

**Casa Esperanza, Inc., and  
Casa Esperanza Endowment  
Foundation, Inc.**

Consolidated Financial Statements  
and  
Independent Auditors' Report

June 30, 2007

# Casa Esperanza, Inc., and Casa Esperanza Endowment Foundation, Inc.

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## Independent Auditors' Report

Board of Directors  
Casa Esperanza, Inc., and Casa Esperanza  
Endowment Foundation, Inc.  
Albuquerque, New Mexico

We have audited the accompanying consolidated statement of financial position of Casa Esperanza, Inc., and Casa Esperanza Endowment Foundation, Inc., (the "organizations") as of June 30, 2007, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the organizations' management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Casa Esperanza, Inc., and Casa Esperanza Endowment Foundation, Inc., as of June 30, 2007, and the changes in their 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., and Casa Esperanza  
Endowment Foundation, Inc.**  
**Consolidated Statement of Financial Position**  
**June 30, 2007**

**Assets**

Current assets

Cash and cash equivalents	\$ 509,398
Accounts receivable	81,531
Accrued investment income	6,307
Inventories (Note 14)	40,395
Employee receivable	7,305
Contributions receivable (Note 13)	12,601
Prepaid expenses	<u>4,008</u>
Total current assets	<u>661,545</u>

Investments, at fair value (Note 3)	1,519,222
Contributions receivable (Note 13)	115,159
Other assets (Note 12)	7,000

Property and equipment

Land	9,675
Building and improvements	1,341,540
Furniture and equipment	<u>505,793</u>
Total property and equipment	1,857,008
Less accumulated depreciation	<u>(849,410)</u>
Net property and equipment	<u>1,007,598</u>

Total assets	<u><u>3,310,524</u></u>
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**Liabilities and Net Assets**

Current liabilities

Line of credit (Note 4)	12,936
Accounts payable	27,396
Room deposits and payroll liabilities	<u>42,204</u>
Total current liabilities	82,536

Line of credit (Note 4)	<u>18,344</u>
Total liabilities	<u>100,880</u>

Commitments and contingencies (Notes 6, 10, and 11)

Net assets

Unrestricted	
Undesignated	1,207,030
Board designated (Note 5)	<u>1,834,203</u>
Total unrestricted	3,041,233
Temporarily restricted (Note 7)	<u>168,411</u>
Total net assets	<u>3,209,644</u>
Total liabilities and net assets	<u><u>\$ 3,310,524</u></u>

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

**Casa Esperanza, Inc., and Casa Esperanza  
Endowment Foundation, Inc.  
Consolidated Statement of Activities  
For the Year Ended June 30, 2007**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>Support and Revenue</b>			
"Give Hope a Ride" vehicle donation program			
Vehicle donations	\$ 589,335	\$ -	\$ 589,335
Vehicle sales	585,018	-	585,018
Less: cost of sales	<u>(696,080)</u>	<u>-</u>	<u>(696,080)</u>
Gross profit vehicle donation program	<u>478,273</u>	<u>-</u>	<u>478,273</u>
Patient room rentals	268,511	-	268,511
Contributions	74,294	91,187	165,481
State contract	126,400	-	126,400
In-kind contributions	96,917	-	96,917
Special events, net of \$83,628 of related expenses	55,659	15,225	70,884
Amortization of in-kind land lease receivable (Note 11)	-	12,331	12,331
Other income	1,235	-	1,235
Loss on disposal of equipment	(1,253)	-	(1,253)
Investment income (Note 3)	219,260	-	219,260
Net assets released from restrictions (Note 8)	<u>115,539</u>	<u>(115,539)</u>	<u>-</u>
Total support and revenue	<u>1,434,835</u>	<u>3,204</u>	<u>1,438,039</u>
<b>Expenses</b>			
Program services			
Low-cost lodging for patients	416,393	-	416,393
Patient Navigation & Survivor Services	<u>59,604</u>	<u>-</u>	<u>59,604</u>
Total program services	<u>475,997</u>	<u>-</u>	<u>475,997</u>
Supporting services			
Fundraising			
"Give Hope a Ride" vehicle donation program	124,197	-	124,197
Other fundraising	<u>117,597</u>	<u>-</u>	<u>117,597</u>
Total fundraising	241,794	-	241,794
Management and general	<u>236,625</u>	<u>-</u>	<u>236,625</u>
Total supporting services	<u>478,419</u>	<u>-</u>	<u>478,419</u>
Total expenses	<u>954,416</u>	<u>-</u>	<u>954,416</u>
Change in net assets	480,419	3,204	483,623
Net assets, beginning of year	<u>2,560,814</u>	<u>165,207</u>	<u>2,726,021</u>
Net assets, end of year	<u>\$ 3,041,233</u>	<u>\$ 168,411</u>	<u>\$ 3,209,644</u>

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

**Casa Esperanza, Inc., and Casa Esperanza  
Endowment Foundation, Inc.  
Consolidated Statement of Functional Expenses  
For the Year Ended June 30, 2007**

	Program services	
	Low-cost lodging for patients	Patient Navigation & Survivor Services
Cost of sales		
Vehicle donations	\$ -	\$ -
Towing	-	-
Vehicle and title processing	-	-
Total cost of sales	<u>-</u>	<u>-</u>
Salaries and wages	121,316	39,660
Employee benefits (Note 10)	28,412	8,785
Special events	-	-
Advertising	-	-
Contract services	37,421	30
Depreciation	50,553	130
Office and general	25,732	4,684
Payroll taxes	10,765	3,016
Utilities	29,698	-
Residents' supplies	31,027	515
Repairs and maintenance	20,251	-
Land lease (Note 11)	18,900	-
Telephone	13,777	-
Investment fees	-	-
Printing	228	-
Insurance	12,998	-
Travel and mileage	5,245	-
Rent	-	-
Other	117	1,299
Staff and donor recognition	5,601	352
Public relations/promotional	444	1,133
Board and organizational	-	-
Interest	<u>3,908</u>	<u>-</u>
Total expenses	416,393	59,604
Less expenses netted with revenues	<u>-</u>	<u>-</u>
Total functional expenses	<u>\$ 416,393</u>	<u>\$ 59,604</u>

Fundraising			
"Give Hope a Ride" vehicle donation program	Other fundraising	Management & general	Total
\$ 565,135	\$ -	\$ -	\$ 565,135
89,815	-	-	89,815
41,130	-	-	41,130
<u>696,080</u>	<u>-</u>	<u>-</u>	<u>696,080</u>
21,676	62,454	132,165	377,271
163	18,035	29,929	85,324
-	83,628	-	83,628
70,201	-	-	70,201
10,892	-	14,394	62,737
214	2,816	2,815	56,528
4,539	5,015	10,335	50,305
2,046	5,761	11,611	33,199
-	1,650	1,650	32,998
-	-	-	31,542
-	1,125	1,125	22,501
-	1,050	1,050	21,000
-	765	1,174	15,716
-	-	15,701	15,701
4,460	9,549	1,363	15,600
-	-	1,280	14,278
195	586	3,507	9,533
9,000	-	-	9,000
582	2,493	3,774	8,265
229	1,089	-	7,271
-	4,992	-	6,569
-	-	4,535	4,535
<u>-</u>	<u>217</u>	<u>217</u>	<u>4,342</u>
820,277	201,225	236,625	1,734,124
<u>(696,080)</u>	<u>(83,628)</u>	<u>-</u>	<u>(779,708)</u>
<u>\$ 124,197</u>	<u>\$ 117,597</u>	<u>\$ 236,625</u>	<u>\$ 954,416</u>

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

**Casa Esperanza, Inc., and Casa Esperanza  
Endowment Foundation, Inc.  
Consolidated Statement of Cash Flows  
For the Year Ended June 30, 2007**

**Cash flows from operating activities**

Cash received from vehicle sales	\$ 585,018
Cash received from contributions and special events	264,338
Cash received from room rentals	253,531
Cash received from state contract	95,217
Other cash receipts	1,235
Interest and dividends received	43,891
Cash paid to employees and suppliers	(1,001,547)
Interest paid	<u>(4,342)</u>
Net cash provided by operating activities	<u>237,341</u>

**Cash flows from investing activities**

Purchases of investments	(832,966)
Proceeds from sales/maturities of investments	846,606
Purchases of property and equipment	<u>(7,850)</u>
Net cash provided by investing activities	<u>5,790</u>

**Cash flows from financing activities**

Principal repayments of note payable and line of credit	<u>(47,944)</u>
Increase in cash and cash equivalents	195,187
Cash and cash equivalents, beginning of year	<u>314,211</u>
<b>Cash and cash equivalents, end of year</b>	<b><u>\$ 509,398</u></b>

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

**Casa Esperanza, Inc., and Casa Esperanza  
Endowment Foundation, Inc.**

**Consolidated 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>\$ 483,623</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	56,528
Net unrealized gains on investments	(121,512)
Net realized gains on investments and disposals of equipment	(48,831)
Noncash contributions	(754,558)
Noncash expenses	657,283
Changes in assets and liabilities	
Accounts and employee receivable	(50,019)
Inventories and prepaid expenses	(1,414)
Contributions receivable	(3,129)
Accrued investment income	(3,773)
Accounts payable	18,253
Room deposits and payroll liabilities	<u>4,890</u>
Total adjustments	<u>(246,282)</u>
Net cash provided by operating activities	<u>\$ 237,341</u>

**Noncash Investing Activities**

During the year ended June 30, 2007, the organizations received \$77,294 of contributed furniture and equipment and \$7,000 of contributed vouchers for the purchase of computers and software.

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

# **Casa Esperanza, Inc., and Casa Esperanza Endowment Foundation, Inc.**

## **Notes to Consolidated Financial Statements**

**June 30, 2007**

### **1) Organizations**

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. Casa Esperanza Endowment Foundation, Inc., (the "Foundation") was established in 2001. The Foundation provides for the future financial needs and support of the Organization. The organizations' main sources of revenue and support are the "Give Hope a Ride" vehicle donation program, room rentals, contract with the State of New Mexico, contributions, and special events.

### **2) Summary of Significant Accounting Policies**

#### Basis of Consolidation

The accompanying consolidated financial statements present the consolidated financial position and changes in net assets and cash flows of the organizations. All significant intercompany accounts and transactions have been eliminated.

#### Income Taxes

The Organization and the Foundation are exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code, and have been classified by the Internal Revenue Service as organizations that are not private foundations.

#### 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.

**Casa Esperanza, Inc., and Casa Esperanza  
Endowment Foundation, Inc.**

**Notes to Consolidated Financial Statements**

**June 30, 2007**

2) Summary of Significant Accounting Policies — continued

Support

The Organization and the Foundation report 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 organizations consider all highly-liquid investments with a maturity of three months or less to be cash equivalents.

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.

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 organizations recognize 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 organizations received \$589,335 of donated vehicles for the "Give Hope a Ride" vehicle donation program, \$77,294 in donated furniture and equipment, \$52,974 in goods and services for special events, \$15,173 in resident supplies, and \$7,000 of vouchers for the purchases of computers and software.

**Casa Esperanza, Inc., and Casa Esperanza  
Endowment Foundation, Inc.**

**Notes to Consolidated Financial Statements  
June 30, 2007**

2) Summary of Significant Accounting Policies — continued

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 donated vehicles and residents' supplies. Inventories are valued using lower of cost or market with cost for donated vehicles determined using estimated fair market value of the vehicle on the date of donation and cost for residents' supplies determined by specific identification.

Advertising

Advertising costs are expensed as incurred.

3) **Investments**

The cost, fair value, and unrealized appreciation (depreciation) of investments as of June 30, 2007, are as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
Common stocks	\$ 869,779	\$ 1,066,939	\$ 197,160
U.S. government and corporate obligations	370,054	363,393	(6,661)
Mutual funds	<u>91,175</u>	<u>88,890</u>	<u>(2,285)</u>
Total investments	<u>\$ 1,331,008</u>	<u>\$ 1,519,222</u>	<u>\$ 188,214</u>

Investment income from cash, cash equivalents, and investments is as follows for the year ended June 30, 2007:

Net realized and unrealized gains	\$ 171,596
Interest and dividends	<u>47,664</u>
Total investment income	<u>\$ 219,260</u>

**Casa Esperanza, Inc., and Casa Esperanza  
Endowment Foundation, Inc.**  
Notes to Consolidated Financial Statements  
June 30, 2007

**4) 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>

**5) Board Designated Net Assets**

Board designated net assets consist of the net assets of the Foundation which are designated to subsidize the future financial needs of the Organization.

**6) 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.

**7) 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	23,955
Patient Navigation and Survivor Services	<u>19,825</u>
Total temporarily restricted net assets	<u>\$ 168,411</u>

**Casa Esperanza, Inc., and Casa Esperanza  
Endowment Foundation, Inc.**

**Notes to Consolidated Financial Statements**

**June 30, 2007**

**8) 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
Special events		15,225
Residents' services and assistance		12,472
Purchase of carpet		5,000
Clinical services		<u>2,500</u>
Total net assets released from restrictions	\$	<u>115,539</u>

**9) Concentrations**

The organizations maintain their cash balances in a financial institution. The balances exceed the insured limits of the Federal Deposit Insurance Corporation. The organizations have not experienced any losses in these accounts and believe they are 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.

**10) Flexible Spending Plan and Benefit Allowance**

The organizations have 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 organizations also provide 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 \$85,139.

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., and Casa Esperanza  
Endowment Foundation, Inc.**  
Notes to Consolidated Financial Statements  
June 30, 2007

**11) 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 lease commitments 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>

**12) 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., and Casa Esperanza  
Endowment Foundation, Inc.**  
Notes to Consolidated Financial Statements  
June 30, 2007

**13) 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.

**14) Inventories**

Inventories consist of the following as of June 30, 2007:

Donated vehicles – “Give Hope a Ride” vehicle donation program	\$ 40,000
Residents’ supplies	<u>395</u>
Total inventories	<u>\$ 40,395</u>