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Financial Statements and Report of Independent Certified Public Accountants

Escuela Con Causa EPA-RCM, LLC

(Wholly owned subsidiary of Caras of the Americas)

June 30, 2021

Escuela Con Causa EPA-RCM, LLC

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Report of Independent Certified Public Accountants

To the Board of Directors
Escuela Con Causa EPA-RCM, LLC:

Report on the Financial Statements
We have audited the accompanying financial statements of **Escuela Con Causa EPA-RCM, LLC** (the School), which comprise the statement of financial position as of June 30, 2021, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Kevane
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Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2021, and the changes in its net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter
As discussed in Note 3 to the financial statements, the funds received from the Commonwealth of Puerto Rico's Department of Education are not sufficient to cover the School's operating needs; therefore, the School depends on raising contributions from individuals and private foundations in order to complement the revenue necessary to meet its operating needs and obligations. There is no assurance that the School will be able to raise beyond the 2022-2023 academic year the private contributions necessary to cover any deficiencies from the Department of Education's annual funding. Our opinion is not modified with respect to this matter.

Restriction on Use
This report is intended solely for the information and use of the School's management, board of directors and the Commonwealth of Puerto Rico's Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

San Juan, Puerto Rico
January 20, 2022.

Kevane Grant Thornton LLP

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Escuela Con Causa EPA-RCM LLC

Statement of Financial Position
June 30, 2021

Assets

	Without Donor Restrictions	With Donor Restrictions	Total
Current assets:			
Cash	$ 346,329	$ -	$ 346,329
Due from Caras of the Americas	333,112	50,000	383,112
Prepaid expenses	5,063	-	5,063
Total current assets	684,504	50,000	734,504
Property and equipment, net	40,362	-	40,362
Total assets	$ 724,866	$ 50,000	$ 774,866

Liabilities and Net Assets

	Without Donor Restrictions	With Donor Restrictions	Total
Current liabilities:			
Accounts payable	$ 11,823	$ -	$ 11,823
Accrued vacations and fringe benefits	121,673	-	121,673
Loan payable-Paycheck Protection Program	280,000	-	280,000
Due to Caras of the Americas	57,581	-	57,581
Total liabilities	471,077	-	471,077
Net assets:			
Without donor restrictions	253,789	-	253,789
With donor restrictions	-	50,000	50,000
Total net assets	253,789	50,000	303,789
Total liabilities and net assets	$ 724,866	$ 50,000	$ 774,866

The accompanying notes are an integral part of this balance sheet.

Escuela Con Causa EPA-RCM LLC

Statement of Activities
For the Year Ended June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, gains and other support:			
Public support from the Department of Education	$ 913,754	$ -	$ 913,754
Contributions:			
Foundations	505,055	-	505,055
Nonfinancial assets	195,136	-	195,136
Total revenue, gains and support, net	1,613,945	-	1,613,945
Expenses:			
Program services:			
Education	1,564,273	-	1,564,273
Total program expenses	1,564,273	-	1,564,273
Support services:			
Management and general	314,974	-	314,974
Fundraising	73,594	-	73,594
Total supporting services expenses	388,568	-	388,568
Total expenses	1,952,841	-	1,952,841
Decrease in net assets before non operating revenue	(338,896)	-	(338,896)
Non operating revenue:			
Loan forgiveness - Paycheck Protection Program	175,000	-	175,000
Total non operating revenue	175,000	-	175,000
Change in net assets	(163,896)	-	(163,896)
Net assets, beginning of year	417,685	50,000	467,685
Net assets, end of year	$ 253,789	$ 50,000	$ 303,789

The accompanying notes are an integral part of this statement.

Escuela Con Causa EPA-RCM LLC

Statement of Cash Flows
June 30, 2021

Cash flows from operating activities:	
Change in net assets	$ (163,896)
Adjustments to reconcile change in net assets to net cash flows used in operating activities:	
Depreciation	23,273
Loan forgiveness	(175,000)
Decrease/(increase) in assets:	
Contributions receivable	238,933
Prepaid expenses	(5,063)
Due from Caras of the Americas	70,337
(Decrease)/increase in liabilities:	
Accounts payable	1,452
Accrued vacations and fringe benefits	54,677
Due to Caras of the Americas	(81,497)
Net cash used in operating activities	(36,784)
Cash flows from investing activities:	
Acquisition of property and equipment	(63,635)
Net cash used in investing activities	(63,635)
Cash flows from financing activities:	
Proceeds from Paycheck Protection Program loan	280,000
Net cash provided by financing activities	280,000
Net increase in cash	179,581
Cash, beginning of year	166,748
Cash, end of year	$ 346,329
Supplemental disclosure of non-cash investing and financing activities:	
Loan forgiveness - Paycheck Protection Program	$ 175,000

(1) Organization and summary of significant accounting policies:

Escuela con Causa EPA-RCM LLC (the School) is a private nonprofit public benefit limited liability corporation incorporated on August 3, 2019, in San Juan, Puerto Rico under the laws of the Commonwealth of Puerto Rico (Commonwealth). The School was created by its parent company, Caras of the Americas (Caras), to operate a Grade 6 through Grade 12 public-school Rosalina C. Martinez (RCM), a school within the public education system of the Puerto Rico Department of Education (the Department), located in the Amelia community of Guaynabo. RCM is being operated by the School pursuant to the Public Schools Alliance program (known as "Escuelas Publicas Alianzas" in Spanish) established by Act No. 85 of March 29, 2018 (Act No. 85-2018) as amended, known as the Act for the Educational Reform of Puerto Rico. Act No. 85-2018 established this alliance program, which authorized the Secretary of the Department to approve and certify applications from eligible educational institutions, such as the School, to operate selected public schools under the alliance program and to supervise and monitor the operations of such schools by such certified educational institutions, among other duties and responsibilities established within the Act and related Regulations.

The operation and administration of RCM by the School is governed by a contract established with the Department containing a series of compliance requirements, as defined therein. The contract was effective for one year since its signing on August 20, 2019 through July 31, 2020; and renewable annually for up to five years. The contract (Constituent Letter) is effective for five years since its signing on August 20, 2019 through July 31, 2024; however the economic clauses of the contract are effective for one year and renewable annually for up to five years. The economic clauses of the contract are currently renewed through July 2021. The School's first year of operation was the year ended June 30, 2020. The School's student population projected under the aforementioned contract would range between 315 students in its first year (fiscal year 2020) and 420 students for its fifth year (fiscal year 2024). At June 30, 2021, the student population at the School was of 292 students.

Regular employees from the Department who receive and accept an employment offer from the School will become employees of the School and the Department will grant them a two-year unpaid license for such employees. The School will guarantee such personnel the same salary scale and marginal benefits that they enjoyed at the Department at the moment of accepting the School's employment offer. Upon the end of the two-year license period, if the employees choose to stay as employees of the School, such employees will resign from the Department; however, the School will not be able to reduce such employees' salaries. The School did not hire regular employees from the Department.

The following is a summary of significant accounting policies followed by the School in the preparation of its financial statements:

(a) Basis of presentation -

The financial statements of the School are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as applicable to not-for-profit entities. In accordance with the Financial Accounting Standards Board's (FASB) Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for Profit Entities*, the School reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

- **Net assets without donor restrictions** – Net assets that are not subject to donor (or certain grantor) imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the organization's management and the board of directors. Funds designated by the Board of Directors for specific purposes, if any, are considered unrestricted as the Board may change such designations from time to time. There were no such designations made by the School's Board of Directors for the year ended June 30, 2021.

- **Net assets with donor restrictions** – Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature, such as those restrictions that will be met by the passage of time or other events specified by the donor. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. At June 30, 2021, the School had $50,000 of net assets with donor restrictions.

(b) Revenue and support -

The School primarily receives funds from the Department determined based on the School's student population at a budget base rate per student pre-established by the Department. For year ending June 30, 2021, these funds were established at $913,754, which represents a budget base of approximately $2,900 per student. This School's primary revenue source is also being complemented with private individual and corporate contributions.

Revenue is reported as increases in unrestricted net assets unless the use of the related assets is restricted through donor-imposed restrictions. Expirations of restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions in the statement of activities.

Contributions, including unconditional promises to give, are recorded as revenue in the year received. Contributions with donor-imposed restrictions that are met in the same year as received are reported as revenue of the net assets without donor restrictions. Conditional promises to give, that is, those with a measurable performance or other barrier and right of return, are not recognized until the conditions on which they depend have been met. Contributions of assets other than cash are recorded at their estimated fair value.

Gain and losses on investments, if any, and other assets and liabilities are reported as increases and decreases in unrestricted net assets unless the use is restricted by explicit donor stipulation imposed or by law.

The School may receive donated services or in-kind contributions of noncash assets which, if significant, are recognized as contribution revenue if any of the following criteria is met: a) they create or enhance a nonfinancial asset or b) they require specialized skills which are provided by individuals possessing those skills, and would typically need to be purchased by the School if they had not been provided by contribution. Donated services and in-kind contributions or donation of noncash assets are measured and recognized at their corresponding fair values. The School recognized contributed nonfinancial assets that included contributed services of approximately $195,136. Contributed services recognized comprise professional services from special education teachers, school psychologist and a nurse paid by the Department.

The school may also conduct and host special activities and events (concerts, dinner galas, sports tournaments, among others) and rents its facilities, which could provide an ongoing portion of the School's support revenue for its programs. The School would report the revenue of such activities, net of its related costs in the accompanying statement of activities. No such activities were held or hosted by the School during the year ended June 30, 2021.

The School may also use from time to time volunteers or students to help in providing administrative support or in delivering program services. Such contributed services do not meet the criteria for recognition of donated services contained in generally accepted accounting principles and, accordingly, are not reflected in the accompanying financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606),* as amended, which was applicable to the School effective July 1, 2020 (fiscal year 2021). This guidance outlines a single, comprehensive model for accounting for revenue from contracts with customers. Under this standard, revenue is measured based on a consideration specified in a contract with a customer and excludes any sales incentives and amounts collected on behalf of third parties, and is recognized when a performance obligation is satisfied by transferring control over a product or service to a customer. As the School does not enter into any contract with its students; hence, does not charge any tuition fees; nor any other enrollment, infrastructure, technology or other fees, this standard had no applicability or effect on the School.

(c) Functional expenses -
The costs of educational and supporting activities have been summarized on a functional basis in the statement of activities. Note 7 of the financial statements presents those functional expenses among its natural classification. Salaries and payroll taxes are allocated based on employee's time spent on program or support activities. Expenses other than salaries and payroll taxes which are not directly identifiable by program or support activities, are allocated based on the best estimates of management.

(d) Cash and cash equivalents -
Cash is, from time to time, variously composed of cash on hand and cash in banks. The School considers all highly liquid investments with original maturities of three months or less at time of acquisition to be cash equivalents. As of June 30, 2021, there were no cash equivalents.

(e) Contributions receivable -
Contributions receivable consist of unconditional promises to give that are expected to be collected in future years. Contributions receivable are reported as assets with donor restrictions unless explicit donor stipulations surrounding the pledge make clear the donor intended it to be used for activities of the current period. Contributions receivable after one year, if any, are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discounts, if any, is recorded as contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions is provided, if necessary, based upon management's judgement including such factors as collection history, type of contribution and nature of fund-raising activity.

(f) Property and Equipment -
Property and equipment with a useful life of more than a year and an acquisition cost of $2,000 or more will be capitalized and depreciated over its useful life using the straight-line method of depreciation. Capitalized property and equipment are stated at cost at the date of acquisition or fair value at the date of donation in the case of gifts. Maintenance and repairs are charged to expense, as well as additions, renewals and betterments not exceeding $2,000. When items of property and equipment are sold or retired, the related cost and accumulated amortization of property and equipment are sold or retired, the related cost and accumulated amortization are removed from the accounts, and any gain or loss is included in income. For the year ended June 30, 2021, additions to property and equipment amounted to $63,635.

(g) Income taxes -

The School is exempt from income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code and under Section 1101 of the Puerto Rico Internal Revenue Code of 2011. However, it is subject to income taxes from activities, if any, unrelated to its tax-exempt purpose. The School is also exempt from property taxes on property devoted to education.

GAAP provides accounting and disclosure guidance about positions taken by an entity in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. The Organization's returns are subject to examination by federal and state taxing authorities, generally for three years and four years, respectively, after they are filed.

(h) Advertising costs -

Advertising costs are expensed as incurred. For the year ended June 30, 2021, advertising costs amounted to $198 and have been included within Fund Raising in the accompanying statements of activities

(i) Use of estimates -

The preparation of the financial statements requires management of the School to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

(j) Recently issued accounting standards -

In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842).* Topic 842 requires a lessee to recognize a lease asset representing its right to use the underlying asset for the lease term, and a lease liability for the present value of payments to be made to lessor, on its statement of financial position for all leases greater than 12 months. In November 2019, the FASB issued ASU 2019-10, Financial Instruments-Credit Losses, Derivatives and Hedging, and Leases, which deferred the effective date of Topic 842 for the School until fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 31, 2021 (that is, for fiscal year 2022). In June 2020, the FASB issued ASU 2020-05, Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842), which deferred again for one additional year the effective date of Topic 842 until fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 31, 2021 (that is, for fiscal year 2023). Although the full impact of this new guidance on the School's financial statements has not yet been determined, the future adoption of this guidance will require the School to record assets and liabilities on its statement of financial position relating to facility and other leases currently being accounted for as operating leases, as applicable.

(2) Related parties transactions:

The School is a wholly owned subsidiary of Caras, a non-for-profit corporation incorporated under the laws of District of Columbia, and dully registered and authorized to execute its functions and activities in Puerto Rico. Caras' mission is to promote community development to eradicate poverty through education, the environment and economic development together with the communities of Cataño and Guaynabo, Puerto Rico. As mentioned in Note 1, Caras created the School in order to operate the public-school RCM, a school within the public education system of the Puerto Rico Department of Education (the Department), located in the Amelia community of Guaynabo.

Caras has raised contributions through grants and donations from private foundations and individuals, which in turn are contributed to the School. These grants and donations are presented within contributions in the accompanying statement of activities. As of June 30, 2021, contributions raised for the School, deposited in Caras bank accounts as of June 30, 2021 (in the amount of $383,112), are presented within due from Caras in the accompanying statement of financial position.

In the normal course of operations, Caras may provide from time to time advances or contributions to the School in order to assist the School in the operation of RCM. During the year ended June 30, 2021, Caras made advances of approximately $300,000 to the School and the School made repayments to Caras of approximately $400,000. At June 30, 2021, the School has a balance due to Caras of $57,581, presented separately in the accompanying statement of financial position that includes the aforementioned advances made by Caras.

(3) <u>Availability and liquidity:</u>

The following represents the School's financial assets available for general expenditure as of the balance sheet date, reduced by amounts not available for general use within one year.

Financial assets at end of year:		
Cash	$	346,329
Due from Caras of the Americas		333,112
Financial assets available to meet general expenditures over the next twelve months	$	679,441

The funds received from the Department based on the rate per student pre-established are not sufficient to cover the School's operating needs; therefore, the School depends on raising contributions from individuals and private foundations in order to complement the revenue necessary to meet its operating needs and obligations. There is no assurance that the School will be able to raise beyond the 2022-2023 academic year the private contributions necessary to cover any deficiencies from the Department's annual funding. The School regularly monitors the liquidity required to meet its operating needs and other contractual commitments. For the next twelve (12) months following the date of these financial statements, the School anticipates collecting sufficient revenue to cover general expenditures, meet its operating needs and obligations.

(4) <u>Property and equipment:</u>

As of June 30, 2021, property and equipment consisted of:

	Useful Lives (in years)		Amount
Vehicles	1-5	$	37,895
Leasehold improvements	1-5		25,740
Total depreciable assets			63,635
Less: accumulated depreciation			(23,273)
Property and equipment, net		$	40,362

(5) Loan payable:

On March 2021, the School applied for and was approved a $280,000 loan under the Paycheck Protection Program ("PPP") created as part of the relief efforts related to COVID-19 and administered by the U.S. Small Business Administration ("SBA"). The School is eligible for loan forgiveness of up to 100% of the loan, upon meeting certain requirements. The loan accrues interest at 1%, but payments are deferred for a period of sixteen months if the borrower has not requested forgiveness during such period. The loan is uncollateralized and is fully guaranteed by the SBA.

If the loan is not forgiven by the SBA, after deferment period, the future scheduled maturities of the loan are follows:

Year Ending June 30,	Amount
2022	$ -
2023	66,139
2024	77,088
2025	77,863
2026	58,910
	$ 280,000

On May 2020, the School applied for and was approved a $175,000 loan under the PPP. During fiscal year 2021 the School filed a request for loan forgiveness and on April 2021 the SBA notified the School that the loan principal was forgiven.

For purposes of derecognizing the PPP loan, management of the School elected the model of accounting under FASB ASC 450-30 *Gain Contingencies*. Under this model, the earnings impact of a gain contingency is recognized when all the contingencies related to the receipt of the assistance have been met and the loan is forgiven by the SBA. The forgiven loan principal amounting to $175,000 was presented as non-operating revenue in the accompanying statement of activities.

(6) Net assets:

Net assets with donor restrictions are restricted for the following purposes as of June 30, 2021:

Subject to expenditure for teacher development	$ 50,000

(7) Functional expenses:

The table below presents the School's expenses by both their nature and function for the year ending June 30, 2021:

	Program	Support		
	Educational	Management & General	Fund Raising	Total
Salaries and payroll taxes	$ 1,262,172	$ 228,649	$ 60,472	$ 1,551,293
Professional services	195,506	60,468	9,367	265,341
Equipment and technology	19,958	4,744	956	25,658
Repairs and maintenance	13,699	2,482	656	16,837
Supplies	39,921	5,467	952	46,340
Insurance, licenses and permit	-	7,860	-	7,860
Advertising costs	-	198	-	198
Depreciation expense	18,936	3,430	907	23,273
Dues and subscriptions	5,924	1,073	284	7,281
Other expenses	8,157	603	-	8,760
	$ 1,564,273	$ 314,974	$ 73,594	$ 1,952,841

(8) Concentration of risk:

The School maintains its cash balances with a financial institution insured by the Federal Deposit Insurance Corporation (FDIC) and other financial institution out of the FDIC jurisdiction. The accounts under FDIC jurisdiction are secured by the FDIC up to $250,000. Cash deposits in financial institutions insured by FDIC as of June 30, 2021 exceeded the federal insurance limit by approximately $303,000.

(9) Commitments and contingencies:

(a) Compliance requirements -

Pursuant to the contract established with the Department for the operation and administration of RCM, the School shall meet certain compliance requirements, as defined therein, some of which include the following:

- The filing of annual operational reports, within sixty (60) days of the end of the school year, validating the compliance with the established school programs, certifications of teachers qualifications, personnel training requirements, community and students participation requirements, the timely filing of all reports required by Act No. 85-2018 and related regulations, the tax exempt status of the School, as applicable, among others.

- Maintaining an inventory identification system, and submitting a related inventory report, of all property and equipment acquired with both the Department's funds and with the School's own internal and privately raised funds.

- Complying with all laws, ordinances, regulations, rules and orders or requirements from the federal, state and municipal governments with respect to the use of public-school properties.

Management understands that the School has complied with the aforementioned requirements or equivalent amended or modified rules mutually agreed upon with the Department.

The School is also subject to an annual evaluation in conformity with the Performance Management Framework (known as MGD for its Spanish acronym), which measures and assigns certain key performance indicators in the School's academic, operational and financial performance. The Department has not performed the annual evaluation, as of the date of these financial statements.

As per the Constituent Letter, the Department is responsible for the School's physical plant including capital improvements. The current condition of the physical plant is not optimal, and it has been further deteriorated as a result of the earthquakes that have affected Puerto Rico during 2020. In this regard, the School's operation has been affected by the current conditions and without the necessary major repairs and capital improvement the School's operation and its academic services could be further affected.

As per the Constituent Letter (section 12), the per pupil rate assigned to the School could be subject to periodic revisions throughout the year. In this regard, the School's management received during 2019 three (3) communications from the Department indicating that the per pupil rate assigned for the fiscal year 2020 was under review and that the School could receive a favorable adjustment of $166,000 subject to final approval. While approved, this adjustment has not been accrued in the accompanying financial statements given that such adjustment is still pending final authorization through written consent. Such adjustment would be recognized at the moment such final authorization is executed through written consent.

(b) Contingencies -
The School has received public funds from the Department and is subject to the compliance requirements referred to in section a) above. Consequently, the School is subject to review, monitoring and audit by the Department. Although such audits and reviews could generate expenditure disallowances under the terms of the contract with the Department, management believes that any required reimbursement will not be material.

(10) Subsequent events:

The School has evaluated subsequent events from the balance sheet date through January 20, 2022, the date at which the financial statements were available to be issued. Management believes that the subsequent events disclosed below are intrinsically related to the financial statements of the School.

The School has continued the education of its students and during October 2021 reached an agreement with the Department over the contract's (Constituent Letter) economic clauses for fiscal year 2021-2022.

The School filed a request for loan forgiveness for their $280,000 PPP loan outstanding as of June 30, 2021 and on October 2021 the SBA notified the School that the loan was forgiven.