

OPTIMIST BOYS' HOME AND RANCH, INC.

FINANCIAL STATEMENTS

JUNE 30, 2018

CONTENTS

Independent Auditors' Report	1-2
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7-18

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, 2018, 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.

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, 2018, 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.

INDEPENDENT AUDITORS' REPORT

continued

Other Matter

Report on Summarized Comparative Information

We have previously audited Optimist Boys' Home and Ranch, Inc.'s 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 7, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, 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 December 13, 2018, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Optimist Boys' Home and Ranch, Inc.'s 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
December 13, 2018

OPTIMIST BOYS' HOME AND RANCH, INC.

STATEMENT OF FINANCIAL POSITION

June 30, 2018

With comparative totals at June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2018</u>	<u>2017</u>
ASSETS					
Cash and cash equivalents (Note 2)	\$ 237,364	\$ 155,451	\$ -	\$ 392,815	\$ 422,449
Accounts receivable - net of allowance of \$2,172,658	5,944,845			5,944,845	6,761,224
Pledges receivable (Note 3)	105,500			105,500	115,000
Investments (Note 4)	1,439,981	61,179	2,512,684	4,013,844	3,729,408
Split interest agreement (Note 5)	15,166			15,166	16,126
Prepaid expenses and other assets	132,583			132,583	149,059
Property and equipment (Note 7)	10,345,214			10,345,214	10,830,607
TOTAL ASSETS	<u>\$ 18,220,653</u>	<u>\$ 216,630</u>	<u>\$ 2,512,684</u>	<u>\$ 20,949,967</u>	<u>\$ 22,023,873</u>
LIABILITIES AND NET ASSETS	118,025				
LIABILITIES					
Accounts payable	\$ 1,309,221	\$ -	\$ -	\$ 1,309,221	\$ 1,444,131
Accrued liabilities (Note 8)	1,812,316			1,812,316	1,696,160
Accrued unemployment liability (Note 9)	25,094			25,094	90,193
Line of credit (Note 10)	300,000			300,000	1,000,000
TOTAL LIABILITIES	<u>3,446,631</u>	<u>-</u>	<u>-</u>	<u>3,446,631</u>	<u>4,230,484</u>
NET ASSETS					
Unrestricted	14,774,022			14,774,022	15,105,727
Temporarily restricted (Note 12)		216,630		216,630	213,515
Permanently restricted (Note 13)			2,512,684	2,512,684	2,474,147
TOTAL NET ASSETS	<u>14,774,022</u>	<u>216,630</u>	<u>2,512,684</u>	<u>17,503,336</u>	<u>17,793,389</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 18,220,653</u>	<u>\$ 216,630</u>	<u>\$ 2,512,684</u>	<u>\$ 20,949,967</u>	<u>\$ 22,023,873</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, 2018

With comparative totals for the year ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2018</u>	<u>2017</u>
REVENUE					
Fees and government contracts (Note 14)	\$ 25,748,570	\$ -	\$ -	\$ 25,748,570	\$ 21,982,577
Charter school revenue	1,363,896			1,363,896	1,590,098
Contributions	568,974	48,956		617,930	727,199
Special events, net of expenses of \$45,133	287,646			287,646	312,226
Investment income	195,645	18,651	38,537	252,833	241,040
Other income	166,625			166,625	341,225
Interest and dividend income	61,860			61,860	30,266
(Loss) gain on sale of property and equipment	(6,759)			(6,759)	8,489
Net assets released from restrictions (Note 12)	64,492	(64,492)		-	-
TOTAL REVENUE	<u>28,450,949</u>	<u>3,115</u>	<u>38,537</u>	<u>28,492,601</u>	<u>25,233,120</u>
EXPENSES					
Program services	24,974,804			24,974,804	21,832,241
Support services	3,807,850			3,807,850	3,272,355
TOTAL EXPENSES	<u>28,782,654</u>	<u>-</u>	<u>-</u>	<u>28,782,654</u>	<u>25,104,596</u>
CHANGE IN NET ASSETS FROM OPERATIONS	(331,705)	3,115	38,537	(290,053)	128,524
OTHER CHANGES					
Gain on acquisition of Pacific Lodge Youth Services				-	3,486,494
CHANGE IN NET ASSETS	(331,705)	3,115	38,537	(290,053)	3,615,018
NET ASSETS, BEGINNING OF YEAR	<u>15,105,727</u>	<u>213,515</u>	<u>2,474,147</u>	<u>17,793,389</u>	<u>14,178,371</u>
NET ASSETS, END OF YEAR	<u>\$ 14,774,022</u>	<u>\$ 216,630</u>	<u>\$ 2,512,684</u>	<u>\$ 17,503,336</u>	<u>\$ 17,793,389</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, 2018

With comparative totals for the year ended June 30, 2017

	Program Services					Total Program Services	Support Services		Total Support Services	2018	2017
	Residential Treatment	Foster Family Program	Mental Health Program	Wrap Around	Charter School		Management and General	Fundraising			
Salaries	\$ 7,208,371	\$ 596,138	\$ 5,340,174	\$ 458,751	\$ 1,175,906	\$ 14,779,340	\$ 1,994,896	\$ 254,794	\$ 2,249,690	\$ 17,029,030	\$ 14,444,662
Employee benefits	1,877,515	112,663	1,058,107	92,415	235,466	3,376,166	459,581	47,230	506,811	3,882,977	3,230,534
Total personnel expenses	9,085,886	708,801	6,398,281	551,166	1,411,372	18,155,506	2,454,477	302,024	2,756,501	20,912,007	17,675,196
Professional fees	26,970	45,384	1,576,238	7,416	78,847	1,734,855	384,736	84,147	468,883	2,203,738	1,913,546
Occupancy and communication	593,404	134,577	638,663	35,836	143,309	1,545,789	185,970	51,656	237,626	1,783,415	1,636,525
Personal services	1,273,487	54,935	21,237	5,447	25,883	1,380,989	-	-	-	1,380,989	1,278,258
Foster family payments	-	628,967	-	-	-	628,967	-	-	-	628,967	709,080
Transportation	200,777	22,999	84,582	28,073	4,539	340,970	18,943	1,615	20,558	361,528	277,132
Supplies	128,457	8,422	61,536	1,300	41,257	240,972	73,565	663	74,228	315,200	326,671
Non-reimbursable expense	160,677	38,852	25,463	7,639	-	232,631	74,025	-	74,025	306,656	385,406
Lease expense	88,245	3,814	46,497	2,853	19,941	161,350	21,751	4	21,755	183,105	166,845
Capital expense	18,888	3,000	14,773	1,831	299	38,791	31,346	525	31,871	70,662	79,617
Conferences, conventions, and meetings	13,181	11,904	9,685	2,441	4,346	41,557	9,338	7,278	16,616	58,173	105,795
Dues and public relations	7,726	45	-	-	-	7,771	29,995	749	30,744	38,515	52,948
Interest expense	26,681	-	-	-	-	26,681	-	-	-	26,681	43,520
Miscellaneous	1,013	708	2	-	-	1,723	-	-	-	1,723	3,415
Functional expenses before depreciation	11,625,392	1,662,408	8,876,957	644,002	1,729,793	24,538,552	3,284,146	448,661	3,732,807	28,271,359	24,653,954
Depreciation expense	212,774	17,597	157,630	13,541	34,710	436,252	67,522	7,521	75,043	511,295	450,642
TOTAL 2018 FUNCTIONAL EXPENSES	\$ 11,838,166	\$ 1,680,005	\$ 9,034,587	\$ 657,543	\$ 1,764,503	\$ 24,974,804	\$ 3,351,668	\$ 456,182	\$ 3,807,850	\$ 28,782,654	
TOTAL 2017 FUNCTIONAL EXPENSES	\$ 10,647,319	\$ 1,528,632	\$ 7,681,147	\$ 272,849	\$ 1,702,294	\$ 21,832,241	\$ 2,923,056	\$ 349,299	\$ 3,272,355		\$ 25,104,596

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, 2018

With comparative totals for the year ended June 30, 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (290,053)	\$ 3,615,018
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	511,294	450,642
Loss (gain) on disposal of property and equipment	6,759	(8,489)
Investment income	(210,250)	(241,040)
Reinvested interest and dividends	(60,104)	(28,504)
Change in allowance for doubtful accounts	(162,853)	1,239,724
(Gain) on acquisition of Pacific Lodge Youth Services	-	(3,486,494)
Cash acquired from acquisition of Pacific Lodge Youth Services	-	330,744
(Increase) decrease in operating assets:		
Accounts receivable	979,232	(1,567,829)
Pledges receivable	9,500	(42,475)
Prepaid expenses and other assets	16,476	75,549
Increase (decrease) in operating liabilities:		
Accounts payable	(134,910)	303,290
Accrued liabilities	51,057	(767,842)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>716,148</u>	<u>(127,706)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(95,737)	(208,200)
Proceeds from sale of property and equipment	63,077	12,509
Purchase of investments	(16,872)	(222,045)
Proceeds from sale of investments	3,750	230,338
NET CASH (USED) BY INVESTING ACTIVITIES	<u>(45,782)</u>	<u>(187,398)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from borrowings on line of credit	1,200,000	1,500,000
Payments on line of credit	(1,900,000)	(1,000,000)
NET CASH (USED) PROVIDED BY FINANCING ACTIVITIES	<u>(700,000)</u>	<u>500,000</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	<u>(29,634)</u>	<u>184,896</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>422,449</u>	<u>237,553</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 392,815</u>	<u>\$ 422,449</u>
SUPPLEMENTAL DISCLOSURE:		
Operating activities reflects interest paid of:	<u>\$ 26,681</u>	<u>\$ 29,386</u>

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 also offers day rehabilitation services for the residential population who receive added services after school. 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. Through our acquisition of Pacific Lodge Youth Services (see below) we also offer wrap around services through an expanded contract with Los Angeles County Mental Health.

The Home began its Adoption Program in April 2000. Optimist 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 Charter School opened in September 2013 serving grades 7 through 12. This is a special charter school designed primarily to serve probation and foster youth. The Los Angeles County Office of Education authorized this venture and serves as the Home’s partner in its operation. Optimist Charter School is accredited by the Western Association of Schools and Colleges (WASC).

After a lengthy due diligence process, the Home acquired Pacific Lodge Youth Services (“Pacific Lodge”) of Woodland Hills effective January 2017. The Home operates Pacific Lodge as a division of its agency. This acquisition has made the Home the largest residential all probation provider in the state of California.

The Home maintains seven facilities in Los Angeles County including the main campus in Highland Park, the Pacific Lodge campus in Woodland Hills, the Valley Group Home in Mission Hills, the South Bay Group Home in Carson, the Van Nuys Group Home for girls and the Eagle Rock Group Home for Girls. There is also a foster family and mental health agency adjacent to the main campus in Highland Park and in Palmdale.

The Home has been accredited by the Council on Accreditation since 2000.

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

OPTIMIST BOYS' HOME AND RANCH, INC.

NOTES TO FINANCIAL STATEMENTS

1. **Organization**, continued

On August 1, 2017, the Home became the first Los Angeles County agency to be licensed as an STRTP (Short Term Residential Treatment Program), which is a new license category that replaces former group homes. All group homes in the State are required to convert to this new licensing category by December 31, 2018, or they will no longer be able to contract for services. Given that two of the major requirements for this new system are that agencies must be nationally accredited and have contracts with their local County Department of Mental Health, the Home was well prepared since it achieved those two milestones 18 years before those requirements were made effective.

The Home is proud of its rich heritage and commitment to serving youth.

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 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.

continued

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. Investments do not include fees earned under government contracts.

Split Interest Agreement

The Home has been designated as the beneficiary of assets held in a charitable remainder trust administered by other trustees. The Home recognizes temporarily restricted contribution revenue and, as a receivable, the present value of the estimated future benefits to be received when the trust assets are distributed. Adjustments to the receivable to reflect the revaluation of the present value of the estimated future payments to the lifetime beneficiaries are recognized in the statement of activities as a change in value of split-interest agreements.

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 the financial statement element is described in the notes below that relate 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, 2018, 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, government bonds, and pooled funds. The Board of Directors routinely reviews market values of such investments and credit ratings of bond issuers.

Approximately 90% of total revenue for the year ended June 30, 2018 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, 2017, from which the summarized information was derived.

Subsequent Events

Management has evaluated subsequent events through December 13, 2018, the date which the financial statements were available for issue. No events or transactions have occurred during this period that appear to require recognition or disclosure in the financial statements.

OPTIMIST BOYS' HOME AND RANCH, INC.

NOTES TO FINANCIAL STATEMENTS

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, 2018. Discount on pledges receivable is immaterial, accordingly, no discount on pledges receivable has been recorded. Total amount pledges receivable at June 30, 2018, of \$105,500 is expected to be collected as follows:

<u>Year ended June 30,</u>	
2019	\$ 30,000
2020	12,500
2021	12,500
2022	12,500
2023	12,500
Thereafter	<u>25,500</u>
	<u>\$105,500</u>

4. Investments

Investments at June 30, 2018 consist of the following:

Stock and exchange traded funds	\$2,042,623
Mutual funds	1,512,971
Real assets funds	142,088
Alternative investments	101,526
California Community Foundation pooled funds	90,414
Money market funds	93,972
Corporate bonds	20,250
Government bonds	<u>10,000</u>
	<u>\$4,013,844</u>

5. Split Interest Agreement

At June 30, 2018 a split-interest agreement in the amount of \$15,166 represents a 10% interest in a charitable remainder unitrust. The charitable remainder unitrust has an 8% payout of the net fair value of the trust assets to the surviving donor with a standard makeup provision. Management estimates receiving payment in the next fifteen years and has valued the gift at its present value.

The split-interest agreement has been classified as permanently restricted in accordance with a donor stipulation (see Note 13).

OPTIMIST BOYS' HOME AND RANCH, INC.

NOTES TO FINANCIAL STATEMENTS

6. Fair Value Measurements

The table below presents the balances of assets measured at fair value at June 30, 2018 on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Stocks and exchange traded funds	\$2,042,623	\$ -	\$ -	\$2,042,623
Mutual funds	1,512,971			1,512,971
Real asset funds	142,088			142,088
Alternative investment funds	101,526			101,526
Money market funds	93,972			93,972
California Community Foundation pooled funds			90,414	90,414
Corporate bonds		20,250		20,250
Split interest agreement			15,166	15,166
Government bonds		10,000		10,000
	<u>\$3,893,180</u>	<u>\$30,250</u>	<u>\$105,580</u>	<u>\$4,029,010</u>

The fair values of stocks and exchanged traded funds, mutual funds, real assets funds, alternative investments funds, and money market funds 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 and corporate 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).

The fair value of split interest agreement (charitable remainder unitrust) has been measured on a recurring basis using the estimated future payments to the lifetime beneficiaries, including consideration of the required payout (Level 3 inputs).

Pooled funds, managed by the California Community Foundation ("CCF"), are valued by CCF using the net asset value method and there were not unfunded commitments at June 30, 2018 (Level 3 inputs).

The following table provides further details of the Level 3 fair value measurements:

	<u>Pooled Funds</u>	<u>Split Interest Agreement</u>	<u>Total</u>
Beginning balance	\$87,644	\$16,125	\$103,769
Unrealized gains/changes in value	2,770	(959)	1,811
	<u>\$90,414</u>	<u>\$15,166</u>	<u>\$105,580</u>

continued

OPTIMIST BOYS' HOME AND RANCH, INC.

NOTES TO FINANCIAL STATEMENTS

7. Property and Equipment

Property and equipment at June 30, 2018 consist of the following:

Buildings and improvements	\$16,988,713
Land	1,160,480
Computers and equipment	950,803
Vehicle	<u>361,028</u>
	19,461,024
Less: accumulated depreciation	<u>(9,115,810)</u>
	<u>\$10,345,214</u>

Depreciation expense for the year ended June 30, 2018 was \$511,294.

8. Accrued Liabilities

Accrued liabilities at June 30, 2018 consist of the following:

Accrued vacation	\$ 948,195
Accrued payroll	639,684
Other accrued liabilities	118,025
County overpayments	<u>106,412</u>
	<u>\$1,812,316</u>

9. 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, 2018 of \$25,094, represents estimated future claims arising from payroll paid to June 30, 2018. Unemployment claims for the year ended June 30, 2018 were \$65,099 and absorbed by sufficient accrued unemployment liability established in prior years.

10. Line of Credit

The Home has a line of credit in the amount of \$2,000,000 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 July 1, 2019. At June 30, 2018, the outstanding balance on the line of credit was \$300,000.

continued

OPTIMIST BOYS' HOME AND RANCH, INC.

NOTES TO FINANCIAL STATEMENTS

11. Commitments and Contingencies

Obligations Under Operating Leases

The Home leases various facilities, equipment, and vehicles 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>	
2019	\$ 390,702
2020	340,449
2021	272,019
2022	<u>166,570</u>
	<u>\$1,169,740</u>

Rent expense under operating leases for the year ended June 30, 2018 was \$403,485.

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, 2018, 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.

12. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2018 consist of the following:

Unspent endowment earnings	\$ 61,179
Educational fund	53,659
Continuing education and scholarships	16,821
Sports foundation	11,633
L.A. Optimist Club	11,103
Auto shop campaign	9,894
Client assistance	8,508
Basketball fund	5,054
Enhanced therapy	5,000
Game room renovation	4,100
Computers for high school	4,867
Other	<u>24,812</u>
	<u>\$216,630</u>

continued

OPTIMIST BOYS' HOME AND RANCH, INC.

NOTES TO FINANCIAL STATEMENTS

12. Temporarily Restricted Net Assets, continued

For the year ended June 30, 2018, net assets released from restrictions was \$64,492, of which \$58,292 were released for program restrictions and \$6,200 for capital restrictions.

13. 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.

As the result of the acquisition of Pacific Lodge, the Home must comply with the endowment fund agreement. During the year ended December 31, 2000, Pacific Lodge received a \$1,000,000 matching contribution to fund a permanently restricted endowment with income earned thereon restricted for emancipation purposes. The gift was conditional upon Pacific Lodge raising a match of at least \$1,000,000, as approved by the donor. The match, as dictated by the donor in the endowment fund agreement, must also be permanently restricted as part of the endowment. During the year ended December 31, 2001, the donor accepted, as satisfaction of the match requirements, donations received to date and the amounts expected to be collected from Pacific Lodge's split-interest agreements. Therefore, the donor released the \$1,000,000 endowment funds to Pacific Lodge during the year ended December 31, 2002. The donor has since stipulated that Pacific Lodge must have the entire \$2,000,000, restricted for emancipation, in an account no later than three hundred and sixty-five days after final distribution of the split-interest agreements. Any portion of the donor funds not matched by that time may have to be returned to the donor.

OPTIMIST BOYS' HOME AND RANCH, INC.

NOTES TO FINANCIAL STATEMENTS

13. Permanently Restricted Net Assets and Endowment Fund, continued

Based on the valuations of the split-interest agreements, the amount of funds designated to date for emancipation, and other available and anticipated unrestricted funds, management expected the stipulated condition would be complied with by the designated time; therefore, Pacific Lodge recorded the entire grant during the year ended December 31, 2002. At June 30, 2018, permanently restricted endowment funds consist of \$2,573,863, which includes certain inflation adjustments as required by the endowment fund agreement.

The primary long-term financial objective for the Home's endowment funds is to preserve the real (inflation-adjusted) purchasing power of endowment assets and income after accounting for endowment spending, inflation and costs of portfolio management. Performance of the overall endowment against this objective is measured over an investment horizon of five to seven years. The endowment funds are also managed to optimize the long run total rate of return on invested assets, assuming a prudent level of risk. Disbursements from the HWS Emancipation Fund are limited to earnings from the fund each year.

Endowment net assets composition by type of fund as of June 30, 2018 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$61,179	\$2,512,684	\$2,573,863

Changes in endowment net assets as of June 30, 2018 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$42,528	\$2,474,147	\$2,516,675
Inflation adjustment			38,537	38,537
Unrealized gain on investments		20,680		20,680
Fees		(2,029)		(2,029)
Endowment net assets, end of year	\$ -	\$61,179	\$2,512,684	\$2,573,863

continued

OPTIMIST BOYS' HOME AND RANCH, INC.

NOTES TO FINANCIAL STATEMENTS

14. Fees and Government Contracts

Fees and government contracts for the year ended June 30, 2018 consist of the following:

Residential board and care	\$14,093,493
Mental health services	9,639,529
Foster care	1,807,873
Nutrition program	177,675
Adoption assistance	<u>30,000</u>
	<u>\$25,748,570</u>

15. 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 was effective January 1, 2017. Employees are eligible to contribute to the plan and receive the agency match on the first of the month following sixty days of employment. For the year ended June 30, 2018, the Home's profit-sharing match expense was \$257,560.