

CASA ROMANTICA CULTURAL CENTER AND GARDENS

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

WITH INDEPENDENT AUDITOR'S REPORT

CASA ROMANTICA CULTURAL CENTER AND GARDENS
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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Casa Romantica Cultural Center and Gardens (the "Organization") (a nonprofit organization), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities and changes in net assets, cash flows, and functional expenses, for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Casa Romantica Cultural Center and Gardens as of June 30, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2014, on our consideration of Casa Romantica Cultural Center and Gardens' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Casa Romantica Cultural Center and Gardens' internal control over financial reporting and compliance.

White Nelson Dick Evans LLP

Irvine, California
December 8, 2014

CASA ROMANTICA CULTURAL CENTER AND GARDENS
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2014

ASSETS

Current Assets:	
Cash and cash equivalents	\$ 483,079
Accounts receivable	2,371
Pledges receivable	2,150
Inventory	15,119
Prepaid expenses	3,348
Total Current Assets	506,067
Property and Equipment, Net	1,440,083
Other Assets:	
Collections	412,548
Restricted Assets:	
Investments	40,811
Total Assets	\$ 2,399,509

LIABILITIES AND NET ASSETS

Current Liabilities:	
Accounts payable	\$ 31,539
Accrued personnel costs	19,437
Deferred revenues and rental deposits	10,744
Accrued interest	5,778
Other accrued liabilities	3,047
Notes payable - current portion	26,733
Total Current Liabilities	97,278
Long-Term Liabilities:	
Notes payable	108,017
Total Liabilities	205,295
Net Assets:	
Unrestricted	1,990,221
Temporarily restricted	8,060
Permanently restricted	195,933
Total Net Assets	2,194,214
Total Liabilities and Net Assets	\$ 2,399,509

The accompanying notes are an integral part of these financial statements

CASA ROMANTICA CULTURAL CENTER AND GARDENS
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and Revenue:				
Capital campaign/contributions	\$ 278,090	\$ 9,315	\$ -	\$ 287,405
Fund raising events	115,927	-	-	115,927
Membership/sponsorships	12,240	-	-	12,240
Admissions	50,991	-	-	50,991
Rental of facilities	424,442	-	-	424,442
Grants	25,000	2,000	-	27,000
Gift shop and other event sales	13,454	-	-	13,454
Investment return	460	4,833	-	5,293
Net assets released from restrictions	<u>12,391</u>	<u>(12,391)</u>	<u>-</u>	<u>-</u>
 Total Support and Revenue	 932,995	 3,757	 -	 936,752
 Total Functional Expenses	 <u>835,574</u>	 <u>303</u>	 <u>-</u>	 <u>835,877</u>
 Changes in Net Assets	 97,421	 3,454	 -	 100,875
 Net Assets at Beginning of Year	 1,936,581	 1,658	 155,100	 2,093,339
 Prior Period Adjustment	 <u>(43,781)</u>	 <u>2,948</u>	 <u>40,833</u>	 <u>-</u>
 Net Assets at End of Year	 <u>\$ 1,990,221</u>	 <u>\$ 8,060</u>	 <u>\$ 195,933</u>	 <u>\$ 2,194,214</u>

The accompanying notes are an integral part of these financial statements

CASA ROMANTICA CULTURAL CENTER AND GARDENS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2014

Cash Flows from Operating Activities:

Changes in Net Assets	\$	100,875
Non-Cash Items Included in Changes in Net Assets:		
Unrealized gain on investments		(3,411)
Allowance for uncollectible pledges		(750)
Loss on disposal of property and equipment		300
Depreciation expense		10,972
Write-off of collections		1,285
Accrued interest		1,621
Changes in:		
Accounts receivable		(2,371)
Pledges receivable		1,600
Inventory		6,819
Prepaid expenses		(3,065)
Accounts payable		25,623
Accrued personnel costs		5,064
Deferred revenues and rental deposits		(12,191)
Other accrued liabilities		(210)
		<hr/>
Net Cash Provided by Operating Activities		132,161
Cash Flows from Investing Activities:		
Reinvestment of net investment income		(1,119)
Purchases of property and equipment		(16,597)
Purchases of collections		(7,900)
		<hr/>
Net Cash Used in Investing Activities		(25,616)
Cash Flows from Financing Activities:		
Payments on notes payable		(7,926)
		<hr/>
Net Cash Used in Financing Activities		(7,926)
		<hr/>
Net Increase in Cash and Cash Equivalents		98,619
Cash and Cash Equivalents at Beginning of Year		384,460
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Cash and Cash Equivalents at End of Year	\$	<u><u>483,079</u></u>

The accompanying notes are an integral part of these financial statements

CASA ROMANTICA CULTURAL CENTER AND GARDENS
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2014

	Support Services					
	Program Services	Management and General	Fundraising and Development	Private Events	Total Support Services	Total Functional Expenses
Employee Compensation:						
Salaries and wages	\$ 105,192	\$ 142,152	\$ 15,691	\$ 60,205	\$ 218,048	\$ 323,240
Payroll taxes	11,787	13,465	1,735	4,470	19,670	31,457
Employee benefits	8,293	3,380	1,461	5,340	10,181	18,474
Total Employee Compensation	125,272	158,997	18,887	70,015	247,899	373,171
Other Expenses:						
Advertising and promotion	6,953	7,543	6,970	759	15,272	22,225
Artists and performances	37,974	-	15,597	-	15,597	53,571
Automobile expense	204	854	88	-	942	1,146
Bank charges	2,906	9,148	3,590	2,910	15,648	18,554
Computer expense	714	1,437	4,019	381	5,837	6,551
Cost of sales - gift shop	7,018	-	-	-	-	7,018
Directors' expenses	-	6,500	-	-	6,500	6,500
Dues and subscriptions	370	509	45	45	599	969
Exhibit and displays	1,888	-	6,771	-	6,771	8,659
Equipment rentals	9,420	3,404	3,010	1,005	7,419	16,839
Facility related costs	14,866	25,150	3,060	2,733	30,943	45,809
Hospitality	3,881	-	17,872	-	17,872	21,753
Insurance	3,744	1,223	1,408	11,481	14,112	17,856
Interest expense	-	1,621	-	-	1,621	1,621
Miscellaneous expenses	760	3,851	3,731	142	7,724	8,484
Outside services	3,931	1,737	14,565	13,414	29,716	33,647
Postage and delivery	736	1,120	4,832	9	5,961	6,697
Printing	4,650	4,298	6,357	938	11,593	16,243
Professional fees	-	8,640	-	-	8,640	8,640
Rent expense	40,000	20,000	20,000	20,000	60,000	100,000
Supplies	3,873	6,345	3,136	1,031	10,512	14,385
Utilities	3,058	27,834	2,082	1,593	31,509	34,567
Total Other Expenses	146,946	131,214	117,133	56,441	304,788	451,734
Total Expenses before Depreciation	272,218	290,211	136,020	126,456	552,687	824,905
Depreciation of Property and Equipment	-	10,972	-	-	10,972	10,972
Total Functional Expenses	\$ 272,218	\$ 301,183	\$ 136,020	\$ 126,456	\$ 563,659	\$ 835,877

The accompanying notes are an integral part of these financial statements

CASA ROMANTICA CULTURAL CENTER AND GARDENS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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

Nature of Operations

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

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

Basis of Presentation

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

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

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

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

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

CASA ROMANTICA CULTURAL CENTER AND GARDENS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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

Basis of Presentation (Continued)

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

Cash and Cash Equivalents

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

Accounts and Pledges Receivable

Accounts receivable consist primarily of amounts due from facility rentals and a silent auction. Pledges receivable are recorded when the promise to give becomes unconditional and there is sufficient oral or written evidence of the promise. Unconditional promises to give expected to be collected within one year are recorded at expected net realizable value. The Organization uses the allowance method to determine uncollectible receivables. The allowance is based on prior years' experience and management's analysis of specific promises made. At June 30, 2014, the Organization considers all receivables fully collectible and has determined that no allowance for doubtful accounts is deemed necessary.

Inventory

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

Property and Equipment

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

CASA ROMANTICA CULTURAL CENTER AND GARDENS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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

Property and Equipment (Continued)

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

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

Collections

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

Long-Lived Assets and Asset Impairment

The Organization accounts for impairment and disposition of long-lived assets in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") No. 360-10, "*Property, Plant, and Equipment*". FASB ASC 360-10 requires impairment losses to be recognized for long-lived assets used in operations when indicators of impairment are present and the undiscounted future cash flows are not sufficient to recover the assets' carrying amount. There was no impairment of the value of such assets for the year ended June 30, 2014.

Investments

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

CASA ROMANTICA CULTURAL CENTER AND GARDENS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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

Investments (Continued)

There is a three-tiered fair value hierarchy that maximizes the use of observable inputs and prioritizes financial assets and liabilities measured with such inputs. FASB ASC No. 820, “*Fair Value Measurements and Disclosures*”, establishes a fair value hierarchy with Levels 1, 2, and 3 that prioritize the inputs to valuation techniques used to measure fair value.

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

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

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

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

Investment Valuation and Income Recognition

The Organization’s investments are stated at fair value at June 30, 2014, and quoted market prices are used when applicable. Shares of mutual funds are valued at the net asset value of shares held by the Organization at year-end.

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

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

CASA ROMANTICA CULTURAL CENTER AND GARDENS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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

Deferred Revenue and Rental Deposits

As of June 30, 2014, deferred revenue and rental deposits consist primarily of amounts received in advance on ticket sales for a future event and facility rental deposits for special events.

Advertising and Promotion Costs

Advertising and promotion costs are charged to operations when incurred. Advertising and promotion costs charged to operations for the year ended June 30, 2014 totaled \$22,225.

Fundraising

The Organization sponsors special fundraising events that generate revenues for its programs. These events are considered ongoing and major activities as they occur annually.

Donated Services

Contributions of services are recognized if the services received create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. No consulting services meeting the above criteria were recognized for the year ended June 30, 2014. Income from donated goods and services are reported in the financial statements at their estimated values as of the time they are received. This amount does not include a value for volunteers who work in the various programs.

Compensated Absences

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

Income Taxes

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

CASA ROMANTICA CULTURAL CENTER AND GARDENS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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

Income Taxes (Continued)

FASB ASC Topic 740, "*Income Taxes*", prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and provides guidance on derecognition, classification, interest and penalties, disclosure, and transition. Management believes that no such uncertain tax position exists for the Organization at June 30, 2014. The Organization's 2011 to 2013 tax years are open to review for federal tax purposes and 2010 to 2013 tax years are open to review for state income tax purposes.

Use of Estimates

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

Note 2: Concentrations, Risks and Uncertainties

The Organization maintains cash balances at several banks. At June 30, 2014, accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. The Organization's cash balances at these institutions in excess of federally insured limits at June 30, 2014 approximated \$142,000.

Note 3: Investments

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

CASA ROMANTICA CULTURAL CENTER AND GARDENS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Note 3: Investments (Continued)

The endowment fund is held and managed by the OCCF, and their investment policy is to maximize return with a minimal amount of risk. The investment policies are designed to provide interest to fund programs and to maintain the purchasing power of the endowment assets. Under these policies, the portfolio is to be invested in a combination of common stocks, bonds, real estate, commodities, hedge funds, private equity and cash and cash equivalents. The endowment assets are invested in a manner which attempts to achieve, after fees and expenses, a reasonable rate of return consistent with the risk levels established by the Investment Committee for all permanently restricted endowment assets

The following are the changes in the endowment net assets for the year ended June 30, 2014:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets, Beginning of Year	\$ -	\$ 2,948	\$ 33,333	\$ 36,281
Investment Return:				
Investment income	-	1,422	-	1,422
Fees	-	(303)	-	(303)
Net appreciation	<u>-</u>	<u>3,411</u>	<u>-</u>	<u>3,411</u>
Net Investment Return	<u>-</u>	<u>4,530</u>	<u>-</u>	<u>4,530</u>
Endowment Net Assets, End of Year	<u>\$ -</u>	<u>\$ 7,478</u>	<u>\$ 33,333</u>	<u>\$ 40,811</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
			<u>Other</u>	
<u>Fair Value</u>	<u>Quoted Prices in</u>	<u>Observable</u>	<u>Unobservable</u>	
	<u>Active Markets</u>	<u>Inputs</u>	<u>Inputs</u>	
OCCF Investment	\$ <u>40,811</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>40,811</u>
Total	<u>\$ 40,811</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 40,811</u>

A description of the valuation methodologies used for assets measured at fair value is disclosed in Note 1 (Investment Valuation and Income Recognition). There have been no changes in the methodologies used during the year ended June 30, 2014.

CASA ROMANTICA CULTURAL CENTER AND GARDENS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Note 3: Investments (Continued)

The methods described in Note 1 (Investment Valuation and Income Recognition) may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

At June 30, 2014, assets measured at fair value on a recurring basis included alternative investments comprised of hedge funds, private equities, interests in closely-held entities, and real estate funds totaling \$40,811.

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

The following is a reconciliation of activity for the year ended June 30, 2014 for assets measured at fair value based on significant unobservable (non-market) information:

Balance, Beginning of Year	\$ 36,281
Interest Income	1,422
Unrealized Gains Included in Earnings	3,411
Purchases, Issuances, and Settlements	<u>(303)</u>
Balance, End of Year	<u>\$ 40,811</u>

Realized and unrealized gains included in earnings are reported in the statement of activities and changes in net assets as a component of investment return.

CASA ROMANTICA CULTURAL CENTER AND GARDENS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Note 4: Net Asset Value (NAV) Per Share

The following table for June 30, 2014 sets forth a summary of the Organization's investments whose fair value is estimated using NAV (or its equivalent):

	<u>Unfunded Commitment</u>	<u>Redemption Frequency</u>	<u>Other Redemption Restrictions</u>	<u>Redemption Notice Period</u>
Alternative Investments:				
Hedge Funds	None	Quarterly	None	35-65 Days
Private Equities	None	N/A	None	N/A

Hedge Funds

This class represents investments in hedge funds. Approximately 93 percent of the class is invested in two funds that can invest in U.S. and non U.S. equities, fixed income securities, currencies, commodities, or other investment strategies the manager deems appropriate under prevailing economic conditions. The majority of the assets are allocated to private investment funds or pooled investment vehicles. The balance of the class includes direct investments or investments in funds comprised primarily of U.S. equities. Management of the funds in this class is able to shift investments from value to growth strategies, from small to large capitalization stocks and from a net long position to a net short position deemed appropriate. The fair values of the investments in this class have been estimated using the net asset value per share of the investments. Sixty percent of the class is redeemable on the last business day of each calendar quarter with 65 days notice at the current net asset value. Thirty-three percent of the class is redeemable on the last business day of each calendar quarter with 95 days' notice at the current net asset value. Four percent of the value of this class is not redeemable but from time to time the fund may offer to repurchase the investment. Three percent of the value of this class is redeemable at the general partner's discretion. The OCCF receives regular distributions on the portion of the investment that is redeemable at the general partner's discretion.

Private Equities

This class includes investments in private equity funds that invest primarily in the following industry sectors: Leverage, Buyout, Venture Capital, Special Situation, Real Estate and Secondary Private Equity. Investments are made through private equity limited partnerships. The fair values of the investments in this class have been estimated using the net asset value of the OCCF's ownership interest in partners' capital. Assets are purchased and sold within the limited partnership as deemed beneficial to the partnership. Current distributions are utilized to offset capital calls, if any, and the balance is distributed to the limited partners. There are no early withdrawals. It is estimated that the underlying assets of over ninety-five percent of the funds will be liquidated over the next 3 to 7 years and the balance within the next 10 years.

**CASA ROMANTICA CULTURAL CENTER AND GARDENS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

Note 5: Property and Equipment

Property and equipment consists of the following at June 30, 2014:

Leasehold improvements	\$ 1,730,808
Furnishings	34,040
Office equipment and software	<u>27,501</u>
 Total property and equipment, at cost	 1,792,349
Less: Accumulated depreciation	<u>(352,266)</u>
 Property and Equipment, at Net Book Value	 <u>\$ 1,440,083</u>

Depreciation expense for the year ended June 30, 2014, totaled \$10,972.

Note 6: Collections

Collections consist of the following at June 30, 2014:

Mary Colby Collection	\$ 162,600
Paintings	113,900
Exhibits and displays	100,548
Pianos and chandelier	<u>35,500</u>
 Total collections	 <u>\$ 412,548</u>

The Mary Colby Collection is an antique collection consisting of antiques, silver, glass, and china dating back to the 17th Century and was appraised at \$162,600. This collection may not be sold and per donor stipulation, is a permanently restricted asset.

The paintings include works by Walter Fide who was born in 1859 in Germany and Maria Carmen Del Calvo, a Spanish artist who paints mostly landscapes, villages, and beach scenes. These paintings were appraised at \$75,000 and are recorded at fair value. The paintings also consist of works by Ray Hare, an American Artist, who paints scenes of the American Southwest and were appraised at \$36,500. Additional paintings totaled \$2,400.

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

CASA ROMANTICA CULTURAL CENTER AND GARDENS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Note 7: Notes Payable

The Organization entered into a Loan Agreement with the San Clemente Redevelopment Agency (“SCRA”) in October of 2004 for a maximum loan of \$350,000 at an annual interest rate of 1.8%. The repayments were to be made in three (3) equal payments over a period of three (3) years. The loan is unsecured and was to be repaid with pledges that have already been received by the Organization. On February 2, 2009 the Loan Agreement was amended requiring a principal and interest payment to be made once annually over a ten (10) year period in the amount of \$18,991 commencing October 6, 2009 and ending October 6, 2018. It is uncertain if these amounts are required to be repaid since the SCRA has been terminated and replaced with an "Oversight Committee". As of June 30, 2014, no request for payment had been received by the Organization, and the outstanding balance due totaled \$123,522. Subsequent to year-end, the Organization received an invoice to resume annual principal and interest payments of \$18,991, and is currently in negotiations to finalize the terms of the agreement.

In January of 2010, the Organization obtained an interest free loan from San Diego Gas and Electric for energy efficient equipment. The monthly payment is \$660 per month, matures November 2016, and has an outstanding balance of \$11,228 at June 30, 2014.

Maturities of notes payable for each of the next five years and thereafter as of June 30, 2014 are as follows:

2015	\$ 26,733
2016	20,402
2017	17,408
2018	17,721
2019	18,040
Thereafter	<u>34,446</u>
	<u>\$ 134,750</u>

The above maturities schedule reflects loan terms with the successor agency of the SCRA assuming annual payments will continue until paid in full.

Note 8: Temporarily Restricted Net Assets

Temporarily restricted net assets as of June 30, 2014 consist of the following:

Restricted cash - Casa kids program	\$ 582
Cumulative earnings on OCCF investment	<u>7,478</u>
Total Temporarily Restricted Net Assets	<u>\$ 8,060</u>

CASA ROMANTICA CULTURAL CENTER AND GARDENS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Note 9: Permanently Restricted Net Assets

Permanently restricted net assets as of June 30, 2014 consist of the following:

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

Note 10: Commitments and Contingencies

Operating Leases

The Organization currently leases the Casa Romantica Cultural Center and Gardens at no cost from the successor agency of the SCRA for a period of ten (10) years with ten (10) automatic three (3) year extensions for a total of forty (40) years. The lease term commenced in June of 2001. The fair market value of the lease of \$100,000 per year has been recorded as revenue, with an offsetting expense for its use, in the accompanying financial statements.

The Organization does not incur any liability for lease payments except that commencing on the fourth (4th) lease year and each lease year thereafter, the successor agency of the SCRA shall have the right to terminate this agreement in the event tenant's income is not equal to or greater than the minimum amount, tenant's expenditures are not equal to or greater than the minimum amount and less than fifteen thousand (15,000) visitors visit the Organization each year. The minimum amount is set at \$400,000, and is adjusted annually starting with the fifth (5th) lease year based on the Consumer Price Index.

Note 11: Prior Period Adjustment

Net assets at the beginning of the year have been restated to reflect the reclassification of the OCCF investment balance of \$36,281 at June 30, 2013, out of unrestricted net assets and into temporarily and permanently restricted net assets. In addition, a reclassification of \$7,500 of the Mary Colby Collection was reclassified from unrestricted net assets to permanently restricted net assets.

Note 12: Subsequent Events

Events occurring after June 30, 2014 have been evaluated for possible adjustment to the financial statements or disclosure as of December 8, 2014, which is the date the financial statements were available to be issued.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Casa Romantica Cultural Center and Gardens (the "Organization"), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities and changes in net assets, cash flows, and functional expenses for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 8, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weakness. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "White Nelson Dick Evans LLP".

Irvine, California
December 8, 2014