

**Safe Passage and  
Camino Seguro**

Financial Report

December 31, 2007

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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 statement of financial position of Safe Passage (a nonprofit corporation) and Camino Seguro (a nonprofit organization) as of December 31, 2007 and the related combined statement of activities, functional expenses and cash flows for the year 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 audit.

We conducted our audit 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 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 audit provides a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Safe Passage and Camino Seguro as of December 31, 2007 and the changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.



South Portland, Maine  
May 22, 2008

## Combined Statement of Financial Position

December 31, 2007

### ASSETS

#### Current Assets

Cash	\$ 211,112
Contributions receivable - current portion	351,220
Prepaid expenses	11,538
Accrued interest receivable	7,020
<b>Total Current Assets</b>	<u>580,890</u>

#### Property and Equipment

Buildings and land improvements	857,241
Furniture, fixtures, and equipment	58,597
Vehicles	155,940
	<u>1,071,778</u>
Accumulated depreciation	(125,114)
	<u>946,664</u>
Land	69,931
	<u>1,016,595</u>

#### Other Assets

Investments	1,872,033
Contributions receivable - net of current portion	122,405
Loan receivable	93,288
	<u>2,087,726</u>

<b>Total Assets</b>	<u><u>\$ 3,685,211</u></u>
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### LIABILITIES AND NET ASSETS

#### Current Liabilities

Accounts payable	\$ 7,713
Due to support groups	26,999
Due to sponsored children	12,692
Accrued payroll and severance	37,663
<b>Total Current Liabilities</b>	<u>85,067</u>

#### Net Assets

Unrestricted	
Undesignated	1,164,630
Board designated	900,306
Total Unrestricted	<u>2,064,936</u>
Temporarily restricted	487,881
Permanently restricted	1,047,327
	<u>3,600,144</u>

<b>Total Liabilities and Net Assets</b>	<u><u>\$ 3,685,211</u></u>
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## Combined Statement of Activities

Year Ended December 31, 2007

2007

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Operating Activities</b>				
<b>Support and Revenues</b>				
Contributions	\$ 1,357,116	\$ 116,915		\$ 1,474,031
Sponsorships	518,209			518,209
Other income	1,172			1,172
Loss on currency translation	(2,845)			(2,845)
Net assets released after satisfaction of restrictions	128,339	(128,339)		
<b>Total Support and Revenues</b>	<u>2,001,991</u>	<u>(11,424)</u>		<u>1,990,567</u>
<b>Operating Expenses and Losses</b>				
Program	1,487,114			1,487,114
Administrative	254,291			254,291
Fundraising	246,686			246,686
<b>Total Expenses</b>	<u>1,988,091</u>			<u>1,988,091</u>
<b>Change in Net Assets from Operations</b>	<u>13,900</u>	<u>(11,424)</u>		<u>2,476</u>
<b>Non-Operating Activities</b>				
Board designated contributions	900,306	395,957		1,296,263
Endowment contributions			\$ 1,047,327	1,047,327
Investment income	32,101			32,101
Loss on sale of property and equipment	(14,552)			(14,552)
<b>Change in Net Assets from Non-Operating Activities</b>	<u>917,855</u>	<u>395,957</u>	<u>1,047,327</u>	<u>2,361,139</u>
<b>Total Change in Net Assets</b>	<u>931,755</u>	<u>384,533</u>	<u>1,047,327</u>	<u>2,363,615</u>
<b>Net Assets, Beginning of Year (Restated)</b>	<u>1,133,181</u>	<u>103,348</u>		<u>1,236,529</u>
<b>Net Assets, End of Year</b>	<u>\$ 2,064,936</u>	<u>\$ 487,881</u>	<u>\$ 1,047,327</u>	<u>\$ 3,600,144</u>

## Combined Statement of Functional Expenses

Year Ended December 31, 2007

	Program	Supporting Services			Total
		Administrative	Fundraising	Total	
Salaries, taxes and benefits	\$ 621,662	\$ 120,012	\$ 111,620	\$ 231,632	\$ 853,294
Child and family assistance	18,667				18,667
Professional services	353	35,526	12,702	48,228	48,581
In-kind supplies and materials	72,332				72,332
School expenses	125,837				125,837
Repairs and maintenance	29,268	219	219	438	29,706
Rent and parking	56,469	13,198	10,143	23,341	79,810
Utilities	56,189	2,780	2,043	4,823	61,012
Food and drinking water	54,329	372		372	54,701
Supplies and materials	79,017	8,960	9,534	18,494	97,511
Travel and transportation	23,937		19,275	19,275	43,212
Minor equipment	10,524	3,755	2,361	6,116	16,640
Telephone and communication	20,753	10,643	8,555	19,198	39,951
Security	31,230				31,230
Medical expenses	11,962				11,962
Special activities	139,354	9,081	18,156	27,237	166,591
Other	46,375	42,279	28,939	71,218	117,593
Insurance	22,899	1,758	1,757	3,515	26,414
Library	14,090				14,090
Brochures and materials	490		21,382	21,382	21,872
Depreciation	51,377	5,708		5,708	57,085
	<u>\$1,487,114</u>	<u>\$ 254,291</u>	<u>\$ 246,686</u>	<u>\$ 500,977</u>	<u>\$1,988,091</u>

## Combined Statement of Cash Flows

Year Ended December 31, 2007

### Cash flows from operating activities

Change in net assets	\$ 2,363,615
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	57,085
Loss on sale of property and equipment	14,552
Realized and unrealized gains on investments	(4,572)
Endowment contributions	(1,047,327)
Increase in operating assets:	
Contributions receivable	(392,957)
Prepaid expenses	(10,356)
Other assets	(7,020)
Increase (decrease) in operating liabilities	
Accounts payable	(3,321)
Due to support groups and children	39,691
Accrued payroll and severance	8,152
Total adjustments	<u>(1,346,073)</u>
<b>Net cash provided by operating activities</b>	<u>1,017,542</u>

### Cash flows from investing activities

Proceeds for sale of property and equipment	6,821
Purchases of property and equipment	(116,200)
Purchase of investments	(1,930,085)
Proceeds from sale of investments	62,624
<b>Net cash used in investing activities</b>	<u>(1,976,840)</u>

### Cash flows from financing activities

Collection of endowment contributions	966,658
<b>Net cash used in financing activities</b>	<u>966,658</u>

Net change in cash	7,360
Cash at beginning of year	<u>203,752</u>
Cash at end of year	<u>\$ 211,112</u>

## Notes to Combined Financial Statements

December 31, 2007

### NOTE 1 – NATURE OF THE ORGANIZATIONS 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 activities of the Organization are a preschool and an educational reinforcement program that enables the children to attend local schools and provides support and supervision to guide students from preschool and/or primary school through graduation from high school. Currently, over 550 children are enrolled in local schools with the assistance of Safe Passage. Within Safe Passage the children, who range in age from pre-school to 19, are provided with support and 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 educational reinforcement activities.

The Organization's programs are primarily located in Guatemala City and centered at an Early Childhood Center and 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 space for management and administrative headquarters. Nearby Antigua, Safe Passage also leased accommodations for a 24/7 residential program (Casa Hogar) for about 50 children whose families had become temporarily or permanently unstable. This residential program was phased out in the fourth quarter of 2007, with some children able to return to their families and others placed in appropriate alternative residential arrangements.

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 additional 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.

## Notes to Combined Financial Statements

December 31, 2007

### NOTE 1 – NATURE OF THE ORGANIZATIONS 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. Material intercompany transactions and balances have been eliminated in the combination.

#### Basis of Presentation

The financial statements have been prepared on the accrual basis of accounting and in accordance with Statement of Financial Accounting Standards (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 generally accepted accounting principles 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.

#### Contributions Receivable

Unconditional contributions receivable are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional contributions receivable are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. Allowance for uncollectible contributions receivable was \$3,000 at December 31, 2007.

#### 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.

#### Investments

Investments are carried at fair value, and realized and unrealized gains and losses are reflected in the statements of activities.

## Notes to Combined Financial Statements

December 31, 2007

### NOTE 1 – NATURE OF THE ORGANIZATIONS AND SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

#### Non-Operating Activities

Non-operating activities consist of contributions for non-operating purposes such as endowments and board designated funds, which are designated for long-term sustainability of the Organization.

#### 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 materials have been donated in-kind to the Organization. The estimated value of these 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. Advertising expense for the years ended December 31, 2007 and 2006 was \$7,202 and \$10,328, respectively.

#### 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.

## Notes to Combined Financial Statements

December 31, 2007

### NOTE 1 – NATURE OF THE ORGANIZATIONS AND SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

#### Statement of Cash Flows

For purposes of the combined statement of cash flows the Organization considers all highly liquid debt instruments purchased with an initial maturity of three months or less to be cash equivalents. Money market funds, held as a portion of the Organization's endowment portfolio, are classified as investments for purposes of the statement of cash flows.

### 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 – CONTRIBUTIONS RECEIVABLE

Unconditional contributions receivable at December 31, 2007 are as follows:

Unrestricted - Board Designated	\$ 401,130
Permanent Endowment	81,500
	<u>482,630</u>
Less unamortized discount (4%)	6,005
Less allowance for uncollectible	3,000
Net unconditional contributions receivable	<u>\$ 473,625</u>
Amounts due in:	
Less than one year	\$ 351,220
One to five years	122,405
	<u>\$ 473,625</u>

### NOTE 4 – INVESTMENTS

Investments at approximate fair value based on quoted market prices as of December 31, 2007 are as follows:

Money market funds	\$ 1,368,032
Fixed income	501,484
Equity securities	2,517
	<u>\$ 1,872,033</u>

Investment income is summarized as follows:

Interest and dividend income	\$ 27,529
Net realized and unrealized gains	4,572
	<u>\$ 32,101</u>

## Notes to Combined Financial Statements

December 31, 2007

### NOTE 5 – RESTRICTIONS ON NET ASSETS

Net assets were temporarily restricted for the following purposes at December 31 2007:

Contributions receivable - time restricted	\$ 392,957
Education center addition	20,000
English program	16,937
La Luna psychology program	13,581
Parent literacy	8,638
High school project	7,819
Farmland	6,689
Athletic field	6,596
Summer camp	6,425
Hotel	5,239
Screening of dining area	3,000
	<u>\$ 487,881</u>

Permanently restricted net assets consisted of the following as of December 31, 2007:

Endowment - to support future operations	\$ 1,047,327
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### NOTE 6 – COMMITMENTS AND CONTINGENCIES

#### Leases

The Organization has executed an operating lease commitment in excess of one year for the administration offices in Yarmouth, Maine with monthly rent of \$2,053 through October 31, 2007 and \$2,100 through the expiration date of October 31, 2008. The future minimum rental payments under this non-cancelable operating lease having an initial or remaining term in excess of one year as of December 31, 2007 is \$21,000 during the year ending December 31, 2008.

The Organization leases other office space under month-to-month operating leases. Total rent expense for the year ended December 31, 2007 was \$73,166.

#### 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 been built upon for a period of 15 years with renewable terms available. Subsequent to year-end, the Organization and the donor are preparing a written agreement.

### NOTE 7 – 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 was in the name of the executive director and another employee of the Organization. During 2007, the ownership changed to an employee of the Organization. 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.

## **Notes to Combined Financial Statements**

**December 31, 2007**

### **NOTE 8 – ACCOUNTING CHANGE**

During the year ended December 31, 2007 the Organization changed from the modified cash basis of accounting to the accrual basis of accounting. The Organization believes that the accrual basis more accurately reflects financial position and results of operations. The effect of this change decreased the change in net assets for the year ended December 31, 2006 by \$39,364, which resulted in a decrease of unrestricted net assets of \$39,364. Beginning unrestricted net assets has been restated for the effect of the retroactive application of the change in accounting principle.