

Financial Statements

VILLA ESPERANZA SERVICES

For the Year Ended June 30, 2009

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Villa Esperanza Services

We have audited the accompanying statement of financial position of Villa Esperanza Services ("Villa") (a nonprofit organization) as of June 30, 2009 and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of Villa's management. Our responsibility is to express an opinion on the financial statements based on our audit. The prior year summarized comparative information has been derived from Villa's 2008 financial statements and in our report dated January 22, 2009 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 Villa Esperanza Services as of June 30, 2009, 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.



April 28, 2010

VILLA ESPERANZA SERVICES
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2009
With Comparative Totals for 2008

ASSETS

	2009	2008
Current Assets		
Cash and cash equivalents	\$ 833,320	\$ 886,171
Accounts receivable, net	1,273,536	978,391
Grants and contribution receivable	236,548	87,645
Note receivable	-	210,519
Related party receivables - short term, net of payables	222,590	125,413
Prepaid expenses	98,894	58,703
	2,664,888	2,346,842
Property and Equipment	2,244,051	2,207,808
Other Assets		
Loan fees, net	9,682	12,014
Investments	936,213	1,092,141
Deposits and other receivables	37,760	56,934
Beneficial interest in split-interest agreement	945,200	792,244
Related party receivables - long term, net of payables	500,099	458,284
	2,428,954	2,411,617
Total Assets	\$ 7,337,893	\$ 6,966,267

LIABILITIES AND NET ASSETS

Current Liabilities		
Accounts payable and accrued expenses	\$ 240,341	\$ 203,705
Accrued payroll and vacation	441,089	439,654
Due to program funding agency, current portion	56,024	198,460
Notes payable, current portion	55,732	51,730
	793,186	893,549
Long Term Liabilities		
Due to program funding agency, net of current portion	112,048	-
Notes payable, net of current portion	1,546,281	1,601,621
	1,658,329	1,601,621
Total Liabilities	2,451,515	2,495,170
Net Assets		
Unrestricted net assets	2,865,405	2,512,471
Temporarily restricted net assets	1,122,559	1,015,131
Permanently restricted net assets	898,414	943,495
	4,886,378	4,471,097
Total Liabilities and Net Assets	\$ 7,337,893	\$ 6,966,267

The accompanying notes are an integral part of these statements.

**VILLA ESPERANZA SERVICES
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009
With Comparative Totals for 2008**

	2009			2008	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Revenue and Public Support					
Program fees	\$ 8,714,686	\$ -	\$ -	\$ 8,714,686	\$ 8,468,449
Contributions	880,282	582,144	6,652	1,469,078	1,428,307
Investment returns, net	(136,854)	-	-	(136,854)	(40,820)
Change in value of split-interest agreement	-	152,956	-	152,956	31,944
Other income	252,848	-	-	252,848	491,457
Net assets released due to satisfaction of program restrictions	627,672	(627,672)	-	-	-
Total Revenue and Public Support	10,338,634	107,428	6,652	10,452,714	10,379,337
Expenses					
Program services	7,456,014	-	-	7,456,014	7,496,522
Supporting services:					
Management and general	1,856,986	-	-	1,856,986	1,898,562
Fundraising	543,703	-	-	543,703	513,871
Total Supporting Services	2,400,689	-	-	2,400,689	2,412,433
Total Expenses Before Depreciation and Amortization	9,856,703	-	-	9,856,703	9,908,955
Change in Net Assets Before Depreciation and Amortization	481,931	107,428	6,652	596,011	470,382
Depreciation and Amortization	180,730	-	-	180,730	174,393
Change in Net Assets	301,201	107,428	6,652	415,281	295,989
Net Assets, Beginning	2,512,471	1,015,131	943,495	4,471,097	4,175,108
Reclassification of Net Assets	51,733	-	(51,733)	-	-
Net Assets, Ending	\$ 2,865,405	\$ 1,122,559	\$ 898,414	\$ 4,886,378	\$ 4,471,097

The accompanying notes are an integral part of these statements.

VILLA ESPERANZA SERVICES
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2009
With Comparative Totals for 2008

	2009			2008	
	Program Services	Management and General	Fundraising	Total	Total
Expenses					
Salaries and wages	\$ 4,996,938	\$ 1,078,243	\$ 328,912	\$ 6,404,093	\$ 6,111,062
Payroll taxes	432,155	79,973	24,959	537,087	520,690
Rental expenses	313,278	82,431	18,647	414,356	374,746
Employee benefits	306,033	80,028	11,383	397,444	362,014
Workers compensation	282,712	23,824	4,319	310,855	382,013
Professional fees	173,721	53,887	10,901	238,509	352,996
Food	174,716	3,677	709	179,102	168,051
Program supplies	101,943	35,214	5,671	142,828	179,618
Events and promotions	42,473	6,783	77,725	126,981	105,377
Interest expense	57,500	67,906	-	125,406	133,844
Retirement plan	52,448	38,044	13,451	103,943	112,116
Repairs and maintenance	48,447	45,597	950	94,994	114,319
Legal and accounting	12,199	77,580	-	89,779	80,701
Utilities	66,903	11,919	601	79,423	82,487
Bad debts	76,347	-	-	76,347	52,381
Telephone and other communication	41,203	33,661	726	75,590	75,659
Insurance	1,878	73,672	-	75,550	74,524
Travel	60,827	3,296	128	64,251	64,885
Transportation costs	54,914	6,624	1,518	63,056	64,395
Medical services	41,130	7,993	161	49,284	66,304
Printing and duplicating	9,836	14,029	24,529	48,394	62,134
Quality assurance fees	40,826	-	-	40,826	52,700
Training	24,891	10,073	125	35,089	51,443
Taxes and licenses	28,548	2,183	-	30,731	34,817
Postage	2,678	10,488	9,002	22,168	26,109
Dues and subscriptions	6,283	8,502	4,840	19,625	40,582
Miscellaneous office expense	1,423	11,714	3,307	16,444	16,004
Equipment expense	3,764	3,029	1,139	7,932	36,095
Bad debts - related parties	-	(13,384)	-	(13,384)	110,889
Total Expenses Before Depreciation and Amortization	7,456,014	1,856,986	543,703	9,856,703	9,908,955
Depreciation and Amortization	45,387	135,343	-	180,730	174,393
Total Expenses	\$ 7,501,401	\$ 1,992,329	\$ 543,703	\$ 10,037,433	\$ 10,083,348

The accompanying notes are an integral part of these statements.

VILLA ESPERANZA SERVICES
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2009
With Comparative Totals for 2008

	2009	2008
Cash Flows from Operating Activities		
Cash received from service recipients	\$ 8,118,743	\$ 8,523,917
Cash received from donors	1,341,052	1,491,231
Cash paid to suppliers and employees	(9,249,048)	(9,462,676)
Dividends and interest received	39,530	78,229
Interest paid	(125,406)	(133,844)
	124,871	496,857
 Cash Flows from Investing Activities		
Purchase of property and equipment	(128,346)	(259,488)
Proceeds from sale of equipment	1,200	-
Purchase of investments	(90,770)	(328,573)
Proceeds from sale of investments	91,532	314,858
	(126,384)	(273,203)
 Cash Used In Financing Activities		
Repayments on notes payable	(51,338)	(345,264)
	(52,851)	(121,610)
 Net Decrease in Cash and Cash Equivalents		
	(52,851)	(121,610)
 Cash and Cash Equivalents, Beginning	886,171	1,007,781
 Cash and Cash Equivalents, Ending	\$ 833,320	\$ 886,171

The accompanying notes are an integral part of these statements.

**VILLA ESPERANZA SERVICES
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2009
With Comparative Totals for 2008
(Continued)**

	2009	2008
Reconciliation of Change in Nets Assets to Net Cash Provided by Operating Activities:		
Change in net assets	\$ 415,281	\$ 295,989
Adjustments to reconcile the change in net assets to net cash provided by operating activities:		
Depreciation and amortization	180,730	174,393
Bad debts	76,347	52,381
Bad debts - related parties	(13,384)	110,889
Change in value of split-interest agreement	(152,956)	(31,944)
Realized and unrealized losses on investments	176,385	119,049
Non cash contribution	(21,218)	(87,645)
Recovery of note receivable previously written-off	-	(210,519)
(Increase) decrease in:		
Accounts receivable	(370,492)	(8,668)
Grants and contribution receivable	(236,548)	250,000
Note receivable	210,519	-
Related party receivables, net of payables	(125,608)	(160,939)
Prepaid expenses	(40,341)	(12,453)
Loan fees	(700)	-
Deposits and other receivables	19,174	13,750
Increase (decrease) in:		
Accounts payable and accrued expenses	36,635	(50,040)
Due to program funding agency	(30,388)	(55,863)
Accrued payroll and vacation	1,435	98,477
Net Cash Provided by Operating Activities	\$ 124,871	\$ 496,857
 Non-cash Investing and Financing Activities		
Purchase of property and equipment		
Cost of property and equipment acquired	\$ (215,991)	\$ (298,688)
Donated equipment	87,645	39,200
	\$ (128,346)	\$ (259,488)

The accompanying notes are an integral part of these statements.

VILLA ESPERANZA SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

Note 1 - Organization and Summary of Significant Accounting Policies

This summary of significant accounting policies is presented to assist in understanding the financial statements of Villa Esperanza Services.

Villa

Villa Esperanza Services ("Villa") is a non-profit California corporation dedicated to the care and education of children, adults, and seniors with disabilities. Founded in 1961 by mothers who believed that their children with developmental disabilities deserved quality care and education, the program was re-named Villa Esperanza (House of Hope) in 1966.

Currently, Villa serves over 1,000 children, adults, and seniors each year. Clients served range in age from 2 to 86, and include individuals with autism, cerebral palsy, Alzheimer's, dementia, Down syndrome, mental retardation, and with speech or communication difficulties. Villa serves individuals in the San Gabriel, San Fernando and Conejo Valleys by offering:

- A comprehensive school for children and youth to age 22, serving 24 school districts;
- A speech and language center serving children, adults, and seniors at Villa and surrounding communities;
- An integrated, community-based employment and work placement program;
- A center and community-based day program for adults;
- Adult residences in Pasadena and Thousand Oaks;
- An integrated adult day program serving adults and seniors;
- An integrated care management program serving adults and seniors in 41 cities;
- An independent living services program and a 5-unit independent living apartment in Pasadena.

Basis of Accounting

Villa accounts for its financial transactions using the accrual basis of accounting. The accrual basis of accounting recognizes revenues in the accounting period in which revenues are earned regardless of when cash is received and recognizes expenses in the accounting period in which expenses are incurred regardless of when cash is disbursed.

Recent Accounting Developments

In June 2009, the Financial Accounting Standards Board ("FASB") issued SFAS No. 168 ("SFAS 168"), *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*, a replacement of FASB Statement No. 162. SFAS 168 identifies the sources of authoritative accounting principles and the framework for selecting the principles used in the preparation of financial statements that are presented in conformity with generally accepted accounting principles in the U.S. Villa is required to adopt the provisions of SFAS 168 for its year ended June 30, 2009, and it will impact Villa's financial statement disclosures as all future references to authoritative accounting literature will be referenced in accordance with SFAS 168. There will be no changes to the content of Villa's financial statements or disclosures as a result of implementing SFAS 168.

VILLA ESPERANZA SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

Note 1 - Organization and Summary of Significant Accounting Policies (Continued)

Basis of Presentation

Villa's financial statement presentation follows the recommendations of ASC 958, *Financial Statements of Not-for-Profit Organizations*. Under ASC 958 Villa is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Fair Value of Financial Instruments

Villa's financial instruments are cash and cash equivalents, short-term investments, accounts receivable, notes receivable, grants and contribution receivable, related party receivable, accounts payable, notes payable, and long-term debt. The recorded values of cash and cash equivalents, short-term investments, accounts receivable, and accounts payable approximate their fair values based on their short-term nature. The recorded values of notes payable and long-term debt approximate their fair values, as interest approximates market rates.

Cash and Cash Equivalents

For purposes of reporting cash flows, Villa considers all money market accounts and all highly liquid debt investments purchased with maturities of three months or less to be cash equivalents. As of June 30, 2009, and 2008, cash and cash equivalents include \$52,358 and \$222,886 of temporarily restricted cash, respectively. Villa maintains its cash balances in multiple financial institutions. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000 per financial institution. As of June 30, 2009, Villa has uninsured cash balances of \$454,086.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

Investments

Investments, comprised primarily of equity securities and U.S. government obligations, are valued at fair value, with realized and unrealized gains or losses reflected in the statements of activities. The fair value of investments is based on quoted market value.

Property and Equipment

Property and equipment are recorded at cost or, if donated, at their fair market value on the date of donation. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets, which range from five to thirty-nine years. Costs of additions, renewals and betterments over \$1,000 are capitalized; maintenance and repairs are charged to expense when incurred.

VILLA ESPERANZA SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

Note 1 - Organization and Summary of Significant Accounting Policies (Continued)

Net Assets

Villa's net assets comprise the following:

Unrestricted Net Assets

Unrestricted net assets represent expendable net assets that are neither permanently nor temporarily restricted by donor-imposed restrictions and are available to support the program, administration, and fundraising of Villa. Unrestricted net assets were increased by \$51,733 during the year to reflect the absence of donor-imposed restrictions.

Temporarily Restricted Net Assets

Temporarily restricted net assets represent net assets whose use by Villa is limited by donor-imposed restrictions that either expire by the passage of time or can be fulfilled and removed by actions of Villa pursuant to those restrictions and include donor-restricted grants and donations for specific program expenditures, and building or equipment acquisitions.

Permanently Restricted Net Assets

Permanently restricted net assets represent net assets subject to donor-imposed stipulations that the assets be maintained permanently by Villa. Generally, the donors of such assets permit Villa to use all or part of the income earned on the assets. Net assets totaling \$(51,733) were reclassified during the year from permanently restricted net assets to unrestricted net assets to reflect the absence of donor-imposed restrictions.

Program Service Fees

Program service fees are principally special education tuition earned from contractual agreements between Villa and the school districts or the regional centers. Villa recognizes tuition revenue only after the students attended the school. In most instances, there is a base fee for a program and several categorical program fee components paid only if the students attended those categories. Program service fees also include income from assisted residential living for adults with built in levels of support and assistance.

Public Support

Donations are recorded as made. All donations are considered to be available for unrestricted use unless specifically restricted by the donor.

Amounts received or promised that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily or permanently restricted support that increases those net asset classes. When a temporary 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.

Conditional promises to give are not included as contribution until the conditions are substantially met.

Donated securities and other non-cash donations are recorded as donations at their estimated fair values at the date of donation.

VILLA ESPERANZA SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

Note 1 - Organization and Summary of Significant Accounting Policies (Continued)

Contributed Services

Donated services are recognized as contributions if the services (a) create or enhance a nonfinancial asset or (b) required specialized skills, are provided by entities or persons possessing those skills, that would be purchased if not donated. Villa receives donated services from a substantial number of volunteers who donate significant amounts of their time to Villa's programs and other services. Most amounts have not been recognized in the accompanying statement of activities because these donations of time and other services do not meet the criteria for recognition.

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Taxes

Villa qualifies as a nonprofit organization under Section 501(c)(3) of the Internal Revenue Code. Villa has been classified as an organization that is not a private foundation as defined in Section 509(a) of the Internal Revenue Code. Such organizations are not normally subject to income tax; therefore, no provision for income taxes is included in the statements.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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. Actual results could differ from those estimates.

Comparative Financial Statements

The financial statements include certain prior-year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with Villa's financial statements for the year ended June 30, 2008, from which the summarized information was derived. Certain amounts in the 2008 financial statements have been reclassified for comparative purposes to conform to the presentation of the 2009 financial statements.

Note 2 - Accounts Receivable

As of June 30, 2009 and 2008, Villa's accounts receivable and allowance for uncollectible amounts were as follows:

	2009	2008
Accounts receivable	\$ 1,323,536	\$ 1,028,391
Less allowance for uncollectible amounts	50,000	50,000
	\$ 1,273,536	\$ 978,391

VILLA ESPERANZA SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

Note 3 - Note Receivable

During 2008, Villa recorded a note receivable of \$210,519. This note receivable, including accrued interest, was assigned to Villa by a donor during 1994. The note had an outstanding balance of approximately \$75,000 at the time of its assignment. It was subsequently deemed uncollectible and written-off. Villa also recognized a \$75,000 recovery of bad debt expense and \$135,519 of interest income, which were classified as other income in the statement of activities. As of June 30, 2009, the note had been collected.

Note 4 - Property and Equipment

As of June 30, 2009 and 2008, property and equipment consist of the following:

	2009	2008
Land	\$ 979,893	\$ 979,893
Building and improvements	2,180,444	2,166,144
Equipment	294,718	242,689
Furniture and fixtures	293,800	284,201
Transportation equipment	831,199	698,437
Leasehold improvements	32,448	28,148
	4,612,502	4,399,512
Less accumulated depreciation	2,368,451	2,191,704
	\$ 2,244,051	\$ 2,207,808

Depreciation expense in connection with these assets was \$177,698 and \$171,276 during 2009 and 2008, respectively.

Note 5 - Investments

As of June 30, 2009 and 2008, investments consist of the following:

2009	Aggregate Market Value	Cost
Money market fund	\$ 149,852	\$ 149,852
Corporate stocks	252,649	336,840
Corporate bonds	234,533	247,526
Equity funds	160,580	271,363
Other	138,599	138,599
	\$ 936,213	\$ 1,144,180

VILLA ESPERANZA SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

Note 5 - Investments (Continued)

<u>2008</u>	<u>Aggregate Market Value</u>	<u>Cost</u>
Money market fund	\$ 97,164	\$ 97,164
Corporate stocks	313,629	339,618
Corporate bonds	333,883	333,730
Equity funds	215,706	271,363
Other	131,759	131,759
	<u>\$ 1,092,141</u>	<u>\$ 1,173,634</u>

Investment returns are summarized as follows:

	<u>2009</u>	<u>2008</u>
Interest and dividends	\$ 43,612	\$ 83,868
Net realized and unrealized losses	(176,385)	(119,049)
Investment fees	(4,081)	(5,639)
	<u>\$ (136,854)</u>	<u>\$ (40,820)</u>

Note 6 - Beneficial Interest in Split-interest Agreement

Villa is a beneficiary of a split-interest agreement. A split-interest agreement generally provides for the payment of distributions to the grantor or other designated beneficiaries over the agreement's term. At the end of the agreement's term, Villa will receive a portion of the remaining assets of the agreement. The portion of the agreement attributable to the present value of the future benefits to be received by Villa is recorded in the statement of activities as a temporarily restricted net asset in the period the agreement is established. The beneficial interest in the split-interest agreement is reported, at fair value in Villa's statement of financial position. On an annual basis, Villa re-measures the fair value of the beneficial interest. The present value for the estimated future payments was calculated using a discount rate of 4% and 5% in 2009 and 2008, respectively, and applicable mortality tables.

The split-interest agreement at June 30, 2009 and 2008 consists of the following:

	<u>2009</u>	<u>2008</u>
Assets	\$ 1,219,382	\$ 985,594
Liabilities	(274,182)	(193,350)
	<u>\$ 945,200</u>	<u>\$ 792,244</u>

VILLA ESPERANZA SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

Note 7 - Loan Fees

As of June 30, 2009 and 2008, loan fees consist of the following:

	2009	2008
Loan fees	\$ 19,756	\$ 19,056
Less accumulated amortization	10,074	7,042
	\$ 9,682	\$ 12,014

Costs incurred in connection with obtaining financing through banks were capitalized and amortized using the straight-line method over the lives of the respective financing arrangements. Subsequent to year-end, one of these financing agreements was refinanced and the unamortized loan fees were written-off to amortization expense (Note 16). Amortization expense for the years ended June 30, 2009 and 2008 was \$3,032 and \$3,117, respectively.

Note 8 - Fair Value Measurements

Villa applies the fair value measurements of financial assets that are recognized or disclosed at fair value in the financial statements on a recurring basis. This standard establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that Villa has the ability to access at the measurement date.

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

VILLA ESPERANZA SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

Note 8 - Fair Value Measurements (Continued)

Fair value of assets measured on a recurring basis at June 30, 2009, are as follows:

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Investments	\$ 936,213	\$ 936,213	\$ -	\$ -
Beneficial interest in split-interest agreement	<u>945,200</u>	<u>-</u>	<u>-</u>	<u>945,200</u>
	<u>\$ 1,881,413</u>	<u>\$ 936,213</u>	<u>\$ -</u>	<u>\$ 945,200</u>

Fair values for investments are determined by reference to quoted market prices and other relevant information generated by market transactions. Fair value for the beneficial interest in a split-interest agreement trust is determined by calculating the present value of the future distributions expected to be received, using applicable mortality tables and a 4% discount rate.

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3 inputs):

Beneficial interest in split-interest agreement

July 1, 2008	\$ 792,244
Change in value in split-interest agreement	<u>152,956</u>
June 30, 2009	<u>\$ 945,200</u>

The change in value of the split-interest agreement is included in the change in temporarily restricted net assets on the statement of activities.

Note 9 - Endowment Fund

The Financial Accounting Standards Board issued ASC 958-205-5, *Reporting Endowments Funds*. ASC 958-205-5 provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA"). ASC 958-205-5 also requires additional disclosures about Villa's endowment funds (both donor-restricted endowment funds and board-designated endowment funds) whether or not Villa is subject to UPMIFA.

The State of California enacted UPMIFA, the provisions of which apply to endowment funds existing on or established after that date. Villa has adopted ASC 958-205-5 for the year ended June 30, 2009.

VILLA ESPERANZA SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

Note 9 - Endowment Fund (Continued)

Villa has a donor restricted endowment fund, which is classified as permanently restricted in the statement of net assets. The donor requires the historical dollar amount of a donor-restricted endowment fund to be preserved. In the absence of donor restrictions, the net appreciation on this donor-restricted endowment fund is spendable. Villa's donor has not placed restrictions on the use of the investment income or net appreciation resulting from the donor-restricted endowment fund.

Investment policy

The primary goal is to build the real value of the endowment by achieving a growth rate on the principal amount of the plan assets over a market cycle (3-5 years) of not less than 4%, plus the rate of inflation as measured by the Consumer Price Index. To the extent compatible with the above objective, the secondary goal is to maximize long-term total return, while assuming a prudent level of investment risk.

Endowment assets are managed on a total return basis with an emphasis on balanced growth. The total return objective (net of fees) for the portfolio, measured over a full market cycle, is to approximate market performance as defined by a market index composed of the Standard & Poor's 500, Russell 2000, Lehman Brothers Government/Corporate Bond index, and the Morgan Stanley Capital International EAFE index.

Endowment Asset Allocation

The endowment asset portfolio is divided into three basic asset classes as follows:

	<u>Range</u>
Equities	40-80%
Fixed Income	20-50%
Cash	5-20%

Spending Policy

Endowment assets are invested with the intent to distribute reasonable earnings from interest, dividends, and capital appreciation on an as needed basis. The practice of Villa has been to take board approved annual disbursements without impacting the principle of the fund.

Endowment Net Assets

Changes in endowment net assets as of June 30, 2009 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 148,646	\$ -	\$ 943,495	\$ 1,092,141
Reclassification of net assets	51,733	-	(51,733)	-
Contribution	-	-	6,652	6,652
Interest and dividend income	40,850	-	-	40,850
Investment fees	(4,081)	-	-	(4,081)
Net depreciation	(163,914)	-	-	(163,914)
Amounts appropriated for expenditure	(50,000)	-	-	(50,000)
Endowment net assets, end of year	\$ 23,234	\$ -	\$ 898,414	\$ 921,648

VILLA ESPERANZA SERVICES
NOTES TO FINANCIAL STATEMENTS
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Note 10 - Due to Program Funding Agency

For 2005 and 2006, the program audit conducted by the County of Los Angeles resulted in findings of the existence of net program revenue, which was requested to be refunded to the Area Agency on Aging Program. The resulting amounts due to Los Angeles County Community and Senior Services totaled \$168,072 and \$198,460 as of June 30, 2009 and 2008, respectively. The portion that is due within 12 months totaling \$56,024 has been classified as current liabilities in the statement of financial position.

Maturities of this liability for each of the years succeeding June 30, 2009 are as follows:

<u>Years Ending June 30,</u>	
2010	\$ 56,024
2011	56,024
2012	56,024
	<hr/>
	\$ 168,072
	<hr/>

Note 11 - Notes Payable

As of June 30, 2009 and 2008, notes payable consist of the following:

	2009	2008
Note payable, Comerica Bank, due May 11, 2037, payable in monthly installments of \$3,992, including interest at 7.00% per annum, secured by real estate	\$ 244,456	\$ 274,149
Note payable, State Bank of India, due March 15, 2011, payable in monthly installments of \$11,109, including interest at 8.00% per annum, secured by real estate	<hr/> 1,357,557	<hr/> 1,379,202
	1,602,013	1,653,351
Less current portion	<hr/> 55,732	<hr/> 51,730
	<hr/> \$ 1,546,281	<hr/> \$ 1,601,621

VILLA ESPERANZA SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

Note 11 - Notes Payable (Continued)

Maturities of notes payable for each of the years succeeding June 30, 2009, are as follows:

<u>Years Ending June 30,</u>	
2010	\$ 55,732
2011	1,367,969
2012	36,610
2013	39,256
2014	42,094
Thereafter	60,352
	<u>\$ 1,602,013</u>

Subsequent to year end, the State Bank of India note was refinanced (Note 16).

Note 12 - Line of Credit

Under the terms of a line of credit agreement with East West Bank, Villa is entitled to borrow up to \$500,000 renewable annually at the daily Wall Street Journal Prime Rate, not less than 5% per annum. The loan is secured by substantially all of Villa's assets and matures at January, 2011. The loan agreement contains various covenants and restrictions in addition to requiring Villa to maintain certain financial ratios and balances. As of June 30, 2009 and 2008, there is no outstanding balance.

Note 13 - Lease Commitments

As of June 30, 2009, Villa is committed under long-term leases as follows:

<u>June 30,</u> <u>Years Ending</u>	<u>Facilities</u>	<u>Equipment</u>	<u>Total</u>
2010	\$ 195,713	\$ 22,191	\$ 217,904
2011	137,724	18,648	156,372
2012	88,969	18,648	107,617
2013	-	17,156	17,156
2014	-	21,335	21,335
	<u>\$ 422,406</u>	<u>\$ 97,978</u>	<u>\$ 520,384</u>

Villa rents other administrative and program facilities on a month-to-month basis. For the years ended June 30, 2009 and 2008, rental expense was \$414,356 and \$374,746, respectively.

VILLA ESPERANZA SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

Note 14 - Retirement Plan

Prior to December 31, 2008, Villa had a defined contribution 403(b) retirement plan covering all full-time employees with at least three months of service (the "Old" plan). Villa's employees were eligible to make personal contributions after the initial three-month period. Employer contributions to the plan effective July 1, 2007 were as follows:

<u>Years of Employment</u>	<u>Percentage of Employee's Eligible Salary</u>
3	3%
5	5%
7	7%
10	10%

Effective January 1, 2009, Villa discontinued the old plan and replaced it with a new 403(b) plan. The old plan was frozen as of December 31, 2008. Under the new plan Villa's employees are eligible to make elective deferrals beginning on the date of hire. The employer's matching contribution is discretionary.

Contributions to both plans totaled \$103,943 and \$112,116 for the years ended June 30, 2009 and 2008, respectively.

Note 15 - Related Parties Transactions

Related Party Receivables

Villa has sponsored the formation of eight separate foundations (the "foundations") for the purpose of receiving grants from the U.S. Department of Housing and Urban Development ("HUD") to rehabilitate and operate certain group homes. These foundations have contracted with Villa for services and share management and program personnel. As of June 30, 2009 and 2008, the foundations collectively owed Villa as follows:

	<u>2009</u>	<u>2008</u>
Related party receivables, net of payables	\$ 929,394	\$ 803,786
Less valuation allowance	206,705	220,089
	722,689	583,697
Less current portion	222,590	125,413
Long term portion	\$ 500,099	\$ 458,284

Management has determined that the current portion is deemed collectible within the next 12 months and has classified these amounts as related party receivables - short term.

Due to the nature of the HUD projects, repayment of the remaining balance in the near-term is less than likely but deemed collectible in the event of a project termination or liquidation. Villa expects to collect outstanding accounts receivable balances due from the above related parties over a ten-year period. As such, Villa discounts the value of the outstanding receivable at 3.52% and 4% to its present value at June 30, 2009 and 2008, respectively. Accordingly, management has recorded a valuation allowance. Villa recognizes the change to the valuation allowance as bad debt - related parties, which amounted to \$(13,384) and \$110,889 for the years ended June 30, 2009 and 2008, respectively.

VILLA ESPERANZA SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

Note 15 - Related Parties Transactions (Continued)

Management Fees Income

Villa has recorded shared salary, insurance, service, and management fee income from the foundations of \$235,169 and \$262,226 for the years ended June 30, 2009 and 2008, respectively.

Rent Expenses

Villa, as lessee, has operating leases on a month to month basis with the foundations for the use of facilities. Rental expenses for the years ended June 30, 2009 and 2008 were \$154,454 and \$172,194, respectively.

Note 16 - Subsequent Event

During October 2009, Villa obtained a new loan totaling \$1,900,000 to refinance the State Bank of India note and purchased additional property. Monthly installments of \$13,245, including interest at 6.75% per annum, are due and a balloon payment of the principal and unpaid interest is due October 2014. The loan is secured by certain real estate.

Maturities of the above note payable for each of the years succeeding June 30, 2009, are as follows:

<u>Years Ending June 30,</u>	
2010	\$ 19,781
2011	31,226
2012	33,081
2013	35,767
2014	38,293
Thereafter	<u>1,741,852</u>
	<u>\$ 1,900,000</u>

Villa has evaluated subsequent events and updated the financial statements for events through April 28, 2010.

Note 17 - Reclassification of Net Assets

Net assets totaling \$51,733 were reclassified during the year from permanently restricted net assets to unrestricted net assets to reflect the absence of donor-imposed restrictions.

