LLM&D, PSC
165 Ponce de León Ave.,
Second Floor
San Juan, Puerto Rico
00917-1235

# ESCUELA CON CAUSA EPA-RCM, LLC

(Wholly owned subsidiary of Caras of the Americas)

Financial Statements

and

Independent Auditors' Report

From Inception to June 30, 2020

**LLM&D, PSC**
165 Ponce de León Ave.,
Second Floor
San Juan, Puerto Rico
00917-1235

# INDEPENDENT AUDITORS' REPORT

**The Board of Directors**
**ESCUELA CON CAUSA EPA-RCM, LLC**

We have audited the accompanying financial statements of Escuela Con Causa EPA-RCM, LLC (the School), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities and cash flows for the period from inception (August 3, 2019) to June 30, 2020, and the related notes to the financial statements.

## Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

## Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2020, and the changes in its net assets and cash flows for the period from inception (August 3, 2019) to June 30, 2020, in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**
As discussed in Note 3 to the financial statements, the funds received from the Commonwealth of Puerto Rico's Department of Education are not sufficient to cover the School's operating needs; therefore, the School depends on raising contributions from individuals and private foundations in order to complement the revenue necessary to meet its operating needs and obligations. There is no assurance that the School will be able to raise beyond the 2021-2022 academic year the private contributions necessary to cover any deficiencies from the Department of Education's annual funding. Our opinion is not modified with respect to this matter.

**Restriction on Use**
Our report is intended solely for the information and use of the School's management, board of directors and the Commonwealth of Puerto Rico's Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

November 23, 2020
San Juan, Puerto Rico

License No. 90
Expires on December 1st, 2022

**ESCUELA CON CAUSA EPA-RCM LLC**
STATEMENT OF FINANCIAL POSITION
June 30, 2020

| Assets | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| Current assets: | | | |
| Cash | $ 166,748 | $ - | $ 166,748 |
| Contributions receivable | 238,933 | - | 238,933 |
| Due from Caras of the Americas | 403,449 | 50,000 | 453,449 |
| Total assets | $ 809,130 | $ 50,000 | $ 859,130 |
| **Liabilities and Net Assets** | | | |
| Current liabilities: | | | |
| Accounts payable | $ 77,367 | $ - | $ 77,367 |
| Loan payable-Paycheck Protection Program | 175,000 | - | 175,000 |
| Due to Caras of the Americas | 139,078 | - | 139,078 |
| Total liabilities | 391,445 | - | 391,445 |
| Net assets: | | | |
| Without donor restrictions | 417,685 | - | 417,685 |
| With donor restrictions | - | 50,000 | 50,000 |
| Total net assets | 417,685 | 50,000 | 467,685 |
| Commitments and contingencies | | | |
| Total liabilities and net assets | $ 809,130 | $ 50,000 | $ 859,130 |


See Notes to Financial Statements

**ESCUELA CON CAUSA EPA-RCM LLC**

STATEMENT OF ACTIVITIES

Period from inception to June 30, 2020

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| **Revenue, gains and other support:** | | | |
| Public support from the Department of Education | $ 955,732 | $ - | $ 955,732 |
| Contributions: | | | |
| Individuals | 101,500 | - | 101,500 |
| Foundations | 774,174 | 50,000 | 824,174 |
| Nonfinancial assets | 277,205 | - | 277,205 |
| Total revenue, gains and support, net | 2,108,611 | 50,000 | 2,158,611 |
| **Expenses:** | | | |
| Program services: | | | |
| Education | 1,287,891 | - | 1,287,891 |
| Total program expenses | 1,287,891 | - | 1,287,891 |
| Support services: | | | |
| Management and general | 334,530 | - | 334,530 |
| Fundraising | 24,316 | - | 24,316 |
| Total supporting services expenses | 358,846 | - | 358,846 |
| Total expenses | 1,646,737 | - | 1,646,737 |
| Change in net assets before non operating revenue/(expenses) | 461,874 | 50,000 | 511,874 |
| **Non operating revenue/(expenses):** | | | |
| Deficit transfer from Caras of the Americas | (49,659) | - | (49,659) |
| Other income | 5,470 | - | 5,470 |
| Non operating expenses, net | (44,189) | - | (44,189) |
| Change in net assets | 417,685 | 50,000 | 467,685 |
| Net assets, beginning of the period | - | - | - |
| Net assets, end of the period | $ 417,685 | $ 50,000 | $ 467,685 |

**ESCUELA CON CAUSA EPA-RCM LLC**

STATEMENT OF CASH FLOWS

Period from inception to June 30, 2020

| | | |
|---|---|---|
| Cash flows from operating activities: | | |
| Change in net assets | $ | 467,685 |
| Adjustments to reconcile change in net assets to net cash flows used in operating activities: | | |
| Decrease / (increase) in assets: | | |
| Contributions receivable | | (238,933) |
| Due from Caras of the Americas | | (453,449) |
| (Decrease) / increase in liabilities: | | |
| Accounts payable | | 77,367 |
| Due to Caras of the Americas | | 139,078 |
| Net cash used in operating activities | | (8,252) |
| Cash flows from financing activities: | | |
| Proceeds from Paycheck Protection Program loan | | 175,000 |
| Net cash provided by financing activities | | 175,000 |
| Net increase in cash | | 166,748 |
| Cash, beginning of the period | | - |
| Cash, end of the period | $ | 166,748 |

## 1. Organization and Summary of Significant Accounting Policies

Escuela con Causa EPA-RCM LLC (the School) is a private nonprofit public benefit limited liability corporation incorporated on August 3, 2019, in San Juan, Puerto Rico under the laws of the Commonwealth of Puerto Rico (Commonwealth). The School was created by its parent company, Caras of the Americas (Caras), to operate a Grade 6 through Grade 12 public-school Rosalina C. Martinez (RCM), a school within the public education system of the Puerto Rico Department of Education (the Department), located in the Amelia community of Guaynabo. RCM is being operated by the School pursuant the Public Schools Alliance program (known as "Escuelas Publicas Alianzas" in Spanish) established by Act No. 85 of March 29, 2018 (Act No. 85-2018) as amended, known as the Act for the Educational Reform of Puerto Rico. Act No. 85-2018 established this alliance program which authorized the Secretary of the Department to approve and certify applications from eligible educational institutions, such as the School, to operate selected public schools under the alliance program and to supervise and monitor the operations of such schools by such certified educational institutions, among other duties and responsibilities established within the Act and related Regulations.

The operation and administration of RCM by the School is governed by a contract established with the Department containing a series of compliance requirements, as defined therein. The contract is effective for one year since its signing on August 20, 2019 through July 31, 2020; however, the contract could be renewed annually for up to five years. The contract (Constituent Letter) is effective for five years since its signing on August 20, 2019 through July 31, 2024; however, the economic clauses of the contract are effective for one year and renewed annually for up to five years. The School's first year of operation is the year ended June 30, 2020. The School's student population projected under the aforementioned contract would range between 315 students in its first year (fiscal year 2020) and 420 students for its fifth year (fiscal year 2024). At June 30, 2020, the student population at the School was of 297 students.

Regular employees from the Department who receive and accept an employment offer from the School will become employees of the School and the Department will grant them a two-year unpaid license for such employees. The School will guarantee such personnel the same salary scale and marginal benefits that they enjoyed at the Department at the moment of accepting the School's employment offer. Upon the end of the two-year license period, if the employees choose to stay as employees of the School, such employees will resign from the Department; however, the School will not be able to reduce such employees' salaries. The School did not hire regular employees from the Department.

The following is a summary of significant accounting policies followed by the School in the preparation of its financial statements:

### *a) Basis of Presentation*

The financial statements of the School are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as applicable to not-for-profit entities. In accordance with the Financial Accounting Standards Board's (FASB) Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, the School reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

- **Net assets without donor restrictions** - Net assets that are not subject to donor (or certain grantor) imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the organization's management and the board of directors. Funds designated by the Board of Directors for specific purposes, if any, are considered unrestricted as the Board may change such designations from time to time. There were no such designations made by the School's Board of Directors for the period from inception to June 30, 2020.

- **Net assets with donor restrictions** - Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature, such as those restrictions that will be met by the passage of time or other events specified by the donor. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. At June 30, 2020, the School had $50,000 of net assets with donor restrictions.

***b) Revenue and Support***

The School primarily receives funds from the Department determined based on the School's student population at a budget base rate per student pre-established by the Department. For period from inception to June 30, 2020, these funds were established at $955,732, which represents a budget base of approximately $3,000 per student. This School's primary revenue source is also being complemented with private individual and corporate contributions.

Revenue is reported as increases in unrestricted net assets unless the use of the related assets is restricted through donor-imposed restrictions. Expirations of restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed, if any) are reported as net assets released from restrictions in the statement of activities.

Contributions, including unconditional promises to give, are recorded as revenue in the year received. Contributions with donor-imposed restrictions that are met in the same year as received are reported as revenue of the net assets without donor restrictions. Conditional promises to give, that is, those with a measurable performance or other barrier and right of return, are not recognized until the conditions on which they depend have been met. Contributions of assets other than cash are recorded at their estimated fair value.

Gain and losses on investments, if any, and other assets and liabilities are reported as increases and decreases in unrestricted net assets unless the use is restricted by explicit donor stipulation imposed or by law.

The School may receive donated services or in-kind contributions of noncash assets which, if significant, are recognized as contribution revenue if any of the following criteria is met: a) they create or enhance a nonfinancial asset or b) they require specialized skills which are provided by individuals possessing those skills, and would typically need to be purchased by the School if they had not been provided by contribution. Donated services and in-kind contributions or donation of noncash assets are measured and recognized at their corresponding fair values. The School recognized contributed nonfinancial assets that included the use of School premises and contributed services of approximately, $120,000 and $157,205, respectively. Contributed services recognized comprise professional services from special education teachers paid by the Department.

The School may also conduct and host special activities and events (concerts, dinner galas, sports tournaments, among others), which could provide an ongoing portion of the School's support revenue for its programs. The School would report the revenue of such activities, net of its related costs in the accompanying statement of activities. No such activities were held or hosted by the School during the period from inception to June 30, 2020.

The School may also use from time to time volunteers or students to help in providing administrative support or in delivering program services. Such contributed services do not meet the criteria for recognition of donated services contained in generally accepted accounting principles and, accordingly, are not reflected in the accompanying financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606),* which would be applicable to the School effective July 1, 2019 (fiscal year 2020). This guidance outlines a single, comprehensive model for accounting for revenue from contracts with customers. Under this standard, revenue would be measured based on a consideration specified in a contract with a customer and would exclude any sales incentives and amounts collected on behalf of third parties, and would be recognized when a performance obligation is satisfied by transferring control over a product or service to a customer. As the School does not enter into any contract with its students; hence, does not charge any tuition fees; nor any other enrollment, infrastructure, technology or other fees, this standard had no applicability or effect on the School.

### *c) Functional Expenses*

The costs of educational and supporting activities have been summarized on a functional basis in the statement of activities. Note 6 of the financial statements presents those functional expenses among its natural classification. Salaries and payroll taxes are allocated based on employee's time spent on program or support activities. Expenses other than salaries and payroll taxes, which are not directly identifiable by program or support activities, are allocated based on the best estimates of management.

### *d) Cash and Cash Equivalents*

Cash is, from time to time, variously composed of cash on hand and cash in banks. The School considers all highly liquid investments with original maturities of three months or less at time of acquisition to be cash equivalents. As of June 30, 2020, there were no cash equivalents.

***e) Contributions Receivable***

Contributions receivable consist of unconditional promises to give that are expected to be collected in future years. Contributions receivable are reported as assets with donor restrictions unless explicit donor stipulations surrounding the pledge make clear the donor intended it to be used for activities of the current period. Contributions receivable after one year, if any, are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discounts, if any, is recorded as contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions is provided, if necessary, based upon management's judgment including such factors as collection history, type of contribution and nature of fund-raising activity.

***f) Property and Equipment***

Property and equipment with a useful life of more than a year and an acquisition cost of $2,000 or more will be capitalized and depreciated over its useful life using the straight-line method of depreciation. Capitalized property and equipment are stated at cost at the date of acquisition or fair value at the date of donation in the case of gifts. Maintenance and repairs are charged to expense, as well as additions, renewals and betterments not exceeding $2,000. When items of property and equipment are sold or retired, the related cost and accumulated amortization are removed from the accounts, and any gain or loss is included in income. For the period from inception to June 30, 2020 there were no items acquired over the capitalization threshold.

***g) Income Taxes***

The School is exempt from income taxes under Section 1101 of the Puerto Rico Internal Revenue Code of 2011. However, it is subject to income taxes from activities, if any, unrelated to its tax-exempt purpose. The School is also exempt from property taxes on property devoted to education.

GAAP provides accounting and disclosure guidance about positions taken by an entity in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken in its state exempt organization tax returns are more likely than not to be sustained upon examination. The Organization's returns are subject to examination by federal and state taxing authorities, generally for three years and four years, respectively, after they are filed.

***h) Advertising Costs***

Advertising costs are expensed as incurred. For the period from inception to June 30, 2020, advertising costs amounted to $357 and have been included within fund raising expenses in the accompanying statements of activities.

***i) Use of Estimates***

The preparation of the financial statements requires management of the School to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

***j) Recently Issued Accounting Standards***

On March 2019, the FASB issued ASU No. 2019-03, *Not-for-profit Entities: Updating the Definition of Collections.* The amendments in this update modify the definition of the term *collections* and require that a collection-holding entity disclose its policy for the use of proceeds from when collection items are deaccessioned (that is, removed from a collection). If a collection-holding entity has a policy that allows proceeds from deaccessioned collection items to be used for direct care, it should disclose its definition of *direct care.* Current GAAP states that an entity does not need to not recognize contributions of works of art, historical treasures, and similar assets if the donated items are added to collections and meet three conditions. One condition states that an entity must be subject to an organizational policy that requires that the proceeds from sales of collection items be used to acquire other items for collections. The amendments in this update modify that condition so that the proceeds to be used to support the direct care of existing collections can be also considered in addition to the current requirement that proceeds from sales of collection items be used to acquire other items for collections. The amendments in this update are effective for annual financial statements issued for fiscal years beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020. Early application of the amendments is permitted. The amendments in this Update should be applied on a prospective basis. The School does not expect that this update will have any applicability on the School's financial statements.

In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, *Leases* (Topic 842). Topic 842 requires a lessee to recognize a lease asset representing its right to use the underlying asset for the lease term, and a lease liability for the present value of payments to be made to lessor, on its statement of financial position for all leases greater than 12 months. In November 2019, the FASB issued ASU 2019-10, *Financial Instruments-Credit Losses, Derivatives and Hedging, and Leases,* which deferred the effective date of Topic 842 for the School until fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 31, 2021 (that is, for fiscal year 2022). In June 2020, the FASB issued ASU 2020-05, *Revenue from Contracts with Customers* (Topic 606) and *Leases (Topic 842),* which deferred again for one additional year the effective date of Topic 842 until fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 31, 2021 (that is, for fiscal year 2023). Although the full impact of this new guidance on the School's financial statements has not yet been determined, the future adoption of this guidance will require the School to record assets and liabilities on its statement of financial position relating to facility and other leases currently being accounted for as operating leases, as applicable.

## 2. <u>Related Party Transactions</u>

The School is a wholly owned subsidiary of Caras, a non-for-profit corporation incorporated under the laws of the District of Columbia, and dully registered and authorized to execute its functions and activities in Puerto Rico. Caras' mission is to promote community development to eradicate poverty through education, the environment and economic development together with the communities of Cataño and Guaynabo, Puerto Rico. As mentioned in Note 1, Caras created the School in order to operate the public-school RCM, a school within the public education system of the Department, located in the Amelia community of Guaynabo.

Caras has raised contributions through grants and donations from private foundations and individuals, which in turn are contributed to the School. These grants and donations are presented within contributions in the accompanying statement of activities. As of June 30, 2020, contributions raised for the School, deposited in Caras bank accounts as of June 30, 2020 (in the amount of $453,449), are presented within due from Caras in the accompanying statement of financial position. Before the School was incorporated, Caras incurred in start-up costs related to the School that were charged to the School by Caras through a deficit transfer presented in the accompanying statement of activities.

In the normal course of operations, Caras may provide from time to time advances or contributions to the School in order to assist the School in the operation of RCM. During the period from inception to June 30, 2020, Caras made an advance of $100,000. At June 30, 2020, the School has a balance due to Caras of $139,078, presented separately in the accompanying statement of financial position, which includes the aforementioned advance made by Caras and School expenses paid by Caras.

## 3. Availability and Liquidity

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

| | | |
|---|---|---|
| Financial assets at end of year: | | |
| Cash | $ | 166,748 |
| Contributions receivable | | 238,933 |
| Due from Caras of the Americas | | 403,449 |
| Financial assets available to meet general expenditures over the next twelve months | $ | 809,130 |

The funds received from the Department based on the rate per student pre-established are not sufficient to cover the School's operating needs; therefore, the School depends on raising contributions from individuals and private foundations in order to complement the revenue necessary to meet its operating needs and obligations. There is no assurance that the School will be able to raise beyond the 2021-2022 academic year the private contributions necessary to cover any deficiencies from the Department's annual funding. The School regularly monitors the liquidity required to meet its operating needs and other contractual commitments. For the next twelve (12) months following the date of these financial statements, the School anticipates collecting sufficient revenue to cover general expenditures, meet its operating needs and obligations.

## 4. Loan Payable

On May 2020, the School applied for and was approved a $175,000 loan under the Paycheck Protection Program created as part of the relief efforts related to COVID-19 and administered by the Small Business Administration. The loan accrues interest at 1%, but payments are not required to begin for six months after the funding of the loan. The School is eligible for loan forgiveness of up to 100% of the loan, upon meeting certain requirements. The loan is uncollateralized and is fully guaranteed by the Federal government.

Loan payable maturities as of June 30, 2020 are as follows:

| **Year ending June 30,** | |
|---|---|
| 2021 | $58,042 |
| 2022 | 116,958 |
| | $175,000 |

## 5. Net Assets

Net assets with donor restrictions are restricted for the following purposes as of June 30, 2020:

| | |
|---|---|
| Subject to expenditure for teacher development | $ 50,000 |

## 6. Functional Expenses

The table below presents the School's expenses by both their nature and function for the period from inception to June 30, 2020:

| | Program | Support | | |
|---|---|---|---|---|
| | Educational | Management and General | Fund Raising | Total |
| Salaries and payroll taxes | $ 911,273 | $ 228,181 | $ 18,988 | $ 1,158,442 |
| Professional services | 169,361 | 54,711 | - | 224,072 |
| Rent | 94,800 | 22,800 | 2,400 | 120,000 |
| Equipment and technology | 62,875 | 15,122 | 1,592 | 79,589 |
| Repairs and maintenance | 9,731 | 2,340 | 246 | 12,317 |
| Supplies | 10,632 | 2,557 | 269 | 13,458 |
| Insurance | 2,996 | 721 | 76 | 3,793 |
| Advertising costs | - | - | 357 | 357 |
| Mailing and printing | 12,990 | 3,124 | 329 | 16,443 |
| Other expenses | 13,233 | 4,974 | 59 | 18,266 |
| Total expenses | $ 1,287,891 | $ 334,530 | $ 24,316 | $ 1,646,737 |

## 7. Concentration of Credit Risk

The School maintains its cash balances with a financial institution insured by the Federal Deposit Insurance Corporation (FDIC). The accounts under FDIC jurisdiction are secured by the FDIC up to $250,000. Cash deposits in financial institutions insured by FDIC as of June 30, 2020 did not exceeded the federal insurance limit.

For the period ended June 30, 2020, the School had four donors whose contributions accounted for approximately 70% of the private cash contributions received by the School.

## 8. Commitments and Contingencies

### a) Compliance Requirements

Pursuant to the contract established with the Department for the operation and administration of RCM, the School shall meet certain compliance requirements, as defined therein, some of which include the following:

- The filing of annual operational reports, within sixty (60) days of the end of the school year, validating the compliance with the established school programs, certifications of teachers qualifications, personnel training requirements, community and students participation requirements, the timely filing of all reports required by Act No. 85-2018 and related regulations, the tax exempt status of the School, as applicable, among others.

- Maintaining an inventory identification system, and submitting a related inventory report, of all property and equipment acquired with both the Department's funds and with the School's own internal and privately raised funds.

- Complying with all laws, ordinances, regulations, rules and orders or requirements from the federal, state and municipal governments with respect to the use of public-school properties.

Management understands that the School has complied with the aforementioned requirements or equivalent amended or modified rules mutually agreed upon with the Department.

The School is also subject to an annual evaluation in conformity with the Performance Management Framework (known as MGD for its Spanish acronym), which measures and assigns certain key performance indicators in the School's academic, operational and financial performance. The Department has not performed the annual evaluation, as of the date of these financial statements.

As per the Constituent Letter, the Department is responsible for the School's physical plant including capital improvements. The current condition of the physical plant is not optimal, and it has been further deteriorated as a result of the recent earthquakes that have affected Puerto Rico during 2020. In this regard, the School's operation has been affected by the current conditions and without the necessary major repairs and capital improvement the School's operation and its academic services could be further affected.

As per the Constituent Letter (section 12), the per pupil rate assigned to the School could be subject to periodic revisions throughout the year. In this regard, the School's management received during 2019 three (3) communications from the Department indicating that the per pupil rate assigned for the fiscal year 2020 was under review and that the School could receive a favorable adjustment of $166,000 subject to final approval. While approved, this adjustment has not been accrued in the accompanying financial statements given that such adjustment is still pending final authorization through written consent. Such adjustment would be recognized at the moment such final authorization is executed through written consent.

**b) Contingencies**

The School has received public funds from the Department and is subject to the compliance requirements referred to in section a) above. Consequently, the School is subject to review, monitoring and audit by the Department. Although such audits and reviews could generate expenditure disallowances under the terms of the contract with the Department, management believes that the results of such review will not be material to the financial position of the School.

**c) Coronavirus Pandemic**

On March 11th, 2020, the World Health Organization declared the Coronavirus disease ("COVID-19") as a global pandemic. As a result of the health threat and to contain the virus spread across the island, the Governor issued executive order EO 2020-020, on March 12,2020, declaring a state of emergency in Puerto Rico to concentrate all efforts and implement necessary measures to safeguard the health, well-being and public safety of the citizens of Puerto Rico. The executive order authorizes the Commonwealth's Secretary of the Treasury and the Executive Director of the Puerto Rico Oversight Management Board to set up a special budget, from any available funds, including the Emergency Fund, to cover all necessary costs for the containment of the virus throughout the island and sharing information with the municipalities. Subsequent executive orders, including curfew directives and other protective measures have been issued in response to the COVID-19 spread. Also, economic stabilization measures have been implemented by both the Government of Puerto Rico and the U.S. Government to provide support and stimulus to frontline workers, educators and students, hospitals and small businesses, including individuals and businesses in Puerto Rico, in response to the economic distress caused by the COVID-19 pandemic. The School has followed the aforementioned Executive Orders prescribed by the Governor and, for the safety and well-being of the community, the campus was closed, and the School has continued the education of its students through distance learning. The School incurred in approximately $38,000 of expenses to set up its distant learning program.

## 9. Subsequent Events

The School has evaluated subsequent events from the balance sheet date through November 20, 2020, the date at which the financial statements were available to be issued. Management believes that the subsequent events disclosed below are intrinsically related to the financial statements of the School.

The contract's (Constituent Letter) economic clauses for fiscal year 2020-2021 have been agreed upon between the School and the Department and the School has continued the education of its students through distant learning.

The School has started the process to request loan forgiveness under the Paycheck Protection Program.