

**THE TRUST FOR HIDDEN VILLA**

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**AUDITED FINANCIAL STATEMENTS**

August 31, 2019

(with summarized comparative information for August 31, 2018)



# THE TRUST FOR HIDDEN VILLA

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## 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, 2019 and the related statements of activities, functional expenses 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, 2019, 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 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 7, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

BPM LLP

San Jose, California  
January 7, 2020

# THE TRUST FOR HIDDEN VILLA

## STATEMENT OF FINANCIAL POSITION

As of August 31, 2019

(with summarized comparative information for August 31, 2018)

	<u>2019</u>	<u>2018</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 139,458	\$ 1,136,484
Certificates of deposit and U.S. treasuries	715,063	379,694
Unconditional promises to give receivable	541,200	57,200
Other receivables	21,294	41,358
Prepaid expenses and other assets	122,064	38,361
Total current assets	<u>1,539,079</u>	<u>1,653,097</u>
Property and equipment, net	9,276,039	9,254,178
Donated artwork	270,900	270,900
Unconditional promises to give receivable, less current portion	7,200	8,400
Investments	6,738,543	6,841,030
Total long term assets	<u>16,292,682</u>	<u>16,374,508</u>
Total assets	<u>\$ 17,831,761</u>	<u>\$ 18,027,605</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accounts payable and other accrued liabilities	\$ 146,948	\$ 144,466
Deferred revenue	74,764	53,642
Total current liabilities	<u>221,712</u>	<u>198,108</u>
Net assets:		
Without donor restrictions	16,298,398	16,482,135
With donor restrictions	1,311,651	1,347,362
Total net assets	<u>17,610,049</u>	<u>17,829,497</u>
Total liabilities and net assets	<u>\$ 17,831,761</u>	<u>\$ 18,027,605</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, 2019  
(with summarized comparative information for August 31, 2018)

	2019			2018 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
Revenue and other support:				
Fees	\$ 1,360,781	\$ -	\$ 1,360,781	\$ 1,234,825
Contributions	1,628,656	391,172	2,019,828	1,866,853
In-kind contribution income	5,415	-	5,415	6,500
Rental income	213,795	-	213,795	267,848
Miscellaneous income and sales	194,869	-	194,869	185,997
Net assets released from restriction	429,518	(429,518)	-	-
Total revenue and other support	3,833,034	(38,346)	3,794,688	3,562,023
Expenses:				
Program services:				
Animal husbandry	163,744	-	163,744	203,309
Summer camp and youth development	1,330,087	-	1,330,087	1,040,450
Community supported agriculture	129,168	-	129,168	160,383
Environmental education	551,597	-	551,597	482,887
Facility rentals	284,277	-	284,277	308,643
Resident intern program	160,026	-	160,026	195,119
Community programs	425,468	-	425,468	532,246
Total program services	3,044,367	-	3,044,367	2,923,037
Supporting services:				
Administration	620,360	-	620,360	485,482
Fund development	475,186	-	475,186	345,372
Total supporting services	1,095,546	-	1,095,546	830,854
Subtotal expenses	4,139,913	-	4,139,913	3,753,891
Loss on disposal of fixed assets	(43,213)	-	(43,213)	(19,570)
Total expenses and losses	4,183,126	-	4,183,126	3,773,461
Change in net assets from operations	(350,092)	(38,346)	(388,438)	(211,438)
Non-operating changes:				
Contributions - Board designated and endowment	139,788	1,050	140,838	961,198
Interest and dividend income	200,578	35,695	236,273	180,383
Realized (loss) gain on investments	(521)	25	(496)	38,346
Unrealized (loss) gain on investments	(173,490)	(34,135)	(207,625)	136,791
Total other changes	166,355	2,635	168,990	1,316,718
Changes in net assets	(183,737)	(35,711)	(219,448)	1,105,280
Net assets, beginning of year	16,482,135	1,347,362	17,829,497	16,724,217
Net assets, end of year	\$ 16,298,398	\$ 1,311,651	\$ 17,610,049	\$ 17,829,497

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

# THE TRUST FOR HIDDEN VILLA

## STATEMENT OF FUNCTIONAL EXPENSES

For the year ended August 31, 2019  
(with summarized comparative information for August 31, 2018)

	Program Services			
	Animal Husbandry	Summer Camp and Youth Development	Community Supported Agriculture	Environmental Education
Functional expenses:				
Salaries and related expenses	\$ 85,156	\$ 724,797	\$ 77,658	\$ 393,849
Professional fees	12,822	206,261	-	7,980
Facilities	200	161,023	-	45,431
Program supplies	19,784	44,542	17,256	27,051
Information technology	5,519	35,869	7,556	15,656
Office expense	7,569	17,346	7,399	6,606
Advertising and marketing	7,266	7,186	106	2,060
Insurance	3,807	24,037	6,061	12,548
Bank and service fees	1,734	25,203	3,404	1,682
Travel, including participant transportation	2	7,063	-	13,081
In-kind expenses	-	2,707	-	2,708
Total expenses before depreciation	143,859	1,256,034	119,440	528,652
Depreciation	19,885	74,053	9,728	22,945
Total program and supporting services expense	\$ 163,744	\$ 1,330,087	\$ 129,168	\$ 551,597

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

# THE TRUST FOR HIDDEN VILLA

## STATEMENT OF FUNCTIONAL EXPENSES, CONTINUED

For the year ended August 31, 2019  
(with summarized comparative information for August 31, 2018)

	Program Services, continued			Total Program Services
	Facility Rentals	Residential Intern Program	Community Programs	
	Functional expenses:			
Salaries and related expenses	\$ 172,281	\$ 112,016	\$ 289,987	\$ 1,855,744
Professional fees	4,085	2,540	10,185	243,873
Facilities	2,829	-	48,104	257,587
Program supplies	7,351	2,129	20,181	138,294
Information technology	5,258	1,402	10,905	82,165
Office expense	6,119	5,903	6,128	57,070
Advertising and marketing	15,649	1,516	5,173	38,956
Insurance	3,807	1,127	8,741	60,128
Bank and service fees	4,228	514	4,415	41,180
Travel, including participant transportation	4	2,738	579	23,467
In-kind expenses	-	-	-	5,415
Total expenses before depreciation	221,611	129,885	404,398	2,803,879
Depreciation	62,666	30,141	21,070	240,488
Total program and supporting services expense	\$ 284,277	\$ 160,026	\$ 425,468	\$ 3,044,367

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

# THE TRUST FOR HIDDEN VILLA

## STATEMENT OF FUNCTIONAL EXPENSES, CONTINUED

For the year ended August 31, 2019  
(with summarized comparative information for August 31, 2018)

	Supporting Services			Total	2018 Total
	Administration	Fund Development	Total Supporting Services		
Functional expenses:					
Salaries and related expenses	\$ 331,947	\$ 354,288	\$ 686,235	\$ 2,541,979	\$ 2,404,038
Professional fees	216,341	12,700	229,041	472,914	295,391
Facilities	5,391	7,968	13,359	270,946	303,517
Program supplies	-	-	-	138,294	123,455
Information technology	6,154	18,905	25,059	107,224	23,618
Office expense	11,453	9,205	20,658	77,728	40,091
Advertising and marketing	1,397	32,519	33,916	72,872	111,498
Insurance	4,934	4,934	9,868	69,996	92,771
Bank and service fees	7,029	2,830	9,859	51,039	67,932
Travel, including participant transportation	11,961	1,051	13,012	36,479	14,179
In-kind expenses	-	-	-	5,415	-
Total expenses before depreciation	596,607	444,400	1,041,007	3,844,886	3,476,490
Depreciation	23,753	30,786	54,539	295,027	277,401
Total program and supporting services expense	\$ 620,360	\$ 475,186	\$ 1,095,546	\$ 4,139,913	\$ 3,753,891

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, 2019  
(with summarized comparative information for August 31, 2018)

	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ (219,448)	\$ 1,105,280
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Unrealized loss (gain) on investments	207,625	(136,791)
Realized loss (gain) on investments	496	(38,346)
Loss on disposal of fixed assets	43,213	19,570
Depreciation	295,027	277,401
Endowment interest and dividends	(35,695)	(34,091)
Endowment contributions	(1,050)	(1,225)
(Increase) decrease in operating assets:		
Unconditional promises to give receivable	(482,800)	(54,900)
Other receivables	20,064	(36,811)
Prepaid expenses and other assets	(83,703)	(3,255)
Increase (decrease) in operating liabilities:		
Accounts payable and other accrued liabilities	2,482	10,451
Deferred revenue	21,122	(45,255)
Total adjustments	(13,219)	(43,252)
Net cash (used in) provided by operating activities	(232,667)	1,062,028
Cash flows from investing activities:		
Purchases of certificates of deposit and U.S. treasuries	(335,369)	(73)
Proceeds on sale of investments	114,405	173,062
Acquisition of investments	(220,039)	(1,127,643)
Proceeds on sale of property and equipment	942	-
Acquisition of property and equipment	(361,043)	(362,784)
Net cash used in investing activities	(801,104)	(1,317,438)
Cash flows from financing activities:		
Endowment interest and dividends	35,695	34,091
Proceeds from endowment contributions	1,050	1,225
Net cash provided by financing activities	36,745	35,316
Net decrease in cash and cash equivalents	(997,026)	(220,094)
Cash and cash equivalents, beginning of year	1,136,484	1,356,578
Cash and cash equivalents, end of year	\$ 139,458	\$ 1,136,484

### Supplemental Disclosure of Cash Flow Information

- Accounting Policy - The Trust considers all highly liquid investments with a maturity of three months or less when purchased to be "cash equivalents."

# THE TRUST FOR HIDDEN VILLA

## NOTES TO FINANCIAL STATEMENTS

August 31, 2019

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### 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 (2,400 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 Farmer's 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.

**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.

# THE TRUST FOR HIDDEN VILLA

## NOTES TO FINANCIAL STATEMENTS

August 31, 2019

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

#### *Nature of Activities*, continued

**Community Programs:** provides workshops and forums for families and individuals interested in sustainable practices, animal husbandry, and nature.

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 in accordance with generally accepted accounting principles in the United States of America (“U.S. GAAP”).

#### *Reclassifications*

Certain reclassifications have been made to the August 31, 2018 financial statement presentation to conform to the August 31, 2019 presentation.

#### *Basis of Presentation*

Net assets are classified based on the existence or absence of donor imposed restrictions. Accordingly, the Trust classified its net assets and changes in net assets as follows:

**Net Assets Without Donor Restrictions** – Net assets that are not subject to donor-imposed restrictions. This includes a Board-designated quasi-endowment fund, which has been funded by a portion of bequest donations received and is held as an organizational reserve. Annual donor spending from the quasi-endowment follows the same procedures as spending from the earnings on the restricted endowment, with the earnings available to support general operations each year. Other spending from the quasi-endowment is subject to Board approval of specific projects.

**Net Assets With Donor Restrictions** – Net assets subject to stipulations imposed by donors, and/or grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Trust or by passage of time. Other donor restrictions may be perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

#### *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.

# THE TRUST FOR HIDDEN VILLA

## NOTES TO FINANCIAL STATEMENTS

August 31, 2019

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

#### ***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, 2019 mature between September 5, 2019 and January 16, 2020 and have interest rates ranging from 2.25% to 2.80%.

#### ***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 net assets without donor restriction, unless their use is 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 without donor restriction. 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.

#### ***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, 2019.

# THE TRUST FOR HIDDEN VILLA

## NOTES TO FINANCIAL STATEMENTS

August 31, 2019

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

#### *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 and software	3 to 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.

#### *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 \$74,764 as of August 31, 2019.

#### *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 support without donor restriction or with donor restriction based on whether they include donor stipulations that limit the use of the contributions. When a donor 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 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.

# THE TRUST FOR HIDDEN VILLA

## NOTES TO FINANCIAL STATEMENTS

August 31, 2019

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

#### *Revenue Recognition*

##### **Fees, Rental Income, and Events**

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

#### *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, 2019.

#### **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 net assets with donor restrictions (1) the original value of gifts donated to the endowment, (2) the original value of subsequent gifts donated to the endowment, and (3) additions to the endowment in accordance with donor directions. The remaining portion of the donor-restricted endowment fund that is not classified as perpetual in nature is classified as purpose 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.

# THE TRUST FOR HIDDEN VILLA

## NOTES TO FINANCIAL STATEMENTS

August 31, 2019

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

#### *Endowments*, continued

##### **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.

##### ***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 TRUST FOR HIDDEN VILLA

## NOTES TO FINANCIAL STATEMENTS

August 31, 2019

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

#### ***Fair Value Measurement - Definition and Hierarchy***, continued

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***

Directly identifiable expenses are charged to program and supporting services. Expenses related to more than one area are allocated to program and supporting. Supporting services expenses include those expenses that are not directly identifiable with any other specific function, but provide for the overall support and direction of the Trust. The major expenses that are allocated are depreciation, insurance, and occupancy costs on the basis of staff time and participant hours. 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.

#### ***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 91% of pledges from one donor.

Contributions from one donor received in the current year comprised approximately 46% of total contributions.



# THE TRUST FOR HIDDEN VILLA

## NOTES TO FINANCIAL STATEMENTS

August 31, 2019

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

#### *Change in Accounting Principle*

During the year ended June 30, 2019, the Trust adopted the requirements of the Financial Accounting Standard Board ("FASB") Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities* ("ASU 2016-14") required for annual reporting periods beginning after December 15, 2017. This ASU addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return between not-for-profit entities. A key change required by ASU 2016-14 is the net classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted net assets and permanently restricted net assets are now reported as net assets with donor restrictions. A footnote on liquidity and availability as well as a statement of functional expenses has been added for the year ended August 31, 2019 only.

#### *Recent Accounting Pronouncements*

In May 2014, the FASB issued 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. The Trust is currently evaluating the impact of the adoption of this ASU on its financial statements.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The accounting for contributions has been modified to clarify 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. For nonpublic entities, the ASU is effective for annual reporting periods beginning after December 15, 2018 for contributions received, and after December 15, 2019 for contributions made with early adoption permitted. The Trust is currently evaluating the impact of the adoption of this ASU 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. Additionally, In November 2019, the FASB issued ASU 2019-10, which amends the effective date of the standard to fiscal years beginning after December 15, 2020. The Trust is in the process of evaluating the impact of the new guidance on its financial statements.

# THE TRUST FOR HIDDEN VILLA

## NOTES TO FINANCIAL STATEMENTS

August 31, 2019

### 2. Liquidity and Availability

The Trust's financial assets available for general expenditures within one year of the statement of financial position date are as follows as of August 31, 2019:

Cash and cash equivalents	\$	139,458
Certificates of deposit and U.S. treasuries		715,063
Unconditional promises to give receivable, current portion		541,200
Other receivables		21,294
Investments, at fair value		<u>6,738,543</u>
Total liquid financial assets		8,155,558
Less: amounts not available to be used within one year:		
Restricted by donor with time or purpose restrictions, net of \$147,760 to be released for FY20		75,336
Accumulated earnings on permanently restricted endowment, net of \$32,220 spending budget for FY20		340,335
Board designated quasi-endowment, net of \$256,780 spending budget for FY20		5,393,258
Perpetual in nature		<u>716,000</u>
		6,524,929
Financial assets available to meet general expenditures within one year	\$	<u><u>1,630,629</u></u>

The Trust manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability; maintaining adequate liquid assets to fund near-term operating needs; and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. On an annual basis, the Trust generates some excess cash after covering all funding needs. The excess cash maybe deposited into money market funds, certificates of deposit or invested in equity and fixed income securities to maximize returns while ensuring the Trust has access to funds at all times to meet liquidity needs. Excess cash deposited in money market accounts and certificates of deposit are available within one year. The Trust also has a \$500,000 line of credit available for liquidity needs (see Note 6).

### 3. Unconditional Promises to Give Receivables

Unconditional promises to give receivables are summarized as follows for the year ended August 31, 2019:

Receivables in less than one year	\$	541,200
Receivables in one to five years		4,800
Receivables in more than five years		<u>2,400</u>
Total unconditional promises to give receivable		548,400
Less: current portion		<u>(541,200)</u>
Unconditional promises to give, long-term	\$	<u><u>7,200</u></u>

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

Continued

# THE TRUST FOR HIDDEN VILLA

## NOTES TO FINANCIAL STATEMENTS

August 31, 2019

### 4. Property and Equipment, Net

Property and equipment, net is summarized as follows for the year ended August 31, 2019:

Land	\$	6,385,143
Buildings and land improvements		6,673,062
Furniture, equipment, vehicles and software		713,865
		<u>13,772,070</u>
Less: accumulated depreciation		<u>(4,626,268)</u>
		9,145,802
Construction in progress		130,237
	\$	<u><u>9,276,039</u></u>

Depreciation expense is \$295,027 for the year ended August 31, 2019.

### 5. 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, 2019:

U.S. equity	\$	1,770,112
International equity		1,311,865
Domestic fixed		956,355
Global fixed		1,023,082
Inflation linked securities		492,405
Real estate		449,698
Emerging markets equity		389,483
Precious metals		193,919
Commodities		151,098
Money market		526
	\$	<u><u>6,738,543</u></u>

### 6. 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 6.75%), due on demand and expiring May 5, 2020. 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, 2019.

### 7. 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 \$13,770 for the year ended August 31, 2019.

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# THE TRUST FOR HIDDEN VILLA

## NOTES TO FINANCIAL STATEMENTS

August 31, 2019

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### 8. Net Assets

#### *With Donor Restrictions*

Net assets with donor restrictions are available for the following purposes for the year ended August 31, 2019:

Purpose restrictions:		
Operations, endowment	\$	372,555
Programs		149,214
Operations		25,672
Scholarships/camp		24,360
Capital improvements		8,965
Legacy fund		14,885
		<hr/>
		595,651
Perpetual in nature		716,000
		<hr/>
	\$	<u>1,311,651</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, 2019:

Purpose restriction accomplished:		
Programs	\$	177,933
Scholarships		191,260
Operations, endowment		32,173
Operations		25,441
Capital improvements		2,711
		<hr/>
	\$	<u>429,518</u>

#### *Without Donor Restrictions*

The Trust's Board of Directors has designated net assets without donor restrictions for the following purposes as of August 31, 2019:

Without donor restrictions:		
Property and equipment	\$	9,276,039
Donated artwork		270,900
Board designated		5,650,038
Undesignated		1,101,421
		<hr/>
	\$	<u>16,298,398</u>

Continued

# THE TRUST FOR HIDDEN VILLA

## NOTES TO FINANCIAL STATEMENTS

August 31, 2019

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### 9. Endowment

Endowment net assets composition by type of fund are summarized as follows for the year ended August 31, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total Endowment Net Assets
Board-designated endowment funds	\$ 5,650,038	\$ -	\$ 5,650,038
Donor-restricted endowment funds:			
Original donor restricted gift amounts required to be maintained in perpetuity by donor	-	716,000	716,000
Accumulated investment gains	-	372,555	372,555
	\$ 5,650,038	\$ 1,088,555	\$ 6,738,593

Changes in endowment net assets are summarized as follows for the year ended August 31, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total Endowment Net Assets
Endowment net assets, September 1, 2018	\$ 5,722,940	\$ 1,118,093	\$ 6,841,030
Contributions	139,788	1,050	140,838
Interest and dividend income	183,294	35,695	218,989
Realized gain on endowment assets	127	25	152
Unrealized loss on endowment assets	(175,284)	(34,135)	(209,419)
Appropriated for expenditure	(220,827)	(32,173)	(253,000)
Endowment net assets, August 31, 2019	\$ 5,650,038	\$ 1,088,555	\$ 6,738,590

The amount classified as with donor restrictions includes the amount of the endowment fund that must be retained permanently in accordance with explicit donor stipulations. The Trust received \$1,050 of contributions with donor restrictions for the year ended August 31, 2019.

# THE TRUST FOR HIDDEN VILLA

## NOTES TO FINANCIAL STATEMENTS

August 31, 2019

### 10. 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, 2019:

	Assets at Fair Value			Total
	(Level 1)	(Level 2)	(Level 3)	
Money market funds	\$ 2,211	\$ -	\$ -	\$ 2,211
Certificates of deposit	-	499,651	-	499,651
U.S. treasuries	215,412	-	-	215,412
Total certificates of deposit and U.S. treasuries	215,412	499,651	-	715,063
Investments:				
U.S. equity	1,770,112	-	-	1,770,112
International equity	1,311,865	-	-	1,311,865
Global fixed	1,023,082	-	-	1,023,082
Domestic fixed	956,355	-	-	956,355
Inflation linked securities	492,405	-	-	492,405
Real estate	449,698	-	-	449,698
Emerging markets equity	389,483	-	-	389,483
Precious metals	193,919	-	-	193,919
Commodities	151,098	-	-	151,098
Money market funds	526	-	-	526
Total investments	6,738,543	-	-	6,738,543
	<u>\$ 6,956,166</u>	<u>\$ 499,651</u>	<u>\$ -</u>	<u>\$ 7,455,817</u>

As of August 31, 2019, the Trust did not have any Level 3 assets or liabilities.

### 11. Subsequent Events

The Trust evaluated subsequent events for recognition and disclosure through January 7, 2020, the date which these financial statements were available to be issued. Management concluded that no material subsequent events have occurred since August 31, 2019 that require recognition or disclosure in such financial statements.