

LATIN AMERICAN YOUTH CENTER

**Consolidated Financial Statements Together with
Report of Independent Public Accountants**

For the Years Ended September 30, 2008 and 2007



SB & COMPANY, LLC
EXPERIENCE • QUALITY • CLIENT SERVICE

SEPTEMBER 30, 2008 and 2007

CONTENTS

| | |
|---|----------|
| REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS | 1 |
| FINANCIAL STATEMENTS | |
| Consolidated Statements of Financial Position | 2 |
| Consolidated Statements of Activities and Changes in Net Assets | 3 |
| Consolidated Statements of Cash Flows | 4 |
| Consolidated Statements of Functional Expenses | 5 |
| Notes to the Consolidated Financial Statements | 7 |



SB & COMPANY, LLC
EXPERIENCE • QUALITY • CLIENT SERVICE

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

Board of Directors
Latin American Youth Center

We have audited the accompanying consolidated statements of financial position of Latin American Youth Center (the Center) as of September 30, 2008 and 2007, as restated, and the related consolidated statements of activities and changes in net assets, cash flows, and functional expenses for the years then ended. These consolidated financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits 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 misstatements. 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the accompanying consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Center as of September 30, 2008 and 2007, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

SB & Company, LLC

Washington, DC
February 24, 2009

LATIN AMERICAN YOUTH CENTER

Consolidated Statements of Financial Position As of September 30, 2008 and 2007

| ASSETS | 2008 | 2007 |
|---|----------------------|----------------------|
| | | (as restated) |
| Cash and cash equivalents | \$ 83,661 | \$ 32,747 |
| Cash, restricted | 901,634 | 1,187,969 |
| Investments | 286,916 | 142,004 |
| Accounts receivable | | |
| Grants, net | 1,390,419 | 1,929,289 |
| Pledges | 3,703,259 | 1,342,143 |
| Other | 187,498 | 198,708 |
| Prepaid expenses | 49,407 | 148,488 |
| Property and equipment, net | 6,670,811 | 6,145,237 |
| Other assets | 113,240 | 104,663 |
| Deferred financing costs, net | 277,646 | 286,824 |
| Total Assets | \$ 13,664,491 | \$ 11,518,072 |
| LIABILITIES AND NET ASSETS | | |
| Liabilities | | |
| Bank overdraft | \$ 84,479 | \$ 122,471 |
| Accounts payable and accrued expenses | 528,564 | 816,262 |
| Accrued salaries and benefits | 607,577 | 596,031 |
| Refundable advances | 50,000 | 270,323 |
| Line of credit | 599,237 | 575,000 |
| Bonds payable | 4,070,000 | 4,070,000 |
| Notes payable | 2,065,230 | 2,297,861 |
| Swap valuation liability | 125,112 | - |
| Total Liabilities | 8,130,199 | 8,747,948 |
| Net Assets | | |
| Unrestricted | 5,357,111 | 2,289,768 |
| Temporarily restricted | 177,181 | 480,356 |
| Total Net Assets | 5,534,292 | 2,770,124 |
| Total Liabilities and Net Assets | \$ 13,664,491 | \$ 11,518,072 |

The accompanying notes are an integral part of these consolidated financial statements.

LATIN AMERICAN YOUTH CENTER

Consolidated Statements of Activities and Changes in Net Assets For the Years Ended September 30, 2008 and 2007

| CHANGE IN UNRESTRICTED NET ASSETS | 2008 | 2007 |
|---|---------------------|--------------|
| Revenue and Other Support | | |
| Contributions | \$ 435,013 | \$ 1,359,018 |
| Foundation and other grants | 6,733,722 | 2,441,711 |
| Governmental grants | 8,174,313 | 7,934,632 |
| Rental income | 282,218 | 139,952 |
| Ben and Jerry's | 24,824 | 293,191 |
| Other | 550,911 | 697,195 |
| Total Operating Revenue | 16,201,001 | 12,865,699 |
| Net assets released from restriction | 719,292 | 1,099,575 |
| Total Unrestricted Revenue and other Support | 16,920,293 | 13,965,274 |
| Expenses | | |
| Program services: | | |
| Social services | 4,256,338 | 3,723,259 |
| Education | 2,901,617 | 2,930,852 |
| Workforce Investment and Social Enterprise | 1,044,324 | 851,140 |
| LTHP | 763,723 | 811,336 |
| Maryland | 2,272,048 | 2,138,096 |
| Arts & Media House | 355,922 | 443,296 |
| Advocacy | 135,665 | 128,911 |
| Ben and Jerry's | 23,758 | 634,747 |
| Support services and other: | | |
| General and Administrative | 1,586,923 | 1,620,733 |
| Fundraising | 512,632 | 333,254 |
| Total Expenses | 13,852,950 | 13,615,624 |
| Change in Unrestricted Net Assets | 3,067,343 | 349,650 |
| CHANGE IN TEMPORARILY RESTRICTED NET ASSETS | | |
| Foundation grants | 416,117 | 399,265 |
| Released from restriction | (719,292) | (1,099,575) |
| Change in Temporarily Restricted Net Assets | (303,175) | (700,310) |
| Changes in net assets | 2,764,168 | (350,660) |
| Net assets, beginning of the year, as restated | 2,770,124 | 3,120,784 |
| Net Assets, End of Year | \$ 5,534,292 | \$ 2,770,124 |

The accompanying notes are an integral part of these consolidated financial statements.

LATIN AMERICAN YOUTH CENTER

Consolidated Statements of Cash Flows For the Years Ended September 30, 2008 and 2007

| | 2008 | 2007 (as restated) |
|--|-------------------|------------------------------|
| Cash Flows from Operating Activities | | |
| Changes in net assets | \$ 2,764,168 | \$ (350,660) |
| Adjustments to reconcile changes in net assets to net cash from operating activities | | |
| Depreciation and amortization | 315,259 | 364,558 |
| Net depreciation (appreciation) on investments | 37,559 | (2,476) |
| Donated property contribution | (176,000) | - |
| Effect of changes in non-cash operating assets and liabilities: | | |
| Grants receivable | 538,870 | (222,403) |
| Pledges receivable | (2,361,116) | (497,579) |
| Other receivable | 11,210 | 362,159 |
| Prepaid expenses | 99,081 | (66,620) |
| Other assets | (8,577) | (79,865) |
| Accounts payable and accrued expenses | (287,698) | 362,620 |
| Accrued salaries and benefits | 11,546 | 231,166 |
| Refundable advances | (220,323) | (32,115) |
| Swap valuation liability | 125,112 | - |
| Net Cash from Operating Activities | 849,091 | 68,785 |
| Cash Flows from Investing Activities | | |
| Purchase of property and equipment | (655,655) | (2,711,790) |
| Purchases of investments | (182,471) | (139,528) |
| Net Cash from Investing Activities | (838,126) | (2,851,318) |
| Cash Flows from Financing Activities | | |
| Bank overdrafts | (37,992) | 122,471 |
| Drawdowns on line of credit, net | 24,237 | 100,254 |
| Proceeds from bonds | - | 4,070,000 |
| Proceeds from notes payable | - | 2,786,000 |
| Deferred financing costs | - | (355,683) |
| Principal payments on notes payable | (232,631) | (2,745,548) |
| Net Cash from Financing Activities | (246,386) | 3,977,494 |
| Net change in cash and cash equivalents | (235,421) | 1,194,961 |
| Cash and cash equivalents, beginning of year | 1,220,716 | 25,755 |
| Cash and Cash Equivalents (including restricted cash of \$901,634 and \$1,187,969, respectively), End of Year | \$ 985,295 | \$ 1,220,716 |
| Supplemental Cash Flow Disclosure | | |
| Cash paid for interest | \$ 289,880 | \$ 164,726 |

The accompanying notes are an integral part of these consolidated financial statements.

LATIN AMERICAN YOUTH CENTER

Consolidated Statement of Functional Expenses For the Year Ended September 30, 2008 with Comparative Totals for 2007

| | 2008 | | | | | | | | | 2008 Total | 2007 Total | |
|---|--------------------|---|---------------------|------------------|--------------------------|------------------|-------------------|-----------------------|---------------------------------------|------------------|---------------------|---------------------|
| | Program Services | | | | | | | Ben and Jerry's | General and Admin- istrative | | | Fund- raising |
| Social Services | Education | Workforce Investment and Social Enterprise | LTHP | Maryland | Arts & Media House | Advocacy | | | | | | |
| Salaries & Fringe Benefits | \$2,635,600 | \$1,500,257 | \$ 564,805 | \$271,188 | \$1,197,134 | \$184,457 | \$ 94,617 | \$ 5,532 | \$ 700,274 | \$421,648 | \$ 7,575,512 | \$ 7,021,227 |
| Occupancy | 182,483 | 19,921 | 27,716 | 287,359 | 169,214 | 11,973 | - | 5,589 | 74,953 | - | 779,208 | 875,421 |
| Training | 10,900 | 59,289 | 2,292 | 427 | 1,758 | 1,110 | - | 750 | 119 | 495 | 77,140 | 12,664 |
| Supplies | 70,707 | 91,515 | 17,290 | 25,186 | 50,792 | 26,250 | 1,535 | 5,170 | 35,058 | 3,478 | 326,981 | 861,407 |
| Professional & contractual | 190,356 | 402,243 | 23,389 | 35,032 | 170,302 | 40,522 | 13,500 | 1,943 | 137,933 | 7,300 | 1,022,520 | 1,086,410 |
| Printing | 342 | 3,090 | 2,310 | - | 970 | - | - | - | 3,875 | 320 | 10,907 | 10,919 |
| Rental & maintenance | 39,276 | 1,753 | 9,352 | 10,082 | 2,649 | 475 | - | 616 | 12,006 | - | 76,209 | 78,434 |
| Insurance | 28,794 | 16,396 | 6,170 | 2,963 | 13,079 | 2,015 | 1,034 | 584 | 7,650 | 4,601 | 83,286 | 169,444 |
| Communications | 40,686 | 19,160 | 4,932 | 5,652 | 23,068 | 974 | - | 60 | 38,467 | 824 | 133,823 | 306,684 |
| Travel & transportation | 63,581 | 91,758 | 10,915 | 1,853 | 36,756 | 3,937 | 83 | 284 | 6,540 | 65 | 215,772 | 215,592 |
| Depreciation | 76,010 | 43,266 | 16,289 | 6,657 | 34,525 | 6,474 | 2,737 | 1,136 | 118,987 | - | 306,081 | 295,699 |
| Provision for uncollectible receivables | 74,156 | 105,556 | 183,631 | - | - | 5,000 | - | - | - | - | 368,343 | 646,504 |
| Other | 843,447 | 547,413 | 175,233 | 117,324 | 571,801 | 72,735 | 22,159 | 2,094 | 451,061 | 73,901 | 2,877,168 | 2,035,219 |
| Total | \$4,256,338 | \$2,901,617 | \$ 1,044,324 | \$763,723 | \$2,272,048 | \$355,922 | \$ 135,665 | \$23,758 | \$1,586,923 | \$512,632 | \$13,852,950 | \$13,615,624 |

The accompanying notes are an integral part of this consolidated financial statement.

LATIN AMERICAN YOUTH CENTER

Consolidated Statement of Functional Expenses For the Year Ended September 30, 2007

| | Program Services | | | | | | | | | | |
|---|--------------------|--------------------|--|------------------|--------------------|--------------------|-------------------|------------------|----------------------------|-------------------|---------------------|
| | Social Services | Education | Workforce Investment and Social Enterprise | LTHP | Maryland | Arts & Media House | Advocacy | Ben and Jerry's | General and Administrative | Fundraising | Total |
| Salaries & Fringe Benefits | \$2,169,457 | \$1,516,671 | \$ 544,711 | \$281,045 | \$ 949,516 | \$159,263 | \$ 94,558 | \$143,062 | \$ 895,435 | \$ 267,509 | \$ 7,021,227 |
| Occupancy | 109,708 | 25,556 | 51,704 | 276,077 | 169,352 | 28,441 | - | 85,438 | 129,145 | - | 875,421 |
| Training | 4,373 | 3,325 | 1,295 | 495 | 1,494 | 1,682 | - | - | - | - | 12,664 |
| Supplies | 211,243 | 360,875 | 27,829 | 36,026 | 123,270 | 20,867 | 3,818 | - | 73,157 | 4,322 | 861,407 |
| Professional & contractual | 236,127 | 281,138 | 7,019 | 16,503 | 205,405 | 49,418 | 520 | 52,879 | 235,923 | 1,478 | 1,086,410 |
| Printing | 1,570 | 5,480 | 1,646 | - | 2,017 | - | - | - | - | 206 | 10,919 |
| Rental & maintenance | 49,733 | 9,455 | 5,477 | - | 4,923 | 2,002 | 63 | - | 6,781 | - | 78,434 |
| Insurance | 58,249 | 34,127 | 12,482 | 5,994 | 26,458 | 4,076 | 2,092 | - | 16,658 | 9,308 | 169,444 |
| Communications | 50,189 | 26,803 | 8,210 | 8,678 | 40,626 | 2,273 | 130 | 33,307 | 134,479 | 1,989 | 306,684 |
| Travel & transportation | 52,705 | 74,218 | 4,861 | 2,196 | 72,304 | 1,044 | 200 | - | 7,652 | 412 | 215,592 |
| Depreciation | 73,432 | 41,798 | 15,736 | 6,431 | 33,354 | 6,254 | 2,644 | - | 116,050 | - | 295,699 |
| Provision for uncollectible receivables | 130,615 | 135,297 | 10,400 | 82,000 | 176,786 | 111,406 | - | - | - | - | 646,504 |
| Other | 575,858 | 416,109 | 159,770 | 95,891 | 332,591 | 56,570 | 24,886 | 320,061 | 5,453 | 48,030 | 2,035,219 |
| Total | \$3,723,259 | \$2,930,852 | \$ 851,140 | \$811,336 | \$2,138,096 | \$443,296 | \$ 128,911 | \$634,747 | \$ 1,620,733 | \$ 333,254 | \$13,615,624 |

The accompanying notes are an integral part of this consolidated financial statement.

LATIN AMERICAN YOUTH CENTER

Notes to the Consolidated Financial Statements For the Years Ended September 30, 2008 and 2007

1. BACKGROUND OF THE ORGANIZATION

The Latin American Youth Center (the Center) was organized under the laws of the District of Columbia as a nonprofit corporation. The Center's purpose is to provide Latino, African-American and other multicultural youth and families with the education, skills, training and support they need to live, work and study with dignity, in good health and in neighborhoods that are safe and secure.

The Center is related to "LAYC Creative Enterprises, Inc.," doing business as Ben and Jerry's Ice Cream (CEI). CEI was incorporated on November 7, 2001 in the District of Columbia as a nonprofit organization. CEI has received an exemption from Federal income taxation from the Internal Revenue Service. The Center appoints the Board of Directors of CEI. The CEI Board of Directors elects its own Chairman and officers. The Center has passed through the proceeds from certain notes payable to CEI.

The Center has also established the LAYC Social Ventures, Inc. (Social Ventures) to operate a second Ben and Jerry's Ice Cream in Washington, DC. The Center appoints the Board of Directors of Social Ventures. The Social Ventures Board of Directors elects its own Chairman and officers.

The financial statements of the operations of the CEI and Social Ventures as of and for the years ended September 30, 2008 and 2007 have been consolidated into the Center's financial statements in accordance with Statements of Position (SOP) 94-3: *Reporting of Related Entities by Not-for-Profit Organizations*. Intercompany balances and transactions have been eliminated in the accompanying consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying consolidated financial statements of the Center are presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Center's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of support and revenue and expenses during the reporting period. Actual results could differ from those estimates.

LATIN AMERICAN YOUTH CENTER

Notes to the Consolidated Financial Statements For the Years Ended September 30, 2008 and 2007

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

Cash and cash equivalents include amounts invested in short-term investments with original maturities of 90 days or less. Cash equivalents as of September 30, 2008 and 2007 consisted of overnight investment accounts.

Restricted cash represents the remaining funds from the bond proceeds (see Note 5). The cash balance is restricted for the purpose of renovating property purchased by the Center in 2007.

Accounts Receivable

Receivables are valued at management's estimate of the amount that will ultimately be collected. The allowance for doubtful accounts is based on specific identification of uncollectible accounts and the Center's historical collection experience. As of September 30, 2008 and 2007, the allowance was \$135,000 and \$386,000, respectively.

Pledges Receivable

For pledges expected to be collected in over one year, the Center discounts those pledges using a 5.5% and 6.45% discount rate for the years ended September 30, 2008 and 2007, respectively. The rate is based on the Center's borrowing rate as of the balance sheet date. Management expects to collect fully all of its pledges and thus no reserve has been recorded as of September 30, 2008 and 2007.

Deferred Financing Costs

Deferred financing costs consist of costs related to the bonds issued to purchase and renovate property. The deferred financing costs of \$286,824 will be amortized using the effective interest method over the life of the debt. The Center recorded \$9,178 and \$68,859 in amortization expense during the years ended September 30, 2008 and 2007, respectively, and it is recorded in other expenses in the accompanying consolidated Statements of Activities and Changes in Net Assets.

Property and Equipment

Property and equipment purchased are recorded at cost. Donated property and equipment are capitalized at the estimated fair market value on the date received. Depreciation of property and equipment is recorded using the straight-line method over the estimated useful life of the assets.

LATIN AMERICAN YOUTH CENTER

Notes to the Consolidated Financial Statements For the Years Ended September 30, 2008 and 2007

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Restricted and Unrestricted Support and Revenue

Contributions received are recorded as unrestricted or temporarily restricted support, depending on the existence and/or nature of any donor imposed restrictions. Donor-restricted support is reported as an increase in temporarily restricted net assets, depending on the nature of the restriction.

Gifts of cash and other assets are reported as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when the stipulated time restriction ends or purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated Statement of Activities and Changes in Net Assets as net assets released from restrictions.

Donated Equipment

The Center received donated hardware and software during 2008. The estimated fair market value of those assets of \$176,000 have been included in other income in the accompanying Statement of Activities and Changes in Net Assets for the year ended September 30, 2008.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated Statements of Activities and Changes in Net Assets and in the consolidated Statements of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services that benefit from those costs. Management and general expenses include those expenses that are not directly identified with any other specific function but provide for the overall support and direction of the Center.

Income Taxes

The Center is a not-for-profit organization exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code and is recognized as such by the Internal Revenue Service.

Reclassifications

Certain reclassifications have been made to 2007 amounts to conform with 2008 presentation.

LATIN AMERICAN YOUTH CENTER

Notes to the Consolidated Financial Statements For the Years Ended September 30, 2008 and 2007

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Restatement of 2007 Amounts

The accounts payable and accrued expenses and expense amounts as of and for the year ended September 30, 2007 were restated to write-off \$348,488 of accrued expenses related to 2006 and prior that do not represent liabilities of the Center. The beginning net asset balance as of October 1, 2006 was increased from \$2,772,296 to \$3,120,784 and accounts payable and accrued expenses as of September 30, 2007 decreased from \$1,164,750 to \$816,262.

3. PLEDGES RECEIVABLE

Pledges receivable as of September 30, 2008 and 2007 consisted of the following:

| | <u>2008</u> | <u>2007</u> |
|-------------------------|---------------------|---------------------|
| Foundation receivable | \$ 3,916,000 | \$ 1,448,666 |
| Less: imputed discount | 212,741 | 106,523 |
| Pledges receivable, net | <u>\$ 3,703,259</u> | <u>\$ 1,342,143</u> |
| Amounts due in: | | |
| Less than one year | \$ 1,316,000 | \$ 756,000 |
| One to five years | 2,600,000 | 692,666 |
| Total | <u>\$ 3,916,000</u> | <u>\$ 1,448,666</u> |

4. PROPERTY AND EQUIPMENT

Property and equipment as of September 30, 2008 and 2007 consist of:

| | <u>2008</u> | <u>2007</u> | <u>Useful Life</u> |
|------------------------------------|---------------------|---------------------|--------------------|
| Land | \$ 37,180 | \$ 37,180 | N/A |
| Buildings | 5,860,972 | 5,547,836 | 30 years |
| Leasehold improvements | 538,491 | 442,768 | 2-7 years |
| Furniture and office equipment | 1,288,967 | 1,095,604 | 5 years |
| Automobiles | 37,093 | 19,241 | 5 years |
| Software | 49,087 | 39,378 | 5 years |
| CIP | 1,434,110 | 1,232,238 | N/A |
| | <u>9,245,900</u> | <u>8,414,245</u> | |
| Less: accumulated depreciation | 2,575,089 | 2,269,008 | |
| Property and equipment, net | <u>\$ 6,670,811</u> | <u>\$ 6,145,237</u> | |

Depreciation expense for the years ended September 30, 2008 and 2007 was \$306,081 and \$295,699, respectively. The Center recorded capitalized interest of \$110,555 during the year ended September 30, 2008.

LATIN AMERICAN YOUTH CENTER

Notes to the Consolidated Financial Statements For the Years Ended September 30, 2008 and 2007

5. BONDS PAYABLE

On September 13, 2007, the Center entered into a loan agreement with the District of Columbia (the District) to issue and sell tax exempt bonds that would be used to pay down the \$2,675,000 term note and to finance the costs of renovating the newly acquired properties and other Center properties. The total proceeds from the bonds were \$4,070,000. In order to enhance the marketability of the bonds, the Center requested a financial institution to issue an irrevocable transferable direct pay letter of credit to provide payment for and to secure the payment of the principal and interest on the purchase price of the bonds. The financial institution issued its letter of credit concurrently with the issuance and delivery of the bonds. The letter of credit expires on September 13, 2014 at which time the Center can request an extension of the letter of credit at the sole discretion of the financial institution.

The bonds issued by the District are without recourse to the District and are not general obligations of the District nor are they backed by the faith and credit of the District. The bonds have a maturity date of October 1, 2032. The interest rate on the bonds on the closing date was 3.78% per annum. The interest on these bonds is an adjustable rate which will vary on each adjustment date to be determined by the remarketing agent in order for the bonds to be sold at the prevailing market conditions at a price equal to the principal plus accrued interest. The maximum amount is 12% per annum. The bonds are secured by mortgage liens on six properties owned by the Center. The bonds can be redeemed in any amount over \$100,000 subject to certain requirements at the discretion of the District or the Center at any interest payment date. The interest expense incurred on the bonds during the years ended September 30, 2008 and 2007 is \$157,936 and \$13,567, respectively.

The bonds payable have certain financial covenants to be calculated semiannually and a covenant related to submission of annual audited financial statements.

Future minimum payments for bonds payable are as follows:

| <u>Years Ended September 30,</u> | |
|----------------------------------|---------------------|
| 2009 | \$ 85,000 |
| 2010 | 90,000 |
| 2011 | 95,000 |
| 2012 | 100,000 |
| 2013 | 105,000 |
| Thereafter | 3,595,000 |
| | <u>\$ 4,070,000</u> |

LATIN AMERICAN YOUTH CENTER

Notes to the Consolidated Financial Statements For the Years Ended September 30, 2008 and 2007

6. VALUATION OF INTEREST RATE SWAP AGREEMENT

On October 1, 2007, the Center entered into an interest rate swap agreement with M&T Bank for a seven-year term ending October 1, 2014 to fix the effective interest rate on the bonds payable. Under the agreement, the Center pays M&T Bank a fixed rate of interest of 3.83% and M&T pays the Center a variable rate of interest based on the LIBOR plus 1.5 on a monthly basis. The interest payments are based on the notional amount which is equal to the outstanding principal balance of the bonds. In accordance with SFAS No. 133 *Accounting for Derivative Instruments and Hedging Activities*, as of September 30, 2008, the Center has recorded a liability of \$125,112, which approximates the fair market value of the interest rate swap. An adjustment in the amount of \$125,112 for the year ended September 30, 2008, was recorded to properly state the swap liability at fair market value, and the amount is included in interest and related financing costs on the Statement of Activities and Changes in Net Assets. The amount of swap interest incurred for the year ended September, 2008 was \$83,617.

7. NOTES PAYABLE

As of September 30, 2008 and 2007, the Center had the following notes payable outstanding:

| | <u>2008</u> | <u>2007</u> |
|---|---------------------|---------------------|
| Prudential mortgage due October 17, 2013 | \$ 646,567 | \$ 700,831 |
| Prudential mortgage due July 1, 2020 | 245,428 | 260,272 |
| Jenesis note payable due June 30, 2014 | 595,000 | 670,000 |
| M&T note payable due July 1, 2014 | 372,135 | 425,758 |
| M&T term loan due July 1, 2014 | 103,600 | 111,000 |
| Creative Enterprises note due December 15, 2010 | 7,500 | 15,000 |
| Moriah Fund note payable due December 1, 2010 | 75,000 | 75,000 |
| Cohen note payable due December 31, 2010 | 20,000 | 40,000 |
| Total | <u>\$ 2,065,230</u> | <u>\$ 2,297,861</u> |

The Center has a mortgage which is collateralized by the building at 1419 Columbia Road. The note is payable in monthly payments of principal and interest of \$7,339. The annual interest rate is 5% and the maturity date is October 1, 2017. The amount outstanding as of September 30, 2008 and 2007 was \$646,567 and \$700,831, respectively, and the interest expense incurred during the years ended September 30, 2008 and 2007 was \$33,809 and \$27,097, respectively.

The Center has another loan with an initial principal outstanding of \$290,000 which is secured by the property described above. The loan requires monthly payments of principal and interest of \$2,293. The annual interest rate is 5% and the maturity date is July 1, 2020. As of September 30, 2008 and 2007, the outstanding balance on this loan was \$245,428 and \$260,272, respectively, and the interest expense incurred during the years ended September 30, 2008 and 2007 was \$12,676 and \$9,983, respectively.

LATIN AMERICAN YOUTH CENTER

Notes to the Consolidated Financial Statements For the Years Ended September 30, 2008 and 2007

7. NOTES PAYABLE (continued)

The Center entered into a note with a charitable trust in the amount of \$695,000. The note is non-interest bearing, requires principal payments of \$25,000 each quarter and matures on June 30, 2014. The consolidated financial statements have imputed interest on this note at a rate of 5.5% and 6.56%. The amount outstanding as of September 30, 2008 and 2007 was \$595,000 and \$670,000, respectively, and the imputed interest expense and related contribution revenue of \$38,630 and \$55,431 are included in the consolidated financial statements for the years ended September 30, 2008 and 2007, respectively.

The Center entered into a loan agreement with a financial institution. The note is for \$500,000 and is secured by a First deed of trust on the Center's properties at 3033 15th Street, NW and 3035 15th Street, NW. The note has a variable interest rate at the one year LIBOR plus 150 basis points (3.98% as of September 30, 2008). The note calls for monthly principal payments of \$2,083 plus interest, with a balloon payment of \$283,333 due in July 2014. As of September 30, 2008 and 2007, the outstanding balance on this loan was \$372,135 and \$425,758, respectively. Interest expense incurred during the years ended September 30, 2008 and 2007 was \$23,541 and \$42,185, respectively.

The Center entered into a term loan with a financial institution in September 2007 in the amount of \$111,000. The loan bears interest at LIBOR plus 1.50% and matures on July 1, 2014. The outstanding balance on the loan as of September 30, 2008 and 2007 was \$103,600 and \$111,000, respectively. Interest expense incurred during the years ended September 30, 2008 and 2007 was \$3,579 and \$607, respectively.

The Center entered into an agreement with a financial institution for a term note for \$2,675,000. The proceeds of the term loan were used to support the renovations and purchase of two properties which served as the collateral on the term loan. The interest rate on the term loan was 1.50% over LIBOR. The loan was repaid in September 2007 with the bond proceeds discussed in Note 5. Interest expense incurred during the year ended September 30, 2007 was \$26,750.

The Center and Creative Enterprises entered into a promissory note for \$50,000 that bears an annual interest rate of one percent and calls for principal payments to be made through December 15, 2010. Interest on the outstanding principal balance is to be paid in quarterly installments commencing on December 30, 2002. The consolidated statements have imputed interest on the note at a rate of 5.5% and 6.56% and the imputed interest expense and related contribution revenue of \$614 and \$834 are included in the consolidated financial statements for the years ended September 30, 2008 and 2007, respectively. As of September 30, 2008 and 2007, the outstanding balance on this loan was \$7,500 and \$15,000, respectively.

LATIN AMERICAN YOUTH CENTER

Notes to the Consolidated Financial Statements For the Years Ended September 30, 2008 and 2007

7. NOTES PAYABLE (continued)

The Center has a loan agreement with the Moriah Fund, Inc. The original loan was for \$75,000 and bears an annual interest rate of one percent. Interest on the outstanding principal balance is to be paid in quarterly installments. The consolidated statements have imputed interest on this note at a rate of 5.5% and 6.56% and the imputed interest expense and related contribution revenue of \$4,095 and \$4,920 are included in the consolidated financial statements for the years ended September 30, 2008 and 2007, respectively. As of September 30, 2008 and 2007, the outstanding balance on this loan was \$75,000.

The Center and the Naomi and Nehemiah Cohen Foundation (the Foundation) entered into a promissory note for \$50,000 and it is non-interest bearing. Interest on the outstanding principal balance is to be paid in quarterly installments commencing on December 30, 2002. The consolidated statements have imputed interest on this note at a rate of 5.5% and 6.56% and the imputed interest expense and contribution revenue of \$1,638 and \$2,624 was included in the consolidated financial statements for the years ended September 31, 2008 and 2007, respectively. As of September 30, 2008 and 2007, the outstanding balance on this loan was \$20,000 and \$40,000, respectively.

Future minimum payments for notes payable as of September 30, 2008 and 2007 are as follows:

| <u>Years Ended September 30,</u> | |
|----------------------------------|---------------------|
| 2009 | \$ 275,000 |
| 2010 | 237,400 |
| 2011 | 227,300 |
| 2012 | 227,300 |
| 2013 | 227,300 |
| Thereafter | 870,930 |
| | <u>\$ 2,065,230</u> |

8. RESTRICTIONS OF NET ASSETS

Temporarily Restricted Net Assets

Temporarily restricted net assets as of September 30, 2008 and 2007 were available for the following purposes:

| | <u>2008</u> | <u>2007</u> |
|-----------------|-------------------|-------------------|
| Social services | \$ 80,216 | \$ 159,478 |
| Other programs | 96,965 | 320,878 |
| | <u>\$ 177,181</u> | <u>\$ 480,356</u> |

LATIN AMERICAN YOUTH CENTER

Notes to the Consolidated Financial Statements For the Years Ended September 30, 2008 and 2007

9. GRANTS

As of September 30, 2007, the Center has several grants from the U.S. government, Maryland government and other entities. Revenue from such grants is recognized only to the extent of actual expenses incurred in compliance with those grants. For government grants, expenses incurred in excess of funds collected is reflected as grants receivable.

The Center received 51% and 62%, respectively, of its total revenue from government sources for the years ended September 30, 2008 and 2007, respectively.

10. COMMITMENTS AND CONTINGENCIES

The Center has a \$700,000 line of credit with a bank that is collateralized by the assignment of certain grants and contracts and expires in December, 2008. Interest is charged at the bank's index rate, which was 5.6% and 7.75% as of September 30, 2008 and 2007, respectively, and is payable monthly. The outstanding amount on this line of credit as of September 30, 2008 and 2007 was \$599,237 and \$400,000, respectively. The interest expense incurred on this line of credit during the years ended September 30, 2008 and 2007 was \$58,339 and \$32,000, respectively.

This line of credit expired on June 30, 2008. The Center had an unsecured line of credit from a charitable trust. A trustee of this is a board member of the Center. The line of credit is for a maximum of \$665,000. The total outstanding balance on this line was \$175,000 as of September 30, 2007. The line expired in June, 2008.

Operating Leases

The Center leases office space and equipment under operating leases which expire between 2009 and 2021. Future minimum rental payments under the operating lease as of September 30, 2009, are as follows:

| <u>Years Ending September 30,</u> | |
|-----------------------------------|-------------------|
| 2009 | \$ 231,417 |
| 2010 | 99,909 |
| 2011 | 62,141 |
| 2012 | 51,262 |
| 2013 | 51,262 |
| Thereafter | 468,046 |
| Total | <u>\$ 964,037</u> |

The lease expense for the years ended September 30, 2008 and 2007 were \$692,897 and \$493,265, respectively.

LATIN AMERICAN YOUTH CENTER

Notes to the Consolidated Financial Statements For the Years Ended September 30, 2008 and 2007

10. COMMITMENTS AND CONTINGENCIES (continued)

Grants

Reimbursed costs under the Center's government awards are subject to final determination of allowability by the government agency. Until such audits have been completed and final settlement reached, there exists a contingency to refund any amount received in excess of allowable costs. Management is of the opinion that no material liability will result from such audits.

11. DEFINED CONTRIBUTION PLAN

The Center provides benefits to all eligible employees under a defined contribution plan at a rate determined annually by the Board of Directors. Eligible employees are able to contribute up to the annual Federal cap after completing 24 months at the Center. The employer contribution for the years ended September 30, 2008 and 2007 was \$90,696 and \$68,669, respectively.

12. RELATED PARTY TRANSACTIONS

The Center is related to "LAYC Creative Enterprises, Inc.," doing business as Ben and Jerry's Ice Cream (CEI). CEI was incorporated on November 7, 2001 in the District of Columbia as a nonprofit organization. CEI has received an exemption from Federal income taxation from the Internal Revenue Service. The Center appoints the Board of Directors of CEI. The CEI Board of Directors elects its own Chairman and officers. The Center contributed financially and had a financial interest in CEI. The Center loaned CEI \$175,000 through a non-interest bearing loan. CEI ceased operations during fiscal year 2008 without repaying the loan. The \$175,000 note was written off by the Center.

The Center has also established the LAYC Social Ventures, Inc. (Social Ventures) to operate a second Ben and Jerry's Ice Cream in Washington, DC. The Center appoints the Board of Directors of Social Ventures. The Social Ventures Board of Directors elects its own Chairman and officers. The Center contributes financially and has a financial interest in Social Ventures. The Center loaned Social Ventures \$305,016 through a non-interest bearing loan. Social Ventures will cease operations during fiscal year 2009. The \$305,016 loan was written off by the Center. Both CEI and Social Ventures are consolidated within the accompanying financial statements.

The Center is related to the Next Step Public Charter School (the Charter School). The Center appoints the Board of Trustees of the Charter School. The Charter School Board of Trustees elects its Chairman and President. The Charter School reimbursed the Center \$93,144 and \$150,419 for shared costs during the years ended September 30, 2008 and 2007, respectively.

LATIN AMERICAN YOUTH CENTER

Notes to the Consolidated Financial Statements For the Years Ended September 30, 2008 and 2007

12. RELATED PARTY TRANSACTIONS (continued)

On November 5, 2001, the Center was awarded a charter school contract by the District of Columbia Public Schools for the establishment of the Latin American Montessori Bilingual Public Charter School. A nonprofit organization similar to the Next Step Public Charter School has been formed to operate this school. The Charter School reimbursed the Center \$0 and \$42,025 for shared costs during the years ended September 30, 2008 and 2007, respectively.

On October 7, 2004, the Center was awarded a charter school contract by the District of Columbia Public Schools for the establishment of the Youth Build Public Charter School. A nonprofit organization similar to the Next Step Public Charter School has been formed to operate this school. The Charter School reimbursed the Center \$564,068 and \$328,316 for shared costs during the years ended September 30, 2008 and 2007, respectively.

13. CONSOLIDATED SUBSIDIARIES

Summarized financial data for CEI and Social Ventures as of and for the years ended September 2008 and 2007 is as follows:

| | <u>2008</u> | <u>2007</u> |
|---|-------------|-------------|
| Cash | \$ 2,601 | \$ 1,400 |
| Total assets | 23,751 | 49,213 |
| Total liabilities | 44,552 | 564,873 |
| Net assets | (20,801) | (515,660) |
| | <u>2008</u> | <u>2007</u> |
| Total revenue | \$ 24,824 | \$ 293,191 |
| Total expenses | 23,758 | 634,747 |
| Changes in net assets before the Center's contribution | 1,066 | (341,556) |