

Hesperian Health Guides

Financial Statements

Year ended June 30, 2014

with

Report of Independent Auditors

Report of Independent Auditors

CERTIFIED PUBLIC
ACCOUNTANTS

DONALD WILSON
ALAN MARKLE
CHARLES STUCKEY
DAVID HARDESTY
DAVID BOTT
DAVID BAILEY
MICHAEL SMITH

To the Board of Directors
of Hesperian Health Guides

We have audited the accompanying financial statements of Hesperian Health Guides (Hesperian) which comprise the statement of financial position as of June 30, 2014, 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; 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. 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 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 Hesperian as of June 30, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States.

Report on Summarized Comparative Information

We have previously audited the financial statements of Hesperian as of and for the year ended June 30, 2013 and, in our report dated September 13, 2013, we expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which the management of Hesperian derived it.


Wilson Markle Stuckey Hardesty & Bott, LLP
Larkspur, CA
September 23, 2014

Hesperian Health Guides
Statement of Financial Position
June 30, 2014

	<u>2014</u>	<u>2013</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 463,700	\$ 411,452
Accounts receivable	33,975	44,122
Grants receivable	240,249	281,397
Other receivable	14,137	2,880
Inventory	<u>221,637</u>	<u>254,599</u>
Total current assets	973,698	994,450
Property and equipment, net	2,214	4,667
Deposit and prepaid expenses	<u>44,333</u>	<u>17,993</u>
Total assets	<u>\$ 1,020,245</u>	<u>\$ 1,017,110</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 15,420	\$ 9,000
Grants payable	45,285	28,125
Accrued liabilities	<u>103,797</u>	<u>92,086</u>
Total current liabilities	164,502	129,211
Deferred rent	8,937	-
Net assets		
Unrestricted	269,524	340,140
Temporarily restricted	<u>577,282</u>	<u>547,759</u>
Total net assets	<u>846,806</u>	<u>887,899</u>
Total liabilities and net assets	<u>\$ 1,020,245</u>	<u>\$ 1,017,110</u>

See accompanying notes.

Hesperian Health Guides
Statement of Activities and Changes in Net Assets
Year ended June 30, 2014

	Unrestricted	Temporarily Restricted	Total	2013 Totals
Support and revenue				
Contributions - Foundations	\$ 183,107	\$ 961,270	\$ 1,144,377	\$ 812,809
Contributions - Individuals	261,809	75,120	336,929	289,691
Contributions - Corporations	1,895	-	1,895	-
Publication revenue	254,647	-	254,647	389,256
Digital sales	15,674	-	15,674	4,666
Planned giving	-	-	-	56,426
Interest and other income	31,893	-	31,893	17,348
Net assets released from restrictions	1,006,867	(1,006,867)	-	-
Total support and revenue	1,755,892	29,523	1,785,415	1,570,196
Expenses				
Program services:				
Book development	555,544	-	555,544	642,344
Digital platform	353,475	-	353,475	147,663
Health outreach	312,379	-	312,379	270,455
Fulfillment	204,061	-	204,061	223,325
Total program services	1,425,459	-	1,425,459	1,283,787
Supporting services:				
Management and general	136,161	-	136,161	118,978
Fundraising	264,888	-	264,888	317,468
Total supporting services	401,049	-	401,049	436,446
Total expenses	1,826,508	-	1,826,508	1,720,233
Change in net assets	(70,616)	29,523	(41,093)	(150,037)
Net assets, beginning of year	340,140	547,759	887,899	1,037,936
Net assets, end of year	<u>\$ 269,524</u>	<u>\$ 577,282</u>	<u>\$ 846,806</u>	<u>\$ 887,899</u>

See accompanying notes.

Hesperian Health Guides
Statement of Functional Expenses
Year ended June 30, 2014

	Program Services					Supporting Services			Totals	2013 Totals
	Book Development	Digital Platform	Health Outreach	Fulfillment	Totals	Management and General	Fundraising	Totals		
Salaries	\$ 374,631	\$ 186,923	\$ 154,962	\$ 89,435	\$ 805,951	\$ 86,388	\$ 175,028	\$ 261,416	\$ 1,067,367	\$ 1,021,657
Payroll taxes	33,264	16,596	13,758	7,941	71,559	7,670	15,540	23,210	94,769	105,045
Benefits	50,544	25,220	20,907	12,066	108,737	11,656	23,614	35,270	144,007	115,863
Total personnel	458,439	228,739	189,627	109,442	986,247	105,714	214,182	319,896	1,306,143	1,242,565
Advertising	1,288	819	722	467	3,296	316	613	929	4,225	790
Complimentary copies	1,215	639	23,156	-	25,010	253	1,127	1,380	26,390	19,465
Content management system	-	1,800	-	-	1,800	-	-	-	1,800	8,713
Cost of goods sold	-	-	-	45,503	45,503	-	-	-	45,503	71,716
Field testing	2,089	-	-	-	2,089	-	-	-	2,089	7,589
Financial fees, licenses and royalties	3,762	2,492	2,106	8,935	17,295	2,056	3,799	5,855	23,150	22,700
Grants to partners	-	56,500	25,000	-	81,500	-	-	-	81,500	-
Gratis shipping	-	-	11,255	-	11,255	-	-	-	11,255	9,114
Memberships and publications	1,340	456	2,120	99	4,015	272	172	444	4,459	2,144
Miscellaneous and small purchases	1,803	1,055	819	591	4,268	434	1,254	1,688	5,956	5,791
Occupancy	45,368	19,942	21,024	11,521	97,855	8,720	18,542	27,262	125,117	133,998
Office supplies and communication fees	6,611	4,214	5,908	4,421	21,154	2,142	4,523	6,665	27,819	30,199
Postage and shipping	611	13	4,355	21,470	26,449	302	8,651	8,953	35,402	36,998
Printing and copying	1,359	1,006	3,205	466	6,036	486	5,369	5,855	11,891	14,638
Professional services	26,591	29,785	4,216	300	60,892	9,584	1,166	10,750	71,642	73,378
Travel, events and training	2,731	5,114	17,920	193	25,958	5,389	4,361	9,750	35,708	29,514
Insurance	1,429	680	554	334	2,997	321	688	1,009	4,006	3,696
Depreciation	908	221	392	319	1,840	172	441	613	2,453	7,225
Total expenses	\$ 555,544	\$ 353,475	\$ 312,379	\$ 204,061	\$ 1,425,459	\$ 136,161	\$ 264,888	\$ 401,049	\$ 1,826,508	\$ 1,720,233

See accompanying notes.

Hesperian Health Guides
Statement of Cash Flows
Year ended June 30, 2014

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities		
Change in net assets	\$ (41,093)	\$ (150,037)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	2,453	7,225
Changes in certain assets and liabilities		
Accounts receivable	10,147	4,987
Grants receivable	41,148	104,934
Other receivable	(11,257)	(2,880)
Inventory	32,962	(42,752)
Deposit and prepaid expenses	(26,340)	(6,011)
Accounts payable	6,420	(20,135)
Grants payable	17,160	(1,075)
Accrued liabilities	11,711	(36,871)
Deferred rent	8,937	-
	<hr/>	<hr/>
Cash provided (used) by operating activities	52,248	(142,615)
Cash flows from investing activities		
Purchases of property and equipment	-	(157)
	<hr/>	<hr/>
Cash provided (used) in investing activities	-	(157)
	<hr/>	<hr/>
Change in cash and cash equivalents	52,248	(142,772)
Cash and cash equivalents, beginning of year	411,452	554,224
	<hr/>	<hr/>
Cash and cash equivalents, end of year	<u>\$ 463,700</u>	<u>\$ 411,452</u>

See accompanying notes.

Hesperian Health Guides
Notes to Financial Statements
June 30, 2014

Note 1 – Organization and Nature of Activities

For nearly 40 years Hesperian Health Guides has helped people take greater control over their health and lives. The organization develops and produces community health manuals and educational materials that enable people with little formal education to recognize, treat and prevent most common illnesses and to work together to change social conditions that undermine health.

Millions of people from 221 countries and territories rely on Hesperian health resources to help them take action for health. They include community health workers, teachers, health promoters, humanitarian and aid workers, Peace Corps volunteers, staff of international NGOs, and staff at country-level ministries of health. As part of its “open copyright” policy, Hesperian encourages other organizations and individuals to reproduce, translate and adapt its publications for distribution on a not-for-profit basis. Hesperian guides are available in over 80 languages. Hesperian develops publications in collaboration with health workers and grassroots organizations from around the world. These partners participate in all phases of publication development including defining the scope and content, contributing to, and reviewing and field-testing of draft materials.

Hesperian’s Gratis Book Fund, which distributes free books to health workers, educators, and community leaders around the world who cannot afford them even at a deeply discounted price, distributed 2,084 free books and pamphlets this year, while Hesperian’s website supported free access to digital versions of its publications. Over 1.3 million unique visitors accessed Hesperian’s online health information during this fiscal year.

In this fiscal year, Hesperian released 10 full publications in the HealthWiki, a lightweight online platform that is easily accessible worldwide, even in locations with low bandwidth and intermittent connectivity. These titles include: *Where There Is No Dentist*, *Helping Children Who Are Deaf* (English, Spanish, Vietnamese, and Chinese); *Helping Children Who Are Blind* (English, Spanish); *A Book for Midwives* (English, Spanish); *A Health Handbook for Women with Disabilities* (Spanish). In addition, several new chapters from the *New Where There Is No Doctor* were released in English, Spanish, Portuguese, French, and Swahili. An updated reprint of *A Book for Midwives* was also published during this time. In addition, Hesperian released 10 titles in 7 languages as “print on demand” copies, including *Where Women Have No Doctor* in Burmese, Lao, and Nepalese, among others. Significant

Hesperian Health Guides
Notes to Financial Statements
June 30, 2014

Note 1 – Organization and Nature of Activities (continued)

progress was made on publications-in-development, including the *New Where There Is No Doctor*, *A Worker's Guide to Health and Safety*, *Helping Children Live with HIV*, and *Health Actions for Women*. Hesperian field-tested the *New Where There Is No Doctor* First Aid module in Spanish in Latin America, and multiple chapters of *Helping Children Live with HIV* with grassroots organizations and communities throughout Southern and Eastern Africa.

By the end of the fiscal year, 3 new translations were completed and released including *A Book for Midwives* in Nepalese, and *A Health Handbook for Women with Disabilities* in Armenian and in Braille. An additional 4 translation projects were initiated for *Disabled Village Children* in Vietnamese, *Helping Children Who Are Blind* in Braille, and *Where There Is No Doctor* in Hiligaynon (Philippines) and Bisaya (Malaysia).

Note 2 – Summary of Significant Accounting Policies

Basis of accounting

Hesperian prepares its financial statements using the accrual basis of accounting. Hesperian records revenues when earned and expenses when incurring the related obligations.

Basis of presentation

Hesperian presents 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. The three classes are differentiated by donor restrictions.

Unrestricted net assets – consist of resources which have not been specifically restricted by a donor. Unrestricted net assets may be designated for specific purpose by Hesperian or may be limited by contractual agreements with outside parties.

Hesperian Health Guides
Notes to Financial Statements
June 30, 2014

Note 2 – Summary of Significant Accounting Policies (continued)

Temporarily restricted net assets – represent contributions whose use is limited by donor-imposed stipulations that expire by the passage of time or can be fulfilled and removed by actions of Hesperian pursuant to those stipulations. Temporarily restricted net assets can also include accumulated appreciation of permanently restricted endowment funds that have not been appropriated by the Board in accordance with the California Uniform Prudent Management of Institutional Funds Act of 2008 (UPMIFA).

Permanently restricted net assets – represent contributions whose use is limited by donor-imposed stipulations that require the gift to be invested in perpetuity. The income from such invested assets, including realized and unrealized gains, is generally available to support the activities of the organization. Donors may also restrict all or part of the income and/or appreciation from these investments to permanently restricted net assets, resulting in increases/decreases to these net assets. Through the year ended June 30, 2014, Hesperian had not received permanently restricted net assets.

Contributions

Hesperian receives grants primarily to support the development, production and distribution of its educational materials. Contributions, including unconditional promises to give, are recognized as revenues in the period the promise is received. Conditional promises to give are not recognized until they become unconditional; that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the date of contribution.

Unrestricted contributions and grants are recorded as unrestricted revenue when received. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

All donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restriction.

When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and net assets released from restrictions.

Hesperian Health Guides
Notes to Financial Statements
June 30, 2014

Note 2 – Summary of Significant Accounting Policies (continued)

Contributed goods and services

This year Hesperian's effectiveness was tremendously enhanced by the work of 171 volunteers who contributed approximately 9,325 volunteer hours, working around the world in capacities such as researchers and reviewers, book packers, field testers, translators, website coders, and data analysts.

Donated labor is not recognized as contribution revenue in the financial statements unless the labor is ordinarily purchased and of a specialized nature. Hesperian makes significant use of volunteers with a wide range of skills; however, these services did not meet the criteria for valuation and recordation during the year ended June 30, 2014.

Publication revenue

Hesperian sources of revenue include publication sales, which Hesperian recognizes upon shipment to the customer.

Fair value measurements

Management of Hesperian estimates that the aggregate net fair value of financial instruments recognized (including receivables, payables and accrued liabilities) approximates their carrying value, as such financial instruments are short-term in nature or bear interest at current market rates.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and on deposit with various commercial banks, available on demand.

Grants receivable

Grants receivable consist of grants and pledges due from donors. Hesperian records multi-year pledges and pledges originally due in over one year at their present value when pledged.

Hesperian Health Guides
Notes to Financial Statements
June 30, 2014

Note 2 – Summary of Significant Accounting Policies (continued)

Allowance for uncollectible accounts receivable

Hesperian uses the allowance method to account for uncollectible accounts receivable. Under this method, Hesperian reviews all receivables for any problems with collectability. If Hesperian feels that there may be a problem with collections, an allowance is provided for the receivable. When attempts to collect a specific receivable are unsuccessful, the account is considered uncollectible and is written off against the allowance. As of June 30, 2014, Hesperian concluded that an allowance for doubtful accounts was not material to the financial position of Hesperian.

Inventory

Inventory consists of printed materials available for sale at the lower of cost (first-in, first-out basis) or market value. Cost is determined by the manufacturers' printing and binding unit price. Other costs to research, write, edit and field test books are charged to expense as incurred.

Property and equipment

Property and equipment consist of furniture, equipment and computer software. Hesperian capitalizes purchased and donated property and equipment at cost and fair value, respectively, when such cost or fair value exceeds \$2,000. Maintenance and repair costs are expensed as incurred. Hesperian depreciates property and equipment using the straight-line method over the estimated useful lives of the property and equipment. The estimated useful lives of furniture, equipment and computer software range from five to seven years.

Allocation of functional expenses

Functional expenses of Hesperian include program and supporting expenses. Supporting expenses include management and general and fundraising. Hesperian records expenses that directly benefit an activity to that specific activity. Hesperian allocates expenses that do not directly benefit an activity between program and supporting based on estimates of the relative benefits to each. Hesperian bases its estimates on either time spent by personnel on various activities or space used by various activities, whichever Hesperian deems more relevant to the particular expense. The management of Hesperian reviews and adjusts the estimates and bases at least annually.

Hesperian Health Guides
Notes to Financial Statements
June 30, 2014

Note 2 – Summary of Significant Accounting Policies (continued)

Income taxes

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Interpretation Number 48 (FIN 48), "Accounting for Uncertainty in Income Taxes", an interpretation of (FASB) Accounting Standards Codification (ASC) 740. Under FIN 48, Hesperian is required to report information regarding its exposure to various tax positions taken by Hesperian and requires a two-step process that separates recognition from measurement. The first step is determining whether a tax position has met the recognition threshold; the second step is measuring a tax position that meets the recognition threshold. Management believes that Hesperian has adequately addressed all tax positions and that there are no unrecorded tax liabilities. Tax years 2010 to 2013 are open for examination by the Internal Revenue Service and years 2009 to 2013 by the California Franchise Tax Board. Governmental authorities informed Hesperian that it is exempt from income taxes under section 501(c) (3) of the Internal Revenue Code (IRC) and section 23701d of the California Revenue and Taxation Code.

Additionally, governmental authorities classified Hesperian as an organization that is not a private foundation under IRC section 509(a) (1) and 170(b) (1) (A) (vi). Consequently, donors are entitled to the highest charitable income tax deduction allowed by law. The management of Hesperian believes that no activities of Hesperian jeopardized its exemption from income taxes or its classification as a "public charity." Consequently, Hesperian provided no income tax provision herein.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires the management of Hesperian to make estimates and assumptions that affect certain amounts and disclosures reported herein. Although Hesperian bases estimates on its knowledge of current events and plans for the future, actual results may vary from estimates.

Advertising costs

Hesperian expenses costs incurred for producing and communicating advertising when incurred. Advertising costs for the year ended June 30, 2014 were not significant.

Hesperian Health Guides
Notes to Financial Statements
June 30, 2014

Note 2 – Summary of Significant Accounting Policies (continued)

Subsequent events

Hesperian evaluated subsequent events for recognition and disclosure through September 23, 2014, the date on which these financial statements were available to be issued. Management concluded that no material subsequent events have occurred since June 30, 2014 that required recognition or disclosure in such financial statements.

Note 3 – Grants receivable

Grants receivable as of June 30, 2014, total as follows:

Conrad N. Hilton Foundation	\$ 110,000
May and Stanley Smith Charitable Trust	50,000
Sydney Stern Memorial Trust	10,000
United Methodist Women	15,000
California Communications Access Foundation	6,827
Johns Hopkins University Bloomberg School of Public Health Center for Communications Programs	38,422
Lawson Valentine Foundation	5,000
AHS Foundation	5,000
Total grants receivable	<u>\$ 240,249</u>

Note 4 – Property and equipment

Property and equipment as of June 30, 2014, total as follows:

Furniture and equipment	\$ 59,168
Computer software	<u>43,139</u>
Property and equipment, at cost	102,307
Accumulated depreciation	<u>(100,093)</u>
Property and equipment, net	<u>\$ 2,214</u>

Hesperian Health Guides
Notes to Financial Statements
June 30, 2014

Note 5 – Temporarily restricted net assets

As of and during the year ended June 30, 2014, temporarily restricted net assets reconciled as follows:

Program	Beginning	Additions	Releases	Ending
New Where There is No Doctor	\$ 144,689	\$ 37,482	\$ 121,386	\$ 60,785
Health Actions for Women	41,585	127,685	150,013	19,257
Helping Children Live with HIV	194,584	126,882	167,859	153,607
A Worker's Guide to Health and Safety	70,042	55,833	104,212	21,663
Gratis Book Fund	7,070	28,523	32,094	3,499
Digital Commons	43,884	653,483	390,561	306,806
Translations and Foreign Editions	31,749	6,698	32,762	5,685
Advocacy	-	2,000	2,000	-
Updates and Reprints	-	5,980	5,980	-
Multi-Book Projects	14,156	(8,176)	-	5,980
Total	<u>\$ 547,759</u>	<u>\$ 1,036,390</u>	<u>\$ 1,006,867</u>	<u>\$ 577,282</u>

Note 6 – Concentrations, credit and market risk

Marketable securities are subject to credit and market risks. Credit risk is the probability that parties holding or supporting an investment will default or otherwise fail to perform. Market risk is the inherent change in the value of an investment due to changes in conditions. Hesperian does not invest in speculative investments.

At June 30, 2014, grants receivable from two donors were approximately 67% of total grants receivable.

During the year ended June 30, 2014, support received from one foundation totaled approximately 32% of total support and revenue. Additionally, one individual contributor totaled approximately 6% of total support and revenue.

Note 7 - Commitments and contingencies

Hesperian leases office space in Berkeley, California. The monthly lease payment at June 30, 2014 was \$8,600. The lease expires August 30, 2019.

Hesperian Health Guides
Notes to Financial Statements
June 30, 2014

Note 7 - Commitments and contingencies (continued)

The future minimum payments required through the end of the lease agreement total as follows for the years ending June 30:

2015	\$ 94,856
2016	97,702
2017	110,034
2018	113,328
2019	116,729
Thereafter	<u>19,939</u>
Total future lease payments	<u>\$ 552,588</u>

Rent expense for the year ended June 30, 2014 was \$125,117.

Deferred rent accrued in the accompanying statement of financial position results from the excess of rental expense determined on a straight-line basis during the lease term over monthly cash rental payments.

Hesperian entered into a sublease agreement with a local organization that terminated on April 2, 2014. The sublease payment was \$1,975 per month. For financial statement purposes, Hesperian shows these payments as a decrease to its rent expense.

Hesperian has received support that may be subject to audit or review by the grantor agencies. Management believes that Hesperian has complied with all aspects of the grant provisions and that disallowed costs, if any, would be insignificant to the financial position of Hesperian.

Note 8 – Retirement plan

Hesperian has adopted a 403(b) retirement plan and eligible employees may elect to defer a portion of their annual compensation, up to the maximum allowed by the Internal Revenue Service. During the fiscal year ending June 30, 2014 Board of Directors approved a 1% employer contribution for each eligible and participating employee for the 2014 calendar year, and retroactive contributions of 1.5% and 2%

Hesperian Health Guides
Notes to Financial Statements
June 30, 2014

Note 8 – Retirement plan (continued)

for calendar years 2013 and 2012, respectively. These contributions began in Hesperian's fiscal year ending June 30, 2014. For the year ended June 30, 2014, the employer contribution, including retroactive payments, totaled \$ 39,289. Employer contributions are vested after three years of employment.