

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

FINANCIAL STATEMENTS

For The Years Ended June 30, 2010 and 2009

with

INDEPENDENT AUDITORS' REPORT THEREON

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

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Independent Auditors' Report

Board of Directors
Orangewood Children's Foundation

We have audited the accompanying statements of financial position of Orangewood Children's Foundation (the "Foundation"), a non-profit organization, as of June 30, 2010 and 2009, and the related statements of activities, functional expenses and cash flows for the year ended June 30, 2010. 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 in the statements of activities, functional expenses and cash flows has been derived from the Foundation's June 30, 2009 financial statements and, in our report dated October 28, 2009, we expressed an unqualified opinion on those financial statements.

We conducted our audits 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 audits 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 audits provide 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, 2010 and 2009, and the changes in its net assets and its cash flows for the year ended June 30, 2010 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 October 28, 2010 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
October 28, 2010

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

STATEMENTS OF FINANCIAL POSITION

ASSETS	June 30,	
	2010	2009
Current assets:		
Cash and cash equivalents	\$ 195,165	\$ 327,745
Investments	357,203	610,018
Current portion of contributions receivable, net of allowance for doubtful accounts of \$50,000 and \$80,000, respectively	2,017,240	2,104,279
Contracts receivable	363,262	385,534
Prepaid expenses and other current assets	210,057	124,035
Total current assets	3,142,927	3,551,611
Contributions receivable, net of current portion	976,389	900,977
Property and equipment, net	3,537,241	3,533,798
Beneficial interest in perpetual trust	126,142	90,669
Restricted investments	2,127,094	1,890,879
	\$ 9,909,793	\$ 9,967,934
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 862,252	\$ 906,189
Line of credit borrowings	105,873	-
Current portion of loan payable	120,000	120,000
Custodial funds payable	278,358	225,014
Deferred revenue	129,109	308,448
Security deposits payable	5,302	5,377
Total current liabilities	1,500,894	1,565,028
Loan payable, net of current portion	2,060,000	2,180,000
Total liabilities	3,560,894	3,745,028
Commitments and contingencies		
Net assets:		
Unrestricted	1,998,170	2,597,645
Temporarily restricted	1,103,141	625,857
Permanently restricted	3,247,588	2,999,404
Total net assets	6,348,899	6,222,906
	\$ 9,909,793	\$ 9,967,934

See accompanying notes to the financial statements

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

STATEMENTS OF ACTIVITIES

	For The Year Ended June 30, 2010			For The Year Ended June 30, 2009 Total (Summarized)
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and support:				
General contributions	\$ 1,547,482	\$ 573,842	\$ -	\$ 2,121,324
Special events/auxiliaries, net	241,116	1,204,579	-	1,445,695
Government contracts	1,966,175	-	-	1,966,175
Investment (loss) income	43,914	-	269,761	313,675
Conference	-	-	-	77,135
Rising Tide contributions	64,297	692,860	-	757,157
Rental income	131,707	-	-	131,707
Other, including property tax refunds	21,637	-	-	21,637
In-kind contributions	159,130	-	-	159,130
Net assets released from restrictions, net	<u>2,015,574</u>	<u>(1,993,997)</u>	<u>(21,577)</u>	<u>-</u>
Total revenue and support	<u>6,191,032</u>	<u>477,284</u>	<u>248,184</u>	<u>6,916,500</u>
Expenses:				
Program services:				
Emancipating and Former Foster Youth	1,669,695	-	-	1,669,695
Children in Foster Care	407,673	-	-	407,673
Child Abuse Prevention	1,896,406	-	-	1,896,406
Education of At-Risk Youth	<u>1,802,574</u>	<u>-</u>	<u>-</u>	<u>1,802,574</u>
Total program services	5,776,348	-	-	5,776,348
Supporting services	594,068	-	-	594,068
Fundraising	<u>420,091</u>	<u>-</u>	<u>-</u>	<u>420,091</u>
Total expenses	<u>6,790,507</u>	<u>-</u>	<u>-</u>	<u>6,790,507</u>
Change in net assets	(599,475)	477,284	248,184	(1,714,009)
Net assets, beginning of year	<u>2,597,645</u>	<u>625,857</u>	<u>2,999,404</u>	<u>6,222,906</u>
Net assets, end of year	<u>\$ 1,998,170</u>	<u>\$ 1,103,141</u>	<u>\$ 3,247,588</u>	<u>\$ 6,348,899</u>

See accompanying notes to the financial statements

ORANGEWOOD CHILDREN'S FOUNDATION
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STATEMENTS OF FUNCTIONAL EXPENSES

For The Year Ended June 30, 2010

	Program Services							Total Expenses	For The Year Ended June 30, 2009 Total (Summarized)
	Emancipating and Former Foster Youth	Children in Foster Care	Child Abuse Prevention	Education of At-Risk Youth	Total Program Services	Supporting Services	Fundraising		
Annual audit fee	\$ 7,319	\$ 2,006	\$ 9,881	\$ 2,520	\$ 21,726	\$ 8,399	\$ 4,334	\$ 34,459	\$ 38,820
Bad debt expense	-	-	-	-	-	2,176	-	2,176	1,670
Banking and merchant fees	8,042	3,800	5,221	10,195	27,258	20,026	-	47,284	45,930
Board and donor recognition	534	479	683	1,729	3,425	1,341	2,371	7,137	11,304
Board recruitment	443	8,766	694	153	10,056	508	282	10,846	13,991
Conferences/training	3,488	2,401	1,247	2,568	9,704	3,049	1,133	13,886	23,198
Consulting	41,390	17,725	447,038	14,185	520,338	34,660	18,317	573,315	444,359
Depreciation and amortization	43,123	7,586	8,492	7,122	66,323	42,958	15,850	125,131	117,558
Children's Trust Fund grants	-	-	-	1,072,082	1,072,082	-	-	1,072,082	1,132,670
Transitional housing costs	268,073	-	-	-	268,073	-	-	268,073	270,076
Independent living programs	100,958	-	-	-	100,958	-	-	100,958	128,981
Mentoring programs	-	5,121	-	-	5,121	-	-	5,121	11,892
Community programs	-	-	116,196	-	116,196	-	-	116,196	132,322
Orangewood Children's Home support	-	61,091	-	-	61,091	-	-	61,091	81,121
Other direct program costs	-	357	6,739	18,038	25,134	-	-	25,134	13,130
Direct salaries and benefits	789,276	154,374	756,384	336,802	2,036,836	-	-	2,036,836	2,631,644
Facility expense	14,955	3,046	4,288	2,856	25,145	105,023	6,386	136,554	137,721
Insurance	22,739	5,536	6,184	5,101	39,560	30,769	11,354	81,683	94,245
Marketing/public relations	11,242	9,644	8,390	34,852	64,128	27,019	17,438	108,585	121,770
Mortgage interest expense	17,277	4,199	4,700	3,942	30,118	23,775	8,773	62,666	91,806
Office equipment leases	7,404	1,799	2,014	1,689	12,906	10,189	3,760	26,855	24,986
Office expense	16,059	5,878	32,337	16,551	70,825	18,536	527	89,888	106,620
Property taxes	857	208	233	195	1,493	1,179	435	3,107	-
Indirect salaries and benefits	285,679	101,948	361,324	263,004	1,011,955	254,498	317,418	1,583,871	1,642,133
Telephone expense	12,652	3,230	12,595	4,369	32,846	9,131	3,580	45,557	55,539
Travel and mileage	13,395	8,052	12,040	4,049	37,536	832	509	38,877	58,158
Technology	4,790	427	99,726	572	105,515	-	7,624	113,139	19,116
	<u>\$ 1,669,695</u>	<u>\$ 407,673</u>	<u>\$ 1,896,406</u>	<u>\$ 1,802,574</u>	<u>\$ 5,776,348</u>	<u>\$ 594,068</u>	<u>\$ 420,091</u>	<u>\$ 6,790,507</u>	<u>\$ 7,450,760</u>

See accompanying notes to the financial statements

ORANGEWOOD CHILDREN'S FOUNDATION
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STATEMENTS OF CASH FLOWS

	For The Year Ended June 30,	
	2010	2009
		(Summarized)
Cash flows from operating activities:		
Change in net assets	\$ 125,993	\$ (1,714,009)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Bad debt expense	2,176	1,670
Accretion of discount on contributions receivable	23,221	198,502
In-kind donations of property and equipment	(63,277)	-
Depreciation and amortization	125,131	117,558
Unrealized and realized (gain) loss on investments	(199,176)	722,239
Change in operating assets and liabilities:		
Contributions receivable	(13,770)	(135,386)
Contracts receivable	22,272	213,148
Prepaid expenses and other current assets	(86,022)	4,166
Accounts payable and accrued expenses	(43,937)	(169,611)
Custodial funds payable	53,344	44,807
Deferred revenue	(179,339)	264,331
Security deposits payable	<u>(75)</u>	<u>(927)</u>
Net cash used in operating activities	<u>(233,459)</u>	<u>(453,512)</u>
Cash flows from investing activities:		
Purchase of property and equipment	(65,297)	(12,395)
Purchase of investments	(1,625,393)	(1,711,679)
Proceeds from sale of investments	<u>1,805,696</u>	<u>2,264,280</u>
Net cash provided by investing activities	<u>115,006</u>	<u>540,206</u>
Cash flows from financing activities:		
Proceeds from line of credit borrowings, net	105,873	-
Principal payments on loan payable	<u>(120,000)</u>	<u>(120,000)</u>
Net cash used in financing activities	<u>(14,127)</u>	<u>(120,000)</u>
Net decrease in cash and cash equivalents	(132,580)	(33,306)
Cash and cash equivalents, beginning of year	<u>327,745</u>	<u>361,051</u>
Cash and cash equivalents, end of year	\$ <u>195,165</u>	\$ <u>327,745</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ <u>62,666</u>	\$ <u>91,806</u>

See accompanying notes to the financial statements

ORANGEWOOD CHILDREN'S FOUNDATION
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NOTES TO FINANCIAL STATEMENTS

For The Years Ended June 30, 2010 and 2009

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 to young people:

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.

ORANGEWOOD CHILDREN'S FOUNDATION
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NOTES TO FINANCIAL STATEMENTS

For The Years Ended June 30, 2010 and 2009

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 in high school 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, who 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

ProjectConnection.FRC Health Access – This program provides health education and in-home support services for pregnant women and families with children ages 0-5. The Foundation provides program management, evaluation and training expertise to eight Family Resource Center partners through a grant from the Children & Families Commission of Orange County.

Bridges for Newborns – This program developed by the Children and Families Commission of Orange County, assists families to provide their babies with quality care and a healthy start in life. Bridges is co-administered by the Foundation and the Hospital Association of Southern California. Services are rendered by three community based organizations, Public Health Field Nursing and twelve birthing hospitals in Orange County.

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.

ORANGEWOOD CHILDREN'S FOUNDATION
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NOTES TO FINANCIAL STATEMENTS

For The Years Ended June 30, 2010 and 2009

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 Orangewood Academy will provide foster 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. The basic program and facility components include:

- Cottage-style living – students 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.

ORANGEWOOD CHILDREN'S FOUNDATION
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NOTES TO FINANCIAL STATEMENTS

For The Years Ended June 30, 2010 and 2009

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 accompanying 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.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that the corpus be maintained permanently by the Foundation. 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).

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 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
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NOTES TO FINANCIAL STATEMENTS

For The Years Ended June 30, 2010 and 2009

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. During the year ended June 30, 2009, the Foundation reversed a previously recognized long-term pledge receivable of approximately \$416,000 against general contributions due to a change in the timing and nature of the pledge.

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 \$50,000 and \$80,000 is necessary as of June 30, 2010 and 2009, 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. As of June 30, 2010 and 2009, the Foundation had \$0 and \$204,735, respectively, of 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.

ORANGEWOOD CHILDREN'S FOUNDATION
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NOTES TO FINANCIAL STATEMENTS

For The Years Ended June 30, 2010 and 2009

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 accounts based on historical experience. As of June 30, 2010 and 2009, 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 accompanying statements of activities.

Deferred Compensation

Deferred compensation represents the remaining balance of amounts owed to current and former executives under arrangements no longer offered by the Foundation. The Foundation has recorded the full amount of its obligation under the arrangements prior to fiscal 2009. Balances are increased (decreased) based on the overall investment returns of the Foundation. During the years ended June 30, 2010 and 2009, balances increased (decreased) by \$15,256 and \$(17,999), respectively, which is recorded in supporting services in the statements of activities. Amounts owed totaling \$112,063 and \$96,807 as of June 30, 2010 and 2009, respectively, are recorded under accounts payable and accrued expenses in the statements of financial position.

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.

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NOTES TO FINANCIAL STATEMENTS

For The Years Ended June 30, 2010 and 2009

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 \$159,130 and \$95,950 for attorney-related support services, auction items and design and construction services for the years ended June 30, 2010 and 2009, 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, 2010 and 2009, the Foundation had no net unrelated business income.

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 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.

ORANGEWOOD CHILDREN'S FOUNDATION
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NOTES TO FINANCIAL STATEMENTS

For The Years Ended June 30, 2010 and 2009

NOTE 2 – INVESTMENTS

Investments consist of mutual funds and equity securities which are carried at fair market value in accordance with current accounting guidance (see Note 3). Donated investments are recorded at the market value at the date of donation and thereafter carried in accordance with current accounting guidance. Net appreciation (depreciation) in the fair value of investments, which consists of the realized and unrealized gains or losses on those investments, is shown in investment (loss) income in the statements of activities.

NOTE 3 – 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 measured at fair value, including the general classification of such instruments pursuant to the valuation hierarchy.

Cash, Short-term Investments and Fixed Income Securities

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.

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NOTES TO FINANCIAL STATEMENTS

For The Years Ended June 30, 2010 and 2009

NOTE 3 – 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.

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. These investments are subject to change based on decisions made by the third party. This liability has been classified within Level 3 of the valuation hierarchy (see Note 6 for a roll forward of the Level 3 investment).

Deferred Compensation

The fair value of the deferred compensation balance fluctuates based on investment returns for the Foundation's mutual fund and equity securities investments. This liability has been classified within Level 2 of the valuation hierarchy.

The following table presents the fair value hierarchy for those assets measured at fair value on a recurring basis as of June 30, 2010:

	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	<u>Total</u>
Assets:				
Cash, short-term investments and fixed income securities	\$ 804,724	-	-	\$ 804,724
Mutual funds	704,595	-	-	704,595
Equity securities	974,978	-	-	974,978
Beneficial interest in perpetual trust	<u>-</u>	<u>-</u>	<u>126,142</u>	<u>126,142</u>
	<u>\$ 2,484,297</u>	<u>\$ -</u>	<u>\$ 126,142</u>	<u>\$ 2,610,439</u>
Liabilities:				
Deferred compensation	<u>\$ -</u>	<u>\$ 112,063</u>	<u>\$ -</u>	<u>\$ 112,063</u>

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NOTE 3 – FAIR VALUE MEASUREMENTS, continued

The following table presents the fair value hierarchy for those assets measured at fair value on a recurring basis as of June 30, 2009:

	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	<u>Total</u>
Assets:				
Cash, short-term investments and fixed income securities	\$ 1,232,597	-	-	\$ 1,232,597
Mutual funds	286,970	-	-	286,970
Equity securities	981,330	-	-	981,330
Beneficial interest in perpetual trust	-	-	90,669	90,669
	<u>\$ 2,500,897</u>	<u>\$ -</u>	<u>\$ 90,669</u>	<u>\$ 2,591,566</u>
Liabilities:				
Deferred compensation	<u>\$ -</u>	<u>\$ 96,807</u>	<u>\$ -</u>	<u>\$ 96,807</u>

As of June 30, 2010 and 2009, investments of \$2,127,094 and \$1,890,879, respectively, have been classified as restricted. Investment income (losses) for the years ended June 30, 2010 and 2009 from these investments was \$277,276 and \$(538,380), respectively, which includes net realized and unrealized investment gains (losses) of \$162,777 and \$(685,261), respectively.

NOTE 4 – 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, 2010, the discount rate in effect was 2.375%.

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NOTE 4 – CONTRIBUTIONS RECEIVABLE, continued

Future expected receipts on contributions receivable are as follows:

Years Ending June 30,		
2011	\$	2,067,240
2012		248,685
2013		235,297
2014		220,000
2015		220,000
Thereafter		200,000
		3,191,222
Less discount		(147,593)
	\$	3,043,629

The Foundation recognized general contributions revenue of \$23,221 and \$198,502 in fiscal 2010 and 2009, respectively, related to the accretion of the discount in the accompanying statements of activities.

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	2010	2009
Land	\$ 1,491,694	\$ 1,491,694
Furniture, fixtures and equipment	679,390	658,505
Building	1,444,267	1,444,267
Building improvements	1,187,562	1,079,873
	4,802,913	4,674,339
Less accumulated depreciation and amortization	(1,265,672)	(1,140,541)
	\$ 3,537,241	\$ 3,533,798

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NOTE 6 – BENEFICIAL INTEREST IN PERPETUAL TRUST

The Foundation was named as a beneficiary of the Orangewood Foundation Endowment Fund (the "Fund"), established in 1995. 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, who are the administrators of the Fund. The assets of the Fund as of June 30 are as follows:

	<u>2010</u>	<u>2009</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>
	90,500	90,500
Unrestricted, available for use by the Foundation:		
Cumulative gain on investments	94,837	58,438
Distributions	<u>(59,195)</u>	<u>(58,269)</u>
	<u>\$ 126,142</u>	<u>\$ 90,669</u>

NOTE 7 – 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, 2010 and 2009, custodial funds payable relating to these pass-through transactions was \$278,358 and \$225,014, respectively.

NOTE 8 – 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 was renewed in February 2010 with certain additional financial covenants with a one year extension expiring in February 2011. The Foundation was not in compliance with the LOC's financial covenants at June 30, 2010. In September 2010, the LOC was modified by the Bank to amend certain financial and non-financial covenants. During fiscal 2010, the daily outstanding principal balance bore interest at 2.75% above the Bank's prime rate (totaling 6.00% at June 30, 2010). The LOC is secured by the Foundation's two administrative office buildings. The outstanding balance on the LOC as of June 30, 2010 and 2009 was \$105,873 and \$0, respectively.

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NOTE 9 – 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 new 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 2.375% at June 30, 2010). 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 building and building improvements dated February 10, 2003. The outstanding balance on the note as of June 30, 2010 is \$2,180,000.

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

Years Ending June 30,	
2011	\$ 120,000
2012	120,000
2013	<u>1,940,000</u>
	<u>\$ 2,180,000</u>

NOTE 10 – PROPERTY TAX REFUNDS

During 2009, the Foundation became exempt from paying property taxes except for taxes on certain leases (see Note 11), which the County of Orange has applied retroactively. The Foundation recorded other income of \$41,410 and \$150,244 from the County of Orange during the years ended June 30, 2010 and 2009, respectively for refunds of past years' property tax payments.

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 ranging from \$200 to \$8,999 and expiring at various dates through July 2012.

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NOTE 11 – COMMITMENTS AND CONTINGENCIES, continued

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

<u>Years Ending June 30,</u>	
2011	\$ 134,905
2012	<u>107,991</u>
	<u>\$ 242,896</u>

Total rental income for the years ended June 30, 2010 and 2009 was \$131,707 and \$126,127, 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 accompanying statements of financial position.

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NOTE 12 – TEMPORARILY RESTRICTED NET ASSETS

The activity in temporarily restricted net assets for the year ended June 30, 2010 is as follows:

	<u>Available June 30, 2009</u>	<u>Revenues</u>	<u>Expenditures/ Transfers</u>	<u>Available June 30, 2010</u>
Academy/Endowment Children's Trust Fund/ Guardian Scholars	\$ 625,857	\$ 538,612	\$ 185,049	\$ 979,420
Rising Tide	-	993,769	993,769	-
Other	-	692,860	620,940	71,920
	<u>-</u>	<u>246,040</u>	<u>194,239</u>	<u>51,801</u>
Total	<u>\$ 625,857</u>	<u>\$ 2,471,281</u>	<u>\$ 1,993,997</u>	<u>\$ 1,103,141</u>

The activity in temporarily restricted net assets for the year ended June 30, 2009 is as follows:

	<u>Available June 30, 2008</u>	<u>Revenues</u>	<u>Expenditures/ Transfers</u>	<u>Available June 30, 2009</u>
Academy/Endowment Children's Trust Fund/ Guardian Scholars	\$ 1,295,945	\$ 388,000	\$ 1,058,088	\$ 625,857
Rising Tide	-	843,095	843,095	-
Other	-	454,270	454,270	-
	<u>2,000</u>	<u>72,200</u>	<u>74,200</u>	<u>-</u>
Total	<u>\$ 1,297,945</u>	<u>\$ 1,757,565</u>	<u>\$ 2,429,653</u>	<u>\$ 625,857</u>

NOTE 13 – PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consist of \$3,247,588 for the Children's Trust Fund at June 30, 2010. During the years ended June 30, 2010 and 2009, the Foundation received contributions made by donors with stipulations that contributions be held permanently by the Foundation totaling \$0 and \$5,810, respectively.

Permanently restricted net assets released from restrictions are related to management's analysis of historical donor contributions and the account balances, changes in requests from donors and changes in the discount of related contributions receivable.

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NOTES TO FINANCIAL STATEMENTS

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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>2010</u>	<u>2009</u>
Revenues	\$ 2,442,288	\$ 2,849,859
Expenses	<u>996,593</u>	<u>1,145,724</u>
	<u>\$ 1,445,695</u>	<u>\$ 1,704,135</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, 2010 and 2009.

On July 30, 2007, the Foundation started a new 403(b) plan ("New Plan"). The New 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 \$10,650 and \$56,034 to the New Plan during the years ended June 30, 2010 and 2009, 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.

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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 year ended June 30, 2010 and 2009 totaled approximately \$661,000 and \$362,000, respectively, which is recorded in general contributions in the accompanying statements of activities. General contributions from board members for the fiscal year ended June 30, 2009 includes the reversal of a long-term pledge receivable of approximately \$416,000 due to a change in the timing and nature of the pledge. Contributions receivable from board members totaled approximately \$2,010,000 and \$2,250,000 as of June 30, 2010 and 2009, 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, 2010 and 2009, management fees paid to this entity totaled \$191,505 and \$135,630, respectively. The net proceeds to the Foundation from this event for the years ended June 30, 2010 and 2009 were \$439,280 and \$307,014, respectively.

NOTE 17 – SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events after the balance sheet date of June 30, 2010 through October 28, 2010, the date the financial statements were issued. Management has determined that no subsequent events have occurred that would require recognition in the accompanying financial statements or disclosure in the notes thereto other than as disclosed in the accompanying notes.