

Casa Esperanza, Inc.

Financial Statements
and
Independent Auditors' Report

June 30, 2006 and 2005

Casa Esperanza, Inc.

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1-2
Financial Statements	
Statements of Assets, Liabilities, and Net Assets – Modified Cash Basis	3
Statements of Support, Revenues, Expenses, and Changes in Net Assets – Modified Cash Basis	4-5
Statements of Functional Expenses – Modified Cash Basis	6-7
Notes to the Financial Statements	8-13

Independent Auditors' Report

Board of Directors
Casa Esperanza, Inc.
Albuquerque, New Mexico

We have audited the accompanying statements of assets, liabilities, and net assets – modified cash basis of Casa Esperanza, Inc., (the “Organization”) as of June 30, 2006 and 2005, and the related statements of support, revenues, expenses, and changes in net assets – modified cash basis and functional expenses – modified cash basis for the years 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 audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audits 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 our audits provide a reasonable basis for our opinion.

As explained in Note 2, these financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

The statements of assets, liabilities, and net assets – modified cash basis as of June 30, 2006 and 2005, do not consolidate the assets, liabilities, and net assets – modified cash basis of Casa Esperanza Endowment Foundation, Inc., (a related not-for-profit organization). The modified cash basis of accounting requires consolidation of not-for-profit organizations in which a controlling financial interest exists. If Casa Esperanza Endowment Foundation, Inc., had been consolidated with the Organization as of June 30, 2006 and 2005, assets and liabilities and net assets would be increased by approximately \$1,494,000 and \$1,428,000, respectively, and the change in net assets for the years ended June 30, 2006 and 2005, would be increased by approximately \$66,000 and \$3,600, respectively.

In our opinion, except for the effects of not consolidating Casa Esperanza Endowment Foundation, Inc., as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net assets of Casa Esperanza, Inc., as of June 30, 2006 and 2005, and its support, revenues, expenses, and changes in net assets for the years then ended, on the basis of accounting described in Note 2.

McSully Zahn LLC

September 20, 2006

Financial Statements

Casa Esperanza, Inc.
Statements of Assets, Liabilities, and Net
Assets – Modified Cash Basis
June 30,

	2006	2005
Assets		
Current assets		
Cash and cash equivalents	\$ 193,929	\$ 140,315
Other	449	37
Total current assets	194,378	140,352
Property and equipment		
Building and improvements	1,355,702	1,345,492
Furniture and equipment	434,397	411,086
Total property and equipment	1,790,099	1,756,578
Less accumulated depreciation	(821,493)	(775,149)
Net property and equipment	968,606	981,429
Total assets	1,162,984	1,121,781
Liabilities and Net Assets		
Current liabilities		
Lines of credit (Note 3)	47,936	12,948
Room deposits and payroll liabilities	2,723	2,382
Total current liabilities	50,659	15,330
Line of credit (Note 3)	31,288	44,220
Total liabilities	81,947	59,550
Commitments and contingencies (Notes 4, 7, and 8)		
Net assets		
Unrestricted	1,049,130	1,042,485
Temporarily restricted (Note 5)	31,907	19,746
Total net assets	1,081,037	1,062,231
Total liabilities and net assets	\$ 1,162,984	\$ 1,121,781

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

Casa Esperanza, Inc.
Statement of Support, Revenues, Expenses
and Changes in Net Assets – Modified Cash Basis
For the Year Ended June 30, 2006

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and Revenue			
Room rentals	\$ 234,822	\$ -	\$ 234,822
State contract	152,762	-	152,762
Contributions	64,590	33,672	98,262
Support from the Foundation	61,200	-	61,200
Car donation program	4,205	-	4,205
Other income	1,369	-	1,369
Interest income	1,194	-	1,194
Loss on disposal of assets	(2,633)	-	(2,633)
Net assets released from restrictions (Note 6)	<u>21,511</u>	<u>(21,511)</u>	<u>-</u>
Total support and revenue	<u>539,020</u>	<u>12,161</u>	<u>551,181</u>
Expenses			
Program services	383,232	-	383,232
Supporting services			
Management and general	116,731	-	116,731
Fundraising	<u>32,412</u>	<u>-</u>	<u>32,412</u>
Total supporting services	<u>149,143</u>	<u>-</u>	<u>149,143</u>
Total expenses	<u>532,375</u>	<u>-</u>	<u>532,375</u>
Change in net assets	6,645	12,161	18,806
Net assets, beginning of year	<u>1,042,485</u>	<u>19,746</u>	<u>1,062,231</u>
Net assets, end of year	<u>\$ 1,049,130</u>	<u>\$ 31,907</u>	<u>\$ 1,081,037</u>

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

Casa Esperanza, Inc.
Statement of Support, Revenues, Expenses
and Changes in Net Assets – Modified Cash Basis
For the Year Ended June 30, 2005

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and Revenue			
Room rentals	\$ 201,286	\$ -	\$ 201,286
State contract	121,022	-	121,022
Support from the Foundation	98,900	-	98,900
Contributions	58,453	31,502	89,955
Special events, net of \$6,347 of related expenses	74,416	-	74,416
Car donation program	25,659	-	25,659
Other income	2,241	-	2,241
Investment income	443	-	443
Net assets released from restrictions (Note 6)	<u>25,827</u>	<u>(25,827)</u>	<u>-</u>
Total support and revenue	<u>608,247</u>	<u>5,675</u>	<u>613,922</u>
Expenses			
Program services	335,323	-	335,323
Supporting services			
Management and general	228,276	-	228,276
Fundraising	<u>24,105</u>	<u>-</u>	<u>24,105</u>
Total supporting services	<u>252,381</u>	<u>-</u>	<u>252,381</u>
Total expenses	<u>587,704</u>	<u>-</u>	<u>587,704</u>
Change in net assets	20,543	5,675	26,218
Net assets, beginning of year	<u>1,021,942</u>	<u>14,071</u>	<u>1,036,013</u>
Net assets, end of year	<u>\$ 1,042,485</u>	<u>\$ 19,746</u>	<u>\$ 1,062,231</u>

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

Casa Esperanza, Inc.
Statement of Functional Expenses – Modified Cash Basis
For the Year Ended June 30, 2006

	<u>Program Services</u>	<u>Management & General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 130,784	\$ 71,720	\$ 8,438	\$ 210,942
Depreciation	49,070	2,726	2,726	54,522
Contract services	34,801	4,150	9,111	48,062
Employee benefits (Note 7)	28,125	15,423	1,815	45,363
Office	29,096	5,258	4,126	38,480
Utilities	28,564	1,587	1,587	31,738
Payroll taxes	11,883	6,516	767	19,166
Repairs and maintenance	15,981	888	888	17,757
Telephone	13,330	741	741	14,812
Residents' supplies	13,913	-	-	13,913
Insurance	12,226	581	-	12,807
Staff and donor recognition	3,907	1,340	1,692	6,939
Travel and mileage	3,305	1,009	312	4,626
Interest	3,764	209	209	4,182
Public relations/promotional	3,696	-	-	3,696
Other	-	3,598	-	3,598
Board	-	985	-	985
Clinical services	431	-	-	431
Cost of sales	356	-	-	356
Total expenses	<u>\$ 383,232</u>	<u>\$ 116,731</u>	<u>\$ 32,412</u>	<u>\$ 532,375</u>

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

Casa Esperanza, Inc.
Statement of Functional Expenses – Modified Cash Basis
For the Year Ended June 30, 2005

	<u>Program Services</u>	<u>Management & General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 120,898	\$ 55,989	\$ 8,199	\$ 185,086
Transfers to the Foundation, Inc. (Note 9)	-	109,761	-	109,761
Depreciation	48,176	2,677	2,677	53,530
Employee benefits (Note 7)	26,988	12,498	1,830	41,316
Contract services	31,380	9,622	28	41,030
Office	17,400	11,091	7,149	35,640
Utilities	27,795	956	569	29,320
Payroll taxes	11,596	5,371	787	17,754
Telephone	11,203	985	123	12,311
Repairs and maintenance	10,689	702	86	11,477
Insurance	9,710	764	167	10,641
Residents' supplies	10,324	-	-	10,324
Staff and donor recognition	4,948	1,160	1,580	7,688
Special events	-	-	6,347	6,347
Public relations/promotional	547	4,022	910	5,479
Other	-	4,375	-	4,375
Board	-	3,683	-	3,683
Travel and mileage	2,646	1,021	-	3,667
Interest	-	3,599	-	3,599
Cost of sales	<u>1,023</u>	<u>-</u>	<u>-</u>	<u>1,023</u>
Total expenses	335,323	228,276	30,452	594,051
Less expenses netted with revenues	<u>-</u>	<u>-</u>	<u>(6,347)</u>	<u>(6,347)</u>
Total functional expenses	<u>\$ 335,323</u>	<u>\$ 228,276</u>	<u>\$ 24,105</u>	<u>\$ 587,704</u>

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

Casa Esperanza, Inc.
Notes to Financial Statements
June 30, 2006 and 2005

1) Organization

Casa Esperanza, Inc., (the “Organization”) is a New Mexico nonprofit corporation established in April 1987 for the purpose of providing low-cost lodging and support for cancer patients and their family members while patients undergo treatment at a local healthcare facility. The Organization’s main sources of revenue and support are room rentals, a contract with the State of New Mexico, contributions, and support from Casa Esperanza Endowment Foundation, Inc., (the “Foundation”).

2) Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements have been prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Under the modified cash basis of accounting, certain revenues and the related assets are recognized when received rather than when earned, and expenses are recognized when paid rather than when the obligation is incurred. This basis of accounting differs from U.S. generally accepted accounting principles primarily because the Organization has not recognized receivables and payables, and has not recorded donated assets, services, or materials, except for donated assets, services, and materials that are inventory, capitalized and depreciated, or are investments. Furthermore, U.S. generally accepted accounting principles require the Organization to record the fair value of donated cars at the time of donation. The financial statements only reflect cash transactions related to the car donation program.

Support

The Organization reports contributions of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, restricted net assets are reclassified to unrestricted net assets and reported in the statement of support, revenues, expenses, and changes in net assets – modified cash basis as net assets released from restriction.

Income Taxes

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code, and has been classified by the Internal Revenue Service as an organization that is not a private foundation.

Casa Esperanza, Inc.
Notes to Financial Statements
June 30, 2006 and 2005

2) Summary of Significant Accounting Policies — continued

Property and Equipment

Property and equipment are stated at cost. Property and equipment received by donation are recorded at the estimated fair value on the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the organizations report the expiration of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The organizations reclassify restricted net assets to unrestricted net assets at that time. Purchased or donated equipment in excess of \$500 is capitalized. Depreciation is calculated on a straight-line basis in amounts sufficient to relate the cost of depreciable assets to operations over their estimated useful lives, which range from three to forty years.

Cash Equivalents

The Organization considers all highly-liquid investments with a maturity of three months or less to be cash equivalents.

Donated Services and Materials

Donated services are recorded if the services create or enhance nonfinancial assets. Recognized donated services and materials are recorded at the fair value of the services on the date of donation.

During the year ended June 30, 2006, donated furniture and equipment valued at \$5,000 was received and recognized. No donated services or materials were recorded during the year ended June 30, 2005.

During the years ended June 30, 2006 and 2005, the Organization also received donated services and materials in the amount of \$14,863 and \$31,205, respectively, which were not recorded using the modified cash basis of accounting (also see Note 8).

Use of Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Casa Esperanza, Inc.
Notes to Financial Statements
June 30, 2006 and 2005

2) Summary of Significant Accounting Policies — continued

Functional Allocation of Expenses

Expenses are charged directly to program and supporting services categories based on specific identification. Costs benefiting more than one service are allocated based on measures such as management's estimates of time spent and square footage, as applicable.

3) **Lines of Credit**

The Organization has a \$75,000 line of credit. Interest rate is prime rate plus 1%. The interest rate at June 30, 2006 was 9.25%. The Organization was required to pay monthly interest-only payments until July 2005, at which time monthly principal payments of \$1,078 plus continued monthly interest payments were required with a final payment due July 2010. The line of credit is collateralized by bank accounts of the Organization held at the issuing bank. The outstanding balance on this line of credit was \$44,224 and \$57,168 as of June 30, 2006 and 2005, respectively. Based on the outstanding balance of the line of credit as of June 30, 2006, future principal payments are as follows:

<u>Year ending June 30</u>	
2007	\$ 12,936
2008	12,936
2009	12,936
2010	<u>5,416</u>
Totals	<u>\$ 44,224</u>

The Organization also has an additional \$75,000 line of credit with interest at prime rate plus 2%. The Organization is required to pay interest charges, annual fees, late fees, returned check fees, and over-limit fees, as applicable, each month. Payments made in excess of these required payments are applied to the outstanding balance in an order determined by the bank issuing the line of credit. There is no stated maturity date. The outstanding balance on this line of credit was \$35,000 as of June 30, 2006, and is classified as a current liability. No outstanding balance existed on this line of credit at June 30, 2005.

Casa Esperanza, Inc.
Notes to Financial Statements
June 30, 2006 and 2005

4) Contingencies

The contract received from a state agency is subject to a compliance audit by the agency which may result in contract adjustments for noncompliance. As of June 30, 2006 and 2005, there were no material claims pending for noncompliance with the contract.

5) Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following as of June 30:

	<u>2006</u>	<u>2005</u>
Program services	\$ 26,450	\$ 14,193
Navigator program	4,569	-
Other	888	797
Clinical services	-	4,375
Family photographs of residents	-	381
Total temporarily restricted net assets	<u>\$ 31,907</u>	<u>\$ 19,746</u>

6) Net Assets Released from Restrictions

Net assets released from restrictions consist of the following for the years ended June 30:

	<u>2006</u>	<u>2005</u>
Funds used to pay for the residency of patients in need	\$ 15,035	\$ 9,306
Clinical services	5,375	16,250
Other	1,101	271
Total	<u>\$ 21,511</u>	<u>\$ 25,827</u>

Casa Esperanza, Inc.
Notes to Financial Statements
June 30, 2006 and 2005

7) Flexible Spending Plan and Benefit Allowance

The Organization has a Flexible Spending Plan for employees working 20 or more hours a week and who have been employed for three continuous months. For these same employees, the Organization also provides a benefit allowance. The benefit allowance is 12% and 15% of the employee's gross salary for part-time and full-time employees, respectively. An employee's benefit allowance increases after five years of employment and again after ten years of employment. The benefit allowance can be used by the employees for their health insurance, dental insurance, life insurance, and Section 403(b) retirement plan savings. The total benefit allowance expense for the years ended June 30, 2006 and 2005, was \$45,363 and \$52,423, respectively.

The Flexible Spending Plan increases both the options available and the amount employees can set aside from their own earnings before taxes. Through the Flexible Spending Plan, employees can set aside funds to cover insurance premiums not covered by the benefit allowance, medical and dental expenses, and payments for dependent care.

8) Leases

The Organization leases land under an operating lease expiring in May 2016. The lease requires the Organization to pay \$1 per year with the remaining amount donated. The estimated in-kind donation of rent expense is \$12,499 per year, which is not recorded using the modified cash basis of accounting.

The future minimum rental commitments as of June 30, 2006, under the land lease are as follows:

<u>Year ending June 30</u>	<u>Cash</u>	<u>In-Kind</u>
2007	\$ 1	\$ 12,499
2008	1	12,499
2009	1	12,499
2010	1	12,499
2011	1	12,499
Thereafter	<u>5</u>	<u>62,495</u>
	<u>\$ 10</u>	<u>\$ 124,990</u>

Casa Esperanza, Inc.
Notes to Financial Statements
June 30, 2006 and 2005

9) Contributions to Casa Esperanza Endowment Foundation, Inc.

The Foundation was established to provide for the future financial needs and support of the Organization and is a related party of the Organization. Transfers to the Foundation consist of funds received by the Organization to be invested by the Foundation for future needs of the Organization.

10) Concentrations

The Organization maintains its cash balances in a financial institution. The balance exceeds the insured limits of the Federal Deposit Insurance Corporation. The Organization has not experienced any losses in this account and believes it is not exposed to any significant credit risk.