



(A NONPROFIT ORGANIZATION)

CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2018

**(WITH COMPARATIVE FINANCIAL INFORMATION
AS OF JUNE 30, 2017)**

WITH INDEPENDENT AUDITOR'S REPORT THEREON

ORANGEWOOD FOUNDATION
(A California Nonprofit Public Benefit Organization)

JUNE 30, 2018

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VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Governing Board
Orangewood Foundation and Affiliates
(A California Nonprofit Public Benefit Corporation)
Santa Ana, California

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Orangewood Foundation and Affiliates (the Foundation) (A California Nonprofit Public Benefit Corporation), which are comprised of the consolidated statement of financial position as of June 30, 2018, and the related consolidated 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 Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2018, and the changes in its net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Foundation's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 14, 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 Matters

Other Information

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

The supplementary 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. Such 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 supplementary information as listed in the table of contents is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2018, on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 the Foundation'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 the Foundation's internal control over financial reporting and compliance.

Vannink, Tai, Day & Co., LLP

Rancho Cucamonga, California
October 17, 2018

FINANCIAL SECTION

ORANGEWOOD FOUNDATION
(A California Nonprofit Public Benefit Organization)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2018
(With Comparative Totals for 2017)

	2018	2017
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 2,148,919	\$ 2,206,666
Restricted cash	7,760,812	1,719,482
Investments	748,242	543,728
Current portion of contributions and note receivable, net of allowance for doubtful accounts of \$5,666 in 2018 and \$50,252 in 2017	2,208,339	3,059,767
Contracts receivable	729,498	541,856
Prepaid expenses and other assets	481,062	293,114
Total Current Assets	14,076,872	8,364,613
Contributions and note receivable, net of current portion	1,673,333	2,743,073
Land, property and equipment (net of accumulated depreciation)	33,106,906	33,754,892
Beneficial interest in perpetual trust - restricted	132,323	124,596
Restricted investments	8,221,807	2,481,291
Total Assets	\$ 57,211,241	\$ 47,468,465
LIABILITIES		
Current Liabilities		
Accounts payable and accrued expenses	\$ 1,304,810	\$ 1,202,608
Deferred revenue	121,783	105,819
Custodial funds payable	34,187	27,912
Obligations under notes payable, current portion	474,005	467,196
Total Current Liabilities	1,934,785	1,803,535
Long-Term Obligations		
Obligations under notes payable, long-term portion	12,744,399	13,212,539
Total Liabilities	14,679,184	15,016,074
NET ASSETS		
Unrestricted	22,847,875	24,883,377
Temporarily restricted	12,331,379	5,580,744
Permanently restricted	7,352,803	1,988,270
Total Net Assets	42,532,057	32,452,391
Total Liabilities and Net Assets	\$ 57,211,241	\$ 47,468,465

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

ORANGEWOOD FOUNDATION
(A California Nonprofit Public Benefit Organization)

CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018
(With Summarized Totals for 2017)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2018	2017
Revenues and Support					
General contributions	\$ 2,132,230	7,250,669	\$ 5,364,533	\$ 14,747,432	\$ 10,529,033
Special events/auxiliaries, net	1,070,912	721,007	-	1,791,919	1,451,041
Government contracts	1,864,554	-	-	1,864,554	1,187,140
Charter school income	-	6,760,488	-	6,760,488	6,350,702
Investment income, net	45,550	130,871	-	176,421	278,824
Rental income	178,795	-	-	178,795	204,259
Other income	114,166	-	-	114,166	127,648
In-kind contributions	643,373	-	-	643,373	332,556
Net assets released from restrictions, operations	10,971,519	(10,971,519)	-	-	-
Total Revenues and Support	<u>17,021,099</u>	<u>3,891,516</u>	<u>5,364,533</u>	<u>26,277,148</u>	<u>20,461,203</u>
Functional Expenses					
Program Services:					
Health & Wellness	1,210,431	-	-	1,210,431	579,554
Housing	1,409,420	-	-	1,409,420	1,289,463
Life Skills & Employment	2,079,578	-	-	2,079,578	1,906,330
Education	8,977,438	-	-	8,977,438	9,159,837
Total Program Services	<u>13,676,867</u>	<u>-</u>	<u>-</u>	<u>13,676,867</u>	<u>12,935,184</u>
Supporting Services					
Management and general	1,832,426	-	-	1,832,426	1,612,172
Fundraising	688,189	-	-	688,189	675,080
Total Supporting Services	<u>2,520,615</u>	<u>-</u>	<u>-</u>	<u>2,520,615</u>	<u>2,287,252</u>
Total Functional Expenses	<u>16,197,482</u>	<u>-</u>	<u>-</u>	<u>16,197,482</u>	<u>15,222,436</u>
Change in Net Assets	823,617	3,891,516	5,364,533	10,079,666	(1,842,679)
Net Assets, Beginning of Year as restated	22,024,258	8,439,863	1,988,270	32,452,391	27,213,624
Net Assets, End of Year	<u>\$ 22,847,875</u>	<u>\$ 12,331,379</u>	<u>\$ 7,352,803</u>	<u>\$ 42,532,057</u>	<u>\$ 32,452,391</u>

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

ORANGEWOOD FOUNDATION
(A California Nonprofit Public Benefit Organization)

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018
(With Comparative Total for 2017)

	2018	2017
Cash Flows From Operating Activities		
Change in Net Assets	\$ 10,079,666	\$ 5,238,767
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Bad debt provision (credit)	(44,586)	23,530
Donated assets	-	(694,608)
Write off of contribution receivable	-	13,479
Forgiveness of debt	-	(6,800,000)
Change in discount on contributions receivable	(14,561)	(59,640)
Depreciation	1,290,858	1,467,535
Net realized/unrealized loss on investments	(68,978)	(220,460)
Change in Operating Assets and Liabilities:		
Accounts payable and accrued expenses	102,201	12,638
Contributions receivable	2,007,489	4,259,492
Contracts receivable	(214,816)	(25,165)
Custodial funds payable	6,275	(98,810)
Prepaid expenses and other assets	(187,948)	(53,629)
Deferred revenue	15,964	10,094
Net Cash Provided by Operating Activities	12,971,564	3,073,223
Cash Flows From Investing Activities		
Purchase of property and equipment	(642,874)	(343,390)
Purchase of investments	(7,565,361)	(860,686)
Proceeds from sale of investments	1,681,585	973,071
Net Cash Used in Investing Activities	(6,526,650)	(231,005)
Cash Flows From Financing Activities		
Proceeds from refinance of loans payable, net	-	332,068
Restricted cash for debt service	(6,041,330)	(1,719,482)
Principal payments on loans payable	(461,331)	(542,370)
Net Cash Used in Financing Activities	(6,502,661)	(1,929,784)
Net Change in Cash and Cash Equivalents	(57,747)	912,434
Cash and Cash Equivalents, Beginning of Year	2,206,666	1,294,232
Cash and Cash Equivalents, End of Year	\$ 2,148,919	\$ 2,206,666
Supplemental Cash Flow Disclosure:		
Cash paid during the period for interest	\$ 676,654	\$ 678,242
Noncash accretion of interest	1,258	103,619
Total Supplemental cash flow information	\$ 677,912	\$ 781,861

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

ORANGEWOOD FOUNDATION
(A California Nonprofit Public Benefit Organization)

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018
(With Summarized Total for 2017)

	Program Services				Total Program Services	Supporting Services			Total	
	Health & Wellness	Housing	Life Skills & Employment	Education		Management and General	Fundraising	Total Supportive Services	2018	2017
Functional Expenses										
Annual audit fee	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 36,049	\$ -	\$ 36,049	\$ 36,049	\$ 33,196
Bad debt expense	-	-	-	(39,845)	(39,845)	(4,742)	-	(4,742)	(44,587)	23,530
Banking and merchant fees	-	-	-	-	-	23,458	-	23,458	23,458	34,612
Board and donor recognition	-	-	-	-	-	-	320	320	320	4,575
Mentor and staff recruitment	-	-	1,174	-	1,174	24,608	-	24,608	25,782	9,418
Conferences/training	1,170	6,074	11,676	56,358	75,278	25,134	2,174	27,308	102,586	52,022
Contracted services	18,894	20,765	-	194,751	234,410	564,259	-	564,259	798,669	737,129
Depreciation	12,448	19,447	96,564	1,120,118	1,248,577	25,447	16,834	42,281	1,290,858	1,467,535
Scholarship and grants	-	-	-	821,671	821,671	-	-	-	821,671	835,502
Samueli Academy operating costs	-	-	-	650,525	650,525	-	-	-	650,525	624,363
Transitional housing costs	-	320,838	34,656	-	355,494	-	-	-	355,494	305,603
Collaborative courts program	-	-	62,640	-	62,640	-	-	-	62,640	53,236
Volunteer costs	-	-	14,038	-	14,038	-	-	-	14,038	3,364
ILP program and resource center	32,690	-	103,001	-	135,691	-	-	-	135,691	98,486
Mentoring and community program	10,203	-	4,387	3,260	17,850	-	-	-	17,850	17,146
Other direct program costs	2,235	-	3,463	89,046	94,744	-	-	-	94,744	103,617
Community programs	-	-	-	-	-	-	-	-	-	-
Salaries and benefits	684,809	969,331	1,331,707	4,888,491	7,874,338	953,249	596,876	1,550,125	9,424,463	8,428,214
Facility expense	-	27,466	140,886	283,840	452,192	13,010	8,607	21,617	473,809	489,525
Insurance expense	6,160	23,552	31,705	62,005	123,422	2,082	1,377	3,459	126,881	133,296
In-kind Contributions used in Program	417,975	1,023	118,750	41,214	578,962	-	-	-	578,962	231,093
Marketing/public relations	-	-	1,141	13,891	15,032	64,251	50,488	114,739	129,771	113,479
Interest expense	-	-	32,735	419,998	452,733	8,627	5,707	14,334	467,067	780,274
Office equipment leases	1,363	-	792	23,869	26,024	-	-	-	26,024	31,487
Office expense	12,442	2,063	8,289	48,662	71,456	40,705	-	40,705	112,161	97,768
Property tax	-	1,393	-	32,988	34,381	800	-	800	35,181	27,669
Telephone expense	-	-	42,456	-	42,456	8,261	5,465	13,726	56,182	115,149
Travel and mileage	8,478	14,547	34,017	58,720	115,762	1,098	-	1,098	116,860	114,254
Technology	1,564	2,921	5,501	207,876	217,862	46,130	341	46,471	264,333	256,894
Total Functional Expenses	\$ 1,210,431	\$ 1,409,420	\$ 2,079,578	\$ 8,977,438	\$ 13,676,867	\$ 1,832,426	\$ 688,189	\$ 2,520,615	\$ 16,197,482	\$ 15,222,436

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

ORANGEWOOD FOUNDATION
(A California Nonprofit Public Benefit Organization)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 - GENERAL

Orangewood Foundation (the Foundation), formerly known as Orangewood Children's Foundation, is a nonprofit organization that was incorporated in the State of California on November 20, 1980, with a vision of developing educated, self-sufficient adults, and stable, healthy families in our communities; and a mission to provide life-changing prevention and intervention programs for abused and neglected children, young adults and at risk families through one-on-one support and community partnerships for the purpose of ending the cycle of child abuse by providing innovative programs focused on:

- **Health & Wellness** – On a daily basis, Orangewood staff members help our youth with their physical, emotional, and "relational" health. Often, struggles in these areas become hurdles for our youth to achieve their other goals on the path to self-sufficiency, such as securing and maintaining housing and employment, learning and retaining life skills, and pursuing an education.
- **Housing** - The Foundation provides housing referrals and assistance, plus transitional housing through our fair Rising Tide program sites. Among youth who visit our resource center, 55 percent indicated that they had been homeless or experienced unstable housing in the past six months.
- **Life Skills & Employment** - Several Orangewood Foundation programs help current and former foster youth learn essential life skills that children and teens from stable families often learn from their parents, either directly or through observation. Our programs also help youth find employment and develop job-readiness skills.
- **Education** - Orangewood Foundation programs help current and former foster youth develop and achieve their educational goals, from high school to college to graduate school. Orangewood Foundation helps foster and community youth develop and achieve their educational goals. Our programs include our Samueli Academy charter high school, scholarships for college and graduate school, and education-related workshops.

Beginning in 2011, the Foundation has the following consolidated affiliates (where the Foundation is the sole member) that were formed to perform charitable and educational activities in furtherance of the Foundation's activities (together, the Foundation): Orangewood Real Property LLC, and Orangewood Residential LLC.

In late 2011, Orangewood created a new legal entity, Samueli Academy, which was approved by the California Secretary of State in February 2012. The Internal Revenue Service (IRS) filing for this entity to become a separate 501(c)(3) nonprofit organization was completed on July 30, 2014.

The following are descriptions of the programs the Foundation offers:

Health & Wellness

Orangewood Resource Center - This is a drop-in center for Orange County youth up to age 25 offering services they need to become independent adults, including educational activities and resources for jobs, college, housing and health.

ORANGEWOOD FOUNDATION
(A California Nonprofit Public Benefit Organization)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018

Housing

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

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

Lighthouse - In June 2016, the Foundation received the donation of a home to be used for young women over 18 that are victims of sex trafficking. Over 60 percent of sex trafficking victims are former foster youth. Recognizing that there were no programs for these women, the Foundation created this residential program that will help survivors of sex trafficking return to a healthy and productive life.

Life Skills & Employment

Independent Living Program - This program provides workshops, special educational events and case management for foster youth, ages 16-21, to help them prepare for their release from the dependency system and support them after they have turned 18. This program has numerous regularly scheduled events and activities focusing on four areas - education, career, relationships, and daily living - which provide vital information and experience these young people will need when facing life on their own.

Peer Mentor Program - This program began in 1992 when Children's Trust Fund recipients, former foster children themselves, approached the Foundation wanting to give back and help other young abuse victims. Peer mentors are powerful role models who conduct mentoring sessions at Orangewood Children and Families Center and at Independent Living workshops.

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

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

Orangewood Grants - This program provides grants to eligible foster youth for special activities such as counseling, school supplies, extracurricular activities, and graduation expenses.

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

ORANGEWOOD FOUNDATION
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018

Education

Orangewood Scholarships - This program offers financial assistance to current and former foster children, scholarships for college and trade school, and emergency funds for living expenses.

Advanced Studies - Similar to Orangewood Scholarships, this program provides former foster youth with educational assistance in the pursuit of an advanced degree or certification beyond their undergraduate course work.

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

- An individualized approach to academic instruction that utilizes the STEM and Project Based Learning curriculum;
- Future on-campus, family-style residential housing program for up to 48 foster youth students of the school;
- A wide array of afterschool programs and extracurricular activities to provide students with additional academic support and numerous athletic and arts opportunities; and
- Participation in classroom-based training and real-life experiences to provide youth the knowledge and tools for successful independent living.

Samueli Academy was awarded the first-ever charter from the Orange County Department of Education in February 2012. In addition, the Santa Ana City Council unanimously approved the project in September 2012. Samueli Academy received a five year renewal of its charter in June 2018.

Samueli Academy campus construction began in the Spring of 2013 and the first class of approximately 125 students were enrolled in August 2013. A new freshman class was added each year and Samueli Academy held its first graduation ceremony in June 2017 with a 99 percent graduation rate. The Samueli Academy was named a California Gold Ribbon School in 2017. In July 2015, the first two permanent buildings were completed. A capital campaign has begun to complete three additional buildings by July 2020. See Note 3 for further information on development progress.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Funding

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

ORANGEWOOD FOUNDATION
(A California Nonprofit Public Benefit Organization)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018

Principles of Consolidation

The accompanying financial statements include the accounts of the Foundation and LLCs. All significant intercompany transactions have been eliminated in the consolidation.

Financial Statement Presentation

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

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

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that will be met either by actions of the donor, the Foundation and/or the passage of time, and cumulative unappropriated investment earnings of endowment net assets (see Note 14).

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that the corpus be maintained permanently by the Foundation. At June 30, 2018 and 2017, permanently restricted net assets consist entirely of donor-restricted endowment investments and receivables (see Note 15). The donors of these assets permit the Foundation to use all or part of the income or gains earned on related investments for general (unrestricted) purposes or for other specific donor-restricted purposes (temporarily restricted). Permanently restricted net assets released from restrictions are related to changes in requests from donors.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on non-endowment investments and other assets are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law. Expirations of temporary restrictions on net assets are reported as reclassifications between the applicable classes of net assets.

Estimates

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

ORANGEWOOD FOUNDATION
(A California Nonprofit Public Benefit Organization)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018

Contributions

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

The Foundation uses the allowance method to determine uncollectible unconditional promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made. Management has determined that an allowance of \$5,666 and \$50,252 is necessary as of June 30, 2018 and 2017, respectively. During the fiscal years ended June 30, 2018 and 2017, the Foundation had a write down of pledges of \$65,200 and \$13,479, respectively.

Cash and Cash Equivalents

The Foundation considers cash on hand, cash in banks, and other short-term securities with original maturities of three months or less to be cash and cash equivalents.

From time to time, the Foundation maintains balances in various operating and money market accounts. The total cash balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per commercial bank. As of June 30, 2018, the Foundation had approximately \$1,469,363 in these accounts in excess of the FDIC insurance limits. The Foundation periodically reviews the quality of the financial institutions it has deposits with to minimize risk of loss.

Restricted Cash

The Foundation's and Samueli Academy's restricted cash balances of \$7,760,812 and \$1,719,482, respectively, are held in interest bearing accounts insured up to \$250,000. At June 30, 2018, the Foundation and Samueli Academy had \$7,441,529 in excess of FDIC insured limits. Restricted balances are held in accordance with a bank's covenants for recent refinancing agreements and donor restrictions for future expansion. Management believes the Foundation and Samueli Academy are not exposed to any significant risk related to restricted cash.

Investments

Investments held at June 30, 2018 and 2017, respectively, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in County and State investment pools are determined by the program sponsor.

Contracts Receivable

The Foundation's contracts receivable are primarily reimbursements due from contracted government contract reimbursement requests. The Foundation provides for an allowance for uncollectible receivables based on historical experience. As of June 30, 2018 and 2017, there was no allowance for uncollectible contracts receivable.

ORANGEWOOD FOUNDATION
(A California Nonprofit Public Benefit Organization)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018

Property and Equipment

Property and equipment are stated at cost. Donated assets are recorded at their fair market value when received. The cost of purchased assets or fair market value of donated assets is being depreciated using the straight-line method over the estimated useful lives of the related assets, which are five years for furniture, fixtures, and equipment and thirty years for buildings and improvements. Maintenance and repairs are charged to expense as incurred. Significant renewals and betterments are capitalized. The Foundation capitalizes all expenditures for and donations of property and equipment with a fair value in excess of \$1,000. At the time of retirement or other disposition of property and equipment, the cost and accumulated depreciation or amortization are removed from the accounts and any resulting gain or loss is reflected in the statement of activities. The Foundation did not have capitalized interest cost incurred in fiscal year 2017-2018 on debt borrowed specifically to finance Samueli Academy. The cumulative total of \$1,791,761 is from the inception of construction. All interest cost in 2017-2018 was recognized as interest expense.

Deferred Revenue

Deferred revenue represents funds received prior to being expended under specific contractual requirements, from sponsorship related to the Foundation's future special events and from other programs where the Foundation has not been named the beneficiary or there are specific grant requirements that would preclude the funds from being recorded under temporarily restricted contributions.

Contributed Goods and Services

Contributions of services are recognized in the financial statements if the services enhance or create non-financial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Recognizable contributed goods and services totaled \$643,373 and \$332,556 for attorney-related support services and donations to support the Foundation for the years ended June 30, 2018 and 2017, respectively.

Income Taxes

The Foundation is a public charity that has obtained an exemption from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code and California state income taxes under Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision has been made for Federal or state income taxes. The Foundation is subject, however, to Federal and California income taxes on net unrelated business income as stipulated in Internal Revenue Code Section 511 and Regulation Section 1.511. During the years ended June 30, 2018 and 2017, the Foundation had no net unrelated business income.

The Foundation annually evaluates tax positions as part of the preparation of its exempt tax return. This process includes an analysis of whether tax positions the Foundation takes with regard to a particular item of income or deduction would meet the definition of an uncertain tax position under current accounting guidance. The Foundation believes its tax positions are appropriate based on current facts and circumstances. The Foundation's policy is to recognize interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. At June 30, 2018, the Foundation did not have any unrecognized tax benefits. The Foundation is no longer subject to U.S. Federal, State or local income tax examinations by tax authorities for years before 2008.

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Allocated Expenses

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

Risks and Uncertainties

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

Comparative Financial Information

The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation's consolidated financial statements for the year ended June 30, 2017, from which the summarized information was derived.

Net Asset Transfer

In previous fiscal years, some capital gifts were recognized as unrestricted net assets. During 2017-2018, management has elected to reclassify \$2,859,119 unrestricted beginning net assets to temporarily restricted beginning net assets as they are to be used solely for debt reduction.

New Accounting Pronouncements

In February 2016, FASB issued Accounting Standards Update (ASU) 2016-02, Leases (ASU 2016-02). ASU 2016-02 requires a lessee to recognize a lease asset representing its right to use the underlying asset for the lease term, and a lease liability for the payments to be made to lessor, on its statement of financial position for all operating leases greater than 12 months. ASU 2016-02 will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019.

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In August 2016, the FASB issued ASU No. 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities (ASU 2016-14). ASU 2016-14 change presentation and disclosure requirements for not-for-profit entities to provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. These include qualitative and quantitative requirements in the following areas: (1) net asset classes; (2) investment return; (3) expenses; (4) liquidity and availability of resources; and (5) presentation of operating cash flows. ASU 2016-14 will be effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Early application of the amendments is permitted. The Organization has not yet completed its assessment of the impact of this guidance on its financial statements. Under this guidance, the Organization will be required to present two classes of net assets (net assets with donor restrictions and net assets without donor restrictions) and changes in each of these two classes, on the face of the statement of financial position and statement of activities, respectively, rather than the current required three classes (unrestricted, temporarily restricted, and permanently restricted).

NOTE 3 - SAMUELI ACADEMY

As described in Note 1, the Foundation has opened Samueli Academy to serve foster and underserved youth as both a charter school and a residential program. A separate audit has been completed for Samueli Academy as well as a consolidated audit that includes the Foundation and Samueli Academy. The Foundation has created two LLCs and completed (July 30, 2014) the process of creating a separate 501(c)(3) organization to administer the day-to-day activities of Samueli Academy. As of June 30, 2018, the Foundation has acquired real property located in Santa Ana, California for approximately \$7.6 million and on July 31, 2015, completed construction-related activities for the real property totaling approximately \$20.3 million (see Note 8). The acquisition and construction activities were refinanced through donor contributions and a promissory note from a bank (see Note 12). In January 2018, a new capital campaign was started to raise an additional \$34.0 million to complete a Student Innovation Building, a Middle School Building, and a Residential Building to house up to 48 foster youth. The anticipated completion date is July 2020.

NOTE 4 - INVESTMENTS

Investments consist of equity securities, mutual funds and alternative investments which are carried at fair value in accordance with current accounting guidance (see Note 5). Donated investments are recorded at the fair value at the date of donation.

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Net Investment income as of June 30, 2018 and 2017, consisted of the following:

	June 30, 2018		Total
	Endowments	Other	
Interest and dividends	\$ 106,561	\$ 36,101	\$ 142,662
Investment fees	(29,718)	(5,501)	(35,219)
Net realized and unrealized gain	54,028	14,950	68,978
Total Investment Income, Net of Expenses	<u>\$ 130,871</u>	<u>\$ 45,550</u>	<u>\$ 176,421</u>

	June 30, 2017		Total
	Endowments	Other	
Interest and dividends	\$ 68,648	\$ 17,746	\$ 86,394
Investment fees	(23,190)	(4,840)	(28,030)
Net realized and unrealized gain	183,846	36,614	220,460
Total Investment Income, Net of Expenses	<u>\$ 229,304</u>	<u>\$ 49,520</u>	<u>\$ 278,824</u>

NOTE 5 - FAIR MARKET VALUE MEASUREMENTS

The Foundation determines the fair market values of certain financial instruments based on the fair value hierarchy established in FASB ASC 820-10-50, which requires an entity to maximize the use of observable inputs and minimize the use unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value.

The following provides a summary of the hierarchical levels used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities may include debt securities with quoted prices that are traded less frequently than exchange-traded instruments and other instruments whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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The following is a description of the valuation methodologies used for the investments and liability measured at fair value, including the general classification of such instruments pursuant to the valuation hierarchy.

Cash and Short-Term Investments

Cash and short-term investments consist of cash and highly liquid short-term investments with original purchased maturities of three months or less. These investments have been classified within Level 1 of the valuation hierarchy.

Mutual Funds and Equity Securities

The fair value of investments in mutual funds and equity securities is based upon quoted prices in active markets.

The quoted prices of the mutual fund shares represent their closing net asset value. These investments have been classified within Level 1 of the valuation hierarchy.

Alternative Investments

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

Beneficial Interest in Perpetual Trust

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

Summary of Investments

Investments are recorded as follows in the consolidated statements of financial position at June 30, 2018 and 2017:

	2018	2017
Restricted investments - Endowment	\$ 7,856,198	\$ 2,481,291
Restricted investments - Advanced Studies	365,609	-
Beneficial interest in perpetual trust	132,323	124,596
Total Restricted Investments	8,354,130	2,605,887
Unrestricted investments	748,242	543,728
Total Investments	\$ 9,102,372	\$ 3,149,615

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The following table presents the fair value hierarchy for those assets measured at fair value on a recurring basis as of June 30, 2018:

June 30, 2018	Quoted Prices In Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Cash and short-term investments	\$ 1,019,363	\$ -	\$ -	\$ 1,019,363
Mutual funds:				
Fixed income - taxable	2,442,072	-	-	2,442,072
Alternative investments	514,607	-	-	514,607
Equity securities:				
U.S. large-cap	2,876,656	-	-	2,876,656
U.S. mid and small-cap	417,016	-	-	417,016
International	1,700,335	-	-	1,700,335
Beneficial interest in perpetual trust	-	-	132,323	132,323
Total	<u>\$ 8,970,049</u>	<u>\$ -</u>	<u>\$ 132,323</u>	<u>\$ 9,102,372</u>

The following table presents the fair value hierarchy for those assets measured at fair value on a recurring basis as of June 30, 2017:

June 30, 2017	Quoted Prices In Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Cash and short-term investments	\$ 235,719	\$ -	\$ -	\$ 235,719
Mutual funds:				
Fixed income - taxable	777,461	-	-	777,461
Alternative investments	226,837	-	-	226,837
Equity securities:				
U.S. large-cap	1,032,102	-	-	1,032,102
U.S. mid and small-cap	148,309	-	-	148,309
International	604,591	-	-	604,591
Beneficial interest in perpetual trust	-	-	124,596	124,596
Total	<u>\$ 3,025,019</u>	<u>\$ -</u>	<u>\$ 124,596</u>	<u>\$ 3,149,615</u>

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The following is a reconciliation of investments in which significant unobservable inputs (Level 3) were used in determining fair value for the years ended June 30, 2018 and 2017.

	2018	2017
Balance, beginning of year	\$ 124,596	\$ 109,373
Net unrealized and realized gains and accumulated interest	7,727	15,223
Balance, end of year	\$ 132,323	\$ 124,596

Summary of Cash Equivalents

Cash equivalents as of June 30, 2018 and 2017, are classified in the accompanying financial statements as follows:

	June 30, 2018		June 30, 2017	
	Reported Amount	Fair Market Value	Reported Amount	Fair Market Value
Orange County Treasury Investment Pool	\$ 678,614	\$ 675,692	\$ 498,871	\$ 498,073

Deposits with county treasurer are an external investment pool sponsored by the County of Orange. County deposits are not required to be categorized. The pool provided the fair value for these deposits.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Samueli Academy does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Samueli Academy manages its exposure to interest rate risk by investing in the County Pool.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The following table presents the balances of the assets measured at fair value on a recurring basis as of June 30, 2018. Samueli Academy did not have any liabilities measured at fair value on a recurring basis as of June 30, 2018.

Investment Type	Level	Fair Value	Weighted Average Maturity in Days
Orange County Investment Pool	Not required	\$ 675,692	302

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The following table presents the balances of the assets measured at fair value on a recurring basis as of June 30, 2017. Samueli Academy did not have any liabilities measured at fair value on a recurring basis as of June 30, 2017.

Investment Type	Level	Fair Value	Weighted Average Maturity in Days
Orange County Investment Pool	Not required	\$ 498,073	339

NOTE 6 - CONTRIBUTIONS RECEIVABLE

Long-term contributions receivable (those expected to be collected over more than the next twelve months) have been discounted using the Foundation's borrowing rate in effect at the time of the pledge. As of June 30, 2018, the discount rate in effect was 3.25 percent.

Future expected contributions receivable are as follows:

Year Ending June 30,	
2019	\$ 2,340,397
2020	806,667
2021	746,666
2022	60,000
2023	60,000
Subtotal	4,013,730
Less allowance for doubtful accounts	(5,666)
Less discount	(126,392)
Total	\$ 3,881,672

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NOTE 7 - CONTRACTS RECEIVABLE

Receivables at June 30, 2018 and 2017, consisted of intergovernmental grants, entitlements and other local sources. All receivables are considered collectible in full.

June 30, 2018	Orangewood Foundation	Samueli Academy	Total
Contract receivables	\$ 8,524	\$ -	\$ 8,524
Governmental receivables	301,454	419,520	720,974
Total Contracts Receivable	<u>\$ 309,978</u>	<u>\$ 419,520</u>	<u>\$ 729,498</u>

June 30, 2017	Orangewood Foundation	Samueli Academy	Total
Contract receivables	\$ 13,320	\$ -	\$ 329,576
Governmental receivables	162,665	316,256	162,665
Other accounts receivables	-	49,615	49,615
Total Contracts Receivable	<u>\$ 175,985</u>	<u>\$ 365,871</u>	<u>\$ 541,856</u>

NOTE 8 - LAND, PROPERTY, AND EQUIPMENT

At June 30, 2018 and 2017, land, property, and equipment consisted of the following:

	2018	2017
Land	\$ 10,273,312	\$ 10,273,312
Furniture, fixtures, and equipment	1,805,259	1,951,386
Buildings	23,799,795	23,799,795
Building improvements	2,808,036	2,734,148
Vehicles	110,144	75,182
Construction in progress	524,456	41,381
Subtotal	<u>39,321,002</u>	<u>38,875,204</u>
Less accumulated depreciation	<u>(6,214,096)</u>	<u>(5,120,312)</u>
Total	<u>\$ 33,106,906</u>	<u>\$ 33,754,892</u>

Depreciation expense for the years ended June 30, 2018 and 2017, was \$1,290,858 and \$1,467,535, respectively.

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NOTE 9 - BENEFICIAL INTEREST IN PERPETUAL TRUST

The Foundation was named as a beneficiary of the Orangewood Foundation Endowment Fund (the Fund), established in 1995 (see Notes 14 and 15). The Foundation is entitled to a distribution of the income on an annual basis as determined by the Board of Directors of the Orange County Community Foundation (OCCF), which are the Fund administrators. The assets of the OCCF Fund as of June 30 are as follows:

	2018	2017
Permanently restricted endowments:		
Initial contribution	\$ 38,000	\$ 38,000
Foundation match	45,000	45,000
Contribution - Dorothy M. Booth Charitable Trust	7,500	7,500
Total Permanently Restricted Net Assets	\$ 90,500	\$ 90,500
Temporarily restricted unappropriated earnings on endowment investments:		
Cumulative gain on investments	\$ 153,229	\$ 145,502
Cumulative distributions	(111,406)	(111,406)
Total Temporarily Restricted Net Assets	41,823	34,096
Total Net Assets	\$ 132,323	\$ 124,596

NOTE 10 - CUSTODIAL FUNDS PAYABLE

The Foundation acts as an agent for several resource providers. As agent, the Foundation receives transfers of assets and donations to be distributed to third-party recipients specified by the resource provider or donors. At June 30, 2018 and 2017, custodial funds payable relating to these pass-through transactions was \$34,187 and \$27,912, respectively.

NOTE 11 - SUMMARY OF LOANS AND NOTES PAYABLE

Loans and notes payable for the year ended June 30, 2018, are summarized as follow:

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018	Due in one year
F & M Construction					
notes payable	\$ 12,334,921	\$ -	\$ 336,510	\$ 11,998,411	\$ 354,005
Mortgage note payable	1,340,000	-	120,007	1,219,993	120,000
Vehicle loan	4,814	-	4,814	-	-
Total	\$ 13,679,735	\$ -	\$ 461,331	\$ 13,218,404	\$ 474,005

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NOTE 12 - LOANS AND NOTES PAYABLE

Loans payable consisted of the following at June 30, 2018 and 2017:

	2018	2017
Obligation under note payable, maximum borrowing of \$12,660,000, secured by a deed of trust on the real property purchased in fiscal year 2012 (see Note 3), guaranteed by the Foundation, refinanced through a tax free interest rate program from the California Enterprise Development Authority at 3.40 percent interest. Payments are amortized over a 25 year period with 120 payments of \$63,039. The final payment will be for any unpaid principal and interest on June 30, 2026.	\$ 11,998,411	\$ 12,334,921
Term note payable to bank, secured by a deed of trust on the Foundation and Headquarter buildings and building improvements, payable in monthly installments of \$10,000 plus interest at either the bank's prime rate or 2.00 percent above the LIBOR rate (totaling 2.25 percent at June 30, 2015). The mortgage on Foundation headquarters was renewed in February 2013 and final installment of principal due in February 2020.	1,219,993	1,340,000
Obligation under note payable, secured by two vehicles, principal and interest at 4.96% due monthly over a 36 month term ending October, 2017.	-	4,814
Subtotal	13,218,404	13,679,735
Less obligations under notes payable, current portion	(474,005)	(467,196)
Total Long-Term Obligation	\$ 12,744,399	\$ 13,212,539

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

June 30,	Principal Payments
2019	\$ 474,005
2020	486,230
2021	498,878
2022	511,963
2023	525,499
2024-2027	10,721,829
Total	\$ 13,218,404

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NOTE 13 - OPERATING LEASES

The Foundation has entered into agreements to lease equipment. Future payments are as follows:

Fiscal Year Ending June 30,	Postage Machine Lease	Copier Lease Payments	Total
2019	\$ 3,635	\$ 31,974	\$ 35,609
2020	3,635	27,918	31,553
2021	3,635	17,142	20,777
2022	1,607	3,702	5,309
2023	-	617	617
Total	<u>\$ 12,512</u>	<u>\$ 81,353</u>	<u>\$ 93,865</u>

NOTE 14 - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2018 and 2017, consisted of the following:

	2018	2017
Samueli Academy line of credit pledge	\$ 150,000	\$ 150,000
Cash and Receivables Pledge against Samueli Academy campus debt	4,117,590	4,346,922
Cash and Receivables Pledge against Samueli Academy expansion	6,879,684	-
Unappropriated investment earnings of endowment net assets	632,488	617,617
Advanced Studies	365,609	285,386
Scholarships	74,750	75,000
Deferred revenue	111,258	105,819
Total Temporarily Restricted Net Assets	<u>\$ 12,331,379</u>	<u>\$ 5,580,744</u>

Permanently restricted net assets at June 30, 2018 and 2017, consisted of the following:

	2018	2017
Orangewood Scholarships Endowment corpus (Note 15)	\$ 7,262,303	\$ 1,897,770
OCCF Fund corpus (Note 9)	90,500	90,500
Total Permanently Restricted Net Assets	<u>\$ 7,352,803</u>	<u>\$ 1,988,270</u>

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NOTE 15 - ENDOWMENTS

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

In approving endowment spending and related policies, as part of the prudent and diligent discharge of its duties, the Foundation's Board of Directors, as authorized by California law, has relied upon the actions, reports, information, advice and counsel taken or provided by its duly constituted committees and officers, and in doing so has interpreted the law to require the preservation of the historic dollar value of donor-restricted endowment funds, absent explicit donor direction to the contrary.

As a result of this interpretation, for accounting and financial statement purposes, the Foundation classifies as permanently restricted net assets the historic dollar value of assets held as donor-restricted endowment, including any subsequent gifts and any accumulations to donor-restricted endowments made in accordance with the direction of the applicable gift instruments.

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

Changes to endowment net assets are as follows for the years ended June 30, 2018 and 2017:

	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets at June 30, 2016	\$ 503,313	\$ 1,978,430	\$ 2,481,743
Net contributions	-	9,840	9,840
Investment gain, net	229,304	-	229,304
Appropriation of endowment investment for Orangewood Scholarships receivable	(115,000)	-	(115,000)
Endowment Net Assets at June 30, 2017	617,617	1,988,270	2,605,887
Net contributions	-	5,364,533	5,364,533
Investment gain, net	130,871	-	130,871
Appropriation of endowment investment for Orangewood Scholarships receivable	(115,000)	-	(115,000)
Endowment Net Assets at June 30, 2018	<u>\$ 633,488</u>	<u>\$ 7,352,803</u>	<u>\$ 7,986,291</u>

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Investment Policy

The Foundation's investment and spending policies are set by the Foundation's Investment Committee, which seek to preserve the real purchasing power of the endowment assets, net of inflation, fees, and annual distributions for grants and expenses. In accordance with the Foundation's investment policy, the endowment assets shall be considered as two parts: an "equity fund" and a "fixed income fund." The equity fund may be diversified with investments in global marketable equities, which should account for between 40 percent and 65 percent of the portfolio. A zero-10 percent allocation can be made to marketable alternative assets, non-marketable alternative assets, inflation-hedging assets and other "opportunistic" investments, the fixed income fund should account for at least 20 percent, but not more than 45 percent, of the portfolio.

Spending Policy

The Foundation's Spending Policy allows for an annual transfer from accumulated earnings on endowment assets of an amount representing zero-5 percent of the CTF Endowment assets to the Foundation to fund current year scholarship obligations. However, if the balance of the CTF Endowment investments is below the corpus, all earnings will first replenish the CTF Endowment investments until all amounts required by law are replenished. As of June 30, 2018 and 2017, there were no deficiencies in the CTF Endowment corpus.

NOTE 16 - SPECIAL EVENTS AND AUXILIARIES

Special events/auxiliaries include revenue and expenses from events sponsored and managed by the Foundation and other events where the Foundation is a beneficiary of the event, but does not incur substantial costs or bear significant responsibility in facilitating the event.

Income and expenses from special events/auxiliaries for the years ended June 30 are as follows:

	<u>2018</u>	<u>2017</u>
Revenues, gross	\$ 3,307,412	\$ 3,047,508
Expenses, gross	<u>(1,515,493)</u>	<u>(1,596,467)</u>
Total, net	<u>\$ 1,791,919</u>	<u>\$ 1,451,041</u>

NOTE 17 - EMPLOYEE RETIREMENT SYSTEMS

The Foundation has adopted a tax deferred annuity plan under Section 403(b) of the Internal Revenue Code as of October 1, 2001, whereby employees may elect to defer a portion of their compensation to be invested in annuity contracts on their behalf. This plan was closed to new participants in 2007.

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On July 30, 2007, the Foundation started a 403(b) plan (the Plan). The Plan provides a discretionary employer match of up to 75 percent of employee contributions to a maximum of \$1,500 each calendar year. Vesting in the employer match is over five years at 20 percent per year. Employees become eligible as of the first of the month following the date of hire. The employer contributions made to this plan during the fiscal years ended June 30, 2018 and 2017, were \$98,164 and \$54,363, respectively.

On October 1, 2007, the Foundation established a tax deferred 457(b) Retirement Plan for certain key executives. There have been no employer contributions made to this plan. Employee contributions made to the plan are immediately 100 percent vested. The Foundation made a \$20,000 discretionary contribution for the year ended June 30, 2018.

Qualified employees with Samueli Academy are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Academic employees are members of the California State Teachers' Retirement System (CalSTRS).

The risks of participating in these multi-employer defined benefit pension plans are different from single-employer plans because: (a) assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers, (b) the required member, employer, and State contribution rates are set by the California Legislature, and (c) if the Charter School chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. The Charter School has no plans to withdraw from this multi-employer plan.

The details of the plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

Samueli Academy contributes to the State Teachers Retirement Plan (STRP) administered by the California State Teachers' Retirement System (CalSTRS). STRP is a cost-sharing multiple-employer public employee retirement system defined benefit pension plan. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. According to the most recently available Comprehensive Annual Financial Report and Actuarial Valuation Report for the year ended June 30, 2017, total actuarial value of assets are \$180 billion, the actuarial obligation is \$287 billion, contributions from all employers totaled \$4.0 billion, and the plan is 62.6 percent funded.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2016, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publically available reports that can be found on the CalSTRS website under Publications at:

<http://www.calstrs.com/member-publications>.

ORANGEWOOD FOUNDATION
(A California Nonprofit Public Benefit Organization)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018

Benefits Provided

The STRP provides retirement, disability and survivor benefits to beneficiaries. Benefits are based on members' final compensation, age and years of service credit. Members hired on or before December 31, 2012, with five years of credited service are eligible for the normal retirement benefit at age 60. Members hired on or after January 1, 2013, with five years of credited service are eligible for the normal retirement benefit at age 62. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service.

The STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the State is the sponsor of the STRP and obligor of the trust. In addition, the State is both an employer and nonemployer contributing entity to the STRP.

Samueli Academy contributes exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.

The STRP provisions and benefits in effect at June 30, 2018, are summarized as follows:

	<u>STRP Defined Benefit Program</u>	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	10.25%	9.205%
Required employer contribution rate	14.43%	14.43%
Required state contribution rate	9.328%	9.328%

Contributions

Required member, Academy and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2018, are presented above and Samueli Academy's total contributions were \$261,677. Samueli Academy's total contributions for the year ended June 30, 2017, were \$226,209.

ORANGEWOOD FOUNDATION
(A California Nonprofit Public Benefit Organization)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of Samueli Academy. These payments consist of State General Fund contributions to CalSTRS in the amount of \$169,492 (9.328 percent of Samueli Academy's salaries subject to CalSTRS). Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements.

403(b) Tax Deferred Annuity Plan

For non-certificated staff, Samueli Academy participates in the 403(b) plan (the Plan) established by the Orangewood Foundation. The Plan provides a discretionary employer match of up to 75 percent of employee contributions to a maximum of \$1,500 each calendar year. Vesting in the employer match is over five years at 20 percent per year. Employees become eligible as of the first of the month following the date of hire. Samueli Academy made \$12,563 and \$8,520 of matching contributions to the Plan during the year ended June 30, 2018 and 2017, respectively.

NOTE 18 - RELATED PARTY TRANSACTIONS

Various board members make contributions to the Foundation through donations, fundraising events, and volunteer time. General contributions recorded from board members during the years ended June 30, 2018 and 2017, totaled approximately \$10,778,551 and \$8,183,176, respectively, which are recorded in general contributions in the accompanying statements of activities. Contributions receivable from board members totaled approximately \$105,336 and \$886,370 as of June 30, 2018 and 2017, respectively. In addition, the Foundation receives contributions from two entities that have certain common directors. Contributions from these entities totaled approximately \$835,000 and \$817,000 for the years ended June 30, 2018 and 2017, respectively.

In fiscal year 2015, as part of a refinancing, the Foundation borrowed \$6,800,000 under a 2.5 percent interest bearing promissory note from a private foundation that is related to a board member. The proceeds of that loan were used for the development of Samueli Academy, which is owned by Orangewood Real Property LLC. During the 2017 fiscal year, the loan was forgiven and recognized as a \$2,000,000 reduction of a receivable and a \$4,800,000 contribution.

Various board members make contributions to Samueli Academy through donations, fundraising events, and volunteer time. General contributions recorded from board members during the years ended June 30, 2018 and 2017, totaled approximately \$190,790 and \$145,150, respectively, which are recorded in general contributions in the accompanying Statement of Activities.

Samueli Academy has a service agreement with the Foundation for accounting services. As of June 30, 2018 and 2017, \$419,863 and \$385,422, respectively, was paid under this agreement. Samueli Academy leases its facilities from Orangewood Real Property, LLC. Under the terms of this lease, \$718,050 in rental expenses was incurred.

Samueli Academy has entered into a loan repayment to Orangewood Real Property for \$224,597 for the purchase of furniture.

ORANGEWOOD FOUNDATION
(A California Nonprofit Public Benefit Organization)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 19- COMMITMENTS AND CONTINGENCIES

The Foundation and Samueli Academy have received State and Federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate disallowances under terms of the grants, it is believed that any reimbursement, if required, would not be material.

Litigation

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

Guarantees and Indemnities

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

Department of Housing and Urban Development

In June 2013, as part of the dissolution of the YWCA of Central Orange County (YWCA), the Foundation finalized the deed transfer and received ownership of the YWCA's Beverly's House property. The YWCA originally entered into a contract with the Department of Housing and Urban Development (HUD). HUD subsidized the YWCA in acquisition and rehabilitation of a new housing facility to be used for a transitional housing program. The contract required the YWCA to repay the entire amount of the grant used for acquisition, rehabilitation, or new construction of \$239,000 if the YWCA disposed of the facility before ten years following the date of initial occupancy or date of initial service provision, which began September 28, 1999.

After this initial ten-year period, if the YWCA disposed of the facility within the next ten years, HUD requires repayment amount to be reduced by 10 percentage points for each year beyond the 10 year period. The HUD obligation will end September 28, 2019. As part of the transfer of the Beverly's House asset, the Foundation received approval from HUD to assume the terms of this HUD agreement. Because the Foundation intends to continue use of this facility in accordance with the grant, a contingent liability has not been recorded. As of June 30, 2018, the amount, if recorded, would be valued at \$29,875.

ORANGEWOOD FOUNDATION
(A California Nonprofit Public Benefit Organization)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018

In fiscal year 2015-2016, the Foundation received grant funding from HUD for specific purpose that may be subject to review and audit by the agency. Although such audits could generate expenditure disallowances under the terms of the grants or additional expenditures being allowed under the terms of the grants, the effects of all such audits cannot be reasonably estimated at the present time, Management believes they are in compliance with all grant requirements. The Foundation did not receive grant funding from HUD in fiscal year 2017-2018 and 2016-2017.

NOTE 20 - RENTAL INCOME

Lease Agreements

The Foundation leases a portion of its building to various unaffiliated nonprofit corporations under agreements expiring at various dates through June 2021.

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

Fiscal Year Ending	
<u>June 30,</u>	
2019	\$ 11,070
2020	11,404
2021	<u>1,910</u>
Total	<u><u>\$ 24,384</u></u>

NOTE 21 - SUBSEQUENT EVENTS

The Foundation evaluated their June 30, 2018, financial statements for subsequent events through October 17, 2018, the date the financial statements were available to be issued. The Foundation is not aware of any subsequent events which would require recognition or disclosure in the accompanying financial statements.

SUPPLEMENTARY INFORMATION

ORANGEWOOD FOUNDATION
(A CALIFORNIA NONPROFIT PUBLIC BENEFIT ORGANIZATION)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education (CDE):			
Title I, Part A - Basic Grants Low-Income and Neglected	84.010	14329	\$ 145,496
Title II, Part A - Improving Teacher Quality Local Grants	84.367	14341	18,926
Individuals with Disabilities Act (IDEA)			
Special Education (IDEA)			
Basic Local Assistance Entitlement, Part B, Section 611	84.027	13379	<u>65,400</u>
Total Department of Education			<u>229,822</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through California Department of Education (CDE):			
Child Nutrition Cluster:			
National School Lunch Program	10.555	13396	92,348
School Breakfast Program	10.553	13526	39,801
After School Meal Supplements	10.555	13396	<u>13,815</u>
Total Child Nutrition Cluster			<u>145,964</u>
Total U.S. Department of Agriculture			<u>145,964</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through California Department of Social Services and the County of Orange:			
Chafee Foster Care Independence Program - Independent Living Program	93.674	[1]	<u>392,697</u>
Total U.S. Department of Health and Human Services			<u>392,697</u>
Total Expenditures of Federal Awards			<u>\$ 768,483</u>

[1] Pass-Through not available

ORANGEWOOD FOUNDATION
(A CALIFORNIA NONPROFIT PUBLIC BENEFIT ORGANIZATION)

CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2018

	Orangewood Foundation	Samueli Academy	Orangewood Real Property, LLC	Orangewood Residential, LLC	Subtotal	Eliminations	Total
Assets							
Current Assets							
Cash and cash equivalents	\$ 773,346	\$ 1,375,418	\$ -	\$ 155	\$ 2,148,919	\$ -	\$ 2,148,919
Restricted cash	-	150,081	7,610,731	-	7,760,812	-	7,760,812
Investments	748,242	-	-	-	748,242	-	748,242
Current portion of contributions and note receivable, net allowance for doubtful accounts of \$5,666	2,189,599	18,740	224,597	-	2,432,936	(224,597)	2,208,339
Contracts receivable	309,978	419,520	-	-	729,498	-	729,498
Prepaid expenses and other assets	309,779	137,223	34,060	-	481,062	-	481,062
Total Current Assets	<u>4,330,944</u>	<u>2,100,982</u>	<u>7,869,388</u>	<u>155</u>	<u>14,301,469</u>	<u>(224,597)</u>	<u>14,076,872</u>
Contributions and note receivable, net of current portion	1,633,333	40,000	-	-	1,673,333	-	1,673,333
Land, property and equipment, net of accumulated depreciation	4,686,198	446,542	27,974,166	-	33,106,906	-	33,106,906
Investments in Samueli Academy and LLC's	26,240,140	-	-	-	26,240,140	(26,240,140)	-
Beneficial interest in perpetual trust	132,323	-	-	-	132,323	-	132,323
Restricted investments	8,221,807	-	-	-	8,221,807	-	8,221,807
Total Assets	<u>\$ 45,244,745</u>	<u>\$ 2,587,524</u>	<u>\$ 35,843,554</u>	<u>\$ 155</u>	<u>\$ 83,675,978</u>	<u>\$ (26,464,737)</u>	<u>\$ 57,211,241</u>

See accompanying independent auditor's report.

ORANGEWOOD FOUNDATION
(A CALIFORNIA NONPROFIT PUBLIC BENEFIT ORGANIZATION)

CONSOLIDATING STATEMENT OF FINANCIAL POSITION, CONTINUED
JUNE 30, 2018

	Orangewood Foundation	Samueli Academy	Orangewood Real Property, LLC	Orangewood Residential, LLC	Subtotal	Eliminations	Total
Liabilities and Net Assets							
Current Liabilities							
Accounts payable and accrued expenses	\$ 975,261	\$ 259,600	\$ 69,949	\$ -	\$ 1,304,810	\$ -	\$ 1,304,810
Inter-fund payable (receivable)	(31,351)	12,589	10,479	8,283	-	-	-
Deferred revenue	111,258	10,525	-	-	121,783	-	121,783
Custodial funds payable	34,187	-	-	-	34,187	-	34,187
Obligations under notes payable, current portion	120,000	224,597	354,005	-	698,602	(224,597)	474,005
Total Current Liabilities	<u>1,209,355</u>	<u>507,311</u>	<u>434,433</u>	<u>8,283</u>	<u>2,159,382</u>	<u>(224,597)</u>	<u>1,934,785</u>
Long-Term Debt							
Obligations under loans payable, long-term portion	1,099,993	-	11,644,406	-	12,744,399	-	12,744,399
Total Long-Term Obligations	<u>1,099,993</u>	<u>-</u>	<u>11,644,406</u>	<u>-</u>	<u>12,744,399</u>	<u>-</u>	<u>12,744,399</u>
Total Liabilities	<u>2,309,348</u>	<u>507,311</u>	<u>12,078,839</u>	<u>8,283</u>	<u>14,903,781</u>	<u>(224,597)</u>	<u>14,679,184</u>
Net Assets							
Unrestricted	31,236,543	1,930,213	15,929,387	(8,128)	49,088,015	(26,240,140)	22,847,875
Temporarily restricted	4,346,051	150,000	7,835,328	-	12,331,379	-	12,331,379
Permanently restricted	7,352,803	-	-	-	7,352,803	-	7,352,803
Total Net Assets	<u>42,935,397</u>	<u>2,080,213</u>	<u>23,764,715</u>	<u>(8,128)</u>	<u>68,772,197</u>	<u>(26,240,140)</u>	<u>42,532,057</u>
Total Liabilities and Net Assets	<u>\$ 45,244,745</u>	<u>\$ 2,587,524</u>	<u>\$ 35,843,554</u>	<u>\$ 155</u>	<u>\$ 83,675,978</u>	<u>\$ (26,464,737)</u>	<u>\$ 57,211,241</u>

See accompanying independent auditor's report.

ORANGEWOOD FOUNDATION
(A CALIFORNIA NONPROFIT PUBLIC BENEFIT ORGANIZATION)

CONSOLIDATING STATEMENT OF ACTIVITIES
JUNE 30, 2018

	Orangewood Foundation	Samueli Academy	Orangewood Real Property, LLC	Orangewood Residential, LLC	Subtotal	Eliminations	Total
Revenues							
General contributions	\$ 14,051,956	\$ 695,476	\$ -	\$ -	\$ 14,747,432	\$ -	\$ 14,747,432
Special events/auxiliaries, net	1,749,155	42,764	-	-	1,791,919	-	1,791,919
Government contracts	1,864,554	-	-	-	1,864,554	-	1,864,554
Charter school income	-	6,760,488	-	-	6,760,488	-	6,760,488
Investment gain, net	171,908	3,977	536	-	176,421	-	176,421
Rental income	168,895	-	727,950	-	896,845	(718,050)	178,795
Other, including loss on disposal of assets	408,539	107,489	-	-	516,028	(401,862)	114,166
In-kind contributions	540,868	102,505	-	-	643,373	-	643,373
Total Revenue	18,955,875	7,712,699	728,486	-	27,397,060	(1,119,912)	26,277,148
Expenses							
Program Services:							
Health and Wellness	1,210,431	-	-	-	1,210,431	-	1,210,431
Housing	1,318,575	-	-	90,845	1,409,420	-	1,409,420
Life Skills & Employment	2,079,578	-	-	-	2,079,578	-	2,079,578
Education	1,502,274	6,790,262	1,402,952	-	9,695,488	(718,050)	8,977,438
Total Program Services	6,110,858	6,790,262	1,402,952	90,845	14,394,917	(718,050)	13,676,867
Supporting Services:							
Management and General	1,673,823	460,300	1,024	796	2,135,943	(303,517)	1,832,426
Fundraising	688,189	98,345	-	-	786,534	(98,345)	688,189
Total Supporting Services	2,362,012	558,645	1,024	796	2,922,477	(401,862)	2,520,615
Total Expenses	8,472,870	7,348,907	1,403,976	91,641	17,317,394	(1,119,912)	16,197,482
Change in net assets	10,483,005	363,792	(675,490)	(91,641)	10,079,666	-	10,079,666
Net assets, beginning of year	32,452,392	1,716,421	17,968,581	(9,190)	52,128,204	(19,675,813)	32,452,391
Contributed capital	-	-	6,471,624	92,703	6,564,327	(6,564,327)	-
Net assets, end of year	\$ 42,935,397	\$ 2,080,213	\$ 23,764,715	\$ (8,128)	\$ 68,772,197	\$ (26,240,140)	\$ 42,532,057

See accompanying independent auditor's report.



VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

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

Governing Board
Orangewood Foundation and Affiliates
(A California Nonprofit Public Benefit Corporation)
Santa Ana, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Orangewood Foundation and Affiliates (the Foundation) (A California Nonprofit Public Benefit Corporation) which comprise the consolidated statement of financial position as of June 30, 2018, and the related consolidated statements of activities and cash flows for the fiscal year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 17, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of This Report

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

Vannink, Tai, Day & Co., LLP

Rancho Cucamonga, California
October 17, 2018



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Governing Board
Orangewood Foundation and Affiliates
Santa Ana, California

Report on Compliance for Each Major Federal Program

We have audited Orangewood Foundation and Affiliates's (the Foundation) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Orangewood Foundation's major Federal programs for the year ended June 30, 2018. The Foundation's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the Federal statutes, regulations, and the terms and conditions of its Federal awards applicable to its Federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Foundation's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 Orangewood Foundation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the Foundation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2018.

Report on Internal Control Over Compliance

Management of Orangewood Foundation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Foundation's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with 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 the Foundation's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a 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.

Vannink, Tai, Day & Co., LLP

Rancho Cucamonga, California
October 17, 2018

**ORANGEWOOD FOUNDATION
(A CALIFORNIA NONPROFIT PUBLIC BENEFIT ORGANIZATION)**

**SUMMARY OF AUDITOR'S RESULTS
JUNE 30, 2018**

FINANCIAL STATEMENTS

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness identified?	No
Significant deficiency identified?	None reported
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major Federal programs:	
Material weakness identified?	No
Significant deficiency identified?	None reported
Type of auditor's report issued on compliance for major Federal programs:	Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 200.516(a) of the Uniform Guidance?	No
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Identification of major Federal programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
93.674	Chafee Foster Care Independent Living Program (ILP)

Dollar threshold used to distinguish between Type A and Type B programs:	\$ 750,000
Auditee qualified as low-risk auditee?	No

STATE AWARDS

Type of auditor's report issued on compliance for programs:	Unmodified
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ORANGEWOOD FOUNDATION
(A CALIFORNIA NONPROFIT PUBLIC BENEFIT ORGANIZATION)

FINANCIAL STATEMENT FINDINGS
JUNE 30, 2018

None reported.

**ORANGEWOOD FOUNDATION
(A CALIFORNIA NONPROFIT PUBLIC BENEFIT ORGANIZATION)**

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
JUNE 30, 2018**

None reported.

ORANGEWOOD FOUNDATION
(A CALIFORNIA NONPROFIT PUBLIC BENEFIT ORGANIZATION)

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2018

Financial Statement Findings

None reported.

Federal Award Findings

None reported – Single audit not required 2016-2017.