

**COMUNIDADES LATINAS UNIDAS EN SERVICIO, INC.**

**FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2006 AND 2005**

**COMUNIDADES LATINAS UNIDAS EN SERVICIO, INC.**

**FINANCIAL STATEMENTS AND  
SINGLE AUDIT COMPLIANCE REPORTS**

**YEARS ENDED DECEMBER 31, 2006 AND 2005**

**COMUNIDADES LATINAS UNIDAS EN SERVICIO, INC.**  
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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Comunidades Latinas Unidas En Servicio, Inc.  
St. Paul, Minnesota

We have audited the accompanying balance sheets of Comunidades Latinas Unidas En Servicio, Inc. (the Organization) for the years ended December 31, 2006 and 2005, and the related statements of activity, functional expense, and cash flows for the years then ended. These financial statements are the responsibility of the Organization'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 Comunidades Latinas Unidas En Servicio, Inc. for the years ended December 31, 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.

*Larson, Allen, Weishair & Co., LLP*

**LARSON, ALLEN, WEISHAIR & CO., LLP**

Minneapolis, Minnesota  
April 18, 2007

# LarsonAllen<sup>SM</sup>

CPAs, Consultants & Advisors  
www.larsonallen.com

## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Comunidades Latinas Unidas En Servicio, Inc.  
St. Paul, Minnesota

We have audited the accompanying balance sheets of Comunidades Latinas Unidas En Servicio, Inc. (the Organization) for the years ended December 31, 2006 and 2005, and the related statements of activity, functional expense, and cash flows for the years then ended. These financial statements are the responsibility of the Organization'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 and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of 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 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 Comunidades Latinas Unidas En Servicio, Inc. as of December 31, 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 18, 2007 on our consideration of Comunidades Latinas Unidas En Servicio, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Our audits were performed for the purpose of forming an opinion on the basic financial statements of Comunidades Latinas Unidas En Servicio, Inc., Inc. taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Larson, Allen, Weishair & Co., LLP*

LARSON, ALLEN, WEISHAIR & CO., LLP

Minneapolis, Minnesota  
April 18, 2007

**COMUNIDADES LATINAS UNIDAS EN SERVICIO, INC.**  
**BALANCE SHEETS**  
**DECEMBER 31, 2006 AND 2005**

	2006	2005
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 197,855	\$ 458,456
Grants Receivable	626,133	591,224
Pledges Receivable - Current	366,303	502,507
Prepaid Expenses	16,130	41,216
Total Current Assets	1,206,421	1,593,403
<b>OTHER ASSETS</b>		
Pledges Receivable, Net of Current Portion	104,215	76,691
<b>LAND, BUILDINGS AND EQUIPMENT</b>		
(Net of Accumulated Depreciation at December 31, 2006 and 2005 of \$1,023,355 and \$895,977, Respectively)		
	4,953,011	5,042,254
Total Assets	\$ 6,263,647	\$ 6,712,348
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable and Other Accrued Liabilities	\$ 137,925	\$ 73,405
Accrued Wages and Payroll Taxes	90,223	85,392
Accrued Vacation	82,085	74,727
Line of Credit	50,000	-
Current Portion of Long-Term Debt	135,174	62,283
Total Current Liabilities	495,407	295,807
<b>NONCURRENT LIABILITIES</b>		
Long-Term Debt, Net of Current Portion	1,656,860	2,604,365
Total Liabilities	2,152,267	2,900,172
<b>NET ASSETS</b>		
Unrestricted:		
Undesignated	(285,402)	(42,113)
Designated - Property and Equipment	3,160,977	2,375,606
Total Unrestricted	2,875,575	2,333,493
Temporarily Restricted	1,222,305	1,465,183
Permanently Restricted	13,500	13,500
Total Net Assets	4,111,380	3,812,176
Total Liabilities and Net Assets	\$ 6,263,647	\$ 6,712,348

See accompanying Notes to Financial Statements.

**COMUNIDADES LATINAS UNIDAS EN SERVICIO, INC.**  
**STATEMENTS OF ACTIVITY**  
**YEARS ENDED DECEMBER 31, 2006 AND 2005**

	2006			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>SUPPORT AND REVENUE</b>				
Government Grants	\$ 2,164,900	\$ -	\$ -	\$ 2,164,900
Contributions	1,962,743	338,293	-	2,301,036
Interest	7,073	-	-	7,073
Client Paid and Private Insurance	389,952	-	-	389,952
Rental Income	170,410	-	-	170,410
In-Kind Contributions	212,588	-	-	212,588
Disposal of Fixed Assets	7,807	-	-	7,807
Miscellaneous Income	95,371	-	-	95,371
Total Support and Revenue	<u>5,010,844</u>	<u>338,293</u>	<u>-</u>	<u>5,349,137</u>
Net Assets Released from Restrictions	<u>581,171</u>	<u>(581,171)</u>	<u>-</u>	<u>-</u>
Total Support and Revenue	5,592,015	(242,878)	-	5,349,137
<b>EXPENSE</b>				
Program Services	3,833,745	-	-	3,833,745
Support Services:				
Management and General	963,071	-	-	963,071
Fundraising	253,117	-	-	253,117
Total Support Services	<u>1,216,188</u>	<u>-</u>	<u>-</u>	<u>1,216,188</u>
Total Expense	<u>5,049,933</u>	<u>-</u>	<u>-</u>	<u>5,049,933</u>
<b>CHANGE IN NET ASSETS</b>	542,082	(242,878)	-	299,204
Net Assets - Beginning of Year	<u>2,333,493</u>	<u>1,465,183</u>	<u>13,500</u>	<u>3,812,176</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 2,875,575</u>	<u>\$ 1,222,305</u>	<u>\$ 13,500</u>	<u>\$ 4,111,380</u>

See accompanying Notes to Financial Statements.

## 2005

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 2,379,173	\$ -	\$ -	\$ 2,379,173
1,862,955	1,287,934	-	3,150,889
7,309	-	-	7,309
354,890	-	-	354,890
101,163	-	-	101,163
450,082	-	-	450,082
(250,000)	-	-	(250,000)
462	-	-	462
<u>4,906,034</u>	<u>1,287,934</u>	<u>-</u>	<u>6,193,968</u>
702,713	(702,713)	-	-
<u>5,608,747</u>	<u>585,221</u>	<u>-</u>	<u>6,193,968</u>
3,569,085	-	-	3,569,085
904,780	-	-	904,780
106,224	-	-	106,224
<u>1,011,004</u>	<u>-</u>	<u>-</u>	<u>1,011,004</u>
<u>4,580,089</u>	<u>-</u>	<u>-</u>	<u>4,580,089</u>
1,028,658	585,221	-	1,613,879
1,304,835	879,962	13,500	2,198,297
<u>\$ 2,333,493</u>	<u>\$ 1,465,183</u>	<u>\$ 13,500</u>	<u>\$ 3,812,176</u>

**COMUNIDADES LATINAS UNIDAS EN SERVICIO, INC.**  
**STATEMENTS OF FUNCTIONAL EXPENSE**  
**YEARS ENDED DECEMBER 31, 2006 AND 2005**

	2006			Total
	Program	Management and General	Fundraising	
Salaries and Wages	\$ 1,682,592	\$ 343,750	\$ 151,010	\$ 2,177,352
Payroll Taxes and Fringe Benefits	363,267	85,777	22,937	471,981
Consultants and Professional Fees	659,939	64,247	31,873	756,059
Travel	54,159	5,049	-	59,208
Occupancy Costs	527,992	44,035	21,539	593,566
Supplies	75,110	23,110	3,862	102,082
Equipment Rental and Maintenance	9,630	1,746	-	11,376
Telephone	36,885	6,835	2,068	45,788
Insurance	13,198	24,310	675	38,183
Conferences and Training	26,990	49,055	1,749	77,794
Financial Assistance and Client Transportation	25,969	-	-	25,969
Subscriptions and Dues	2,365	5,822	-	8,187
Printing and Postage	25,244	11,813	4,758	41,815
Interest	-	155,963	-	155,963
Other	8,399	6,477	1,885	16,761
In-Kind Services	199,793	-	-	199,793
Total Expense before Depreciation	<u>3,711,532</u>	<u>827,989</u>	<u>242,356</u>	<u>4,781,877</u>
Depreciation	<u>122,213</u>	<u>135,082</u>	<u>10,761</u>	<u>268,056</u>
Total Expense	<u>\$ 3,833,745</u>	<u>\$ 963,071</u>	<u>\$ 253,117</u>	<u>\$ 5,049,933</u>
Percentage of Total Expense	76%	19%	5%	100%

See accompanying Notes to Financial Statements.

2005

Program	Management and General	Fundraising	Total
\$ 1,667,577	\$ 304,710	\$ 125,486	\$ 2,097,773
338,676	84,032	8,336	431,044
244,911	56,881	4,864	306,656
76,731	5,274	-	82,005
359,055	133,254	3,333	495,642
104,117	17,249	6,319	127,685
9,102	1,653	-	10,755
34,756	6,677	764	42,197
12,240	23,315	205	35,760
22,497	31,637	1,981	56,115
15,569	-	-	15,569
4,125	3,719	-	7,844
24,194	11,482	11,295	46,971
30,082	134,419	-	164,501
19,436	2,581	286	22,303
431,959	-	-	431,959
3,395,027	816,883	162,869	4,374,779
174,058	87,897	2,415	264,370
<u>\$ 3,569,085</u>	<u>\$ 904,780</u>	<u>\$ 165,284</u>	<u>\$ 4,639,149</u>
77%	20%	4%	100%

**COMUNIDADES LATINAS UNIDAS EN SERVICIO, INC.**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2006 AND 2005**

	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ 299,204	\$ 1,613,879
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	268,056	264,370
Amortization of Discount on Long-Term Debt	18,446	5,074
Discount on Long-Term Debt	-	(541,733)
Forgiveness of Debt	(26,100)	-
(Gain) Loss on Disposal of Fixed Assets	(38,761)	250,000
Contributions Restricted for Capital Campaign	(182,070)	(434,198)
(Increase) Decrease in Current Assets:		
Grants Receivable	(34,909)	(134,846)
Pledges Receivable	(50,000)	(75,617)
Prepaid Expense	25,086	(6,774)
Increase (Decrease) in Current Liabilities:		
Account Payable	64,520	(139,718)
Accrued Wages and Payroll Taxes	4,831	3,717
Accrued Vacation	7,358	(17,686)
Net Cash Provided by Operating Activities	355,661	786,468
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of Property and Equipment	(94,572)	(954,515)
Proceeds on Sale of Fixed Assets	7,807	-
Net Cash Used by Investing Activities	(86,765)	(954,515)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from Long-Term Debt	-	848,000
Line of Credit Advances	50,000	-
Cash Received for Capital Campaign	340,750	510,617
Payment on Long-Term Debt	(920,247)	(1,148,929)
Net Cash Provided (Used) by Financing Activities	(529,497)	209,688
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(260,601)	41,641
Cash and Cash Equivalents - Beginning of Year	458,456	416,815
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 197,855	\$ 458,456
<b>SUPPLEMENTAL INFORMATION</b>		
Interest Paid	\$ 137,517	\$ 225,259
In-Kinds Goods and Services	\$ 212,588	\$ 450,082

See accompanying Notes to Financial Statements.

**COMUNIDADES LATINAS UNIDAS EN SERVICIO, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006 AND 2005**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Business Activity and Background**

Comunidades Latinas Unidas En Servicio, Inc. (CLUES) was established in 1981 with a mission "to enhance the quality of life of Latinos in Minnesota." When CLUES began, the agency consisted of one office in St. Paul that provided mental health counseling services. It has since grown to become the largest Latino social and behavioral health services agency in the state. CLUES began offering Employment services and English classes in 1985. In 1987, the Elder Wellness program was launched. In 1991 CLUES opened an office in Minneapolis. Currently, CLUES provides a comprehensive continuum of bilingual and culturally appropriate services to respond to the needs of the rapidly expanding Latino population in Minnesota.

CLUES is one of only a few Twin Cities agencies employing a bilingual and multicultural staff serving Latinos who are primarily Spanish speakers. The CLUES Board, volunteers and staff are committed to promoting the economic success of Latinos, strengthening Latino families, and fostering economic independence in the Latino community.

Multi-faceted and often complex needs of CLUES clients are addressed through a Continuum of Core Services. This continuum facilitates client access to a broad array of related health and social services, overcoming language and cultural barriers that Latinos often encounter when seeking services through mainstream agencies.

CLUES Mental Health services is the only dual diagnostic provider for Spanish speakers in Minnesota. The agency's high quality linguistically and culturally proficient care helps build community by providing critical educational and employment opportunities for those seeking to rebuild their lives when challenged by depression, substance abuse, and/or the demands of acculturation.

In 2006, CLUES segregated Family Services from the Mental Health services as a separate service. Family Services consist of a number of disparate services meant to educate and enhance family life. Many of the services help first generation families better integrate into a new culture. It also helps them navigate legal, cultural and social changes. These services include improving parenting skills, teen motherhood and helping children that have been placed in foster care to reintegrate back into their natural families and society.

CLUES Chemical Health Department provides chemical health assessments, treatment for adolescents and adults, and a continuum of related educational, family, and care services that are linguistically and culturally appropriate. Starting in January 2007 CLUES was licensed to provide the first Spanish speaking, comprehensive continuum of care in Minnesota, integrating both Chemical Dependency and Mental Health treatment (MI/CD) in a holistic approach. This service provides a comprehensive support service delivered in a supportive environment and includes community and home-based case management and counseling services in a linguistically proficient and culturally relevant manner.

CLUES Employment Services is the State's largest Spanish speaking Employment department serving the Twin Cities Latino community. The department helps job seekers to attain employment, progress in their jobs, and ultimately attain economic success.

**COMUNIDADES LATINAS UNIDAS EN SERVICIO, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006 AND 2005**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Business Activity and Background (Continued)**

CLUES Latino Learning Institute is dedicated to improving the educational level of adult Latinos by improving their English proficiency, helping them learn basic computer skills and improve their literacy in their native language. Classes are offered year round during the day and in the evening in both the St. Paul and Minneapolis offices and local churches.

CLUES Elder Wellness Services, Tercer Amanecer, opened in 2003 as the first Adult Day Care Center serving Spanish-speaking elders and their families. The center offers advocacy and access services to elders and caregivers; adult day services, social activities and transportation; education and outreach. Its overall mission is to recreate and enhance the traditional role of elders as the keepers of cultural wisdom and experience within the Latino community as well as to support their family caregivers.

Although CLUES has grown and changed over the years, its mission has not. Today, more than ever, CLUES is committed to enhancing the quality of life of Latinos in Minnesota.

**Financial Statement Presentation**

Net assets and revenues, gains, and losses are classified based on donor imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted – Resources over which the board of directors has discretionary control. Designated amounts represent those revenues which the Board has set aside for a particular purpose.

Temporarily Restricted – Those resources subject to donor imposed restrictions which will be satisfied by actions of the Organization or passage of time.

Permanently Restricted – Those resources subject to a donor imposed restriction that they be maintained permanently by the Organization. The donors of these resources permitted the Organization to use all or part of the income earned, including capital appreciation, or related investments for unrestricted or temporarily restricted purposes.

The Organization has elected to present temporarily restricted contributions, which are fulfilled in the same time period, within the unrestricted net asset class.

**Cash and Cash Equivalents**

Cash and cash equivalents include all cash and investments with original maturities of three months or less.

**COMUNIDADES LATINAS UNIDAS EN SERVICIO, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006 AND 2005**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Receivables**

Grants, accounts and pledges receivable are stated at net realizable value. At December 31, 2006 and 2005, the Organization recorded an allowance for uncollectible accounts in the amount of \$50,785 and \$56,050, respectively, which is based on management judgment considering historical information. Pledges to give that are expected to be collected within one year are recorded at their net realizable value. Pledges that are expected to be collected in future years are recorded at the present value of the amounts expected to be collected. The discounts on those amounts are computed using an imputed interest rate applicable to the year in which the pledge is received. Conditional pledges are not included as support until such time as the conditions are substantially met.

**Land, Buildings and Equipment**

Purchased land, buildings and equipment are recorded at cost. Contributed items are recorded at fair market value at date of donation. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulation, contributions of land, buildings and equipment are recorded as unrestricted. Depreciation of land, buildings and equipment is computed on a straight-line basis over the estimated service lives of the asset.

**Loan Financing Costs**

At December 31, 2006 and 2005, loan financing costs of \$89,328 were included in building and equipment and amortized using the straight-line method over the assumed forty-year term of the loan. Accumulated amortization was \$2,233 and \$1,932 for the years ended December 31, 2006 and 2005, respectively.

**Tax Exempt Status**

The Organization has a tax exempt status under Section 501(c)(3) of the Internal Revenue Code and Minnesota Statute 209.3. The Organization is classified by the Internal Revenue Service as an organization that is not a private foundation. Therefore, charitable contributions by donors are tax deductible.

**Functional Allocation of Expense**

Salaries and related expenses are allocated based on job descriptions and the best estimates of management. Expenses, other than salaries and related expenses which are not directly identifiable by program or supporting service, are allocated based on the best estimates of management.

**In-Kind Contributions**

Contributions of products donated to the Organization are recorded at fair market value at the time they are received. Donated services are valued at a predetermined or estimated rate commensurate with the work performed.

**COMUNIDADES LATINAS UNIDAS EN SERVICIO, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006 AND 2005**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Estimates**

Management uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenue and expense. Actual results could vary from the estimates that were used.

**Reclassifications**

Certain 2005 amounts have been reclassified to conform to 2006 presentation. These reclassifications did not affect net assets.

**NOTE 2 SIGNIFICANT CONCENTRATIONS OF CREDIT RISK**

The Organization provides services within the State of Minnesota. Grants and contributions are received from both national and local institutions. Substantially, all the grants and pledges receivable are from organizations, corporations and the state and federal governments.

At various times during the year cash deposits exceeded the FDIC limit of \$100,000 at one financial institution. The deposits in excess of the \$100,000 are not insured with the FDIC.

**NOTE 3 PLEDGES RECEIVABLE**

Pledges receivable consist of the following at December 31:

	2006	2005
Unconditional Promises to Give:		
Archdiocese of St. Paul and Minneapolis	\$ 10,000	\$ 20,000
Ecolab Foundation	50,000	100,000
Deluxe Corporation	-	30,000
St. Paul Foundation	50,000	-
F.R. Bigelow Foundation	75,000	50,000
Katherine B. Anderson Foundation	65,000	35,000
Federal	200,000	275,000
Individuals	41,303	95,248
Subtotal	491,303	605,248
Less: Allowance	(20,785)	(26,050)
	470,518	579,198
Less: Current Portion	366,303	502,507
Long-Term Portion	\$ 104,215	\$ 76,691
Cash Amounts Due In:		
Within One Year	\$ 366,303	\$ 502,507
One to Five Years	104,215	76,691
Total	\$ 470,518	\$ 579,198

**COMUNIDADES LATINAS UNIDAS EN SERVICIO, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006 AND 2005**

**NOTE 4 LAND, BUILDINGS AND EQUIPMENT**

Land, buildings and equipment as of December 31 consist of:

	2006	2005
Land	\$ 866,882	\$ 866,882
Building	3,586,352	3,580,862
Vehicles	58,695	99,333
Furniture and Equipment	1,312,421	1,280,156
Software	152,016	110,998
Accumulated Depreciation	(1,023,355)	(895,977)
Total	\$ 4,953,011	\$ 5,042,254

**NOTE 5 LONG-TERM DEBT**

Long-term debt consists of the following at December 31:

<u>Description</u>	2006	2005
The Organization received a loan from the Housing and Redevelopment Authority of the City of St. Paul, Minnesota on June 14, 2005 in the amount of \$417,000. Principal payments are deferred for a period of 20 years, and no interest accrues during the deferral period. Repayment in the amount of \$2,495 per month including interest at 1% will begin in 2025 and continue through 2040. However, the loan is immediately due and payable if the Organization relocates to any other location outside of the City of St. Paul. This loan is unsecured.	\$ 417,000	\$ 417,000
Unamortized discount on the above loan at imputed interest rate of 6.06%.	(320,289)	(327,263)
The Organization received a loan from the Housing and Redevelopment Authority of the City of St. Paul, Minnesota on June 14, 2005 in the amount of \$261,000. This loan bears interest at 0% and is forgivable at 10% per year commencing in 2006 and continuing through 2015. However, the loan is immediately due and payable if the Organization relocates to any other location outside of the City of St. Paul. This loan is unsecured.	234,900	261,000
Unamortized discount on the above loan at imputed interest rate of 6.06%.	(53,287)	(115,497)

**COMUNIDADES LATINAS UNIDAS EN SERVICIO, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006 AND 2005**

**NOTE 5 LONG-TERM DEBT (CONTINUED)**

<u>Description</u>	<u>2006</u>	<u>2005</u>
The Organization received a loan from the Housing and Redevelopment Authority of the City of St. Paul, Minnesota on June 14, 2005 in the amount of \$170,000. Principal payments are deferred for a period of 10 years, and no interest accrues during the deferral period. Repayment in the amount of \$1,174 per month including interest at 3% will begin in 2015 and continue through 2030. However, the loan is immediately due and payable if the Organization relocates to any other location outside of the City of St. Paul. This loan is unsecured.	170,000	170,000
Unamortized discount on the above loan at imputed interest rate of 6.06%.	(91,350)	(93,899)
The Organization received a loan from the Otto Bremer Foundation dated July 30, 2001 in the amount of \$150,000. Repayment is in the amount of \$50,000 each year for three years with 5% interest on the unpaid balance. In 2003, the Organization received an additional loan from the Otto Bremer Foundation dated April 2003 in the amount of \$850,000. Payments were made in 2006 in the amount of \$170,000 and in 2005 in the amount of \$380,000. The loans are unsecured.	-	170,000
Construction Loan, maximum \$2,240,000 - On April 12, 2004 the organization entered into a Construction Loan with Bremer Bank, interest is fixed at 6.06%, monthly interest payments are required through the completion date, January 12, 2005. Construction was completed in 2005, and the loan commenced monthly principal and interest payments amortized over 240 months for a period of 5 years with all remaining interest and principal being due and payable on January 12, 2010. Loan is secured by Mortgage, Security Agreement and Fixture Financing Statement on constructed building.	1,435,060	2,185,307
Total	1,792,034	2,666,648
Less: Current Maturities	135,174	62,283
Long-Term Debt	<u>\$ 1,656,860</u>	<u>\$ 2,604,365</u>

**COMUNIDADES LATINAS UNIDAS EN SERVICIO, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006 AND 2005**

**NOTE 5 LONG-TERM DEBT (CONTINUED)**

The security interests of the Housing and Redevelopment Authority of the City of St. Paul are subordinate to the security interest of the lender of the Construction Loan.

The maturity requirements on long-term debt are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2007	\$ 135,174
2008	142,503
2009	150,091
2010	1,111,692
2011	26,100
Thereafter	<u>691,400</u>
Total Long-Term Debt	2,256,960
Less: Current Portion	135,174
Less: Unamortized Discounts	464,926
Long-Term Portion	<u><u>\$ 1,656,860</u></u>

The Organization recorded interest expense in the amount of \$155,963 and \$164,501 for the years ended December 31, 2006 and 2005, respectively. There was also \$-0- and \$38,332 in interest paid which was capitalized as part of land, buildings, and equipment in the years ended December 31, 2006 and 2005, respectively.

**NOTE 6 LINE AND LETTER OF CREDIT**

On September 8, 2006, the Organization renewed a \$260,000 revolving line of credit with Bremer Bank. The line of credit has an advance rate of prime plus 1% (8.25% at December 31, 2006). Borrowings are secured by the Organization's inventory, equipment, accounts receivable, and general intangibles. Advances under the line of credit were \$50,000 and \$-0- as of December 31, 2006 and 2005, respectively.

On July 26, 2006, the Organization entered into an irrevocable standby letter of credit for an amount not to exceed \$60,000, and bearing interest at 10%. The letter renews automatically for one year increments each July 26 but can not be extended beyond the third anniversary date. On the first anniversary date of the letter, the amount available will be reduced to \$40,000 and upon the second anniversary date will be reduced to \$20,000. Advances on the letter of credit were \$-0- at December 31, 2006.

**COMUNIDADES LATINAS UNIDAS EN SERVICIO, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006 AND 2005**

**NOTE 7 LEASE INCOME**

The Organization receives rental income from various tenants with commitments signed through 2015. Future rental minimal lease payments expected to be received are as follows:

<u>Year</u>	<u>Amount</u>
2007	\$ 135,196
2008	147,800
2009	110,473
2010	84,471
2011	86,780
Thereafter	313,639
Total	<u>\$ 878,359</u>

**NOTE 8 PENSION PLAN**

Prior to 2001, the Organization had a defined contribution retirement plan covering substantially all full-time employees. The Organization no longer contributes to the employee pension plan; however, employees may still contribute to the plan.

**NOTE 9 OPERATING LEASES**

The Organization rents one facility under lease dated September 1, 2006 for a seven year lease which expires in 2013. The rent expense for the years ended December 31, 2006 and 2005 was \$423,678 and \$372,900, respectively. The following is the future minimum lease payment schedule for the leases noted above:

<u>Year</u>	<u>Amount</u>
2007	\$ 272,343
2008	272,343
2009	272,343
2010	272,343
2011	272,343
Thereafter	544,686
Total	<u>\$ 1,906,401</u>

**COMUNIDADES LATINAS UNIDAS EN SERVICIO, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006 AND 2005**

**NOTE 10 NET ASSETS**

**Temporarily Restricted**

Temporarily restricted net assets as of December 31 consist of the following donor restrictions:

	2006	2005
<b>Time Restricted:</b>		
McKnight Foundation	\$ 66,667	\$ 166,667
Pholad Foundation	20,000	-
City of St. Paul Housing & Redevelopment Authority	464,926	536,659
<b>Purpose Restricted:</b>		
<b>Employment Program:</b>		
Ameriprise	5,000	-
<b>Senior Program:</b>		
Medtronic	15,000	-
<b>Mental Health Program:</b>		
Blue Cross Blue Shield	37,500	87,500
Minnesota Medical Foundation	51,223	-
Thrivent Financial	10,000	-
<b>Family Services Program:</b>		
Best Buy Foundation	40,000	-
<b>Chemical Health Program:</b>		
Ameriprise	26,471	68,493
<b>Education Program:</b>		
Best Buy Foundation	-	26,666
Ameriprise	15,000	-
<b>Capital Campaign:</b>		
F.R. Bigelow Foundation	75,000	50,000
Archdiocese of St. Paul and Minneapolis	10,000	20,000
Ecolab Foundation	50,000	100,000
Deluxe Corporation	-	30,000
St. Paul Foundation	50,000	-
Federal Grant Programs	200,000	275,000
Katherine B. Anderson Foundation	65,000	35,000
Individuals	41,303	95,248
Allowance for Uncollectible Amounts -- Individuals	(20,785)	(26,050)
Total	\$ 1,222,305	\$ 1,465,183

**Net Assets Released from Restrictions**

Net assets released from donor restrictions were from grants restricted by purpose and time totaling \$581,171 and \$702,313 for the years ended December 31, 2006 and 2005, respectively.

**COMUNIDADES LATINAS UNIDAS EN SERVICIO, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006 AND 2005**

**NOTE 11 MAJOR SOURCES OF SUPPORT AND REVENUE**

For the years ended December 31, 2006 and 2005, major sources of support and revenue were as follows:

	2006	2005
State of Minnesota	\$ 584,686	\$ 896,365
Hennepin County	637,501	1,010,929

**NOTE 12 IN-KIND SERVICES**

The Organization receives in-kind services in the form of volunteer tutoring for English as a Second Language (ESL), Basic Literary (in Spanish) and Citizenship courses. In 2006 and 2005, the Organization received 8,092 and 17,691 volunteer hours at an estimated hourly rate of \$25. The organization also received in-kind donations of various supply items. Total in-kind services from course tutors and supply items totaled \$212,588 and \$450,082 during the years ended December 31, 2006 and 2005, respectively.

**NOTE 13 CAPITAL CAMPAIGN**

During 2000, the Organization began a capital campaign to expand its capacity to serve its constituents. The following is a schedule of revenue and expense related to the capital campaign for the years ended December 31:

	2002	2003	2004	2005	2006
Contributions	\$ 388,000	\$ 770,000	\$ 826,000	\$ 979,344	\$ 686,925
Land, Building and Equipment	\$ 60,800	\$ 1,104,477	\$ 3,332,414	\$ 660,773	\$ 94,573
Capital Campaign Expense	149,199	157,144	123,451	101,184	246,936
Total Capital Campaign Disbursements	\$ 209,999	\$ 1,261,621	\$ 3,455,865	\$ 761,957	\$ 341,509
Capital Campaign (Deficit) Surplus	\$ 178,001	\$ (491,621)	\$ (2,629,865)	\$ 217,387	\$ 345,416

The contributions that are considered temporarily restricted are due to both purpose and time restrictions.

# LarsonAllen<sup>SM</sup>

CPAs, Consultants & Advisors  
www.larsonallen.com

## INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

Board of Directors  
Comunidades Latinas Unidas En Servicio, Inc.  
St. Paul, Minnesota

Our report on our audits of the basic financial statements of Comunidades Latinas Unidas En Servicio, Inc. for December 31, 2006 and 2005 appears on page 1. Those audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information as listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we express no opinion on it.

*Larson, Allen, Weishair & Co., LLP*

**LARSON, ALLEN, WEISHAIR & CO., LLP**

Minneapolis, Minnesota  
April 18, 2007

**COMUNIDADES LATINAS UNIDAS EN SERVICIO, INC.**  
**SCHEDULE OF REVENUE AND EXPENSE BY PROGRAM – UNRESTRICTED**  
**BEFORE CAPITAL CAMPAIGN EXPENSE**  
**YEAR ENDED DECEMBER 31, 2006**  
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

	<u>Chemical Health</u>	<u>Mental Health</u>	<u>Education</u>	<u>Employment</u>
<b>SUPPORT AND REVENUE</b>				
Government Grants	\$ 496,431	\$ 488,131	\$ 175,861	\$ 452,080
Contributions	582,433	192,223	79,674	328,607
Interest	-	-	-	-
Client Paid and Private Insurance	96,088	43,020	7,812	-
Rent Income	-	-	-	-
In-Kind Contributions	-	4,893	170,989	8,625
Disposal of Fixed Assets	-	-	-	-
Miscellaneous Income	-	-	-	-
Net Assets Released from Restrictions	42,022	50,000	26,666	-
Total Support and Revenue	<u>1,216,974</u>	<u>778,267</u>	<u>461,002</u>	<u>789,312</u>
<b>EXPENSE</b>				
Salaries and Wages	487,176	300,304	150,331	305,425
Payroll Taxes and Fringe Benefits	100,466	59,378	37,065	69,671
Consultants and Professional Fees	457,356	152,625	8,146	16,620
Travel	9,732	13,375	1,700	3,082
Occupancy Costs	120,930	67,274	136,755	85,760
Supplies	11,101	2,534	14,391	17,518
Equipment Rental and Maintenance	2,221	1,362	1,139	2,352
Telephone	7,455	5,165	3,822	5,382
Insurance	3,481	2,049	1,457	2,598
Conferences and Training	7,175	9,466	1,093	6,644
Financial Assistance and Client Transportation	-	2,158	-	9,423
Subscriptions and Dues	1,210	89	-	-
Printing and Postage	8,938	4,102	2,382	4,305
Interest	-	-	-	-
Other	3,046	2,268	628	1,462
In-Kind Services	-	4,893	169,275	8,625
Depreciation	23,749	29,746	8,584	26,188
Total Expense before Capital Campaign	<u>1,244,036</u>	<u>656,788</u>	<u>536,768</u>	<u>565,055</u>
Administrative Expense Allocation	<u>162,359</u>	<u>97,263</u>	<u>66,946</u>	<u>123,551</u>
<b>CHANGE IN NET ASSETS BEFORE CAPITAL CAMPAIGN EXPENSE</b>	<u>\$ (189,421)</u>	<u>\$ 24,216</u>	<u>\$ (142,712)</u>	<u>\$ 100,706</u>

Senior	Family Services	Total Program	Administrative	Total
\$ 143,329	\$ 409,068	\$ 2,164,900	\$ -	\$ 2,164,900
50,219	109,985	1,343,141	114,746	1,457,887
-	-	-	7,073	7,073
243,032	-	389,952	-	389,952
-	-	-	170,410	170,410
18,350	3,580	206,437	6,151	212,588
500	-	500	7,307	7,807
-	-	-	95,371	95,371
-	-	118,688	171,733	290,421
<u>455,430</u>	<u>522,633</u>	<u>4,223,618</u>	<u>572,791</u>	<u>4,796,409</u>
159,342	280,014	1,682,592	343,750	2,026,342
34,696	61,991	363,267	85,777	449,044
6,689	18,503	659,939	64,247	724,186
2,946	23,324	54,159	5,049	59,208
42,167	75,106	527,992	44,035	572,027
22,912	6,654	75,110	23,110	98,220
575	1,981	9,630	1,746	11,376
7,999	7,062	36,885	6,835	43,720
1,283	2,330	13,198	24,310	37,508
2,510	102	26,990	49,055	76,045
14,388	-	25,969	-	25,969
1,066	-	2,365	5,822	8,187
1,998	3,519	25,244	11,813	37,057
-	-	-	155,963	155,963
924	71	8,399	6,477	14,876
17,000	-	199,793	-	199,793
16,535	17,411	122,213	135,082	257,295
<u>333,030</u>	<u>498,068</u>	<u>3,833,745</u>	<u>963,071</u>	<u>4,796,816</u>
<u>59,955</u>	<u>107,064</u>	<u>617,138</u>	<u>(647,667)</u>	<u>(30,529)</u>
<u>\$ 62,445</u>	<u>\$ (82,499)</u>	<u>\$ (227,265)</u>	<u>\$ 257,387</u>	<u>\$ 30,122</u>

## **REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors  
Comunidades Latinas Unidas En Servicio, Inc.  
St. Paul, Minnesota

We have audited the financial statements of Comunidades Latinas Unidas En Servicio, Inc. as of and for the year ended December 31, 2006 and have issued our report thereon dated April 18, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit, we considered Comunidades Latinas Unidas En Servicio, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting as described in findings 06-1 and 06-2.

Board of Directors  
Comunidades Latinas Unidas En Servicio, Inc.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We believe that none of the significant deficiencies described above are material weaknesses.

#### **COMPLIANCE AND OTHER MATTERS**

As part of obtaining reasonable assurance about whether Comunidades Latinas Unidas En Servicio, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Comunidades Latinas Unidas En Servicio, Inc. in a separate letter dated April 18, 2007.

Comunidades Latinas Unidas En Servicio, Inc.'s responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Comunidades Latinas Unidas En Servicio, Inc.'s responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



LARSON, ALLEN, WEISHAIR & CO., LLP

Minneapolis, Minnesota  
April 18, 2007

## REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors  
Comunidades Latinas Unidas En Servicio, Inc.  
St. Paul, Minnesota

### COMPLIANCE

We have audited the compliance of Comunidades Latinas Unidas En Servicio, Inc. (the Organization) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2006. Comunidades Latinas Unidas En Servicio, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Comunidades Latinas Unidas En Servicio, Inc.'s management. Our responsibility is to express an opinion on the Comunidades Latinas Unidas En Servicio, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Comunidades Latinas Unidas En Servicio, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Comunidades Latinas Unidas En Servicio, Inc.'s compliance with those requirements.

In our opinion, Comunidades Latinas Unidas En Servicio, Inc. complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended December 31, 2006.

**INTERNAL CONTROL OVER COMPLIANCE**

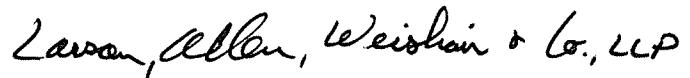
The management of Comunidades Latinas Unidas En Servicio, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Comunidades Latinas Unidas En Servicio, Inc.'s internal control over compliance with the types of compliance requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Comunidades Latinas Unidas En Servicio, Inc.'s internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a major program that is more than inconsequential will not be prevented or detected.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a major program will not be prevented or detected.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



LARSON, ALLEN, WEISHAIR & CO., LLP

Minneapolis, Minnesota  
April 18, 2007

**COMUNIDADES LATINAS UNIDAS EN SERVICIO, INC.  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED DECEMBER 31, 2006**

Federal Grantor/Program Title	Federal CFDA Number	Grant Period	Expenditures
<b>U.S. Department of Health and Human Services:</b>			
Passed through:			
Minnesota Department of Health and Human Services: Chemical Dependency Resource	93.959	7/1/05-6/30/06	\$ 53,696
Hennepin County Minnesota Family Investment Program	93.558	1/1/06 - 12/31/06	427,313
MN Governor's Council on Developmental Disabilities: Development Disabilities	93.630	8/25/05-8/24/06 8/25/06-8/24/07	26,704 19,991 <u>46,695</u>
American Red Cross of the St. Paul Area: Title III-B Older Americans Act	93.004	1/1/06 - 12/31/06	14,000
Metropolitan Area Agency on Aging: Title III-B Older Americans Act	93.052	1/1/06 - 12/31/06	25,000
Metropolitan Area Agency on Aging: Title III-B Older Americans Act Subtotal	93.044	1/1/06 - 12/31/06	36,128 <u>602,832</u>
<b>U.S. Department of Education:</b>			
MN Department of Education:			
St. Paul Community Literacy Collaborative	84.002	7/1/05-6/30/06	16,769
	84.002	7/1/06-6/30/07	12,236 <u>29,005</u>
<b>U.S. Department of Corrections:</b>			
Passed Through:			
Minnesota Center for Crime Victim Services Sexual Assault Education and Prevention	16.575	7/1/06-6/30/07	27,504
	93.991 & 93.671	7/1/05-6/30/06	18,046 <u>45,550</u>
Subtotal			<u>45,550</u>
<b>TOTAL FEDERAL AWARDS</b>			<b>\$ <u>677,387</u></b>

**COMUNIDADES LATINAS UNIDAS EN SERVICIO, INC.**  
**NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED DECEMBER 31, 2006**

**NOTE A    SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting.

**COMUNIDADES LATINAS UNIDAS EN SERVICIO, INC,  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED DECEMBER 31, 2006**

**A. SUMMARY OF AUDIT RESULTS**

1. The auditors' report expresses an unqualified opinion on the financial statements of Comunidades Latinas Unidas En Servicio, Inc. (the Organization).
2. Two significant deficiencies were noted during the audit of the financial statements of the Comunidades Latinas Unidas En Servicio, Inc., none of which were determined to be material weaknesses.
3. No instances of material noncompliance were disclosed during the audit of the financial statements of the Comunidades Latinas Unidas En Servicio, Inc.
4. No material weaknesses were identified during the audit of the major federal award programs for the Comunidades Latinas Unidas En Servicio, Inc.
5. The auditors' report on compliance for the major federal award programs for the Comunidades Latinas Unidas En Servicio, Inc. expresses an unqualified opinion.
6. Audit findings relative to the major federal award programs for the Comunidades Latinas Unidas En Servicio, Inc. are reported in Part C of this schedule.
7. The programs tested as major programs include:

<u>Program</u>	<u>CFDA Number</u>
Hennepin County Minnesota Family Investment Program	93.558

8. The threshold for distinguishing type A and B programs was \$300,000.
9. The Comunidades Latinas Unidas En Servicio, Inc. was determined to be a low risk auditee.

**COMUNIDADES LATINAS UNIDAS EN SERVICIO, INC,  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
YEAR ENDED DECEMBER 31, 2006**

**B. FINDINGS – FINANCIAL STATEMENT AUDIT**

**CURRENT YEAR FINDINGS**

06-1 Significant adjustments were not prevented or detected by the entity's internal control

Statement of Condition: During the performance of our audit procedures, three adjustments were made to the accounting records relating to prior years and one entry was made relating to fiscal year 2006. Recording these entries is a necessary step in ensuring that financial statements are fairly stated.

Criteria: Management is responsible for establishing and maintaining internal controls, including monitoring, and for the fair presentation in the balance sheet, statement of activities, statement of cash flows, including the notes to financial statements, in conformity with U.S. generally accepted accounting principles. Management is responsible for the accuracy and completeness of all financial records and related information. Their responsibilities include recording significant adjustments in the financial statements. Management is responsible for controls over the year-end financial reporting process, including controls over procedures used to enter transaction totals into the general ledger; initiate, authorize, record, and process journal entries into the general ledger; and record recurring and nonrecurring adjustments to the financial statements.

Cause of Condition: Lack of control policies and procedures by the Organization.

Recommendation: We recommend management design control policies and procedures to identify significant adjustments to the financial statements. Controls should be evaluated in the following areas:

- Financial statement preparation: Prior to month end closing of accounts, we recommend all accounts be reconciled prior to financial statements being provided to management and the board of directors. The accuracy of internal financial reporting is key and financial reports must be as accurate as possible to ensure management and the board of directors have complete information before making decisions.
- Responsibility: We suggest an employee be assigned the responsibility of performing these procedures on a routine and timely basis.

Response: The four adjustments in question were non-routine entries which were corrected in 2006.

**COMUNIDADES LATINAS UNIDAS EN SERVICIO, INC,  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
YEAR ENDED DECEMBER 31, 2006**

**B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)**

**CURRENT YEAR FINDINGS (CONTINUED)**

06-2 Lack of Segregation of Duties

Statement of Condition: The internal control structure in place does not provide for complete segregation of duties due to a limited number of personnel. An essential part of internal control is that procedures be properly segregated and the results of their performance be adequately reviewed. This is normally accomplished by assigning duties so that 1) no one person handles a transaction from beginning to end, and 2) incompatible duties between functions are not handled by the same person. In addition, a review of these completed duties should be performed by an individual independent of those functions. Specific areas where we noted lack of segregation of duties include the following:

- One of the most critical areas of separation is related to cash receipts, where we noted that the development department directly receives contributions and pledge payments. The result is the risk that intentional fraud or unintentional errors could be made and not detected. We recommend that the receptionist open the mail, prepare a prelist of the cash received, and forward all checks and related information to the accounting department to be processed and deposited to the bank in a timely manner. After the cash receipt has been processed, the accounting department can make a copy of the check and forward the copy and other related information to the development department to be appropriately recorded in the development software.
- The Company has just one IT specialist who is qualified to perform IT activities. As a result, initiation, processing, and approval of IT activities that should be separated all reside with the IT specialist. We believe that even though management is not specifically trained in IT matters, an executive level manager could effectively review the IT specialist's activities on a random basis. For example, a manager could periodically review IT activity and exception reports. Such review could mitigate the control weakness resulting from the lack of separation of IT duties. Alternatively, management could periodically engage an IT consultant to perform a review and make any resulting recommendations.

Criteria: An essential part of internal control is that procedures be properly segregated and the results of their performance be adequately reviewed.

Cause of Condition: Two individuals are responsible for the accounting function of the project.

Recommendation: The property manager has implemented procedures to improve the segregation of duties; however, complete segregation of duties may not be possible or practical due to the size of the Organization.

Response: It is management's opinion that the practices of the management company provide an adequate segregation of duties that is cost-beneficial to the Organization.

**COMUNIDADES LATINAS UNIDAS EN SERVICIO, INC,  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
YEAR ENDED DECEMBER 31, 2006**

**B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)**

**PRIOR YEAR**

05-1: Lack of Segregation of Duties

Statement of Condition: The internal control structure in place does not provide for complete segregation of duties due to a limited number of personnel.

Criteria: An essential part of internal control is that procedures be properly segregated and the results of their performance be adequately reviewed.

Cause of Condition: Two individuals are responsible for the accounting function of the project.

Recommendation: The property manager has implemented procedures to improve the segregation of duties; however, complete segregation of duties may not be possible or practical due to the size of the Organization.

Response: Similar circumstances were identified in the current year audit. See Financial Statement Finding 06-2.

**C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM AUDIT**

**CURRENT YEAR FINDINGS**

None

**PRIOR YEAR FINDINGS**

None