
**OPTIMIST INTERNATIONAL
AND RELATED ORGANIZATION**
CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2010



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Independent Auditors' Report

Board of Directors
Optimist International
St. Louis, Missouri

We have audited the accompanying consolidated statement of financial position of Optimist International and Optimist International Youth Programs Foundation (collectively, Optimist), both not-for-profit organizations, as of September 30, 2010, and the related consolidated statements of activities and cash flows for the year then ended. These consolidated financial statements are the responsibility of Optimist's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative information has been derived from Optimist's September 30, 2009 financial statements and, in our report dated December 21, 2009, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Optimist's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Optimist International and Optimist International Youth Programs Foundation as of September 30, 2010, and the changes in their net assets and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

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 generally accepted accounting principles. Accordingly, such information should be read in conjunction with Optimist's consolidated financial statements for the year ended September 30, 2009, from which the summarized information was derived.

RubinBrown LLP

December 9, 2010

OPTIMIST INTERNATIONAL AND RELATED ORGANIZATION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

September 30, 2010

(With Summarized Financial Information As Of September 30, 2009)

Assets

| | 2010 | 2009 |
|--|---------------------|---------------------|
| Cash and cash equivalents | \$ 1,367,736 | \$ 1,058,202 |
| Other investments | 79,130 | 78,375 |
| Accounts receivable, net (Notes 3 and 15) | 67,726 | 70,581 |
| Due from Optimist International Foundation (Note 11) | 342,740 | 118,770 |
| Inventories (Notes 14 and 15) | 22,036 | 5,536 |
| Prepaid expenses and other current assets | 260,301 | 233,134 |
| Property and equipment (Notes 4, 5, 6 and 15) | 593,525 | 512,394 |
| Total Assets | \$ 2,733,194 | \$ 2,076,992 |

Liabilities And Net Assets

Liabilities

| | | |
|--|------------------|------------------|
| Accounts payable | \$ 191,977 | \$ 75,155 |
| Accrued expenses and other liabilities | 401,084 | 424,560 |
| Current portion of capital lease obligation (Note 5) | 26,427 | 27,021 |
| Current portion of promissory note payable (Note 6) | 23,254 | 23,089 |
| Due to districts | 71,579 | 85,799 |
| Deferred revenue | 17,942 | 12,122 |
| Line of credit payable (Note 15) | — | 150,000 |
| Long-term portion of capital lease obligation (Note 5) | 107,423 | 52,430 |
| Long-term portion of promissory note payable (Note 6) | 655,687 | 678,384 |
| Pension liabilities (Note 7) | 626,213 | 705,408 |
| Total Liabilities | 2,121,586 | 2,233,968 |

Unrestricted Net Assets

| | | |
|--|----------------|------------------|
| Undesignated - general | 72,803 | (668,294) |
| Net investment in property and equipment | 459,675 | 432,943 |
| Designated - Endowment Fund | 79,130 | 78,375 |
| Total Unrestricted Net Assets | 611,608 | (156,976) |

| | | |
|---|---------------------|---------------------|
| Total Liabilities And Net Assets | \$ 2,733,194 | \$ 2,076,992 |
|---|---------------------|---------------------|

OPTIMIST INTERNATIONAL AND RELATED ORGANIZATION

CONSOLIDATED STATEMENT OF ACTIVITIES

For The Year Ended September 30, 2010

(With Summarized Financial Information

For The Year Ended September 30, 2009)

| | <u>2010</u> | <u>2009</u> |
|---|-------------------|---------------------|
| Revenues | | |
| Dues, fees and magazine subscriptions | \$ 4,610,981 | \$ 4,075,078 |
| Processing fees | 133,522 | 141,950 |
| Charter fees | 37,029 | 33,544 |
| Life membership fees | 78,498 | 94,758 |
| International President's recognition award | 301 | 1,272 |
| International convention | 300,429 | 236,240 |
| Junior Optimist, Octagon and Alpha fees | 187,502 | 182,660 |
| Youth Programs Foundation revenues (Note 8) | 940,293 | 877,391 |
| Optimist International Foundation grant revenue (Note 11) | 661,346 | 234,518 |
| Income from sales of supplies and royalties (Note 14) | 114,106 | 142,404 |
| Gain on foreign currency transactions | 37,454 | 2,616 |
| Other | 143,342 | 96,915 |
| Total Revenues | 7,244,803 | 6,119,346 |
| Expenses (Note 12) | | |
| Allocated dues to districts | 53,387 | 65,908 |
| Club insurance premiums | 703,311 | 716,173 |
| Growth and member services | 652,842 | 605,814 |
| Club programs | 984,062 | 492,704 |
| Membership development | 255,495 | 210,148 |
| Communication | 362,143 | 392,684 |
| Meeting services | 166,684 | 159,444 |
| International convention | 264,685 | 301,067 |
| International development | 4 | 282 |
| Canadian office services | 352,990 | 340,652 |
| Building maintenance | 206,457 | 188,594 |
| Finance, administration, information services and facilities | 789,156 | 815,226 |
| Loss on uncollectible accounts and pledges | 73,249 | 59,556 |
| Executive director department | 377,126 | 345,624 |
| Board and officers | 129,958 | 191,863 |
| Committees | 72,756 | 67,532 |
| Youth Programs Foundation expenses (Note 8) | 905,188 | 876,729 |
| Cost of supplies sold (Note 14) | 14,017 | 15,700 |
| Depreciation and amortization | 118,931 | 109,750 |
| Interest expense | 44,216 | 50,821 |
| Total Expenses | 6,526,657 | 6,006,271 |
| Excess Of Revenues Over Expenses | 718,146 | 113,075 |
| Pension Plan Changes Other Than Net Periodic Benefit Cost (Note 7) | 50,438 | (21,334) |
| Increase In Unrestricted Net Assets | 768,584 | 91,741 |
| Unrestricted Net Assets - Beginning Of Year | (156,976) | (248,717) |
| Unrestricted Net Assets - End Of Year | \$ 611,608 | \$ (156,976) |

OPTIMIST INTERNATIONAL AND RELATED ORGANIZATION

CONSOLIDATED STATEMENT OF CASH FLOWS

For The Years Ended September 30, 2010

(With Summarized Financial Information

For The Year Ended September 30, 2009)

| | 2010 | 2009 |
|---|--------------|--------------|
| Cash Flows From Operating Activities | | |
| Increase in net assets | \$ 768,584 | \$ 91,741 |
| Adjustments to reconcile increase in net assets to net cash provided by operating activities: | | |
| Gain on disposal of leased equipment | (13,675) | — |
| Depreciation and amortization | 118,931 | 109,750 |
| Net change from pension plans other than net periodic benefit cost | (50,438) | 21,334 |
| Changes in assets and liabilities: | | |
| (Increase) decrease in accounts receivable | 2,855 | (11,631) |
| Increase in due from Optimist International Foundation | (223,970) | (61,740) |
| (Increase) decrease in inventories | (16,500) | 17,230 |
| (Increase) decrease in prepaid expenses and other current assets | (27,167) | 244,880 |
| Increase in accounts payable | 50,895 | 10,925 |
| Increase (decrease) in accrued expenses and other liabilities | (23,476) | 53,735 |
| Decrease in due to districts | (14,220) | (225) |
| Increase in in deferred revenue | 5,820 | 8,558 |
| Decrease in pension liabilities | (28,757) | (398,013) |
| Net Cash Provided By Operating Activities | 548,882 | 86,544 |
| Cash Flows From Investing Activities | | |
| Net maturities of certificates of deposit | — | 79,897 |
| Net purchases of other investments | (755) | (6,280) |
| Proceeds from the liquidation of life insurance policies | — | 303,476 |
| Purchase of property and equipment | (61,739) | (30,495) |
| Net Cash Provided By (Used In) Investing Activities | (62,494) | 346,598 |
| Cash Flows From Financing Activities | | |
| Payments on capital lease obligation | (4,322) | (25,962) |
| Repayments of promissory note payable | (22,532) | (19,965) |
| Borrowings on line of credit | — | 150,000 |
| Payments on line of credit | (150,000) | — |
| Net Cash Provided By (Used In) Financing Activities | (176,854) | 104,073 |
| Net Increase In Cash And Cash Equivalents | 309,534 | 537,215 |
| Cash And Cash Equivalents - Beginning Of Year | 1,058,202 | 520,987 |
| Cash And Cash Equivalents - End Of Year | \$ 1,367,736 | \$ 1,058,202 |
| Supplemental Cash Flow Information | | |
| Interest paid | \$ 44,216 | \$ 50,821 |
| Noncash transactions: | | |
| Property purchases financed through accounts payable | 65,927 | — |
| Property purchases included in capital lease obligation | 138,172 | — |

OPTIMIST INTERNATIONAL AND RELATED ORGANIZATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2010

1. Summary Of Significant Accounting Policies

Principles Of Consolidation

The accompanying consolidated financial statements include the accounts of Optimist International and Optimist International Youth Programs Foundation (Youth Programs) (collectively, Optimist). Youth Programs was incorporated during fiscal year 1996 to sponsor activities and programs which foster the development of minors. Youth Programs is controlled by Optimist International, resulting in consolidation in these financial statements. All transactions and balances between Optimist International and Youth Programs have been eliminated in consolidation.

The accounts of the 50 administrative districts and 2,862 clubs for the year ended September 30, 2010 are not combined with the accounts of Optimist, since the districts and clubs control their own assets.

Basis Of Accounting

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

Basis Of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Accounting Standards Codification (ASC) 958-205. Under ASC 958-210, Optimist is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. As of September 30, 2010, Optimist has no temporarily or permanently restricted net assets.

The consolidated financial statements include certain prior year summarized comparative information in total but not by net class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with Optimist's consolidated financial statements for the year ended September 30, 2009, from which the summarized information was derived.

OPTIMIST INTERNATIONAL AND RELATED ORGANIZATION

Notes To Consolidated Financial Statements (*Continued*)

Estimates And Assumptions

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Cash And Cash Equivalents

Optimist considers all temporary cash investments with an original maturity date less than three months from the date of purchase as cash equivalents. Optimist invests its cash with financial institutions with strong credit ratings. At times, such balances may be in excess of Federal Deposit Insurance Corporation insurance limits.

Accounts Receivable

Accounts receivable are stated at the amount that management expects to collect from outstanding balances. Management provides for probable uncollected amounts through a charge to the change in net assets and a credit to the valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

Inventories

Inventories are stated at net realizable value, as Optimist has voted to suspend retail supply operations (Note 14). Inventories consist of club materials and other merchandise.

Property And Equipment

Property and equipment are carried at cost, less accumulated depreciation and amortization computed using the straight-line method over periods ranging from 5 to 40 years.

Revenues

Revenues from member dues, insurance assessments and magazine subscriptions are recognized as earned ratably over the fiscal year. Any payments received in advance are recorded as deferred revenue. Life membership fees are recognized as revenue when received. Grants from Optimist International Foundation and others are recognized in the year that the pledge of support is made.

OPTIMIST INTERNATIONAL AND RELATED ORGANIZATION

Notes To Consolidated Financial Statements (*Continued*)

Restricted And Unrestricted Support

Optimist reports gifts of cash and other assets as 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 purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions. Optimist reports temporarily restricted contributions as unrestricted in the current year when Optimist meets the donor restrictions in the same period as receipt of the contributions.

Foreign Exchange

The accounts held in Canadian funds, primarily accounts receivable, inventories, accounts payable and accrued expenses, are included in the financial statements after translation at appropriate rates of exchange. Gains or losses resulting from such translation are included in gain on foreign currency transactions on the consolidated statement of activities. Cumulative translation gains or losses are not significant to Optimist at September 30, 2010.

Expense Allocation

Expenses are charged to program services and supporting activities on the basis of periodic time and expense studies and management estimates. General management expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of Optimist. See Note 12 for the functional allocation of expenses by the applicable program services and supporting activities.

Subsequent Events

Management has evaluated subsequent events through December 9, 2010, the date which the financial statements were available for issue.

Tax Status

Optimist International has received a favorable determination letter from the Internal Revenue Service and is exempt from federal income taxes under the provisions of Code Section 501(c)(4). Youth Programs has received a favorable determination letter from the Internal Revenue Service for exemption from federal income taxes under the provisions of Code Section 501(c)(3).

OPTIMIST INTERNATIONAL AND RELATED ORGANIZATION

Notes To Consolidated Financial Statements (*Continued*)

On October 1, 2009, Optimist adopted recently issued accounting rules for uncertain tax positions. These rules require financial statement recognition of the impact of a tax position if a position is more likely than not of being sustained on audit, based on the technical merits of the position. The rules also provide guidance on measurement, derecognition, classification, interest and penalties, accounting in interim periods, transition, and disclosure requirements for uncertain tax positions. The adoption of the new rules had no impact on the financial statements. Optimist's tax returns for tax years ended September 30, 2007 and later remain subject to examination by taxing authorities.

2. Operations

The purposes of Optimist International are to foster an optimistic way of life through a network of Optimists, dedicated to the full development of their potential in order to provide ever-expanding service to youth, the community and the world.

3. Accounts Receivable

Accounts receivable consist of the following:

| | |
|---------------------------------------|------------------|
| Accounts receivable from clubs | \$ 108,849 |
| Less: Allowance for doubtful accounts | <u>41,123</u> |
| | <u>\$ 67,726</u> |

4. Property And Equipment

Property and equipment consist of the following:

| | |
|---|-------------------|
| Land | \$ 158,417 |
| Building | 2,089,764 |
| Furniture and equipment | <u>3,267,902</u> |
| | 5,516,083 |
| Less: Accumulated depreciation and amortization | <u>4,922,558</u> |
| | <u>\$ 593,525</u> |

OPTIMIST INTERNATIONAL AND RELATED ORGANIZATION

Notes To Consolidated Financial Statements (*Continued*)

5. Capital Lease Obligation

A certain lease in which Optimist is the lessee is considered to be equivalent to an installment purchase for purposes of accounting presentation. Assets under the capital lease are capitalized using interest rates appropriate at the inception of the lease and amortized over a five-year period. Amortization of the lease is included in depreciation expense. Assets recorded under a capital lease at September 30, 2010 are valued at \$138,172, less accumulated amortization of \$13,817.

Future minimum lease payments related to this lease as of September 30, 2010 are as follows:

| <u>Year</u> | <u>Amount</u> |
|---|-------------------|
| 2011 | \$ 45,758 |
| 2012 | 45,758 |
| 2013 | 45,758 |
| 2014 | 45,758 |
| 2015 | 38,132 |
| Total minimum obligations | 221,164 |
| Less: Amounts representing interest | 13,017 |
| Less: Amounts representing service fees | 74,297 |
| Present value of minimum lease payments | 133,850 |
| Less: Current portion | 26,427 |
| | <u>\$ 107,423</u> |

6. Promissory Note Payable

On April 1, 2008, Optimist International entered into a promissory note agreement with Optimist International Foundation for the purpose of funding Optimist International's defined benefit pension plan. The promissory note, which is secured by a deed of trust and security agreement on Optimist International's office building in St. Louis, Missouri, had an original principal balance of \$730,000 and an interest rate of 6.97%. Commencing on December 31, 2008 and on each December 31 thereafter, the interest rate for the calendar year will be adjusted to equal the U.S. Aggregate Index for a 12-month period as published by Lehman Brothers (5.72% effective December 31, 2009). The promissory note does not have a prepayment penalty. As of September 30, 2010, the promissory note has an outstanding balance of \$678,941.

OPTIMIST INTERNATIONAL AND RELATED ORGANIZATION

Notes To Consolidated Financial Statements *(Continued)*

The future minimum principal payments on the promissory note are as follows:

| <u>Year</u> | <u>Amount</u> |
|-------------|-------------------|
| 2011 | \$ 23,254 |
| 2012 | 24,620 |
| 2013 | 26,065 |
| 2014 | 27,596 |
| 2015 | 29,217 |
| Thereafter | 548,189 |
| | <u>\$ 678,941</u> |

For the year ended September 30, 2010, total interest expense on all obligations amounted to \$44,216.

7. Pension Plans

Optimist has a noncontributory defined benefit pension plan (pension plan) covering all U.S. employees who qualified for the plan as of September 30, 1997.

Additionally, a nonqualified supplemental pension plan (supplemental plan) was adopted in 1992. The plan covers seven employees and is intended to provide a supplement to the employees' retirement benefits, which were reduced as a result of certain Employee Retirement Income Security Act of 1974 (ERISA) amendments.

Pension cost is determined based upon years of service and compensation levels. Pension cost was determined using the projected unit credit method. Prior year service costs are amortized over 15 years, which represents the average remaining service period of employees. The Plan is measured for the current fiscal year at October 1, 2009. Optimist's funding policy is to make, as a minimum contribution, the equivalent of the minimum required by the ERISA. Optimist's contribution to the pension plan amounted to \$134,088 in 2010. Benefit accounts were frozen as of September 30, 1997.

OPTIMIST INTERNATIONAL AND RELATED ORGANIZATION

Notes To Consolidated Financial Statements (Continued)

The following table sets forth the plans' funded status for the year ended September 30, 2010:

| | Defined Benefit Pension Plan | Supplemental Pension Plan | Total Pension Plans |
|--|---|--|------------------------------------|
| Change In Benefit Obligation | | | |
| Benefit obligation at beginning of year | \$ 2,570,566 | \$ 462,153 | \$ 3,032,719 |
| Interest cost | 159,267 | 23,983 | 183,250 |
| Actuarial loss | 55,324 | (30,556) | 24,768 |
| Assumption changes | 100,326 | — | 100,326 |
| Benefits paid | (244,644) | (52,205) | (296,849) |
| Benefit obligation at end of year | 2,640,839 | 403,375 | 3,044,214 |
| Change In Plan Assets | | | |
| Fair value of plan assets at beginning of year | 2,327,311 | — | 2,327,311 |
| Actual return on plan assets | 201,246 | — | 201,246 |
| Employer contribution | 134,088 | 52,205 | 186,293 |
| Benefits paid | (244,644) | (52,205) | (296,849) |
| Fair value of plan assets at end of year | 2,418,001 | — | 2,418,001 |
| Funded status | \$ (222,838) | \$ (403,375) | \$ (626,213) |

Weighted Average Assumptions Utilized

| | | |
|--------------------------------|------|------|
| Discount rate | 6.5% | 5.5% |
| Expected return on plan assets | 7.0% | N/A |

The funded status of the pension plan and the supplemental pension plan has been recorded as a liability on Optimist's consolidated statement of financial position at September 30, 2010.

The pension plan assets are placed with money managers recommended by the pension plan's consultant. The Pension Committee reviews the performance of the managers on an ongoing basis and meets at least annually with the consultant. The expected long-term return on plan assets assumption is based on a periodic review and modeling of the plan's asset allocation and liability structure over a long-term period. Expectations of returns for each asset class are based on comprehensive reviews of historical data and economic/financial market theory.

The supplemental pension plan is currently unfunded and will be funded by Optimist as benefits are due to participants.

OPTIMIST INTERNATIONAL AND RELATED ORGANIZATION

Notes To Consolidated Financial Statements (Continued)

The net periodic benefit cost includes the following components:

| | Defined Benefit Pension Plan | Supplemental Pension Plan | Total Pension Plans |
|--------------------------------|---|--|------------------------------------|
| Interest cost | \$ 159,267 | \$ 23,983 | \$ 183,250 |
| Expected return on plan assets | (159,726) | — | (159,726) |
| Net amortization | 107,504 | 13,256 | 120,760 |
| | <u>\$ 107,045</u> | <u>\$ 37,239</u> | <u>\$ 144,284</u> |

The total net periodic benefit cost of \$144,284 is recorded as an expense in the consolidated statement of activities for 2010.

Amounts recognized in the consolidated statement of activities for pension plan changes other than net periodic benefit cost consist of the following:

| | |
|---|------------------|
| Net loss - defined benefit pension plan | \$ (6,626) |
| Net gain - supplemental pension plan | <u>57,064</u> |
| | <u>\$ 50,438</u> |

Defined benefit pension plan assets consist of the following as of September 30, 2010:

| Asset Categories | Total | Quoted Prices In Active Markets (Level 1) |
|-------------------------|---------------------|--|
| Cash | \$ 24,181 | \$ 24,181 |
| Equity securities: | | |
| Global/International | 870,480 | 870,480 |
| U.S. large cap growth | 338,520 | 338,520 |
| U.S. large cap value | 290,160 | 290,160 |
| U.S. balanced | 241,800 | 241,800 |
| Corporate bonds | 652,860 | 652,860 |
| | <u>\$ 2,418,001</u> | <u>\$ 2,418,001</u> |

The asset allocation goal of the defined benefit pension plan assets is 60% equity securities and 40% fixed income. The assets are to be invested in conservative, well-known vehicles traded on established U.S. exchanges.

OPTIMIST INTERNATIONAL AND RELATED ORGANIZATION

Notes To Consolidated Financial Statements (Continued)

Management has estimated, based on actuarial information, that a contribution of \$140,000 will be required for the defined benefit pension plan for the year ending September 30, 2011.

Benefit payments related to both plans are estimated to be paid out as follows:

| <u>Year</u> | <u>Defined Benefit Pension Plan</u> | <u>Supplemental Pension Plan</u> | <u>Total Pension Plans</u> |
|-------------|---|--|------------------------------------|
| 2011 | \$ 242,000 | \$ 52,205 | \$ 294,205 |
| 2012 | 236,000 | 50,311 | 286,311 |
| 2013 | 229,000 | 48,266 | 277,266 |
| 2014 | 228,000 | 26,072 | 254,072 |
| 2015 | 229,000 | 43,732 | 272,732 |
| 2016 - 2020 | 1,042,000 | 179,507 | 1,221,507 |
| | <u>\$ 2,206,000</u> | <u>\$ 400,093</u> | <u>\$ 2,606,093</u> |

In addition, Optimist has established a defined contribution 401(k) plan for its U.S. employees whereby the Organization makes matching contributions of up to 6% of the salary of each eligible employee. Optimist's contribution to the plan amounted to \$79,300 in 2010.

Effective October 1, 1999, Optimist International established a defined contribution Registered Retirement Savings Plan to replace the previously terminated defined benefit plan for its Canadian employees. Optimist's contribution to the plan amounted to \$8,494 in 2010.

8. Youth Programs Foundation

Youth Programs Foundation activity consists of the following:

| | |
|------------------------------------|------------------|
| Youth Programs Foundation revenues | \$ 940,293 |
| Youth Programs Foundation expenses | <u>905,188</u> |
| | <u>\$ 35,105</u> |

OPTIMIST INTERNATIONAL AND RELATED ORGANIZATION

Notes To Consolidated Financial Statements (*Continued*)

9. Operating Lease

Optimist leases an office in Canada under an operating lease. At September 30, 2010, the future minimum rental payments under this lease are as follows:

| Year | Amount |
|-------------|------------------|
| 2011 | \$ 36,047 |
| 2012 | 36,047 |
| 2013 | 21,028 |
| | <u>\$ 93,122</u> |

Rent expense recorded by Optimist was approximately \$34,000 for 2010.

10. General Liability Insurance

Optimist maintains general liability insurance coverage for itself, all member districts and clubs in the total amount of \$10,000,000 per occurrence and aggregate. The insurance costs are reported separately in the consolidated financial statements.

11. Related Party Transactions

Optimist International Foundation reimburses Optimist for certain payments of payroll, and for other administrative charges and services. All such reimbursements were included in the amounts due to Optimist at September 30, 2010. Additional administrative services are provided without charge.

Optimist International Foundation also provides grants to Optimist for various programs. The grants to Optimist total \$661,346 for the year ended September 30, 2010.

At September 30, 2010, Optimist has recorded a receivable due from the Optimist International Foundation of \$296,246 related to grants made and services rendered during the current year. Additionally, at September 30, 2010, Optimist has recorded a receivable of \$46,494 due from the Optimist International Foundation of Canada.

OPTIMIST INTERNATIONAL AND RELATED ORGANIZATION

Notes To Consolidated Financial Statements (*Continued*)

12. Functional Expenses

The following is a detail of expenses by functional classification:

| | |
|--|---------------------|
| Programs: | |
| Allocated dues to districts | \$ 53,387 |
| Club insurance premiums | 703,311 |
| International development | 4 |
| Club growth and services | 1,305,099 |
| Youth Clubs and JOOI Programs | 230,436 |
| Youth Programs Foundation direct expenses | 905,188 |
| O.I. Youth Programs Foundation - allocated indirect expenses | 25,062 |
| Club programs | 730,048 |
| Cost of supplies sold | 14,053 |
| Communications and magazine | 412,267 |
| Total programs | <u>4,378,855</u> |
| Supporting activities: | |
| International convention | 386,888 |
| Volunteer leadership expenses | 577,870 |
| General management | 1,183,044 |
| Total supporting activities | <u>2,147,802</u> |
| | <u>\$ 6,526,657</u> |

13. Contingencies

Optimist International maintains an office in Canada and employs several individuals at this office. Under Canadian employment law, certain employees of Optimist International may be entitled to severance pay. Optimist International does not expect to incur a severance liability at September 30, 2010.

Optimist International enters into contracts with hotels for the annual convention and other meeting events significantly earlier than the scheduled dates of the events. Such contracts typically allow for a reduction, at a predetermined percent, of the original contract amount. However, in the circumstance that such a contract is cancelled, a penalty is usually assessed at a percentage of the original contract amount based on the date of cancellation and the date of the event. As of September 30, 2010, no such cancellations are expected.

14. Retail Supply Operations

During 2007, the Optimist International Board of Directors voted to suspend retail supply operations at the Canadian Service Center. The supply operation was transitioned to a third-party service provider during 2008. Optimist will sell any remaining inventories related to the supply operations. As of September 30, 2010, Optimist recorded these inventories at their net realizable value.

15. Line Of Credit

Optimist maintains a line-of-credit agreement with a financial institution. Optimist is permitted to borrow up to \$250,000 on the line of credit. The line of credit bears interest at 3.74%, and terminates on February 7, 2011. As of September 30, 2010, no amount is due under the line-of-credit agreement. The line of credit is secured by an interest in Optimist's inventory, accounts receivable and equipment.

16. Risks And Uncertainties

Optimist derives the majority of its revenue from membership dues and fees. Membership in the organization may fluctuate based upon larger cultural and economic trends, such as significant downturns in the economy. Due to the level of risk associated with declines in membership of the organization, it is at least reasonably possible that declines in membership revenue will occur in the short term and that such changes could materially affect amounts reported in the consolidated statement of activities.

17. Employment Agreement

Optimist has executed an employment agreement with a key officer. The terms of the agreement run through September 30, 2015, and include provisions regarding compensation, benefits and effects of termination.

Independent Auditors' Report On Supplementary Information

Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The schedule of consolidated revenues, expenditures and comparison with budget and the schedule of changes in membership and officers and directors for the year ended September 30, 2010 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements. Accordingly, we do not express an opinion or any other form of assurance on the supplementary information.

RubinBrown LLP

December 9, 2010

OPTIMIST INTERNATIONAL AND RELATED ORGANIZATION

SCHEDULE OF CONSOLIDATED REVENUES, EXPENDITURES AND COMPARISON WITH BUDGET For The Years Ended September 30, 2010 And 2009

| | 2010 | | | 2009 | | |
|---|-------------------|-------------------|----------------------------|-------------------|-------------------|----------------------------|
| | Actual | Budget | Favorable (Unfavorable) | Actual | Budget | Favorable (Unfavorable) |
| Revenues | | | | | | |
| Dues, fees and magazine subscriptions | \$ 4,610,981 | \$ 4,641,154 | \$ (30,173) | \$ 4,075,078 | \$ 4,159,275 | \$ (84,197) |
| Processing fees | 133,522 | 160,000 | (26,478) | 141,950 | 165,000 | (23,050) |
| Charter fees | 37,029 | 50,000 | (12,971) | 33,544 | 47,250 | (13,706) |
| Life membership fees | 78,498 | 100,000 | (21,502) | 94,758 | 105,000 | (10,242) |
| International President's recognition awards | 301 | — | 301 | 1,272 | — | 1,272 |
| International development revenue | 50 | 3,000 | (2,950) | 275 | 4,500 | (4,225) |
| International convention | 300,429 | 277,590 | 22,839 | 236,240 | 285,740 | (49,500) |
| Junior Optimist, Octagon and Alpha fees | 187,502 | 222,175 | (34,673) | 182,660 | 190,375 | (7,715) |
| Youth Programs Foundation revenues | 940,293 | 959,161 | (18,868) | 877,391 | 1,001,650 | (124,259) |
| Optimist International Foundation grant revenue | 661,346 | 252,025 | 409,321 | 234,518 | 185,348 | 49,170 |
| Income from sales of supplies, less cost of supplies sold, and royalties | 100,089 | 154,750 | (54,661) | 126,704 | 155,250 | (28,546) |
| Gain on foreign currency transactions | 37,454 | — | 37,454 | 2,616 | — | 2,616 |
| Other | 143,292 | 18,800 | 124,492 | 96,640 | 40,850 | 55,790 |
| Total Revenues | 7,230,786 | 6,838,655 | 392,131 | 6,103,646 | 6,340,238 | (236,592) |
| Expenditures | | | | | | |
| Allocated dues to districts | 53,387 | 75,000 | 21,613 | 65,908 | 70,000 | 4,092 |
| Club insurance premiums | 703,311 | 744,800 | 41,489 | 716,173 | 784,000 | 67,827 |
| Growth and member services | 652,842 | 781,588 | 128,746 | 605,814 | 804,354 | 198,540 |
| Club programs | 984,062 | 562,094 | (421,968) | 492,704 | 496,939 | 4,235 |
| Membership development | 255,495 | 250,409 | (5,086) | 210,148 | 258,750 | 48,602 |
| Communication | 362,143 | 390,960 | 28,817 | 392,684 | 354,021 | (38,663) |
| Meeting services | 166,684 | 172,070 | 5,386 | 159,444 | 173,579 | 14,135 |
| International convention | 264,685 | 331,343 | 66,658 | 301,067 | 342,690 | 41,623 |
| International development | 4 | 2,600 | 2,596 | 282 | 2,950 | 2,668 |
| Canadian office services | 352,990 | 327,486 | (25,504) | 340,652 | 340,907 | 255 |
| Building maintenance | 206,457 | 198,797 | (7,660) | 188,594 | 201,776 | 13,182 |
| Finance, administration, information services and facilities | 789,156 | 768,516 | (20,640) | 815,226 | 734,936 | (80,290) |
| Loss on uncollectible accounts and pledges | 73,249 | 24,000 | (49,249) | 59,556 | 24,000 | (35,556) |
| Executive director department | 377,126 | 344,649 | (32,477) | 345,624 | 343,389 | (2,235) |
| Board and officers | 129,958 | 181,425 | 51,467 | 191,863 | 189,975 | (1,888) |
| Committees | 72,756 | 87,400 | 14,644 | 67,532 | 81,055 | 13,523 |
| Youth Programs Foundation expenses | 905,188 | 922,972 | 17,784 | 876,729 | 1,002,028 | 125,299 |
| Capital improvements | 61,739 | 48,000 | (13,739) | 30,495 | 90,000 | 59,505 |
| Interest expense | 44,216 | 57,500 | 13,284 | 50,821 | 53,465 | 2,644 |
| Total Expenditures | 6,455,448 | 6,271,609 | (183,839) | 5,911,316 | 6,348,814 | 437,498 |
| Excess (Deficiency) Of Revenues Over Expenditures | \$ 775,338 | \$ 567,046 | \$ 208,292 | \$ 192,330 | \$ (8,576) | \$ 200,906 |

OPTIMIST INTERNATIONAL AND RELATED ORGANIZATION

SCHEDULE OF CHANGES IN MEMBERSHIP AND OFFICERS AND DIRECTORS

For The Year Ended September 30, 2010

| | <u>Member Clubs</u> | <u>Members</u> |
|--------------------------------------|-------------------------|----------------|
| Membership, September 30, 2009 | 2,899 | 90,322 |
| New clubs and members | 93 | 12,896 |
| Less: Discontinued clubs and members | 130 | 16,784 |
| Membership, September 30, 2010 | 2,862 | 86,434 |

Officers and Directors - 2009-10:

| | |
|---------------------|--------------------------|
| Mark Shriver | President |
| Danny Rodgers | President - Elect |
| Donald Sievers | Immediate Past President |
| Claire Labreche | Board Member |
| Herb Strather | Board Member |
| Ken Garner | Board Member |
| Marlene Phillips | Board Member |
| Dave Bruns | Board Member |
| Jim Kondrasuk | Board Member |
| Marie-Pier Tremblay | President of JOOI |

Officers and Directors - 2010-11:

| | |
|------------------|--------------------------|
| Danny Rodgers | President |
| Jack Creswell | President - Elect |
| Mark Shriver | Immediate Past President |
| Ken Garner | Board Member |
| Marlene Phillips | Board Member |
| Dave Burns | Board Member |
| Jim Kondrasuk | Board Member |
| Chris Jernigan | Board Member |
| Fatima Plater | Board Member |
| Kayleigh White | President of JOOI |