

ESPERANÇA, INC.

FINANCIAL STATEMENTS

For the Year Ended September 30, 2013
with
Report of Independent Certified Public Accountant
and
Summarized Financial Information
As of and for the Year Ended
September 30, 2012

ESPERANÇA, INC.

FINANCIAL STATEMENTS

For the Year Ended September 30, 2013
(with summarized financial information for the year ended September 30, 2012)

CONTENTS

	<u>Pages</u>
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
Statement of Financial Position	2
Statement of Activities	3
Statement of Functional Expenses	4
Statement of Cash Flows	5
Notes to Financial Statements	6 - 10

Michael Mather, CPA, PLC

Certified Public Accountant

2254 N. 15th Avenue Phoenix, Arizona 85007 Telephone (602) 253-8777 Telefax (602) 253-8982 Email michael@mathercpa.com

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Esperança, Inc.

We have audited the accompanying financial statements of Esperança, Inc. (a nonprofit organization) which comprise the statement of financial position as of September 30, 2013, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Esperança, Inc. at September 30, 2013, 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. The prior year summarized comparative information has been derived from Esperança, Inc.'s 2012 financial statements and, in our report dated January 7, 2013, we expressed an unqualified opinion on those financial statements.



Phoenix, Arizona
January 06, 2014

ESPERANÇA, INC.

STATEMENT OF FINANCIAL POSITION

September 30, 2013
(with summarized financial information as of September 30, 2012)

ASSETS

	<u>Unrestricted</u>	<u>Temporarily</u> <u>Permanently</u>		<u>Totals</u>	
		<u>Restricted</u>	<u>Restricted</u>	<u>2013</u>	<u>2012</u>
Cash	\$ 93,349	\$ 33,497	\$ -	\$ 126,846	\$ 39,923
Grants receivable	-	17,275	-	17,275	69,100
Advance to partner	-	-	-	-	40,500
Investments	1,515,279	-	1,822,222	3,337,501	3,066,758
Prepaid expenses	11,607	-	-	11,607	9,824
Land, buildings and equipment, net	<u>37,576</u>	<u>-</u>	<u>-</u>	<u>37,576</u>	<u>38,792</u>
TOTAL ASSETS	<u>\$ 1,657,811</u>	<u>\$ 50,772</u>	<u>\$ 1,822,222</u>	<u>\$ 3,530,805</u>	<u>\$ 3,264,897</u>

LIABILITIES AND NET ASSETS

Accounts payable	\$ 35,780	\$ -	\$ -	\$ 35,780	\$ 22,340
Accrued expenses	<u>33,359</u>	<u>-</u>	<u>-</u>	<u>33,359</u>	<u>30,487</u>
TOTAL LIABILITIES	69,139	-	-	69,139	52,827
Net assets	<u>1,588,672</u>	<u>50,772</u>	<u>1,822,222</u>	<u>3,461,666</u>	<u>3,212,070</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,657,811</u>	<u>\$ 50,772</u>	<u>\$ 1,822,222</u>	<u>\$ 3,530,805</u>	<u>\$ 3,264,897</u>

The accompanying notes are an integral part of these financial statements

ESPERANÇA, INC.

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2013
(with summarized financial information for the year ended September 30, 2012)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2013	2012
PUBLIC SUPPORT AND REVENUE					
Public support:					
Contributions	\$ 1,076,581	\$ 3,256	\$ -	\$ 1,079,837	\$ 1,034,185
Grants - contributions	89,684	30,000	-	119,684	340,286
Wills and bequests	219,850	-	-	219,850	34,631
Donated services	2,656,580	-	-	2,656,580	3,628,348
Donated materials	1,887,414	-	-	1,887,414	2,155,367
Total public support	<u>5,930,109</u>	<u>33,256</u>	<u>-</u>	<u>5,963,365</u>	<u>7,192,817</u>
Revenue:					
Interest and dividend income	36,424	-	-	36,424	26,133
Net realized/unrealized gains on investments	256,518	-	-	256,518	226,407
Other revenue	1,681	-	-	1,681	8,406
Total revenue	<u>294,623</u>	<u>-</u>	<u>-</u>	<u>294,623</u>	<u>260,946</u>
Satisfaction of purpose restrictions on temporarily restricted net assets	<u>113,717</u>	<u>(113,717)</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL PUBLIC SUPPORT AND REVENUE	<u>6,338,449</u>	<u>(80,461)</u>	<u>-</u>	<u>6,257,988</u>	<u>7,453,763</u>
EXPENSES					
Program services:					
Medical and health services	5,439,563	-	-	5,439,563	6,592,457
Supporting services:					
Management and general	250,404	-	-	250,404	240,710
Fundraising	318,425	-	-	318,425	378,750
TOTAL EXPENSES	<u>6,008,392</u>	<u>-</u>	<u>-</u>	<u>6,008,392</u>	<u>7,211,917</u>
CHANGE IN NET ASSETS	330,057	(80,461)	-	249,596	241,846
NET ASSETS, BEGINNING OF YEAR	<u>1,258,615</u>	<u>131,233</u>	<u>1,822,222</u>	<u>3,212,070</u>	<u>2,970,224</u>
NET ASSETS, END OF YEAR	<u>\$ 1,588,672</u>	<u>\$ 50,772</u>	<u>\$ 1,822,222</u>	<u>\$ 3,461,666</u>	<u>\$ 3,212,070</u>

The accompanying notes are an integral part of these financial statements

ESPERANÇA, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended September 30, 2013
(with summarized financial information for the year ended September 30, 2012)

	Program Services	Supporting Services		Total Expenses	
	Medical and Health	Management and General	Fundraising	2013	2012
Payroll expenses:					
Salaries	\$ 189,333	\$ 169,403	\$ 139,508	\$ 498,244	\$ 436,503
Employee benefits	37,982	33,984	27,986	99,952	77,939
Payroll taxes	14,582	13,047	10,745	38,374	35,362
Total payroll expenses	241,897	216,434	178,239	636,570	549,804
Donated services	2,656,580	-	-	2,656,580	3,628,348
Donated materials	1,887,414	-	-	1,887,414	2,155,367
Distribution to Bolivia	333,303	-	-	333,303	335,965
Distribution to Nicaragua	159,301	-	-	159,301	141,013
Travel	78,110	885	4,986	83,981	102,659
Professional fees	15,864	10,569	49,829	76,262	89,718
Printing and copying	1,342	1,201	48,457	51,000	88,024
Distribution to Mozambique	20,000	-	-	20,000	20,000
Postage and shipping	3,710	1,395	11,818	16,923	39,124
Maintenance	5,246	4,694	3,866	13,806	12,447
Domestic events and services	10,479	-	-	10,479	7,302
Conferences and meetings	3,452	2,000	2,911	8,363	2,812
Insurance	3,121	2,793	2,300	8,214	8,271
Utilities	2,556	2,287	1,884	6,727	6,009
Telecommunications	2,091	1,871	1,540	5,502	5,743
Supplies	1,483	1,327	1,093	3,903	6,012
Distribution to Peru	3,405	-	-	3,405	-
Depreciation	462	413	340	1,215	202
Other expenses	9,747	4,535	11,162	25,444	13,097
TOTAL EXPENSES	<u>\$ 5,439,563</u>	<u>\$ 250,404</u>	<u>\$ 318,425</u>	<u>\$ 6,008,392</u>	<u>\$ 7,211,917</u>

The accompanying notes are an integral part of these financial statements

ESPERANÇA, INC.

STATEMENT OF CASH FLOWS

For the Year Ended September 30, 2013
(with summarized financial information for the year ended September 30, 2012)

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from contributors and grants	\$ 1,445,950	\$ 1,359,843
Cash paid to vendors and employees	(1,448,654)	(1,416,282)
Interest income received	36,424	26,133
Net cash provided by (used in) operating activities	33,720	(30,306)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	720,934	835,619
Purchases of investments	(667,731)	(871,750)
Purchases of equipment	-	(6,076)
Net cash provided by (used in) investing activities	53,203	(42,207)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from contributions restricted for investment in permanent endowment	-	10,000
NET CHANGE IN CASH	86,923	(62,513)
CASH, BEGINNING OF YEAR	39,923	102,436
CASH, END OF YEAR	\$ 126,846	\$ 39,923
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Change in net assets	\$ 249,596	\$ 241,846
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	1,215	202
Realized/unrealized (gains)/losses on investments	(256,518)	(226,407)
Donated assets	(67,427)	-
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Receivables/advances	92,325	(47,665)
Prepaid expenses	(1,783)	2,410
Increase (decrease) in:		
Accounts payable	13,440	2,126
Accrued expenses	2,872	7,182
Contributions restricted for investment in permanent endowment	-	(10,000)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$ 33,720	\$ (30,306)

The accompanying notes are an integral part of these financial statements

ESPERANÇA, INC.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2013
(with summarized financial information for the year ended September 30, 2012)

(1) **Organizational purpose and summary of significant accounting policies**

Organizational purpose - *Esperança, Inc.* (the "Organization") is an international nonprofit organization which provides sustainable public health programs and volunteer surgical missions that reach more than 100,000 people annually in Bolivia, Mozambique, Nicaragua, Peru, and the United States. Major funding sources are from direct public contributions, bequests and grants.

The significant accounting policies followed by the Organization are summarized below:

Basis of presentation - The Organization classifies its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets, based on the existence or absence of donor-imposed restrictions. The Organization's financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Summarized data - The financial statements include certain prior-year summarized financial 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 financial information should be read in conjunction with the Organization's financial statements for the year ended September 30, 2012 from which the summarized financial information was derived.

Use of estimates - Management of the Organization has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare the financial statements in conformity with Generally Accepted Accounting Principles (GAAP). Actual results could differ from those estimates.

Contributions and expenses - Contributions received are recorded at their fair value as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily or permanently restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Restricted support, where the restrictions are met in the same period as the donation is made, is shown as unrestricted support. Expenses are recorded as decreases in unrestricted net assets.

Wills and bequests - Revenue for wills and bequests is recognized when the donor's estate is settled.

Cash - Cash includes cash and may, at times, include cash equivalents consisting of highly liquid financial instruments purchased with original maturities of three months or less. Deposits at each institution are insured in limited amounts by the Federal Deposit Insurance Corporation.

ESPERANÇA, INC.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2013
(with summarized financial information for the year ended September 30, 2012)

(1) **Organizational purpose and summary of significant accounting policies (continued)**

Donated services and materials - Donated services and materials are reflected as both revenue and expense in the financial statements at their estimated fair value when received, if they meet the criteria defined in accordance with GAAP, "Accounting for contributions". Fair values of the donated medical and health services are based on the value of the service provided if the service were to be charged to a paying patient. Other donated services are based on rates that would have to be paid for the services provided. Fair values of donated materials are based on the cost of like items if purchased. Donated services are not valued or recorded for supplementary efforts of volunteer workers for any activity that does not have a clear measurable basis, as they do not meet the criteria for recognition.

Receivables and allowance for doubtful accounts - Management provides for probable uncollectible receivables through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of balances. Balances that are still outstanding after management has used reasonable collection efforts are written off. At September 30, 2013 management believes that all receivables are collectible in full and, accordingly, an allowance for doubtful accounts is not considered necessary.

Land, buildings and equipment and related depreciation - Land, buildings and equipment are recorded at cost if purchased or at fair market value if donated. Depreciation is provided using the straight-line method over estimated useful lives of 3 to 10 years for equipment and 25 to 31 years for buildings. Maintenance and repairs are charged to operations when incurred. Betterments and renewals of \$5,000 or more are capitalized. When land, buildings and equipment are sold or otherwise disposed of, the asset account and related accumulated depreciation account are relieved, and any gain or loss is included in operations.

Functional expenses - The cost of providing the Organization's various programs and supporting services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Advertising costs - Advertising costs are charged to operations when incurred. No advertising expenses were incurred for the year.

Income tax status - The Organization qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue code and therefore, there is no provision for income taxes. Income determined to be unrelated business taxable income (UBTI) would be taxable. The Organization will recognize in its financial statements the financial effects of a tax position based upon the technical merits of the position. There were no income taxes recognized for the years ended September 30, 2013 or 2012. At September 30, 2013, tax years ended September 30, 2012, 2011, and 2010 remain open for possible examination by the Internal Revenue Service.

Reclassification - Certain accounts in the 2012 summarized totals have been reclassified to conform to the presentation in the 2013 financial statements. The reclassification has no effect on the change in net assets for the year ended September 30, 2012.

Fair Value of Financial Instruments - The estimated fair value amounts for specific groups of financial instruments are presented within the notes applicable to such items. Prepaid expenses, accounts receivable, accounts payable and accrued expenses are stated at cost, which approximates fair value, due to their short term maturity. The fair value of investments is disclosed in other notes and is based upon quoted market values and values provided by external investment managers which were reviewed by management.

ESPERANÇA, INC.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2013
(with summarized financial information for the year ended September 30, 2012)

(2) Investments

The Organization accounts for its investments in equity securities that have readily determinable fair values, and all investments in debt securities, at fair value (see Note 10). The cost assigned to investments received by gift is the fair value at the date the gift is received. Dividend and interest income is recorded on the accrual basis. In accordance with the policy of stating investments at fair value, the net change in unrealized appreciation or depreciation for the year is reflected in the statement of activities.

The Organization's various investments in stocks, securities, mutual funds, and other investments are exposed to a variety of uncertainties, including interest rate, market, and credit risks. Due to the level of risk associated with certain investments, it is possible that changes in the values of these instruments could occur in the near term. Such changes could materially affect the amounts reported in the financial statements of the Organization.

Investment income or loss (including gains and losses on investments, interest, and dividends) is included in the Statement of Activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by the donor (see Note 7).

Investments consist of:

	<u>2013</u>	<u>2012</u>
Fixed income-certificates of deposit/cash	\$ 1,328,189	\$ 1,504,590
Equities	<u>2,009,312</u>	<u>1,562,168</u>
Total investments	<u>\$ 3,337,501</u>	<u>\$ 3,066,758</u>

Expenses relating to investment revenues, including custodial fees and investment advisory fees, in the amount of \$15,651 for 2013 and \$14,628 for 2012, were charged to operations.

Unrealized gains on investments credited to operations for the year ended September 30, 2013 totaled \$240,619 in the unrestricted fund.

(3) Advance to partner

The Organization partners with Esperanza Bolivia, a Bolivian nonprofit organization, to carry out its public health and volunteer surgical programs in Bolivia. During 2010, the Bolivian government unexpectedly assessed a \$200,000 import tax related to shipments of medical supplies into the country. The Organization agreed to fund the tax assessment, under the following terms and conditions. The Organization immediately absorbed \$70,000 of such amount, and Esperanza Bolivia had repaid \$89,500 as of September 30, 2012. The Organization agreed to absorb the remaining \$40,500 balance on September 30, 2013.

(4) Land, buildings and equipment

Land, buildings and equipment consist of:

	<u>2013</u>	<u>2012</u>
Cost or donated value:		
Land and land improvements	\$ 32,918	\$ 32,918
Buildings and building improvements	177,969	177,969
Equipment	<u>21,601</u>	<u>21,601</u>
Total cost or donated value	232,488	232,488
Accumulated depreciation	<u>(194,912)</u>	<u>(193,696)</u>
Net land, buildings and equipment	<u>\$ 37,576</u>	<u>\$ 38,792</u>

ESPERANÇA, INC.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2013
(with summarized financial information for the year ended September 30, 2012)

(4) **Land, buildings and equipment (continued)**

Depreciation expense charged to operations was \$1,215 for 2013 and \$202 for 2012.

(5) **Noncash investing and financing activities**

The Organization periodically receives donated marketable securities from various donors. The fair value at the date of contribution totaled \$67,427 in 2013 and \$0 in 2012.

(6) **Temporarily restricted net assets**

Temporarily restricted net assets consist of funds given by various donors to be used for specific program activities which have not been expended at September 30, 2013.

(7) **Permanently restricted net assets**

The Organization established an endowment fund in 1989 to provide a continuous source of investment income for the operating needs of the Organization. Principal of the endowment fund is restricted by donors and is held in various investment instruments and is not available for use by the Organization. All investment income, including unrealized gains and losses, realized gains and losses, interest income, and dividends from these investments are available for unrestricted use.

(8) **Pension plan**

The Organization established a 401(k) plan in 2002, which covers substantially all permanent full-time employees. Plan contributions are discretionary and determined annually by the Board of Directors. Contribution costs for the plan are expensed when incurred and funded annually. Plan contributions were \$29,329 in 2013 and \$21,445 in 2012.

(9) **Concentrations of credit risk**

Financial instruments that potentially subject the Organization to concentration of credit risk consist principally of cash and investments. Cash is placed with high credit quality financial institutions. Cash balances at times may exceed the FDIC insurance limit. Investments in fixed income and equity securities are not insured by the FDIC; however, the funds are diversified in a large variety of investments to manage risk.

(10) **Fair value measurements**

In accordance with GAAP, fair value measurement establishes a framework for measuring fair value, and expands disclosures about fair value measurements. This standard provides a consistent definition of fair value which focuses on an exit price between market participants in an orderly transaction as prescribed by GAAP. The standard describes three levels of inputs that may be used to measure fair value.

Level 1 – Quoted prices in active markets for identical assets or liabilities. The fair value of the Organization's investments (see Note 2) was based on quoted prices in active markets for identical assets (a Level 1 input).

Level II – Inputs other than quoted prices included in level 1 that are observable. Such inputs may include quoted prices for "similar" assets, yield curves, interest rates etc.

Level III – Unobservable inputs where there is little, if any, market activity for the asset or liability. These would include management assumptions based on the best information available in the circumstances.

ESPERANÇA, INC.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2013
(with summarized financial information for the year ended September 30, 2012)

(11) **Joint costs**

In 2013 and 2012, the Organization incurred joint costs of \$67,923 and \$127,148 for informational materials and activities. These costs were allocated as follows:

	<u>2013</u>	<u>2012</u>
Program services	\$ 5,052	\$ 11,360
Management and general	2,596	2,766
Fundraising	<u>60,275</u>	<u>113,022</u>
	<u>\$ 67,923</u>	<u>\$ 127,148</u>

(12) **Subsequent events**

Management has evaluated subsequent events for potential recognition and/or disclosure in the September 30, 2013 financial statements through January 6, 2014, the date that the financial statements were available to be issued.