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Guahan Academy Charter School – FY 2017 Financial Highlights

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Hagåtña, Guam – The Office of Public Accountability (OPA) has released the Guahan Academy Charter School's (GACS) financial statements, report on compliance and internal control, management letter, and the auditor's communication with those charged with governance for fiscal year (FY) 2017.

GACS is a non-profit, public benefit organization. FY 2017 was the first year OPA has overseen GACS' financial audit. GACS has been audited since the charter school was established in 2014, but not in conformance with OPA's requirements. Title 1 Guam Code Annotated (GCA) §1909 states that the Public Auditor shall direct and supervise all financial and management audits conducted so that annual audits are completed for the prior fiscal year no later than June 30.

GACS closed FY 2017 with a cumulative net position of \$1.4 million (M). Independent auditors Burger, Comer, & Magliari, LLC rendered an unmodified (clean) opinion on GACS' financial statements. While GACS did receive a clean opinion on its financial statements, the independent auditors stated that due to GACS' liabilities exceeding its current assets, there is substantial doubt about GACS' ability to continue as a going concern. As stated in footnote 13:

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As of September 30, 2017, current liabilities exceed current assets by \$3.7M as GACS has been unable obtain long-term financing related to the purchase of the land (\$1.6M), leasehold improvements to the temporary facility (\$2.8M). Much of this deficiency is concentrated in five vendors related to the activities noted above. As a result, one lender has issued a notice of default, although no additional action has been taken to recover the debt. Because GACS did not have sufficient funds to pay all outstanding indebtedness, substantial doubt was raised about its ability to continue as a going concern.

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

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

This was the first year that independent auditors completed GACS' Report on Internal Control over Financial Reporting and Compliance. GACS is subject to Government of Guam Procurement Law and Regulations.

Subsequent Event Disclosure

A series of subsequent events were noted in footnote 14:

At the end of SY2018 GACS was evicted from the Tiyan campus due to lack of payment. Faced budget cuts. GACS halted all construction for the new campus. GACS is in the process of settling outstanding balances totaling \$1.2M due to vendors for the construction of the temporary classrooms. No legal action has been taken as of the date of this report.

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

On December 22, 2017, the federal government of the United States of America enacted and signed into law the Tax Cuts and Jobs Act (TCJA) of 2017. Subsequent to the passage of the TCJA, the governor of Guam issued a directive to all departments, agencies and instrumentalities to evaluate the negative impact the TCJA would have on the Government of Guam's general fund which is the primary source of funding for GACS. As a result, GACS FY 2018 budget was revised and reduced by \$417K or approximately 8.7% from \$4.8M to \$4.4M. GACS has not yet determined what effect the 2018 budget reduction will have on operations.

Revenues and Expenditures

In FY 2017, GACS reported approximately \$5M in revenues, a \$1.6M increase from the prior year of \$3.4M. Of the total revenues, approximately \$4.8M or 96% was from Government of Guam (GovGuam) appropriations, \$130K was from grant revenue, \$30K was from extended learning, \$33K was from student meal revenue, \$12K was from fundraising, and \$6K was received through donations.

GACS' operating expenditures increased by \$1.1M from \$3.1M in FY 2016 to \$4.2M in FY 2017. Program expenses comprised 71% of the total expenditures and increased by \$555K or 23%, going from \$2.4M in FY 2016 to \$3M in FY 2017. This increase was primarily due to salaries and benefits.

Additionally, general and administrative expenses comprised 29% of the total expenses and increased by \$558K or 85%, going from \$655K in FY 2016 to \$1.2M in FY 2017. This increase was comprised primarily of miscellaneous expenses, which amounts to \$513K or 42% of the total general and administrative expenses. The miscellaneous expenses consisted of (1) expensed items from capital improvement projects and items received through federal grants; (2) board and staff development; and (3) programs and activities.

In FY 2017, GACS' board held 146 board meetings altogether, with its seven board members receiving \$35K in board stipends. Additionally, GACS spent approximately \$47K on legal fees in FY 2017.

Student Enrollment and Achievements

GACS' enrollment was steady in School Years (SY) 2016 – 2017 and SY 2017 – 2018 with 740 students. GACS received \$5,500 per student in FY 2016, which increased to \$6,500 per student in FY 2017 pursuant to Public Law (P.L.) 33-185.

Pursuant to Title 17 GCA §12107(u), GACS shall initiate the process for accreditation within the first 120 days of opening and attain accreditation within five years of opening. In June 2017, GACS received accreditation candidacy from the Western Association of Schools and Colleges (WASC). In May 2018, WASC notified GACS that the school's candidacy for accreditation had been withheld due

to the loss of instructional days, temporary classrooms being nonconducive to learning, and lack of planning pertaining to budget constraints. However, the Guam Academy Charter School Council renewed GACS' charter.

Role of OPA

Pursuant to Title 1 GCA §1908 and §1909, the Public Auditor shall annually audit or cause to be conducted post audits of all the transactions and accounts of all departments, offices, corporations, authorities, and agencies in all of the branches of the government of Guam. In addition, Title 17 GCA §12107(n)(8) requires GACS to submit an annual report to the Guam Academy Charter School Council (the Council), the Superintendent of Education, the Guam Education Board, the Legislature, and the Governor. Such report shall contain an annual financial statement audited by the Public Auditor. Accordingly, OPA now oversees the financial audit process of GACS.

OPA met with the GACS in November 2017 to discuss the role of the OPA. OPA also met with the Council in January 2018 to discuss the role of the OPA in reference to the charter schools.

Report on Internal Control and Management Letter

The independent auditors found two significant deficiencies. In Finding No. 2017-01:

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

In Finding No. 2017-02:

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

In addition, independent auditors found one material weakness in that GACS' financial obligations exceed its budget. In Finding No. 2017-03:

P.L. 33-185 appropriated \$4.8M to GACS, of which \$4.76M was received during the fiscal year ended September 30, 2017.

GACS incurred and has outstanding liabilities approximating \$3.3M as September 30, 2017, of which, 88% or \$2.9M is payable to five (5) vendors relating the construction and related architectural and engineering costs incurred and acquisition of land for the proposed new campus. Alternative sources funds have not been identified to satisfy its outstanding liabilities.

In a separate management letter, eight deficiencies were identified involving: (1) lack of trained staff; (2) segregation of duties; (3) accounting policies and procedures; (4) general journal entries; (5) bank reconciliations; (6) fixed assets; (7) system backup and disaster recovery plan; and (8) board minutes.

For a more detailed discussion on GACS' operations, refer to the Management's Discussion and Analysis or view the reports in their entirety at our website at www.opaguam.org.