ORANGEWOOD CHILDREN'S FOUNDATION
(A Non-Profit Organization)

FINANCIAL STATEMENTS

As of June 30, 2011
(With Comparative Financial Information as of June 30, 2010)

with

INDEPENDENT AUDITORS' REPORT THEREON

ORANGEWOOD CHILDREN'S FOUNDATION
(A Non-Profit Organization)

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We have audited the accompanying statement of financial position of Orangewood Children's Foundation (the "Foundation"), a non-profit organization, as of June 30, 2011, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits. The prior year summarized comparative information has been derived from the Foundation's June 30, 2010 financial statements and, in our report dated October 28, 2010, 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 financial statements referred to above present fairly, in all material respects, the financial position of Orangewood Children's Foundation as of June 30, 2011, and the changes in its net assets and its 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 7, 2011 on our consideration of Orangewood Children's 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.

KMJ Corbin & Company LLP

KMJ | Corbin & Company LLP

Costa Mesa, California
November 7, 2011

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ORANGEWOOD CHILDREN'S FOUNDATION
(A Non-Profit Organization)

STATEMENT OF FINANCIAL POSITION

June 30, 2011
(With Comparative Financial Information as of June 30, 2010)

	2011	2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 102,226	$ 195,165
Investments	157,523	357,197
Current portion of contributions receivable, net of allowance for doubtful accounts of $63,000 and $50,000, respectively	2,509,040	1,968,626
Contracts receivable	597,507	363,262
Prepaid expenses and other current assets	335,494	210,057
Total current assets	3,701,790	3,094,307
Escrow deposit on land	500,042	-
Contributions receivable, net of current portion	1,113,119	1,025,003
Property and equipment, net	3,467,680	3,537,241
Beneficial interest in perpetual trust	140,884	126,142
Restricted investments	2,273,397	2,127,100
	$ 11,196,912	$ 9,909,793
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	$ 1,089,827	$ 867,554
Line of credit borrowings	375,634	105,873
Current portion of loan payable	120,000	120,000
Custodial funds payable	299,502	278,358
Deferred revenue	160,919	129,109
Total current liabilities	2,045,882	1,500,894
Related party notes payable	500,000	-
Loan payable, net of current portion	1,940,000	2,060,000
Total liabilities	4,485,882	3,560,894
Commitments and contingencies		
Net assets (as adjusted – see Notes 13 and 14):		
Unrestricted	2,040,481	2,147,961
Temporarily restricted	1,716,750	1,251,655
Permanently restricted	2,953,799	2,949,283
Total net assets	6,711,030	6,348,899
	$ 11,196,912	$ 9,909,793

ORANGEWOOD CHILDREN'S FOUNDATION
(A Non-Profit Organization)

STATEMENT OF ACTIVITIES

For The Year Ended June 30, 2011
(With Summarized Comparative Financial Information For The Year Ended June 30, 2010)

	2011				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2010 Total
Revenue and support:					
General contributions	$ 1,893,498	$ 792,938	$ 5,300	$ 2,691,736	$ 2,121,324
Special events/auxiliaries, net	18,122	1,171,850	-	1,189,972	1,445,695
Government contracts	2,846,051	-	-	2,846,051	1,966,175
Investment income	59,130	351,228	-	410,358	313,675
Rising Tide contributions	59,377	443,782	-	503,159	757,157
Rental income	133,097	-	-	133,097	131,707
Other, including property tax refunds	6,129	-	-	6,129	21,637
In-kind contributions	112,434	-	-	112,434	159,130
Net assets released from restrictions, net	2,295,487	(2,294,703)	(784)	-	-
Total revenue and support	7,423,325	465,095	4,516	7,892,936	6,916,500
Expenses:					
Program services:					
Emancipating and Former Foster Youth	2,105,507	-	-	2,105,507	1,669,695
Children in Foster Care	326,704	-	-	326,704	407,673
Child Abuse Prevention	2,241,402	-	-	2,241,402	1,896,406
Education of At-Risk Youth	1,874,717	-	-	1,874,717	1,802,574
Total program services	6,548,330	-	-	6,548,330	5,776,348
Supporting services	445,989	-	-	445,989	594,068
Fundraising	536,486	-	-	536,486	420,091
Total expenses	7,530,805	-	-	7,530,805	6,790,507
Change in net assets	(107,480)	465,095	4,516	362,131	125,993
Net assets, beginning of year – as originally reported	1,998,170	1,103,141	3,247,588	6,348,899	6,222,906
Adjustments to net assets, beginning of year:					
Implementation of new accounting principle (see Notes 13 and 14)	-	296,163	(296,163)	-	-
Re-allocation adjustment (see Note 13)	149,791	(147,649)	(2,142)	-	-
Net assets, beginning of year – as adjusted	2,147,961	1,251,655	2,949,283	6,348,899	6,222,906
Net assets, end of year	$ 2,040,481	$ 1,716,750	$ 2,953,799	$ 6,711,030	$ 6,348,899

See accompanying notes to financial statements

ORANGEWOOD CHILDREN'S FOUNDATION
(A Non-Profit Organization)

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2011
(With Summarized Comparative Financial Information For The Year Ended June 30, 2010)

	2011								
	Program Services								
	Emancipating and Former Foster Youth	Children in Foster Care	Child Abuse Prevention	Education of At-Risk Youth	Total Program Services	Supporting Services	Fundraising	Total Expenses	2010 Total
Annual audit fee	$ 10,250	$ 1,458	$ 7,879	$ 1,842	$ 21,429	$ 9,723	$ 5,898	$ 37,050	$ 34,459
Bad debt expense	-	-	-	-	-	43,100	-	43,100	2,176
Banking and merchant fees	9,118	1,297	3,006	1,639	15,060	8,649	32,325	56,034	47,284
Board and donor recognition	624	276	40	2,050	2,990	734	2,674	6,398	7,137
Board recruitment	2,133	3,924	810	297	7,164	988	1,120	9,272	10,846
Conferences/training	8,436	1,995	7,261	282	17,974	625	1,151	19,750	13,886
Consulting	38,289	2,109	532,591	132,814	705,803	13,428	8,355	727,586	573,315
Depreciation and amortization	71,895	2,552	20,985	2,027	97,459	18,521	5,454	121,434	125,131
Children's Trust Fund grants	-	-	-	1,099,133	1,099,133	-	-	1,099,133	1,072,082
Academy	-	-	-	23,634	23,634	-	-	23,634	-
Transitional housing costs	261,408	-	-	-	261,408	-	-	261,408	268,073
Girls/Boys Court	20,340	-	-	-	20,340	-	-	20,340	-
Independent living programs	107,808	514	-	-	108,322	-	-	108,322	100,958
Community programs	-	-	446,088	-	446,088	-	-	446,088	116,196
Grants/donations to charities	-	60,041	-	-	60,041	-	-	60,041	61,091
Other direct program costs	-	5,749	3,530	-	9,279	-	-	9,279	30,255
Direct salaries and benefits	999,308	162,543	778,329	282,474	2,222,654	-	-	2,222,654	2,036,836
Facility expense	74,989	3,071	27,377	2,509	107,946	18,896	6,776	133,618	139,661
Insurance expense	38,106	1,616	13,286	1,283	54,291	11,726	3,453	69,470	81,683
Marketing/public relations	14,570	6,054	5,318	47,817	73,759	16,110	18,040	107,909	108,585
Mortgage interest expense	37,947	1,614	13,275	1,282	54,118	11,716	3,450	69,284	62,666
Office equipment leases	13,141	559	4,597	444	18,741	4,057	1,195	23,993	26,855
Office expense	29,842	2,172	28,334	9,002	69,350	12,466	8,237	90,053	89,888
Indirect salaries and benefits	292,344	59,345	163,754	257,271	772,714	267,980	432,363	1,473,057	1,583,871
Telephone expense	20,028	2,084	18,591	2,664	43,367	3,990	2,136	49,493	45,557
Travel and mileage	18,418	6,834	10,821	465	36,538	318	1,064	37,920	38,877
Technology	36,513	897	155,530	5,788	198,728	2,962	2,795	204,485	113,139
	$ 2,105,507	$ 326,704	$ 2,241,402	$ 1,874,717	$ 6,548,330	$ 445,989	$ 536,486	$ 7,530,805	$ 6,790,507

See accompanying notes to financial statements

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2011
(With Comparative Financial Information For The Year Ended June 30, 2010)

	2011	2010
Cash flows from operating activities:		
Change in net assets	$ 362,131	$ 125,993
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Bad debt expense	43,100	2,176
Amortization of discount on contributions receivable	4,180	23,221
In-kind donations of property and equipment	-	(63,277)
Depreciation and amortization	121,434	125,131
Net unrealized and realized gain on investments	(318,307)	(199,176)
Change in operating assets and liabilities:		
Contributions receivable	(675,810)	(13,770)
Contracts receivable	(234,245)	22,272
Prepaid expenses and other current assets	(125,437)	(86,022)
Accounts payable and accrued expenses	222,273	(44,012)
Custodial funds payable	21,144	53,344
Deferred revenue	31,810	(179,339)
Net cash used in operating activities	(547,727)	(233,459)
Cash flows from investing activities:		
Purchase of property and equipment	(51,873)	(65,297)
Escrow deposit on land	(500,042)	-
Purchase of investments	(1,776,265)	(1,625,393)
Proceeds from sale of investments	2,133,207	1,805,696
Net cash (used in) provided by investing activities	(194,973)	115,006
Cash flows from financing activities:		
Proceeds from line of credit borrowings, net	269,761	105,873
Proceeds from related party notes payable	500,000	-
Principal payments on loan payable	(120,000)	(120,000)
Net cash provided by (used in) financing activities	649,761	(14,127)
Net decrease in cash and cash equivalents	(92,939)	(132,580)
Cash and cash equivalents, beginning of year	195,165	327,745
Cash and cash equivalents, end of year	$ 102,226	$ 195,165
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	$ 69,284	$ 62,666

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Orangewood Children's Foundation ("Orangewood" or the "Foundation") 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:

- Emancipation – 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.

The following are descriptions of the programs Orangewood offers:

Emancipating and Former Foster Youth

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-month period designed to help them transition successfully into life on their own.

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.

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

Children in Foster Care

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. Orangewood sponsors the Orange County chapter.

Mentoring – This is a program for selected foster youth who are 14-21 years old and have been identified as having the academic potential for college success. The program provides educational assistance, mentoring and exposure to a variety of college and career opportunities.

Orangewood Children's Home – 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 facility renovations, extracurricular activities for the children and other projects.

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.

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

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 At-Risk 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. It provides grants for special needs to eligible applicants such as counseling, school supplies, extracurricular activities and graduation 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, Hope International, 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.

Academy – The Academy will provide foster and at-risk youth ages 14-18 with a rigorous academic program combined with a cottage-style, campus-based living arrangement. The goal is to help better prepare the youth for a self-sufficient, successful adulthood. See Notes 2 and 18 for Academy developments. The basic program and facility components include:

- Cottage-style living – foster youth will experience a family-like residential setting;
- Academics – a charter high school will provide intensive individualized education instruction with a rich array of extracurricular activities;
- Family connections – youth will develop appropriate, positive and productive relationships with their birth families even though living with them is not an option; and
- Independent living preparation – youth will participate in classroom-based training and engage in real-life experiences to prepare them for independent living.

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

Funding

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

Basis of Presentation

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Net assets 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 13).
>
> *Permanently restricted net assets* – Net assets subject to donor-imposed stipulations that the corpus be maintained permanently by the Foundation. At June 30, 2011 and 2010, permanently restricted net assets consist entirely of donor-restricted endowment investments and receivables (see Note 13). 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.

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

Use of Estimates

The preparation of 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 financial statements and the reported amounts of revenue and expenses during the reporting period. Significant estimates embodied in these financial statements include the collectibility of receivables and the realizability of long-lived assets. 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 $63,000 and $50,000 is necessary as of June 30, 2011 and 2010, 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, 2011 and 2010, the Foundation had no deposits that were in excess of FDIC limits. The Foundation periodically reviews the quality of the financial institutions it has deposits with to minimize risk of loss.

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

Contracts Receivable

The Foundation's contracts receivable are primarily reimbursements due from contracted government grant reimbursement requests. The Foundation provides for an allowance for uncollectible receivables based on historical experience. As of June 30, 2011 and 2010, 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 statement of activities.

Deferred Compensation

Deferred compensation represented the remaining balance of amounts owed to current and former executives under arrangements no longer offered by the Foundation. Amounts owed totaling $112,063 as of June 30, 2010 were recorded under accounts payable and accrued expenses in the statement of financial position. All amounts owed were fully paid during the 2011 fiscal year and the Foundation does not have any deferred compensation arrangements outstanding as of June 30, 2011.

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.

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

Contributed Goods and Services

Contributions of services are recognized in the 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 $112,434 and $159,130 for attorney-related support services, auction items and design and construction services for the years ended June 30, 2011 and 2010, respectively.

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, 2011 and 2010, 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, 2011, 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 2007.

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.

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

Risks and Uncertainties

Certain of the Foundation's services are governed by grant agreements with governmental agencies. All such grant agreements to which the Foundation currently is a party are for fixed terms and expire on an annual basis. There can be no assurances that the Foundation will be able to obtain future grant agreements as deemed necessary by management. The loss of some of the current grants or the inability to obtain future grants 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.

Reclassifications

To conform to the presentation of the June 30, 2011 statement of financial position, $2,142 of permanently restricted assets have been reclassified as unrestricted net assets, $48,614 of contributions receivable have been reclassified as long-term contributions receivable, $6 of investments have been reclassified as restricted investments, and security deposits of $5,302 have been reclassified as accounts payable and accrued expenses in the June 30, 2010 statement of financial position. In addition, $5,121 of mentoring program costs have been reclassified as other direct program costs and property taxes of $3,107 have been reclassified as facility expense in the statement of functional expenses for the year ended June 30, 2010.

NOTE 2 – THE ACADEMY

As described in Note 1, the Foundation is in the process of developing an Academy to serve foster and at-risk youth as both a charter school and a residential facility. The Foundation has created separate wholly owned subsidiaries 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, 2011, the Foundation recorded $500,042 as an escrow deposit on land in the statement of financial position for the purchase of real property located in Santa Ana, California. This deposit was financed primarily through two separate, non-interest bearing, short-term promissory notes from the private foundation of a board member, which are recorded as related party notes payable in the statement of financial position at June 30, 2011. Subsequent to year-end, escrow closed and the Foundation purchased the land, repaid the related party notes payable and obtained additional financing for the development of the Academy (see Note 18). Since the related party notes were refinanced with long-term debt after year end, they have been reflected as a long-term liability in the accompanying statement of financial position as of June 30, 2011.

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 consists of the following for the years ended June 30, 2011 and 2010:

	2011		
	Endowments (see Note 14)	Other	Total
Interest and dividends	$ 78,787	$ 13,264	$ 92,051
Net realized and unrealized gain	272,441	45,866	318,307
	$ 351,228	$ 59,130	$ 410,358

	2010		
	Endowments (see Note 14)	Other	Total
Interest and dividends	$ 74,347	$ 40,152	$ 114,499
Net realized and unrealized gain	171,292	27,884	199,176
	$ 245,639	$ 68,036	$ 313,675

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;

NOTE 4 – FAIR VALUE MEASUREMENTS, continued

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.

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 futures investments managed by brokers who seek to find systemic trends in a wide range of markets. The fair value of alternative investments is based on the reported performance of each futures investment. These investments have 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.

NOTE 4 – FAIR VALUE MEASUREMENTS, continued

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, 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
	$ 2,327,763	$ 103,157	$ 140,884	$ 2,571,804
As of June 30, 2010:				
Cash and short-term investments	$ 189,115	$ -	$ -	$ 189,115
Mutual funds:				
Fixed income – taxable	686,812	-	-	686,812
Fixed income – other	319,741	-	-	319,741
Equity securities:				
U.S. large-cap	554,958	-	-	554,958
U.S. mid- and small-cap	152,861	-	-	152,861
Fixed income – taxable	161,289	-	-	161,289
International	312,233	-	-	312,233
Alternative investments	-	107,288	-	107,288
Beneficial interest in perpetual trust	-	-	126,142	126,142
	$ 2,377,009	$ 107,288	$ 126,142	$ 2,610,439

NOTE 4 – FAIR VALUE MEASUREMENTS, continued,

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, 2011 and 2010:

	2011	2010
Balance, beginning of year	$ 126,142	$ 90,669
Purchases, sales, issuances and settlements (net)	-	(926)
Net unrealized gains	14,742	36,399
Balance, end of year	$ 140,884	$ 126,142
Total net gains included in investment income attributable to Level 3 assets held at end of year	$ 14,742	$ 36,399

Deferred Compensation

The fair value of the deferred compensation balance fluctuated based on investment returns for the Foundation's mutual fund and equity securities investments. This liability was classified within Level 2 of the valuation hierarchy and was fully paid during the 2011 fiscal year.

The following table presents the fair value hierarchy for those liabilities 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, 2010:				
Deferred compensation	$ -	$ 112,063	$ -	$ 112,063

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, 2011, the discount rate in effect was 2.375%.

NOTE 5 – CONTRIBUTIONS RECEIVABLE, continued

Future expected receipts on contributions receivable are as follows:

Years Ending June 30,	
2012	$ 2,815,738
2013	297,583
2014	263,000
2015	245,000
Thereafter	220,000
	3,841,321
Less allowance for doubtful accounts	(63,000)
Less discount	(156,162)
	$ 3,622,159

The Foundation has classified $243,698 of contributions receivable expected to be collected in the next twelve months related to the Children's Trust Fund Endowment ("CTF Endowment") (see Note 14) as long-term contributions receivable.

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	2011	2010
Land	$ 1,491,694	$ 1,491,694
Furniture, fixtures and equipment	683,560	679,390
Building	1,444,267	1,444,267
Building improvements	1,189,252	1,187,562
Construction in progress	46,013	-
	4,854,786	4,802,913
Less accumulated depreciation and amortization	(1,387,106)	(1,265,672)
	$ 3,467,680	$ 3,537,241

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 13 and 14). 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:

	2011	2010
Permanently restricted endowments:		
Initial contribution	$ 38,000	$ 38,000
Foundation match	45,000	45,000
Contribution - Dorothy M. Booth Charitable Trust	7,500	7,500
	90,500	90,500
Temporarily restricted unappropriated earnings on endowment investments:		
Cumulative gain on investments	109,579	94,837
Cumulative distributions	(59,195)	(59,195)
	50,384	35,642
	$ 140,884	$ 126,142

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, 2011 and 2010, custodial funds payable relating to these pass-through transactions was $299,502 and $278,358, respectively.

NOTE 9 – LINE OF CREDIT

In October 2008, the Foundation entered into an agreement to obtain a line of credit (the "LOC") from Wells Fargo Bank, National Association (the "Bank"). The LOC has an aggregate principal limit of $500,000 and expires in February 2012. The Foundation was not in compliance with certain of the LOC's covenants at June 30, 2011. During fiscal 2011, the daily outstanding principal balance bore interest at 2.75% above the Bank's prime rate (totaling 6.00% at June 30, 2011). The LOC is secured by the Foundation's two administrative office buildings. The outstanding balance on the LOC as of June 30, 2011 and 2010 was $375,634 and $105,873, respectively. The outstanding balance on the LOC as of November 7, 2011 was $31,996.

NOTE 10 – LOAN PAYABLE

On February 10, 2003, the Foundation entered into a term commitment note with the Bank in the amount of $3,000,000 to fund the purchase of two buildings and subsequent building improvements. The daily outstanding principal balance bears interest at either the Bank's prime rate or 2.0% above the LIBOR rate (totaling 2.73% at June 30, 2011). Accrued interest is payable monthly. Principal is payable in monthly installments of $10,000 continuing through January 15, 2013. The final installment of all remaining principal of $1,870,000 is due February 15, 2013. The note is secured by, among other collateral, a deed of trust on the related buildings and building improvements dated February 10, 2003. The outstanding balance on the note as of June 30, 2011 is $2,060,000.

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

Years Ending June 30,	
2012	$ 120,000
2013	1,940,000
	$ 2,060,000

NOTE 11 – PROPERTY TAX REFUNDS

During 2009, the Foundation became exempt from paying property taxes except for taxes on certain leases (see Note 12), which the County of Orange has applied retroactively. The Foundation recorded other income of $0 and $41,410 from the County of Orange during the years ended June 30, 2011 and 2010, respectively, for refunds of past years' property tax payments.

NOTE 12 – COMMITMENTS AND CONTINGENCIES

Lease Agreements

The Foundation leases a portion of its building to various unaffiliated non-profit corporations, under agreements with monthly payments ranging from $200 to $8,999 and expiring at various dates through July 2012.

NOTE 12 – COMMITMENTS AND CONTINGENCIES, continued

Future minimum aggregate rental income on the lease agreements are as follows:

Years Ending June 30,		
2012	$	29,996
2013		887
	$	30,883

Total rental income for the years ended June 30, 2011 and 2010 was $133,097 and $131,707, 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. The Foundation has also indemnified the 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 statement of financial position.

NOTE 13 – TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

During fiscal 2011, the Foundation analyzed its beginning net asset balances and determined the following two adjustments were required to adjust the beginning net assets: (a) implementation of new accounting principle (see Note 14); and (b) re-allocation adjustment from temporarily restricted and permanently restricted balances to the unrestricted balances due to the impact of prior year expense allocations to several programs with restricted contributions.

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

	2011	2010 (as adjusted)
Academy	$ 1,068,965	$ 903,690
Unappropriated investment earnings of endowment net assets (see Note 14)	547,391	296,163
Orangewood Resource Center	53,342	-
Advanced Studies	47,052	48,202
Other	-	3,600
	$ 1,716,750	$ 1,251,655

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

	2011	2010 (as adjusted)
CTF Endowment corpus (see Note 14)	$ 1,776,390	$ 1,866,579
OCCF Fund corpus (see Notes 7 and 14)	90,500	90,500
Donor-approved loan receivable from unrestricted net assets (see Note 14)	100,000	-
Endowment contributions receivable	986,909	992,204
	$ 2,953,799	$ 2,949,283

NOTE 14 – 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.

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.

As a result of the implementation of a new accounting principle, beginning in 2011, net investment income 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. As a result, $296,163 has been reflected in the table below as if the accounting principle was adopted at the beginning of fiscal 2010.

Changes in endowment net assets are as follows for the years ended June 30, 2011 and 2010:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at July 1, 2009 – as adjusted	$ 50,524	$ 1,891,332	$ 1,941,856
Collections of endowment receivables	-	65,747	65,747
Investment income	245,639	-	245,639
Endowment net assets at June 30, 2010 – as adjusted	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	351,228	-	351,228
Appropriation of endowment assets for expenditure	(100,000)	-	(100,000)
Endowment net assets at June 30, 2011	$ 547,391	$ 1,866,890	$ 2,414,281

NOTE 14 – ENDOWMENTS, continued

Endowment assets are recorded as follows in the statement of financial position at June 30:

	2011	2010
Restricted investments	$ 2,273,397	$ 2,127,100
Beneficial interest in perpetual trust (see Note 7)	140,884	126,142
	$ 2,414,281	$ 2,253,242

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, 2011 and 2010, there were no deficiencies in the CTF Endowment corpus.

NOTE 15 – 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:

	2011	2010
Revenues	$ 2,123,185	$ 2,442,288
Expenses	(933,213)	(996,593)
	$ 1,189,972	$ 1,445,695

NOTE 16 – 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, 2011 and 2010.

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 contributed $0 and $10,650 to the Plan during the years ended June 30, 2011 and 2010, respectively.

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.

NOTE 17 – 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, 2011 and 2010 totaled approximately $811,000 and $661,000, respectively, which is recorded in general contributions in the accompanying statement of activities. Contributions receivable from board members totaled approximately $1,469,000 and $2,010,000 as of June 30, 2011 and 2010, 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, 2011 and 2010, management fees paid to this entity totaled $108,219 and $191,505, respectively. The net proceeds to the Foundation from this event (net of management fee) for the years ended June 30, 2011 and 2010 were $289,379 and $439,280, respectively.

See Notes 2 and 18 regarding the related party notes payable.

NOTE 18 – SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events after the balance sheet date of June 30, 2011 through November 7, 2011, the date the financial statements were issued. Except as described herein, management has determined that no subsequent events have occurred that would require recognition in the accompanying financial statements or disclosure in the notes thereto.

In July 2011, the Foundation entered into a $9,500,000 loan ("Academy Loan") with a third party lender, guaranteed by a related party and secured by a deed of trust on the purchased land dated July 7, 2011, bearing interest at 1% below the lender's prime rate (initially totaling 4.00%), but under no circumstances less than 4%, maturing in July 2013. In July 2011, from the proceeds of the Academy Loan, the Foundation purchased land for $7,600,000, repaid its related party notes payable as described in Note 2 and has begun pre-construction activities.