



Financial Statements

For the Year Ended December 31, 2018

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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, 2018, 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.



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## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of December 31, 2018, 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.

## **Effect of Adopting New Accounting Standard**

As discussed in Note 1, the Foundation adopted the Financial Accounting Standards Board's Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities* as of and for the year ended December 31, 2018. Our opinion is not modified with respect to this matter.

## **Report on Summarized Comparative Information**

We have previously audited the Foundation's 2017 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated June 1, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.



Certified Public Accountants  
May 20, 2019

ESPERANZA INTERNATIONAL FOUNDATION

Statement of Financial Position

December 31, 2018

(With Comparative Totals for 2017)

	<u>2018</u>	<u>2017</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 865,834	\$ 913,162
Short-term investments	190,540	208,321
Pledges receivable	173,587	106,559
Prepaid expenses	2,914	1,677
Property and equipment, net	16,112	22,415
Other assets	5,063	5,063
<b>Total Assets</b>	<b><u>\$ 1,254,050</u></b>	<b><u>\$ 1,257,197</u></b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities:</b>		
Accounts payable	\$ 7,983	\$ 2,594
Accrued expenses	19,518	7,055
<b>Total Liabilities</b>	<b>27,501</b>	<b>9,649</b>
<b>Net Assets:</b>		
Without donor restriction	1,042,619	1,056,841
With donor restriction	183,930	190,707
<b>Total Net Assets</b>	<b><u>1,226,549</u></b>	<b><u>1,247,548</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 1,254,050</u></b>	<b><u>\$ 1,257,197</u></b>

See accompanying notes.

ESPERANZA INTERNATIONAL FOUNDATION

Statement of Activities and Changes in Net Assets  
For the Year Ended December 31, 2018  
(With Comparative Totals for 2017)

	2018			2017 Total
	Without Donor Restriction	With Donor Restriction	Total	
<b>Revenues and Support:</b>				
Contributed support and grants	\$ 551,681	\$ 795,173	\$ 1,346,854	\$ 981,843
In-kind contributions	718,380		718,380	5,426
Special events	208,050		208,050	1,430
Investment loss and other	(18,313)		(18,313)	(2,217)
Releases of restriction	801,950	(801,950)		
<b>Total Revenues and Support</b>	<b>2,261,748</b>	<b>(6,777)</b>	<b>2,254,971</b>	<b>986,482</b>
<b>Expenses:</b>				
Program	1,092,343		1,092,343	972,448
Management and general	110,449		110,449	181,059
Fundraising	1,073,178		1,073,178	179,207
<b>Total Expenses</b>	<b>2,275,970</b>		<b>2,275,970</b>	<b>1,332,714</b>
<b>Change in Net Assets</b>	<b>(14,222)</b>	<b>(6,777)</b>	<b>(20,999)</b>	<b>(346,232)</b>
Net assets, beginning of year	1,056,841	190,707	1,247,548	1,593,780
<b>Net Assets, End of Year</b>	<b>\$ 1,042,619</b>	<b>\$ 183,930</b>	<b>\$ 1,226,549</b>	<b>\$ 1,247,548</b>

See accompanying notes.

ESPERANZA INTERNATIONAL FOUNDATION

Statement of Functional Expenses  
For the Year Ended December 31, 2018  
(With Comparative Totals for 2017)

	2018				2017 Total
	Program	Management and General	Fundraising	Total	
Salaries, wages and related costs	\$ 191,004	\$ 39,261	\$ 265,700	\$ 495,965	\$ 517,853
Direct support to Asociación Esperanza Internacional, Inc.	881,358			881,358	675,055
Professional fees		40,490		40,490	43,175
Travel, conference and meeting expenses	17,231		19,727	36,958	35,255
Events and other fundraising costs			85,324	85,324	17,895
Occupancy expenses		15,163		15,163	16,090
Office, supplies and administrative costs		9,232	1,505	10,737	11,796
Staff development and conferences	2,750		922	3,672	11,001
Depreciation		6,303		6,303	4,594
In-kind donation of documentaries			700,000	700,000	
<b>Total Expenses</b>	<b>\$ 1,092,343</b>	<b>\$ 110,449</b>	<b>\$ 1,073,178</b>	<b>\$ 2,275,970</b>	<b>\$ 1,332,714</b>

See accompanying notes.

ESPERANZA INTERNATIONAL FOUNDATION

Statement of Cash Flows  
For the Year Ended December 31, 2018  
(With Comparative Totals for 2017)

	<u>2018</u>	<u>2017</u>
<b>Cash Flows From Operating Activities:</b>		
Change in net assets	\$ (20,999)	\$ (346,232)
Adjustments to reconcile change in net assets to net cash used in operating activities-		
Depreciation and amortization	6,303	4,594
Loss on investments	20,651	4,105
Changes in operating assets and liabilities:		
Pledges receivable	(67,028)	82,564
Prepaid expenses	(1,237)	(897)
Accounts payable	5,389	(1,418)
Accrued expenses	12,463	2,475
<b>Net Cash Used in Operating Activities</b>	<b>(44,458)</b>	<b>(254,809)</b>
<b>Cash Flows From Investing Activities:</b>		
Sale of investments	340	360
Purchase of investments	(3,210)	(1,888)
Purchase of property and equipment		(13,056)
<b>Net Cash Used in Investing Activities</b>	<b>(2,870)</b>	<b>(14,585)</b>
<b>Net Change in Cash and Cash Equivalents</b>	<b>(47,328)</b>	<b>(269,394)</b>
Cash and cash equivalents, beginning of year	913,162	1,182,556
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 865,834</b>	<b>\$ 913,162</b>

See accompanying notes.



## ESPERANZA INTERNATIONAL FOUNDATION

### Notes to Financial Statements For the Year Ended December 31, 2018 (With Comparative Totals for 2017)

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#### 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 \$881,358 and \$675,055 of expense for support provided to Asociación Esperanza Internacional, Inc. during the years ended December 31, 2018 and 2017, respectively. Additionally, the Foundation passed through \$94,681 and \$117,236 of funds to Asociación Esperanza Internacional, Inc. for the years ended December 31, 2018 and 2017, respectively.

**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 two classes of net assets; net assets without donor restriction and net assets with donor restriction.

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

Net Assets Without Donor Restriction - Net assets that are not subject to or are no longer subject to donor-imposed stipulations.

Net Assets With Donor Restriction - Net assets whose use is limited by donor-imposed time and/or purpose restrictions.

## ESPERANZA INTERNATIONAL FOUNDATION

### Notes to Financial Statements For the Year Ended December 31, 2018 (With Comparative Totals for 2017)

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#### Note 1 - Continued

Revenues are reported as increases in net assets without donor restriction unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restriction. Expirations of donor 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.

**Cash and Cash Equivalents** - The Foundation 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.

**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 2018 and 2017 represent donated use of facility and donated food, beverages and clothing for fundraising events.

In-kind contributions during 2018 include the donation of two documentaries titled "Esperanza" and "Return to Esperanza", which were valued at \$700,000. These documentaries are used by the Foundation primarily for fundraising and general education purposes about the Foundation's mission.

**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.

The Foundation received significant funding during 2018 from three contributors. During 2018 the contributors provided \$554,770, which represents 41% of the total contributed support and grants to the Foundation. One of these contributors, which provided \$220,000 of funding in 2018, is an organization that is a related party to the Foundation because one of the Foundation's board members is an executive at the contributing organization.

Additionally, the in-kind donation revenue reported for 2018 is primarily from a single donation of two documentaries.

## ESPERANZA INTERNATIONAL FOUNDATION

### Notes to Financial Statements For the Year Ended December 31, 2018 (With Comparative Totals for 2017)

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#### Note 1 - Continued

**Functional Allocation of 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. Salaries and wages are allocated based on set allocations which are reviewed yearly to see where actual time was spent. Travel, conference, and meeting expenses are determined by employee based on the purpose behind trip. The budget for these allocations is based on historical actuals and trends.

**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.

**New Accounting Pronouncement** - During the year ended December 31, 2018, the Foundation implemented the Financial Accounting Standards Board's Accounting Standards Update No. 2016-14 - *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14) required for fiscal years ending 2018. This update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return between not-for-profit entities. A key change required by ASU 2016-14 are the net assets classes used in these financial statements. Amount previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amount previously reported as temporarily restricted net assets and permanently restricted net assets are now reported as net assets with donor restrictions. A footnote on liquidity has also been added (Note 6).

**Comparative Amounts for 2017** - The financial statements include certain summarized comparative information in total, but not by net asset class, for the year ended December 31, 2017. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended December 31, 2017, from which the summarized information was derived.

**Subsequent Events** - The Foundation has evaluated subsequent events through May 20, 2019, the date on which the financial statements were available to be issued.

#### Note 2 - Pledges Receivable

Pledges receivable at December 31, 2018 and 2017 were all scheduled to be collected within one year of the date of the statement of financial position.

Management determined no allowance for doubtful promises to give was required at December 31, 2018 and 2017.

ESPERANZA INTERNATIONAL FOUNDATION

Notes to Financial Statements  
For the Year Ended December 31, 2018  
(With Comparative Totals for 2017)

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**Note 3 - Property and Equipment**

Property and equipment consisted of the following at December 31:

	<u>2018</u>	<u>2017</u>
Furniture and equipment	\$ 18,057	\$ 18,057
Website design	<u>22,190</u>	<u>22,190</u>
	40,247	40,247
Less accumulated depreciation	<u>(24,135)</u>	<u>(17,832)</u>
	<u><u>\$ 16,112</u></u>	<u><u>\$ 22,415</u></u>

**Note 4 - Investments and Fair Value Measurements**

Investments consisted of the following at December 31:

	<u>2018</u>	<u>2017</u>
Money market funds	\$ 141,339	\$ 138,970
Equity securities	<u>49,201</u>	<u>69,351</u>
	<u><u>\$ 190,540</u></u>	<u><u>\$ 208,321</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).

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, 2018 and 2017.

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.

## ESPERANZA INTERNATIONAL FOUNDATION

### Notes to Financial Statements For the Year Ended December 31, 2018 (With Comparative Totals for 2017)

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#### Note 5 - Net Assets With Donor Restrictions

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

	<u>2018</u>	<u>2017</u>
Program related purposes	\$ 10,343	\$ 84,148
Available in future periods	<u>173,587</u>	<u>106,559</u>
	<u><u>\$ 183,930</u></u>	<u><u>\$ 190,707</u></u>

#### Note 6 - Liquidity and Availability

The Foundation has a goal to maintain financial assets, which consist of cash and short-term investments, on hand to meet three to six months of normal operating expenses. The Foundation has a policy to structure its financial assets to be available as its general expenses, liabilities, and other obligations come due. In addition, as part of its liquidity management, the Foundation invests cash in excess of daily requirements in various short-term investments, including money market accounts and equities.

The following reflects the Foundation's financial assets as of December 31, reduced by amounts not available for general use within one year of the statement of financial position date because of contractual or donor-imposed restrictions. Amounts not available include amounts restricted by donors for program related purposes.

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 865,834	\$ 913,162
Short-term investments	190,540	208,321
Pledges receivable	<u>173,587</u>	<u>106,559</u>
Total financial assets	1,229,961	1,228,042
Less amounts donor-restricted for program related purposes	<u>(10,343)</u>	<u>(84,148)</u>
<b>Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year</b>	<u><u>\$ 1,219,618</u></u>	<u><u>\$ 1,143,894</u></u>