

ESPERANZA, INC.
AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2007

ESPERANZA, INC.

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KOESTER, DISALVO AND FRIED

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February 13, 2008

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, 2007, 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, 2007, 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, 2007

ASSETS

| | |
|--------------------------------|------------------------------|
| Current Assets | |
| Cash and cash equivalents | \$ 232,190 |
| Grants receivable | 90,550 |
| Accounts receivable | 3,686 |
| Prepaid expenses | <u>544</u> |
| Total Current Assets | 326,970 |
| Property and Equipment | |
| Furniture | 18,436 |
| Office and computer equipment | 63,145 |
| Less: accumulated depreciation | <u>(43,794)</u> |
| Net Property and Equipment | 37,787 |
| Other Assets | |
| Deposits | <u>3,000</u> |
| Total Other Assets | <u>3,000</u> |
| TOTAL ASSETS | <u><u>\$ 367,757</u></u> |

LIABILITIES AND NET ASSETS

| | |
|--------------------------------------|------------------------------|
| Current Liabilities | |
| Accounts payable | \$ 3,741 |
| Scholarships payable | 12,250 |
| Trust accounts | 267 |
| Payables-other | 442 |
| Payroll taxes w/h & accrued | 822 |
| Accrued payroll | <u>10,918</u> |
| Total Current Liabilities | 28,440 |
| Long-Term Liabilities | |
| Total Long-Term Liabilities | <u>0</u> |
| Total Liabilities | 28,440 |
| Net Assets | |
| Unrestricted | 200,024 |
| Temporarily restricted | 139,293 |
| Permanently restricted | <u>0</u> |
| Total Net Assets | <u>339,317</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u><u>\$ 367,757</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, 2007

| | <u>Un- Restricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|---------------------------|-----------------------------------|-----------------------------------|-------------------|
| Revenue and Support | | | | |
| Grants | \$ 0 | \$ 504,384 | \$ 0 | \$ 504,384 |
| Contributions | 79,525 | 37,982 | 0 | 117,507 |
| Special events | 7,267 | 0 | 0 | 7,267 |
| Miscellaneous | 3,922 | 0 | 0 | 3,922 |
| Interest income | 6,003 | 0 | 0 | 6,003 |
| Released from restrictions | <u>461,030</u> | <u>(461,030)</u> | <u>0</u> | <u>0</u> |
| Total Revenue and Support | 557,747 | 81,336 | 0 | 639,083 |
| Expenses | | | | |
| Education assistance (Prime-Time) | 54,057 | 0 | 0 | 54,057 |
| Stay in School for College & Career (SISCO) | 277,831 | 0 | 0 | 277,831 |
| Scholarships | 35,938 | 0 | 0 | 35,938 |
| Computer training and Other programs | <u>91,224</u> | <u>0</u> | <u>0</u> | <u>91,224</u> |
| Total Program | 459,050 | 0 | 0 | 459,050 |
| Management services | <u>58,603</u> | <u>0</u> | <u>0</u> | <u>58,603</u> |
| Total Expenses | <u>517,653</u> | <u>0</u> | <u>0</u> | <u>517,653</u> |
| Increase in Net Assets | 40,094 | 81,336 | 0 | 121,430 |
| Net Assets at Beginning of Year | <u>159,931</u> | <u>57,956</u> | <u>0</u> | <u>217,887</u> |
| NET ASSETS AT END OF YEAR | <u>\$ 200,025</u> | <u>\$ 139,292</u> | <u>\$ 0</u> | <u>\$ 339,317</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, 2006

| | <u>Un- Restricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|-------------------------------------|---------------------------|-----------------------------------|-----------------------------------|-------------------|
| Revenue and Support | | | | |
| Grants | \$ 0 | \$ 341,350 | \$ 0 | \$ 341,350 |
| Contributions | 81,624 | 0 | 0 | 81,624 |
| Special events | 34,054 | 0 | 0 | 34,054 |
| Miscellaneous | 0 | 2,619 | 2,619 | 0 |
| Interest income | 638 | 0 | 0 | 638 |
| Released from restrictions | <u>171,438</u> | <u>(171,438)</u> | <u>0</u> | <u>0</u> |
| Total Revenue and Support | 287,754 | 172,531 | 2,619 | 457,666 |
| Expenses | | | | |
| Education assistance | 47,603 | 0 | 0 | 47,603 |
| Stay in School for College & Career | 228,900 | 0 | 0 | 228,900 |
| Scholarships | 40,077 | 263,735 | 263,735 | 40,077 |
| Other programs | <u>73,256</u> | <u>0</u> | <u>0</u> | <u>73,256</u> |
| Total Program | 389,836 | 0 | 0 | 389,836 |
| Management services | <u>59,150</u> | <u>0</u> | <u>0</u> | <u>59,150</u> |
| Total Expenses | <u>448,986</u> | <u>0</u> | <u>0</u> | <u>448,986</u> |
| Increase in Net Assets | (161,232) | 172,531 | (2,619) | 8,680 |
| Net Assets at Beginning of Year | <u>(64,786)</u> | <u>49,938</u> | <u>0</u> | <u>(14,848)</u> |
| NET ASSETS AT END OF YEAR | <u>\$ (226,018)</u> | <u>\$ 222,469</u> | <u>\$ 0</u> | <u>\$ (6,168)</u> |

The Accompanying Notes are an Integral Part of These Financial Statements

ESPERANZA, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2007

| Expenses | <u>Prime- Time</u> | <u>SISCO</u> | <u>Scholarships</u> | <u>Computer Training</u> | <u>Management Services</u> | <u>Total</u> |
|--------------------|------------------------|-------------------|---------------------|------------------------------|--------------------------------|-------------------|
| Employee benefits | \$ 2,329 | \$ 6,223 | \$ 0 | \$ 4,508 | \$ 3,063 | \$ 16,123 |
| Data processing | 185 | 649 | 123 | 269 | 97 | 1,323 |
| Depreciation | 786 | 1,572 | 590 | 786 | 196 | 3,930 |
| Dues | 116 | 232 | 92 | 116 | 99 | 655 |
| Insurance | 190 | 431 | 153 | 193 | 1,086 | 2,053 |
| Miscellaneous | 37 | 34 | 13 | 17 | 76 | 177 |
| Office supplies | 0 | 4 | 0 | 0 | 294 | 298 |
| Payroll | 21,653 | 130,380 | 23,441 | 56,276 | 44,355 | 276,105 |
| Postage | 21 | 98 | 0 | 0 | 160 | 279 |
| Professional fees | 6,733 | 18,389 | 997 | 6,099 | 563 | 32,781 |
| Equipment rental | 950 | 1,854 | 731 | 1,119 | 19 | 4,673 |
| Rent | 3,233 | 24,400 | 0 | 4,300 | 0 | 31,933 |
| Meetings | 0 | 230 | 0 | 0 | 789 | 1,019 |
| Supplies-program | 865 | 17,821 | 0 | 190 | 780 | 19,656 |
| Taxes-payroll | 1,923 | 11,335 | 1,801 | 4,494 | 3,097 | 22,650 |
| Relocation expense | 10,587 | 21,173 | 7,940 | 10,587 | 2,647 | 52,934 |
| Telephone | 943 | 2,226 | 0 | 720 | 175 | 4,064 |
| Travel | 102 | 2,720 | 57 | 74 | 0 | 2,953 |
| Utilities | 1,828 | 3,835 | 0 | 1,181 | 767 | 7,611 |
| Special assistance | 1,576 | 34,225 | 0 | 295 | 340 | 36,436 |
| | <u>\$ 54,057</u> | <u>\$ 277,831</u> | <u>\$ 35,938</u> | <u>\$ 91,224</u> | <u>\$ 58,603</u> | <u>\$ 517,653</u> |
| Expenses | <u>\$ 54,057</u> | <u>\$ 277,831</u> | <u>\$ 35,938</u> | <u>\$ 91,224</u> | <u>\$ 58,603</u> | <u>\$ 517,653</u> |

The Accompanying Notes are an Integral Part of These Financial Statements

ESPERANZA, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2007

| | |
|---|-------------------|
| Cash Flows From Operating Activities | |
| Change in net assets | \$ 121,430 |
| Adjustments to reconcile Net change to net cash provided by (used in) operating activities | |
| Depreciation and amortization | 3,930 |
| Decrease (Increase) in Operating Assets: | |
| Accounts receivable | (9,141) |
| Prepays | 1,931 |
| Other assets | (3,000) |
| Increase (Decrease) in Operating Liabilities: | |
| Accounts payable | 13,643 |
| Payroll taxes | (346) |
| Accrued liabilities | 1,001 |
| Total Adjustments | <u>8,018</u> |
| Net Cash Provided By (Used in) Operating Activities | 129,448 |
| Cash Flows From Investing Activities | |
| Purchase of fixed assets | <u>(29,420)</u> |
| Net Cash Provided By (Used In) Investing Activities | (29,420) |
| Cash Flows From Financing Activities | |
| Net Cash Provided By (Used In) Financing Activities | <u>0</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 100,028 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | <u>132,161</u> |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | <u>\$ 232,189</u> |

The Accompanying Notes are an Integral Part of These Financial Statements

ESPERANZA, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

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- Property and Equipment.)

See Auditors' Report

ESPERANZA, INC.
NOTES TO FINANCIAL STATEMENTS (CONT)
DECEMBER 31, 2007

- 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 \$42,119.

Esperanza maintains its cash in a bank account which, at times, exceeds the Federal Deposit Insurance Corporation (FDIC) limits of \$100,000. Esperanza has not experienced any losses in this account and believes it is not exposed to any significant credit risk related to cash.

NOTE 4- Grants and Accounts Receivable

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

NOTE 5- 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 and amortization are computed using the straight-line method over the estimated useful lives of the assets as follows:

See Auditors' Report

ESPERANZA, INC.
 NOTES TO FINANCIAL STATEMENTS (CONT')
 DECEMBER 31, 2007

NOTE 5- Property and Equipment (Continued)

| Category | Estimated useful life |
|-------------------------------|-----------------------|
| Furniture & Fixtures | 7 years |
| Office and computer equipment | 5 years |

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

NOTE 6- Scholarships Payable

Several organizations and individuals have made restricted contributions to Esperanza to provide scholarships to deserving students. Scholarship are awarded each June and are payable in two installments. The first installment was paid in the fall of 2007. The payable represents the second installment of scholarships (awarded in June 2007), which were paid in January 2008.

NOTE 7- Statement of Cash Flow Disclosures

The amount of interest paid on all indebtedness was \$0 for the year ended December 31, 2007.

NOTE 8- Leases

Esperanza leases office space and equipment under non-cancellable leases. The remaining future minimum annual rental payments under this agreement is as follows:

| Year ending December 31, | |
|--------------------------|------------------|
| 2008 | \$ 40,500 |
| 2009 | 40,500 |
| 2010 | 13,500 |
| Thereafter | <u>0</u> |
| Total | <u>\$ 94,500</u> |

See Auditors' Report

ESPERANZA, INC.
 NOTES TO FINANCIAL STATEMENTS (CONT')
 DECEMBER 31, 2007

NOTE 9- Temporarily Restricted Net Assets

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

| | |
|---|------------------------------|
| | <u>2007</u> |
| Scholarship | 39,369 |
| Computer training | 33,416 |
| Stay in School for College and Career Opportunities | 5,000 |
| Prime Time | 29,008 |
| Funds restricted by time | <u>32,500</u> |
| Total Temporarily Restricted Net Assets | <u><u>\$ 139,293</u></u> |

NOTE 10- Special Events

Esperanza, Inc. held two special events during the year ended December 31, 2007

| | | |
|-------------------|-----------------|----------------------------|
| Fiesta of Hope | Event Revenue | \$ 22,048 |
| | Direct expenses | <u>12,785</u> |
| | Total | <u><u>\$ 9,263</u></u> |
| Viva La Salsa | Event Revenue | \$ 35,884 |
| | Direct Expense | <u>31,821</u> |
| | Total | <u><u>\$ 4,063</u></u> |

An additional \$54,535 in contributions were received during the Fiesta of Hope.

See Auditors' Report