

Kushner ■ Smith ■ Joanou ■ Gregson



CERTIFIED PUBLIC ACCOUNTANTS

CASA TERESA, INC.

Financial Statements

For Year Ended June 30, 2012

(with Summarized Information for the Year Ended June 30, 2011)

(With Independent Auditor's Report Thereon)

Kushner, Smith, Joanou & Gregson, LLP

Licensed by the California Board of Accountancy, Member of AICPA

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CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Casa Teresa, Inc.

We have audited the accompanying statements of financial position of Casa Teresa, Inc. (a non-profit organization) (Casa Teresa) as of June 30, 2012, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of Casa Teresa's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from Casa Teresa's June 30, 2011 financial statements, and in our report dated September 19, 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Casa Teresa as of June 30, 2012, and the related statement of activities, functional expenses, and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Kushner Smith Joanou ; Gregson, LLP

September 26, 2012

CASA TERESA, INC.

Statement of Financial Position

June 30, 2012

(with summarized financial information as of June 30, 2011)

	<u>ASSETS</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	
			<u>2012</u>	<u>2011</u>
Current assets:				
Cash and cash equivalents	\$ 508,453	\$ 235,519	\$ 743,972	\$ 622,918
Restricted cash	--	--	--	31,152
Investments (Notes 1 and 2)	344,697	--	344,697	225,744
Grants receivable	84,126	--	84,126	79,388
Contributions receivable (Note 3)	--	17,968	17,968	--
Accounts receivable	5,747	--	5,747	35,526
Prepaid expense	19,604	--	19,604	31,589
Total current assets	<u>962,627</u>	<u>253,487</u>	<u>1,216,114</u>	<u>1,026,317</u>
Land, building, improvements and equipment (net of accumulated depreciation of \$1,195,350 for 2012 and \$1,102,004 for 2011) (Note 5)	<u>1,009,077</u>	<u>--</u>	<u>1,009,077</u>	<u>1,090,968</u>
Other assets:				
Other deposit	20,000	--	20,000	--
Option deposit (Note 4)	200,000	--	200,000	200,000
Total other assets	<u>220,000</u>	<u>--</u>	<u>220,000</u>	<u>200,000</u>
Total assets	<u>\$ 2,191,704</u>	<u>\$ 253,487</u>	<u>\$ 2,445,191</u>	<u>\$ 2,317,285</u>

(Statement of financial position continued on the following page)

CASA TERESA, INC.

Statement of Financial Position
(Continued)
June 30, 2012

(with summarized financial information as of June 30, 2011)

LIABILITIES AND NET ASSETS

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	
			<u>2012</u>	<u>2011</u>
Current liabilities:				
Accounts payable	\$ 7,617	\$ --	\$ 7,617	\$ 52,232
Accrued liabilities	27,108	--	27,108	23,412
Current portion of mortgage payable (Note 7)	9,988	--	9,988	8,761
Total current liabilities	<u>44,713</u>	<u>--</u>	<u>44,713</u>	<u>84,405</u>
Long-term liabilities:				
Mortgage payable (Note 7)	244,844	--	244,844	255,377
Total liabilities	<u>289,557</u>	<u>--</u>	<u>289,557</u>	<u>339,782</u>
Net assets:				
Unrestricted	1,902,147	--	1,902,147	1,714,503
Temporarily restricted (Note 8)	--	253,487	253,487	263,000
Total net assets	<u>1,902,147</u>	<u>253,487</u>	<u>2,155,634</u>	<u>1,977,503</u>
Total liabilities and net asset	<u>\$ 2,191,704</u>	<u>\$ 253,487</u>	<u>\$ 2,445,191</u>	<u>\$ 2,317,285</u>

See accompanying notes to financial statements

CASA TERESA, INC.

Statement of Activities and Changes in Net Assets
Year Ended June 30, 2012

(with summarized financial information for the year ended June 30, 2011)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	
			<u>2012</u>	<u>2011</u>
Support and revenues:				
Contributions:				
Contributions - general	\$ 241,892	\$ 21,174	\$ 263,066	\$ 240,333
Foundations	572,679	212,313	784,992	759,237
Total contributions	<u>814,571</u>	<u>233,487</u>	<u>1,048,058</u>	<u>999,570</u>
Special events:				
Golf tournament revenue	87,461	--	87,461	175,711
Direct expenses	(26,395)	--	(26,395)	(51,298)
Net support from golf tournament	<u>61,066</u>	<u>--</u>	<u>61,066</u>	<u>124,413</u>
Mother of the Year revenue	130,546	--	130,546	126,210
Direct expenses	(57,776)	--	(57,776)	(60,008)
Net support from Mother of the Year	<u>72,770</u>	<u>--</u>	<u>72,770</u>	<u>66,202</u>
Fall event revenue	--	--	--	38,178
Direct expenses	--	--	--	(23,935)
Net support from fall event	<u>--</u>	<u>--</u>	<u>--</u>	<u>14,243</u>
Guild revenues	65,836	20,000	85,836	58,333
Direct expenses	(31,589)	--	(31,589)	(30,659)
Net support from Guild revenues	<u>34,247</u>	<u>20,000</u>	<u>54,247</u>	<u>27,674</u>
Resale revenue	107,121	--	107,121	77,515
Direct expenses	(1,376)	--	(1,376)	(664)
Net support from resale revenues	<u>105,745</u>	<u>--</u>	<u>105,745</u>	<u>76,851</u>
Rental revenue	29,940	--	29,940	29,940
Direct expenses	(1,024)	--	(1,024)	(885)
Net support from rental revenues	<u>28,916</u>	<u>--</u>	<u>28,916</u>	<u>29,055</u>

(Statement of activities and changes in net assets continued on the following page)

CASA TERESA, INC.

Statement of Activities and Changes in Net Assets
(Continued)

Year Ended June 30, 2012

(with summarized financial information for the year ended June 30, 2011)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	
			<u>2012</u>	<u>2011</u>
Other support:				
Grants from government agencies	500,000	--	500,000	514,139
Investment (loss) income	(22,244)	--	(22,244)	29,756
Other income	--	--	--	35
(Loss) on sale of automobile	--	--	--	(258)
Program income	54,994	--	54,994	55,147
In-kind donations	54,603	--	54,603	41,108
Total other support	<u>587,353</u>	<u>--</u>	<u>587,353</u>	<u>639,927</u>
Subtotal support and revenues	1,704,668	253,487	1,958,155	1,977,935
Net assets released from restrictions	<u>263,000</u>	<u>(263,000)</u>	<u>--</u>	<u>--</u>
Total support and revenues	1,967,668	(9,513)	1,958,155	1,977,935
Expenses:				
Program services	1,429,815	--	1,429,815	1,350,891
Supporting services:				
Administration	146,651	--	146,651	124,643
Fundraising	203,558	--	203,558	177,650
Total expenses	<u>1,780,024</u>	<u>--</u>	<u>1,780,024</u>	<u>1,653,184</u>
Change in net assets	187,644	(9,513)	178,131	324,751
Net assets at beginning of year	<u>1,714,503</u>	<u>263,000</u>	<u>1,977,503</u>	<u>1,652,752</u>
Net assets at end of year	<u>\$ 1,902,147</u>	<u>\$ 253,487</u>	<u>\$ 2,155,634</u>	<u>\$ 1,977,503</u>

See accompanying notes to financial statements

CASA TERESA, INC.

Statement of Functional Expenses
Year Ended June 30, 2012

(with summarized financial information for the year ended June 30, 2011)

	Program Services				Supporting Services			Total Expenses		
	Adoption	Parenting	Transition	Infant Care Center	Total	Administration	Fundraising	Total	2012	2011
Salaries	\$ 32,786	\$ 347,459	\$ 295,033	\$ --	\$ 675,278	\$ 82,461	\$ 106,620	\$ 189,081	\$ 864,359	\$ 776,513
Payroll taxes	2,620	25,607	21,777	--	50,004	12,471	7,902	20,373	70,377	70,158
Employee benefits	4,069	43,118	36,612	--	83,799	10,233	13,231	23,464	107,263	80,061
Infant Care Center	--	--	--	114,698	114,698	--	--	--	114,698	102,294
Automobile expense	1,154	6,899	6,746	--	14,799	--	1,691	1,691	16,490	11,680
Insurance	652	12,583	10,852	--	24,087	252	252	504	24,591	23,292
Outside services	415	4,934	3,939	--	9,288	885	3,374	4,259	13,547	5,981
Professional services	1,540	18,320	14,625	--	34,485	26,419	55,737	82,156	116,641	106,625
Office	792	10,285	7,786	--	18,863	1,668	3,930	5,598	24,461	22,964
Postage	138	1,650	1,315	--	3,103	295	480	775	3,878	3,446
Printing	1,300	15,473	12,353	--	29,126	791	975	1,766	30,892	22,269
Rent	127	923	61,506	--	62,556	--	--	--	62,556	62,400
Repairs and maintenance	58	10,468	13,533	--	24,059	200	200	400	24,459	28,816
Assistance to residents	2,650	27,050	12,319	--	42,019	--	--	--	42,019	42,008
Bank charges	402	4,784	3,819	--	9,005	858	1,394	2,252	11,257	10,805
Program expense	2,400	19,721	27,940	--	50,061	--	--	--	50,061	81,233
House supplies	22	19,609	11,964	--	31,595	--	--	--	31,595	23,762
Interest	17,179	165	132	--	17,476	30	48	78	17,554	17,883
Licenses	6,759	2,214	3,443	--	12,416	61	99	160	12,576	11,706
Telephone	316	1,489	1,581	--	3,386	4,140	1,280	5,420	8,806	9,732
Training and development	116	1,428	1,150	--	2,694	247	447	694	3,388	10,198
Volunteer	41	486	388	--	915	87	141	228	1,143	1,130
Hospitality	211	2,508	2,002	--	4,721	325	529	854	5,575	9,817
Utilities	561	14,423	9,235	--	24,219	1,926	1,926	3,852	28,071	28,435
Depreciation	15,968	29,837	23,449	17,909	87,163	3,302	3,302	6,604	93,767	89,976
	<u>\$ 92,276</u>	<u>\$ 621,433</u>	<u>\$ 583,499</u>	<u>\$ 132,607</u>	<u>\$ 1,429,815</u>	<u>\$ 146,651</u>	<u>\$ 203,558</u>	<u>\$ 350,209</u>	<u>\$ 1,780,024</u>	<u>\$ 1,653,184</u>
Percentage of Total Expenses	5 %	35 %	33 %	7 %	80 %	8 %	11 %	20 %	100 %	100 %

See accompanying notes to financial statements

CASA TERESA, INC.

Statement of Cash Flows
Year Ended June 30, 2012

(with comparative financial information for the year ended June 30, 2011)

	2012	2011
Cash flows from operating activities:		
Cash collected from donors and grantors	\$ 1,768,038	\$ 1,976,454
Cash collected from customers	219,434	176,356
Cash paid to vendors	(1,887,021)	(1,617,777)
Interest and dividend income received	10,633	5,837
Other income	--	35
Net cash provided from operating activities	111,084	540,905
Cash flows from investing activities:		
Purchases of capital assets	(11,876)	(76,821)
Proceeds from sale of automobile	--	1,900
Net cash (applied to) investing activities	(11,876)	(74,921)
Cash flows from financing activities:		
Payment of mortgage obligation	(9,306)	(8,760)
Net cash (applied to) financing activities	(9,306)	(8,760)
Net increase in cash and cash equivalents	89,902	457,224
Cash at beginning of year	654,070	196,846
Cash at end of year	\$ 743,972	\$ 654,070

(Statement of cash flows continued on the following page)

CASA TERESA, INC.**Statement of Cash Flows
(Continued)****Year Ended June 30, 2012**

(with comparative financial information for the year ended June 30, 2011)

**RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH
PROVIDED FROM OPERATING ACTIVITIES**

	<u>2012</u>	<u>2011</u>
Change in net assets	\$ 178,131	\$ 324,751
Adjustments to reconcile change in net assets to net cash provided from operating activities:		
Depreciation and amortization	93,767	89,976
Donated assets	--	(12,000)
Loss on sale of automobile	--	258
Realized and unrealized loss (gains) on investments	32,877	(23,919)
	<u>304,775</u>	<u>379,066</u>
Change in assets and liabilities		
(Increase) decrease in assets:		
Investments	(151,830)	(48,362)
Grants receivable	(4,738)	100,138
Contributions receivable	(17,968)	47,500
Accounts receivable - net	29,779	15,303
Prepaid expense	11,985	(22,618)
Other deposit	(20,000)	--
Charitable remainder trust	--	41,467
Increase (decrease) in liabilities:		
Accounts payable	(44,615)	18,359
Accrued liabilities	3,696	10,052
	<u>(193,691)</u>	<u>161,839</u>
Net cash provided from operating activities	<u>\$ 111,084</u>	<u>\$ 540,905</u>

See accompanying notes to financial statements

CASA TERESA, INC.**Notes to Financial Statements
June 30, 2012 and 2011****NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organization - Casa Teresa, Inc. (Casa Teresa) opened in September 1976 and incorporated on April 19, 1978. Casa Teresa provides temporary shelter in facilities located in Orange, California to pregnant women over the age of 18 who are alone. Through guidance and counseling, women are assisted with medical, financial, educational, vocational and relationship matters, and are encouraged to transition to independence. Revenues are raised from the general public, foundations, and fundraising events such as a golf tournament, and through two guilds.

Program Services:

Parenting - These women have chosen to keep their babies and through classes and counseling, the women learn skills that will help them make positive decisions for their future and their babies.

Transformation - These women have successfully completed the Parenting Program and wish to continue at Casa Teresa for up to an additional 18 months.

Hannah's House - These women have chosen adoption and this program offers special counseling and assistance with choices that are unique to adoption.

Basis of Presentation - The accompanying financial statements have been prepared on the accrual basis of accounting. Net assets are classified based on the existence or absence of third-party donor restrictions and are reported as follows:

- Unrestricted net assets represent the portion of expendable funds available for support of operations.
- Temporarily restricted net assets are classified as such based on donor stipulations that they be used in a later period, be used for a specific purpose, or both. As donor restrictions are satisfied, amounts are reclassified to the unrestricted class as net assets released from restrictions.
- Permanently restricted net assets represent an endowment to be held in perpetuity. Investment income earned on this endowment is unrestricted. The Organization had no permanently restricted net assets as of June 30, 2012 and 2011.

Casa Teresa records gifts of cash and other assets as temporarily restricted contributions 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 statement of activities as net assets released from donor restrictions. Contributions with donor-imposed restrictions that are received and spent in the same year have been recorded as unrestricted in the accompanying statement of activities.

(Note 1 continued on the following page)

CASA TERESA, INC.**Notes to Financial Statements
(Continued)
June 30, 2012 and 2011****NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Contributed Services and Materials - Donated materials and other noncash contributions are reflected in the accompanying statements at their estimated market values at date of receipt. 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. Other volunteer services that do not meet these criteria are not recognized in the financial statements as there is no objective basis of deriving their value.

Cash and Cash Equivalents - The Organization considers all highly liquid investments with maturity dates of three months or less to be cash and cash equivalents.

Concentration of Credit Risk - Casa Teresa maintains cash deposits with a major bank, which is FDIC insured up to \$250,000. At certain times of the year, Casa Teresa may have monies deposited in excess of the FDIC insurance limit.

Fair Value Measurements - The carrying value of financial instruments in the financial statements approximates fair value.

For fair value measurements of financial assets and financial liabilities (Note 2), and for fair value measurements of non-financial items that are recognized and disclosed at fair value in the financial statements on a recurring basis, the Organization has adopted generally accepted accounting principles (GAAP) standards that define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The assets that are recorded at fair value on a recurring basis are investments and charitable remainder trusts. Casa Teresa has no financial liabilities or non-financial items that are recorded at fair value on a recurring basis.

CASA TERESA, INC.

**Notes to Financial Statements
(Continued)
June 30, 2012 and 2011**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued) - GAAP establishes a three-level fair value hierarchy that describes the inputs that are used to measure the fair values of respective assets and liabilities:

- Level 1: fair values are based on quoted prices in active markets for identical assets and liabilities. Casa Teresa's Level 1 asset includes institutional mutual funds, both equity and fixed income.
- Level 2: fair values are based on observable inputs that include: quoted market prices for similar assets or liabilities; quoted market prices that are not in an active market; or other inputs that are observable in the market and can be corroborated by observable market data for substantially the full term of the asset. Casa Teresa has no Level 2 assets.
- Level 3: fair values are calculated by the use of pricing models and/or discounted cash flow methodologies, and may require significant management judgment or estimation. These methodologies may result in a significant portion of the fair value being derived from unobservable data. Casa Teresa has no Level 3 assets.

Fair value estimates are made at a specific point in time, based on available market information and judgments about the financial asset, including estimates of timing, amount of expected future cash flows, and the credit standing of the issuer. In some cases, the fair value estimates cannot be substantiated by comparison to independent markets. In addition, the disclosed fair values may not be realized in the immediate settlement of the financial asset. In addition, the disclosed fair values do not reflect any premium or discount that could result from offering from sale at one time an entire holding of a particular financial asset. Potential taxes and other expenses that would be incurred in an actual sale or settlement are not reflected in amounts disclosed.

Land, Building, Improvements and Equipment - Land, building, improvements and equipment are stated at cost. Depreciation and amortization expenses are calculated on the straight-line method. The depreciation and amortization methods are designed to amortize the cost of the assets over the estimated useful lives, in years, of the respective assets as follows:

Building and improvements	10 to 20 years
Furniture and equipment	5 to 10 years
Vehicles	5 years
Software	5 years

(Note 1 continued on the following page)

CASA TERESA, INC.**Notes to Financial Statements
(Continued)
June 30, 2012 and 2011****NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Land, Building, Improvements and Equipment (Continued) - Maintenance and repairs are charged to expense as incurred. Renewals and improvements of a major nature are capitalized. At the time of retirement or other disposition of property and equipment, or once property and equipment have been fully depreciated, the cost and accumulated depreciation are removed from the accounts and any resulting gains or losses are reflected in income.

Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed of - Long-Lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows (undiscounted and without interest) expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of support, revenues and expenses during the reporting period. Actual results could differ from those estimates.

Functional Allocation of Expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Taxes - Casa Teresa is exempt from taxation under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code and is generally not subject to federal and state income taxes. However, Casa Teresa is 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 purposes for which it was granted exemption.

Casa Teresa has adopted the accounting standards relating to accounting and reporting for uncertainty in income taxes. For Casa Teresa, these standards could be applicable to the incurrence of any unrelated business income attributable to the Organization. Because of Casa Teresa's general tax-exempt status, these standards are not anticipated to have a material impact on the Organization's financial statements at June 30, 2012 and 2011.

(Note 1 continued on the following page)

CASA TERESA, INC.

**Notes to Financial Statements
(Continued)
June 30, 2012 and 2011**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Cash - Casa Teresa has restricted cash of none and \$31,152, at June 30, 2012 and 2011, respectively, which may only be spent for specified purposes, and was not available for general purposes.

Vacation Expense - Hourly and salary employees earn credits during the current year for future vacation benefits. The expense and corresponding liability are accrued when vacations are earned rather than when vacations are paid.

Comparative Data - The financial statements include prior-year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Casa Teresa's financial statements for the year ended June 30, 2011 from which the summarized information was derived.

NOTE 2 - INVESTMENTS

Casa Teresa had investments consisting of equity and bond funds at fair value. The market value of these investments for the years ended June 30, 2012 and 2011 were \$344,697 and \$225,744, respectively.

Investment (loss) income at June 30, 2012 and 2011 is summarized as follows:

	<u>2012</u>	<u>2011</u>
Interest and dividend income	\$ 10,633	\$ 5,837
Realized and unrealized (loss) gain	<u>(32,877)</u>	<u>23,919</u>
Total investment (loss) income	<u>\$ (22,244)</u>	<u>\$ 29,756</u>

(Note 2 continued on the following page)

CASA TERESA, INC.

Notes to Financial Statements
(Continued)
June 30, 2012 and 2011

NOTE 2 - INVESTMENTS (Continued)

The following table sets forth by level, within the fair value hierarchy, the plan's assets at fair value as of June 30, 2012 and 2011:

	<i>Assets at Fair Value as of June 30, 2012</i>			<i>Total</i>
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	
Mutual funds:				
Alternative funds	\$ 17,663	\$ --	\$ --	\$ 17,663
Balanced funds	29,170	--	--	29,170
Commodities funds	6,363	--	--	6,363
Domestic funds	80,789	--	--	80,789
Fixed income funds	152,146	--	--	152,146
International funds	23,524	--	--	23,524
Sector stock funds	27,632	--	--	27,632
	<u>337,287</u>	<u>--</u>	<u>--</u>	<u>337,287</u>
Common stock:				
Basic materials	2,059	--	--	2,059
Financial	1,712	--	--	1,712
Technology	1,961	--	--	1,961
Other	1,678	--	--	1,678
	<u>7,410</u>	<u>--</u>	<u>--</u>	<u>7,410</u>
Total assets at fair value	<u>\$ 344,697</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 344,697</u>

(Note 2 continued on the following page)

CASA TERESA, INC.

Notes to Financial Statements
(Continued)
June 30, 2012 and 2011

NOTE 2 - INVESTMENTS (Continued)

	<i>Assets at Fair Value as of June 30, 2011</i>			<i>Total</i>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Mutual funds:				
Alternative funds	\$ 14,375	\$ --	\$ --	\$ 14,375
Balanced funds	8,455	--	--	8,455
Commodities funds	1,806	--	--	1,806
Domestic funds	70,599	--	--	70,599
Fixed income funds	70,420	--	--	70,420
International funds	41,704	--	--	41,704
Sector stock funds	13,506	--	--	13,506
	<u>220,865</u>	<u>--</u>	<u>--</u>	<u>220,865</u>
Common stock:				
Basic materials	1,263	--	--	1,263
Financial	1,155	--	--	1,155
Technology	1,351	--	--	1,351
Other	1,110	--	--	1,110
	<u>4,879</u>	<u>--</u>	<u>--</u>	<u>4,879</u>
Total assets at fair value	<u>\$ 225,744</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 225,744</u>

NOTE 3 - CONTRIBUTIONS RECEIVABLE

Casa Teresa has recognized uncollected contribution promises as temporarily restricted support. Uncollected promise at June 30, 2012 was recorded as contribution receivable at its present value in the accompanying statement of financial position. This receivable represents unconditional promise to give to Casa Teresa to be collected in 2013. At June 30, 2011, there are no contributions receivables.

	<u>2012</u>	<u>2011</u>
Amounts due in:		
Less than one year	\$ 17,968	\$ --
One to five years	<u>--</u>	<u>--</u>
	17,968	--
Less: unamortized discount	<u>--</u>	<u>--</u>
Net contributions receivable	<u>\$ 17,968</u>	<u>\$ --</u>

CASA TERESA, INC.

**Notes to Financial Statements
(Continued)
June 30, 2012 and 2011**

NOTE 4 - OPTION DEPOSIT

In September 2005, Casa Teresa entered into an agreement for the option to purchase a six unit apartment building in Orange, California. The consideration for the option is two payments of \$100,000. The first \$100,000 was paid on September 15, 2005. The second payment of \$100,000 was paid on September 15, 2006. The \$200,000 consideration will secure the right to purchase the apartment building for \$950,000. The consideration is nonrefundable unless the Optionor defaults. Notwithstanding the exercise of the option, the term of the option expires on September 15, 2020, but may be exercised earlier at the discretion of the Optionor.

Casa Teresa has the obligations and rights of managing the property, including collecting rents, if any. It uses the apartment building in one of its programs. Casa Teresa is to pay the Optionor a monthly fee of \$5,000. These monthly fees are not to be applied to the purchase price of the real estate, and are reported as Rent Expense.

NOTE 5 - LAND, BUILDING, IMPROVEMENTS AND EQUIPMENT

Land, buildings and equipment are recorded at cost and consist of the following at June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Land	\$ 477,818	\$ 477,818
Building and improvements	1,432,245	1,432,245
Furniture and equipment	214,865	203,410
Vehicles	44,000	44,000
Software	<u>35,499</u>	<u>35,499</u>
Total land, building, improvements and equipment	2,204,427	2,192,972
Less accumulated depreciation	<u>(1,195,350)</u>	<u>(1,102,004)</u>
Net land, building improvements, and equipment	<u>\$ 1,009,077</u>	<u>\$ 1,090,968</u>

Total depreciation and amortization expenses for the years ended June 30, 2012 and 2011 were \$93,767 and \$89,976, respectively.

CASA TERESA, INC.**Notes to Financial Statements
(Continued)
June 30, 2012 and 2011****NOTE 6 - LINE OF CREDIT**

At June 30, 2012 and 2011, Casa Teresa had a \$100,000 line of credit with a bank to be drawn down upon as needed at the bank's prime rate of 4.00% plus 2.00%. The agreement, which is unsecured, expired on September 6, 2012 and has been subsequently renewed with an expiration date of September 5, 2013 (Note 11). The Organization is required to maintain certain financial covenants on this line of credit. At June 30, 2012 and 2011, there was no outstanding balance on this line of credit.

NOTE 7 - MORTGAGE PAYABLE

Casa Teresa, Inc. entered into a loan agreement with a financial institution in the amount of \$324,000 with an interest of 6.50%. The loan is secured by the residential property in Orange, California. The mortgage is payable in monthly installments of \$2,207, which includes interest. The outstanding balance at June 30, 2012 and 2011 was \$254,832 and \$264,138, respectively, of which \$9,988 and \$8,761, respectively, are current. All unpaid principal and interest is payable in full on August 1, 2013.

Long-term debt principal obligations mature in the following fiscal years:

Years ending June 30:		
2013	\$	9,988
2014		<u>244,844</u>
	\$	<u><u>254,832</u></u>

NOTE 8 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2012 and 2011 consist of the following:

	<u>2012</u>	<u>2011</u>
Steps to independence	\$ 102,695	\$ 225,000
Other project grants	76,650	38,000
Capital project	47,174	--
Contribution promises	17,968	--
Alumni resource center	5,000	--
Other	<u>4,000</u>	<u>--</u>
Total temporarily restricted net assets	<u><u>\$ 253,487</u></u>	<u><u>\$ 263,000</u></u>

CASA TERESA, INC.

**Notes to Financial Statements
(Continued)
June 30, 2012 and 2011**

NOTE 9 - LEASE COMMITMENTS

Casa Teresa is leasing a transitional housing apartment that is used in one of its programs. The agreement dated September 2005 expires September 2020, and provides for a monthly fee of \$5,000. The Organization also leases office equipment under a noncancelable lease agreement. The lease agreement expires September 2012 and provides for monthly rent of \$145. Lease expense for the years ended June 30, 2012 and 2011 amounted to approximately \$61,719 and \$63,700, respectively.

The expected future minimum lease payments over the term of the aforementioned leases are as follows:

Years ending June 30:	
2013	\$ 60,435
2014	60,000
2015	60,000
2016	60,000
2017	60,000
Thereafter	<u>195,000</u>
	<u>\$ 495,435</u>

NOTE 10 - BOARD-DESIGNATED QUASI-ENDOWMENT

The Organization follows ASC 958 (formerly Staff Position No. 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classifications of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act [UPMIFA] and Enhanced Disclosures for all Endowment Funds*).

Much of the guidance in ASC 958 relates to revisions to the rules governing the accounting for donor-restricted endowment funds subject to UPMIFA. Although the state of California has adopted UPMIFA, the Organization has no such net assets. ASC 958 also mandates expanded disclosures for all endowment funds, including board-designated funds.

(Note 10 continued on the following page)

CASA TERESA, INC.

**Notes to Financial Statements
(Continued)
June 30, 2012 and 2011**

NOTE 10 - BOARD-DESIGNATED QUASI-ENDOWMENT (Continued)

The Organization's board has established a board-designated quasi-endowment fund, and adopted a policy under which certain unrestricted gifts and bequests are designated to the fund. The purpose of the board designation is to satisfy a future commitment (Note 4).

The board requires that the assets of the quasi-endowment fund be invested in a prudent manner, in a broadly diversified portfolio spread over multiple asset classes.

The transactions affecting the board-designated quasi-endowment may be summarized as follows:

Board designated quasi-endowment, July 1, 2011	\$ 200,000
Designations	361,268
Appropriation for spending	--
Interest and dividends	--
Realized and unrealized gains	--
	<hr/>
Board designated quasi-endowment, June 30, 2012	<u>\$ 561,268</u>

NOTE 11 - SUBSEQUENT EVENTS

The line of credit which expired September 6, 2012, was renewed and has an expiration date of September 5, 2013 (Note 6).

Casa Teresa is expanding its program to include an Emergency Maternity Shelter and Alumni Resource Center, and has entered into an offer to purchase real estate located in the city of Orange, California for a purchase price of \$1,900,000. As of the date these financial statements were issued, Casa Teresa remains in escrow for the purchase of this real estate.

Casa Teresa evaluated subsequent events through September 26, 2012, the date these financial statements were issued. With the exception of the matters discussed above, there were no material subsequent events that required recognition or additional disclosure in these financial statements.