



Financial Statements

For the Year Ended December 31, 2016

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Independent Auditor's Report

To the Board of Directors Esperanza International Foundation

We have audited the accompanying financial statements of Esperanza International Foundation (the Foundation) which comprise the statement of financial position as of December 31, 2016, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of as of December 31, 2016, and the results of its changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Clark Nuber P.S.

Certified Public Accountants
October 31, 2017



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ESPERANZA INTERNATIONAL FOUNDATION

Statement of Financial Position
December 31, 2016

Assets

Cash and cash equivalents	\$ 1,182,556
Short-term investments	210,898
Pledges receivable	189,123
Prepaid expenses	780
Property and equipment, net	13,952
Other assets	5,063

Total Assets \$ 1,602,372

Liabilities and Net Assets

Liabilities:

Accounts payable	\$ 4,012
Accrued expenses	4,580

Total Liabilities 8,592

Net Assets:

Unrestricted	1,212,104
Temporarily restricted	381,676

Total Net Assets 1,593,780

Total Liabilities and Net Assets \$ 1,602,372

ESPERANZA INTERNATIONAL FOUNDATION

Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues and Support:			
Contributed support and grants	\$ 1,031,437	\$ 182,303	\$ 1,213,740
In-kind contributions	38,416		38,416
Special events	211,497		211,497
Other	5,168		5,168
Releases of restriction	173,824	(173,824)	
Total Revenues and Support	1,460,342	8,479	1,468,821
Expenses:			
Program	712,013		712,013
Management and general	206,064		206,064
Fundraising	295,857		295,857
Total Expenses	1,213,934		1,213,934
Change in Net Assets	246,408	8,479	254,887
Net assets, beginning of year	965,696	373,197	1,338,893
Net Assets, End of Year	\$ 1,212,104	\$ 381,676	\$ 1,593,780

See accompanying notes.

ESPERANZA INTERNATIONAL FOUNDATION

Statement of Functional Expenses
For the Year Ended December 31, 2016

	Program	Management and General	Fundraising	Total
Salaries	\$ 98,969	\$ 101,487	\$ 95,424	\$ 295,880
Benefits	6,300	16,944	15,881	39,125
Payroll taxes	9,505	11,193	11,784	32,482
Compensation Expense	114,774	129,624	123,089	367,487
Program expenses	597,063			597,063
Fundraising expenses		77	158,231	158,308
Accounting and audit fees		43,294		43,294
Occupancy expenses		7,950	11,700	19,650
Travel and meeting expenses		13,324		13,324
Administrative		10,916	1,381	12,297
Depreciation expense	176	879	1,456	2,511
Noncompensation Expense	597,239	76,440	172,768	846,447
Total Expenses	\$ 712,013	\$ 206,064	\$ 295,857	\$ 1,213,934

See accompanying notes.

ESPERANZA INTERNATIONAL FOUNDATION

**Statement of Cash Flows
For the Year Ended December 31, 2016**

Cash Flows From Operating Activities:

Change in net assets	\$ 254,887
Adjustments to reconcile change in net assets to net cash provided by operating activities-	
Depreciation and amortization	2,510
Gain on investments	(3,494)
Changes in operating assets and liabilities:	
Pledges receivable	(30,748)
Prepaid expenses	1,553
Accounts payable	(38,296)
Accrued expenses	(14,577)
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Net Cash Provided by Operating Activities **171,835**

Cash Flows From Investing Activities:

Sale of investments	360
Purchase of investments	(1,673)
Purchase of property and equipment	(10,000)
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Net Cash Used in Investing Activities **(11,313)**

Net Change in Cash and Cash Equivalents **160,522**

Cash and cash equivalents, beginning of year 1,022,034

Cash and Cash Equivalents, End of Year **\$ 1,182,556**

See accompanying notes.

ESPERANZA INTERNATIONAL FOUNDATION

Notes to Financial Statements For the Year Ended December 31, 2016

Note 1 - Nature of Operations and Significant Accounting Policies

Nature of Operations - Esperanza International Foundation (the Foundation) was formed in November 1992. The Foundation is a Washington State nonprofit corporation with headquarters in Bellevue, Washington. The mission is to free children and their families from poverty through initiatives that generate income, education and health, and restoring self-worth and dignity to those who have lost hope. The Foundation primarily provides support to individuals and individual business owners located in the Dominican Republic through the support of Asociación Esperanza Internacional, Inc.

Related Party - Asociación Esperanza Internacional, Inc. is a religious association with headquarters in Santo Domingo, Dominican Republic. The main objectives of Asociación Esperanza Internacional, Inc. are:

- To liberate the children and their families of poverty through initiatives that generate income, education and health. Restore the self-esteem and dignity to those who have lost it.
- The development of the micro-enterprise, assisting poor people, especially mothers, in the creation of income and employment generation to stabilize personal dignity.
- The community development through schools that emphasize programs on literacy, primary health education, clinical nutrition education, recreation, leadership, sports programs to assist children and adolescents, religious education and spiritual development.
- Development of environmental health programs, such as providing education on improved health, development of improved access to safe water for their staff and food, water, latrine, recycling of plastic, glass and metals and other matters of interest to developing environmental awareness.

The Foundation provides a significant portion of the support of Asociación Esperanza Internacional, Inc., and the organizations work collaboratively on program and governance matters. The two organizations are governed by governing boards with common members. The Foundation reported \$481,412 of expense for support provided to Asociación Esperanza Internacional, Inc. during the year ended December 31, 2016. Additionally, the Foundation passed through \$122,378 of funds to Asociación Esperanza Internacional, Inc. for the year ended December 31, 2016.

Basis of Presentation - The Foundation maintains its accounting records using the accrual method of accounting, whereby revenues are recorded when earned and expenses when incurred. The financial statement presentation follows accounting standards generally accepted in the United States of America (U.S. GAAP). Under U.S. GAAP, the Foundation is required to report financial 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.

Accordingly, the net assets of the Foundation and changes therein are classified and reported as follows:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets - Net assets subject to donor imposed stipulations that will be met either by actions of the Foundation or the passage of time.

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. There were no permanently restricted net assets as of December 31, 2016.

ESPERANZA INTERNATIONAL FOUNDATION

Notes to Financial Statements For the Year Ended December 31, 2016

Note 1 - Continued

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Expirations of temporary restrictions on net assets (i.e., the donor stipulated purpose has been fulfilled or the stipulated time period has lapsed) are reported as reclassifications between the applicable classes of net assets. Time restrictions on pledges generally expire in the period that the pledges are due. The Foundation has adopted a policy to classify temporarily restricted contributions as unrestricted to the extent that temporary restrictions were met in the year the contribution was received.

Cash and Cash Equivalents - The Organization considers temporary investments with an original maturity of three months or less to be cash equivalents.

Receivables - Pledges receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. 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. Changes in the valuation allowance for pledges receivable have not been material to the financial statements.

Concentrations - The Foundation invests its funds with financial institutions and has established guidelines relative to diversification and maturities that maintain safety and liquidity. Such amounts may be in excess of the FDIC insured amounts.

Property and Equipment - The Foundation capitalizes assets with a cost greater than \$500 and an estimated useful life of one or more years. Depreciation is computed utilizing the straight-line method. Property and equipment are depreciated over an estimated useful life of three to five years. The cost of repairs and maintenance are expensed as incurred. The cost of renewals, replacements and betterments are capitalized.

Investments - The Foundation reports investments at fair value on the statement of financial position.

In-Kind Contributions - Donated goods and use of facilities are recorded at fair value at the date of receipt. Donated services are recorded only if specific professional expertise is provided or the services are for constructing a fixed asset, in accordance with U.S. GAAP. In-kind contributions during 2016 represent donated use of facility and donated food, beverages and clothing for the annual golf event.

Functional Expenses - The costs of providing the various programs and other activities have been summarized in the statement of activities and changes in net assets on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Tax Status - The Internal Revenue Service has notified the Foundation that it is exempt from U.S. income tax under section 501(c)(3) of the U.S. Internal Revenue Code.

Use of Estimates - The preparation of financial statements in conformity with U.S. GAAP 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.

ESPERANZA INTERNATIONAL FOUNDATION

Notes to Financial Statements For the Year Ended December 31, 2016

Note 1 - Continued

Subsequent Events - The Organization has evaluated subsequent events through October 31, 2017, the date on which the financial statements were available to be issued.

Note 2 - Pledges Receivable

Pledges receivable at December 31, 2016 were as follows:

Pledges due in less than one year	\$ 169,123
Pledges due in two years	<u>20,000</u>
Total Pledges Receivable	<u><u>\$ 189,123</u></u>

The present value discount on unconditional promises to give due in future years is not considered material. Management determined no allowance for doubtful promises to give was required at December 31, 2016.

Note 3 - Property and Equipment

Property and equipment consisted of the following at December 31, 2016:

Furniture and equipment	\$ 17,191
Website design	<u>10,000</u>
	27,191
Less accumulated depreciation	<u>(13,239)</u>
	<u><u>\$ 13,952</u></u>

Note 4 - Investments and Fair Value Measurements

Investments consisted of the following at December 31, 2016:

Money market funds	\$ 137,442
Equity securities	70,805
Mutual funds	<u>2,651</u>
	<u><u>\$ 210,898</u></u>

Money market funds are valued using cost plus accrued interest.

U.S. GAAP provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

ESPERANZA INTERNATIONAL FOUNDATION

Notes to Financial Statements
For the Year Ended December 31, 2016

Note 4 - Continued

Financial assets and liabilities valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets and liabilities valued using Level 2 inputs are based primarily on quoted prices for similar assets or liabilities in active or inactive markets. Financial assets and liabilities using Level 3 inputs are primarily valued using management's assumptions about the assumptions market participants would utilize in pricing the asset or liability.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2016.

Mutual Funds - Valued at quoted market prices in active markets.

Equity Securities - Valued at the closing price reported on the active market on which the securities are traded.

All of the Foundation's investments measured at fair value were in mutual funds and equity securities and are considered to be valued with Level 1 inputs.

Note 5 - Temporarily Restricted Net Assets

Net assets were temporarily restricted by donors as follows at December 31, 2016:

Program related purposes	\$ 192,553
Available in future periods	<u>189,123</u>
Total Temporarily Restricted Net Assets	<u><u>\$ 381,676</u></u>