

OPTIMIST BOYS' HOME AND RANCH, INC.

**FINANCIAL STATEMENTS,
SUPPLEMENTAL SCHEDULE,
and
ADDITIONAL INFORMATION**

JUNE 30, 2014

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Certified Public Accountants, LLP

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Optimist Boys' Home and Ranch, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Optimist Boys' Home and Ranch, Inc., which comprise the Statement of Financial Position as of June 30, 2014, and the related Statements of Activities, Functional Expenses, and Cash Flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 auditors' 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 auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Optimist Boys' Home and Ranch, Inc. as of June 30, 2014, 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.

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INDEPENDENT AUDITORS' REPORT

continued

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements of Optimist Boys' Home and Ranch, Inc. as a whole. The accompanying Schedule of Expenditures of Federal and Non-federal Awards, as required by Office of Management and Budget Circular A-133, "*Audit of States, Local Government, and Nonprofit Organizations*," is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Summarized Comparative Information

We have previously audited Optimist Boys' Home and Ranch, Inc.'s 2013 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated January 8, 2014. In our opinion the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2014 on our consideration of Optimist Boys' Home and Ranch, Inc.'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 Optimist Boys' Home and Ranch, Inc.'s internal control over financial reporting and compliance.

Harrington Group

Pasadena, California
November 26, 2014

OPTIMIST BOYS' HOME AND RANCH, INC.

STATEMENT OF FINANCIAL POSITION

June 30, 2014

With comparative totals at June 30, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2014</u>	<u>2013</u>
Assets					
Cash and cash equivalents (Note 2)	\$ 689,854	\$ -	\$ -	\$ 689,854	\$ 205,717
Accounts receivable - net of allowance of \$951,113	4,188,244			4,188,244	4,179,931
Pledges receivable (Note 3)	65,000	4,957		69,957	24,975
Investments (Note 4)	561,462	289,474	145,267	996,203	887,229
Prepaid expenses and other assets	157,440			157,440	159,493
Property and equipment (Note 6)	9,733,392			9,733,392	10,072,732
Total assets	<u>\$ 15,395,392</u>	<u>\$ 294,431</u>	<u>\$ 145,267</u>	<u>\$ 15,835,090</u>	<u>\$ 15,530,077</u>
Liabilities and net assets					
Liabilities					
Accounts payable	\$ 480,448	\$ -	\$ -	\$ 480,448	\$ 475,010
Accrued liabilities (Note 7)	1,432,459			1,432,459	1,674,118
Accrued unemployment liability (Note 8)	25,555			25,555	25,555
Line of credit (Note 9)	400,000			400,000	200,000
Total liabilities	<u>2,338,462</u>	<u>-</u>	<u>-</u>	<u>2,338,462</u>	<u>2,374,683</u>
Net assets					
Unrestricted	13,056,930			13,056,930	12,779,063
Temporarily restricted (Note 11)		294,431		294,431	231,064
Permanently restricted (Note 12)			145,267	145,267	145,267
Total net assets	<u>13,056,930</u>	<u>294,431</u>	<u>145,267</u>	<u>13,496,628</u>	<u>13,155,394</u>
Total liabilities and net assets	<u>\$ 15,395,392</u>	<u>\$ 294,431</u>	<u>\$ 145,267</u>	<u>\$ 15,835,090</u>	<u>\$ 15,530,077</u>

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

OPTIMIST BOYS' HOME AND RANCH, INC.

STATEMENT OF ACTIVITIES
 For the year ended June 30, 2014
 With comparative totals for the year ended June 30, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2014</u>	<u>2013</u>
Revenue					
Fees and government contracts (Note 13)	\$ 19,396,219	\$ -	\$ -	\$ 19,396,219	\$ 19,236,219
School fees	867,073			867,073	1,199,065
Charter school revenue	700,622			700,622	-
Contributions	318,232	112,317		430,549	433,273
Other income	191,682			191,682	341,304
Transportation	134,077			134,077	169,908
Special events, net of expenses of \$42,401	246,882			246,882	167,926
Unrealized gain on investments	91,212	14,095		105,307	64,866
Interest income	1,517			1,517	3,300
Gain on sale of property and equipment				-	2,219
Net assets released from restrictions	63,045	(63,045)		-	-
Total revenue	<u>22,010,561</u>	<u>63,367</u>	<u>-</u>	<u>22,073,928</u>	<u>21,618,080</u>
Expenses					
Program services	19,381,120			19,381,120	18,926,582
Support services	2,351,574			2,351,574	2,347,570
Total expenses	<u>21,732,694</u>	<u>-</u>	<u>-</u>	<u>21,732,694</u>	<u>21,274,152</u>
Change in net assets from operations	277,867	63,367		341,234	343,928
Net assets, beginning of year	<u>12,779,063</u>	<u>231,064</u>	<u>145,267</u>	<u>13,155,394</u>	<u>12,811,466</u>
Net assets, end of year	<u>\$ 13,056,930</u>	<u>\$ 294,431</u>	<u>\$ 145,267</u>	<u>\$ 13,496,628</u>	<u>\$ 13,155,394</u>

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

OPTIMIST BOYS' HOME AND RANCH, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended June 30, 2014

With comparative totals for the year ended June 30, 2013

	Program Services					Total Program Services	Support Services		Total Support Services	Total Expenses	
	Residential Treatment	Foster Family Program	Mental Health Program	Non-Public School	Charter School		Management and General	Fundraising		2014	2013
Salaries	\$ 5,688,376	\$ 344,502	\$ 3,683,752	\$ 880,009	\$ 617,901	\$ 11,214,540	\$ 1,403,320	\$ 141,238	\$ 1,544,558	\$ 12,759,098	\$ 12,257,299
Employee benefits	1,584,790	61,731	731,997	165,846	115,714	2,660,078	231,972	24,852	256,824	2,916,902	3,222,913
Total personnel expenses	7,273,166	406,233	4,415,749	1,045,855	733,615	13,874,618	1,635,292	166,090	1,801,382	15,676,000	15,480,212
Occupancy and communication	504,809	89,323	559,208	116,208	105,284	1,374,832	128,893	33,429	162,322	1,537,154	1,426,099
Professional fees	68,486	1,071	1,114,076	42,287	93,586	1,319,506	112,687	6,579	119,266	1,438,772	1,356,841
Personal services	1,190,331	5,018	37,189	52,286	71	1,284,895	-	-	-	1,284,895	1,286,851
Foster family payments	-	353,767	-	-	-	353,767	-	-	-	353,767	372,948
Supplies	144,982	5,283	99,069	18,848	11,453	279,635	14,485	384	14,869	294,504	300,556
Transportation	72,868	13,087	132,046	33,467	-	251,468	23,133	1,080	24,213	275,681	299,992
Lease expense	74,010	5,021	48,084	38,782	10,176	176,073	11,091	-	11,091	187,164	184,784
Conferences, conventions, and meetings	14,198	3,221	11,199	1,044	27,177	56,839	114,006	9,094	123,100	179,939	83,853
Capital expense	22,691	1,404	6,177	2,453	5,177	37,902	16,797	1,183	17,980	55,882	57,890
Dues and public relations	10,087	6,147	-	135	-	16,369	33,436	390	33,826	50,195	58,610
Interest expense	3,184	-	-	-	-	3,184	-	-	-	3,184	16,139
Miscellaneous	-	-	-	-	-	-	97	-	97	97	210
Functional expenses before depreciation	9,378,812	889,575	6,422,797	1,351,365	986,539	19,029,088	2,089,917	218,229	2,308,146	21,337,234	20,924,985
Depreciation expense	182,709	10,678	114,176	27,275	17,194	352,032	39,050	4,378	43,428	395,460	349,167
Total 2014 functional expenses	\$ 9,561,521	\$ 900,253	\$ 6,536,973	\$ 1,378,640	\$ 1,003,733	\$ 19,381,120	\$ 2,128,967	\$ 222,607	\$ 2,351,574	\$ 21,732,694	
Total 2013 functional expenses	\$ 9,759,737	\$ 946,971	\$ 6,107,486	\$ 2,112,388	\$ -	\$ 18,926,582	\$ 2,117,038	\$ 230,532	\$ 2,347,570		\$ 21,274,152

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

OPTIMIST BOYS' HOME AND RANCH, INC.

STATEMENT OF CASH FLOWS

For the year ended June 30, 2014

With comparative totals for the year ended June 30, 2013

	2014	2013
Cash flows from operating activities:		
Change in net assets	\$ 341,234	\$ 343,928
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	395,460	349,167
(Gain) on disposal of property and equipment	-	(2,219)
(Gain) on investments	(105,307)	(64,866)
Reinvested dividends and interest	-	(334)
Change in allowance for doubtful accounts	310,037	(90,891)
Changes in operating assets and liabilities:		
(Increase) in accounts receivable	(318,350)	(822,419)
(Increase) decrease in pledges receivable	(44,982)	15,015
Decrease (increase) in prepaid expenses and other assets	2,053	(37,570)
Increase (decrease) in accounts payable	5,438	(133,894)
(Decrease) increase in accrued liabilities	(241,659)	465,377
Increase in accrued unemployment liability	-	16,376
	343,924	37,670
Cash flows from investing activities:		
Purchase of property and equipment	(56,120)	(261,559)
Proceeds from sale of property and equipment	-	3,896
Proceeds from sale of investments	109,617	1,109,700
Purchase of investments	(113,284)	(735,447)
	(59,787)	116,590
Cash flows from financing activities:		
Proceeds from borrowings on line of credit	5,050,000	1,450,000
Payments on line of credit	(4,850,000)	(2,050,000)
	200,000	(600,000)
Net increase (decrease) in cash and cash equivalents	484,137	(445,740)
Cash and cash equivalents, beginning of year	205,717	651,457
Cash and cash equivalents, end of year	\$ 689,854	\$ 205,717
Supplemental disclosure:		
Operating activities reflects interest paid of:	\$ 3,184	\$ 16,139

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

OPTIMIST BOYS' HOME AND RANCH, INC.

NOTES TO FINANCIAL STATEMENTS

1. **Organization**

Optimist Boys' Home and Ranch, Inc. (“the Home”) also known as Optimist Youth Homes and Family Services is a private, not-for-profit corporation that provides residential care, foster care, adoptions, special education, and mental health programs for troubled and disadvantaged youth.

The Home maintains seven facilities, with the main facility in Highland Park. The community based programs are located as follows: Valley Group Home (“Mission Hills”), South Bay Group Home (“Carson”), Van Nuys Group Home for girls (“Van Nuys”), and Eagle Rock Group Home for Girls (“Los Angeles”). There is a foster family and mental health agency at the main facility in Highland Park and in Palmdale.

The Home also includes Optimist High School (“the School”). The School was incorporated on November 21, 1990 as a nonprofit public benefit corporation to develop, establish, and operate a nonpublic high school for students with learning disabilities and/or emotional problems pursuant to the rules and regulations promulgated by the Los Angeles Unified School District and such other governmental agencies having jurisdiction over such facilities. The School’s operations have been merged into the Home effective July 1, 1993.

On September 26, 2013, the Home opened Optimist Charter School (OCS) which is chartered by the Los Angeles County Office of Education and serves grades 7 through 12. The OCS program is designed to primarily serve probation and foster youth, mainly from our own residential programs but is open to community students as well. OCS is in a separate building and operates independently from the Home’s non-public school. There is one teacher and one teacher’s assistant for every ten students. OCS has its own principal and vice-principal and a host of support staff as well including behavior specialists. The students have the opportunity to take advantage of the many facilities on campus such as the gymnasium, swimming pool, weight room, fields, and the cafeteria. OCS follows all state and local regulations regarding the operation of a public school and in its first year the school achieved WASC accreditation.

The Home also offers day rehabilitation services for the residential population who receive added specialized services after school and on weekends. This program includes specialized therapies such as sexual offender groups, art therapy, and movement therapy. In addition, this program provides additional substance abuse services, socialization skills, intensive psychotherapy, vocational assessments, and psychiatric support.

Other mental health services offered at the Home include an aftercare program, outpatient preventative services, medication support and therapy, and case management services to juveniles incarcerated in Barry J. Nidorf Juvenile Hall.

The Home also began the Adoption Program on April 16, 2000. The Home helps children placed in foster homes to be placed in permanent homes through this program. The Home believes that permanence in terms of children’s services is paramount to the child’s future well being.

OPTIMIST BOYS' HOME AND RANCH, INC.

NOTES TO FINANCIAL STATEMENTS

1. **Organization**, continued

The Home receives funding from county and state agencies, with portions of their funding from the federal government. The Home also receives a portion of their private funding from the Optimist and Opti-Mrs. Clubs of Optimist International, located in Southern California, and the balance from other private sources.

The agency is accredited by the Council on Accreditation and the California Alliance of Children and Family Services.

2. **Summary of Significant Accounting Policies**

A summary of the significant accounting policies applied in the preparation of the accompanying financial statements is as follows:

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting.

Accounting

To ensure observance of certain constraints and restrictions placed on the use of resources, the accounts of the Home are maintained in accordance with the principles of net asset accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into net asset classes that are in accordance with specified activities or objectives. Accordingly, all financial transactions have been recorded and reported by net asset class as follows:

Unrestricted. These generally result from revenue generated by receiving unrestricted contributions, providing services, and receiving interest from investments less expenses incurred in providing program-related services, raising contributions, and performing administrative functions.

Temporarily Restricted. The Home reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from program or capital restrictions.

Permanently Restricted. These net assets are restricted by donors who stipulate that resources are to be maintained permanently, but permit the Home to expend all of the income (or other economic benefits) derived from the donated assets.

OPTIMIST BOYS' HOME AND RANCH, INC.

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Cash and Cash Equivalents

The Home has defined cash and cash equivalents as cash in banks and certificates of deposit with a maturity of less than one year.

Accounts Receivable

The Home uses the allowance method in order to reserve for potentially uncollectible accounts receivable.

Contributions and Pledges Receivable

Unconditional promises to give that are expected to be collected within one year are recorded as net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at fair value, which is measured as the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discount is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

Investments

The Home values its investments at fair value. Unrealized gains or losses (including investments bought, sold, and held during the year) are reflected in the Statement of Activities as gain or loss on investments. Short-term, highly liquid money market deposits that are not used for operations are treated as investments.

Fair Value Measurements

Generally accepted accounting principles provide guidance on how fair value should be determined when financial statement elements are required to be measured at fair value. Valuation techniques are ranked in three levels depending on the degree of objectivity of the inputs used with each level:

Level 1 inputs - quoted prices in active markets for identical assets

Level 2 inputs - quoted prices in active or inactive markets for the same or similar assets

Level 3 inputs - estimates using the best information available when there is little or no market

The Home is required to measure certain investments at fair value. The specific technique used to measure the fair value for this financial statement element is described in the note below that relates to the element.

continued

OPTIMIST BOYS' HOME AND RANCH, INC.

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Property and Equipment

Property and equipment are recorded at cost if purchased or at fair value at the date of donation if donated. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets. Maintenance and repair costs are charged to expense as incurred. Property and equipment are capitalized if the cost of an asset is greater than or equal to five thousand dollars and the useful life is greater than one year.

Concentration of Credit Risks

The Home places its temporary cash investments with high-credit, quality financial institutions. At times, such investments may be in excess of the Federal Deposit Insurance Corporation insurance limit. The Home has not incurred losses related to these investments.

The primary receivable balance outstanding at June 30, 2014, consists of government contract receivables due from county, state, and federal granting agencies. Concentration of credit risks with respect to trade receivables are limited, as the majority of the Home's receivables consist of earned fees from contract programs granted by governmental agencies.

The Home holds investments in the form of short-term money market investments, mutual funds, common stocks, and government bonds. The Board of Directors routinely reviews market values of such investments and credit ratings of bond issuers.

Approximately 88% of total revenue for the year ended June 30, 2014 is derived from fees and government contracts.

Donated Materials and Services

Contributions of donated non-cash assets are measured on a non-recurring basis and recorded at fair value in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at fair value in the period received.

A number of unpaid volunteers have made significant contributions of their time to the Home. However, the value of these services is not reflected in these statements because the criteria for recognition have not been satisfied.

continued

OPTIMIST BOYS' HOME AND RANCH, INC.

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Income Taxes

The Home is exempt from taxation under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d.

Generally accepted accounting principles provide accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by the Home in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. The Home's returns are subject to examination by federal and state taxing authorities, generally for three and four years, respectively, after they are filed.

Functional Allocation of Expenses

Costs of providing the Home's programs and other activities have been presented in the Statement of Functional Expenses. During the year, such costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services by a method that best measures the relative degree of benefit. The Home uses relative salary costs to allocate indirect costs.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues, and expenses as of the date and for the period presented. Actual results could differ from these estimates.

Comparative Totals

The 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 Home's financial statements for the year ended June 30, 2013, from which the summarized information was derived.

Subsequent Events

Management has evaluated subsequent events through November 26, 2014, the date the financial statements were available.

OPTIMIST BOYS' HOME AND RANCH, INC.

NOTES TO FINANCIAL STATEMENTS

3. Pledges Receivable

Unconditional promises to give are recorded at the present value of their estimated future cash flows. Total amount of pledges receivable of \$69,957 at June 30, 2014 are deemed fully collectible and expected to be collected within one year. Accordingly, no allowance was established.

4. Investments

Investments at June 30, 2014 consist of the following:

Mutual funds	\$838,704
Stocks	95,100
Cash equivalents	52,399
Government bonds	<u>10,000</u>
	<u>\$996,203</u>

5. Fair Value Measurements

The table below presents the balances of assets measured at fair value at June 30, 2014 on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds				
Non-US dev stock	\$158,548	\$ -	\$ -	\$158,548
Non-US emrg stock	39,857			39,857
Hedged futures	49,262			49,262
US large cap growth	46,965			46,965
US large cap value	109,779			109,779
US mid cap blend	144,427			144,427
US small cap growth	47,509			47,509
US int term bonds	203,352			203,352
US short term bonds	<u>39,005</u>			<u>39,005</u>
	<u>838,704</u>	<u>-</u>	<u>-</u>	<u>838,704</u>
Stocks				
Pharmaceuticals	51,612			51,612
Russell 3000	40,032			40,032
US mid cap growth	<u>3,456</u>			<u>3,456</u>
	<u>95,100</u>	<u>-</u>	<u>-</u>	<u>95,100</u>
Government bonds		<u>10,000</u>		<u>10,000</u>
Total	<u>\$933,804</u>	<u>\$10,000</u>	<u>\$ -</u>	<u>\$943,804</u>

continued

OPTIMIST BOYS' HOME AND RANCH, INC.

NOTES TO FINANCIAL STATEMENTS

5. Fair Value Measurements, continued

The fair values of mutual funds and common stock have been measured on a recurring basis using quoted prices for identical assets in active markets (Level 1 inputs).

The fair values of government bonds have been measured on a recurring basis using quoted prices in active or inactive markets for the same or similar assets (Level 2 inputs).

6. Property and Equipment

Property and equipment at June 30, 2014 consist of the following:

Buildings and improvements	\$12,368,959
Land	1,164,480
Furniture and equipment	1,026,993
Vehicle	<u>229,649</u>
	14,790,081
Less: accumulated depreciation	<u>(5,056,689)</u>
	<u>\$ 9,733,392</u>

Depreciation expenses for the year ended June 30, 2014 was \$395,460.

7. Accrued Liabilities

Accrued liabilities at June 30, 2014 consist of the following:

Accrued vacation	\$ 724,137
Accrued payroll	311,605
Accrued pension liability (see Note 14)	300,261
Other accrued liabilities	<u>96,456</u>
	<u>\$1,432,459</u>

8. Accrued Unemployment Liability

The Home has elected to be self-insured for the purposes of California State Unemployment insurance. Estimated accrued unemployment liability at June 30, 2014 of \$25,555, represents estimated future claims arising from payroll paid to June 30, 2014. Unemployment expense for the year ended June 30, 2014 was \$41,099.

continued

OPTIMIST BOYS' HOME AND RANCH, INC.

NOTES TO FINANCIAL STATEMENTS

9. Line of Credit

The Home has a line of credit in the amount of \$1,500,000 from a bank, secured by a certificate of deposit and treasury bills, with monthly payments of interest on the outstanding balance at an interest rate of a quarter percent (.25%) in excess of the bank's reference rate, due May 2015. At June 30, 2014, the outstanding balance on the line of credit was \$400,000.

10. Commitments and Contingencies

Obligations Under Operating Leases

The Home leases various facilities and equipment under operating leases with various terms. Future minimum payments, by year and in the aggregate, under these leases with initial or remaining terms of one year or more, consist of the following:

<u>Year ended June 30,</u>	
2015	\$150,664
2016	116,224
2017	45,127
2018	<u>6,524</u>
	<u>\$318,539</u>

Rent expense under operating leases for the year ended June 30, 2014 was \$169,152.

Contracts

The Home's grants and contracts are subject to inspection and audit by the appropriate governmental funding agency. The purpose is to determine whether program funds were used in accordance with their respective guidelines and regulations. The potential exists for disallowance of previously-funded program costs. The ultimate liability, if any, which may result from these governmental audits often cannot be reasonably estimated. During the year ended June 30, 2014, there was no contract settlement expense recorded. The Home has no other provisions on its financial statements for other governmental contracts and grants and the possible disallowance of program costs related to those contracts.

OPTIMIST BOYS' HOME AND RANCH, INC.

NOTES TO FINANCIAL STATEMENTS

11. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2014 consist of the following:

Continuing education and scholarships	\$ 71,104
Artificial turf	70,000
Client assistance	41,735
Educational fund	25,000
Unspent endowment earnings	20,925
Basketball fund	15,787
Football recreation	13,977
LA Optimist Club	9,701
Sports foundation	8,517
Computers for high school	7,110
Capital campaign	4,375
Education fund	3,271
Family support - high school	1,800
Other	<u>1,129</u>
	<u>\$294,431</u>

For the year ended June 30, 2014 net assets released from restrictions were \$63,045, \$53,045 for program restrictions and \$10,000 for capital restrictions.

12. Permanently Restricted Net Assets and Endowment Fund

In accordance with the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”), the Home has classified as permanently restricted the fair value of donations restricted by donors which were to be held as endowments in perpetuity. As a result, permanently restricted net assets include the fair value of the original and subsequent gifts made to the endowment fund and any accumulations required by donor stipulation. Accumulated earnings as well as gains and losses related to endowment assets have been classified as temporarily restricted until they are appropriated by the Board for use in current operations. The Home considers that appropriation occurs as part of its annual budget approval process when its decision is made to spend some or all of the accumulated earnings.

From time to time, the fair values of endowment assets may, due to unfavorable market fluctuations, fall below the level that donors require to be retained as a fund of perpetual duration. In accordance with generally accepted accounting principles, declines of this nature are reported as losses first in temporarily restricted net assets, if any are available, then in unrestricted net assets. As values recover, the increases are reported first as unrestricted gains, then as temporarily restricted gains, until the previous declines have been recovered.

The Home’s endowment fund consists of donor-restricted funds. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The Home’s endowment funds are valued at historical cost.

continued

OPTIMIST BOYS' HOME AND RANCH, INC.

NOTES TO FINANCIAL STATEMENTS

12. Permanently Restricted Net Assets and Endowment Fund, continued

Endowment net assets composition by type of fund as of June 30, 2014 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted Endowment funds	\$ <u>-</u>	<u>\$20,925</u>	<u>\$145,267</u>	<u>\$166,192</u>

Changes in endowment net assets as of June 30, 2014 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 6,830	\$145,267	\$152,097
Unrealized gain on investments		15,512		15,512
Fees		<u>(1,417)</u>		<u>(1,417)</u>
Endowment net assets, end of year	\$ <u>-</u>	<u>\$20,925</u>	<u>\$145,267</u>	<u>\$166,192</u>

13. Fees and Government Contracts

Fees and government contracts for the year ended June 30, 2014 consist of the following:

Residential board and care	\$11,068,622
Mental health services	7,269,548
Foster care	868,908
Nutrition program	169,141
Adoption assistance	<u>20,000</u>
	<u>\$19,396,219</u>

14. 401(k) Plan

The Home has a 401(k) profit sharing plan which covers all employees who attain twenty-one years of age, have completed one year of service, and have worked 1,000 hours during the year. The 401(k) plan is funded with contributions determined annually by the Board of Directors. Pension expense for the year ended June 30, 2014 was \$101,815.

SUPPLEMENTAL SCHEDULE

OPTIMIST BOYS' HOME AND RANCH, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AND NON-FEDERAL AWARDS
For the year ended June 30, 2014

<u>Program Name</u>	<u>Federal CFDA Number</u>	<u>Contract Term</u>	<u>Contract Number</u>	<u>Award Amount</u>	<u>Governmental Revenue</u>		<u>Program Expenditures From Governmental Revenue</u>
					<u>Federal</u>	<u>Non-federal</u>	
Federal Awards							
U.S. Department of Health and Human Services ("DHHS"):							
Pass-through, State of California Department of Human Services:							
Foster Care - Title IV-E (a)	93.658	7/1/13-6/30/14	0212.00.02/ 0212.01.01	N/A	\$ 3,671,127	\$ 8,266,403	\$ 11,937,530
Pass-through, California Department of Social Services:							
Pass-through County of Los Angeles:							
Adoption Assistance	93.659	7/1/13-6/30/14	N/A	N/A	20,000		20,000
Total DHHS					<u>3,691,127</u>	<u>8,266,403</u>	<u>11,957,530</u>
U.S. Department of Agriculture ("USDA"):							
Pass-through, California Department of Education:							
National School Lunch Program	10.555	7/1/13-6/30/14	N/A	N/A	94,722	11,716	106,438
School Breakfast Program	10.553	7/1/13-6/30/14	N/A	N/A	62,703		62,703
Total USDA					<u>157,425</u>	<u>11,716</u>	<u>169,141</u>
U.S. Department of Education ("DOE")							
Pass-through, California Department of Education:							
Discretionary/Competitive Grants							
Public Charter Schools Grants Program	84.282A	2/3/14-7/31/15	U282A100013	\$575,000	21,855		21,855
Total Federal and Non-federal Awards					<u>\$ 3,870,407</u>	<u>\$ 8,278,119</u>	<u>\$ 12,148,526</u>

(a) Audited as a major program.

Summary of Significant Accounting Policies

- 1) Basis of Accounting - The Schedule of Expenditures of Federal and Non-federal Awards has been reported on the accrual basis of accounting.
- 2) The Home is exempt from income taxation under Internal Revenue Code Section 501(c)(3) and California Revenue Taxation Code Section 23701d.

See independent auditors' report.

ADDITIONAL INFORMATION



Certified Public Accountants, LLP

**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***

To the Board of Directors
Optimist Boys' Home and Ranch, Inc.

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 Optimist Boys' Home and Ranch, Inc., which comprise the Statement of Financial Position as of June 30, 2014, and the related Statements of Activities, Functional Expenses, and Cash Flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 26, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Optimist Boys' Home and Ranch, Inc.'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Optimist Boys' Home and Ranch, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Optimist Boys' Home and Ranch, Inc.'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 entity'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 Optimist Boys' Home and Ranch, Inc.'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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Optimist Boys' Home and Ranch, Inc.'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Harrington Group

Pasadena, California
November 26, 2014

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Certified Public Accountants, LLP

Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133

To the Board of Directors
Optimist Boys' Home and Ranch, Inc.

Report on Compliance for Each Major Federal Program

We have audited Optimist Boys' Home and Ranch, Inc.'s 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 Optimist Boys' Home and Ranch, Inc.'s major federal programs for the year ended June 30, 2014. Optimist Boys' Home and Ranch, Inc.'s major federal programs are identified in the summary of auditors' 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.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Optimist Boys' Home and Ranch, Inc.'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 Optimist Boys' Home and Ranch, Inc.'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 Optimist Boys' Home and Ranch, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Optimist Boys' Home and Ranch, Inc. 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, 2014.

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**Independent Auditors' Report on Compliance for Each Major Program
and on Internal Control Over Compliance Required by OMB Circular A-133**

continued

Report on Internal Control Over Compliance

Management of Optimist Boys' Home and Ranch, Inc. 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 Optimist Boys' Home and Ranch, Inc.'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 Optimist Boys' Home and Ranch, Inc.'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.

Harrington Group

Pasadena, California

November 26, 2014

OPTIMIST BOYS' HOME AND RANCH, INC.
Schedule of Findings and Questioned Costs
For the year ended June 30, 2014

Section I – Summary of Auditors’ Results

Financial Statements:

Type of auditors’ report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? No

Significant deficiencies identified?? None reported

Noncompliance material to financial statements noted? No

Federal Awards:

Internal control over major programs:

Material weakness(es) identified? No

Significant deficiencies identified?? None reported

Type of auditors’ report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? No

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? Yes

Identification of Major Programs:

U.S. Department of Health and Human Services:

Foster Care – Title IV-E 93.658

Section II – Financial Statements Findings

There are no findings required to be reported in accordance with *Generally Accepted Government Auditing Standards*.

Section III – Federal Award Findings and Questioned Costs

There are neither findings nor questioned costs for Federal Awards as defined in OMB Circular A-133.

Section IV – Summary Schedule of Prior Year Findings

None.