

ESPERANÇA, INC.

Financial Statements
and
Independent Auditors' Report

Year Ended September 30, 2019

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Independent Auditors' Report

To the Board of Directors of
Esperança, Inc.
Phoenix, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of Esperança, Inc. (a nonprofit Organization), which comprise the statement of financial position as of September 30, 2019, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the 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. as of September 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, in the year ended September 30, 2019, the Organization adopted new accounting guidance Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*, which requires various presentation changes to not-for-profit financial statements. Our opinion is not modified with respect to this matter.

Fester & Chapman, PLLC

January 17, 2020

ESPERANÇA, INC.
STATEMENT OF FINANCIAL POSITION
September 30, 2019

ASSETS

Current assets:	
Cash	\$ 443,888
Grants receivable	190,000
Pledges receivable, current portion	94,415
Prepaid expenses	<u>26,015</u>
Total current assets	754,318
Investments	3,055,990
Pledges receivable, noncurrent portion, net	268,848
Property and equipment, net	<u>228,292</u>
Total assets	<u><u>\$ 4,307,448</u></u>

LIABILITIES AND NET ASSETS

Current liabilities:	
Accounts payable	\$ 23,551
Accrued expenses	<u>29,255</u>
Total current liabilities	52,806
Net assets:	
Without donor restrictions	
Undesignated	1,422,492
Board designated	<u>1,574,553</u>
Total net assets without donor restrictions	2,997,045
With donor restrictions	<u>1,257,597</u>
Total net assets	<u>4,254,642</u>
Total liabilities and net assets	<u><u>\$ 4,307,448</u></u>

The accompanying notes are an integral part of these statements.

ESPERANÇA, INC.
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Totals
Support and revenue:			
Contributions	\$ 1,312,594	\$ 675,476	\$ 1,988,070
Donated services	1,883,239		1,883,239
Donated materials	2,705,226		2,705,226
Interest and dividends	55,671		55,671
Net gains on investments	15,806		15,806
Net assets released from restrictions	415,892	(415,892)	
	6,388,428	259,584	6,648,012
Special event revenue	469,823		469,823
Less: Costs of direct benefits to donors	(32,057)		(32,057)
Net revenue from special events	437,766		437,766
Total support and revenue	6,826,194	259,584	7,085,778
Expenses:			
Public health and medical program services	5,845,418		5,845,418
Supporting services:			
Management and general	281,360		281,360
Fundraising	321,795		321,795
Total supporting services	603,155		603,155
Total expenses	6,448,573		6,448,573
Change in net assets	377,621	259,584	637,205
Net assets, beginning of year	2,619,424	998,013	3,617,437
Net assets, end of year	\$ 2,997,045	\$ 1,257,597	\$ 4,254,642

The accompanying notes are an integral part of these statements.

ESPERANÇA, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended September 30, 2019

	Public Health and Medical Program Services	Supporting Services			Total
		Management and General	Fundraising	Total Supporting Services	
Payroll and related expenses:					
Salaries	\$ 275,648	\$ 188,754	\$ 97,679	\$ 286,433	\$ 562,081
Employee benefits	49,097	32,404	16,693	49,097	98,194
Payroll taxes	23,234	15,334	7,900	23,234	46,468
Total payroll and related expenses	347,979	236,492	122,272	358,764	706,743
Donated services	1,883,239				1,883,239
Donated materials	2,705,226				2,705,226
Grants to other organizations	646,595				646,595
Supplies	3,620	1,723	1,482	3,205	6,825
Professional fees	51,230	13,209	120,456	133,665	184,895
Printing and copying	3,874	2,544	26,005	28,549	32,423
Travel	83,552	25	9,284	9,309	92,861
Postage and shipping	27,080	1,309	5,799	7,108	34,188
Domestic events and services	26,175		75	75	26,250
Repairs and maintenance	5,996	4,013	2,039	6,052	12,048
Insurance	7,524	2,713	2,097	4,810	12,334
Telecommunications	2,520	1,610	829	2,439	4,959
Conferences and meetings	5,779	497	1,318	1,815	7,594
Utilities	4,077	2,691	1,387	4,078	8,155
Dues and subscriptions	5,680	1,426	18,951	20,377	26,057
Banking fees	8,124	5,362	2,761	8,123	16,247
Other	23,543	6,446	6,035	12,481	36,024
Depreciation	3,605	1,300	1,005	2,305	5,910
Total expenses	<u>\$ 5,845,418</u>	<u>\$ 281,360</u>	<u>\$ 321,795</u>	<u>\$ 603,155</u>	<u>\$ 6,448,573</u>

The accompanying notes are an integral part of these statements.

ESPERANÇA, INC.
STATEMENT OF CASH FLOWS
For the Year Ended September 30, 2019

Cash flows from operating activities:	
Change in net assets	\$ 637,205
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	5,910
Net gains on investments	(15,806)
Change in:	
Grants receivable	(190,000)
Pledges receivable, net	(363,263)
Prepaid expenses	(4,688)
Accounts payable	20,590
Accrued expenses	<u>7,079</u>
Net cash provided by operating activities	<u>97,027</u>
Cash flows from investing activities:	
Proceeds from sales of investments	128,600
Purchases of investments	(66,836)
Purchases of property and equipment	<u>(68,804)</u>
Net cash used by investing activities	<u>(7,040)</u>
Change in cash	89,987
Cash, beginning of year	<u>353,901</u>
Cash, end of year	<u><u>\$ 443,888</u></u>

The accompanying notes are an integral part of these statements.

ESPERANÇA, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2019

NOTE 1 - BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Esperança, Inc. (the Organization) is an international 501(c)(3) nonprofit organization incorporated in Arizona, 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 of America. Major funding sources are from direct public contributions, bequests, and grants.

The significant accounting policies of the Organization follow:

Basis of Accounting: The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). Under this method of accounting, revenue and expenses are identified with specific periods of time and are recorded as earned and incurred, respectively, without regard to the date of receipt or payment.

Basis of Presentation: Financial statement presentation follows the recommendations of the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) topic of *Not-for-Profit Entities*, requiring the Organization to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, a board-designated endowment.

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Use of Estimates: In preparing financial statements in conformity with GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the 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.

ESPERANÇA, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2019

NOTE 1 - BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -
Continued

Pledges Receivable: Pledges receivable are stated at the net present value of expected cash flows, less an allowance for doubtful accounts, as deemed necessary, and are recognized as contribution revenue in the year the unconditional promise to give is made. The Organization provides for losses on receivables using the allowance method. The allowance is based on experience, knowledge of the donor, the industry, and other circumstances which may affect the ability of donors to meet their obligations. It is the Organization's policy to charge off uncollectible pledges receivable when management determines the receivable will not be collected.

Investments: The Organization follows the provisions of FASB ASC's topic of *Not-for-Profit Entities* regarding its investments. Management has estimated the fair value of its investments using available market information and other valuation methodologies as described in Note 5. The estimates are based on pertinent information available to management as of September 30, 2019. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, current estimates of fair value may differ significantly from the amounts in the financial statements.

Property and Equipment: Property and equipment are stated at cost, or at their estimated fair value at the date of donation. Property and equipment costing \$5,000 or more is capitalized. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets as follows:

Buildings	25 years
Furniture, fixtures, and equipment	5 years

Donated Services: Donated services are recognized at fair value as contributions and expenses if the services (a) create or enhance nonfinancial assets, or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. Many individuals during the year volunteered their time in support of the Organization's programs, but did not meet the above criteria, so no donated services were recorded for their efforts. However, the medical professionals who provided free services on volunteer surgical missions do meet that criteria, and the fair value of those services are based on rates that would have been charged to paying patients.

Donated Materials: Donated materials are recognized in the financial statements on the date received at their estimated fair value. Donated materials received by the Organization were recorded as an in-kind contributions and as program expenses.

Income Taxes: The Organization is exempt from federal and state income taxes as an organization other than a private foundation under Section 501(c)(3) of the Internal Revenue Code and similar state provisions.

ESPERANÇA, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2019

NOTE 1 - BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -
Continued

Contributions: Contributions are reported in accordance with the FASB ASC subtopic of *Revenue Recognition for Not-for-Profit Entities*. Contributions received are recorded as net assets without donor restrictions or with donor restrictions, depending on the existence and/or nature of any donor restrictions. Donor restricted support is reported as an increase in net assets with donor restrictions depending on the nature of the restriction. Donor restricted support that is released from restrictions in the same fiscal year received is presented as net assets without restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Expense Allocation: The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities, and allocated among program and supporting services benefited in the Statement of Functional Expenses.

Change in Accounting Principle: On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. A key change required by ASU 2016-14 is the net asset classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted net assets are now reported as net assets with donor restrictions. A footnote on liquidity has also been added, see (Note 2).

ESPERANÇA, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2019

NOTE 2 - LIQUIDITY AND AVAILABILITY

The Organization monitors its liquidity so that it is able to meet its operating needs and other contractual commitments while maximizing the investment of its excess operating cash. The Organization has the following financial assets that could readily be made available within one year of each fiscal year end to fund expenses without limitations:

Financial assets included in current assets:

Cash	\$ 443,888
Grants receivable	190,000
Pledges receivable, net	<u>94,415</u>
Total financial assets available to meet cash needs for general expenditures within one year	<u>\$ 728,303</u>

In addition to financial assets available to meet general expenditures over the year, the Organization operates with a balanced budget and anticipates covering its general expenditures by collecting contributions, grants, and other revenues; by utilizing donor-restricted resources from current and prior years gifts; and by appropriating the investment return on its board-designated and donor-restricted endowments, as needed.

NOTE 3 - PLEDGES RECEIVABLE, NET

Unconditional promises to give are recorded as pledges receivable and revenue is recognized when the promise is made by the donor. The Organization's pledges receivable are due as follows at September 30, 2019:

Receivable in less than one year	\$ 94,415
Receivable in one to five years	<u>311,710</u>
	406,125
Less:	
Discount to net present value	<u>(42,862)</u>
	<u>\$ 363,263</u>

At September 30, 2019, 47% of the Organization's pledges were due from one donor. The Organization has not established an allowance for doubtful accounts, and considers the pledges to be fully collectible.

ESPERANÇA, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2019

NOTE 4 - CONCENTRATION OF CREDIT RISK

The Organization maintains its cash and investment accounts at financial institutions that may at times exceed the limits insured by the Federal Deposit Insurance Corporation (FDIC), or covered under Securities Investor Protection Corporation (SIPC). The Organization has not incurred losses related to uninsured balances, and manages this risk by maintaining its deposits in multiple financial institutions.

NOTE 5 - INVESTMENTS AND FAIR VALUE MEASUREMENTS

Fair value measurements are determined based on assumptions that market participants would use in pricing assets and liabilities. GAAP establishes a fair value hierarchy that distinguishes between market participant assumptions and the Organization's own assumptions about market participant assumptions. Observable inputs are assumptions based on market data obtained from independent sources; while unobservable inputs are the Organization's own assumptions about what market participants would assume based on the best information available in the circumstance.

Level 1 inputs – A quoted price in an active market for an identical asset or liability is considered to be the most reliable evidence of fair value.

Level 2 inputs – These are observable inputs, either directly or indirectly, other than quoted prices included within Level 1. The Organization does not currently have any investments valued based on Level 2 inputs.

Level 3 inputs – These inputs are unobservable and are used to measure fair value only when observable inputs are not available. The Organization does not currently have any investments valued based on Level 3 inputs.

The fair value of assets measured as Level 1 inputs on a recurring basis at September 30, 2019 were as follows:

	<u>Level 1</u>
Investments:	
Money market accounts	\$ 68,326
Certificates of deposit	927,924
Exchange-traded funds	1,548,581
Mutual funds	<u>511,159</u>
Total investments	<u><u>\$3,055,990</u></u>

ESPERANÇA, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2019

NOTE 6 - PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following at September 30, 2019:

Land	\$ 32,918
Buildings	325,722
Furniture, fixtures and equipment	21,601
Construction in progress	<u>68,805</u>
	449,046
Accumulated depreciation	<u>(220,754)</u>
	<u>\$ 228,292</u>

NOTE 7 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following at September 30, 2019:

Peru Medical Restrictions	\$ 41,856
Nicaragua Restrictions	15,250
Nicaragua Medical	48,802
Mozambique Restrictions	27,699
Domestic Program	264,310
Donor Restricted Endowment	<u>859,680</u>
	<u>\$1,257,597</u>

Net assets with donor restrictions released from purpose restrictions consisted of the following for year ended September 30, 2019:

Peru Medical Restrictions	\$ 3,203
Nicaragua Restrictions	68,640
Nicaragua Medical	62,821
Mozambique Restrictions	22,290
Domestic Program	<u>258,938</u>
	<u>\$ 415,892</u>

ESPERANÇA, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2019

NOTE 8 - ENDOWMENTS

The Organization's endowments include board-designated net assets (without donor restrictions) totaling \$1,574,553, and net assets with donor restrictions totaling \$859,680, at September 30, 2019. The board-designated endowment includes amounts that the Organization's Board of Directors has set aside for various domestic and international programs.

The endowment's net assets with donor restrictions consisted of resources that must be invested in perpetuity. The income from the resources can be used to support the Organization's activities and consisted of the following at September 30, 2019:

Domestic programs	\$ 470,913
General endowment	363,574
Wargel endowment	<u>25,193</u>
	<u>\$ 859,680</u>

Interpretation of Relevant Law: The Organization's endowment funds are subject to compliance with the State of Arizona's version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) which provides standards for managing investments of institutional funds and spending from endowments. The Organization's Board of Directors has interpreted UPMIFA as requiring the classification of the original value of gifts donated to permanent donor-restricted endowments, and the original value of subsequent gifts to those permanent endowments as net assets with donor restrictions.

Return Objectives and Risk Parameters: The Organization's endowment funds are invested with Morgan Stanley in long-term investment pools in order to achieve return objectives and to maintain appropriate risk parameters approved by the Organization's Board of Directors.

Strategies Employed for Achieving Objectives: The Organization's Board of Directors has appointed a finance committee to oversee the management of the Organization's endowments. The finance committee meets with management periodically to review asset allocations, manager and investment entity performance, anticipated additions to or transfers of funds, and future investment strategies.

Spending Policy: In accordance with the Organization's policy, income earned from the donor restricted endowment may be used for operations unless otherwise restricted. From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration.

ESPERANÇA, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2019

NOTE 8 - ENDOWMENTS - Continued

Activity of the endowment funds for the year ended September 30, 2019 is as follows:

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 2,139,553	\$ 859,680	\$ 2,999,233
Investment income		71,300	71,300
Distributions appropriated for expenditure	71,300	(71,300)	
Expenditures of investment income	(71,300)		(71,300)
Release from board designation	<u>(565,000)</u>		<u>(565,000)</u>
Endowment net assets, end of year	<u>\$ 1,574,553</u>	<u>\$ 859,680</u>	<u>\$ 2,434,233</u>

NOTE 7 - RETIREMENT 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 for the year ended September 30, 2019 were \$21,641 and are included in employee benefits expense on the Statement of Functional Expenses.

NOTE 8 - SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through January 17, 2020, the date which the financial statements were available to be issued, and has concluded that no events have occurred since September 30, 2019, that would require an adjustment to or disclosure in the financial statements.