

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, 2020 and 2019, 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, 2020 and 2019, 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 23, 2020
Pasadena, California

VILLA ESPERANZA SERVICES
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2020
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2019)

ASSETS		June 30,	
	<u>2020</u>	<u>2019</u>	
CURRENT ASSETS			
Cash and cash equivalents	\$ 8,989,232	\$ 4,773,577	
Cash held in trust - client accounts	27,801	21,568	
Investments	-	69,554	
Accounts receivable - net	2,020,666	1,862,287	
Pledges receivable, current portion - net	951,127	881,919	
Grants receivable	25,500	6,534	
Related party receivables, current portion - net of payables	343,248	414,654	
Prepaid expenses	<u>192,952</u>	<u>103,285</u>	
Total current assets	<u>12,550,526</u>	<u>8,133,378</u>	
PROPERTY AND EQUIPMENT - NET	<u>12,330,764</u>	<u>12,755,944</u>	
OTHER ASSETS			
Cash and cash equivalents - endowment	22,011	17,923	
Investments - endowment	1,782,644	1,830,053	
Loan fees - net	6,814	7,341	
Deposits	29,750	12,600	
Pledges receivable, less current portion - net	1,497,651	1,682,986	
Beneficial interest in split-interest agreement - net	2,554,046	2,569,816	
Related party receivables, less current portion - net of payables	<u>228,117</u>	<u>205,087</u>	
Total other assets	<u>6,121,033</u>	<u>6,325,806</u>	
TOTAL ASSETS	<u>\$ 31,002,323</u>	<u>\$ 27,215,128</u>	
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable and accrued expenses	\$ 194,481	\$ 262,041	
Client trust liability	27,801	21,568	
Accrued interest	19,941	14,866	
Accrued payroll and vacation	621,139	877,763	
Line of credit	25,000	-	
Notes payable, current portion	<u>2,442,638</u>	<u>109,382</u>	
Total current liabilities	<u>3,331,000</u>	<u>1,285,620</u>	
LONG-TERM LIABILITIES			
Notes payable, less current portion	<u>4,039,817</u>	<u>4,151,454</u>	
TOTAL LIABILITIES	<u>7,370,817</u>	<u>5,437,074</u>	
NET ASSETS			
Without donor restriction	14,584,723	13,397,035	
With donor restriction	<u>9,046,783</u>	<u>8,381,019</u>	
TOTAL NET ASSETS	<u>23,631,506</u>	<u>21,778,054</u>	
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 31,002,323</u>	<u>\$ 27,215,128</u>	

The accompanying notes are an integral part of this statement.

VILLA ESPERANZA SERVICES
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2019)

	Years ended June 30,			
	2020		2019	
	Without donor restriction	With donor restriction	Total	Total
SUPPORT AND REVENUE				
Program fees	\$ 15,119,608	\$ -	\$ 15,119,608	\$ 14,102,089
Contributions	466,861	216,845	683,706	524,185
Other income	13,880	-	13,880	12,160
Bad debts	(11,549)	-	(11,549)	(64,686)
Net assets released from restriction:				
Operations	89,596	(89,596)	-	-
	<u>15,678,396</u>	<u>127,249</u>	<u>15,805,645</u>	<u>14,573,748</u>
Special events revenue	453,029	67,029	520,058	555,367
Special events expenses	(58,825)	-	(58,825)	(140,326)
Net revenue from special events	<u>394,204</u>	<u>67,029</u>	<u>461,233</u>	<u>415,041</u>
Total support and revenue	<u>16,072,600</u>	<u>194,278</u>	<u>16,266,878</u>	<u>14,988,789</u>
EXPENSES				
Program services	<u>12,186,600</u>	<u>-</u>	<u>12,186,600</u>	<u>12,467,521</u>
Supporting services				
Management and general	1,900,312	-	1,900,312	1,927,229
Fundraising	609,211	-	609,211	632,421
Total supporting services	<u>2,509,523</u>	<u>-</u>	<u>2,509,523</u>	<u>2,559,650</u>
Total expenses before depreciation and amortization	<u>14,696,123</u>	<u>-</u>	<u>14,696,123</u>	<u>15,027,171</u>
Operating surplus (deficit) before depreciation and amortization	1,376,477	194,278	1,570,755	(38,382)
Depreciation and amortization	<u>484,152</u>	<u>-</u>	<u>484,152</u>	<u>417,031</u>
Operating surplus (deficit)	892,325	194,278	1,086,603	(455,413)
OTHER CHANGES IN NET ASSETS				
Contributions - capital campaign	-	811,384	811,384	3,155,742
Net investment income (loss)	13,756	(43,321)	(29,565)	112,167
Change in value of split-interest agreement	-	(15,770)	(15,770)	388,859
Gain on disposition of assets	800	-	800	1,864
Net assets released from restriction:				
Capital campaign	<u>280,807</u>	<u>(280,807)</u>	<u>-</u>	<u>-</u>
Total other changes in net assets	295,363	471,486	766,849	3,658,632
CHANGE IN NET ASSETS	1,187,688	665,764	1,853,452	3,203,219
NET ASSETS AT BEGINNING OF YEAR	<u>13,397,035</u>	<u>8,381,019</u>	<u>21,778,054</u>	<u>18,574,835</u>
NET ASSETS AT END OF YEAR	<u>\$ 14,584,723</u>	<u>\$ 9,046,783</u>	<u>\$ 23,631,506</u>	<u>\$ 21,778,054</u>

The accompanying notes are an integral part of this statement.

VILLA ESPERANZA SERVICES
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2020
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2019)

	June 30,				2019
	2020			Total	
	Program services	Management and general	Fundraising		
PERSONNEL EXPENSES					
Salaries and wages	\$ 8,886,845	\$ 1,273,308	\$ 337,717	\$ 10,497,870	\$ 10,523,673
Payroll taxes	740,469	92,957	26,157	859,583	854,107
Employee benefits	343,116	82,610	6,794	432,520	422,237
Retirement plan	95,050	85,046	16,498	196,594	165,184
Total personnel expenses	10,065,480	1,533,921	387,166	11,986,567	11,965,201
OTHER EXPENSES					
Workers' compensation	487,277	22,256	2,588	512,121	553,995
Rent expense	294,824	9,122	18,070	322,016	358,837
Professional fees	109,907	70,758	103,126	283,791	310,981
Food	146,668	13,721	2,104	162,493	184,302
Program supplies	150,976	15,952	23,006	189,933	215,577
Interest expense	204,335	5,653	-	209,989	217,323
Events and promotion	32,926	6,690	12,371	51,987	44,994
Repairs and maintenance	16,005	2,664	252	18,921	34,353
Telephone and other communication	84,041	21,813	6,050	111,904	103,274
Insurance	129,821	21,349	1,383	152,553	139,647
Legal and accounting	-	97,072	-	97,072	188,161
Utilities	96,469	11,030	4,670	112,169	103,270
Transportation costs	133,720	6,882	547	141,149	176,306
Travel	41,366	7,180	-	48,546	63,661
Quality assurance fees	28,295	-	-	28,295	57,347
Taxes and licenses	54,271	1,144	257	55,672	64,837
Printing and duplication	8,214	9,105	10,689	28,008	46,122
Training	18,878	1,687	1,952	22,517	28,361
Dues and subscriptions	13,018	18,790	9,177	40,985	42,302
Medical services	24,610	633	2,531	27,774	19,362
Equipment expense	13,465	3,182	4,916	21,563	28,284
Postage	4,863	6,488	8,457	19,808	19,690
Miscellaneous office expense	27,171	13,220	9,899	50,290	60,984
Total other expenses	2,121,120	366,391	222,045	2,709,556	3,061,970
Total expenses before depreciation and amortization	12,186,600	1,900,312	609,211	14,696,123	15,027,171
Depreciation and amortization	456,655	23,034	4,463	484,152	417,031
TOTAL EXPENSES	\$ 12,643,255	\$ 1,923,346	\$ 613,674	\$ 15,180,275	\$ 15,444,202

The accompanying notes are an integral part of this statement.

VILLA ESPERANZA SERVICES
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2020
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2019)

	June 30,	
	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
CHANGE IN NET ASSETS	\$ 1,853,452	\$ 3,203,219
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Depreciation and amortization	484,152	417,031
Contributions for long-term purposes	(811,384)	(3,155,742)
Change in value of split-interest agreement	15,770	(388,859)
Realized and unrealized (gain) loss on investments	79,862	(64,404)
Donated assets	(284,797)	(225,232)
Gain on disposition of assets	(800)	(1,864)
Changes in operating assets and liabilities:		
Accounts receivable	(158,379)	(113,691)
Pledges receivable	116,127	(2,070,227)
Grants receivable	(18,966)	(6,534)
Related party receivables, net of payables	48,376	(8,836)
Prepaid expenses	(89,667)	(8,043)
Loan fees	-	(4,865)
Deposits	(17,150)	(6,045)
Accounts payable and accrued expenses	(67,560)	(1,432,613)
Client trust liability	6,233	1,168
Accrued interest	5,075	-
Accrued payroll and vacation	(256,624)	97,327
CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>903,720</u>	<u>(3,768,210)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	964,666	699,715
Proceeds from sale of property and equipment	800	1,885
Purchase of investments	(655,373)	(488,957)
Purchase of property and equipment	(45,840)	(660,032)
CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	<u>264,253</u>	<u>(447,389)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions for long-term purposes	811,384	3,155,742
Proceeds from loan	2,439,500	-
Proceeds from construction loan	-	1,512,191
Additional borrowing on line of credit	25,000	-
Principal payments on notes payable	(217,881)	(30,745)
CASH PROVIDED BY FINANCING ACTIVITIES	<u>3,058,003</u>	<u>4,637,188</u>
NET INCREASE IN CASH	4,225,976	421,589
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>4,813,068</u>	<u>4,391,479</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 9,039,044</u>	<u>\$ 4,813,068</u>
SUMMARY OF CASH AND CASH EQUIVALENTS AT END OF YEAR:		
Cash and cash equivalents	\$ 8,989,232	\$ 4,773,577
Cash held in trust - client accounts	27,801	21,568
Cash and cash equivalents - endowment	22,011	17,923
	<u>\$ 9,039,044</u>	<u>\$ 4,813,068</u>
SUPPLEMENTARY SCHEDULE:		
CASH PAID FOR INTEREST	\$ 204,914	\$ 202,457
CASH PAID FOR INCOME TAXES	\$ -	\$ -
FIXED ASSETS ACQUIRED THROUGH DEBT	\$ -	\$ 921,269
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, 2020 AND 2019

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 and adults 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 \$4.1 million of the \$11.5 million goal for Phase 2A of the capital campaign.

VILLA ESPERANZA SERVICES
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2020 AND 2019

LIQUIDITY

The following table reflects Villa's financial assets as of June 30, 2020 and 2019, 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,	
	<u>2020</u>	<u>2019</u>
Financial assets:		
Cash and cash equivalents	\$ 8,989,232	\$ 4,773,577
Investments	-	69,554
Accounts receivable - net	2,020,666	1,862,287
Pledges receivable	951,127	881,919
Grants receivable	25,500	6,534
Cash and cash equivalents - endowment	22,011	17,923
Investments - endowment	1,782,644	1,830,053
Less those unavailable for general expenditure within one year due to:		
Amounts with donor restriction	<u>(4,995,086)</u>	<u>(4,128,217)</u>
Financial assets (deficit) available to meet cash needs for general expenditures within one year	<u>\$ 8,796,094</u>	<u>\$ 5,313,630</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, 2019, 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, 2020 and 2019, the allowance for doubtful accounts was \$50,000.

VILLA ESPERANZA SERVICES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020 AND 2019

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 with donor restriction 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 .66%.

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, 2020 and 2019 are reflected net of accumulated amortization of \$1,052 and \$524, respectively. Amortization expense for the years ended June 30, 2020 and 2019 was \$528 and \$2,152, 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 without donor restriction 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 net assets with donor restriction 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, 2020 AND 2019

SIGNIFICANT ACCOUNTING POLICIES (continued)

INCOME AND SUPPORT RECOGNITION

All donations received are considered available without donor restriction 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: without donor restriction and with 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, 2020 AND 2019

PLEDGES RECEIVABLE

Pledges receivable are scheduled to be collected as follows:

	June 30,	
	<u>2020</u>	<u>2019</u>
Less than one year	\$ 951,127	\$ 881,919
One to five years	1,560,805	1,802,876
Less discount to net present value	<u>(63,154)</u>	<u>(119,890)</u>
	<u>\$ 2,448,778</u>	<u>\$ 2,564,905</u>
Current pledges receivable, net	\$ 951,127	\$ 881,919
Long-term pledges receivable, net	<u>1,497,651</u>	<u>1,682,986</u>
	<u>\$ 2,448,778</u>	<u>\$ 2,564,905</u>

PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	June 30,	
	<u>2020</u>	<u>2019</u>
Land	\$ 1,878,324	\$ 1,878,324
Buildings and improvements	11,712,755	11,705,296
Equipment	583,192	543,287
Furniture and fixtures	79,515	79,515
Vehicles	989,330	986,875
Leasehold improvements	82,300	82,300
Construction in progress	<u>-</u>	<u>3,375</u>
	15,325,416	15,278,972
Less accumulated depreciation	<u>(2,994,652)</u>	<u>(2,523,028)</u>
	<u>12,330,764</u>	<u>12,755,944</u>
Less debt secured by property	<u>(3,219,103)</u>	<u>(4,260,836)</u>
Net investment in property and equipment	<u>\$ 9,111,661</u>	<u>\$ 8,495,108</u>

Depreciation expense for the years ended June 30, 2020 and 2019 was \$483,624 and \$414,879, respectively.

VILLA ESPERANZA SERVICES
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2020 AND 2019

INVESTMENTS

Investments are summarized as follows:

At June 30, 2020:

	<u>Market Value</u>	<u>Cost Basis</u>
Equities and equity funds	\$ 1,744,265	\$ 1,012,026
Fixed income and fixed income funds	<u>38,379</u>	<u>658,308</u>
	<u>\$ 1,782,644</u>	<u>\$ 1,670,334</u>

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>

Investment returns are summarized as follows:

	<u>June 30,</u>	
	<u>2020</u>	<u>2019</u>
Interest and dividends	\$ 60,365	\$ 57,705
Net realized and unrealized gain (loss)	(79,862)	64,404
Investment fees	<u>(10,068)</u>	<u>(9,942)</u>
	<u>\$ (29,565)</u>	<u>\$ 112,167</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 net asset with donor restriction 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 2020 and 2019, 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, 2020 AND 2019

BENEFICIAL INTEREST IN SPLIT-INTEREST AGREEMENT (continued)

The split interest agreement at June 30, 2020 and 2019 consisted of the following:

	June 30,	
	<u>2020</u>	<u>2019</u>
Assets	\$ 2,702,125	\$ 2,739,883
Liabilities	<u>(148,079)</u>	<u>(170,067)</u>
	<u>\$ 2,554,046</u>	<u>\$ 2,569,816</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. 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 of June 30, 2020, the balance due was \$3,674,296, as indicated below.

In April 2020, Villa obtained a Paycheck Protection Program (PPP) loan in the amount of \$2,439,500, administered by the Small Business Administration (SBA) as part of the relief efforts related to COVID-19. The loan accrues interest at 1%, but payments are not required to begin for seven months after the funding of the loan. The SBA will forgive PPP loans and accrued interest if all employee retention criteria are met and the funds are used for eligible expenses. Villa has evaluated whether all required criteria for loan forgiveness have been met, and is confident that 100% of the loan will be forgiven. Therefore, the loan is being reflected as a current obligation in the notes payable schedule below. In addition, the lender made an error in calculating the eligible PPP loan amount and required Villa to make one principal payment in the amount of \$111,534, bringing the balance to \$2,327,966 as of June 30, 2020.

	<u>Current</u>	<u>Long-term</u>	<u>Total</u>
Unsecured SBA loan; bearing interest at 1%; monthly interest payments in the amount of \$2,033 beginning November 10, 2020	\$ 2,327,966	\$ -	\$ 2,327,966
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	26,591	453,602	480,193
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	<u>88,081</u>	<u>3,586,215</u>	<u>3,674,296</u>
	<u>\$ 2,442,638</u>	<u>\$ 4,039,817</u>	<u>\$ 6,482,455</u>

VILLA ESPERANZA SERVICES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020 AND 2019

NOTES PAYABLE (continued)

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

2021	\$	2,442,638
2022		120,522
2023		126,474
2024		132,665
2025		139,270
Thereafter		<u>3,520,886</u>
	\$	<u>6,482,455</u>

Interest expense for the years ended June 30, 2020 and 2019 was \$209,989 and \$217,323, 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 2022. 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, 2020 and 2019, the outstanding balance was \$25,000 and \$0, respectively.

LEASE COMMITMENTS

Villa leases various equipment and property located in several Southern California cities. Monthly payments on equipment total \$2,055 and monthly payments on property total \$14,178. The leases expire from June 2020 to October 2024. Future minimum lease payments at June 30, 2020 are as follows:

	<u>Facilities</u>	<u>Equipment</u>	<u>Total</u>
2021	\$ 63,470	\$ 20,771	\$ 84,241
2022	48,000	19,490	67,490
2023	-	9,003	9,003
2024	-	5,025	5,025
2025	-	1,296	1,296
	<u>\$ 111,470</u>	<u>\$ 55,585</u>	<u>\$ 167,055</u>

Villa also rents other administrative and program facilities on a month-to-month basis. Total rent expense for the years ended June 30, 2020 and 2019 was \$322,016 and \$358,837, 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.

VILLA ESPERANZA SERVICES
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2020 AND 2019

FAIR VALUE MEASUREMENTS

Assets measured at fair value are as follows:

Measured on a recurring basis at June 30, 2020:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
Equities and equity funds	\$ 1,744,265	\$ -	\$ -	\$ 1,744,265
Bonds and bond funds	38,379	-	-	38,379
Beneficial interest in split-interest agreement	<u>-</u>	<u>-</u>	<u>2,554,046</u>	<u>2,554,046</u>
	<u>\$ 1,782,644</u>	<u>\$ -</u>	<u>\$ 2,554,046</u>	<u>\$ 4,336,690</u>

Measured on a nonrecurring basis at June 30, 2020:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Pledges receivable	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,448,778</u>	<u>\$ 2,448,778</u>

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	<u>-</u>	<u>-</u>	<u>2,569,816</u>	<u>2,569,816</u>
	<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	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,564,905</u>	<u>\$ 2,564,905</u>

VILLA ESPERANZA SERVICES
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2020 AND 2019

FAIR VALUE MEASUREMENTS (continued)

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, 2018	\$ 2,180,957
Change in value of split-interest agreement	<u>388,859</u>
Balance at June 30, 2019	2,569,816
Change in value of split-interest agreement	<u>(15,770)</u>
Balance at June 30, 2020	<u>\$ 2,554,046</u>

ENDOWMENT

Villa has a donor-restricted endowment fund, which is classified as with donor restriction 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.

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 endowment 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%

VILLA ESPERANZA SERVICES
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2020 AND 2019

ENDOWMENT (continued)

SPENDING POLICY

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

	<u>Without donor restriction</u>	<u>With donor restriction</u>	<u>Total</u>
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	<u>-</u>	<u>782,395</u>	<u>782,395</u>
Endowment net assets at June 30, 2020	<u>\$ -</u>	<u>\$ 1,804,655</u>	<u>\$ 1,804,655</u>
	<u>Without donor restriction</u>	<u>With donor restriction</u>	<u>Total</u>
Investment return			
Net investment income	\$ -	\$ 39,421	\$ 39,421
Net appreciation (depreciation) (realized and unrealized)	<u>-</u>	<u>(82,742)</u>	<u>(82,742)</u>
Total net investment return (loss)	<u>-</u>	<u>(43,321)</u>	<u>(43,321)</u>
Appropriation of endowment assets for expenditure	<u>-</u>	<u>-</u>	<u>-</u>
Change in endowment net assets	<u>-</u>	<u>(43,321)</u>	<u>(43,321)</u>
Endowment net assets at June 30, 2019	<u>-</u>	<u>1,847,976</u>	<u>1,847,976</u>
Endowment net assets at June 30, 2020	<u>\$ -</u>	<u>\$ 1,804,655</u>	<u>\$ 1,804,655</u>
Endowment net assets as of June 30, 2020 consist of:			
Cash and cash equivalents			\$ 22,011
Investments			<u>1,782,644</u>
			<u>\$ 1,804,655</u>
	<u>Without donor restriction</u>	<u>With donor restriction</u>	<u>Total</u>
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	<u>-</u>	<u>825,716</u>	<u>825,716</u>
Endowment net assets at June 30, 2019	<u>\$ -</u>	<u>\$ 1,847,976</u>	<u>\$ 1,847,976</u>

VILLA ESPERANZA SERVICES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020 AND 2019

ENDOWMENT (continued)

	<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 consisted of:			
Cash and cash equivalents			\$ 17,923
Investments			<u>1,830,053</u>
			<u>\$ 1,847,976</u>

NET ASSETS WITH DONOR RESTRICTION

Net assets with donor restriction consisted of the following:

	<u>June 30,</u>	
	<u>2020</u>	<u>2019</u>
Purpose-restricted:		
Programs	\$ 1,238,905	\$ 363,072
Endowment	1,804,655	1,847,976
Capital campaign	1,000,399	1,035,250
Time-restricted:		
Beneficial interest in split-interest agreement - net	2,554,046	2,569,816
Pledges	<u>2,448,778</u>	<u>2,564,905</u>
	<u>\$ 9,046,783</u>	<u>\$ 8,381,019</u>

VILLA ESPERANZA SERVICES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020 AND 2019

NONCASH TRANSACTIONS

GIFTS-IN-KIND

During the years ended June 30, 2020 and 2019, 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, 2020 and 2019 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, 2020 and 2019, Villa received various donated items, such as assets, food and supplies. Donated assets for the years ended June 30, 2020 and 2019 were \$12,605 and \$23,149, and other gifts-in-kind used in operations or special events were \$53,588 and \$40,235, respectively, and are included in various expense accounts. In addition, stock valued at \$272,192 and \$202,083 was received during the years ended June 30, 2020 and 2019, 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 \$293,567 and \$279,601 for the years ended June 30, 2020 and 2019, respectively. Villa also pays expenses on behalf of its affiliates and records a receivable. Total related party receivables at June 30, 2020 and 2019 were \$571,365 and \$619,741, 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, 2020 and 2019 were \$144,693 and \$140,322, 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, 2020 and 2019 were \$196,594 and \$165,184, respectively.

RISKS AND UNCERTAINTIES

In March 2020, the World Health Organization declared the spread of Coronavirus disease (COVID-19) a worldwide pandemic. The COVID-19 pandemic is having significant effects on global, national, and local markets, supply chains, businesses, and communities. Specific to Villa, COVID-19 may impact various parts of its operations and financial results. Villa is taking appropriate actions to mitigate the negative impact; however, the full impact of COVID-19 is unknown and cannot be reasonably estimated as of November 23, 2020.

SUBSEQUENT EVENTS

Villa has evaluated subsequent events through November 23, 2020, the date at which the financial statements were available to be issued, and determined that no events have occurred that require disclosure.