



**CASA TERESA, INC.**

**Financial Statements**  
**For Year Ended June 30, 2016**  
**(With Summarized Comparative Information for the Year Ended June 30, 2015)**

**(With Independent Auditor's Report Thereon)**

**TABLE OF CONTENTS****PAGE NO.**

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Independent Auditor's Report.....	1 - 2
Statement of Financial Position - June 30, 2016 and 2015 (Summarized) .....	3 - 4
Statement of Activities and Changes in Net Assets - Years Ended June 30, 2016 and 2015 (Summarized) .....	5 - 6
Statement of Functional Expenses -Years Ended June 30, 2016 and 2015 (Summarized) .....	7
Statements of Cash Flows - Years Ended June 30, 2016 and 2015 .....	8 - 9
Notes to Financial Statements - June 30, 2016 and 2015 .....	10 - 22

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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, 2016, 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, 2016, 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 January 22, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.



January 17, 2017

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

## CASA TERESA, INC.

## Statement of Financial Position

June 30, 2016

(with summarized comparative information as of June 30, 2015)

	<u>ASSETS</u>		<u>Total</u>	
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2016</u>	<u>2015</u>
Current assets:				
Cash and cash equivalents	\$ 136,339	\$ 17,500	\$ 153,839	\$ 87,764
Investments (Notes 1 and 2)	494,889	--	494,889	468,236
Grants receivable	93,700	--	93,700	147,591
Contributions receivable (Note 2 and 3)	--	8,654	8,654	189,584
Accounts receivable	12,528	--	12,528	63,028
Prepaid expense	55,938	--	55,938	38,640
Total current assets	<u>793,394</u>	<u>26,154</u>	<u>819,548</u>	<u>994,843</u>
Land, building, improvements and equipment (net of accumulated depreciation of \$1,776,782 for 2016 and \$1,549,595 for 2015) (Note 6)	<u>2,588,436</u>	<u>--</u>	<u>2,588,436</u>	<u>2,750,843</u>
Other assets:				
Contributions receivable - non current portion (Note 2 and 3)	--	--	--	101,344
Option deposit (Note 4)	200,000	--	200,000	200,000
Note receivable (Note 5)	49,078	--	49,078	--
Total other assets	<u>249,078</u>	<u>--</u>	<u>249,078</u>	<u>301,344</u>
Total assets	<u>\$ 3,630,908</u>	<u>\$ 26,154</u>	<u>\$ 3,657,062</u>	<u>\$ 4,047,030</u>

(Statement of financial position continued on the following page)

## CASA TERESA, INC.

**Statement of Financial Position**  
**(Continued)**  
**June 30, 2016**

(with summarized comparative information as of June 30, 2015)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	
			<u>2016</u>	<u>2015</u>
Current liabilities:				
Line of credit (Note 7)	\$ --	\$ --	\$ --	\$ 115,000
Accounts payable	15,851	--	15,851	44,754
Accrued liabilities	80,436	--	80,436	122,211
Current portion of note payable (Note 8)	--	--	--	12,270
Current portion of unearned revenue	77,103	--	77,103	73,617
Total current liabilities	<u>173,390</u>	<u>--</u>	<u>173,390</u>	<u>367,852</u>
Long-term liabilities:				
Line of credit (Note 7)	380,000	--	380,000	--
Note payable (Note 8)	850,464	--	850,464	850,464
Unearned revenue - net of current portion	1,155,943	--	1,155,943	1,234,413
Total liabilities	<u>2,559,797</u>	<u>--</u>	<u>2,559,797</u>	<u>2,452,729</u>
Net assets:				
Unrestricted	1,071,111	--	1,071,111	1,292,165
Temporarily restricted (Note 9)	--	26,154	26,154	302,136
Total net assets	<u>1,071,111</u>	<u>26,154</u>	<u>1,097,265</u>	<u>1,594,301</u>
Total liabilities and net assets	<u>\$ 3,630,908</u>	<u>\$ 26,154</u>	<u>\$ 3,657,062</u>	<u>\$ 4,047,030</u>

See accompanying notes to financial statements

## CASA TERESA, INC.

**Statement of Activities and Changes in Net Assets**  
**Year Ended June 30, 2016**

(with summarized comparative information for the year ended June 30, 2015)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	
			<u>2016</u>	<u>2015</u>
Support and revenues:				
Contributions:				
Contributions - general	\$ 696,006	\$ 35,000	\$ 731,006	\$ 321,118
Foundations	379,000	--	379,000	697,953
Total contributions	<u>1,075,006</u>	<u>35,000</u>	<u>1,110,006</u>	<u>1,019,071</u>
Special events:				
Golf tournament revenue	173,500	--	173,500	130,808
Direct expenses	<u>(44,967)</u>	<u>--</u>	<u>(44,967)</u>	<u>(36,388)</u>
Net support from golf tournament	<u>128,533</u>	<u>--</u>	<u>128,533</u>	<u>94,420</u>
Mother of the Year revenue	--	--	--	222,700
Direct expenses	<u>--</u>	<u>--</u>	<u>--</u>	<u>(84,484)</u>
Net support from Mother of the Year	<u>--</u>	<u>--</u>	<u>--</u>	<u>138,216</u>
Guild revenues	99,579	--	99,579	55,545
Direct expenses	<u>(53,619)</u>	<u>--</u>	<u>(53,619)</u>	<u>(18,907)</u>
Net support from Guild revenues	<u>45,960</u>	<u>--</u>	<u>45,960</u>	<u>36,638</u>
Resale revenue	--	--	--	160,918
Direct expenses	<u>--</u>	<u>--</u>	<u>--</u>	<u>(2,317)</u>
Net support from resale revenues	<u>--</u>	<u>--</u>	<u>--</u>	<u>158,601</u>
Ruby luncheon	61,915	--	61,915	--
Direct expenses	<u>(11,398)</u>	<u>--</u>	<u>(11,398)</u>	<u>--</u>
Net support from resale revenues	<u>50,517</u>	<u>--</u>	<u>50,517</u>	<u>--</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, 2016**

(with summarized comparative information for the year ended June 30, 2015)

			<u>Total</u>	
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2016</u>	<u>2015</u>
Other support:				
Grants from government agencies	350,000	--	350,000	400,000
Investment (loss)	(10,698)	--	(10,698)	(3,166)
Other income	70	--	70	917
(Loss) on sale of property	(3,369 )	--	(3,369 )	--
Program income	337,703	--	337,703	132,186
In-kind donations	39,727	--	39,727	47,989
Total other support	<u>713,433</u>	<u>--</u>	<u>713,433</u>	<u>577,926</u>
Subtotal support and revenues	2,013,449	35,000	2,048,449	2,024,872
Net assets released from restrictions	<u>310,982</u>	<u>(310,982)</u>	<u>--</u>	<u>--</u>
Total support and revenues	2,324,431	(275,982)	2,048,449	2,024,872
Expenses:				
Program services	1,970,103	--	1,970,103	2,090,191
Supporting services:				
Administration	243,280	--	243,280	283,559
Fundraising	332,102	--	332,102	220,731
Total expenses	<u>2,545,485</u>	<u>--</u>	<u>2,545,485</u>	<u>2,594,481</u>
Change in net assets	(221,054)	(275,982)	(497,036)	(569,609)
Net assets at beginning of year	<u>1,292,165</u>	<u>302,136</u>	<u>1,594,301</u>	<u>2,163,910</u>
Net assets at end of year	<u>\$ 1,071,111</u>	<u>\$ 26,154</u>	<u>\$ 1,097,265</u>	<u>\$ 1,594,301</u>

See accompanying notes to financial statements



**CASA TERESA, INC.**

**Statement of Functional Expenses  
Year Ended June 30, 2016**

(with summarized comparative information for the year ended June 30, 2015)

	Program Services						Supporting Services			Total Expenses		
	Adoption	Parenting	EMS/ARC*	Transformation	Infant Care Center	The Collection	Total	Administration	Fundraising	Total	2016	2015
Salaries	\$ 11,037	\$ 262,948	\$ 479,703	\$ 220,479	\$ --	11,713	\$ 985,880	\$ 80,842	\$ 187,401	\$ 268,243	\$ 1,254,123	\$ 1,414,129
Payroll taxes	927	22,075	40,281	18,515	--	587	82,385	6,788	15,735	22,523	104,908	112,581
Employee benefits	1,485	35,367	64,537	29,664	--	--	131,053	10,875	25,211	36,086	167,139	185,028
Infant Care Center	--	--	--	--	47,979	--	47,979	--	--	--	47,979	56,108
Automobile expense	--	3,882	4,150	3,852	--	--	11,884	681	808	1,489	13,373	20,393
Insurance	2,767	18,431	10,168	16,411	--	--	47,777	424	424	848	48,625	38,261
Outside services	150	6,365	7,405	6,161	--	--	20,081	1,969	947	2,916	22,997	28,155
Professional services	574	19,757	32,568	14,335	--	--	67,234	99,172	67,182	166,354	233,588	128,296
Office	846	6,819	6,945	7,112	--	--	21,722	6,518	11,658	18,176	39,898	15,689
Postage	--	885	884	885	--	--	2,654	295	307	602	3,256	3,625
Printing	--	--	--	--	--	--	--	69	3,290	3,359	3,359	7,051
Rent	--	1,111	--	61,111	--	--	62,222	--	--	--	62,222	64,831
Repairs and maintenance	--	10,260	10,736	7,143	--	2,454	30,593	1,698	--	1,698	32,291	40,430
Marketing	1,368	1,368	1,368	1,369	--	--	5,473	493	18,390	18,883	24,356	12,034
Assistance to residents	460	8,523	7,098	7,539	--	--	23,620	--	--	--	23,620	42,640
Bank charges	755	4,527	4,527	4,527	--	--	14,336	377	379	756	15,092	17,811
Program expense	--	1,014	946	874	--	26,610	29,444	110	--	110	29,554	3,582
House supplies	19	19,239	19,925	14,321	--	--	53,504	104	--	104	53,608	54,686
Interest	--	--	47,834	--	--	--	47,834	6,187	--	6,187	54,021	45,132
Licenses and taxes	--	4,587	499	3,488	--	--	8,574	1,036	--	1,036	9,610	4,848
Telephone	638	986	4,064	1,353	--	820	7,861	6,168	--	6,168	14,029	14,412
Training and development	--	--	--	--	--	--	--	275	--	275	275	2,600
Volunteer	--	447	447	447	--	--	1,341	--	--	--	1,341	657
Hospitality	--	1,044	441	1,204	--	--	2,689	5,958	370	6,328	9,017	7,034
Utilities	--	11,935	18,257	10,921	--	280	41,393	5,708	--	5,708	47,101	45,829
Depreciation	176	34,504	141,987	26,855	18,226	822	222,570	7,533	--	7,533	230,103	228,639
	<u>\$ 21,202</u>	<u>\$ 476,074</u>	<u>\$ 904,770</u>	<u>\$ 458,566</u>	<u>\$ 66,205</u>	<u>43,286</u>	<u>\$ 1,970,103</u>	<u>\$ 243,280</u>	<u>\$ 332,102</u>	<u>\$ 575,382</u>	<u>\$ 2,545,485</u>	<u>\$ 2,594,481</u>
<b>Percentage of Total Expenses</b>	1%	19%	35%	18%	2%	2%	77%	10%	13%	23%	100%	100%

See accompanying notes to financial statements

## CASA TERESA, INC.

**Statements of Cash Flows**  
**Years Ended June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>Cash flows from operating activities:</b>		
Cash collected from donors and grantors	\$ 2,011,830	\$ 1,883,136
Cash collected from customers	388,203	232,724
Cash paid to vendors	(2,537,793)	(2,442,376)
Interest and dividend income received	22,101	24,187
Other income	70	917
Net cash (applied to) operating activities	<u>(115,589)</u>	<u>(301,412)</u>
<b>Cash flows from investing activities:</b>		
Purchases of capital assets	(71,066)	(129,707)
Net cash (applied to) investing activities	<u>(71,066)</u>	<u>(129,707)</u>
<b>Cash flows from financing activities:</b>		
Net activity from line of credit	265,000	115,000
(Payments) of note payable	(12,270)	(14,407)
Net cash provided from financing activities	<u>252,730</u>	<u>100,593</u>
Net increase (decrease) in cash and cash equivalents	66,075	(330,526)
Cash and cash equivalents at:		
Beginning of year	<u>87,764</u>	<u>418,290</u>
End of year	<u>\$ 153,839</u>	<u>\$ 87,764</u>

(Statements of cash flows continued on the following page)

## CASA TERESA, INC.

**Statements of Cash Flows**  
**(Continued)**  
**Years Ended June 30, 2016 and 2015**

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

	<u>2016</u>	<u>2015</u>
Change in net assets	\$ (497,036)	\$ (569,609)
Adjustments to reconcile change in net assets to net cash (applied to) provided from operating activities:		
Depreciation and amortization	230,105	228,640
Donated stock	30,077	--
Loss on sale of property	3,368	--
Realized and unrealized loss (gain) on investments	32,799	27,353
	<u>(200,687)</u>	<u>(313,616)</u>
Change in assets and liabilities		
(Increase) decrease in assets:		
Investments	(89,529)	(15,620)
Grants receivable	53,891	43,840
Contributions receivable	282,274	102,962
Accounts receivable	50,500	(58,063)
Prepaid expense	(17,298)	(23,031)
Note receivable	(49,078)	--
Increase (decrease) in liabilities:		
Accounts payable	(28,903)	888
Accrued liabilities	(41,775)	33,662
Unearned revenue	(74,984)	(72,434)
	<u>85,098</u>	<u>12,204</u>
Net cash (applied to) operating activities	<u>\$ (115,589)</u>	<u>\$ (301,412)</u>

See accompanying notes to financial statements

**CASA TERESA, INC.****Notes to Financial Statements  
June 30, 2016 and 2015****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.

**The Collection** - Our partnership with Orange County Asian Pacific Islander Community Alliance (OCAPICA)'s workforce development program ensures residents receive training services in identifying their strengths, interviewing, and work with professional mentors and staff to find meaningful employment earning a living wage. To expand our workforce development opportunities for these mothers, we also provide valuable paid work experience at our social enterprise boutique, The Collection. We believe these new components of education and workforce development will make a tremendous difference in providing our residents with structured avenues for advancing their training, education and earning potential.

(Note 1 continued on the following page)

**CASA TERESA, INC.****Notes to Financial Statements  
(Continued)  
June 30, 2016 and 2015****NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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, 2016 and 2015.

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.

(Note 1 continued on the following page)

**CASA TERESA, INC.****Notes to Financial Statements  
(Continued)  
June 30, 2016 and 2015****NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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.

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.

(Note 1 continued on the following page)

**CASA TERESA, INC.**

**Notes to Financial Statements  
(Continued)  
June 30, 2016 and 2015**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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

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. The term of the agreement commenced on September 1, 2012 and extends through June 30, 2030 unless terminated earlier pursuant to the provisions of the agreement. 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 for the years ended June 30, 2016 and 2015 amounted to \$74,984 and \$73,617, respectively.

(Note 1 continued on the following page)

**CASA TERESA, INC.****Notes to Financial Statements  
(Continued)  
June 30, 2016 and 2015****NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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 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, 2016 and 2015. The organization is no longer subject to U.S. federal, state, and local income tax examinations by tax authorities for years before 2011. There were no tax years open to examination by major tax jurisdiction as of June 30, 2016.

**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, 2015 from which the summarized information was derived.

(Note 1 continued on the following page)



**CASA TERESA, INC.**

**Notes to Financial Statements  
(Continued)  
June 30, 2016 and 2015**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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, 2016 and 2015.

**Subsequent Events** - Casa Teresa evaluated subsequent events through January 17, 2017, the date these financial statements were issued. Except as described in Notes 7 and 8, there were no material subsequent events that required recognition or additional disclosure in these financial statements.

**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, 2016 and 2015 were \$494,889 and \$468,236, respectively.

Investment income at June 30, 2016 and 2015 is summarized as follows:

	<u>2016</u>	<u>2015</u>
Interest and dividend income	\$ 22,101	\$ 24,187
Realized and unrealized (loss)	<u>(32,799)</u>	<u>(27,353)</u>
Total investment (loss)	<u>\$ (10,698)</u>	<u>\$ (3,166)</u>

(Note 2 continued on the following page)

## CASA TERESA, INC.

**Notes to Financial Statements**  
**(Continued)**  
**June 30, 2016 and 2015**

**NOTE 2 - ASSETS RECORDED AT FAIR VALUE (Continued)**

The following table sets forth by level, within the fair value hierarchy, the plan's assets at fair value as of June 30, 2016 and 2015:

	<i>Assets at Fair Value as of June 30, 2016</i>			<i>Total</i>
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	
Mutual funds:				
Allocation funds	\$ 23,600	\$ --	\$ --	\$ 23,600
International equity	114,386	--	--	114,386
Sector equity funds	54,178	--	--	54,178
Taxable bond funds	135,027	--	--	135,027
U.S. equity funds	167,698	--	--	167,698
	<u>494,889</u>	<u>--</u>	<u>--</u>	<u>494,889</u>
Contributions receivable	<u>--</u>	<u>--</u>	<u>8,654</u>	<u>8,654</u>
Total assets at fair value	<u>\$ 494,889</u>	<u>\$ --</u>	<u>\$ 8,654</u>	<u>\$ 503,543</u>
	<i>Assets at Fair Value as of June 30, 2015</i>			<i>Total</i>
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	
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	174,091	--	--	174,091
	<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, 2016 and 2015**

**NOTE 2 - ASSETS RECORDED AT FAIR VALUE (Continued)**

**Level 3 Gains and Losses**

The following table sets forth a summary of changes in the fair value of the Organization's Level 3 assets for the years ended June 30, 2016 and 2015.

	<i>Contributions Receivable</i>	
	<u>2016</u>	<u>2015</u>
Balance, beginning of year	\$ 290,928	\$ 393,890
New pledges	--	50,084
Payments received	(248,000)	(163,000)
Write-off	--	(2,500)
Change in present value discount amount	15,810	12,454
Change in donor intent (Note 5)	(50,084)	--
	<u>          </u>	<u>          </u>
Balance, end of year	<u>\$ 8,654</u>	<u>\$ 290,928</u>

**NOTE 3 - CONTRIBUTIONS RECEIVABLE**

Casa Teresa has recognized uncollected contribution promises as temporarily restricted support. Uncollected promise at June 30, 2016 and 2015 were recorded as contribution receivable at its present value in the accompanying statement of financial position. The contribution receivable at June 30, 2016 represents unconditional promise to give to Casa Teresa to be collected through 2017.

	<u>2016</u>	<u>2015</u>
Amounts due in:		
Less than one year	\$ 9,000	\$ 189,584
One to five years	--	117,500
	<u>9,000</u>	<u>307,084</u>
Less: unamortized discount	<u>(346)</u>	<u>(16,156)</u>
Net contributions receivable	<u>\$ 8,654</u>	<u>\$ 290,928</u>

**CASA TERESA, INC.****Notes to Financial Statements  
(Continued)  
June 30, 2016 and 2015****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 - NOTE RECEIVABLE**

On July 1, 2015, a previously recorded contributions receivable for \$50,084 was converted to a \$50,000 note receivable due to change in donor intent. The note bears interest at a rate of 4.00% applicable to \$5,000 with the remaining principal balance of \$45,000 due on or before July 31, 2020. The outstanding balance of the note receivable at June 30, 2016 was \$49,078.

**CASA TERESA, INC.**

**Notes to Financial Statements  
(Continued)  
June 30, 2016 and 2015**

**NOTE 6 - LAND, BUILDING, IMPROVEMENTS AND EQUIPMENT**

Land, buildings and equipment are recorded at cost and consist of the following at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Land	\$ 404,892	\$ 404,892
Building and improvements	3,515,910	3,515,910
Furniture and equipment	253,249	191,745
Vehicles	90,401	90,401
Software	25,470	23,470
Construction in progress	<u>75,296</u>	<u>74,020</u>
Total land, building, improvements and equipment	4,365,218	4,300,438
Less accumulated depreciation	<u>(1,776,782)</u>	<u>(1,549,595)</u>
Net land, building improvements, and equipment	\$ <u>2,588,436</u>	\$ <u>2,750,843</u>

Total depreciation and amortization expenses for the years ended June 30, 2016 and 2015 were \$230,105 and \$228,640, respectively.

**NOTE 7 - LINE OF CREDIT AND SUBSEQUENT EVENT**

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 was unsecured, expired February 26, 2016. At June 30, 2015, there was an outstanding balance on this line of credit of \$115,000. On July 2015, Casa Teresa paid off the line of credit and closed the account with the bank.

During the year ended June 30, 2016, 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 was secured by Casa Teresa's investment funds (Note 2) was set to expire on June 30, 2020. At June 30, 2016, there was an outstanding balance on this line of \$380,000 which was subsequently paid in full and closed in November 2016.

(Note 7 continued on the following page)

**CASA TERESA, INC.****Notes to Financial Statements  
(Continued)  
June 30, 2016 and 2015****NOTE 7 - LINE OF CREDIT AND SUBSEQUENT EVENT (Continued)**

In November of 2016, Casa Teresa opened a \$200,000 line of credit with a bank to be drawn upon as needed. The line of credit matures on November 30, 2017. Interest is payable at prime rate with a minimum interest rate of 3.5%. As of June 30, 2016, the prime rate was 3.5%. Advances under the line of credit are secured by substantially all the Organization's assets.

Under the terms of the above agreement, the Organization is subject to certain financial covenants

**NOTE 8 - 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 was 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 was payable in full on December 1, 2016. Interest of 5.00% and monthly installment payments of \$5,905 was 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, 2016 and 2015 was \$850,464 and \$862,734, respectively and was subsequently paid in full in November 2016.

On November 30, 2016, Casa Teresa, Inc. entered into a loan agreement with a bank in the amount of \$1,350,000 with an interest rate of 3.5%. The loan is secured by substantially all the Organization's assets and is subject to certain financial covenants. The loan is payable in monthly interest only payments until maturity where principal and interest will be payable in full on November 30, 2019. Debt balances are reflected on the accompanying Statement of Financial Position as long-term liabilities.

**CASA TERESA, INC.**

**Notes to Financial Statements  
(Continued)  
June 30, 2016 and 2015**

**NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets at June 30, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
Capital projects	\$ --	\$ 11,208
Contributions receivable	8,654	290,928
Emergency Maternity Shelter	<u>17,500</u>	<u>--</u>
Total temporarily restricted net assets	<u>\$ 26,154</u>	<u>\$ 302,136</u>

**NOTE 10 - 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 noncancelable lease agreements. The lease agreements expire on October 2017 and December 2017 and provide monthly rent of \$278 and \$456, respectively. Lease expense for the years ended June 30, 2016 and 2015 amounted to approximately \$67,696 and \$65,548, respectively.

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

Years ending June 30:	
2017	\$ 68,808
2018	63,848
2019	60,000
2020	60,000
2021	15,000
Thereafter	<u>--</u>
	<u>\$ 267,656</u>

**CASA TERESA, INC.**

**Notes to Financial Statements  
(Continued)  
June 30, 2016 and 2015**

**NOTE 11 - 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.

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, 2015	\$	381
Designations		--
Appropriation for spending		(381)
Interest and dividends		--
Realized and unrealized gains		--
		<hr/>
Board designated quasi-endowment, June 30, 2016	\$	<hr/> <hr/>