

VILLA ESPERANZA SERVICES

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INDEPENDENT AUDITOR'S REPORT

To the Governing Board
Villa Esperanza Services
Pasadena, California

We have audited the accompanying financial statements of Villa Esperanza Services, which comprise the statement of financial position as of June 30, 2015 and 2014, and the related statements of activities, functional expenses and cash flows for the years 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 assessing 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 Villa Esperanza Services as of June 30, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

January 25, 2016
Pasadena, California

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VILLA ESPERANZA SERVICES
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2015
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2014)

ASSETS		June 30,	
	2015	2014	
CURRENT ASSETS			
Cash	\$ 4,324,973	\$ 2,294,588	
Cash held in trust - client accounts	25,295	22,771	
Accounts receivable - net	1,600,875	1,695,205	
Pledges receivable, current portion - net	619,048	824,596	
Grants receivable	28,000	60,500	
Related party receivables, current portion - net of payables	339,361	351,677	
Prepaid expenses	117,312	83,591	
Total current assets	<u>7,054,864</u>	<u>5,332,928</u>	
PROPERTY AND EQUIPMENT - NET	<u>4,187,634</u>	<u>3,503,373</u>	
OTHER ASSETS			
Endowment cash	105,931	121,130	
Investments - endowment	1,420,733	1,586,786	
Loan fees - net	28,231	33,595	
Deposits	8,478	8,478	
Pledges receivable, long-term portion - net	1,247,727	1,788,406	
Other receivable - endowment	-	48,979	
Beneficial interest in split-interest agreement	1,832,548	1,840,946	
Related party receivables, long-term portion - net of payables	447,744	457,843	
Total other assets	<u>5,091,392</u>	<u>5,886,163</u>	
TOTAL ASSETS	<u>\$ 16,333,890</u>	<u>\$ 14,722,464</u>	
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable and accrued expenses	\$ 456,298	\$ 285,413	
Client trust liability	25,295	22,771	
Due to regional center	14,092	150,214	
Accrued payroll and vacation	589,615	578,024	
Notes payable, current portion	71,808	70,237	
Total current liabilities	<u>1,157,108</u>	<u>1,106,659</u>	
LONG-TERM LIABILITIES			
Notes payable, less current portion	<u>2,273,802</u>	<u>2,345,610</u>	
TOTAL LIABILITIES	<u>3,430,910</u>	<u>3,452,269</u>	
NET ASSETS			
Unrestricted	4,856,686	4,525,930	
Temporarily restricted	7,024,034	5,722,005	
Permanently restricted	<u>1,022,260</u>	<u>1,022,260</u>	
TOTAL NET ASSETS	<u>12,902,980</u>	<u>11,270,195</u>	
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 16,333,890</u>	<u>\$ 14,722,464</u>	

The accompanying notes are an integral part of this statement.



VILLA ESPERANZA SERVICES
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2014)

	Years ended June 30,				2014
	2015			Total	
	Unrestricted	Temporarily restricted	Permanently restricted		
SUPPORT AND REVENUE					Total
Program fees	\$ 10,558,609	\$ -	\$ -	\$ 10,558,609	\$ 10,110,326
Contributions	558,180	273,338	-	831,518	786,853
Contributions - capital campaign	-	1,487,167	-	1,487,167	2,038,567
Net investment income	1,537	19,795	-	21,332	251,057
Change in value of split-interest agreement	-	(8,398)	-	(8,398)	160,801
Gain/(loss) on disposition of assets	(24,495)	-	-	(24,495)	325
Other income	21,326	-	-	21,326	13,951
Bad debts	(34,065)	-	-	(34,065)	4,062
Net assets released from restriction	531,195	(531,195)	-	-	-
	<u>11,612,287</u>	<u>1,240,707</u>	<u>-</u>	<u>12,852,994</u>	<u>13,365,942</u>
Special events revenue	317,409	61,322	-	378,731	340,529
Special events expenses	(103,207)	-	-	(103,207)	(78,916)
Net revenue from special events	<u>214,202</u>	<u>61,322</u>	<u>-</u>	<u>275,524</u>	<u>261,613</u>
Total support and revenue	<u>11,826,489</u>	<u>1,302,029</u>	<u>-</u>	<u>13,128,518</u>	<u>13,627,555</u>
EXPENSES					
Program services	<u>9,169,987</u>	<u>-</u>	<u>-</u>	<u>9,169,987</u>	<u>9,242,347</u>
Supporting services					
Management and general	1,633,767	-	-	1,633,767	1,599,721
Fundraising	510,385	-	-	510,385	519,432
Total supporting services	<u>2,144,152</u>	<u>-</u>	<u>-</u>	<u>2,144,152</u>	<u>2,119,153</u>
Total expenses before depreciation and amortization	<u>11,314,139</u>	<u>-</u>	<u>-</u>	<u>11,314,139</u>	<u>11,361,500</u>
Change in net assets before depreciation and amortization	512,350	1,302,029	-	1,814,379	2,266,055
Depreciation and amortization	<u>181,594</u>	<u>-</u>	<u>-</u>	<u>181,594</u>	<u>192,549</u>
CHANGE IN NET ASSETS	330,756	1,302,029	-	1,632,785	2,073,506
NET ASSETS AT BEGINNING OF YEAR	<u>4,525,930</u>	<u>5,722,005</u>	<u>1,022,260</u>	<u>11,270,195</u>	<u>9,196,689</u>
NET ASSETS AT END OF YEAR	<u>\$ 4,856,686</u>	<u>\$ 7,024,034</u>	<u>\$ 1,022,260</u>	<u>\$ 12,902,980</u>	<u>\$ 11,270,195</u>

The accompanying notes are an integral part of this statement.



VILLA ESPERANZA SERVICES
 STATEMENT OF FUNCTIONAL EXPENSES
 FOR THE YEAR ENDED JUNE 30, 2015
 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2014)

	June 30,				2014
	2015		Fundraising	Total	
	Program services	Management and general			
PERSONNEL EXPENSES					
Salaries and wages	\$ 6,082,662	\$ 1,056,024	\$ 304,179	\$ 7,442,865	\$ 7,321,970
Payroll taxes	533,394	78,277	22,969	634,640	634,726
Employee benefits	293,465	43,324	16,310	353,099	321,907
Retirement plan	54,215	28,086	13,125	95,426	86,851
Total personnel expenses	<u>6,963,736</u>	<u>1,205,711</u>	<u>356,583</u>	<u>8,526,030</u>	<u>8,365,454</u>
OTHER EXPENSES					
Workers' compensation	643,312	33,648	5,195	682,155	942,562
Rent expense	319,248	53,923	24,238	397,409	404,003
Professional fees	169,492	82,686	54,089	306,267	228,629
Food	168,179	8,450	2,216	178,845	156,240
Program supplies	153,417	25,840	23,363	202,620	168,491
Interest expense	67,568	17,105	-	84,673	110,872
Events and promotion	8,706	3,647	7,403	19,756	27,282
Repairs and maintenance	53,284	5,936	229	59,449	64,088
Telephone and other communication	57,676	27,507	1,278	86,461	78,616
Insurance	85,037	9,387	-	94,424	106,720
Legal and accounting	10,185	72,226	-	82,411	68,430
Utilities	82,981	11,733	1,029	95,743	95,463
Transportation costs	128,834	6,739	823	136,396	157,087
Travel	68,397	4,349	-	72,746	88,082
Quality assurance fees	36,019	-	-	36,019	36,964
Taxes and licenses	38,598	2,199	123	40,920	58,890
Printing and duplication	9,294	4,225	12,202	25,721	33,536
Training	20,013	2,580	1,779	24,372	20,246
Dues and subscriptions	7,813	36,170	2,954	46,937	40,019
Medical services	13,941	-	-	13,941	17,135
Equipment expense	16,263	2,281	554	19,098	27,744
Postage	5,578	4,176	4,358	14,112	14,934
Miscellaneous office expense	42,416	13,249	11,969	67,634	50,013
Total other expenses	<u>2,206,251</u>	<u>428,056</u>	<u>153,802</u>	<u>2,788,109</u>	<u>2,996,046</u>
Total expenses before depreciation and amortization	<u>9,169,987</u>	<u>1,633,767</u>	<u>510,385</u>	<u>11,314,139</u>	<u>11,361,500</u>
Depreciation and amortization	<u>94,872</u>	<u>86,722</u>	<u>-</u>	<u>181,594</u>	<u>192,549</u>
TOTAL EXPENSES	<u>\$ 9,264,859</u>	<u>\$ 1,720,489</u>	<u>\$ 510,385</u>	<u>\$ 11,495,733</u>	<u>\$ 11,554,049</u>

The accompanying notes are an integral part of this statement.



VILLA ESPERANZA SERVICES
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2015
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2014)

	June 30,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
CHANGE IN NET ASSETS	\$ 1,632,785	\$ 2,073,506
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	181,594	192,549
Change in value of split-interest agreement	8,398	(160,801)
Realized and unrealized (gain)/loss on investments	38,845	(206,080)
Donated assets	-	(5,886)
(Gain)/loss on disposition of assets	24,495	(325)
Changes in operating assets and liabilities:		
Accounts receivable	94,330	(186,505)
Bequests receivable	-	100,000
Pledges receivable	746,227	(1,137,252)
Other receivable - endowment	48,979	159,534
Grants receivable	32,500	36,000
Related party receivables, net of payables	22,415	(54,051)
Prepaid expenses	(33,721)	30,062
Loan fees	-	(37,342)
Deposits	-	1,670
Accounts payable and accrued expenses	170,885	73,962
Due to regional center	(136,122)	(60,172)
Accrued payroll and vacation	11,591	23,570
Client trust liability	2,524	(7,472)
CASH PROVIDED BY OPERATING ACTIVITIES	<u>2,845,725</u>	<u>834,967</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	511,026	180,398
Proceeds from sale of property and equipment	300	325
Purchase of investments	(383,818)	(290,140)
Purchase of property and equipment	(885,286)	(483,056)
CASH USED FOR INVESTING ACTIVITIES	<u>(757,778)</u>	<u>(592,473)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loan	-	39,539
Principal payments on loans	(70,237)	(28,154)
CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	<u>(70,237)</u>	<u>11,385</u>
NET INCREASE IN CASH	2,017,710	253,879
CASH AT BEGINNING OF YEAR	<u>2,438,489</u>	<u>2,184,610</u>
CASH AT END OF YEAR	<u>\$ 4,456,199</u>	<u>\$ 2,438,489</u>
SUMMARY OF CASH AT END OF YEAR:		
Cash	\$ 4,324,973	\$ 2,294,588
Cash held in trust - client accounts	25,295	22,771
Endowment cash	105,931	121,130
	<u>\$ 4,456,199</u>	<u>\$ 2,438,489</u>
CASH PAID DURING THE YEAR FOR:		
INTEREST	\$ 84,673	\$ 110,872

The accompanying notes are an integral part of this statement.



VILLA ESPERANZA SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

THE ORGANIZATION

Villa Esperanza Services (Villa), is a nonprofit California corporation dedicated to the care and education of children, adults, and seniors with disabilities. Founded in 1961 by mothers who believed that their children with developmental disabilities deserved quality care and education, the program formerly named the Pasadena Retarded Children's Foundation was re-named Villa Esperanza (House of Hope) in 1966.

Currently, Villa serves over 600 children, adults and seniors each year from 49 cities in Southern California. Clients served range in age from 2 to 86 and include individuals with autism, cerebral palsy, Alzheimer's, dementia, Down syndrome, intellectual disabilities, and speech or communication difficulties. Villa serves individuals in Los Angeles and Ventura counties by offering:

A comprehensive school for children and youth ages 5 to 22, serving 24 school districts;

A speech and language center serving children, adults, and seniors at Villa and surrounding communities;

An occupational therapy clinic serving children, adults, and seniors at Villa and surrounding communities;

An employment program that provides inclusive, community-based employment for adults in group or individual placement;

Three community integrated adult day programs;

Nine adult residences, and;

An independent living services program and six independent living apartments.

In May 2012, the Governing Board voted to embark on a \$9 million Phase 1 Capital Campaign. The Campaign includes rebuilding the majority of the School and the purchase of a new building for the Dimensions Adult Day Program.

SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Villa are prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (GAAP). The financial statements include certain 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 GAAP. Accordingly, such information should be read in conjunction with Villa's financial statements for the year ended June 30, 2014, from which the summarized information was derived. Certain prior year amounts have been reclassified to conform with the current year presentation. A summary of significant accounting policies is described below.

CASH

Liquid assets having a maturity of three months or less are included as cash.

VILLA ESPERANZA SERVICES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015 AND 2014

SIGNIFICANT ACCOUNTING POLICIES (continued)

ALLOWANCE FOR DOUBTFUL ACCOUNTS

The allowance for doubtful accounts is recorded based on management's experience. At June 30, 2015 and 2014, the allowance for doubtful accounts was \$50,000.

PLEDGES RECEIVABLE

Pledges consist of promises to pay cash or cash equivalents in the future. The pledges have been classified as temporarily restricted or permanently restricted as specified by donors. Villa discounts the pledges receivable by calculating the present value of estimated future cash flows. The discount rate used is the U.S. Treasury rate at the time of the pledge. In accordance with U.S. generally accepted accounting principles, pledges receivable are a level 3 classification measured on a nonrecurring basis (see FAIR VALUE MEASUREMENTS).

RELATED PARTY RECEIVABLES

Related party receivables consist of expenses paid by Villa on behalf of its affiliates. Villa discounts the related party receivables by calculating the present value of estimated future collections using a discount rate of approximately 2.4%.

PROPERTY AND EQUIPMENT

Property and equipment are reported at cost, or if donated, at the fair market value on the date received. Depreciation is computed on a straight-line basis over estimated useful lives of 3 to 40 years. Maintenance and repairs are recorded as expenses in the year incurred, and renewals and betterments exceeding \$1,000 are capitalized.

LOAN FEES

Costs incurred with obtaining financing through banks are capitalized and amortized over the lives of the respective financing arrangements using the straight-line method. Loan fees as of June 30, 2015 and 2014 are reflected net of accumulated amortization of \$9,110 and \$3,746, respectively. Amortization expense for the years ended June 30, 2015 and 2014 was \$5,364 and \$4,246, respectively.

FAIR VALUE MEASUREMENTS

GAAP requires that items recorded at fair market value be valued as level one, two or three, based on various inputs and methodologies as described below:

Level 1 - quoted prices and active markets for identical holdings

Level 2 - significant observable market-based inputs, other than Level 1 quoted prices, or unobservable inputs that are based on comparable market data

Level 3 - significant observable inputs that are not based on comparable market data

INCOME AND SUPPORT RECOGNITION

All donations received are considered available for unrestricted use unless restricted by the donor. Noncash contributions (gifts-in-kind) are recorded at fair market value on the date received and when there is a reasonable basis for valuation. Conditional promises to give are not reflected as contributions until the conditions are substantially met.

VILLA ESPERANZA SERVICES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015 AND 2014

SIGNIFICANT ACCOUNTING POLICIES (continued)

INCOME AND SUPPORT RECOGNITION (continued)

Program service fees are principally special education tuition earned from contractual agreements between Villa and the school districts or the regional centers. Villa recognizes tuition income only after the students have attended the school. In most instances, there is a base fee for a program and several categorical program fee components paid only if the students have attended those programs. Program service fees also include income from housing projects for adults with built-in levels of support and assistance.

BASIS OF PRESENTATION

In accordance with GAAP, Villa is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets as described below:

Unrestricted net assets represent expendable net assets that are neither permanently nor temporarily restricted by donor-imposed restrictions and are available to support the program, administrating and fundraising of Villa.

Temporarily restricted net assets represent funds which donors have restricted for specific purposes or for use according to certain time schedules or both.

Permanently restricted net assets represent funds that are subject to restrictions set forth in gift instruments requiring that principal be invested in perpetuity and income be expended for unrestricted operating purposes, in accordance with the Uniform Prudent Management of Institutional Funds Act. Unless prohibited by donor stipulation, up to seven percent of the average net fair market value as of the first business day of the fiscal year may be used for operating needs.

ESTIMATES

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

INCOME TAXES

Villa operates as a California nonprofit corporation under section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes; accordingly, no provision is made for current or deferred income taxes. Villa uses the same accounting methods for tax and financial reporting.

U.S. generally accepted accounting principles provide accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by Villa in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. Villa's returns for the years ended June 30, 2012, 2013, and 2014 are subject to examination by federal and state taxing authorities, generally for three years after they are filed.

VILLA ESPERANZA SERVICES
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2015 AND 2014

SIGNIFICANT ACCOUNTING POLICIES (continued)

JOINT COST ALLOCATION

Villa incurs costs that are shared by program services, management and general, and fundraising activities. The amount allocated to each area depends upon the purpose, audience and content of each medium used. Villa determined the allocation based on both current and historical data.

DONATED SERVICES

GAAP requires the value of donated services be recorded if those donated services create or enhance nonfinancial assets or require specialized skills. Many volunteers have contributed significant amounts of their time to activities of Villa. However, since the above requirements were not met, the value of the contributed services is not recorded in the accompanying financial statements.

PLEDGES RECEIVABLE

Pledges receivable are scheduled to be collected as follows as of June 30, 2015:

Less than one year	\$ 619,048
One to five years	1,243,590
Greater than five years	30,807
Less discount to net present value	<u>(26,670)</u>
	<u>\$ 1,866,775</u>
Current pledges receivable, net	\$ 619,048
Long-term pledges receivable, net	<u>1,247,727</u>
	<u>\$ 1,866,775</u>

PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	June 30,	
	<u>2015</u>	<u>2014</u>
Land	\$ 1,878,324	\$ 1,878,324
Buildings and improvements	2,878,284	2,784,202
Equipment	282,360	446,844
Furniture and fixtures	34,330	62,949
Vehicles	526,587	638,089
Leasehold improvements	36,048	36,048
Construction in progress	<u>932,854</u>	<u>166,201</u>
	6,568,787	6,012,657
Less accumulated depreciation	<u>(2,381,153)</u>	<u>(2,509,284)</u>
	<u>4,187,634</u>	<u>3,503,373</u>
Less debt secured by property	<u>(2,345,610)</u>	<u>(2,415,847)</u>
Net investment in property and equipment	<u>\$ 1,842,024</u>	<u>\$ 1,087,526</u>



VILLA ESPERANZA SERVICES
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2015 AND 2014

PROPERTY AND EQUIPMENT (continued)

Depreciation expense for the years ended June 30, 2015 and 2014 was \$176,230 and \$188,303, respectively.

INVESTMENTS

Investments are summarized as follows:

At June 30, 2015:

	<u>Market Value</u>	<u>Cost Basis</u>
Equities and equity funds	\$ 1,062,667	\$ 889,560
Bonds and bond funds	<u>358,066</u>	<u>386,366</u>
	<u>\$ 1,420,733</u>	<u>\$ 1,275,926</u>

At June 30, 2014:

	<u>Market Value</u>	<u>Cost Basis</u>
Equities and equity funds	\$ 1,277,867	\$ 991,522
Bonds and bond funds	<u>308,919</u>	<u>302,848</u>
	<u>\$ 1,586,786</u>	<u>\$ 1,294,370</u>

Investment returns are summarized as follows:

	<u>June 30,</u>	
	<u>2015</u>	<u>2014</u>
Interest and dividends	\$ 70,009	\$ 53,668
Net realized and unrealized gains/(losses)	(38,845)	206,080
Investment fees	<u>(9,832)</u>	<u>(8,691)</u>
	<u>\$ 21,332</u>	<u>\$ 251,057</u>

BENEFICIAL INTEREST IN SPLIT-INTEREST AGREEMENT

Villa is a beneficiary of a split-interest agreement. A split-interest agreement generally provides for the payment of distributions to the grantor or other designated beneficiaries over the agreement's term. At the end of the agreement's term, Villa will receive a portion of the remaining assets covered by the agreement. The portion of the agreement attributable to the present value of the future benefits to be received by Villa is recorded in the statement of activities as a temporarily restricted net asset in the period the agreement is established. The beneficial interest in the split-interest agreement is reported at fair value on Villa's statement of financial position, re-measured on an annual basis. The present value for the estimated future payments was calculated using a discount rate of 4% in both 2015 and 2014, and applicable mortality tables. In accordance with GAAP, the asset is considered a level 3 classification measured on a recurring basis.



VILLA ESPERANZA SERVICES
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2015 AND 2014

BENEFICIAL INTEREST IN SPLIT-INTEREST AGREEMENT (continued)

The split interest agreement at June 30, 2015 and 2014 consisted of the following:

	June 30,	
	<u>2015</u>	<u>2014</u>
Assets	\$ 2,027,288	\$ 2,031,001
Liabilities	<u>(194,740)</u>	<u>(190,055)</u>
	<u>\$ 1,832,548</u>	<u>\$ 1,840,946</u>

NOTES PAYABLE

	<u>Current</u>	<u>Long-term</u>	<u>Total</u>
Note secured by property located in Pasadena, California; bearing interest at 3.75% per annum; monthly principal and interest payments of \$9,412 with final payment of \$1,586,910; maturing December 2018	\$ 46,848	\$ 1,708,042	\$ 1,754,890
Note secured by property located in Pasadena, California; bearing interest at the bank's reference rate; monthly principal payments of \$2,080 plus accrued interest with final payment of \$502,683; maturing February 2019	<u>24,960</u>	<u>565,760</u>	<u>590,720</u>
	<u>\$ 71,808</u>	<u>\$ 2,273,802</u>	<u>\$ 2,345,610</u>

Payment of principal on the notes payable is scheduled as follows:

2016	\$ 71,808
2017	73,799
2018	75,691
2019	<u>2,124,312</u>
	<u>\$ 2,345,610</u>

Interest expense for the years ended June 30, 2015 and 2014 was \$84,673 and \$110,872, respectively.

LINE OF CREDIT

Villa maintains a line of credit with East West Bank in an amount not to exceed \$500,000 with a maturity date of February 2016. The credit line bears interest at the bank's prime rate of interest with a floor rate of 5%, and is secured by substantially all of Villa's assets. As of June 30, 2015 and 2014, there was no outstanding balance on the line of credit.



VILLA ESPERANZA SERVICES
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2015 AND 2014

LEASE COMMITMENTS

Villa leases various equipment and property located in several Southern California cities. Monthly payments on equipment total \$2,112 and monthly payments on property total \$25,045. The leases expire from August 2015 to November 2021. Future minimum lease payments at June 30, 2015 are as follows:

	<u>Facilities</u>	<u>Equipment</u>	<u>Total</u>
2016	\$ 136,781	\$ 23,748	\$ 160,529
2017	112,672	23,417	136,089
2018	107,534	16,213	123,747
2019	-	2,192	2,192
2020	-	1,908	1,908
Thereafter	-	159	159
	<u>\$ 356,987</u>	<u>\$ 67,637</u>	<u>\$ 424,624</u>

Villa also rents other administrative and program facilities on a month-to-month basis. Total rent expense for the years ended June 30, 2015 and 2014 was \$397,409 and \$404,003, respectively.

CONCENTRATION OF RISK

Financial instruments that potentially subject Villa to concentrations of credit risk consist principally of cash deposits at financial institutions and investments in marketable securities. At times, balances in Villa's cash and investment accounts may exceed the Federal Deposit Insurance Corporation (FDIC) or Securities Investors Protection Corporation (SIPC) limits.

FAIR VALUE MEASUREMENTS

Assets measured at fair value are as follows:

Measured on a recurring basis at June 30, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
Equities and equity funds	\$ 1,062,667	\$ -	\$ -	\$ 1,062,667
Bonds and bond funds	358,066	-	-	358,066
Beneficial interest in split-interest agreement	-	-	1,832,548	1,832,548
	<u>\$ 1,420,733</u>	<u>\$ -</u>	<u>\$ 1,832,548</u>	<u>\$ 3,253,281</u>

Measured on a nonrecurring basis at June 30, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Pledges receivable	\$ -	\$ -	\$ 1,866,775	\$ 1,866,775



VILLA ESPERANZA SERVICES
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2015 AND 2014

FAIR VALUE MEASUREMENTS (continued)

Measured on a recurring basis at June 30, 2014:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
Equities and equity funds	\$ 1,277,867	\$ -	\$ -	\$ 1,277,867
Bonds and bond funds	308,919	-	-	308,919
Beneficial interest in split-interest agreement	-	-	1,840,946	1,840,946
	<u>\$ 1,586,786</u>	<u>\$ -</u>	<u>\$ 1,840,946</u>	<u>\$ 3,427,732</u>

Measured on a nonrecurring basis at June 30, 2014:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Donated assets	\$ -	\$ 5,886	\$ -	\$ 5,886
Pledges receivable	-	-	2,613,002	2,613,002
	<u>\$ -</u>	<u>\$ 5,886</u>	<u>\$ 2,613,002</u>	<u>\$ 2,618,888</u>

Assets measured at fair value using significant unobservable inputs (level 3 inputs) on a recurring basis are as follows:

	<u>Beneficial interest</u>
Balance at June 30, 2013	\$ 1,680,145
Change in value of split-interest agreement	<u>160,801</u>
Balance at June 30, 2014	1,840,946
Change in value of split-interest agreement	<u>(8,398)</u>
Balance at June 30, 2015	<u>\$ 1,832,548</u>

ENDOWMENT

Villa has a donor-restricted endowment fund, which is classified as permanently restricted in the statement of net assets. The donors require the historical dollar amount of a donor-restricted endowment fund to be preserved. In the absence of donor restrictions, the net appreciation on a donor-restricted endowment is spendable. Villa's donors have not placed restrictions on the use of the investment income or net appreciation resulting from the donor-restricted endowment fund.



VILLA ESPERANZA SERVICES
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2015 AND 2014

ENDOWMENT (continued)

INVESTMENT POLICY

The primary goal is to build the real value of the endowment by achieving a growth rate of not less than 4%, plus the rate of inflation as measured by the Consumer Price Index over a market cycle (3 to 5 years) on the amount of the plan assets. To the extent compatible with this objective, the secondary goal is to maximize long-term total return, while assuming a prudent level of investment risk.

Endowment assets are managed on a total return basis with an emphasis on balanced growth. The total return objective for the portfolio (net of fees), measured over a full market cycle, is to approximate market performance as defined by a market index composed of the Standard & Poor's 500, Russell 2000, Lehman Brothers Government/Corporate Bond index, and the Morgan Stanley Capital International EAFE index.

ENDOWMENT ASSET ALLOCATION

The endowment asset portfolio is divided into three basic asset classes as follows:

	<u>Range</u>
Equities	30% to 70%
Fixed income	20% to 60%
Cash	0% to 20%

SPENDING POLICY

Endowment assets are invested with the intent of distributing reasonable earnings on an as-needed basis.

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Investment return				
Investment income	\$ -	\$ 50,777	\$ -	\$ 50,777
Investment fees	-	(7,507)	-	(7,507)
Net appreciation (realized and unrealized)	-	206,080	-	206,080
Total investment return	-	249,350	-	249,350
Endowment net assets at June 30, 2013	-	485,285	1,022,260	1,507,545
Endowment net assets at June 30, 2014	\$ -	\$ 734,635	\$ 1,022,260	\$ 1,756,895
Endowment net assets as of June 30, 2014 consist of:				
Cash				\$ 121,130
Investments				1,586,786
Receivables				48,979
				<u>\$ 1,756,895</u>



VILLA ESPERANZA SERVICES
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2015 AND 2014

ENDOWMENT (continued)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Investment return				
Investment income	\$ -	\$ 66,642	\$ -	\$ 66,642
Investment fees	-	(8,739)	-	(8,739)
Net depreciation (realized and unrealized)	-	(38,109)	-	(38,109)
Total investment return	-	19,794	-	19,794
Appropriation of endowment assets for expenditure	-	(250,025)	-	(250,025)
Change in endowment net assets	-	(230,231)	-	(230,231)
Endowment net assets at June 30, 2014	-	734,635	1,022,260	1,756,895
Endowment net assets at June 30, 2015	\$ -	\$ 504,404	\$ 1,022,260	\$ 1,526,664
Endowment net assets as of June 30, 2015 consist of:				
Cash			\$ 105,931	
Investments			1,420,733	
			\$ 1,526,664	

NONCASH TRANSACTIONS

GIFTS-IN-KIND

During the years ended June 30, 2015 and 2014, Villa recorded gift-in-kind revenue and related expense for the use of facilities in Thousand Oaks, California. The value of the free rent for both years was \$15,360, and is considered a level 2 classification measured on a nonrecurring basis.

During the years ended June 30, 2015 and 2014, Villa received various donated items, such as assets, food and supplies. Donated assets for the years ended June 30, 2015 and 2014 were \$0 and \$5,886, and other gifts-in-kind were \$31,488 and \$9,115, respectively, which were used for operations or in special events and, as such, are included in various expense accounts. The fair value of the gifts-in-kind is considered a level 2 classification measured on a nonrecurring basis.

OTHER

During the year ended June 30, 2014, Villa refinanced one of its notes payable. The outstanding balance of \$1,774,154 at the time of refinance and accrued interest of \$27,206 were paid through escrow. The remaining balance of capitalized loan costs from the loan was reflected as amortized interest expense. Loan costs of \$25,136 for the new loan were paid through escrow and capitalized. The total amount borrowed through the refinance was \$1,820,000 (see NOTES PAYABLE).



VILLA ESPERANZA SERVICES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015 AND 2014

NONCASH TRANSACTIONS (continued)

OTHER (continued)

During the year ended June 30, 2014, Villa purchased property located in Pasadena, California. \$624,000 of the total purchase was financed. Loan fees of \$12,205 were capitalized (see NOTES PAYABLE).

RELATED PARTY TRANSACTIONS

Villa is affiliated through shared management and personnel with several nonprofit foundations which operate programs subject to requirements of the U.S. Department of Housing and Urban Development (HUD). Villa provides services to these affiliates and bills them at its standard rates. Villa recognized program fee income from these affiliates of \$253,718 and \$270,999 for the years ended June 30, 2015 and 2014, respectively. Villa also pays expenses on behalf of its affiliates and records a receivable. Total related party receivables at June 30, 2015 and 2014 were \$787,105 and \$809,520, respectively.

Villa rents various administrative and program facilities from several of its affiliates on a month-to-month basis. Total payments made to Villa's affiliates for the years ended June 30, 2015 and 2014 were \$159,166 and \$185,834, respectively, and are included in rent expense.

RETIREMENT PLAN

Effective September 1, 2009, Villa established a tax shelter annuity 403(b) defined contribution plan for qualified participants. Villa's employees are eligible to make elective deferrals beginning on the date of hire. Villa's matching contribution is discretionary. Contributions made by Villa during the years ended June 30, 2015 and 2014 were \$95,425 and \$86,851, respectively.

SUBSEQUENT EVENTS

Villa has evaluated subsequent events through January 25, 2016, which is the date these financial statements were issued. All subsequent events requiring recognition as of June 30, 2015, have been incorporated into these financial statements.