

**Safe Passage and
Camino Seguro**

Financial Report

December 31, 2006

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macdonaldpage & co LLC

Certified Public Accountants and Management Advisors

Independent Auditors' Report

Board of Directors
Safe Passage and Camino Seguro
Yarmouth, Maine

We have audited the accompanying combined statements of assets and net assets - modified cash basis of Safe Passage (a nonprofit corporation) and Camino Seguro (a nonprofit organization) as of December 31, 2006 and 2005, and the related combined statements of support, revenues and expenses - modified cash basis, functional expenses - modified cash basis and cash flows - modified cash basis for the years then ended. These combined financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these combined 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 audits to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined 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.

As described in Note 1, these combined financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the assets and net assets of Safe Passage and Camino Seguro as of December 31, 2006 and 2005, and their support, revenues and expenses and cash flows for the year then ended, on the basis of accounting described in Note 1.

Macdonald Page & Co LLC.

South Portland, Maine
July 20, 2007

Combined Statement of Assets and Net Assets - Modified Cash Basis

December 31,

	2006	2005
ASSETS		
Current Assets		
Cash	<u>\$ 203,752</u>	<u>\$ 324,389</u>
Property and Equipment		
Buildings and land improvements	735,053	423,942
Furniture, fixtures, and equipment	67,291	63,331
Vehicles	<u>140,137</u>	<u>46,926</u>
	<u>942,481</u>	534,199
Accumulated depreciation	<u>(79,538)</u>	<u>(41,054)</u>
	<u>862,943</u>	493,145
Land	69,931	69,931
Construction in progress	<u>45,979</u>	<u>126,180</u>
	<u>978,853</u>	<u>689,256</u>
Loan Receivable	<u>93,288</u>	<u>93,288</u>
Total Assets	<u><u>\$ 1,275,893</u></u>	<u><u>\$ 1,106,933</u></u>
NET ASSETS		
Net Assets		
Unrestricted	\$ 1,172,545	\$ 930,188
Temporarily restricted	<u>103,348</u>	<u>176,745</u>
	<u>1,275,893</u>	<u>1,106,933</u>
Total Net Assets	<u><u>\$ 1,275,893</u></u>	<u><u>\$ 1,106,933</u></u>

See accompanying independent auditors' report.
The accompanying notes are an integral part of these combined financial statements.

Combined Statement of Support, Revenues and Expenses - Modified Cash Basis

Year Ended December 31, 2006

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Activities				
Support and revenues				
Contributions	\$ 1,250,288	\$ 73,732		\$ 1,324,020
Sponsorships	396,448			396,448
Other income	5,219			5,219
Gain on currency transaction	16,952			16,952
Net assets released after satisfaction of restrictions	38,743	(38,743)		
Total Support and Revenues	<u>1,707,650</u>	<u>34,989</u>		<u>1,742,639</u>
Operating expenses and losses				
Program	1,459,004			1,459,004
Administrative	168,628			168,628
Fundraising	111,161			111,161
Total Expenses	<u>1,738,793</u>			<u>1,738,793</u>
Change in Net Assets from Operations	<u>(31,143)</u>	<u>34,989</u>		<u>3,846</u>
Non-Operating Activities				
Contributions for long-lived assets		166,260		166,260
Loss on sale of assets	(1,146)			(1,146)
Net assets released after satisfaction of restrictions	274,646	(274,646)		
Change in Net Assets from Non-Operating Activities	<u>273,500</u>	<u>(108,386)</u>		<u>165,114</u>
Total Change in Net Assets	<u>242,357</u>	<u>(73,397)</u>		<u>168,960</u>
Net Assets, Beginning of Year	<u>930,188</u>	<u>176,745</u>		<u>1,106,933</u>
Net Assets, End of Year	<u>\$ 1,172,545</u>	<u>\$ 103,348</u>	<u>\$ -</u>	<u>\$ 1,275,893</u>

See accompanying independent auditors' report.
The accompanying notes are an integral part of these combined financial statements.

Combined Statement of Support, Revenues and Expenses - Modified Cash Basis

Year Ended December 31, 2005

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenues				
Contributions	\$ 1,112,207	\$ 40,503		\$ 1,152,710
Sponsorships	227,706			227,706
Other income	1,392			1,392
Gain on currency transaction	18,865			18,865
Net assets released after satisfaction of restrictions	7,268	(7,268)		
Total Support and Revenues	<u>1,367,438</u>	<u>33,235</u>		<u>1,400,673</u>
Expenses				
Program	989,522			989,522
Administrative	80,120			80,120
Fundraising	98,695			98,695
Total Expenses	<u>1,168,337</u>			<u>1,168,337</u>
Change in Net Assets from Operations	<u>199,101</u>	<u>33,235</u>		<u>232,336</u>
Non-Operating Activities				
Contributions for long-lived assets		257,753		257,753
Net assets released after satisfaction of restrictions	154,679	(154,679)		
Change in Net Assets from Non-Operating Activities	<u>154,679</u>	<u>103,074</u>		<u>257,753</u>
Total Change in Net Assets	353,780	136,309		490,089
Net Assets, Beginning of Year	<u>576,408</u>	<u>40,436</u>		<u>616,844</u>
Net Assets, End of Year	<u>\$ 930,188</u>	<u>\$ 176,745</u>	<u>\$ -</u>	<u>\$ 1,106,933</u>

See accompanying independent auditors' report.
The accompanying notes are an integral part of these combined financial statements.

Combined Statement of Functional Expenses - Modified Cash Basis

Year Ended December 31, 2006

	Program	Supporting Services			Total
		Administrative	Fundraising	Total	
Salaries, taxes and benefits	\$ 602,369	\$ 69,941	\$ 30,359	\$ 100,300	\$ 702,669
Volunteer, child and family assistance	74,782				74,782
Professional services	41,731	25,770	8,024	33,794	75,525
In-kind supplies and materials	46,769				46,769
School expenses	131,506				131,506
Repairs and maintenance	35,793	984	328	1,312	37,105
Rent and parking	66,685	11,899	6,179	18,078	84,763
Utilities	58,310	3,662	969	4,631	62,941
Food and drinking water	37,980	426	312	738	38,718
Supplies and materials	89,604	6,504	6,706	13,210	102,814
Travel and transportation	33,645		17,765	17,765	51,410
Minor equipment	21,430	3,830	4,626	8,456	29,886
Telephone and communication	33,470	9,592	7,183	16,775	50,245
Security	17,230				17,230
Medical expenses	20,532				20,532
Special activities	57,040	4,127	3,175	7,301	64,341
Other	18,529	26,740	1,759	28,500	47,029
Insurance	20,814	1,014	338	1,352	22,166
Library	13,373				13,373
Brochures and materials	157		23,438	23,438	23,595
Depreciation	37,255	4,139		4,139	41,394
	<u>\$ 1,459,004</u>	<u>\$ 168,628</u>	<u>\$ 111,161</u>	<u>\$ 279,789</u>	<u>\$ 1,738,793</u>

See accompanying independent auditors' report.

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

Combined Statement of Functional Expenses - Modified Cash Basis

Year Ended December 31, 2005

	Program	Supporting Services			Total
		Administrative	Fundraising	Total	
Salaries, taxes and benefits	\$ 362,284	\$ 26,838	\$ 37,657	\$ 64,495	\$ 426,779
Volunteer, child and family assistance	101,098				101,098
Professional services	1,766	6,856	14,867	21,723	23,489
In-kind supplies and materials	77,727				77,727
School expenses	68,505				68,505
Repairs and maintenance	57,961		214	214	58,175
Rent and parking	54,973	4,833	5,344	10,177	65,150
Utilities	47,613	1,326	606	1,932	49,545
Food and drinking water	30,778	297	70	367	31,145
Supplies and materials	28,355	6,560	5,518	12,078	40,433
Travel and transportation	27,837		12,406	12,406	40,243
Minor equipment	23,405	9,058	4,785	13,843	37,248
Telephone and communication	19,454	6,298	6,190	12,488	31,942
Security	19,416				19,416
Medical expenses	12,440				12,440
Special activities	12,316	2,150	2,118	4,268	16,584
Other	10,133	13,564	672	14,236	24,369
Insurance	7,704				7,704
Library	3,231				3,231
Brochures and materials	15		8,248	8,248	8,263
Depreciation	22,511	2,340		2,340	24,851
	<u>\$ 989,522</u>	<u>\$ 80,120</u>	<u>\$ 98,695</u>	<u>\$ 178,815</u>	<u>\$ 1,168,337</u>

See accompanying independent auditors' report.
The accompanying notes are an integral part of these combined financial statements.

Combined Statement of Cash Flows - Modified Cash Basis

Year Ended December 31,

	2006	2005
Cash flows from operating activities		
Change in net assets	<u>\$ 168,960</u>	<u>\$ 490,089</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	41,394	24,851
Loss on sale of property and equipment	1,146	
Contributions for long-lived assets	<u>(166,260)</u>	<u>(257,753)</u>
Total adjustments	<u>(123,720)</u>	<u>(232,902)</u>
Net cash provided by operating activities	<u>45,240</u>	<u>257,187</u>
Cash flows from investing activities		
Purchases of property and equipment	(333,557)	(217,376)
Proceeds from the sale of fixed assets	1,420	
Advances on loan receivable		(93,288)
Net cash used in investing activities	<u>(332,137)</u>	<u>(310,664)</u>
Cash flows from financing activities		
Contributions for long-lived assets	<u>166,260</u>	<u>257,753</u>
Net cash provided by financing activities	<u>166,260</u>	<u>257,753</u>
Net change in cash	(120,637)	204,276
Cash at beginning of year	<u>324,389</u>	<u>120,113</u>
Cash at end of year	<u><u>\$ 203,752</u></u>	<u><u>\$ 324,389</u></u>

See accompanying independent auditors' report.

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

Notes of Combined Financial Statements

December 31, 2006 and 2005

NOTE 1 - NATURE OF THE ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Safe Passage is a 501(c)3 tax exempt nonprofit corporation in the United States and Camino Seguro is a tax-exempt nonprofit organization registered and operated in Guatemala (hereinafter collectively called the Organization). These two entities represent a humanitarian group that provides educational opportunities to poor children in the country of Guatemala. Founded in 1999 by an American teacher, Safe Passage serves children of families who scavenge for a living at the Guatemala City municipal garbage dump.

The core activity of the Organization is an educational reinforcement program that enables the children to attend public schools and provides support and supervision to guide students from primary school through graduation from high school. Since its founding, over 550 children have enrolled in public schools with the assistance of Safe Passage. Within Safe Passage the students, who range in age from pre-school to 19, are provided comprehensive services that include classes and tutoring, financial aid for school needs, health care, vocational training, and a daily meal. Family needs are attended to by trained social workers and parents are offered literacy classes. Based on a philosophy of self-sufficiency and self-help, children can earn food packages to help out their families by regular attendance at school and after-school activities.

The Organization's programs are primarily located in Guatemala City and centered on an Educational Reinforcement Center built with donated funds. The physical plant is equipped and maintained and includes classrooms, a computer lab, library and health clinic. In the city of Antigua, one hour away from Guatemala City, Safe Passage leases a Residential Center called Casa Hogar that serves approximately 50 children whose lives at home or on the streets represent a danger to their well being.

The Organization employs about 100 full and part-time staff of Guatemalan teachers, social workers, and support personnel. This permits concentrated attention to each student. Safe Passage maintains an administrative and fundraising staff of four in the United States, located in Yarmouth, Maine. The Board of Directors and many active volunteers work stateside, in Europe, and elsewhere to sustain and increase support for Safe Passage: publicizing its mission, enlisting support from major donors, and soliciting foundation grants.

Paid staff in Guatemala work closely with international and Guatemalan volunteers who make both short and long-term commitments to the Organization. Each year approximately 30 long-term volunteers fill teaching and operational positions and more than 500 short-term volunteers travel to Guatemala from around the U.S. and the world to provide assistance across all areas of the Organization. The impact of volunteers is significant, both in contributing skills and limiting operational costs, and in building a public constituency for Safe Passage in their respective home countries.

Beneficiaries of Safe Passage include the children who participate in its educational and related programs as well as family members and the whole community around the garbage dump that benefits from jobs, educational opportunity, reduced crime and social services. Accordingly, almost 1,000 family members, in addition to the 550 children enrolled in Safe Passage programs, benefit from the Organization's array of services.

Historically, revenues have come primarily from individual donors via two streams of support: recurrent child and program sponsorships, generally paid monthly and renewed annually, and individual donations solicited via direct fundraising appeals. The category of foundation and corporate grants has grown in recent years and the Organization is making progress to diversify its revenue sources.

Notes of Combined Financial Statements

December 31, 2006 and 2005

NOTE 1 - NATURE OF THE ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Combination

The accompanying combined financial statements include the accounts of Safe Passage and Camino Seguro, both of which are under common control. Intercompany transactions and balances have been eliminated in the combination.

Basis of Accounting

The accompanying financial statements have been prepared on the modified cash basis of accounting which is a comprehensive basis of accounting other than generally accepted accounting principles. Under that basis, certain revenues and the related assets are recognized when received rather than when earned; and certain expenses are recognized when paid rather than when the obligation is incurred. That basis differs from generally accepted accounting principles primarily because the Organization has not recognized contribution or pledge receivables from donors and accounts payable to vendors and their related effects on the support, revenues and expenses in the accompanying financial statements. In-kind donations have also been recognized in the accompanying financial statements.

Basis of Presentation

The financial statements have been prepared in accordance with SFAS No. 117. Under SFAS No. 117, the Organization is required to report information pertaining to its assets and net assets and support, revenues and expenses according to three classes of net assets as follows:

Unrestricted Net Assets - Net assets that are not subject to donor imposed stipulations.

Temporarily Restricted Net Assets - Net assets subject to donor imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time.

Permanently Restricted Net Assets - Net assets subject to donor imposed stipulations that they be maintained permanently by the Organization.

Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Property and Equipment

Property and equipment are stated at cost or, in the case of donated property, at estimated fair value at the date of receipt. Depreciation on furniture, fixtures and equipment, and vehicles is calculated on a straight-line basis using estimated useful lives of five to seven years. Buildings and land improvements are depreciated on a straight-line basis over thirty-nine and fifteen years, respectively. Land, buildings and the majority of the vehicles, furniture, fixtures and equipment are located in Guatemala.

Notes of Combined Financial Statements

December 31, 2006 and 2005

NOTE 1 - NATURE OF THE ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of revenues and expenses as net assets released from restrictions.

Contributed Services

The Organization receives a substantial amount of services donated by volunteers in carrying out the Organization's programs. No amounts have been reflected in the financial statements for those services since they do not meet the criteria for recognition as contributions.

Donated Materials

Each year, certain services and materials have been donated in-kind to the Organization. The estimated value of these services and materials has been reflected in the accompanying financial statements as contributions with a like amount included in expenses such as program and supporting services expenses.

Advertising

The Organization expenses advertising costs as they are incurred.

Functional Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services.

Foreign Currency Translation

The Guatemalan quetzal is the functional currency for the Organization's programs. All amounts in these financial statements are reflected in U.S. dollars. Gains and losses due to foreign currency fluctuations reflect the change in the value of various foreign currencies in relation to the U.S. dollar.

Income Tax Status

Safe Passage is exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code and Camino Seguro is exempt from income taxes in Guatemala.

Statements of Cash Flows

For purposes of the combined statements of cash flows – modified cash basis, the Organization considers all highly liquid debt instruments purchased with an initial maturity of three months or less to be cash equivalents.

Notes of Combined Financial Statements

December 31, 2006 and 2005

NOTE 1 - NATURE OF THE ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

NOTE 2 - CASH AND CASH EQUIVALENTS

The Organization maintains its cash in bank deposit accounts located in the United States and Guatemala. Cash maintained in accounts located in the United States, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts. Cash maintained in accounts located in Guatemala is insured up to 14% of the value in each account. The Organization believes it is not exposed to any significant credit risk from cash and cash equivalents.

NOTE 3 - TEMPORARILY RESTRICTED NET ASSETS

Net assets were temporarily restricted for the following purposes at December 31:

	2006	2005
Garden project	\$ 41,918	
Hospitality	24,739	
Iron workshop	7,069	
English	12,987	\$ 6,786
Parent literacy	8,428	1,449
Daycare center		85,757
Farmland	6,901	6,701
Bakery workshop		46,052
Training kitchen		5,000
Capital campaign		10,000
Truck		15,000
Other	1,306	
	<u>\$ 103,348</u>	<u>\$ 176,745</u>

NOTE 4 - COMMITMENTS AND CONTINGENCIES

Leases

The Organization has executed operating lease commitments in excess of one year for the following locations: Residential Care Facility in San Pedro, Guatemala with monthly rent of \$2,816 which expires on January 12, 2008, and the administration offices in Yarmouth, Maine with monthly rent of \$1,439 which expires on October 31, 2008.

The Organization leases other equipment and office space under operating leases expiring at various times. Rental expense for the years ended December 31, 2006 and 2005 was \$52,109 and \$52,596, respectively, for all leases with terms of more than one month.

Notes of Combined Financial Statements

December 31, 2006 and 2005

NOTE 4 - COMMITMENTS AND CONTINGENCIES - CONTINUED

Minimum future rental payments under non-cancelable operating leases having initial or remaining terms in excess of one year as of December 31, 2006, are as follows:

2007	\$ 52,670
2008	53,230
	<u>\$ 105,900</u>

Land Use

The Organization has a verbal agreement with a donor that provides for free use of the land on which the daycare center, occupational training center and gardens have built upon for a period of 15 years with renewable terms available. The Organization and the donor are preparing a written agreement subsequent to year end.

NOTE 5 – RELATED PARTY TRANSACTIONS

During the year ended December 31, 2005, the Organization loaned \$93,228 of the start-up costs to Lazos Fuertes, a hotel located in Antigua, Guatemala. Due to legal restrictions imposed by the Guatemalan government regarding nonprofits, the ownership of the hotel is in the name of the executive director and another employee of the Organization. The hotel provides a hotel management training program to students of Safe Passage and also provides accommodations for volunteers, visiting groups and other guests. The ten-year loan receivable is due July 17, 2016. The loan is non-interest bearing assuming the loan is paid by the due date. A 6% interest rate will be assessed if the loan is not paid by the due date and the loan terms are not renegotiated. In addition, there is an agreement between the Organization and Lazos Fuertes which stipulates that all profits from the Lazos Fuertes program are to be contributed back to the Organization.