (receivable)	(459,301)	(8,500)	469,826	(2,025)	-	-	-
Line of credit borrowings	92,782	-	-	-	92,782	-	92,782
Related-party note payable	750,000	-	-	-	750,000	-	750,000
Current portion of loans payable	1,940,000	-	500,000	-	2,440,000	-	2,440,000
Custodial funds payable	339,713	-	-	-	339,713	-	339,713
Deferred revenue	<u>276,267</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>276,267</u>	<u>-</u>	<u>276,267</u>
Total current liabilities	3,564,094	-	1,094,482	(25)	4,658,551	-	4,658,551
Loans payable, net of current portion	<u>-</u>	<u>-</u>	<u>9,090,589</u>	<u>-</u>	<u>9,090,589</u>	<u>-</u>	<u>9,090,589</u>
Total liabilities	<u>3,564,094</u>	<u>-</u>	<u>10,185,071</u>	<u>(25)</u>	<u>13,749,140</u>	<u>-</u>	<u>13,749,140</u>
Commitments and contingencies							
Net assets:							
Unrestricted	2,603,337	-	200	200	2,603,737	(259,183)	2,344,554
Temporarily restricted	2,593,508	-	-	-	2,593,508	-	2,593,508
Permanently restricted	<u>2,949,119</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,949,119</u>	<u>-</u>	<u>2,949,119</u>
Total net assets	<u>8,145,964</u>	<u>-</u>	<u>200</u>	<u>200</u>	<u>8,146,364</u>	<u>(259,183)</u>	<u>7,887,181</u>
	<u>\$ 11,710,058</u>	<u>\$ -</u>	<u>\$ 10,185,271</u>	<u>\$ 175</u>	<u>\$ 21,895,504</u>	<u>\$ (259,183)</u>	<u>\$ 21,636,321</u>

ORANGEWOOD CHILDREN'S FOUNDATION AND AFFILIATES
SCHEDULE II – CONSOLIDATING STATEMENT OF ACTIVITIES

For The Year Ended June 30, 2012

	Orangewood Children's Foundation	The Academy Charter School	Orangewood Real Property LLC	Orangewood Residential LLC	Subtotal	Eliminations	Total
Revenue and support:							
General contributions	\$ 4,552,310	\$ -	\$ -	\$ -	\$ 4,552,310	\$ -	\$ 4,552,310
Special events/auxiliaries, net	1,284,136	-	-	-	1,284,136	-	1,284,136
Government contracts	2,595,939	-	-	-	2,595,939	-	2,595,939
Investment loss, net	(14,750)	-	-	-	(14,750)	-	(14,750)
Rental income	29,770	-	-	-	29,770	-	29,770
Other, including property tax refunds	528	-	-	-	528	-	528
In-kind contributions	196,981	-	-	-	196,981	-	196,981
Total revenue and support	<u>8,644,914</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,644,914</u>	<u>-</u>	<u>8,644,914</u>
Expenses:							
Program services:							
Independent Living Programs	1,689,803	-	-	-	1,689,803	-	1,689,803
Children in Foster Care	841,427	-	-	-	841,427	-	841,427
Child Abuse Prevention	2,014,498	-	-	-	2,014,498	-	2,014,498
Education of Underserved Youth	1,758,764	132,751	116,798	9,634	2,017,947	-	2,017,947
Total program services	<u>6,304,492</u>	<u>132,751</u>	<u>116,798</u>	<u>9,634</u>	<u>6,563,675</u>	<u>-</u>	<u>6,563,675</u>
Supporting services	436,220	-	-	-	436,220	-	436,220
Fundraising	468,868	-	-	-	468,868	-	468,868
Total expenses	<u>7,209,580</u>	<u>132,751</u>	<u>116,798</u>	<u>9,634</u>	<u>7,468,763</u>	<u>-</u>	<u>7,468,763</u>

ORANGEWOOD CHILDREN'S FOUNDATION AND AFFILIATES

SCHEDULE II – CONSOLIDATING STATEMENT OF ACTIVITIES, continued

For The Year Ended June 30, 2012

	<u>Orangewood Children's Foundation</u>	<u>The Academy Charter School</u>	<u>Orangewood Real Property LLC</u>	<u>Orangewood Residential LLC</u>	<u>Subtotal</u>	<u>Eliminations</u>	<u>Total</u>
Change in net assets	1,435,334	(132,751)	(116,798)	(9,634)	1,176,151	-	1,176,151
Net assets, beginning of year	6,710,630	-	200	200	6,711,030	-	6,711,030
Contributed capital	<u>-</u>	<u>132,751</u>	<u>116,798</u>	<u>9,634</u>	<u>259,183</u>	<u>(259,183)</u>	<u>-</u>
Net assets, end of year	<u>\$ 8,145,964</u>	<u>\$ -</u>	<u>\$ 200</u>	<u>\$ 200</u>	<u>\$ 8,146,364</u>	<u>\$ (259,183)</u>	<u>\$ 7,887,181</u>