

ESPERANZA, INC.  
AUDITED FINANCIAL STATEMENTS  
DECEMBER 31, 2005

ESPERANZA, INC.

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# KOESTER, DISALVO AND FRIED

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Certified Public Accountants

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February 24, 2006

To the Board of Trustees  
Esperanza, Inc.  
Cleveland, Ohio

## Independent Auditors' Report

We have audited the accompanying statement of financial position of Esperanza, Inc. (a not-for-profit corporation) as of December 31, 2005, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 Esperanza, Inc. as of December 31, 2005, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Koester, DiSalvo and Fried*

ESPERANZA, INC.  
STATEMENT OF FINANCIAL POSITION  
DECEMBER 31, 2005

ASSETS

Current Assets	
Cash and cash equivalents	\$ 96,361
Grants receivable	118,300
Accounts receivable	13,785
Prepaid expenses	<u>1,867</u>
Total Current Assets	230,313
Fixed Assets	
Furniture	12,509
Office and computer equipment	30,480
Less: accumulated depreciation	<u>(37,439)</u>
Net Property and Equipment	5,550
 TOTAL ASSETS	 <u><u>\$ 235,863</u></u>

LIABILITIES AND NET ASSETS

Current Liabilities	
Accounts payable	\$ 5,141
Scholarships payable	12,535
Accrued payroll	8,900
Accrued interest	<u>77</u>
Total Current Liabilities	26,653
Long-Term Liabilities	
Total Liabilities	26,653
Net Assets	
Unrestricted	106,955
Temporarily restricted	102,255
Permanently restricted	<u>0</u>
Total Net Assets	<u>209,210</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u><u>\$ 235,863</u></u>

The Accompanying Notes are an Integral Part of These Financial Statements

ESPERANZA, INC.  
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>Un- Restricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue and Support				
Grants	\$ 0	\$ 264,957	\$ 0	\$ 264,957
Contributions	78,217	0	0	78,217
Special events	78,447	0	0	78,447
Special Projects	3,075	0	0	3,075
Miscellaneous	2,446	0	0	2,446
Released from restrictions	<u>194,204</u>	<u>(194,204)</u>	<u>0</u>	<u>0</u>
Total Revenue and Support	356,389	70,753	0	427,142
Expenses				
Education assistance	54,516	0	0	54,516
Stay in School for College & Career	97,193	0	0	97,193
Scholarships	25,500	0	0	25,500
Other programs	<u>58,122</u>	<u>0</u>	<u>0</u>	<u>58,122</u>
Total Program	235,331	0	0	235,331
Management services	<u>22,339</u>	<u>0</u>	<u>0</u>	<u>22,339</u>
Total Expenses	<u>257,670</u>	<u>0</u>	<u>0</u>	<u>257,670</u>
Increase in Net Assets	98,719	70,753	0	169,472
Net Assets at Beginning of Year	<u>8,236</u>	<u>31,502</u>	<u>0</u>	<u>39,738</u>
NET ASSETS AT END OF YEAR	<u>\$ 106,955</u>	<u>\$ 102,255</u>	<u>\$ 0</u>	<u>\$ 209,210</u>

The Accompanying Notes are an Integral Part of These Financial Statements

ESPERANZA, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2005

Expenses	<u>Prime- Time</u>	<u>SISCO</u>	<u>Scholarships</u>	<u>Computer Training</u>	<u>Management Services</u>	<u>Total</u>
Depreciation	\$ 357	\$ 643	\$ 0	371	\$ 58	\$ 1,429
Dues	0	0	0	50	0	50
Food and provisions	0	2,892	0	0	0	2,892
Insurance	331	331	0	331	333	1,326
Interest expense	0	0	0	0	1,380	1,380
Maintenance	640	1,152	0	666	103	2,561
Miscellaneous	0	0	0	0	853	853
Office supplies	0	0	0	0	5,439	5,439
Payroll	37,847	68,392	0	39,775	4,934	150,948
Postage	746	1,343	0	776	119	2,984
Professional fees	3,153	3,153	0	3,153	3,840	13,299
Printing	266	479	0	277	44	1,066
Equipment rental	562	1,012	0	585	91	2,250
Rent	5,780	5,780	0	5,780	3,060	20,400
Meetings	0	421	0	0	1,284	1,705
Supplies	840	1,066	0	841	0	2,747
Taxes-payroll	3,565	6,417	0	4,154	571	14,707
Tuition	0	0	25,500	0	0	25,500
Telephone	429	772	0	0	70	1,271
Travel	0	1,722	0	0	160	1,882
Stipends	0	1,618	0	1,363	0	2,981
	<u>0</u>	<u>1,618</u>	<u>0</u>	<u>1,363</u>	<u>0</u>	<u>2,981</u>
Expenses	<u>\$ 54,516</u>	<u>\$ 97,193</u>	<u>\$ 25,500</u>	<u>\$ 58,122</u>	<u>\$ 22,339</u>	<u>\$ 257,670</u>

The Accompanying Notes are an Integral Part of These Financial Statements

ESPERANZA, INC.  
 STATEMENTS OF CASH FLOWS  
 FOR THE YEAR ENDED DECEMBER 31, 2005

Cash Flows From Operating Activities	
Change in net assets	\$ 169,472
Adjustments to reconcile Net change to net cash provided by (used in) operating activities	
Depreciation and amortization	1,429
Decrease (Increase) in Operating Assets:	
Accounts receivable	(109,236)
Prepays	(1,867)
Increase (Decrease) in Operating Liabilities:	
Accounts payable	(315)
Payroll taxes	(801)
Accrued liabilities	5,166
Total Adjustments	<u>(105,624)</u>
Net Cash Provided By (Used in) Operating Activities	63,848
Cash Flows From Investing Activities	
Purchase of fixed assets	<u>0</u>
Net Cash Provided By (Used In) Investing Activities	0
Cash Flows From Financing Activities	
Notes payable repayment	<u>(19,886)</u>
Net Cash Provided By (Used In) Financing Activities	<u>(19,886)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	43,962
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>52,399</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>\$ 96,361</u>

The Accompanying Notes are an Integral Part of These Financial Statements

ESPERANZA, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005

NOTE 1- Description of Organization

- A. ESPERANZA, INC. (Esperanza) - Established in 1983, provides programs to individuals in the Greater Cleveland area. These programs focus on character building, love of learning and development of positive social support.
- B. Esperanza is tax-exempt under Internal Revenue Service Code Section 501(c)(3).

NOTE 2- Summary of Significant Accounting Policies

- A. General Methods- The accompanying financial statements have been prepared as prescribed in the American Institute of Certified Public Accountants' Guide for Not-For-Profit Organizations.
- B. Accrual Basis- The organization records transactions on an accrual basis. Revenue is recognized when earned, support is recognized when receivable, and expenses are recognized when incurred.
- C. Statements of Financial Accounting Standards Nos. 116 & 117

Esperanza complies with Statement of Financial Accounting Standards (SFAS) No. 116, Accounting for Contributions Received and Contributions Made, which affects the timing of revenue recognition with regard to temporarily restricted net assets.

Esperanza also complies with FAS No. 117, Financial Statements of Not-for-Profit Organizations, which established standards for general purpose external financial statements of not-for-profit organizations. This statement requires classification of an organization's net assets and its support and revenue, expenses and distributions based on the existence or absence of donor-imposed restrictions into three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

- D. Allocation of Expenses- Expenses are generally charged to the specific programs for which they are incurred. In some cases, however, common expenses are incurred which support the work performed under program services as well as supporting services. Such expenses are allocated among the various program services and support services based on the relationship of functionalized payroll costs to total payroll costs.
- E. Depreciation- Property and equipment are depreciated using the straight-line method over estimated useful lives. (See Note 5- Fixed Assets.)

See Auditors' Report

ESPERANZA, INC.  
NOTES TO FINANCIAL STATEMENTS (CONT')

- F. Use of Estimates- The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of financial statements and the amount of revenue and expenses during the reporting period. Actual results could differ from those estimates.
  
- G. Contributions and Grants- Nonrestricted contributions, if any, are recorded as support when received or receivable. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Grants with donor restrictions are recorded as temporarily restricted grants when awarded. Some grants awarded to Esperanza require the fulfillment of certain specific conditions. Failure to fulfill these conditions could result in either the return of funds to the grantor or the refusal by the grantor to release additional funds pursuant to the grant.

NOTE 3- Cash and Cash Equivalents

Esperanza considers all highly-liquid investments with an original maturity of three months or less when purchased to be cash equivalents. There are no bank restrictions on the cash accounts.

Included in the cash balance are funds restricted to the pay future scholarships in the amount of \$22,505.

NOTE 4- Grants and Accounts Receivable

Esperanza considers all receivables to be fully collectible; accordingly, no allowance for doubtful accounts is required.

NOTE 5- Fixed Assets

Property and equipment are stated at cost, if purchased, or at the fair market value on the date of donation, if contributed. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets as follows:

Category	Estimated useful life
Furniture & Fixtures	7 years
Equipment	5 years

Costs of maintenance and repairs are charged to expenses. Costs of renewals and betterments, where significant in amount, are capitalized.

See Auditors' Report

ESPERANZA, INC.  
NOTES TO FINANCIAL STATEMENTS (CONT')

NOTE 6- Scholarships Payable

Several organizations and individuals have made restricted contributions to Esperanza to provide scholarships to deserving students.

NOTE 7- Line of Credit-NCB

Esperanza has a \$35,000 demand loan with National City Bank. The agreement requires interest on borrowing at the Bank's prime rate (7.25% at December 31, 2005) plus 2%. The loan is unsecured. The outstanding balance as of December 31, 2005 was \$77.

NOTE 9- Statement of Cash Flow Disclosures

The amount of interest paid on all indebtedness was \$1,380 for the year ended December 31, 2005.

NOTE 10- Leases

Esperanza leases office space and equipment. The remaining future minimum annual rental payments under these agreements are as follows:

Year ending December 31,	
2006	\$ 7,900
2007	4,500
2008	4,500
2009	4,500
Thereafter	<u>375</u>
Total	<u>\$21,175</u>

See Auditors' Report

ESPERANZA, INC.  
NOTES TO FINANCIAL STATEMENTS (CONT')

NOTE 11- Temporarily Restricted Net Assets

The temporarily restricted net assets restricted by expenditure are for the following programs:

	<u>2005</u>
Stay in School for College and Career Opportunities	\$ 15,625
Prime Time	24,375
Scholarship	<u>9,755</u>
Net Assets restricted by expenditure	49,755
Esperanza also has additional funds restricted by time	<u>52,500</u>
Total Temporarily Restricted Net Assets	<u>\$102,255</u>

NOTE 12- Special Events

Esperanza, Inc. held two special events during the year ended December 31, 2005

Fiesta of Hope	Total Revenue	\$ 57,199
	Direct expenses	<u>6,269</u>
	Total	<u>\$ 50,930</u>
Viva La Salsa	Total Revenue	\$ 39,497
	Direct Expense	<u>11,980</u>
	Total	<u>\$ 27,517</u>

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