

**SOUTHWEST EARLY COLLEGE**  
Denver, Colorado

**FINANCIAL STATEMENTS**

**June 30, 2009**

**SOUTHWEST EARLY COLLEGE**

**Board of Directors  
June 30, 2009**

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Board of Directors  
Southwest Early College  
Denver, Colorado

### INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Southwest Early College, component unit of Denver School District, as of and for the year ended June 30, 2009, which collectively comprise the basic financial statements of Southwest Early College, as listed in the table of contents. These financial statements are the responsibility of Southwest Early College's management. Our responsibility is to express opinions 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Southwest Early College as of June 30, 2009, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and required supplementary information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

September 15, 2009

# **Southwest Early College**

## Management's Discussion and Analysis

### Fiscal Year Ending June 30, 2009

As management of Southwest Early College (the School), we offer readers of the School's basic financial statements this narrative and analysis of the financial activities of Southwest Early College for the year ended June 30, 2009. We encourage readers to consider the information presented here in conjunction with additional information provided in the accompanying financial statements.

#### **Financial Highlights**

For the year ending June 30, 2009, the general fund deficit increased from (\$49,856), to (\$182,394) a net decrease of (\$132,538).

The operations of the School are funded primarily by tax revenue received under the State School Finance Act (the Act). Tax revenue for the year from Per Pupil Revenue was \$2,532,030.

#### **Overview of Financial Statements**

This discussion and analysis are intended to serve as an introduction to the School's basic financial statements. The basic statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

#### ***Government-Wide Financial Statements***

The government-wide financial statements are designed to provide readers with a broad overview of the School's finances in a manner similar to a private-sector business.

The statement of net assets presents information on all the School's assets and liabilities, with the difference between the two being reported as net assets. Over time, the increases or decreases in net assets may serve as a useful indicator of whether the financial position of the School is improving or deteriorating.

The statement of activities presents information showing how the School's net assets changed during the year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future periods (for example, salaries and benefits earned but unpaid as of yearend).

### ***Fund Financial Statements***

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The School keeps track of these monies to ensure and demonstrate compliance with finance-related legal requirements. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements.

### ***Notes to Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

### **Government-wide Financial Analysis**

For the year ending June 30, 2009, the School's net assets decreased from (\$42,433) to (\$208,793).

	<b><u>2008-2009</u></b>	<b><u>2007-2008</u></b>
<b><u>ASSETS</u></b>		
Capital Assets	\$6,101	\$26,160
Other Assets	83,573	113,767
<b>TOTAL ASSETS</b>	<b>\$ 89,674</b>	<b>\$ 139,927</b>
<b><u>LIABILITIES</u></b>		
Accounts Payable	\$189,173	\$32,364
Accrued Liabilities	488	0
Accrued Salaries and Benefits	76,306	85,787
Due Within One Year	32,500	18,747
Cash Overdraft	0	45,472
<b>TOTAL LIABILITIES</b>	<b>\$298,467</b>	<b>\$182,370</b>
<b><u>NET ASSETS</u></b>		
Capital Assets, Net of Related Debt	\$6,101	\$7,413
Unreserved	(\$288,763)	(\$128,776)
Reserved for Emergencies	73,869	78,920
<b>TOTAL NET ASSETS</b>	<b>(\$208,793)</b>	<b>(\$42,443)</b>

<b>Change in Net Assets</b>	<b><u>2008-2009</u></b>	<b><u>2007-2008</u></b>
<u>Revenues</u>		
Operating Grants and Contributions	\$27,564	\$24,415
Per Pupil Revenue	2,532,030	2,844,420
Mill Levy	40,466	39,429
Capital Construction Funding	39,011	46,309
Grants not Restricted to Specific Programs	57,579	840
Investment Income	8,706	19,706
Miscellaneous	6,200	36,253
	Total Revenue	\$2,711,556      \$3,011,372
<u>Expenses</u>		
Instruction	\$2,002,637	\$1,289,128
Support Services	874,761	1,918,596
Interest Expense	508	1,424
	Total Expenses	\$2,877,906      \$3,209,148
Increase (Decrease) in Net Assets	(\$166,350)	(\$197,776)
Net Assets, Beginning	(42,443)	155,333
Net Assets	(\$208,793)	(\$42,443)

### **Financial Analysis of the School's Funds**

**Governmental funds.** The focus of Southwest Early College's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the School's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the School's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year the School's governmental funds reported a combined ending fund deficit of (\$182,394). The School's fund deficit increased due to an audit finding by DPS for the 2006/2007 school year and mainly due to the unexpected decline in student enrollment. The school has also taken \$ 32,500 from the line of credit available to the school in order to continue operation and the balance was paid in full as of July 31<sup>st</sup>, 2009. The management of the school is taking all of the necessary precautions to ensure that the school will continue operation without any disruptions.

The general fund is the major operating fund of the School. At the end of the current fiscal year fund deficit increased from (\$49,856) to (\$182,394).

## **General Fund Budgetary Highlights**

The School budgeted for General Fund expenditures of \$2,817,686 for the year ended June 30, 2009. Actual expenditures were \$2,768,420.

## **Capital Asset and Debt Administration**

**Capital assets.** As of June 30, 2009, the school held capital assets in the amount of \$6,101, consisting mainly of a copy machine and capital improvements to the facility.

**Long-term debt.** As of June 30, 2009 the School had entered into one long-term debt agreement in the amount of \$85,043 with Teikyo Loretto Heights University to reimburse the university for construction costs associated with upgrading the school facility. The balance of the long-term debt was paid in full as of June 30, 2009.

## **Economic Factors and Next Year's Budget**

The primary factor driving the budget for the School is student enrollment. Enrollment for the 2008-2009 school year was 363. The enrollment projected for the 2009-2010 school year is expected to be 380. This factor was considered in preparing the School's budget for 2009-2010.

## **Requests for Information**

This report is designed to provide a general overview of the School's finances for all those with an interest in the School. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Southwest Early College  
3001 S Federal Blvd, Box 114  
Denver, CO 80236

## **BASIC FINANCIAL STATEMENTS**

SOUTHWEST EARLY COLLEGE

STATEMENT OF NET ASSETS

June 30, 2009

	<u>GOVERNMENTAL ACTIVITIES</u>	
	<u>2009</u>	<u>2008</u>
<b>ASSETS</b>		
Cash	\$ 7,293	\$ -
Accounts Receivable	2,411	34,847
Deposit with Denver School District	73,869	78,920
Capital Assets, Net of Accumulated Depreciation	<u>6,101</u>	<u>26,160</u>
<b>TOTAL ASSETS</b>	<u>89,674</u>	<u>139,927</u>
<b>LIABILITIES</b>		
Cash Overdraft	-	45,472
Accounts Payable	189,173	32,364
Accrued Liabilities	488	-
Accrued Salaries and Benefits	76,306	85,787
Noncurrent Liabilities		
Due Within One Year	<u>32,500</u>	<u>18,747</u>
<b>TOTAL LIABILITIES</b>	<u>298,467</u>	<u>182,370</u>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	6,101	7,413
Restricted for Emergencies	73,869	78,920
Unrestricted	<u>(288,763)</u>	<u>(128,776)</u>
<b>TOTAL NET ASSETS</b>	<u>\$ (208,793)</u>	<u>\$ (42,443)</u>

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

SOUTHWEST EARLY COLLEGE

STATEMENT OF ACTIVITIES

Year Ended June 30, 2009

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES OPERATING GRANTS AND CONTRIBUTIONS	NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS	
			2009	2008
<b>PRIMARY GOVERNMENT</b>				
<b>Governmental Activities</b>				
Instruction	\$ 2,002,637	\$ 1,316	\$ (2,001,321)	\$ (1,288,779)
Supporting Services	874,761	26,248	(848,513)	(1,894,530)
Interest on Long-Term Debt	508	-	(508)	(1,424)
Total Governmental Activities	\$ <u>2,877,906</u>	\$ <u>27,564</u>	<u>(2,850,342)</u>	<u>(3,184,733)</u>
<b>GENERAL REVENUES</b>				
Per Pupil Revenue			2,532,030	2,844,420
Mill Levy			40,466	39,429
Capital Construction Funding			39,011	46,309
Grants not Restricted to Specific Programs			57,579	840
Investment Income			8,706	19,706
Miscellaneous			6,200	36,253
TOTAL GENERAL REVENUES			<u>2,683,992</u>	<u>2,986,957</u>
CHANGE IN NET ASSETS			(166,350)	(197,776)
NET ASSETS, Beginning			<u>(42,443)</u>	<u>155,333</u>
NET ASSETS, Ending			\$ <u>(208,793)</u>	\$ <u>(42,443)</u>

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

SOUTHWEST EARLY COLLEGE

BALANCE SHEET  
GOVERNMENTAL FUNDS

June 30, 2009

	<u>GENERAL</u>	<u>CAPITAL RESERVE</u>	<u>TOTALS</u>	
			<u>2009</u>	<u>2008</u>
<b>ASSETS</b>				
Cash	\$ 7,293	\$ -	\$ 7,293	\$ -
Accounts Receivable	2,411	-	2,411	34,847
Deposit with Denver School District	<u>73,869</u>	<u>-</u>	<u>73,869</u>	<u>78,920</u>
<b>TOTAL ASSETS</b>	<u>\$ 83,573</u>	<u>\$ -</u>	<u>\$ 83,573</u>	<u>\$ 113,767</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Cash Overdraft	\$ -	\$ -	\$ -	\$ 45,472
Accounts Payable	189,173	-	189,173	32,364
Accrued Liabilities	488	-	488	-
Accrued Salaries and Benefits	<u>76,306</u>	<u>-</u>	<u>76,306</u>	<u>85,787</u>
<b>TOTAL LIABILITIES</b>	<u>265,967</u>	<u>-</u>	<u>265,967</u>	<u>163,623</u>
<b>FUND BALANCES</b>				
Reserved for Emergencies	73,869	-	73,869	78,920
Unreserved	<u>(256,263)</u>	<u>-</u>	<u>(256,263)</u>	<u>(128,776)</u>
<b>TOTAL FUND BALANCES</b>	<u>(182,394)</u>	<u>-</u>	<u>(182,394)</u>	<u>(49,856)</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 83,573</u>	<u>\$ -</u>	<u>\$ 83,573</u>	<u>\$ 113,767</u>

Amounts reported for governmental activities in the statement of net assets are different because:

Total Fund Balances	\$ (182,394)	\$ (49,856)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	6,101	26,160
Long-term liabilities are not due and payable in the current year and, therefore, are not reported in the funds.	<u>(32,500)</u>	<u>(18,747)</u>
Net Assets of Governmental Activities	<u>\$ (208,793)</u>	<u>\$ (42,443)</u>

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

SOUTHWEST EARLY COLLEGE

STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS

Year Ended June 30, 2009

	GENERAL	CAPITAL RESERVE	TOTALS	
			2009	2008
REVENUES				
Local Sources	\$ 2,644,981	\$ -	\$ 2,644,981	\$ 2,939,808
State Sources	40,327	-	40,327	46,658
Federal Sources	26,248	-	26,248	24,906
TOTAL REVENUES	<u>2,711,556</u>	<u>-</u>	<u>2,711,556</u>	<u>3,011,372</u>
EXPENDITURES				
Instruction	1,986,590	-	1,986,590	1,270,593
Supporting Services	781,830	88,919	870,749	1,915,670
Debt Service				
Principal	-	18,747	18,747	17,834
Interest	-	508	508	1,424
TOTAL EXPENDITURES	<u>2,768,420</u>	<u>108,174</u>	<u>2,876,594</u>	<u>3,205,521</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(56,864)</u>	<u>(108,174)</u>	<u>(165,038)</u>	<u>(194,149)</u>
OTHER FINANCING SOURCES (USES)				
Loan Proceeds	32,500	-	32,500	-
Transfers In	-	108,174	108,174	116,800
Transfers Out	(108,174)	-	(108,174)	(116,800)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(75,674)</u>	<u>108,174</u>	<u>32,500</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	(132,538)	-	(132,538)	(194,149)
FUND BALANCES (DEFICIT), Beginning	<u>(49,856)</u>	<u>-</u>	<u>(49,856)</u>	<u>144,293</u>
FUND BALANCES (DEFICIT), Ending	<u>\$ (182,394)</u>	<u>\$ -</u>	<u>\$ (182,394)</u>	<u>\$ (49,856)</u>

Amounts reported for governmental activities in the statement of activities are different because:

Net Change in Fund Balances	\$ (132,538)	\$ (194,149)
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This amount represents depreciation expense in the current year.	(20,059)	(21,461)
The issuance of long-term debt provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets and does not affect the statement of activities. This amount includes debt proceeds (\$32,500) and principal payments \$18,747.	(13,753)	17,834
Change in Net Assets of Governmental Activities	<u>\$ (166,350)</u>	<u>\$ (197,776)</u>

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

SOUTHWEST EARLY COLLEGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

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

Southwest Early College (the “School”) was formed during 2003, pursuant to the Colorado Charter Schools Act, to form and operate a charter school within Denver School District (the “District”). The School began classes in the Fall of 2004.

The accounting policies of the School conform to generally accepted accounting principles as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB. Following is a summary of the more significant policies.

**Reporting Entity**

The financial reporting entity consists of the School and organizations for which the School is financially accountable. All funds, organizations, institutions, agencies, departments and offices that are not legally separate are part of the School. In addition, any legally separate organizations for which the School is financially accountable are considered part of the reporting entity. Financial accountability exists if the School appoints a voting majority of the organization’s governing board and is able to impose its will on the organization, or if the organization provides benefits to, or imposes financial burdens on, the School.

Based on the application of this criteria, the School does not include additional organizations within its reporting entity.

The School is a component unit of the District. The majority of the School’s funding is provided by the District.

**Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all activities of the School. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported in a single column.

The statement of activities demonstrates the degree to which the direct expenses of the given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to students or others who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Unrestricted intergovernmental revenues not properly included among program revenues are reported instead as general revenues.

Major individual governmental funds are reported as separate columns in the fund financial statements.

SOUTHWEST EARLY COLLEGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

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

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current year or soon enough thereafter to pay liabilities of the current year. For this purpose, the School considers revenues to be available if they are collected within 60 days of the end of the current year. Intergovernmental revenues, grants, and interest associated with the current year are considered to be susceptible to accrual and so have been recognized as revenues of the current year. All other revenues are considered to be measurable and available only when cash is received by the School. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB.

When both restricted and unrestricted resources are available for use, it is the School's policy to use restricted resources first, and the unrestricted resources as they are needed.

In the fund financial statements, the School reports the following major governmental fund:

*General Fund* - This fund is the general operating fund of the School. It is used to account for all financial resources except those required to be accounted for in another fund.

The School reports one nonmajor governmental fund, as follows:

*Capital Reserve Fund* - This fund is used to account for specific revenue sources that are restricted to capital purposes and the related expenditures.

**Assets, Liabilities and Net Assets/Fund Balances**

*Receivables* - All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

*Capital Assets* - Capital assets, which include leasehold improvements and equipment, are reported in the government-wide financial statements. Capital assets are defined by the School as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

SOUTHWEST EARLY COLLEGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

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

**Assets, Liabilities and Net Assets/Fund Balances (Continued)**

Capital assets of the School are depreciated using the straight-line method over the life of the related lease agreement or the estimated useful lives, as follows:

Leasehold Improvements	5 years
Equipment	5 years

*Accrued Salaries and Benefits* - Salaries and retirement benefits of certain contractually employed personnel are paid over a twelve month period from August to July, but are earned during a school year of approximately nine months. The salaries and benefits earned but unpaid are reported as a liability of the General Fund.

*Long-Term Debt* - In the government-wide financial statements, long-term debt is reported as a liability. In the fund financial statements, governmental funds recognize the face amount of debt issued as other financing sources.

*Net Assets/Fund Balances* - In the government-wide financial statements, net assets are restricted when constraints placed on the net assets are externally imposed. In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

**Risk Management**

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. The School carries commercial insurance for these risks of loss.

**Comparative Information**

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the School's financial position and operations. However, complete comparative data in accordance with generally accepted accounting principles has not been presented since its inclusion would make the financial statements unduly complex and difficult to read. Certain prior year amounts have been reclassified to conform to the current year presentation.

**NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

At June 30, 2009, net assets of the governmental activities and the fund balance of the General Fund were deficits, in the amounts of \$208,793, and \$182,394, respectively. Management expects to eliminate these deficit balances with future operations.

SOUTHWEST EARLY COLLEGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

**NOTE 3: CASH AND INVESTMENTS**

**Deposits**

The Colorado Public Deposit Protection Act (PDPA) requires that all local governments deposit cash in eligible public depositories. Eligibility is determined by State regulations. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. PDPA allows the financial institution to create a single collateral pool for all public funds held. The pool is to be maintained by another institution, or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits.

**Investments**

The School is required to comply with State statutes which specify investment instruments meeting defined rating, maturity and concentration risk criteria in which local governments may invest, which include the following. State statutes do not address custodial risk.

- Obligations of the United States and certain U.S. Agency securities
- Certain international agency securities
- General obligation and revenue bonds of U.S. local government entities
- Bankers' acceptances of certain banks
- Commercial paper
- Written repurchase agreements collateralized by certain authorized securities
- Certain money market funds
- Guaranteed investment contracts
- Local government investment pools

The School had no investments at June 30, 2009.

**NOTE 4: CAPITAL ASSETS**

Activity for capital assets for the year ended June 30, 2009, is summarized below.

	Balance 6/30/08	Additions	Deletions	Balance 6/30/09
<b>Governmental Activities</b>				
Capital Assets				
Leasehold Improvements	\$ 85,043	\$ -	\$ -	\$ 85,043
Equipment	22,257	-	-	22,257
Total Capital Assets	107,300	-	-	107,300
Accumulated Depreciation				
Leasehold Improvements	(71,088)	(13,955)	-	(85,043)
Equipment	(10,052)	(6,104)	-	(16,156)
Total Accumulated Depreciation	(81,140)	(20,059)	-	(101,199)
Net Capital Assets	<b>\$ 26,160</b>	<b>\$ (20,059)</b>	<b>\$ -</b>	<b>\$ 6,101</b>

SOUTHWEST EARLY COLLEGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

**NOTE 4: CAPITAL ASSETS (Continued)**

Depreciation expense was charged to programs of the School as follows:

Instruction	\$ 16,047
Supporting Services	<u>4,012</u>
Total	<u><u>\$ 20,059</u></u>

**NOTE 5: LONG-TERM DEBT**

Following is a summary of long-term debt transactions for the year ended June 30, 2009:

	Balance 6/30/08	Additions	Payments	Balance 6/30/09	Due Within One Year
<b>Governmental Activities</b>					
Loan Payable - Landlord	\$ 18,747	\$ -	\$ 18,747	\$ -	\$ -
Line of Credit	<u>-</u>	<u>32,500</u>	<u>-</u>	<u>32,500</u>	<u>32,500</u>
Total	<u><u>\$ 18,747</u></u>	<u><u>\$ 32,500</u></u>	<u><u>\$ 18,747</u></u>	<u><u>\$ 32,500</u></u>	<u><u>\$ 32,500</u></u>

During the year ended June 30, 2005, the School incurred tenant finish costs in excess of the amounts allowed by the lease agreement. The School executed a promissory note with the landlord to repay those costs. The note bears interest at the rate of 5% and is payable in 60 monthly installments of \$1,605, with the final payment due on July 1, 2009. The loan was paid in full during the year ended June 30, 2009.

In April 2009, the School obtained a \$150,000 line of credit from Steele Street Bank and Trust. The School has access to \$73,000 of the line of credit and the landlord has access to the remaining \$77,000 as a security deposit. At June 30, 2009, the School had borrowed \$32,500 from the line of credit to finance operating costs. The outstanding balance of the line of credit accrues interest at the Wall Street Journal Prime Rate, currently 3.25% per annum. The line of credit matured and was paid in full on July 31, 2009.

**NOTE 6: INTERFUND TRANSACTIONS**

The School is required by State statute to allocate \$298 per funded pupil for insurance and capital expenditures. During the year ended June 30, 2009, the General Fund transferred \$108,174 to the Capital Reserve Fund to comply with this statute.

**NOTE 7: PENSION PLAN**

**Denver Public Schools Retirement System**

*Plan Description* - The School contributes to the Denver Public Schools Retirement System (the "System"), a cost-sharing multiple-employer defined benefit pension plan (the "Plan"), to provide defined retirement, death and disability benefits to Plan members and beneficiaries. The System issues a publicly available financial report that includes financial statements and required supplementary information. A copy of the report can be obtained at the System's office at 3700 East Alameda Avenue, Suite 400, Denver, CO 80209.

SOUTHWEST EARLY COLLEGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

**NOTE 7: PENSION PLAN (Continued)**

**Denver Public Schools Retirement System (Continued)**

*Funding Policy* - The actuary of the System issues an annual report as of January 1 of each year which establishes the annual required contribution rate of the Plan. The School adopts changes in the contribution rates based on the funding policy approved by the District's Board of Education. The contribution rate for members was 8%. The contribution rate for the School for the years ended June 30, 2009, 2008 and 2007 was 7.58%, 12.83% and 11.14%, respectively, of covered payroll. During the years ended June 30, 2009, 2008 and 2007, the School contributed \$87,274, \$150,815 and \$94,584, respectively, to the Plan, equal to the required contributions.

**Taxable Pension Certificates of Participation (PCOPs)**

The District issued Taxable Pension Certificates of Participation (the "PCOPs") to fully fund the unfunded actuarial accrued liability (the "UAAL") of the Plan. Full funding of the UAAL reduced the employer contribution rate. For the years ended June 30, 2009, 2008 and 2007, the School contributed 13.72%, 12.13% and 11.89% of covered payroll, respectively, to the District to cover its obligation relating to the PCOPs.

During the years ended June 30, 2009, 2008 and 2007, the School contributed \$140,796, \$143,335, and \$100,953, respectively, to the District towards its PCOPs obligation, equal to the required contributions.

**NOTE 8: COMMITMENTS AND CONTINGENCIES**

**Lease Commitment**

In November, 2003, the School entered into an operating lease for school facilities through July, 2009. In accordance with the lease, the School has provided a security deposit of \$77,000 in the form of a line of credit with a bank, accessible to the landlord. Future minimum payments under the lease are as follows.

Year Ended June 30,

2010	\$ 49,431
Total	<u>\$ 49,431</u>

Subsequent to June 30, 2009, the School extended this agreement to July, 2010, with monthly lease payments of \$43,524.

**Claims and Judgements**

The School participates in federal, state and local programs that are fully or partially funded by grants. Expenditures financed by grants are subject to audit by the appropriate grantor. If expenditures are disallowed due to noncompliance with grant program regulations, the School may be required to reimburse the grantor. At June 30, 2009, significant amounts of grant expenditures have not been audited, but the School believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on the overall financial position of the School.

SOUTHWEST EARLY COLLEGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

**NOTE 8: COMMITMENTS AND CONTINGENCIES (Continued)**

**Tabor Amendment**

In November 1992, Colorado voters passed the Tabor Amendment to the State Constitution which limits state and local government tax powers and imposes spending limitations. The Tabor Amendment is subject to many interpretations, but the School believes it is in substantial compliance with the Amendment. In accordance with the Amendment, the School is required to establish an emergency reserve representing 3% of qualifying expenditures. At June 30, 2009, the District held \$73,869 on behalf of the School for this reserve.

**Colorado Department of Education Audit**

The Colorado Department of Education conducted an audit of the School's student counts and assessed the School \$119,003, representing a correction of revenues for the year ended June 30, 2007. This amount was paid or accrued during the year ended June 30, 2009. The School expects a similar assessment for corrections to the year ended June 30, 2008. However, the amount of this potential assessment has not been determined. No liability has been reported in the financial statements for this contingency.

**REQUIRED SUPPLEMENTARY INFORMATION**

SOUTHWEST EARLY COLLEGE

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

Year Ended June 30, 2009

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE Positive (Negative)</u>
<b>REVENUES</b>				
Local Sources				
Per Pupil Revenue	\$ 2,935,200	\$ 2,660,990	\$ 2,532,030	\$ (128,960)
Mill Levy	39,428	40,466	40,466	-
Grants	71,075	96,987	57,579	(39,408)
Investment Income	13,800	7,167	8,706	1,539
Miscellaneous	40,000	-	6,200	6,200
State Sources				
English Language Proficiency Act	-	-	1,316	1,316
Capital Construction Funding	40,000	39,011	39,011	-
Federal Sources				
Improving Teacher Quality	24,066	26,249	26,248	(1)
<b>TOTAL REVENUES</b>	<u>3,163,569</u>	<u>2,870,870</u>	<u>2,711,556</u>	<u>(159,314)</u>
<b>EXPENDITURES</b>				
Salaries	1,254,653	1,185,262	1,210,351	(25,089)
Employee Benefits	405,717	337,302	350,416	(13,114)
Purchased Services	1,196,564	1,184,421	1,143,571	40,850
Supplies and Materials	109,800	89,512	64,082	25,430
Miscellaneous	34,600	21,189	-	21,189
<b>TOTAL EXPENDITURES</b>	<u>3,001,334</u>	<u>2,817,686</u>	<u>2,768,420</u>	<u>49,266</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>162,235</u>	<u>53,184</u>	<u>(56,864)</u>	<u>(110,048)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Loan Proceeds	-	73,000	32,500	(40,500)
Transfers Out	(111,478)	-	(108,174)	(108,174)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(111,478)</u>	<u>73,000</u>	<u>(75,674)</u>	<u>(148,674)</u>
<b>NET CHANGE IN FUND BALANCE</b>	50,757	126,184	(132,538)	(258,722)
<b>FUND BALANCE, Beginning</b>	<u>-</u>	<u>(108,243)</u>	<u>(49,856)</u>	<u>58,387</u>
<b>FUND BALANCE, Ending</b>	<u>\$ 50,757</u>	<u>\$ 17,941</u>	<u>\$ (182,394)</u>	<u>\$ (200,335)</u>

See the accompanying Independent Auditors' Report.

SOUTHWEST EARLY COLLEGE

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2009

**NOTE 1: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgets and Budgetary Accounting**

A budget is adopted for the General Fund on a basis consistent with generally accepted accounting principles.

Management submits to the Board of Directors a proposed budget for the fiscal year commencing the following July 1, for their approval. The budget includes proposed expenditures and the means of financing them. All annual appropriations lapse at fiscal year end.

Expenditures may not legally exceed appropriations at the fund level. Revisions that alter the total expenditures of any fund must be approved by the Board of Directors.

**Legal Compliance**

For the year ended June 30, 2009, transfers out of the General Fund were not budgeted, in the amount of \$108,174. In addition, the Board of Directors did not approve a budget for the Capital Reserve Fund. These may be violations of State statutes.