

Hesperian Health Guides

Financial Statements

Year ended June 30, 2017

with

Report of Independent Auditors

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 statements of financial position as of June 30, 2017, 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, 2017, 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, 2016 and, in our report dated October 5, 2016, 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, 2016, is consistent, in all material respects, with the audited financial statements from which the management of Hesperian derived it.

Wilson Markle Stuckey Hardesty & Bott

Wilson Markle Stuckey Hardesty & Bott, LLP
Larkspur, California
October 11, 2017

Hesperian Health Guides
Statements of Financial Position
June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 71,359	\$ 160,300
Contributions receivable due within one year	254,380	107,329
Accounts receivable	36,526	23,089
Other receivables	3,021	1,205
Inventory	<u>169,116</u>	<u>210,637</u>
Total current assets	534,402	502,560
Contributions receivable	137,131	-
Property and equipment, net	2,327	3,275
Deposit and prepaid expenses	<u>38,805</u>	<u>53,032</u>
Total assets	<u>\$ 712,665</u>	<u>\$ 558,867</u>
Liabilities and net assets		
Current liabilities		
Accounts payable	\$ 26,864	\$ 12,582
Grants payable	9,795	17,449
Accrued liabilities	117,545	109,986
Deferred revenue	<u>27,063</u>	<u>-</u>
Total current liabilities	181,267	140,017
Deferred rent	22,013	26,824
Net assets		
Unrestricted	54,382	73,378
Temporarily restricted	<u>455,003</u>	<u>318,648</u>
Total net assets	<u>509,385</u>	<u>392,026</u>
Total liabilities and net assets	<u>\$ 712,665</u>	<u>\$ 558,867</u>

See accompanying notes.

Hesperian Health Guides
Statement of Activities and Changes in Net Assets
Year ended June 30, 2017 with comparative totals only for the year ended June 30, 2016

	Unrestricted	Temporarily Restricted	2017 Totals	2016 Totals
Support and revenue				
Contributions - foundations	\$ 216,000	\$ 664,763	\$ 880,763	\$ 631,708
Contributions - individuals	351,575	70,075	421,650	384,504
Contributions - corporations	2,460	50,000	52,460	52,089
Government grants	14,796	-	14,796	31,192
Fee for service	179,079	-	179,079	-
Publication revenue	210,016	-	210,016	227,675
Digital revenue	7,447	-	7,447	9,043
Planned giving	34,702	-	34,702	8,400
Interest and other income	3,899	-	3,899	13,603
Net assets released from restrictions	648,483	(648,483)	-	-
Total support and revenue	1,668,457	136,355	1,804,812	1,358,214
Expenses				
Program services:				
Book development	416,857	-	416,857	493,116
Digital platform	200,869	-	200,869	272,652
Health outreach	515,999	-	515,999	341,560
Fulfillment	168,027	-	168,027	169,371
Total program services	1,301,752	-	1,301,752	1,276,699
Supporting services:				
Management and general	138,656	-	138,656	170,143
Fundraising	247,045	-	247,045	255,319
Total supporting services	385,701	-	385,701	425,462
Total expenses	1,687,453	-	1,687,453	1,702,161
Change in net assets	(18,996)	136,355	117,359	(343,947)
Net assets, beginning of year	73,378	318,648	392,026	735,973
Net assets, end of year	<u>\$ 54,382</u>	<u>\$ 455,003</u>	<u>\$ 509,385</u>	<u>\$ 392,026</u>

See accompanying notes.

Hesperian Health Guides
Statements of Cash Flows
Years ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Change in net assets	\$ 117,359	\$ (343,947)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	948	949
Changes in certain assets and liabilities		
Contributions receivable	(284,182)	41,171
Accounts receivable	(13,437)	30,554
Other receivables	(1,816)	1,853
Inventory	41,521	(11,532)
Deposit and prepaid expenses	14,227	(7,650)
Accounts payable	14,282	(9,476)
Grants payable	(7,654)	(9,328)
Accrued liabilities	7,559	272
Deferred revenue	27,063	-
Deferred rent	(4,811)	9,103
	<u>(88,941)</u>	<u>(298,031)</u>
Cash used by operating activities	(88,941)	(298,031)
Cash flows from investing activities		
Purchases of property and equipment	-	(2,148)
	<u>-</u>	<u>(2,148)</u>
Cash used by investing activities	-	(2,148)
Cash flows from financing activities		
Proceeds from notes payable	50,000	-
Principal payments on notes payable	(50,000)	-
	<u>-</u>	<u>-</u>
Cash used by financing activities	-	-
Change in cash and cash equivalents	(88,941)	(300,179)
Cash and cash equivalents, beginning of year	<u>160,300</u>	<u>460,479</u>
Cash and cash equivalents, end of year	<u>\$ 71,359</u>	<u>\$ 160,300</u>

See accompanying notes.

Hesperian Health Guides
Notes to Financial Statements
June 30, 2017

Note 1 – Organization and nature of activities

For over 40 years, Hesperian Health Guides has helped people take greater control over their health and lives. The organization develops, produces, and distributes simply written, illustrated, motivating materials that provide people with comprehensive information and practical solutions to take action on a range of health problems, regardless of their educational background and literacy.

When provided with Hesperian's clear and practical information people can, and do, take charge of their health: seeking health services where they exist, responsibly delivering basic care where there are no services, and improving conditions in their homes, neighborhoods and communities. Millions of people from 222 countries and territories rely on Hesperian resources. They include parents, caregivers, community volunteers, 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. With an "open copyright" policy, Hesperian encourages other organizations and individuals to reproduce, translate and adapt its publications for distribution on a not-for-profit basis; and provides technical and other support to organizations creating adaptations. Hesperian guides are now available in 85 languages, with 298 titles in all.

Hesperian's website supports free access to its publications. This year close to 6 million people used Hesperian's online health information, now in 17 languages on our HealthWiki, a mobile-friendly platform accessible even in locations with low bandwidth and intermittent connectivity. There are also 67 PDFs available on our site, in 35 languages for free download. Hesperian's Gratis Book Program sends free books to health workers, educators, and community leaders around the world who cannot afford them even at a deeply discounted price, distributing more than 1400 free books this year.

Hesperian develops new 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. During this past year, *Health Actions for Women* and *Workers Guide to Health and Safety* were translated into Spanish, and 20 groups throughout Latin America field tested and contributed their stories to the Latin American adaptation of *Health Actions for Women*. Field testing and review of the full manuscript of *Helping Children Affected*

Hesperian Health Guides
Notes to Financial Statements
June 30, 2017

Note 1 – Organization and nature of activities (continued)

by *HIV* was completed with partners in East and Southern Africa. *NEW Where There Is No Doctor* “Problems with the Eyes and Seeing” was developed, reviewed, field-tested and released, and “Illnesses from Mosquitos” and “Heart Diseases and High Blood Pressure” were drafted, received expert review were prepared for field testing, while “Vaccines” was drafted. The 700-page *Disabled Village Children* was completely updated, and then formatted and produced it as an online resource for access on our HealthWiki – a process that required thousands of volunteer and staff hours.

Working with partners, Hesperian released the Khmer edition of *Health Actions for Women* and the French edition of *Where There Is No Dentist* on our HealthWiki and as print books. In response to the deadly cholera epidemic in Yemen, Hesperian translated and released the Cholera Fact Sheet in Arabic for print and online access. Hesperian staff supported partners working on 95 adaptations of Hesperian materials, into Bahasa, Bambara, Bangla, Chinese, French, Haitian Kreyol, Khmer, Lao, Malagasy, Mongolian, Nepali, Portuguese, Somali, Swahili, Urdu, Uzbek, Vietnamese and many more languages.

Hesperian staff created materials for and conducted trainings with California-based partners working with newly arrived refugees, immigrant communities, families of children with disabilities, and low-wage immigrant workers.

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.

Hesperian Health Guides
Notes to Financial Statements
June 30, 2017

Note 2 – Summary of significant accounting policies (continued)

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

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, 2017, Hesperian had received no 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.

Hesperian Health Guides
Notes to Financial Statements
June 30, 2017

Note 2 – Summary of significant accounting policies (continued)

Contributions (continued)

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 as net assets released from restrictions.

Contributed goods and services

This year, Hesperian's effectiveness was tremendously enhanced by the work of 169 volunteers who contributed approximately 6,971 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, 2017.

Government grants

Government grants and contracts are conditional cost-reimbursement contracts. Hesperian does not recognize support from these contracts until it fulfills the conditions; generally, by expending costs and performing services to accomplish the requirements of the contracts.

Fee for service

Fee for service contracts are cost-reimbursement contracts. Hesperian recognizes revenues from cost-reimbursement contracts when incurring the related expenses.

Publication revenue

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

Hesperian Health Guides
Notes to Financial Statements
June 30, 2017

Note 2 – Summary of significant accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and on deposit with various commercial banks and a registered investment company (custodian), available on demand.

Contributions receivable

Contributions receivable consist of grants and pledges due from donors. Pledges receivable consist of uncollected unconditional promises to give. Hesperian records multi-year pledges and pledges originally due in over one year at their present value when pledged.

Accounts receivable

Accounts receivable, all due within one year, consist principally of amounts due from publication sales and fee for service.

Allowance for uncollectible receivables

Hesperian uses the allowance method to account for uncollectible receivables. 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, 2017, Hesperian concluded that an allowance for doubtful accounts was not material to its financial position.

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 expenses 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 \$2,500. 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.

Hesperian Health Guides
Notes to Financial Statements
June 30, 2017

Note 2 – Summary of significant accounting policies (continued)

Deferred revenue

Deferred revenue consists of amounts advanced or drawn down under fee for service contracts that exceed revenue earned.

Income taxes

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) 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 2013 to 2016 are open for examination by the Internal Revenue Service and years 2012 to 2016 by the California Franchise Tax Board. Governmental authorities have 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 have 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.

Advertising costs

Hesperian expenses costs incurred for producing and communicating advertising when incurred. Advertising costs for the year ended June 30, 2017 were \$1,543.

Shipping and handling costs

Shipping and handling costs are included in postage and shipping and gratis shipping expenses. Shipping and handling costs for the year ended June 30, 2017 were \$29,799.

Hesperian Health Guides
Notes to Financial Statements
June 30, 2017

Note 2 – Summary of significant accounting policies (continued)

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.

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.

Prior year summarized comparative information

The financial statements include certain prior year summarized comparative information in total, but not by net asset classification. Such information does not always include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States. Accordingly, read such information in conjunction with the financial statements for the year ended June 30, 2016, from which the summarized comparative information was derived. Hesperian has reclassified certain prior year amounts to conform to the current year presentation.

Subsequent events

Hesperian evaluated subsequent events for recognition and disclosure through October 11, 2017, the date on which these financial statements were available to be issued. Management concluded that no material subsequent events have occurred since June 30, 2017 that required recognition or disclosure in such financial statements.

Hesperian Health Guides
Notes to Financial Statements
June 30, 2017

Note 3 – Receivables

Contributions receivable as of June 30, 2017, total as follows:

Kadoorie Charitable Foundation	\$ 327,131
Cogan Family Foundation	15,000
The West Foundation	15,000
Johns Hopkins Center for Communication Programs	12,480
Ipas	7,500
Several individual pledges	<u>14,400</u>
Contributions receivable, gross	391,511
Contributions receivable due within one year	<u>254,380</u>
Contributions receivable	<u><u>\$ 137,131</u></u>

Accounts receivable as of June 30, 2017, total as follows:

Amazon.com	\$ 22,624
Project Concern International	11,192
Several other	<u>2,710</u>
Accounts receivable	<u><u>\$ 36,526</u></u>

Note 4 – Property and equipment

Property and equipment as of June 30, 2017, total as follows:

Furniture and equipment	\$ 18,473
Computer software	<u>7,734</u>
Property and equipment, at cost	26,207
Accumulated depreciation	<u>(23,880)</u>
Property and equipment, net	<u><u>\$ 2,327</u></u>

Hesperian Health Guides
Notes to Financial Statements
June 30, 2017

Note 5 – Temporarily restricted net assets

As of and during the year ended June 30, 2017, temporarily restricted net assets reconciled as follows:

<u>Program</u>	<u>Beginning</u>	<u>Additions</u>	<u>Releases</u>	<u>Ending</u>
New Where There Is No Doctor	\$ -	\$ 439,226	\$ (84,045)	\$ 355,181
Working Together to Stop Obstetric Fistula	5,225	5,134	(10,359)	-
Workers' Guide to Health and Safety	42,232	3,200	(41,432)	4,000
Health Actions for Women	816	53,633	(53,741)	708
Helping Children Affected by HIV	-	40,000	(40,000)	-
Helping Vulnerable Children	210,738	-	(158,084)	52,654
Multi-book Program	10,000	35,000	(30,000)	15,000
Digital Commons	17,849	120,097	(129,538)	8,408
Capacity Building	26,567	-	(26,567)	-
Gratis Book Program	3,465	24,816	(24,257)	4,024
Translations Partners	-	12,202	-	12,202
Advocacy	-	460	(460)	-
Healthy Food and Livelihoods Fund	1,756	51,070	(50,000)	2,826
Total	<u>\$ 318,648</u>	<u>\$ 784,838</u>	<u>\$ (648,483)</u>	<u>\$ 455,003</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.

Contributions receivable are subject to collection risk. Collection risk is the probability that the financial condition or other circumstances of a donor may change, reducing or eliminating the subsequent collection of contributions receivable.

For the year ended June 30, 2017, Hesperian received \$612,131 from two foundations.

Hesperian Health Guides
Notes to Financial Statements
June 30, 2017

Note 7 – Commitments and contingencies

Hesperian leases office space in Berkeley, California. The monthly lease payment at June 30, 2017 was \$9,397. The lease expires August 30, 2019.

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

2018	\$ 113,328
2019	116,729
2020	<u>19,939</u>
Total future lease payments	<u>\$ 249,996</u>

Rent expense for the year ended June 30, 2017 was \$105,222.

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 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 offers 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. Hesperian contributes 1% of eligible employees' gross wages. For the year ended June 30, 2017, the employer contribution totaled \$9,544. Employer contributions are vested after three years of employment.