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Science is Fun and Awesome Learning Academy Charter School – FY 2021 Financial Highlights

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Science is Fun and Awesome Learning Academy Charter School (SiFA) continues to end the fiscal year (FY) in a deficit net position. SiFA ended FY 2021 in a deficit net position of \$1.4 million (M), an improvement of \$1.2M from the FY 2020 deficit of \$2.6M. While external auditors Ernst & Young LLP (EY) rendered an unmodified (“clean”) opinion on the financial statements, they emphasized SiFA’s ability to continue its operations that is materially affected by the Partnership for Learning Support in Education Through Lease, Utilities, Supplies, and Services (PLEASE) contract. EY noted two management letter comments but found no deficiencies in the internal controls and compliance with certain provisions of laws, regulations, contracts, and grant agreements.

Contractor Eagle Cost \$2.4M Annually

SiFA and contractor, Eagle Land Holdings, LLC (Eagle) entered into the PLEASE contract for five successive years expiring in June 2023. Per this contract, Eagle is the sole provider of the facility, equipment, utilities, services, and supplies to SiFA in exchange for a \$2.4M annual payment. Despite this, Eagle’s involvement in SiFA goes beyond the contract as Eagle’s Senior Vice President of Operations was SiFA’s interim Chief Operating Officer at one point. In FY 2021, Eagle’s President of Operations is a sibling of SiFA’s Chairwoman who holds voting rights. SiFA’s Board of Trustees determines if a conflict of interest exists.

In addition to paying for the PLEASE contract, SiFA periodically receives cash advances from Eagle. In FY 2021, Eagle advanced \$98K for medical insurance. SiFA records the cash advances as payment due to the contractor.

Total Revenues Increased, Total Expenses Decreased

SiFA’s total revenues of \$3.9M about doubled compared to FY 2020 of \$1.9M. The government of Guam (GovGuam) appropriation made up 80% of the total revenues at \$3.1M, while the Educational Stabilization Fund (ESF) Grant at \$219 thousand (K) contributed 6%. SiFA recorded the \$544K discount from the PLEASE contract as other income, which contributed 14% to the total revenues.

GovGuam appropriated \$2M, or \$6K per enrollee, in FY 2021 for 325 students. However, with the 346 enrollees in School Year (SY) 2020-2021, SiFA received an additional \$150 per pupil.

SiFA’s FY 2021 total expenses decreased by \$575K, or 18%, from \$3.3M in FY 2020 to \$2.7M. The payment for the PLEASE contract decreased by \$728K, or 30%, from \$2.4M in FY 2020. This continues to be SiFA’s largest expense. Salaries and wages were the second largest expense at \$904K, or 33%, of the total expenses, which increased by \$55K from \$848K in FY 2020.

In FY 2021, the unused school building space during SY 2020-2021 resulted in a discount that brought the PLEASE contract payment to \$1.7M. However, SiFA will pay the stated contract price up to the end of the contract, barring negotiation with the Eagle.

Related Party Obligation Expensive

Even though SiFA's total revenues were enough to cover expenses in FY 2021, its financial obligation under the PLEASE contract remains larger than its cash inflows. As a result, its net position will continue to stay in a deficit and substantially causes a concern for SiFA's ability to continue operating. At the time of this report, SiFA owed \$1.9M in the PLEASE contract plus \$98K in unpaid cash advance to Eagle.

Public Law 35-99 authorized SiFA to use unexpended funds to pay prior year obligations. SiFA requested an additional \$1.1M to pay the remaining obligations under the PLEASE contract. Even with GovGuam approving prior fiscal year appropriations to cover past obligations, the annual payment alone to the contractor is expensive. SiFA plans to renegotiate the PLEASE contract, request to forgive past debts, and seek additional funding from the legislature, grants, and local businesses to provide sufficient cash flows for operations.

Management Letter

Independent auditors did not identify any material weaknesses or significant deficiencies in SiFA's internal control over financial reporting and compliance. However, they noted two issues in a separate management letter: (1) excluding three individuals in the employee listing managed by the Human Resource Department; and (2) not receiving reports for four supplies and materials. Independent auditors recommended completing a periodic review of employee listing and preparing receiving reports for all supplies and materials received.

For more details on SiFA's operations, see the Management's Discussion and Analysis in the audit report at www.opaguam.org and www.sifalacs.com.