

VILLA ESPERANZA SERVICES  
FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITOR'S REPORT  
YEAR ENDED JUNE 30, 2021 AND 2020

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, 2021 and 2020, 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, 2021 and 2020, 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 22, 2021  
Pasadena, California

VILLA ESPERANZA SERVICES  
STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2021  
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2020)

ASSETS		June 30,	
		<u>2021</u>	<u>2020</u>
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	\$	12,558,981	\$ 8,989,232
Cash held in trust - client accounts		28,266	27,801
Investments		199,912	-
Accounts receivable - net		1,812,897	2,020,666
Pledges receivable, current portion - net		641,470	951,127
Grants receivable		161,618	25,500
Related party receivables, current portion - net of payables		417,238	343,248
Prepaid expenses		183,707	192,952
Total current assets		<u>16,004,089</u>	<u>12,550,526</u>
<b>PROPERTY AND EQUIPMENT - NET</b>		<u>11,978,134</u>	<u>12,330,764</u>
<b>OTHER ASSETS</b>			
Cash and cash equivalents - endowment		27,243	22,011
Investments - endowment		2,197,256	1,782,644
Loan fees - net		6,286	6,814
Deposits		29,750	29,750
Pledges receivable, less current portion - net		816,646	1,497,651
Beneficial interest in split-interest agreement - net		2,703,682	2,554,046
Related party receivables, less current portion - net of payables		208,044	228,117
Total other assets		<u>5,988,907</u>	<u>6,121,033</u>
<b>TOTAL ASSETS</b>	<b>\$</b>	<b><u>33,971,130</u></b>	<b>\$ <u>31,002,323</u></b>
<b>LIABILITIES AND NET ASSETS</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable and accrued expenses	\$	209,078	\$ 194,481
Client trust liability		28,266	27,801
Accrued interest		24,319	19,941
Accrued payroll and vacation		780,168	621,139
Line of credit		-	25,000
Notes payable, current portion		4,452,917	2,442,638
Total current liabilities		<u>5,494,748</u>	<u>3,331,000</u>
<b>LONG-TERM LIABILITIES</b>			
Notes payable, less current portion		<u>2,405,564</u>	<u>4,039,817</u>
<b>TOTAL LIABILITIES</b>		<u>7,900,312</u>	<u>7,370,817</u>
<b>NET ASSETS</b>			
Without donor restriction		15,094,720	14,584,723
With donor restriction		10,976,098	9,046,783
<b>TOTAL NET ASSETS</b>		<u>26,070,818</u>	<u>23,631,506</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$</b>	<b><u>33,971,130</u></b>	<b>\$ <u>31,002,323</u></b>

The accompanying notes are an integral part of this statement.

VILLA ESPERANZA SERVICES  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2021  
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2020)

	June 30,			
	2021			2020
	Without donor restriction	With donor restriction	Total	Total
<b>SUPPORT AND REVENUE</b>				
Program fees	\$ 11,847,135	\$ -	\$ 11,847,135	\$ 15,119,608
Contributions	407,976	414,057	822,033	683,706
Other income	18,536	-	18,536	13,880
Bad debts	(35,062)	-	(35,062)	(11,549)
Net assets released from restriction:				
Operations	52,634	(52,634)	-	-
	<u>12,291,219</u>	<u>361,423</u>	<u>12,652,642</u>	<u>15,805,645</u>
Special events revenue	337,084	66,079	403,163	520,058
Special events expenses	(16,170)	-	(16,170)	(58,825)
Net revenue from special events	<u>320,914</u>	<u>66,079</u>	<u>386,993</u>	<u>461,233</u>
Total support and revenue	<u>12,612,133</u>	<u>427,502</u>	<u>13,039,635</u>	<u>16,266,878</u>
<b>EXPENSES</b>				
Program services	<u>9,156,599</u>	<u>-</u>	<u>9,156,599</u>	<u>12,186,600</u>
Supporting services				
Management and general	1,852,146	-	1,852,146	1,900,312
Fundraising	664,295	-	664,295	609,211
Total supporting services	<u>2,516,441</u>	<u>-</u>	<u>2,516,441</u>	<u>2,509,523</u>
Total expenses before depreciation and amortization	<u>11,673,040</u>	<u>-</u>	<u>11,673,040</u>	<u>14,696,123</u>
Operating surplus before depreciation and amortization	939,093	427,502	1,366,595	1,570,755
Depreciation and amortization	<u>489,304</u>	<u>-</u>	<u>489,304</u>	<u>484,152</u>
Operating surplus	449,789	427,502	877,291	1,086,603
<b>OTHER CHANGES IN NET ASSETS</b>				
Contributions - capital campaign	-	963,770	963,770	811,384
Net investment income (loss)	29,395	419,220	448,615	(29,565)
Change in value of				
split-interest agreement	-	149,636	149,636	(15,770)
Gain on disposition of assets	-	-	-	800
Net assets released from restriction:				
Capital campaign	<u>30,813</u>	<u>(30,813)</u>	<u>-</u>	<u>-</u>
Total other changes in net assets	60,208	1,501,813	1,562,021	766,849
CHANGE IN NET ASSETS	509,997	1,929,315	2,439,312	1,853,452
NET ASSETS AT BEGINNING OF YEAR	<u>14,584,723</u>	<u>9,046,783</u>	<u>23,631,506</u>	<u>21,778,054</u>
NET ASSETS AT END OF YEAR	<u>\$ 15,094,720</u>	<u>\$ 10,976,098</u>	<u>\$ 26,070,818</u>	<u>\$ 23,631,506</u>

The accompanying notes are an integral part of this statement.

VILLA ESPERANZA SERVICES  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2021  
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2020)

	June 30,				2020
	2021			Total	
	Program services	Management and general	Fundraising		
<b>PERSONNEL EXPENSES</b>					
Salaries and wages	\$ 6,556,989	\$ 1,267,246	\$ 345,954	\$ 8,170,189	\$ 10,497,870
Payroll taxes	484,403	85,371	25,249	595,023	859,583
Employee benefits	230,221	89,752	8,417	328,390	432,520
Retirement plan	89,680	76,099	16,312	182,091	196,594
<b>Total personnel expenses</b>	<b>7,361,293</b>	<b>1,518,468</b>	<b>395,932</b>	<b>9,275,693</b>	<b>11,986,567</b>
<b>OTHER EXPENSES</b>					
Workers' compensation	347,208	18,338	2,668	368,214	512,121
Rent expense	283,725	7,531	18,115	309,371	322,016
Professional fees	97,625	42,850	102,186	242,661	283,791
Food	96,644	6,410	1,408	104,462	162,493
Program supplies	142,124	14,862	82,625	239,611	189,933
Interest expense	182,329	17,902	-	200,231	209,989
Events and promotion	22,017	4,831	6,011	32,859	51,987
Repairs and maintenance	14,908	3,209	619	18,736	18,921
Telephone and other communication	69,496	23,938	5,879	99,313	111,904
Insurance	137,578	27,487	891	165,956	152,553
Legal and accounting	-	86,768	-	86,768	97,072
Utilities	87,497	10,754	3,981	102,232	112,169
Transportation costs	53,495	5,438	250	59,183	141,149
Travel	15,425	2,779	-	18,204	48,546
Quality assurance fees	50,470	-	-	50,470	28,295
Taxes and licenses	66,782	3,351	228	70,361	55,672
Printing and duplication	7,046	7,371	6,828	21,245	28,008
Training	21,790	2,856	1,175	25,821	22,517
Dues and subscriptions	17,845	23,771	9,533	51,149	40,985
Medical services	16,066	50	868	16,984	27,774
Equipment expense	29,373	9,738	11,750	50,861	21,563
Postage	8,668	4,500	5,551	18,719	19,808
Miscellaneous office expense	27,195	8,944	7,797	43,936	50,290
<b>Total other expenses</b>	<b>1,795,306</b>	<b>333,678</b>	<b>268,363</b>	<b>2,397,347</b>	<b>2,709,556</b>
<b>Total expenses before depreciation and amortization</b>	<b>9,156,599</b>	<b>1,852,146</b>	<b>664,295</b>	<b>11,673,040</b>	<b>14,696,123</b>
<b>Depreciation and amortization</b>	<b>458,275</b>	<b>26,154</b>	<b>4,875</b>	<b>489,304</b>	<b>484,152</b>
<b>TOTAL EXPENSES</b>	<b>\$ 9,614,874</b>	<b>\$ 1,878,300</b>	<b>\$ 669,170</b>	<b>\$ 12,162,344</b>	<b>\$ 15,180,275</b>

The accompanying notes are an integral part of this statement.

VILLA ESPERANZA SERVICES  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2021  
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2020)

	June 30,	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
CHANGE IN NET ASSETS	\$ 2,439,312	\$ 1,853,452
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	489,304	484,152
Contributions for long-term purposes	(964,394)	(811,384)
Change in value of split-interest agreement	(149,636)	15,770
Realized and unrealized (gain) loss on investments	(390,098)	79,862
Donated assets	(194,794)	(284,797)
Gain on disposition of assets	-	(800)
Expenses paid through escrow	11,669	-
Changes in operating assets and liabilities:		
Accounts receivable	207,769	(158,379)
Pledges receivable	990,662	116,127
Grants receivable	(136,118)	(18,966)
Related party receivables, net of payables	(53,917)	48,376
Prepaid expenses	9,245	(89,667)
Deposits	-	(17,150)
Accounts payable and accrued expenses	(17,934)	(67,560)
Client trust liability	465	6,233
Accrued interest	4,378	5,075
Accrued payroll and vacation	176,560	(256,624)
CASH PROVIDED BY OPERATING ACTIVITIES	2,422,473	903,720
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	436,505	964,666
Proceeds from sale of property and equipment	-	800
Purchase of investments	(466,137)	(655,373)
Purchase of property and equipment	(121,146)	(45,840)
CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	(150,778)	264,253
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions for long-term purposes	964,394	811,384
Proceeds from notes payable	2,027,433	2,439,500
Additional borrowing on line of credit	-	25,000
Principal payments on line of credit	(25,000)	-
Principal payments on notes payable	(1,663,076)	(217,881)
CASH PROVIDED BY FINANCING ACTIVITIES	1,303,751	3,058,003
NET INCREASE IN CASH	3,575,446	4,225,976
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	9,039,044	4,813,068
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 12,614,490	\$ 9,039,044
SUMMARY OF CASH AND CASH EQUIVALENTS AT END OF YEAR:		
Cash and cash equivalents	\$ 12,558,981	\$ 8,989,232
Cash held in trust - client accounts	28,266	27,801
Cash and cash equivalents - endowment	27,243	22,011
	\$ 12,614,490	\$ 9,039,044
SUPPLEMENTARY SCHEDULE:		
CASH PAID FOR INTEREST	\$ 195,853	\$ 204,914
CASH PAID FOR INCOME TAXES	\$ -	\$ -
DEBT REFINANCED THROUGH ESCROW	\$ 4,160,898	\$ -

The accompanying notes are an integral part of this statement.

VILLA ESPERANZA SERVICES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021 AND 2020

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 \$5.3 million of the \$11.5 million goal for Phase 2A of the capital campaign.



VILLA ESPERANZA SERVICES  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2021 AND 2020

LIQUIDITY

The following table reflects Villa's financial assets as of June 30, 2021 and 2020, 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>2021</u>	<u>2020</u>
Financial assets:		
Cash and cash equivalents	\$ 12,558,981	\$ 8,989,232
Investments	199,912	-
Accounts receivable - net	1,812,897	2,020,666
Pledges receivable	641,470	951,127
Grants receivable	161,618	25,500
Cash and cash equivalents - endowment	27,243	22,011
Investments - endowment	2,197,256	1,782,644
Less those unavailable for general expenditure within one year due to:		
Amounts with donor restriction	<u>(7,455,770)</u>	<u>(4,995,086)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 10,143,607</u>	<u>\$ 8,796,094</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, 2020, 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, 2021 and 2020, the allowance for doubtful accounts was \$50,000.

VILLA ESPERANZA SERVICES  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2021 AND 2020

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 1.45%.

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, 2021 and 2020 are reflected net of accumulated amortization of \$1,580 and \$1,052, respectively. Amortization expense for the years ended June 30, 2021 and 2020 was \$528 and \$528, 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, 2021 AND 2020

SIGNIFICANT ACCOUNTING POLICIES (continued)

REVENUE RECOGNITION

Effective July 1, 2020, Villa adopted Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606) and all subsequently issued clarifying ASU's which replaced most existing revenue recognition guidance in U.S. GAAP. The new guidance requires Villa to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which Villa expects to be entitled in exchange for those goods or services. The new guidance also requires expanded disclosures related to the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The adoption of this new guidance was done using the modified retrospective method. Villa applied the new guidance using the practical expedient provided in Topic 606 that allows the guidance to be applied only to contracts that were not complete as of July 1, 2020. Results for reporting periods beginning after July 1, 2020 are presented under Topic 606 while prior periods amounts are not adjusted and continue to be reported in accordance with legacy U.S. GAAP.

There was no significant effect on the financial statements related to the adoption of this new standard which would require a cumulative effect adjustment to net assets at the date of adoption under the modified retrospective method.

Villa's material revenue-generating activities and related accounting policies are as follows:

*Program fees*

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 revenue at a point in time, 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 includes revenue from housing projects for adults with built-in levels of support and assistance, which Villa recognizes as services are rendered. Villa recognizes program fees revenue in amounts that reflect the consideration Villa expects to be entitled to in exchange for the services rendered, or in amounts determined by hourly billing rates stated in a contract.

*Contributions*

Contributions are recorded when cash or unconditional promises-to-give have been received, or when ownership of donated assets is transferred to Villa. Conditional promises to give are not reflected as contributions until the conditions are substantially met. Villa records contributions as with donor restriction if donors restrict their use for a specific purpose or for use according to a specific time schedule, or both. When donor restrictions expire, that is, when the purpose restriction is fulfilled or the time restriction expires, net assets with donor restriction are reclassified to net assets without donor restriction and reported in the Statement of Activities as net assets released from restrictions.

It is Villa's policy to record contributions with donor restriction that are received and expended in the same accounting period as contributions with donor restriction and as net assets released from restrictions.

VILLA ESPERANZA SERVICES  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2021 AND 2020

SIGNIFICANT ACCOUNTING POLICIES (continued)

REVENUE RECOGNITION (continued)

*Contributions (continued)*

For contributions restricted by donors for the acquisition of property or other long-lived assets, the restriction is considered to be met when the property or other long-lived asset is acquired.

Noncash contributions (gifts-in-kind) are recorded at fair market value upon receipt, when the contributions are significant in amount and when there is a reasonable basis for valuation.

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.

ACCOUNTS RECEIVABLE

Opening and closing balances of accounts receivable for the years ended June 30, 2021 and 2020, were as follows:

	June 30,	
	2021	2020
Accounts receivable - gross, beginning of year	\$ 2,070,666	\$ 1,902,019
Accounts receivable - gross, end of year	\$ 1,862,897	\$ 2,070,666

VILLA ESPERANZA SERVICES  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2021 AND 2020

PLEDGES RECEIVABLE

Pledges receivable are scheduled to be collected as follows:

	June 30,	
	<u>2021</u>	<u>2020</u>
Less than one year	\$ 641,470	\$ 951,127
One to five years	839,108	1,560,805
Less discount to net present value	<u>(22,462)</u>	<u>(63,154)</u>
	<u>\$ 1,458,116</u>	<u>\$ 2,448,778</u>
Current pledges receivable, net	\$ 641,470	\$ 951,127
Long-term pledges receivable, net	<u>816,646</u>	<u>1,497,651</u>
	<u>\$ 1,458,116</u>	<u>\$ 2,448,778</u>

PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	June 30,	
	<u>2021</u>	<u>2020</u>
Land	\$ 1,878,324	\$ 1,878,324
Buildings and improvements	11,712,755	11,712,755
Equipment	655,109	583,192
Furniture and fixtures	83,746	79,515
Vehicles	989,330	989,330
Leasehold improvements	82,300	82,300
Construction in progress	<u>60,000</u>	<u>-</u>
	15,461,564	15,325,416
Less accumulated depreciation	<u>(3,483,430)</u>	<u>(2,994,652)</u>
	<u>11,978,134</u>	<u>12,330,764</u>
Less debt secured by property	<u>(2,530,515)</u>	<u>(3,219,103)</u>
Net investment in property and equipment	<u>\$ 9,447,619</u>	<u>\$ 9,111,661</u>

Depreciation expense for the years ended June 30, 2021 and 2020 was \$488,776 and \$483,624, respectively.

VILLA ESPERANZA SERVICES  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2021 AND 2020

INVESTMENTS

Investments are summarized as follows:

At June 30, 2021:

	<u>Market Value</u>	<u>Cost Basis</u>
Equities and equity funds	\$ 1,532,236	\$ 962,251
Fixed income and fixed income funds	<u>864,932</u>	<u>856,496</u>
	<u>\$ 2,397,168</u>	<u>\$ 1,818,747</u>

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>

Investment returns are summarized as follows:

	<u>June 30,</u>	
	<u>2021</u>	<u>2020</u>
Interest and dividends	\$ 68,886	\$ 60,365
Net realized and unrealized gain (loss)	390,098	(79,862)
Investment fees	<u>(10,369)</u>	<u>(10,068)</u>
	<u>\$ 448,615</u>	<u>\$ (29,565)</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 2021 and 2020, 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, 2021 AND 2020

BENEFICIAL INTEREST IN SPLIT-INTEREST AGREEMENT (continued)

The split interest agreement at June 30, 2021 and 2020 consisted of the following:

	June 30,	
	<u>2021</u>	<u>2020</u>
Assets	\$ 2,840,668	\$ 2,702,125
Liabilities	<u>(136,986)</u>	<u>(148,079)</u>
	<u>\$ 2,703,682</u>	<u>\$ 2,554,046</u>

NOTES PAYABLE

In January 2021, Villa obtained a Second Draw Paycheck Protection Program (PPP) loan in the amount of \$2,000,000, administered by the Small Business Administration (SBA) as continued relief efforts related to COVID-19. The loan accrues interest at 1%, but payments are not required to begin for ten months after the covered period (up to 24 weeks) following the loan disbursement. 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.

Subsequent to year end, Villa received loan forgiveness for its first draw PPP loan in the amount of \$2,327,966. As a result, the entire principal balance has been reflected as a current obligation in the schedule below (see SUBSEQUENT EVENTS).

	<u>Current</u>	<u>Long-term</u>	<u>Total</u>
Unsecured SBA loan; bearing interest at 1% per annum; monthly interest only payments in the amount of \$2,033 to begin after the deferred period with the remaining principal due April 2022	\$ 2,327,966	\$ -	\$ 2,327,966
Unsecured SBA loan; bearing interest at 1% per annum; monthly interest only payments in the amount of \$1,667 scheduled to begin after the covered period with the remaining principal due January 2026	2,000,000	-	2,000,000
Note secured by property located in Pasadena, California; bearing interest at 3.5% per annum; monthly principal and interest payments of \$3,587; maturing May 2033	25,946	466,915	492,861
Note secured by property located in Pasadena, California; bearing interest at 3.5% per annum; monthly principal and interest payments of \$18,625; maturing February 2029	<u>99,005</u>	<u>1,938,649</u>	<u>2,037,654</u>
	<u>\$ 4,452,917</u>	<u>\$ 2,405,564</u>	<u>\$ 6,858,481</u>

VILLA ESPERANZA SERVICES  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2021 AND 2020

NOTES PAYABLE (continued)

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

2022	\$	4,452,917
2023		128,422
2024		132,686
2025		137,840
2026		142,811
Thereafter		<u>1,863,805</u>
	\$	<u><u>6,858,481</u></u>

Interest expense for the years ended June 30, 2021 and 2020 was \$200,231 and \$209,989, 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 4.5%, and is secured by substantially all of Villa's assets. As of June 30, 2021 and 2020, the outstanding balance was \$0 and \$25,000, respectively.

LEASE COMMITMENTS

Villa leases various equipment and property located in several Southern California cities. Monthly payments on equipment total \$2,285 and monthly payments on property total \$9,490. The leases expire from August 2021 to June 2026. Villa also rents other administrative and program facilities on a month-to-month basis. Future minimum lease payments at June 30, 2021 are as follows:

	<u>Facilities</u>	<u>Equipment</u>	<u>Total</u>
2022	\$ 12,870	\$ 24,894	\$ 37,764
2023	-	23,762	23,762
2024	-	21,909	21,909
2025	-	19,249	19,249
2026	-	12,897	12,897
	<u>\$ 12,870</u>	<u>\$ 102,711</u>	<u>\$ 115,581</u>

Total rent expense for the years ended June 30, 2021 and 2020 was \$309,371 and \$322,016, 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, 2021 AND 2020

FAIR VALUE MEASUREMENTS

Assets measured at fair value are as follows:

Measured on a recurring basis at June 30, 2021:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
Equities and equity funds	\$ 1,532,236	\$ -	\$ -	\$ 1,532,236
Fixed income and fixed income funds	864,932	-	-	864,932
Beneficial interest in split-interest agreement - net	-	-	2,703,682	2,703,682
	<u>\$ 2,397,168</u>	<u>\$ -</u>	<u>\$ 2,703,682</u>	<u>\$ 5,100,850</u>

Measured on a nonrecurring basis at June 30, 2021:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Pledges receivable - net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,458,116</u>	<u>\$ 1,458,116</u>

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
Fixed income and fixed income funds	38,379	-	-	38,379
Beneficial interest in split-interest agreement - net	-	-	2,554,046	2,554,046
	<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 - net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,448,778</u>	<u>\$ 2,448,778</u>

VILLA ESPERANZA SERVICES  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2021 AND 2020

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, 2019	\$ 2,569,816
Change in value of split-interest agreement	<u>(15,770)</u>
Balance at June 30, 2020	2,554,046
Change in value of split-interest agreement	<u>149,636</u>
Balance at June 30, 2021	<u>\$ 2,703,682</u>

ENDOWMENT

Villa's endowment consists of several funds established for various purposes. The Governing Board of Villa has interpreted the California Uniform Prudent Management of Institutional Funds Act as requiring the preservation of the historical dollar amount of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Villa classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the restricted endowment, and (c) accumulations to the restricted endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund is classified as restricted net assets until those amounts are appropriated for expenditure by Villa in a manner consistent with the standard of prudence prescribed by the State Prudent Management of Institutional Funds Act (SPMIFA).

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, Bloomberg Barclays Aggregate 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, 2021 AND 2020

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>1,202,239</u>	<u>1,202,239</u>
Endowment net assets at June 30, 2021	<u>\$ -</u>	<u>\$ 2,224,499</u>	<u>\$ 2,224,499</u>
	<u>Without donor restriction</u>	<u>With donor restriction</u>	<u>Total</u>
Investment return			
Net investment income	\$ -	\$ 27,354	\$ 27,354
Net appreciation (realized and unrealized)	<u>-</u>	<u>391,866</u>	<u>391,866</u>
Total net investment return (loss)	<u>-</u>	<u>419,220</u>	<u>419,220</u>
Contributions	-	624	624
Appropriation of endowment assets for expenditure	<u>-</u>	<u>-</u>	<u>-</u>
Change in endowment net assets	<u>-</u>	<u>419,844</u>	<u>419,844</u>
Endowment net assets at June 30, 2020	<u>-</u>	<u>1,804,655</u>	<u>1,804,655</u>
Endowment net assets at June 30, 2021	<u>\$ -</u>	<u>\$ 2,224,499</u>	<u>\$ 2,224,499</u>
Endowment net assets as of June 30, 2021 consist of:			
Cash and cash equivalents			\$ 27,243
Investments			<u>2,197,256</u>
			<u>\$ 2,224,499</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>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>

VILLA ESPERANZA SERVICES  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2021 AND 2020

ENDOWMENT (continued)

	<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	<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 consisted of:			
Cash and cash equivalents			\$ 22,011
Investments			<u>1,782,644</u>
			<u>\$ 1,804,655</u>

NET ASSETS WITH DONOR RESTRICTION

Net assets with donor restriction consisted of the following:

	<u>June 30,</u>	
	<u>2021</u>	<u>2020</u>
Purpose-restricted:		
Programs	\$ 1,508,452	\$ 1,213,405
Endowment	2,224,499	1,804,655
Capital campaign	2,919,731	1,000,399
Time-restricted:		
Beneficial interest in split-interest agreement - net	2,703,682	2,554,046
Grants receivable	161,618	25,500
Capital campaign pledges receivable	<u>1,458,116</u>	<u>2,448,778</u>
	<u>\$ 10,976,098</u>	<u>\$ 9,046,783</u>

VILLA ESPERANZA SERVICES  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2021 AND 2020

NONCASH TRANSACTIONS

GIFTS-IN-KIND

During the years ended June 30, 2021 and 2020, 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, 2021 and 2020 was \$20,941 and \$20,941, respectively, 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, 2021 and 2020, Villa received various donated items, such as assets, food and supplies. Donated assets for the years ended June 30, 2021 and 2020 were \$0 and \$12,605, and other gifts-in-kind used in operations or special events were \$137,807 and \$53,588, respectively, and are included in various expense accounts. In addition, stock valued at \$194,794 and \$272,192 was received during the years ended June 30, 2021 and 2020, respectively. The fair value of the gifts-in-kind is considered a level 2 classification measured on a nonrecurring basis, and is included in contributions.

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 \$308,534 and \$293,567 for the years ended June 30, 2021 and 2020, respectively. Villa also pays expenses on behalf of its affiliates and records a receivable. Total related party receivables at June 30, 2021 and 2020 were \$625,282 and \$571,365, 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, 2021 and 2020 were \$147,204 and \$144,693, 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, 2021 and 2020 were \$182,091 and \$196,594, 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 22, 2021.

SUBSEQUENT EVENTS

Villa has evaluated subsequent events through November 22, 2021, the date at which the financial statements were available to be issued, and determined that the following require disclosure:

In August 2021, the principal balance in the amount of \$2,327,996 of the first draw Paycheck Protection Program loan was forgiven (see NOTES PAYABLE).