

**GUAM DEPARTMENT OF EDUCATION**

**(A LINE AGENCY OF THE  
GOVERNMENT OF GUAM)**

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**FINANCIAL STATEMENTS,  
ADDITIONAL INFORMATION AND  
INDEPENDENT AUDITORS' REPORT**

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**YEAR ENDED SEPTEMBER 30, 2014**

## GUAM DEPARTMENT OF EDUCATION

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## INDEPENDENT AUDITORS' REPORT

Mr. Jon Fernandez  
Superintendent  
Guam Department of Education

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Guam Department of Education (GDOE), a line agency of the Government of Guam (GovGuam), as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise GDOE's basic financial statements as set forth in Section III of the forgoing table of contents.

### ***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 opinions 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 opinions.

## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund information of the Guam Department of Education as of September 30, 2014, and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter - Reporting Entity***

As discussed in Note 1A, the financial statements of GDOE are intended to present the financial position and the changes in financial position of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of GovGuam that is attributable to the transactions of GDOE. They do not purport to, and do not, present fairly the financial position of GovGuam as of September 30, 2014 and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require the Management's Discussion and Analysis on pages 4 through 14, the Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund and notes thereto, on pages 41 and 42, and the Schedule of Funding Progress – Post-Employment Benefits Other than Pension, on page 43 be presented to supplement the basic financial statements. Such information, although are not a part of the basic financial statements, is required by the GASB who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the Management's Discussion and Analysis on pages 4 through 14, and the Schedule of Funding Progress – Post-Employment Benefits Other than Pension, on page 43, in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information, comparing the information for consistency with management's responses to our inquiries of the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund and notes thereto, on pages 41 and 42, were 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 Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund and notes thereto, on pages 41 and 42 are fairly stated in all material respects in relation to the basic financial statements as a whole.

#### *Other Information*

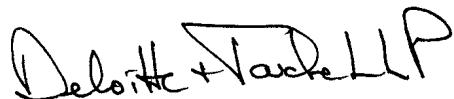
Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise GDOE's basic financial statements. The Other Supplementary Information, as set forth in Section V of the foregoing table of contents, is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Other Supplementary Information is the responsibility of management. The additional information on pages 45 to 53 were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental combining schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The information on page 54 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

#### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 29, 2015, on our consideration of GDOE's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering GDOE's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Deloitte & Touche LLP". The signature is fluid and cursive, with "Deloitte" on the left, "amp" in the middle, and "Touche LLP" on the right.

April 29, 2015

## GUAM DEPARTMENT OF EDUCATION

Management's Discussion and Analysis  
Year Ended September 30, 2014

### **INTRODUCTION**

The following Management's Discussion and Analysis (MD&A) provides an overview of the financial activities of the Guam Department of Education (GDOE), a semi-autonomous agency within the Government of Guam (GovGuam), primarily funded through the General Fund. GDOE is governed by policies established by the Guam Education Board (GEB), comprised of a combination of elected and appointed board members, and is headed by the Superintendent of Education whom is selected by the GEB. GDOE is a single unified school district (Kindergarten thru Grade 12) that serves just over 31,000 students and operates 26 elementary schools, eight middle schools, six high schools, and an alternative education program as well as Head Start and pre-Kindergarten GATE (Gifted and Talented Education) programs.

The MD&A is a requirement of the Governmental Accounting Standard Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued in June 1999. Statement No. 34 contains significant requirements that enhance financial reporting. These requirements are also designed to make annual reports easier for the public to understand and more useful to stakeholders. Specifically, Statement No. 34 establishes reporting requirements that include financial statements, expanded disclosure, and supplemental information, including the MD&A.

This discussion has been prepared by GDOE management to provide an overview of the Department's financial activities for the fiscal year (FY) ended September 30, 2014. It is based on the financial statements provided in the annual audit report. Comparable financial data from the prior year is also provided. GDOE's department-wide financial statements are composed of a Statement of Net Position and a Statement of Activities, plus certain required supplementary and other supplementary information:

- *The Statement of Net Position* presents information on GDOE non-fiduciary assets and liabilities with the resulting difference being reported as net position. Net position is reported in three categories: Net investment in capital assets, Restricted and Unrestricted.
- *The Statement of Activities* presents information demonstrating the degree to which the direct expense of a given function or segment is offset by program revenues.
- *The Notes to the Financial Statements* provide information that is essential to the full understanding of the data provided in the financial statements.
- *The Other Supplementary Information* is provided for additional analysis of the financial statements.

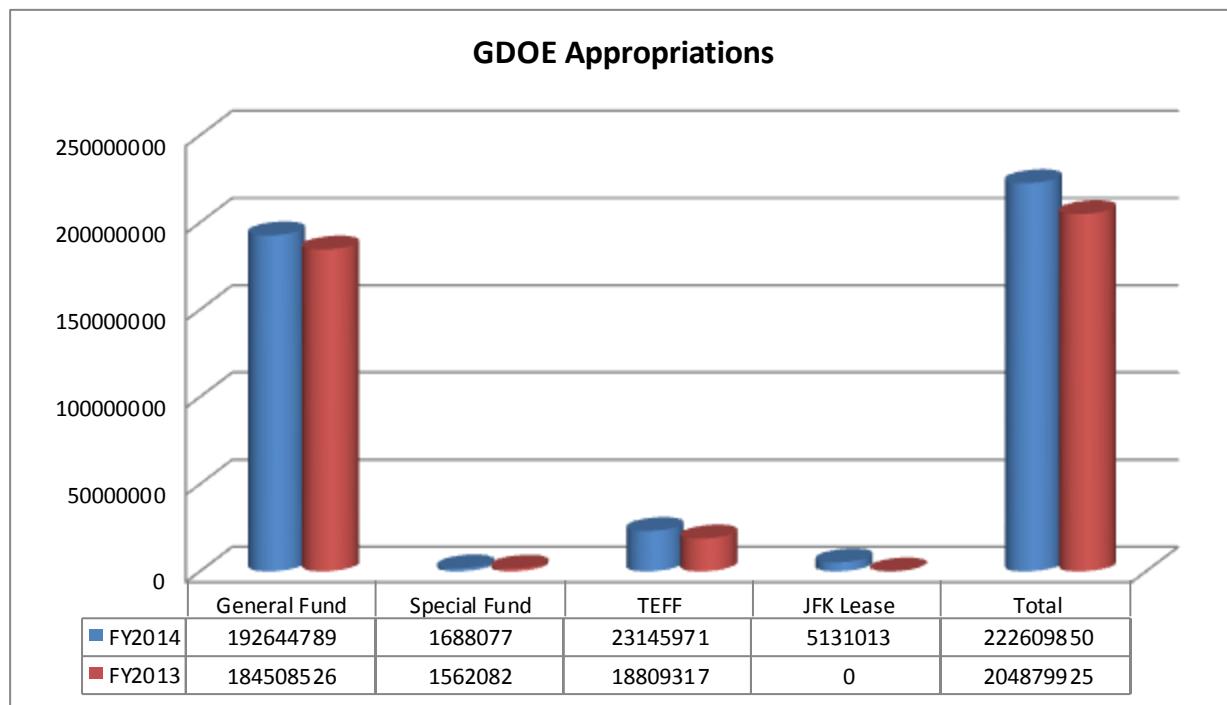
The MD&A should be read in conjunction with GDOE's basic financial statements and related notes to enhance understanding of the Department's financial performance. Additionally, the completion of the 2014 Single Audit represents GDOE's commitment to, and support of, programmatic and financial accountability.

## GUAM DEPARTMENT OF EDUCATION

### Management's Discussion and Analysis Year Ended September 30, 2014

#### **Local Appropriations**

Pursuant to Public Law (PL) 32-009, 32-63, 32-68, GDOE appropriations in FY14 totaled \$222,609,850, an overall increase of \$17.7 million (M) in comparison to FY13 appropriation levels. Of the \$17.7M increase, \$9.64M was for new spending authorization; \$2.29M was for incremental increases for reoccurring expenditures and existing programs; and \$657 thousand (K) in organic growth increases in the cost of personnel benefits and employee benefits.



The \$9.64M in new authorized spending included the following:

1. \$5.95M in capital outlay of \$1.70M for additional rent and annual maintenance for the completed Okkodo High School (OHS) Expansion, \$3.1M in anticipated bond proceeds for Simon Sanchez High School (SSHS) repair or replacement, \$800K for school security, and \$350K for the repair of George Washington High School Track (note that the SSHS repair/replacement and school security projects and related expenditures did not materialize in FY14);
2. \$2.61M to implement the GovGuam Competitive Wage Act; and
3. \$1.08M in funding under the Y Kuentan Salappe Prinsepat (Principal's Fund) under §10102 of Chapter 10, 17 of the Guam Code Annotated (GCA).

In FY14, \$5.1M was appropriated for the JFK Lease from the debt service appropriations and is not included in the table above.

## GUAM DEPARTMENT OF EDUCATION

### Management's Discussion and Analysis Year Ended September 30, 2014

Additionally, the FY13 and FY14 Budget Acts include \$10.3M in Federal reimbursements and \$875K in cash collections related to the National School Lunch and School Breakfast Programs which are also not reflected in the table above. The reimbursements are provided by the U.S. Department of Agriculture's Food and Nutrition Services for meals served to students and children who attend public schools.

Additional funding was provided for the Guam Public School Library Resource Fund (\$126K) and for the Chamorro Studies program (\$20K) and a \$2.1M increase for a full year of funding for the Guahan Academy Charter School.

However, the enactment of PL 32-120 in February 2014 amended and reassigned the \$1.7M appropriation for the annual Okkodo expansion payment for the construction of SSHS. PL 32-120 also amended and increased the \$3.1M appropriation to fund a general obligation bond to fund SSHS construction, to include its athletic facilities and other GDOE facility construction, rehabilitation or maintenance to \$3.2M. This funding appropriations had been tied to the real estate re-evaluation which did not occur in time for the Okkodo payment due in October 2013.

The \$1.6M in special fund appropriations was designated for interscholastic sports, health and physical education activities, and school libraries.

### **Federal Grants and Programs**

Annual federal grant funding decreased by nearly half a million dollars in FY14 as compared to FY13 in the following programs: Consolidated Grant to Insular Areas; Head Start; Special Education – Grants to States SPED Part B.

<u>FEDERAL GRANT AWARDS</u>	<u>FY14</u>	<u>FY13</u>	<u>Change</u>	<u>% Change</u>
Consolidated Grant	\$ 19,917,123	\$ 20,290,400	\$ (373,277)	-1.84%
Head Start	2,456,534	2,472,246	(15,712)	-0.64%
SPED Part B	13,962,402	14,098,659	(136,257)	-0.97%
SPED Part C	1,448,962	1,448,962	-	-

In FY2014, the following amounts were expended by GDOE through a variety of Federal grants, representing \$62.5M or 16% of total expenditures of \$397,669,960:

<u>Grantor</u>	<u>FY14 Amount</u>	<u>FY13 Amount</u>	<u>Change</u>
U.S. Department of Agriculture	\$ 11,104,268	\$ 10,757,631	\$ 346,637
U.S. Department of Education	39,977,646	47,490,836	(7,513,190)
U.S. Department of the Interior	7,706,841	8,407,155	(700,314)
U.S. Department of Health & Human Services	<u>2,720,063</u>	<u>2,536,353</u>	<u>183,710</u>
Federal Grants Assistance Fund Expenditures	61,508,818	69,191,975	(7,683,157)
U.S. Department of Defense	<u>1,015,697</u>	<u>368,549</u>	<u>647,148</u>
Total Federal Expenditures	<u>\$ 62,524,515</u>	<u>\$ 69,560,524</u>	<u>\$ (7,036,009)</u>

The decrease in expenditures (\$7M) in FY14 in comparison to FY13, largely occurred in grants received from the U.S. Department of Education (USDOE) due to the non-reauthorization of American Recovery and Reinvestment Act (ARRA) grants. USDOE ARRA related expenditures in FY13 totaled \$5.3M. USDOE Consolidated Grant expenditures decreased by \$2M between FY13 and FY14.

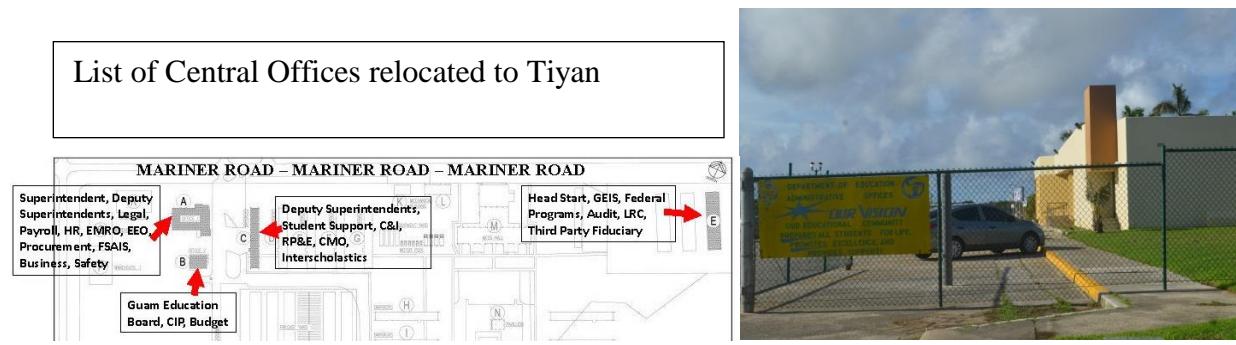
## GUAM DEPARTMENT OF EDUCATION

### Management's Discussion and Analysis Year Ended September 30, 2014

#### FISCAL YEAR 2014 OVERVIEW

Significant changes in curriculum and instruction standards, facilities and plant operations, employee compensation, as well as, the completion of a number of capital projects, impacted GDOE's overall expenditures and finances in FY14.

In December 2013, GovGuam had exercised its option to purchase the Tiyan properties for \$87.1M in the form of tax credits over a period of 25 years, which included the original school campus and the extended facilities, such as new office buildings, warehouses, a gymnasium, plus collateral equipment and land. This served as the impetus to open a new Tiyan High School and to relocate GDOE's central operations in Hagatna. Four office buildings, a storage warehouse, as well as, the Tiyan campus, which previously housed Untalan Middle School (UMS), were made available in June 2014.



Anticipating the completion (in the fourth quarter of FY14) of \$11M in renovations at UMS's Army Corps Drive Barrigada campus, and \$22.8M in new construction at Okkodo High School (OHS), the GEB approved a redistricting of attendance areas for high school students. The plan incorporated increasing the number of high schools from five to six by converting the Tiyan campus (vacated by UMS) to a high school. School Year (SY) 2014-15 enrollments at George Washington and John F. Kennedy (JFK) High Schools fell to under 2,000 students each, alleviating overcrowding in those schools.

In FY14, GDOE made its first annual lease payment (\$1.6M in additional rent, maintenance and insurance) for the completed expansion of OHS and its first lease to purchase payments in the form of tax credits for the new Tiyan High School and its central office facilities in Tiyan.

Shortfalls in unaudited actual collections (\$21.7M) versus projected revenues (\$27.2M) in the Territorial Educational Fund (TEFF) once again negatively impacted GDOE operations. The Bureau of Budget Management Research (BBMR) released \$5M less than GDOE's \$18.3M on appropriation in FY14 and \$8.3M less than GDOE's \$17.3M in FY13. This recurrence impacted cash flow throughout FY14 as the combined FY13 carryover and FY14 shortfall of \$13.3M slowed the filling of vacancies and resulted in long delays in payment of outstanding invoices.

Salaries and benefits, including retirement and healthcare benefits, represent a primary component of GDOE expenditures, accounting for \$217,430,061 or 54.6% of total (federal and local) expenditures in FY14. Eighty-five percent or \$184,467,340 is funded through local appropriations and \$32,962,721 funded through federal grants. In comparison to FY13, these expenditures increased by \$11.3M (\$9.9M local and \$1.4M federal).

## GUAM DEPARTMENT OF EDUCATION

### Management's Discussion and Analysis Year Ended September 30, 2014

By contrast, the number of GDOE employees decreased by 54, from 3,759 (pay period ended October 5, 2013) to 3,705 (pay period ended October 4, 2014). Note that this is a count of employees at a point in time and is a function of a number of factors including funding availability, program start dates, staff turnover and availability of applicants.

	Pay period ended <u>10/4/2014</u>	Pay period ended <u>10/5/2013</u>	<u>Change</u>
100% Locally Funded Employees	2,754	2,770	(16)
100% Federally Funded Employees	812	947	(135)
Locally/Federally Funded Employees	<u>139</u>	<u>42</u>	<u>97</u>
Total Employee Count	<u>3,705</u>	<u>3,759</u>	<u>(54)</u>

The number of federally funded employees decreased by 135, while the number of locally/federally funded employees increased by 97. Employees counted as locally/federally funded are primarily locally funded elementary teachers that also participate in the federally funded after-school program, ASPIRE.

Prior year accrued employee salary increments and merit bonuses, and the implementation of pay adjustments in employee salaries also served to put pressure on GDOE's cash position. GDOE carried forward nearly \$4M in prior year compensation payments mandated in FY13. While Executive Order (EO) 2011-014 placed a freeze on increments in October 2011, the freeze was lifted (EO2013-04) in May 2013. Subsequently, GDOE carried forward \$3.2M in FY13 outstanding increment to FY14.

Similarly, EO2013-05 in June 2013 ordered the payment of past due merit bonuses, promised compensation and civil service and court ordered legal claims; GDOE carried forward \$428K in outstanding prior year merit bonuses and \$362K in outstanding payments of compensation, civil service and court ordered claims. At the end of FY14, a small amount of new merit bonus claims remained outstanding.

The implementation of the GovGuam Competitive Wage Act (GGCWA) resulted in additional cash pressures, in spite of the \$2.6M appropriated to GDOE. In February 2014, Department of Administration (DOA) Circular 14-01 ordered the following GGCWA pay adjustments: 100% for teachers and 50% for classified non-teaching positions and unclassified employees. Adjustments for unclassified employees were rolled back under PL 32-136 and the 50% balance in retroactive salary adjustments for active employees in non-teaching positions were paid in August 2014. At the end of FY14, amounts due to inactive employees remained outstanding due to cash availability.

Although overall contractual expenditures declined by \$12M from FY13, the bulk of the decline was due to expiring federally funded contracts in the amount of \$11M. The cost of a number of critical contracts and services increased by nearly \$1.5M in FY14.

<b>CRITICAL CONTRACTS</b>	<b>FY14</b>	<b>FY13</b>	<b>Change</b>
Trash Collection	\$ 983,856	\$ 680,734	\$ 303,122
Accreditation	114,888	79,158	35,730
Food Management Services	12,843,898	12,855,823	(11,925)
Third Party Fiduciary Agent	3,611,442	2,596,557	1,014,885

## **GUAM DEPARTMENT OF EDUCATION**

### **Management's Discussion and Analysis Year Ended September 30, 2014**

Beginning SY 13-14 in August 2013, GDOE changed the ratio of outsourced cafeterias to GDOE operated from 34:6 to 36:4; and opted to operate 9 cafeterias as a Provision 2 school under the Child Nutrition Program (School Breakfast & National School Lunch programs), serving meals to all students at no charge. However, at the start of SY14-15 in August 2014, GDOE adjusted the ratio to 35 outsourced and 6 GDOE operated cafeterias to incorporate the new Tiyan High. GDOE also opted to increase the number of schools serving meals at no charge to students from 9 to 21 (14 elementary, 4 middle, and 3 high) schools under the federal CNP's Community Eligibility Program (CEP).

FY14 marked the second year GDOE incurred local expenditures associated with addressing its 'high risk' grantee status by the USDOE. Special Conditions issued by USDOE require financial management functions of USDOE grants to be supervised by the TPFA. USDOE Risk Management's visit, between July 2-8, 2014, confirmed continued improvement has been made and encouraged GDOE to consider a request to amend the Special Conditions. In FY15, transition plans are being developed between the TPFA and GDOE to determine what resources and activities are necessary should the requirement for the TPFA be reduced in scope or removed.

FY14 Utilities (power, water, telephone) overall accounted for 4% or \$16.9M in expenditures, an increase of \$330K as compared to FY13. From the onset of FY14, GDOE incurred new utility expenses, initially in its former Hagatna location and later in Tiyan, for its central office operations.

In September 2013, GDOE registered and established its Foundation for Public Education, Inc. a not-for-profit corporation authorized under the Foundation for Public Education Act of 2009 (PL 30-08). The foundation raised over \$8K in its inaugural GDOE Fun Run, using the proceeds to supplement supplies for participating schools.

Approximately \$565K from the \$2.8M grant in FY12 from the U.S. Department of the Interior (DOI) was reallocated in FY14 for equipment purchases for GDOE's campus playgrounds, physical education and science classrooms, cafeterias, and multimedia projectors for 4<sup>th</sup> and 5<sup>th</sup> Grade classrooms. Additionally, GDOE will receive \$2.8M in FY13 DOI funding, earmarked for furthering access and use of technology for students in the classroom.

In April 2014, the National Association of State Boards of Education (NASBE) awarded \$3,500 to the GEB for communications work on the Common Core State Standards (CCSS).

Twenty-one GDOE schools are accredited by the Western Association of Schools and Colleges (WASC). In the spring 2014, 12 of the 21 schools were visited by WASC teams and their individual accredited statuses were either affirmed or renewed. An accreditation plan has been developed to have all 41 GDOE schools accredited by 2018.

### **STATEMENT OF NET POSITION**

Net Position consists of current assets and capital assets, net of accumulated depreciation less both current and noncurrent liabilities. From FY2013 to FY2014, total assets increased by \$44.5M and total liabilities increased by \$71.6M.

## GUAM DEPARTMENT OF EDUCATION

### Management's Discussion and Analysis Year Ended September 30, 2014

#### Summary of Net Position

	<u>2014</u>	<u>2013</u>	<u>% Change</u>
<b>Assets:</b>			
Current assets	\$ 16,502,163	\$ 47,037,700	(64.9%)
Noncurrent assets	<u>371,462,973</u>	<u>296,437,037</u>	25.3%
Total assets	<u>\$ 387,965,136</u>	<u>\$ 343,474,737</u>	13.0%
<b>Liabilities:</b>			
Current liabilities	\$ 37,009,765	\$ 42,745,945	(13.4%)
Noncurrent liabilities	<u>196,959,763</u>	<u>119,615,402</u>	64.7%
Total liabilities	<u>233,969,528</u>	<u>162,361,347</u>	44.1%
<b>Net Position:</b>			
Invested in capital assets, net of related debt	180,179,172	177,727,037	1.4%
Restricted for CIP, technology, equipment projects	4,260,730	24,983,812	(82.6%)
Restricted for maintenance and insurance	1,500,000	2,371,667	(36.8%)
Unrestricted	<u>(31,944,294)</u>	<u>(23,969,126)</u>	33.3%
Total net position	<u>153,995,608</u>	<u>181,113,390</u>	(15.0%)
	<u>\$ 387,965,136</u>	<u>\$ 343,474,737</u>	13.0%

Adequate Education Trust (AET) expenditures of \$20.7M in FY14 resulted in concurrent reductions in restricted cash. Although receivables went down by \$6.4M between FY13 and FY14, FY14 cash reserves were minimal as funds were used to pay for expenditures that would have otherwise been covered by the TEFF shortage. Capital assets, net of accumulated depreciation, increased by \$75.3M from a combination of AET investments in school building, the Okkodo Expansion and Tiyan lease.

The \$77.3M increase in noncurrent liabilities related to the Okkodo Expansion and Tiyan lease were the primary drivers for the \$71.6M increase in total liabilities. Additionally, the GGCWA impacted the amounts of employee leave payable from \$10.6M in FY13 to \$14M in FY14.

#### **STATEMENT OF ACTIVITIES AND CHANGES IN NET POSITION**

The statement of activities and changes in net position represents revenues and expenses for the current fiscal year. The statement of activities and changes in net position reflects a decrease in net position of \$27.1M for FY14.

## GUAM DEPARTMENT OF EDUCATION

### Management's Discussion and Analysis Year Ended September 30, 2014

	<u>2014</u>	<u>2013</u>	<u>% Change</u>
<b>Revenues:</b>			
Appropriations	\$ 239,776,988	\$ 226,373,210	5.9%
Federal grants and contributions	54,629,762	62,100,353	(12.0%)
Cafeteria Sales	396,398	553,763	(28.4%)
Other	<u>835,928</u>	<u>1,380,266</u>	(39.4%)
Total revenues	<u>295,639,076</u>	<u>290,407,592</u>	1.8%
<b>Expenses:</b>			
Elementary education	78,467,598	72,157,347	8.8%
Secondary education	108,058,745	81,321,094	32.9%
Direct student support	67,653,078	76,990,830	(12.1%)
General administration	53,733,293	57,187,526	(6.0%)
Retiree healthcare benefits	8,267,264	8,077,260	2.4%
Tiyan operating lease	3,744,380	4,493,256	(16.7%)
Transfer to Guahan Charter Schools Fund	<u>2,832,500</u>	<u>687,500</u>	312.0%
Total expenses	<u>322,756,858</u>	<u>300,914,813</u>	7.3%
Change in net position	(27,117,782)	(10,507,221)	158.1%
Net position at beginning of year	<u>181,113,390</u>	<u>191,620,611</u>	(5.5%)
Net position at end of year	<u>\$ 153,995,608</u>	<u>\$ 181,113,390</u>	(15.0%)

The \$26.7M increase in expenses related to secondary education is primarily related to depreciation, interest, maintenance and insurance for the Okkodo High expansion, Tiyan High, and Untalan Middle Schools. Also of note is the \$2.1M increase in funding to the Guahan Academy Charter School as SY13-14 was the first full school year for the charter school.

The change in net position for FY14 is mainly due to expenditures from the AET bringing balances in the Trust from \$25M to \$4.3M. Additionally, GDOE did not receive \$5M in appropriations due to shortfalls in the Territorial Education Facilities Fund.

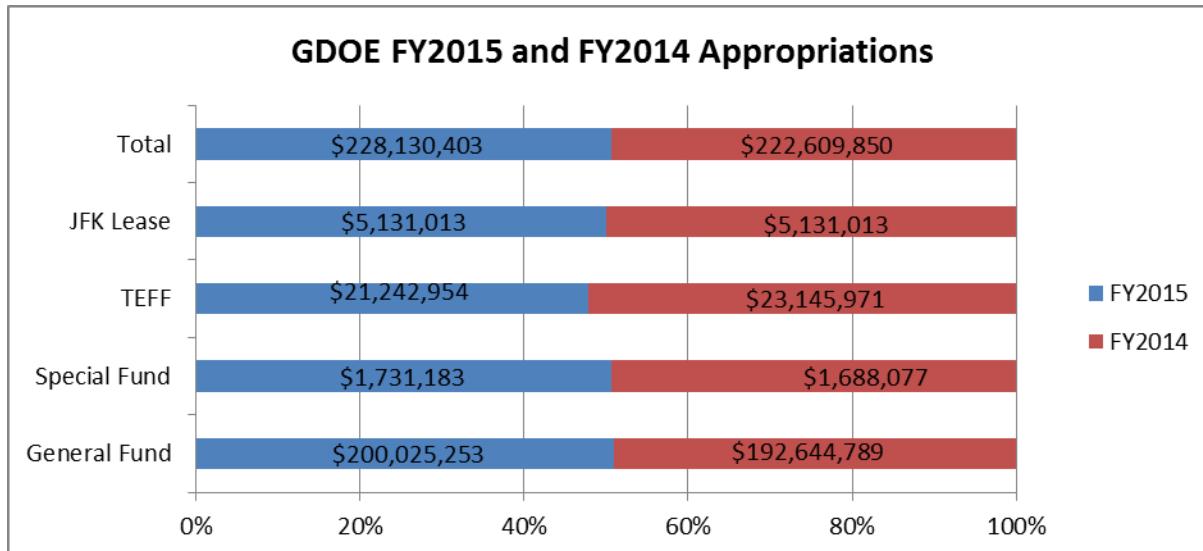
### ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Pursuant to the FY15 Budget Act (PL 32-181), General Fund revenues for FY15 are projected to increase approximately \$57M, from \$727M in FY14 to \$784M. BBMR Circular 15-01 imposed a 15% reserve on all executive branch agency appropriations; however, Section 16 Chapter XII of the FY15 Budget Act mandated only a 3% reserve (\$6.9M) be applied to GDOE.

FY15 appropriations (PL 32-181, 32-120, 32-219) for GDOE totaled \$228,130,403, a slight .11% or \$252K increase over FY14 appropriation levels. In December 2014, the FY15 Budget Act (PL 32-219) increased the capped allotment for the Guahan Academy Charter School (from \$2.86M to \$3.3M) and provided an additional capped authorization of \$1.97M for iLearn Charter School, totaling \$5.27M from GDOE's FY15 appropriations. With no increase in appropriation, the amendment effectively increased the budget for charter schools by \$2.4M and will negatively impact GDOE operations.

## GUAM DEPARTMENT OF EDUCATION

### Management's Discussion and Analysis Year Ended September 30, 2014



PL 32-181 also authorized (not included in the table above) \$2.5 million in tax credits for FY15 lease to purchase payments for the Tiyan properties on which Tiyan High and GDOE Central Offices are located. However, in November 2014, GovGuam executed an Amended and Restated Lease Purchase Agreement that requires monthly cash payments be made for base rent and additional rent (insurance and maintenance costs) due after January 2015.

The amendment allowed plans to move forward to construct a new GDOE office building; a new gymnasium to expand the Tiyan High School campus; and two warehouses. Construction on the gymnasium broke ground in February 2015 and is expected to be completed in time for the opening of the SY15-16. Meanwhile, GDOE anticipates the planned office building and warehouses to be constructed over the next 15 to 24 months and completed in the first quarter of FY2017.

Financing for the construction was authorized under provisions in local law that allow for school construction and facilities, including office space under lease lease back terms utilizing government properties. In the Tiyan case, the November 2014 amendments, essentially allows GDOE via GovGuam to lease the project sites and facilities from the developer.

In October 2014, the GEB adopted GDOE's state strategic plan '2020: A Clear Vision for Education on Guam' which will guide school improvements over the next five years. The plan also includes an initiative to obtain School District accreditation status for GDOE central operations. This will result in a continuous cycle of improvement of support services to our schools and hold the central office operations accountable to established standards.

GDOE anticipates WASC teams will conduct a total of 10 accreditation visits in spring 2015, resulting in four-newly-accredited schools (B.P. Carbullido Elementary, M.A. Ulloa Elementary, Ordot Chalan Pago Elementary, and Tiyan High Schools), and affirmed or renewal of accreditation statuses for the 6 others. The total number of accredited schools by the close of FY15 is expected to increase from 21 to 25 schools (11 out of 26 elementary; all 8 middle; and all 6 high schools).

In March 2015, GDOE upgraded its FMIS Munis system 9.4 to 10.5 version, with improvements largely on the functionality of modules and increased data integrity.

## **GUAM DEPARTMENT OF EDUCATION**

### **Management's Discussion and Analysis Year Ended September 30, 2014**

GDOE was awarded a total of \$2M in FY14 DOI funding, which will be used to offset anticipated and needed expenditures in school operations. In April 2015, Governor Eddie Baza Calvo signed a Memorandum of Understanding with the DOI Office of Insular Affairs (OIA) for Phase III of the Insular Assessment of Buildings and Classroom Initiative. The initiative sets aside \$1M of OIA Capital Improvement Project funds beginning in FY15 through FY18 to address deferred maintenance projects in GDOE schools. Additionally, technical support in the form of project management and oversight, facility planning, preparation of technical project requirements, facility inspections, training and capacity building, and an enterprise asset management system will be provided through the Army Corps of Engineers or its contractors.

A number of public laws (PL 32-229, 32-120, 32-121, 32-181) were enacted to address the renovation or rebuilding of SSHS as well as the deferred maintenance projects identified by the ABC assessment. The Department of Public Works is developing an RFP to provide \$100M to address SSHS, an update of GDOE's facilities master plan as well as the deferred maintenance projects. The lease lease back financing mechanism specified in PL-32-121 and PL 31-229 lends itself to whole school renovations.

The Secure our School Act, PL 32-009, was signed into law on April 2, 2013 and provided for the installation and maintenance of electronic or other security systems at all Guam public schools. The law mandated the GovGuam General Services Agency (GSA) to procure these services on behalf of GDOE. On February 24, 2015 GSA issued a Multistep Invitation for Bid GSA/DOE 030-15. Several amendments were issued pushing back the dates bids are due. As of this writing, bids are due May, 2015.

By FY15 year-end, GDOE anticipates the installation of ground-mounted solar panels at four GDOE leases schools – Okkodo High School, Astumbo Middle, Adacao Elementary, and Liguan Elementary – under a power purchase agreement authorized under PL 32-095. Solar power is also being considered for the JFK High School campus under a separate agreement with its leaseholder (CapFa). GDOE has been working with General Services Agency for more than a year on an Invitation for Bid for solar energy power purchase agreements for non-leased GDOE schools.

In August 2015 and beginning in SY15-16, GDOE plans to pilot a full-day Pre-Kindergarten Program (GEB Resolution 2014-08), adding at least one additional classroom in all four regions (Haya, Kattan, Luchan and Lagu districts) for at least 72 students. The four schools identified for the pilot program are: J.Q. San Miguel, Lyndon B. Johnson, Marcial Sablan, and Finegayan Elementary Schools. GDOE has asked the Legislature for additional funding of \$1.1M to begin implementation of this pilot.

Reimbursements from U.S. Department of Agriculture (USDA) for eligible meals through the National School Lunch and School Breakfast Programs are currently based on rates established for the 48 contiguous states. The University of Guam was contracted to perform a cost study of the programs to make a case to USDA that costs on Guam are significantly higher and Guam rates should be raised to be on par with those established for Hawaii or Alaska. In April, 2015, the study was completed and submitted to USDA. Additionally, a request was made to the Western Region Office for the USDA Secretary to exercise his authority granted by Congress to adjust rates for Guam.

The impact of the GGCWA has put pressures on the Special Education and Head Start programs to continue to provide services at the same level. Grants for these programs have been flat funded for the past several years. In the GDOE FY16 Budget request, new funding for staff to augment those paid through Federal grants has been requested so that the programs can continue to provide the same level of support.

## **GUAM DEPARTMENT OF EDUCATION**

Management's Discussion and Analysis  
Year Ended September 30, 2014

### **MANAGEMENT CONTACT**

This financial report is designed to provide GDOE's stakeholders (citizens, taxpayers, customers, investors and creditors) with a general overview of GDOE's finances and to demonstrate the Department's accountability for the money it receives.

For questions or additional information, please contact Taling M. Taitano, Deputy Superintendent of Finance and Administrative Services, Guam Department of Education, 500 Mariner Avenue, Barrigada, Guam 96913; e-mail [tmtaitano@gdoe.net](mailto:tmtaitano@gdoe.net); call (671) 300-1575; or log on to our website at: [www.gdoe.net](http://www.gdoe.net).

## GUAM DEPARTMENT OF EDUCATION

### Statement of Net Position September 30, 2014

#### ASSETS

Current assets:	
Cash and cash equivalents	\$ 997,296
Receivables from federal agencies	9,983,952
Due from primary government	465,830
Prepayments and other assets	794,355
Restricted assets:	
Cash and cash equivalents	2,163,113
Investments	<u>2,097,617</u>
Total current assets	<u>16,502,163</u>
Noncurrent assets:	
Deferred maintenance and insurance costs	1,500,000
Capital assets:	
Capital assets, net of accumulated depreciation	<u>369,962,973</u>
Total noncurrent assets	<u>371,462,973</u>
Total assets	<u>\$ 387,965,136</u>

#### LIABILITIES

Current liabilities:	
Accounts payable	\$ 9,690,041
Accrued payroll	5,808,576
Other liabilities and accruals	7,936,194
Payable to federal agencies	6,664,341
Current portion of obligations under capital lease	6,530,850
Current portion of compensated absences payable	<u>379,763</u>
Total current liabilities	<u>37,009,765</u>
Noncurrent liabilities:	
Compensated absences payable, net of current portion	4,367,267
Accrued sick leave liability	9,339,545
Obligations under capital lease, net of current portion	<u>183,252,951</u>
Total noncurrent liabilities	<u>196,959,763</u>
Total liabilities	<u>233,969,528</u>

#### Commitments and contingencies

#### NET POSITION

Net investment in capital assets	180,179,172
Restricted for:	
CIP, technology and equipment projects	4,260,730
Maintenance and insurance costs	1,500,000
Unrestricted	<u>(31,944,294)</u>
Total net position	<u>153,995,608</u>
	<u>\$ 387,965,136</u>

See accompanying notes to financial statements.

# GUAM DEPARTMENT OF EDUCATION

## Statement of Activities Year Ended September 30, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions		
<b>Governmental Activities:</b>					
Elementary Education	\$ 78,467,598	\$ -	\$ 188,077	\$ (78,279,521)	
Secondary Education	108,058,745	-	272,248	(107,786,497)	
Direct Student Support	67,653,078	1,232,326	52,456,823	(13,963,929)	
General Administration	53,733,293	-	1,712,614	(52,020,679)	
Retiree healthcare benefits	8,267,264	-	-	(8,267,264)	
Tiyan Operating lease	3,744,380	-	-	(3,744,380)	
Transfer to Guahan Charter Schools Fund	2,832,500	-	-	(2,832,500)	
Total governmental activities	<u>\$ 322,756,858</u>	<u>\$ 1,232,326</u>	<u>\$ 54,629,762</u>	<u>\$ (266,894,770)</u>	
 <b>General revenues:</b>					
Appropriations:					
Operations				223,432,844	
Retiree healthcare benefits				8,267,264	
Tiyan Operating Lease				3,744,380	
Textbooks				1,500,000	
Guahan Academy Charter School				2,832,500	
Total general revenues				<u>239,776,988</u>	
Change in net position				<u>(27,117,782)</u>	
Net position at beginning of year				<u>181,113,390</u>	
Net position at end of year				<u>\$ 153,995,608</u>	

See accompanying notes to financial statements.

# GUAM DEPARTMENT OF EDUCATION

Balance Sheet  
Governmental Funds  
September 30, 2014

<u>ASSETS</u>	<u>Special Revenue</u>			<u>Total</u>	
	<u>Federal Grants Assistance</u>		<u>General</u>		
	<u>Grants</u>	<u>Assistance</u>			
Cash and cash equivalents	\$ -	\$ 1,929,558	\$ 1,929,558		
Receivables from federal agencies	-	9,983,952		9,983,952	
Due from primary government	465,830	-		465,830	
Prepayments and other assets	166,012	13,404		179,416	
Due from other funds	-	771,967		771,967	
Restricted assets:					
Cash and cash equivalents	2,163,113	-		2,163,113	
Investments	2,097,617	-		2,097,617	
Total assets	\$ 4,892,572	\$ 12,698,881	\$ 17,591,453		

LIABILITIES AND FUND BALANCES

Liabilities:				
Overdraft	\$ 932,262	\$ -	\$ 932,262	
Accounts payable	8,020,682	1,669,359		9,690,041
Accrued payroll	4,844,573	964,003		5,808,576
Other liabilities and accruals	4,535,016	3,401,178		7,936,194
Payable to federal agencies	-	6,664,341		6,664,341
Due to other funds	771,967	-		771,967
Total liabilities	19,104,500	12,698,881		31,803,381
Fund balances:				
Restricted	4,260,730	-		4,260,730
Unassigned	(18,472,658)	-		(18,472,658)
Total fund balances	(14,211,928)	-		(14,211,928)
Total liabilities and fund balances	\$ 4,892,572	\$ 12,698,881	\$ 17,591,453	

See accompanying notes to financial statements.

## GUAM DEPARTMENT OF EDUCATION

### Reconciliation of Governmental Fund Balance to Net Position of Governmental Activities September 30, 2014

Total fund balance-governmental funds	\$ (14,211,928)
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Amounts reported for governmental activities in the statement of net position are different because:

Prepayment of capital lease obligations in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. These assets consist of:

Prepayment-interest	458,272
Prepayment-maintenance	<u>156,667</u>
	614,939

Maintenance costs associated with capital lease obligations in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.

1,500,000

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. These assets consist of:

Buildings and improvements	480,782,198
Vehicles, furniture and equipment	13,863,339
Accumulated depreciation	<u>(124,682,564)</u>

Capital assets, net of accumulated depreciation

369,962,973

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds. These liabilities include:

Accrued sick leave liability	(9,339,545)
Compensated absences payable	(4,747,030)
Obligations under capital lease	<u>(189,783,801)</u>

Long-term liabilities

(203,870,376)

Net position of governmental activities	\$ <u>153,995,608</u>
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See accompanying notes to financial statements.

## GUAM DEPARTMENT OF EDUCATION

Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
Year Ended September 30, 2014

	General	Special Revenue	Federal Grants Assistance	Total
<b>Revenues:</b>				
Appropriations	\$ 232,676,988	\$ 7,100,000	\$ 239,776,988	
Federal grants and contributions	556,232	54,073,530	54,629,762	
Cafeteria sales	396,398	-	396,398	
Fees and other program receipts	500,641	335,287	835,928	
<b>Total revenues</b>	<b>234,130,259</b>	<b>61,508,817</b>	<b>295,639,076</b>	
<b>Expenditures:</b>				
Elementary Education	73,968,851	188,077	74,156,928	
Secondary Education	87,313,358	272,248	87,585,606	
Direct Student Support	13,789,627	53,691,305	67,480,932	
General Administration	57,897,907	257,187	58,155,094	
Retiree healthcare benefits	8,267,264	-	8,267,264	
Tiyan Operating Lease	3,744,380	-	3,744,380	
Guahan Academy Charter School	2,832,500	-	2,832,500	
<b>Debt service:</b>				
Lease payment	12,232,098	7,100,000	19,332,098	
<b>Capital projects:</b>				
Capital lease acquisition	78,024,200	-	78,024,200	
<b>Total expenditures</b>	<b>338,070,185</b>	<b>61,508,817</b>	<b>399,579,002</b>	
<b>Deficiency of revenues under expenditures</b>	<b>(103,939,926)</b>	<b>-</b>	<b>(103,939,926)</b>	
<b>Other financing sources:</b>				
Capital lease	78,024,200	-	78,024,200	
<b>Net change in fund balances</b>	<b>(25,915,726)</b>	<b>-</b>	<b>(25,915,726)</b>	
<b>Fund balances at beginning of year</b>	<b>11,703,798</b>	<b>-</b>	<b>11,703,798</b>	
<b>Fund balances at end of year</b>	<b>\$ (14,211,928)</b>	<b>\$ -</b>	<b>\$ (14,211,928)</b>	

See accompanying notes to financial statements.

## GUAM DEPARTMENT OF EDUCATION

### Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities Year Ended September 30, 2014

Amounts reported for governmental activities in the statement of activities are different because:

Total net change in fund balances - governmental funds	\$ (25,915,726)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over the estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. For the current year, these amounts consist of:

Capital outlays, net of disposals	87,753,391
Depreciation expense, net	<u>(12,477,455)</u>
	75,275,936

Prepayment of capital lease obligations in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.

(256,728)

The issuance of long-term debt (eg. leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. For the current year, these amounts consist of:

Capital lease acquisition	(78,024,200)
Repayment of capital leases	5,200,399
	(72,823,801)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. For the current year, these activities consist of:

Change in compensated absence payable	(55,593)
Increase in accrued sick leave liability	<u>(3,341,870)</u>
	(3,397,463)

Change in net position of governmental activities	\$ <u>(27,117,782)</u>
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See accompanying notes to financial statements.

**GUAM DEPARTMENT OF EDUCATION**

Statement of Fiduciary Net Position  
Agency Fund  
September 30, 2014

**ASSETS**

Cash and cash equivalents	\$ <u>485,854</u>
Total assets	\$ <u>485,854</u>

**LIABILITIES**

Deposits and other liabilities	\$ <u>485,854</u>
Total liabilities	\$ <u>485,854</u>

See accompanying notes to financial statements.

## GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements  
September 30, 2014

### (1) Summary of Significant Accounting Policies

The accompanying basic financial statements of the Guam Department of Education (GDOE) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized Standard-setting body for establishing governmental accounting and financial reporting principles. GDOE's significant accounting policies are described below:

#### A. Reporting Entity

The Guam Department of Education (GDOE), formerly known as the Guam Public School System, is a line agency of the Government of Guam (GovGuam), which is the primary government, and the accompanying financial statements are included within GovGuam's financial statements. GDOE has followed the same reporting framework as utilized by GovGuam in preparation of its annual financial statements to allow combination of these financial statements with those of GovGuam. GovGuam's general fund is ultimately liable for the financial operations of GDOE.

The governance of GDOE is vested in the Board per 17GCA Chapter 3 section § 3102.3, composed of 9 voting members, 6 elected, 3 appointed and 2 nonvoting members. GDOE operates 26 elementary schools and 15 secondary schools to provide free and appropriate education to students residing on Guam.

In August 2013, the Foundation for Public Education, Inc. (the Foundation) was established. The Foundation is a legally separate, tax-exempt entity which meets the criteria set forth for component units under GASB Statement No. 39, Determining Whether Certain Organizations are Component Units. The Foundation provides financial support for the objectives, purposes and programs of GDOE. Although GDOE does not control the timing, purpose, or amount of receipts from the Foundation, the resources (and income thereon) that the Foundation holds and invests are restricted to the activities of GDOE. Because the resources held by the Foundation can only be used by, or for the benefit of GDOE, the Foundation is considered a component unit of GDOE. As of September 30, 2014, the Foundation reported minimal collections, therefore presentation of the Foundation is not disclosed.

#### B. Department-Wide Financial Statements

The Statement of Net Position and the Statement of Activities report financial information on all non-fiduciary activities of GDOE. For the most part, the effect of interfund activity has been eliminated from these statements. GDOE activities are governmental activities, which generally are financed through local appropriations and intergovernmental revenues.

The Statement of Net Position presents all of the reporting entity's non-fiduciary assets and liabilities, with the difference reported as net position. Net position is reported in three categories:

- *Net Investment in capital assets* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for other debt that is attributed to the acquisition, construction or improvement of those assets.
- *Restricted net position* results when constraints placed on net position use is either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through enabling legislation.

## GUAM DEPARTMENT OF EDUCATION

### Notes to Financial Statements September 30, 2014

#### (1) Summary of Significant Accounting Policies, Continued

##### B. Department-Wide Financial Statements, Continued

- *Unrestricted net position* consist of net position, which does not meet the definition of the two preceding categories. Unrestricted net position often is designated, to indicate that management does not consider them to be available for general operations. Such often has restrictions that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function or segment. Program revenues include charges to customers or students who purchase, use, or directly benefit from goods, services, or privileges that are restricted to meeting the operational requirements of a particular function. Local appropriations and other items not meeting the definition of program revenues are, instead, reported as general revenue and offset or supplant the net operating deficit or surplus from governmental operations.

##### C. Fund Financial Statements

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter is excluded from the department-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements pursuant to GASB reporting standards. GDOE presents a balance sheet and a statement of revenues, expenditures and changes in fund balances for its governmental funds. The ending fund balance on the balance sheet is then reconciled to the ending governmental activities net position.

GDOE reports its financial position and results of operations in funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures/expenses. Transactions between funds within a fund type, if any, have not been eliminated. GDOE reports the following fund types:

Federal Grants Assistance Fund – This fund is used to account for federally funded programs for GDOE's major activities. This fund is made up entirely by special revenue funds which account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. In this case, the expenditures are for activities authorized by the federal agency grantor.

Agency Fund - This fiduciary fund is used to account for student activities at the school level, such as student organization fund raisings and after-school programs.

##### D. Fund Balance

Fund balance classifications are based on the extent to which GDOE is bound to honor constraints on the specific purposes for which amounts in those funds can be spent and are reported under the following fund balance classification:

## GUAM DEPARTMENT OF EDUCATION

### Notes to Financial Statements September 30, 2014

#### (1) Summary of Significant Accounting Policies, Continued

##### D. Fund Balance, Continued

Non-spendable – Balances that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

Restricted – Balances that are restricted for specific purposes by external parties such as creditors, grantors or other governments.

Committed – Balances that can only be used for specific purposes pursuant to constraints imposed by formal action of the Guam Legislature.

Assigned – Balances that are constrained by management to be used for specific purposes, but are neither restricted nor committed.

Unassigned – Residual balances that are not contained in the other classifications.

GDOE has a general policy to first use restricted resources for expenditures incurred for which both restricted and unrestricted (committed, assigned, and unassigned) resources are available. When expenditures are incurred for which only unrestricted resources are available, the general policy of GDOE is to use committed resources first, followed by assigned, and then unassigned. The use of restricted/committed resources may be deferred based on a review of the specific transaction.

A formal minimum fund balance policy has not been adopted.

##### E. Measurement Focus and Basis of Accounting

The department-wide financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

*Governmental Funds* – account for the general governmental activities of GDOE. Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual; generally when they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. Significant revenues susceptible to accrual include local appropriations, federal grants, federal reimbursements and other reimbursements for use of materials and services. Revenues from other financing sources are recognized when received. Expenditures are recorded in the period in which the related fund liability is incurred. Principal and interest on general long-term obligations are recorded as fund liabilities when due. Compensated absences, claims and judgments, termination benefits and similar activities are recognized to the extent that they are normally expected to be liquidated with expendable available financial resources.

## GUAM DEPARTMENT OF EDUCATION

### Notes to Financial Statements September 30, 2014

#### (1) Summary of Significant Accounting Policies, Continued

##### E. Measurement Focus and Basis of Accounting, Continued

GDOE uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain GDOE functions or activities.

GDOE reports the following major governmental funds:

1. The General Fund is the primary operating fund of GDOE. It accounts for all financial transactions not accounted for in any other fund;
2. The Federal Grants Assistance Fund - Special Revenue Fund accounts for all activities of U.S. federal assistance grants and contracts utilized by GDOE to finance general government operations.

Governmental funds are presented on the modified accrual basis of accounting. In accordance with the modified accrual basis, revenues are recognized when they become susceptible to accrual; that is, when they become both measurable and available to finance expenditures of the current period. Revenues from U.S. federal programs are recorded at the time that related expenditures are incurred.

##### F. Encumbrances

Encumbrances are commitments related to unperformed (executory) contracts for goods or services and are generally evidenced by outstanding purchase orders, contracts and interdepartmental work requests. At September 30, 2014, GDOE has significant encumbrances summarized as follows:

General Fund	\$ 4,886,677
Federal Grants Assistance Fund	<u>9,028,978</u>
	<u>\$ 13,915,655</u>

##### G. Cash and Cash Equivalents

Cash and cash equivalents includes deposits with financial institutions on Guam in interest and non-interest bearing accounts.

##### H. Investments

Investments and related investment earnings are recorded at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale and are primarily determined based on quoted market values.

##### I. Receivables

Receivables primarily consist of federal grants due from U.S. federal grantor agencies and appropriations from the GovGuam general fund.

## GUAM DEPARTMENT OF EDUCATION

### Notes to Financial Statements September 30, 2014

(1) Summary of Significant Accounting Policies, Continued

J. Interfund Receivables/Payables

As a general rule, the effect of interfund activity has been eliminated in the department-wide financial statements. Interfund receivables and payables have been eliminated from the Statement of Net Position. Interfund balances account for general fund payments for Federal programs that are expected to be repaid within one year by the special revenue fund with Federal fund reimbursements.

During the course of its operations, GDOE records transactions between individual funds for goods provided or services rendered. Receivables and payables resulting from transactions between funds are classified as "due from other funds" or "due to other funds" on the governmental fund balance sheet. These balances result from a time lag between the dates the 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system and 3) payments between funds are made, and are scheduled to be collected in the subsequent year.

K. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure (e.g. roads, sidewalks, and other similar items), are reported in the applicable governmental activity column of the department-wide financial statements. Such assets, whether purchased or constructed, are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital assets are capitalized when the cost of the individual item generally exceeds \$50,000 for financial statement purposes. All vehicles are capitalized for financial statement purposes. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Applicable capital assets are depreciated using the straight-line method with a full year's depreciation charged in the year of acquisition and disposal, regardless of date. Estimated useful lives are as follows:

<u>Type of Assets</u>	<u>Estimated Useful Life (in years)</u>
Buildings .....	40 to 60
Furniture .....	7
Equipment, office equipment and specialized equipment.....	5 to 20
Computer hardware and software .....	5 to 7
Vehicles .....	5 to 20

## GUAM DEPARTMENT OF EDUCATION

### Notes to Financial Statements September 30, 2014

(1) **Summary of Significant Accounting Policies, Continued**

K. **Capital Assets, Continued**

Capital asset activities for the year ended September 30, 2014 are as follows:

Governmental Activities

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Depreciable capital assets:</b>				
Buildings and improvements	\$ 380,824,612	\$ 99,957,586	\$ -	\$ 480,782,198
Vehicles, furniture and equipment	<u>13,543,743</u>	592,095	(272,499)	<u>13,863,339</u>
	394,368,355	100,549,681	(272,499)	494,645,537
Less: accumulated depreciation	<u>(112,341,074)</u>	<u>(12,477,455)</u>	<u>135,965</u>	<u>(124,682,564)</u>
Depreciable capital assets, net	<u>282,027,281</u>	<u>88,072,226</u>	<u>(136,534)</u>	<u>369,962,973</u>
<b>Non-depreciable capital assets:</b>				
Construction in progress	<u>12,659,756</u>	-	(12,659,756)	-
	<u>\$ 294,687,037</u>	<u>\$ 88,072,226</u>	<u>\$ (12,796,290)</u>	<u>\$ 369,962,973</u>

Depreciation expense was charged to functions/programs of GDOE as follows:

Governmental activities:

Elementary Education	\$ 3,158,152
Secondary Education	8,076,265
Direct Student Support	172,146
General Administration	<u>1,070,892</u>
	<u>\$ 12,477,455</u>

L. **Deferred Outflows of Resources**

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. GDOE has no items that qualify for reporting in this category.

M. **Net Position**

GDOE reports net position as restricted where legally segregated for a specific future use. Otherwise, these balances are considered unrestricted.

Net Position has been restricted as follows:

CIP, technology and equipment projects - identifies amounts legislatively and externally restricted for the Adequate Education Act Trust Account.

Maintenance and insurance costs – identifies amounts from the Municipal School Lease Agreement.

Federal programs - identifies amounts held for various externally imposed restrictions either by grantors or laws and regulations of other governments.

## GUAM DEPARTMENT OF EDUCATION

### Notes to Financial Statements September 30, 2014

#### (1) Summary of Significant Accounting Policies, Continued

##### N. Deferred Inflows of Resources

In addition to liabilities, the statements of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (additions to net position) until then. GDOE has no items that qualify for reporting in this category.

##### O. Compensated Absences

Non-teacher employees are credited with vacation at rates of 104 or 156 hours per fiscal year, depending upon their length of service.

1. One-half day (4 hours) for each full bi-weekly pay period in the case of employees with less than five years of service (5 years of service accrue 4 hours).
2. Three-fourths day (6 hours) for each full bi-weekly pay period in the case of employees with more than 5 years of service (at least five years of service accrue 6 hours).
3. One (1) day (8 hours) for each full bi-weekly pay period in the case of employees with more than fifteen (15) years of service.

Accumulation of such vacation credits is limited to 320 hours at fiscal year-end and is convertible to pay upon termination of employment. Compensated absences are recorded as a long-term liability in the statement of net position. Amounts to be paid during the next fiscal year are reported as current. For the governmental fund statements, vested or accumulated vacation and sick leave expected to be liquidated with expendable available financial resources are reported as expenditures and fund liabilities.

##### P. Payable to Federal Agencies

In the department-wide financial statements, payable to federal agencies is recognized when cash, receivables or other assets are recorded prior to their being earned. In the governmental fund financial statements, payable to federal agencies represents monies received or revenues accrued which have not been earned or do not meet the "available" criterion for revenue recognition under the modified accrual basis of accounting. The payable to federal agencies in the governmental fund financial statements represents federal funds received in advance of eligible expenditures.

##### Q. Interfund Transactions

Transfers are used to 1) move revenues from the fund that enabling legislation or budget requires to collect them to the fund that enabling legislation or budget requires to expend them, 2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, and 3) record reductions in interfund loans for amounts that are not expected to be repaid.

## GUAM DEPARTMENT OF EDUCATION

### Notes to Financial Statements September 30, 2014

#### (1) Summary of Significant Accounting Policies, Continued

##### R. Dedicated Revenues and Pledges

GDOE has entered into a municipal school lease agreement for certain leased schools and facilities whereby GovGuam, on behalf of GDOE, has pledged a portion of future Compact Impact grant funds to finance annual lease payments under this agreement. This lease obligation is payable solely from Compact Impact grant revenues payable to GovGuam by the United States Government pursuant to the Compact of Free Association Act, U.S. Public Law 108-188. Total payments remaining on this municipal school lease agreement are approximately \$77,200,000 payable through December 2025. For the year ended September 30, 2014, lease payments made and total Compact Impact grant revenues received were \$7,100,000.

##### S. Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results may differ from those estimates.

##### T. Total Columns

Total columns are presented primarily to facilitate financial analysis. The Management's Discussion and Analysis includes certain prior year summarized comparative information in total. Such information does not include sufficient detail to constitute a full comparative presentation. Accordingly, such information should be read in conjunction with GDOE's financial statements for the year ended September 30, 2013 from which summarized information was derived.

##### U. New Accounting Standards

During the year ended September 30, 2014, GDOE implemented the following pronouncements:

- GASB Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting.
- GASB Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans.
- GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement.

The implementation of these statements did not have a material effect on GDOE's financial statements.

## GUAM DEPARTMENT OF EDUCATION

### Notes to Financial Statements September 30, 2014

(1) Summary of Significant Accounting Policies, Continued

U. New Accounting Standards, Continued

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. The implementation of this statement will have a material effect on the financial statements of the Authority and will require a restatement disclosure upon implementation. As of September 30, 2014, the net pension liability that GDOE will record upon implementation of Statement 68 is anticipated to be \$398,418,002.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of this statement on the financial statements of GDOE.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68, Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions in Statement 71 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of this statement on the financial statements of GDOE.

(2) Deposits in Banks and Investments

A. Deposit in Banks

Custodial credit risk is the risk that in the event of a bank failure, GDOE's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution or held by the pledging institution but not in the depositor-government's name. GDOE does not have a deposit policy for custodial credit risk.

As of September 30, 2014, the carrying amount of GDOE's total cash and cash equivalents was \$3,160,409 and the corresponding bank balance was \$8,434,158, which is maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2014, bank deposits in the amount of \$250,000 were FDIC insured. GDOE does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk. GDOE has not experienced any significant losses in such accounts and GDOE management believes it is not exposed to any significant credit risk on its deposits.

## GUAM DEPARTMENT OF EDUCATION

### Notes to Financial Statements September 30, 2014

(2) Deposits in Banks and Investments, Continued

B. Investments

Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments for GDOE.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. GDOE does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

As of September 30, 2014, GDOE's General Fund investments of \$2,097,617 are recorded at fair value and are classified as certificates of deposit.

Per Public Law 31-40, the Legislature created the Adequate Education Act Trust Account to be separate and apart from the General Fund. As of September 30, 2014, investments of \$2,000,000 are restricted for this purpose. Subsequently, Public Law 31-77 required interest and investment earnings to be continuously appropriated for the payment of GDOE's GPA Promissory Note. Upon full payment of the Promissory Note, succeeding interest and investment earnings shall be used solely to pay for projects approved per PL 31-40 or the projects approved in the original SFSF grant application and any approved amendments thereafter.

(3) Changes in Long-Term Liabilities

Changes in long-term liabilities for the year ended September 30, 2014, are as follows:

	Beginning <u>Balance</u>	Additions	Reductions	Ending <u>Balance</u>	Due Within <u>One Year</u>
<b>Governmental activities:</b>					
Accrued sick leave liability	\$ 5,997,675	\$ 3,502,840	\$ (160,970)	\$ 9,339,545	\$ -
Compensated absences	4,691,437	450,583	(394,990)	4,747,030	379,763
Obligations under capital lease	<u>116,960,000</u>	<u>78,024,200</u>	<u>(5,200,399)</u>	<u>189,783,801</u>	<u>6,530,850</u>
	<u>\$ 127,649,112</u>	<u>\$ 81,977,623</u>	<u>\$ (5,756,359)</u>	<u>\$ 203,870,376</u>	<u>\$ 6,910,613</u>

(4) Commitments and Contingencies

A. Sick Leave

It is the policy of GDOE to record the cost of sick leave when leave is actually taken and a liability is actually incurred. Generally, sick leave is paid only when an employee is absent due to illness, injury or related-family illness. Under the Defined Contribution Retirement System (DCRS), an employee may convert into cash up to 50% of the accrued sick leave liability. For this reason, a sick leave liability is recorded at September 30, 2014. The estimated accumulated amount of unused sick leave at September 30, 2014, is \$40,968,273, of which an estimated \$9,339,545 may be convertible by DCRS employees upon retirement.

## GUAM DEPARTMENT OF EDUCATION

### Notes to Financial Statements September 30, 2014

#### (4) Commitments and Contingencies, Continued

##### B. Federal Grants

GDOE has received federal grants for specific purposes that are subject to review and audit by the grantor agencies. If the audit results in cost disallowances, the general fund may be liable. However, management does not believe this matter will result in a material liability. Therefore, no liability for any amount, which may ultimately arise from these matters, has been recorded in the accompanying financial statements.

Fines and penalties may also be imposed by various federal agencies for violations of certain regulations. However, no provision for any amount has been recorded in the accompanying financial statements, as it is not possible to predict a reasonable estimation of these fines and penalties.

GDOE is designated a high-risk grantee by the U.S. Department of Education.

##### C. Non-Appropriated Funds

Non-appropriated funds are maintained at the individual schools. While certain matters have been or are expected to be referred to the GovGuam's Attorney General, no provision has been recorded in the accompanying financial statements for any liability that may arise from these funds held in trust by GDOE.

##### D. Self-Insurance

GDOE does not purchase insurance covering potential risks; it is substantially self-insured against claims for negligence and catastrophic losses. In the event that losses arise from such claims or disasters, GovGuam's General Fund would be required to pay the majority of these losses. An annual appropriation is made to the Government Claims Fund (a governmental fund of GovGuam) and then valid claims are paid out against the appropriated amount. No material losses have occurred as a result of the policy in the past three years.

##### E. Public Law 28-45

Under Public Law 28-45, entitled "Every Child is Entitled to an Adequate Public Education Act," effective October 1, 2007, a public school student shall have a claim and standing to sue GovGuam and any officer of the Executive Branch of GovGuam in his official capacity only for the purpose of enjoining such officer from failing to provide an adequate public education to that public school student but *not* for money damages. Given the lack of adequate funding to meet all of the requirements of Public Law 28-45, it is reasonably possible that law suits will be filed against GDOE and legal costs will be incurred.

##### F. Litigation

GDOE is party to several legal proceedings arising from governmental operations, however, the Legal Counsel and Attorney General of Guam is unable to assess the likelihood of potential liabilities related to claims outstanding as of September 30, 2014. Hence, it is not possible to predict a reasonable estimation of these claims to be paid through the claims process. No provision that may result has been made in the accompanying financial statements.

## GUAM DEPARTMENT OF EDUCATION

### Notes to Financial Statements September 30, 2014

#### (5) Employee Retirement Plans

##### Defined Benefit Plan

###### Plan Description:

GDOE participates in the GovGuam Defined Benefit (DB) Plan, a cost-sharing multiple-employer defined benefit pension plan administered by the GovGuam Retirement Fund (GGRF). The DB Plan provides retirement, disability, and survivor benefits to plan members who enrolled in the plan prior to October 1, 1995. Cost-of-living adjustments are provided to members and beneficiaries at the discretion of the Guam Legislature. Article 1 of 4 GCA 8, Section 8105, requires that all employees of GovGuam, regardless of age or length of service, become members of the DB Plan prior to the operative date. Employees of a public corporation of GovGuam, have the option of becoming members of the DB Plan prior to the operative date. All employees of GovGuam, including employees of GovGuam public corporations, whose employment commences on or after October 1, 1995, are required to participate in the Defined Contribution Retirement System (DCRS). Hence, the DB Plan became a closed group.

A single actuarial valuation is performed annually covering all plan members and the same contribution rate applies to each employer. GGRF issues a publicly available financial report that includes financial statements and required supplementary information for the DB Plan. That report may be obtained by writing to the Government of Guam Retirement Fund, 424 A Route 8, Maite, Guam 96910, or by visiting GGRF's website – [www.ggrf.com](http://www.ggrf.com).

###### Funding Policy:

As a result of actuarial valuations performed as of September 30, 2012, 2011, and 2010, contribution rates required to fully fund the Retirement Fund liability, as required by Guam law, for the years ended September 30, 2014, 2013 and 2012, respectively, have been determined as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Normal costs (% of DB Plan payroll)	16.61%	17.52%	17.07%
Employee contributions (DB Plan employees)	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>
Employer portion of normal costs (% of DB Plan payroll)	7.11%	8.02%	7.57%
Employer portion of normal costs (% of total payroll)	2.39%	3.00%	3.03%
Unfunded liability cost (% of total payroll)	<u>24.01%</u>	<u>24.33%</u>	<u>23.75%</u>
Government contribution as a % of total payroll	<u>26.40%</u>	<u>27.33%</u>	<u>26.78%</u>
Statutory contribution rates as a % of DB Plan payroll:			
Employer	<u>30.03%</u>	<u>30.09%</u>	<u>28.30%</u>
Employee	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>

GDOE's required contributions to the DB Plan for the years ended September 30, 2014, 2013 and 2012 were \$13,982,663, \$14,198,885 and \$14,683,595, respectively, which were equal to the required contributions for each year.

## GUAM DEPARTMENT OF EDUCATION

### Notes to Financial Statements September 30, 2014

#### (5) Employee Retirement Plans, Continued

##### Defined Contribution Plan

Contributions into the DCRS plan by members are based on an automatic deduction of 5% of the member's regular base pay. The contribution is periodically deposited into an individual investment account within the DCRS. Employees are afforded the opportunity to select from different investment options available under the DCRS.

Statutory employer contributions into the DCRS plan for the year ended September 30, 2014 are determined using the same rates as the DB Plan. Of the amount contributed by the employer, only 5% of the member's regular pay is deposited into the member's individual investment account. The remaining amount is contributed towards the unfunded liability of the defined benefit plan.

Members of the DCRS plan, who have completed five years of government service, have a vested balance of 100% of both member and employer contributions plus any earnings thereon.

GDOE's contributions to the DCRS plan for the years ended September 30, 2014, 2013 and 2012 were \$32,030,284, \$29,595,708 and \$28,142,136, respectively, which were equal to the required contributions for each year.

##### Other Post-Employment Benefits

GovGuam through its substantive commitment to provide other post-employment benefits (OPEB), maintains a cost-sharing multiple-employer defined benefit plan to provide certain postretirement healthcare benefits to retirees who are members of the GovGuam Retirement Fund. Under the Plan, known as the GovGuam Group Health Insurance Program, GovGuam provides medical, dental, and life insurance coverage. The retiree medical and dental plans are fully-insured products provided through insurance companies. GovGuam shares in the cost of these plans, with GovGuam's contribution amount set each year at renewal. Current statutes prohibit active and retired employees from contributing different amounts for the same coverage. As such, GovGuam contributes substantially more to the cost of retiree healthcare than to active healthcare. For the life insurance plan, GovGuam provides retirees with \$10,000 of life insurance coverage through an insurance company. Retirees do not share in the cost of this coverage.

Because the Plan consists solely of GovGuam's firm commitment to provide OPEB through the payment of premiums to insurance companies on behalf of its eligible retirees, no stand-alone financial report is either available or generated.

During the years ended September 30, 2014, 2013 and 2012, GDOE recognized certain on-behalf payments as appropriations from GovGuam, totaling \$8,267,264, \$8,077,260 and \$8,058,962, respectively, representing certain healthcare benefits that GovGuam's general fund paid directly on behalf of GDOE retirees.

## GUAM DEPARTMENT OF EDUCATION

### Notes to Financial Statements September 30, 2014

#### (6) Appropriations

During the year ended September 30, 2014, appropriations provided to GDOE by the Guam Legislature were as follows:

General Fund:

Public Law 32-068:

GovGuam General Fund	
Operations	\$ 173,790,422
Retiree healthcare benefits	8,267,264
Guahan Academy Charter School	2,832,500
Textbooks	1,500,000
Medical, dental and life insurance	6,304,410
Salary increments	1,160,296
Competitive Wage Act	2,606,954
Kuentan Salappe Prinsepat	1,081,000
GW High School track renovation	350,000
Chamorro Studies Division	401,207
Lease Agreements:	
Okkodo Expansion	1,600,000
JFK High School (Additional rent)	1,568,000
Tiyan (Operating)	2,246,628
Tiyan (Capital)	7,072,071

Territorial Education Facilities Fund

Operations	13,330,282
JFK High School lease	5,621,503
Healthy Futures Fund	719,779
Public Library Resource Fund	796,323

Public Law 29-19:

Bond Proceeds	1,192,005
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Public Law 32-60:

Limited Gaming Fund	236,344
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Federal Grants Assistance Fund:

Public Law 28-47

Municipal School Lease Agreement	<u>7,100,000</u>
	<u>\$ 239,776,988</u>

In addition, Public Law 32-068 appropriates \$11,164,309 of all monies collected by GDOE from Federal funds paid to GDOE for reimbursement under the National School Lunch Program and Breakfast Program and the State Administrative Expenses for Child Nutrition Program to GDOE for non-personnel operating expenses. The total of such reimbursements from the U.S. Department of Agriculture during the year ended September 30, 2014 is \$11,272,963, which is accounted for within GDOE's federal grants assistance fund.

## GUAM DEPARTMENT OF EDUCATION

### Notes to Financial Statements September 30, 2014

#### (7) Lease Agreements

##### A. Guam Public School Facilities Project

On October 19, 2006, GovGuam issued, on behalf of the GDOE (formerly the Guam Public School System), \$50,880,000 in 2006 Series A Certificates of Participation (COPS) and \$14,015,000 in 2006 Series B COPS to finance the design, construction, insurance and maintenance of four new schools (the "Leased Schools") on Guam. The proceeds of the COPS were remitted to a trustee, who then remitted the amounts to a developer as construction progressed.

On November 12, 2008, GovGuam issued, on behalf of GDOE, \$7,520,000 in 2008 Series A COPS to finance the off-site infrastructure improvements, equipment and athletic field lighting (the "Leased Facilities") for the use of the Leased Schools.

The holders of the COPS are the current owners of the Leased Schools. Accordingly, GovGuam's rental payments for the use of the Leased Schools and Facilities are paid to a trustee, who then remits those amounts to the holders of the COPS, with annual rental payments to be funded by a pledge of U.S. Compact Impact grant revenues through December 1, 2022 with the remaining payments subject to future appropriations by the Guam Legislature. Payments commenced on December 1, 2006 in the amount of \$6,100,000 and continue through December 1, 2025 (with incremental increases on December 1, 2008 through December 1, 2018), with varying interest rates at 4.5% - 5.875% per annum. Title to the Leased Schools and Facilities will transfer to GDOE upon the payment of all required rents.

Commencing in 2010, \$7,100,000 of Compact Impact grant revenues will be received annually for a ten year period. Of this amount, \$1,000,000 will be allocated for rental, principal and interest, to fund additional equipment requirements, as defined. Subsequent to that ten year period, the annual grant returns to \$6,100,000.

##### B. John F. Kennedy High School Project

On September 16, 2010, GovGuam issued, on behalf of GDOE, \$65,735,000 in 2010 Series A COPS to finance the demolition, acquisition, construction, renovation and installation of facilities comprising the new John F. Kennedy (JFK) High School (the "new High School"). The proceeds of the COPS were remitted to a trustee, who then remitted the amounts to a developer as construction progressed.

The holders of the COPS are the owners of the new High School. Accordingly, GDOE's rental payments for the use of the new High School are paid to a trustee, who then remits those payments to the holders of the COPS, with annual rental payments subject to appropriations by the Guam Legislature. Payments commenced on December 1, 2010, for base and additional rentals and continue through December 1, 2040 (with incremental increases subsequent to the first payment), with varying interest rates of 5.5% - 6.875% per annum. Title to the new High School will transfer to GDOE upon the payment of all required rents.

## GUAM DEPARTMENT OF EDUCATION

### Notes to Financial Statements September 30, 2014

#### (7) Lease Agreements

##### C. Okkodo High School Expansion Project

On June 3, 2011, the Guam Legislature enacted Public Law 31-74 authorizing the expansion of Okkodo (also referred as Ukudo) High School as authorized under Section 1521 of the American Recovery and Reinvestment Act of 2009 and the issuance of tax exempt bonds of lease certificates.

On March 15, 2013, GovGuam issued, on behalf of GDOE, \$21,818,0000 in 2013 Series A COPS and \$1,000,000 in 2013 Series B COPS to finance the expansion. The holders of the COPS are the current owners of Okkodo High School as noted on Note 7A.

Expansion were funded by appropriations from the Guam Legislature from available Section 30 revenues, tax credits, 2013 Series A Construction Account, 2013 Series B Construction Account, the Holding Fund and the Trust Fund established pursuant to the Trust Agreement. The expansion project was completed on July 10, 2014.

Payments include base rental and additional rental. On June 1, 2014 and on June 1 and December 1 of each year through September 2030, payments of principal and interest at true rate of 2.44% (calculated on a 360 day year and 30 day month) will commence. Additional rental payment of \$1,217,336 commenced on October 15, 2013. On October 15, 2014, and on October 15 of each year thereafter through September 2030, additional rental will increase to \$1,867,336.

##### D. Tiyan Lease

On June 23, 2009, the Guam Legislature enacted Public Law 30-37, authorizing GovGuam on behalf of GDOE to enter into a lease agreement with an option to purchase for certain property located in Tiyan to temporarily house the JFK High School. The facility was vacated by JFK High School in September 2011 and subsequently occupied by Untalan Middle School in January 2013. The lease, which is renewable annually, had a fixed annual rent of \$4,493,256 for the first five years payable in cash or by transferable tax credits. Rent commenced in August 2009 with a term through June 30, 2024. Other tenants include the Guahan Charter School Academy and the Guam Police Department which represent a small portion of the total Tiyan property under lease.

On December 30, 2011, GovGuam entered into an amendment extending the initial term to October 31, 2024 with a four-month rent abatement from October 1, 2011 through January 31, 2012 due to non-occupancy of the property.

On December 30, 2013, GovGuam on behalf of GDOE exercised the option to purchase the leased Tiyan property. In addition to the purchase price of \$43,500,000 that comprises the Tiyan High School premises, the Guam Legislature enacted Public Law 31-229, authorizing GovGuam on behalf of GDOE to purchase additional property and the construction of new buildings and facilities for the Tiyan High School and the GDOE administration in the amount of \$43,648,970. Title to the Tiyan properties under the lease will transfer to GDOE upon the payment of all required rents. Tiyan 3 lot is owned by the Guam International Airport Authority under lease with the lessor and will be up for renewal in December 2041.

## GUAM DEPARTMENT OF EDUCATION

### Notes to Financial Statements September 30, 2014

#### (7) Lease Agreements, Continued

##### D. Tiyan Lease, Continued

Lease payments are to be paid in the form of tax credits over the term of the lease. Annual rents due for the years ended December 31, 2014 and 2015 are \$8,742,240 and \$6,411,410, respectively. Beginning January 1, 2016 thru December 31, 2024, annual rent due will be \$10,113,927 with a balloon payment due on December 31, 2024 for the remaining purchase price. Annual rent includes principal, interest at 7.193% of outstanding principal balance, insurance and maintenance costs. Refer to Note 9 for additional discussions.

As of September 30, 2014, \$55,206,200 of the Tiyan properties purchased were occupied. The remaining \$31,942,770 of properties have not been recorded as of September 30, 2014 and will be accordingly accounted for when construction is complete.

New Office	\$ 24,587,809
Gymnasium	4,947,008
Warehouse II	1,360,427
Warehouse / Mezzanine	535,926
Office and Warehouse II	<u>511,600</u>
	<u>\$ 31,942,770</u>

Assets acquired through the aforementioned capital leases are as follows:

Asset:	
Buildings	\$ 232,289,066
Less accumulated depreciation	<u>(20,238,622)</u>
	<u>\$ 212,050,444</u>

These buildings are summarized as follows:

JFK High School	\$ 65,735,000
Tiyan High School	43,500,000
Okkodo High School	42,581,348
Okkodo High School Expansion	22,818,000
Astumbo Middle School	18,383,500
Adacao Elementary School	14,482,938
Liguan Elementary School	13,082,080
Tiyan 3 (lot)	8,000,000
Tiyan Office	2,900,000
Tiyan Warehouse	<u>806,200</u>
	<u>\$ 232,289,066</u>

## GUAM DEPARTMENT OF EDUCATION

### Notes to Financial Statements September 30, 2014

**(7) Lease Agreements, Continued**

Future minimum lease obligations to maturity for municipal school lease agreements are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Additional Rental</u>	<u>Total</u>
2015	\$ 6,530,850	\$ 12,334,686	\$ 5,620,121	\$ 24,485,657
2016	6,923,271	11,940,671	5,549,489	24,413,431
2017	7,235,626	11,625,316	5,551,089	24,412,031
2018	7,634,533	11,223,972	5,553,127	24,411,632
2019	7,047,870	10,755,676	5,619,060	23,422,606
2020 – 2024	41,806,460	47,137,528	28,377,017	117,321,005
2025 – 2029	68,872,191	20,186,387	19,679,251	108,737,829
2030 – 2034	15,553,000	12,387,524	9,707,336	37,647,860
2035 – 2039	23,220,000	7,549,094	7,840,000	38,609,094
2040 – 2042	<u>4,960,000</u>	<u>170,500</u>	<u>3,136,000</u>	<u>8,266,500</u>
	<b>\$ 189,783,801</b>	<b>\$ 145,311,354</b>	<b>\$ 96,632,490</b>	<b>\$ 431,727,645</b>

**(8) Merit Bonus**

In 1991, Public Law 21-59 was enacted to establish a bonus system for employees of GovGuam, autonomous and semi-autonomous agencies, public corporations and other public instrumentalities of GovGuam who earn a superior performance grade. The bonus is calculated at 3.5% of the employee's base salary. As of September 30, 2014, GDOE's liability for merit bonus for fiscal year 2014 approximates \$181,000.

**(9) Subsequent Events**

On October 2014, the Tiyan Lease Purchase Agreement was amended to extend the lease term thru December 31, 2041 plus \$7,499,090 of collateral equipment for the buildings to be constructed per Note 7D. Repayment in the form of tax credits will only apply for lease amounts due thru January 2015 to include the aforementioned collateral equipment. Effective February 2015, rent and additional rent (insurance and maintenance) due will be paid in the form of cash. Future annual rental payments were amended as follows:

January 2014 thru December 2014	\$ 8,742,240
January 2015 thru December 2015	6,411,410
January 2016 thru December 2016	7,272,935
January 2017 thru December 2038	10,113,927
January 2039 thru December 2040	3,702,517
January 2040 thru December 2041	2,840,992

**GUAM DEPARTMENT OF EDUCATION**

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**REQUIRED SUPPLEMENTARY  
INFORMATION**

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**YEAR ENDED SEPTEMBER 30, 2014**

## GUAM DEPARTMENT OF EDUCATION

### Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual General Fund Year Ended September 30, 2014

	Original Budget	Final Budget	Actual - Budgetary Basis	Variance with Final Budget - Positive (Negative)
<b>Revenues:</b>				
Local appropriations:				
Government of Guam General Fund:				
Operations	\$ 176,872,922	\$ 174,040,422	\$ 173,790,422	\$ (250,000)
Guahan Academy Charter School	-	2,832,500	2,832,500	-
Textbooks	1,500,000	1,500,000	1,500,000	-
Chamorro Studies Division	401,207	401,207	401,207	-
Retiree healthcare benefits	-	8,267,264	8,267,264	-
Tiyan Operating Lease	-	2,246,628	2,246,628	-
Tiyan Lease	-	7,072,071	7,072,071	-
JFK High School Lease (Base rental)	1,568,000	1,568,000	1,568,000	-
Okkodo High School Expansion Lease	-	1,600,000	1,600,000	-
Kuentan Salappe Prinsepat	1,081,000	1,081,000	1,081,000	-
GW High School track renovation	350,000	350,000	350,000	-
Secure our schools-Maintenance	800,000	800,000	-	(800,000)
Medical, dental and life insurance	6,304,410	6,304,410	6,304,410	-
Salary increments	1,160,296	1,160,296	1,160,296	-
Competitive Wage Act	2,606,954	2,606,954	2,606,954	-
Territorial Educational Facilities Fund:				
Operations	18,333,190	18,333,190	13,330,282	(5,002,908)
JFK High School Lease (Additional rental)	5,131,013	5,131,013	5,621,503	490,490
Simon Sanchez High School Renovation/Construction	3,105,129	1,707,652	-	(1,707,652)
Okkodo High School Expansion Lease	1,707,652	-	-	-
School renovations and construction	-	3,218,502	-	(3,218,502)
Healthy Futures Fund:				
Interscholastic sports	612,000	612,000	468,000	(144,000)
Health and Physical Education Activities	279,754	279,754	251,779	(27,975)
Public School Library Resource Fund	796,323	796,323	796,323	-
Limited Gaming Fund	-	236,344	236,344	-
Government of Guam 2008 bond proceeds	-	-	1,192,005	1,192,005
Fees and other program receipts	-	409,901	500,641	90,740
Federal grants and contributions	-	543,779	556,232	12,453
Cafeteria sales	-	398,552	396,398	(2,154)
Total revenues	<u>222,609,850</u>	<u>243,497,762</u>	<u>234,130,259</u>	<u>(9,367,503)</u>
<b>Expenditures - Budgetary Basis:</b>				
Elementary Education	66,504,069	70,952,201	74,242,325	(3,290,124)
Secondary Education	78,736,827	81,834,494	87,854,250	(6,019,756)
Direct Student Support	16,020,273	19,617,421	15,326,521	4,290,900
General Administration	78,043,352	67,623,527	60,433,324	7,190,203
Retiree healthcare benefits	-	8,267,264	8,267,264	-
Tiyan Operating Lease	-	3,744,380	3,744,380	-
Guahan Academy Charter School	-	2,832,500	2,832,500	-
Debt service:				
Okkodo Expansion Lease	-	1,600,000	1,600,000	-
Tiyan Lease	-	5,010,595	5,010,595	-
JFK High School Lease	-	5,621,503	5,621,503	-
Total expenditures	<u>239,304,521</u>	<u>267,103,885</u>	<u>264,932,662</u>	<u>2,171,223</u>
Deficiency of revenues under expenditures	<u>(16,694,671)</u>	<u>(23,606,123)</u>	<u>(30,802,403)</u>	<u>(7,196,280)</u>
Other changes in fund balance:				
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary purposes, but in the year the items are received for financial reporting purposes	-	-	4,886,677	4,886,677
Fund balance at beginning of year	<u>11,703,798</u>	<u>11,703,798</u>	<u>11,703,798</u>	<u>-</u>
Fund balance at end of year	<u>\$ (4,990,873)</u>	<u>\$ (11,902,325)</u>	<u>\$ (14,211,928)</u>	<u>\$ (2,309,603)</u>

See accompanying notes to required supplementary information.

## **GUAM DEPARTMENT OF EDUCATION**

### **Notes to Required Supplementary Information – Budgetary Reporting September 30, 2014**

#### **(1) Budgetary Process**

The Budget Act for fiscal year 2014, Public Law No. 32-068, was approved for the Executive branch and the Legislative branch. Budgets for Special Revenue Funds are generally not submitted. Accordingly, a budget to actual presentation for Special Revenue Funds is not required or presented. Project length financial plans are adopted for capital projects funds.

GovGuam's annual budget has been prepared on a basis that differs from governmental GAAP. Actual amounts in the accompanying budgetary comparison statements are presented on a budgetary basis, which includes outstanding encumbrances as a budgetary expenditure.

Encumbrance accounting is employed in governmental funds. For budgetary purposes, the encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For GAAP reporting purposes, encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent fiscal year.

See Accompanying Independent Auditors' Report.

## GUAM DEPARTMENT OF EDUCATION

### Schedule of Funding Progress - Post-Employment Benefits Other than Pension (Unaudited)

The Schedule of Funding Progress presents GASB 45 results of OPEB valuations as of fiscal years ended September 30, 2011, 2009, and 2007 for GovGuam's Post Employment Benefits other than Pensions. The schedule provides an information trend about whether the actuarial values of Plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
October 1, 2007	\$ -	\$ 255,131,000	\$ 255,131,000	0.0%	\$ 141,047,226	180.9%
October 1, 2009	\$ -	\$ 339,294,000 *	\$ 339,294,000 *	0.0%	\$ 142,504,403	238.1%
October 1, 2011	\$ -	\$ 382,476,000	\$ 382,476,000	0.0%	\$ 148,090,145	258.3%

\* No formal valuation was performed. The liabilities as of October 1, 2009 represent discounted October 1, 2011 liabilities.

See Accompanying Independent Auditors' Report.

**GUAM DEPARTMENT OF EDUCATION**

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**OTHER SUPPLEMENTARY  
INFORMATION**

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**YEAR ENDED SEPTEMBER 30, 2014**

## GUAM DEPARTMENT OF EDUCATION

Statements of Net Position - Governmental Activities  
 September 30, 2014  
 (With Comparative Totals as of September 30, 2013)

<u>ASSETS</u>	<u>2014</u>	<u>2013</u>
<b>Current assets:</b>		
Cash and cash equivalents	\$ 997,296	\$ 2,924,432
Receivables from federal agencies	9,983,952	14,535,064
Due from primary government	465,830	2,354,899
Prepayments and other assets	794,355	2,239,493
<b>Restricted assets:</b>		
Cash and cash equivalents	2,163,113	5,904,904
Investments	2,097,617	19,078,908
Total current assets	<u>16,502,163</u>	<u>47,037,700</u>
<b>Noncurrent assets:</b>		
Deferred maintenance and insurance costs	1,500,000	1,750,000
<b>Capital assets:</b>		
Non-depreciable capital assets	-	12,659,756
Capital assets, net of accumulated depreciation	<u>369,962,973</u>	<u>282,027,281</u>
Total noncurrent assets	<u>371,462,973</u>	<u>296,437,037</u>
Total assets	<u>\$ 387,965,136</u>	<u>\$ 343,474,737</u>
<u>LIABILITIES</u>		
<b>Current liabilities:</b>		
Accounts payable	\$ 9,690,041	\$ 16,718,261
Accrued payroll	5,808,576	4,656,776
Other liabilities and accruals	7,936,194	9,355,432
Payable to federal agencies	6,664,341	3,981,766
Current portion of obligation under capital lease	6,530,850	4,385,000
Current portion of compensated absences payable	<u>379,763</u>	<u>3,648,710</u>
Total current liabilities	<u>37,009,765</u>	<u>42,745,945</u>
<b>Noncurrent liabilities:</b>		
Compensated absences payable, net of current portion	4,367,267	1,042,727
Accrued sick leave liability	9,339,545	5,997,675
Obligation under capital lease, net of current portion	<u>183,252,951</u>	<u>112,575,000</u>
Total noncurrent liabilities	<u>196,959,763</u>	<u>119,615,402</u>
Total liabilities	<u>233,969,528</u>	<u>162,361,347</u>
<u>NET POSITION</u>		
Net investment in capital assets	180,179,172	177,727,037
<b>Restricted for:</b>		
CIP, technology and equipment projects	4,260,730	24,983,812
Maintenance and insurance costs	1,500,000	2,371,667
Unrestricted	<u>(31,944,294)</u>	<u>(23,969,126)</u>
Total net position	<u>153,995,608</u>	<u>181,113,390</u>
	<u>\$ 387,965,136</u>	<u>\$ 343,474,737</u>

See Accompanying Independent Auditors' Report.

## GUAM DEPARTMENT OF EDUCATION

### Statement of Activities - Governmental Activities

Year Ended September 30, 2014

(With Comparative Totals for the Year Ended September 30, 2013)

	2014	2013
<b>Program Revenues:</b>		
Elementary Education	\$ 188,077	\$ 484,009
Secondary Education	272,248	469,523
Direct Student Support	53,689,149	62,450,255
General Administration	<u>1,712,614</u>	<u>630,595</u>
 Total program revenues	<u>55,862,088</u>	<u>64,034,382</u>
 <b>Expenses:</b>		
Elementary Education	78,467,598	72,157,347
Secondary Education	108,058,745	81,321,094
Direct Student Support	67,653,078	76,990,830
General Administration	53,733,293	57,187,526
Retiree healthcare benefits	8,267,264	8,077,260
Tiyan Operating Lease	3,744,380	4,493,256
Guahan Academy Charter School	<u>2,832,500</u>	<u>687,500</u>
 Total expenses for governmental activities	<u>322,756,858</u>	<u>300,914,813</u>
 Deficiency of program revenues under expenses	<u>(266,894,770)</u>	<u>(236,880,431)</u>
 <b>General revenues:</b>		
Appropriations:		
Operations	223,432,844	211,738,449
Retiree healthcare benefits	8,267,264	8,077,260
Tiyan Operating Lease	3,744,380	4,493,256
Textbooks	1,500,000	1,376,745
Guahan Academy Charter School	<u>2,832,500</u>	<u>687,500</u>
 Total general revenues	<u>239,776,988</u>	<u>226,373,210</u>
 Change in net position	<u>(27,117,782)</u>	<u>(10,507,221)</u>
 Net position at beginning of year	<u>181,113,390</u>	<u>191,620,611</u>
 Net position at end of year	<u>\$ 153,995,608</u>	<u>\$ 181,113,390</u>

See Accompanying Independent Auditors' Report.

# GUAM DEPARTMENT OF EDUCATION

**Balance Sheets**  
**Governmental Funds**  
**September 30, 2014**  
**(With Comparative Totals as of September 30, 2013)**

ASSETS	2014			2013		
	General	Federal Grants	Total	General	Federal Grants	Total
		Assistance			Assistance	
Cash and cash equivalents	\$ -	\$ 1,929,558	\$ 1,929,558	\$ 1,467,344	\$ 1,457,088	\$ 2,924,432
Receivables from federal agencies	-	9,983,952	9,983,952	-	14,535,064	14,535,064
Due from primary government	465,830	-	465,830	2,354,899	-	2,354,899
Prepayments and other assets	166,012	13,404	179,416	1,610,137	7,689	1,617,826
Due from other funds	-	771,967	771,967	4,182,032	-	4,182,032
Restricted assets:						
Cash and cash equivalents	2,163,113	-	2,163,113	5,904,904	-	5,904,904
Investment	2,097,617	-	2,097,617	19,078,908	-	19,078,908
Total assets	\$ 4,892,572	\$ 12,698,881	\$ 17,591,453	\$ 34,598,224	\$ 15,999,841	\$ 50,598,065
<u>LIABILITIES AND FUND BALANCES</u>						
Liabilities:						
Overdraft	\$ 932,262	\$ -	\$ 932,262	\$ -	\$ -	\$ -
Accounts payable	8,020,682	1,669,359	9,690,041	12,981,518	3,736,743	16,718,261
Accrued payroll	4,844,573	964,003	5,808,576	3,991,217	665,559	4,656,776
Other liabilities and accruals	4,535,016	3,401,178	7,936,194	5,921,691	3,433,741	9,355,432
Payable to federal agencies	-	6,664,341	6,664,341	-	3,981,766	3,981,766
Due to other funds	771,967	-	771,967	-	4,182,032	4,182,032
Total liabilities	\$ 19,104,500	\$ 12,698,881	\$ 31,803,381	\$ 22,894,426	\$ 15,999,841	\$ 38,894,267
Fund balances:						
Restricted	4,260,730	-	4,260,730	24,983,812	-	24,983,812
Unassigned	(18,472,658)	-	(18,472,658)	(13,280,014)	-	(13,280,014)
Total fund balances	\$ (14,211,928)	\$ -	\$ (14,211,928)	\$ 11,703,798	\$ -	\$ 11,703,798
Total liabilities and fund balances	\$ 4,892,572	\$ 12,698,881	\$ 17,591,453	\$ 34,598,224	\$ 15,999,841	\$ 50,598,065

See Accompanying Independent Auditors' Report.

## GUAM DEPARTMENT OF EDUCATION

### Reconciliations of Governmental Fund Balance to Net Position of Governmental Activities September 30, 2014 (With Comparative Totals as of September 30, 2013)

	2014	2013
Total fund balance - governmental funds	\$ (14,211,928)	\$ 11,703,798
Amounts reported for governmental activities in the statements of net position are different because:		
Prepayment of capital lease obligations in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	614,939	621,667
Maintenance costs associated with capital lease obligations in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	1,500,000	1,750,000
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. These assets consist of:		
Buildings and improvements	\$ 480,782,198	380,824,612
Vehicles, furniture and equipment	13,863,339	13,543,743
Construction in progress	-	12,659,756
Accumulated depreciation	<u>(124,682,564)</u>	<u>(112,341,074)</u>
Capital assets, net of accumulated depreciation	369,962,973	294,687,037
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds. These liabilities include:		
Accrued sick leave liability	(9,339,545)	(5,997,675)
Compensated absences payable	(4,747,030)	(4,691,437)
Obligations under capital lease	<u>(189,783,801)</u>	<u>(116,960,000)</u>
Long-term liabilities	<u>(203,870,376)</u>	<u>(127,649,112)</u>
Net position of governmental activities	<u>\$ 153,995,608</u>	<u>\$ 181,113,390</u>

See Accompanying Independent Auditors' Report.

## GUAM DEPARTMENT OF EDUCATION

### Statements of Revenues, Expenditure and Changes in Fund Balances Governmental Funds Year Ended September 30, 2014 (With Comparative Totals for the Year Ended September 30, 2013)

	2014			2013		
	Federal Grants		Total	Federal Grants		Total
	General	Assistance		General	Assistance	
<b>Revenues:</b>						
Appropriations	\$ 232,676,988	\$ 7,100,000	\$ 239,776,988	\$ 219,273,210	\$ 7,100,000	\$ 226,373,210
Federal grants and contributions	556,232	54,073,530	54,629,762	563,658	61,536,695	62,100,353
Cafeteria sales	396,398	-	396,398	553,763	-	553,763
Fees and other program receipts	500,641	335,287	835,928	939,436	440,830	1,380,266
<b>Total revenues</b>	<b>234,130,259</b>	<b>61,508,817</b>	<b>295,639,076</b>	<b>221,330,067</b>	<b>69,077,525</b>	<b>290,407,592</b>
<b>Expenditures:</b>						
Current:						
Elementary Education	73,968,851	188,077	74,156,928	75,352,478	484,009	75,836,487
Secondary Education	87,313,358	272,248	87,585,606	82,969,904	469,523	83,439,427
Direct Student Support	13,789,627	53,691,305	67,480,932	14,715,756	61,138,443	75,854,199
General Administration	57,897,907	257,187	58,155,094	60,758,020	-	60,758,020
Retiree healthcare benefits	8,267,264	-	8,267,264	8,077,260	-	8,077,260
Tiyan Operating Lease	3,744,380	-	3,744,380	4,493,256	-	4,493,256
Guahan Academy Charter School	2,832,500	-	2,832,500	687,500	-	687,500
Debt service:						
Lease payment	12,232,098	7,100,000	19,332,098	6,967,935	7,100,000	14,067,935
Capital projects:						
Capital lease acquisition	78,024,200	-	78,024,200	-	-	-
<b>Total expenditures</b>	<b>338,070,185</b>	<b>61,508,817</b>	<b>399,579,002</b>	<b>254,022,109</b>	<b>69,191,975</b>	<b>323,214,084</b>
<b>Deficiency of revenues under expenditures</b>	<b>(103,939,926)</b>	<b>-</b>	<b>(103,939,926)</b>	<b>(32,692,042)</b>	<b>(114,450)</b>	<b>(32,806,492)</b>
<b>Other financing sources (uses):</b>						
Transfer in	-	-	-	-	114,450	114,450
Transfer out	-	-	-	(114,450)	-	(114,450)
Capital lease	78,024,200	-	78,024,200	-	-	-
<b>Total other financing sources (uses), net</b>	<b>78,024,200</b>	<b>-</b>	<b>78,024,200</b>	<b>(114,450)</b>	<b>114,450</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>(25,915,726)</b>	<b>-</b>	<b>(25,915,726)</b>	<b>(32,806,492)</b>	<b>-</b>	<b>(32,806,492)</b>
<b>Fund balances at beginning of year</b>	<b>11,703,798</b>	<b>-</b>	<b>11,703,798</b>	<b>44,510,290</b>	<b>-</b>	<b>44,510,290</b>
<b>Fund balances at end of year</b>	<b>\$ (14,211,928)</b>	<b>\$ -</b>	<b>\$ (14,211,928)</b>	<b>\$ 11,703,798</b>	<b>\$ -</b>	<b>\$ 11,703,798</b>

See Accompanying Independent Auditors' Report.

## GUAM DEPARTMENT OF EDUCATION

Reconciliations of the Governmental Funds Statement of Revenues, Expenditures and  
 Changes in Fund Balances to the Statement of Activities  
 September 30, 2014  
 (With Comparative Totals as of September 30, 2013)

	2014	2013
Amounts reported for governmental activities in the statements of activities are different because:		
Total net change in fund balances - governmental funds	\$ (25,915,726)	\$ (32,806,492)
Governmental funds report capital outlays as expenditures. However, in the statements of activities the cost of those assets is allocated over the estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation (or depreciation exceeded capital outlays).	75,275,936	19,139,030
Prepayment of capital lease obligations in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	(256,728)	(908,427)
The issuance of long-term debt (eg. leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt.	(72,823,801)	4,195,000
Some expenses reported in the statements of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(3,397,463)	(126,332)
Change in net position of governmental activities	\$ (27,117,782)	\$ (10,507,221)

See Accompanying Independent Auditors' Report.

# GUAM DEPARTMENT OF EDUCATION

## Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual General Fund

Year Ended September 30, 2014  
(With Comparative Totals for the Year Ended September 30, 2013)

	2014				2013				Variance with Final Budget - Positive (Negative)
	Original Budget	Final Budget	Actual - Budgetary Basis	Variance with Final Budget - Positive (Negative)	Original Budget	Final Budget	Actual - Budgetary Basis	Variance with Final Budget - Positive (Negative)	
<b>Revenues:</b>									
Local appropriations:									
Government of Guam General Fund:									
Operations	\$ 176,872,922	\$ 174,040,422	\$ 173,790,422	\$ (250,000)	\$ 181,939,906	\$ 181,558,786	\$ 181,558,786	\$ -	
Guahan Academy Charter School	-	2,832,500	2,832,500	-	687,500	687,500	687,500	-	
Textbooks	1,500,000	1,500,000	1,500,000	-	1,500,000	1,500,000	1,376,745	(123,255)	
Chamorro studies division	401,207	401,207	401,207	-	381,120	381,120	80,257	(300,863)	
Retiree healthcare benefits	-	8,267,264	8,267,264	-	-	8,077,260	8,077,260	-	
Tiyan Operating Lease	-	2,246,628	2,246,628	-	-	4,493,256	4,493,256	-	
Tiyan Lease	-	7,072,071	7,072,071	-	-	-	-	-	
JFK High School Lease (Additional rental)	1,568,000	1,568,000	1,568,000	-	-	-	-	-	
JFK High School Lease	-	-	-	-	-	5,131,938	5,399,935	267,997	
Okkodo High School Expansion	-	1,600,000	1,600,000	-	-	-	-	-	
Kuentan Salappe Prinsepat	1,081,000	1,081,000	1,081,000	-	-	-	-	-	
GW High School track renovation	350,000	350,000	350,000	-	-	-	-	-	
Secure our schools-Maintenance	800,000	800,000	-	(800,000)	-	-	-	-	
Medical, dental and life insurance	6,304,410	6,304,410	6,304,410	-	-	-	-	-	
Merit bonus and increments	1,160,296	1,160,296	1,160,296	-	-	2,850,953	5,029,136	2,178,183	
Competitive Wage Act	2,606,954	2,606,954	2,606,954	-	-	-	365,784	365,784	
Territorial Education Facilities Fund:									
Operations	18,333,190	18,333,190	13,330,282	(5,002,908)	15,808,564	15,808,564	7,466,018	(8,342,546)	
JFK High School Lease (Additional rental)	-	-	-	-	1,568,000	1,568,000	1,568,000	-	
JFK High School Lease	5,131,013	5,131,013	5,621,503	490,490	-	-	-	-	
SSHS Renovation/Construction	3,105,129	1,707,652	-	(1,707,652)	-	-	-	-	
Okkodo High School Expansion	1,707,652	-	-	-	-	-	-	-	
School renovations and construction	-	3,218,502	-	(3,218,502)	-	-	-	-	
GPA promissory note	-	-	-	-	1,432,753	1,432,753	1,864,457	431,704	
Healthy Futures Fund:									
Interscholastic Sports	612,000	612,000	468,000	(144,000)	612,000	612,000	366,599	(245,401)	
Health and Physical Education Activities	279,754	279,754	251,779	(27,975)	279,754	279,754	157,347	(122,407)	
Public School Library Resource Fund	796,323	796,323	796,323	-	670,328	670,328	569,779	(100,549)	
Limited Gaming Fund	-	236,344	236,344	-	-	-	-	-	
SAR Fund	-	-	-	-	-	-	212,351	212,351	
Government of Guam 2008 bond proceeds	-	-	1,192,005	1,192,005	-	-	-	-	
Fees and other program receipts	-	409,901	500,641	90,740	-	61,251	939,436	878,185	
Federal grants and contributions	-	543,779	556,232	12,453	-	528,500	563,658	35,158	
Cafeteria sales	-	398,552	396,398	(2,154)	-	553,763	553,763	-	
Total revenues	<u>222,609,850</u>	<u>243,497,762</u>	<u>234,130,259</u>	<u>(9,367,503)</u>	<u>204,879,925</u>	<u>226,195,726</u>	<u>221,330,067</u>	<u>(4,865,659)</u>	
Expenditures - Budgetary Basis:									
Personnel	157,386,305	169,326,303	176,200,076	(6,873,773)	144,576,590	170,794,324	170,912,002	(117,678)	
Utilities	11,292,703	16,335,149	16,792,687	(457,538)	11,880,780	16,390,090	16,589,646	(199,556)	
Contractual	18,271,951	27,792,424	18,059,947	9,732,477	13,966,835	25,974,970	21,072,541	4,902,429	
Supplies/equipment	7,430,658	4,702,907	5,772,118	(1,069,211)	6,601,800	11,163,408	4,156,291	7,007,117	
Textbooks	1,427,603	1,503,032	1,197,118	305,914	2,804,103	5,568,739	2,258,859	3,309,880	
Capital projects	17,543,651	17,996,291	19,737,368	(1,741,077)	15,714,432	46,336,401	27,903,322	18,433,079	
Tiyan Operating Lease	-	3,744,380	3,744,380	-	-	4,493,256	4,493,256	-	
Tiyan Lease	-	5,010,595	5,010,595	-	-	-	-	-	
Okkodo Expansion Lease	-	1,600,000	1,600,000	-	-	-	-	-	
JFK High School Lease	-	5,621,503	5,621,503	-	-	6,967,935	6,967,935	-	
Retiree healthcare benefits	-	8,267,264	8,267,264	-	-	8,077,260	8,077,260	-	
Guahan Academy Charter School	-	2,832,500	2,832,500	-	687,500	687,500	687,500	-	
Other	<u>25,951,650</u>	<u>2,371,537</u>	<u>97,106</u>	<u>2,274,431</u>	<u>2,139,852</u>	<u>(4,859,524)</u>	<u>16,858,944</u>	<u>(21,718,468)</u>	
Total expenditures	<u>239,304,521</u>	<u>267,103,885</u>	<u>264,932,662</u>	<u>2,171,223</u>	<u>198,371,892</u>	<u>291,594,359</u>	<u>279,977,556</u>	<u>11,616,803</u>	
Excess (deficiency) of revenues over (under) expenditures	<u>(16,694,671)</u>	<u>(23,606,123)</u>	<u>(30,802,403)</u>	<u>(7,196,280)</u>	<u>6,508,033</u>	<u>(65,398,633)</u>	<u>(58,647,489)</u>	<u>6,751,144</u>	
Other financing uses:									
Transfers out	-	-	-	-	-	-	(114,450)	(114,450)	
Net change in fund balance	<u>(16,694,671)</u>	<u>(23,606,123)</u>	<u>(30,802,403)</u>	<u>(7,196,280)</u>	<u>6,508,033</u>	<u>(65,398,633)</u>	<u>(58,761,939)</u>	<u>6,636,694</u>	
Other changes in fund balance:									
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary purposes, but in the year the items are received for financial statement purposes	-	-	4,886,677	4,886,677	-	-	25,955,447	25,955,447	
Fund balance at beginning of year	<u>11,703,798</u>	<u>11,703,798</u>	<u>11,703,798</u>	<u>-</u>	<u>44,510,290</u>	<u>44,510,290</u>	<u>44,510,290</u>	<u>-</u>	
Fund balance at end of year	<u>\$ (4,990,873)</u>	<u>\$ (11,902,325)</u>	<u>\$ (14,211,928)</u>	<u>\$ (2,309,603)</u>	<u>\$ 51,018,323</u>	<u>\$ (20,888,343)</u>	<u>\$ 11,703,798</u>	<u>\$ 32,592,141</u>	

See Accompanying Independent Auditors' Report.

## GUAM DEPARTMENT OF EDUCATION

### Combined Statements of Revenues, Expenditures By Account and Changes in Fund Balances Governmental Funds Year Ended September 30, 2014 (With Comparative Totals for the Year Ended September 30, 2013)

	2014			2013		
	Federal Grants Assistance		Total	Federal Grants Assistance		Total
	General	Federal Grants Assistance	Total	General	Federal Grants Assistance	Total
<b>Revenues:</b>						
Local appropriations	\$ 232,676,988	\$ 7,100,000	\$ 239,776,988	\$ 219,273,210	\$ 7,100,000	\$ 226,373,210
Federal grants and contributions	556,232	54,073,530	54,629,762	563,658	61,536,695	62,100,353
Cafeteria sales	396,398	-	396,398	553,763	-	553,763
Fees and other program receipts	500,641	335,287	835,928	939,436	440,830	1,380,266
<b>Total revenues</b>	<b>234,130,259</b>	<b>61,508,817</b>	<b>295,639,076</b>	<b>221,330,067</b>	<b>69,077,525</b>	<b>290,407,592</b>
<b>Expenditures:</b>						
Salaries and wages	131,049,527	24,425,606	155,475,133	120,185,423	24,324,980	144,510,403
Capital lease acquisition	78,024,200	-	78,024,200	-	-	-
Benefits	45,150,549	8,537,115	53,687,664	46,282,059	7,216,890	53,498,949
Contractual	14,193,172	6,071,209	20,264,381	11,176,748	10,154,294	21,331,042
Capital lease	12,232,098	7,100,000	19,332,098	6,967,935	7,100,000	14,067,935
Capital outlay	18,622,292	265,555	18,887,847	28,837,807	301,169	29,138,976
Power	14,272,247	-	14,272,247	14,290,764	-	14,290,764
Food management contract	3,866,776	8,977,122	12,843,898	4,466,168	8,389,655	12,855,823
Retiree healthcare benefits	8,267,264	-	8,267,264	8,077,260	-	8,077,260
Supplies	1,575,899	2,484,760	4,060,659	1,035,963	2,360,668	3,396,631
Tiyan Operating Lease	3,744,380	-	3,744,380	4,493,256	-	4,493,256
Equipment	901,856	2,758,683	3,660,539	1,517,952	7,969,677	9,487,629
Guahan Academy Charter School	2,832,500	-	2,832,500	687,500	-	687,500
Water	2,342,728	-	2,342,728	1,994,569	-	1,994,569
Travel	500,562	705,816	1,206,378	332,855	1,083,714	1,416,569
Phone	322,788	-	322,788	322,125	-	322,125
Fuel	266,503	-	266,503	282,019	-	282,019
Textbooks	186,718	-	186,718	2,258,859	100,131	2,358,990
Indirect costs	-	182,897	182,897	-	177,226	177,226
Library books and equipment	121,587	-	121,587	291,108	13,398	304,506
Interest and penalties	63,073	-	63,073	70,863	-	70,863
Recovery of liabilities (Bad debts)	(712,046)	-	(712,046)	423,557	-	423,557
Miscellaneous	245,512	54	245,566	27,319	173	27,492
<b>Total expenditures</b>	<b>338,070,185</b>	<b>61,508,817</b>	<b>399,579,002</b>	<b>254,022,109</b>	<b>69,191,975</b>	<b>323,214,084</b>
<b>Deficiency of revenues under expenditures</b>	<b>(103,939,926)</b>	<b>-</b>	<b>(103,939,926)</b>	<b>(32,692,042)</b>	<b>(114,450)</b>	<b>(32,806,492)</b>
<b>Other financing sources (uses):</b>						
Transfer in	-	-	-	-	114,450	114,450
Transfer out	-	-	-	(114,450)	-	(114,450)
Capital lease	78,024,200	-	78,024,200	-	-	-
<b>Total other financing sources (uses), net</b>	<b>78,024,200</b>	<b>-</b>	<b>78,024,200</b>	<b>(114,450)</b>	<b>114,450</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>(25,915,726)</b>	<b>-</b>	<b>(25,915,726)</b>	<b>(32,806,492)</b>	<b>-</b>	<b>(32,806,492)</b>
<b>Fund balances, beginning of year</b>	<b>11,703,798</b>	<b>-</b>	<b>11,703,798</b>	<b>44,510,290</b>	<b>-</b>	<b>44,510,290</b>
<b>Fund balances, end of year</b>	<b>\$ (14,211,928)</b>	<b>\$ -</b>	<b>\$ (14,211,928)</b>	<b>\$ 11,703,798</b>	<b>\$ -</b>	<b>\$ 11,703,798</b>

See Accompanying Independent Auditors' Report.

## GUAM DEPARTMENT OF EDUCATION

Agency Fund  
September 30, 2014

The schedule of cash receipts and cash disbursements for the agency fund during fiscal year 2014 is as follows:

	<u>NAF</u>
Cash balance at beginning of year	<u>\$ 538,899</u>
Cash receipts:	
Elementary school activities	341,039
Secondary school activities	<u>1,244,795</u>
Total receipts	<u>1,585,834</u>
Cash disbursements:	
Elementary school activities	341,620
Secondary school activities	<u>1,297,259</u>
Total disbursements	<u>1,638,879</u>
Cash balance at end of year	<u>\$ 485,854</u>

The number of individual funds at the schools during fiscal year 2014 is as follows:

Elementary schools	372
Secondary schools	563

See Accompanying Independent Auditors' Report.

## **GUAM DEPARTMENT OF EDUCATION**

Personnel  
September 30, 2014 and 2013

Comparative totals for GDOE's employee count are as follows:

	<u>Employee Count as of PPE October 4, 2014</u>	<u>Employee Count as of PPE October 5, 2013</u>
100% Locally Funded	2,754	2,770
100% Federally Funded	812	947
Locally/Federally Funded	<u>139</u>	<u>42</u>
Total Employee Count	<u>3,705</u>	<u>3,759</u>

See Accompanying Independent Auditors' Report.