

Financial Statements

VILLA ESPERANZA SERVICES

For the Year Ended June 30, 2008

MARTIN WERBELOW LLP

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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 (a nonprofit organization) as of June 30, 2008 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 2007 financial statements and in our report dated November 15, 2007 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, 2008, 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.



January 22, 2009

VILLA ESPERANZA SERVICES
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2008
With Comparative Totals for 2007

ASSETS

	2008	2007
Current Assets		
Cash and cash equivalents	\$ 886,171	\$ 1,007,781
Accounts receivable - short term	978,391	1,139,542
Grants and contribution receivable	87,645	289,200
Note receivable	210,519	-
Related party receivables - short term, net of payables	125,413	280,785
Prepaid expenses	58,703	46,250
Total Current Assets	2,346,842	2,763,558
Property and Equipment	2,207,808	2,080,384
Other Assets		
Accounts receivable - long term	6,549	-
Deposits	50,385	64,232
Investments	1,092,141	1,197,476
Beneficial interest in split-interest agreement	792,244	760,300
Loan fees	12,014	15,045
Related party receivables - long term	458,284	141,973
Total Other Assets	2,411,617	2,179,026
Total Assets	\$ 6,966,267	\$ 7,022,968

LIABILITIES AND NET ASSETS

Current Liabilities		
Accounts payable and accrued expenses	\$ 203,705	\$ 253,745
Due to program funding agency	198,460	254,323
Accrued payroll	258,688	211,592
Accrued vacation	180,966	129,585
Current portion of notes payable	51,730	46,025
Total Current Liabilities	893,549	895,270
Other Liabilities		
Notes payable, net of current portion	1,601,621	1,952,590
Total Liabilities	2,495,170	2,847,860
Net Assets		
Unrestricted net assets	2,512,471	2,098,957
Temporarily restricted net assets	1,015,131	1,132,656
Permanently restricted net assets	943,495	943,495
Total Net Assets	4,471,097	4,175,108
Total Liabilities and Net Assets	\$ 6,966,267	\$ 7,022,968

The accompanying notes are an integral part of these statements.

**VILLA ESPERANZA SERVICES
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008
With Comparative Totals for 2007**

	2008			2007	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Revenue and Public Support					
Program fees	\$ 8,468,449	\$ -	\$ -	\$ 8,468,449	\$ 8,310,843
Contributions	790,592	637,715	-	1,428,307	1,540,715
Investment returns, net	(40,820)	-	-	(40,820)	191,660
Loss on disposal of property	-	-	-	-	(12,793)
Change in value of split-interest agreements	-	31,944	-	31,944	107,300
Other income	491,457	-	-	491,457	243,855
Net assets released due to satisfaction of program restrictions	787,184	(787,184)	-	-	-
Total Revenue and Public Support	<u>10,496,862</u>	<u>(117,525)</u>	<u>-</u>	<u>10,379,337</u>	<u>10,381,580</u>
Expenses					
Program services	7,496,522	-	-	7,496,522	6,578,620
Supporting services:					
Management and general	1,898,562	-	-	1,898,562	1,623,862
Fundraising	513,871	-	-	513,871	538,478
Total Supporting Services	<u>2,412,433</u>	<u>-</u>	<u>-</u>	<u>2,412,433</u>	<u>2,162,340</u>
Total Expenses Before Depreciation and Amortization	<u>9,908,955</u>	<u>-</u>	<u>-</u>	<u>9,908,955</u>	<u>8,740,960</u>
Change in Net Assets Before Depreciation and Amortization	587,907	(117,525)	-	470,382	1,640,620
Depreciation and Amortization	<u>174,393</u>	<u>-</u>	<u>-</u>	<u>174,393</u>	<u>203,895</u>
Change in Net Assets	413,514	(117,525)	-	295,989	1,436,725
Net Assets, Beginning	<u>2,098,957</u>	<u>1,132,656</u>	<u>943,495</u>	<u>4,175,108</u>	<u>2,738,383</u>
Net Assets, Ending	<u>\$ 2,512,471</u>	<u>\$ 1,015,131</u>	<u>\$ 943,495</u>	<u>\$ 4,471,097</u>	<u>\$ 4,175,108</u>

The accompanying notes are an integral part of these statements.

VILLA ESPERANZA SERVICES
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2008
With Comparative Totals for 2007

	2008			2007	
	Program Services	Management and General	Fundraising	Total	Total
Expenses					
Salaries and wages	\$ 4,910,326	\$ 924,832	\$ 275,904	\$ 6,111,062	\$ 5,293,851
Payroll taxes	431,902	67,980	20,808	520,690	468,252
Workers compensation	340,246	37,411	4,356	382,013	279,243
Rental expenses	365,464	9,282	-	374,746	422,813
Employee benefits	290,157	64,328	7,529	362,014	241,956
Professional fees	295,859	28,146	28,991	352,996	385,641
Program supplies	109,526	32,359	37,733	179,618	161,647
Food	162,228	5,776	47	168,051	179,874
Bad debts	-	163,270	-	163,270	128,410
Events and promotions	71,326	11,006	80,718	163,050	142,676
Interest expense	-	133,844	-	133,844	125,492
Travel and training	74,931	35,982	5,415	116,328	38,831
Repairs and maintenance	67,377	46,397	545	114,319	119,174
Retirement plan	69,207	32,793	10,116	112,116	74,488
Utilities	58,298	23,552	637	82,487	94,006
Legal and accounting	7,236	73,465	-	80,701	45,682
Telephone and other communication	41,960	31,453	2,246	75,659	73,632
Insurance	-	74,524	-	74,524	100,132
Transportation costs	53,469	8,236	2,690	64,395	115,376
Printing and duplicating	21,005	19,470	21,659	62,134	58,354
Quality assurance fees	52,700	-	-	52,700	46,741
Dues and subscriptions	13,533	23,325	3,724	40,582	36,300
Equipment expense	19,444	16,434	217	36,095	45,355
Taxes and licenses	24,496	10,321	-	34,817	17,756
Postage	7,075	13,307	5,727	26,109	21,890
Medical services	8,597	26	8	8,631	4,662
Miscellaneous office expense	160	11,043	4,801	16,004	18,726
Total Expenses Before Depreciation and Amortization	7,496,522	1,898,562	513,871	9,908,955	8,740,960
Depreciation and Amortization	48,736	125,657	-	174,393	203,895
Total Expenses	\$ 7,545,258	\$ 2,024,219	\$ 513,871	\$ 10,083,348	\$ 8,944,855

The accompanying notes are an integral part of these statements.

**VILLA ESPERANZA SERVICES
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2008
With Comparative Totals for 2007**

	2008	2007
Cash Flows from Operating Activities		
Cash received from service recipients	\$ 8,523,917	\$ 7,476,244
Cash received from donors	1,491,231	1,498,700
Cash paid to suppliers and employees	(9,462,676)	(8,505,498)
Dividends and interest received	78,229	44,854
Interest paid	(133,844)	(125,492)
	496,857	388,808
Cash Flows from Investing Activities		
Purchase of property and equipment	(259,488)	(179,520)
Proceeds from sale of equipment	-	6,647
Purchase of investments	(328,573)	(1,006,667)
Proceeds from sale of investments	314,858	1,131,926
	(273,203)	(47,614)
Cash Used in Financing Activities		
Repayments on notes payable	(345,264)	(25,746)
	(345,264)	(25,746)
Net Increase (Decrease) in Cash and Cash Equivalents	(121,610)	315,448
Cash and Cash Equivalents, Beginning	1,007,781	692,333
Cash and Cash Equivalents, Ending	\$ 886,171	\$ 1,007,781

The accompanying notes are an integral part of these statements.

VILLA ESPERANZA SERVICES
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2008
With Comparative Totals for 2007
(Continued)

	2008	2007
Reconciliation of Change in Nets Assets to Net Cash		
Provided by Operating Activities:		
Change in net assets	\$ 295,989	\$ 1,436,725
Adjustments to reconcile the change in net assets to net cash provided by operating activities:		
Depreciation and amortization	174,393	203,895
Bad debts	163,270	128,410
Change in value of split-interest agreements	(31,944)	(107,300)
Realized and unrealized (gain)/loss on investments	119,049	(256,068)
Loss on disposal of property, net	-	19,439
Other income	(210,519)	-
Non-cash contributions	(87,645)	(42,015)
(Increase) decrease in:		
Accounts receivable	(8,668)	(574,360)
Grants and contribution receivable	250,000	(250,000)
Related party receivables	(160,939)	(138,100)
Prepaid expenses	(12,453)	(9,442)
Deposits	13,750	(3,939)
Loan fees	-	(3,897)
Increase (decrease) in:		
Accounts payable and accrued expenses	(50,040)	(75,183)
Due from program funding agency	(55,863)	11,845
Accrued payroll	47,096	21,621
Accrued vacation	51,381	27,177
Net Cash Provided by Operating Activities	\$ 496,857	\$ 388,808

Supplemental Schedule of Non-cash Investing and Financing Activities

Purchase of property and equipment		
Cost of property and equipment purchased	\$ (298,688)	\$ (821,535)
Proceeds from note payable	-	600,000
Donated equipment	39,200	42,015
	\$ (259,488)	\$ (179,520)

The accompanying notes are an integral part of these statements.

VILLA ESPERANZA SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

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.

Organization

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 6-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.

Basis of Presentation

Villa's financial statements follow the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards No. 117, *Financial Statements of Not-for-Profit Organizations* ("SASF No 117"). The accounts of Villa are maintained in accordance with the principles of fund accounting. Under fund accounting, resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purpose. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. In accordance with SFAS No. 117, fund balances are classified on the statement of financial position as unrestricted, temporarily restricted, or permanently restricted net assets based on the absence or existence and type of donor-imposed restrictions.

VILLA ESPERANZA SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

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

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, 2008, cash and cash equivalents include \$222,886 of temporarily restricted cash. Villa maintains its cash balances in multiple financial institutions. The balances are insured by the Federal Deposit Insurance Corporation up to \$100,000 per financial institution. As of June 30, 2008, Villa has uninsured cash balances of \$781,707.

Accounts Receivable

Villa's accounts receivable are stated at unpaid balances, less an allowance for doubtful accounts. The allowance is based on experience, third-party contracts, and other circumstances, which may affect the ability of customers to meet their obligations. Receivables are considered impaired if full principal payments are not received in accordance with the contractual terms. It is Villa's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected.

Villa accounts for bad debts using the direct charge-off method, directly expensing receivables for which management deems uncollectible, or realizable at less than full value. The direct charge-off method provides results similar to the allowance method in all material respects.

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.

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.

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. As of June 30, 2008, permanently restricted net assets totaled \$943,495 and are included in investments in the accompanying statement of financial position.

VILLA ESPERANZA SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

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

Revenue and 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.

Investments

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

Contributed Services

Statement of Financial Accounting Standards No. 116, *Accounting for Contributions Received and Contributions Made* ("SAFS No. 116") states that for donated services to be recognized in the financial statements, the services must either (a) create or enhance a nonfinancial asset or (b) be specialized skills, 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 of such volunteer efforts under SFAS No. 116.

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.

VILLA ESPERANZA SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

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

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, 2007, from which the summarized information was derived.

Note 2 - Accounts Receivable

As of June 30, 2008 and 2007, Villa's accounts receivable and allowance for uncollectible amounts were as follows:

	2008	2007
Accounts receivable	\$ 1,034,940	\$ 1,189,542
Less allowance for uncollectible amounts	50,000	50,000
	\$ 984,940	\$ 1,139,542

Note 3 - Grants and Contribution Receivable

During 2007, Villa received a grant for \$830,000. The first two payments of \$330,000 and \$250,000 were received in April and December of 2007, respectively. The remaining \$250,000 due in May 2009 and contingent upon Villa obtaining matching funds will be recorded as contribution revenue when the condition is substantially met.

As of June 30, 2008, Villa received a grant from the State of California towards the purchase of two vehicles totaling \$87,645.

Note 4 - Note Receivable

On December 2, 2008, Villa received a payment of \$250,000 on a note receivable with accrued interest thereon that was assigned to it by a donor in approximately 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 has recorded a note receivable of \$210,519 as of June 30, 2008. At the same time, it recognized \$75,000 as a recovery of a bad debt expense that was reflected in other income. The remaining \$135,519 resulting from interest income of \$140,000 discounted at 5% to its present value at June 30, 2008 was reflected in other income. Legal fees of \$14,360 were incurred in the collection of the note receivable.

VILLA ESPERANZA SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

Note 5 - Property and Equipment

As of June 30, 2008 and 2007, property and equipment consist of the following:

	<u>2008</u>	<u>2007</u>
Land	\$ 979,893	\$ 979,893
Building and improvements	2,166,144	2,048,758
Equipment	242,689	185,144
Furniture and fixtures	284,201	260,621
Transportation equipment	698,437	609,136
Leasehold improvements	28,148	17,273
	<u>4,399,512</u>	<u>4,100,825</u>
Less accumulated depreciation	<u>2,191,704</u>	<u>2,020,441</u>
	<u>\$ 2,207,808</u>	<u>\$ 2,080,384</u>

Depreciation expense in connection with these assets was \$171,276 and \$200,852 during 2008 and 2007, respectively.

Note 6 - Investments

Investments consist of investments in marketable securities, which are stated at their market value. Contributed securities are recorded at their market value at the date of donation.

As of June 30, 2008 and 2007, investments consist of the following:

<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>
<u>2007</u>	<u>Aggregate Market Value</u>	<u>Cost</u>
Money market fund	\$ 173,423	\$ 173,423
Corporate stocks	440,769	385,950
Corporate bonds	229,762	230,736
Equity funds	229,507	226,007
Other	124,015	124,015
	<u>\$ 1,197,476</u>	<u>\$ 1,140,131</u>

VILLA ESPERANZA SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

Note 6 - Investments (Continued)

Investment returns are summarized as follows:

	2008	2007
Interest and dividends	\$ 83,868	\$ 44,854
Net realized and unrealized gains / (losses)	(119,049)	150,600
Investment fees	(5,639)	(3,794)
	\$ (40,820)	\$ 191,660

Note 7 - 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 remeasures the fair value of the beneficial interest. The present value for the estimated future payments was calculated using a discount rate of 5% and 6% in 2008 and 2007, respectively, and applicable mortality tables.

The split-interest agreement at June 30, 2008 and 2007 consists of the following:

	2008	2007
Assets	\$ 985,594	\$ 971,284
Liabilities	(193,350)	(210,984)
	\$ 792,244	\$ 760,300

Note 8 - Loan Fees

As of June 30, 2008 and 2007, loan fees consist of the following:

	2008	2007
Loan fees	\$ 19,056	\$ 19,056
Less accumulated amortization	7,042	4,011
	\$ 12,014	\$ 15,045

Amortization expense was \$3,117 and \$3,043 during 2008 and 2007, respectively.

VILLA ESPERANZA SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

Note 9 - Due to Program Funding Agency

For 2005 and 2006, Program audits conducted by the County of Los Angeles resulted in findings of indirect costs being over applied to the program. The amounts due to Los Angeles County Community and Senior Services totaled \$198,460 and \$254,323 as of June 30, 2008 and 2007, respectively. Management is currently in the process of negotiating an agreement that will allow Villa to pay \$50,000 annually by rendering in-kind services.

Note 10 - Notes Payable

As of June 30, 2008 and 2007, notes payable consist of the following:

	2008	2007
Note payable, Comerica Bank, due May 11, 2037, payable in monthly installments of \$3,992, plus interest at 7.00% per annum, secured by real estate	\$ 274,149	\$ 599,014
Note payable, State Bank of India, due March 15, 2011, payable in monthly installments of \$11,109, plus interest at 8.00% per annum, secured by real estate	1,379,202	1,399,601
	1,653,351	1,998,615
Less current portion	51,730	46,025
	\$ 1,601,621	\$ 1,952,590

Maturities of notes payable for each of the years succeeding June 30, 2008, are as follows:

<u>Years Ending June 30,</u>	
2009	\$ 51,730
2010	55,732
2011	1,367,968
2012	36,610
2013	39,256
Thereafter	102,055
	\$ 1,653,351

Note 11 - 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 prime per annum. The loan is secured by substantially all of Villa's assets. The loan agreement contains various covenants and restrictions in addition to requiring Villa to maintain certain financial ratios and balances. As of June 30, 2008, there is no outstanding balance.

VILLA ESPERANZA SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

Note 12 - Lease Commitments

As of June 30, 2008, Villa is committed under long-term leases as follows:

<u>Years Ending</u> <u>June 30,</u>	<u>Facilities</u>	<u>Equipment</u>	<u>Total</u>
2009	\$ 159,177	\$ 22,357	\$ 181,534
2010	134,427	18,120	152,547
2011	131,632	18,120	149,752
2012	91,505	3,588	95,093
2013	63,360	2,093	65,453
	<u>\$ 580,101</u>	<u>\$ 64,278</u>	<u>\$ 644,379</u>

Villa rents other administrative and program facilities on a month-to-month basis. The lease expense for 2008 and 2007 was \$374,746 and \$422,813, respectively.

Note 13 - Retirement Plan

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

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

Contributions to the plan totaled \$112,116 and \$74,488 for 2008 and 2007, respectively.

Effective January 1, 2009, Villa has discontinued the above plan and replaced it with a new 403(b) plan with a discretionary employer matching feature.

Note 14 - Related Parties

Villa has sponsored the formation of eight separate 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, 2008 and 2007, the foundations collectively owed Villa \$583,697 and \$422,758, respectively, for advanced costs and expenses. Management has determined that as of June 30, 2008, approximately \$125,413 is deemed collectible within the next twelve months and has classified this amount as a current receivable.

VILLA ESPERANZA SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

Note 14 - Related Parties (Continued)

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. Accordingly, management has recorded a valuation allowance as follows:

	<u>2008</u>	<u>2007</u>
Related party receivables, net of payables	\$ 803,786	\$ 532,658
Less valuation allowance	<u>220,089</u>	<u>109,900</u>
	<u>\$ 583,697</u>	<u>\$ 422,758</u>

In addition, Villa has recorded shared salary, insurance, service, and management fee income from the foundations of \$262,226 and \$177,744 for the years ended June 30, 2008 and 2007, respectively.

