

ESPERANZA, INC.
AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2006

ESPERANZA, INC.

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KOESTER, DISALVO AND FRIED

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February 13, 2007

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, 2006, 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, 2006, 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, 2006

ASSETS

Current Assets	
Cash and cash equivalents	\$ 132,162
Grants receivable	77,610
Accounts receivable	7,485
Prepaid expenses	<u>2,475</u>
Total Current Assets	219,732
Fixed Assets	
Furniture	18,106
Office and computer equipment	34,055
Less: accumulated depreciation	<u>(39,863)</u>
Net Property and Equipment	12,298
 TOTAL ASSETS	 <u><u>\$ 232,030</u></u>

LIABILITIES AND NET ASSETS

Current Liabilities	
Accounts payable	\$ 1,504
Payables-other	1,553
Payroll taxes w/h & accrued	1,169
Accrued payroll	<u>9,917</u>
Total Current Liabilities	14,143
Long-Term Liabilities	
Total Liabilities	14,143
Net Assets	
Unrestricted	159,931
Temporarily restricted	57,956
Permanently restricted	<u>0</u>
Total Net Assets	<u>217,887</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u><u>\$ 232,030</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, 2006

	<u>Un- Restricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue and Support				
Grants	\$ 0	\$ 341,347	\$ 0	\$ 341,347
Contributions	81,624	0	0	81,624
Special events	34,054	0	0	34,054
Interest income	638	0	0	638
Released from restrictions	<u>385,646</u>	<u>(385,646)</u>	<u>0</u>	<u>0</u>
Total Revenue and Support	501,962	(44,299)	0	457,663
Expenses				
Education assistance (Prime-Time)	47,603	0	0	47,603
Stay in School for College & Career (SISCO)	228,900	0	0	228,900
Scholarships	40,077	0	0	40,077
Computer training and 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	52,976	(44,299)	0	8,677
Net Assets at Beginning of Year	<u>106,955</u>	<u>102,255</u>	<u>0</u>	<u>209,210</u>
NET ASSETS AT END OF YEAR	<u>\$ 159,931</u>	<u>\$ 57,956</u>	<u>\$ 0</u>	<u>\$ 217,887</u>

The Accompanying Notes are an Integral Part of These Financial Statements

ESPERANZA, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2006

Expenses	<u>Prime- Time</u>	<u>SISCO</u>	<u>Scholarships</u>	<u>Computer Training</u>	<u>Management Services</u>	<u>Total</u>
Employee benefits	\$ 2,070	\$ 8,342	\$ 608	\$ 3,567	\$ 2,372	\$ 16,959
Depreciation	295	1,191	87	509	342	2,424
Dues	244	274	65	100	2	685
Insurance	517	2,083	152	891	592	4,235
Interest expense	28	52	5	15	0	100
Maintenance	734	3,760	216	1,608	1,069	7,387
Miscellaneous	265	1,775	47	142	358	2,587
Office supplies	608	1,103	128	229	1,344	3,412
Payroll	30,959	124,778	9,098	53,358	38,001	256,194
Postage	22	41	0	12	167	242
Professional fees	2,620	10,262	3,509	844	5,194	22,429
Printing and publications	18	176	10	14	1	219
Rent	2,930	11,809	861	5,050	3,357	24,007
Supplies-program	1,139	6,928	227	610	454	9,358
Taxes-payroll	3,076	12,399	904	5,302	3,710	25,391
Telephone	418	1,686	123	721	479	3,427
Travel	17	1,935	2	14	962	2,930
Special assistance	1,643	40,306	24,035	270	746	67,000
	<u>\$ 47,603</u>	<u>\$ 228,900</u>	<u>\$ 40,077</u>	<u>\$ 73,256</u>	<u>\$ 59,150</u>	<u>\$ 448,986</u>

The Accompanying Notes are an Integral Part of These Financial Statements

ESPERANZA, INC.
 STATEMENTS OF CASH FLOWS
 FOR THE YEAR ENDED DECEMBER 31, 2006

Cash Flows From Operating Activities	
Change in net assets	\$ 8,677
Adjustments to reconcile Net change to net cash provided by (used in) operating activities	
Depreciation and amortization	2,424
Decrease (Increase) in Operating Assets:	
Accounts receivable	46,990
Prepays	(608)
Increase (Decrease) in Operating Liabilities:	
Accounts payable	(14,619)
Payroll taxes	1,169
Accrued liabilities	939
Total Adjustments	<u>36,295</u>
Net Cash Provided By (Used in) Operating Activities	44,972
Cash Flows From Investing Activities	
Purchase of fixed assets	<u>(9,171)</u>
Net Cash Provided By (Used In) Investing Activities	(9,171)
Cash Flows From Financing Activities	
Net Cash Provided By (Used In) Financing Activities	<u>0</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	35,801
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>96,361</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u><u>\$ 132,162</u></u>

The Accompanying Notes are an Integral Part of These Financial Statements

ESPERANZA, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

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.

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- 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.

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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- Statement of Cash Flow Disclosures

The amount of interest paid on all indebtedness was \$0 for the year ended December 31, 2006.

NOTE 8- Leases

Esperanza leases office equipment. The remaining future minimum annual rental payments under this agreement is as follows:

Year ending December 31,	
2007	\$ 4,500
2008	4,500
2009	4,500
Thereafter	<u>375</u>
Total	<u>\$13,875</u>

NOTE 9- Temporarily Restricted Net Assets

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

	<u>2006</u>
Scholarship	24,624
Computer training	5,832
Funds restricted by time	<u>27,500</u>
Total Temporarily Restricted Net Assets	<u>\$ 57,956</u>

See Auditors' Report

ESPERANZA, INC.
NOTES TO FINANCIAL STATEMENTS (CONT)

NOTE 10- Special Events

Esperanza, Inc. held two special events during the year ended December 31, 2006

Fiesta of Hope	Event Revenue	\$ 28,660
	Direct expenses	<u>11,099</u>
	Total	<u>\$ 17,561</u>
Viva La Salsa	Event Revenue	\$ 46,150
	Direct Expense	<u>29,657</u>
	Total	<u>\$ 16,493</u>

An additional \$52,130 in contributions were received during the Fiesta of Hope.

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