

ESPERANÇA, INC.

Financial Statements  
and  
Independent Auditors' Report

Year Ended September 30, 2021

## CONTENTS

	<u>Page</u>
Independent Auditors' Report.....	1-2
Financial Statements:	
Statement of Financial Position.....	3
Statement of Activities.....	4
Statement of Functional Expenses.....	5
Statement of Cash Flows.....	6
Notes to Financial Statements.....	7-15



## 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, 2021, 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, 2021, 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*

February 7, 2022

ESPERANÇA, INC.  
STATEMENT OF FINANCIAL POSITION  
September 30, 2021

ASSETS

Current assets:	
Cash	\$ 875,865
Pledges receivable, current portion	151,727
Prepaid expenses	<u>26,872</u>
Total current assets	1,054,464
Investments	3,675,843
Pledges receivable, noncurrent portion, net	143,959
Property and equipment, net	<u>567,084</u>
Total assets	<u><u>\$ 5,441,350</u></u>

LIABILITIES AND NET ASSETS

Current liabilities:	
Accounts payable	\$ 24,608
Accrued expenses	<u>94,089</u>
Total current liabilities	118,697
Net assets:	
Without donor restrictions	
Undesignated	2,710,454
Board designated	<u>1,559,018</u>
Total net assets without donor restrictions	4,269,472
With donor restrictions	<u>1,053,181</u>
Total net assets	<u>5,322,653</u>
Total liabilities and net assets	<u><u>\$ 5,441,350</u></u>

The accompanying notes are an integral part of these statements.

ESPERANÇA, INC.  
STATEMENT OF ACTIVITIES  
Year Ended September 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Totals
Support, revenue and gains:			
Contributions	\$ 323,086	\$ 832,575	\$ 1,155,661
Paycheck Protection Program	311,700		311,700
Donated services	1,213,644		1,213,644
Donated materials	4,563,762		4,563,762
Investment income	484,634	71,034	555,668
Net assets released from restrictions	1,509,142	(1,509,142)	
	<u>8,405,968</u>	<u>(605,533)</u>	<u>7,800,435</u>
Special event revenue	91,611		91,611
Less: Costs of direct benefits to donors	(17,603)		(17,603)
Net revenue from special events	<u>74,008</u>	<u></u>	<u>74,008</u>
Total support, revenue and gains	8,479,976	(605,533)	7,874,443
Expenses:			
Public health and medical program services	7,411,483		7,411,483
Supporting services:			
Management and general	282,902		282,902
Fundraising	428,268		428,268
Total supporting services	<u>711,170</u>	<u></u>	<u>711,170</u>
Total expenses	<u>8,122,653</u>	<u></u>	<u>8,122,653</u>
Change in net assets	357,323	(605,533)	(248,210)
Net assets, beginning of year, as restated	<u>3,912,149</u>	<u>1,658,714</u>	<u>5,570,863</u>
Net assets, end of year	<u>\$ 4,269,472</u>	<u>\$ 1,053,181</u>	<u>\$ 5,322,653</u>

The accompanying notes are an integral part of these statements.

ESPERANÇA, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
Year Ended September 30, 2021

	Public Health and Medical Program Services	Supporting Services			Total
		Management and General	Fundraising	Total Supporting Services	
Payroll and related expenses:					
Salaries	\$ 490,649	\$ 165,470	\$ 192,051	\$ 357,521	\$ 848,170
Employee benefits	103,234	35,598	39,157	74,755	177,989
Payroll taxes	38,794	13,377	14,715	28,092	66,886
Total payroll and related expenses	632,677	214,445	245,923	460,368	1,093,045
Donated services	1,213,644				1,213,644
Donated materials	4,563,762				4,563,762
Grants to other organizations	762,014				762,014
Supplies	5,286	1,822	1,815	3,637	8,923
Professional fees	54,860	31,668	83,354	115,022	169,882
Printing and copying	6,728	2,847	30,415	33,262	39,990
Travel	24,282	200	6,369	6,569	30,851
Postage and shipping	25,297	1,752	6,001	7,753	33,050
Domestic events and services	24,971				24,971
Repairs and maintenance	10,265	3,539	3,893	7,432	17,697
Insurance	8,153	2,811	3,093	5,904	14,057
Telecommunications	3,851	1,245	1,370	2,615	6,466
Conferences and meetings	7,872	2,134	3,654	5,788	13,660
Utilities	4,205	1,450	1,595	3,045	7,250
Dues and subscriptions	12,641	4,151	24,568	28,719	41,360
Banking fees	12,226	4,216	4,638	8,854	21,080
Other	22,308	4,953	5,344	10,297	32,605
Depreciation	16,441	5,669	6,236	11,905	28,346
Total expenses	<u>\$ 7,411,483</u>	<u>\$ 282,902</u>	<u>\$ 428,268</u>	<u>\$ 711,170</u>	<u>\$ 8,122,653</u>

The accompanying notes are an integral part of these statements.

ESPERANÇA, INC.  
STATEMENT OF CASH FLOWS  
Year Ended September 30, 2021

Cash flows from operating activities:	
Change in net assets	\$ (248,210)
Adjustments to reconcile change in net assets to net cash used by operating activities:	
Depreciation	28,346
Net gain on investments	(515,156)
Forgiveness of Paycheck Protection Program loans	(311,700)
Change in:	
Pledges receivable, net	17,461
Prepaid expenses	13,545
Accounts payable	16,781
Accrued expenses	<u>31,311</u>
Net cash used by operating activities	<u>(967,622)</u>
 Cash flows from investing activities:	
Proceeds from sales of investments	58,800
Purchases of investments	(44,005)
Purchases of property and equipment	<u>(22,343)</u>
Net cash used by investing activities	<u>(7,548)</u>
 Cash flows from financing activities:	
Proceeds from Paycheck Protection Program loan	<u>162,500</u>
Net cash provided by financing activities	<u>162,500</u>
 Change in cash	(812,670)
 Cash, beginning of year	<u>1,688,535</u>
 Cash, end of year	<u>\$ 875,865</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, 2021

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, 2021

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, 2021. 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, 2021, there is no inventory balance reported on the Statement of Financial Position.

ESPERANÇA, INC.  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2021

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 Statements of Activities and Functional Expenses, report certain categories of expenses that are attributable to program and supporting functions of the Organization. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include: depreciation, insurance, repairs and maintenance, and utilities, which are allocated on a square footage basis; payroll and related expenses, supplies, and telecommunications are allocated on the basis of estimates of time and effort.

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.

Reclassifications: Beginning net assets were reclassified to include time restrictions on outstanding pledges receivable. This had the effect of reducing beginning net assets without donor restrictions and increasing net assets with donor restrictions by \$313,417.

ESPERANÇA, INC.  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2021

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	\$ 875,865
Pledges receivable, net	<u>151,727</u>
Total financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 1,027,592</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, 2021:

Receivable in less than one year	\$ 151,727
Receivable in one to five years	<u>160,937</u>
	312,664
Less:	
Discount to net present value	<u>(16,978)</u>
	<u><u>\$ 295,686</u></u>

At September 30, 2021, 32% 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, 2021

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.

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 did not have any investments valued based on Level 2 inputs at September 30, 2021.

Level 3 inputs – These inputs are unobservable and are used to measure fair value only when observable inputs are not available. The Organization did not have any investments valued based on Level 3 inputs at September 30, 2021.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at September 30, 2021.

Money market accounts/Exchange-traded funds/Certificates of deposit/Mutual funds: Valued at the net asset value (NAV) of shares on the last trading day of the fiscal year, which is the basis for transactions at that date.

ESPERANÇA, INC.  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2021

NOTE 5 - INVESTMENTS AND FAIR VALUE MEASUREMENTS - Continued

The fair value of assets measured as Level 1 inputs on a recurring basis at September 30, 2021 were as follows:

	<u>Level 1</u>
Investments:	
Money market accounts	\$ 285,099
Exchange-traded funds	1,723,736
Certificates of deposit	524,416
Mutual funds	<u>1,142,592</u>
Total investments	<u><u>\$3,675,843</u></u>

NOTE 6 - PAYCHECK PROTECTION PROGRAM

On April 30, 2020 and March 31, 2021, the Organization was approved for loans of \$149,200 and \$162,500, respectively, under the Paycheck Protection Program (PPP) created as part of the relief efforts related to COVID-19 and administered by the Small Business Administration. During the year ended September 30, 2021, the Organization received forgiveness of 100% of the loans, after meeting certain conditions, and therefore that revenue is recognized in the Statement of Activities.

NOTE 7 - PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following at September 30, 2021:

Land	\$ 32,918
Buildings	718,103
Furniture, fixtures and equipment	55,305
Construction in progress	<u>22,343</u>
	828,669
Accumulated depreciation	<u>(261,585)</u>
	<u><u>\$ 567,084</u></u>

ESPERANÇA, INC.  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2021

NOTE 8 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following at September 30, 2021:

Peru Medical Restrictions	\$ 113,427
Nicaragua Restrictions	13,350
Nicaragua Medical	30,132
Peru Restrictions	10,000
Domestic Program	119,673
Donor Restricted Endowment (see Note 9)	470,913
Time Restrictions	<u>295,686</u>
	<u>\$1,053,181</u>

Net assets with donor restrictions released from purpose restrictions consisted of the following for year ended September 30, 2021:

Nicaragua Restrictions	272,297
Nicaragua Medical	68,782
Peru Restrictions	20,000
Mozambique Restrictions	66,850
Domestic Program	238,574
Donor Restricted Endowment (see Note 9)	434,607
Release of Time Restrictions	<u>408,032</u>
	<u>\$1,509,142</u>

NOTE 9 - ENDOWMENTS

The Organization's endowments include board-designated net assets (without donor restrictions) totaling \$1,559,018, and net assets with donor restrictions totaling \$470,913, at September 30, 2021. 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, 2021:

Domestic programs	<u>\$ 470,913</u>
-------------------	-------------------

ESPERANÇA, INC.  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2021

NOTE 9 - ENDOWMENTS - Continued

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.

Activity of the endowment funds for the year ended September 30, 2021 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 1,514,553	\$ 834,486	\$ 2,349,039
Investment income	235,166	71,034	306,200
Distributions appropriated for expenditure	71,034	(71,034)	
Expenditures of investment income	(261,735)		(261,735)
Release from donor restrictions		(363,573)	(363,573)
Endowment net assets, end of year	<u>\$ 1,559,018</u>	<u>\$ 470,913</u>	<u>\$ 2,029,931</u>

ESPERANÇA, INC.  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2021

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, 2021 were \$47,765 and are included in employee benefits expense on the Statement of Functional Expenses.

NOTE 11 - SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through February 7, 2022, the date which the financial statements were available to be issued, and has concluded that no events have occurred since September 30, 2021, that would require an adjustment to the financial statements. However, the Organization did note the following event that occurred subsequent to the year end that should be disclosed:

The Organization assumed control of another nonprofit in October 2021 and they received cash totaling approximately \$250,000.