

**OPTIMIST BOYS' HOME AND RANCH, INC.**

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

**JUNE 30, 2016**

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## INDEPENDENT AUDITORS' REPORT

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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, 2016, 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 auditor considers 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.

## INDEPENDENT AUDITORS' REPORT

continued

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### 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, 2016, 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.

### Other Matters

#### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal and Non-federal Awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), is presented for purposes 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 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 7, 2015. In our opinion the summarized comparative information presented herein as of and for the year ended June 30, 2015, 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 28, 2016, 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 28, 2016

**OPTIMIST BOYS' HOME AND RANCH, INC.**

STATEMENT OF FINANCIAL POSITION

June 30, 2016

With comparative totals at June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>					
Cash and cash equivalents (Note 2)	\$ 74,494	\$ 163,059	\$ -	\$ 237,553	\$ 485,967
Accounts receivable - net of allowance of \$1,095,787	5,974,202			5,974,202	5,157,597
Pledges receivable (Note 3)	67,525	5,000		72,525	-
Investments (Note 4)	919,255	27,836	145,267	1,092,358	1,085,442
Prepaid expenses and other assets	115,619			115,619	65,086
Property and equipment (Note 6)	9,346,187			9,346,187	9,571,246
<b>TOTAL ASSETS</b>	<u>\$ 16,497,282</u>	<u>\$ 195,895</u>	<u>\$ 145,267</u>	<u>\$ 16,838,444</u>	<u>\$ 16,365,338</u>
<b>LIABILITIES AND NET ASSETS</b>					
<b>LIABILITIES</b>					
Accounts payable	\$ 492,039	\$ -	\$ -	\$ 492,039	\$ 757,826
Accrued liabilities (Note 7)	1,642,479			1,642,479	1,556,787
Accrued unemployment liability (Note 8)	25,555			25,555	25,555
Line of credit (Note 9)	500,000			500,000	200,000
<b>TOTAL LIABILITIES</b>	<u>2,660,073</u>	<u>-</u>	<u>-</u>	<u>2,660,073</u>	<u>2,540,168</u>
<b>NET ASSETS</b>					
Unrestricted	13,837,209			13,837,209	13,369,970
Temporarily restricted (Note 11)		195,895		195,895	309,933
Permanently restricted (Note 12)			145,267	145,267	145,267
<b>TOTAL NET ASSETS</b>	<u>13,837,209</u>	<u>195,895</u>	<u>145,267</u>	<u>14,178,371</u>	<u>13,825,170</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 16,497,282</u>	<u>\$ 195,895</u>	<u>\$ 145,267</u>	<u>\$ 16,838,444</u>	<u>\$ 16,365,338</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, 2016

With comparative totals for the year ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2016</u>	<u>2015</u>
<b>REVENUE</b>					
Fees and government contracts (Note 13)	\$ 19,014,929	\$ -	\$ -	\$ 19,014,929	\$ 18,667,169
Charter school revenue	1,775,859			1,775,859	1,226,864
Contributions	317,828	114,199		432,027	1,012,428
Special events, net of expenses of \$42,388	221,370			221,370	217,317
Other income	94,400			94,400	94,250
Investment income, net	7,424	1,400		8,824	43,152
Gain on sale of property and equipment	5,755			5,755	14,093
Interest income	763			763	1,282
School fees				-	675,791
Transportation				-	103,693
Net assets released from restrictions	229,637	(229,637)		-	-
<b>TOTAL REVENUE</b>	<u>21,667,965</u>	<u>(114,038)</u>	<u>-</u>	<u>21,553,927</u>	<u>22,056,039</u>
<b>EXPENSES</b>					
Program services	18,845,578			18,845,578	19,430,180
Support services	2,355,148			2,355,148	2,297,317
<b>TOTAL EXPENSES</b>	<u>21,200,726</u>	<u>-</u>	<u>-</u>	<u>21,200,726</u>	<u>21,727,497</u>
<b>CHANGE IN NET ASSETS</b>	467,239	(114,038)		353,201	328,542
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>13,369,970</u>	<u>309,933</u>	<u>145,267</u>	<u>13,825,170</u>	<u>13,496,628</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 13,837,209</u>	<u>\$ 195,895</u>	<u>\$ 145,267</u>	<u>\$ 14,178,371</u>	<u>\$ 13,825,170</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, 2016

With comparative totals for the year ended June 30, 2015

	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		2016	2015
Salaries	\$ 5,236,244	\$ 409,028	\$ 4,007,483	\$ -	\$ 1,027,053	\$ 10,679,808	\$ 1,469,958	\$ 108,958	\$ 1,578,916	\$ 12,258,724	\$ 12,515,163
Employee benefits	1,444,334	80,564	846,132		221,108	2,592,138	291,025	22,673	313,698	2,905,836	3,090,346
Total personnel expenses	6,680,578	489,592	4,853,615	-	1,248,161	13,271,946	1,760,983	131,631	1,892,614	15,164,560	15,605,509
Occupancy and communication	450,393	83,948	612,656		144,177	1,291,174	120,997	29,536	150,533	1,441,707	1,496,406
Professional fees	85,163	6,857	1,082,910		139,265	1,314,195	44,816	53,403	98,219	1,412,414	1,366,193
Personal services	1,063,978	3,557	8,143		33,618	1,109,296			-	1,109,296	1,263,539
Foster family payments		551,587				551,587			-	551,587	442,130
Supplies	133,034	7,131	111,187		90,707	342,059	13,075	626	13,701	355,760	326,169
Transportation	99,215	16,260	77,867		3,625	196,967	22,477	541	23,018	219,985	238,967
Capital expense	20,394	1,756	7,131		73,020	102,301	24,176		24,176	126,477	220,312
Lease expense	95,620	2,175	38,945		16,776	153,516	20,589		20,589	174,105	175,054
Conferences, conventions, and meetings	15,901	857	22,104		34,840	73,702	39,471	4,632	44,103	117,805	115,380
Dues and public relations	26,933	7,061				33,994	32,174	553	32,727	66,721	61,605
Interest expense	22,313					22,313			-	22,313	13,090
Miscellaneous	46,481	207	1,315			48,003	6,009		6,009	54,012	242
Functional expenses before depreciation	8,740,003	1,170,988	6,815,873	-	1,784,189	18,511,053	2,084,767	220,922	2,305,689	20,816,742	21,324,596
Depreciation expense	164,083	12,812	125,527		32,103	334,525	46,046	3,413	49,459	383,984	402,901
<b>TOTAL 2016 FUNCTIONAL EXPENSES</b>	<b>\$ 8,904,086</b>	<b>\$ 1,183,800</b>	<b>\$ 6,941,400</b>	<b>\$ -</b>	<b>\$ 1,816,292</b>	<b>\$ 18,845,578</b>	<b>\$ 2,130,813</b>	<b>\$ 224,335</b>	<b>\$ 2,355,148</b>	<b>\$ 21,200,726</b>	
TOTAL 2015 FUNCTIONAL EXPENSES	\$ 9,833,253	\$ 1,032,786	\$ 6,295,685	\$ 803,899	\$ 1,464,557	\$ 19,430,180	\$ 2,053,021	\$ 244,296	\$ 2,297,317		\$ 21,727,497

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, 2016

With comparative totals for the year ended June 30, 2015

	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 353,201	\$ 328,542
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation	383,984	402,901
(Gain) on disposal of property and equipment	(5,755)	(14,093)
Donated stock	(4,994)	(48,446)
Investment income	(8,824)	(40,793)
Change in allowance for doubtful accounts	54,097	90,575
(Increase) decrease in operating assets:		
Accounts receivable	(870,702)	(1,059,930)
Pledges receivable	(72,525)	69,957
Prepaid expenses and other assets	(50,533)	92,354
Increase (decrease) in operating liabilities:		
Accounts payable	(265,787)	277,378
Accrued liabilities	85,692	124,328
<b>NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES</b>	<b>(402,146)</b>	<b>222,773</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	(176,170)	(253,660)
Proceeds from sale of property and equipment	23,000	27,000
Proceeds from sale of investments	6,902	-
<b>NET CASH (USED) BY INVESTING ACTIVITIES</b>	<b>(146,268)</b>	<b>(226,660)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from borrowings on line of credit	2,250,000	100,000
Payments on line of credit	(1,950,000)	(300,000)
<b>NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES</b>	<b>300,000</b>	<b>(200,000)</b>
<b>NET (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(248,414)</b>	<b>(203,887)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>485,967</b>	<b>689,854</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 237,553</b>	<b>\$ 485,967</b>
<b>SUPPLEMENTAL DISCLOSURE:</b>		
Operating activities reflects interest paid of:	<b>\$ 22,313</b>	<b>\$ 13,090</b>

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

# OPTIMIST BOYS' HOME AND RANCH, INC.

## NOTES TO FINANCIAL STATEMENTS

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### 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 began its 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.

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. There is one teacher and one teacher’s assistant for every ten students. OCS follows all state and local regulations regarding the operation of a public school and is accredited by the Western Association of Schools and Colleges (“WASC”).

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 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.

# OPTIMIST BOYS' HOME AND RANCH, INC.

## NOTES TO FINANCIAL STATEMENTS

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### 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.

#### **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.

# OPTIMIST BOYS' HOME AND RANCH, INC.

## NOTES TO FINANCIAL STATEMENTS

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### 2. Summary of Significant Accounting Policies, continued

#### **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. Investments do not include fees earned under government contracts.

#### **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.

#### **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.

## OPTIMIST BOYS' HOME AND RANCH, INC.

### NOTES TO FINANCIAL STATEMENTS

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#### 2. Summary of Significant Accounting Policies, continued

##### 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, 2016, 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, 2016 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.

##### 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.

continued

# OPTIMIST BOYS' HOME AND RANCH, INC.

## NOTES TO FINANCIAL STATEMENTS

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### 2. Summary of Significant Accounting Policies, continued

#### 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, 2015, from which the summarized information was derived.

### 3. Pledges Receivable

Pledges receivable are recorded as support when pledges unless designated otherwise. Management deemed pledges collectible; accordingly no allowance for doubtful accounts has been established for uncollectible pledges. Additionally, all pledges are valued at their estimated fair value at June 30, 2016. Discount on pledges receivable is immaterial, accordingly, no discount on pledges receivable has been recorded. Total amount pledges receivable at June 30, 2016, of \$72,525 is expected to be collected as follows:

<u>Year ended June 30,</u>	
2017	\$57,525
2018	5,000
2019	5,000
2020	<u>5,000</u>
	<u>\$72,525</u>

continued

# OPTIMIST BOYS' HOME AND RANCH, INC.

## NOTES TO FINANCIAL STATEMENTS

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### 4. Investments

Investments at June 30, 2016 consist of the following:

Mutual funds	\$ 708,597
Stock ETFs	290,289
Money market funds	63,722
Corporate bonds	19,750
Government bonds	<u>10,000</u>
	<u>\$1,092,358</u>

### 5. Fair Value Measurements

The table below presents the balances of assets measured at fair value at June 30, 2016 on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds				
Multisector bond	\$242,195	\$ -	\$ -	\$242,195
Limited bond	151,352			151,352
Large growth	128,328			128,328
Large blend	110,242			110,242
Large value	<u>76,480</u>	<u>      </u>	<u>      </u>	<u>76,480</u>
	<u>708,597</u>	<u>      </u>	<u>      </u>	<u>708,597</u>
Stock exchange traded funds (ETFs)				
Large blend	54,445			54,445
Health fund	43,655			43,655
Mid growth	53,836			53,836
Large value	88,860			88,860
Large growth	<u>49,493</u>	<u>      </u>	<u>      </u>	<u>49,493</u>
	<u>290,289</u>	<u>      </u>	<u>      </u>	<u>290,289</u>
Corporate bonds	<u>      </u>	<u>19,750</u>	<u>      </u>	<u>19,750</u>
Government bonds	<u>      </u>	<u>10,000</u>	<u>      </u>	<u>10,000</u>
Total	<u>\$998,886</u>	<u>\$29,750</u>	<u>\$      </u>	<u>\$1,028,636</u>

continued

## OPTIMIST BOYS' HOME AND RANCH, INC.

### NOTES TO FINANCIAL STATEMENTS

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#### 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, 2016 consist of the following:

Buildings and improvements	\$12,592,910
Land	1,164,480
Furniture and equipment	1,144,469
Vehicle	<u>198,856</u>
	15,100,715
Less: accumulated depreciation	<u>(5,754,528)</u>
	<u>\$ 9,346,187</u>

Depreciation expense for the year ended June 30, 2016 was \$383,984.

#### 7. Accrued Liabilities

Accrued liabilities at June 30, 2016 consist of the following:

Accrued vacation	\$ 750,462
Accrued pension liability (see Note 14)	441,214
Accrued payroll	398,279
Other accrued liabilities	<u>52,524</u>
	<u>\$1,642,479</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, 2016 of \$25,555, represents estimated future claims arising from payroll paid to June 30, 2016. Unemployment expense for the year ended June 30, 2016 was \$126,096.

continued

## OPTIMIST BOYS' HOME AND RANCH, INC.

### NOTES TO FINANCIAL STATEMENTS

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#### 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 (0.25%) in excess of the bank's reference rate, due May 2017. At June 30, 2016, the outstanding balance on the line of credit was \$500,000.

#### 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>	
2017	\$151,166
2018	117,268
2019	97,845
2020	<u>288,573</u>
	<u>\$654,852</u>

Rent expense under operating leases for the year ended June 30, 2016 was \$174,105.

##### 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, 2016, 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

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#### 11. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2016 consist of the following:

Educational fund	\$ 42,692
Unspent endowment earnings	27,836
Continuing education and scholarships	23,106
Client assistance	22,848
Basketball fund	16,461
Auto shop campaign	12,501
Football recreation	8,201
Computers for high school	7,110
NSI fund	6,500
Enhanced therapy	5,000
LA Optimist Club	4,658
Capital improvements	4,429
Sports foundation	2,206
Family support - high school	1,800
Other	<u>10,547</u>
	<u>\$195,895</u>

For the year ended June 30, 2016, net assets released from restrictions were \$229,637, \$119,020 for program restrictions and \$110,617 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.

## OPTIMIST BOYS' HOME AND RANCH, INC.

### NOTES TO FINANCIAL STATEMENTS

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#### 12. Permanently Restricted Net Assets and Endowment Fund, continued

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.

Endowment net assets composition by type of fund as of June 30, 2016 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted Endowment funds	\$ -	\$27,836	\$145,267	\$173,103

Changes in endowment net assets as of June 30, 2016 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$26,436	\$145,267	\$171,703
Unrealized gain on investments		3,255		3,255
Fees		(1,855)		(1,855)
Endowment net assets, end of year	\$ -	\$27,836	\$145,267	\$173,103

#### 13. Fees and Government Contracts

Fees and government contracts for the year ended June 30, 2016 consist of the following:

Residential board and care	\$10,521,297
Mental health services	7,173,705
Foster care	1,112,160
Nutrition program	177,767
Adoption assistance	<u>30,000</u>
	<u>\$19,014,929</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, 2016 was \$248,363.

continued

## OPTIMIST BOYS' HOME AND RANCH, INC.

### NOTES TO FINANCIAL STATEMENTS

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#### 15. Subsequent Events

##### **Merger with Pacific Lodge Youth Services**

After completing a rigorous due diligence process, the Board of Directors of the Home and Pacific Lodge Youth Services (“Pacific Lodge”) signed a “Memorandum of Understanding” on August 1, 2016 stating their intent to merge. Given the changing landscape of the residential care/foster youth system statewide, both agencies saw the opportunity to leverage strengths, increase impact, and ensure long-term sustainability. The Home will be the surviving entity and will operate Pacific Lodge as a division.

The Home and Pacific Lodge are both leaders in Los Angeles County serving at-risk children, youth and their families. Established in 1906 and 1923 respectively, they have over 200 years of collective experience providing quality services to high-need populations.

The Home provides 24-hour residential care with comprehensive support services for 85 boys ages 12 – 19, operates four groups homes for 24 boys and girls, is a licensed foster family and adoption agency with 60 children currently placed in foster homes, operates an accredited charter school on their main campus with 160 high school students, and provides a wide variety of community-based mental health programs. The Home’s main campus is located in Highland Park.

Pacific Lodge, similarly, is licensed to provide 24-hour residential care with comprehensive support services for 68 boys and operates as a community-based mental health provider, offering outpatient, wraparound and other much-needed services to youth and families. Pacific Lodge’s campus is located in Woodland Hills.

It is anticipated that the merger will be completed by December 31, 2016. After the merger, The Home’s annual budgeted revenue will be \$36 million.

##### **Retirement Plan**

On November 7, 2016, the Board of Directors of the Home voted unanimously to change from its current 401(k) profit sharing plan to a safe harbor retirement plan with a 4% elective match. This change will be effective January 1, 2017.

These financial statements do not include any effects for the events noted above. And, management has evaluated other subsequent events through November 28, 2016, the date which the financial statements were available for issue. No other events or transactions have occurred during this period that appear to require recognition or disclosure in these financial statements.

**SUPPLEMENTAL SCHEDULE**

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**OPTIMIST BOYS' HOME AND RANCH, INC.**

SCHEDULE OF EXPENDITURES OF FEDERAL AND NON-FEDERAL AWARDS  
For the year ended June 30, 2016

<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>	
<b>Federal Awards</b>							
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	7/1/15-6/30/16	0212.00.02 /0212.01.01	N/A	\$ 3,601,441	\$ 8,032,016	\$ 11,633,457
Pass-through, California Department of Social Services:							
Pass-through County of Los Angeles:							
Adoption Assistance	93.659	7/1/15-6/30/16	N/A	N/A	30,000		30,000
<b>Total DHHS</b>					<u>3,631,441</u>	<u>8,032,016</u>	<u>11,663,457</u>
U.S. Department of Agriculture ("USDA"):							
Pass-through, California Department of Education:							
National School Lunch Program	10.555	7/1/15-6/30/16	N/A	N/A	105,112	11,804	116,916
School Breakfast Program	10.553	7/1/15-6/30/16	N/A	N/A	60,852		60,852
<b>Total USDA</b>					<u>165,964</u>	<u>11,804</u>	<u>177,768</u>
U.S. Department of Education ("DOE")							
Pass-through, California Department of Education:							
Discretionary/Competitive Grants							
Public Charter Schools Grants Program	84.282A	7/1/15-6/30/16	U282A100013	\$575,000	266,825		266,825
Special Education - Grants to States	84.027	7/1/15-6/30/16		N/A	29,860		29,860
Title I, Grants to Local Education Agencies	84.010	7/1/15-6/30/16		N/A	448		448
Title II, Part A, Improving Teacher Quality Grants	84.367	7/1/15-6/30/16		N/A	72,796		72,796
<b>Total DOE</b>					<u>369,929</u>		<u>369,929</u>
<b>Total Federal and Non-federal Awards</b>					<b><u>\$ 4,167,334</u></b>	<b><u>\$ 8,043,820</u></b>	<b><u>\$ 12,211,154</u></b>

(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**

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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***

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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, 2016, 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 28, 2016.

**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*.

**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***  
continued

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**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 the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Harrington Group*

Pasadena, California  
November 28-, 2016

**Independent Auditors' Report on Compliance for Each Major Program  
and on Internal Control Over Compliance Required by the Uniform Guidance**

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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 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, 2016. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards, and the Uniform Guidance 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, 2016.

**Independent Auditors' Report on Compliance for Each Major Program  
and on Internal Control Over Compliance Required by the Uniform Guidance**  
continued

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**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 the Uniform Guidance, 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Harrington Group*

Pasadena, California  
November 28, 2016

**OPTIMIST BOYS' HOME AND RANCH, INC.**  
**Schedule of Findings and Questioned Costs**  
For the year ended June 30, 2016

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**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 200.516 Audit Findings of the Uniform Guidance? No

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

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 the Uniform Guidance.

**Section IV – Summary Schedule of Prior Year Findings**

None reported.