

Hesperian Health Guides

Financial Statements

with

Report of Independent Auditors

Year ended June 30, 2013

CERTIFIED PUBLIC
ACCOUNTANTS

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

Report of Independent Auditors

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, 2013, 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 audits 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, 2013, 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.

Wilson Markle Stuckey Hardesty & Bott

Wilson Markle Stuckey Hardesty & Bott
Larkspur, CA
September 13, 2013

Hesperian Health Guides
Statements of Financial Position
June 30, 2013

Assets	
Current assets	
Cash and cash equivalents	\$ 411,452
Accounts receivable	44,122
Grants receivable	281,397
Other receivable	2,880
Inventory	<u>254,599</u>
Total current assets	994,450
Property and equipment, net	4,667
Deposit and prepaid expenses	<u>17,993</u>
Total assets	<u><u>\$ 1,017,110</u></u>
Liabilities and Net Assets	
Current liabilities	
Accounts payable	\$ 9,000
Grants payable	28,125
Accrued liabilities	<u>92,086</u>
Total current liabilities	129,211
Net assets	
Unrestricted	340,140
Temporarily restricted	<u>547,759</u>
Total net assets	<u>887,899</u>
Total liabilities and net assets	<u><u>\$ 1,017,110</u></u>

See accompanying notes.

Hesperian Health Guides
 Statements of Activities and Changes in Net Assets
 Year ended June 30, 2013

	Unrestricted	Temporarily Restricted	Total
Support and revenue			
Contributions - Foundations	\$ 220,000	\$ 592,809	\$ 812,809
Contributions - Individuals	213,826	75,865	289,691
Publication revenue	389,256	-	389,256
Digital sales	4,666	-	4,666
Planned giving	25,583	30,843	56,426
Interest and other income	14,348	3,000	17,348
Net assets released from restrictions	829,279	(829,279)	-
Total support and revenue	1,696,958	(126,762)	1,570,196
Expenses			
Program services:			
Book development	642,343	-	642,343
Digital platform	147,663	-	147,663
Health outreach	270,455	-	270,455
Fulfillment	223,325	-	223,325
Total program services	1,283,786	-	1,283,786
Supporting services:			
Management and general	118,978	-	118,978
Fundraising	317,468	-	317,468
Total supporting services	436,447	-	436,447
Total expenses	1,720,233	-	1,720,233
Change in net assets	(23,275)	(126,762)	(150,037)
Net assets, beginning of year	363,415	674,521	1,037,936
Net assets, end of year	\$ 340,140	\$ 547,759	\$ 887,899

See accompanying notes.

Hesperian Health Guides
Statements of Functional Expenses
Year ended June 30, 2013

	Program Services				Supporting Services			Totals	
	Book Development	Digital Platform	Health Outreach	Fulfillment	Totals	Management and General	Fundraising		Totals
Salaries	\$ 417,484	\$ 94,827	\$ 152,612	\$ 79,052	\$ 743,975	\$ 68,934	\$ 208,748	\$ 277,682	\$ 1,021,657
Payroll taxes	42,925	9,750	15,691	8,128	76,494	7,088	21,463	28,551	105,045
Benefits	47,346	10,754	17,307	8,965	84,372	7,818	23,674	31,491	115,863
Total personnel	507,754	115,332	185,610	96,145	904,841	83,839	253,885	337,724	1,242,565
Occupancy	50,630	13,017	24,927	11,750	100,324	8,196	25,478	33,674	133,998
Grants to partners	-	-	-	-	-	-	-	-	-
Cost of goods sold	-	-	-	71,716	71,716	-	-	-	71,716
Professional services	44,821	4,666	2,178	3,879	55,544	15,060	2,774	17,834	73,378
Postage and shipping	695	35	1,850	25,044	27,624	371	9,003	9,374	36,998
Travel, events and training	5,849	128	18,661	73	24,711	3,280	1,523	4,803	29,514
Content management system	-	8,713	-	-	8,713	-	-	-	8,713
Complimentary copies	1,071	303	15,446	27	16,847	234	2,384	2,618	19,465
Printing and copying	2,812	519	2,927	453	6,711	474	7,453	7,927	14,638
Gratis shipping	-	-	9,114	-	9,114	-	-	-	9,114
Field testing	7,589	-	-	-	7,589	-	-	-	7,589
Financial fees, licenses and royalties	5,072	1,171	1,783	7,080	15,106	3,214	4,380	7,594	22,700
Miscellaneous and small purchases	1,659	445	677	1,894	4,675	403	713	1,116	5,791
Office supplies and communication fees	9,747	2,108	4,927	4,007	20,789	2,759	6,651	9,410	30,199
Depreciation	2,703	638	1,131	930	5,401	497	1,327	1,824	7,225
Advertising	30	7	36	6	79	7	704	711	790
Memberships and publications	398	217	654	32	1,301	392	451	843	2,144
Insurance	1,513	365	534	289	2,701	253	742	995	3,696
Total expenses	\$ 642,343	\$ 147,663	\$ 270,455	\$ 223,325	\$ 1,283,786	\$ 118,978	\$ 317,468	\$ 436,447	\$ 1,720,233

See accompanying notes.

Hesperian Health Guides
 Statements of Cash Flows
 Year ended June 30, 2013

Cash flows from operating activities		
Change in net assets	\$	(150,037)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation		7,225
Changes in assets and liabilities		
Accounts receivable		4,987
Grants receivable		104,934
Other receivable		(2,880)
Inventory		(42,752)
Deposit and prepaid expenses		(6,011)
Accounts payable		(20,135)
Grants payable		(1,075)
Accrued liabilities		(36,871)
		<hr/>
Cash provided (used) by operating activities		(142,615)
 Cash flows from investing activities		
Purchases of property and equipment		(157)
Maturity of short-term investments		-
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Cash provided (used) in investing activities		(157)
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Change in cash and cash equivalents		(142,772)
 Cash and cash equivalents, beginning of year		554,224
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Cash and cash equivalents, end of year	\$	<u><u>411,452</u></u>

See accompanying notes.

Hesperian Health Guides
Notes to Financial Statements
June 30, 2013

Note 1 – Organization and Nature of Activities

For nearly 40 years Hesperian Health Guides (Hesperian) has helped people take greater control over their health and lives. Hesperian 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.

In this fiscal year, Hesperian released 2 full publications (*A Community Guide to Environmental Health* in English and Spanish, and *Women with Disabilities* in English) in the online HealthWiki, a lightweight online platform that is easily accessible worldwide, even in locations with low bandwidth and intermittent connectivity. Updated reprints of *Where There Is No Doctor*, *A Book for Midwives*, and *El niño campesino deshabilitado* were also published during this time. Significant progress was made on publications-in-development, including the *New Where There Is No Doctor*, *A Workers Guide to Health and Safety*, *Helping Children Live with HIV*, and *Health Action for Women and Girls*. Hesperian field-tested two new chapters for the *New Where There is No Doctor*, on Cancer and First Aid; chapters from the *Health Action for Women and Girls* also underwent extensive field-testing and review involving over 1,900 women and men in 23 countries.

Hesperian expanded the availability of health resources across multiple digital formats during this fiscal year. Hesperian published its first e-book – the original *Where There Is No Doctor* – for Kindle, iPad, and Nook, and released additional content on the Hesperian HealthWiki. Hesperian’s award-winning Safe Pregnancy

Hesperian Health Guides
Notes to Financial Statements
June 30, 2013

Note 1 – Organization and Nature of Activities (continued)

and Birth mobile app was released in Spanish, and several translations of this app were begun by Hesperian partners. During this time, Hesperian successfully launched its first Print on Demand publication with *Where Women Have No Doctor* in Haitian Kreyol.

Three new language hubs were added to Hesperian's digital library: Amharic, Nepali and Chinese. By the end of the fiscal year, 8 new translations were in process including: *Where There Is No Doctor, A Health Handbook for Women with Disabilities* and *Helping Children Who Are Deaf* in Braille; *Where There Is No Doctor* in Fon and Bambara; *Helping Children Who are Blind* in Kurdish; *Where There Is No Dentist* in Bengali; and *A Book for Midwives* in Swahili.

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 1,938 free books and pamphlets this year, while Hesperian's website supported free access to digital versions of its publications.

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, 2013

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 Foundation. 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, 2013, 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, 2013

Note 2 – Summary of Significant Accounting Policies (continued)

Contributed goods and services

This year Hesperian's effectiveness was greatly enhanced by the work of 1,203 volunteers who contributed approximately 14,472 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, 2013.

Publication revenue

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

Fair value measurements

Management of Hesperian estimates that the aggregate net fair value of financial instruments recognized (including receivable, 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, 2013

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, 2013, 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 expenses 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, 2013

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 2009 to 2012 are open for examination by the Internal Revenue Service and years 2008 to 2012 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, 2013 were not significant.

Hesperian Health Guides
Notes to Financial Statements
June 30, 2013

Note 2 – Summary of Significant Accounting Policies (continued)

Subsequent events

Hesperian evaluated subsequent events for recognition and disclosure through September 13, 2013, the date on which these financial statements were available to be issued. Management concluded that no material subsequent events have occurred since June 30, 2013 that required recognition or disclosure in such financial statements.

Note 3 – Grants receivable

Grants receivable as of June 30, 2013, total as follows:

Kadoorie Charitable Foundation	\$ 24,499		
Conrad N. Hilton Foundation	110,000		
Flora Family Foundation	25,000		
The California Wellness Foundation	53,798		
United Methodist – Women’s Division	30,000		
California Communication Access Foundation	38,100		
Total grants receivable	<u>\$ 281,397</u>		

Note 4 – Property and equipment

Property and equipment as of June 30, 2013, total as follows:

Furniture and equipment	\$ 59,168		
Computer software	43,139		
Property and equipment, at cost	102,307		
Accumulated depreciation	(97,640)		
Property and equipment, net	<u>\$ 4,667</u>		

Hesperian Health Guides
Notes to Financial Statements
June 30, 2013

Note 5 – Temporarily restricted net assets

As of and during the year ended June 30, 2013, temporarily restricted net assets reconciled as follows:

<u>Program</u>	<u>Beginning</u>	<u>Additions</u>	<u>Releases</u>	<u>Ending</u>
Where there is no Doctor in the 21st Century	\$ 32,171	\$ 277,948	\$ 165,430	\$ 144,689
Comm. Action for Women's Health and Empowerment	176,808	30,383	165,606	41,585
Helping Children Live with HIV	331,941	118,744	256,101	194,584
Factory Worker's Guide to Health and Safety	24,503	158,844	113,305	70,042
Gratis Book Fund	9,098	24,289	26,317	7,070
Digital Commons	-	124,358	80,474	43,884
Translations and Foreign Editions	-	53,445	21,696	31,749
Advocacy	-	350	350	-
Updates and Reprints	-	-	-	-
Multi-Book Projects	100,000	(85,844)	-	14,156
Totals	<u>\$ 674,521</u>	<u>\$ 702,517</u>	<u>\$ 829,279</u>	<u>\$ 547,759</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, 2013, grants receivable from two donors were approximately 58% of total grants receivable.

During the year ended June 30, 2013, support received from three foundations, totaled approximately 29% of total support and revenue. Additionally, one individual contributor totaled approximately 6% of total support and revenue.

Hesperian Health Guides
Notes to Financial Statements
June 30, 2013

Note 7 - Commitments and contingencies

Hesperian leases office space in Berkeley, California. The current monthly lease rate is \$11,181. The lease expires September 30, 2014. Lease expense for the year ended June 30, 2013 was \$133,998. The future minimum payments required through the end of the lease agreement is \$171,447 at fiscal year end June 30, 2013.

Hesperian entered into a sublease agreement with a local organization as of February 4, 2013. The sublease agreement runs through December 3, 2013 and the sublease payment is \$1,975 per month. For financial statement purposes, Hesperian shows these payments as a decrease to its lease 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. Additionally, the Board of Directors has approved a 1% employer contribution for each eligible and participating employee to begin in its fiscal year ending June 30, 2014.