
***OPTIMIST INTERNATIONAL
AND RELATED ORGANIZATION***
CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2012



Contents

Page

Independent Auditors' Report.....	1 - 2
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Consolidated Financial Statements

Consolidated Statement Of Financial Position	3
Consolidated Statement Of Activities.....	4
Consolidated Statement Of Cash Flows	5
Notes To Consolidated Financial Statements	6 - 18

Supplementary Information

Independent Auditors' Report On Supplementary Information	19
Schedule Of Consolidated Revenues, Expenditures And Comparison With Budget.....	20
Schedule Of Changes In Membership And Officers And Directors.....	21

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, 2012, 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, 2011 financial statements and, in our report dated December 8, 2011, 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, 2012, and the changes in their net assets and their cash flows for the year 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, 2011, from which the summarized information was derived.

RubinBrown LLP

December 5, 2012

OPTIMIST INTERNATIONAL AND RELATED ORGANIZATION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

September 30, 2012

(With Summarized Financial Information As Of September 30, 2011)

Assets

	2012	2011
Cash and cash equivalents	\$ 1,615,946	\$ 1,354,531
Investments (Note 3)	208,819	208,309
Accounts receivable, net (Notes 4 and 16)	40,260	63,150
Due from Optimist International Foundation (Note 12)	71,974	233,974
Due from Canadian Children's Optimist Foundation (Note 12)	14,738	11,427
Inventories (Note 16)	—	14,155
Prepaid expenses and other current assets	298,481	278,176
Property and equipment (Notes 5, 6, 7 and 16)	496,909	533,585
Total Assets	\$ 2,747,127	\$ 2,697,307

Liabilities And Net Assets

Liabilities

Accounts payable	\$ 80,758	\$ 107,299
Accrued expenses and other liabilities	243,493	157,326
Accrued paid time off	359,054	370,433
Current portion of capital lease obligations (Note 6)	33,032	27,299
Current portion of promissory note payable (Note 7)	19,715	20,796
Due to districts	47,022	50,080
Deferred revenue	25,803	25,607
Long-term portion of capital lease obligations (Note 6)	76,008	80,124
Long-term portion of promissory note payable (Note 7)	618,342	636,784
Pension liabilities (Note 8)	254,361	746,305
Total Liabilities	1,757,588	2,222,053

Unrestricted Net Assets

Undesignated - general	519,204	(31,574)
Net investment in property and equipment	387,869	426,162
Designated - Endowment Fund	82,466	80,666
Total Unrestricted Net Assets	989,539	475,254
Total Liabilities And Net Assets	\$ 2,747,127	\$ 2,697,307

OPTIMIST INTERNATIONAL AND RELATED ORGANIZATION

CONSOLIDATED STATEMENT OF ACTIVITIES

For The Year Ended September 30, 2012

(With Summarized Financial Information

For The Year Ended September 30, 2011)

	2012	2011
Revenues		
Dues and fees	\$ 4,193,249	\$ 4,429,309
Processing fees	131,535	116,057
Charter fees	22,148	23,993
Life membership fees	83,077	77,641
International President's recognition awards	—	1,138
International convention	272,978	285,151
Junior Optimist, Octagon and Alpha fees	169,923	170,582
Youth Programs Foundation revenues (Note 9)	1,001,655	954,761
Optimist International Foundation grant revenue (Note 12)	206,756	217,230
Income from sales of supplies	20,322	37,350
Income from royalties	56,817	64,960
Gain (loss) on foreign currency transactions	(10,461)	6,425
Other	15,072	18,588
Total Revenues	6,163,071	6,403,185
Expenses (Note 13)		
Allocated dues to districts	53,040	64,085
Club insurance premiums	648,917	644,759
Growth and member services	683,943	777,920
Club programs	435,362	514,310
Membership development	254,929	235,103
Communication	295,545	367,199
Meeting services	171,779	176,360
International convention	267,313	286,220
Canadian office services	393,066	442,640
Building maintenance	180,118	238,522
Finance, administration, information services and facilities	758,471	706,831
Loss on uncollectible accounts and pledges	28,010	48,128
Executive director department	336,943	391,595
Board and officers	160,368	155,036
Committees	50,833	44,344
Youth Programs Foundation expenses (Note 9)	1,045,264	956,229
Cost of supplies sold	18,123	8,369
Depreciation and amortization	129,938	125,798
Interest expense	51,043	44,933
Total Expenses	5,963,005	6,228,381
Excess Of Revenues Over Expenses	200,066	174,804
Pension Plan Changes Other Than Net Periodic Benefit Cost (Note 8)	314,219	(201,059)
Quebec Sales Tax Rebate (Return Of Rebate) (Note 15)	—	(110,099)
Increase (Decrease) In Unrestricted Net Assets	514,285	(136,354)
Unrestricted Net Assets - Beginning Of Year	475,254	611,608
Unrestricted Net Assets - End Of Year	\$ 989,539	\$ 475,254

OPTIMIST INTERNATIONAL AND RELATED ORGANIZATION

CONSOLIDATED STATEMENT OF CASH FLOWS

For The Years Ended September 30, 2012

(With Summarized Financial Information

For The Year Ended September 30, 2011)

	2012	2011
Cash Flows From Operating Activities		
Increase (decrease) in net assets	\$ 514,285	\$ (136,354)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	129,938	125,798
Pension plan changes other than net periodic benefit cost	(314,219)	201,059
Changes in assets and liabilities:		
Decrease in accounts receivable	22,890	4,576
Decrease in due from Optimist International Foundation	162,000	62,272
(Increase) decrease in due from Canadian Children's Optimist Foundation	(3,311)	35,067
Decrease in inventories	14,155	7,881
Increase in prepaid expenses and other current assets	(20,305)	(17,875)
Decrease in accounts payable	(26,541)	(18,751)
Increase in accrued expenses and other liabilities	86,167	53,251
Increase (decrease) in accrued paid time off	(11,379)	73,424
Decrease in due to districts	(3,058)	(21,499)
Increase in deferred revenue	196	7,665
Decrease in pension liabilities	(177,725)	(80,967)
Net Cash Provided By Operating Activities	373,093	295,547
Cash Flows From Investing Activities		
Purchases of investments	(510)	(129,179)
Purchases of property and equipment	(62,543)	(131,785)
Net Cash Used In Investing Activities	(63,053)	(260,964)
Cash Flows From Financing Activities		
Payments on capital lease obligations	(29,102)	(26,427)
Repayments of promissory note payable	(19,523)	(21,361)
Net Cash Used In Financing Activities	(48,625)	(47,788)
Net Increase (Decrease) In Cash And Cash Equivalents	261,415	(13,205)
Cash And Cash Equivalents - Beginning Of Year	1,354,531	1,367,736
Cash And Cash Equivalents - End Of Year	\$ 1,615,946	\$ 1,354,531
Supplemental Cash Flow Information		
Interest paid	\$ 51,043	\$ 44,933
Noncash transactions:		
Property purchases included in capital lease obligations	30,719	—

OPTIMIST INTERNATIONAL AND RELATED ORGANIZATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2012

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 2,653 clubs for the year ended September 30, 2012 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 requirements of the Financial Accounting Standards Board for not-for-profit organizations by presenting assets and liabilities within similar groups and classifying them in ways that provide relevant information about their interrelationships, liquidity, and financial flexibility. As a result, Optimist is required to report information regarding its financial position and activities according to the following three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. As of September 30, 2012, 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, 2011, 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.

Investments

Investments in guaranteed investment contracts are reported at fair value based on quoted market prices in active markets. Optimist's participation in Optimist International Foundation's investment pool is valued based upon Optimist's proportional interest in the pool. The assets of the pool are valued based on quoted market prices in active markets.

Accounts Receivable

Accounts receivable are stated at the amount that management expects to collect from outstanding balances. Management provides for probable uncollectible 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

At September 30, 2011, inventories consisted of club materials and other merchandise and were stated at net realizable value.

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.

OPTIMIST INTERNATIONAL AND RELATED ORGANIZATION

Notes To Consolidated Financial Statements *(Continued)*

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.

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 (loss) on foreign currency transactions on the consolidated statement of activities. Cumulative translation gains or losses are not significant to Optimist at September 30, 2012.

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 13 for the functional allocation of expenses by the applicable program services and supporting activities.

Subsequent Events

Management has evaluated subsequent events through December 5, 2012, the date which the consolidated financial statements were available for issue.

OPTIMIST INTERNATIONAL AND RELATED ORGANIZATION

Notes To Consolidated Financial Statements *(Continued)*

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).

The tax returns of Optimist International and Youth Programs for the fiscal year 2008 and later remain subject to examination by taxing authorities.

Reclassifications

Certain 2011 amounts have been reclassified, where appropriate, to conform to the 2012 presentation.

2. Operations

The purpose of Optimist International is 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. Investments

Investments consist of the following:

Guaranteed investment contract	\$ 126,353
Participation in Optimist International	
Foundation investment pool	<u>82,466</u>
	<u>\$ 208,819</u>

4. Accounts Receivable

Accounts receivable consist of the following:

Accounts receivable from clubs	\$ 66,830
Less: Allowance for doubtful accounts	<u>26,570</u>
	<u>\$ 40,260</u>

OPTIMIST INTERNATIONAL AND RELATED ORGANIZATION

Notes To Consolidated Financial Statements *(Continued)*

5. Property And Equipment

Property and equipment consist of the following:

Land	\$ 158,417
Building	2,170,569
Furniture and equipment	<u>1,533,206</u>
	3,862,192
Less: Accumulated depreciation and amortization	<u>3,365,283</u>
	<u>\$ 496,909</u>

6. Capital Lease Obligations

Certain leases in which Optimist is the lessee are considered to be equivalent to installment purchases for purposes of accounting presentation. Assets under the capital leases are capitalized using interest rates appropriate at the inception of the leases and amortized over a five-year period. Amortization of the leases is included in depreciation expense. Assets recorded under the capital leases at September 30, 2012 are valued at \$168,891, less accumulated amortization of \$71,458.

Future minimum lease payments related to these leases as of September 30, 2012 are as follows:

<u>Year</u>	<u>Amount</u>
2013	\$ 55,669
2014	55,669
2015	48,044
2016	9,911
2017	<u>9,545</u>
Total minimum obligations	178,838
Less: Amounts representing interest	10,906
Less: Amounts representing service fees	<u>58,892</u>
Present value of minimum lease payments	109,040
Less: Current portion	<u>33,032</u>
	<u>\$ 76,008</u>

For the year ended September 30, 2012, interest expense on the capital lease obligations amounted to \$4,453.

OPTIMIST INTERNATIONAL AND RELATED ORGANIZATION

Notes To Consolidated Financial Statements *(Continued)*

7. 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 Barclays Capital (7.84% effective December 31, 2011). The promissory note does not have a prepayment penalty. As of September 30, 2012, the promissory note has an outstanding balance of \$638,057.

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

Year	Amount
2012	\$ 19,715
2013	21,317
2014	23,050
2015	24,923
2016	26,949
Thereafter	522,103
	<u>\$ 638,057</u>

For the year ended September 30, 2012, interest expense related to the promissory note amounted to \$46,590.

8. 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.

OPTIMIST INTERNATIONAL AND RELATED ORGANIZATION

Notes To Consolidated Financial Statements (Continued)

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, 2011. 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 \$217,800 in 2012. Benefit accounts were frozen as of September 30, 1997.

The following table sets forth the plans' funded status for the year ended September 30, 2012:

	Defined Benefit Pension Plan	Supplemental Pension Plan	Total Pension Plans
Change In Benefit Obligation			
Benefit obligation at beginning of year	\$ 2,601,808	\$ 386,936	\$ 2,988,744
Interest cost	148,308	19,846	168,154
Actuarial gain (loss)	(48,701)	61,888	13,187
Assumption changes	47,106	(26,076)	21,030
Benefits paid	(261,051)	(52,205)	(313,256)
Benefit obligation at end of year	2,487,470	390,389	2,877,859
Change In Plan Assets			
Fair value of plan assets at beginning of year	2,242,439	—	2,242,439
Actual return on plan assets	424,310	—	424,310
Employer contribution	217,800	52,205	270,005
Benefits paid	(261,051)	(52,205)	(313,256)
Fair value of plan assets at end of year	2,623,498	—	2,623,498
Funded status	\$ 136,028	\$ (390,389)	\$ (254,361)
Weighted Average Assumptions Utilized			
Discount rate	6.0%	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, 2012.

OPTIMIST INTERNATIONAL AND RELATED ORGANIZATION

Notes To Consolidated Financial Statements (*Continued*)

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.

The net periodic benefit cost includes the following components:

	Defined Benefit Pension Plan	Supplemental Pension Plan	Total Pension Plans
Interest cost	\$ 148,308	\$ 19,846	\$ 168,154
Expected return on plan assets	(155,270)	—	(155,270)
Net amortization	69,907	9,489	79,396
	<u>\$ 62,945</u>	<u>\$ 29,335</u>	<u>\$ 92,280</u>

The total net periodic benefit cost of \$92,280 is recorded as an expense in the consolidated statement of activities for 2012.

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

Net gain - defined benefit pension plan	\$ 340,542
Net loss - supplemental pension plan	<u>(26,323)</u>
	<u>\$ 314,219</u>

OPTIMIST INTERNATIONAL AND RELATED ORGANIZATION

Notes To Consolidated Financial Statements (*Continued*)

Defined benefit pension plan assets consist of the following as of September 30, 2012:

Asset Categories	Total
Cash	\$ 2,623,498

Historically, the asset allocation goal of the defined benefit pension plan assets has been 60% equity securities and 40% fixed income. The assets were to be invested in conservative, well-known vehicles traded on established U.S. exchanges. At September 30, 2012, the plan converted its entire portfolio to cash equivalents as Optimist explored the possibility of terminating the plan and settling all obligations.

Management has estimated, based on actuarial information, that a contribution of \$235,205 will be required for the defined benefit pension plan for the year ending September 30, 2013.

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

Year	Defined Benefit Pension Plan	Supplemental Pension Plan	Total Pension Plans
2013	\$ 233,000	\$ 48,000	\$ 281,000
2014	231,000	46,000	277,000
2015	228,000	43,000	271,000
2016	218,000	41,000	259,000
2017	211,000	38,000	249,000
2018 - 2022	926,000	149,000	1,075,000
	\$ 2,047,000	\$ 365,000	\$ 2,412,000

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 \$75,214 in 2012.

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 \$10,678 in 2012.

OPTIMIST INTERNATIONAL AND RELATED ORGANIZATION

Notes To Consolidated Financial Statements (*Continued*)

9. Youth Programs Foundation

Youth Programs Foundation activity consists of the following:

Youth Programs Foundation revenues	\$ 1,001,655
Youth Programs Foundation expenses	<u>1,045,264</u>
	<u>\$ (43,609)</u>

10. Operating Lease

Optimist leases an office in Canada under an operating lease. At September 30, 2012, the future minimum rental payments under this lease are as follows:

<u>Year</u>	<u>Amount</u>
2013	\$ 20,760

Rent expense recorded by Optimist was approximately \$35,000 for 2012. Subsequent to September 30, 2012, Optimist entered into an extension on this lease agreement through 2018. The agreement provides for annual rental payments of approximately \$37,000.

11. 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.

12. Related Party Transactions

Optimist International Foundation reimburses Optimist for certain payments of payroll, and for other administrative charges and services. All such reimbursements are included in the amounts due to Optimist at September 30, 2012. Additional administrative services are provided without charge.

OPTIMIST INTERNATIONAL AND RELATED ORGANIZATION

Notes To Consolidated Financial Statements (*Continued*)

Optimist International Foundation also provides grants to Optimist for various programs. The grants to Optimist totaled \$206,756 for the year ended September 30, 2012.

At September 30, 2012, Optimist has recorded a receivable due from the Optimist International Foundation of \$71,974 related to grants made and services rendered during the current year. Additionally, at September 30, 2012, Optimist has recorded a receivable of \$14,738 due from the Canadian Children's Optimist Foundation.

13. Functional Expenses

The following is a detail of expenses by functional classification:

Programs:	
Allocated dues to districts	\$ 53,040
Club insurance premiums	648,917
Club growth and services	1,320,062
Youth Clubs and JOOI Programs	145,539
Youth Programs Foundation direct expenses	1,045,264
O.I. Youth Programs Foundation - allocated indirect expenses	22,819
Club programs	312,374
Cost of supplies sold	18,123
Communications and magazine	352,597
International convention	389,038
Total programs	<u>4,307,773</u>
Supporting activities:	
Volunteer leadership expenses	584,652
General management	<u>1,070,580</u>
Total supporting activities	<u>1,655,232</u>
	<u>\$ 5,963,005</u>

14. 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, 2012.

OPTIMIST INTERNATIONAL AND RELATED ORGANIZATION

Notes To Consolidated Financial Statements (*Continued*)

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, 2012, no such cancellations are expected.

15. Canadian Tax Rebates

During 2010, Optimist applied for rebates of the Canadian Goods and Services Tax (GST) and Quebec Sales Tax (QST) paid in previous years related to Optimist's Canadian services center. In August 2010, Optimist received a rebate payment related to the QST. During 2011, Optimist received a denial letter related to the GST. Furthermore, due to Quebec's adoption of a harmonized tax structure, under which Quebec typically adheres to the tax determinations made by the Canadian government, Quebec denied Optimist's rebate of the QST and required Optimist to refund the QST rebate received in 2010 with interest. Optimist returned the QST rebate to the government of Quebec in September 2011. Optimist continues to pursue rebates of both the GST and QST relative to its Canadian services center.

16. 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 8, 2013. As of September 30, 2012, 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.

17. 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.

18. 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

Board of Directors
Optimist International

We have audited the consolidated financial statements of Optimist International and Optimist International Youth Programs Foundation (collectively, Optimist) as of and for the year ended September 30, 2012, and our report thereon dated December 5, 2012, which expressed an unqualified opinion on those consolidated financial statements, appears on pages 1 and 2. Our audit was made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying schedules of consolidated revenues, expenditures, and comparison with budget and changes in membership and officers and directors, which are the responsibility of management, are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

RubinBrown LLP

December 5, 2012

OPTIMIST INTERNATIONAL AND RELATED ORGANIZATION

SCHEDULE OF CONSOLIDATED REVENUES, EXPENDITURES AND COMPARISON WITH BUDGET

For The Years Ended September 30, 2012 And 2011

	2012			2011		
	Actual	Budget	Favorable (Unfavorable)	Actual	Budget	Favorable (Unfavorable)
Revenues						
Dues, fees and magazine subscriptions	\$ 4,193,249	\$ 4,158,733	\$ 34,516	\$ 4,429,309	\$ 4,436,349	\$ (7,040)
Processing fees	131,535	110,000	21,535	116,057	140,000	(23,943)
Charter fees	22,148	15,000	7,148	23,993	50,000	(26,007)
Life membership fees	83,077	80,000	3,077	77,641	94,000	(16,359)
International President's recognition awards	—	—	—	1,138	—	1,138
International development revenue	—	—	—	—	3,000	(3,000)
International convention	272,978	282,019	(9,041)	285,151	262,950	22,201
Junior Optimist, Octagon and Alpha fees	169,923	177,000	(7,077)	170,582	164,535	6,047
Youth Programs Foundation revenues	1,001,655	1,074,823	(73,168)	954,761	889,449	65,312
Optimist International Foundation grant revenue	206,756	225,602	(18,846)	217,230	207,740	9,490
Income from sales of supplies, less cost of supplies sold	2,199	26,250	(24,051)	28,981	28,750	231
Royalties	56,817	61,000	(4,183)	64,960	64,000	960
Gain (loss) on foreign currency transactions	(10,461)	—	(10,461)	6,425	—	6,425
Other	15,072	18,550	(3,478)	18,588	64,550	(45,962)
Total Revenues	6,144,948	6,228,977	(84,029)	6,394,816	6,405,323	(10,507)
Expenditures						
Allocated dues to districts	53,040	55,000	1,960	64,085	70,000	5,915
Club insurance premiums	648,917	625,000	(23,917)	644,759	685,000	40,241
Growth and member services	683,943	723,190	39,247	777,920	811,909	33,989
Club programs	435,362	444,502	9,140	514,310	491,964	(22,346)
Membership development	254,929	292,927	37,998	235,103	288,965	53,862
Communication	295,545	326,112	30,567	367,199	386,502	19,303
Meeting services	171,779	172,231	452	176,360	177,059	699
International convention	267,313	331,829	64,516	286,220	360,018	73,798
International development	—	—	—	—	1,200	1,200
Canadian office services	393,066	417,374	24,308	442,640	348,375	(94,265)
Building maintenance	180,118	178,908	(1,210)	238,522	200,621	(37,901)
Finance, administration, information services and facilities	758,471	649,067	(109,404)	706,831	771,513	64,682
Loss on uncollectible accounts and pledges	28,010	35,000	6,990	48,128	28,000	(20,128)
Executive director department	336,943	329,294	(7,649)	391,595	368,792	(22,803)
Board and officers	160,368	152,820	(7,548)	155,036	177,085	22,049
Committees	50,833	62,040	11,207	44,344	58,625	14,281
Youth Programs Foundation expenses	1,045,264	1,067,426	22,162	956,229	888,730	(67,499)
Capital improvements	62,543	60,000	(2,543)	131,785	50,000	(81,785)
Interest expense	51,043	46,000	(5,043)	44,933	46,000	1,067
Pension expense	270,005	220,005	(50,000)	199,987	—	(199,987)
Total Expenditures	6,147,492	6,188,725	41,233	6,425,986	6,210,358	(215,628)
Excess (Deficiency) Of Revenues Over Expenditures	\$ (2,544)	\$ 40,252	\$ (42,796)	\$ (31,170)	\$ 194,965	\$ (226,135)

OPTIMIST INTERNATIONAL AND RELATED ORGANIZATION

SCHEDULE OF CHANGES IN MEMBERSHIP AND OFFICERS AND DIRECTORS

For The Year Ended September 30, 2012

	Member Clubs	Members
Membership, September 30, 2011	2,715	80,343
New clubs and members	72	11,646
Less: Discontinued clubs and members	134	13,998
Membership, September 30, 2012	2,653	77,991

Officers and Directors - 2011-12:

Jack Creswell	President
Jean Claude St-Onge	President - Elect
Danny Rodgers	Immediate Past President
Dave Bruns	Board Member
Jim Kondrasuk	Board Member
Chris Jernigan	Board Member
Fatima Plater	Board Member
Michael Goldman	Board Member
Paul Lucas	Board Member
Marie-Claude Bourgeois	President of JOOI

Officers and Directors - 2012-13:

Jean Claude St-Onge	President
Ron Huxley	President - Elect
Jack Creswell	Immediate Past President
Chris Jernigan	Board Member
Fatima Plater	Board Member
Michael Goldman	Board Member
Paul Lucas	Board Member
Marlene Phillips	Board Member
Rick Quinlan	Board Member
A.J. Cifuentes	President of JOOI