

THE TRUST FOR HIDDEN VILLA

AUDITED FINANCIAL STATEMENTS

August 31, 2018

(with summarized financial information for August 31, 2017)

THE TRUST FOR HIDDEN VILLA

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10 Almaden Boulevard, Suite 1000, San Jose, CA 95113

Phone (408) 961-6300 **Fax** (408) 961-6324 **Email** bpm@bpmcpa.com **Web** bpmcpa.com

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
The Trust for Hidden Villa
Los Altos Hills, California

We have audited the accompanying financial statements of The Trust for Hidden Villa (the "Trust," a nonprofit organization) which comprise the statement of financial position as of August 31, 2018 and the related statements of activities and cash flows for the year 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.

Auditors' 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider 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 The Trust for Hidden Villa as of August 31, 2018, and the changes in its net assets and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited The Trust for Hidden Villa's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 7, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

BPM LLP

San Jose, California
January 7, 2019

THE TRUST FOR HIDDEN VILLA

STATEMENT OF FINANCIAL POSITION

As of August 31, 2018

(with summarized comparative totals for August 31, 2017)

	2018	2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,136,484	\$ 1,356,578
Certificates of deposit	379,694	379,621
Unconditional promises to give receivables	57,200	1,200
Other receivables	41,358	4,547
Prepaid and other assets	38,361	35,106
Total current assets	<u>1,653,097</u>	<u>1,777,052</u>
Property and equipment, net	9,254,178	9,188,365
Donated artwork	270,900	270,900
Unconditional promises to give receivable, less current portion	8,400	9,500
Investments	6,841,030	5,711,312
Total long term assets	<u>16,374,508</u>	<u>15,180,077</u>
Total assets	<u>\$ 18,027,605</u>	<u>\$ 16,957,129</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and other accrued liabilities	\$ 143,591	\$ 133,140
Deferred revenue	54,517	99,772
Total current liabilities	<u>198,108</u>	<u>232,912</u>
Net assets:		
Unrestricted:		
Property and equipment	9,254,178	9,188,365
Donated artwork	270,900	270,900
Board designated	5,722,940	4,629,521
Undesignated	1,234,117	1,377,725
Total unrestricted	<u>16,482,135</u>	<u>15,466,511</u>
Temporarily restricted	632,413	543,982
Permanently restricted	714,949	713,724
Total net assets	<u>17,829,497</u>	<u>16,724,217</u>
Total liabilities and net assets	<u>\$ 18,027,605</u>	<u>\$ 16,957,129</u>

The accompanying notes are an integral part of these financial statements.

THE TRUST FOR HIDDEN VILLA

STATEMENT OF ACTIVITIES

For the year ended August 31, 2018

(with summarized comparative totals for the year ended August 31, 2017)

	2018			Total	2017 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Revenue and other support:					
Fees	\$ 1,234,825	\$ -	\$ -	\$ 1,234,825	\$ 1,205,778
Contributions	1,245,989	620,864	-	1,866,853	1,650,448
In-kind contribution income	6,500	-	-	6,500	270,900
Rental income	267,848	-	-	267,848	278,853
Miscellaneous income and sales	146,857	-	-	146,857	188,208
Special events, net of expenses	-	-	-	-	147,566
Net assets released from restriction	599,625	(599,625)	-	-	-
Total revenue and other support	<u>3,501,644</u>	<u>21,239</u>	<u>-</u>	<u>3,522,883</u>	<u>3,741,753</u>
Expenses:					
Program services:					
Animal husbandry	203,309	-	-	203,309	147,924
Summer camp and youth development	1,040,450	-	-	1,040,450	1,114,776
Community supported agriculture programs	160,383	-	-	160,383	217,159
Environmental education program	482,887	-	-	482,887	496,792
Facility rentals	308,643	-	-	308,643	370,565
Resident intern program	195,119	-	-	195,119	222,344
Visitor services	532,246	-	-	532,246	479,938
Total program services	<u>2,923,037</u>	<u>-</u>	<u>-</u>	<u>2,923,037</u>	<u>3,049,498</u>
Supporting services:					
Administration	485,482	-	-	485,482	273,143
Fund development	345,372	-	-	345,372	346,358
Total supporting services	<u>830,854</u>	<u>-</u>	<u>-</u>	<u>830,854</u>	<u>619,501</u>
Subtotal expenses	3,753,891	-	-	3,753,891	3,668,999
Loss on disposal of fixed assets	(19,570)	-	-	(19,570)	-
Total expenses and losses	<u>3,734,321</u>	<u>-</u>	<u>-</u>	<u>3,734,321</u>	<u>3,668,999</u>
Change in net assets from operations	<u>(232,677)</u>	<u>21,239</u>	<u>-</u>	<u>(211,438)</u>	<u>72,754</u>
Non-operating changes:					
Contributions - Board designated and endowment	959,973	-	1,225	961,198	902,520
Interest and dividend income	146,292	34,091	-	180,383	102,003
Realized gain on investments	31,099	7,247	-	38,346	37,640
Unrealized gain on investments	110,937	25,854	-	136,791	379,538
Total other changes	<u>1,248,301</u>	<u>67,192</u>	<u>1,225</u>	<u>1,316,718</u>	<u>1,421,701</u>
Changes in net assets	1,015,624	88,431	1,225	1,105,280	1,494,455
Net assets, beginning of year	15,466,511	543,982	713,724	16,724,217	15,229,762
Net assets, end of year	<u>\$ 16,482,135</u>	<u>\$ 632,413</u>	<u>\$ 714,949</u>	<u>\$ 17,829,497</u>	<u>\$ 16,724,217</u>

The accompanying notes are an integral part of these financial statements.

THE TRUST FOR HIDDEN VILLA

STATEMENT OF CASH FLOWS

For the year ended August 31, 2018

(with summarized comparative totals for the year ended August 31, 2017)

	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ 1,105,280	\$ 1,494,455
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Unrealized gain on investments	(136,791)	(379,538)
Realized gain on investment	(38,346)	(37,640)
Loss on disposal of fixed assets	19,570	-
Depreciation	277,401	239,816
Donated artwork	-	(270,900)
Endowment interest and dividends	(34,091)	(23,563)
Endowment contributions	(1,225)	(1,549)
(Increase) decrease in operating assets:		
Unconditional promises to give receivable	(54,900)	1,200
Other receivables	(36,811)	2,501
Prepaid expenses and other assets	(3,255)	23,972
Increase (decrease) in operating liabilities:		
Accounts payable and other accrued liabilities	10,451	10,237
Deferred revenue	(45,255)	(73,576)
Total adjustments	(43,252)	(509,040)
Net cash provided by operating activities	1,062,028	985,415
Cash flows from investing activities:		
Maturity of certificates of deposit	(73)	95,159
Proceeds on sale of investments	173,062	140,415
Acquisition of investments	(1,127,643)	(1,101,123)
Acquisition of property and equipment	(362,784)	(202,261)
Net cash used in investing activities	(1,317,438)	(1,067,810)
Cash flows from financing activities:		
Endowment interest and dividends	34,091	23,563
Proceeds from endowment contributions	1,225	1,549
Net cash provided by financing activities	35,316	25,112
Net decrease in cash and cash equivalents	(220,094)	(57,283)
Cash and cash equivalents, beginning of year	1,356,578	1,413,861
Cash and cash equivalents, end of year	\$ 1,136,484	\$ 1,356,578

Supplemental disclosure of cash flow information:

1. Accounting Policy - The Trust considers all highly liquid investments with a maturity of three months or less when purchased to be "cash equivalents."
2. Schedule of non-cash investing transactions:

	2018	2017
Purchase of property and equipment	\$ 362,784	\$ 227,261
Accounts payable related to purchase of property and equipment	-	(25,000)
Net cash purchase of property equipment	\$ 362,784	\$ 202,261
Donated artwork	\$ -	\$ 270,900

The accompanying notes are an integral part of these financial statements.

THE TRUST FOR HIDDEN VILLA

NOTES TO FINANCIAL STATEMENTS

August 31, 2018

1. Business Description and Summary of Significant Accounting Policies

Organization

Hidden Villa is a nonprofit educational organization that uses its organic farm, wilderness, and community to teach and provide opportunities to learn about the environment and social justice. Hidden Villa stretches over 1,600 acres of open space in the foothills of the Santa Cruz Mountains, about 40 miles south of San Francisco. Our mission is to inspire a just and sustainable future through our programs, land and legacy.

Hidden Villa was founded by Frank and Josephine Duveneck, who purchased the land in 1924 and offered it as a gathering place for discussion, reflection, and incubation of social reform. Over the following decades, the Duvenecks established the first Hostel on the Pacific Coast (1937), the first multiracial summer camp (1945), and Hidden Villa's Environmental Education Program (1970). The Trust for Hidden Villa (the "Trust") was established as a nonprofit in 1960 and is supported by earned income and contributions from individuals, foundations and corporations throughout the Bay Area.

Nature of Activities

Animal Husbandry: provides a broad educational resource for Hidden Villa program participants and for casual visitors by demonstrating a sustainable means of animal agriculture where animal welfare and land stewardship are paramount. The program works to conserve heritage breeds of livestock to the extent feasible, and produces quality food and wool for local consumers.

Summer Camp and Youth Development: builds relationships among youth from diverse socio-economic and cultural backgrounds who come together for shared activities in Hidden Villa's unique environment (1,200 participate annually.)

Community Supported Agriculture Program: 70% of our produce is used to supply our neighborhood shareholders with fresh, organic produce; 25% is donated to the Community Service Agency of Mountain View for distribution to their clients; and the remaining 5% is sold to local community members at the Los Altos Farmers Market.

Environmental Education Program: teaches elementary school children key concepts of ecology and environmental stewardship through experiences on the farm and in the wilderness. Hidden Villa's teaching techniques and strategies are unique, striking a balance between scientific investigation and feelings of wonder, awareness, appreciation, and fun. (Over 20,000 students, teachers and parents participate annually.)

Facility Rentals: includes the Hostel, where groups and individuals stay; Josephine's Retreat; and the Dana Center and Duveneck House for large and small events and meetings.

THE TRUST FOR HIDDEN VILLA

NOTES TO FINANCIAL STATEMENTS

August 31, 2018

1. Business Description and Summary of Significant Accounting Policies, continued

Nature of Activities, continued

Resident Intern Program: provides training for young men and women interested in environmental education, community programs, non-profit management, social justice, organic farming, and animal husbandry.

Visitor Services Department: includes Community Programs, Volunteer Services, and Facility Rentals that provide workshops and forums for families and individuals interested in sustainable practices, animal husbandry, and nature. Visitor Services also works to improve service, outreach and cultivation for our visitors.

An additional 20,000 visitors come to our preserve annually to explore our farm and gardens or to hike on our eight miles of trails. Our constituents cover a wide spectrum of age, physical ability, geography, ethnicity, cultural and socio-economic backgrounds and our organic farm, rustic barns, newer sustainable structures and pristine riparian, woodland and chaparral wilderness provide opportunities to experience the beauty of our environment on a first hand basis.

Basis of Accounting

The financial statements of the Trust have been prepared on the accrual basis of accounting.

Reclassifications

Certain reclassifications have been made to the August 31, 2017 consolidated financial statement presentation to conform to the August 31, 2018 presentation.

Basis of Presentation

The Trust is required to report information regarding its financial position and activities in accordance with three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted Net Assets - The portion of net assets that is neither temporarily restricted nor permanently restricted by donor-imposed stipulations. Certain unrestricted net assets have been designated by the Board of Trustees (the "Board") for specific purposes or uses for various internal operating and administrative items. All of the Board designated funds are included in the Board designated endowment.

Temporarily Restricted Net Assets - The portion of net assets whose use by the Trust is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Trust according to the terms of the contribution, as well as unspent endowment appreciation.

Permanently Restricted Net Assets - The portion of net assets whose use by the Trust is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Trust.

THE TRUST FOR HIDDEN VILLA

NOTES TO FINANCIAL STATEMENTS

August 31, 2018

1. Business Description and Summary of Significant Accounting Policies, continued

Prior Year Comparative Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class or program and supporting service classifications. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Trust's financial statements for the year ended August 31, 2017, from which the summarized information was derived.

Measure of Operations

Hidden Villa includes in its measure of operations all revenue and expenses that are an integral part of its fee, programs and supporting activities. The measure of operations does not include the activity on the endowment account or the board designated contributions from bequests.

Concentration of Credit Risk

The Trust maintains its cash and cash equivalents in commercial checking and money market accounts. Periodically throughout the year, cash is maintained at the bank in excess of the insured (FDIC) amount of \$250,000, or \$500,000 for SIPC insurance.

Certificates of Deposit

Certificates of deposit are carried at market value. The Trust has both the ability and the intent to hold them until maturity. Certificates of deposit held as of August 31, 2018 mature between November 21, 2018 and May 28, 2019 and have interest rates ranging from 1.55% to 2.05%.

Investments

Investments are stated at their fair market value based on quoted market prices. Investments received by donation are recorded at their fair market value on the date received. Net realized and unrealized gains or losses are reflected as increases or decreases in unrestricted net assets, unless their use is temporarily or permanently restricted by the donor. If a restriction is fulfilled in the same fiscal year in which the investment income and/or gain is earned, the Trust reports the earnings as unrestricted. Gains or losses that result from market fluctuations are recognized in the fiscal year such fluctuations occur.

Investment securities are exposed to various risks, such as interest rate, market fluctuations and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect fair value and the amounts reported in the Statement of Financial Position and the Statement of Activities.

Unconditional Promises to Give

Unconditional verifiable promises to give are recognized as revenue in the period they are pledged. Conditional promises to give are recognized as revenue when the conditions on which they depend are substantially met, that is, when the conditional promise becomes unconditional.

THE TRUST FOR HIDDEN VILLA

NOTES TO FINANCIAL STATEMENTS

August 31, 2018

1. Business Description and Summary of Significant Accounting Policies, continued

Accounts Receivable

The Trust utilizes the allowance method for recognizing bad debts. The allowance is based on experience in prior years and management's analysis of specific accounts. Management has determined that an allowance for uncollectible accounts is not deemed necessary as of August 31, 2018.

Property and Equipment

The Trust records purchased property and equipment at cost and donated property and equipment at fair value, with cost or fair value in excess of \$2,500. Depreciation is computed using the straight-line method over the following useful lives:

Building	30 years
Building improvements	30 years
Office equipment	5 to 7 years
Other equipment	7 years
Vehicles	5 to 10 years

Donated Assets

Donated marketable securities and other noncash donations are recorded as contributions at their fair value at the date of donation. These donated assets are depreciated over their useful lives upon being put in service.

Donated Fixed Asset

During the year ended August 31, 2018, the Trust received donated furniture valued at \$6,500, which is on display in the Hostel. No impairment was applicable as of August 31, 2018. The donation is recorded at fair value at the date the donation was made.

Deferred Revenue

The Trust receives advances for events to be held in the future. These amounts are recorded as deferred revenue when received and are recognized as revenue when the event occurs. Deferred revenue was \$54,517 as of August 31, 2018.

THE TRUST FOR HIDDEN VILLA

NOTES TO FINANCIAL STATEMENTS

August 31, 2018

1. Business Description and Summary of Significant Accounting Policies, continued

Revenue Recognition

Contributions

Unconditional promises to give to the Trust are recorded as revenue at their fair value when the promise is made. Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support based on whether they include donor stipulations that limit the use of the contributions. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restriction. Contribution revenue is recognized when contributions are received. All contributions are considered available for general operations unless specifically restricted by the donor. Grants to support the Trust's programs are received from individuals, foundations, governmental agencies and corporations and are recorded as revenue when received.

Bequest

The Trust is occasionally notified by donors or the trustees of their estates that they have been named as a beneficiary in their will. The Trust will not immediately recognize these gifts as receivables and contributions unless they are irrevocable, unconditional and measurable. If a gift does not meet these criteria, it is not recognized as contribution revenue until the will is declared valid and subject to final distribution. At that time, the Trust recognizes the contribution at fair value, net of a discount for likely fees and taxes, based on historical experience.

Fees, Rental Income, and Special Events

Fee, rental income, and special event revenue and expenses are recognized in the year that the program is held or the rental period or special event occurs.

Investment Income

Realized and unrealized gains and losses and investment income derived from investment transactions are included as income in the year earned.

Contributed Services

Contributed services, which require a specialized skill and which the Trust would have paid for if not donated, are recorded at the estimated fair value at the time the services are rendered. The Trust records these services when the value is over \$1,500. The Trust also receives donated services that do not require specific expertise but which are nonetheless essential to the Trust's operations. These contributed services are not reflected in the financial statements.

THE TRUST FOR HIDDEN VILLA

NOTES TO FINANCIAL STATEMENTS

August 31, 2018

1. Business Description and Summary of Significant Accounting Policies, continued

Endowments

The State of California enacted the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) effective January 1, 2009, the provisions of which apply to endowment funds existing on or established after that date. Net asset classifications of donor-restricted endowment funds subject to an enacted version of UPMIFA have been accounted for appropriately in these financial statements. Additional disclosures about the Trust’s endowment funds (both donor-restricted and Board-designated endowment funds), whether or not the Trust is subject to UPMIFA, have been included for the year ended August 31, 2018.

Interpretation of Relevant Law

The Board has interpreted the State of California’s enacted version of UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Trust classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts donated to the permanent endowment, and (3) additions to the permanent endowment in accordance with donor directions. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Trust in a manner consistent with the standard of prudence prescribed by the enacted version of UPMIFA.

Spending Policy

In accordance with the State of California’s enacted version of UPMIFA, the Trust considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Trust and the endowment funds
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Trust
- (7) The investment policies of the Trust

Investment Policy, Strategies, and Objectives

The Trust has adopted investment and spending policies for endowment assets that attempt to maximize total return consistent with an acceptable level of risk. The goal is to produce a growing level of income and principal to ensure that the funding for the activities supported by the endowment can be maintained in the face of inflation.

Endowment assets are invested in a well diversified asset mix, which includes equity and debt securities. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the funds to unacceptable levels of risk.

Continued

THE TRUST FOR HIDDEN VILLA

NOTES TO FINANCIAL STATEMENTS

August 31, 2018

1. Business Description and Summary of Significant Accounting Policies, continued

Fair Value Measurement - Definition and Hierarchy

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the measurement date.

In determining fair value, the Trust uses various valuation approaches. A hierarchy has been established for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Trust. Unobservable inputs are inputs that reflect the Trust's assumptions about what market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The hierarchy is broken down into three levels based on the observability of inputs as follows:

Level 1 - quoted prices in active markets for identical investments.

Level 2 - inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3 - significant unobservable inputs (including the Trust's own assumptions in determining fair value instruments).

The categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Expense Allocations

Expenses, such as depreciation, insurance, and occupancy costs, are allocated among program services and supporting services on the basis of full-time employee equivalent ratios and on estimates made by the Trust's management. Management reviews and evaluates the allocations based on changes in programs and the time spent by individuals on the different program or supporting services.

Income Taxes

No provision has been made for income taxes as the Trust is exempt from federal income tax under Internal Revenue Code Section 501(c)(3) and state income taxes under Section 23701(d) of the California Revenue Taxation Code. However, income from certain activities not directly related to the Trust's tax-exempt purpose may be subject to taxation as unrelated business income.

THE TRUST FOR HIDDEN VILLA

NOTES TO FINANCIAL STATEMENTS

August 31, 2018

1. Business Description and Summary of Significant Accounting Policies, continued

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Concentrations

The Trust's unconditional promise to give receivable is comprised of a pledge from one donor.

Contributions from two donors received in the current year comprised approximately 30% and 18% of total contributions.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers*, which converges the FASB and the International Accounting Standards Board standards on revenue recognition. The ASU supersedes the revenue recognition requirements in ASC 605, *Revenue Recognition*. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized, based upon the core principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance also requires additional disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The ASU is effective for fiscal years beginning after December 15, 2018 and interim periods within annual periods beginning after December 15, 2018. Early adoption is permitted for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Hidden Villa is currently evaluating the impact of the adoption of this ASU on its financial statements.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (958). This statement includes updates that improve the usefulness of financial statements or reduce complexities for preparers. Some of the updates include requiring all nonprofits to present expenses by function and nature; replacing traditional three classes of net assets with only two classes (those with donor-imposed restrictions and those without); and reaffirmation of existing methods of presenting operating cash flows. The ASU is effective for annual reporting periods beginning after December 15, 2017, with early adoption permitted. Hidden Villa is currently evaluating the impact of adoption on its financial statements.

THE TRUST FOR HIDDEN VILLA

NOTES TO FINANCIAL STATEMENTS

August 31, 2018

1. Business Description and Summary of Significant Accounting Policies, continued

Recent Accounting Pronouncements, continued

In June 2018, the FASB issued ASU 2018-08, *Grants and Contracts* (958). The accounting for contributions has been modified to make it clearer in distinguishing whether grants or contracts should be accounted for as non-reciprocal contributions, or as exchange transactions that follow revenue recognition accounting. For exchange transactions, the standard clarifies when each party directly receives commensurate value in the transaction, and how to deal with third party payers to a transaction. Additionally, the criteria for determining whether a contribution is conditional has been changed from a probability-based approach to one focused on barriers in an arrangement. The changes in this standard are likely going to result in more transactions being treated as conditional contributions, including those that were previously considered earned revenue as exchange transactions. The new guidance is effective for fiscal years beginning after June 30, 2018 and interim periods beginning the following year. Hidden Villa is in the process of evaluating the impact of the new guidance on its financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases* (842). The new guidance requires lessees to recognize a right-to-use asset and a lease liability for virtually all leases (other than leases that meet the definition of a short-term lease). The new guidance is effective for fiscal years beginning after December 15, 2019 and interim periods beginning the following year. Early application is permitted. Hidden Villa is in the process of evaluating the impact of the new guidance on its financial statements.

2. Unconditional Promises to Give Receivables

Unconditional promises to give receivables is summarized as follows for the year ended August 31, 2018:

Receivables in less than one year	\$	57,200
Receivables in one to five years		6,000
Receivables in more than five years		<u>2,400</u>
Total unconditional promises to give receivable		65,600
Less current portion		<u>(57,200)</u>
Unconditional promises to give, long-term	\$	<u><u>8,400</u></u>

The receivables are not stated at present value since any discount would not be material.

THE TRUST FOR HIDDEN VILLA

NOTES TO FINANCIAL STATEMENTS

August 31, 2018

3. Property and Equipment, net

Property and equipment, net is summarized as follows for the year ended August 31, 2018:

Land	\$	6,385,143
Buildings and land improvements		6,694,231
Furniture, equipment and vehicles		532,316
		<u>13,611,690</u>
Less accumulated depreciation		<u>(4,441,913)</u>
		9,169,777
Construction in progress		84,401
	\$	<u><u>9,254,178</u></u>

Depreciation expense for the year ended August 31, 2018 is \$277,401.

4. Investments

The Trust's investments, consisting of mutual funds and exchange traded funds, are recorded at fair value, are summarized as follows for the year ended August 31, 2018:

U.S. equity	\$	1,826,337
International equity		1,331,490
Global fixed income		920,837
Domestic fixed income		919,604
Inflation linked securities		459,329
Real estate		403,222
Emerging markets equity		416,059
Commodities		160,914
Precious metals		153,125
Money market		250,113
	\$	<u><u>6,841,030</u></u>

The following schedule summarizes the investment return for the year ended August 31, 2018:

Total dividend income	\$	<u>180,383</u>
Unrealized gain on investments	\$	<u>136,791</u>
Realized gain on investments	\$	<u><u>38,346</u></u>

THE TRUST FOR HIDDEN VILLA

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5. Line of Credit

The Trust has a \$500,000 line of credit agreement with Comerica Bank-California, with interest at prime rate plus 1.5% (currently at 6.0%), due on demand and expiring May 5, 2019. The line of credit is secured by all assets of the Trust, except real estate. There were no outstanding borrowings for the year ended August 31, 2018.

6. Retirement Plan

The Trust has a tax deferred savings 403(b) plan covering all eligible employees. Participants may receive matching contributions of 1.25% of their annual salary. Employer contributions were \$14,994 for the year ended August 31, 2018.

7. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes for the year ended August 31, 2018:

Operations, endowment	\$	403,141
Programs		181,600
Operations		21,111
Capital improvements		11,676
Legacy fund		14,885
		<u>14,885</u>
	\$	<u>632,413</u>

Net assets were released from donor restrictions by incurring expenses satisfying the purpose or time restrictions specified by donors as follows for the year ended August 31, 2018:

Purpose restriction accomplished:		
Programs	\$	461,379
Scholarships		93,433
Operations, endowment		32,118
Operations		12,695
		<u>12,695</u>
	\$	<u>599,625</u>

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8. Endowment

Endowment net assets composition by type of fund are summarized as follows for the year ended August 31, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Endowment Net Assets
Donor-restricted endowment funds	\$ -	\$ 403,141	\$ 714,949	\$ 1,118,090
Board-designated endowment funds	5,722,940	-	-	5,722,940
	\$ 5,722,940	\$ 403,141	\$ 714,949	\$ 6,841,030

Changes in endowment net assets are summarized as follows for the year ended August 31, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Endowment Net Assets
Endowment net assets, September 1, 2017	\$ 4,629,521	\$ 368,067	\$ 713,724	\$ 5,711,312
Contributions	959,973	-	1,225	961,198
Interest and dividend income	146,292	34,091	-	180,383
Net appreciation	142,036	33,101	-	175,137
Amounts appropriated for expenditure	(154,882)	(32,118)	-	(187,000)
Endowment net assets, August 31, 2018	\$ 5,722,940	\$ 403,141	\$ 714,949	\$ 6,841,030

The amount classified as permanently restricted represents the amount of the endowment fund that must be retained permanently in accordance with explicit donor stipulations. The Trust received \$1,225 of permanently restricted contributions for the year ended August 31, 2018.

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9. Fair Value Measurement

The following table summarizes the Trust's financial assets measured at fair value on a recurring basis for the year ended August 31, 2018:

	Assets at Fair Value			Total
	(Level 1)	(Level 2)	(Level 3)	
Money market funds	\$ 912,991	\$ -	\$ -	\$ 912,991
Certificates of deposit	-	379,694	-	379,694
Investments:				
U.S. equity	1,826,337	-	-	1,826,337
International equity	1,331,490	-	-	1,331,490
Global fixed income	920,837	-	-	920,837
Domestic fixed income	919,604	-	-	919,604
Inflation linked securities	459,329	-	-	459,329
Real estate	403,222	-	-	403,222
Emerging markets equity	416,059	-	-	416,059
Commodities	160,914	-	-	160,914
Precious metals	153,125	-	-	153,125
Money market funds	250,113	-	-	250,113
Total investments	6,841,030	-	-	6,841,030
	<u>\$ 7,754,021</u>	<u>\$ 379,694</u>	<u>\$ -</u>	<u>\$ 8,133,715</u>

As of August 31, 2018, the Trust did not have any Level 3 assets or liabilities.

10. Subsequent Events

The Trust evaluated subsequent events for recognition and disclosure through January 7, 2019, the date which these financial statements were available to be issued. Management concluded that no material subsequent events have occurred since August 31, 2018 that require recognition or disclosure in such financial statements.