

SOUTHWEST EARLY COLLEGE
Denver, Colorado

FINANCIAL STATEMENTS

June 30, 2010

SOUTHWEST EARLY COLLEGE

**Board of Directors
June 30, 2010**

Todd Miller, President

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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 and each major fund of Southwest Early College, component unit of Denver School District, as of and for the year ended June 30, 2010, 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 and each major fund of Southwest Early College as of June 30, 2010, 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 accompanying financial statements have been prepared assuming that Southwest Early College will continue as a going concern. As discussed in Note 10 to the financial statements, Southwest Early College has suffered ongoing losses from operations and has a fund balance deficit that raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to this matter are also described in Note 10. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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 23, 2010

Southwest Early College

Management's Discussion and Analysis

Fiscal Year Ending June 30, 2010

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, 2010. 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, 2010, the general fund deficit increased from (\$182,394), to (\$297,322) a net decrease of (\$114,928).

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 \$2,249,995.

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 ended June 30, 2010, the School's net assets decreased from (\$208,793) to (\$418,013).

	<u>2009-2010</u>	<u>2008-2009</u>
<u>ASSETS</u>		
Capital Assets	\$29,309	\$6,101
Other Assets	141,681	85,573
TOTAL ASSETS	\$ 170,990	\$ 89,674
<u>LIABILITIES</u>		
Accounts Payable	\$293,599	\$189,173
Accounts Payable-Denver School District	80,000	0
Accrued Liabilities	392	488
Accrued Salaries and Benefits	65,012	76,306
Due Within One Year	150,000	32,500
TOTAL LIABILITIES	\$589,003	\$298,467
<u>NET ASSETS</u>		
Capital Assets, Net of Related Debt	\$29,309	\$6,101
Unreserved	(\$515,151)	(\$288,763)
Reserved for Emergencies	67,829	73,869
TOTAL NET ASSETS	(\$418,013)	(\$208,793)

Change in Net Assets	<u>2009-2010</u>	<u>2008-2009</u>
<u>Revenues</u>		
Operating Grants and Contributions	\$235,990	\$27,564
Per Pupil Revenue	2,249,995	2,532,030
Mill Levy Override	35,486	40,466
Capital Construction	32,392	39,011
Grants not Restricted to Specific Programs	0	57,579
Investment Income	3,026	8,706
Miscellaneous	18,096	6,200
	Total Revenue	\$2,574,985
		\$2,711,556
<u>Expenses</u>		
Instruction	\$1,428,815	\$2,002,637
Support Services	1,354,365	874,761
Interest Expense	1,025	508
	Total Expenses	\$2,784,205
		\$2,877,906
Increase (Decrease) in Net Assets	(\$209,220)	(\$166,350)
Net Assets, Beginning	(208,793)	(42,433)
Net Assets	(\$418,013)	(\$208,793)

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 general fund reported an ending fund balance of (\$297,322). The School's fund deficit increased due to an audit finding by DPS for the 2007/2008 school year and mainly due to the unexpected decline in student enrollment. The school has also taken \$ 150,000 from the line of credit available to the school in order to continue operation and the balance was paid in full as of July 29th, 2010. The management of the school is taking all of the necessary precautions to ensure that the school will continue operation without any disruptions.

General Fund Budgetary Highlights

The School budgeted for General Fund expenditures of \$2,589,018 for the year ended June 30, 2010. Actual expenditures were \$2,839,913. The reason for this is the fact that college tuition was increased, SWEC had to repay some outstanding invoices to the landlord that occurred in previous years, and were under negotiation.

Capital Asset and Debt Administration

Capital assets. As of June 30, 2010, the school held capital assets in the amount of \$29,309, consisting mainly of a copy machine and capital improvements to the facility.

Long-term debt. As of June 30, 2010 the School had increased their Line of Credit with Steele Street Bank and Trust from \$73,000 to \$150,000. The balance of the long-term debt was paid in full as of July 29th, 2010.

Economic Factors and Next Year's Budget

The primary factor driving the budget for the School is student enrollment. Enrollment for the 2009-2010 school year was 332. The enrollment projected for the 2010-2011 school year is expected to be 335. This factor was considered in preparing the School's budget for 2010-2011.

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, 2010

	<u>GOVERNMENTAL ACTIVITIES</u>
ASSETS	
Cash	\$ 51,803
Accounts Receivable	22,049
Reserves Held by Denver School District	67,829
Capital Assets, Net of Accumulated Depreciation	<u>29,309</u>
TOTAL ASSETS	<u>170,990</u>
LIABILITIES	
Accounts Payable	293,599
Accounts Payable - Denver School District	80,000
Accrued Liabilities	392
Accrued Salaries and Benefits	65,012
Noncurrent Liabilities	
Due Within One Year	<u>150,000</u>
TOTAL LIABILITIES	<u>589,003</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	29,309
Restricted for Emergencies	67,829
Unrestricted	<u>(515,151)</u>
TOTAL NET ASSETS	<u>\$ (418,013)</u>

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

SOUTHWEST EARLY COLLEGE

STATEMENT OF ACTIVITIES

Year Ended June 30, 2010

<u>FUNCTIONS/PROGRAMS</u>	<u>EXPENSES</u>	<u>PROGRAM REVENUES OPERATING GRANTS AND CONTRIBUTIONS</u>	<u>NET (EXPENSE) REVENUE AND CHANGE IN NET ASSETS GOVERNMENTAL ACTIVITIES</u>
PRIMARY GOVERNMENT			
Governmental Activities			
Instruction	\$ 1,428,815	\$ 172,798	\$ (1,256,017)
Supporting Services	1,354,365	26,192	(1,328,173)
Interest on Long-Term Debt	<u>1,025</u>	<u>-</u>	<u>(1,025)</u>
Total Governmental Activities	<u>\$ 2,784,205</u>	<u>\$ 198,990</u>	<u>(2,585,215)</u>
GENERAL REVENUES			
			2,249,995
			35,486
			37,000
			32,392
			3,026
			<u>18,096</u>
			<u>2,375,995</u>
			(209,220)
			<u>(208,793)</u>
			<u>\$ (418,013)</u>

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

SOUTHWEST EARLY COLLEGE

BALANCE SHEET
GOVERNMENTAL FUND

June 30, 2010

	<u>GENERAL</u>
ASSETS	
Cash	\$ 51,803
Accounts Receivable	22,049
Reserves Held by Denver School District	67,829
TOTAL ASSETS	\$ 141,681
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts Payable	\$ 293,599
Accounts Payable - Denver School District	80,000
Accrued Liabilities	392
Accrued Salaries and Benefits	65,012
TOTAL LIABILITIES	439,003
FUND BALANCE	
Reserved for Emergencies	67,829
Unreserved	(365,151)
TOTAL FUND BALANCE	(297,322)
TOTAL LIABILITIES AND FUND BALANCE	\$ 141,681
Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:	
Total Fund Balance of the Governmental Fund	\$ (297,322)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	29,309
Long-term liabilities are not due and payable in the current year and, therefore, are not reported in the funds.	(150,000)
Total Net Assets of Governmental Activities	\$ (418,013)

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

SOUTHWEST EARLY COLLEGE

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGE IN FUND BALANCE
GOVERNMENTAL FUND
Year Ended June 30, 2010

	<u>GENERAL</u>
REVENUES	
Local Sources	\$ 2,343,603
State Sources	35,720
Federal Sources	195,662
 TOTAL REVENUES	 2,574,985
EXPENDITURES	
Instruction	1,445,060
Supporting Services	1,361,328
Debt Service	
Principal	32,500
Interest	1,025
 TOTAL EXPENDITURES	 2,839,913
 EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	 (264,928)
OTHER FINANCING SOURCES	
Debt Proceeds	150,000
 NET CHANGE IN FUND BALANCE	 (114,928)
FUND BALANCE, Beginning	(182,394)
FUND BALANCE, Ending	\$ (297,322)
 Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:	
Net Change in Fund Balance of the Governmental Fund	\$ (114,928)
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 by which capital outlay \$32,825 exceeded depreciation expense (\$9,617) in the current year.	23,208
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 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 (\$150,000) and principal payments \$32,500.	(117,500)
Change in Net Assets of Governmental Activities	\$ (209,220)

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

SOUTHWEST EARLY COLLEGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

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 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 School’s charter is granted by the District and 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. Governmental activities, which normally are supported by taxes and 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 revenues not properly included among program revenues are reported instead as general revenues.

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

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.

SOUTHWEST EARLY COLLEGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

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, as well as expenditures related to compensated absences, are recorded only when payment is due.

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 currently used to account for all financial activities of the School.

Assets, Liabilities and Net Assets/Fund Balance

Cash and Investments - Investments are reported at fair value.

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.

Capital assets of the School are amortized or 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.

Compensated Absences - Employees of the School are allowed to accumulate unused personal and sick leave to a maximum of 56 hours. The School does not reimburse or otherwise compensate employees for any unused personal and sick leave. Therefore, no liability is reported in the financial statements for these compensated absences.

SOUTHWEST EARLY COLLEGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Assets/Fund Balance (Continued)

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 Balance - 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.

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

At June 30, 2010, net assets of the governmental activities and the fund balance of the General Fund were deficits, in the amounts of \$418,013 and \$297,322, respectively. Management expects to eliminate these deficit balances with future operations.

NOTE 3: CASH AND INVESTMENTS

Deposits

The Colorado Public Deposit Protection Act (PDPA) requires all local governments to 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. The 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 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 generally limit investments to an original maturity of five years unless the governing board authorizes the investment for a period in excess of five years. State statutes do not address custodial risk.

SOUTHWEST EARLY COLLEGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE 3: CASH AND INVESTMENTS (Continued)

Investments (Continued)

- 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, 2010.

NOTE 4: CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2010, is summarized below.

	Balance 6/30/09	Additions	Deletions	Balance 6/30/10
Governmental Activities				
Capital Assets, Being Depreciated				
Leasehold Improvements	\$ 85,043	\$ -	\$ -	\$ 85,043
Equipment	22,257	32,825	(7,000)	48,082
Total Capital Assets, Being Depreciated	107,300	32,825	(7,000)	133,125
Accumulated Depreciation				
Leasehold Improvements	(85,043)	-	-	(85,043)
Equipment	(16,156)	(9,617)	7,000	(18,773)
Total Accumulated Depreciation	(101,199)	(9,617)	7,000	(103,816)
Capital Assets, Net	\$ 6,101	\$ 23,208	\$ -	\$ 29,309

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

Instruction	\$ 6,732
Supporting Services	2,885
Total	\$ 9,617

SOUTHWEST EARLY COLLEGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE 5: LONG-TERM DEBT

Following is a summary of long-term debt transactions for the year ended June 30, 2010:

	Balance 6/30/09	Additions	Payments	Balance 6/30/10	Due Within One Year
Governmental Activities					
Line of Credit	<u>\$ 32,500</u>	<u>\$ 150,000</u>	<u>\$ 32,500</u>	<u>\$ 150,000</u>	<u>\$ 150,000</u>

In April 2004, 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, 2010, the School had borrowed \$150,000 from the line of credit to finance operating costs and facility lease payments. The outstanding balance of the line of credit accrues interest at the Wall Street Journal Prime Rate plus 2%, except that under no circumstances will the interest rate be less than 6% per annum. The interest rate at June 30, 2010, was 6%. The line of credit matured and was paid in full on July 31, 2010.

NOTE 6: PENSION PLAN

Defined Benefit Pension Plan

Prior to January 1, 2010, the School participated in the Denver Public Schools Retirement System (“DPSRS”). Effective January 1, 2010, the State Legislature mandated the merger of the DPSRS into the Public Employees’ Retirement Association of Colorado (PERA).

Plan Description - The Denver Public Schools Division (DPSD) is a cost-sharing multiple-employer defined benefit pension plan administered by the Public Employees’ Retirement Association of Colorado (PERA). The DPSD provides retirement and disability, annual increases, and death benefits for members or their beneficiaries. All employees of the School are members of the DPSD. Title 24, Article 51 of the Colorado Revised Statutes (CRS), as amended, assigns the authority to establish benefit provisions to the State Legislature. PERA issues a publicly available annual financial report that includes financial statements and required supplementary information. That report may be obtained by contacting PERA at www.copera.org, 1301 Pennsylvania Street, Denver, Colorado 80203, or by calling PERA at 303-832-9550 or 1-800-759-7372.

Funding Policy - The contribution requirements of plan members and the School are established under Title 24, Article 51, Part 4 of the CRS, as amended. The contribution rates while participating in the DPSRS were based on the funding policy approved by the District’s Board of Education. The contribution rate for members was 8% of covered salaries for the past three years. The School’s contribution rate for the fiscal years ended June 30, 2009 and 2008, was 7.58% and 12.83%, respectively, and was .49% through December 31, 2009. Effective January 1, 2010, Title 24, Article 51, Part 4 of the CRS, as amended, allowed the School to offset its contribution rate of 17.45% by an amount equal to the obligations of the District with respect to the outstanding PCOPs (See Note 7). As a result, the School’s contribution rate beginning January 1, 2010, was 2.41%. Also, a portion of the School’s contribution (1.02% of covered salaries) was allocated to the Denver Public Schools Health Care Trust Fund (See Note 8). The School’s pension contributions for the years ended June 30, 2010, 2009 and 2008 were \$14,967, \$87,274 and \$150,815, respectively.

SOUTHWEST EARLY COLLEGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE 7: PENSION CERTIFICATES OF PARTICIPATION

The District issued Taxable Pension Certificates of Participation (the “PCOPs”) to fully fund the unfunded actuarial accrued liability of its pension plan (See Note 6). For the years ended June 30, 2010, 2009 and 2008, the School contributed 13.72%, 13.72% and 12.13% of covered salaries, respectively, to the District to cover its obligation relating to the PCOPs.

During the years ended June 30, 2010, 2009 and 2008, the School contributed \$132,265, \$140,796 and \$143,335, respectively, to the District towards its PCOPs obligation.

NOTE 8: POSTEMPLOYMENT HEALTHCARE BENEFITS

Plan Description - The School contributes to the Denver Public Schools Division Health Care Trust Fund (HCTF), a cost-sharing multiple-employer postemployment healthcare plan administered by PERA. The HCTF provides a health care premium subsidy to DPSD benefit recipients and their eligible beneficiaries. Title 24, Article 51, Part 12 of the CRS, as amended, assigns the authority to establish the HCTF benefit provisions to the State Legislature. PERA issues a publicly available annual financial report that includes financial statements and required supplementary information for the HCTF. That report may be obtained as described previously.

Funding Policy - The School is required to contribute at a rate of 1.02% of covered salaries for all DPSD members. No member contributions are required. The apportionment of the contributions to the HCTF are established under Title 24, Article 51, Section 208 of the CRS, as amended. The School’s apportionment to the HCTF for the year ended June 30, 2010, was \$5,245.

NOTE 9: COMMITMENTS AND CONTINGENCIES

Lease Commitment

In November, 2003, the School entered into an operating lease agreement for school facilities, which was extended through July, 2010. In accordance with the lease agreement, the School has provided a security deposit of \$77,000 in the form of a letter of credit with a bank. During the year ended June 30, 2010, the School paid \$562,774 under this lease agreement.

Subsequent to June 30, 2010, the School extended the lease agreement to July, 2012, with minimum monthly lease payments of \$36,067. The monthly payments may escalate depending on the student enrollment of the School on October 1 of each year, to a maximum of \$45,083.

Future minimum payments under the lease agreement are as follows.

Year Ended June 30,

2011		\$ 432,804
2012		432,804
2013		<u>36,067</u>
Total		<u><u>\$ 901,675</u></u>

SOUTHWEST EARLY COLLEGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE 9: COMMITMENTS AND CONTINGENCIES (Continued)

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, 2010, 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.

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, 2010, the District held \$67,829 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 and \$241,718, representing a correction of revenues for the years ended June 30, 2007 and 2008, respectively. The School paid \$119,003 during the year ended June 30, 2009, and accrued \$241,718 at June 30, 2010. This amount is payable during the year ended June 30, 2011. The School expects a similar assessment for student counts reported for the year ended June 30, 2009. However, the amount of this potential assessment has not been determined. No liability has been reported in the financial statements for this contingency.

NOTE 10: GOING CONCERN

The School has suffered ongoing losses from operations and has a fund balance deficit that raises substantial doubt about its ability to continue as a going concern.

The School negotiated a lower lease agreement with Colorado Heights University that will save around \$100,000. The School has negotiated a lower college tuition with Community College of Denver for classes on the School's campus that will amount to over \$100,000 in savings. The School will also receive an increase in federal funding which will offset the general budget.

REQUIRED SUPPLEMENTARY INFORMATION

SOUTHWEST EARLY COLLEGE

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

Year Ended June 30, 2010

	<u>ORIGINAL AND FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE Positive (Negative)</u>
REVENUES			
Local Sources			
Per Pupil Revenue	\$ 2,394,824	\$ 2,249,995	\$ (144,829)
District Mill Levy	34,760	35,486	726
District Technology Funding	-	37,000	37,000
Investment Income	6,091	3,026	(3,065)
Miscellaneous	9,500	18,096	8,596
State Sources			
English Language Proficiency Act	1,200	3,328	2,128
Capital Construction	37,286	32,392	(4,894)
Federal Sources			
Title I	-	169,470	169,470
Improving Teacher Quality	26,192	26,192	-
TOTAL REVENUES	<u>2,509,853</u>	<u>2,574,985</u>	<u>65,132</u>
EXPENDITURES			
Salaries	963,189	1,104,477	(141,288)
Employee Benefits	253,734	269,800	(16,066)
Purchased Services	1,142,782	1,272,428	(129,646)
Supplies and Materials	127,411	155,908	(28,497)
Miscellaneous	5,100	3,775	1,325
Debt Service	96,802	33,525	63,277
TOTAL EXPENDITURES	<u>2,589,018</u>	<u>2,839,913</u>	<u>(250,895)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(79,165)	(264,928)	(185,763)
OTHER FINANCING SOURCES			
Debt Proceeds	73,000	150,000	77,000
NET CHANGE IN FUND BALANCE	(6,165)	(114,928)	(108,763)
FUND BALANCE, Beginning	<u>76,836</u>	<u>(182,394)</u>	<u>(259,230)</u>
FUND BALANCE, Ending	<u>\$ 70,671</u>	<u>\$ (297,322)</u>	<u>\$ (367,993)</u>

See the accompanying Independent Auditors' Report.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2010

NOTE 1: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

A budget is adopted for the School 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, 2010, General Fund expenditures exceeded the amounts budgeted by \$250,895. This may be a violation of State statutes.