



OFFICE OF PUBLIC ACCOUNTABILITY

Suite 401 DNA Building, 238 Archbishop Flores Street, Hagatna, Guam 96910
Tel (671) 475-0390 · Fax (671) 472-7951 · Hotline: 47AUDIT (472-8348)
www.opaguam.org

Guahan Academy Charter School – FY 2017 Financial Highlights

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

The Guahan Academy Charter School (GACS) is a non-profit, public benefit organization. Fiscal Year (FY) 2017 was the first year the Office of Public Accountability (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. 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. 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.

Revenues and Expenditures

In FY 2017, GACS reported approximately \$5 million (M) in revenues, a \$1.5M increase from the prior year of \$3.4M. Of the total revenues, approximately \$4.76M or 96% was from Government of Guam (GovGuam) appropriations, \$130 thousand (K) 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 due 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 7 board members receiving \$35K in board stipends. Additionally, GACS spent approximately \$47K on legal fees in FY 2017.

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.

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 33-185.

Pursuant to Title 17 of the Guam Code Annotated (GCA) §12107(u), GACS shall initiate the process for accreditation within the first 120 days of opening and attain accreditation within 5 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 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, 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.

Subsequent Event Disclosure

In December 2017, the United States federal government enacted and signed into law the Tax Cuts and Jobs Act (TCJA) of 2017. Subsequent to the passage of TCJA, the Governor of Guam issued a directive to all GovGuam agencies to evaluate the negative impact TCJA will have on GovGuam. As a result, GACS' FY 2018 budget was reduced by 8.7% or \$400K, from \$4.8M to \$4.4M.

In February 2018, GACS was given an eviction notice from their Tiyan campus due to lack of payment of rent amounting to \$245K. GACS was given until the end of the school year to vacate the premises. GACS is in the process of settling outstanding balances of \$1.2M to vendors for the construction of the temporary classrooms at the Tiyan Campus.

Report on Internal Control and Management Letter

The independent auditors found three material weaknesses: (1) GACS' expenditures were not made in accordance with the Guam Procurement Law for its procurement of goods, services, and construction contracts; and (2) GACS' financial obligations exceed its budget. In addition, independent auditors found one significant deficiency in that GACS personnel involved in the procurement process have not received the procurement training and mandatory certification as authorized by law.

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.