
GUAHAN ACADEMY CHARTER SCHOOL, INC.
(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

SEPTEMBER 30, 2018

**GUAHAN ACADEMY CHARTER SCHOOL, INC.
(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)**

Year Ended September 30, 2018
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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Guahan Academy Charter School, Inc.:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the General Fund of the Guahan Academy Charter School, Inc. (the Academy), a component unit of the Government of Guam, as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Academy'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 Academy'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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund of the Guahan Academy Charter School, Inc. as of September 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter

As discussed in Note 8 to the financial statements, the Academy is dependent on sufficient Government of Guam appropriations to be able to continue its operation. Management's plans with respect to this matter are discussed in Note 8.

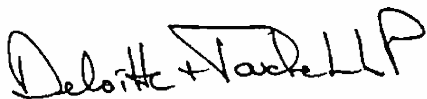
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 11 be presented to supplement the financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. This supplementary information is the responsibility of the Academy's management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 18, 2021, on our consideration of the Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Academy's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control over financial reporting and compliance.



May 18, 2021

**GUAHAN ACADEMY CHARTER SCHOOL, INC.
(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)**

**Management's Discussion and Analysis
Year Ended September 30, 2018**

As management of Guahan Academy Charter School, Inc., we, the Board of Trustees, offer readers this narrative overview and analysis of the financial activities of the Academy for the fiscal year ended September 30, 2018.

Financial Highlights

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

- Liabilities of the Charter School exceeded its assets at the close of the fiscal year by \$875,233 (net position).
- P.L. 34-42 provided \$6,500 for each student up to 740 students, or a total amount of \$4,810,000. Similarly, this was the same count in the total number of students from the 2017 enrollment. However, two budget cuts occurred in FY2018. As per PL 34-87 BBMR Circular 18-4, General Fund Reduction, the budget was reduced by \$416,719 in January 2018. The total budget amount was reduced to \$4,393,281. At the end of FY2018, another cut was made in the amount of \$51,598. This percentage allocation was made by GDOE for cash not received.
- The total amount of expenditures submitted to GDOE's Internal Audit Office and DOA amounted to \$4,475,394 for FY2018,
- At the close of the fiscal year, only 713 students remained, which is a reduction of 27 students from the approved population of 740 students.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the School's basic financial statements. The School'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

Government-Wide Financial Statements

The purpose of government-wide financial statements is to present the financial position and the operating results of the governmental entity as a whole. The statements are expected to provide users with operational accountability information and to enable them to do the following:

- understand the true financial position of the governmental entity, including capital and financial assets and long-term as well as short-term liabilities;
- determine whether the entity is able to continue to provide current service levels and meet its obligations as they become due; and
- determine the operating results of the entity, including the economic cost and the net cost of services, and assess the economy, efficiency, and effectiveness of operations.

The Statement of Net Position presents information on the School's assets and liabilities, and deferred inflows of resources (which is the acquisition of net position by the government for future period) and deferred outflows (which is the outflow of net position which will be recognized in a future period). Net position may, over time, serve as an indicator to measure or gauge the School's financial condition.

**GUAHAN ACADEMY CHARTER SCHOOL, INC.
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**Management's Discussion and Analysis
Year Ended September 30, 2018**

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

The following analysis provides a summary of the GACS's net position as of September 30, 2018. During FY2018, liabilities exceeded assets by \$875,233. At the end of the fiscal year, this condition resulted in negative balances in total net position.

**GUAHAN ACADEMY CHARTER SCHOOL
Statement of Net Position
September 30, 2018**

ASSETS

Current Assets	
Cash	\$ 44,473
Accounts receivable	282,631
Other assets	<u>7,320</u>
Total Current Assets	<u>334,424</u>

Capital Assets	
Equipment, net	639,157
Property, CIP and land	<u>1,564,147</u>
Total Capital Assets	<u>2,203,304</u>

TOTAL ASSETS	\$ <u>2,537,728</u>
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LIABILITIES AND NET POSITION

Liabilities	
Current Liabilities	
Current portion of long-term debt	\$ 320,691
Accounts payable	3,001,085
Accrued expenses	<u>91,185</u>
Total Current Liabilities	3,412,961

Net Position	<u>(875,233)</u>
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Total Liabilities and Net Position	\$ <u>2,537,728</u>
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**GUAHAN ACADEMY CHARTER SCHOOL, INC.
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**Management's Discussion and Analysis
Year Ended September 30, 2018**

- Under Capital Assets, Equipment, net of depreciation increased 664.5% before recognition of an impairment loss. This was due to: a) additional Computer Laptops and Ipads that the School received from the federal/consolidated grant; b) reclassification from CIP account (secondary campus) to correct the furniture account; c) reclassification from CIP account (secondary campus) to correct the modular classroom account.
- Under Capital Assets, the correct investments in property and land is \$2,203,304. Adjustments were made to reflect an impairment loss due to the non-existence of the secondary campus. For additional information concerning capital assets, please refer to the notes to the financial statements.
- As of September 30, 2018, GACS has no long-term debt. For more information on current debt, please refer to note 6 to the financial statements.

Accomplishments

Academic Accomplishments/Student Achievements, as reported by GACS Leadership Team, January 15, 2020 for Assessment of SY 2018-2019

A. Assessment Summary

On a yearly basis, Guahan Academy Charter School takes two tests to assess student proficiency in the areas of math, language arts, and reading. The first test is an internal assessment known as the Wide Range Achievement Test -4 (WRAT-4). This test is given to those in grades kindergarten to 12th grade and tests reading, spelling, math, and sentence comprehension (for grades 1-12). The second test is given through the Guam Department of Education and is called the American College Testing Aspire (ACT Aspire). This test provides data on three subtests in the subjects of reading, English, and math. These scores are analyzed in two parts by the GACS Independent Evaluator. First, is the Preliminary Assessment Report, which presents individual student data and the second is the Final Assessment Report which provides the community with aggregate data by grade level on how well GACS is performing in educating its students.

	SY 2017-2018			
Subtest	Exceeding	Ready	Close	In Need of Support
English	31%	23%	34%	12%
Reading	16%	14%	32%	38%
Math	2%	12%	58%	28%

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**Management's Discussion and Analysis
Year Ended September 30, 2018**

The ACT Aspire results for SY 2017-2018, highlight a strength in the English subtest, which has been historically consistent at GACS. Overall, only 12% of the students who took the test scored in the "In need of support" category, while the remaining 88% were in the "exceeding", "ready", and "close" categories. However, in reading, 38% percent of the total tested students scored in the "in need of support" category; 32% were "close"; 14% were "ready" and 16% exceeding. In the math subtest, 2% scored in the "exceeding" category; 12% scored in the "ready" category; 58% in the "close" category; and 28% in the "in need of support" category. From these results, the focus of the faculty and staff would need to be on improving math problem solving skills, as well as reading comprehension abilities, which are both major components of the school's improvement plan.

B. Evaluator's Message to the Board of Trustee

Dear Members of the Board of Trustee, Administrative Staff, and Faculty,

This is the 4th year I've served as the Independent Evaluator for GACS and I learn more about the academic development of our Pacific island students each year, this year was no exception. While I have "met" the GACS students primarily through their assessments, I have come to appreciate the progress they make at each assessment cycle. The continuous study of GACS students, particularly in the cohort studies, has been an enlightening experience for me both personally as a mother and grandmother and professionally as a college professor. The cohort analysis has provided deeper insight on the effectiveness of Direct Instruction for our students.

This Final Report provides grade-level performance of students enrolled in GACS in Academic Year 2017-2018. While the Preliminary Report of Nov. 30, 2018 provided individual student reports on all students enrolled and tested in 2017-2018 school year, the Final Report provides the aggregate grade-level analysis of students enrolled in GACS in 2017-2018, it includes the cohort analysis which began with test data from GACS students in 2014-2015, maintained enrollment and are now in the 4th year of monitoring. It also includes the baseline data on the new cohorts of Kindergarten students beginning in 2015-2016 and forward. Part 1 of the final report begins with the analysis of grade level performance from Kindergarten to 12th grade. Part 2 provides the cohort data analysis beginning with an overview of the cohorts and their performance over the 4 year period. Part 3 of the final report observes correlations between the ACT/Aspire and the WRAT-4 tests to monitor validity and reliability of assessment instruments. Part 3 presents recommendations targeted for the 2019-2020 school year due to the late submission of assessment information of this report for 2017-2018 data and the upcoming 2018-2019 data now available at this writing (end of the 2018-2019 school year).

As with all educational assessment activities, assessment data should drive sound decision-making at all levels in education. The data reports provide an opportunity to measure how well GACS students are academically achieving at each grade level using both norm-referenced (Boehm 3 and WRAT-4) and criterion-referenced assessment instruments (ACT/Aspire, SBA, DIBELS) to meet both instructional and legal requirements for individual student to district-wide assessment needs.

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**Management's Discussion and Analysis
Year Ended September 30, 2018**

I wish to acknowledge the dedication and steadfastness of the core individuals who have weathered the last 5 years and continue to weather the worst of storms in the media surrounding GACS, and the best of times as GACS students continue to achieve and learn more about OUR children. I want to acknowledge the passing of Trustee Victor Perez, not only a model professional but a longtime friend to many, may you rest in peace my brother, thank you for all you've tried to do to improve student outcomes in our Guam students. Once again, thank you to the GACS Board of Trustees, the Administration, Faculty and every student enrolled at GACS for once again allowing me to be part of the academic experience.

*Velma A. Sablan, Ph.D.
Independent Evaluator
June 04, 2019*

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. However, on October 10, 2018, the Appeal Team visited the campus which resulted in the transmission of the letter dated February 4, 2019, which declared the continuation of candidacy status of the K-5 program up to June 30, 2020 and the continuation of withholding candidacy status for the 6-12 program.

Considering the timeline for which GACS was required to be accredited (within 6 years of the initial charter), that timeline was not feasible nor was it an option for GACS to potentially proceed for accreditation only as an elementary school.

GACS looked beyond WASC and sought out Cognia who offers not only accreditation but certification, assessment, professional services and consulting within a framework of continuous improvement.

On February 27, 2020, Guahan Academy Charter School was approved as a Candidate for Accreditation with Cognia (formerly AdvanceED) for K-12 and for SY 2019-2020. The letter also stated that the language we are authorized to use in our publications is:

"Guahan Academy Charter School is a Candidate for Accreditation with NCA CASI, NWAC and SACS CASI"

D. Graduation Rates

In the School Year (SY) 2017-2018, "thirty-one" students graduated from Guahan Academy Charter School, representing a 310% rate increase from the school year (SY) 2016-2017.

2) Notes to Statement of Activities

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 School's revenues and expenses for the year ended September 30, 2018, follows:

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Management's Discussion and Analysis
Year Ended September 30, 2018

**GUAHAN ACADEMY CHARTER SCHOOL
Statement of Activities
Year Ended September 30, 2018**

Revenue	
Per Pupil Allocation	\$ 4,475,394
Grant	120,169
Donations	635,380
Miscellaneous	945
Extended learning	16,026
Student meals	11,345
Fundraising and others	<u>67,542</u>
Total Revenue	<u>5,326,801</u>
Operating Expenses	
Impairment loss	3,055,804
Personnel	2,383,377
Contractual services	854,463
Office space rental	635,380
Benefits	265,087
Power	123,567
Depreciation	120,101
Miscellaneous expense	74,009
Telephone/toll/wifi/svc	43,994
Materials and supplies	32,168
Water	26,949
Workmans com and gen llab	23,452
Travel	4,491
Interest	4,178
Books/online res	<u>(11,210)</u>
Total Expenses	<u>7,635,810</u>
Change in net position	(2,309,009)
Net positon beginning of year	<u>1,433,776</u>
Net position end of year	\$ <u>(875,233)</u>

- The School's revenue and expenditures increased by \$356,381 and \$3,445,510 respectively. One of the major changes in revenue for the year is due to the recording of a \$635,380 in-kind contribution, which is the rental with the Government of Guam for the use of Tiyan Campus Bldgs C & D. This is the same amount that resulted in the major increase in expenditures as reflected in office space rental. At the end of SY2017-2018, the former secondary campus was vacated. This also resulted in another major change in expenditures which is an impairment loss in the amount of \$3,055,804.

**GUAHAN ACADEMY CHARTER SCHOOL, INC.
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**Management's Discussion and Analysis
Year Ended September 30, 2018**

- The total number of students for FY2018 remains status quo as compared to FY2017 at 740 students. P.L. 34-42 provided \$6,500 for each student up to 740 students, or a total of \$4,810,000. However, the two budget cuts made in FY2018 reduced the total allocation to \$4,475,394.
- The overall effect on net position resulted in a decrease of \$2,309,009 for the year.

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).

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 the Guam Charter School Law, 17 GCA §12102. GACS is established to implement the National Institute for Direct Instruction (NIFI) 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 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. In compliance with the charter law and GACS governing corporate documents, 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 law. The Charter may be renewed for an unlimited number of times, each for a five (5) year period.

GACS is subject to independent oversight by the Guam Academy Charter Schools Council (the Council). The Council is tasked with monitoring GACS' 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.

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.

**GUAHAN ACADEMY CHARTER SCHOOL, INC.
(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)**

**Management's Discussion and Analysis
Year Ended September 30, 2018**

Economic Dependency

For the year ended September 30, 2018, GACS received approximately 86% 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' operations and activities.

Concentration of Credit Risk

GACS maintains all its accounts with one bank. 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 exceeded insured deposit amounts.

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. Additional extensions were granted at the discretion of the Government of Guam. The current MOA is set to expire on June 2019 and was subsequently renewed.

Management of the Guahan Academy Charter School, in FY2018 recorded the fair rental market value of the premises at \$52,948 per month or \$635,380 per year based on comparable rents in the immediate area. This balance increased effective FY 2019 due to an additional building being utilized in that year.

Retirement Savings Plan

In February 2018, due to the reduction of the FY18 appropriation and the resulting impact on GACS, management decided to suspend the employer contributions to the retirement plan.

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.

**GUAHAN ACADEMY CHARTER SCHOOL, INC.
(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)**

**Management's Discussion and Analysis
Year Ended September 30, 2018**

Long-Term Debt and Accounts Payable

Note payable of \$320,691, plus the outstanding vendor payables of \$2,842,481, total of \$3,163,172 are now part of the FY19 and FY20 prior year obligations that GACS can submit to DOA for payment validation. This is in reference to the below Public Laws:

PL. 35-29 (FY19), Pg 6(10)

- 8 “(f) All Fiscal Year 2019 funds appropriated to the Charter School
9 *may be used to pay prior year obligations.”*

PL. 35-36 (FY20), Pg 20(25)

- 3 **Section 4.** All Fiscal Year 2020 funds appropriated to the Guam Academy
4 Charter School Fund may be used to support the payment of prior year obligations.

Subsequent Events

GACS management evaluated subsequent events after September 30, 2018, for potential recognition or disclosure in the financial statements for the year September 30, 2018. In July and September of 2019, GACS obtained Legislative approval to pay prior year obligations, as per P.L. 35-29 dated July 19, 2019 and P.L. 35-36 dated September 4, 2019 and mentioned in the Long-Term Debt and Accounts Payable section.

Subsequent to September 30, 2018, GACS has resolved two major vendor liabilities through settlement. Settlement discussion are ongoing to resolve the third major vendor liability.

Under the Covid-19 Cares Act, GACS received a PPP loan. GACS is awaiting final forgiveness of the loan and expects that this matter will be resolved during its fiscal year 2021.

Capital Improvements – Proposed Plan

The proposed facility expansion plan is intended to consolidate GACS'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.

Economic Outlook

As per P.L. 34-116, for fiscal year 2019 budget, GACS was granted the maximum number of students of 740, but at a reduced pupil rate amount of \$6,088. This resulted in a financial negative impact by the end of the fiscal year.

Currently, GACS is occupying the Tiyan Buildings C and D. This is for grades K to 12. After SY2017-2018, the secondary levels were transferred to Buildings C and D.

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

Net Assets/Statement of Net Position
September 30, 2018

	<u>General Fund</u>	<u>Adjustments (Note 2)</u>	<u>Statement of Net Position</u>
<u>ASSETS</u>			
Cash	\$ 44,473	\$ -	\$ 44,473
Accounts receivables	282,631	-	282,631
Other assets	7,320	-	7,320
Property and equipment, net	<u>-</u>	<u>2,203,304</u>	<u>2,203,304</u>
 Total assets	 <u>\$ 334,424</u>	 <u>\$ 2,203,304</u>	 <u>\$ 2,537,728</u>
 <u>Liabilities and Net Assets/Net Position</u>			
Short-term debt	\$ 320,691	\$ -	\$ 320,691
Accounts payable	3,001,085	-	3,001,085
Accrued expenses	<u>91,185</u>	<u>-</u>	<u>91,185</u>
 Total liabilities	 <u>3,412,961</u>	 <u>-</u>	 <u>3,412,961</u>
 Commitments and contingencies			
 Net Assets:			
Unrestricted (deficit)	<u>(3,078,537)</u>	<u>3,078,537</u>	<u>-</u>
 Total net assets	 <u>(3,078,537)</u>	 <u>3,078,537</u>	 <u>-</u>
 Total liabilities and net assets	 <u>\$ 334,424</u>		 3,412,961
 Net position:			
Net investment in capital assets		2,203,304	2,203,304
Unrestricted		<u>(3,078,537)</u>	<u>(3,078,537)</u>
Total net position		<u>\$ (875,233)</u>	<u>(875,233)</u>
 Total liabilities and net position			 <u>\$ 2,537,728</u>

See accompanying notes to financial statements.

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

Statement of Governmental Fund Revenues, Expenditures and
Changes in Fund Balance/Statement of Changes in Net Position
Year Ended September 30, 2018

	General Fund	Adjustments (Note 2)	Statement of Net Position
Revenues:			
Per pupil allocations	\$ 4,475,394	\$ -	\$ 4,475,394
In-kind contributions	-	635,380	635,380
Grants	120,169	-	120,169
Student meals	11,345	-	11,345
Other	84,513	-	84,513
	<u>4,691,421</u>	<u>635,380</u>	<u>5,326,801</u>
Total revenues			
	<u>4,691,421</u>	<u>635,380</u>	<u>5,326,801</u>
Operating expenses:			
Total operating expenses	4,048,258	531,748	4,580,006
Impairment loss	-	3,055,804	3,055,804
	<u>4,048,258</u>	<u>3,587,552</u>	<u>7,635,810</u>
Total operating expenses			
	<u>4,048,258</u>	<u>3,587,552</u>	<u>7,635,810</u>
Change in net assets	643,163	(2,952,172)	(2,309,009)
Change in net position	-	(2,952,172)	-
Net position at the beginning of the year	(3,721,700)	5,155,476	1,433,776
Net position at the end of the year	<u>\$ (3,078,537)</u>	<u>\$ 2,203,304</u>	<u>\$ (875,233)</u>

See accompanying notes to financial statements.

**GUAHAN ACADEMY CHARTER SCHOOL, INC.
(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)**

Notes to Financial Statements
September 30, 2018

(1) Organization

Guahan Academy Charter School, Inc. (the Academy or GACS), a component unit of the Government of Guam, is currently 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 (NIFI) 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.

(2) Summary of Significant Accounting Policies

The accompanying basic financial statements of the Academy have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles.

Government-wide and Fund Financial Statements

Government-wide Financial Statements:

The Statement of Net Position presents the Academy's non-fiduciary assets and deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference reported as net position. Net position is reported in three categories:

- Net investment in capital assets consist of capital assets, net of accumulated depreciation, plus construction or improvement of those assets.

**GUAHAN ACADEMY CHARTER SCHOOL, INC.
(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)**

Notes to Financial Statements
September 30, 2018

(2) Summary of Significant Accounting Policies, Continued

Government-wide and Fund Financial Statements, Continued

Government-wide Financial Statements, Continued:

- Restricted net position results when constraints placed on net position use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through enabling legislation.
- Unrestricted net position consists of net position, which does not meet the definition of the two preceding categories. Unrestricted net position often is designated, to indicate that management does not consider them to be available for general operations. They often have restrictions that are imposed by management, but can be removed or modified.

The Statement of Activities presents a comparison between direct expenses and program revenues for each program or function of the Academy's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function.

Program revenues include per pupil allocation from Government of Guam and other grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program is self-financing or draws from the general revenues of the Academy.

Fund Financial Statements:

The Academy uses one governmental fund to report on its financial position and results of operations. The operations of this fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures.

Separate financial statements are provided for governmental funds. The Academy presents a balance sheet and a statement of revenues, expenditures and changes in fund balances for its governmental fund. The ending fund balance on the balance sheet is then reconciled to the ending governmental net position.

Adjustments required to reconcile total governmental fund balance to net position of governmental activities in the Statement of Net Position are as follows:

Total fund deficit - governmental funds		\$ (3,078,537)
Add:		
Land	1,562,006	
Depreciable capital assets	884,129	
Accumulated depreciation	<u>(242,831)</u>	
		<u>2,203,304</u>
Total net deficit - governmental activities		\$ <u>(875,233)</u>

**GUAHAN ACADEMY CHARTER SCHOOL, INC.
(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)**

Notes to Financial Statements
September 30, 2018

(2) Summary of Significant Accounting Policies, Continued

Government-wide and Fund Financial Statements, Continued

Fund Financial Statements, Continued:

Adjustments required to reconcile net change in total governmental fund balance to change in net position of governmental activities in the Statement of Activities are as follows:

Net change in fund balance - governmental funds	\$ 643,163
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In kind contribution received from the Government of Guam, net of related expenses	-
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Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. For the current year, these amounts consist of:

Capital outlays, net	223,733	
Depreciation expense	(120,101)	
Impairment loss	<u>(3,055,804)</u>	
		<u>(2,952,172)</u>

Change in net position - governmental activities	\$ <u>(2,309,009)</u>
--	-----------------------

Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements account for the general governmental activities of the Academy and are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual; generally, when they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

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.

**GUAHAN ACADEMY CHARTER SCHOOL, INC.
(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)**

Notes to Financial Statements
September 30, 2018

(2) Summary of Significant Accounting Policies, Continued

Measurement Focus and Basis of Accounting, Continued

Budget

An annual appropriated budget has not been formally adopted on a legal basis or a basis consistent with GAAP. Accordingly, a budget to actual presentation is not required or presented.

Cash and Cash Equivalents

Custodial credit risk is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. The Academy does not have a deposit policy for custodial credit risk.

For purposes of the balance sheet/statement of net position, cash and cash equivalents is defined as cash on hand and cash held in demand accounts. As of September 30, 2018, the carrying amount of cash and cash equivalents was \$44,473 and the corresponding bank balance was \$38,655. All of the bank balances are maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance.

Receivables

Accounts receivable primarily represents due from the Government of Guam as of September 30, 2018. Management believes that all receivables are fully collectible, therefore, no provision for uncollectible accounts is recorded. As of September 30, 2018, the amounts due from the Government of Guam for reimbursable operating costs incurred and billed totaled \$272,163.

Capital Assets

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.

Estimated useful lives for depreciable assets are as follows:

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 of, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in the Statement of Changes in Net Position.

**GUAHAN ACADEMY CHARTER SCHOOL, INC.
(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)**

Notes to Financial Statements
September 30, 2018

(2) Summary of Significant Accounting Policies, Continued

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, 2018. Student enrollment is not to exceed 740 students during School Year 2017-2018.

GACS receives approximately 95% of its annual general fund revenue from the Government of Guam 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.

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.

Unexpended Grant Revenues

In the government-wide financial statements, unexpended grant revenue is recognized as a liability when cash, receivables or other assets are recorded prior to being earned. In the governmental fund financial statements, unexpended grant revenue represents monies received or revenues accrued which have not been earned or do not meet the "available" criterion for revenue recognition under the modified accrual basis of accounting. The unexpended grant revenue in the governmental fund has primarily resulted from grant funds received in advance of eligible expenditures.

Operating and Non-Operating Revenue and Expenses

Operating revenues and expenses generally result directly from GACS ongoing operations. Non-operating revenues and expenses result from capital and financing activities, costs and related recoveries from natural disasters, and certain other non-recurring income and expenses.

Income Taxes

The Academy is exempt from Guam income taxes under Section 501(c) (3) of the Guam Territorial Income Tax Laws.

**GUAHAN ACADEMY CHARTER SCHOOL, INC.
(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)**

Notes to Financial Statements
September 30, 2018

(2) Summary of Significant Accounting Policies, Continued

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.

Fund Balance

Governmental fund balances are classified as follows:

- Non-spendable - includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned - includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed.
- Unassigned includes negative fund balances in other governmental funds.

Restricted/committed amounts are spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this. In addition, committed, then assigned, and lastly unassigned amounts of unrestricted fund balance are expended in that order.

A formal minimum fund balance policy has not been adopted.

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results may differ from those estimates.

GUAHAN ACADEMY CHARTER SCHOOL, INC.
(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)

Notes to Financial Statements
September 30, 2018

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

During the year ended September 30, 2018, the Academy implemented the following pronouncements:

- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments.
- GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.
- GASB Statement No. 85, *Omnibus 2017*, which address practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits).
- GASB Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt.

The implementation of these statements did not have a material effect on the Academy's financial statements.

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset. The provisions in Statement No. 83 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in Statement No. 84 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

**GUAHAN ACADEMY CHARTER SCHOOL, INC.
(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)**

Notes to Financial Statements
September 30, 2018

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. The provisions in Statement No. 88 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The provisions in Statement No. 89 are effective for fiscal years beginning after December 15, 2019. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In August 2018, GASB issued Statement No. 90, *Majority Equity Interests – an Amendment of GASB Statements No. 14 and No. 61*, which improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and the relevance of financial statement information for certain component units. The provisions in Statement No. 90 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

(3) Capital Assets

Capital asset activity for the year ended September 30, 2018, was as follows:

	October 1, <u>2017</u>	<u>Additions</u>	<u>Transfers and</u> <u>Deletions</u>	September 30, <u>2018</u>
Depreciable capital assets:				
Computer and transportation equipment	\$ 176,480	\$ 117,027	\$ -	\$ 293,507
Music instrument and sports equipment	18,421	-	-	18,421
Furniture, fixtures and equipment	24,634	547,567	-	572,201
	219,535	664,594	-	884,129
Less accumulated depreciation	(122,730)	(120,101)	-	(242,831)
	96,805	544,493	-	641,298
Land	1,640,853	-	(78,847)	1,562,006
Construction in progress	3,417,818	-	(3,417,818)	-
	<u>\$ 5,155,476</u>	<u>\$ 544,493</u>	<u>\$ (3,496,665)</u>	<u>\$ 2,203,304</u>

GACS intended to construct a campus on Tiyan and entered into various construction and land and other purchase agreements to facilitate such construction. GACS was unable to obtain sufficient funding to allow the project to be completed by May 31, 2018, which was the seller's requirement. GACS abandoned its interest in the project under an oral agreement with the seller and incurred a related impairment expense of \$3,055,804 as of that date for its cost in the project.

**GUAHAN ACADEMY CHARTER SCHOOL, INC.
(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)**

Notes to Financial Statements
September 30, 2018

(4) 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 at no cost. The original 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, 2020. All extensions are at the discretion of the Government of Guam.

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 within a ninety-day notice. The office of the Governor of the Government of Guam estimates the fair rental market value of the premises and collateral equipment at \$635,380 per year base on comparable rents in the immediate area. The MOA allows GACS free use of certain collateral equipment, the current fair market value of which is considered immaterial to the accompanying financial statements. Additionally, the MOA requires that should GACS vacate the Tiyan premises, it must incur certain expenses to restore those premises. GACS, as of September 30, 2018, has estimated that \$89,000 is the attendant cost of vacating the Tiyan premises but given GACS current financial situation, it is not currently possible to predict if such costs will be incurred and therefore, given the materiality of this balance, it has not been recorded as an expense and as a liability in the accompanying financial statements.

(5) Retirement Savings Plan

A defined contribution 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 year ended September 30, 2018, GACS contributed \$25,697 to the plan, included in salaries and benefits expense as plan contributions ceased during the year.

(6) 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.
(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)**

Notes to Financial Statements
September 30, 2018

(6) 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, 2018, the remaining balance on the note payable was \$177,500. Additionally, related accounts payable of \$420,000 remain outstanding as of the same date.

Resolution of this matter has been forwarded to mediation as another party has claimed ownership of the subject land and resolution cannot occur until the ownership issue is resolved. Management currently expects that this matter may be resolved through mediation that is expected to be concluded during the year ending December 31, 2021, but as of September 30, 2018, continues to record the balance due as a current liability.

In June 2017, GACS entered into 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, 2018), unsecured, with all interest and unpaid principal due on September 7, 2017. The amount of principal of \$143,191 remains outstanding as of September 30, 2018. No change in the balance occurred during the year ended September 30, 2018. The amount of outstanding interest and penalties has not been recorded as management is of the opinion that such is immaterial to the accompanying financial statements. Subsequent to September 30, 2018, GACS repaid the debt.

Changes in short-term debt for the year ended September 30, 2018 are as follows:

	Balance at Beginning of Year	Additions	Deductions	Balance at End of Year
Note payable for land	\$ 712,500	\$ -	\$ 535,000	\$ 177,500
Bank debt	<u>143,190</u>	<u>1</u>	<u>-</u>	<u>143,191</u>
	<u>\$ 855,690</u>	<u>\$ 1</u>	<u>\$ 535,000</u>	<u>\$ 320,691</u>

(7) Risk Management

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Academy has elected to purchase commercial insurance coverage from independent third parties for the risks of loss to which it is exposed. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

**GUAHAN ACADEMY CHARTER SCHOOL, INC.
(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)**

Notes to Financial Statements
September 30, 2018

(8) Contingencies and Subsequent Events

Contingencies

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, 2018, current liabilities materially exceed current assets as GACS has been unable obtain long-term financing. Much of this deficiency is concentrated in three vendors who have sued or who have threatened to sue to obtain payment. Subsequent to September 30, 2018, GACS has resolved its liabilities to two of the vendors and has deposited cash with its attorney to fund the attendant settlements. Adjustments to reflect resolution of these liabilities will occur in the year in which such resolution occurred. Negotiations to resolve a liability to the third vendor are ongoing and GACS has set aside cash to fund what they believe will be the potential final settlement amount. However, resolution of this matter has yet to occur and the ultimate settlement may be outside of the balance of cash that has been provided for settlement. Any adjustments to reflect actual settlement of this liability will occur at the time resolution occurs. There is no certainty that this matter will be resolved without potential litigation and it is not possible to predict the ultimate outcome of this matter.

COVID-19

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommend containment and mitigation measures worldwide. On March 13, 2020, President Donald J. Trump declared a national emergency within the United States. In response to the national emergency declared by the U.S. President, on March 14, 2020, Governor Lourdes A. Leon Guerrero issued Executive Order 2020-03 declaring a state of emergency in response to COVID-19. Further, Executive Order 2020-04 ordered the closure of all non-essential Government of Guam offices, prohibited large gatherings, and restricted entry into Guam from countries with confirmed COVID-19 cases. As a result, schools and non-essential government agencies and businesses have closed. GACS has closed its offices to the public and has required all non-essential employees to work from home. On May 10, 2020, certain businesses and government agencies were allowed to reopen. While this matter is expected to negatively impact GACS's business, results of operations and financial position, the related financial impact cannot be reasonably estimated at this time.

PPP Loan

In the fiscal year ended September 30, 2020, GACS received a PPP loan and expects that forgiveness of the loan will occur during the year ended September 30, 2021.

Dependency of Government of Guam

GACS earns substantially all its revenues (95% for the year ended September 30, 2018) from a per pupil revenue assessment from the Government of Guam. Substantial changes in per pupil reimbursements will have an adverse impact on GACS ability to operate due to its funding dependency on the Government of Guam.

INDEPENDENT AUDITORS' 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

Board of Trustees
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 the governmental activities and the General Fund of the Guahan Academy Charter School, Inc. (the Academy) as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements, and have issued our report thereon dated May 18, 2021.

Internal Control Over Financial Reporting

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

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 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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, described in the accompanying Schedule of Findings and Questioned Costs as items 2018-001 through 2018-003 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Academy's financial statements are free of 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*.



The Academy's Responses

The Academy's response to the Findings identified in our audit is described in the accompanying Views of Responsible Officials. The Academy's 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Deloitte + Tatchell LLP". The signature is written in a cursive, stylized font.

May 18, 2021

**GUAHAN ACADEMY CHARTER SCHOOL, INC.
(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)**

**Schedule of Findings and Responses
Year Ended September 30, 2018**

Organization:

GACS must account for its operations in a two-pronged manner. As a non-profit organization, it is to comply with applicable non-profit accounting standards with respect to fund-raising revenues and donated in-kind contributions. As a governmental component unit, GACS must also comply with GASB requirements applicable to component units. GACS has not previously understood that it is a component unit and considered itself to be a non-profit. As a result of that uncertainty, GACS was unsure as to the specific requirements it must meet. GACS has added financial management and procurement resources and after consultations that occurred with respect to various matters during the fiscal year 2018 audit, GACS has initiated corrective action for matters cited in prior year audits. However, much of this corrective action occurred in the latter part of fiscal year 2019 and in 2020 during the on-going 2018 audit engagement. Below are key matters that we recommend be of focus by the Board and management.

2018-001 - Memorandum of Agreement (MOA):

Criteria, Condition, Cause, Effect and Recommendation: The MOA requires that an inventory of collateral equipment occur and that GACS assume financial responsibility for replacing lost or damaged items. The required inventory does not appear to have been undertaken during the term of the MOA and we recommend that this matter be addressed on an annual basis. Additionally, the MOA requires that certain costs be incurred by GACS when it vacates the premises governed by the MOA. Accounting principles require that GACS formulate an annual estimate of the cost to vacate and, if material, record that liability in its financial statements. GACS should annually formulate this estimate and, if material, record such in its financial statements. The collateral equipment represents an annual non-cash contribution that should be recorded in the GACS financial statements as donated services and lease expense. Without an accurate inventory, noncompliance with the agreement may result and an unnecessary liability may be incurred. We recommend that GACS confirm the estimated value of the annual use of the collateral equipment with the Government of Guam and consider recording that balance in its financial statements.

Views of Responsible Officials: GACS concurs with the finding and the Chair of the Audit Committee, Mr. Aristedes Erguiza, will be responsible for its implementation. This matter was corrected during the audit process and will be reflected in the fiscal year 2021 board minutes.

2018-002 - Parent Teacher Organization (PTO):

Criteria, Condition, Cause, Effect and Recommendation: A PTO operates on GACS premises and engages in fundraising activities. The PTO has not presented evidence that it is in good standing with the Department of Revenue and Taxation and therefore, GACS should reconsider authorizing this entity to operate until its legal standing and tax compliance is confirmed. If the PTO has previously engaged in fund raising, GACS should consider that the PTO has acted in an agent capacity and that the applicable receipts and expenses and unexpended cash be recorded in GACS financial statements.

Views of Responsible Officials: GACS concurs with the finding and the Chair of the Audit Committee, Mr. Aristedes Erguiza, will be responsible for its implementation, which is expected to be corrected in fiscal year 2021.

**GUAHAN ACADEMY CHARTER SCHOOL, INC.
(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)**

Schedule of Findings and Responses, Continued
Year Ended September 30, 2018

2018-003 - Fundraising Activities:

Criteria, Condition, Cause, Effect and Recommendation: Fundraising activities should be centrally approved to allow for adequate accounting to occur and to verify proposed fundraising controls. GACS staff appear to initiate fund raising activities without a central approval process. Given potential attendant liability concerns, GACS should consider a central fundraising approval process as part of its risk management activities.

Views of Responsible Officials: GACS concurs with the finding and the Chair of the Audit Committee, Mr. Aristedes Erquiza, will be responsible for its implementation, which is expected to be corrected in fiscal year 2021.