

Casa Esperanza, Inc.

Financial Statements
and
Independent Auditors' Report

June 30, 2007

Casa Esperanza, Inc.

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Independent Auditors' Report

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

We have audited the accompanying statement of financial position of Casa Esperanza, Inc., (the Organization) as of June 30, 2007, and the related statements of activities, 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 U.S. generally accepted auditing standards. 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 our audit provides a reasonable basis for our opinion.

The financial statements of the Organization as of and for the year ended June 30, 2007, do not consolidate the financial statements of Casa Esperanza Endowment Foundation, Inc., (a related not-for-profit organization). U.S. generally accepted accounting principles 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, 2007, total assets and total liabilities and net assets would be increased by approximately \$1,856,000, and the change in net assets for the year ended June 30, 2007, would be increased by approximately \$329,000.

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 financial position of Casa Esperanza, Inc., as of June 30, 2007, and the changes in its net assets and cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

McNulty Zahm LLC

September 18, 2007

Financial Statements

Casa Esperanza, Inc.
Statement of Financial Position
June 30, 2007

Assets

Current assets	
Cash	\$ 232,444
Accounts receivable	80,333
Inventories	395
Employee receivable	7,305
Contributions receivable (Note 11)	12,601
Prepaid expenses	<u>3,008</u>
Total current assets	<u>336,086</u>
Contributions receivable (Note 11)	115,159
Other assets (Note 10)	7,000
Property and equipment	
Building and improvements	1,341,540
Furniture and equipment	<u>503,484</u>
Total property and equipment	1,845,024
Less accumulated depreciation	<u>(849,196)</u>
Net property and equipment	<u>995,828</u>
Total assets	<u><u>1,454,073</u></u>

Liabilities and Net Assets

Current liabilities	
Line of credit (Note 3)	12,936
Accounts payable	17,974
Room deposits and payroll liabilities	<u>29,378</u>
Total current liabilities	60,288
Line of credit (Note 3)	<u>18,344</u>
Total liabilities	<u>78,632</u>
Commitments and contingencies (Notes 4, 8, and 9)	
Net assets	
Unrestricted	1,166,030
Temporarily restricted (Note 5)	<u>209,411</u>
Total net assets	<u>1,375,441</u>
Total liabilities and net assets	<u><u>\$ 1,454,073</u></u>

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

Casa Esperanza, Inc.
Statement of Activities
For the Year Ended June 30, 2007

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and Revenue			
Patient room rentals	\$ 268,511	\$ -	\$ 268,511
Contributions	73,824	91,187	165,011
Support from Foundation	92,603	41,000	133,603
State contract	126,400	-	126,400
In-kind contributions	96,917	-	96,917
Amortization of in-kind land lease receivable (Note 9)	-	12,331	12,331
Other income	1,235	-	1,235
Loss on disposal of equipment	(1,253)	-	(1,253)
Interest income	1,526	-	1,526
Net assets released from restrictions (Note 6)	<u>100,314</u>	<u>(100,314)</u>	<u>-</u>
Total support and revenue	<u>760,077</u>	<u>44,204</u>	<u>804,281</u>
Expenses			
Program services			
Low-cost lodging for patients	416,393	-	416,393
Patient Navigation & Survivor Services	59,604	-	59,604
Total program services	<u>475,997</u>	<u>-</u>	<u>475,997</u>
Supporting services			
Management and general	148,135	-	148,135
Fundraising	25,379	-	25,379
Total supporting services	<u>173,514</u>	<u>-</u>	<u>173,514</u>
Total expenses	<u>649,511</u>	<u>-</u>	<u>649,511</u>
Change in net assets	110,566	44,204	154,770
Net assets, beginning of year	<u>1,055,464</u>	<u>165,207</u>	<u>1,220,671</u>
Net assets, end of year	<u>\$ 1,166,030</u>	<u>\$ 209,411</u>	<u>\$ 1,375,441</u>

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

Casa Esperanza, Inc.
Statement of Functional Expenses
For the Year Ended June 30, 2007

	Low-cost lodging for patients	Patient Navigation & Survivor Services	Management & general	Fundraising	Total
Salaries and wages	\$ 121,316	\$ 39,660	\$ 91,986	\$ 2,555	\$ 255,517
Employee benefits (Note 8)	28,412	8,785	21,256	590	59,043
Depreciation	50,553	130	2,815	2,816	56,314
Contract services	37,421	30	6,929	-	44,380
Office and general	25,732	4,684	6,108	1,341	37,865
Utilities	29,698	-	1,650	1,650	32,998
Residents' supplies	31,027	515	-	-	31,542
Repairs and maintenance	20,251	-	1,125	1,125	22,501
Payroll taxes	10,765	3,016	7,874	219	21,874
Land lease (Note 9)	18,900	-	1,050	1,050	21,000
Telephone	13,777	-	766	765	15,308
Insurance	12,998	-	1,280	-	14,278
Staff and donor recognition	5,601	352	-	842	6,795
Public relations/promotional	444	1,133	-	4,569	6,146
Printing	228	-	582	4,855	5,665
Travel and mileage	5,245	-	-	292	5,537
Other	-	1,299	1,022	2,493	4,814
Interest	3,908	-	217	217	4,342
Board and organizational	-	-	3,475	-	3,475
Cost of sales	117	-	-	-	117
Total functional expenses	<u>\$ 416,393</u>	<u>\$ 59,604</u>	<u>\$ 148,135</u>	<u>\$ 25,379</u>	<u>\$ 649,511</u>

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

Casa Esperanza, Inc.
Statement of Cash Flows
For the Year Ended June 30, 2007

Cash flows from operating activities

Cash received from room rentals	\$ 253,531
Cash received from contributions	161,882
Cash support from Foundation	101,741
Cash received from state contract	95,217
Other cash receipts	1,235
Interest received	1,526
Cash paid to employees and suppliers	(545,643)
Interest paid	<u>(4,342)</u>
Net cash provided by operating activities	<u>65,147</u>

Cash flows from investing activities

Purchases of property and equipment	<u>(5,540)</u>
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Cash flows from financing activities

Principal repayments of note payable and line of credit	<u>(18,632)</u>
Increase in cash	40,975
Cash, beginning of year	<u>191,469</u>
Cash, end of year	<u><u>\$ 232,444</u></u>

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

Casa Esperanza, Inc.
Statement of Cash Flows — continued
For the Year Ended June 30, 2007

**Reconciliation of change in net assets to
net cash provided by operating activities**

Change in net assets	<u>\$ 154,770</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	56,314
Loss on disposal of equipment	1,253
Noncash contributions and support	(141,110)
Noncash expenses	36,173
Changes in assets and liabilities	
Accounts and employee receivable	(53,468)
Inventories and prepaid expenses	(414)
Contributions receivable	(3,129)
Accounts payable	10,742
Room deposits and payroll liabilities	<u>4,016</u>
Total adjustments	<u>(89,623)</u>
Net cash provided by operating activities	<u><u>\$ 65,147</u></u>

Noncash Investing and Financing Activities

The following noncash investing and financing activities occurred during the year ended June 30, 2007:

Contributed furniture and equipment	\$ 77,294
Contributed vouchers for the purchase of computers and software	7,000
Principal payment of note payable by the Foundation	29,312

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

Casa Esperanza, Inc.
Notes to Financial Statements
June 30, 2007

1) Organization

Casa Esperanza, Inc., (the "Organization") is a New Mexico nonprofit corporation established in 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. In November 2006, the Organization launched a new program, Patient Navigation and Survivor Services. This program assists cancer patients in navigating through the health care system to avoid health care, financial, physical, informational, and social barriers. The Organization's main sources of revenue and support are the room rentals, contract with the State of New Mexico, contributions, and support from a related nonprofit organization, Casa Esperanza Endowment Foundation, Inc., (the Foundation).

2) Summary of Significant Accounting Policies

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.

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 Organization reports the expiration of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies 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.

Use of Estimates

The preparation of financial statements in conformity with the U.S. generally accepted accounting principles 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, 2007

2) Summary of Significant Accounting Policies — continued

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 activities as net assets released from restriction.

Cash Equivalents

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

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.

Donated Services and Materials

The Organization recognizes contributed services if the services create or enhance non-financial assets, or require specialized skills, are provided by individuals possessing those skills, and would need to be purchased if not provided by donation. Recognized contributed services and materials are recorded at the fair value on the date of donation. During the year ended June 30, 2007, the Organization received \$77,294 in donated furniture and equipment, \$15,173 in resident supplies, and \$7,000 of vouchers for the purchases of computers and software.

Accounts Receivable

Accounts receivable are stated at unpaid balances, less an allowance for doubtful accounts. Management estimates the adequacy of the allowance for uncollectible receivables based on historical collections, specific impaired receivables, and other situations that may affect the collection of the receivables. Receivables are charged off in the period in which the management determines the receivable is uncollectible. Management estimates all receivables to be fully collectible; therefore, no provision for an allowance for uncollectible receivables has been recorded.

Inventories

Inventories consist of residents' supplies and are valued using lower of cost or market with cost determined by specific identification.

Casa Esperanza, Inc.
Notes to Financial Statements
June 30, 2007

3) Line of Credit

The Organization has a \$75,000 line of credit. Interest rate is prime rate plus 1%. The interest rate at June 30, 2007, was 9.25%. The Organization is required to pay monthly principal payments of \$1,078 plus monthly interest payments with a final payment due July 2010. The line of credit is collateralized by bank accounts of the Organization held at the issuing bank. Based on the outstanding balance of the line of credit as of June 30, 2007, future principal payments are as follows:

<u>Year ending June 30</u>	
2008	\$ 12,936
2009	12,936
2010	<u>5,408</u>
Totals	<u>\$ 31,280</u>

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, 2007, 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, 2007:

In-kind contribution receivable – land lease	\$ 124,631
Residents’ services and assistance	41,955
Patient Navigation and Survivor Services	37,825
Clinical services	<u>5,000</u>
Total temporarily restricted net assets	<u>\$ 209,411</u>

Casa Esperanza, Inc.
Notes to Financial Statements
June 30, 2007

6) Net Assets Released from Restrictions

Net assets released from restrictions consist of the following for the year ended June 30, 2007:

Patient Navigation and Survivor Services	\$ 59,342
In-kind land lease	21,000
Residents' services and assistance	12,472
Purchase of carpet	5,000
Clinical services	<u>2,500</u>
Total net assets released from restrictions	<u>\$ 100,314</u>

7) Concentrations

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

The in-kind contribution receivable for the land lease (Note 11) represents 98% of total contributions receivable as of June 30, 2007.

8) 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 year ended June 30, 2007, was \$59,043.

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.

Casa Esperanza, Inc.
Notes to Financial Statements
June 30, 2007

9) 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. In-kind lease expense was \$21,000 for the year ended June 30, 2007.

The future minimum rental commitments as of June 30, 2007, under the land lease are as follows:

<u>Year ending June 30</u>	<u>Cash</u>	<u>In-Kind</u>
2008	\$ 1	\$ 21,000
2009	1	21,000
2010	1	21,000
2011	1	21,000
2012	1	21,000
Thereafter	<u>4</u>	<u>84,000</u>
	<u>\$ 9</u>	<u>\$ 189,000</u>

The Organization also leases office equipment under a 60-month operating lease expiring in March 2012. The lease requires monthly payments of \$631. Lease expense relates to this lease was \$1,893 for the year ended June 30, 2007. Future minimum lease payments related to this lease are as follows:

<u>Year ending June 30</u>	
2008	\$ 7,572
2009	7,572
2010	7,572
2011	7,572
2012	<u>5,679</u>
Total	<u>\$ 35,967</u>

10) Other Assets

Other assets consist of donated vouchers from the Attorney General of New Mexico which can be used to purchase computers, software, and related equipment and services. These vouchers must be redeemed by December 31, 2009.

Casa Esperanza, Inc.
Notes to Financial Statements
June 30, 2007

11) Contributions Receivable

Contributions receivable consist of the following as of June 30, 2007:

Receivable in less than one year	\$ 24,129
Receivable in one to five years	84,000
Receivable in more than five years	<u>84,000</u>
Total contributions receivable	192,129
Less unamortized discounts	<u>(64,369)</u>
Net contributions receivable	<u>\$ 127,760</u>

A discount rate of 9.25% was used to determine the net present value of the long-term contribution receivable.