

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, 2019 and 2018, 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, 2019 and 2018, 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.

November 18, 2019
Pasadena, California

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VILLA ESPERANZA SERVICES
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2019
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2018)

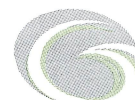
ASSETS

	June 30,	
	2019	2018
CURRENT ASSETS		
Cash and cash equivalents	\$ 4,773,577	\$ 4,351,028
Cash held in trust - client accounts	21,568	20,400
Investments	69,554	103,214
Accounts receivable - net	1,862,287	1,748,596
Pledges receivable, current portion - net	881,919	326,145
Grants receivable	6,534	-
Related party receivables, current portion - net of payables	414,654	422,151
Prepaid expenses	103,285	95,242
Total current assets	8,133,378	7,066,776
PROPERTY AND EQUIPMENT - NET	12,755,944	11,561,969
OTHER ASSETS		
Cash and cash equivalents - endowment	17,923	20,051
Investments - endowment	1,830,053	1,740,664
Loan fees - net	7,341	4,628
Deposits	12,600	6,555
Pledges receivable, less current portion - net	1,682,986	168,533
Beneficial interest in split-interest agreement - net	2,569,816	2,180,957
Related party receivables, less current portion - net of payables	205,087	188,754
Total other assets	6,325,806	4,310,142
TOTAL ASSETS	\$ 27,215,128	\$ 22,938,887

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 262,041	\$ 1,705,095
Client trust liability	21,568	20,400
Accrued interest	14,866	-
Accrued payroll and vacation	877,763	780,436
Notes payable, current portion	109,382	78,855
Total current liabilities	1,285,620	2,584,786
LONG-TERM LIABILITIES		
Notes payable, less current portion	4,151,454	1,779,266
TOTAL LIABILITIES	5,437,074	4,364,052
NET ASSETS		
Without donor restriction	13,397,035	6,360,097
With donor restriction	8,381,019	12,214,738
TOTAL NET ASSETS	21,778,054	18,574,835
TOTAL LIABILITIES AND NET ASSETS	\$ 27,215,128	\$ 22,938,887

The accompanying notes are an integral part of this statement.



VILLA ESPERANZA SERVICES
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2018)

	Years ended June 30,			2018
	2019			
	Without donor restriction	With donor restriction	Total	Total
SUPPORT AND REVENUE				
Program fees	\$ 14,102,089	\$ -	\$ 14,102,089	\$ 13,621,320
Contributions	6,158	518,027	524,185	903,312
Other income	12,160	-	12,160	13,643
Bad debts	(64,686)	-	(64,686)	(35,381)
Net assets released from restriction:				
Operations	215,578	(215,578)	-	-
	14,271,299	302,449	14,573,748	14,502,894
Special events revenue	497,127	58,240	555,367	527,550
Special events expenses	(140,326)	-	(140,326)	(146,175)
Net revenue from special events	356,801	58,240	415,041	381,375
Total support and revenue	14,628,100	360,689	14,988,789	14,884,269
EXPENSES				
Program services	12,467,521	-	12,467,521	11,431,033
Supporting services				
Management and general	1,927,229	-	1,927,229	1,912,447
Fundraising	632,421	-	632,421	539,946
Total supporting services	2,559,650	-	2,559,650	2,452,393
Total expenses before depreciation and amortization	15,027,171	-	15,027,171	13,883,426
Operating surplus (deficit) before depreciation and amortization	(399,071)	360,689	(38,382)	1,000,843
Depreciation and amortization	417,031	-	417,031	132,548
Operating surplus (deficit)	(816,102)	360,689	(455,413)	868,295
OTHER CHANGES IN NET ASSETS				
Contributions - capital campaign	-	3,155,742	3,155,742	172,679
Net investment income	24,906	87,261	112,167	121,881
Change in value of split-interest agreement	-	388,859	388,859	85,916
Gain (loss) on disposition of assets	1,864	-	1,864	(37,179)
Net assets released from restriction:				
Capital campaign	7,826,270	(7,826,270)	-	-
Total other changes in net assets	7,853,040	(4,194,408)	3,658,632	343,297
CHANGE IN NET ASSETS	7,036,938	(3,833,719)	3,203,219	1,211,592
NET ASSETS AT BEGINNING OF YEAR	6,360,097	12,214,738	18,574,835	17,363,243
NET ASSETS AT END OF YEAR	\$ 13,397,035	\$ 8,381,019	\$ 21,778,054	\$ 18,574,835

The accompanying notes are an integral part of this statement.



VILLA ESPERANZA SERVICES
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2018)

	June 30,				
	2019				2018
	Program services	Management and general	Fundraising	Total	Total
PERSONNEL EXPENSES					
Salaries and wages	\$ 9,015,374	\$ 1,183,092	\$ 325,207	\$ 10,523,673	\$ 9,804,947
Payroll taxes	743,232	85,778	25,097	854,107	803,850
Employee benefits	332,340	79,508	10,389	422,237	389,580
Retirement plan	78,857	71,092	15,235	165,184	151,901
Total personnel expenses	10,169,803	1,419,470	375,928	11,965,201	11,150,278
OTHER EXPENSES					
Workers' compensation	529,068	22,034	2,893	553,995	547,988
Rent expense	297,147	39,009	22,681	358,837	397,980
Professional fees	129,421	76,497	105,063	310,981	273,535
Food	166,831	14,847	2,624	184,302	173,452
Program supplies	169,785	19,060	26,732	215,577	191,007
Interest expense	214,614	2,709	-	217,323	52,863
Events and promotion	21,378	11,094	12,522	44,994	37,679
Repairs and maintenance	28,109	5,266	978	34,353	45,417
Telephone and other communication	76,247	22,107	4,920	103,274	100,967
Insurance	118,701	18,875	2,071	139,647	128,630
Legal and accounting	-	188,161	-	188,161	101,440
Utilities	90,272	10,406	2,592	103,270	81,327
Transportation costs	168,358	7,234	714	176,306	167,184
Travel	58,866	4,560	235	63,661	66,189
Quality assurance fees	57,347	-	-	57,347	74,859
Taxes and licenses	62,554	2,198	85	64,837	50,721
Printing and duplication	10,044	14,233	21,845	46,122	46,497
Training	24,185	1,573	2,603	28,361	30,923
Dues and subscriptions	8,568	23,322	10,412	42,302	39,469
Medical services	19,362	-	-	19,362	15,446
Equipment expense	20,997	5,323	1,964	28,284	34,906
Postage	4,465	6,818	8,407	19,690	15,303
Miscellaneous office expense	21,399	12,433	27,152	60,984	59,366
Total other expenses	2,297,718	507,759	256,493	3,061,970	2,733,148
Total expenses before depreciation and amortization	12,467,521	1,927,229	632,421	15,027,171	13,883,426
Depreciation and amortization	395,139	20,805	1,087	417,031	132,548
TOTAL EXPENSES	<u>\$ 12,862,660</u>	<u>\$ 1,948,034</u>	<u>\$ 633,508</u>	<u>\$ 15,444,202</u>	<u>\$ 14,015,974</u>

The accompanying notes are an integral part of this statement.



VILLA ESPERANZA SERVICES
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2019
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2018)

	June 30,	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
CHANGE IN NET ASSETS	\$ 3,203,219	\$ 1,211,592
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Depreciation and amortization	417,031	132,548
Change in value of split-interest agreement	(388,859)	(85,916)
Realized and unrealized gain on investments	(64,404)	(86,324)
Donated assets	(225,232)	(136,548)
Loss (gain) on disposition of assets	(1,864)	37,179
Changes in operating assets and liabilities:		
Accounts receivable	(113,691)	(97,243)
Pledges receivable	(2,070,227)	657,202
Grants receivable	(6,534)	30,000
Related party receivables, net of payables	(8,836)	29,298
Prepaid expenses	(8,043)	(57,601)
Loan fees	(4,865)	(3,000)
Deposits	(6,045)	3,751
Accounts payable and accrued expenses	(1,432,613)	(146,907)
Client trust liability	1,168	(3,684)
Due to regional center	-	(3,501)
Accrued payroll and vacation	97,327	(66,032)
CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	(612,468)	1,414,814
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	699,715	646,768
Proceeds from sale of property and equipment	1,885	3,130
Purchase of investments	(488,957)	(678,700)
Purchase of property and equipment	(660,032)	(2,917,249)
CASH USED FOR INVESTING ACTIVITIES	(447,389)	(2,946,051)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from construction loan	1,512,191	-
Principal payments on notes payable	(30,745)	(1,682,394)
CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	1,481,446	(1,682,394)
NET INCREASE (DECREASE) IN CASH	421,589	(3,213,631)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	4,391,479	7,605,110
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 4,813,068	\$ 4,391,479
SUMMARY OF CASH AND CASH EQUIVALENTS AT END OF YEAR:		
Cash and cash equivalents	\$ 4,773,577	\$ 4,351,028
Cash held in trust - client accounts	21,568	20,400
Cash and cash equivalents - endowment	17,923	20,051
	\$ 4,813,068	\$ 4,391,479
SUPPLEMENTARY SCHEDULE:		
CASH PAID FOR INTEREST	\$ 202,457	\$ 52,863
CASH PAID FOR INCOME TAXES	\$ -	\$ -
FIXED ASSETS ACQUIRED THROUGH DEBT	\$ 921,269	\$ 1,340,512
CONSTRUCTION LOAN CONVERTED TO A NOTE PAYABLE	\$ 3,761,581	\$ -

The accompanying notes are an integral part of this statement.



VILLA ESPERANZA SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

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 750 children, adults and seniors each year from 47 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 new vision for Villa's main campus. This included the investment in a new Master Facilities Plan, which in 2014, was approved by the Pasadena City Council. The Phase 1, \$9 million campaign, included the Master Facility Plan, rebuilding the majority of the school, and the purchase of a new building for the Dimensions Adult Day Program. Phase 1 raised a total of \$10.5 million, and was completed in September 2018. Proceeds were used as described above.

Villa purchased a building for the Dimensions Adult Day Program, and they moved into the newly renovated space in 2016. In September 2018, the students and teachers moved into their 7 new classrooms, multipurpose room, and 2 play areas.

Now, Villa is focused on Phase 2A of the capital campaign to address their next priorities of 3 additional classrooms, an occupational therapy clinic and a sports and performing arts center. To date, Villa has raised \$3.7 of the \$11.5 million goal for Phase 2A of the capital campaign.



VILLA ESPERANZA SERVICES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019 AND 2018

LIQUIDITY

The following table reflects Villa's financial assets as of June 30, 2019 and 2018, reduced by amounts not available for general expenditure within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year or restricted by donors. Villa evaluates future liquidity requirements based on expected future expenditures along with capital projects. In addition, Villa is able to utilize up to \$500,000 of short-term borrowings through a line of credit, if necessary (see LINE OF CREDIT).

	June 30,	
	2019	2018
Financial assets:		
Cash and cash equivalents	\$ 4,773,577	\$ 4,351,028
Investments	69,554	103,214
Accounts receivable - net	1,862,287	1,748,596
Pledges receivable	881,919	326,145
Grants receivable	6,534	-
Cash and cash equivalents - endowment	17,923	20,051
Investments - endowment	1,830,053	1,740,664
Less those unavailable for general expenditure within one year due to:		
Amounts with donor restriction	(4,128,217)	(9,865,248)
Financial assets (deficit) available to meet cash needs for general expenditures within one year	\$ <u>5,313,630</u>	\$ <u>(1,575,550)</u>

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 (U.S. 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 U.S. GAAP. Accordingly, such information should be read in conjunction with Villa's financial statements for the year ended June 30, 2018, 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:

ESTIMATES

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

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, 2019 and 2018, the allowance for doubtful accounts was \$50,000.



VILLA ESPERANZA SERVICES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019 AND 2018

SIGNIFICANT ACCOUNTING POLICIES (continued)

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. 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 2.0%.

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, 2019 and 2018 are reflected net of accumulated amortization of \$524 and \$10,577, respectively. Amortization expense for the years ended June 30, 2019 and 2018 was \$2,152 and \$9,982, respectively.

FAIR VALUE MEASUREMENTS

U.S. 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

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 include 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.



VILLA ESPERANZA SERVICES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019 AND 2018

SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Program service fees are principally special education tuition earned from contractual agreements between Villa and the school districts or the regional centers it serves. 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

Villa reports information regarding its financial position and activities according to two classes of net assets: with donor restriction and without donor restriction, as described below:

Without donor restriction, includes funds which are expendable for the support of Villa's operations.

With donor restriction may include funds which donors have restricted for specific purposes or funds that are subject to specific timetables (see NET ASSETS WITH DONOR RESTRICTION).

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.

FUNCTIONAL ALLOCATION OF EXPENSES

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include personnel, office and occupancy expenses, which are allocated on a basis of time and efforts.

DONATED SERVICES

U.S. 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.



VILLA ESPERANZA SERVICES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019 AND 2018

PLEDGES RECEIVABLE

Pledges receivable are scheduled to be collected as follows:

	June 30,	
	2019	2018
Less than one year	\$ 881,919	\$ 326,145
One to five years	1,802,876	174,102
Less discount to net present value	(119,890)	(5,569)
	<u>\$ 2,564,905</u>	<u>\$ 494,678</u>
Current pledges receivable, net	\$ 881,919	\$ 326,145
Long-term pledges receivable, net	<u>1,682,986</u>	<u>168,533</u>
	<u>\$ 2,564,905</u>	<u>\$ 494,678</u>

PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	June 30,	
	2019	2018
Land	\$ 1,878,324	\$ 1,878,324
Buildings and improvements	11,705,296	2,307,247
Equipment	543,287	290,240
Furniture and fixtures	79,515	34,330
Vehicles	986,875	798,445
Leasehold improvements	82,300	33,898
Construction in progress	<u>3,375</u>	<u>8,343,897</u>
	15,278,972	13,686,381
Less accumulated depreciation	<u>(2,523,028)</u>	<u>(2,124,412)</u>
	<u>12,755,944</u>	<u>11,561,969</u>
Less debt secured by property	<u>(4,260,836)</u>	<u>(1,858,121)</u>
Net investment in property and equipment	<u>\$ 8,495,108</u>	<u>\$ 9,703,848</u>

Depreciation expense for the years ended June 30, 2019 and 2018 was \$414,879 and \$122,566, respectively.



VILLA ESPERANZA SERVICES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019 AND 2018

INVESTMENTS

Investments are summarized as follows:

At June 30, 2019:

	<u>Market Value</u>	<u>Cost Basis</u>
Equities and equity funds	\$ 1,849,863	\$ 1,202,893
Fixed income and fixed income funds	<u>49,744</u>	<u>529,701</u>
	<u>\$ 1,899,607</u>	<u>\$ 1,732,594</u>

At June 30, 2018:

	<u>Market Value</u>	<u>Cost Basis</u>
Equities and equity funds	\$ 1,622,298	\$ 1,138,033
Fixed income and fixed income funds	<u>221,580</u>	<u>536,353</u>
	<u>\$ 1,843,878</u>	<u>\$ 1,674,386</u>

Investment returns are summarized as follows:

	<u>June 30,</u>	
	<u>2019</u>	<u>2018</u>
Interest and dividends	\$ 57,705	\$ 45,279
Net realized and unrealized gain	64,404	86,324
Investment fees	<u>(9,942)</u>	<u>(9,722)</u>
	<u>\$ 112,167</u>	<u>\$ 121,881</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 2019 and 2018, and applicable mortality tables. In accordance with U.S. GAAP, the asset is considered a level 3 classification measured on a recurring basis.



VILLA ESPERANZA SERVICES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019 AND 2018

BENEFICIAL INTEREST IN SPLIT-INTEREST AGREEMENT (continued)

The split interest agreement at June 30, 2019 and 2018 consisted of the following:

	June 30,	
	2019	2018
Assets	\$ 2,739,883	\$ 2,352,042
Liabilities	(170,067)	(171,085)
	<u>\$ 2,569,816</u>	<u>\$ 2,180,957</u>

NOTES PAYABLE

In May 2017, Villa signed a construction loan up to a maximum of \$4,100,000 to be drawn upon as necessary through February 1, 2019. As of June 30, 2018, the balance drawn was \$1,340,512. On February 1, 2019, Villa converted \$3,761,581 into a long-term note. As of June 30, 2019, the balance due was \$3,755,255, as indicated below.

	Current	Long-term	Total
Note secured by property located in Pasadena, California; bearing interest at 5.02% per annum; monthly principal and interest payments of \$4,217; maturing May 2033	\$ 25,379	\$ 480,202	\$ 505,581
Note secured by property located in Pasadena, California; bearing interest at 4.75% per annum; monthly principal and interest payments of \$21,712; maturing February 2029	84,003	3,671,252	3,755,255
	<u>\$ 109,382</u>	<u>\$ 4,151,454</u>	<u>\$ 4,260,836</u>

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

2020	\$ 109,382
2021	114,672
2022	120,522
2023	126,474
2024	132,665
Thereafter	<u>3,657,121</u>
	<u>\$ 4,260,836</u>

Interest expense for the years ended June 30, 2019 and 2018 was \$217,323 and \$52,863, 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 2020. 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, 2019 and 2018, there was no outstanding balance on the line of credit.



VILLA ESPERANZA SERVICES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019 AND 2018

LEASE COMMITMENTS

Villa leases various equipment and property located in several Southern California cities. Monthly payments on equipment total \$2,065 and monthly payments on property total \$10,370. The leases expire from June 2020 to October 2023. Future minimum lease payments at June 30, 2019 are as follows:

	<u>Facilities</u>	<u>Equipment</u>	<u>Total</u>
2020	\$ 125,642	\$ 18,159	\$ 143,801
2021	19,099	15,731	34,830
2022	-	12,433	12,433
2023	-	4,575	4,575
2024	-	507	507
	<u>\$ 144,741</u>	<u>\$ 51,405</u>	<u>\$ 196,146</u>

Villa also rents other administrative and program facilities on a month-to-month basis. Total rent expense for the years ended June 30, 2019 and 2018 was \$358,837 and \$397,980, 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, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
Equities and equity funds	\$ 1,849,863	\$ -	\$ -	\$ 1,849,863
Bonds and bond funds	49,744	-	-	49,744
Beneficial interest in split-interest agreement	-	-	2,569,816	2,569,816
	<u>\$ 1,899,607</u>	<u>\$ -</u>	<u>\$ 2,569,816</u>	<u>\$ 4,469,423</u>

Measured on a nonrecurring basis at June 30, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Pledges receivable	\$ -	\$ -	\$ 2,564,905	\$ 2,564,905



VILLA ESPERANZA SERVICES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019 AND 2018

FAIR VALUE MEASUREMENTS (continued)

Measured on a recurring basis at June 30, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
Equities and equity funds	\$ 1,622,298	\$ -	\$ -	\$ 1,622,298
Bonds and bond funds	221,580	-	-	221,580
Beneficial interest in split-interest agreement	-	-	2,180,957	2,180,957
	<u>\$ 1,843,878</u>	<u>\$ -</u>	<u>\$ 2,180,957</u>	<u>\$ 4,024,835</u>

Measured on a nonrecurring basis at June 30, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Pledges receivable	\$ -	\$ -	\$ 494,678	\$ 494,678

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, 2017	\$ 2,095,041
Change in value of split-interest agreement	85,916
Balance at June 30, 2018	2,180,957
Change in value of split-interest agreement	388,859
Balance at June 30, 2019	<u>\$ 2,569,816</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, 2019 AND 2018

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:

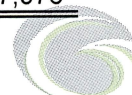
	<u>Range</u>
Equities	30% to 70%
Fixed income	20% to 60%
Cash and cash equivalents	0% to 20%

SPENDING POLICY

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

For the year ended June 30, 2019:

	<u>Without donor restriction</u>	<u>With donor restriction</u>	<u>Total</u>
Investment return			
Net investment income	\$ -	\$ 38,626	\$ 38,626
Net appreciation (realized and unrealized)	<u>-</u>	<u>48,635</u>	<u>48,635</u>
Total net investment return	<u>-</u>	<u>87,261</u>	<u>87,261</u>
Appropriation of endowment assets for expenditure	<u>-</u>	<u>-</u>	<u>-</u>
Change in endowment net assets	<u>-</u>	<u>87,261</u>	<u>87,261</u>
Endowment net assets at June 30, 2018	<u>-</u>	<u>1,760,715</u>	<u>1,760,715</u>
Endowment net assets at June 30, 2019	<u>\$ -</u>	<u>\$ 1,847,976</u>	<u>\$ 1,847,976</u>
Endowment net assets as of June 30, 2019 consist of:			
Cash and cash equivalents			\$ 17,923
Investments			<u>1,830,053</u>
			<u>\$ 1,847,976</u>



VILLA ESPERANZA SERVICES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019 AND 2018

ENDOWMENT (continued)

	Without donor restriction	With donor restriction	Total
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required by donor to be retained	\$ -	\$ 1,022,260	\$ 1,022,260
Portion subject to appropriation under SPMIFA	-	825,716	825,716
Endowment net assets at June 30, 2019	<u>\$ -</u>	<u>\$ 1,847,976</u>	<u>\$ 1,847,976</u>

For the year ended June 30, 2018:

	Without donor restriction	With donor restriction	Total
Investment return			
Net investment income	\$ -	\$ 32,691	\$ 32,691
Net appreciation (realized and unrealized)	-	87,718	87,718
Total net investment return	-	120,409	120,409
Appropriation of endowment assets for expenditure	-	-	-
Change in endowment net assets	-	120,409	120,409
Endowment net assets at June 30, 2017	-	1,640,306	1,640,306
Endowment net assets at June 30, 2018	<u>\$ -</u>	<u>\$ 1,760,715</u>	<u>\$ 1,760,715</u>

Endowment net assets as of June 30, 2018 consist of:

Cash and cash equivalents	\$ 20,051
Investments	1,740,664
	<u>\$ 1,760,715</u>

	Without donor restriction	With donor restriction	Total
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required by donor to be retained	\$ -	\$ 1,022,260	\$ 1,022,260
Portion subject to appropriation under SPMIFA	-	738,455	738,455
Endowment net assets at June 30, 2018	<u>\$ -</u>	<u>\$ 1,760,715</u>	<u>\$ 1,760,715</u>



VILLA ESPERANZA SERVICES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019 AND 2018

NET ASSETS WITH DONOR RESTRICTION

Net assets with donor restriction consisted of the following:

	June 30,	
	2019	2018
Purpose-restricted:		
Programs	\$ 619,153	\$ 614,767
Endowment	1,847,976	1,760,715
Capital campaign	1,035,250	7,500,012
Other restrictions	2,313,735	1,844,566
Time-restricted:		
Pledges	2,564,905	494,678
	<u>\$ 8,381,019</u>	<u>\$ 12,214,738</u>

NONCASH TRANSACTIONS

GIFTS-IN-KIND

During the years ended June 30, 2019 and 2018, 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, 2019 and 2018 was \$20,941 and \$20,941, and is considered a level 2 classification measured on a nonrecurring basis. The value of the free rent is included in contributions.

During the years ended June 30, 2019 and 2018, Villa received various donated items, such as assets, food and supplies. Donated assets for the years ended June 30, 2019 and 2018 were \$23,149 and \$33,334, and other gifts-in-kind used in operations or special events were \$40,235 and \$31,761, respectively, and are included in various expense accounts. In addition, stock valued at \$202,083 and \$103,214 was received during the years ended June 30, 2019 and 2018, respectively. The fair value of the gifts-in-kind is considered a level 2 classification measured on a nonrecurring basis.

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 \$279,601 and \$279,566 for the years ended June 30, 2019 and 2018, respectively. Villa also pays expenses on behalf of its affiliates and records a receivable. Total related party receivables at June 30, 2019 and 2018 were \$619,741 and \$610,905, 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, 2019 and 2018 were \$140,322 and \$151,807, respectively, and are included in rent expense.



VILLA ESPERANZA SERVICES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019 AND 2018

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, 2019 and 2018 were \$165,184 and \$151,901, respectively.

SUBSEQUENT EVENTS

Villa has evaluated subsequent events through November 18, 2019, the date at which the financial statements were available to be issued, and determined that no events have occurred that require disclosure.

