

THE TRUST FOR HIDDEN VILLA

**REPORT ON AUDITS OF
FINANCIAL STATEMENTS**

for the years ended August 31, 2010 and 2009

THE TRUST FOR HIDDEN VILLA

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Building your future

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statement of financial position of The Trust for Hidden Villa ("the Trust") a nonprofit organization as of August 31, 2010, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from The Trust for Hidden Villa's 2009 financial statements and, in our report dated March 3, 2010, we expressed an unqualified opinion on those financial statements.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Burr Pilger Mayer, Inc.

San Jose, California
April 11, 2011

Member of The Leading Edge Alliance

THE TRUST FOR HIDDEN VILLA
STATEMENTS OF FINANCIAL POSITION
August 31, 2010 and 2009

ASSETS

| | 2010 | 2009 |
|--|---------------|---------------|
| Current Assets: | | |
| Cash and cash equivalents | \$ 456,006 | \$ 378,675 |
| Certificates of deposit | 475,335 | 476,454 |
| Investments | 942,708 | 740,093 |
| Unconditional promises to give receivable | 201,275 | 275,200 |
| Other receivables | 1,424 | 4,502 |
| Prepaid and other assets | 76,059 | 67,900 |
| Total current assets | 2,152,807 | 1,942,824 |
| Property and equipment | 12,862,607 | 12,834,071 |
| Less accumulated depreciation | (2,665,471) | (2,422,043) |
| | 10,197,136 | 10,412,028 |
| Unconditional promises to give receivable, long-term | 68,000 | 19,200 |
| Long-term investments | 585,213 | 584,713 |
| | 653,213 | 603,913 |
| Total assets | \$ 13,003,156 | \$ 12,958,765 |

LIABILITIES AND NET ASSETS

| | | |
|--|---------------|---------------|
| Current Liabilities: | | |
| Accounts payable and other accrued liabilities | \$ 98,820 | \$ 73,270 |
| Deferred revenue | 165,474 | 126,693 |
| Total current liabilities | 264,294 | 199,963 |
| Net Assets: | | |
| Unrestricted: | | |
| Property and equipment | 10,197,136 | 10,412,028 |
| Board designated | 942,708 | 769,446 |
| Undesignated | 490,427 | 738,704 |
| Total unrestricted | 11,630,271 | 11,920,178 |
| Temporarily restricted | 523,378 | 253,911 |
| Permanently restricted | 585,213 | 584,713 |
| Total net assets | 12,738,862 | 12,758,802 |
| Total liabilities and net assets | \$ 13,003,156 | \$ 12,958,765 |

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, 2010
with Summarized Financial Information
for the year ended August 31, 2009

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total 2010 | (For Comparative Purposes Only) Total 2009 |
|--|---------------------|---------------------------|---------------------------|---------------------|---|
| REVENUE AND OTHER SUPPORT: | | | | | |
| Fees | \$ 852,812 | \$ - | \$ - | \$ 852,812 | \$ 897,600 |
| Special events, net of expenses of \$67,272 in 2010 and \$58,386 in 2009 | 94,605 | - | - | 94,605 | 93,400 |
| Contributions | 419,805 | 958,542 | 500 | 1,378,847 | 1,291,092 |
| In-kind contribution income | 112,293 | - | - | 112,293 | 6,719 |
| Investment income, net | 25,949 | - | - | 25,949 | 62,558 |
| Net increase (decrease) in fair value of investments | 25,716 | - | - | 25,716 | (116,014) |
| Rental income | 260,602 | - | - | 260,602 | 219,489 |
| Miscellaneous income and sales | 109,456 | - | - | 109,456 | 111,577 |
| Net assets released from restriction | 689,075 | (689,075) | - | - | - |
| Total revenue and other support | <u>\$ 2,590,313</u> | <u>\$ 269,467</u> | <u>\$ 500</u> | <u>\$ 2,860,280</u> | <u>\$ 2,566,421</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, 2010
with Summarized Financial Information
for the year ended August 31, 2009

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total 2010 | (For Comparative Purposes Only) Total 2009 |
|--|---------------|---------------------------|---------------------------|---------------|---|
| EXPENSES | | | | | |
| <u>Program Services:</u> | | | | | |
| Animals | 140,731 | - | - | 140,731 | 134,651 |
| Horticulture | 92,292 | - | - | 92,292 | 82,825 |
| Community Programs | 160,704 | - | - | 160,704 | 132,185 |
| Community Supported | | | | | |
| Agriculture | 166,667 | - | - | 166,667 | 160,847 |
| Camps/Family and Youth | 599,549 | - | - | 599,549 | 565,052 |
| Environmental Education | 532,744 | - | - | 532,744 | 480,251 |
| Hostel and Site Rentals | 278,750 | - | - | 278,750 | 275,259 |
| Volunteers | 61,366 | - | - | 61,366 | 59,854 |
| Internship | 91,321 | - | - | 91,321 | 95,248 |
| Total Program | | | | | |
| Services | 2,124,124 | - | - | 2,124,124 | 1,986,172 |
| <u>Supporting Services:</u> | | | | | |
| Administration | 413,955 | - | - | 413,955 | 283,732 |
| Fund development | 342,141 | - | - | 342,141 | 324,787 |
| Total Supporting Services | 756,096 | - | - | 756,096 | 608,519 |
| Total Expenses | 2,880,220 | - | - | 2,880,220 | 2,594,691 |
| Total increase (decrease) in net assets | (289,907) | 269,467 | 500 | (19,940) | (28,270) |
| Net Assets - beginning of year | 11,920,178 | 253,911 | 584,713 | 12,758,802 | 12,787,072 |
| Net Assets - end of year | \$ 11,630,271 | \$ 523,378 | \$ 585,213 | \$ 12,738,862 | \$ 12,758,802 |

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

THE TRUST FOR HIDDEN VILLA
STATEMENTS OF CASH FLOWS
for the years ended August 31, 2010 and 2009

| | 2010 | 2009 |
|--|-------------|-------------|
| Cash Flows from Operating Activities: | | |
| (Decrease) in net assets | \$ (19,940) | \$ (28,270) |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: | | |
| Unrealized (gain) loss on investments | (26,929) | 116,014 |
| Realized loss on investments | 1,213 | - |
| Depreciation | 243,428 | 240,801 |
| Donation of investments | (81,445) | (494,344) |
| Dividends reinvested | (26,469) | (45,477) |
| (Increase) decrease in operating assets: | | |
| Unconditional promises to give receivable | 25,125 | (230,800) |
| Other receivables | 3,078 | 18,884 |
| Prepaid expenses and other assets | (8,159) | 13,214 |
| Increase (decrease) in operating liabilities: | | |
| Accounts payable and other accrued liabilities | 25,550 | (37,782) |
| Deferred revenue | 38,781 | (16,829) |
| Total adjustments | 194,173 | (436,319) |
| Net cash provided by (used in) operating activities | 174,233 | (464,589) |
| Cash Flows from Investing Activities: | | |
| Purchase of certificates of deposit | - | (476,454) |
| Maturity of certificates of deposit | 1,119 | 485,333 |
| Proceeds on sale of investments | 82,897 | 804,325 |
| Acquisition of investments | (152,382) | (231,960) |
| Acquisition of property and equipment | (28,536) | (119,353) |
| Net cash (used in) provided by investing activities | (96,902) | 461,891 |
| Net increase (decrease) in cash and cash equivalents | 77,331 | (2,698) |
| Cash and cash equivalents, beginning of year | 378,675 | 381,373 |
| Cash and cash equivalents, end of year | \$ 456,006 | \$ 378,675 |

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

THE TRUST FOR HIDDEN VILLA
STATEMENTS OF CASH FLOWS
for the years ended August 31, 2010 and 2009

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 equivalent."
2. Schedule of non-cash transactions:

| | <u>2010</u> | <u>2009</u> |
|----------------------------|---------------------|---------------------|
| Acquisition of investments | \$ (233,827) | \$ (726,304) |
| Donation of investments | <u>81,445</u> | <u>494,344</u> |
| | <u>\$ (152,382)</u> | <u>\$ (231,960)</u> |

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

THE TRUST FOR HIDDEN VILLA

NOTES TO FINANCIAL STATEMENTS

for the years ended August 31, 2010 and 2009

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 was established as a nonprofit in 1960.

Nature of Activities

Hidden Villa's Environmental Education Program teaches key concepts of ecology and environmental stewardship through experiences on the farm and in the wilderness for elementary school children. 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 each year participate annually).

Summer Camp builds relationships among youth from diverse socio-economic and cultural backgrounds who come together for shared activities in Hidden Villa's unique environment (1,000 campers participate annually).

Community Programs provide workshops, concerts, discussions, and forums for families and individuals interested in sustainable practices, animal husbandry, and nature (8,000 visitors participate annually).

Community Supported Agriculture Program: 60% 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 15% is sold to local community members at the Los Altos Farmers Market.

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

Volunteers: About 600 volunteers, including individuals and groups from corporations, scout troops, and faith-based organizations, support Hidden Villa in nearly every department and program. 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.

A nonprofit organization since 1960, Hidden Villa is supported by contributions from individuals, foundations and corporations throughout the Bay Area.

Continued

THE TRUST FOR HIDDEN VILLA

NOTES TO FINANCIAL STATEMENTS

for the years ended August 31, 2010 and 2009

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

Basis of Accounting

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

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.

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.

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 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, 2009, from which the summarized information was derived.

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.

Certificates of Deposit

Certificates of deposits are carried at cost. The Trust has both the ability and the intent to hold them to maturity. Certificates of deposit mature between September 13, 2010 and September 19, 2011 for the year ended August 31, 2010 with interest rates ranging from 0.35% to 1.30%.

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 no allowance for uncollectible accounts is deemed necessary at August 31, 2010 and 2009.

Continued

THE TRUST FOR HIDDEN VILLA

NOTES TO FINANCIAL STATEMENTS

for the years ended August 31, 2010 and 2009

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

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 period 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 Statements of Financial Position and the Statement of Activities.

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 | 5-7 years |
| Other equipment | 7 years |
| Vehicles | 5-10 years |

Donated Assets

Donated marketable securities and other noncash donations are recorded as contributions at their estimated fair values at the date of donation.

Contributions

Contribution revenue is recognized when contributions are received. All contributions are considered available for general operations unless specifically restricted by the donor.

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 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.

Continued

THE TRUST FOR HIDDEN VILLA

NOTES TO FINANCIAL STATEMENTS

for the years ended August 31, 2010 and 2009

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

Unconditional Promises to Give

Unconditional verifiable promises to give are recognized as revenue in the period they are pledged. Unconditional promise to give pledges receivable that are expected to be collected in future years are recorded at the discounted present value of their estimated future cash flows using the risk free rate modified for certain considerations applicable to the year in which the promise is received. 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.

Grants

Grants to support the Trust's programs are received from individuals, foundations, governmental agencies and corporations and are recorded as revenue when received.

Deferred Revenue

The Trust receives advances for events to be held in the future. The Trust also receives contributions conditional on matching contributions to be made in the future. These amounts are recorded as deferred revenue when received and are recognized as revenue when the event or match occurs. Deferred revenue was \$165,474 and \$126,693 at August 31, 2010 and 2009, respectively.

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.

Interpretation of Relevant Law

The Board of Trustees of the Trust has interpreted 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 funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Trust classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) additions to the permanent endowment made in accordance with the 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.

Continued

THE TRUST FOR HIDDEN VILLA

NOTES TO FINANCIAL STATEMENTS

for the years ended August 31, 2010 and 2009

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

Endowment, 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 an investment policy with the primary investment objective is to maximize total return, while assuming an appropriate level of risk given the nature of the funds under management. The goal is to produce a growing level of income and principal to insure 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 fund to unacceptable levels of risk.

Fair Value Measurement

The Trust defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the assets or liabilities in an orderly transaction between market participants on the measurement date. Subsequent changes in fair value of these financial assets and liabilities are recognized in earnings when they occur. When determining the fair value measurements for assets and liabilities, which are required to be recorded at fair value, the Trust considers the principal or most advantageous market in which the Trust would transact and the market-based risk measurement or assumptions that market participants' would use in pricing the assets or liability, such as inherent risk, transfer restrictions and credit risk.

The Trust applies the following fair value hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

- Level 1- instrument valuations are obtained from real-time quotes for transactions in active exchange markets involving identical assets.
- Level 2- instrument valuations are obtained from readily-available pricing sources for comparable instruments.
- Level 3- instrument valuations are obtained without observable market value and require a high level of judgment to determine the fair value.

Continued

THE TRUST FOR HIDDEN VILLA

NOTES TO FINANCIAL STATEMENTS

for the years ended August 31, 2010 and 2009

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

Income Taxes and Uncertainty in 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.

Effective September 1, 2009, the Trust began reviewing and assessing tax positions taken or expected to be taken against the more-likely-than-not recognition threshold and measurement attributes for financial statement recognition.

The Trust's policy for evaluating uncertain tax positions is a two step process. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more-likely-than-not that the position will be sustained upon audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit or liability as the largest amount that is more than 50% likely to be realized or incurred upon settlement. Based on an analysis prepared by the Trust, it was determined that the tax positions taken or expected to be taken had no material effect on the recorded tax assets and liabilities of the Trust.

At September 1, 2009, the Trust applied this guidance to all tax positions for which the statute of limitations remained open (fiscal years ended since August 31, 2007) and determined there were no material unrecognized tax benefits as of that date. In addition, there have been no material changes in unrecognized benefits since September 1, 2009. There have been no related tax penalties or interest, which would be classified as tax expense in the statement of activities. As the Trust is exempt from taxation under Section 501(c)(3) of the Internal Revenue Code and is generally not subject to federal or state income taxes, the adoption of this guidance did not have a material effect on the Trust's financial statements.

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.

Recent Accounting Pronouncements

Codification

In June 2009, the FASB issued *The FASB Accounting Standards Codification and Hierarchy of Generally Accepted Accounting Principles* (the "Codification"). The Codification supersedes all existing accounting and reporting standards. Updates to the Codification are being issued as Accounting Standards Updates, which will also provide background information about the guidance, and provide the basis for conclusions on changes in the Codification. The Codification became effective for the Trust on August 31, 2010 and did not have a material impact on the Trust's financial statements.

Continued

THE TRUST FOR HIDDEN VILLA

NOTES TO FINANCIAL STATEMENTS

for the years ended August 31, 2010 and 2009

1. Business Description And Summary of Significant Accounting Policies, Continued

Recent Accounting Pronouncements, continued

Fair Value Measurements

In January 2010 a new update states that assets and liabilities that are measured at fair value on a recurring basis in periods subsequent to initial recognition (i.e. trading securities), the valuation techniques and inputs used to develop those measurements should be disclosed. Additionally, reasons for transfers between Level 1 and Level 2 fair value measurements should also be disclosed. The update is effective for annual periods beginning after December 15, 2009.

2. Unconditional Promises to Give Receivable

Unconditional promises to give receivable at August 31, 2010 and 2009 are summarized as follows:

| | 2010 | 2009 |
|--|-------------------|-------------------|
| Foundations | \$ 125,000 | \$ 40,000 |
| Other | 144,275 | 254,400 |
| | <u>\$ 269,275</u> | <u>\$ 294,400</u> |
| Receivable in less than one year | \$ 201,275 | \$ 275,200 |
| Receivable in one to five years | 56,000 | 6,000 |
| Receivable in more than five years | 12,000 | 13,200 |
| Total unconditional promises to give | 269,275 | 294,400 |
| Less current portion | (201,275) | (275,200) |
| Long-term unconditional promises to give | <u>\$ 68,000</u> | <u>\$ 19,200</u> |

3. Property and Equipment

Property and equipment at August 31, 2010 and 2009 are summarized as follows:

| | 2010 | 2009 |
|-----------------------------------|----------------------|----------------------|
| Land | \$ 6,385,143 | \$ 6,385,143 |
| Buildings and land improvements | 6,212,078 | 6,152,287 |
| Furniture, equipment and vehicles | 258,510 | 252,509 |
| Improvements in process | 6,876 | 44,132 |
| | <u>12,862,607</u> | <u>12,834,071</u> |
| Less accumulated depreciation | (2,665,471) | (2,422,043) |
| | <u>\$ 10,197,136</u> | <u>\$ 10,412,028</u> |

At fiscal year end, the Trust had one improvement project in process. The project was completed subsequent to the fiscal year end. The total cost to complete the improvements was approximately \$26,000.

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THE TRUST FOR HIDDEN VILLA

NOTES TO FINANCIAL STATEMENTS

for the years ended August 31, 2010 and 2009

4. Investments

The fair values of investments are based on quoted market values. Investments as of August 31, 2010 and 2009 are summarized as follows:

| <u>2010</u> | Cost | Fair Market Value | Carrying Value |
|-------------------------|--------------|----------------------|-------------------|
| Permanently Restricted: | | | |
| Mutual Fund | \$ 585,213 | \$ 585,213 | \$ 585,213 |
| Unrestricted: | | | |
| Mutual Fund | 915,779 | 942,708 | 942,708 |
| | \$ 1,500,992 | \$ 1,527,921 | \$ 1,527,921 |

| <u>2009</u> | Cost | Fair Market Value | Carrying Value |
|-------------------------|--------------|----------------------|-------------------|
| Permanently Restricted: | | | |
| Mutual Fund | \$ 584,713 | \$ 584,713 | \$ 584,713 |
| Unrestricted: | | | |
| Mutual Fund | 858,345 | 740,093 | 740,093 |
| | \$ 1,443,058 | \$ 1,324,806 | \$ 1,324,806 |

| <u>2010</u> | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|-------------------------|--------------|---------------------------|---------------------------|-------------|
| Interest and dividends | \$ 18,251 | \$ - | \$ - | \$ 18,251 |
| Realized (loss) | (1,213) | - | - | (1,213) |
| Unrealized gain | 26,929 | - | - | 26,929 |
| Total investment gain | \$ 43,967 | \$ - | \$ - | \$ 43,967 |
| | | | | |
| <u>2009</u> | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Interest and dividends | \$ 45,477 | \$ - | \$ - | \$ 45,477 |
| Unrealized (loss) | (116,014) | - | - | (116,014) |
| Total investment (loss) | \$ (70,537) | \$ - | \$ - | \$ (70,537) |

5. Line Of Credit

The Trust has a \$500,000 line of credit agreement with Comerica Bank-California, with interest at prime rate plus 1.50% (currently at 4.75%), due on demand. The line of credit is secured by all assets. There were no outstanding borrowings at August 31, 2010 and 2009.

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THE TRUST FOR HIDDEN VILLA

NOTES TO FINANCIAL STATEMENTS

for the years ended August 31, 2010 and 2009

6. Lease

In December 2007, the Trust entered into a land lease agreement with Heifer Project International, an unrelated third party, for the use of approximately ten acres of the Trust's land for the purpose of constructing and operating a Global Village. It was determined that the land identified in the original lease was not usable by Heifer Project International and lease payments were suspended. The Trust entered into a lease amendment. The lease amendment grants a substitution of the original premises for relocation premises of approximately 8.5 acres. The term of the lease is twenty-two years and two months. Heifer Project International has the right to terminate the lease pending certain requirements, to obtain approval of necessary permits.

Rent income was \$91,663 and \$49,998 for the years ended August 31, 2010 and 2009, respectively.

The minimum payments to be received by the Trust are as follows:

Year Ending August 31,

| | | |
|---------------------|----|------------------|
| 2011 | \$ | 100,000 |
| 2012 | | 100,000 |
| 2013 | | 100,000 |
| 2014 | | 100,000 |
| 2015 and thereafter | | 1,543,014 |
| | \$ | <u>1,943,014</u> |

Subsequent to the fiscal year-end, Heifer Project International decided to terminate the Global Village project and has stopped lease payments as of February 2011. The Trust has engaged legal counsel to determine how to proceed against the lessee. The status of the lease agreement is uncertain as of the financial statement date and no amounts have been recorded in these financial statements.

7. Retirement Plan

The Trust has a tax deferred savings 403(b) plan covering all eligible employees. Participants may receive matching contributions of 1% of their annual salary. Employer contributions were \$5,307 and \$4,881 for the years ended August 31, 2010 and August 31, 2009, respectively.

8. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

| | 2010 | 2009 |
|---|-------------------|-------------------|
| Programs | \$ 247,743 | \$ 80,240 |
| Operations | 201,672 | 10,672 |
| Legacy fund | 30,107 | 38,895 |
| Capital improvements | 27,551 | 30,833 |
| Scholarships | 16,305 | 93,271 |
| Total temporarily restricted net assets | <u>\$ 523,378</u> | <u>\$ 253,911</u> |

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THE TRUST FOR HIDDEN VILLA

NOTES TO FINANCIAL STATEMENTS

for the years ended August 31, 2010 and 2009

8. Temporarily Restricted Net Assets, continued

Net assets were released from donor restrictions by incurring expenses satisfying the purpose or time restrictions specified by donors as follows:

| | 2010 |
|-----------------------------------|------------|
| Purpose restriction accomplished: | |
| Program grants | \$ 311,676 |
| Scholarships | 230,338 |
| Operations | 121,991 |
| Capital improvement grants | 16,282 |
| Legacy fund | 8,788 |
| Total restrictions released | \$ 689,075 |

9. Endowment

Endowment net asset composition by type of fund as of August 31, 2010 and 2009 is as follows:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total Net Endowment Assets |
|----------------------------------|--------------|---------------------------|---------------------------|-------------------------------|
| <u>2010</u> | | | | |
| Donor-restricted endowment funds | \$ - | \$ - | \$ 585,213 | \$ 585,213 |
| Board-designated endowment funds | 942,708 | - | - | 942,708 |
| | \$ 942,708 | \$ - | \$ 585,213 | \$ 1,527,921 |
| <u>2009</u> | | | | |
| Donor-restricted endowment funds | \$ (16,330) | \$ - | \$ 584,713 | \$ 568,383 |
| Board-designated endowment funds | 785,776 | - | - | 785,776 |
| | \$ 769,446 | \$ - | \$ 584,713 | \$ 1,354,159 |

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NOTES TO FINANCIAL STATEMENTS

for the years ended August 31, 2010 and 2009

9. Endowment, continued

Changes in endowment net assets as of August 31, 2010 and 2009 are as follows:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total Net Endowment Assets |
|--|-------------------|---------------------------|---------------------------|----------------------------------|
| Endowment net assets, August 31, 2008 | \$ 890,151 | \$ - | \$ 583,213 | \$ 1,473,364 |
| Net asset reclassification based on change in law | (13,492) | 13,492 | - | - |
| Endowment net assets after reclassification | 876,659 | 13,492 | 583,213 | 1,473,364 |
| Contributions | - | - | 1,500 | 1,500 |
| Investment income | 27,165 | 18,312 | - | 45,477 |
| Net depreciation | (86,378) | (31,804) | - | (118,182) |
| Amounts appropriated for expenditure | (48,000) | - | - | (48,000) |
| Endowment net assets, August 31, 2009 | 769,446 | - | 584,713 | 1,354,159 |
| Contributions | 175,060 | - | 500 | 175,560 |
| Investment income | 10,586 | 7,665 | - | 18,251 |
| Net appreciation | 15,619 | 11,310 | - | 26,929 |
| Amounts appropriated for expenditure | (28,003) | (18,975) | - | (46,978) |
| Endowment net assets, August 31, 2010 | <u>\$ 942,708</u> | <u>\$ -</u> | <u>\$ 585,213</u> | <u>\$ 1,527,921</u> |

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 \$500 of permanently restricted contributions for the fiscal year ended August 31, 2010 and \$1,500 of permanently restricted contributions for the fiscal year ended August 31, 2009.

Under UPMIFA, on September 1, 2008 the Trust reclassified the portion of the endowment fund that is not classified as permanently restricted net assets as temporarily restricted net assets (time restricted) until appropriated for expenditure. The net amount consists of the cumulative investment income, net appreciation or depreciation of investments, amounts appropriated for expenditure, reclassifications, and other changes to the Trust's endowment fund.

During the fiscal year ended August 31, 2009, the losses on investments of the Trust's endowment fund exceeded the net amount of the fund classified as temporarily restricted. In accordance with FASB Stmt. No 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*, losses on the investments of the endowment fund reduces temporarily restricted net assets to the extent there are insufficient temporarily restricted net assets. Any remaining loss reduces unrestricted net assets.

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THE TRUST FOR HIDDEN VILLA

NOTES TO FINANCIAL STATEMENTS

for the years ended August 31, 2010 and 2009

10. Fair Value Measurement

The following table summarizes the Trust's financial assets and liabilities measured at fair value on a recurring basis:

| | Assest at Fair Value as of August 31, 2010 | |
|---------------------------|--|---------------------|
| | <u>(Level 1)</u> | <u>Total</u> |
| Cash and cash equivalents | \$ 456,006 | \$ 456,006 |
| Certificates of deposit | 475,335 | 475,335 |
| Bond funds | 328,285 | 328,285 |
| Equity funds | 1,199,636 | 1,199,636 |
| | <u>\$ 2,459,262</u> | <u>\$ 2,459,262</u> |
| | Assest at Fair Value as of August 31, 2009 | |
| | <u>(Level 1)</u> | <u>Total</u> |
| Cash and cash equivalents | \$ 378,675 | \$ 378,675 |
| Certificates of deposit | 476,454 | 476,454 |
| Bond funds | 269,211 | 269,211 |
| Equity funds | 1,055,595 | 1,055,595 |
| | <u>\$ 2,179,935</u> | <u>\$ 2,179,935</u> |

As of August 31, 2010 and 2009, the Trust did not have any Level 2 or Level 3 assets or liabilities.

11. Subsequent Events

The Trust evaluated subsequent events for recognition and disclosure through April 11, 2011, the date which these financial statements were available to be issued. Management concluded that no material subsequent events have occurred since August 31, 2010 that require recognition or disclosure in such financial statements.