



CASA TERESA, INC.

Financial Statements
For Year Ended June 30, 2015
(With Summarized Comparative Information for the Year Ended June 30, 2014)

(With Independent Auditor's Report Thereon)

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Casa Teresa, Inc.

We have audited the accompanying financial statements of Casa Teresa, Inc., (a non-profit organization) (the Organization), which comprise the statement of financial position as of June 30, 2015, and the related statements of activities and changes in net assets, functional expenses, and cash flows 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.

Auditor's 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity'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.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2015, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Organization's financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 1, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matter

As described in Note 11 to the financial statements, the Organization has restated their financial statements as of and for the year ended June 30, 2014, to include a previous unrecorded liability.



January 22, 2016

Kushner, Smith, Joanou, and Gregson, LLP
100 Spectrum Center Drive, Suite 1000, Irvine, California 92618

CASA TERESA, INC.

Statement of Financial Position

June 30, 2015

(with summarized comparative information as of June 30, 2014)

ASSETS

			<u>Total</u>	
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2015</u>	<u>2014 (As restated- See Note 11)</u>
Current assets:				
Cash and cash equivalents	\$ 76,556	\$ 11,208	\$ 87,764	\$ 418,290
Investments (Notes 1 and 2)	468,236	--	468,236	479,969
Grants receivable	147,591	--	147,591	191,431
Contributions receivable (Note 2 and 3)	--	189,584	189,584	156,000
Accounts receivable	63,028	--	63,028	4,965
Prepaid expense	38,640	--	38,640	15,609
Total current assets	<u>794,051</u>	<u>200,792</u>	<u>994,843</u>	<u>1,266,264</u>
Land, building, improvements and equipment (net of accumulated depreciation of \$1,549,595 for 2015 and \$1,382,686 for 2014) (Note 5)				
	<u>2,750,843</u>	<u>--</u>	<u>2,750,843</u>	<u>2,849,776</u>
Other assets:				
Contributions receivable - non current portion (Note 2 and 3)	--	101,344	101,344	237,890
Option deposit (Note 4)	<u>200,000</u>	<u>--</u>	<u>200,000</u>	<u>200,000</u>
Total other assets	<u>200,000</u>	<u>101,344</u>	<u>301,344</u>	<u>437,890</u>
Total assets	<u>\$ 3,744,894</u>	<u>\$ 302,136</u>	<u>\$ 4,047,030</u>	<u>\$ 4,553,930</u>

(Statement of financial position continued on the following page)

CASA TERESA, INC.

Statement of Financial Position
(Continued)
June 30, 2015

(with summarized comparative information as of June 30, 2014)

LIABILITIES AND NET ASSETS

			Total	
	Unrestricted	Temporarily Restricted	2015	2014 (As restated- See Note 11)
Current liabilities:				
Line of credit (Note 6)	\$ 115,000	\$ --	\$ 115,000	\$ --
Accounts payable	44,754	--	44,754	43,866
Accrued liabilities	122,211	--	122,211	88,549
Current portion of note payable (Note 7)	12,270	--	12,270	14,407
Current portion of unearned revenue	73,617	--	73,617	81,034
Total current liabilities	367,852	--	367,852	227,856
Long-term liabilities:				
Note payable (Note 7)	850,464	--	850,464	862,734
Unearned revenue - net of current portion	1,234,413	--	1,234,413	1,299,430
Total liabilities	2,452,729	--	2,452,729	2,390,020
Net assets:				
Unrestricted	1,292,165	--	1,292,165	1,548,070
Temporarily restricted (Note 8)	--	302,136	302,136	615,840
Total net assets	1,292,165	302,136	1,594,301	2,163,910
Total liabilities and net assets	\$ 3,744,894	\$ 302,136	\$ 4,047,030	\$ 4,553,930

See accompanying notes to financial statements

CASA TERESA, INC.

Statement of Activities and Changes in Net Assets
Year Ended June 30, 2015

(with summarized comparative information for the year ended June 30, 2014)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	
			<u>2015</u>	<u>2014</u> <u>(As restated- See Note 11)</u>
Support and revenues:				
Contributions:				
Contributions - general	\$ 271,034	\$ 50,084	\$ 321,118	\$ 488,165
Foundations	686,745	11,208	697,953	768,378
Total contributions	<u>957,779</u>	<u>61,292</u>	<u>1,019,071</u>	<u>1,256,543</u>
Special events:				
Golf tournament revenue	130,808	--	130,808	127,655
Direct expenses	<u>(36,388)</u>	<u>--</u>	<u>(36,388)</u>	<u>(29,574)</u>
Net support from golf tournament	<u>94,420</u>	<u>--</u>	<u>94,420</u>	<u>98,081</u>
Mother of the Year revenue	222,700	--	222,700	100,596
Direct expenses	<u>(84,484)</u>	<u>--</u>	<u>(84,484)</u>	<u>(56,132)</u>
Net support from Mother of the Year	<u>138,216</u>	<u>--</u>	<u>138,216</u>	<u>44,464</u>
Guild revenues	55,545	--	55,545	68,504
Direct expenses	<u>(18,907)</u>	<u>--</u>	<u>(18,907)</u>	<u>(31,001)</u>
Net support from Guild revenues	<u>36,638</u>	<u>--</u>	<u>36,638</u>	<u>37,503</u>
Resale revenue	160,918	--	160,918	170,603
Direct expenses	<u>(2,317)</u>	<u>--</u>	<u>(2,317)</u>	<u>(1,434)</u>
Net support from resale revenues	<u>158,601</u>	<u>--</u>	<u>158,601</u>	<u>169,169</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, 2015

(with summarized comparative information for the year ended June 30, 2014)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	
			<u>2015</u>	<u>2014 (As restated- See Note 11)</u>
Other support:				
Grants from government agencies	400,000	--	400,000	450,000
Investment (loss) income	(3,166)	--	(3,166)	55,320
Other income	917	--	917	33
(Loss) on sale of property	--	--	--	(4,344)
Program income	132,186	--	132,186	144,207
In-kind donations	47,989	--	47,989	135,081
Total other support	<u>577,926</u>	<u>--</u>	<u>577,926</u>	<u>780,297</u>
Subtotal support and revenues	1,963,580	61,292	2,024,872	2,386,057
Net assets released from restrictions	<u>374,996</u>	<u>(374,996)</u>	<u>--</u>	<u>--</u>
Total support and revenues	2,338,576	(313,704)	2,024,872	2,386,057
Expenses:				
Program services	2,090,191	--	2,090,191	2,256,881
Supporting services:				
Administration	283,559	--	283,559	199,758
Fundraising	220,731	--	220,731	229,758
Total expenses	<u>2,594,481</u>	<u>--</u>	<u>2,594,481</u>	<u>2,686,397</u>
Change in net assets	(255,905)	(313,704)	(569,609)	(300,340)
Net assets at beginning of year	<u>1,548,070</u>	<u>615,840</u>	<u>2,163,910</u>	<u>2,464,250</u>
Net assets at end of year	<u>\$ 1,292,165</u>	<u>\$ 302,136</u>	<u>\$ 1,594,301</u>	<u>\$ 2,163,910</u>

See accompanying notes to financial statements

CASA TERESA, INC.

Statement of Functional Expenses
Year Ended June 30, 2015

(with summarized comparative information for the year ended June 30, 2014)

	Program Services					Supporting Services			Total Expenses		
	Adoption	Parenting	EMS/ARC*	Transformation	Infant Care Center	Total	Administration	Fundraising	Total	2015	2014
Salaries	\$ 34,391	\$ 328,539	\$ 561,274	\$ 218,689	\$ --	\$ 1,142,893	\$ 172,744	\$ 98,492	\$ 271,236	\$ 1,414,129	\$ 1,399,584
Payroll taxes	2,738	26,156	44,684	17,410	--	90,988	13,752	7,841	21,593	112,581	108,377
Employee benefits	4,500	42,987	73,438	28,614	--	149,539	22,602	12,887	35,489	185,028	195,944
Infant Care Center	--	--	--	--	56,108	56,108	--	--	--	56,108	84,804
Automobile expense	--	7,667	6,702	5,511	--	19,880	--	513	513	20,393	23,560
Insurance	5,621	14,311	7,895	9,776	--	37,603	329	329	658	38,261	33,857
Outside services	391	3,734	6,379	2,485	--	12,989	2,040	13,126	15,166	28,155	10,683
Professional services	--	3,800	3,800	8,800	--	16,400	50,983	60,913	111,896	128,296	204,351
Office	358	3,424	5,849	2,279	--	11,910	2,753	1,026	3,779	15,689	29,260
Postage	61	583	995	388	--	2,027	306	1,292	1,598	3,625	7,901
Printing	--	1,763	1,763	1,763	--	5,289	881	881	1,762	7,051	14,094
Rent	--	2,174	2,174	60,000	--	64,348	483	--	483	64,831	67,167
Repairs and maintenance	--	15,607	9,307	15,267	--	40,181	124	125	249	40,430	37,925
Marketing	--	--	--	--	--	--	--	12,034	12,034	12,034	12,075
Assistance to residents	290	21,212	10,893	10,245	--	42,640	--	--	--	42,640	40,206
Bank charges	433	4,138	7,069	2,754	--	14,394	2,176	1,241	3,417	17,811	12,427
Program expense	--	1,194	1,194	1,194	--	3,582	--	--	--	3,582	2,481
House supplies	--	17,924	23,753	13,009	--	54,686	--	--	--	54,686	63,696
Interest	--	--	43,570	--	--	43,570	1,562	--	1,562	45,132	45,439
Licenses and taxes	--	--	1,274	3,082	--	4,356	492	--	492	4,848	14,834
Telephone	661	1,535	3,569	1,717	--	7,482	3,015	3,915	6,930	14,412	11,645
Training and development	63	604	1,032	402	--	2,101	318	181	499	2,600	2,869
Volunteer	--	219	219	219	--	657	--	--	--	657	1,565
Hospitality	--	1,530	--	1,530	--	3,060	3,519	455	3,974	7,034	3,442
Utilities	68	12,528	16,638	11,011	--	40,245	2,792	2,792	5,584	45,829	44,210
Depreciation	214	38,074	140,287	26,784	17,904	223,263	2,688	2,688	5,376	228,639	214,001
	<u>\$ 49,789</u>	<u>\$ 549,703</u>	<u>\$ 973,758</u>	<u>\$ 442,929</u>	<u>\$ 74,012</u>	<u>\$ 2,090,191</u>	<u>\$ 283,559</u>	<u>\$ 220,731</u>	<u>\$ 504,290</u>	<u>\$ 2,594,481</u>	<u>\$ 2,686,397</u>
Percentage of Total Expenses	2%	21%	38%	17%	3%	81%	11%	8%	19%	100%	100%

* - Emergency Maternity Shelter/Alumni Resource Center

CASA TERESA, INC.

Statements of Cash Flows
Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u> (As restated- See Note 11)
Cash flows from operating activities:		
Cash collected from donors and grantors	\$ 1,883,136	\$ 1,978,677
Cash collected from customers	232,724	314,795
Cash paid to vendors	(2,442,376)	(2,241,995)
Interest and dividend income received	24,187	16,682
Other income	917	33
Net cash (applied to) provided from operating activities	<u>(301,412)</u>	<u>68,192</u>
Cash flows from investing activities:		
Purchases of capital assets	<u>(129,707)</u>	<u>(120,267)</u>
Net cash (applied to) investing activities	<u>(129,707)</u>	<u>(120,267)</u>
Cash flows from financing activities:		
Net activity from line of credit	115,000	--
(Payments) of note payable	<u>(14,407)</u>	<u>(13,764)</u>
Net cash provided from (applied to) financing activities	<u>100,593</u>	<u>(13,764)</u>
Net (decrease) in cash and cash equivalents	(330,526)	(65,839)
Cash and cash equivalents at:		
Beginning of year	<u>418,290</u>	<u>484,129</u>
End of year	<u>\$ 87,764</u>	<u>\$ 418,290</u>

(Statements of cash flows continued on the following page)

CASA TERESA, INC.
Statements of Cash Flows
(Continued)
Years Ended June 30, 2015 and 2014

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

	<u>2015</u>	<u>2014</u> <u>(As restated- See Note 11)</u>
Change in net assets	\$ (569,609)	\$ (300,340)
Adjustments to reconcile change in net assets to net cash (applied to) provided from operating activities:		
Depreciation and amortization	228,640	214,001
Donated stock	--	1,992
Loss on sale of property	--	4,344
Realized and unrealized loss (gain) on investments	27,353	(38,638)
	<u>(313,616)</u>	<u>(118,641)</u>
 Change in assets and liabilities		
(Increase) decrease in assets:		
Investments	(15,620)	(81,725)
Grants receivable	43,840	(134,356)
Contributions receivable	102,962	91,361
Accounts receivable	(58,063)	1,419
Prepaid expense	(23,031)	7,073
Increase (decrease) in liabilities:		
Accounts payable	888	5,990
Accrued liabilities	33,662	50,930
Unearned revenue	(72,434)	246,141
	<u>12,204</u>	<u>186,833</u>
 Net cash (applied to) provided from operating activities	 \$ <u>(301,412)</u>	 \$ <u>68,192</u>

See accompanying notes to financial statements

CASA TERESA, INC.**Notes to Financial Statements
June 30, 2015 and 2014****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, 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, they 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.

Emergency Maternity Shelter - Created to provide homeless, pregnant women with or without children a safe, temporary living environment. The program is modeled after the Parenting program but is tailored to fit emergency needs. Friendly and supportive staff members guide and nurture women to take the necessary steps towards independence.

Alumni Resource Center - Open to all former Casa Teresa residents as a continuum of support and safety net to ensure they maintain self-sufficiency for themselves and their children. Advanced education counseling, career development and GED programs are available to all present and former Casa Teresa residents.

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, 2015 and 2014.

(Note 1 continued on the following page)

CASA TERESA, INC.**Notes to Financial Statements
(Continued)
June 30, 2015 and 2014****NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Basis of Presentation (Continued) - 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.

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

(Note 1 continued on the following page)

CASA TERESA, INC.

**Notes to Financial Statements
(Continued)
June 30, 2015 and 2014**

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's Level 3 assets include contributions receivable.

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, 2015 and 2014****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.

Unearned Revenue - In November 2012, Casa Teresa was awarded a one-time catalytic investment of \$1,500,000 from a governmental agency. The funds were used for the purchase of the Emergency Maternity Shelter and Alumni Resource Center property in the city of Orange, California and to operate the EMS location. The funds were received from November 2012 through January 2014. Approximately \$750,000 of the funds was rewarded upon meeting certain milestones. Casa Teresa is to pay back this amount in shelter/program services. Per the agreement, Casa Teresa is to provide shelter services to pregnant women and their children, including but not limited to shelter, food, basic needs, prenatal services, case management and linkage to permanent housing or transitional housing programs. Casa Teresa is to provide shelter/program services for a minimum of 10 years. Casa Teresa's obligation to provide services is secured by the deed of trust on property at its main campus in Orange. For accounting purposes, the initial amount received was recorded as unearned revenue. This amount is reported as program revenue as shelter/program services are performed. Shelter/program services performed at June 30, 2015 and 2014 amounted to \$73,617 and \$81,034, respectively.

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.

(Note 1 continued on the following page)

CASA TERESA, INC.**Notes to Financial Statements
(Continued)
June 30, 2015 and 2014****NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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 Casa Teresa's general tax-exempt status, management believes there are no material uncertain tax positions that require recognition in the accompanying consolidated financial statements at June 30, 2015 and 2014. The organization is no longer subject to U.S. federal, state, and local income tax examinations by tax authorities for years before 2010. There were no tax years open to examination by major tax jurisdiction as of June 30, 2015.

Vacation Expense - Hourly and salary employees earn credits during the current year for future vacation benefits. The expense and corresponding liability are accrued when earned rather than when 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, 2014 from which the summarized information was derived.

Contributory Retirement Plan - Casa Teresa has a qualified 403(b), employee salary deferral and matching and profit sharing plan (the Plan) for the benefit of its employees. Substantially all employees are eligible to participate in the Plan. Casa Teresa has the option to make matching and profit sharing contributions to the Plan. There were no employer matching or sharing contributions made to the plan during the years ended June 30, 2015 and 2014.

Subsequent Events - Casa Teresa evaluated subsequent events through January 22, 2016, the date these financial statements were issued. With the exceptions of the matters discussed on Notes 6 and 7, there were no material subsequent events that required recognition or additional disclosure in these financial statements.

CASA TERESA, INC.

**Notes to Financial Statements
(Continued)
June 30, 2015 and 2014**

NOTE 2 - ASSETS RECORDED AT FAIR VALUE

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, 2015 and 2014 were \$468,236 and \$479,969, respectively.

Investment income at June 30, 2015 and 2014 is summarized as follows:

	<u>2015</u>	<u>2014</u>
Interest and dividend income	\$ 24,187	\$ 16,682
Realized and unrealized (loss) gain	<u>(27,353)</u>	<u>38,638</u>
Total investment (loss) income	<u>\$ (3,166)</u>	<u>\$ 55,320</u>

The following table sets forth by level, within the fair value hierarchy, the plan's assets at fair value as of June 30, 2015 and 2014:

	<i>Assets at Fair Value as of June 30, 2015</i>			<i>Total</i>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Mutual funds:				
Allocation funds	\$ 32,380	\$ --	\$ --	\$ 32,380
International equity	101,047	--	--	101,047
Sector equity funds	30,690	--	--	30,690
Taxable bond funds	130,028	--	--	130,028
U.S. equity funds	<u>174,091</u>	<u>--</u>	<u>--</u>	<u>174,091</u>
	<u>468,236</u>	<u>--</u>	<u>--</u>	<u>468,236</u>
Contributions receivable	<u>--</u>	<u>--</u>	<u>290,928</u>	<u>290,928</u>
Total assets at fair value	<u>\$ 468,236</u>	<u>\$ --</u>	<u>\$ 290,928</u>	<u>\$ 759,164</u>

(Note 2 continued on the following page)

CASA TERESA, INC.

Notes to Financial Statements
(Continued)
June 30, 2015 and 2014

NOTE 2 - ASSETS RECORDED AT FAIR VALUE (Continued)

	<i>Assets at Fair Value as of June 30, 2014</i>			<i>Total</i>
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	
Mutual funds:				
Allocation funds	\$ 17,784	\$ --	\$ --	\$ 17,784
International Equity	67,435	--	--	67,435
Sector equity funds	40,230	--	--	40,230
Taxable bond funds	203,494	--	--	203,494
U.S. equity funds	146,792	--	--	146,792
	<u>475,735</u>	<u>--</u>	<u>--</u>	<u>475,735</u>
Common stock:				
Basic materials	1,302	--	--	1,302
Financial	2,083	--	--	2,083
Technology	849	--	--	849
	<u>4,234</u>	<u>--</u>	<u>--</u>	<u>4,234</u>
Contributions receivable	<u>--</u>	<u>--</u>	<u>393,890</u>	<u>393,890</u>
Total assets at fair value	<u>\$ 479,969</u>	<u>\$ --</u>	<u>\$ 393,890</u>	<u>\$ 873,859</u>

Level 3 Gains and Losses

The following table sets forth a summary of changes in the fair value of the Center's Level 3 assets for the years ended June 30, 2015 and 2014.

	<i>Contributions Receivable</i>	
	<u>2015</u>	<u>2014</u>
Balance, beginning of year	\$ 393,890	\$ 485,251
New pledges	50,084	60,000
Payments received	(163,000)	(150,500)
Write-off	(2,500)	--
Change in present value discount amount	<u>12,454</u>	<u>(861)</u>
Balance, end of year	<u>\$ 290,928</u>	<u>\$ 393,890</u>

CASA TERESA, INC.

**Notes to Financial Statements
(Continued)
June 30, 2015 and 2014**

NOTE 3 - CONTRIBUTIONS RECEIVABLE

Casa Teresa has recognized uncollected contribution promises as temporarily restricted support. Uncollected promise at June 30, 2015 and 2014 were recorded as contribution receivable at its present value in the accompanying statement of financial position. The contribution receivable at June 30, 2015 represents unconditional promise to give to Casa Teresa to be collected through 2017.

	<u>2015</u>	<u>2014</u>
Amounts due in:		
Less than one year	\$ 189,584	\$ 156,000
One to five years	<u>117,500</u>	<u>266,500</u>
	307,084	422,500
Less: unamortized discount	<u>(16,156)</u>	<u>(28,610)</u>
Net contributions receivable	<u>\$ 290,928</u>	<u>\$ 393,890</u>

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.

CASA TERESA, INC.

**Notes to Financial Statements
(Continued)
June 30, 2015 and 2014**

NOTE 5 - LAND, BUILDING, IMPROVEMENTS AND EQUIPMENT

Land, buildings and equipment are recorded at cost and consist of the following at June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Land	\$ 404,892	\$ 404,892
Building and improvements	3,515,910	3,438,435
Furniture and equipment	191,745	229,523
Vehicles	90,401	90,401
Software	23,470	29,461
Construction in progress	<u>74,020</u>	<u>39,750</u>
Total land, building, improvements and equipment	4,300,438	4,232,462
Less accumulated depreciation	<u>(1,549,595)</u>	<u>(1,382,686)</u>
Net land, building improvements, and equipment	<u>\$ 2,750,843</u>	<u>\$ 2,849,776</u>

Total depreciation and amortization expenses for the years ended June 30, 2015 and 2014 were \$228,640 and \$214,001, respectively.

NOTE 6 - LINE OF CREDIT AND SUBSEQUENT EVENT

At June 30, 2014 Casa Teresa had a \$500,000 line of credit with a bank to be drawn down upon as needed at the bank's variable interest rate of 3.75%. The agreement, which is unsecured, expires February 26, 2016. The Organization is required to maintain certain financial covenants on this line of credit. At June 30, 2015 and 2014, there was outstanding balance on this line of credit of \$115,000 and none, respectively.

On July 2015, Casa Teresa paid off the line of credit mentioned above and closed the account with the bank. Subsequently, Casa Teresa opened a \$500,000 line of credit with a foundation to be drawn down upon as needed at the foundation's fixed interest rate of 2.50%. The agreement, which is secured by Casa Teresa's investment funds (Note 2), expires June 29, 2020.

CASA TERESA, INC.

**Notes to Financial Statements
(Continued)
June 30, 2015 and 2014**

NOTE 7 - NOTE PAYABLE AND SUBSEQUENT EVENT

On October 29, 2012, Casa Teresa, Inc. entered into a loan agreement with a private lender in the amount of \$1,100,000 with an interest of 5.00%. The loan is secured by the Emergency Maternity Shelter and Alumni Resource Center property in Orange, California. Beginning January 1, 2013 through May 1, 2013 the note was payable in monthly installments of \$5,905, which included interest. In May 2013, Casa Teresa made a \$200,000 principal payment on the note. As a result of this payment, the loan was adjusted to \$4,831 principal and interest monthly installments, with an interest rate of 5.00%. All unpaid principal and interest was payable in full on December 1, 2015. However, on July 31, 2015, Casa Teresa and the lender renegotiated the terms of the note where the principal and interest will be payable in full on December 1, 2016. Interest of 5.00% and monthly installment payments of \$5,905 will be unchanged from July 2015 through November 2015. Beginning December 1, 2015 through December 1, 2016, interest increased to 6.00% with monthly installments of \$5,135, which includes interest. The outstanding balance at June 30, 2015 and 2014 was \$862,734 and 877,141, respectively.

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

Years ending June 30:		
2016	\$	12,270
2017		<u>850,464</u>
	\$	<u><u>862,734</u></u>

NOTE 8 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2015 and 2014 consist of the following:

	<u>2015</u>	<u>2014</u>
Capital projects	\$ 11,208	\$ --
Contributions receivable	290,928	393,890
Campus expansion	<u>--</u>	<u>221,950</u>
Total temporarily restricted net assets	<u>\$ 302,136</u>	<u>\$ 615,840</u>

CASA TERESA, INC.

**Notes to Financial Statements
(Continued)
June 30, 2015 and 2014**

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 expired November 2014 and provided for monthly rent of \$287. The lease was renewed during the year and now expires December 2017 and provides for monthly rent of \$456. Lease expense for the years ended June 30, 2015 and 2014 amounted to approximately \$65,548 and \$64,789, respectively.

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

Years ending June 30:	
2016	\$ 65,472
2017	65,472
2018	62,736
2019	60,000
2020	60,000
Thereafter	<u>15,000</u>
	<u>\$ 328,680</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.

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 support program expansion.

(Note 10 continued on the following page)

CASA TERESA, INC.

**Notes to Financial Statements
(Continued)
June 30, 2015 and 2014**

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

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, 2014	\$ 187,485
Designations	--
Appropriation for spending	(187,160)
Interest and dividends	56
Realized and unrealized gains	<u> --</u>
Board designated quasi-endowment, June 30, 2015	<u><u>\$ 381</u></u>

NOTE 11 – PRIOR PERIOD ADJUSTMENT AND RESTATEMENT

The financial statements for the year ended June 30, 2014 have been restated to properly reflect certain funds received for EMS. A portion of the funds were initially reflected as contributions. Upon further clarification by government agency, it was determined that a portion of these funds should be recorded as unearned revenue. The accompanying financial statements for fiscal year ended June 30, 2014 have been restated to reflect impacts of the recorded liability. In addition, total net assets as of June 30, 2014, has been decreased by \$757,179, to adjust contributions previously recognized.

The effects of the above restatements are summarized as follows:

	<u>As Previously Reported</u>	<u>As Restated</u>
Statement of Financial Position as of June 30, 2014:		
Current Portion of unearned revenue	\$ 79,212	\$ 81,034
Total current liabilities	226,033	227,856
Unearned revenue – net of current portion	544,074	1,299,430
Total liabilities	1,632,841	2,390,020
Net assets: Unrestricted	2,305,249	1,292,165
Total net assets	2,921,089	2,163,910

(Note 11 continued on the following page)

CASA TERESA, INC.

**Notes to Financial Statements
(Continued)
June 30, 2015 and 2014**

NOTE 11 - PRIOR PERIOD ADJUSTMENT AND RESTATEMENT (Continued)

	<u>As Previously Reported</u>	<u>As Restated</u>
Statement of Activities and Changes in Net Assets June 30, 2014:		
Contributions – general	\$ 821,927	\$ 488,165
Total contributions	1,590,305	1,256,543
Total support and revenues	2,719,819	2,386,057
Change in net assets	33,422	(300,340)
Net assets at beginning of year	2,887,667	2,464,250
Net assets at end of year	2,921,089	2,163,910
 Statement of Cash Flows for the year ended June 30, 2014:		
Cash collected from donors and grantors	\$ 2,312,439	\$ 1,978,677
Cash paid to vendors	(2,575,757)	(2,241,995)
Change in net assets	33,422	(300,340)
Unearned revenue	(87,620)	246,141