

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, 2017 and 2016, 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, 2017 and 2016, 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 22, 2018  
Pasadena, California

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VILLA ESPERANZA SERVICES  
STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2017  
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2016)

ASSETS		June 30,	
		2017	2016
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	\$	7,563,128	\$ 4,820,069
Cash held in trust - client accounts		24,084	28,869
Accounts receivable - net		1,651,353	1,330,580
Pledges receivable, current portion - net		711,020	860,545
Grants receivable		30,000	125,000
Related party receivables, current portion - net of payables		391,719	391,042
Prepaid expenses		37,641	85,663
Total current assets		10,408,945	7,641,768
PROPERTY AND EQUIPMENT - NET		5,902,354	5,089,433
<b>OTHER ASSETS</b>			
Cash and cash equivalents - endowment		17,898	142,694
Investments - endowment		1,622,408	1,338,544
Loan fees - net		11,610	22,867
Deposits		10,306	14,109
Pledges receivable, long-term portion - net		440,860	1,023,936
Beneficial interest in split-interest agreement - net		2,095,041	1,980,339
Related party receivables, long-term portion - net of payables		248,484	289,773
Total other assets		4,446,607	4,812,262
<b>TOTAL ASSETS</b>	<b>\$</b>	<b>20,757,906</b>	<b>\$ 17,543,463</b>
<b>LIABILITIES AND NET ASSETS</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable and accrued expenses	\$	320,607	\$ 386,377
Client trust liability		24,084	28,869
Due to regional center		3,501	-
Accrued payroll and vacation		846,468	616,630
Notes payable, current portion		1,684,163	73,798
Total current liabilities		2,878,823	1,105,674
LONG-TERM LIABILITIES			
Notes payable, less current portion		515,840	2,200,067
<b>TOTAL LIABILITIES</b>		<b>3,394,663</b>	<b>3,305,741</b>
<b>NET ASSETS</b>			
Unrestricted		5,510,021	4,999,152
Temporarily restricted		10,830,962	8,216,310
Permanently restricted		1,022,260	1,022,260
<b>TOTAL NET ASSETS</b>		<b>17,363,243</b>	<b>14,237,722</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$</b>	<b>20,757,906</b>	<b>\$ 17,543,463</b>

The accompanying notes are an integral part of this statement.



VILLA ESPERANZA SERVICES  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2017  
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2016)

	Years ended June 30,				
	2017				2016
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Total
SUPPORT AND REVENUE					
Program fees	\$ 12,352,073	\$ -	\$ -	\$ 12,352,073	\$ 11,151,434
Contributions	333,916	118,094	-	452,010	804,512
Other income	111,038	-	-	111,038	19,355
Bad debts	(73,413)	-	-	(73,413)	(158,169)
Net assets released from restriction:					
Operations	169,966	(169,966)	-	-	-
	12,893,580	(51,872)	-	12,841,708	11,817,132
Special events revenue	669,622	62,773	-	732,395	445,242
Special events expenses	(135,230)	-	-	(135,230)	(95,027)
Net revenue from special events	534,392	62,773	-	597,165	350,215
Total support and revenue	13,427,972	10,901	-	13,438,873	12,167,347
EXPENSES					
Program services	10,675,283	-	-	10,675,283	9,724,988
Supporting services					
Management and general	1,790,423	-	-	1,790,423	1,709,528
Fundraising	465,824	-	-	465,824	501,012
Total supporting services	2,256,247	-	-	2,256,247	2,210,540
Total expenses before depreciation and amortization	12,931,530	-	-	12,931,530	11,935,528
Operating surplus before depreciation and amortization	496,442	10,901	-	507,343	231,819
Depreciation and amortization	139,967	-	-	139,967	161,904
Operating surplus	356,475	10,901	-	367,376	69,915
OTHER CHANGES IN NET ASSETS					
Contributions - capital campaign	-	2,457,230	-	2,457,230	1,348,611
Net investment income/(loss)	27,146	159,067	-	186,213	(47,671)
Change in value of split-interest agreement	-	114,702	-	114,702	147,791
Net assets released from restriction:					
Capital campaign	127,248	(127,248)	-	-	-
Total other changes in net assets	154,394	2,603,751	-	2,758,145	1,264,827
CHANGE IN NET ASSETS	510,869	2,614,652	-	3,125,521	1,334,742
NET ASSETS AT BEGINNING OF YEAR	4,999,152	8,216,310	1,022,260	14,237,722	12,902,980
NET ASSETS AT END OF YEAR	\$ 5,510,021	\$ 10,830,962	\$ 1,022,260	\$ 17,363,243	\$ 14,237,722

The accompanying notes are an integral part of this statement.



VILLA ESPERANZA SERVICES  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2017  
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2016)

	June 30,				
	2017				2016
	Program services	Management and general	Fundraising	Total	Total
PERSONNEL EXPENSES					
Salaries and wages	\$ 7,459,901	\$ 1,165,885	\$ 303,346	\$ 8,929,132	\$ 7,824,627
Payroll taxes	636,957	86,112	23,908	746,977	666,578
Employee benefits	317,304	59,208	7,715	384,227	357,368
Retirement plan	59,391	48,729	13,982	122,102	97,685
Total personnel expenses	8,473,553	1,359,934	348,951	10,182,438	8,946,258
OTHER EXPENSES					
Workers' compensation	564,049	31,705	3,982	599,736	694,236
Rent expense	295,117	62,649	25,131	382,897	374,264
Professional fees	194,157	79,985	16,560	290,702	314,938
Food	172,735	9,064	2,046	183,845	181,436
Program supplies	180,756	23,913	11,766	216,435	222,646
Interest expense	75,981	8,670	-	84,651	85,911
Events and promotion	6,258	1,522	-	7,780	54,066
Repairs and maintenance	51,108	3,677	315	55,100	64,812
Telephone and other communication	65,099	14,088	4,654	83,841	124,405
Insurance	123,507	25,290	408	149,205	139,745
Legal and accounting	15,023	69,126	170	84,319	72,671
Utilities	67,682	7,592	277	75,551	80,861
Transportation costs	134,744	7,053	974	142,771	152,245
Travel	57,209	5,359	-	62,568	64,759
Quality assurance fees	60,076	-	-	60,076	58,674
Taxes and licenses	29,650	15,751	5	45,406	42,853
Printing and duplication	12,429	12,827	19,090	44,346	41,411
Training	29,129	2,325	1,226	32,680	23,103
Dues and subscriptions	6,147	22,419	8,491	37,057	35,510
Medical services	16,982	-	-	16,982	24,320
Equipment expense	21,112	7,018	1,670	29,800	33,804
Postage	3,475	6,255	5,870	15,600	15,735
Miscellaneous office expense	19,305	14,201	14,238	47,744	86,865
Total other expenses	2,201,730	430,489	116,873	2,749,092	2,989,270
Total expenses before depreciation and amortization	10,675,283	1,790,423	465,824	12,931,530	11,935,528
Depreciation and amortization	89,212	50,755	-	139,967	161,904
TOTAL EXPENSES	\$ 10,764,495	\$ 1,841,178	\$ 465,824	\$ 13,071,497	\$ 12,097,432

The accompanying notes are an integral part of this statement.



VILLA ESPERANZA SERVICES  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2017  
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2016)

	June 30,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
CHANGE IN NET ASSETS	\$ 3,125,521	\$ 1,334,742
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	139,967	161,904
Change in value of split-interest agreement	(114,702)	(147,791)
Realized and unrealized (gain)/loss on investments	(244,692)	100,302
Donated assets	(2,081,530)	(29,724)
Interest and dividends reinvested	1,334	-
Loss on disposition of assets	-	183,904
Changes in operating assets and liabilities:		
Accounts receivable	(320,773)	270,295
Pledges receivable	732,601	(17,706)
Grants receivable	95,000	(97,000)
Related party receivables, net of payables	40,612	106,290
Prepaid expenses	48,022	31,649
Deposits	3,803	(5,631)
Accounts payable and accrued expenses	(65,770)	(69,921)
Due to regional center	3,501	(14,092)
Accrued payroll and vacation	229,838	27,015
Client trust liability	(4,785)	3,574
CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,587,947</u>	<u>1,837,810</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	2,265,503	147,106
Proceeds from sale of property and equipment	-	1,250
Purchase of investments	(245,964)	(165,219)
Purchase of property and equipment	<u>(920,146)</u>	<u>(1,213,769)</u>
CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	<u>1,099,393</u>	<u>(1,230,632)</u>
CASH FLOWS USED FOR FINANCING ACTIVITIES		
Principal payments on notes payable	<u>(73,862)</u>	<u>(71,745)</u>
NET INCREASE IN CASH	2,613,478	535,433
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>4,991,632</u>	<u>4,456,199</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>7,605,110</u></u>	<u><u>4,991,632</u></u>
SUMMARY OF CASH AND CASH EQUIVALENTS AT END OF YEAR:		
Cash and cash equivalents	7,563,128	4,820,069
Cash held in trust - client accounts	24,084	28,869
Cash and cash equivalents - endowment	<u>17,898</u>	<u>142,694</u>
	<u><u>\$ 7,605,110</u></u>	<u><u>\$ 4,991,632</u></u>
CASH PAID DURING THE YEAR FOR:		
INTEREST	\$ 84,651	\$ 85,911
INCOME TAXES	\$ -	\$ -

The accompanying notes are an integral part of this statement.



VILLA ESPERANZA SERVICES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017 AND 2016

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/developmental 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;

Two community integrated adult day programs;

A transition-to-work program for young adults;

Seven 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.

Due to increased construction costs, the Phase 1 Capital Campaign has grown to \$12.3 million. In 2014, Villa's Master Facilities Plan was approved by the Pasadena City Council. Villa purchased a building for the Dimensions Adult Day Program and they moved into the newly renovated space in 2016. Also, several buildings were demolished, modulares were installed, and classes moved into their temporary headquarters on Villa's main campus. In 2017, the construction of Villa's new school began with plans for completion in the fall of 2018.

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, 2016, 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:



VILLA ESPERANZA SERVICES  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017 AND 2016

SIGNIFICANT ACCOUNTING POLICIES (continued)

**CASH AND CASH EQUIVALENTS**

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

**ALLOWANCE FOR DOUBTFUL ACCOUNTS**

The allowance for doubtful accounts is recorded based on management's experience. At June 30, 2017 and 2016, 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 GAAP, 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 2.31%.

**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, 2017 and 2016 are reflected net of accumulated amortization of \$25,731 and \$14,474, respectively. Amortization expense for the years ended June 30, 2017 and 2016 was \$11,257 and \$5,364, 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, 2017 AND 2016

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.

**OPERATING REVENUES AND EXPENSES**

Villa reports operating revenues and expenses in the unrestricted net assets section of the Statement of Activities. Operations are those annual activities which support the core mission of Villa. Operating revenues included program fees, bad debt expense, gifts, grants, investment income, releases of temporarily restricted net assets for operations and miscellaneous income. Operating expenses (for which the operating revenues are used) include salaries, departmental expenses, depreciation, and interest.

**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, administering 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.

**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.



VILLA ESPERANZA SERVICES  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017 AND 2016

SIGNIFICANT ACCOUNTING POLICIES (continued)

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:

	June 30,	
	2017	2016
Less than one year	\$ 711,020	\$ 860,545
One to five years	442,426	1,045,148
Greater than five years	6,000	10,000
Less discount to net present value	(7,566)	(31,212)
	<u>\$ 1,151,880</u>	<u>\$ 1,884,481</u>
Current pledges receivable, net	\$ 711,020	\$ 860,545
Long-term pledges receivable, net	440,860	1,023,936
	<u>\$ 1,151,880</u>	<u>\$ 1,884,481</u>

PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	June 30,	
	2017	2016
Land	\$ 1,878,324	\$ 1,878,324
Buildings and improvements	3,057,076	3,049,576
Equipment	302,583	300,955
Furniture and fixtures	34,330	34,330
Vehicles	643,798	599,095
Leasehold improvements	36,048	36,048
Construction in progress	2,547,269	1,659,468
	8,499,428	7,557,796
Less accumulated depreciation	(2,597,074)	(2,468,363)
	<u>5,902,354</u>	<u>5,089,433</u>
Less debt secured by property	(2,200,003)	(2,273,865)
Net investment in property and equipment	<u>\$ 3,702,351</u>	<u>\$ 2,815,568</u>



VILLA ESPERANZA SERVICES  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017 AND 2016

PROPERTY AND EQUIPMENT (continued)

Depreciation expense for the years ended June 30, 2017 and 2016 was \$128,710 and \$156,540, respectively.

In May 2017, Villa signed a construction agreement not to exceed \$6,051,774. As of June 30, 2017, Villa has paid \$124,667 toward the total contract amount.

INVESTMENTS

Investments are summarized as follows:

At June 30, 2017:

	<u>Market Value</u>	<u>Cost Basis</u>
Equities and equity funds	\$ 1,144,602	\$ 940,411
Fixed income and fixed income funds	<u>477,806</u>	<u>486,405</u>
	<u>\$ 1,622,408</u>	<u>\$ 1,426,816</u>

At June 30, 2016:

	<u>Market Value</u>	<u>Cost Basis</u>
Equities and equity funds	\$ 1,003,755	\$ 807,760
Fixed income and fixed income funds	<u>334,789</u>	<u>451,268</u>
	<u>\$ 1,338,544</u>	<u>\$ 1,259,028</u>

Investment returns are summarized as follows:

	<u>June 30,</u>	
	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 42,836	\$ 60,607
Net realized and unrealized gain/(loss)	153,233	(100,302)
Investment fees	<u>(9,856)</u>	<u>(7,976)</u>
	<u>\$ 186,213</u>	<u>\$ (47,671)</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 2017 and 2016, 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, 2017 AND 2016

BENEFICIAL INTEREST IN SPLIT-INTEREST AGREEMENT (continued)

The split interest agreement at June 30, 2017 and 2016 consisted of the following:

	June 30,	
	2017	2016
Assets	\$ 2,280,424	\$ 2,180,610
Liabilities	(185,383)	(200,271)
	<u>\$ 2,095,041</u>	<u>\$ 1,980,339</u>

NOTES PAYABLE

	Current	Long-term	Total
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; remaining principal paid in July 2017	\$ 1,659,203	\$ -	\$ 1,659,203
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	24,960	515,840	540,800
	<u>\$ 1,684,163</u>	<u>\$ 515,840</u>	<u>\$ 2,200,003</u>

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

2018	\$ 1,684,163
2019	515,840
	<u>\$ 2,200,003</u>

Interest expense for the years ended June 30, 2017 and 2016 was \$84,651 and \$85,911, respectively.

In May 2017, Villa signed a construction note up to a maximum of \$4,100,000 to be drawn upon as necessary. As of the date of the financial statements, the funds available through the note have not been utilized.

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 2018. 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, 2017 and 2016, there was no outstanding balance on the line of credit.



VILLA ESPERANZA SERVICES  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017 AND 2016

LEASE COMMITMENTS

Villa leases various equipment and property located in several Southern California cities. Monthly payments on equipment total \$2,505 and monthly payments on property total \$14,907. The leases expire from January 2018 to May 2021. Future minimum lease payments at June 30, 2017 are as follows:

	<u>Facilities</u>	<u>Equipment</u>	<u>Total</u>
2018	\$ 168,473	\$ 22,739	\$ 191,212
2019	9,990	7,725	17,715
2020	-	7,416	7,416
2021	-	3,109	3,109
	<u>\$ 178,463</u>	<u>\$ 40,989</u>	<u>\$ 219,452</u>

Villa also rents other administrative and program facilities on a month-to-month basis. Total rent expense for the years ended June 30, 2017 and 2016 was \$382,896 and \$374,264, 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, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
Equities and equity funds	\$ 1,144,602	\$ -	\$ -	\$ 1,144,602
Bonds and bond funds	477,806	-	-	477,806
Beneficial interest in split-interest agreement	-	-	2,095,041	2,095,041
	<u>\$ 1,622,408</u>	<u>\$ -</u>	<u>\$ 2,095,041</u>	<u>\$ 3,717,449</u>

Measured on a nonrecurring basis at June 30, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Pledges receivable	\$ -	\$ -	\$ 1,151,880	\$ 1,151,880



VILLA ESPERANZA SERVICES  
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FAIR VALUE MEASUREMENTS (continued)

Measured on a recurring basis at June 30, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
Equities and equity funds	\$ 1,003,755	\$ -	\$ -	\$ 1,003,755
Bonds and bond funds	334,789	-	-	334,789
Beneficial interest in split-interest agreement	-	-	1,980,339	1,980,339
	<u>\$ 1,338,544</u>	<u>\$ -</u>	<u>\$ 1,980,339</u>	<u>\$ 3,318,883</u>

Measured on a nonrecurring basis at June 30, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Pledges receivable	\$ -	\$ -	\$ 1,884,481	\$ 1,884,481

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, 2015	\$ 1,832,548
Change in value of split-interest agreement	<u>147,791</u>
Balance at June 30, 2016	1,980,339
Change in value of split-interest agreement	<u>114,702</u>
Balance at June 30, 2017	<u>\$ 2,095,041</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  
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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 on the amount of the plan assets as measured by the Consumer Price Index over a market cycle (3 to 5 years). 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:

	Range
Equities	30% to 70%
Fixed income	20% to 60%
Cash and cash equivalents	0% to 20%

SPENDING POLICY

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

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Investment return				
Investment income	\$ -	\$ 41,931	\$ -	\$ 41,931
Investment fees	-	(7,726)	-	(7,726)
Net appreciation (realized and unrealized)	-	124,863	-	124,863
Total investment return	-	159,068	-	159,068
Appropriation of endowment assets for expenditure	-	-	-	-
Change in endowment net assets	-	159,068	-	159,068
Endowment net assets at June 30, 2016	-	458,978	1,022,260	1,481,238
Endowment net assets at June 30, 2017	\$ -	\$ 618,046	\$ 1,022,260	\$ 1,640,306
Endowment net assets as of June 30, 2017 consist of:				
Cash and cash equivalents				\$ 17,898
Investments				1,622,408
				<u>\$ 1,640,306</u>



VILLA ESPERANZA SERVICES  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
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ENDOWMENT (continued)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Investment return				
Investment income	\$ -	\$ 57,029	\$ -	\$ 57,029
Investment fees	-	(7,371)	-	(7,371)
Net depreciation (realized and unrealized)	-	(95,085)	-	(95,085)
Total investment loss	-	(45,427)	-	(45,427)
Contributions	-	-	-	-
Appropriation of endowment assets for expenditure	-	-	-	-
Change in endowment net assets	-	(45,427)	-	(45,427)
Endowment net assets at June 30, 2015	-	504,405	1,022,260	1,526,665
Endowment net assets at June 30, 2016	\$ -	\$ 458,978	\$ 1,022,260	\$ 1,481,238

Endowment net assets as of June 30, 2016 consist of:

Cash	\$ 142,694
Investments	<u>1,338,544</u>
	<u>\$ 1,481,238</u>

NONCASH TRANSACTIONS

GIFTS-IN-KIND

During the years ended June 30, 2017 and 2016, 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 the years ended June 30, 2017 and 2016 was \$20,941 and \$20,242, and is considered a level 2 classification measured on a nonrecurring basis.

During the years ended June 30, 2017 and 2016, Villa received various donated items, such as assets, food and supplies. Donated assets for the years ended June 30, 2017 and 2016 were \$1,821,485 and \$29,724, and other gifts-in-kind used in operations or special events were \$56,125 and \$76,463, respectively, and are included in various expense accounts. In addition, stock valued at \$260,045 was donated during the year ended June 30, 2017. The fair value of the gifts-in-kind is considered a level 2 classification measured on a nonrecurring basis.





VILLA ESPERANZA SERVICES  
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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 \$249,581 and \$267,146 for the years ended June 30, 2017 and 2016, respectively. Villa also pays expenses on behalf of its affiliates and records a receivable. Total related party receivables at June 30, 2017 and 2016 were \$640,203 and \$680,815, respectively.

Villa rents various administrative and program facilities on a month-to-month basis from several of its affiliates. Total payments made to Villa's affiliates for the years ended June 30, 2017 and 2016 were \$143,097 and \$146,557, 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, 2017 and 2016 were \$122,102 and \$97,685, respectively.

SUBSEQUENT EVENTS

In July 2017, Villa signed a construction note up to a maximum of \$4,100,000 to be drawn upon as necessary through February 1, 2019. As of the date of the financial statements, the funds available through the note have not been utilized.

Villa has evaluated subsequent events through January 22, 2018, which is the date these financial statements were issued. All subsequent events requiring recognition as of June 30, 2017, have been incorporated into these financial statements.

