

GUAHAN ACADEMY CHARTER SCHOOL, INC.

**INDEPENDENT AUDITORS' REPORT
AND
FINANCIAL STATEMENTS**

SEPTEMBER 30, 2017 AND 2016

GUAHAN ACADEMY CHARTER SCHOOL, INC.
(A Nonprofit Corporation)

Financial Statements

Years Ended September 30, 2017 and 2016

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Guahan Academy Charter School, Inc.

We have audited the accompanying financial statements of Guahan Academy Charter School, Inc. (a nonprofit organization), which comprise the statement of financial position as of September 30, 2017, 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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Guahan Academy Charter School, Inc. as of September 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Substantial Doubt about the Organization's Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that Guahan Academy Charter School, Inc. will continue as a going concern. As discussed in Note 13 to the financial statements, current liabilities exceed current assets. This raises substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters are also described in Note 13. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited Guahan Academy Charter School, Inc's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 10, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on page 14 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Tamuning, Guam
March 10, 2019

GUAHAN ACADEMY CHARTER SCHOOL, INC.

Management's Discussion and Analysis

For Years Ended September 30, 2017 and 2016

As management of Guahan Academy Charter School, Inc. we offer readers this narrative overview and analysis of the financial activities of the Academy for the fiscal year ended September 30, 2017.

Financial Highlights

Our basic financial statements provide these insights into the results of the fiscal year's operations.

- The assets of the Academy exceeded its liabilities at the close of the fiscal year by \$1,433,475 (net position).
- P.L. 33-185 provided \$6,500 for each student up to 740 students, or a total of \$4,810,000. This was an increase of about 48% in number of students from the 2016 enrollment of 500; and 18.18% increase in dollar allocation (from \$5,500 per student).
- For FY2017, the Internal Audit Office (IAO) validated \$4,757,522 of expenditures, leaving an unexpended balance of \$52,478.
- Enrollment at close of fiscal year was 990 students, which exceeded the maximum approved amount of 740 students.

Overview of the Financial Statements

The Management's Discussion and Analysis is intended to serve as an introduction to the Academy's basic financial statements. The Academy's basic financial statements are comprised of two components: 1) government-wide financial statements, and 2) notes to the basic financial statements.

1) Government-Wide Financial Statements

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

The *Statement of Net Position* presents information on the Academy's assets and liabilities, and deferred inflows of resources. Over-time increases or decreases in net position may serve as an indicator to measure or gauge the Academy's financial condition.

The *Statement of Activities* presents information on how the Academy's net position changed during the fiscal year. All the current year's revenue and expenses are reported in this statement for some items that will only result in cash flows in future fiscal period.

The below report provides a summary of the Academy's net position as of September 30, 2017 and 2016. For FY2017, the assets exceeded liabilities by \$1,433,475. At the end of the fiscal year, the Academy is able to report positive balances in total net position.

GUAHAN ACADEMY CHARTER SCHOOL, INC.

Management's Discussion and Analysis

For Years Ended September 30, 2017 and 2016

Statement of Net Position

	<u>2017</u>	<u>2016</u>	<u>% Change</u>	<u>\$ Change</u>
ASSETS				
Current Assets				
Cash	\$ 271,626	\$ 115,656	135%	\$ 155,970
Accounts Receivable	205,420	371,642	-45%	(166,222)
Prepaid Expenses	-	43,000	-100%	(43,000)
Other Assets	7,320	7,320	0%	-
Total Current Assets	<u>484,366</u>	<u>537,618</u>	<u>-10%</u>	<u>(53,252)</u>
Fixed Assets				
Equipment, net	96,805	27,561	251%	69,244
Property, CIP & Land	<u>5,058,671</u>	<u>1,769,291</u>	<u>186%</u>	<u>3,289,380</u>
Total Fixed Assets	<u>5,155,476</u>	<u>1,796,852</u>	<u>187%</u>	<u>3,358,624</u>
	<u>5,639,842</u>	<u>2,334,470</u>	<u>142%</u>	<u>3,305,372</u>
LIABILITIES & NET ASSETS				
Liabilities				
Short-term Debt	855,690	1,350,000	-37%	(494,310)
Accounts Payable & Payroll Liabilities	3,250,368	245,827	1222%	3,004,541
Accrued Expenses	<u>100,309</u>	<u>85,288</u>	<u>18%</u>	<u>15,021</u>
Total Liabilities	<u>4,206,367</u>	<u>1,681,115</u>	<u>1203%</u>	<u>2,525,252</u>
Total Net Position				
Net Assets, Unrestricted	<u>\$ 1,433,475</u>	<u>\$ 653,355</u>	<u>119%</u>	<u>\$ 780,120</u>

- The Accounts Receivable showed a balance of \$205,420. The validation from GDOE came after September 30, 2017. The total Cash in Bank deposit amount will be reflected in FY2018.
- Under Fixed Assets, the Equipment, net of depreciation, had an increase of 251%. This was due to additional laptops and iPads that the Academy received from the federal/consolidated grant.
- Under the Fixed Assets, the Academy had invested in property and land in the amount of approximately \$3,300,000.00. This comprised of: a) additional 8 modular classrooms at the elementary campus for SY2016-2017 which amounted to \$500,000.00; b) the renovation of the Tiyan Building to house the secondary campus/administration building and the site development plan for the proposed Barrigada campus amounted to \$1,423,761; and c) the purchase of the classroom construction materials of \$1,356,906.
- The above Property Investments resulted in the outstanding payables as of September 30, 2017.

GUAHAN ACADEMY CHARTER SCHOOL, INC.

Management's Discussion and Analysis

For Years Ended September 30, 2017 and 2016

Accomplishments

Academic Accomplishments/Student Achievements, as reported by Dr. Velma A. Sablan, Ph.D., Independent Evaluator-GACS, April 30, 2018

A. Assessment Summary

The GACS Final Assessment Report for Academic Year 2017-2018 summarizes all assessment data administered to students in Kindergarten to 12th grades enrolled in GACS 2016-2017 academic year. It includes the district-wide assessments, the Standards Based Assessment (SBA) given to 1st and 2nd grades, and the ACT/Aspire tests given to the 3rd to 10th grades. This report also includes a section on the Cohort studies which disaggregates the students who have maintained enrollment in GACS for the last 3 years and generally show significant positive findings. Two earlier reports were also completed on this data, the GACS Preliminary Report designed for teachers and the GACS Student Performance on Alternative and District-Wide Assessments Report for the Charter School Council as GACS prepares for renewal of its charter.

B. Evaluator's Message to the Board of Trustee

This Final Report which includes the results from the 2016-2017 GACS Alternative Assessments which were submitted in the Preliminary Report and designed primarily for teachers, and the 2016-2017 GDOE Standards Based Assessments (SBA) and the ACT/Aspire test results which are required for all schools, including charter schools on Guam. The district-wide assessments are significantly different from the GACS Alternative Assessments. The major difference is rooted in what is measured and how it is measured. These basic differences tell a different story about how well the students enrolled in GACS are performing and is reflected in the results presented in this report and in the 2015-2016 academic year when GACS students were given the SBA and ACT/Aspire results. The SBA tests are given only to 1st to 2nd grades and to 11th to 12th grade students only. GDOE has either failed to submit SBA results or were significantly delayed in submitting these test results to GACS for 2015-2016, however the 2016-2017 are included. The SBA results for the 11th and 12th grades, has not been submitted for the last two academic years for inclusion in either last year's report or for inclusion in this report. For the first time SBA results for the 1st and 2nd grades are included, largely due to the efforts of GACS staff in. The GDOE delivery of the ACT/Aspire test result for GACS improved somewhat with test scores provided to GACS in late October with individual scores being reported by both Standard Scores and percentile rank for grades 3rd to 10th grade.

GUAHAN ACADEMY CHARTER SCHOOL, INC.

Management's Discussion and Analysis

For Years Ended September 30, 2017 and 2016

B. Evaluator's Message to the Board of Trustee, continued

The preliminary report delivered and reviewed with classroom teachers last August 2017 included only the GACS Alternative Assessments for Kindergarten to 12 Grades. It was designed to support GACS teachers in improving classroom instruction and provided details on the test results on all students enrolled in GACS on the Boehms Test of Basic Concepts-3 (for Kindergarten to 2nd grades), the DIBELS (for Kindergarten to 6th grade), and the Wide Range Achievement Test-4 (for Kindergarten to 12th grade). This final report is primarily designed for members of the GACS Board of Trustees, the Charter School Council, our Senators, policy makers and those who are serious about making improvements in education on Guam. The use of diagrams, charts, and tables are widely used to give a wholistic picture of how each GACS grade level performed on both GACS Alternative Assessments and GDOE district-wide assessments. It is my continued hope that these reports assist GACS in data-driven decision making and continue to provide hard evidence that charter school, especially GACS, is making a difference for many students on Guam.

C. Candidacy for Accreditation

On June 29, 2017, Guahan Academy Charter School received notification from the Western Association of Schools and Colleges granting GACS candidacy status towards accreditation.

D. Graduation Rates

In school year (SY) 2015-2016, "two" students graduated from Guahan Academy Charter School. During the following school year (SY) 2016-2017, "ten" students graduated from the school; this represents a 500% increase in graduation rate from the previous year.

2) Notes to Financial Statements

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

A summary and analysis of the Academy's revenues and expenses for the years ended September 30, 2017 and 2016, are as follows:

GUAHAN ACADEMY CHARTER SCHOOL, INC.

Management's Discussion and Analysis

For Years Ended September 30, 2017 and 2016

Statement of Activities

	2017	2016	% Change	\$ Change
Revenue				
Per Pupil Allocation	\$ 4,757,522	\$ 3,300,000	44.17%	\$ 1,457,522
Grant Revenue	129,913	42,488	205.76%	87,425
Student Meal Revenue	33,077	16,060	105.96%	17,017
Extended Learning	29,972	33,883	-11.54%	(3,911)
Fundraising	12,453	22,358	-44.30%	(9,905)
Donations	6,557	3,707	76.88%	2,850
Miscellaneous Income	926	1,140	-18.77%	(214)
Total Revenue	<u>4,970,420</u>	<u>3,419,636</u>	<u>45.35%</u>	<u>1,550,784</u>
Operating Expenses				
Personnel	2,098,224	1,808,663	16.01%	289,561
Contractual Services	695,135	605,203	14.86%	89,932
Miscellaneous Expense	547,876	81,216	574.59%	466,660
Benefits	313,075	225,329	38.94%	87,746
Books/Online Resources	184,329	-	100.00%	184,329
Office Space Rental	99,840	129,400	-22.84%	-29,560
Power	81,140	69,215	17.23%	11,925
Materials and Supplies	75,611	80,922	-6.56%	-5,311
Telephone/Toll/Wifi/Svc	30,949	29,362	5.40%	1,587
Depreciation	23,308	39,327	-40.73%	-16,019
Water	19,976	8,711	129.32%	11,265
Workmans Compensation & Gen. Liab.	11,461	19,149	-40.15%	-7,688
Travel	4,938	3,886	27.07%	1,052
Interest Expense	3,369	-	100.00%	3,369
Small Equipment	547	-	100.00%	547
Drug Testing	522	-	100.00%	522
Others	-	3,186	-100.00%	-3,186
Total Operating Expense	<u>4,190,300</u>	<u>3,103,569</u>	<u>35.02%</u>	<u>1,086,731</u>
Change in net assets	780,120	316,067	146.82%	464,053
Net assets beginning of year	<u>653,355</u>	<u>337,288</u>	<u>93.71%</u>	<u>316,067</u>
Net assets end of year	<u>\$ 1,433,475</u>	<u>\$ 653,355</u>	<u>119.40%</u>	<u>\$ 780,120</u>

GUAHAN ACADEMY CHARTER SCHOOL, INC.

Management's Discussion and Analysis

For Years Ended September 30, 2017 and 2016

Management's analysis of the Academy's revenues and expenses for the years ended September 30, 2017 and 2016, are as follows:

- The Academy's revenue and expenditures increased by \$1,550,784 and \$1,086,731 respectively, as a result of an increase in student enrollment and the increase in allotted amount per enrollee. Pursuant to Guam Public Law 33-185, the per pupil cost was \$6,500 for the fiscal year ending September 30, 2017. Student enrollment was not to exceed 740 students during school year 2016-2017. The number of enrolled students was multiplied by the approved amount of \$6,500 per student enrollee under the FY 2017 Government of Guam General Appropriations Act. For the fiscal year ended September 30, 2017, the maximum of 740 students were enrolled in the Academy, resulting to GACS receiving \$4,810,000 in government appropriations. For FY2017, IAO validated \$4,757,522 of expenditures, leaving an unexpended balance of \$52,478.
- The increase in the number of students for FY2017 also resulted in the increase in personnel especially in the academic division. Thus, personnel expense increased by 16% and employee benefits expense increased by 34%.
- The increase in the number of students also resulted in the increase in Contractual Services. The material amounts were: a) The food service provider by 11.83% or \$47,484 (FY17 \$448,473 versus FY16 \$400,989); b) The legal and professional fees by 46.92% (\$34,927) due to additional operational expenses such as the audit, legal counsel, and payroll services; c) The WASC Application for Accreditation and Independent Evaluator/Testing Analysis fees totaling \$23,800.00.
- The utilities expense also increased by 23.1% (\$24,778). This was due to additional facility in Tiyan, Barrigada, to house the Middle and High School students.
- The overall effect in the net positions resulted in an increase of \$780,120 for the year.

Narrative Overview September 30, 2017 and 2016

I. Organization and Nature of Operations

The Guahan Academy Charter School, Inc., (GACS) is a nonprofit public benefit corporation and is not organized for the private gain of any person. It is organized for the basic purpose to do all things reasonable and proper in the operation of a public charter school within the Territory of Guam pursuant to the provisions of Public Law 29-140, the Guam Academy Charter Schools Act of 2009. Said corporation is organized exclusively for charitable religious, educational and scientific purposes, including, for such purposes, the making of distributions to organizations that qualify as exempt organizations within the meaning of Section 501(c) (3) of the Internal Revenue Code, or corresponding section of any future federal tax code. Pursuant to 18 GCA §281702 and §281703, this Corporation is organized under and governed by the provisions of the Guam Business Corporation Act (enacted as Guam Public Law 29-144 and as thereafter amended or codified).

GUAHAN ACADEMY CHARTER SCHOOL, INC.

Management's Discussion and Analysis

For Years Ended September 30, 2017 and 2016

II. Mission Statement

The general guiding principle of GACS' mission is to provide an opportunity for children to learn in a safe, caring, respectful environment, where their individuality is valued and their individual needs are addressed.

III. Donated Use of Operating Premises

Management of the Guahan Academy Charter School estimates the fair rental market value of the premises to be \$61,600 per month or \$739,200 per year based on comparable rents in the immediate area.

IV. Risk Management

GACS is exposed to various risks of loss related to torts, thefts of, damage to and destruction of assets, errors and omissions and natural disasters for which the Academy carries commercial insurance. GACS maintains commercial insurance to provide for claims arising from most of these risks. There were no material losses sustained as a result of GACS' risk management practices.

V. Short-Term Debt

On January 2, 2016, GACS signed a promissory note in the amount of \$1,500,000. On February 3, 2016, GACS signed a warranty deed with a third-party landowner for two land parcels with the intention to construct a new campus facility on each lot. The collective fair value of both land parcels is \$1,500,000.

The note is payable in three periodic installments of \$50,000 with the remaining balance due within 240 days from January 2, 2016, the date of the promissory note. Amended on January 11, 2017, the note required monthly installments of \$67,500 and an initial deposit of \$25,000 commencing December 2016 with the remaining balance due upon obtaining bank financing in February 2017. At September 30, 2017, the remaining balance on the note payable was \$712,500.

VI. Capital Improvements

The proposed facility expansion plan was intended to consolidate the organization's facilities, minimize costs and expand enrollment capacity. The project would include a permanent campus to provide school facilities for up to 1,000 students, administration and support staff offices.

GUAHAN ACADEMY CHARTER SCHOOL, INC.

Management's Discussion and Analysis

For Years Ended September 30, 2017 and 2016

VII. Economic Outlook

The next school year (FY18) budget, per P.L. 34-42, GACS was again granted the maximum number of students of 740, at the same per pupil rate of \$6,500. However, at the beginning of 2018, the education budget was cut by 8.66% This caused the Academy a big financial burden by the end of the fiscal year.

GACS is now currently occupying the Tiyan Buildings C and D for all the 740 students (from K to High School). The relocation of the secondary grades to Buildings C and D happened after SY2017-2018.

On May 1, 2018, GACS was informed by WASC that its candidacy status for accreditation was withheld. On October 10, 2018, the WASC Appeal Team met with the Academy to gather input towards the reinstatement of the candidacy status for subsequent accreditation.

Request for Information

This report is designed to provide an overview of the Academy's finances for those with an interest in the area. Questions concerning any of the information found in this report or requests for additional information should be directed to Wilfred Aflague, Finance Officer, Guahan Academy Charter School, Post Office Box CS, Hagatna, Guam 96932.

GUAHAN ACADEMY CHARTER SCHOOL, INC.
(A Nonprofit Corporation)

Statements of Financial Position
September 30, 2017 and 2016

<u>ASSETS</u>	<u>2017</u>	<u>2016</u>
Current assets:		
Cash	\$ 271,626	\$ 115,656
Accounts receivable	205,420	371,642
Prepaid expenses	-	43,000
Other assets	<u>7,320</u>	<u>7,320</u>
Total current assets	484,366	537,618
Property and equipment, net	<u>5,155,476</u>	<u>1,796,852</u>
	<u>\$ 5,639,842</u>	<u>\$ 2,334,470</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Short-term debt	\$ 855,690	\$ 1,350,000
Accounts payable	3,250,368	245,827
Accrued expenses	<u>100,309</u>	<u>85,288</u>
Total current liabilities	<u>4,206,367</u>	<u>1,681,115</u>
Commitments and contingencies		
Net assets:		
Unrestricted	<u>1,433,475</u>	<u>653,355</u>
	<u>\$ 5,639,842</u>	<u>\$ 2,334,470</u>

See accompanying notes and independent auditor's report.

GUAHAN ACADEMY CHARTER SCHOOL, INC.
(A Nonprofit Corporation)

Statements of Activities
Years Ended September 30, 2017 and 2016

	2017	2016
Revenues (Notes 2 and 3):		
Per pupil allocations	\$ 4,757,522	\$ 3,300,000
Grant revenue	129,913	42,488
Extended learning	29,972	33,883
Fundraising	12,453	12,443
Student meal revenue	33,077	16,060
Donations	6,557	3,707
Miscellaneous	926	1,140
Total revenues	4,970,420	3,409,721
Operating expenses:		
General and administrative	1,212,575	654,632
Program expenses	2,954,417	2,399,695
Depreciation	23,308	39,327
Total operating expenses	4,190,300	3,093,654
Change in net assets	780,120	316,067
Net assets, beginning of year	653,355	337,288
Net assets, end of year	\$ 1,433,475	\$ 653,355

See accompanying notes and independent auditor's report.

GUAHAN ACADEMY CHARTER SCHOOL, INC.
(A Nonprofit Corporation)

Statements of Cash Flows
Years Ended September 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	\$ 780,120	\$ 316,067
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Depreciation	23,308	39,327
Decrease (increase) in operating assets:		
Accounts receivable	166,222	136,720
Prepaid expenses	43,000	(43,000)
Increase (decrease) in operating liabilities:		
Accounts payable	3,004,540	(90,134)
Accrued expenses	15,022	31,994
	4,032,212	390,974
 Cash flows from investing activities:		
Acquisition of fixed assets	(3,381,933)	(1,785,435)
Net cash provided used for investing activities	(3,381,933)	(1,785,435)
 Cash flows from financing activities:		
Proceeds from short-term debt	150,000	1,500,000
Repayment of short-term debt	(644,309)	(150,000)
Net cash provided by (used for) financing activities	(494,309)	1,350,000
 Net increase (decrease) in cash	155,970	(44,461)
Cash at beginning of year	115,656	160,117
Cash at end of year	\$ 271,626	\$ 115,656

See accompanying notes and independent auditor's report.

GUAHAN ACADEMY CHARTER SCHOOL, INC.
(A Nonprofit Corporation)

Schedule of Functional Expenses
For the Year Ended September 30, 2017
(with comparative totals for the year ended September 30, 2016)

	2017				2016
	General and Administrative	Program Services	Depreciation	Total	
Salaries and benefits	\$ 327,125	\$ 2,068,295	\$ -	\$ 2,395,420	\$ 2,033,992
Contractual services	216,606	481,826	-	698,432	605,203
Miscellaneous	512,986	-	-	512,986	45,559
Textbooks and workbooks	-	184,329	-	184,329	-
Utilities	26,413	105,653	-	132,066	107,288
Rent	26,840	73,000	-	99,840	129,400
Supplies and materials	34,844	41,314	-	76,158	80,922
Board stipends	35,600	-	-	35,600	28,860
Depreciation	-	-	23,308	23,308	39,327
Advertising expense	15,682	-	-	15,682	7,785
Insurance	11,461	-	-	11,461	19,149
Travel	4,938	-	-	4,938	3,886
Repairs and maintenance	80	-	-	80	363
Fundraising	-	-	-	-	1,835
	\$ 1,212,575	\$ 2,954,417	\$ 23,308	\$ 4,190,300	\$ 3,103,569

See accompanying notes and independent auditor's report.

GUAHAN ACADEMY CHARTER SCHOOL, INC.
(A Nonprofit Corporation)

Notes to Financial Statements
September 30, 2017 and 2016

(1) Organization and Nature of Operations

The Corporation is a nonprofit public benefit corporation and is not organized for the private gain of any person. It is organized for the basic purpose to do all things reasonable and proper in the operation of a nonprofit charter school within the Territory of Guam pursuant to the provisions of Public Law 29-140, the Guam Academy Charter Schools Act of 2009. Said corporation is organized exclusively for charitable religious, educational and scientific purposes, including, for such purposes, the making of distributions to organizations that qualify as exempt organizations within the meaning of Section 501(c) (3) of the Internal Revenue Code, or corresponding section of any future federal tax code. Pursuant to 18 GCS §281702 and §281703, this Corporation is organized under and governed by the provisions of the Guam Business Corporation Act (enacted as Guam Public Law 29-144 and as thereafter amended or codified).

This non-profit corporation is established for the purpose of operating an academy charter school which operates independently from the Guam Public School System for the purposes specifically set forth in 17 GCA §12102. The Guahan Academy Charter School, Inc. is established as a model for the implementation of the National Institute for Direct Instruction (NIFDI) School-Wide Reform Model. It shall have those powers set forth in 17 GCA Section §12107 and all lawful powers necessary or convenient to carry out any such purpose, and all rights, privileges and authorities granted by or consistent with any applicable law, unless and only to the extent expressly restricted by its Articles or Bylaws.

GACS is governed by a Board of Trustees. The Trustees are elected or selected pursuant to the Charter granted by GACS. The Board of Trustees consists of not less than five (5) members and not more than nine (9) members. At least one member must be a parent or guardian of a student attending GACS and one member must be from the general public. The principal of GACS is a non-voting member.

The Charter granted to GACS is for a five (5) year period, unless revoked as authorized in § 12114 of the Charter. The Charter may be renewed an unlimited number of times, each for a five (5) year period.

GACS is subject to independent oversight by Guam Academy Charter School Council (the Council). The Council is tasked with monitoring GACS's operations, compliance with applicable laws and the provisions of the charter granted; the progress of meeting student academic achievement expectations specified in the charter; and compliance with annual reporting requirements.

GUAHAN ACADEMY CHARTER SCHOOL, INC.
(A Nonprofit Corporation)

Notes to Financial Statements
September 30, 2017 and 2016

(2) Summary of Significant Accounting Policies

A summary of significant GACS' accounting policies utilized in the preparation of the accompanying financial statements is as follows:

Method of Accounting

The financial statements have been prepared using the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP). Under the accrual basis of accounting, revenues are recorded as earned and expenses are recorded at the time liabilities are incurred.

Reporting Entity

The financial statement presentation follows the recommendations of the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) Section 958-205, *Presentation of Financial Statements of Not-for-Profit Organizations*. Under FASB ASC 958-205, GACS is required to report information regarding its financial position and activities according to three classes of net assets. In addition, GACS is required to present a statement of cash flows.

GACS has determined that all assets, revenues, expenses, gains and losses resulting from local government contributions and federal awards are unrestricted.

Comparative Financial Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class or functional expense categories. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with GACS' financial statements for the year ended September 30, 2017, from which the summarized information was derived.

Budgets

Pursuant to the Guam Academy Charter Schools Act of 2009, the Board of Trustees adopts an annual budget. The annual budget must be submitted to the Guam Academy Charter Schools Council each fiscal year. The Council must submit the budget to the Superintendent of Education of the Government of Guam's Department of Education (GDOE) which in turn incorporates such as part of its budget submitted the Guam Legislature. Following the appropriation of GDOE's operating budget for the fiscal year, the amount approved by the Guam Legislature for the operation of GACS shall be available for expenditure by the GACS Board of Trustees.

GUAHAN ACADEMY CHARTER SCHOOL, INC.
(A Nonprofit Corporation)

Notes to Financial Statements
September 30, 2017 and 2016

(2) Summary of Significant Accounting Policies, continued

During the fiscal year, expenditures are controlled at the object level (e.g. salaries and benefits, purchased services, materials and supplies, instruction, pupil personnel services and school administration).

Cash

GACS defines its cash and cash equivalents to include only cash on hand, demand deposits, and liquid investments with original maturities of three months or less.

Receivables

Accounts receivable primarily represent amounts due from the Government of Guam as of September 30, 2017. Management believes that all receivables are fully collectible; therefore, no provisions for uncollectible accounts were recorded. As of September 30, 2017, the amounts due from the Guam Department of Education for reimbursable operating costs incurred and billed totaled \$205,420 and \$371,642, respectively.

Financial Statement Presentation

GACS is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets of GACS are defined as:

- Unrestricted: All resources over which the governing board has discretionary control to use in carrying on the general operations of the School.
- Temporarily restricted: These net assets are restricted by donors to be used for specific purposes. The Guahan Academy Charter School does not currently have any temporarily restricted net assets.
- Permanently restricted: These net assets are permanently restricted by donors and cannot be used by GACS. The Guahan Academy Charter School does not currently have any permanently restricted net assets.

Revenues are reported as increases in unrestricted net assets unless their use is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on assets and liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary 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.

GUAHAN ACADEMY CHARTER SCHOOL, INC.
(A Nonprofit Corporation)

Notes to Financial Statements
September 30, 2017 and 2016

(2) Summary of Significant Accounting Policies, continued

Use of Estimates

The preparation of the schedule of revenue and expense in conformity with accounting principles generally accepted in the United States of America requires 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Property and Equipment

Property and equipment are recorded at cost less accumulated depreciation. Depreciation of all property and equipment is computed on a straight-line basis over the estimated services lives of the assets. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets. Donated assets are valued at their fair value on the date of gift. The following lives have been assigned to the capitalized assets:

	<u>Estimated Useful Lives</u>
Furniture, fixtures and equipment	3-8 years
Office and computer equipment	3 years
Music instrument and sports equipment	3 years

Property and equipment purchased or acquired with original cost of \$500 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of assets are capitalized. The cost of normal repairs and maintenance that do not add to the asset value or materially extend useful lives are not capitalized. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in the Statement of Activities.

Valuation of Long-lived Assets

GACS reviews the carrying value of property and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends, and prospects, as well as the effects of obsolescence, demand, competition, and other economic factors.

GUAHAN ACADEMY CHARTER SCHOOL, INC.
(A Nonprofit Corporation)

Notes to Financial Statements
September 30, 2017 and 2016

(2) Summary of Significant Accounting Policies, continued

Contributions

GACS adopted FASB ASC Section 958-605-25, *Not-for-Profit Entities – Revenue Recognition*, whereby contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Restricted net assets are reclassified to unrestricted net assets upon satisfaction of the time or purpose restrictions.

All contributions are considered to be available for the general programs of the Council unless specifically restricted by the donor. GACS reports gifts of cash and other assets 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 a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in statement of activities as net assets released from restrictions. Donor-restricted contributions are recorded in the temporarily restricted class for restrictions expiring during the current fiscal year, and then reclassified to the unrestricted class. The provisions for expiration of restrictions on temporarily restricted net assets were adopted prospectively.

Revenue Recognition

Revenue from per pupil allocations and supplemental special needs funds is recognized during the School's operating cycle, which starts in August and ends in June. GACS receives financial support in monthly allotments from the General Fund of the Government of Guam via the Guam Department of Education to finance administrative and general expenses on a reimbursable basis. Such expenses mainly consist of salaries and wages, contractual wages, supplies and materials and utilities. The actual amounts remitted to GACS are determined by the Guam Department of Education's Internal Auditors through the validation of submitted invoices.

Pursuant to Guam Public Law 32-181, the per pupil cost was \$6,500 for the fiscal year ending September 30, 2017. Student enrollment is not to exceed 740 students during School Year 2016-2017.

GUAHAN ACADEMY CHARTER SCHOOL, INC.
(A Nonprofit Corporation)

Notes to Financial Statements
September 30, 2017 and 2016

(2) Summary of Significant Accounting Policies, continued

Grant Revenue

The AmeriCorps grant has been awarded to GACS through the AmeriCorps Guahan Academy Youth Project. The primary goal of the program is empowering at-risk, economically disadvantaged youth on Guam to make positive life choices through mentoring interventions, which would improve academic engagement, decrease discipline referrals, suspensions, and possibly improved financial literacy. The project is based at GACS and all K-12 Guam children are eligible. GACS received \$0 and \$2,717 in grant revenue from the AmeriCorps Program as of September 30, 2017 and 2016, respectively. GACS receives funds from the Guam Behavioral Health and Wellness Center to implement Guam's 5-year *Prevention, Education and Community Empowerment Plan (PEACE)* to prevent or reduce the consumption and consequences of underage drinking among 12-to-20 years old and problem drinking among adults; and to prevent or reduce lifestyles, and a decrease in non-communicable diseases. GACS recruits and secures commitment from key members and stakeholders to participate in a series of scheduled trainings. To achieve PEACE's Comprehensive Strategic Plan, focus groups formed within GACS collect data, assess community risks and protective factors and develop action plans aligned with PEACE's mission. As of September 30, 2017, GACS received \$23,690 from the PEACE Program.

Fund Raising and Donations

GACS participates in various fundraising activities during the year. Revenues received from these fundraising activities are recognized as fundraising income. In addition, GACS receives cash donations from private individuals and businesses that are recognized as donations when received.

Compensated Absences

Annual and sick leave is recognized as an expense and a corresponding liability as earned by employees. Regular full-time employees are entitled to eight days of sick leave and two days of vacation leave per benefit period. The benefit period is the first day of work in August to September 30th. Accrued leave does not carry over from year-to-year. Any unused leave will not be paid to the employee.

GUAHAN ACADEMY CHARTER SCHOOL, INC.
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Notes to Financial Statements
September 30, 2017 and 2016

(2) Summary of Significant Accounting Policies, continued

Advertising and Marketing

For the fiscal year ending September 30, 2017, GACS incurred advertising and marketing costs totaling \$15,682. These costs primarily relate to related advertisement for public education, hiring and procurement solicitation costs, and announcements of upcoming board meetings open to the public.

Income Taxes

GACS is a nonprofit organization exempt from income taxes under the provision of Section 501(c)(6) of the Internal Revenue Code. Accordingly, no provision for income tax has been made in the accompanying schedule of revenue and expense. A Return of Organization Exempt from Income Tax (Form 990) is filed by GACS. IRS forms 990 filed by GACS are subject to examination by the Internal Revenue Service for up to three years from the extended due date of each return.

Fair Value of Financial Instruments

GACS' financial instruments are cash, accounts receivable, notes payable, accounts payable, and accrued expenses. The recorded values of cash, accounts receivable, accounts payable and accrued expenses approximate their fair values based on their short-term nature. The recorded values of short-term note payable approximate its fair values, as interest approximate market rates.

(3) Economic Dependency

GACS receives approximately 80% of its annual revenue from the Guam Department of Education under a 5-year charter agreement. Under the charter agreement, the Council will review GACS once every five years, beginning on the date on which the charter is granted or renewed, to determine whether the charter should be revoked for material violations of laws and the terms of its agreement or if GACS fails to meet the goals and student academic achievement expectations. A significant reduction in the level of this support, if this were to occur, may have an adverse effect on GACS's operations and activities.

(4) Concentration of Credit Risk

GACS maintains one bank account with a financial institution. GACS at times maintains cash balances in excess of \$250,000, the amount insured by the Federal Deposit Insurance Corporation (FDIC). GACS has not made any provisions as it has not incurred any losses due to exceeding insured amounts.

GUAHAN ACADEMY CHARTER SCHOOL, INC.
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Notes to Financial Statements
September 30, 2017 and 2016

(5) Property and Equipment

The following is a summary of property and equipment at September 30, 2017 and 2016:

September 2017	Balance 09/30/2016	Additions	Transfers/ Disposals	Balance 09/30/2017
Computer and transportation equipment	\$ 97,055	\$ 79,425	\$ -	\$ 176,480
Music instrument and sports equipment	18,421	-	-	18,421
Furniture, fixtures and equipment	11,507	14,797	(1,670)	24,634
	126,983	94,222	(1,670)	219,535
Accumulated depreciation	(99,422)	(23,865)	557	(122,730)
Net depreciable assets	27,561	70,357	(1,113)	96,805
Land	1,609,238	31,615	-	1,640,853
Construction-in-progress	160,053	3,678,067	(420,302)	3,417,818
Net capital assets	<u>\$ 1,796,852</u>	<u>\$ 3,780,039</u>	<u>\$ (421,415)</u>	<u>\$ 5,155,476</u>
September 2016	Balance 09/30/2015	Additions	Transfers/ Disposals	Balance 09/30/2016
Computer and transportation equipment	\$ 89,622	\$ 7,433	\$ -	\$ 97,055
Music instrument and sports equipment	18,421	-	-	18,421
Furniture, fixtures and equipment	2,796	8,711	-	11,507
	110,839	16,144	-	126,983
Accumulated depreciation	(60,095)	(12,466)	(26,861)	(99,422)
Net depreciable assets	50,744	3,678	(26,861)	27,561
Land	-	1,609,238	-	1,609,238
Construction-in-progress	-	160,053	-	160,053
Net capital assets	<u>\$ 50,744</u>	<u>\$ 1,772,969</u>	<u>\$ (26,861)</u>	<u>\$ 1,796,852</u>

GACS incurred costs intended for the construction of additional classrooms at the current campus facility totaling \$637,151 and \$14,253 at September 30, 2017 and 2016, respectively. GACS also incurred \$2,780,668 and \$145,800 at September 30, 2017 and 2016, respectively for preparation fees for the upcoming construction of their Tiyan campus development. The additional classrooms and Tiyan campus development were not depreciated as such fixed assets were not in use as of September 30, 2017. These amounts incurred are included in the as a component of construction in progress in the summary above.

Depreciation expense for the years ended September 30, 2017 and 2016 were \$23,308 and \$39,327, respectively.

GUAHAN ACADEMY CHARTER SCHOOL, INC.
(A Nonprofit Corporation)

Notes to Financial Statements
September 30, 2017 and 2016

(6) Fundraising

Fundraising revenues represents the net revenues earned from various fundraising efforts of students for which proceeds benefit student-related events and activities such as graduation and promotional events. GACS incurred \$0 and \$1,835 in fundraising costs as of September 30, 2017 and 2016, respectively.

(7) Functional Expenses

The natural classification of the 2017 functional expenses has been summarized in the accompanying statements of functional expenses on page 14 with comparative summarize totals for year ended September 30, 2016.

(8) Donated use of Operating Premises

The Guahan Academy Charter School, Inc. conducts its operations provided at below market cost at Tiyan, Guam as discussed below.

Operations conducted at Tiyan Guam location are provided under a Memorandum of Agreement (MOA) with the Government of Guam. Pursuant to Public Law 30-37, the Government of Guam and Core Tech International Corporation entered into a lease agreement with an option to purchase dated June 23, 2009, for certain land, buildings and structures located in Tiyan, Guam.

On September 15, 2011, Public Law 31-76 amended Public Law 30-37 and allowed continued use of the Tiyan Campus for interim school facilities and other use for government operations. On December 30, 2013, the Government of Guam executed the Option to Purchase the Tiyan Campus.

On August 9, 2013, the Government of Guam entered into Memorandum of Agreement with GACS permitting it to use Buildings C and D of the Tiyan Campus for no rental cost. The term of GACS' use of the premises is for a one year period commencing August 6, 2013 with two annual extensions of one year each for a maximum term of no more than three consecutive years from August 6, 2013 and ending June 30, 2016. The term of GACS' use has been extended to December 31, 2017. All extensions are at the discretion of the Government of Guam.

GUAHAN ACADEMY CHARTER SCHOOL, INC.
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Notes to Financial Statements
September 30, 2017 and 2016

(8) Donated use of Operating Premises, continued

The extensions are subject to the following conditions: a) GACS continues to hold a duly issued charter from the Guam Academy Charter Schools Council; and b) there has been no default of the MOA with a ninety-day notice. Management of the Guahan Academy Charter School estimates the fair rental market value of the premises to be \$61,600 per month or \$739,200 per year base on comparable rents in the immediate area.

The Guahan Academy Charter School would be adversely affected should use of the Tiyan Campus be discontinued or cancelled.

(9) Retirement Savings Plan

A defined retirement savings plan was implemented which allows employees to contribute up to \$17,500 of the employees' annual compensation to the plan. Eligible employees are full-time employees who have completed one month of service and part-time who have completed one year of service, or 1,000 hours. Employees at the age of 50, or who will attain the age of 50 before the end of the calendar year may make additional deferrals at a maximum of \$5,500 in excess of elective deferrals. GACS may contribute to the plan an amount equal to 6% of the employee's compensation. For the years ended September 30, 2017 and 2016, GACS contributed \$101,269 and \$69,931, respectively to the plan, a component summarized in salaries and benefits.

(10) Risk Management

GACS is exposed to various risks of loss related to torts, thefts of, damage to and destruction of assets, errors and omissions and natural disasters for which the school carries commercial insurance. GACS maintains commercial insurance to provide for claims arising from most of these risks.

There were no material losses sustained as a result of GACS' risk management practices.

(11) Short-Term Debt

On January 2, 2016, GACS signed a warranty deed with a third-party landowner for two land parcels with the intention to construct a new campus facility on each lot. The collective fair value of both land parcels is \$1,500,000. GACS signed a promissory note payable to a third-party in the same amount.

GUAHAN ACADEMY CHARTER SCHOOL, INC.
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Notes to Financial Statements
September 30, 2017 and 2016

(11) Short-Term Debt, continued

Initially the note required three periodic installments of \$50,000 with the remaining balance due within 240 days from the date of the promissory note. On January 11, 2017, the note was amended and required monthly installments of \$67,500 and an initial deposit of \$25,000 commencing December 2016. The remaining balance was due upon obtaining bank financing in February 2017. At September 30, 2016 and 2017 respectively, the remaining balance on the note payable was \$712,500. GACS has been unable to obtain long-term financing.

In June of 2017, GACS entered in to a short-term borrowing agreement in the amount of \$150,000 with interest at 1% over the bank's prime rate (5% at September 30, 2017), unsecured, with all interest and unpaid principal due on September 7, 2017. The amount of \$143,191 remain outstanding as of September 30, 2017. Subsequent to September 30, 2017 the note was amended extending the maturity date of February 4, 2018. All other terms remain unchanged. On March 7, 2018 the lender issued a notice of default but has taken no additional action to accelerate the debt.

(12) Commitments

Operating Lease

GACS leases office space located in Mangilao, Guam and five (5) temporary classrooms located in Barrigada, Guam under month-to-month operating lease agreements. As of August 2017 GACS no longer leases office space and temporary classrooms.

For the years ended September 30, 2017 and 2016, rent expense was \$99,840 and \$129,400, respectively.

(13) Going Concern

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As of September 30, 2017, current liabilities exceed current assets by \$3,722,002 as GACS has been unable obtain long-term financing related to the purchase of the land (\$1,640,853), leasehold improvements to the temporary facility (\$637,152) and construction of the new campus facility (\$2,780,668). Much of this deficiency is concentrated in five vendors related to the activities noted above. As a result, one lender has issued a notice of default, although no additional action has been taken to recover the debt. Because GACS did not have sufficient funds to pay all outstanding indebtedness, substantial doubt was raised about its ability to continue as a going concern.

GUAHAN ACADEMY CHARTER SCHOOL, INC.
(A Nonprofit Corporation)

Notes to Financial Statements
September 30, 2017 and 2016

(13) Going Concern, continued

Management's plans include paying off one loan with funding in the Fiscal Year 2019 appropriation for Facilities Expansion Plan which will enable GACS to initiate a payment plan with their larger vendors. Additionally, management intends to obtain an interim financing plan and manage its monthly allotments in a more efficient manner. As of the date of this report management has been unsuccessful in obtaining interim financing.

The ability of GACS to continue as a going concern is dependent on the success of these actions. The financial statements do not include any adjustments related to the recoverability of the recorded asset amounts or the amounts of liabilities that might be necessary should GACS be unable to continue as a going concern.

(14) Subsequent Events

At the end of SY2018 GACS was evicted from the Tiyan campus due to lack of payment. Faced budget cuts. GACS halted all construction for the new campus. GACS is in the process of settling outstanding balances totaling \$1,221,215 due to vendors for the construction of the temporary classrooms. No legal action has been taken as of the date of this report.

During February 2018 GACS was given an eviction notice from the property owner of the Tiyan campus for failure to pay rent amounting \$245,000. The Academy was given until the end of the school year to vacate the premises. The unpaid rent expense was given as in-kind donation.

On December 22, 2017, the federal government of the United States of America enacted and signed into law the Tax Cuts and Jobs Act (TCJA) of 2017. Subsequent to the passage of the TCJA, the governor of Guam issued a directive to all departments, agencies and instrumentalities to evaluate the negative impact the TCJA would have on the Government of Guam's general fund which is the primary source of funding for GACS. As a result, GACS fiscal year 2018 budget was revised and reduced by \$416,719 or approximately 8.7% from \$4,810,000 to \$4,393,281. GACS has not yet determined what effect the 2018 budget reduction will have on its operations.

(15) Reclassifications

Certain items from September 30, 2016 financial statements have been reclassified for presentation at September 30, 2017. These changes do not impact net assets or liabilities.

GUAHAN ACADEMY CHARTER SCHOOL, INC.

**INDEPENDENT AUDITORS' REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
*GOVERNMENT AUDITING STANDARDS***

SEPTEMBER 30, 2017 AND 2016



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Trustees of
Guahan Academy Charter School, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Guahan Academy Charter School (a nonprofit organization), which comprise the statement of financial position as of September 30, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 10, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Guahan Academy Charter School's (GACS) internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of GACS' internal control. Accordingly, we do not express an opinion on the effectiveness of GACS' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule for findings and responses to be material weaknesses for Finding 2017-03.

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A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies for Findings 2017-01 and 2017-02.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether GACS' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Guahan Academy Charter School's Response to Findings

GACS' response to the findings identified in our audit is described in the accompanying schedule of findings and responses. GACS response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Tamuning, Guam
March 10, 2019

GUAHAN ACADEMY CHARTER SCHOOL, INC.

Schedule of Findings and Responses
September 30, 2017

Finding No. 2017-01

Criteria:

Per 5 GCA 5004(b) states that the Guam Procurement Law *applies to every expenditure of public funds irrespective of their source*. In addition, 5 GCA §5214 states, *a contract may be awarded for a supply, service or construction item without competition when it has been determined in writing that there is only one source for the required supply, service or construction item*.

In accordance with Title 17 of the Guam Code Annotated (GCA) §12107(c)(4), *An Academy Charter School shall have the power to secure appropriate insurance and to make contracts and leases, including agreements to procure or purchase services, equipment, and supplies subject to Chapter 5, Title 5, GCA*. Furthermore, 17 GCA §12116(d) states, *no capital improvement funds shall be awarded to a non-converted public school for the purpose of constructing, reconstructing or improving said school*.

Condition:

During May 2017, GACS entered into a \$6 million contract with a contractor to retrofit its new Tiyan campus with the intent of financing the project with \$14 million loan from a local bank and guaranteed by the U.S. Department of Agriculture. The Invitation for Bid (IFB) and/or contract did not contain certain clauses and affidavits such as a statement of prohibition against gratuities and kickbacks, and an affidavit for contingent fees.

Cause:

GACS developed and implemented its own procurement policies and procedures on October 25, 2013 prior to the amendment of Title 17 of the GCA §12107 enacted in 2014 and 5 GCA Chapter 5 - Guam Procurement Law.

Effect:

The procurement procedures for goods and services and construction projects were conducted prior to the amendment and implementation and compliance with of Title 17 of the GCA §12107 and 5 GCA Chapter 5 - Guam Procurement Law. Therefore, the potential exists for GACS to be in noncompliance with the Guam Procurement Law.

GUAHAN ACADEMY CHARTER SCHOOL, INC.

Schedule of Findings and Responses
September 30, 2017

Finding No. 2017-01, continued

Recommendation:

GACS should amend its procurement policies and practices to incorporate the provisions of the Guam Procurement Law and Title 17 of the GCA §12107. The amended procurement policies and practices should be reviewed and approved by the Board of Trustees and its legal counsel to ensure that all procurement of goods, services and contract are properly conducted and procured in accordance with the Guam Procurement Law.

Auditee Response and Plan of Corrective Action:

GACS relied on Consultant to prepare and determine the required affidavits, such as the Non-Collusion Affidavit, Sex Offender Certification, Major Shareholders Affidavit, Wage and Benefit and the Affidavit Prohibiting Gratuities and Kickbacks, the Affidavit for Contingent Fees, and others. While the Auditor finding may be correct that the Consultant omitted to specifically describe the required affidavits in the Invitation for Bid, such omission was immaterial as the Procurement Checklist provided by the Consultant required the bidder to submit the necessary affidavits.

GACS will continue to ensure its compliance with Guam Procurement Law. GACS objects to the Auditor's conclusion of non-compliance.

Auditors' Response:

GACS did not ensure that its consultant complied with the Government of Guam's procurement law.

GUAHAN ACADEMY CHARTER SCHOOL, INC.

Schedule of Findings and Responses September 30, 2017

Finding No. 2017-02

Criteria:

Public Law 32-131 establishes the system of training, continuing education, and certification for Government of Guam procurement personnel. Section 1 (b) enforces the Mandatory Certification and Continuing Education.

Public Law 32-131 Section 1 (b) states: “Notwithstanding any other provision of law or this chapter and effective October 1, 2016, all government of Guam personnel tasked with the responsibility of purchasing or otherwise procuring goods, or services, or construction, including those employed by agencies with authority to conduct their own procurement, as well as any person within the Office of Public Accountability responsible for administering procurement appeals or auditing of the purchasing of the government of Guam, must receive the training and continuing education to the extent required under this Section and offered by the Guam Community College (GCC) in consultation with the Guam Procurement Advisory Council...”

Condition:

GACS’s Human Resources Manager who also acts as the Procurement Officer attended the procurement training but did not complete and obtain the mandatory certification. Other GACS personnel including certain Board members Board Consultant and Management Liaison involved in the procurement process have not received the procurement training and obtained the mandatory certification from GCC.

Cause:

GASC did not believe it was is legally bound comply with Public Law 32-131 because its personnel are not Government of Guam employees. GACS did not seek a legal interpretation or obtain clarification to determine if Public Law 32-131 Section 1(b) was applicable to its organization.

Effect:

The potential exists for GACS to be noncompliance with Public Law 32-131 Section 1(b).

GUAHAN ACADEMY CHARTER SCHOOL, INC.

Schedule of Findings and Responses
September 30, 2017

Finding No. 2017-02, continued

Recommendation:

A legal interpretation should be obtained to determine if Public Law 32-131 Section 1(b) is applicable to GACS. If applicable, GACS should amend its procurement policies and practices to incorporate the provisions of Public Law 32-131 Section 1 (b) to ensure that all GACS personnel tasked with the responsibility of purchasing or otherwise procuring goods, or services, or construction attend the procurement training and obtain the mandatory certification.

Auditee Response and Plan of Corrective Action:

Public Law 32-131 relates to Government of Guam procurement personnel. While Guam Procurement Law applies to charter schools, the charter school employees by Guam law are not Government of Guam personnel, nor are they employees of the Government of Guam. Notwithstanding the inapplicability of such law to GACS, GACS has in good faith established a system which requires its personnel to undergo procurement training to ensure compliance with Guam law.

On such example of GACS good faith compliance with an inapplicable provision of Guam Procurement Law is that GACS immediately directed its Personnel officer to assume the function of the “acting procurement officer” and to attend the required training at GCC. Acting Procurement Officer received a certificate for the first module of the Procurement Training given by GCC and wait for the scheduling of the other modules so that she can complete the training. As of January 30, 2019, the Procurement Officer with two other executive management staff (Executive Director and the Accountant) are currently enrolled in the Procurement Training, Module 1, with GCC, as of January 23, 2019.

It is important to point out that the Guam Procurement Law was made applicable to the charter schools as an unfunded mandate imposed on non-profit entities. The Legislature has not allocated any appropriation to the charter schools for compliance with these procurement provisions. Notwithstanding, GACS has made every effort to ensure its substantial and good faith compliance from its current budget even when the mandatory provisions are inapplicable to it.

GUAHAN ACADEMY CHARTER SCHOOL, INC.

Schedule of Findings and Responses
September 30, 2017

Finding No. 2017-03

Criteria:

Pursuant to §12107 (c)(5), An Academy Charter School shall have the ability *to incur debt in reasonable anticipation of the receipt of funds from the general fund of the government of Guam or the receipt of Federal or private funds.*

In accordance with Title 17 of the Guam Code Annotated (GCA) §12107(f), in part states, *An Academy Charter School shall exercise control over its expenditures subject to Chapter 5, GCA.*

In addition, §12116(c) states, *In no case shall an Academy Charter School expend or incur obligations in excess of its budget request; provided however, that the an Academy Charter School shall be authorized to spend federal grants and other funds received independent of GDOE not accounted for in said Charter School's budget request without prior approval from the Superintendent of Education or the Board.*

Condition:

Public Law 33-185 appropriated \$4,810,000 to GACS, of which \$4,759,413 was received during the fiscal year ended September 30, 2017.

GACS incurred and has outstanding liabilities approximating \$3,342,894 as September 30, 2017 of which, 88% or \$2,943,260 is payable to five (5) vendors relating the construction and related architectural and engineering costs incurred and acquisition of land for the proposed new campus. Alternative sources of funds have not been identified to satisfy its outstanding liabilities.

Cause:

GACS sought to obtain financing from a financial institution and federal agency guarantee for the construction of its proposed new campus which did not materialize. Alternative sources of funds were not obtained prior to incurring obligations that were not properly funded or approved by the Guam Academy Charter School Council.

Effect:

GACS is not in compliance with 17 GCA §§12107(f) and 12116(c) and Chapter 5, GCA. It appears that GACS may not be able to meet its financial obligations. The potential exists for GACS to not be able to sustain and continue its operations and be subject to probation or revocation pursuant to 17 GCA §12114.

GUAHAN ACADEMY CHARTER SCHOOL, INC.

Schedule of Findings and Responses
September 30, 2017

Finding No. 2017-03, continued

Recommendation:

Alternative sources of funds should be obtained to liquidate current financial obligations. GACS should exercise control over its expenditures subject to Chapter 5, GCA and should not expend or incur obligations in excess of its approved budget.

Auditee Response and Plan of Corrective Action:

Guam law specifically authorizes charter schools to incur debt upon “reasonable anticipation” of the receipt of funds. GACS is in compliance with the 2009 Academy Charter School Law. Unfortunately, due to the financial condition of the Government of Guam, notwithstanding the approval by the Council, and reliance on reasonable anticipation of funds, the Government of Guam’s reduction of budget has placed GACS in a disadvantaged position.

Auditors’ Response:

GACS has not been able to identify alternative sources of funds to pay its existing outstanding liabilities.