

**CASA PACIFICA CENTERS FOR
CHILDREN AND FAMILIES**

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Casa Pacifica Centers for Children and Families

Report on the Financial Statements

We have audited the accompanying financial statements of Casa Pacifica Centers for Children and Families (Casa Pacifica), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, 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 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 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Casa Pacifica as of June 30, 2018, 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.

Emphasis-of-Matter

As discussed in Note 15, Casa Pacifica's 2017 financial statements, that were audited by other auditors whose report dated November 28, 2017 expressed an unmodified opinion, have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

To the Board of Directors
Casa Pacifica Centers for Children and Families

Other Matters - Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2018 on our consideration of Casa Pacifica's 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 the Casa Pacifica's internal control over financial reporting and compliance.

Green Hasson & Janks LLP

December 5, 2018
Los Angeles, California

CASA PACIFICA CENTERS FOR CHILDREN AND FAMILIES

STATEMENT OF FINANCIAL POSITION

June 30, 2018

ASSETS	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Cash and Cash Equivalents	\$ 2,886,052	\$ 1,966,907	\$ -	\$ 4,852,959
Investments	1,350,199	51,907	13,775	1,415,881
Contracts Receivable (Net)	4,365,116	-	-	4,365,116
Pledges Receivable	-	25,526	-	25,526
Prepaid Expenses and Other Assets	462,900	-	-	462,900
Beneficial Interest in Assets Held by Others	133,443	-	-	133,443
Property and Equipment (Net)	14,288,712	-	-	14,288,712
TOTAL ASSETS	\$ 23,486,422	\$ 2,044,340	\$ 13,775	\$ 25,544,537
 LIABILITIES AND NET ASSETS				
LIABILITIES:				
Accounts Payable	\$ 2,641,678	\$ -	\$ -	\$ 2,641,678
Accrued Payroll Liabilities	1,717,095	-	-	1,717,095
Other Accrued Liabilities	1,892,927	-	-	1,892,927
Line of Credit	1,400,000	-	-	1,400,000
Note Payable	750,000	-	-	750,000
TOTAL LIABILITIES	8,401,700	-	-	8,401,700
NET ASSETS:				
Unrestricted - Undesignated	14,230,465	-	-	14,230,465
Unrestricted - Board Designated	854,257	-	-	854,257
Temporarily Restricted	-	2,044,340	-	2,044,340
Permanently Restricted	-	-	13,775	13,775
TOTAL NET ASSETS	15,084,722	2,044,340	13,775	17,142,837
TOTAL LIABILITIES AND NET ASSETS	\$ 23,486,422	\$ 2,044,340	\$ 13,775	\$ 25,544,537

The Accompanying Notes are an Integral Part of These Financial Statements

CASA PACIFICA CENTERS FOR CHILDREN AND FAMILIES

STATEMENT OF ACTIVITIES

Year Ended June 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
PROGRAM SERVICE REVENUE:				
Government Grants and Contracts	\$ 22,239,887	\$ -	\$ -	\$ 22,239,887
Non-Government Service Contracts	4,093,891	-	-	4,093,891
TOTAL PROGRAM SERVICE REVENUE	26,333,778	-	-	26,333,778
PUBLIC SUPPORT:				
Grants and Contributions	258,686	2,206,047	-	2,464,733
Special Events (Net of Costs of Direct Donor Benefits of \$1,314,334)	751,164	-	-	751,164
In-Kind Contributions	486,103	-	-	486,103
TOTAL PUBLIC SUPPORT	1,495,953	2,206,047	-	3,702,000
TOTAL PROGRAM SERVICE REVENUE AND PUBLIC SUPPORT	27,829,731	2,206,047	-	30,035,778
OPERATING EXPENSES:				
Program Services	24,551,517	-	-	24,551,517
Management and General	4,140,777	-	-	4,140,777
Fundraising	976,125	-	-	976,125
TOTAL OPERATING EXPENSES	29,668,419	-	-	29,668,419
Net Assets Released from Purpose Restrictions	9,063,078	(9,063,078)	-	-
CHANGE IN NET ASSETS FROM OPERATIONS	7,224,390	(6,857,031)	-	367,359
Investment Income (Net)	120,968	(47)	-	120,921
Other Income	9,291	-	-	9,291
CHANGE IN NET ASSETS	7,354,649	(6,857,078)	-	497,571
Net Assets - Beginning of Year, as Restated	7,730,073	8,901,418	13,775	16,645,266
NET ASSETS - END OF YEAR	\$ 15,084,722	\$ 2,044,340	\$ 13,775	\$ 17,142,837

The Accompanying Notes are an Integral Part of These Financial Statements

CASA PACIFICA CENTERS FOR CHILDREN AND FAMILIES

STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2018

	Program Services	Supporting Services			Total Expenses
		Management and General	Fundraising	Total	
Salaries and Wages	\$ 14,941,429	\$ 2,219,879	\$ 527,270	\$ 2,747,149	\$ 17,688,578
Payroll Taxes	1,091,557	146,883	38,598	185,481	1,277,038
Employee Benefits	2,665,993	428,369	63,563	491,932	3,157,925
TOTAL PERSONNEL COSTS	18,698,979	2,795,131	629,431	3,424,562	22,123,541
Facilities Rental	648,542	77,737	-	77,737	726,279
Computer Expenses	533,821	128,018	44,086	172,104	705,925
Professional Fees	542,313	54,678	2,640	57,318	599,631
Outside Services	383,612	153,300	62,348	215,648	599,260
Food Costs	518,894	5,989	-	5,989	524,883
In-Kind Goods and Services	384,895	41,708	44,693	86,401	471,296
Auto Expense	397,786	4,875	418	5,293	403,079
Repairs and Maintenance	165,213	198,704	20,454	219,158	384,371
Advertising and Recruiting	196,836	117,766	62,158	179,924	376,760
Insurance	307,070	14,914	24,001	38,915	345,985
Depreciation	282,695	41,608	4,985	46,593	329,288
Child Related Costs	303,986	706	2,849	3,555	307,541
Conferences and Meetings	220,829	53,021	8,208	61,229	282,058
Supplies	209,285	33,509	2	33,511	242,796
Utilities	222,514	11,858	192	12,050	234,564
Telephone	190,421	21,682	2,383	24,065	214,486
Equipment Maintenance and Rental Costs	99,086	29,996	-	29,996	129,082
Office Expenses	51,585	65,294	6,569	71,863	123,448
Transportation and Travel	105,001	5,810	2,405	8,215	113,216
Provision for Uncollectible Contracts Receivable	-	108,000	-	108,000	108,000
Taxes and Licenses	66,594	28,892	8,437	37,329	103,923
Interest	-	86,293	15,000	101,293	101,293
Dues and Subscriptions	7,635	44,125	5,190	49,315	56,950
Printing	10,700	3,165	19,582	22,747	33,447
Postage	3,186	10,060	3,044	13,104	16,290
Education and Training	-	2,441	4,500	6,941	6,941
Board Expenses	39	1,497	2,550	4,047	4,086
TOTAL FUNCTIONAL EXPENSES	\$ 24,551,517	\$ 4,140,777	\$ 976,125	\$ 5,116,902	\$ 29,668,419
	83%	14%	3%		100%

The Accompanying Notes are an Integral Part of These Financial Statements

CASA PACIFICA CENTERS FOR CHILDREN AND FAMILIES

STATEMENT OF CASH FLOWS

Year Ended June 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in Net Assets	\$ 497,571
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:	
Depreciation	329,288
Provision for Uncollectible Accounts Receivable	108,000
Net Unrealized and Realized Gains	(58,726)
Donated Stock	(265,873)
Proceeds from Sale of Donated Stock	263,807
Contributions Restricted for Capital Campaign	(1,211,190)
Increase in:	
Contracts Receivable	(205,597)
Prepaid Expenses and Other Assets	(10,241)
Increase (Decrease) in:	
Accounts Payable	1,686,860
Accrued Payroll Liabilities	(30,780)
Other Accrued Liabilities	(37,922)

NET CASH PROVIDED BY OPERATING ACTIVITIES 1,065,197

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchases of Property and Equipment	(7,876,112)
Reinvested Interest and Dividends	(62,195)
Proceeds from Sales of Investments	240,908

NET CASH USED IN INVESTING ACTIVITIES (7,697,399)

CASH FLOWS FROM FINANCING ACTIVITIES:

Proceeds from Line of Credit (Net)	400,000
Proceeds from Contributions Restricted for Capital Campaign	1,635,924

NET CASH PROVIDED BY FINANCING ACTIVITIES 2,035,924

NET DECREASE IN CASH AND CASH EQUIVALENTS (4,596,278)

Cash and Cash Equivalents - Beginning of Year 9,449,237

CASH AND CASH EQUIVALENTS - END OF YEAR \$ 4,852,959

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash Paid during the Year for Interest \$ 101,293

The Accompanying Notes are an Integral Part of These Financial Statements

CASA PACIFICA CENTERS FOR CHILDREN AND FAMILIES

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 1 - ORGANIZATION

Casa Pacifica Centers for Children and Families (Casa Pacifica) was conceived as a state of the art residential trauma care and treatment center designed to provide comprehensive assessment, treatment, medical, and education services in the context of 24-hour care to meet the needs of Ventura County's most vulnerable children. The public/private collaboration that resulted opened in 1994 and remains unique in the State.

In 2000, Casa Pacifica extended its services off-campus and into the Ventura County community through an intensive, behavioral service intended to be an ancillary, last effort intervention delivered in their homes for children in jeopardy of being removed. In 2003, at the request of Santa Barbara County, Casa Pacifica began providing this same Therapeutic Behavioral Service (TBS) to that community as well. Over the last 18 years Casa Pacifica's programs and services have continued to grow to respond to the increasing needs of the community including services to foster youth "aging out" of child welfare. Most recently, in response to changing public policy initiatives and local needs, Casa Pacifica converted half its shelter beds to brief residential treatment for youth from the private sector through contracts with commercial insurance companies such as Kaiser. In addition, in keeping with a "once in a generation" foster care reform effort effective January 2017, Casa Pacifica obtained a new license called Short-Term Residential Therapeutic Program (STRTP) to continue to provide more intensive residential services to foster care youth with complex trauma and significant behavioral and emotional challenges.

Regardless of program - campus or community - or funding source - public or private - Casa Pacifica meets children and families at the most challenging times and places of their lives and works with them to prevent unnecessary hospitalizations and out-of-home placements, and helps families overcome the barriers to staying together as a family.

Today, with a staff approaching 400 and services provided to thousands of children and youth annually, Casa Pacifica is among the 10 largest nonprofits on California's Central Coast providing residential services, intensive mental health services, and a special education nonpublic school on campus, as well as a wide range of community based services all directed at helping children and youth have the best chance at a successful life. In addition, Casa Pacifica provides highly regarded professional training to staff and local care providers and to professionals throughout California and the nation.

Casa Pacifica is licensed and certified by California's Departments of Social Services, Education, and Health Care Services and its programs and services are accredited by the National Council on Accreditation (COA); the nonpublic special education school carries certification of the Western Association of Schools and Colleges (WASC) and is accredited by the National Council of Accreditation for Special Education Services (NCASES); the mobile crisis team in Santa Barbara County is accredited by the American Association of Suicidology (AAS); and the pre-doctoral internship and post-doctoral fellowship programs are accredited by the American Psychological Association. Casa Pacifica's leadership is active in national, state, interagency and community organizations, collaboratives, task forces and work groups.

Casa Pacifica receives funding from county and state agencies with portions of its funding originating from the Federal government as well as from commercial insurance companies and private payers. Casa Pacifica's pastoral 25 acre campus - five miles from the Pacific Ocean - sits on land leased from Ventura County and upon which operating facilities have been constructed including new buildings funded through a successful and just completed \$16.6 million capital campaign. The lease extends until 2053. Casa Pacifica also receives significant charitable support from the private sector.

CASA PACIFICA CENTERS FOR CHILDREN AND FAMILIES

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) BASIS OF PRESENTATION

The accompanying financial statements have been prepared on the accrual basis of accounting.

(b) ACCOUNTING

To ensure observance of certain constraints and restrictions placed on the use of resources, the accounts of Casa Pacifica are maintained in accordance with the principles of net assets accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into net asset classes that are in accordance with specified activities or objectives. Accordingly, all financial transactions have been recorded and reported by net asset class as follows:

- **Unrestricted - Undesignated.** These generally result from revenues generated by receiving unrestricted contributions, providing services, and receiving income from investments less expenses incurred in providing program related services, raising contributions, and performing administrative functions.
- **Unrestricted - Board Designated.** The Board has designated certain unrestricted net assets for various purposes. Such funds include a board designated endowment fund of \$133,443 and a reserve fund to be used for capital and other projects. At June 30, 2018, unrestricted Board-designated net assets were \$854,257.
- **Temporarily Restricted.** Casa Pacifica reports gifts of cash and other assets as temporarily restricted support 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 the purpose of the 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 purpose or time restrictions. At June 30, 2018, Casa Pacifica has \$2,044,340 of temporarily restricted net assets.
- **Permanently Restricted.** These net assets are received from donors who stipulate that resources are to be maintained permanently, but permit Casa Pacifica to expend all of the income (or other economic benefits) derived from the donated assets. At June 30, 2018, Casa Pacifica has \$13,775 of permanently restricted net assets.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets.

(c) CASH AND CASH EQUIVALENTS

Casa Pacifica has defined cash and cash equivalents as cash in banks and short-term, interest bearing, highly liquid investments with an original maturity of three months or less at the time of purchase. The carrying value of cash and cash equivalents at June 30, 2018 approximates its fair value.

CASA PACIFICA CENTERS FOR CHILDREN AND FAMILIES

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) INVESTMENTS

Investments in marketable securities with readily redeemable fair values and all investments in debt securities are recorded at fair value. Investment in real estate property is recorded at the original appraised value which approximates fair value. Interest and dividend income and gains and losses on investments are reported in the statement of activities as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by donor stipulations or by law.

(e) CONTRACTS RECEIVABLE AND RELATED REVENUES

Contracts receivable are recorded when billed or accrued and represent claims against third parties that will be settled in cash. The carrying value of receivables, net of the allowance for doubtful accounts, represents their estimated net realizable value. The allowance for doubtful accounts is estimated based on historical collection trends, type of customer, the age of outstanding receivables and existing economic conditions. If events or changes in circumstances indicate that specific receivable balances may be impaired, further consideration is given to the collectability of those balances and the allowance is adjusted accordingly. Past due receivable balances are written off when internal collection efforts have been unsuccessful in collecting the amount due. At June 30, 2018, Casa Pacifica has established an allowance for doubtful accounts in the amount of \$237,940, based on an evaluation of collectability.

Revenues from government contracts are recognized when the qualifying costs are incurred for cost-reimbursement grants or contracts or when a unit of service is provided for performance grants. A significant portion of Casa Pacifica's income is derived from programs, passed through from several California County Departments of Mental Health (DMH) and involves local, state and federal government funds. Contract service payments are generally provided monthly, but are subject to approval, audit and retroactive adjustment by the various funding agencies. Final settlements with the various funding agencies are taking from six to eight years, with initial findings in many cases not available for one to two years after funding. As a result, at June 30, 2018, Casa Pacifica has established a reserve in the amount of \$1,063,388 for possible uncollected or disallowed DMH revenues for all fiscal years for which final settlements have not been reached.

(f) CONTRIBUTIONS AND PLEDGES RECEIVABLE

Unconditional contributions, including pledges recorded at estimated fair value, are recognized as revenues when the pledge is received. Casa Pacifica reports unconditional contributions as restricted support if they are received with donor stipulations that limit the use of the donated assets. At June 30, 2018, Casa Pacifica evaluated the collectability of pledges receivable and determined that an allowance for doubtful pledges was not necessary. Pledges receivable at June 30, 2018 of \$25,526 and are expected to be collected in their entirety within one year.

CASA PACIFICA CENTERS FOR CHILDREN AND FAMILIES

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) CONTRIBUTIONS AND PLEDGES RECEIVABLE (continued)

Conditional promises and intentions to give are not included as support until such time as the conditions are substantially met. Intentions to give are not included as support until payments are made or enforceable promises to give are executed.

(g) CONCENTRATIONS

Casa Pacifica places its temporary cash investments with high-credit, quality financial institutions. At times, these may exceed federally insured limits. Casa Pacifica has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on these accounts.

The contracts receivable balance outstanding at June 30, 2018 consists primarily of government contract receivables due from county, state, and federal granting agencies as well as from third-party insurance payers and are generally unsecured. Management evaluates collectability of these balances and establishes an allowance for uncollectible amounts based on this evaluation.

Approximately 70% of Casa Pacifica's program service revenue and public support is provided by various government agencies. Casa Pacifica anticipates that it will continue to run these programs although there can be no assurance that Casa Pacifica will be able to obtain future grant agreements upon the expiration of the current term of the contracts.

Investment securities, in general, are exposed to various risks such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the value of investment securities will occur in the near term and that such change could materially affect the amounts reported in the statement of financial position.

(h) BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS

Casa Pacifica has the unconditional right to receive all of the cash flows from its beneficial interest in certain assets held by Ventura County Community Foundation. Casa Pacifica records its beneficial interest at fair value using the fair value of the underlying funds. The change in value of the beneficial interest is included in the investment income in the statement of activities.

CASA PACIFICA CENTERS FOR CHILDREN AND FAMILIES

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) PROPERTY AND EQUIPMENT

Property and equipment are reported at cost, if purchased or at fair value at the date of donation, if donated. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets. Maintenance and repair costs are charged to expense as incurred. Property and equipment are capitalized if the cost of an asset is greater than or equal to \$5,000 and the useful life is greater than one year. The estimated useful lives are as follows:

Buildings and Improvements	40 Years
Equipment and Furnishings	3-7 Years
Leasehold improvements	20 Years, or remaining lease term, if shorter
Vehicles	5 Years

(j) LONG-LIVED ASSETS

Casa Pacifica reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the book value of the assets may not be recoverable. An impairment loss is recognized when the sum of the undiscounted future cash flows is less than the carrying amount of the asset, in which case a write-down is recorded to reduce the related asset to its estimated fair value. No impairment losses were recognized on long-lived assets during the year ended June 30, 2018.

(k) INCOME TAXES

Casa Pacifica is exempt from taxation under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d.

(l) CONTRIBUTED GOODS AND SERVICES

Contributions of donated non-cash assets are recorded at fair value in the period received. Contributions of donated services are recognized if the services received (a) create or enhance long-lived assets, or (b) require specialized skills, were provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. In-kind contributions of \$486,103 were received during the year ended June 30, 2018 which satisfied the criteria for recognition. Additionally, Casa Pacifica received \$853,177 of contributed goods and services for its fundraising special events, and this amount is included in the special events revenue and expense in the statement of activities (see Note 14).

A substantial number of volunteers have donated significant amounts of their time to Casa Pacifica. Some of the services that these individuals rendered, however, do not meet the above criteria and, as such, are not recognized as revenue.

CASA PACIFICA CENTERS FOR CHILDREN AND FAMILIES

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) FUNCTIONAL ALLOCATION OF EXPENSES

The cost of providing Casa Pacifica's programs and other activities is summarized on a functional basis in the statement of functional expenses. Expenses that can be identified with a specific program or support service are charged directly to that program or support service. Indirect or shared costs are allocated among program and support services by a method that best measures the relative degree of benefit.

General and administrative expenses include those costs that are not directly identifiable with any specific program, but which provide for the overall support and direction of Casa Pacifica. Fundraising costs are expensed as incurred, even though they may result in contributions received in future years.

(n) USE OF ESTIMATES

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period and the reported amounts of assets and liabilities at the date of the financial statements. On an ongoing basis, Casa Pacifica's management evaluates the estimates and assumptions based upon historical experience and various other factors and circumstances. Casa Pacifica's management believes that the estimates and assumptions are reasonable in the circumstances; however, the actual results could differ from those estimates.

(o) NEW ACCOUNTING PRONOUNCEMENTS

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, which improves and converges the revenue recognition requirements of accounting principles generally accepted in the United States of America and International Financial Reporting Standards. The ASU replaces the existing accounting standards for revenue recognition with a single comprehensive five-step model, which is intended to provide principles within a single framework for revenue recognition of transactions involving contracts with customers across all industries. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance also requires more detailed disclosures to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The guidance has subsequently been amended through a series of ASUs between August 2015 and September 2017 to improve the operability and understandability of the implementation guidance on scope exceptions, and various other narrow aspects, as identified and addressed in such updates. For Casa Pacifica, the ASU and subsequent amendments will be effective for the year ending June 30, 2020.

CASA PACIFICA CENTERS FOR CHILDREN AND FAMILIES

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) NEW ACCOUNTING PRONOUNCEMENTS (continued)

In February 2016, FASB issued ASU No. 2016-02, *Leases*, which is intended to improve financial reporting about leasing transactions. The new standard will require organizations that lease assets with terms of more than 12 months to recognize on the statement of financial position the assets and liabilities for the rights and obligations created by those leases. The ASU also will require disclosures to help financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements and providing additional information about the amounts recorded in the financial statements. For Casa Pacifica, the ASU will be effective for the year ending June 30, 2021.

In August 2016, FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*, which is intended to reduce complexity in financial reporting. The ASU focuses on improving the current net asset classification requirements and information presented in financial statements that is useful in assessing a nonprofit's liquidity, financial performance, and cash flows. For Casa Pacifica, the ASU will be effective for the year ending June 30, 2019.

In June 2018, FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which is intended to clarify the accounting guidance for contributions received and contributions made. The amendments in this ASU should assist entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance. For Casa Pacifica, the ASU will be effective for the year ending June 30, 2020.

(p) SUBSEQUENT EVENTS

Casa Pacifica has evaluated events and transactions occurring subsequent to the statement of financial position date of June 30, 2018 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through December 5, 2018, the date these financial statements were available to be issued. No such material events or transactions were noted to have occurred except as described in Note 8.

NOTE 3 - INVESTMENTS

Investments at June 30, 2018 consist of the following:

Cash Equivalents	\$	292,634
Equity Mutual Funds and Exchange Traded Funds		971,295
Fixed Income Mutual Funds		141,452
Real Estate Property		10,500
TOTAL INVESTMENTS	\$	1,415,881

CASA PACIFICA CENTERS FOR CHILDREN AND FAMILIES

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 3 - INVESTMENTS (continued)

Net investment income for the year ended June 30, 2018 consists of the following:

Interest and Dividends	\$	76,529
Realized and Unrealized Gains		58,726
Less: Investment Expenses		<u>(14,334)</u>
<i>INVESTMENT INCOME (NET)</i>	\$	<u>120,921</u>

NOTE 4 - FAIR VALUE MEASUREMENTS

Casa Pacifica has implemented the fair value accounting standard for those assets (and liabilities) that are re-measured and reported at fair value at each reporting period. This standard establishes a single authoritative definition of fair value, sets out a framework for measuring fair value based on inputs used, and requires additional disclosures about fair value measurements. The standard applies to fair value measurements already required or permitted by existing standards.

In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets (or liabilities). Fair values determined by Level 2 inputs utilize data points that are observable such as quoted prices, interest rates and yield curves. Fair values determined by Level 3 inputs are unobservable data points for the asset (or liability) and include situations where there is little, if any, market activity for the asset (or liability).

The following table presents information about Casa Pacifica's assets that are measured at fair value on a recurring basis at June 30, 2018 and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value:

	Year Ended June 30, 2018	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash Equivalents	\$ 292,634	\$ 292,634	\$ -	\$ -
Equity Mutual Funds and Exchange Traded Funds	971,295	971,295	-	-
Fixed Income Mutual Funds	141,452	141,452	-	-
Real Estate Property	10,500	-	-	10,500
Beneficial Interest in Assets Held by Others	133,443	-	-	133,443
<i>TOTAL</i>	\$ 1,549,324	\$ 1,405,381	\$ -	\$ 143,943

The fair values of investments within Level 1 inputs were obtained based on quoted market prices at the closing of the last business day of the fiscal year. The fair value of the real estate property presented within Level 3 is based on its appraised value. The fair value of the beneficial interest in assets held by others presented within Level 3 is based on the fair value of the underlying assets held at the Ventura County Community Foundation as reported by Ventura County Community Foundation.

CASA PACIFICA CENTERS FOR CHILDREN AND FAMILIES

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 4 - FAIR VALUE MEASUREMENTS (continued)

Transfers between Level 1 and 2 generally relate to whether a market becomes active or inactive. Transfers between Level 2 and 3 relate to whether significant relevant observable inputs are available for the fair value measurement in their entirety and when redemption rules become more or less restrictive. There were no transfers between levels for the year ended June 30, 2018.

There were no changes in the balance of the real estate property presented within Level 3 during the year ended June 30, 2018. The balance of the beneficial interest in assets held by others presented within Level 3 appreciated by \$7,799 during the year ended June 30, 2018.

NOTE 5 - BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS

Casa Pacifica entered into an agreement with Ventura County Community Foundation, whereby Casa Pacifica established a board-designated endowment fund to be held by the Foundation. The funds held can be used for various purposes as determined by the Board and the annual distributions are limited to 5% of the average balance of funds held over the prior twelve quarters calculated on an annual basis. Changes in the fair value of the beneficial interest in assets held by others were as follows during the year ended June 20, 2018:

Balance, June 30, 2017	\$	125,644
Net Appreciation		7,799
<i>BALANCE, JUNE 30, 2018</i>	<i>\$</i>	<i>133,443</i>

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2018, consist of the following:

Buildings and Improvements	\$	11,583,509
Construction in Progress		9,941,927
Equipment and Furnishings		2,963,578
Leasehold Improvements		200,667
Vehicles		352,563
<i>TOTAL</i>		<i>25,042,244</i>
Less: Accumulated Depreciation		<i>(10,753,532)</i>
<i>PROPERTY AND EQUIPMENT (NET)</i>	<i>\$</i>	<i>14,288,712</i>

Total depreciation expense for the year ended June 30, 2018 was \$329,288. Estimated costs to complete the construction in progress are \$5,000,000.

CASA PACIFICA CENTERS FOR CHILDREN AND FAMILIES

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 7 - OTHER ACCRUED LIABILITIES

Other accrued liabilities consisted of the following at June 30, 2018:

DMH Settlement Reserves	\$ 1,063,388
Deferred Compensation Plan Liability	
[See Note 9(b)]	617,598
Deferred Rent Liability	139,098
Accrued Unemployment Liability	51,483
Contract and Other Advances	21,360
	<hr/>
TOTAL ACCRUED LIABILITIES	\$ 1,892,927

NOTE 8 - LINE OF CREDIT

Casa Pacifica has a renewable revolving line of credit agreement with a financial institution in the amount of \$2,200,000. The line of credit matured on November 5, 2018 and was subsequently renewed through February 5, 2019. The line of credit bears a variable interest rate at the U.S. prime rate less 0.5% and the U.S. prime rate was 5.0% at June 30, 2018. The balance outstanding on the line of credit was \$1,400,000 at June 30, 2018. The line is secured by the funds held by Casa Pacifica in its deposit and savings accounts at the financial institution. The line of credit agreement contains certain covenants, which Casa Pacifica was in compliance with at June 30, 2018.

NOTE 9 - NOTE PAYABLE

Casa Pacifica has an unsecured \$750,000 note payable to the Conrad N. Hilton Foundation. The note bears a fixed 2.0% interest rate and matures in November 2021. The note calls for monthly interest-only payments with the principal and any remaining interest due in November 2021. At June 30, 2018, the balance on the note payable was \$750,000.

NOTE 10 - EMPLOYEE BENEFIT PLANS

(a) DEFINED CONTRIBUTION PLAN

Casa Pacifica has a defined contribution plan covering all eligible employees who have completed three months of service and are age twenty-one or older. Casa Pacifica makes matching contributions equal to 100% up to the 5% of the employee's deferred compensation. Casa Pacifica made contributions to the retirement plan of \$399,597 during the year ended June 30, 2018.

(b) DEFERRED COMPENSATION PLAN

Casa Pacifica's Board of Directors entered into an agreement to sponsor an Internal Revenue Code Section 457(b) deferred compensation plan that covers a select group of management employees. The deferred compensation plan liability included in other accrued liabilities on the statement of financial position totaled \$617,598 at June 30, 2018, with the related assets included in investments.

CASA PACIFICA CENTERS FOR CHILDREN AND FAMILIES

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 11 - COMMITMENTS AND CONTINGENCIES

(a) LEGAL PROCEEDINGS

In the ordinary course of conducting its business, Casa Pacifica becomes involved in various lawsuits. Some of these proceedings may result in judgments being assessed against Casa Pacifica which, from time to time, may have an impact on changes in net assets. Casa Pacifica believes that these proceedings, individually or in the aggregate, would not have a material effect on the accompanying financial statements.

(b) CONTRACTS

Casa Pacifica's grants and contracts are subject to inspection and audit by the appropriate governmental funding agencies. The purpose is to determine whether program funds were used in accordance with their respective guidelines and regulations. The potential exists for disallowance of previously funded program costs. The ultimate liability, if any, which may result from these governmental audits cannot be reasonably estimated. However, due to the complexity and timing of the DMH contract settlement process, Casa Pacifica has set aside a reserve of \$1,063,388 for its DMH contracts [see Note 2(d) and Note 7]. The reserve is related to DMH contract years which have not yet been settled by the State of California and its counties. Upon settlement by the State of California and the counties, Casa Pacifica records known prior-year settlements (disallowances, additional funding, contract adjustments, and related year reserves write offs) as contract settlement adjustments.

(c) OBLIGATIONS UNDER OPERATING LEASES

Casa Pacifica leases facilities, vehicles, and equipment under operating leases with various terms. Future minimum payments, by year and in the aggregate, under these leases with initial or remaining terms of one year or more consist of the following:

Years Ending June 30

2019	\$	767,682
2020		611,444
2021		504,025
2022		299,157
2023		150
Thereafter		<u>4,500</u>
TOTAL	\$	<u>2,186,958</u>

Rent for facilities, vehicles, and equipment rental expense under operating leases for the year ended June 30, 2018, were \$726,279, \$84,959, and \$37,072, respectively.

CASA PACIFICA CENTERS FOR CHILDREN AND FAMILIES

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 12 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2018 are restricted as follows:

Capital Campaign	\$ 1,934,414
Educational Assistance	49,895
Program Services	52,571
Time Restricted	<u>7,460</u>
<i>TOTAL TEMPORARILY RESTRICTED NET ASSETS</i>	<u>\$ 2,044,340</u>

NOTE 13 - ENDOWMENTS

Casa Pacifica's endowments consist of donor-restricted and board-designated funds established for a variety of purposes. Endowment funds established by donor-restricted gifts either provide a permanent endowment, which is to provide a permanent source of income to Casa Pacifica, or a term endowment, which is to provide income for a specified period to Casa Pacifica.

Casa Pacifica's management understands California State law as (1) requiring the preservation of the fair value of the original gifts as of the gift date of the donor restricted endowment funds, absent donor stipulations to the contrary and (2) allowing the spending of income and gains on permanently restricted endowments, absent explicit donor stipulations that all or a portion of such gains be maintained in perpetuity.

The primary long-term financial objective for Casa Pacifica's endowments is to preserve the real (inflation-adjusted) purchasing power of endowment assets and income after accounting for endowment spending, inflation and costs of portfolio management. Casa Pacifica's investment policy provides for funds to be allocated in a manner that offers the potential for an attractive rate of return, while minimizing volatility. Casa Pacifica's Board of Directors has approved a spending policy whereby funds available for distributions are determined based on 5% of the endowment funds' total market value on June 30 of the previous fiscal year. This policy allows for a greater predictability of spendable income for budgeting purposes and for gradual steady growth for the support of operations by the endowments. In addition, this policy minimizes the probability of invading the principal over the long term.

CASA PACIFICA CENTERS FOR CHILDREN AND FAMILIES

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 13 - ENDOWMENTS (continued)

Endowment Net Asset Composition by Type of Fund at June 30, 2018	Board Designated	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted	\$ -	\$ 51,907	\$ 13,775	\$ 65,682
Board-Designated	133,443	-	-	133,443
	<u>\$ 133,443</u>	<u>\$ 51,907</u>	<u>\$ 13,775</u>	<u>\$ 199,125</u>
Changes in Endowment Net Assets for the Year Ended June 30, 2018				
Endowment Net Assets - Beginning of Year	\$ 125,644	\$ 51,954	\$ 13,775	\$ 191,373
Contributions	-	-	-	-
Investment Income	7,799	(47)	-	7,752
Appropriated for Expenditure	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
ENDOWMENT NET ASSETS - END OF YEAR	<u>\$ 133,443</u>	<u>\$ 51,907</u>	<u>\$ 13,775</u>	<u>\$ 199,125</u>

NOTE 14 - SPECIAL EVENTS

Casa Pacifica conducts various special fundraising events during the year. The revenue and expenses from these activities for the year ended June 30, 2018 were as follows:

Ticket Sales and Sponsorships	\$ 1,212,321
Contributed Goods and Services	<u>853,177</u>
TOTAL SPECIAL EVENTS REVENUES	2,065,498
Costs of Direct Benefits to Donors	<u>(1,314,334)</u>
NET SPECIAL EVENTS REVENUES	<u>\$ 751,164</u>

NOTE 15 - PRIOR YEAR RESTATEMENT

During the year ended June 30, 2018, it was determined that the balance of pledges receivable and temporarily restricted net assets at June 30, 2017 was understated by \$450,260 due to certain promises to give that were not recorded at the time when they were received. During the year ended June 30, 2018, management corrected this error. This adjustment increased beginning temporarily restricted net assets by \$450,260, from \$8,451,158, as previously reported, to \$8,901,418, as restated.