

**ESCUELA TLATELOLCO CENTRO DE ESTUDIOS**  
**Denver, Colorado**

**FINANCIAL STATEMENTS**

**August 31, 2011**

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Board of Trustees  
Escuela Tlatelolco Centro de Estudios  
Denver, Colorado

### INDEPENDENT AUDITORS' REPORT

We have audited the accompanying statement of financial position of Escuela Tlatelolco Centro de Estudios as of August 31, 2011, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of Escuela Tlatelolco Centro de Estudios' management. Our responsibility is to express an opinion on these 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 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 audit provides 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 Escuela Tlatelolco Centro de Estudios as of August 31, 2011, 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements referred to in the first paragraph, taken as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

*Swanhorst & Company LLC*

November 11, 2011

## **FINANCIAL STATEMENTS**

ESCUELA TLATELOLCO CENTRO DE ESTUDIOS

STATEMENT OF FINANCIAL POSITION

August 31, 2011

ASSETS

Current Assets

Cash and Cash Equivalents	\$ (15,772)
Restricted Cash	32,643
Accounts Receivable, Net of Allowance for Doubtful Accounts	36,670
Grants Receivable	74,958
Prepaid Expenses	8,109
Deposits	6,152
Reserves Held by Denver School District	<u>23,464</u>
 Total Current Assets	 <u>166,224</u>

Noncurrent Assets

Loan Origination Fees, Net of Accumulated Amortization of \$857	17,055
Property and Equipment, Net of Accumulated Depreciation of \$953,071	<u>1,449,915</u>
 Total Noncurrent Assets	 <u>1,466,970</u>

TOTAL ASSETS \$ 1,633,194

LIABILITIES AND NET ASSETS

LIABILITIES

Current Liabilities

Accounts Payable	\$ 75,646
Accrued Liabilities	7,076
Deferred Tuition Revenues	12,827
Lines of Credit Payable	224,690
Loans Payable, Current Portion	<u>38,627</u>
 Total Current Liabilities	 <u>358,866</u>

Long-Term Liabilities

Loans Payable	<u>1,016,386</u>
 Total Long-Term Liabilities	 <u>1,016,386</u>

TOTAL LIABILITIES 1,375,252

NET ASSETS

Unrestricted	190,365
Temporarily Restricted	<u>67,577</u>

TOTAL NET ASSETS 257,942

TOTAL LIABILITIES AND NET ASSETS \$ 1,633,194

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

ESCUELA TLATELOLCO CENTRO DE ESTUDIOS

STATEMENT OF ACTIVITIES

Year Ended August 31, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUES AND OTHER SUPPORT			
Per Pupil Revenue	\$ 883,003	\$ 67,577	\$ 950,580
Tuition	103,500	-	103,500
Grants	274,546	-	274,546
Contributions and Fundraising	297,479	-	297,479
In-Kind Contributions	48,935	-	48,935
Investment Income	703	-	703
Other Income	97,389	-	97,389
Net Assets Released from Restrictions	<u>149,447</u>	<u>(149,447)</u>	<u>-</u>
 TOTAL REVENUES AND OTHER SUPPORT	 <u>1,855,002</u>	 <u>(81,870)</u>	 <u>1,773,132</u>
EXPENSES			
Program Services			
Education	1,191,035	-	1,191,035
Supporting Services			
Management and General	524,103	-	524,103
Fundraising	<u>71,825</u>	<u>-</u>	<u>71,825</u>
 TOTAL EXPENSES	 <u>1,786,963</u>	 <u>-</u>	 <u>1,786,963</u>
 CHANGE IN NET ASSETS	 68,039	 (81,870)	 (13,831)
NET ASSETS, Beginning	<u>122,326</u>	<u>149,447</u>	<u>271,773</u>
NET ASSETS, Ending	\$ <u><u>190,365</u></u>	\$ <u><u>67,577</u></u>	\$ <u><u>257,942</u></u>

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

ESCUELA TLATELOLCO CENTRO DE ESTUDIOS

STATEMENT OF CASH FLOWS  
Year Ended August 31, 2011  
Increase (Decrease) in Cash and Cash Equivalents

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash Received from Denver Public Schools	\$ 898,517
Cash Received from Tuition	110,831
Cash Received from Grants	205,869
Cash Received from Contributions and Fundraising	262,744
Investment Income Received	703
Cash Received from Other Sources	97,389
Payments to Employees	(764,872)
Payments to Suppliers	(795,709)
Interest Paid	<u>(176,866)</u>
Net Cash Used for Operating Activities	<u>(161,394)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchases of Equipment	<u>(87,803)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Contributions Restricted for Equipment	78,787
Proceeds from Lines of Credit	349,690
Payments on Lines of Credit	(185,000)
Proceeds from Loan Refinancing	45,000
Loan Principal Payments	(25,891)
Loan Origination Fees Paid	<u>(17,912)</u>
Net Cash Provided by Financing Activities	<u>244,674</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(4,523)</b>
<b>CASH AND CASH EQUIVALENTS, Beginning</b>	<b><u>21,394</u></b>
<b>CASH AND CASH EQUIVALENTS, Ending</b>	<b>\$ <u><u>16,871</u></u></b>
<b>RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH USED FOR OPERATING ACTIVITIES</b>	
Change in Net Assets	\$ (13,831)
Adjustments to Reconcile Change in Net Assets to Net Cash Used for Operating Activities	
Depreciation and Amortization	76,478
Bad Debts	21,423
Loan Origination Costs	46,653
Contributions Restricted for Equipment Purchases	(78,787)
Changes in Assets and Liabilities	
Accounts Receivable	(22,467)
Grants Receivable	10,110
Prepaid Expenses	(2,608)
Reserves Held by Denver School District	1,083
Accounts Payable	(83,049)
Accrued Liabilities	(58,316)
Deferred Tuition Revenues	<u>(58,083)</u>
Net Cash Used for Operating Activities	<u>\$ (161,394)</u>
<b>NON-CASH ACTIVITIES</b>	
In-Kind Contributions	<u>\$ 48,935</u>

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

NOTES TO FINANCIAL STATEMENTS

August 31, 2011

**NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

Escuela Tlatelolco Centro de Estudios (the “Escuela”) provides an alternative education for young Latinos that would lead not only to academic proficiency, but would also instill cultural pride, confidence and developing leadership among Latino youth.

**Basis of Accounting**

The Escuela follows the standards of accounting and financial reporting for non-profit organizations which are in conformity with the recommendations of the American Institute of Certified Public Accountants. The Escuela’s financial statements have been prepared using the accrual basis of accounting.

**Financial Statement Presentation**

*Cash and Cash Equivalents* - For purposes of the statement of cash flows, cash equivalents include highly liquid investments with an original maturity of ninety days or less. Investments are reported at market value, and realized and unrealized gains and losses are reported in the statement of activities.

*Receivables* - Receivables consist primarily of preschool tuition, pledges and grants, and are reported net of an allowance for doubtful accounts for those amounts management considers uncollectible. Unconditional pledges are recognized as revenues in the period the pledge is received. Conditional pledges are recognized only when the conditions on which they depend are substantially met and the pledges become unconditional.

*Property and Equipment* - Property and equipment is recorded at cost. Donated property and equipment is recorded at fair market value at the date of donation. The Escuela capitalizes all property and equipment with a useful life of more than one year. Depreciation is recorded using the straight-line method over estimated useful lives of the related assets, as follows:

Buildings and Improvements	39 years
Furniture and Equipment	3 - 10 years

*Loan Origination Costs* - Costs associated with debt issuance are capitalized and amortized using the straight-line method over the life of the related debt.

*Deferred Revenues* - Preschool tuition paid in advance is reported as deferred revenue in the financial statements.

*Support and Revenue* - The Escuela receives support through preschool tuition and from various grants from government and non-profit agencies. In addition, the Escuela has contracted with Denver School District to operate a kindergarten through twelfth grade school in exchange for a specified amount per pupil. The Escuela also sponsors fundraising events. Support and revenue is considered to be available for unrestricted use unless specifically restricted by the grantor or donor.



NOTES TO FINANCIAL STATEMENTS

August 31, 2011

**NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
(Continued)

**Financial Statement Presentation (Continued)**

Revenues from grants and contracts are considered to be earned and reported as revenue when the Escuela has incurred expenditures in compliance with the specific requirements or restrictions, or when the stipulated time has elapsed. Amounts received that are designated for future fiscal years or are not expended for the specified purposes are reported as temporarily restricted net assets. Restricted revenues received and spent in the same fiscal year are reported as unrestricted activities.

*Contributions* - All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

*In-Kind Contributions* - Donated services are recorded at fair market value at the date of donation. Contributions of equipment and other items are not reported on the financial statements because the values cannot be reasonably estimated.

*Estimates* - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Income Taxes**

The Escuela is exempt from income taxes under Section 501(c)(3) of the United States Internal Revenue Code. However, income from activities not directly related to the Escuela's tax-exempt purpose is subject to taxation as unrelated business income.

**NOTE 2: RESTRICTED ASSETS**

The Escuela is required by the mortgage loan agreement to deposit \$12,000 and \$18,000 annually into a capital expenditures reserve and a debt service reserve, respectively. At August 31, 2011, the Escuela reported restricted cash of \$32,643, representing the balance of these reserves.

In accordance with its contract with the Escuela, Denver School District withholds and maintains a reserve for emergencies representing 3% of Escuela's per pupil revenue. At August 31, 2011, Denver School District held \$23,464 on the Escuela's behalf for this reserve.

ESCUELA TLATELOLCO CENTRO DE ESTUDIOS

NOTES TO FINANCIAL STATEMENTS

August 31, 2011

**NOTE 3: PROPERTY AND EQUIPMENT**

Property and equipment at August 31, 2011, consisted of the following:

Land	\$ 100,000
Buildings and Improvements	1,977,360
Furniture and Equipment	256,809
Books and Website	<u>68,817</u>
Total Property and Equipment	2,402,986
Accumulated Depreciation	<u>(953,071)</u>
Property and Equipment, Net	<b><u>\$ 1,449,915</u></b>

**NOTE 4: LINES OF CREDIT**

The Escuela has obtained lines of credit from two financial institutions to provide cash flow for operations. The line of credit from Seedco Financial Services, Inc., allows the Escuela to borrow a maximum of \$90,000. Interest on the outstanding balance accrues at 8% per annum, and is payable monthly. The line of credit matures on October 31, 2012. At August 31, 2011, the outstanding balance of the line of credit was \$55,000.

On March 1, 2011, Solera National Bank provided a line of credit for a maximum of \$170,000. The outstanding balance accrues interest at the Wall Street Journal Prime Rate plus 1.5%, but under no circumstances will the interest rate be less than 4.75%. Interest is payable monthly. The balance of the line of credit is due in full on March 1, 2012. At August 31, 2011, the outstanding balance of the line of credit was \$169,690, with interest accruing at 4.75% per annum.

**NOTE 5: LOANS PAYABLE**

**Mortgage Loan**

On March 1, 2011, the Escuela entered into a loan agreement with Solera National Bank in the amount of \$1,055,000. Loan proceeds were used to refinance existing debt, originally issued to purchase and renovate the Escuela's building. The agreement requires fifty-nine monthly payments of \$7,769, including interest accruing at 6.25% per annum. A balloon payment of \$908,560 is due at maturity on March 1, 2016. Future debt service requirements are as follows.

<u>Year Ended August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 27,684	\$ 65,546	\$ 93,230
2013	29,674	63,556	93,230
2014	31,610	61,620	93,230
2015	33,672	59,558	93,230
2016	<u>921,430</u>	<u>33,745</u>	<u>955,175</u>
Total	<b><u>\$ 1,044,070</u></b>	<b><u>\$ 284,025</u></b>	<b><u>\$ 1,328,095</u></b>

ESCUELA TLATELOLCO CENTRO DE ESTUDIOS

NOTES TO FINANCIAL STATEMENTS

August 31, 2011

**NOTE 5: LOANS PAYABLE (Continued)**

**Other Loans**

The Escuela has received loans from individuals. The outstanding balance of the loans at August 31, 2011, was \$10,943. The loans have no written terms and are non-interest bearing. The Escuela has agreed to pay the loans when cash flow is available.

**NOTE 6: RESTRICTED NET ASSETS**

**Temporarily Restricted Net Assets**

In accordance with its contract with the Escuela, Denver School District has provided per pupil revenue in advance. A portion of this revenue is designated for use in the subsequent fiscal year and is reported as temporarily restricted net assets at August 31, 2011, in the amount of \$67,577.

**NOTE 7: NET ASSETS RELEASED FROM RESTRICTIONS**

For the year ended August 31, 2011, net assets were released from restrictions by incurring expenses satisfying the restricted purpose or when the stipulated time elapsed, in the amount of \$149,447.

**NOTE 8: COMMITMENTS AND CONTINGENCIES**

The Escuela participates in a number of federal, state and local programs that are fully or partially funded by grants received from other entities. Expenses financed by grants are subject to audit by the appropriate grantor. If expenses are disallowed due to noncompliance with grant program regulations, the Escuela may be required to reimburse the grantor. At August 31, 2011, significant amounts of grant expenses have not been audited but the Escuela believes that subsequent audits will not have a material effect on the overall financial position of the Escuela.

**NOTE 9: CONCENTRATION OF RISK**

The Escuela receives a substantial amount of its support from Denver School District. A significant reduction in this level of support, if this were to occur, may reduce the Escuela's programs and activities.

**SUPPLEMENTARY INFORMATION**

ESCUELA TLATELOLCO CENTRO DE ESTUDIOS

SCHEDULE OF FUNCTIONAL EXPENSES

Year Ended August 31, 2011

	Program Services <u>Education</u>	Supporting Services Management and General	Fundraising	Total
EXPENSES				
Salaries	\$ 569,225	\$ 112,956	\$ -	\$ 682,181
Employee Benefits	18,206	6,169	-	24,375
Purchased Services - Professional and Technical	207,562	151,367	400	359,329
Purchased Services - Property	455	33,192	-	33,647
Purchased Services - Other	46,112	139,607	4	185,723
Supplies	76,419	1,219	71,421	149,059
Property	9,825	16,826	-	26,651
Other	60,556	12,098	-	72,654
Interest Expense	141,493	35,373	-	176,866
Depreciation	60,497	15,124	-	75,621
Amortization	686	171	-	857
	<u>1,191,035</u>	<u>524,103</u>	<u>71,825</u>	<u>1,786,963</u>
TOTAL EXPENSES	\$ <u>1,191,035</u>	\$ <u>524,103</u>	\$ <u>71,825</u>	\$ <u>1,786,963</u>

See the accompanying Independent Auditors' Report.