Kevane Grant Thornton

Financial Statements and Report of Independent Certified Public Accountants

Escuela Con Causa EPA-RCM, LLC

(A Wholly-Owned Subsidiary of Caras of the Americas)

June 30, 2023

Escuela Con Causa EPA-RCM, LLC
(A wholly-owned Subsidiary of Caras of the Americas)

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Report of Independent Certified Public Accountants

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

Opinion

We have audited the accompanying financial statements of **Escuela Con Causa EPA-RCM, LLC** (a wholly-owned subsidiary of Caras of the Americas), which comprise the statement of financial position as of June 30, 2023, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Escuela Con Causa EPA-RCM, LLC** as of June 30, 2023, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of **Escuela Con Causa EPA-RCM, LLC** and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about **Escuela Con Causa EPA-RCM, LLC**'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 **Escuela Con Causa EPA-RCM, LLC**'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about **Escuela Con Causa EPA-RCM, LLC**'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Kevane Grant Thornton LLP

San Juan, Puerto Rico
September 29, 2023.

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Escuela Con Causa EPA-RCM LLC
(A wholly-owned Subsidiary of Caras of the Americas)

Statement of Financial Position
June 30, 2023

Assets

	Without Donor Restrictions
Current assets:	
Cash	$ 172,386
Contributions receivable	365,264
Other receivable	836,066
Prepaid expenses	5,063
Total current assets	1,378,779
Property and equipment, net	36,493
Total assets	$ 1,415,272

Liabilities and Net Assets

	Without Donor Restrictions
Current liabilities:	
Accounts payable	$ 71,930
Accrued vacations and fringe benefits	120,316
Due to Caras of the Americas	532,924
Total liabilities	725,170
Net assets:	
Without donor restrictions	690,102
Total net assets	690,102
Total liabilities and net assets	$ 1,415,272

Escuela Con Causa EPA-RCM LLC
(A wholly-owned Subsidiary of Caras of the Americas)

Statement of Activities
For the Year Ended June 30, 2023

	Without Donor Restrictions
Revenue, gains and other support:	
Public support from the Department of Education	$ 1,461,051
Contributions:	
Foundations	329,985
Nonfinancial assets	210,264
Individuals	10,113
Total revenue, gains and support, net	2,011,413
Expenses:	
Program services:	
Education	2,130,076
Total program expenses	2,130,076
Support services:	
Management and general	194,137
Fundraising	43,142
Total supporting services expenses	237,279
Total expenses	2,367,355
Decrease in net assets before non operating revenue	(355,942)
Non operating revenue:	
Other revenue - Employee Retention Tax Credit	836,066
Total non operating revenue	836,066
Change in net assets	480,124
Net assets, beginning of year	209,978
Net assets, end of year	$ 690,102

Escuela Con Causa EPA-RCM LLC
(A wholly-owned Subsidiary of Caras of the Americas)

Statement of Cash Flows
For the Year Ended June 30, 2023

Cash flows from operating activities:	
Change in net assets	$ 480,124
Adjustments to reconcile change in net assets to net cash flows used in operating activities:	
Depreciation	28,175
Decrease/(increase) in assets:	
Contributions receivable	(365,264)
Other receivable	(836,066)
(Decrease)/increase in liabilities:	
Accounts payable	60,107
Accrued vacations and fringe benefits	36,000
Due to Caras of the Americas	475,000
Net cash used in operating activities	(121,924)
Net decrease in cash	(121,924)
Cash, beginning of year	294,310
Cash, end of year	$ 172,386

The accompanying notes are an integral part of this statement.

(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 4, 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 School's first year of operation was the year ended June 30, 2020. 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 June 2023. As of the date at which the financial statements were available to be issued, the Constituent Letter for fiscal year 2023-2024 has not been signed, because the economic clauses have not been agreed upon with the Department.

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, 2023, the student population at the School was of 307 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, 2023.

- **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. As of June 30, 2023, the School had no 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, 2023, these funds were established at $1,461,051 which represents a budget base of approximately $4,800 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 $210,264. 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, 2023.

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 has no applicability or effect on the School.

(c) Other sources of revenue -

During the fiscal year ended June 30, 2023, non-operating revenue includes Employee Retention Tax Credit (ERTC) of approximately $836,000, which was an incentive to employers under the CARES Act to keep their labor force intact during the COVID-19 pandemic. As of June 30, 2023, the amount is reported as other receivable in the accompanying statement of financial position.

(d) Functional expenses -

The costs of educational and supporting activities have been summarized on a functional basis in the statement of activities. Note 5 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.

(e) 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, 2023, there were no cash equivalents.

(f) 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.

(g) 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, 2023, there were no additions to property and equipment.

(h) 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.

(i) Advertising costs -
For the year ended June 30, 2023, there were no advertising costs for fundraising activities.

(j) 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.

(k) Accounting standards adopted in the current year -
In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which requires the recognition of a “right to use” asset and a lease liability, initially measured at the present value of the lease payments, on all of the Organization’s lease obligations. This ASU is effective for fiscal years beginning after December 15, 2021 (that is for fiscal year 2023). ASU 2016-02 requires 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. Management does not expect this ASU to have a significant impact on the School financial statements. The adoption of ASU 2016-02 did not have a material impact on the School.

(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.

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, 2023, Caras made advances to the School of approximately $475,000. As of June 30, 2023, the School has a balance due to Caras of $532,924, presented separately in the accompanying statement of financial position that includes the aforementioned advances made by Caras.

(3) Availability and liquidity:

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

Financial assets at year end:	
Cash	$ 172,386
Contributions receivables	365,264
Other receivables	836,066
Financial assets available to meet general expenditures over the next twelve months	$ 1,373,716

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 2023-2024 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) Property and equipment:

As of June 30, 2023, property and equipment consisted of:

	Useful Lives (in years)	Amount
Vehicles	1-5	$ 37,895
Leasehold improvements	1-5	25,740
Equipment	1-5	52,482
Total depreciable assets		116,117
Less: accumulated depreciation		(79,624)
Property and equipment, net		$ 36,493

(5) Functional expenses:

The table below presents the School's expenses by both their nature and function for the year ending June 30, 2023:

	Program	Support		
	Educational	Management & General	Fund Raising	Total
Salaries and payroll taxes	$ 1,701,304	$ 172,042	$ 38,232	$ 1,911,578
Professional services	92,561	9,360	2,080	104,001
Contributed services	210,264	-	-	210,264
Equipment and technology	8,864	896	199	9,959
Repairs and maintenance	19,968	2,019	449	22,436
Supplies	19,996	2,022	449	22,467
Insurance, licenses and permits	8,613	871	194	9,678
Advertising costs	205	20	5	230
Depreciation expense	25,077	2,536	562	28,175
Dues and subscriptions	12,043	1,218	271	13,532
Trainings	15,837	1,601	356	17,794
Other expenses	15,344	1,552	345	17,241
	$ 2,130,076	**$ 194,137**	**$ 43,142**	**$ 2,367,355**

(6) 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, 2023 does not exceed the federal insurance limit.

(7) 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 performed the School annual evaluation for fiscal year 2022, but has not issued their report 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 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.

(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.

(8) Subsequent events:

The School has evaluated subsequent events from the balance sheet date through September 29, 2023, 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.