

VESPER SOCIETY

REPORT ON AUDIT OF FINANCIAL STATEMENTS

Years Ended December 31, 2009 and 2008

**GHAFFARI ZARAGOZA LLP
CERTIFIED PUBLIC ACCOUNTANTS**

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
Statements of Financial Position	2
Statements of Activities	3
Statements of Cash Flows	4
Statement of Functional Expenses - 2009	5
Statement of Functional Expenses - 2008	6
Notes to Financial Statements.....	7



INDEPENDENT AUDITOR'S REPORT

Board of Directors
Vesper Society
San Francisco, California

We have audited the accompanying statements of financial position of Vesper Society (the Society) as of December 31, 2009 and 2008, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Society's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic 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 that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Vesper Society at December 31, 2009 and 2008 and the changes in its net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Ghaffari Zaragoza LLP

May 6, 2010
Oakland, California

VESPER SOCIETY

Statements of Financial Position
at December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 55,493	\$ 51,750
Investments (Note 3)	24,879,985	21,087,298
Prepaid expenses (Note 6)	<u>27,439</u>	<u>222,198</u>
Total Current Assets	24,962,917	21,361,246
Loan receivable (Note 4)	148,000	148,000
Property and equipment (Note 5)	35,438	48,497
Other assets (Note 4)	<u>37,960</u>	<u>24,746</u>
TOTAL ASSETS	<u><u>\$ 25,184,315</u></u>	<u><u>\$ 21,582,489</u></u>
LIABILITIES		
Current Liabilities:		
Accounts payable	\$ 36,869	\$ 33,696
Accrued vacation liability	<u>25,576</u>	<u>23,563</u>
TOTAL CURRENT LIABILITIES AND TOTAL LIABILITIES	<u>62,445</u>	<u>57,259</u>
NET ASSETS		
Unrestricted	<u>25,121,870</u>	<u>21,525,230</u>
TOTAL NET ASSETS	<u>25,121,870</u>	<u>21,525,230</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 25,184,315</u></u>	<u><u>\$ 21,582,489</u></u>

See Notes to Financial Statements

VESPER SOCIETY

Statements of Activities
 Years Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
SUPPORT AND REVENUE		
Interest and dividends	\$ 796,223	\$ 1,295,922
Net gain (loss) from investments	4,256,389	(9,462,913)
Recapture of deferred tax liability	-	49,915
Contributions	1,279	300
Other income	<u>25</u>	<u>17,851</u>
TOTAL SUPPORT AND REVENUE	<u>5,053,916</u>	<u>(8,098,925)</u>
EXPENSES		
Program Services:		
Health services	615,536	593,017
Social justice	416,681	316,135
Supporting Services:		
Management & general	<u>425,059</u>	<u>551,820</u>
TOTAL EXPENSES	<u>1,457,276</u>	<u>1,460,972</u>
Change in net assets - unrestricted	3,596,640	(9,559,897)
Unrestricted net assets at beginning of year	<u>21,525,230</u>	<u>31,085,127</u>
UNRESTRICTED NET ASSETS AT END OF YEAR	<u>\$ 25,121,870</u>	<u>\$ 21,525,230</u>

See Notes to Financial Statements

VESPER SOCIETY

Statements of Cash Flows
Years Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Change in net assets	\$ 3,596,640	\$ (9,559,897)
Adjustments to reconcile change in net assets to cash from operating activities:		
Depreciation	17,444	13,769
Net (gain) loss from investments	(4,356,942)	9,346,314
(Increase) decrease in operating assets:		
Prepays	194,759	(109,819)
Other assets	(13,214)	(8,988)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	5,186	(10,742)
Deferred federal excise taxes	-	(49,915)
Net cash used by operating activities	<u>(556,127)</u>	<u>(379,278)</u>
Cash flows from investing activities:		
Purchase of equipment	(4,385)	(34,102)
Purchase of marketable securities	(2,069,770)	(2,421,024)
Proceeds from sale of marketable securities	<u>2,634,025</u>	<u>2,825,815</u>
Net cash provided by investing activities	<u>559,870</u>	<u>370,689</u>
Net increase (decrease) in cash and cash equivalents	3,743	(8,589)
Cash and cash equivalents at beginnings of year	<u>51,750</u>	<u>60,339</u>
Cash and cash equivalents at end of year	<u>\$ 55,493</u>	<u>\$ 51,750</u>
Supplemental disclosures:		
Cash paid for excise taxes on net investment income	<u>\$ -</u>	<u>\$ 37,365</u>

See Notes to Financial Statements

VESPER SOCIETY

Statement of Functional Expenses
Year Ended December 31, 2009

	<u>Program Services</u>				
	<u>Health Services</u>	<u>Social Justice</u>	<u>Management & General</u>	<u>Common Costs</u>	<u>Total</u>
Salaries and benefits (Note 7)	\$ 103,804	\$ 121,598	\$ 295,903	\$ -	\$ 521,305
Legal fees	-	-	3,269	-	3,269
Accounting and audit fees	-	-	15,852	-	15,852
Other professional services	46,003	56,799	5,150	21,264	129,216
Payments to project partners	387,702	140,534	-	-	528,236
Repairs and maintenance	-	-	-	271	271
Supplies and printing	242	3,182	1,255	6,936	11,615
Equipment lease and rental	-	-	-	1,119	1,119
Software	-	-	-	1,214	1,214
Telecommunications	-	414	4,168	9,907	14,489
Insurance	-	-	7,522	10,025	17,547
Postage	313	303	254	1,100	1,970
Excise taxes (Note 6)	-	-	7,198	-	7,198
Dues and subscriptions	12	37	-	4,114	4,163
Seminars and training	-	1,849	4,562	6,221	12,632
Professional development	-	-	1,940	-	1,940
Travel & transportation	11,283	26,851	20,206	128	58,468
Meals and entertainment	335	618	7,624	1,929	10,506
Gifts	-	-	-	1,100	1,100
Accommodations	-	-	11,321	43,193	54,514
Bank charges	75	105	-	2,389	2,569
Depreciation	-	-	-	17,444	17,444
Grants	10,500	28,538	-	-	39,038
Loss on fixed asset disposal	-	-	754	-	754
Other expenses	207	-	640	-	847
Common cost allocation	55,060	35,853	37,441	(128,354)	-
Total - 2009	<u>\$ 615,536</u>	<u>\$ 416,681</u>	<u>\$ 425,059</u>	<u>\$ -</u>	<u>\$1,457,276</u>

See Notes to Financial Statements

VESPER SOCIETY

Statement of Functional Expenses
Year Ended December 31, 2008

	Program Services		Management & General	Common Costs	Total
	Health Services	Social Justice			
Salaries and benefits (Note 7)	\$ 41,518	\$ 64,650	\$ 374,052	\$ -	\$ 480,220
Legal fees	-	-	3,454	-	3,454
Accounting and audit fees	-	-	17,645	-	17,645
Other professional services	7,560	31,314	3,243	49,549	91,666
Payments to project partners	456,870	132,885	-	-	589,755
Repairs and maintenance	-	-	-	1,074	1,074
Supplies and printing	6	1,211	1,133	6,588	8,938
Equipment lease and rental	-	-	-	444	444
Telecommunications	-	806	5,017	8,570	14,393
Insurance	-	-	8,100	9,889	17,989
Postage	33	-	239	1,159	1,431
Excise taxes (Note 6)	-	-	12,383	-	12,383
Dues and subscriptions	-	-	-	4,054	4,054
Seminars and training	-	3,450	4,683	12,863	20,996
Travel & transportation	156	30,136	48,696	360	79,348
Meals and entertainment	-	339	6,678	1,102	8,119
Accommodations	-	-	8,745	42,575	51,320
Bank charges	-	-	-	1,054	1,054
Depreciation	-	-	-	13,769	13,769
Grants	24,000	15,000	-	-	39,000
Other expenses	235	-	3,685	-	3,920
Common cost allocation	62,639	36,344	54,067	(153,050)	-
Total	<u>\$ 593,017</u>	<u>\$ 316,135</u>	<u>\$ 551,820</u>	<u>\$ -</u>	<u>\$ 1,460,972</u>

See Notes to Financial Statements

VESPER SOCIETY

Notes to Financial Statements
Year Ended December 31, 2009 and 2008

Note 1 - Organization

Vesper Society (the Society) is a California not-for-profit corporation located in San Francisco, California. The mission of the Society is to promote social justice locally and globally by addressing critical social issues including the provision of health services for the underserved. The purposes of the Society are:

- 1) To provide care, treatment, diagnosis, hospitalization and other health services to injured, afflicted, sick, infirm and aged persons and
- 2) To promote social justice by assisting individuals and organizations to address social and ethical issues from a faith-based moral and ethical perspective and by encouraging the laity to work from such a perspective, particularly for the benefit of the underserved.

The Society invests funds received from the sale of two hospitals. Substantial revenue is generated from these investments, which subjects the Society's income to market forces. The Attorney General of the State of California has required the Society, effective January 1, 2003, to spend at least 60% of its annual program expenditures, excluding expenses generated by grants, gifts and other donations received after January 1, 2003, for the provision of care, treatment, diagnosis, hospitalization and other health services to injured, afflicted, sick, infirm and aged persons. Compliance with this requirement is determined on the basis of a three-year rolling average starting January 1, 2003. Management believes that the Society is in compliance with this requirement.

Program activities of the Society included:

Provision of Health Services to the Underserved

Adolescent Mental Health – The Society developed and is implementing a program within existing local clinics in Hayward, California, to assist high school students in overcoming health-related obstacles that prevent their success in a regular school setting, and to meet the physical and mental health needs of other adolescents in the community who lack resources to meet their needs.

HIV/AIDS - The Society is providing support in the Eastern Cape of rural South Africa to a community model (based on the Treatment Action Campaign by Doctor's Without Borders) for the treatment of persons with HIV/AIDS, including assisting patients with doctor visits,

VESPER SOCIETY

Notes to Financial Statements
Year Ended December 31, 2009 and 2008

laboratory tests, the supplying of anti-retroviral drugs, and case management.

Appropriate Access to Urgent Care – Together with Sutter Delta Medical Center in Antioch, California, the Society operates an Urgent Care Clinic for the underserved populations in California's Eastern Contra Costa County. It is open in the evenings for those individuals without insurance who have non-emergency medical needs.

Social Justice

Religious Pluralism – In 2009, the Society supported several public conversations with the goal of advancing its religious pluralism issue area. These include three programs in partnership with The Joan and Ralph Lane Center for Catholic Studies and Social Thought at the University of San Francisco and two events with ALOUD at Central Library, Los Angeles. Through its Incubator Fund, the Society gave mini-grants to the San Francisco Interfaith Council and the Point7Now Interfaith Coalition. In addition to programmatic support, both organizations used their grants to provide stipends to their undergraduate interns. Lastly, the Society contributed in-kind staff expertise to the World Council of Churches Consultation on Interfaith Networking and the San Francisco Foundation's FAITHS Program.

Youth and Trust – The Society in collaboration with the City of Oakley, California, is developing a framework to evaluate programs and improve policy efforts for empowering youth and teens within the home, school, and community. This program will support youth in gaining a sense of competence, values, belonging and worth by establishing a youth charter, as well as provide a master plan to increase services for youth.

African Religious Health Assets Program (ARHAP) – Working together with the University of Cape Town, South Africa, the Society took a lead role in the creation of ARHAP, which maps and assesses community and religious health assets and began the process of building partnerships to improve the health of the community.

Note 2 - Summary of Significant Accounting Policies

A summary of the significant policies applied in the preparation of the accompanying financial statements follows:

VESPER SOCIETY

Notes to Financial Statements Year Ended December 31, 2009 and 2008

- a) Basis of Accounting – The financial statements of the Society have been prepared using the accrual basis of accounting whereby income and gains are recognized when earned and expenses and losses when incurred.
- b) Cash and Cash Equivalents – For purposes of the statement of cash flows, the Society considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.
- c) Investments - Investments in marketable securities are reported at their published market value. Investment income, realized and unrealized gains and losses are reported as increases or decreases in unrestricted net assets unless a donor temporarily or permanently restricts their use.

The Society's investment in Vesper Service Network, Inc., a Wisconsin for-profit corporation, which represents 20% of the common stock, is accounted for using the equity method.

- d) Property and Equipment – Acquisitions of equipment with a cost or fair value of \$500 or more and significant leasehold improvements are recorded as fixed assets. Property and equipment are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. Depreciation is provided over the estimated useful lives of the assets, primarily three to seven years, using straight-line method of depreciation.
- e) Income Tax Status – The Society is exempt from Federal and State income tax under Section 501(c)(3) of the Internal Revenue Code (the Code) and Section 23701(d) of the State Revenue and Taxation Code as a “private Operating Foundation”, whereby its net investment income is subject to excise taxes.

In accordance with the applicable provisions of the Code, the Society is subject to an excise tax of 2% (1% if minimum payout requirements prescribed by the Code are met) on its net investment income, excluding unrealized gains. In addition, the Code requires that certain minimum distributions be made in accordance with a specified formula. At December 31, 2009 and 2008, the Society had made the required minimum distributions.

The Society estimates and records its excise taxes to include a provision for deferred taxes resulted by unrealized gains and losses on its investments.

VESPER SOCIETY

Notes to Financial Statements Year Ended December 31, 2009 and 2008

- f) Basis of Presentation – Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Society and changes therein are classified as unrestricted net assets which represent net assets that are not subject to donor-imposed stipulations.

- g) Accounting for Restricted Support – The Society reports gifts of cash and other assets as restricted support if they are received with donor stipulation that limit the use of the donated assets. When a donor 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.

- h) Allocation of Expenses – Common costs are allocated among program and supporting activities based on the total direct expenses of each activity. Salaries and related expenses are allocated to program and supporting activities based on management’s estimate of the level of staff effort in each activity.

- i) Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant accounting estimates reflected in the Society’s financial statements include the valuation of investments and notes receivable, the calculation of federal excise taxes expense, and the functional allocation of expenses. Actual results could differ from those estimates.

Note 3 – Investments

The investments of the Society consist primarily of money market and mutual funds that are stated at fair value based on quoted prices in active markets and are summarized as follows:

VESPER SOCIETY

Notes to Financial Statements Year Ended December 31, 2009 and 2008

	<u>December 31, 2009</u>	<u>December 31, 2008</u>
Money market funds	\$44,801	\$51,171
Fixed income and bond funds	6,998,127	6,965,541
Equity funds	17,832,957	14,057,596
Equities	4,100	10,990
Interest in privately held corporation	<u>0</u>	<u>2,000</u>
 Total investments	 <u>\$24,879,985</u>	 <u>\$21,087,298</u>

The components of total investment return by net assets classification are reflected below:

	<u>2009</u>	<u>2008</u>
	<u>Unrestricted</u>	<u>Unrestricted</u>
Interest and dividends	\$783,010	\$1,295,778
Realized gains	<u>64,600</u>	<u>59,564</u>
 Total investment income	 \$847,610	 \$1,355,342
Unrealized gains (losses)	<u>4,292,342</u>	<u>(9,405,878)</u>
 Total investments return	 <u>\$5,139,952</u>	 <u>\$(8,050,536)</u>

Investment expenses, which primarily consist of custodial and management fees, were \$100,553 and \$116,599 during the years ended December 31, 2009 and 2008, respectively. These expenses are netted against investment gains and losses on the statement of activities.

Note 4 – Investment in Vesper Service Network, Inc. (VSN)

On May 1, 2006, the Society invested in VSN a Wisconsin for-profit corporation. The Society acquired 2,000 shares of stock in the corporation at \$1 per share. An individual shareholder owns the remaining 80% of the stock. The Board of Directors of VSN consists of five people, 3 appointed by the majority shareholder and 2 appointed by the Society. The market value of the corporation's stock is not traded in a public market and therefore not readily determinable. The Society accounts for its investment in the for-profit entity under the equity method. Total investment balance at December 31, 2009 and 2008 was \$2,000 and \$0, respectively.

VESPER SOCIETY

Notes to Financial Statements Year Ended December 31, 2009 and 2008

The Society also signed an unsecured promissory note that allowed VSN to borrow \$148,000 at an interest rate of 7.5% per annum. Principal and interest on the outstanding balance was to be paid annually starting March 1, 2009 in equal installments of \$21,563 until fully paid. No principal or interest payment was made as of December 31, 2009. The Society is in the process of renegotiating the payment arrangement. The outstanding balance of this note at December 31, 2009 and 2008 was \$148,000 and \$148,000, respectively. The accrued interest on the outstanding balance at December 31, 2009 and 2008 was \$34,841 and 21,627, respectively. Management of the Society believes that the loan is fully recoverable.

Additionally, the Society signed a license agreement with VSN for the right to use the name “Vesper” and to use Vesper’s logo. The Society will receive annual royalties as a result of the agreement. The parties have agreed that the amount of the royalty will be reviewed and determined on an annual basis. The Society did not receive any royalties during the years ended December 31, 2009 or 2008 as the VSN reported an operating loss in both years. The financial information of VSN at December 31, 2009 and 2008 and for the years then ended is summarized below:

	<u>December 31, 2009</u>	<u>December 31, 2008</u>
Current assets	\$53,571	\$40,842
Noncurrent assets	10,550	15,250
Current liabilities	(46,054)	(21,012)
Long term liabilities	<u>(148,000)</u>	<u>(148,000)</u>
Equity	<u>\$(129,933)</u>	<u>\$(112,920)</u>
Revenues, net of cost of sales	\$90,590	\$49,657
Operating income	0	749
Operating expenses	<u>(107,612)</u>	<u>(78,191)</u>
Net loss	<u>\$(17,022)</u>	<u>\$(27,785)</u>

VESPER SOCIETY

Notes to Financial Statements
Year Ended December 31, 2009 and 2008

Note 5 - Property and Equipment

Property and equipment consisted of:

	<u>December 31, 2009</u>	<u>December 31, 2008</u>
Equipment	\$66,574	\$62,191
Leasehold improvements	<u>29,952</u>	<u>29,952</u>
	\$96,526	\$92,143
Accumulated depreciation	<u>(61,088)</u>	<u>(43,646)</u>
	<u>\$35,438</u>	<u>\$48,497</u>

Note 6 – Excise and Income Taxes

The Society was subject to the 1% excise tax for the years ended December 31, 2009 and 2008. The provisions for excise taxes were as follows:

	<u>2009</u>	<u>2008</u>
Excise tax expense	\$7,198	\$12,383
Prepaid taxes	\$17,784	\$24,982

Note 7 - Pension Plan

The Society provides a defined contribution plan to all employees who normally work more than 20 hours per week, after completion of six months of employment. The Society makes annual contributions to this plan equal to a certain percentage of each employee's compensation up to a ceiling that is adjusted in accordance with Internal Revenue Service determined amounts each year. Total contributions to this plan during the years ended December 31, 2009 and 2008 were \$29,511 and \$30,983, respectively.

Note 8 – Fair Value Measurements

Fair value of assets measured on a recurring basis at December 31, 2009 are as follows:

VESPER SOCIETY

Notes to Financial Statements
Year Ended December 31, 2009 and 2008

Fair value measurements using

	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	<u>Fair Value</u>
Trading securities	\$24,879,985	\$0	\$0	\$24,879,985
Interest in privately held corporation	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	<u>\$24,879,985</u>	<u>\$0</u>	<u>\$0</u>	<u>\$24,879,985</u>

Fair value of assets measured on a recurring basis at December 31, 2008 are as follows:

Fair value measurements using

	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	<u>Fair Value</u>
Trading securities	\$21,085,298	\$0	\$0	\$21,085,298
Interest in privately held corporation	<u>0</u>	<u>0</u>	<u>2,000</u>	<u>2,000</u>
Total	<u>\$21,085,298</u>	<u>\$0</u>	<u>\$2,000</u>	<u>\$21,087,298</u>

The following table sets forth the detailed changes in fair value for the organization's Level 3 investments:

VESPER SOCIETY

Notes to Financial Statements Year Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Beginning Balance	\$2,000	\$2,000
Total gains or losses (realized/unrealized)	(2,000)	0
Purchases, issuance, and settlements	0	0
Transfers in and/or out of level 3	<u>0</u>	<u>0</u>
Ending Balance	<u>\$0</u>	<u>\$2,000</u>
Total amount of losses included in unrestricted net assets		
Attributable to the change in unrealized gains or losses relating		
To assets still held at the reporting date		
	<u>\$2,000</u>	<u>\$0</u>

Financial assets valued using level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets valued using level 2 inputs are based primarily on quoted prices for similar assets in active or inactive markets. Fair value of the Society's interest in a privately held corporation (level 3) is determined using the equity method.

Note 9 - Operating Leases

The Society has a commitment under an operating lease for its office space expiring on October 31, 2011. Rent expense for this lease was \$42,530 and \$42,100 during the years ended December 31, 2009 and 2008, respectively. Future rental payments on the unexpired part of the above lease at December 31, 2009 were:

Year ending December 31, 2010	\$36,677
Year ending December 31, 2011	<u>31,188</u>
	<u>\$67,865</u>

Note 10 – Subsequent Events

The Society has evaluated subsequent events through May 6, 2010, the date which the financial statements were available to be issued.