

**ESPERANZA, INC.**  
**FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

ESPERANZA, INC.

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Esperanza, Inc.  
Cleveland, Ohio

We have audited the accompanying statement of financial position of Esperanza, Inc. (a nonprofit organization) as of December 31, 2008, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of Esperanza, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. 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, 2008, and the changes in its net assets and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

*KPFF, L.L.C.*

Cleveland, Ohio  
April 27, 2009

ESPERANZA, INC.  
Statement of Financial Position  
December 31, 2008

A S S E T S

Current assets:	
Cash and equivalents	\$ 187,458
Grants receivable	243,821
Accounts receivable	6,704
Prepaid expenses	<u>362</u>
Total current assets	<u>438,345</u>
Property and equipment:	
Office and computer equipment	63,145
Furniture and fixtures	<u>18,436</u>
	81,581
Less accumulated depreciation	<u>52,602</u>
	<u>28,979</u>
Other assets:	
Endowment fund	26,573
Deposits	<u>3,000</u>
	<u>29,573</u>
Total assets	<u>\$ 496,897</u>

LIABILITIES AND NET ASSETS

Current liabilities:	
Accounts payable	\$ 2,971
Scholarships payable (Note 3)	14,500
Accrued payroll and related	16,777
Trust accounts	<u>21</u>
Total current liabilities/Total liabilities	<u>34,269</u>
Net assets:	
Unrestricted	148,297
Temporarily restricted	287,755
Permanently restricted	<u>26,576</u>
Total net assets	<u>462,628</u>
Total liabilities and net assets	<u>\$ 496,897</u>

The notes to financial statements are an integral part of these statements.

ESPERANZA, INC.  
Statement of Activities  
Year ended December 31, 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and revenue:				
Grants	\$ 241,371	\$ 257,791	\$ 10,000	\$ 509,162
Contributions	69,300	29,964	16,484	115,748
Special events, net	30,047	-	-	30,047
Interest income	3,786	-	92	3,878
Miscellaneous	8,822	-	-	8,822
Released from restrictions	139,293	(139,293)	-	-
	<u>492,619</u>	<u>148,462</u>	<u>26,576</u>	<u>667,657</u>
Expenses:				
Program expenses:				
Prime-Time and Mentoring	108,118	-	-	108,118
Stay in School for College and Career (SISCO)	207,404	-	-	207,404
Scholarships	87,922	-	-	87,922
Computer training	98,594	-	-	98,594
	<u>502,038</u>	<u>-</u>	<u>-</u>	<u>502,038</u>
Management and general	42,308	-	-	42,308
	<u>544,346</u>	<u>-</u>	<u>-</u>	<u>544,346</u>
Change in net assets	(51,727)	148,462	26,576	123,311
Net assets at beginning of year	<u>200,024</u>	<u>139,293</u>	<u>-</u>	<u>339,317</u>
Net assets at end of year	<u>\$ 148,297</u>	<u>\$ 287,755</u>	<u>\$ 26,576</u>	<u>\$ 462,628</u>

The notes to financial statements are an integral part of this statement.

ESPERANZA, INC.  
Statement of Functional Expenses  
Year ended December 31, 2008

	Prime-Time and Mentoring	SISCO	Scholarships	Computer Training	Management and General	Total
Payroll	\$ 67,742	\$ 115,217	\$ 38,718	\$ 60,567	\$ 18,735	\$ 300,979
Payroll taxes	7,434	12,416	3,976	5,891	2,810	32,527
Employee benefits	2,768	5,604	435	5,363	8,341	22,511
	<u>77,944</u>	<u>133,237</u>	<u>43,129</u>	<u>71,821</u>	<u>29,886</u>	<u>356,017</u>
Depreciation	1,762	3,553	881	2,202	410	8,808
Dues	170	340	133	170	37	850
Equipment rental and maintenance	1,024	2,254	768	1,024	632	5,702
Insurance	306	612	230	306	992	2,446
Occupancy	10,494	22,276	7,955	10,693	2,598	54,016
Office supplies	140	309	73	430	1,095	2,047
Postage	9	50	243	9	383	694
Professional fees	10,230	19,899	5,623	6,747	2,593	45,092
Program supplies	1,444	4,895	954	1,831	1,467	10,591
Relocation expenses	1,898	3,796	1,424	1,898	474	9,490
Scholarships and special assistance	1,759	14,443	26,473	1,227	1,503	45,405
Travel	438	1,740	36	236	114	2,564
Miscellaneous	500	-	-	-	124	624
	<u>\$ 108,118</u>	<u>\$ 207,404</u>	<u>\$ 87,922</u>	<u>\$ 98,594</u>	<u>\$ 42,308</u>	<u>\$ 544,346</u>

The notes to financial statements are an integral part of this statement.

ESPERANZA, INC.  
Statements of Cash Flows  
Year ended December 31, 2008

Operating activities:	
Change in net assets	\$ 123,311
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	8,808
Changes in operating assets and liabilities:	
Receivables	(156,289)
Prepaid expenses	182
Accounts payable	(770)
Scholarships payable	2,250
Accrued and other liabilities	<u>4,349</u>
Net cash used in operating activities	(18,159)
Investing activities:	
Endowment fund	<u>(26,573)</u>
Decrease in cash and equivalents	(44,732)
Cash and equivalents at beginning of year	<u>232,190</u>
Cash and equivalents at end of year	<u>\$ 187,458</u>

The notes to financial statements are an integral part of these statements.

ESPERANZA, INC.  
Notes to Financial Statements  
December 31, 2008

**Note 1 - Description of organization:**

Established in 1983, Esperanza, Inc. (Esperanza) (the corporation) provides programs to enhance educational and economic opportunities for Hispanic Americans in the Greater Cleveland area of Northeast Ohio. These programs focus on motivating academic advancement and achievement, enhancing the quality of economic and community life, promoting continuity of community through leadership, offering enriched educational services and opportunities, and providing scholarship assistance.

**Note 2 - Summary of significant accounting policies:**

The financial statements are prepared on the accrual basis of accounting under which revenues are recognized when granted or earned, and expenses are recognized when incurred.

Under Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations," Esperanza is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, Esperanza is required to present a statement of cash flows. As permitted by SFAS No. 117, Esperanza has, accordingly, classified its financial statements to present classes of net assets.

Under SFAS No. 116, "Accounting for Contributions Received and Contributions Made," contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

The preparation 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 the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash equivalents:**

The corporation considers all short-term, highly liquid investments to be cash equivalents. These investments are readily convertible to known amounts of cash and are so near their maturity that they present insignificant risk of changes in value because of changes in interest rates.

Included in cash and equivalents are funds restricted to pay future scholarships in the amount of \$29,964.

ESPERANZA, INC.  
Notes to Financial Statements  
December 31, 2008

**Note 2 - continued.**

**Concentration of credit risk:**

The corporation maintains its cash balances at several financial institutions located in Cleveland, Ohio. Cash in these accounts may, at times, exceed the Federal Deposit Insurance Corporation limit. The corporation has not experienced any losses in such accounts and believes that it is not exposed to any significant credit risk related to cash.

**Receivables:**

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

**Property and equipment:**

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

Furniture and fixtures	7 years
Office and computer equipment	5 years

**Allocation of expenses:**

Expenses are generally charged to the specific program for which they are incurred; in some cases, however, common expenses which support the work performed under program services as well as for support services are incurred. Such expenses are allocated among the various program services and support services based on the relationship of functionalized payroll costs to total payroll costs.

**Income taxes:**

The corporation is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code.

**Note 3 - Scholarships payable:**

Several organizations and individuals have made restricted contributions to Esperanza to provide scholarships to deserving students. Scholarships are awarded each June and are payable in two installments. The first installment was paid in the fall of 2008. The payable represents the second installment of scholarships (awarded in June, 2008), which were paid in January, 2009.

ESPERANZA, INC.  
Notes to Financial Statements  
December 31, 2008

**Note 4 - Leases:**

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

	<u>Office</u>	<u>Equipment</u>
Year ending December 31,		
2009	\$ 36,000	\$ 4,500
2010	<u>6,000</u>	<u>-</u>
	<u>\$ 42,000</u>	<u>\$ 4,500</u>

**Note 5 - Line of credit:**

The corporation has an available line of credit of \$35,000 with National City Bank. The interest rate on the line is at prime plus 2%.