

**ESPERANÇA, INC.**

**FINANCIAL STATEMENTS**

For the Year Ended September 30, 2011  
with  
Report of Independent Certified Public Accountant  
and  
Summarized Financial Information  
As of and for the Year Ended  
September 30, 2010

**ESPERANÇA, INC.**

**FINANCIAL STATEMENTS**

For the Year Ended September 30, 2011  
(with summarized financial information for the year ended September 30, 2010)

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors of

Esperança, Inc.

We have audited the accompanying statement of financial position of Esperança, Inc. (a nonprofit organization) as of September 30, 2011, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of Esperança, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from Esperança, Inc.'s 2010 financial statements and, in our report dated January 17, 2011 we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Esperança, Inc.'s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Esperança, Inc. at September 30, 2011, 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.

*Michael Mather CPA PLC*

Phoenix, Arizona  
January 12, 2012

# ESPERANÇA, INC.

## STATEMENT OF FINANCIAL POSITION

September 30, 2011  
(with summarized financial information as of September 30, 2010)

### ASSETS

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>	
				<u>2011</u>	<u>2010</u>
Cash	\$ 92,845	\$ 9,591	\$ -	\$ 102,436	\$ 41,227
Advance to partner	61,935	-	-	61,935	130,000
Investments	1,127,056	-	1,677,164	2,804,220	2,833,746
Prepaid expenses	12,234	-	-	12,234	10,549
Land, buildings and equipment, net	<u>32,918</u>	<u>-</u>	<u>-</u>	<u>32,918</u>	<u>32,918</u>
 TOTAL ASSETS	 <u>\$ 1,326,988</u>	 <u>\$ 9,591</u>	 <u>\$ 1,677,164</u>	 <u>\$ 3,013,743</u>	 <u>\$ 3,048,440</u>

### LIABILITIES AND NET ASSETS

Accounts payable	\$ 20,214	\$ -	\$ -	\$ 20,214	\$ 20,612
Accrued expenses	<u>23,305</u>	<u>-</u>	<u>-</u>	<u>23,305</u>	<u>37,844</u>
TOTAL LIABILITIES	43,519	-	-	43,519	58,456
 Net assets	 <u>1,283,469</u>	 <u>9,591</u>	 <u>1,677,164</u>	 <u>2,970,224</u>	 <u>2,989,984</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 1,326,988</u>	 <u>\$ 9,591</u>	 <u>\$ 1,677,164</u>	 <u>\$ 3,013,743</u>	 <u>\$ 3,048,440</u>

The accompanying notes are an integral part of these financial statements

# ESPERANÇA, INC.

## STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2011  
(with summarized financial information for the year ended September 30, 2010)

	Temporarily			Totals	
	Unrestricted	Restricted	Restricted	2011	2010
<b>PUBLIC SUPPORT AND REVENUE</b>					
Public support:					
Contributions	\$ 969,327	\$ 781	\$ 100	\$ 970,208	\$ 958,523
Grants - contributions	93,712	-	-	93,712	83,586
Wills and bequests	191,520	-	-	191,520	40,388
Donated services	2,432,606	-	-	2,432,606	2,359,344
Donated materials	1,401,436	-	-	1,401,436	1,522,678
Total public support before special events	<u>5,088,601</u>	<u>781</u>	<u>100</u>	<u>5,089,482</u>	<u>4,964,519</u>
Special event revenue	-	-	-	-	50,697
Less costs of direct donor benefits	-	-	-	-	(8,675)
Gross profit on special events	-	-	-	-	42,022
Total public support	<u>5,088,601</u>	<u>781</u>	<u>100</u>	<u>5,089,482</u>	<u>5,006,541</u>
Revenue:					
Interest and dividend income	26,957	-	-	26,957	39,603
Net realized/unrealized gains on investments	(23,953)	-	(32,637)	(56,590)	156,854
Other revenue	6,430	-	-	6,430	2,500
Total revenue	<u>9,434</u>	<u>-</u>	<u>(32,637)</u>	<u>(23,203)</u>	<u>198,957</u>
Satisfaction of purpose restrictions on temporarily restricted net assets	3,690	(3,690)	-	-	-
<b>TOTAL PUBLIC SUPPORT AND REVENUE</b>	<u>5,101,725</u>	<u>(2,909)</u>	<u>(32,537)</u>	<u>5,066,279</u>	<u>5,205,498</u>
<b>EXPENSES</b>					
Program services:					
Medical and health services	4,646,101	-	-	4,646,101	4,835,616
Supporting services:					
Management and general	251,027	-	-	251,027	205,774
Fundraising	188,911	-	-	188,911	223,741
TOTAL EXPENSES	<u>5,086,039</u>	<u>-</u>	<u>-</u>	<u>5,086,039</u>	<u>5,265,131</u>
CHANGE IN NET ASSETS	15,686	(2,909)	(32,537)	(19,760)	(59,633)
NET ASSETS, BEGINNING OF YEAR	<u>1,267,783</u>	<u>12,500</u>	<u>1,709,701</u>	<u>2,989,984</u>	<u>3,049,617</u>
NET ASSETS, END OF YEAR	<u>\$ 1,283,469</u>	<u>\$ 9,591</u>	<u>\$ 1,677,164</u>	<u>\$ 2,970,224</u>	<u>\$ 2,989,984</u>

The accompanying notes are an integral part of these financial statements

# ESPERANÇA, INC.

## STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended September 30, 2011  
(with summarized financial information for the year ended September 30, 2010)

	Program Services	Supporting Services		Total Expenses	
	Medical and Health	Management and General	Fundraising	2011	2010
Payroll expenses:					
Salaries	\$ 129,931	\$ 166,661	\$ 75,264	\$ 371,856	\$ 402,980
Employee benefits	21,726	28,755	13,419	63,900	69,332
Payroll taxes	9,720	12,864	6,003	28,587	29,750
Total payroll expenses	161,377	208,280	94,686	464,343	502,062
Donated services	2,432,606	-	-	2,432,606	2,359,344
Donated materials	1,401,436	-	-	1,401,436	1,522,678
Distribution to Bolivia	318,439	-	-	318,439	414,499
Distribution to Nicaragua	178,198	-	-	178,198	171,756
Travel	54,648	887	3,675	59,210	69,758
Professional fees	17,519	21,735	11,682	50,936	32,084
Printing and copying	941	1,246	44,828	47,015	36,628
Distribution to Mozambique	27,696	-	-	27,696	27,696
Distribution to Nogales	27,004	-	-	27,004	24,000
Postage and shipping	805	754	20,006	21,565	30,970
Maintenance	4,858	6,429	3,000	14,287	13,886
Domestic events and services	8,909	-	-	8,909	13,902
Insurance	2,562	3,391	1,583	7,536	7,294
Utilities	2,001	2,648	1,236	5,885	5,371
Telecommunications	1,582	2,094	977	4,653	5,404
Conferences and meetings	1,843	967	856	3,666	2,858
Supplies	1,312	1,473	704	3,489	2,691
Special events	-	-	-	-	17,727
Depreciation	-	-	-	-	-
Other expenses	2,365	1,123	5,678	9,166	4,523
<b>TOTAL EXPENSES</b>	<b>\$ 4,646,101</b>	<b>\$ 251,027</b>	<b>\$ 188,911</b>	<b>\$ 5,086,039</b>	<b>\$ 5,265,131</b>

The accompanying notes are an integral part of these financial statements

# ESPERANÇA, INC.

## STATEMENT OF CASH FLOWS

For the Year Ended September 30, 2011  
(with summarized financial information for the year ended September 30, 2010)

	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from contributors and grants	\$ 1,329,906	\$ 1,054,323
Cash paid to vendors and employees	(1,268,689)	(1,419,125)
Interest income received	26,957	39,603
Net cash provided by (used in) operating activities	88,174	(325,199)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of investments	1,386,850	2,484,956
Purchases of investments	(1,413,915)	(2,324,484)
Net cash provided by (used in) investing activities	(27,065)	160,472
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from contributions restricted for investment in permanent endowment	100	100
NET CHANGE IN CASH	61,209	(164,627)
CASH, BEGINNING OF YEAR	41,227	205,854
CASH, END OF YEAR	\$ 102,436	\$ 41,227
<b>RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>		
Change in net assets	\$ (19,760)	\$ (59,633)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	-	-
Realized/unrealized (gains)/losses on investments	56,590	(156,854)
Donated assets	-	-
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Receivables/advances	68,135	(81,201)
Prepaid expenses	(1,755)	(844)
Increase (decrease) in:		
Accounts payable	(397)	(28,939)
Accrued expenses	(14,539)	2,372
Contributions restricted for investment in permanent endowment	(100)	(100)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$ 88,174	\$ (325,199)

The accompanying notes are an integral part of these financial statements

# ESPERANÇA, INC.

## NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2011  
(with summarized financial information for the year ended September 30, 2010)

(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, Mexico and the United States.

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.

**Comparative 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, 2010 from which the summarized financial information was derived.

**Management's use of estimates** - The presentation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and reported amounts of revenues and expenses during the reporting period. 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. Contributions and expenses are recorded on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles.

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

**Special events revenue** - The Organization conducts special events in which a portion of the gross proceeds paid by the participant represents payment for the direct cost of the benefits received by the participant at the event. Such direct costs of the special events, which ultimately benefit the donor rather than the Organization, are recorded as special events costs of direct donor benefits.

**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, 2011  
(with summarized financial information for the year ended September 30, 2010)

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

**Donated services and materials** - Donated services and materials are reflected as both support and expense in the financial statements at their estimated fair value when received, in accordance with ASC 958, "Not for profit Entities". 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 through a charge to the valuation allowance and a credit to pledges receivable. Receivables are considered by management to be 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 (UBT) would be taxable. The Organization adopted certain provisions of FASB Accounting Standards Codification ("ASC" 740 "Income Taxes" relating to accounting for uncertainty in income taxes on October 1, 2009. This standard requires that the Organization recognize in its financial statements the financial effects of a tax position based upon the technical merits of the position. The implementation of this standard had no impact on the Organization's statement of financial position or statement of activities and management does not believe that there are any unrecognized tax benefits or costs that should be recorded.

**Reclassification** - Certain accounts in the 2010 comparative totals have been reclassified to conform with the presentation in the 2011 financial statements. The reclassification has no effect on the change in net assets for the year ended September 30, 2010.

**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. Accounts receivable and accounts payable 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 values provided by external investment managers.

# ESPERANÇA, INC.

## NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2011  
(with summarized financial information for the year ended September 30, 2010)

### (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>2011</u>	<u>2010</u>
Fixed income	\$ 1,947,922	\$ 1,924,810
Equities	<u>856,298</u>	<u>908,936</u>
Total investments	<u>\$ 2,804,220</u>	<u>\$ 2,833,746</u>

Expenses relating to investment revenues, including custodial fees and investment advisory fees, in the amount of \$13,840 for 2011 and \$13,931 for 2010, were charged to operations.

Unrealized losses on investments charged to operations for the year ended September 30, 2011 totaled \$24,748 and \$32,637 in the unrestricted fund and permanently restricted fund, respectively.

### (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 repaid \$68,065 as of September 30, 2011. The \$61,935 balance will be repaid as follows: \$7,935 to be repaid in December 2011 and the remaining \$54,000 to be repaid in 36 equal installments of \$1,500 commencing in January 2012. The advance is unsecured and non-interest bearing.

### (4) Land, buildings and equipment

Land, buildings and equipment consist of:

	<u>2011</u>	<u>2010</u>
Cost or donated value:		
Land and land improvements	\$ 32,918	\$ 32,918
Buildings and building improvements	177,969	177,969
Equipment	<u>15,525</u>	<u>28,517</u>
Total cost or donated value	226,412	239,404
Accumulated depreciation	<u>(193,494)</u>	<u>(206,486)</u>
Net land, buildings and equipment	<u>\$ 32,918</u>	<u>\$ 32,918</u>

# ESPERANÇA, INC.

## NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2011  
(with summarized financial information for the year ended September 30, 2010)

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

Depreciation expense charged to operations was \$0 for 2011 and \$0 for 2010.

(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 \$0 in 2011 and \$0 in 2010.

(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, 2011.

(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. Unrealized gains and losses are permanently restricted. 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 \$20,224 in 2011 and \$25,256 in 2010.

(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. It defines fair value as the exchange price that would be received for an asset in the most advantageous market in an orderly transaction between buyer and seller on the measurement date. 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).