

**GUAHAN ACADEMY CHARTER SCHOOL, INC.
(A NONPROFIT CORPORATION)**

**INDEPENDENT AUDITORS' REPORT
AND
FINANCIAL STATEMENTS**

SEPTEMBER 30, 2016 AND 2015

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

Financial Statements

Years Ended October 31, 2016 and 2015

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CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Guahan Academy Charter School, Inc. (a nonprofit corporation), which comprise the statement of financial position for the year ended September 30, 2016, and the related statements of activities and cash flows for the year then ended, and the related notes to financial statements.

Management's Responsibility

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 the schedule that is free from material misstatement, whether due to fraud or error.

Auditors' 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 schedule is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedule. 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 schedule 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, 2016, and the changes in its net assets and its cash flows the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Guahan Academy Charter School Inc.'s 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 1, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The management discussion and analysis on pages 3 to 6 and the schedule of functional expenses on page 10 are 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
August 10, 2017

GUAHAN ACADEMY CHARTER SCHOOL, INC.
MANAGEMENT’S DISCUSSION AND ANALYSIS
Year Ended September 30, 2016

Guahan Academy Charter School (GACS) is a 501c3 non-profit organization in accordance to the U.S. Internal Revenue Code, as well as 1GCS §281702 and §281703. GACS was granted the initial charter school license under Guam Public Law 29-140 making it the longest running charter school on Guam.

GACS is mindful of its mission and continues faithfully to implement its academic program that meets the needs of a wide range of learners, including academically accelerated students, as well as those who are at-risk, that is: exceptional learners, children who are homeless, and English Language Learners.

The following Management’s Discussion and Analysis of the Guahan Academy Charter School activities and financial performance provides the reader with an introduction and overview to the financial statements for the fiscal year (FY) ended September 30, 2016, its 4th year of operation. This discussion and the notes thereto, which follows the section.

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.

FINANCIAL HIGHLIGHTS

GACS basic financial statements provide these insights into the results of this year’s operations.

- As of September 30, 2016, the School had net positions of \$316,067 and increase of 143.5% as compared to \$129,808 at September 30, 2015. The statement of net position presents information on all of the School’s assets, liabilities, and deferred inflows/outflows of resources, with the difference between the two reported as net position. Overtime, increases or decreases in net position may serve as a useful indicator of whether the financial position of the School is improving or deteriorating.
- The next section of the basic financial statements is the notes. The notes provide additional information that is essential to a full understanding of the financial data. The notes to the financial statements begin on pages 11 through 20 of this report.
- The School adopted an annual budget for all funds except the Non-Appropriated Funds (NAF). The School’s performance was measured using these budgets on a monthly basis, allowing changes in spending as needed to stay within the budget.
- The School applied for and was awarded several federal grants to assist with expenses of meeting the educational needs of children academically.

**GUAHAN ACADEMY CHARTER SCHOOL, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended September 30, 2016**

Our analysis in the table below focuses on the net position of the School's activities:

Financial Summary

The summary of the GACS of Net Positions at September 30, 2016 and 2015 is shown below:

| Statement of Financial Position Years Ended September 30, 2016 and 2015 | | | |
|----------------------------------------------------------------------------|---------------------|-------------------|-----------------------------------------------|
| | 2016 | 2015 | 2016 % Increase (Decrease) from 2015 |
| ASSETS | | | |
| Current Assets | | | |
| Cash | \$ 115,656 | \$ 160,117 | -27.77% |
| Accounts receivable | 371,642 | 508,362 | -26.89% |
| Prepaid expenses | 43,000 | - | 100.00% |
| Other assets | 7,320 | 7,320 | 0.00% |
| Total Current Assets | 537,618 | 675,799 | -20.45% |
| Property and equipment, net | 1,796,852 | 50,744 | 3441.01% |
| | \$ 2,334,470 | \$ 726,543 | 221.31% |
| LIABILITIES AND NET ASSETS | | | |
| Current Liabilities | | | |
| Current portion of long-term debt | \$ 1,350,000 | \$ - | 100.00% |
| Accounts payable | 245,827 | 335,961 | -26.83% |
| Accrued expenses | 85,288 | 53,294 | 37.51% |
| Total current liabilities | 1,681,115 | 389,255 | 331.88% |
| Total Liabilities | 1,681,115 | 389,255 | |
| Commitments and contingencies | | | |
| Net assets | | | |
| Unrestricted | 653,355 | 337,288 | 93.71% |
| | \$ 2,334,470 | \$ 726,543 | 221.31% |

Property and Equipment

As of September 30, 2016, property and equipment net of accumulated depreciation totaled \$1,796,852, representing an increase of \$1,746,108 or 3,441.1% as compared to \$50,744 for fiscal year ending September 30, 2015. The major current year addition was \$1.5 million for the acquisition of land for the new school facility and approximately \$246,108 for the acquisition of computer hardware, software, furniture, fixtures and equipment. Assets are depreciated using the straight-line method over the course of their estimated useful life.

**GUAHAN ACADEMY CHARTER SCHOOL, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended September 30, 2016**

Revenues and Expenses

Below is summary of revenues and expenses for the years ended September 30, 2016 and 2015:

Statement of Activities
Years Ended September 30, 2016 and 2015

| | 2016 | 2015 | 2016 % Increase (Decrease) from 2015 |
|---------------------------------|-------------------|-------------------|--------------------------------------------|
| Revenues: | | | |
| Per pupil allocations | \$ 3,300,000 | \$ 3,348,026 | -1.43% |
| Grant revenue | 42,488 | 119,568 | -64.47% |
| Donations | 3,707 | 13,627 | -72.80% |
| Miscellaneous income | 1,140 | 39,813 | -97.14% |
| Extended learning | 33,883 | 26,013 | 30.26% |
| Student meal revenue | 16,060 | 12,890 | 24.59% |
| Fundraising | 22,358 | - | 100.00% |
| Total revenues | 3,419,636 | 3,559,937 | -3.94% |
| Operating expenses: | | | |
| Personnel | \$ 1,808,663 | \$ 1,833,450 | -1.35% |
| Benefits | 234,239 | 317,072 | -26.12% |
| Travel | 3,886 | 13,838 | -71.92% |
| Contractual services | 607,043 | 615,608 | -1.39% |
| Office space rental | 129,400 | 125,500 | 3.11% |
| Materials and supplies | 73,648 | 58,401 | 26.11% |
| Books/Online Res | (807) | 220,688 | -100.37% |
| Workmns Comp & Gen Laib | 19,149 | 11,562 | 65.62% |
| Drug testing | - | 729 | -100.00% |
| Miscellaneous expense | 78,546 | 85,466 | -8.10% |
| Power | 69,215 | 79,765 | -13.23% |
| Water | 8,711 | 6,946 | 25.41% |
| Telephone/Toll/Wifi/Svc | 29,362 | 27,296 | 7.57% |
| Depreciation | 39,327 | 33,758 | 16.50% |
| Interest expense | - | 50 | -100.00% |
| Others | 3,187 | - | 100.00% |
| Total operating expenses | 3,103,569 | 3,430,129 | -9.52% |
| Change in net assets | 316,067 | 129,808 | 143.49% |
| Net assets, beginning of year | 337,288 | 207,480 | 62.56% |
| Net assets, end of year | \$ 653,355 | \$ 337,288 | 93.71% |

Business-type activities:

The School received \$42,488 of federal reimbursement funds in fiscal year 2016, a decrease from fiscal year 2015.

**GUAHAN ACADEMY CHARTER SCHOOL, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended September 30, 2016**

Statement of Cash Flow

| Statements of Cash Flows | | |
|-------------------------------------------------------|-------------|------------|
| For the Years Ended September 31, 2016 and 2015 | | |
| | 2016 | 2015 |
| Cash flows from operating activities: | | |
| Change in net assets | \$ 316,067 | \$ 129,808 |
| Adjustments to reconcile change in net assets to | | |
| net cash provided by (used for) operating activities: | | |
| Depreciation | 37,327 | 33,758 |
| Decrease (Increase) in operating assets: | 93,720 | (463,709) |
| Increase (decrease) in operating liabilities: | (58,140) | 306,053 |
| Net cash provided by operating activities | 388,974 | 5,910 |
| Cash flows from investing activities: | | |
| Acquisition of fixed assets | (1,783,435) | 1,125 |
| Net cash used in investing activities | (1,783,435) | 1,125 |
| Cash flows from financing activities: | | |
| Proceeds from long-term debt | 1,500,000 | - |
| Repayment of long-term debt | (150,000) | - |
| Net cash used from financing activities | 1,350,000 | - |
| Net increase (decrease) in cash | (44,461) | 7,035 |
| Cash at beginning of year | 160,117 | 153,082 |
| Cash at end of year | \$ 115,656 | \$ 160,117 |

Capital Improvements

A proposed facility expansion plan is intended to consolidate the organization's facilities, minimize costs and expand enrollment capacity. The project will include a permanent headquarters to provide school facilities for up to 1,000 students, with requisite instruction, administration and support staff.

Request for Information

This report is designed to provide an overview of the School's finances for those with an interested in the area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Finance Officer, Guahan Academy Charter School, Post Office Box CS, Hagatna, Guam 96932, telephone (671) 734-1066.

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

Statements of Financial Position
September 30, 2016 and 2015

| <u>ASSETS</u> | <u>2016</u> | <u>2015</u> |
|-----------------------------------|---------------------|-------------------|
| Current assets: | | |
| Cash | \$ 115,656 | \$ 160,117 |
| Accounts receivable | 371,642 | 508,362 |
| Prepaid expenses | 43,000 | - |
| Other assets | <u>7,320</u> | <u>7,320</u> |
| Total current assets | 537,618 | 675,799 |
| Property and equipment, net | <u>1,796,852</u> | <u>50,744</u> |
| | <u>\$ 2,334,470</u> | <u>\$ 726,543</u> |
| <u>LIABILITIES AND NET ASSETS</u> | | |
| Current liabilities: | | |
| Current portion of long-term debt | \$ 1,350,000 | \$ - |
| Accounts payable | 245,827 | 335,961 |
| Accrued expenses | <u>85,288</u> | <u>53,294</u> |
| Total current liabilities | 1,681,115 | 389,255 |
| Long-term debt | <u>-</u> | <u>-</u> |
| Total liabilities | <u>1,681,115</u> | <u>-</u> |
| Commitments and contingencies | | |
| Net assets: | | |
| Unrestricted | <u>653,355</u> | <u>337,288</u> |
| | <u>\$ 2,334,470</u> | <u>\$ 726,543</u> |

See accompanying notes to financial statements.

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

Statements of Activities
Years Ended September 30, 2016 and 2015

| | 2016 | 2015 |
|-------------------------------|--------------|--------------|
| Revenues (Notes 2 and 3): | | |
| Per pupil allocations | \$ 3,300,000 | \$ 3,348,026 |
| Grant revenue | 42,488 | 119,568 |
| Extended learning | 33,883 | 26,013 |
| Fundraising | 22,358 | - |
| Student meal revenue | 16,060 | 12,890 |
| Donations | 3,707 | 13,627 |
| Miscellaneous | 1,140 | 39,813 |
| Total revenues | 3,419,636 | 3,559,937 |
| Operating expenses: | | |
| General and administrative | 654,632 | 358,356 |
| Program expenses | 2,399,695 | 3,030,086 |
| Depreciation | 39,327 | 33,758 |
| Fundraising | 9,915 | 7,929 |
| Total operating expenses | 3,103,569 | 3,430,129 |
| Change in net assets | 316,067 | 129,808 |
| Net assets, beginning of year | 337,288 | 207,480 |
| Net assets, end of year | \$ 653,355 | \$ 337,288 |

See accompanying notes and independent auditor's report.

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

Statements of Cash Flows
For the Years Ended September 31, 2016 and 2015

| | 2016 | 2015 |
|-----------------------------------------------------------------------------------------------------------|-------------|------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ 316,067 | \$ 129,808 |
| Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities: | | |
| Depreciation | 37,327 | 33,758 |
| Decrease (Increase) in operating assets: | | |
| Accounts receivable | 136,720 | (508,362) |
| Inventory | - | 44,653 |
| Prepaid expenses | (43,000) | |
| Increase (decrease) in operating liabilities: | | |
| Accounts payable | (90,134) | 314,624 |
| Accrued expenses | 31,994 | (8,571) |
| Net cash provided by operating activities | 388,974 | 5,910 |
| Cash flows from investing activities: | | |
| Acquisition of fixed assets | (1,783,435) | 1,125 |
| Proceeds from long-term debt | - | - |
| Net cash provided by (used for) investing activities | (1,783,435) | 1,125 |
| Cash flows from financing activities: | | |
| Proceeds from long-term debt | 1,500,000 | - |
| Repayment of long-term debt | (150,000) | - |
| Net cash provided by financing activities | 1,350,000 | - |
| Net increase (decrease) in cash | (44,461) | 7,035 |
| Cash at beginning of year | 160,117 | 153,082 |
| Cash at end of year | \$ 115,656 | \$ 160,117 |

See accompanying notes to financial statements.

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

Schedule of Functional Expenses
For the Year Ended December 31, 2016
(with comparative totals for the year ended December 31, 2015)

| | 2016 | | | | | |
|-------------------------|-------------------------------|---------------------|------------------|-----------------|---------------------|---------------------|
| | General and Administrative | Program Services | Depreciation | Fundraising | Total | 2015 |
| Salaries and benefits | \$ 253,689 | \$ 1,780,303 | \$ - | \$ - | \$ 2,033,992 | \$ 2,150,522 |
| Contractual services | 194,281 | 410,922 | - | - | 605,203 | 610,779 |
| Rent | 38,400 | 91,000 | - | - | 129,400 | 125,500 |
| Utilities | 21,458 | 85,830 | - | - | 107,288 | 114,007 |
| Supplies and materials | 41,202 | 31,640 | - | 8,080 | 80,922 | 61,162 |
| Depreciation | - | - | 39,327 | - | 39,327 | 33,758 |
| Board stipends | 28,860 | - | - | - | 28,860 | - |
| Insurance | 19,149 | - | - | - | 19,149 | 11,562 |
| Advertising expense | 7,785 | - | - | - | 7,785 | 8,546 |
| Travel | 3,886 | - | - | - | 3,886 | 13,838 |
| Fundraising | - | - | - | 1,835 | 1,835 | 5,168 |
| Repairs and maintenance | 363 | - | - | - | 363 | 4,830 |
| Textbooks and workbooks | - | - | - | - | - | 220,688 |
| Miscellaneous | 45,559 | - | - | - | 45,559 | 69,769 |
| | <u>\$ 654,632</u> | <u>\$ 2,399,695</u> | <u>\$ 39,327</u> | <u>\$ 9,915</u> | <u>\$ 3,103,569</u> | <u>\$ 3,430,129</u> |

See accompanying notes to financial statements.

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

Notes to Financial Statements
September 30, 2016 and 2015

(1) 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 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. GACS 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' 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, 2016 and 2015

(2) Summary of Significant Accounting Policies

A summary of GACS' significant accounting policies in the preparation of the accompanying financial statements 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.

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: unrestricted net assets, temporarily restricted net assets, and permanently restricted 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, 2015, 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. 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).

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

Notes to Financial Statements
September 30, 2016 and 2015

(2) Summary of Significant Accounting Policies, continued

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, 2016 and 2015. Management believes that all receivables are fully collectible; therefore, no provisions for uncollectible accounts were recorded. As of September 30, 2016 and 2015, the amounts due from the Guam Department of Education for reimbursable operating costs incurred and billed totaled \$371,642 and \$508,362, respectively.

Net Asset Classes

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 GACS 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, 2016 and 2015

(2) Summary of Significant Accounting Policies, continued

Use of Estimates

The preparation of the financial statements 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.

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, 2016 and 2015

(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 \$5,500 for the fiscal year ending September 30, 2016. Student enrollment is not to exceed 600 students during School Year 2015-2016. The number of enrolled students was multiplied by FY 2016 Government of Guam General Appropriations Act approved amount of \$5,500 per student enrollee. For the fiscal year ended September 30, 2016, the maximum of 600 students were enrolled in the Academy. As a result, GACS received \$3,300,000 in government appropriations for year ended September 30, 2016.

GUAHAN ACADEMY CHARTER SCHOOL, INC.
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Notes to Financial Statements
September 30, 2016 and 2015

(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 \$2,717 and \$109,568 in grant revenue from the AmeriCorps Program as of September 30, 2016 and 2015, 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 youth and adult tobacco use resulting in an increase in healthier environments and chosen 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, 2016, GACS received \$39,776 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.

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Notes to Financial Statements
September 30, 2016 and 2015

(2) Summary of Significant Accounting Policies, continued

Advertising and Marketing

For the fiscal year ending September 30, 2016 and 2015, GACS incurred advertising and marketing costs totaling \$7,785 and \$8,546. 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

For the years ended September 30, 2016 and 2015, GACS received approximately 96% and 94%, respectively, 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.

(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, 2016 and 2015

(5) Property and Equipment

The following is a summary of property and equipment at September 30, 2016 and 2015:

| | 2016 | 2015 |
|---------------------------------------|--------------|-----------|
| Computer and transportation equipment | \$ 97,055 | \$ 89,622 |
| Music instrument and sports equipment | 18,421 | 18,421 |
| Furniture, fixtures and equipment | 11,507 | 2,796 |
| | 126,983 | 110,839 |
| Less accumulated depreciation | (99,423) | (60,095) |
| | 27,560 | 50,744 |
| Land | 1,609,238 | - |
| Building | 160,054 | - |
| Capital assets, net | \$ 1,796,852 | \$ 50,744 |

GACS incurred costs intended for the construction of additional classrooms at the current campus facility and 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, 2016.

Depreciation expense for the years ended September 30, 2016 and 2015 was \$39,327 and \$33,758, respectively.

(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 \$9,915 and \$7,929 in fundraising costs as of September 30, 2016 and 2015, respectively.

(7) Functional Expenses

The natural classification of the 2016 functional expenses has been summarized in the accompanying statements of functional expenses on page 10 with comparative summarized totals for year ended September 30, 2015.

GUAHAN ACADEMY CHARTER SCHOOL, INC.
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(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. 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 by GACS. The Government of Guam may terminate or not extend 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 based on comparable rents in the immediate area.

The Guahan Academy Charter School would be adversely affected should use of the Tiyan Campus no rent agreement 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 the 90-day probationary period 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, 2016 and 2015, GACS contributed and \$69,931 and \$137,687, respectively, to the plan.

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Notes to Financial Statements
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(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) Long-Term Debt

On January 2, 2016, GACS signed a promissory note 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, in which GACS signed a promissory note to payable to a third-party.

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, 2016, the remaining balance on the note payable is \$1,350,000, which is expected to be financed upon obtaining bank financing.

(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.

For the years ended September 30, 2016 and 2015, rent expense was \$129,400 and \$125,500, respectively.

(13) Subsequent Events

GACS management evaluated subsequent events from October 1, 2016 through August 10, 2017 the date the financial statements were available to be issued, for potential recognition or disclosure in the financial statements for year September 30, 2016. GACS intends to obtain bank financing in FY 2017 through a loan of estimated \$14 million. GACS intends to pay for the remaining balance of the \$1,350,000 note payable for two land parcels and for the construction of the new campus to be built. As of September 30, 2016, GACS incurred costs of \$160,053 for the preparation and planning of the new campus.