

*Orangewood Children's Foundation* 

**(A NON-PROFIT ORGANIZATION)**

CONSOLIDATED FINANCIAL STATEMENTS

**AS OF JUNE 30, 2013**

**(WITH COMPARATIVE FINANCIAL INFORMATION  
AS OF JUNE 30, 2012)**

WITH INDEPENDENT AUDITORS' REPORT THEREON

**ORANGEWOOD CHILDREN'S FOUNDATION**  
**(A California Nonprofit Public Benefit Organization)**

**JUNE 30, 2013**

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## INDEPENDENT AUDITORS' REPORT

Governing Board  
Orangewood Children's Foundation and Affiliates  
(A California Non-Profit Public Benefit Corporation)  
Santa Ana, California

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Orangewood Children's Foundation and Affiliates (the Foundation) (A California Non-Profit Public Benefit Corporation), which are comprised of the consolidated statement of financial position as of June 30, 2013, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, which collectively comprise the basic financial statements.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Foundation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Report on Summarized Comparative Information**

The Orangewood Children's Foundation 2012 financial statements were audited by another auditor, which expressed an unmodified audit opinion on those audited financial statements dated November 13, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

## **Other Matters**

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements that collectively comprise the Foundation's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information as referenced in the previous paragraph is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information as listed in the table of contents is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2013, on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control over financial reporting and compliance.

*Vannink, Tein, Day & Co., LLP*

Rancho Cucamonga, California  
November 27, 2013

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***FINANCIAL SECTION***

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**ORANGEWOOD CHILDREN'S FOUNDATION**  
**(A California Nonprofit Public Benefit Organization)**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2013**  
**(With Comparative Totals for 2012)**

	2013	2012
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 476,530	\$ 2,100
Restricted cash	2,231,314	262,952
Investments	500,913	152,123
Current portion of contributions receivable, net allowance for doubtful accounts of \$70,000	4,723,679	3,017,217
Contracts receivable	560,683	232,554
Prepaid expenses and other assets	422,847	417,356
Total Current Assets	8,915,966	4,084,302
Contributions receivable, net of current portion	2,968,740	1,730,368
Land, property and equipment (net of accumulated depreciation)	17,294,530	13,279,917
Beneficial interest in perpetual trust	153,993	141,670
Restricted investments	2,720,408	2,400,064
Total Assets	\$ 32,053,637	\$ 21,636,321
<b>LIABILITIES</b>		
Current Liabilities		
Accounts payable and accrued expenses	\$ 1,574,436	\$ 753,282
Line of credit	-	92,782
Deferred revenue	211,413	276,267
Custodial funds payable	276,797	339,713
Obligations under notes payable, current portion	3,641,956	3,196,507
Total Current Liabilities	5,704,602	4,658,551
Long-Term Obligations		
Obligations under notes payable, long-term portion	11,166,009	9,090,589
Total Long-Term Obligations	11,166,009	9,090,589
Total Liabilities	16,870,611	13,749,140
<b>NET ASSETS</b>		
Unrestricted	6,343,565	2,344,554
Temporarily restricted	6,850,209	2,593,508
Permanently restricted	1,989,252	2,949,119
Total Net Assets	15,183,026	7,887,181
Total Liabilities and Net Assets	\$ 32,053,637	21,636,321

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

**ORANGEWOOD CHILDREN'S FOUNDATION**  
**(A California Nonprofit Public Benefit Organization)**

**CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED JUNE 30, 2013**  
**(With Summarized Totals for 2012)**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2013	2012
<b>Revenues and Support</b>					
General contributions	\$ 1,821,301	\$ 8,762,799	\$ 4,844	\$ 10,588,944	\$ 4,552,310
Special events/auxiliaries, net	313,293	1,305,963	-	1,619,256	1,284,136
Government contracts	2,221,542	225,000	-	2,446,542	2,595,939
Investments income gain/(loss), net	7,716	187,324	-	195,040	(14,750)
Rental income	86,198	-	-	86,198	29,770
Other income	16	-	-	16	528
In-kind contributions	21,043	1,038,137	-	1,059,180	196,981
Net assets released from restrictions, operations	4,304,100	(4,204,100)	(100,000)	-	-
<b>Total Revenues and Support</b>	<b>8,775,209</b>	<b>7,315,123</b>	<b>(95,156)</b>	<b>15,995,176</b>	<b>8,644,914</b>
<b>Functional Expenses</b>					
Program Services:					
Independent living programs	1,752,336	-	-	1,752,336	1,689,803
Children in foster care	954,139	-	-	954,139	841,427
Child abuse prevention	1,497,506	-	-	1,497,506	2,014,498
Education of underserved youth	2,499,176	-	-	2,499,176	2,017,947
<b>Total Program Services</b>	<b>6,703,157</b>	<b>-</b>	<b>-</b>	<b>6,703,157</b>	<b>6,563,675</b>
<b>Supporting Services</b>					
Management and general	312,727	-	-	312,727	436,220
Fundraising	546,650	-	-	546,650	468,868
<b>Total Supporting Services</b>	<b>859,377</b>	<b>-</b>	<b>-</b>	<b>859,377</b>	<b>905,088</b>
<b>Total Functional Expenses</b>	<b>7,562,534</b>	<b>-</b>	<b>-</b>	<b>7,562,534</b>	<b>7,468,763</b>
Change in net assets, before construction and other expense	1,212,675	7,315,123	(95,156)	8,432,642	1,176,151
Net assets released from restrictions, construction	3,058,422	(3,058,422)	-	-	-
Write off of endowment receivable and extra ordinary expenses	(272,086)	-	(864,711)	(1,136,797)	-
<b>Change in Net Assets</b>	<b>3,999,011</b>	<b>4,256,701</b>	<b>(959,867)</b>	<b>7,295,845</b>	<b>1,176,151</b>
<b>Net Assets, Beginning of Year</b>	<b>2,344,554</b>	<b>2,593,508</b>	<b>2,949,119</b>	<b>7,887,181</b>	<b>6,711,030</b>
<b>Net Assets, End of Year</b>	<b>\$ 6,343,565</b>	<b>\$ 6,850,209</b>	<b>\$ 1,989,252</b>	<b>\$ 15,183,026</b>	<b>\$ 7,887,181</b>

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

**ORANGEWOOD CHILDREN'S FOUNDATION**  
**(A California Nonprofit Public Benefit Organization)**

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2013**  
**(With Comparative Total for 2012)**

	2013	2012
<b>Cash Flows From Operating Activities</b>		
Change in Net Assets	\$ 7,295,845	\$ 1,176,151
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Bad debt expense	86,563	31,725
Write off of endowment receivable	864,711	-
Change in discount on contributions receivable	124,979	63,470
Depreciation	118,241	106,025
Net unrealized and realized gain/loss on investments	(152,980)	67,117
Change in Operating Assets and Liabilities:		
Accounts payable and accrued expenses	821,154	(336,545)
Contributions receivable	(4,021,087)	(1,220,621)
Contracts receivable	(328,129)	364,953
Custodial funds payable	(62,916)	40,211
Prepaid expenses and other assets	(5,491)	(81,862)
Deferred revenue	(64,854)	115,348
Net Cash Provided by Operating Activities	4,676,036	325,972
<b>Cash Flows From Investing Activities</b>		
Purchase of property and equipment	(4,132,854)	(9,418,220)
Purchase of investments	(1,239,004)	(3,089,636)
Proceeds from sale of investments	710,527	2,900,466
Net Cash Used in Investing Activities	(4,661,331)	(9,607,390)
<b>Cash Flows From Financing Activities</b>		
Repayments on line of credit borrowings, net	(92,782)	(282,852)
Proceeds from related-party and loans payable, net	2,640,869	9,847,096
Principal payments on loans payable	(120,000)	(120,000)
Net Cash Provided by Financing Activities	2,428,087	9,444,244
Net Change in Cash and Cash Equivalents	2,442,792	162,826
<b>Cash and Cash Equivalents, Beginning of Year</b>	265,052	102,226
<b>Cash and Cash Equivalents, End of Year</b>	\$ 2,707,844	\$ 265,052
<b>Supplemental Cash Flow Information</b>		
Interest paid	\$ 49,672	\$ 57,936
Non cash accretion of interest	390,668	353,328

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



**ORANGEWOOD CHILDREN'S FOUNDATION**  
**(A California Nonprofit Public Benefit Organization)**

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2013**  
**(With Summarized Total for 2012)**

	Program Services					Supporting Services			Total	
	Independent Living Programs	Children in Foster Care	Child Abuse Prevention	Education of Underserved Youth	Total Program Services	Management and General	Fundraising	Total Supportive Services	2013	2012
<b>Functional Expenses</b>										
Annual audit fee	\$ 4,764	\$ 2,019	\$ 3,463	\$ 2,412	\$ 12,658	\$ 5,026	\$ 3,392	\$ 8,418	\$ 21,076	\$ 46,200
Bad debt expense	-	-	-	26,500	26,500	60,063	-	60,063	86,563	31,725
Banking and merchant fees	6,304	2,671	4,582	3,163	16,720	6,139	4,487	10,626	27,346	37,544
Board and donor recognition	3,839	689	169	4,184	8,881	2,888	6,020	8,908	17,789	26,294
Mentor and staff recruitment	-	5,953	-	1,273	7,226	4,379	200	4,579	11,805	8,674
Conferences/training	2,701	892	6,269	41,927	51,789	2,102	3,209	5,311	57,100	15,549
Consulting	25,585	35,715	258,637	137,886	457,823	6,179	4,436	10,615	468,438	778,299
Depreciation	35,750	27,553	10,158	8,524	81,985	27,169	9,087	36,256	118,241	106,025
Children's Trust Fund grants	-	52,406	-	827,382	879,788	-	-	-	879,788	781,984
The Academy	-	-	-	83,120	83,120	-	-	-	83,120	103,409
Transitional housing costs	262,529	-	-	-	262,529	-	-	-	262,529	261,177
Collaborative courts program	-	18,604	-	-	18,604	-	-	-	18,604	17,318
Independent living programs	86,637	5,993	-	-	92,630	511	-	511	93,141	89,846
Community programs	81	-	93,576	-	93,657	-	-	-	93,657	328,096
Support to community	-	32,002	-	-	32,002	-	-	-	32,002	61,635
Other direct program costs	-	-	-	-	-	-	5,995	5,995	5,995	9,691
Direct salaries and benefits	972,379	553,352	804,563	984,611	3,314,905	-	-	-	3,314,905	2,627,582
Facility expense	35,942	30,599	12,374	17,574	96,489	30,173	10,091	40,264	136,753	157,759
Insurance expense	13,597	15,362	5,617	3,447	38,023	15,023	5,025	20,048	58,071	64,664
Marketing/public relations	17,536	3,002	7,133	72,164	99,835	12,574	28,300	40,874	140,709	128,603
Interest expense	11,111	12,880	4,748	3,984	32,723	12,700	4,248	16,948	49,671	57,936
Office equipment leases	5,309	8,047	2,269	1,904	17,529	6,068	2,030	8,098	25,627	26,920
Office expense	15,118	4,744	28,724	20,272	68,858	9,692	7,017	16,709	85,567	137,028
Property tax	871	955	352	4,724	6,902	942	315	1,257	8,159	11,643
Indirect salaries and benefits	220,437	108,943	82,862	180,428	592,670	101,652	436,017	537,669	1,130,339	1,265,711
Telephone expense	10,905	10,937	14,864	5,133	41,839	4,940	4,649	9,589	51,428	45,036
Travel and mileage	13,488	17,641	8,935	29,170	69,234	454	1,496	1,950	71,184	48,453
Technology	7,453	3,180	148,211	39,394	198,238	4,053	10,636	14,689	212,927	193,962
<b>Total Functional Expenses</b>	<b>\$ 1,752,336</b>	<b>\$ 954,139</b>	<b>\$ 1,497,506</b>	<b>\$ 2,499,176</b>	<b>\$ 6,703,157</b>	<b>\$ 312,727</b>	<b>\$ 546,650</b>	<b>\$ 859,377</b>	<b>\$ 7,562,534</b>	<b>\$ 7,468,763</b>

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

**ORANGEWOOD CHILDREN'S FOUNDATION**  
**(A California Nonprofit Public Benefit Organization)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**NOTE 1 - GENERAL**

The Orangewood Children's Foundation (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:

- Independent Living Programs — successfully transitioning foster teens into independent adulthood.
- Children in Foster Care — supporting children in foster care and at the Orangewood Children and Families Center.
- Child Abuse Prevention — providing skills to strengthen at-risk families and increasing awareness of child abuse.
- Education — providing scholarships for college, trade and graduate degree programs, workshops on educational opportunities, tutoring, and one on one assistance to youth. The Academy Charter School opened in August 2013 to provide foster and community youth a unique learning environment with smaller class sizes, robust technology, a project based learning. The Academy emphasizes the subjects of Science, Technology, Engineering, and Mathematics (STEM) for the curriculum.

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

The following are descriptions of the programs the Foundation offers:

**Independent Living Programs**

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

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

**ORANGEWOOD CHILDREN'S FOUNDATION**  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

*Beverly House* – In 2012 YWCA Central Orange County, recognizing our expertise in transitional housing for former foster youth, approached Orangewood to take over operations and ownership for the **First Steps at Beverly's House** program. Now part of Rising Tide, Beverly's House serves young women transitioning from the foster care system to independent adulthood at the age of 18 in a fully furnished home in the city of Orange.

*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 and Families Center 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 and health.

**Children in Foster Care**

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

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

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

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

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

**ORANGEWOOD CHILDREN'S FOUNDATION**  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**Child Abuse Prevention**

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

*CONNECT: Partnership for Non-profit Solutions* — This program provides leadership development and coaching, capacity building assistance, consultation and training to non-profit organizations in Orange County.

CONNECT's vision is that all Orange County non-profit and community-based organizations are connected with the assistance they need to fulfill their missions and realize their full potential. CONNECT is currently funded by the Children and Families Commission of Orange County and Families and Communities Together.

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

**Education of Underserved Youth**

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

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

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

**ORANGEWOOD CHILDREN'S FOUNDATION**  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

*Academy* — The Academy is a public charter high school in Santa Ana that provides numerous unique features to prepare foster and underserved youth for higher education and a self-sufficient, healthy adult life. Some of the unique features of this project are:

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

The Academy was awarded the first-ever charter from the Orange County Department of Education in February 2012. In addition, the Santa Ana City Council unanimously approved the project in September 2012.

The Academy campus construction began in the Spring of 2013 and the first class of approximately 120 students began classes in August 2013. See Note 3 for further information on development progress.

***NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***

**Funding**

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

**Principles of Consolidation**

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

**Financial Statement Presentation**

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

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

**ORANGEWOOD CHILDREN'S FOUNDATION**  
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**JUNE 30, 2013**

*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 15).

*Permanently restricted net assets* — Net assets subject to donor-imposed stipulations that the corpus be maintained permanently by the Foundation. At June 30, 2013 and 2012, permanently restricted net assets consist entirely of donor-restricted endowment investments and receivables (see Note 15). 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 changes in requests from donors.

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.

**Estimates**

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

**Contributions**

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

The Foundation uses the allowance method to determine uncollectible unconditional promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made. Management has determined that an allowance of \$70,000 and \$70,000 is necessary as of June 30, 2013 and 2012, respectively. During fiscal year ended June 2013, the Foundation had a one-time write down of an endowment pledge of \$864,711.

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**Cash and Cash Equivalents**

The Foundation considers cash on hand, restricted cash 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, 2013, the Foundation had approximately \$2,152,732 in these accounts in excess of the FDIC insurance limits. The Foundation periodically reviews the quality of the financial institutions it has deposits with to minimize risk of loss.

**Contracts Receivable**

The Foundation's contracts receivable are primarily reimbursements due from contracted government contract reimbursement requests. The Foundation provides for an allowance for uncollectible receivables based on historical experience. As of June 30, 2013 and 2012, 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 buildings and improvements. Maintenance and repairs are charged to expense as incurred. Significant renewals and betterments are capitalized. The Foundation capitalizes all expenditures for and donations of property and equipment with a fair value in excess of \$1,000. At the time of retirement or other disposition of property and equipment, the cost and accumulated depreciation or amortization are removed from the accounts and any resulting gain or loss is reflected in the consolidated statement of activities. As of and for the year ended June 30, 2013, the Foundation capitalized interest cost incurred during the construction of the Academy on debt borrowed specifically to finance the Academy in the amount of \$392,138.

**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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**Contributed Goods and Services**

Contributions of services are recognized in the consolidated financial statements if the services enhance or create non-financial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Recognizable contributed goods and services totaled \$1,059,180 and \$196,981 for attorney-related support services, donation of Beverly House property and donations to support the Charter School and Foundation for the years ended June 30, 2013 and 2012, 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, 2013 and 2012, the Foundation had no net 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, 2013, the Foundation did not have any unrecognized tax benefits. The Foundation is no longer subject to U.S. Federal, State or local income tax examinations by tax authorities for years before 2008.

**Allocated Expenses**

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

**Risks and Uncertainties**

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



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**Comparative Financial Information**

The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation's consolidated financial statements for the year ended June 30, 2012, from which the summarized information was derived. The consolidated financial statements of Orangewood Children's Foundation as of June 30, 2012, were audited by other auditors whose report dated November 13, 2012, expressed an unmodified opinion on those statements.

**NOTE 3 - THE ACADEMY CHARTER SCHOOL**

As described in Note 1, the Foundation has opened The Academy Charter School to serve foster and underserved youth as both a charter school and a residential program. The Foundation has created three LLCs and is in the process of creating a separate 501(c)(3) organizations to administer the creation and activities of the Academy. As of June 30, 2013, the Foundation has acquired real property located in Santa Ana, California for approximately \$7.6 million and has begun various design, planning and construction-related activities for the real property totaling approximately \$5.4 million (see Note 9). The acquisition and construction activities were financed primarily through separate, short-term promissory notes totaling \$3,521,956 including private foundations (one of which is a related party) (see Notes 12 and 18) and an \$9,466,009 promissory note from a bank (see Note 12).

**NOTE 4 - 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 5). Donated investments are recorded at the fair value at the date of donation.

Net Investment income (loss) as of June 30, 2013 and 2012, consisted of the following:

	<u>Endowments</u>	<u>Other</u>	<u>2013</u>
Interest and dividends	\$ 68,974	\$ 467	\$ 69,441
Investment fees	(23,331)	(4,050)	(27,381)
Net realized and unrealized gain	131,126	21,854	152,980
Total Investment Income, Net of Expenses	<u>\$ 176,769</u>	<u>\$ 18,271</u>	<u>\$ 195,040</u>
	<u>Endowments</u>	<u>Other</u>	<u>2012</u>
Interest and dividends	\$ 74,624	\$ 3,443	\$ 78,067
Investment fees	(23,825)	(1,875)	(25,700)
Net realized and unrealized loss	(65,219)	(1,898)	(67,117)
Total Investment Income, Net of Expenses	<u>\$ (14,420)</u>	<u>\$ (330)</u>	<u>\$ (14,750)</u>

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***NOTE 5 - 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.

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

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**Beneficial Interest in Perpetual Trust**

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

The following tables present the fair value hierarchy for those assets measured at fair value on a recurring basis as of June 30, 2013:

June 30, 2013	Quoted Prices In Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Cash and short-term investments	\$ 434,049	\$ -	\$ -	\$ 434,049
Mutual funds:				
Fixed income - taxable	935,373	-	-	935,373
Fixed income - other	13,362	-	-	13,362
Alternative investments	28,229	-	-	28,229
Equity securities:				
U.S. large-cap	987,551	-	-	987,551
U.S. mid and small-cap	355,413	-	-	355,413
International	467,344	-	-	467,344
Beneficial interest in perpetual trust	-	-	153,993	153,993
Total	<u>\$ 3,221,321</u>	<u>\$ -</u>	<u>\$ 153,993</u>	<u>\$ 3,375,314</u>

The following is a reconciliation of investments in which significant unobservable inputs (Level 3) were used in determining fair value for the years ended June 30, 2013.

	2013
Balance, beginning of year	\$ 141,670
Net unrealized and realized gains and accumulated interest	12,323
Balance, end of year	<u>\$ 153,993</u>
 Total net gains included in investment income attributable to Level 3 assets held at end of year	 <u>\$ 12,323</u>

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Investments are recorded as follows in the consolidated statements of financial position at June 30, 2013:

	2013	2012
Restricted investments - Endowment	\$ 2,325,000	\$ 2,250,964
Restricted investments - Academy	250,000	-
Restricted investments - Advance Studies	145,408	149,100
Beneficial interest in perpetual trust	153,993	141,670
Total restricted investments	2,874,401	2,541,734
Unrestricted investments	500,913	152,123
Total	\$ 3,375,314	\$ 2,693,857

**NOTE 6 - CONTRACTS RECEIVABLE**

Receivables at June 30, 2013, consisted of intergovernmental grants, entitlements and other local sources. All receivables are considered collectible in full.

	Orangewood Children's Foundation	The Academy Charter School	Total
Contract receivables	\$ 298,458	\$ -	\$ 298,458
Governmental receivables	-	225,000	225,000
Other accounts receivables	13,873	23,352	37,225
Total Accounts Receivable	\$ 312,331	\$ 248,352	\$ 560,683

**NOTE 7 - 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, 2013, the discount rate in effect ranged from 2.25 to 3.5 percent.

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Future expected contributions receivable are as follows:

Year Ending June 30,	
2014	\$ 4,793,679
2015	1,185,388
2016	1,024,362
2017	761,800
2018	341,800
Total	<u>8,107,029</u>
Less allowance for doubtful accounts	(70,000)
Less discount	<u>(344,610)</u>
	<u><u>\$ 7,692,419</u></u>

**NOTE 8 - LAND, PROPERTY AND EQUIPMENT**

At June 30, 2013, land, property and equipment consisted of the following:

	2013	2012
Land	\$ 9,684,098	\$ 9,118,136
Furniture, fixtures, and equipment	826,853	683,560
Buildings	1,829,406	1,444,267
Building improvements	1,532,000	1,189,252
Construction in progress	<u>5,033,545</u>	<u>2,337,833</u>
	18,905,902	14,773,048
Less accumulated depreciation	<u>(1,611,372)</u>	<u>(1,493,131)</u>
Total	<u><u>\$ 17,294,530</u></u>	<u><u>\$ 13,279,917</u></u>

For the year ended June 30, 2013, depreciation expense amounted to \$118,241.

In late 2012, the YWCA of Central Orange County (YWCA) began planning for their dissolution. The YWCA approached the Foundation to see if they would be willing to assume responsibility for the Beverly's House program, a transitional housing program for former foster youth. In exchange for assuming the program, the YWCA would transfer the deed for the property where the program is run. The final transfer of the deed occurred in June 2013. An independent appraisal of the property was obtained and the asset was recorded on the Foundation's books as land and buildings at a market value of \$950,000.

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***NOTE 9 - 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 14 and 15). 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:

	2013	2012
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
Total Permanently Restricted Net Assets	\$ 90,500	\$ 90,500
Temporarily restricted unappropriated earnings on endowment investments:		
Cumulative gain on investments	\$ 122,688	\$ 110,365
Cumulative distributions	(59,195)	(59,195)
Total Temporarily Restricted Net Assets	\$ 63,493	\$ 51,170
Total Net Assets	\$ 153,993	\$ 141,670

***NOTE 10 - 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, 2013 and 2012, custodial funds payable relating to these pass-through transactions was \$276,797 and \$339,713, respectively.

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**NOTE 11 - SUMMARY OF LOANS AND NOTES PAYABLE**

	Balance July 1, 2012	Additions	Deductions	Interest	Balance June 30, 2013	Due in one year
Construction notes payable	\$ 9,090,589	\$ -	\$ -	\$ 375,420	\$ 9,466,009	\$ -
Mortgage note payable	1,940,000	-	120,000	-	1,820,000	120,000
Related-party note payable	1,349,289	3,000,000	842,782	15,449	3,521,956	3,521,956
Total	<u>\$ 12,379,878</u>	<u>\$ 3,000,000</u>	<u>\$ 962,782</u>	<u>\$ 390,869</u>	<u>\$ 14,807,965</u>	<u>\$ 3,641,956</u>

**NOTE 12 - LOANS AND NOTE PAYABLE**

Loans payable consisted of the following at June 30, 2013:

	2013	2012
Obligation under note payable, maximum borrowing of \$9,500,000, secured by a deed of trust on the real property purchased in fiscal year 2012 (see Note 3), guaranteed by the Foundation and a related parties (H&S Investments I, LP), interest payable monthly at 1.00 percent below the bank's prime rate (totaling 4 percent at June 30, 2013), principal due in December 2014. The Foundation was in compliance with the associated loan covenants at June 30, 2013. Interest of \$375,420 was accreted to the balance.	\$ 9,466,009	\$ 9,090,589
Term note payable to bank, secured by a deed of trust on the Foundation and Headquarter buildings and building improvements, payable in monthly installments of \$10,000 plus interest at either the bank's prime rate or 2.00 percent above the LIBOR rate (totaling 2.25 percent at June 30, 2013). The mortgage on Foundation headquarters was renewed in February 2013 and final installment of principal due in February 2020.	1,820,000	1,940,000
Obligation under note payable to a private foundation (related-party), principal and interest at 3.00 percent due in June 2014.	521,956	506,507
Related-party payable to a private foundation, non interest bearing note due in October 2013.	3,000,000	750,000
Total	<u>14,807,965</u>	<u>12,287,096</u>
Less obligations under notes payable, current portion	<u>3,641,956</u>	<u>3,196,507</u>
Total Long-Term Obligation	<u>\$ 11,166,009</u>	<u>\$ 9,090,589</u>

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Future minimum annual principal payments on the term note payable for the fiscal year ended are as follows:

June 30,	Principal Payments
2014	\$ 3,641,956
2015	9,586,009
2016	120,000
2017	120,000
2018	120,000
2019-2020	1,220,000
Total	\$ 14,807,965

***NOTE 13 - LINE OF CREDIT***

The Foundation has a line of credit (the LOC) from a bank. As of June 30, 2013, the balance on the line of credit is \$0. The LOC has an aggregate principal limit of \$500,000 and expires in February 2014. The Foundation was in compliance with the LOC's covenants at June 30, 2013. During fiscal 2013, the daily outstanding principal balance bore interest at 2.75 percent above the 30-day LIBOR rate (totaling six percent at June 30, 2012) and decreased to 1.75 percent above the 30-day LIBOR rate (totaling five percent at June 30, 2013). The LOC is secured by the Foundation's two administrative office buildings.

***NOTE 14 - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS***

Temporarily restricted net assets at June 30, 2013, consisted of the following:

	2013	2012
The Academy	\$ 6,123,209	\$ 1,835,000
Unappropriated investment earnings of endowment net assets	489,740	412,971
Advanced Studies	145,408	149,096
Children's Trust Fund	79,687	127,781
Rising Tide	-	68,660
Orangewood Resource Center	12,165	-
Total Temporarily Restricted Net Assets	\$ 6,850,209	\$ 2,593,508



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Permanently restricted net assets at June 30, 2013, consisted of the following:

	2013	2012
Children's Trust Fund Endowment corpus (Note 15)	\$ 1,898,752	\$ 1,889,163
OCCF Fund corpus (Note 9)	90,500	90,500
Endowment contributions receivable	-	969,456
Total Permanently Restricted Net Assets	\$ 1,989,252	\$ 2,949,119

***NOTE 15 - ENDOWMENTS***

The Foundation's endowments are exclusively donor restricted, consisting of the Children's Trust Fund (CTF) Endowment and the OCCF Fund (see Note 9).

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.

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

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Changes to endowment net assets are as follows for the years ended June 30, 2013 and 2012:

	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets as of July 1, 2011	\$ 547,391	\$ 2,953,799	\$3,501,190
Net change in endowment receivables	-	(4,680)	(4,680)
Investment loss, net	(14,420)	-	(14,420)
Appropriation of endowment investment for CTF scholarships	(120,000)	-	(120,000)
Repayment of donor-approved loan to unrestricted net assets	-	-	-
Endowment Net Assets at June 30, 2012	412,971	2,949,119	3,362,090
Write off endowment receivable	-	(864,711)	(864,711)
Net change in endowment receivables	-	4,844	4,844
Investment gain, net	176,769	-	176,769
Appropriation of endowment investment for CTF scholarships	(100,000)	-	(100,000)
Change in donor intent of contribution receivable	-	(100,000)	(100,000)
Endowment Net Assets at June 30, 2013	<u>\$ 489,740</u>	<u>\$ 1,989,252</u>	<u>\$ 2,478,992</u>

**Investment Policy**

The Foundation's investment and spending policies are set by the Foundation's Investment Committee, which seek 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 percent and 65 percent of the portfolio. A zero-10 percent 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 percent, but not more than 45 percent, 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 percent 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, 2013 and 2012, there were no deficiencies in the CTF Endowment corpus.

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**NOTE 16 - SPECIAL EVENTS AND 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:

	2013	2012
Revenues, gross	\$ 2,831,249	\$ 2,342,351
Expenses, gross	(1,211,993)	(1,058,215)
Total, net	<u>\$ 1,619,256</u>	<u>\$ 1,284,136</u>

**NOTE 17 - RETIREMENT PLAN**

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, 2013 and 2012.

On July 30, 2007, the Foundation started a 403(b) plan (the Plan). The Plan provides a discretionary employer match of up to 75 percent of employee contributions to a maximum of \$1,500 each calendar year. Vesting in the employer match is over five years at 20 percent per year. Employees become eligible as of the first of the month following the date of hire. The Foundation made no matching contributions to the Plan during each of the years ended June 30, 2013 and 2012.

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 percent vested.

**NOTE 18 - 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, 2013 and 2012, totaled approximately \$3,622,673 and \$1,363,000, respectively, which are recorded in general contributions in the accompanying consolidated statements of activities. Contributions receivable from board members totaled approximately \$3,287,581 and \$2,021,000 as of June 30, 2013 and 2012, respectively. In addition, the Foundation receives contributions from two entities that have certain common directors. Contributions from these entities totaled approximately \$573,000 and \$503,000 for the years ended June 30, 2013 and 2012, respectively.

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For one of the Foundation's special events, a Board member holds a minority ownership interest in the entity which manages the event. For the years ended June 30, 2013 and 2012, management fees paid to this entity totaled \$228,612 and \$240,597, respectively. The net proceeds to the Foundation from this event (net of management fees) for the years ended June 30, 2013 and 2012, were \$460,300 and \$509,708, respectively.

In fiscal year 2012, the Foundation borrowed \$750,000 under a non-interest bearing, unsecured short-term promissory note from a private foundation. The proceeds of that loan were used for the development of the Academy. In October 2012, the private foundation made a contribution prior to the due date of the note, which the Foundation used to repay the note.

In fiscal year 2013, the Foundation borrowed another \$3,000,000 under a non-interest bearing, unsecured short-term promissory note from the same private foundation, that is related to a board member. The proceeds of that loan were used for the development of the Academy. In October 2013, the private foundation made a contribution prior to the due date of the note, which the Foundation used to repay the note.

***NOTE 19- COMMITMENTS AND CONTINGENCIES***

**Litigation**

The Foundation is not currently a party to any legal proceedings.

**Guarantees and Indemnities**

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

**ORANGEWOOD CHILDREN'S FOUNDATION**  
**(A California Nonprofit Public Benefit Organization)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**Department of Housing and Urban Development**

In June 2013, as part of the dissolution of the YWCA of Central Orange County (YWCA), the Foundation finalized the deed transfer and received ownership of the YWCA's Beverly's House property. The YWCA originally entered into a contract with the Department of Housing and Urban Development (HUD). HUD subsidized the YWCA in acquisition and rehabilitation of a new housing facility to be used for a transitional housing program. The contract required the YWCA to repay the entire amount of the grant used for acquisition, rehabilitation, or new construction of \$254,000 if the YWCA disposed of the facility before 10 years following the date of initial occupancy or date of initial service provision, which began during the fiscal year ending June 30, 2001.

If the YWCA disposed of the facility after 10 years following the date of initial occupancy or date of initial service provision, HUD requires repayment amount to be reduced by 10 percentage points for each year beyond the 10 year period. As part of the transfer of the Beverly's House asset, the Foundation received approval from HUD to assume the terms of this HUD agreement. Because the Foundation intends to continue use of this facility in accordance with the grant, a contingent liability has not been recorded.

The Foundation receives grant funding from HUD for specific purpose that may be subject to review and audit by the agency. Although such audits could generate expenditure disallowances under the terms of the grants or additional expenditures being allowed under the terms of the grants, the effects of all such audits cannot be reasonably estimated at the present time, Management believes they are in compliance with all grant requirements.

***NOTE 20 - RENTAL INCOME***

**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 \$4,076, expiring at various dates through January 2016.

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

Year Ending June 30,	
2014	\$ 82,761
2015	87,283
2016	35,810
Total	<u>\$ 205,854</u>

**ORANGEWOOD CHILDREN'S FOUNDATION**  
**(A California Nonprofit Public Benefit Organization)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

***NOTE 21 - SUBSEQUENT EVENTS***

The Foundation evaluated their June 30, 2013, consolidated financial statements for subsequent events through November 27, 2013, the date the financial statements were available to be issued. The Foundation is not aware of any subsequent events which would require recognition or disclosure in the accompanying financial statements.

On September 18, 2013, the Foundation entered into a loan for the purpose of funding the continued construction of the Academy Charter School campus. The principal amount of the loan is \$1.8 million at a rate per annum two percent above the Daily One Month LIBOR Rate in effect from time to time with a maturity due date of September 1, 2014.

In July 2013, the Academy obtained \$250,000 from the Charter School Revolving Loan Program as a startup loan to assist with operating costs of the new Academy. The repayment amount of \$62,500 is due annually with interest rate on the loan of 0.264 percent annually with a maturity due in 2017. Total interest cost on the loan is \$1,352.

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***SUPPLEMENTARY INFORMATION***

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**ORANGEWOOD CHILDREN'S FOUNDATION**  
**(A CALIFORNIA NONPROFIT PUBLIC BENEFIT ORGANIZATION)**

**CONSOLIDATING STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2013**

	Orangewood Children's Foundation	The Academy Charter School	Orangewood Real Property, LLC	Orangewood Residential, LLC	Subtotal	Eliminations	Total
<b>Assets</b>							
Current Assets							
Cash and cash equivalents	\$ 274,694	\$ 201,486	\$ 175	\$ 175	\$ 476,530	\$ -	\$ 476,530
Temporary restricted cash	2,231,314	-	-	-	2,231,314	-	2,231,314
Investments	824,276	-	-	-	824,276	(323,363)	500,913
Current portion of contributions receivable, net allowance for doubtful accounts of \$70,000	4,723,679	-	-	-	4,723,679	-	4,723,679
Contracts receivable	312,331	248,352	-	-	560,683	-	560,683
Prepaid expenses and other assets	209,091	3,347	210,409	-	422,847	-	422,847
Total Current Assets	<u>8,575,385</u>	<u>453,185</u>	<u>210,584</u>	<u>175</u>	<u>9,239,329</u>	<u>(323,363)</u>	<u>8,915,966</u>
Contributions receivable, net of current portion	2,968,740	-	-	-	2,968,740	-	2,968,740
Land, property and equipment, net of accumulated depreciation	4,271,833	-	13,022,697	-	17,294,530	-	17,294,530
Beneficial interest in perpetual trust	153,993	-	-	-	153,993	-	153,993
Restricted investments	2,720,408	-	-	-	2,720,408	-	2,720,408
Total Assets	<u>\$ 18,690,359</u>	<u>\$ 453,185</u>	<u>\$ 13,233,281</u>	<u>\$ 175</u>	<u>\$ 32,377,000</u>	<u>\$ (323,363)</u>	<u>\$ 32,053,637</u>

See accompanying independent auditors' report.



**ORANGEWOOD CHILDREN'S FOUNDATION**  
**(A CALIFORNIA NONPROFIT PUBLIC BENEFIT ORGANIZATION)**

**CONSOLIDATING STATEMENT OF FINANCIAL POSITION, CONTINUED**  
**JUNE 30, 2013**

	Orangewood Children's Foundation	The Academy Charter School	Orangewood Real Property, LLC	Orangewood Residential, LLC	Subtotal	Eliminations	Total
<b>Liabilities and Net Assets</b>							
Current Liabilities							
Accounts payable and accrued expenses	\$ 799,561	\$ 21,969	\$ 746,906	\$ 6,000	\$ 1,574,436	\$ -	\$ 1,574,436
Inter-fund payable (receivable)	(2,309,584)	(168,205)	2,484,044	(6,255)	-	-	-
Deferred revenue	211,413	-	-	-	211,413	-	211,413
Custodial funds payable	276,797	-	-	-	276,797	-	276,797
Obligations under notes payable, current portion	2,870,000	250,000	521,956	-	3,641,956	-	3,641,956
Total Current Liabilities	<u>1,848,187</u>	<u>103,764</u>	<u>3,752,906</u>	<u>(255)</u>	<u>5,704,602</u>	<u>-</u>	<u>5,704,602</u>
Long-Term Debt							
Obligations under loans payable, long term portion	1,700,000	-	9,466,009	-	11,166,009	-	11,166,009
Total Long-Term Obligations	<u>1,700,000</u>	<u>-</u>	<u>9,466,009</u>	<u>-</u>	<u>11,166,009</u>	<u>-</u>	<u>11,166,009</u>
Total Liabilities	<u>3,548,187</u>	<u>103,764</u>	<u>13,218,915</u>	<u>(255)</u>	<u>16,870,611</u>	<u>-</u>	<u>16,870,611</u>
<b>Net Assets</b>							
Unrestricted	6,302,711	349,421	14,366	430	6,666,928	(323,363)	6,343,565
Temporarily restricted	6,850,209	-	-	-	6,850,209	-	6,850,209
Permanently restricted	1,989,252	-	-	-	1,989,252	-	1,989,252
Total Net Assets	<u>15,142,172</u>	<u>349,421</u>	<u>14,366</u>	<u>430</u>	<u>15,506,389</u>	<u>(323,363)</u>	<u>15,183,026</u>
Total Liabilities and Net Assets	<u>\$ 18,690,359</u>	<u>\$ 453,185</u>	<u>\$ 13,233,281</u>	<u>\$ 175</u>	<u>\$ 32,377,000</u>	<u>\$ (323,363)</u>	<u>\$ 32,053,637</u>

See accompanying independent auditors' report.

**ORANGEWOOD CHILDREN'S FOUNDATION**  
**(A California Nonprofit Public Benefit Organization)**

**CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**JUNE 30, 2013**

	Orangewood Children's Foundation	The Academy Charter School	Orangewood Real Property, LLC	Orangewood Residential, LLC	Subtotal	Eliminations	Total
<b>Revenue</b>							
General contributions	\$ 10,053,943	\$ 535,001	\$ -	\$ -	\$ 10,588,944	\$ -	\$ 10,588,944
Special events/auxiliaries, net	1,619,256	-	-	-	1,619,256	-	1,619,256
Government contracts	2,221,542	225,000	-	-	2,446,542	-	2,446,542
Investment gain, net	195,040	-	-	-	195,040	-	195,040
Rental income	86,198	-	-	-	86,198	-	86,198
Other, including property tax refunds	16	-	-	-	16	-	16
In-kind contributions	974,841	53,864	30,475	-	1,059,180	-	1,059,180
Total Revenue	15,150,836	813,865	30,475	-	15,995,176	-	15,995,176
<b>Expenses</b>							
Program Services:							
Independent Living Programs	1,752,336	-	-	-	1,752,336	-	1,752,336
Children in foster care	954,139	-	-	-	954,139	-	954,139
Child abuse prevention	1,497,506	-	-	-	1,497,506	-	1,497,506
Education of underserved youth	1,954,473	464,444	16,309	63,950	2,499,176	-	2,499,176
Total Program Services	6,158,454	464,444	16,309	63,950	6,703,157	-	6,703,157
Supporting Services	312,727	-	-	-	312,727	-	312,727
Fundraising	546,650	-	-	-	546,650	-	546,650
Total Supporting Services	859,377	-	-	-	859,377	-	859,377
Total Expenses	7,017,831	464,444	16,309	63,950	7,562,534	-	7,562,534
Change in net assets, before other expenses	8,133,005	349,421	14,166	(63,950)	8,432,642	-	8,432,642
Write off of endowment receivable and extra ordinary expenses	(1,136,797)	-	-	-	(1,136,797)	-	(1,136,797)
Change in net assets	6,996,208	349,421	14,166	(63,950)	7,295,845	-	7,295,845
Net assets, beginning of year	8,145,964	(132,751)	(116,598)	(9,434)	7,887,181	-	7,887,181
Contributed capital	-	132,751	116,798	73,814	323,363	(323,363)	-
Net assets, end of year	\$ 15,142,172	\$ 349,421	\$ 14,366	\$ 430	\$ 15,506,389	\$ (323,363)	\$ 15,183,026

See accompanying independent auditors' report.

**ORANGEWOOD CHILDREN'S FOUNDATION**  
**(A California Nonprofit Public Benefit Organization)**

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY**  
**SCHEDULE OF EXPENDITURES OF AWARDS**  
**JUNE 30, 2013**

Grantor/Program Title	Grant Number	Contract Period	Award Amount
Americorps/Vista	FCI-A7-01	7/1/12-/6/30/13	\$ 220,607
Breastfeeding Promotion Plan	PS-110	4/1/13-6/30/13	5,000
MCHN	FCI-BN-15	7/1/12-6/30/13	494,843
Total Expenditures of Awards			<u>\$ 720,450</u>

EXPENDITURES (PER AUDIT)	Americorps/ Vista	Breastfeeding Promotion Plan	MCHN
Staff salaries and benefits	\$ 180,998	\$ -	\$ 175,234
Other project expenses	16,109	5,000	299,609
Indirect/administrative overhead	23,500	-	20,000
Total	<u>\$ 220,607</u>	<u>\$ 5,000</u>	<u>\$ 494,843</u>

EXPENDITURES (PER INVOICES)	Americorps/ Vista	Breastfeeding Promotion Plan	MCHN
Staff salaries and benefits	\$ 180,998	\$ -	\$ 175,234
Other project expenses	16,109	5,000	299,609
Indirect/administrative overhead	23,500	-	20,000
Total	<u>\$ 220,607</u>	<u>\$ 5,000</u>	<u>\$ 494,843</u>

DIFFERENCE	Americorps/ Vista	Breastfeeding Promotion Plan	MCHN
Staff salaries and benefits	\$ -	\$ -	\$ -
Other project expenses	-	-	-
Indirect/administrative overhead	-	-	-
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying independent auditors' report.

**ORANGEWOOD CHILDREN'S FOUNDATION**  
**(A California Nonprofit Public Benefit Organization)**

**NOTES TO CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY**  
**SCHEDULE OF EXPENDITURES OF AWARDS**  
**JUNE 30, 2013**

***NOTE 1 - BASIS OF PRESENTATION***

The accompanying schedule of expenditures of awards presents the activity of all grant programs of Orangewood Children's Foundation (the Foundation) received from the Children and Families Commission of Orange County for the year ended June 30, 2013 for the Americorps/Vista and MCHN contracts. The information in this schedule is presented in accordance with the requirements of Children and Families Commission of Orange County.

***NOTE 2 - BASIS OF ACCOUNTING***

The accompanying schedule of expenditures of awards is presented using the accrual basis of accounting.

See accompanying independent auditors' report.

*Orangewood Children's Foundation* 

**(A NON-PROFIT ORGANIZATION)**

**SUPPLEMENTAL INFORMATION REQUIRED  
BY GOVERNMENT AUDITING STANDARDS AND OMB  
CIRCULAR A-133**

**FOR THE YEAR ENDED JUNE 30, 2013**

**ORANGEWOOD CHILDREN'S FOUNDATION**  
**(A California Nonprofit Public Benefit Organization)**

**JUNE 30, 2013**

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***INDEPENDENT AUDITORS' REPORTS***

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Governing Board  
Orangewood Children's Foundation and affiliates  
(A California Non-Profit Public Benefit Corporation)  
Santa Ana, California

We have audited, in accordance with the 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, the financial statements of Orangewood Children's Foundation and affiliates (the Foundation) (A California Non-Profit Public Benefit Corporation) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Foundation's basic financial statements, and have issued our report thereon dated November 27, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Foundation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Foundation's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Foundation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vannink, Tinn, Day & Co., LLP

Rancho Cucamonga, California

November 27, 2013



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR  
EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL  
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Governing Board  
Orangewood Children's Foundation and affiliates  
(A California Non-Profit Public Benefit Corporation)  
Santa Ana, California

**Report on Compliance for Each Major Federal Program**

We have audited Orangewood Children's Foundation and affiliates' (the Foundation) (A California Non-Profit Public Benefit Corporation) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Foundation's major Federal programs for the year ended June 30, 2013. The Foundation's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its Federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the Foundation's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the Foundation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major Federal program. However, our audit does not provide a legal determination of the Foundation's compliance.

## Opinion on Each Major Federal Program

In our opinion, the Foundation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2013.

## Report on Internal Control Over Compliance

Management of the Foundation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Foundation's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Varrinck, Tinn, Day & Co., LLP

Rancho Cucamonga, California  
November 27, 2013

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*SUPPLEMENTARY INFORMATION*

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**ORANGEWOOD CHILDREN'S FOUNDATION**  
**(A California Nonprofit Public Benefit Organization)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**JUNE 30, 2013**

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
Passed through California Department of Social Services and the County of Orange:			
Promoting Safe and Stable Families (Families and Communities Together)	93.556	[1]	\$ 415,107
Chafee Foster Care Independence Program - Independent Living Program	93.674	[1]	346,526
Medi-Cal Administrative Activities Program	93.778	10060	<u>63,366</u>
Total Expenditures of Federal Awards			<u>\$ 824,999</u>

[1] Catalogue number not available.

**ORANGEWOOD CHILDREN'S FOUNDATION**  
**(A California Nonprofit Public Benefit Organization)**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**JUNE 30, 2013**

***NOTE 1 - PURPOSE OF SCHEDULES***

**Schedule of Expenditures of Federal Awards**

The accompanying schedule of expenditures of federal awards (SEFA) includes the Federal grant activity of Orangewood Children's Foundation (the Foundation) under programs of the federal government for the year ended June 30, 2013. The information in the SEFA is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the SEFA presents only a selected portion of the operations of the Foundation, it is not intended to and does not present the consolidated financial position, changes in net assets or cash flows of the Foundation. Federal awards received directly from Federal agencies as well as Federal awards passed through the State of California are included in the SEFA.

The SEFA is presented using the accrual basis of accounting which is described in the notes to the Foundation's consolidated financial statements. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, where certain types of expenditures are not allowable or are limited as to reimbursement.

Amounts reported in the SEFA agree with the amounts reported in the related Federal financial reports for all major Federal programs.

***NOTE 2 - BASIS OF ACCOUNTING***

The SEFA is presented using the accrual basis of accounting which is described in the notes to the Foundation's consolidated financial statements. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, where certain types of expenditures are not allowable or are limited as to reimbursement.

***NOTE 3 - RELATIONSHIP TO FEDERAL AWARDS REPORTS***

Amounts reported in the SEFA agree with the amounts reported in the related federal financial reports for all major Federal programs.

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***SCHEDULE OF FINDINGS AND QUESTIONED COSTS***

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**ORANGEWOOD CHILDREN'S FOUNDATION  
(A California Nonprofit Public Benefit Organization)**

**SUMMARY OF AUDITORS' RESULTS  
JUNE 30, 2013**

**FINANCIAL STATEMENTS**

Type of auditors' report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

**FEDERAL AWARDS**

Internal control over major programs:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>None reported</u>
Type of auditors' report issued on compliance for major programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133?	<u>No</u>

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
93.556	Promoting Safe and Stable Families
93.674	Chafee Foster Care Independence Program

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 300,000</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>



**ORANGEWOOD CHILDREN'S FOUNDATION**  
**(A California Nonprofit Public Benefit Organization)**

**FINANCIAL STATEMENT FINDINGS**  
**June 30, 2013**

None reported.

**ORANGEWOOD CHILDREN'S FOUNDATION  
(A California Nonprofit Public Benefit Organization)**

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2013**

None reported.

**ORANGEWOOD CHILDREN'S FOUNDATION**  
**(A California Nonprofit Public Benefit Organization)**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**JUNE 30, 2013**

None reported.