

ESPERANÇA, INC.

Financial Statements
and
Independent Auditors' Report

Year Ended September 30, 2020

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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, 2020, 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, 2020, 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.

Fester & Chapman, PLLC

January 6, 2021

ESPERANÇA, INC.
STATEMENT OF FINANCIAL POSITION
September 30, 2020

ASSETS

Current assets:	
Cash	\$ 1,688,535
Pledges receivable, current portion	124,695
Prepaid expenses	<u>40,417</u>
Total current assets	1,853,647
Investments	3,175,482
Pledges receivable, noncurrent portion, net	188,452
Property and equipment, net	<u>573,087</u>
Total assets	<u><u>\$ 5,790,668</u></u>

LIABILITIES AND NET ASSETS

Current liabilities:	
Accounts payable	\$ 7,827
Accrued expenses	62,778
Note payable, current portion	<u>32,180</u>
Total current liabilities	102,785
Note payable, noncurrent portion	<u>117,020</u>
Total liabilities	219,805
Net assets:	
Without donor restrictions	
Undesignated	2,710,743
Board designated	<u>1,514,553</u>
Total net assets without donor restrictions	4,225,296
With donor restrictions	
Total net assets	<u>5,570,863</u>
Total liabilities and net assets	<u><u>\$ 5,790,668</u></u>

The accompanying notes are an integral part of these statements.

ESPERANÇA, INC.
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Totals
Support, revenue and gains:			
Contributions	\$ 2,327,957	\$ 744,177	\$ 3,072,134
Donated services	2,161,611		2,161,611
Donated materials	1,811,038		1,811,038
Interest and dividends	47,907		47,907
Net gains on investments	180,925		180,925
Net assets released from restrictions	656,207	(656,207)	
	7,185,645	87,970	7,273,615
Special event revenue	65,318		65,318
Less: Costs of direct benefits to donors	(15,703)		(15,703)
Net revenue from special events	49,615		49,615
Total support, revenue and gains	7,235,260	87,970	7,323,230
Expenses:			
Public health and medical program services	5,397,609		5,397,609
Supporting services:			
Management and general	251,022		251,022
Fundraising	358,378		358,378
Total supporting services	609,400		609,400
Total expenses	6,007,009		6,007,009
Change in net assets	1,228,251	87,970	1,316,221
Net assets, beginning of year	2,997,045	1,257,597	4,254,642
Net assets, end of year	\$ 4,225,296	\$ 1,345,567	\$ 5,570,863

The accompanying notes are an integral part of these statements.

ESPERANÇA, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended September 30, 2020

	Public Health and Medical Program Services	Supporting Services			Total
		Management and General	Fundraising	Total Supporting Services	
Payroll and related expenses:					
Salaries	\$ 468,073	\$ 149,557	\$ 119,691	\$ 269,248	\$ 737,321
Employee benefits	91,640	28,638	22,910	51,548	143,188
Payroll taxes	37,278	11,650	9,320	20,970	58,248
Total payroll and related expenses	596,991	189,845	151,921	341,766	938,757
Donated services	2,161,611				2,161,611
Donated materials	1,811,038				1,811,038
Grants to other organizations	581,647				581,647
Supplies	8,367	2,371	1,933	4,304	12,671
Professional fees	36,528	25,414	112,008	137,422	173,950
Printing and copying	5,596	1,663	29,923	31,586	37,182
Travel	28,531	218	5,302	5,520	34,051
Postage and shipping	15,967	1,435	6,242	7,677	23,644
Domestic events and services	41,500				41,500
Repairs and maintenance	15,763	4,926	3,941	8,867	24,630
Insurance	8,556	2,674	2,139	4,813	13,369
Telecommunications	3,273	1,023	818	1,841	5,114
Conferences and meetings	8,925	2,182	3,017	5,199	14,124
Utilities	4,171	1,304	1,043	2,347	6,518
Dues and subscriptions	8,111	2,483	25,590	28,073	36,184
Banking fees	11,360	3,479	2,783	6,262	17,622
Other	41,683	9,508	9,720	19,228	60,911
Depreciation	7,991	2,497	1,998	4,495	12,486
Total expenses	<u>\$ 5,397,609</u>	<u>\$ 251,022</u>	<u>\$ 358,378</u>	<u>\$ 609,400</u>	<u>\$ 6,007,009</u>

The accompanying notes are an integral part of these statements.

ESPERANÇA, INC.
STATEMENT OF CASH FLOWS
For the Year Ended September 30, 2020

Cash flows from operating activities:	
Change in net assets	\$ 1,316,221
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	12,486
Net gain on investments	(180,925)
Change in:	
Grants receivable	190,000
Pledges receivable, net	50,116
Prepaid expenses	(14,402)
Accounts payable	(15,724)
Accrued expenses	<u>33,523</u>
Net cash provided by operating activities	<u>1,391,295</u>
Cash flows from investing activities:	
Proceeds from sales of investments	139,368
Purchases of investments	(77,935)
Purchases of property and equipment	<u>(357,281)</u>
Net cash used by investing activities	<u>(295,848)</u>
Cash flows from financing activities:	
Proceeds from long-term debt	<u>149,200</u>
Net cash provided by financing activities	<u>149,200</u>
Change in cash	1,244,647
Cash, beginning of year	<u>443,888</u>
Cash, end of year	<u><u>\$ 1,688,535</u></u>
<u>Supplemental disclosure:</u>	
Cash paid for interest	\$ 0

The accompanying notes are an integral part of these statements.

ESPERANÇA, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2020

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, 2020

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, 2020. 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 in-kind contributions and as program expenses. As there were no donated materials in the possession of the Organization as of September 30, 2020, there is no inventory balance reported on the statement of financial position.

ESPERANÇA, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2020

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

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.

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 June 21, 2018, FASB issued Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958) – Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The update provides a more robust framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction by clarifying how a not-for-profit organization determines whether a resource provider is participating in an exchange transaction.

Financial Impact of COVID-19: The Organization's operations have been, and continue to be affected by the recent and ongoing outbreak of the Coronavirus disease (COVID-19), which was declared a pandemic by the World Health Organization in March 2020. While the disruption is expected to be temporary, there is considerable uncertainty around the duration and the related financial impact. However, the related financial impact and duration cannot be reasonably estimated at this time.

ESPERANÇA, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2020

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	\$ 1,688,535
Pledges receivable, net	<u>124,695</u>
Total financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 1,813,230</u></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, 2020:

Receivable in less than one year	\$ 124,695
Receivable in one to five years	<u>222,742</u>
	347,437
Less:	
Discount to net present value	<u>(34,290)</u>
	<u><u>\$ 313,147</u></u>

At September 30, 2020, 40% 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, 2020

NOTE 4 - CONCENTRATIONS

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.

Revenue Concentration: During the year ended September 30, 2020, the Organization received contributions totaling approximately \$1.5 million from one donor, which comprised 48% of total contributions.

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, 2020 were as follows:

	<u>Level 1</u>
Investments:	
Money market accounts	\$ 185,426
Certificates of deposit	735,815
Exchange-traded funds	1,546,405
Mutual funds	<u>707,836</u>
Total investments	<u>\$3,175,482</u>

ESPERANÇA, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2020

NOTE 6 - NOTE PAYABLE

On April 30, 2020, the Organization was approved for a \$149,200 loan under the Paycheck Protection Program (PPP) created as part of the relief efforts related to COVID-19 and administered by the Small Business Administration. The loan accrues interest at 1% and matures in 2 years, but payments are not required to begin for the earlier of 10 months after the end of the Organization's loan forgiveness covered period (either 8 or 24 weeks after the loan was funded) or when the Organization applies for loan forgiveness. The Organization is eligible for loan forgiveness of up to 100% of the loan, upon meeting certain conditions. The loan is uncollateralized and is fully guaranteed by the Federal government.

Future maturities of long-term debt are as follows for the years ending September 30,

2021	\$ 32,180
2022	<u>117,020</u>
Total future maturities	<u><u>\$ 149,200</u></u>

NOTE 7 - PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following at September 30, 2020:

Land	\$ 32,918
Buildings	718,103
Furniture, fixtures and equipment	<u>55,305</u>
	806,326
Accumulated depreciation	<u>(233,239)</u>
	<u><u>\$ 573,087</u></u>

NOTE 8 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following at September 30, 2020:

Peru Medical Restrictions	\$ 72,040
Nicaragua Restrictions	73,644
Nicaragua Medical	37,914
Peru Restrictions	10,000
Mozambique Restrictions	66,850
Domestic Program	250,633
Donor Restricted Endowment (see Note 9)	<u>834,486</u>
	<u><u>\$1,345,567</u></u>

ESPERANÇA, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2020

NOTE 8 - NET ASSETS WITH DONOR RESTRICTIONS - Continued

Net assets with donor restrictions released from purpose restrictions consisted of the following for year ended September 30, 2020:

Peru Medical Restrictions	\$ 29,272
Nicaragua Restrictions	96,671
Nicaragua Medical	85,080
Peru Restrictions	43,910
Mozambique Restrictions	13,850
Domestic Program	362,231
Wargel Endowment	25,193
	<u>\$ 656,207</u>

NOTE 9 - ENDOWMENTS

The Organization's endowments include board-designated net assets (without donor restrictions) totaling \$1,514,553, and net assets with donor restrictions totaling \$834,486, at September 30, 2020. 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, 2020:

Domestic programs	\$ 470,913
General endowment	<u>363,573</u>
	<u>\$ 834,486</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.

ESPERANÇA, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2020

NOTE 9 - ENDOWMENTS - Continued

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.

Activity of the endowment funds for the year ended September 30, 2020 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 1,574,553	\$ 859,679	\$ 2,434,232
Investment income	109,068	60,094	169,162
Distributions appropriated for expenditure	60,094	(60,094)	
Expenditures of investment income	(169,162)		(169,162)
Release from board designation/donor restrictions	(60,000)	(25,193)	(85,193)
Endowment net assets, end of year	<u>\$ 1,514,553</u>	<u>\$ 834,486</u>	<u>\$ 2,349,039</u>

NOTE 10 - 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, 2020 were \$30,514 and are included in employee benefits expense on the statement of functional expenses.

NOTE 11 - SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through January 6, 2021, the date which the financial statements were available to be issued, and has concluded that no events have occurred since September 30, 2020, that would require an adjustment to or disclosure in the financial statements.