

**CASA ROMANTICA CULTURAL CENTER  
AND GARDENS**

**FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2017**

**WITH INDEPENDENT AUDITORS' REPORT**

**CASA ROMANTICA CULTURAL CENTER AND GARDENS  
TABLE OF CONTENTS  
JUNE 30, 2017**

	<u>Page</u>
<b>Independent Auditors' Report .....</b>	<b>1</b>
<b>Financial Statements:</b>	
Statement of Financial Position .....	3
Statement of Activities and Changes in Net Assets.....	4
Statement of Cash Flows .....	5
Statement of Functional Expenses.....	6
Notes to Financial Statements .....	7

**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors of  
Casa Romantica Cultural Center and Gardens  
San Clemente, California

We have audited the accompanying financial statements of Casa Romantica Cultural Center and Gardens (the "Organization") (a nonprofit organization), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and changes in net assets, cash flows, and functional expenses for the year then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

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

**Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Organization'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 Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Casa Romantica Cultural Center and Gardens as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*White Nelson Dick Evans LLP*

Irvine, California  
February 14, 2018

**CASA ROMANTICA CULTURAL CENTER AND GARDENS**  
**STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2017**

**ASSETS**

Current Assets:	
Cash and cash equivalents	\$ 387,470
Accounts receivable	180,579
Pledges receivable	13,810
Inventory	17,121
Prepaid expenses	4,629
	<hr/>
Total Current Assets	603,609
Property and Equipment, Net	1,314,132
Other Assets:	
Collections	432,568
Restricted Assets:	
Investments	44,580
	<hr/>
Total Assets	<u><u>\$ 2,394,889</u></u>

**LIABILITIES AND NET ASSETS**

Current Liabilities:	
Accounts payable	\$ 17,067
Deferred revenues and program deposits	72,500
Accrued interest	2,963
Other accrued liabilities	21,882
Notes payable - current portion	17,683
	<hr/>
Total Current Liabilities	132,095
Long-Term Liabilities:	
Notes payable	54,981
	<hr/>
Total Liabilities	187,076
Net Assets:	
Unrestricted	1,981,824
Temporarily restricted	30,056
Permanently restricted	195,933
	<hr/>
Total Net Assets	2,207,813
	<hr/>
Total Liabilities and Net Assets	<u><u>\$ 2,394,889</u></u>

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

**CASA ROMANTICA CULTURAL CENTER AND GARDENS  
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS  
YEAR ENDED JUNE 30, 2017**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and Revenue:				
Capital campaign/contributions	\$ 318,812	\$ 38,410	\$ -	\$ 357,222
Fundraising events, net	218,132	6,000	-	224,132
Membership/sponsorships	101,110	-	-	101,110
Admissions	120,174	-	-	120,174
Rental of facilities	449,002	-	-	449,002
Grants	10,500	-	-	10,500
Gift shop and other event sales	23,304	-	-	23,304
Investment return, net	-	4,980	-	4,980
Other revenues	6,007	-	-	6,007
Net assets released from restrictions	25,600	(25,600)	-	-
Total Support and Revenue	<u>1,272,641</u>	<u>23,790</u>	<u>-</u>	<u>1,296,431</u>
Total Functional Expenses	<u>1,270,427</u>	<u>426</u>	<u>-</u>	<u>1,270,853</u>
Changes in Net Assets	2,214	23,364	-	25,578
Net Assets, Beginning of Year	<u>1,979,610</u>	<u>6,692</u>	<u>195,933</u>	<u>2,182,235</u>
Net Assets, End of Year	<u>\$1,981,824</u>	<u>\$ 30,056</u>	<u>\$ 195,933</u>	<u>\$2,207,813</u>

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

**CASA ROMANTICA CULTURAL CENTER AND GARDENS  
STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2017**

Cash Flows from Operating Activities:	
Changes in Net Assets	\$ 25,578
Noncash Items Included in Changes in Net Assets:	
Unrealized gains on investments	(4,689)
Depreciation expense	53,046
Changes in:	
Accounts receivable	(5,038)
Pledges receivable	(13,810)
Inventory	(700)
Prepaid expenses	1,822
Accounts payable	4,041
Deferred revenues and program deposits	54,960
Accrued interest	(955)
Other accrued liabilities	<u>13,337</u>
Net Cash and Cash Equivalents Provided by Operating Activities	127,592
Cash Flows from Investing Activities:	
Reinvestment of net investment income	134
Purchase of collection	(16,520)
Purchases of property and equipment	<u>(16,848)</u>
Net Cash and Cash Equivalents Used in Investing Activities	(33,234)
Cash Flows from Financing Activities:	
Payments on notes payable	<u>(17,370)</u>
Net Cash and Cash Equivalents Used in Financing Activities	<u>(17,370)</u>
Net Increase in Cash and Cash Equivalents	76,988
Cash and Cash Equivalents, Beginning of Year	<u>310,482</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 387,470</u></u>
Supplemental Disclosure:	
Interest paid	<u><u>\$ 1,621</u></u>

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

**CASA ROMANTICA CULTURAL CENTER AND GARDENS**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED JUNE 30, 2017**

	Support Services				Total Support Services	Total Functional Expenses
	Program Services	Management and General	Fundraising and Development	Private Events		
Employee Compensation:						
Salaries and wages	\$ 223,910	\$ 41,302	\$ 90,125	\$ 78,212	\$209,639	\$ 433,549
Payroll taxes	20,801	-	8,667	5,200	13,867	34,668
Employee benefits	17,290	-	7,181	4,299	11,480	28,770
Total Employee Compensation	<u>262,001</u>	<u>41,302</u>	<u>105,973</u>	<u>87,711</u>	<u>234,986</u>	<u>496,987</u>
Other Expenses:						
Advertising and promotion	17,741	-	19,141	3,384	22,525	40,266
Artists and performances	62,060	-	10,647	-	10,647	72,707
Automobile expense	115	919	77	-	996	1,111
Bank charges	11,644	697	2,728	9,242	12,667	24,311
Computer expense	1,676	-	586	-	586	2,262
Cost of sales - gift shop	6,910	-	-	-	-	6,910
Dues and subscriptions	-	10,886	-	-	10,886	10,886
Employee welfare	58	1,148	-	-	1,148	1,206
Exhibit and displays	3,072	-	-	397	397	3,469
Equipment rentals	3,126	11,226	43,376	286	54,888	58,014
Facility related costs	42,807	865	3,139	200	4,204	47,011
Hospitality	8,995	-	4,653	-	4,653	13,648
Insurance	-	15,667	-	-	15,667	15,667
Interest expense	-	666	-	-	666	666
Miscellaneous expenses	8,251	10,417	5,010	5,181	20,608	28,859
Outside services	7,696	-	4,641	24,104	28,745	36,441
Postage and delivery	1,495	-	1,292	813	2,105	3,600
Printing	587	-	678	136	814	1,401
Professional fees	-	49,896	-	-	49,896	49,896
In-kind rent expense	225,000	25,000	-	-	25,000	250,000
Supplies	3,896	-	5,847	3,867	9,714	13,610
Tax and licenses	2,483	2,273	487	-	2,760	5,243
Utilities	33,636	-	-	-	-	33,636
Total Other Expenses	<u>441,248</u>	<u>129,660</u>	<u>102,302</u>	<u>47,610</u>	<u>279,572</u>	<u>720,820</u>
Total Expenses before Depreciation	<u>703,249</u>	<u>170,962</u>	<u>208,275</u>	<u>135,321</u>	<u>514,558</u>	<u>1,217,807</u>
Depreciation of Property and Equipment	<u>53,046</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>53,046</u>
Total Functional Expenses	<u>\$ 756,295</u>	<u>\$ 170,962</u>	<u>\$ 208,275</u>	<u>\$ 135,321</u>	<u>\$514,558</u>	<u>\$1,270,853</u>

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



**CASA ROMANTICA CULTURAL CENTER AND GARDENS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**Note 1: Nature of Operations and Summary of Significant Accounting Policies**

**Nature of Operations**

Casa Romantica Cultural Center and Gardens (the "Organization") is a California nonprofit organization formed on November 3, 2000, whose specific purpose is the rehabilitation and restoration of historical property located at 415 Avenida Granada, San Clemente, California, as a cultural, historical, and educational center for the greater Southern Orange County region and others.

The primary objective of the Organization is to provide activities for all segments of the local community, including commemorating local history, designing programs that will attract and include culturally and ethnically diverse audiences and participants, scheduling cultural and enrichment activities and events appealing to families and youth, and providing on-site curriculum-driven programs for school groups. An additional objective is to attract visitors from local and regional communities and beyond by developing appealing programs and exhibits. Site fees for weddings or private events help the Organization sustain its year-round calendar of cultural and educational programs for the community.

**Basis of Presentation**

The financial statements have been prepared on the accrual basis of accounting. Unconditional promises to give are recognized as revenue and receivables when the promise to give is received and there is written evidence that the promise was made. Conditional promises to give are recognized as revenue and receivables when the conditions on which they depend are substantially met.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Organization reports the support as unrestricted.

Grant and program revenues earned, but not yet received, are recorded as receivables, and grant and program funds received before the revenue recognition criteria have been met are reported as deferred revenues. Expenses are recorded when the liability is incurred.

In accordance with accounting principles generally accepted in the United States of America, the Organization reports its financial position and operating activities in three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

- Unrestricted Net Assets - Unrestricted net assets include those assets over which the Board of Directors has discretionary control in carrying out the operations of the Organization. All receipts not temporarily or permanently restricted by the donor or law are accounted for in this fund.

**CASA ROMANTICA CULTURAL CENTER AND GARDENS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**Note 1: Nature of Operations and Summary of Significant Accounting Policies (Continued)**

**Basis of Presentation (Continued)**

- Temporarily Restricted Net Assets - Temporarily restricted net assets include resources expendable only in the manner specified by the donor or grantor. The restrictions are satisfied either by the passage of time or by actions of the Organization. When restrictions imposed by donor or law expire, 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 statement of activities and changes in net assets as net assets released from restrictions.
- Permanently Restricted Net Assets - Permanently restricted net assets include resources subject to donor-imposed stipulations that be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for unrestricted purposes.

**Cash and Cash Equivalents**

Cash and cash equivalents have been defined as demand deposits and highly liquid investments purchased with an original maturity of 90 days or less.

**Certificate of Deposit**

A certificate of deposit totaling \$53,235 is included in cash in the accompanying financial statements. The certificate bears interest at 1.22 percent and has a maturity date of May 2018, with penalties for early withdrawal. Any penalties for early withdrawal would not have a material effect on the financial statements.

**Accounts and Pledges Receivable**

Accounts receivable consist primarily of amounts due from facility rentals. Pledges receivable are recorded when the promise to give becomes unconditional and there is sufficient oral or written evidence of the promise. Unconditional promises to give expected to be collected within one year are recorded at the expected net realizable value. The Organization uses the allowance method to determine uncollectible receivables. The allowance is based on prior years' experience and management's analysis of specific promises made. At June 30, 2017, the Organization considers all receivables fully collectible and has determined that no allowance for doubtful accounts is deemed necessary.

**Inventory**

Inventory is valued at the lower of cost or market (net realizable value) and consists primarily of books and gift shop and hospitality items.

**CASA ROMANTICA CULTURAL CENTER AND GARDENS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**Note 1: Nature of Operations and Summary of Significant Accounting Policies (Continued)**

**Property and Equipment**

Property and equipment that have a value greater than \$300 and a useful life exceeding one year are capitalized at cost or, if donated, at the fair value on the date of donation. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset for a specific purpose.

Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies restricted net assets to unrestricted net assets at that time.

Depreciation on leasehold improvements, furnishings, and office equipment and software is provided on the straight-line method over an estimated useful life of 3 to 40 years. Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

**Collections**

Collections held by the Organization consist of exhibits, displays, paintings, and antique collections. It is the Organization's policy to capitalize items at cost if purchased and at fair market value if contributed.

**Long-Lived Assets and Asset Impairment**

The Organization accounts for impairment and disposition of long-lived assets in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 360-10, *Property, Plant, and Equipment*. FASB ASC 360-10 requires impairment losses to be recognized for long-lived assets used in operations when indicators of impairment are present and the undiscounted future cash flows are not sufficient to recover the assets' carrying amount. There was no impairment of the value of such assets for the year ended June 30, 2017.

**Investments**

The Organization values financial assets and liabilities at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Fair value is based on assumptions used by market participants when pricing the asset or liability, which include observable and unobservable inputs. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect the Organization's own assumptions about the assumptions market participants would use in pricing the asset or liability.

**CASA ROMANTICA CULTURAL CENTER AND GARDENS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**Note 1: Nature of Operations and Summary of Significant Accounting Policies (Continued)**

**Investments (Continued)**

There is a three-tiered fair value hierarchy that maximizes the use of observable inputs and prioritizes financial assets and liabilities measured with such inputs. FASB ASC 820, Fair Value Measurements and Disclosures, establishes a fair value hierarchy with Levels 1, 2, and 3 that prioritize the inputs to valuation techniques used to measure fair value.

Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities accessible at the measurement date and have the highest priority. When available, the Organization measures fair value using Level 1 inputs, as they generally provide the most reliable evidence of fair value.

Level 2 inputs are composed of direct or indirect observable inputs other than quoted market prices for identical assets included within Level 1. Examples of Level 2 inputs are quoted prices for similar assets or liabilities in active markets, quoted prices in markets that are not active, or other observable inputs that can be corroborated by observable market data. Assets valued within Level 2 utilize the market approach.

Level 3 inputs consist of unobservable inputs that are supported by little or no market activity and are significant to the measurement of the fair value. Level 3 inputs are only used when Level 1 or Level 2 inputs are not available, as they have the lowest priority in the measurement of fair value. Assets valued within Level 3 utilize a combination of the market, income, and cost approaches.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

**Investment Valuation and Income Recognition**

The Organization's investments are stated at fair value at June 30, 2017, and quoted market prices are used when applicable. Shares of mutual funds are valued at the net asset value of shares held by the Organization at year-end.

Purchases and sales of investments are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Capital gains and/or losses are reported the day after the trade date.

Net realized and unrealized appreciation (depreciation) is recorded in the accompanying statement of activities and changes in net assets as investment return, net. Brokerage fees are added to the acquisition costs of assets purchased and subtracted from the proceeds of assets sold.

**CASA ROMANTICA CULTURAL CENTER AND GARDENS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**Note 1: Nature of Operations and Summary of Significant Accounting Policies (Continued)**

**Deferred Revenue and Program Deposits**

As of June 30, 2017, deferred revenue and program deposits consist primarily of amounts received in advance on ticket sales for a future event or program.

**Advertising and Promotion Costs**

Advertising and promotion costs are charged to operations when incurred. Advertising and promotion costs charged to operations for the year ended June 30, 2017, totaled \$40,266.

**Fundraising**

The Organization sponsors special fundraising events that generate revenues for its programs. These events are considered ongoing major activities, as they occur annually. Fundraising events revenue of \$224,132 for the year ended June 30, 2017, is net of \$45,188 of costs of direct benefits to donors in the accompanying statement of activities and changes in net assets.

**Donated Services**

Contributions of services are recognized if the services received create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. No consulting services meeting the above criteria were recognized for the year ended June 30, 2017. Income from donated goods and services is reported in the financial statements at their estimated values as of the time they are received. This amount does not include a value for volunteers who work in the various programs.

**Compensated Absences**

Employees of the Organization are entitled to paid vacation, certain holidays, and floating holidays, depending on classification, length of service, and other factors. It is impracticable to estimate the amount of compensation for future absences, and accordingly, no liability has been recorded in the accompanying financial statements. The Organization's policy is to recognize the cost of compensated absences when actually paid to employees.

**Income Taxes**

The Organization has qualified for tax-exempt status under Internal Revenue Code Section 501(c)(3) and the California Revenue and Taxation Code. The Organization remains subject to income taxes on any net income that is derived from a trade or business, regularly carried on, and not in furtherance of the purpose for which it was granted exemption. No income tax provision has been recorded, as management believes the Organization did not have any unrelated trade or business income.

**CASA ROMANTICA CULTURAL CENTER AND GARDENS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**Note 1: Nature of Operations and Summary of Significant Accounting Policies (Continued)**

**Income Taxes (Continued)**

FASB ASC 740, *Income Taxes*, prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return and provides guidance on derecognition, classification, interest and penalties, disclosure, and transition. Management believes that no such uncertain tax position exists for the Organization at June 30, 2017. The Organization's tax years from 2014 to 2016 are open to review for federal tax purposes and tax years from 2013 to 2016 are open to review for state income tax purposes.

**Use of Estimates**

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Pledges receivable, fair value of investments and donated assets and services, accumulated depreciation, and depreciation expense of property and equipment contain management estimates.

**New Accounting Pronouncements**

In February 2016, the FASB issued Accounting Standards Update ("ASU") 2016-02, *Leases (Topic 842)*. ASU 2016-02 requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous standards. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of asset not to recognize lease assets and lease liabilities. ASU 2016-02 is effective for fiscal years beginning after December 15, 2019, and early application is permitted. The Organization is currently evaluating the impact of the provisions of ASU 2016-02 on the presentation of its financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958)*. ASU 2016-14 changes how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. The ASU requires amended presentation and disclosures to help not-for-profit organizations provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, and early application is permitted. The Organization is currently evaluating the impact of the provisions of ASU 2016-14 on the presentation of its financial statements.

**CASA ROMANTICA CULTURAL CENTER AND GARDENS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**Note 2: Concentrations, Risks, and Uncertainties**

The Organization maintains cash balances at three financial institutions. Accounts at these institutions are insured by the Federal Deposit Insurance Corporation up to \$250,000. Throughout the course of the year, the Organization regularly maintains cash balances in excess of federally insured limits. The risk is managed by maintaining all deposits in high-quality financial institutions.

**Note 3: Investments**

The Organization has a beneficial interest in assets held in the long-term investment pool of the Orange County Community Foundation (the "OCCF"), a 501(c)(3) foundation that accepts various assets from donors in order to hold and invest such permanently restricted funds in perpetuity. Investment income, which is unrestricted as to use, is available to be distributed by the OCCF to the Organization and is classified as temporarily restricted until it is appropriated for expenditure from the OCCF. The Organization has interpreted the California Uniform Prudent Management of Institutional Funds Act as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. Therefore, the original value of all gifts donated to the endowment is classified as permanently restricted net assets. Cumulative earnings, gains, and losses of the endowment fund are classified as unrestricted net assets if they are net losses. If there is a cumulative net gain, that amount is classified as temporarily restricted net assets until it is appropriated for expenditure.

The endowment fund is held and managed by the OCCF in a long-term investment pool. The OCCF's investment policy is to maximize return with a minimal amount of risk. The investment policies are designed to provide interest to fund programs and to maintain the purchasing power of the endowment assets. Under these policies, the portfolio is to be invested in a combination of common stocks, bonds, mutual funds, and alternative investments. The endowment assets are invested in a manner that attempts to achieve, after fees and expenses, a reasonable rate of return consistent with the risk levels established by the investment committee for all permanently restricted endowment assets.

**CASA ROMANTICA CULTURAL CENTER AND GARDENS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**Note 3: Investments (Continued)**

The following are the changes in the endowment net assets for the year ended June 30, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 6,692	\$ 33,333	\$ 40,025
Investment return:				
Investment income	-	292	-	292
Fees	-	(426)	-	(426)
Net appreciation	-	4,689	-	4,689
Net investment return	-	4,555	-	4,555
Endowment Net Assets, End of Year	<u>\$ -</u>	<u>\$ 11,247</u>	<u>\$ 33,333</u>	<u>\$ 44,580</u>
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
		Quoted Prices in Active Markets	Observable Inputs	Other Unobservable Inputs
	<u>Fair Value</u>			
OCCF investment	<u>\$ 44,580</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 44,580</u>
Total	<u>\$ 44,580</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 44,580</u>

A description of the valuation methodologies used for assets measured at fair value is disclosed in Note 1 (Investment Valuation and Income Recognition). There have been no changes in the methodologies used during the year ended June 30, 2017. The methods described in Note 1 (Investment Valuation and Income Recognition) may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

At June 30, 2017, assets measured at fair value on a recurring basis include alternative investments composed of hedge funds, private equities, interests in closely held entities, and real estate funds totaling \$44,580.



**CASA ROMANTICA CULTURAL CENTER AND GARDENS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**Note 3: Investments (Continued)**

The fair value of the hedge funds and private equities is based on the net asset value of the fund and the Organization's shares/ownership interest in the respective fund. Net asset values are evaluated by the OCCF to determine if the values of these investments should be adjusted. Factors considered may include, but are not limited to, estimates of liquidation value, prices of recent transactions in the same or similar funds, current performance, future expectations of the particular investment, and changes in market outlook and the financing environment. The fair value of interests in closely held entities and real estate funds is based on appraisals and the OCCF's review and assessment of current financial statements. Valuations of alternative investments are reviewed at least twice a year using a variety of qualitative factors to subjectively determine the most appropriate valuation methodologies. The estimated fair values may differ from the values that would have been used had a ready market for these securities existed.

The following is a reconciliation of activity for the year ended June 30, 2017, for assets measured at fair value based on significant unobservable (nonmarket) information:

Balance, beginning of year	\$ 40,025
Interest income	292
Unrealized gains included in earnings	4,689
Fees	<u>(426)</u>
Balance, End of Year	<u>\$ 44,580</u>

**Note 4: Net Asset Value (NAV) Per Share**

The following table for June 30, 2017, sets forth a summary of the Organization's investments whose fair value is estimated using NAV (or its equivalent):

	<u>Unfunded Commitment</u>	<u>Redemption Frequency</u>	<u>Other Redemption Restrictions</u>	<u>Redemption Notice Period</u>
Alternative Investments:				
Hedge Funds	None	Quarterly	None	65-95 Days
Private Equities	None	N/A	None	N/A

**CASA ROMANTICA CULTURAL CENTER AND GARDENS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**Note 4: Net Asset Value (NAV) Per Share (Continued)**

**Hedge Funds**

The first alternative investments class represents investments in hedge funds. Approximately 30 percent of this class is invested in six funds that invest in international equities/emerging markets. Approximately 21 percent of the class is invested in 15 funds that are focused on lower-equity diversifiers and are invested across managers to minimize manager-specific risk. Approximately 19 percent of the class is invested in two funds that invest in US equities. Approximately 11 percent of the class is invested in four real assets funds by investing in long-only diversified exposure to master limited partnerships and active global real estate investment trusts. Approximately 6 percent of the class is invested in a fund that invests in global fixed income.

The fair values of the investments in this class have been estimated using NAV per share of the investments. Sixty-three percent of the class is redeemable monthly with notice ranging from six business days to 60 calendar days at the current NAV. Thirteen percent of the value of this class is redeemable weekly on Wednesdays with three to five business days' notice. Twelve percent of the class is redeemable quarterly on the last business day of each calendar quarter with redemption notices ranging from 45 to 90 days at the current NAV. Seven percent of the value of this class is redeemable semimonthly with 20 calendar days' notice. Three percent of the value of the class is redeemable daily. One percent has an initial one-year lockup. The balance of the class is redeemable at the general partner's discretion.

**Private Equities**

Thirty-six percent of the second alternative investments class is invested in real estate investments, including US cross-region and distressed real estate. Thirty-five percent of this class includes investments in private equity funds that invest primarily in the following industry sectors: buyout, venture capital, special situation, real estate, and secondary private equity. Twenty-nine percent of this class includes investments in private equity funds focusing on oil and gas, minerals, mining, IT, and health care in underperforming middle-market companies. Investments are made through private equity limited partnerships. The fair values of the investments in this class have been estimated using NAV of the OCCF's ownership interest in partners' capital. Assets are purchased and sold within the limited partnership as deemed beneficial to the partnership. Current distributions are utilized to offset capital calls, if any, and the balance is distributed to the limited partners. There are no early withdrawals. It is estimated that the underlying assets of 27 percent of the funds will be liquidated over the next 3 to 7 years and the balance within the next 10 years.

**CASA ROMANTICA CULTURAL CENTER AND GARDENS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**Note 5: Property and Equipment**

Property and equipment consist of the following at June 30, 2017:

Leasehold improvements	\$ 1,742,864
Furnishings	37,667
Office equipment and software	<u>44,072</u>
Total property and equipment, at cost	1,824,603
Less: Accumulated depreciation	<u>(510,471)</u>
Property and Equipment, at Net Book Value	<u>\$ 1,314,132</u>

Depreciation expense for the year ended June 30, 2017, totaled \$53,046. Office equipment and software include \$8,600 for equipment that has not yet been placed into service at June 30, 2017.

**Note 6: Collections**

Collections consist of the following at June 30, 2017:

Mary Colby Collection	\$ 162,600
Paintings	117,400
Exhibits and displays	117,068
Pianos and chandelier	<u>35,500</u>
Total Collections	<u>\$ 432,568</u>

The Mary Colby Collection is an antique collection consisting of antiques, silver, glass, and china dating back to the seventeenth century was appraised at \$162,600. This collection may not be sold and, per donor stipulation, is a permanently restricted asset.

The paintings include works by Walter Firlie, who was born in 1859 in Germany, and Maria Carmen Del Calvo, a Spanish artist who paints mostly landscapes, villages, and beach scenes. These paintings were appraised at \$75,000 and are recorded at fair value. The paintings also consist of works by Ray Hare, an American artist who paints scenes of the American Southwest, which were appraised at \$36,500. Additional paintings totaled \$5,900.

Exhibits and displays consist of historical photographs, books, and displays from the late 1800s to the present.

**CASA ROMANTICA CULTURAL CENTER AND GARDENS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**Note 7: Notes Payable**

The Organization entered into a loan agreement with the San Clemente Redevelopment Agency (“SCRA”) in October of 2004 for a maximum loan of \$350,000 at an annual interest rate of 1.8 percent. The repayments were to be made in three equal payments over a period of three years. The loan is unsecured and was to be repaid with pledges that have already been received by the Organization. On February 2, 2009, the loan agreement was amended requiring a principal and interest payment to be made once annually over a 10-year period in the amount of \$18,991 commencing October 6, 2009, and ending October 6, 2018. As a result of uncertainties regarding the dissolution of the SCRA, payments were suspended for a few years. In 2015, the loan was renegotiated and annual principal and interest payments of \$18,991 have recommenced. As of June 30, 2017, the outstanding balance due totaled \$72,664 and is due October 2021.

Maturities of the notes payable for each of the four years as of June 30, 2017, are as follows:

2018	\$ 17,683
2019	18,001
2020	18,325
2021	<u>18,655</u>
Total	<u>\$ 72,664</u>

**Note 8: Temporarily Restricted Assets and Liabilities**

Temporarily restricted net assets as of June 30, 2017, consist of the following:

Cumulative earnings on OCCF investment	\$ 11,247
Cash restricted to a purpose	4,999
Pledges receivable	<u>13,810</u>
Balance, End of Year	<u>\$ 30,056</u>

The Organization has also collected \$64,003 in sales for an event to be held in the future. The amount is included as a temporarily restricted cash asset and deferred revenue liability on the statement of financial position at June 30, 2017.

**Note 9: Permanently Restricted Net Assets**

Permanently restricted net assets as of June 30, 2017, consist of the following:

Mary Colby Collection (Note 6)	\$ 162,600
Investment in OCCF (Note 3)	<u>33,333</u>
Total Permanently Restricted Net Assets	<u>\$ 195,933</u>

**CASA ROMANTICA CULTURAL CENTER AND GARDENS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**Note 10: Commitments and Contingencies**

**Operating Leases**

The Organization currently leases its facilities at no cost from the successor agency of the SCRA for a period of 10 years with 10 automatic three-year extensions for a total of 40 years. The lease term commenced in June 2001. The fair market value of the lease of \$250,000 per year has been recorded as revenue, with an offsetting expense for its use, in the accompanying financial statements.

The Organization does not incur any liability for lease payments, except that commencing on the fourth lease year and each lease year thereafter, the successor agency of the SCRA shall have the right to terminate this agreement in the event the tenant's income is not equal to or greater than the minimum amount, the tenant's expenditures are not equal to or greater than the minimum amount, and less than 15,000 visitors visit the Organization each year. The minimum amount is set at \$400,000 and is adjusted annually starting with the fifth lease year based on the Consumer Price Index.

**Note 11: Subsequent Events**

Events occurring after June 30, 2017, have been evaluated for possible adjustment to the financial statements or disclosure as of February 14, 2018, which is the date the financial statements were available to be issued.