

CONEXIÓN AMÉRICAS
NASHVILLE, TENNESSEE
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
JUNE 30, 2006 AND 2005

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Conexión Américas
Nashville, Tennessee

We have audited the accompanying statements of financial position of Conexión Américas (the "Agency"), a Tennessee not-for-profit corporation, as of June 30, 2006 and 2005, and the related statements of activities, cash flows and functional expenses for the years then ended. These financial statements are the responsibility of the Agency'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 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 Conexión Américas as of June 30, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

KraftCPAs PLLC

Nashville, Tennessee
September 25, 2006

CONEXIÓN AMÉRICAS

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 54,032	\$ 39,740
Accounts receivable	51,564	6,300
Contributions receivable	142,661	100,479
Loans receivable - net allowance for loan loss of \$11,829 in 2006 (\$-0- in 2005) - Notes 2 and 5	375,737	-
Investments - Note 3	25,095	24,389
Equipment, net - Note 4	5,340	4,416
Other assets	<u>1,600</u>	<u>1,600</u>
TOTAL ASSETS	<u>\$ 656,029</u>	<u>\$ 176,924</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>LIABILITIES</u>		
Accounts payable	\$ 25,220	\$ 7,875
Accrued compensation	-	9,000
Accrued expenses - other	4,304	6,170
Refundable grantor advances	29,284	-
Note payable - Note 5	<u>387,566</u>	<u>-</u>
TOTAL LIABILITIES	<u>446,374</u>	<u>23,045</u>
COMMITMENTS - Note 8		
<u>NET ASSETS</u>		
Unrestricted	96,994	40,900
Temporarily restricted - Note 6	<u>112,661</u>	<u>112,979</u>
TOTAL NET ASSETS	<u>209,655</u>	<u>153,879</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 656,029</u>	<u>\$ 176,924</u>

The accompanying notes are an integral part of the financial statements.

CONEXIÓN AMÉRICAS

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	2006		
	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
SUPPORT AND REVENUE			
Revenues:			
Fee for services	\$ 166,946	\$ -	\$ 166,946
Interest	10,204	-	10,204
Realized gain (loss) on sale of investments	<u>(2,973)</u>	<u>-</u>	<u>(2,973)</u>
Total Revenues	<u>174,177</u>	<u>-</u>	<u>174,177</u>
Public support:			
Contributions	24,767	-	24,767
In-kind contributions	2,100	-	2,100
Government and foundation grants	178,511	112,661	291,172
Fundraising events	59,071	-	59,071
Change in previously recognized restricted contributions - Note 10	-	(10,000)	(10,000)
Temporarily restricted net assets released from restriction	<u>102,979</u>	<u>(102,979)</u>	<u>-</u>
Total Public Support	<u>367,428</u>	<u>(318)</u>	<u>367,110</u>
TOTAL SUPPORT AND REVENUE	<u>541,605</u>	<u>(318)</u>	<u>541,287</u>
EXPENSES			
Program services:			
Social and economic advancement programs	365,409	-	365,409
Management and general	48,748	-	48,748
Fundraising	<u>71,354</u>	<u>-</u>	<u>71,354</u>
TOTAL EXPENSES	<u>485,511</u>	<u>-</u>	<u>485,511</u>
CHANGE IN NET ASSETS	56,094	(318)	55,776
NET ASSETS (DEFICIT) - BEGINNING OF YEAR	<u>40,900</u>	<u>112,979</u>	<u>153,879</u>
NET ASSETS - END OF YEAR	<u>\$ 96,994</u>	<u>\$ 112,661</u>	<u>\$ 209,655</u>

The accompanying notes are an integral part of the financial statements.

2005		
UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
\$ 148,598	-	\$ 148,598
228	-	228
-	-	-
148,826	-	148,826
69,884	-	69,884
4,200	-	4,200
53,793	112,979	166,772
-	-	-
-	-	-
177,401	(177,401)	-
305,278	(64,422)	240,856
454,104	(64,422)	389,682
307,651	-	307,651
51,986	-	51,986
50,184	-	50,184
409,821	-	409,821
44,283	(64,422)	(20,139)
(3,383)	177,401	174,018
\$ 40,900	\$ 112,979	\$ 153,879

CONEXIÓN AMÉRICAS

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 55,776	\$ (20,139)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	2,581	2,776
Realized (gain) loss on sale of investments	2,973	-
Loan loss provision	11,829	-
(Increase) decrease in:		
Accounts receivable	(45,264)	(6,300)
Contributions receivable	(42,182)	39,422
Other assets	-	128
Increase (decrease) in:		
Accounts payable	17,345	7,875
Accrued compensation	(9,000)	-
Accrued expenses - other	(1,866)	1,573
Refundable grantor advances	29,284	-
TOTAL ADJUSTMENTS	<u>(34,300)</u>	<u>45,474</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>21,476</u>	<u>25,335</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Housing downpayment assistance loans made	(394,310)	-
Principal repayments on housing downpayment assistance loans	6,744	-
Purchase of investments	(25,095)	(24,389)
Proceeds from sale of investments	21,416	-
Purchase of equipment	<u>(3,505)</u>	<u>(1,338)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(394,750)</u>	<u>(25,727)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from note payable	394,310	
Principal repayments on note payable	<u>(6,744)</u>	<u>-</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>387,566</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	14,292	(392)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>39,740</u>	<u>40,132</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 54,032</u>	<u>\$ 39,740</u>
ADDITIONAL CASH FLOW INFORMATION:		
Interest expense paid	<u>\$ 6,172</u>	<u>\$ -</u>

The accompanying notes are an integral part of the financial statements.

CONEXIÓN AMÉRICAS

STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	2006			
	Program Services	Management and General	Fundraising	Totals
Salaries	\$ 218,742	\$ 28,370	\$ 14,797	\$ 261,909
In-kind salary expense	-	2,100	-	2,100
Payroll taxes	18,724	3,121	446	22,291
Employee fringe benefits	<u>1,609</u>	<u>268</u>	<u>38</u>	<u>1,915</u>
TOTAL PAYROLL AND RELATED EXPENSES	239,075	33,859	15,281	288,215
Advertising and promotion	8,417	-	443	8,860
Automobile expense	2,088	373	25	2,486
Contract labor	3,300	4,950	24,750	33,000
Downpayment assistance grants provided	4,286	-	-	4,286
Dues and subscriptions	781	138	-	919
Education	4,012	-	-	4,012
Hispanic Heritage fundraising event	-	-	18,499	18,499
Insurance	3,778	675	45	4,498
Interest expense	6,872	-	-	6,872
Legal and accounting	7,220	1,375	-	8,595
Licenses and fees	718	137	-	855
Loan loss provision	11,829	-	-	11,829
Maintenance and repairs	2,701	482	32	3,215
Meals and entertainment	1,004	191	-	1,195
Miscellaneous expense	90	17	150	257
MSS grant expense	2,827	-	-	2,827
Office supplies and expense	32,999	828	12,027	45,854
Program materials	1,594	-	-	1,594
Rent	20,160	3,840	-	24,000
Spanish class expenses	-	-	-	-
Telephone	6,251	1,116	74	7,441
Training	403	77	-	480
Translation expense	1,228	-	-	1,228
Travel	1,418	270	-	1,688
Utilities	<u>190</u>	<u>33</u>	<u>2</u>	<u>225</u>
TOTAL FUNCTIONAL EXPENSES BEFORE DEPRECIATION	363,241	48,361	71,328	482,930
Depreciation of equipment	<u>2,168</u>	<u>387</u>	<u>26</u>	<u>2,581</u>
TOTAL FUNCTIONAL EXPENSES	<u>\$ 365,409</u>	<u>\$ 48,748</u>	<u>\$ 71,354</u>	<u>\$ 485,511</u>

The accompanying notes are an integral part of the financial statements.

2005

Program Services	Management and General	Fundraising	Totals
\$ 166,710 - 12,840 <u>2,876</u>	\$ 35,258 4,200 2,716 <u>773</u>	\$ 15,413 - 1,187 <u>337</u>	\$ 217,381 4,200 16,743 <u>3,985</u>
182,426	42,947	16,937	242,309
8,726	-	-	8,726
2,671	477	32	3,180
33,063	-	33,063	66,126
-	-	-	-
1,107	195	-	1,302
18,447	-	-	18,447
-	-	-	-
1,478	264	18	1,760
-	-	-	-
7,510	-	-	7,510
760	145	-	905
-	-	-	-
3,751	670	45	4,466
1,724	307	21	2,052
29	28	28	86
-	-	-	-
5,896	1,043	12	6,951
923	-	-	923
22,680	4,320	-	27,000
5,040	-	-	5,040
1,785	340	-	2,125
2,171	413	-	2,584
2,912	-	-	2,912
2,118	403	-	2,521
<u>102</u>	<u>18</u>	<u>-</u>	<u>120</u>
305,319	51,570	50,156	407,045
<u>2,332</u>	<u>416</u>	<u>28</u>	<u>2,776</u>
<u>\$ 307,651</u>	<u>\$ 51,986</u>	<u>\$ 50,184</u>	<u>\$ 409,821</u>

CONEXIÓN AMÉRICAS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

Conexión Américas (the “Agency”) was organized as a Tennessee not-for-profit corporation in 2002 to help Hispanic families realize their aspirations for social and economic advancement by promoting their integration into the Middle Tennessee community.

Contributions and Support

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted by the donor for future periods or for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a restriction is fulfilled (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted and reported in the Statement of Activities as net assets released from restrictions.

Gifts of equipment or materials are reported as unrestricted support unless explicit donor restrictions specify how the assets must be used. Gifts of long-lived assets with explicit restrictions as to how the assets are to be used or cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Expirations of donor restrictions are recognized when the donated or acquired long-lived assets are placed in service.

Cash and Cash Equivalents

Cash and cash equivalents consist principally of checking and demand deposit account balances maintained at a financial institution.

Investments

Investments consist of certain publicly-traded securities and are carried at their quoted fair market value on the last business day of the reporting period. Unrealized gains and losses are recognized currently.

Equipment

Equipment is recorded at cost, when purchased, or at estimated fair value, when gifted to the Agency. Depreciation is calculated by the straight-line method to allocate the cost of depreciable assets, as so determined, to operations over estimated useful lives of three to seven years.

CONEXIÓN AMÉRICAS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2006 AND 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Promises to Give

Unconditional promises to give (pledges) in future periods are recorded as temporarily restricted revenue in the statement of activities in the year the promise is made. Cash collections on previously recognized promises to give are shown as releases of temporarily restricted net assets if there are no other purpose restrictions to be fulfilled.

Unconditional promises to give that are expected to be collected within one year are reported as contributions receivable at their net realizable value. Conditional promises to give are not included as support until such time as the conditions are substantially met.

An allowance for uncollectible contributions is not provided based on management's estimate that all pledges are fully collectible. Unpaid pledges at June 30, 2006, are due during the next fiscal year.

Provision for uncollectible loans

A loan receivable is considered impaired when, based on current information, it is considered more likely than not that all amounts of principal and interest due will not be collected according to the terms of the loan agreement. The allowance for uncollectible loans is established by charges to program services expense and is maintained at an amount which management believes adequate to absorb losses on existing loans. Uncollectible loans are charged to the allowance account in the period such determination is made.

Refundable grantor advances

Federal grant revenue is recognized in the period a liability is incurred for eligible expenditures under the terms of the grant. Grant funds received prior to expenditure are recorded initially under liabilities as a refundable grantor advance.

Donated Services

The Agency's policy is to record support and expenses for contributed services that require specialized skills and would be purchased if not provided by the donor at the fair value of services received.

Members of the Board of Directors have also provided substantial assistance to the Agency by the donation of time and services. The value of this contribution is not reflected in the financial statements since it is not susceptible to objective measurement or valuation.

CONEXIÓN AMÉRICAS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2006 AND 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensated Absences

Compensated absences expense is accrued for vacation days earned by employees that will be paid in the future. After six months of employment, employees are eligible for 15 days of vacation per year in years 1 through 5, and 20 days of vacation annually thereafter. Current policy is to allow employees to carry over a maximum of five days at the end of the calendar year.

Program and Supporting Services

The following functional expense allocations are included in the accompanying financial statements:

Program services

The Agency's programs provide direct services to Hispanic families seeking a better quality of life, while at the same time offering assistance to non-profit organizations, corporations and government institutions seeking to improve their understanding of and interaction with local Latino communities. The Agency offers to Hispanic families information and referral services, referrals to pro bono legal services, financial literacy education and counseling, taxpayer assistance and assistance in the home-buying process. The Agency also offers other organizations Latino Cultural Competency Training, practical Spanish classes, English/Spanish translations, and support for applied research related to the Hispanic community.

Supporting services

Management and general - relates to the overall direction of the organization. Activities include agency oversight, business management, recordkeeping, financing, board operations, and community planning and networking activities.

Fundraising - includes costs of activities directed toward appeals for financial support, including special events. Other activities include the cost of solicitations and creation and distribution of fundraising materials. These costs include staff time, materials and other related expenses.

Allocation of functional expenses

Costs of providing the Agency's programs and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and activities benefited. Costs that are not allocated to program services are classified as management and general.

CONEXIÓN AMÉRICAS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2006 AND 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

The Agency is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code, except for taxable income, if any, resulting from certain activities that generate unrelated business income.

Use of Estimates in the Preparation of Financial Statements

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 that 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - LOANS RECEIVABLE

The Agency has established a program known as Puertas Abiertas to assist Hispanic families in the Middle Tennessee community in purchasing homes by providing down payment financing. Down payment assistance loans to homebuyers generally range from \$1,500 to \$10,000, with a maturity date of 10 years from the date of the loan, and bear interest at the rate of 7.5%. These loans are secured by a second priority deed of trust on the property. The loans are also pledged as collateral on the related note payable to The Housing Fund (see Note 5).

Annual principal maturities of down payment assistance loans receivable as of June 30, 2006, are as follows:

2007	\$ 27,102
2008	30,554
2009	32,905
2010	35,460
2011	38,103
Thereafter	<u>223,442</u>
Total	<u>\$ 387,566</u>

CONEXIÓN AMÉRICAS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2006 AND 2005

NOTE 3 - INVESTMENTS

Investments consisted of 1,043 shares of Electronic Data Systems Corporation as of June 30, 2006, and 1,210 shares of Dollar General as of June 30, 2005.

NOTE 4 - EQUIPMENT

Equipment consisted of the following as of June 30:

	<u>2006</u>	<u>2005</u>
Computer equipment	\$ 6,073	\$ 6,073
Office equipment	<u>7,874</u>	<u>4,370</u>
	13,947	10,443
Less accumulated depreciation	<u>(8,607)</u>	<u>(6,027)</u>
	<u>\$ 5,340</u>	<u>\$ 4,416</u>

NOTE 5 - NOTE PAYABLE

In order to fund the down payment assistance loan program, The Housing Fund (a Tennessee not-for-profit organization) agreed to loan the Agency up to \$500,000. The agreement is evidenced by a note, which mirrors the terms of and is secured by the Puertas Abiertas program loans receivable (see Note 2). The note matures upon the final due date of the related loans receivable and bears interest at the rate of 5%. Principal collections on the related loans receivable are required to be applied to the note payable.

Annual principal maturities of the note payable as of June 30, 2006, are as follows:

2007	\$ 27,102
2008	30,554
2009	32,905
2010	35,460
2011	38,103
Thereafter	<u>223,442</u>
Total	<u>\$ 387,566</u>

CONEXIÓN AMÉRICAS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2006 AND 2005

NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following as of June 30:

	<u>2006</u>	<u>2005</u>
United Way of Middle Tennessee - Information, referral and support services for Latino workers and their families	\$ 57,661	\$ 60,479
HCA Foundation - donation for social, economic and civic integration	55,000	-
Metropolitan Social Services - donation for development of Coming to Nashville: What Latinos Need to Know Program	-	10,000
American Dream Homeownership Challenge Project	-	42,500
	<u>\$ 112,661</u>	<u>\$ 112,979</u>

NOTE 7 - CONCENTRATIONS OF CREDIT RISK

From time to time throughout the year, the Agency's bank account balances exceeded FDIC-insured limits. Management considers this to be a normal business risk. At June 30, 2006, cash balances per bank did not exceed the \$100,000 FDIC insurance limit.

Contributions received from two donors, totaling \$147,661, comprised 28% of total support and revenue for the year ended June 30, 2006; contributions received from three donors, totaling \$145,872, comprised 37% of total support and revenue for the year ended June 30, 2005.

CONEXIÓN AMÉRICAS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2006 AND 2005

NOTE 8 - COMMITMENTS

The Agency leases its office space under a non-cancelable operating lease. The lease requires monthly payments ranging from \$2,500 to \$2,600. The lease expires on December 31, 2008. Total rental expense for the year ended June 30, 2006, was \$24,000 (\$27,000 in 2005). Future minimum lease payments required under the lease as of June 30, 2006, are as follows:

Year ending June 30,

2007	\$	30,300
2008		30,900
2009		<u>15,600</u>
Total	\$	<u>76,800</u>

NOTE 9 - RELATED PARTY TRANSACTIONS

In-kind contributions in the amount of \$2,100 in 2006 (\$4,200 in 2005) consisted of donated accounting services from a company owned by the Agency's Executive Director.

NOTE 10 - CHANGE IN PREVIOUSLY RECOGNIZED RESTRICTED CONTRIBUTIONS

During 2005, the Agency was notified that it would be receiving a Federal Home Loan Bank grant in the amount of \$30,000 for increasing homeownership opportunities for minorities and persons with special needs. Accordingly, the Agency recognized contributions receivable and a temporarily restricted contribution for that amount in 2005. During 2006, the grantor informed the Agency that the amount of the grant had been reduced to \$20,000, and that the amount of funds available to the Agency for making downpayment assistance grants had been increased by \$10,000. The \$10,000 reduction in this previously recognized restricted contribution has been treated as a change in accounting estimate recorded in 2006.