

GUAM DEPARTMENT OF EDUCATION

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

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

YEAR ENDED SEPTEMBER 30, 2019

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, 2019, and the related notes to the financial statements, which collectively comprise GDOE's basic financial statements as set forth in Section III of the foregoing 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, and the aggregate remaining fund information of the Guam Department of Education as of September 30, 2019, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

COVID-19

As discussed in Note 9 to the financial statements, GDOE determined that the COVID-19 pandemic may negatively impact its financial position. However, due to uncertainty surrounding the duration of the state of emergency, GDOE is unable to reasonably estimate its ultimate financial impact. Our opinion is not modified with respect to this matter.

Restatement

As discussed in Note 10 to the financial statements, the beginning net position of governmental activities has been restated to correct an error. 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 that the Management's Discussion and Analysis on pages 4 through 16, the Schedule of Revenues, Expenditures and Changes in Fund Balance (Deficit) – Budget and Actual – General Fund and notes thereto on pages 54 and 55, the Schedule of Proportionate Share of the Net Pension Liability, on pages 56 through 58, the Schedule of Pension Contributions on page 59, the Schedule of Changes in the Proportionate Share of the Total OPEB Liability and Related Ratios on page 60, the Schedule of Proportionate Share of the Total OPEB Liability on page 61, and the Schedule of OPEB Contributions on page 62, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board 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 required supplementary information, 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 on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

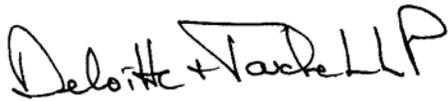
Other Information

Our audit was conducted for the purpose of forming opinions 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 2019 information on pages 64 through 70 as well as the additional information on pages 72 through 74 was derived from and relates 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, such information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The 2018 information on pages 64 through 70 as well as the additional information on pages 71 and 75 have 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 June 30, 2020, 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 solely 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 the effectiveness of GDOE's 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 + Tatchell LLP". The signature is written in a cursive, stylized font.

June 30, 2020

GUAM DEPARTMENT OF EDUCATION

Management's Discussion and Analysis
Year Ended September 30, 2019

INTRODUCTION

The following Management's Discussion and Analysis (MD&A) provides an overview of the financial activities of the Guam Department of Education (GDOE, Department). GDOE is a semi-autonomous agency within the Government of Guam (GovGuam) and is primarily funded through the GovGuam General Fund (GF).

GDOE is a single unified school district that serves just under 30,000 students (from Kindergarten to Grade 12). There are 26 elementary schools, 8 middle schools, 6 high schools, and an alternative school for a total of 41 schools. Additionally, the Department administers the Head Start, pre-Kindergarten GATE (Gifted and Talented Education), and pre-Kindergarten classes at selected elementary schools.

The GDOE is governed by policies established by the Guam Education Board (GEB, Board) comprised of elected and appointed board members. The Board appoints the Superintendent of Education who is the Chief Executive Officer of the Department. At the beginning of the fiscal year, Mark B. Mendiola was the GEB Chair and Maria A. Gutierrez was the Vice-Chair, having been re-elected to those positions in January 2019. In January 2020, the GEB members elected Gutierrez to replace Mendiola as Chair and Mendiola to replace Gutierrez as Vice-Chair, as they and the other members began the second year of their two-year term (2019-2020).

The GEB consists of 12 members: four elected members (Gutierrez, Mendiola, James A. Lujan, and Lourdes M. Benavente); five appointed members (Dr. Ronald L. McNinch (business representative), Ray P. Chargualaf, Jr. (member), John T. Burch (member), Carlyn R.C.G. Borja (parent representative), and Felicitas "Fely" B. Angel (retired school administrator or teacher representative)); and three ex-officio, non-voting members (an alternating student representative of the Islandwide Board of Governing Students; Guam Federation of Teachers Doris A. Terlaje (collective bargaining unit representative); and Mayor Melissa B. Savares (Mayor's Council of Guam representative)).

Public Law (P.L.) 29-140 established the process to authorize charter schools on Guam through the Guam Academy Charter Schools Council. Although charter schools are considered public schools, they operate independently from GDOE. In the fourth quarter of Fiscal Year (FY) 19 or in July 2019, amendments to the Guam Academy Charter Schools Act of 2009 were enacted under P.L. 35-28, 35-29, 35-30, and 35-40. P.L. 35-29 provided the most significant change by mandating the budgetary and organizational processes for charter schools established under the Act be separated from GDOE. Consequently, FY 19 marks the last fiscal year wherein charter school appropriations and expenditures are included in GDOE's financial statements.

This discussion has been prepared by GDOE management to provide an overview of the Department's financial activities for fiscal year ending September 30, 2019. It is based on the financial statements provided in the annual audit report. GDOE's department-wide financial statements consists of a Statement of Net Position, a Statement of Activities, certain required supplementary, and other supplementary information:

- *The Statement of Net Position* presents information on the 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.

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- *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.

Comparable financial data from the prior year is also provided.

The MD&A should be read in conjunction with GDOE’s basic financial statements and related notes to enhance the understanding of the Department’s financial performance. Additionally, the completion of the FY 19 Single Audit represents GDOE’s commitment to, and support of, programmatic and financial accountability.

LOCAL APPROPRIATIONS

Following the enactment of the Federal Tax Cut and Jobs Act (TCJA) of 2017 (P.L. 115-97) in December 2017, the GDOE’s FY 18 Budget was reduced by \$12.3 million (M) under a Fiscal Year Realignment Plan mandated under P.L. 34-87 and adopted by the Governor. The reduction was prorated between GDOE (\$11,627,185) and charter schools (\$698,286).

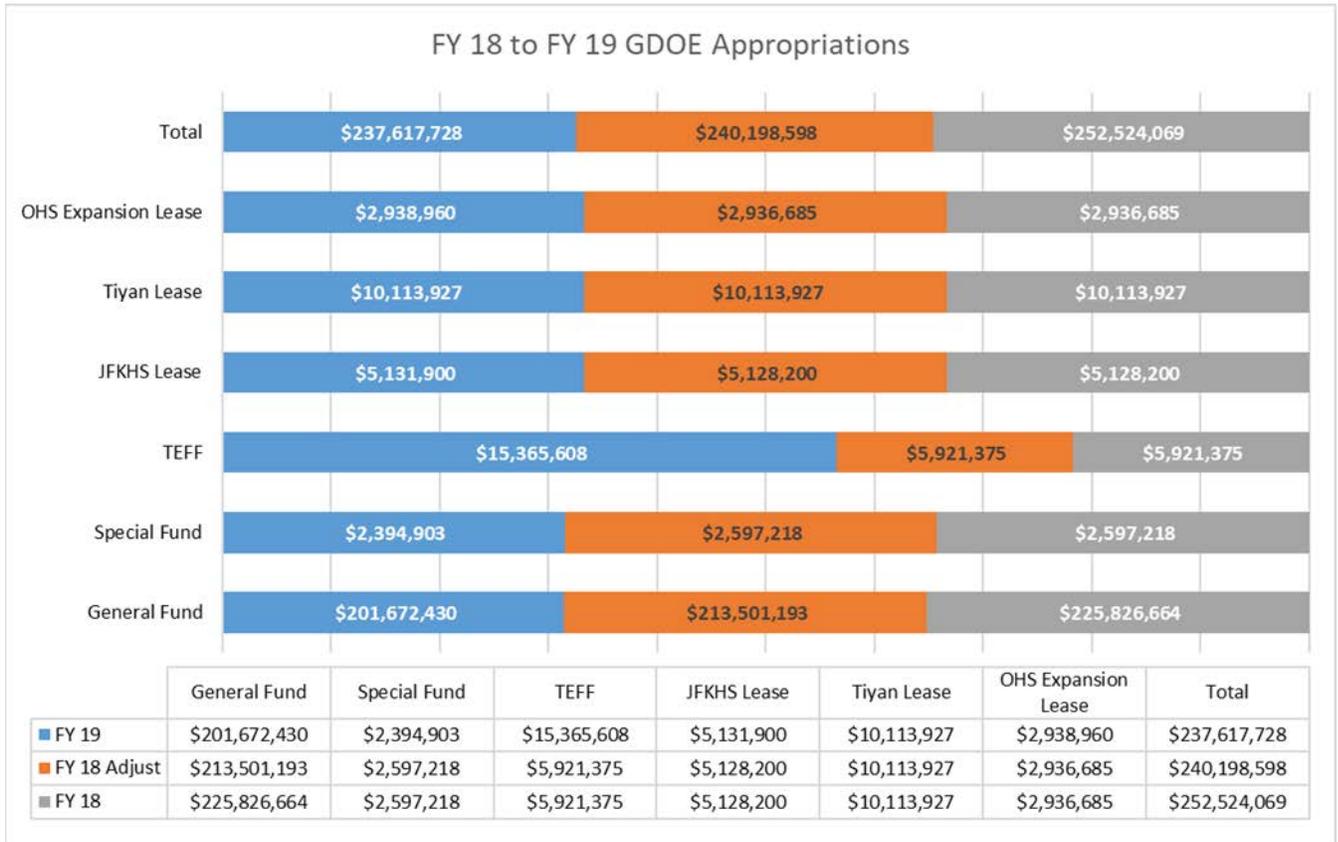
	General Fund	Special Fund	TEFF	JFKHS Lease	Tiyan Lease	OHS Expansion Lease	Total
FY 18 Adjust	\$213,501,193	\$2,597,218	\$5,921,375	\$5,128,200	\$10,113,927	\$2,936,685	\$240,198,598
FY 18	225,826,664	2,597,218	5,921,375	5,128,200	10,113,927	2,936,685	252,524,069
Change	\$(12,325,471)	\$ -	\$ -	\$ -	\$ -	\$ -	\$(12,325,471)
% Change	(5.5%)	0.0%	0.0%	0.0%	0.0%	0.0%	(4.9%)

Pursuant to the FY 19 Budget Act or P.L. 34-116, GDOE appropriations totaled \$237,617,728, with a \$3,048,776 increase in appropriations for charter schools, despite an overall \$2.6M decrease compared to the FY 18 adjusted appropriation levels in the table below.

	General Fund	Special Fund	TEFF	JFKHS Lease	Tiyan Lease	OHS Expansion Lease	Total
FY 19	\$201,672,430	\$2,394,903	\$15,365,608	\$5,131,900	\$10,113,927	\$2,938,960	\$237,617,728
FY 18 Adjust	213,501,193	2,597,218	5,921,375	5,128,200	10,113,927	2,936,685	240,198,598
Change	\$(11,828,763)	\$(202,315)	\$9,444,233	\$3,700	\$ -	\$2,275	\$(2,580,870)
% Change	(5.5%)	(7.8%)	159.5%	0.1%	0.0%	0.1%	(1.1%)

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The \$2.6M decrease in authorized FY 19 GDOE spending included the following:

1. \$2.4M less funding from offsets within and between the GF and the Territorial Educational Facilities Fund (TEFF) appropriations for operations:
 - a. \$11,828,763 less in GF from \$213,501,193 in FY 18 to \$201,672,430 in FY 19. This is due to the \$3M increase in charter schools (from the FY 18 adjusted \$7.4M to \$10.4M) and \$1M new funding for the new Simon Sanchez High School (SSHS), offset by a \$15.8M total decrease from the Early Childhood Education expansion (\$1M), school repairs (\$500 thousand (K)), and operations (\$14.3M).
 - b. \$9,444,233 more in TEFF from \$5,921,375 in FY 18 to \$15,365,608 in FY 19 (including \$100K for GDOE’s annual investment contribution to the First-Generation Trust Initiative) and a \$3,700 increase for the John F. Kennedy High School (JFKHS) lease payment from \$5,128,200 to \$5,131,900.
2. \$202,315 less in Special Funds for school libraries, sports facilities, and the GDOE’s First-Generation Trust. The decreases were from the Public Library Resource Fund (from \$996,946 to \$978,236), the Limited Gaming Fund (from \$608,518 to \$524,913), and TEFF (from \$100K to \$0).

The \$2.4M in FY 19 Special Fund appropriations was designated for interscholastic sport, health and physical education activities, school libraries, and GDOE sports facilities. Additionally, and not included in the comparative table above:

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Management’s Discussion and Analysis
Year Ended September 30, 2019

- \$12.5M in additional appropriations (federal reimbursements and cash collections) related to the National School Lunch and Breakfast Programs. The reimbursements are provided by the U.S. Department of Agriculture’s (USDA) Food and Nutrition Services for meals served to students and children who attend public schools.
- \$11.9M in payments: \$11.5M in retiree healthcare benefits and \$450K in payments from the University of Guam and the Guam Community College to implement the First-Generation Trust Initiative.
- \$1,271,119 in FY 17 GF continuing appropriations, as authorized under P.L. 34-42:II:Part I:19.

In FY 19, cafeteria sales were \$6,120; the estimated cash collections identified in the appropriations are much higher than realized. Cash collections were impacted by the expansion of schools enrolled in the Community Eligibility Provision (CEP) program, which enables high-poverty districts to offer school breakfast and lunch at no cost to students. FY 19 marked the first full year wherein all 41 GDOE schools were enrolled in the CEP program.

The FY 19 Budget Act also contained spending control provisions to include:

1. A hiring freeze for all agencies and branches from September 1 to December 31, 2018.
2. A freeze on salary increments, promotions, reclassifications, merit bonus, any upward pay adjustments from October 1, 2018 to September 30, 2019.
3. Suspension of certified pay differential for certified public accountants, certified government financial managers, certified fraud examiners, and certified internal auditors from October 1, 2018 to September 30, 2019.

However, on October 15, 2018, the Office of the Attorney General responded to an inquiry from the Department of Administration (DOA) and stated that the hiring freeze of P.L. 34-116, Chapter XIII, Part I, Section 1 violated the separation of powers doctrine. On December 13, 2018, the Attorney General responded to an inquiry from the DOA and opined that the prohibition against promoting employees within GovGuam was inorganic and unenforceable. The spending control provisions adversely impacted recruitment and retention of certified teachers and affected GDOE’s ability to maximize human resources and sustain employee morale.

P.L. 34-117 appropriated an additional \$1.5M in continuing appropriations for the SSHS Renovation project from FY 18 proceeds of the Guam Tax Amnesty program. However, the DOA noted there is no cash available to fund the appropriation.

FEDERAL GRANTS AND PROGRAMS

Federal grant awards increased by \$1.2M in FY 19 compared to FY 18, as shown below.

Grantor	FY 19 Amount	FY 18 Amount	Change
U.S. Department of Education	\$46,824,445	\$44,947,011	\$1,877,434
U.S. Department of Agriculture	14,124,126	13,217,545	906,581
U.S. Department of Health & Human Services	3,796,933	3,302,923	494,010
U.S. Department of Interior	958,022	2,982,000	(2,023,978)
Totals	\$65,703,526	\$64,449,479	\$1,254,047

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Management's Discussion and Analysis Year Ended September 30, 2019

In FY 19, the following amounts were expended by GDOE through a variety of Federal grants, representing \$68M or 21.33% of total (federal and local) expenditures of \$318,778,095:

Grantor	FY 19 Amount	FY 18 Amount	Change
U.S. Department of Education	\$38,003,067	\$41,428,920	\$(3,425,853)
U.S. Department of Agriculture	14,514,570	13,988,385	526,185
U.S. Department of Interior	11,262,330	8,939,858	2,322,472
U.S. Department of Health & Human Services	3,453,514	3,285,873	167,641
U.S. Department of Defense	616,360	476,277	140,083
U.S. Department of Homeland Security	130,669	74,251	56,418
Totals	\$67,980,510	\$68,193,564	\$ (213,054)

The \$213K overall decrease or 0.31% in expenditures in FY 19 occurred in the U.S. Department of Education (ED) grants, offset by an increase in expenditures from the USDA, and the U.S. Departments of Health and Human Services, Defense, Interior, and Homeland Security. The significant decrease in ED grant expenditures is primarily due to reduced spending for salaries and benefits, computers and electronics, and contractual. The significant increase in DOI grant expenditures is primarily due to operational offset for power.

FY 2019 OVERVIEW

GDOE once again received less cash than appropriated in FY 19 - \$472K in GF, and \$2.1M in TEFF - for a combined cash shortfall total of \$2.6M. In previous fiscal years, the shortages occurred in appropriations, alternatively, from the GF and TEFF: \$14.8M in FY 18 (\$2.5M in excess of the \$12.3M associated with the FY 19 Fiscal Year Realignment Plan); \$2M in FY 17 GF and TEFF; \$5.1M in FY 16 GF; and \$3.2M and \$5M in FY 15 and FY 14 TEFF, respectively. This recurrence in FY 19 impacted cash flow, slowed payments of outstanding invoices, and incurred interest and late fee charges.

On January 2, 2019, the Bureau of Budget Management and Research (BBMR) announced proposed appropriation/spending reductions of \$9M to curtail FY 19 TEFF expenditures to the FY 18 adopted TEFF revenue level of \$29,260,403. Under the FY 19 Budget Act, the \$38,301,107 adopted TEFF revenue level factored a projected increase based on a provision that increased the levy on land improvements valued at \$1M or more. The BBMR's proposed reduction was in response to the Governor's veto of Bill No. 374-34, which sought to administratively amend and correct the language contained in the provision necessary to collect and achieve the \$38M adopted revenue level. For the GDOE, this would have represented an estimated \$4.8M in cuts.

On July 9, 2019, the BBMR memo revised GDOE's prorated share of the proposed reductions from \$4.8M to \$2.1M.

Salaries and Benefits

Salaries and benefits, including retirement and healthcare benefits, is a primary component of GDOE expenditures, accounting for \$216,231,814 or 67.8% of total (federal and local) expenditures in FY 19. In comparison to FY 18, these expenditures decreased by 2.7% or \$5,995,243 (\$3.6M in local and \$2.4M in federal funding). Additionally, the overall number of GDOE employees decreased by 49 employees or 1.3% from 3,644 (pay period ending (PPE) September 29, 2018) to 3,595 (PPE September 28, 2019)¹.

¹ This is a count of employees at a point in time and is a function of several factors including funding availability, program start dates, staff turnover, and availability of applicants. The variance in Federally funded employees includes the turn-over in Substitute Teachers, Limited-Term Teachers (Limited-Term Full-time, Limited-Term Special Contract, and Limited-Term

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GDOE Employee Count	As of PPE 09/28/2019	As of PPE 09/29/2018	% Change
100% Locally Funded	2,811	2,721	3.3%
100% Federally Funded	762	780	(2.3%)
Locally/Federally Funded	22	143	(84.6%)
Totals	3,595	3,644	(1.3%)

Critical Contracts

The costs of several critical contracts and services (listed in the table below) netted an overall increase in these expenditures of \$172,865 in FY 19, largely due to changes in the School Lunch Program. Decreases in several contracts were largely due to GDOE's attempts to contain FY 19 expenses, wherever possible, to offset payments for carryover outstanding vendor payments resulting from perennial cash shortfalls in its local appropriations.

Critical Contracts	FY 19 Amount	FY 18 Amount	Change
Food Services	\$19,968,778	\$18,879,152	\$1,089,626
Custodial Services	2,563,315	3,071,179	(507,864)
TPFA	2,410,516	2,411,430	(914)
Air Conditioning Maintenance	1,719,249	1,728,618	(9,369)
Trash Collection	770,514	721,877	48,637
Copier Services	518,319	515,547	2,772
Internet	311,513	743,510	(431,997)
Accreditation	103,572	121,597	(18,025)
Totals	\$28,365,775	\$28,192,910	\$ 172,865

Significant changes occurred with custodial, internet, and the Third-Party Fiduciary Agent (TPFA) contracts. The decrease in the cost for custodial services is primarily due to two additional schools, for a total of three, opting to perform their own custodial services. Changes in ERATE (Schools and Libraries Program of the Universal Service Fund, which is administered by the Universal Service Administrative Company under the direction of the Federal Communications Commission) include reductions in subsidies for telephone services, increases in subsidies for internet services, and a reclassification of certain expenditures (to include maintenance, troubleshooting, and repairs) from contractual to telephone. The decrease in cost of the TPFA services is the result of reduction in hours charged to the contract.

Prior Year Obligations

GDOE continues to pay for prior year obligations (PYO) with an already limited current year funding. FY 18 obligations were not fully paid due to reduced funding caused by the 2017 TCJA and continuous shortfall in TEFF. Payments for these obligations continued through FY 19. GDOE was operating with \$2.6M less in local appropriations compared to those received from FY 18. As a result, expenditures exceeded revenues by \$3.8M, ending FY 19 with a \$1.5M cumulative deficit.

Part-time). Local/Federally funded employees include teachers and school aides that are locally funded and receive payment for work on Federally funded programs such as ASPIRE, an afterschool program for elementary students, with the variance reflecting delayed payments for the Summer School Program. The overall 49 Full-Time Employee variance was also affected by personnel actions including retirement, resignation, suspensions, terminations, separations, death, leave without pay statuses, and military leave.

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Management's Discussion and Analysis
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Child Nutrition Reimbursements

At the start of School Year (SY) 18-19 in August 2018, GDOE retained the ratio of outsourced cafeterias to GDOE operated at 37:4 and opted to have all 41 schools serve meals at no charge to students. While these changes increased costs of GDOE's food management services, including food commodities, from \$18.9M in FY 18 to \$20M in FY 19, GDOE's total reimbursements under the Federal Child Nutrition Program for all 41 schools increased from \$12,527,594 to \$13,881,657.

SY 2018-2019 School Lunch Program	LUNCH						BREAKFAST					
	Free	Paid	Reduced	Total Served	ADP*	Enroll **	Free	Paid	Reduced	Total Served	ADP*	Enroll **
Outsourced Cafeterias												
Elementary	1,451,904	0	0	1,451,904	8,066	11,251	899,795	0	0	899,795	4,999	11,251
Middle	458,209	77,958	0	536,167	2,979	6,525	285,610	48,556	0	334,166	1,856	6,525
High	358,721	132,935	0	491,656	2,731	7,696	167,074	61,857	0	228,931	1,272	7,696
Total	2,268,834	210,893	0	2,479,727	13,776	25,472	1,352,479	110,413	0	1,462,892	8,127	25,472
GDOE-Operated Cafeterias												
Elementary	252,298	0	0	252,298	1,402	1,880	150,389	0	0	150,389	835	1,880
Middle			0	0	0				0	0	0	0
High	116,583	43,207	0	159,790	888	1,676	44,370	16,367	0	60,737	337	1,676
Total	368,881	43,207	0	412,088	2,289	3,556	194,759	16,367	0	211,126	1,173	3,556

* Average Daily Participation: Calculated amount using the Total Meals Served divided by 180 School Days

** Enrollment: Data provided from the School Year 2018-2019 Child Nutrition Program Data as of October 31, 2018

SY 2017-2018	2,599,244	144,204	6,125	2,749,573	17,513	29,697	1,530,465	68,634	3,292	1,602,391	10,206	29,697
SY 2018-2019	2,637,715	254,100	0	2,891,815	16,066	29,028	1,547,238	126,780	0	1,674,018	9,300	29,028
Variance Between Years	38,471	109,896	(6,125)	142,242	(1,447)	(669)	16,773	58,146	(3,292)	71,627	(906)	(669)
% of Variance	1.5%	76.2%	(100.0%)	5.2%	(8.3%)	(2.3%)	1.1%	84.7%	(100.0%)	4.5%	(8.9%)	(2.3%)

The table above reflects number of meals served for SY 17-18 and SY 18-19. SY 17-18 figures were updated to reflect reconciled activities due to audits and evaluations while SY 18-19 figures are subject to change, pending the completion of reconciliations and audit. For the first three quarters of FY 19, reimbursements from the USDA for eligible meals through the National School Lunch and School Breakfast Programs were based on rates established for the 48 contiguous states. However, in July 2019, the USDA approved GDOE's request for an upward adjustment and realignment of GDOE's reimbursement rate on par with the state of Hawaii. The newly approved reimbursement rate of 17% was applied in the 4th quarter of FY 19, beginning August 2019 at the opening of SY 19-20; and as such, is an attributing factor for increases in GDOE's total reimbursements under the federal Child Nutrition Program.

High Risk Grantee Status

FY 19 marked the seventh year GDOE incurred local expenditures associated with addressing its 'high risk' grantee status by ED. ED's specific conditions required financial management functions of ED grants to be supervised by a TPFA. GDOE staff perform budget, personnel, payroll, procurement, property management, and accounts payable activities with various levels of oversight from the TPFA over transactions funded with ED grants. Financial transactions from the TPFA system are mirrored on GDOE's financial management information system.

Per Title 2 of the Code of Federal Regulations § 200.207(b), in May 2018, GDOE officially requested reconsideration of the special (now called specific) conditions, the nature of actions needed to remove the special conditions, and the timeline for the reconsideration. On March 13, 2019, ED amended the Federal Fiscal Year 18 specific conditions to remove three conditions related to (1) prompt access, (2) program-specific conditions, and (3) compliance with program requirements. The four remaining conditions include (1) requirements for a TPFA, (2) responsibilities of GDOE and the TPFA concerning administration of ED grant funds, (3) Reconsideration Evaluation Plan (REP), and (4) single audits. In August 2019, ED acknowledged full compliance to the requirement of a timely single audit but left this condition outstanding.

GUAM DEPARTMENT OF EDUCATION

Management's Discussion and Analysis Year Ended September 30, 2019

The REP is designed to: 1) provide clear guidance to GDOE on actions that it must take and complete during the reconsideration process; 2) inform ED as it determines the extent to which specific conditions may be removed and the extent to which financial management responsibilities may be returned incrementally or otherwise to GDOE; and 3) inform ED as it determines whether GDOE has taken all the necessary actions to render it capable of performing the financial management responsibilities currently performed by the TPFA, resulting in the removal of the TPFA requirement. The REP effectively replaced the Comprehensive Corrective Action plan as the document against which GDOE's progress will be measured during the process of reconsidering the specific conditions. ED Office of Grants Administration confers monthly status of GDOE's progress under the REP and towards transitioning responsibilities currently performed by the TPFA back to GDOE.

Accreditation

Thirty-nine GDOE schools are accredited by the Western Association of Schools and Colleges (WASC). In Spring 2019, nine schools were visited by WASC teams resulting in three newly accredited elementary schools and the affirmation or renewal of accreditation statuses for six others. An accreditation plan was developed to have the remaining two elementary schools accredited in FY 20.

Utilities

FY 19 Utilities (i.e. power, water, and telephone) accounted for 5.23% of total expenditures or \$16.7M, an increase of \$1.45M or 9.49%. Compared to FY 18, expenditures for power, water, and telephone increased by \$996K, \$310K, and \$140K, respectively. While the number of phone lines remained relatively unchanged, the increase in telephone expenses is due to a reclassification of certain direct maintenance services (e.g. troubleshooting, repairs, and line replacements) from contractual to telephone. By contrast, increases in water and power expenditures in FY 19 can be attributed to water leaks in under a dozen schools, late fees, disputed and reconciled meter readings, change/replacement of faulty meters, and slight fluctuations in the Levelized Energy Adjustment Clause power rate.

GDOE incurred its first full fiscal year of utility expenditures in FY 19 since it assumed occupancy of an additional office building and warehouses in Tiyan. The newly constructed three-story Building B is 82,300 square feet or 27,450 square feet per floor. The additional facilities are intended to consolidate all GDOE central office operations into one centralized location and thereby, create opportunities to generate revenue or improve operations at the former sites.

Capital Improvement Projects

In November 2017 and July 2018, GDOE received its third- and fourth-year funding (\$1M each year) and authorization to proceed under Phase III of the Office of Insular Affairs (OIA) Insular Assessment of Buildings and Classroom (ABC) Initiative. The initiative sets aside \$1M of OIA Capital Improvement Project funds annually, beginning in FY 15 and totaling \$5M, to address deferred maintenance projects in GDOE schools. Third year funding projects include canopy replacements and stage structural repairs at various schools. Fourth year funding projects include fire alarm and fire suppression system repairs and preventative maintenance for 35 Schools, and canopy replacements, drainage improvements, civil work, engineering services, and electrical repairs and bell and intercom installations at various schools. Additionally, in August 2018, GDOE was awarded \$750K to be used for the ABC Initiative and \$173,442 for a facilities plan in DOI Maintenance Assistance Program funds. The Governor's Office also awarded a DOI grant of \$1M to GDOE for playground equipment and \$1,980,000 for a district-wide School Safety System.

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Simon Sanchez High School (SSHS) Procurement

After three failed attempts to procure the financing and reconstruction of SSHS, on May 1, 2018, the Guam Legislature passed Bill 204-34 to transfer the procurement authority to GDOE and allow GDOE to procure separately the design and the construction of the school. The bill lapsed into law on May 16, 2018 as P.L. 34-101. Before the bill lapsed into law, a procurement protest related to the reconstruction prohibited any procurement associated with this project until the protest was settled. Under OPA-PA-17-009, the protest was dismissed October 12, 2018. GDOE successfully awarded the first contract for land surveying services related to the SSHS on April 18, 2019. The SSHS land survey was completed in August 2019 with a portion of the \$1M appropriated to GDOE under P.L. 34-116. GDOE issued a Request for Proposal (RFP) for design services for the new SSHS on December 13, 2019 and proposals were received on January 23, 2020. GDOE has completed the proposal evaluations and is in the process of initiating the negotiation process.

STATEMENT OF NET POSITION - GOVERNMENTAL ACTIVITIES

Net Position consists of current assets, capital assets, net of accumulated depreciation, and deferred outflows less current liabilities, noncurrent liabilities and deferred inflows. From FY 19 to FY 18, total assets and deferred outflows of resources decreased by \$30.7M, total liabilities and deferred inflows decreased by \$22.6M, and net position decreased by \$8.1M.

	FY 19 Amount	FY 18 Amount (As Restated)	% Change
Assets:			
Current assets	\$ 23,935,281	\$ 30,681,610	(22.0%)
Noncurrent assets	328,392,427	337,976,118	(2.8%)
Total assets	352,327,708	368,657,728	(4.4%)
Deferred outflows of resources	101,071,753	115,473,896	(12.5%)
Total assets and deferred outflows of resources	453,399,461	484,131,624	(6.3%)
Liabilities:			
Current Liabilities	33,143,432	35,744,016	(7.3%)
Noncurrent Liabilities	1,162,711,151	1,347,807,966	(13.7%)
Total liabilities	1,195,854,583	1,383,551,982	(13.6%)
Deferred inflows of resources	246,008,583	80,969,212	203.8%
Total liabilities and deferred inflows of resources	1,441,863,166	1,464,521,194	(1.5%)
Net Position:			
Invested in capital assets, net of related debt	158,622,263	161,180,449	(1.6%)
Restricted	1,658,237	759,279	118.4%
Unrestricted	(1,148,744,205)	(1,142,329,298)	0.6%
Total net position	(988,463,705)	(980,389,570)	0.8%
	\$ 453,399,461	\$ 484,131,624	(6.3%)

The deferred outflows and inflows of resources related to Other Post-Employment Benefits (OPEB) and pension expenses, as explained below.

The decrease in liabilities was mainly due to the \$176.9M decrease in OPEB liability.

GUAM DEPARTMENT OF EDUCATION

Management's Discussion and Analysis
Year Ended September 30, 2019

The \$8.1M decrease in net position is discussed below. Note that the FY 19 Balance Sheet prepared for Governmental Funds shows a \$1.5M deficit in comparison to the reported surplus of \$2.2M in FY 18. A reconciliation between the Governmental Funds and Statement of Activities is included as part of other supplementary information contained in these statements.

STATEMENT OF ACTIVITIES AND CHANGES IN NET POSITION - GOVERNMENTAL ACTIVITIES

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 \$8.1M for FY 19.

	FY 19 Amount	FY 18 Amount (As Restated)	% Change
Revenues:			
Appropriations	\$251,830,814	\$256,130,950	(1.7%)
Federal grants and contributions	61,712,998	61,452,125	0.4%
Contributions from component units	800,801	-	100.0%
Cafeteria Sales	6,120	31,213	(80.4%)
Other	639,467	1,547,763	(58.7%)
Total revenues	314,990,200	319,162,051	(1.3%)
Expenses:			
Elementary education	78,764,485	81,527,830	(3.4%)
Secondary education	111,711,268	119,618,509	(6.6%)
Direct student support	72,674,224	74,534,632	(2.5%)
General administration	39,335,026	40,142,716	(2.0%)
Retiree healthcare benefits	11,539,386	11,732,727	(1.6%)
Charter Schools	9,039,946	7,426,907	21.7%
Total expenses	323,064,335	334,983,321	(3.6%)
Change in net position	(8,074,135)	(15,821,270)	(49.0%)
Net position at beginning of year (as restated)	(980,389,570)	(964,568,300)	1.6%
Net position at end of year	\$(988,463,705)	\$(980,389,570)	0.8%

Total revenues decreased by \$4.1M largely due to a decrease in appropriations of \$4.3M, as discussed earlier. As previously noted, the decline in cafeteria sales is attributed to the increase in the number of schools participating in the CEP.

Overall total expenses decreased by \$11.9 M largely due to local funding budgetary reductions under the FY 19 Budget Act and resulted in a comparative reduction in operational costs, primarily in personnel. Additionally, the decrease was impacted by decreases in lease expenses and net pension liability. Comparative expenditures for charter schools, however, increased by \$194K; this is net the \$1.4M in new charter school expenditures for the Science is Fun and Awesome Academy Charter School which first opened in FY 19.

As discussed in Note 10, the beginning net position of governmental activities has been restated. GDOE's management determined that capital lease assets and related capital lease liabilities were overstated by \$21,292,187 and \$16,292,200, respectively. As a result of this determination, beginning net position of governmental activities has been restated by \$4,999,987.

GUAM DEPARTMENT OF EDUCATION

Management's Discussion and Analysis
Year Ended September 30, 2019

CAPITAL ASSETS AND LONG-TERM DEBT

GDOE's investment in capital assets for its governmental activities as of September 30, 2019 amounted to \$505.1M net of accumulated depreciation of \$169.2M, leaving a net book value of \$335.9M. GDOE's capital assets include buildings and improvements, vehicles, furniture and equipment, and construction in progress. See table below.

GDOE Capital Assets	FY 19 Amount	FY 18 Amount (As Restated)	% Change
Non-depreciable assets:			
Land	\$ 435,280	\$ 435,280	0.0%
Construction in progress	1,827,062	632,952	188.7%
	2,262,342	1,068,232	111.8%
Depreciable assets:			
Buildings and improvements	490,376,217	489,679,264	0.1%
Vehicles, furniture, and equipment	15,862,976	15,403,928	3.0%
	506,239,193	505,083,192	0.2%
Accumulated depreciation	(180,984,108)	(169,175,306)	7.0%
Depreciable assets, net	325,255,085	335,907,886	(3.2%)
Totals	\$ 327,517,427	\$ 336,976,118	(2.8%)

The significant increase in Construction in Progress is due to repair and maintenance services of fire alarm/suppression system, and canopy walkway replacements for the L.B. Johnson and Marcial A. Sablan Elementary Schools. Increases in vehicles, furniture, and equipment were related to purchases of maintenance vehicles, software, George Washington High wireless LAN (local area network) installation, and Tiyan High gym equipment.

Capital leases associated with GDOE leased schools totaled \$168.9M of which \$161.5M were long term and \$7.4M were current obligations. OPEB and pension liability of \$990M made up the lion's share of noncurrent liabilities. The balance of noncurrent liabilities of \$11.2M are payroll related, compensated absences and sick leave liability.

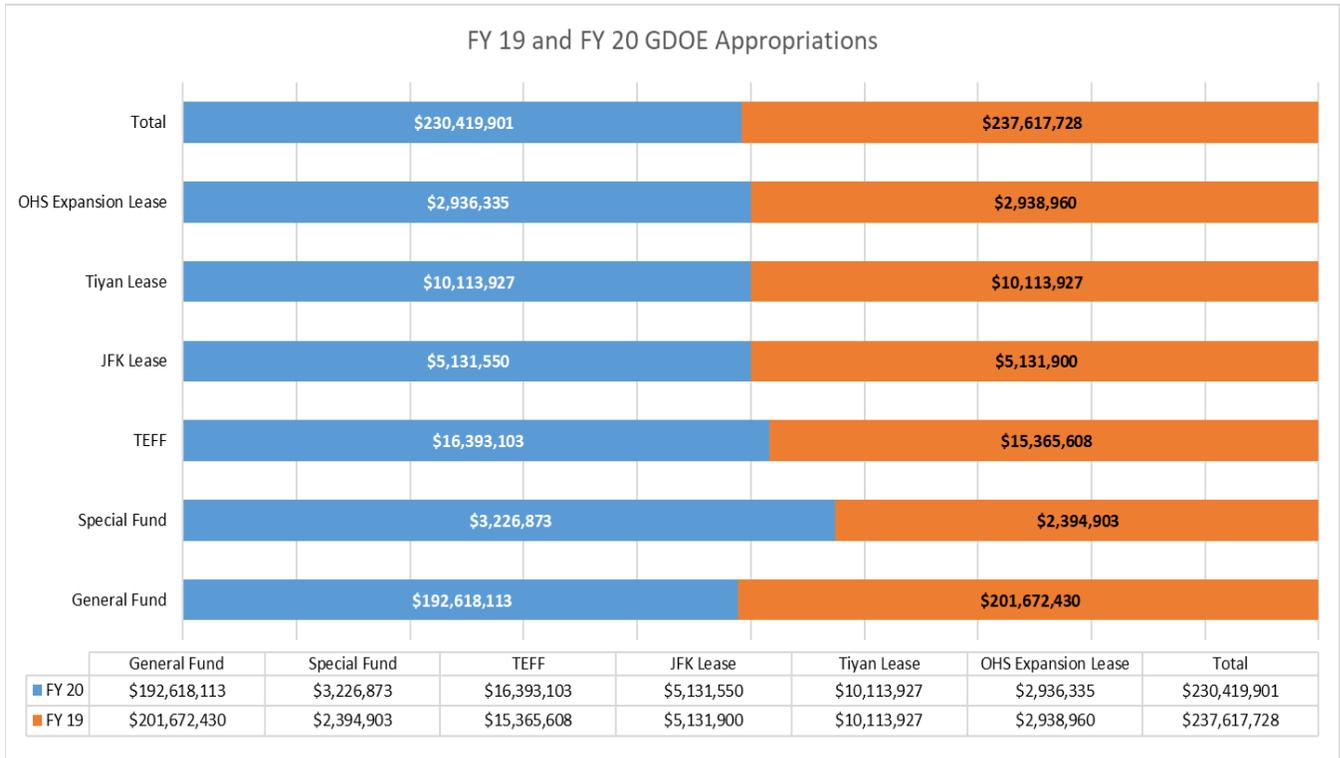
FACTORS AND NEXT YEAR'S BUDGET

Pursuant to the FY 20 Budget Act (P.L. 35-36), GF revenues for FY 20 were projected to increase approximately \$28M, from \$776M to \$804M. While BBMR Circular 20-01 excluded any reserves on executive branch agency appropriations, Section 15, Chapter II of the FY 20 Budget Act mandated an exemption of any reserves imposed on GDOE's FY 20 appropriations.

The FY 20 Budget Act also contained provisions to: 1) lift the freeze imposed under the FY 19 Budget Act on employee increments, reinstating employee increments, and authorizing such payments beginning October 1, 2019, as funds become available, for employees who received evaluations recommending an increment during FY 19; and 2) authorized the Governor to expend funds to conduct a wage study of all GovGuam positions to include Nurse and Educator Pay plans.

GUAM DEPARTMENT OF EDUCATION

Management’s Discussion and Analysis
Year Ended September 30, 2019



FY 20 appropriations for GDOE totaled \$230.4M, with a meager 1.39% or \$3.2M overall *increase* over FY 19 appropriation levels (\$227.2M excluding charter schools). While GDOE’s FY 20 appropriations excluded funding for charter schools, Chapter II part II of the FY 20 Budget Act provided \$10,516,500 in a separate appropriation for charter schools’ FY 20 operations in compliance with amendments (enacted in July 2019 under P.L. 35-29) to the Charter School Act of 2009; the separate appropriation effectuating the mandate to sever charter schools’ budgetary and organizational process(es) from GDOE.

The \$3.2M net increase in authorized spending included a total net increase of \$3.9M offset by \$696K in reduced funding from the following:

1. \$2,357,529 in increased funding for operations (i.e. \$831,825 GF, \$633,950 TEFF, and \$891,754 Healthy Futures Fund).
2. \$1,328,545 in new funding for school grass cutting/grounds maintenance of \$393,545, mediation dispute services of \$50K, and school facility repairs of \$885K.
3. \$173,117 in increased funding for Chamorro Studies curriculum of \$139,338 and GDOE sports facilities of \$33,779.
4. \$696K reduced funding: \$500K less for the new SSHS project, \$100K less for the GDOE’s First-Generation Trust Initiative contribution, \$86,661 less for school libraries, \$4,737 less for interscholastic sports, \$2,165 less for health and physical activities’ programs, \$2,625 less for the Okkodo High School (OHS) expansion lease payments, and \$350 less for the JFKHS lease payments.

GUAM DEPARTMENT OF EDUCATION

Management's Discussion and Analysis Year Ended September 30, 2019

The \$3.2M in FY 20 special fund appropriations was designated for interscholastic sports, health and physical education activities, school libraries, and GDOE sports facilities repairs, and includes the \$891,754 in new funding for operations under the Healthy Futures Fund. Additionally, and not included in the comparative table above, is the \$12.5M in additional appropriations (Federal reimbursements and cash collections) related to the National School Lunch and School Breakfast Programs. The reimbursements are provided by the USDA's Food and Nutrition Services for meals served to students and children who attend public schools.

GDOE also received an additional \$1.1M from the DOI/OIA, with the Governor's Office, to support the architectural and engineering phase for the new SSHS. The funding will help supplement continuous appropriations to enable GDOE to complete and award the RFP for design services for the new SSHS.

While GDOE continues to pay for PYO with an already limited current year funding, PYO payments shift funding away from current year obligations. P.L. 35-36 (FY 20 Appropriations Act) provides the Superintendent with the: (1) authority to use cost savings from a Cost Savings Plan; and (2) option to use surplus from the appropriation for increments, promotions, and reclassifications to assist with PYO payments. This utilization would decrease the amount of obligations not yet fully paid from FY 19, but it also decreases available cash for FY 20 obligations.

The decrease in FY 20 appropriations and residual effect of the 2017 TCJA could significantly impact operations and public education. The GEB's Resolution No. 2019-17 noted the board's plan to prepare a supplemental budget request and authorized the Superintendent to implement austerity measures to reduce and contain the cost of locally funded programs, activities, and operations for FY 20. The request for additional funding and cost containment measures could only soften, not eliminate, the compounding effect of continued insufficient funding.

It is imperative that GDOE receive additional funding through increased budget requests, supplemental appropriations, or other means.

The Power Purchase Agreement (PPA), between the Guam Education Financing Foundation and GDOE for the installation of solar panels and related generation of power for OHS, Astumbo Middle, and Liguana and Adacao Elementary Schools, continues to undergo review and discussion with the Office of Attorney General. Meanwhile, the passage of P.L. 35-76 granted GDOE authority to enter similar PPAs for GDOE's non-leased schools may potentially provide energy cost savings to the Department.

The Coronavirus Disease 2019 global pandemic, containment, and mitigation measures worldwide is expected to negatively impact GDOE's operations and net position. Due to uncertainty surrounding the duration of the state of emergency, GDOE is unable to reasonably estimate its ultimate financial impact. On May 29, 2020, GDOE received \$41.5M from ED's Education Stabilization Fund Allocation for Outlying Areas. This grant is intended to mitigate the impact of the pandemic on elementary and secondary schools throughout the island. As the effects of the pandemic are still on-going, it is yet to be seen if the funding will be sufficient in the long term.

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 Franklin J.T. Cooper-Nurse, Acting Deputy Superintendent of Finance and Administrative Services, Guam Department of Education, 501 Mariner Avenue, Barrigada, Guam 96913; e-mail fjtcooper-nurse@gdoe.net; call (671) 300-1556; or log on to our website at: www.gdoe.net.

GUAM DEPARTMENT OF EDUCATION

Statement of Net Position
September 30, 2019

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

Current assets:	
Cash and cash equivalents	\$ 9,666,976
Receivables from federal agencies	8,663,846
Due from component units	43,278
Prepayments and other assets	664,928
Deposit	<u>4,896,253</u>
Total current assets	<u>23,935,281</u>
Noncurrent assets:	
Deferred maintenance and insurance costs	875,000
Capital assets:	
Nondepreciable capital assets	2,262,342
Depreciable capital assets, net of accumulated depreciation	<u>325,255,085</u>
Total noncurrent assets	<u>328,392,427</u>
Total assets	<u>352,327,708</u>
Deferred outflows of resources:	
Deferred outflows from OPEB	53,227,666
Deferred outflows from pensions	<u>47,844,087</u>
Total deferred outflows of resources	<u>101,071,753</u>
	\$ <u>453,399,461</u>

LIABILITIES

Current liabilities:	
Accounts payable	\$ 12,240,397
Accrued payroll	8,627,207
Other liabilities and accruals	4,488,918
Payable to federal agencies	50,695
Current portion of obligations under capital lease	7,353,893
Current portion of compensated absences payable	<u>382,322</u>
Total current liabilities	<u>33,143,432</u>
Noncurrent liabilities:	
OPEB liability	549,588,821
Net pension liability	440,389,510
Compensated absences payable, net of current portion	4,396,728
Accrued sick leave liability	6,794,821
Obligations under capital lease, net of current portion	<u>161,541,271</u>
Total noncurrent liabilities	<u>1,162,711,151</u>
Total liabilities	<u>1,195,854,583</u>
Deferred inflows of resources:	
Deferred inflows from OPEB	228,758,899
Deferred inflows from pensions	<u>17,249,684</u>
Total deferred inflows of resources	<u>246,008,583</u>

Commitments and contingencies

NET POSITION

Net investment in capital assets	158,622,263
Restricted for:	
First Generation Trust Fund Initiative	1,658,237
Unrestricted	<u>(1,148,744,205)</u>
Total net position	<u>(988,463,705)</u>
	\$ <u>453,399,461</u>

See accompanying notes to financial statements.

GUAM DEPARTMENT OF EDUCATION

Statement of Activities
Year Ended September 30, 2019

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
Governmental Activities:				
Elementary Education	\$ 78,764,485	\$ -	\$ -	\$ (78,764,485)
Secondary Education	111,711,268	-	27,330	(111,683,938)
Direct Student Support	72,674,224	645,587	56,871,953	(15,156,684)
General Administration	39,335,026	-	5,714,516	(33,620,510)
Retiree healthcare benefits	11,539,386	-	11,539,386	-
Charter Schools	9,039,946	-	9,039,946	-
Total governmental activities	<u>\$ 323,064,335</u>	<u>\$ 645,587</u>	<u>\$ 83,193,131</u>	<u>(239,225,617)</u>
General revenues:				
Appropriations:				
Operations				230,123,937
Textbooks				<u>1,027,545</u>
Total general revenues				<u>231,151,482</u>
Change in net position				<u>(8,074,135)</u>
Net position at beginning of year, as previously reported				(975,389,583)
Restatement (Note 10)				<u>(4,999,987)</u>
Net position at beginning of year, as restated				<u>(980,389,570)</u>
Net position at end of year				<u>\$ (988,463,705)</u>

See accompanying notes to financial statements.

GUAM DEPARTMENT OF EDUCATION

Balance Sheet
Governmental Funds
September 30, 2019

<u>ASSETS</u>	<u>General</u>	<u>Special Revenue Federal Grants Assistance</u>	<u>Total</u>
Cash and cash equivalents	\$ 9,485,438	\$ 181,538	\$ 9,666,976
Receivables from federal agencies	-	8,663,846	8,663,846
Due from component units	43,278	-	43,278
Prepayments and other assets	664,928	-	664,928
Deposit	4,896,253	-	4,896,253
Due from other funds	5,698,364	-	5,698,364
	<hr/>	<hr/>	<hr/>
Total assets	\$ <u>20,788,261</u>	\$ <u>8,845,384</u>	\$ <u>29,633,645</u>
<u>LIABILITIES AND FUND BALANCES (DEFICIT)</u>			
Liabilities:			
Accounts payable	\$ 11,235,541	\$ 1,004,856	\$ 12,240,397
Accrued payroll	7,391,273	1,235,934	8,627,207
Other liabilities and accruals	3,633,383	855,535	4,488,918
Payable to federal agencies	-	50,695	50,695
Due to other funds	-	5,698,364	5,698,364
	<hr/>	<hr/>	<hr/>
Total liabilities	<u>22,260,197</u>	<u>8,845,384</u>	<u>31,105,581</u>
Fund balances (deficit):			
Committed	1,658,237	-	1,658,237
Unassigned	(3,130,173)	-	(3,130,173)
	<hr/>	<hr/>	<hr/>
Total fund balances (deficit)	<u>(1,471,936)</u>	<u>-</u>	<u>(1,471,936)</u>
Total liabilities and fund balances (deficit)	\$ <u>20,788,261</u>	\$ <u>8,845,384</u>	\$ <u>29,633,645</u>

See accompanying notes to financial statements.

GUAM DEPARTMENT OF EDUCATION

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
September 30, 2019

Total fund balance (deficit)-governmental funds		\$ (1,471,936)
Amounts reported for governmental activities in the statement of net position are different because:		
Maintenance costs associated with capital lease obligations in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		875,000
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	\$ 490,376,217	
Vehicles, furniture and equipment	15,862,976	
Land	435,280	
Construction in progress	1,827,062	
Accumulated depreciation	<u>(180,984,108)</u>	
Capital assets, net of accumulated depreciation		327,517,427
Deferred outflows are charged to future periods and are not reported in the governmental funds. Those deferred outflows consist of:		
Deferred outflows from pensions	47,844,087	
Deferred outflows from OPEB	<u>53,227,666</u>	
		101,071,753
Deferred inflows benefit future periods and are not reported in the governmental funds. Those deferred inflows consist of:		
Deferred inflows from pensions	(17,249,684)	
Deferred inflows from OPEB	<u>(228,758,899)</u>	
		(246,008,583)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds. These liabilities include:		
OPEB liability	(549,588,821)	
Net pension liability	(440,389,510)	
Accrued sick leave liability	(6,794,821)	
Compensated absences payable	(4,779,050)	
Obligations under capital lease	<u>(168,895,164)</u>	
Long-term liabilities		<u>(1,170,447,366)</u>
Net position of governmental activities		\$ <u><u>(988,463,705)</u></u>

See accompanying notes to financial statements.

GUAM DEPARTMENT OF EDUCATION

Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit)
Governmental Funds
Year Ended September 30, 2019

	<u>General</u>	<u>Special Revenue</u> Federal Grants Assistance	<u>Total</u>
Revenues:			
Appropriations	\$ 245,229,414	\$ 6,601,400	\$ 251,830,814
Federal grants and contributions	1,290,615	60,422,383	61,712,998
Contributions from component units	800,801	-	800,801
Cafeteria sales	6,120	-	6,120
Fees and other program receipts	429,769	209,698	639,467
Total revenues	<u>247,756,719</u>	<u>67,233,481</u>	<u>314,990,200</u>
Expenditures:			
Elementary Education	74,329,849	-	74,329,849
Secondary Education	85,769,546	27,330	85,796,876
Direct Student Support	16,614,314	55,971,152	72,585,466
General Administration	33,754,691	4,633,599	38,388,290
Retiree healthcare benefits	11,539,386	-	11,539,386
Guahan Academy Charter School	3,846,882	-	3,846,882
iLearn Academy Charter School	3,774,560	-	3,774,560
Science is Fun and Awesome Academy Charter School	1,418,504	-	1,418,504
Debt service:			
Lease payments	20,412,975	6,601,400	27,014,375
Total expenditures	<u>251,460,707</u>	<u>67,233,481</u>	<u>318,694,188</u>
Net change in fund balances (deficit)	(3,703,988)	-	(3,703,988)
Fund balances at beginning of year	<u>2,232,052</u>	-	<u>2,232,052</u>
Fund balances (deficit) at end of year	<u>\$ (1,471,936)</u>	<u>\$ -</u>	<u>\$ (1,471,936)</u>

See accompanying notes to financial statements.

GUAM DEPARTMENT OF EDUCATION

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit) to the Statement of Activities
Year Ended September 30, 2019

Total net change in fund balances (deficit) - governmental funds \$ (3,703,988)

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

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 depreciation exceeded capital outlays in the current period. For the current year, these amounts consist of:

Capital outlays, net of disposals	\$ 2,387,451	
Depreciation expense	<u>(11,846,142)</u>	(9,458,691)

Prepayment of capital lease obligations in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. (125,000)

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:

Repayment of capital leases	6,900,505
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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:

OPEB activity	(4,589,137)	
Net pension activity	3,078,409	
Change in compensated absences payable	145,385	
Change in accrued sick leave liability	<u>(321,618)</u>	<u>(1,686,961)</u>

Change in net position of governmental activities \$ (8,074,135)

See accompanying notes to financial statements.

GUAM DEPARTMENT OF EDUCATION

Statement of Fiduciary Net Position
Agency Fund
September 30, 2019

ASSETS

Cash and cash equivalents	\$ <u>755,407</u>
Total assets	\$ <u><u>755,407</u></u>

LIABILITIES

Deposits and other liabilities	\$ <u>755,407</u>
Total liabilities	\$ <u><u>755,407</u></u>

See accompanying notes to financial statements.

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2019

(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

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 Guam Education Board per Title 17 of the Guam Code Annotated (GCA) Chapter 3 section § 3102.3, composed of 9 voting members (6 elected and 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 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, 2019, the Foundation reported minimal collections, therefore omission of the Foundation is not considered material to the accompanying financial statements.

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 deferred outflows of resources, and liabilities and deferred inflows of resources, 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 are 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, 2019

(1) Summary of Significant Accounting Policies, Continued

B. Department-Wide Financial Statements, Continued

- *Unrestricted net position* consists 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 such to be available for general operations. Such often has restrictions that are imposed by management, but can be removed or modified.

The government-wide Statement of Net Position reports \$1,658,237 of restricted net position, which is restricted by enabling legislation.

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 or services provided by a particular function. Program revenues also include grants and contributions 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.

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 classifications:

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.

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2019

(1) Summary of Significant Accounting Policies, Continued

D. Fund Balance, Continued

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

Department -Wide Financial Statements:

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.

Amounts reported as program revenue include 1) changes to customers or applicants for goods, services, or privileges provided; and 2) operating grants and contributions. Internally generated resources are reported as general revenues rather than as program revenues. General revenues are derived from legislative appropriations.

Governmental Funds Financial Statements:

Governmental funds financial statements account for the general governmental activities of GDOE and 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.

Fund Accounting:

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.

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2019

(1) Summary of Significant Accounting Policies, Continued

E. Measurement Focus and Basis of Accounting, Continued

GDOE reports the following major governmental funds:

General Fund - This fund is the primary operating fund of GDOE. It is used to account for all governmental transactions, except those required to be accounted for in another fund.

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.

In addition, GDOE reports the following fiduciary fund types:

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.

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, 2019, GDOE has significant encumbrances summarized as follows:

General Fund	\$ 1,753,894
Federal Grants Assistance Fund	<u>14,025,659</u>
	<u>\$ 15,779,553</u>

G. Cash and Cash Equivalents

Cash and cash equivalents include deposits with financial institutions on Guam in interest and non-interest bearing accounts as well as short-term investments in time certificates of deposit with a maturity date within three months of the date acquired.

H. Receivables

Receivables primarily consist of federal grants due from U.S. federal grantor agencies.

I. Prepaid Items

Certain payments made to vendors or persons for services reflect costs applicable to future accounting periods and are recorded as prepaid items in both department-wide and fund financial statements.

J. Interfund Receivable/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.

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2019

(1) Summary of Significant Accounting Policies, Continued

J. Interfund Receivable/Payables, Continued

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, 2019

(1) Summary of Significant Accounting Policies, Continued

K. Capital Assets, Continued

Capital asset activities for the year ended September 30, 2019 are as follows:

Governmental Activities

	Beginning Balance (As Restated)	Additions	Transfers and Retirements	Ending Balance
Non-depreciable capital assets:				
Land	\$ 435,280	\$ -	\$ -	\$ 435,280
Construction in progress	<u>632,952</u>	<u>1,722,372</u>	<u>(528,262)</u>	<u>1,827,062</u>
	<u>1,068,232</u>	<u>1,722,372</u>	<u>(528,262)</u>	<u>2,262,342</u>
Depreciable capital assets:				
Buildings and improvements	489,679,264	168,691	528,262	490,376,217
Vehicles, furniture and equipment	<u>15,403,928</u>	<u>496,388</u>	<u>(37,340)</u>	<u>15,862,976</u>
	505,083,192	665,079	490,922	506,239,193
Less: accumulated depreciation	<u>(169,175,306)</u>	<u>(11,846,142)</u>	<u>37,340</u>	<u>(180,984,108)</u>
Depreciable capital assets, net	<u>335,907,886</u>	<u>(11,181,063)</u>	<u>528,262</u>	<u>325,255,085</u>
	\$ <u>336,976,118</u>	\$ <u>(9,458,691)</u>	\$ <u>-</u>	\$ <u>327,517,427</u>

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

Governmental activities:	
Elementary Education	\$ 2,922,713
Secondary Education	7,721,067
Direct Student Support	265,934
General Administration	<u>936,428</u>
	\$ <u>11,846,142</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 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.

M. Long-Term Debt

The liabilities reported in the department-wide financial statements include GDOE's capital leases, and long-term liabilities including vacation, sick leave, pension and OPEB.

N. 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:

First Generation Trust Fund Initiative – identifies amounts from the University of Guam, Guam Community College and General Fund per Public Law 33-07 created to establish a scholarship fund for students. During the year ended September 30, 2019, GDOE received \$800,801 from component units (University of Guam and Guam Community College) for the purpose of providing scholarship fund to students.

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2019

(1) Summary of Significant Accounting Policies, Continued

O. 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 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.

P. 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.

Q. Payable to Federal Agencies

Payable to federal agencies represents federal funds received in advance of eligible expenditures which have not been earned or do not meet the "available" criterion for revenue recognition under the modified accrual basis of accounting.

R. 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.

S. 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, to include additional rentals, are \$40,171,250 payable through October 1, 2026. For the year ended September 30, 2019, lease payments made and total Compact Impact grant revenues received were \$6,601,400.

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2019

(1) Summary of Significant Accounting Policies, Continued

S. Dedicated Revenues and Pledges, Continued

GovGuam, on behalf of GDOE, has also pledged a portion of future Section 30 revenues to finance annual lease payments for the Okkodo High School Expansion lease agreement. Total payments remaining on this lease, to include additional rentals, are approximately \$34,922,455 payable through December 1, 2030. For the year ended September 30, 2019, lease payments made and total Section 30 revenues received were \$ 2,938,960 and \$77,046,768, respectively.

T. Pensions

Pensions are required to be recognized and disclosed using the accrual basis of accounting. GDOE recognizes a net pension liability for the defined benefit pension plan in which it participates, which represents GDOE's proportionate share of excess total pension liability over the pension plan assets – actuarially calculated – of a single employer defined benefit plan, measured one year prior to fiscal year-end and rolled forward. The total pension liability also includes GDOE's proportionate share of the liability for ad hoc cost-of-living adjustments (COLA) and supplemental annuity payments that are anticipated to be made to defined benefit plan members and for anticipated future COLA payments to DCRS members. Changes in the net pension liability during the period are recorded as pension expense, or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change, in the period incurred. Those changes in net pension liability that are recorded as deferred inflows of resources or deferred outflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the qualified pension plan and recorded as a component of pension expense beginning with the period in which they are incurred. Projected earnings on qualified pension plan investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and are amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred.

U. Other Postemployment Benefits (OPEB)

OPEB is required to be recognized and disclosed using the accrual basis of accounting. GDOE recognizes a net OPEB liability for the defined benefit OPEB plan in which it participates, which represents GDOE's proportionate share of total OPEB liability - actuarially calculated - of a single-employer defined benefit plan, measured one year prior to fiscal year-end and rolled forward. An OPEB trust has not been established, thus the OPEB plan does not presently report OPEB plan fiduciary net position. Instead, the OPEB plan is financed on a substantially "pay-as-you-go" basis.

Changes in the net OPEB liability during the period are recorded as OPEB expense, or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change, in the period incurred. Those changes in net OPEB liability that are recorded as deferred inflows of resources or deferred outflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the qualified OPEB plan and recorded as a component of OPEB expense beginning with the period in which they are incurred.

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2019

(1) Summary of Significant Accounting Policies, Continued

V. Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and deferred outflows of resources, liabilities and deferred inflows of resources, 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.

W. 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, 2018 from which summarized information was derived.

X. New Accounting Standards

During the year ended September 30, 2019, GDOE implemented the following pronouncements:

- GASB Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset.
- GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements.

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

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in Statement No. 84 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2019

(1) Summary of Significant Accounting Policies, Continued

X. New Accounting Standards, Continued

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The provisions in Statement No. 89 are effective for fiscal years beginning after December 15, 2019. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In August 2018, GASB issued Statement No. 90, *Majority Equity Interests - an Amendment of GASB Statements No. 14 and No. 61*, which improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and the relevance of financial statement information for certain component units. The provisions in Statement No. 90 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*, which clarifies the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The provisions in Statement No. 91 are effective for fiscal years beginning after December 15, 2020. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In May 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postpones the effective dates of GASB Statement No. 84, 89, 90 and 91 by one year and GASB Statement No. 87 by 18 months; however, earlier application of the provisions addressed in GASB Statement No. 95 is encouraged and is permitted to the extent specified in each pronouncement as originally issued. Management has yet to ascertain whether implementation of these statements will be postponed as provided in GASB Statement No. 95.

(2) Deposits

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, 2019, the carrying amount of GDOE's total cash and cash equivalents was \$9,666,976 and the corresponding bank balances were \$11,912,598. Of the bank balances, \$11,360,298 is maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining amount of \$552,300 represents short-term investments held and administered by GDOE's trustees in accordance with various trust agreements. Based on negotiated trust and custody contracts, all of the investments were held in GDOE's name by GDOE's custodial financial institutions at September 30, 2019. As of September 30, 2019, bank deposits in the amount of \$802,300 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, 2019

(3) Changes in Long-Term Liabilities

Changes in long-term liabilities for the year ended September 30, 2019, are as follows:

	Beginning Balance (As Restated)	Additions	Reductions	Ending Balance	Due Within One Year
Accrued sick leave liability	\$ 6,473,203	\$ 547,046	\$ (225,428)	\$ 6,794,821	\$ -
Compensated absences	4,924,435	404,921	(550,306)	4,779,050	382,322
Net pension liability	441,379,861	41,488,487	(42,478,838)	440,389,510	-
OPEB liability	726,529,256	17,177,562	(194,117,997)	549,588,821	-
Obligations under capital lease	<u>175,795,669</u>	<u>-</u>	<u>(6,900,505)</u>	<u>168,895,164</u>	<u>7,353,893</u>
	\$ <u>1,355,102,424</u>	\$ <u>59,618,016</u>	\$ <u>(244,273,074)</u>	\$ <u>1,170,447,366</u>	\$ <u>7,736,215</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, 2019. The estimated accumulated amount of unused sick leave at September 30, 2019, is \$40,607,108, of which an estimated \$6,794,821 may be convertible by DCRS employees upon retirement.

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.

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2019

(4) Commitments and Contingencies, Continued

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 or her 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, 2019. 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.

G. Internal Audits

There are certain internal audits ongoing as of the date of this report. No adjustments have been made in the accompanying financial statements as such are still in progress.

(5) Pensions

GDOE is statutorily responsible for providing pension benefits for GDOE employees through the GovGuam Retirement Fund (GGRF).

A. General Information About the Pension Plans:

Plan Description: GGRF administers the GovGuam Defined Benefit (DB) Plan, a single-employer defined benefit pension plan, and the Defined Contribution Retirement System (DCRS). The DB Plan provides retirement, disability, and survivor benefits to plan members who enrolled in the plan prior to October 1, 1995. 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, which includes GDOE, 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 DCRS Plan. Hence, the DB Plan became a closed group.

Members of the DB Plan who retired prior to October 1, 1995, or their survivors, are eligible to receive annual supplemental annuity payments. In addition, retirees under the DB and DCRS Plans who retired prior to September 30, 2018 are eligible to receive an annual ad hoc cost of living allowance (COLA).

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.

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2019

(5) Pensions, Continued

A. General Information About the Pension Plans, Continued:

Plan Membership: As of September 30, 2018 (the measurement date), plan membership consisted of the following:

DB members:	
Inactive employees or beneficiaries currently receiving benefits	7,273
Inactive employees entitled to but not yet receiving benefits	3,170
Active employees	<u>5,188</u>
	15,631
DCRS members:	
Active employees	<u>5,921</u>
	<u>21,552</u>

Benefits Provided: The DB Plan provides pension benefits to retired employees generally based on age and/or years of credited service and an average of the three highest annual salaries received by a member during years of credited service, or \$6,000, whichever is greater. Members who joined the DB Plan prior to October 1, 1981 may retire with 10 years of service at age 60 (age 55 for uniformed personnel); or with 20 to 24 years of service regardless of age with a reduced benefit if the member is under age 60; or upon completion of 25 years of service at any age. Members who joined the DB Plan on or after October 1, 1981 and prior to August 22, 1984 may retire with 15 years of service at age 60 (age 55 for uniformed personnel); or with 25 to 29 years of service regardless of age with a reduced benefit if the member is under age 60; or upon completion of 30 years of service at any age.

Members who joined the DB Plan after August 22, 1984 and prior to October 1, 1995 may retire with 15 years of service at age 65 (age 60 for uniformed personnel); or with 25 to 29 years of service regardless of age with a reduced benefit if the member is under age 65; or upon completion of 30 years of service at any age. Upon termination of employment before attaining at least 25 years of total service, a member is entitled to receive a refund of total contributions including interest. A member who terminates after completing at least 5 years of service has the option of leaving contributions in the GGRF and receiving a service retirement benefit upon attainment of the age of 60 years. In the event of disability during employment, members under the age of 65 with six or more years of credited service who are not entitled to receive disability payments from the United States Government are eligible to receive sixty six and two-thirds of the average of their three highest annual salaries received during years of credited service. The DB Plan also provides death benefits.

Supplemental annuity benefit payments are provided to DB retirees in the amount of \$4,238 per year, but not to exceed \$40,000 per year when combined with their regular annual retirement annuity. Annual COLA payments are provided to DB and DCRS retirees in a lump sum amount of \$2,000. Both supplemental annuity benefit payments and COLA payments are made at the discretion of the Guam Legislature, but are funded on a "pay-as-you-go" basis so there is no plan trust. It is anticipated that ad hoc COLA and supplemental annuity payments will continue to be made for future years at the same level currently being paid.

On September 20, 2016, the Guam Legislature enacted Public Law 33-186, which created two new government retirement plans; the DB 1.75 Plan and the Government of Guam Retirement Security Plan (GRSP). On February 4, 2020, the Guam Legislature terminated the GRSP. Commencing April 1, 2017, eligible employees elected, during the "election window", to participate in the DB 1.75 Plan with an effective date of January 1, 2018.

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2019

(5) Pensions, Continued

A. General Information About the Pension Plans, Continued:

The DB 1.75 Plan is open for participation by certain existing employees, new employees, and reemployed employees who would otherwise participate in the DCRS Plan and who make election on a voluntary basis to participate in the DB 1.75 Plan by December 31, 2017. Employee contributions are made by mandatory pre-tax payroll deduction at the rate of 9.5% of the employee's base salary while employer contributions are actuarially determined. Members of the DB 1.75 Plan automatically participate in the GovGuam deferred compensation plan, pursuant to which employees are required to contribute 1% of base salary as a pre-tax mandatory contribution. Benefits are fully vested upon attaining 5 years of credited service.

Members of the DB 1.75 Plan may retire at age 62 with 5 years of credited service, or at age 60 with 5 years of credited service without survivor benefits, or at age 55 with 25 years of credited service but the retirement annuity shall be reduced ½ of 1% for each month that the age of the member is less than 62 years (6% per year). Credited service is earned for each year of actual employment by the GovGuam as an employee. Upon retirement, a retired member is entitled to a basic retirement annuity equal to an annual payment of 1.75% of average annual salary multiplied by years of credited service. Average annual salary means the average of annual base salary for the three years of service that produce the highest average.

Contributions and Funding Policy: Contribution requirements of participating employers and active members to the DB Plan are determined in accordance with Guam law. Employer contributions are actuarially determined under the One-Year Lag Methodology. Under this methodology, the actuarial valuation date is used for calculating the employer contributions for the second following fiscal year. For example the September 30, 2017 actuarial valuation was used for determining the year ended September 30, 2019 statutory contributions. Member contributions are required at 9.52% of base pay.

As a result of actuarial valuations performed as of September 30, 2017, 2016 and 2015, contribution rates required to fully fund the Retirement Fund liability, as required by Guam law, for the years ended September 30, 2019, 2018 and 2017, respectively, have been determined as follows:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Normal costs (% of DB Plan payroll)	13.54%	15.97%	16.27%
Employee contributions (DB Plan employees)	<u>9.52%</u>	<u>9.55%</u>	<u>9.55%</u>
Employer portion of normal costs (% of DB Plan payroll)	<u>4.02%</u>	<u>6.42%</u>	<u>6.72%</u>
Employer portion of normal costs (% of total payroll)	2.29%	1.60%	1.87%
Unfunded liability cost (% of total payroll)	<u>21.29%</u>	<u>22.12%</u>	<u>21.60%</u>
Government contribution as a % of total payroll	<u>23.58%</u>	<u>23.72%</u>	<u>23.47%</u>
Statutory contribution rates as a % of DB Plan payroll:			
Employer	<u>26.56%</u>	<u>27.83%</u>	<u>27.41%</u>
Employee	<u>9.52%</u>	<u>9.55%</u>	<u>9.55%</u>

GDOE's contributions to the DB Plan for the years ended September 30, 2019, 2018 and 2017 were \$19,322,785, \$18,562,514 and \$10,126,138, respectively, which were equal to the statutorily required contributions for the respective years then ended.

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2019

(5) Pensions, Continued

A. General Information About the Pension Plans, Continued:

GDOE’s contributions to the supplemental annuity benefit payments and the COLA payments for the years ended September 30, 2019, 2018 and 2017 were \$6,612,716, \$7,161,773 and \$6,719,773, respectively, which were equal to the statutorily required contributions for the respective years then ended.

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.

Contributions into the DCRS plan by members are based on an automatic deduction of 5% of the member’s regular base pay, which increased to 6.2% effective January 1, 2018. The contribution is periodically deposited into an individual annuity account within the DCRS. Employees are afforded the opportunity to select from different annuity accounts available under the DCRS.

Statutory employer contributions for the DCRS plan for the year ended September 30, 2019 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 DCRS, which increased to 6.2% effective January 1, 2018. The remaining amount is contributed towards the unfunded liability of the defined benefit plan.

GDOE’s contributions to the DCRS Plan for the years ended September 30, 2019, 2018 and 2017 were \$ 20,140,458, \$23,612,660 and \$ 31,728,120, respectively, which were equal to the required contributions for the respective years then ended. Of these amounts, \$15,438,741, \$18,706,470 and \$25,960,959 were contributed toward the unfunded liability of the DB Plan for the years ended September 30, 2019, 2018 and 2017, respectively.

B. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:

Pension Liability: At September 30, 2019, GDOE reported a net pension liability for its proportionate share of the net pension liabilities measured as of September 30, 2018, which is comprised of the following:

Defined Benefit Plan	\$ 346,092,450
Ad Hoc COLA/supplemental annuity Plan for DB retirees	81,448,019
Ad Hoc COLA Plan for DCRS retirees	<u>12,849,041</u>
	<u>\$ 440,389,510</u>

GDOE’s proportion of the GovGuam net pension liabilities was based on GDOE’s expected plan contributions relative to the total expected contributions received by the respective pension plans for GovGuam and GovGuam’s component units. At September 30, 2019, GDOE’s proportionate shares of the GovGuam net pension liabilities were as follows:

Defined Benefit Plan	29.35%
Ad Hoc COLA/supplemental annuity Plan for DB retirees	28.10%
Ad Hoc COLA Plan for DCRS retirees	26.04%

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2019

(5) Pensions, Continued

B. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, Continued:

Pension Expense: For the year ended September 30, 2019, GDOE recognized pension expense for its proportionate share of plan pension expense from the above pension plans as follows:

Defined Benefit Plan	\$ 36,600,807
Ad Hoc COLA/supplemental annuity Plan for DB retirees	8,163,982
Ad Hoc COLA Plan for DCRS retirees	<u>(3,276,302)</u>
	\$ <u>41,488,487</u>

Deferred Outflows and Inflows of Resources: At September 30, 2019, GDOE reported total deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Defined Benefit Plan		Ad Hoc COLA/ Supplemental Annuity Plan for DB Retirees		Ad Hoc COLA Plan for DCRS Retirees	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 976,731	\$ -	\$ 1,205,031	\$ -	\$ 1,846,078	\$ 117,420
Net difference between projected and actual earnings on pension plan investments	-	6,204,347	-	-	-	-
Changes of assumptions	-	-	-	2,703,320	1,530,314	1,714,952
Contributions subsequent to the measurement date	34,761,526	-	6,036,716	-	576,000	-
Changes in proportion and difference between GDOE contributions and proportionate share of contributions	-	<u>5,012,699</u>	-	<u>917,799</u>	<u>911,691</u>	<u>579,147</u>
	\$ <u>35,738,257</u>	\$ <u>11,217,046</u>	\$ <u>7,241,747</u>	\$ <u>3,621,119</u>	\$ <u>4,864,083</u>	\$ <u>2,411,519</u>

Deferred outflows resulting from contributions subsequent to measurement date will be recognized as reduction of the net pension liability in the following year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at September 30, 2019 will be recognized in pension expense as follows:

Year Ending <u>September 30</u>	Defined <u>Benefit Plan</u>	Ad Hoc COLA/ <u>Supplemental Annuity Plan for DB Retirees</u>	Ad Hoc COLA Plan <u>for DCRS Retirees</u>
2020	\$ 1,608,476	\$ (1,150,518)	\$ 127,341
2021	(8,754,250)	(1,150,518)	127,341
2022	(5,575,294)	(115,052)	127,341
2023	2,480,753	-	127,341
2024	-	-	127,341
Thereafter	-	-	<u>1,239,859</u>
	\$ <u>(10,240,315)</u>	\$ <u>(2,416,088)</u>	\$ <u>1,876,564</u>

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2019

(5) Pensions, Continued

B. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, Continued:

Actuarial Assumptions: Actuarially determined contribution rates for the DB Plan are calculated as of September 30, two years prior to the end of the fiscal year in which contributions are reported. The methods and assumptions used to determine contribution rates are as follows:

Valuation Date:	September 30, 2017
Actuarial Cost Method:	Entry age normal
Amortization Method:	Level percentage of payroll, closed
Remaining Amortization Period:	May 1, 2033 (15.58 years remaining as of September 30, 2017)
Asset valuation method:	3-year smoothed market value (effective September 30, 2009)
Inflation:	2.75% per year
Total payroll growth:	2.75% per year
Salary increases:	4% to 7.5%
Retirement age:	50% probability of retirement upon first eligibility for unreduced retirement. Thereafter, the probability of retirement is 20% for each year until age 75, and increases to 100% at age 75.
Mortality:	RP-2000 healthy mortality table (males +3, females +2). Mortality for disabled lives is the RP 2000 disability mortality (males +6, females +4). Both tables are projected generationally from 2016 using 30% of Scale BB.

The actuarial assumptions used in the September 30, 2017 valuation were based on the results of an actuarial experience study for the period October 1, 2011 to September 30, 2015.

The investment rate assumption as of September 30, 2017 was 7%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and the assumed rate of inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of the expected nominal return for each major asset class are summarized in the following table:

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2019

(5) Pensions, Continued

B. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, Continued:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Nominal Return</u>
U.S. Equities (large cap)	29.0%	7.47%
U.S. Equities (small cap)	7.0%	8.73%
Non-U.S. Equities	16.5%	9.27%
Non-U.S. Equities (emerging markets)	2.0%	11.09%
U.S. Fixed Income (aggregate)	21.5%	4.67%
Risk parity	8.0%	6.50%
High yield bonds	8.0%	6.59%
Global Real Estate (REITs)	5.0%	8.60%
Master Limited Partnerships	3.0%	6.56%

Changes in Actuarial Assumptions: The following changes in actuarial assumptions occurred from the September 30, 2016 valuation to the September 30, 2017 valuation:

Remaining Amortization Period: The unfunded liability was being amortized over a closed period ending on May 1, 2031. This was extended by 2 years to May 1, 2033 by Public Law 33-186.

Discount Rate: The discount rate used to measure the total pension liability for the DB Plan as of September 30, 2018 and 2017 was 7.0%, which is equal to the expected investment rate of return. The expected investment rate of return applies to benefit payments that are funded by plan assets (including future contributions), which includes all plan benefits except supplemental annuity payments to DB retirees and ad hoc COLA to both DB and DCRS retirees. The discount rate used to measure the total pension liability for the supplemental annuity and ad hoc COLA payments as of September 30, 2018 was 4.18% (3.64% as of September 30, 2017), which is equal to the rate of return of a high quality bond index.

Discount Rate Sensitivity Analysis: The following presents the sensitivity of the net pension liability to changes in the discount rate. The sensitivity analysis shows the impact to GDOE's proportionate share of the net pension liability if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

Defined Benefit Plan:

	1% Decrease in Discount Rate <u>6.0%</u>	Current Discount Rate <u>7.0%</u>	1% Increase in Discount Rate <u>8.0%</u>
Net Pension Liability	\$ <u>441,305,608</u>	\$ <u>346,092,450</u>	\$ <u>264,362,939</u>

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2019

(5) Pensions, Continued

B. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, Continued:

Ad Hoc COLA/Supplemental Annuity Plan for DB Retirees:

	1% Decrease in Discount Rate <u>3.18%</u>	Current Discount Rate <u>4.18%</u>	1% Increase in Discount Rate <u>5.18%</u>
Net Pension Liability	\$ <u>89,101,228</u>	\$ <u>81,448,019</u>	\$ <u>74,833,386</u>

Ad Hoc COLA Plan for DCRS Retirees:

	1% Decrease in Discount Rate <u>3.18%</u>	Current Discount Rate <u>4.18%</u>	1% Increase in Discount Rate <u>5.18%</u>
Net Pension Liability	\$ <u>14,454,863</u>	\$ <u>12,849,041</u>	\$ <u>11,477,477</u>

B. Payables to the Pension Plans:

As of September 30, 2019, GDOE recorded a payable to GGRF of \$1,805,347 representing statutorily required contributions unremitted as of the year-end.

(6) Other Post-Employment Benefits (OPEB)

GDOE participates in the retiree health care benefits program. GovGuam’s Department of Administration is responsible for administering the GovGuam Group Health Insurance Program, which provides medical, dental, and life insurance benefits to retirees, spouses, children and survivors. Active employees and retirees who waive medical and dental coverage are considered eligible for the life insurance benefit only. The program covers retirees and is considered an OPEB plan.

A. General Information About the OPEB Plan:

Plan Description: The OPEB plan is a single-employer defined benefit plan that provides healthcare benefits to eligible employees and retirees who are members of the GovGuam Retirement Fund. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75. The Governor’s recommended budget and the annual General Appropriations Act enacted by the Guam Legislature provide for a premium level necessary for funding the program each year on a “pay-as-you-go” basis. Because the OPEB 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.

Plan Membership: As of September 30, 2018, the date of the most recent valuation (the actuarial valuation date), plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits	7,930
Active plan members	<u>10,136</u>
	<u>18,066</u>

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2019

(6) Other Post-Employment Benefits (OPEB), Continued

A. General Information About the OPEB Plan, Continued:

Benefits Provided: GDOE provides post-employment medical, dental and life insurance benefits to GDOE retirees, spouses, children and survivors, which are the same benefits as provided to active employees. Active employees and retirees who waive medical and dental coverage are considered eligible for the life insurance benefit only. GDOE contributes a portion of the medical and dental premiums, based on a schedule of semi-monthly rates, and reimburses certain Medicare premiums to eligible retirees. Retirees are also required to pay a portion of the medical and dental insurance premiums. Three types of health plans are offered to eligible participants:

- Standard island wide Preferred Provider Organization (PPO) Plan
- High Deductible (Health Savings Account - HSA) PPO Plan
- Retiree Supplement Plan (RSP)

The PPO and HSA Plans apply to both active employees and retirees and work with set deductible amounts whereas the RSP Plan is an added option for retirees only.

Contributions: No employer contributions are assumed to be made since an OPEB trust has not been established. Instead, the OPEB Plan is financed on a substantially “pay-as-you-go” basis whereby contributions to the plan are generally made at about the same time and in about the same amount as benefit payments and expenses becoming due.

B. Total OPEB Liability:

As of September 30, 2019, GDOE reported a total OPEB liability of \$549,588,821 for its proportionate share of the GovGuam total OPEB liability measured as of September 30, 2018. The following presents GDOE’s proportion change in proportion since the prior measurement date:

Proportion at prior measurement date, September 30, 2017	29.89%
Proportion at measurement date, September 30, 2018	<u>29.31%</u>
Decrease in proportion	<u>(0.58)%</u>

Actuarial Assumptions: The total OPEB liability for the OPEB Plan was determined by an actuarial valuation as of September 30, 2018 (the measurement date) using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation:	2.75%.
Amortization method:	Level dollar amount over 30 years on an open amortization period for pay-as-you-go funding.
Salary increases:	7.5% per year for the first 5 years of service, 6% for 6-10 years, 5% for 11-15 years and 4% for service over 15 years. Previously, 7.5% per year for the first 5 years of service, 6% for 6-10 years, 5% for 11-15 years and 4.5% for service over 15 years.

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2019

(6) Other Post-Employment Benefits (OPEB), Continued

B. Total OPEB Liability, Continued:

Healthcare cost trend rates:	For 2018, Non-Medicare 13.5%; Medicare -25%; and Part B 5.33%. For the second year, 6.75% then reducing 0.25% annually to an ultimate rate of 4.25% for 2029 and later years. Previously, 8% for 2016, decreasing 0.25% per year to an ultimate rate of 4.5% for 2030 and later years. Health care trend assumptions begin at current levels and grade down over a period of years to a lower level equal to some real rate plus inflation. The principal components of health trend are medical inflation, deductible erosion, cost shifting, utilization, technology and catastrophic claims. The overall effect of these components are expected to decline year by year.
Dental trend rates:	3.8% in year one, 3.75% per year thereafter, based on a blend of historical retiree premium rate increases as well as observed U.S. national trends. Previously, 4% per year.
Participation rates:	Medical - 100% of eligible retired employees will elect to participate. Dental - 100% of eligible retirees will elect to participate. Life - 100% of eligible retirees will elect to participate. Current retirees will continue in the GovGuam plan as provided in the data, and upon attainment of age 65, will remain in that plan or enroll in a Retiree Supplemental Plan per Medicare Enrollment assumption below.
Medicare enrollment:	15% of current and future retirees are assumed to enroll in Medicare and will enroll in a Retiree Supplemental Plan upon attainment of age 65. All employees retired prior to September 30, 2008 are assumed ineligible for Medicare upon attainment of age 65 and therefore will not enroll in a Medicare Supplemental Plan.
Dependent status:	Male spouses are assumed to be three years older and female spouses are assumed to be three years younger than the retired employee. Medical - 100% of spouses of active employees covered under a GovGuam medical plan will elect to participate at the active employee's retirement. Dental - 100% of spouses of active employees covered under a GovGuam dental plan will elect to participate at the active employee's retirement. Life - 100% of spouses of active employees will elect to participate at the active employee's retirement. For current retired employees, the actual census information is used. Previously, 60% of employees are assumed to retire with a covered spouse. For current retired employees, the actual census information is used.

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Notes to Financial Statements
September 30, 2019

(6) Other Post-Employment Benefits (OPEB), Continued

B. Total OPEB Liability, Continued:

Actuarial cost method:	Entry Age Normal. The costs of each employee's post-employment benefits are allocated as a level basis over the earnings of the employee between the employee's date of hire and the assumed exit ages.
Healthy Retiree mortality rates:	RP-2000 Combined Healthy Mortality Table, set forward 3 years and 2 years for males and females, respectively, projected generationally using 30% of Scale BB. Previously, set forward 4 years and 1 year for males and females, respectively.
Disabled Retiree mortality rates:	RP-2000 Disabled Mortality Table, set forward 6 years and 4 years for males and females, projected generationally using 30% of Scale BB.
Withdrawal rates:	15% for less than 1 year of service, decreasing 1% for each additional year of service up to 10 years, further decreasing 0.5% for each additional year of service up to 15 years, and 2% for service over 15 years.
Disability rates:	1974-78 SOA LTD Non-Jumbo, with rates reduced by 50% for males and 75% for females as follows: 0.05% for males aged 20-39 years (0.03% for females); 0.10% - .18% for males aged 40-49 years (0.05% - 0.09% for females); 0.32% - 0.523% for males aged 50-59 years (0.16% - 0.27% for females); and 0.76% for males aged 60-64 years (0.38% for females). Previously, 1974-78 SOA LTD Non-Jumbo, with rates reduced by 50% for males and females.
Retirement rates:	50% of employees are assumed to retire at first eligibility for unreduced benefits under the Government of Guam Retirement Fund, 20% per year thereafter until age 75, and 100% at age 75. Previously, 40% of employees are assumed to retire at earliest eligibility for unreduced benefits under the Government of Guam Retirement Fund, 15% per year thereafter until age 65, 20% per year thereafter until age 70 and 100% at age 70.

Discount rate: The discount rate used to measure the total OPEB liability was 4.18% as of September 30, 2018 (3.63% as of September 30, 2017). The projection of cash flows used to determine the discount rate assumed that contributions from GDOE will be made in accordance with the plan's funding policy. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be insufficient to make all projected benefit payments of current plan members. Therefore, the 4.18% municipal bond rate as of September 30, 2018 (3.63% as of September 30, 2017) was applied to all periods of projected benefit payments to determine the total OPEB liability.

OPEB plan fiduciary net position: As of September 30, 2019, an OPEB trust has not been established, thus the OPEB Plan does not presently report OPEB plan fiduciary net position.

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2019

(6) Other Post-Employment Benefits (OPEB), Continued

C. Change in the Total OPEB Liability:

Change in GDOE's proportionate share of the total OPEB liability for the year ended September 30, 2019 is as follows:

Balance at beginning of the year	\$ <u>726,529,256</u>
Changes for the year:	
Service cost	30,708,931
Interest	27,255,757
Change in proportionate share	(18,604,832)
Difference between expected and actual experience	(153,112,854)
Change of assumptions	(50,405,671)
Benefit payments	<u>(12,781,766)</u>
Net change	<u>(176,940,435)</u>
Balance at end of the year	\$ <u>549,588,821</u>

Sensitivity of the total OPEB liability to changes in the discount rate: The following presents the sensitivity of the total OPEB liability to changes in the discount rate. The sensitivity analysis shows the impact to GDOE's proportionate share of the total OPEB liability if it were calculated using a discount rate that is 1% point lower or 1% point higher than the current rate:

	1% Decrease in Discount Rate <u>3.18%</u>	Current Discount Rate <u>4.18%</u>	1% Increase in Discount Rate <u>5.18%</u>
Total OPEB Liability	\$ <u>648,141,430</u>	\$ <u>549,588,821</u>	\$ <u>470,423,180</u>

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates: The following presents the sensitivity of the total OPEB liability to changes in the healthcare cost trend rate. The sensitivity analysis shows the impact to GDOE's proportionate share of the total OPEB liability if it were calculated using a healthcare cost trend rate that is 1% point lower or 1% point higher than the current healthcare cost trend rate:

	<u>1% Decrease</u>	Healthcare Cost Trend Rates	<u>1% Increase</u>
Total OPEB Liability	\$ <u>458,300,231</u>	\$ <u>549,588,821</u>	\$ <u>667,757,503</u>

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2019

(6) Other Post-Employment Benefits (OPEB), Continued

D. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB:

For the year ended September 30, 2019, GDOE recognized OPEB expense of \$17,177,562. At September 30, 2019, GDOE reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes of assumptions	\$ 39,804,546	\$ 91,212,071
Difference between expected and actual experience	-	125,624,011
Contributions subsequent to the measurement date	11,539,386	-
Changes in proportion and difference between employer contributions and proportionate share of contributions	<u>1,883,734</u>	<u>11,922,817</u>
	<u>\$ 53,227,666</u>	<u>\$ 228,758,899</u>

Deferred outflows resulting from contributions subsequent to measurement date will be recognized as reduction of the total OPEB liability in the following year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB at September 30, 2019 will be recognized in OPEB expense as follows:

<u>Year Ending September 30</u>	
2020	\$ (37,722,177)
2021	(37,722,176)
2022	(37,722,176)
2023	(51,227,870)
2024	<u>(22,676,220)</u>
	\$ <u>(187,070,619)</u>

(7) Appropriations

During the year ended September 30, 2019, appropriations provided to GDOE were as follows:

General Fund:

Public Law 34-116:

GovGuam General Fund:

Operations	\$ 188,360,743
Retiree healthcare benefits	11,539,386
Guahan Academy Charter School	3,846,882
iLearn Academy Charter School	3,774,560
Science is Fund and Awesome Academy	1,418,504
Textbooks	1,027,545
Simon Sanchez Procurement	1,000,000
Chamorro Studies Division	401,207
Lease Agreements:	
Okkodo Expansion lease	2,288,960
JFK High School lease	5,131,900

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2019

(7) Appropriations, Continued

General Fund, Continued:

Territorial Education Facilities Fund:	
Operations	10,948,242
First Generation Trust Fund	84,748
Lease Agreements:	
Tiyon lease	10,113,927
JFK High School lease	2,228,187
Okkodo Expansion lease	650,000
Healthy Futures Fund	891,754
Public Library System Fund	978,236
Limited Gaming Fund	524,913
Public Law 33-185:	
GovGuam General Fund:	
Secure One School Acts	19,720
Public Law 28-47:	
Guam Public School Facilities Project Lease	<u>6,601,400</u>
	<u>\$ 251,830,814</u>

In addition, Public Law 34-116 appropriates \$12,504,000 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 expenditures. The total of such reimbursements from the U.S. Department of Agriculture during the year ended September 30, 2019 is \$14,124,126, which is accounted for within GDOE’s Federal Grants Assistance Fund.

(8) Municipal School Lease Agreements

GovGuam, on behalf of GDOE, has entered into capital leases that are, in substance, a purchase. At the date of acquisition, the assets are valued at the present value of the future minimum lease payments. Capital lease assets and obligations are recorded and reported in the governmental activity column of the government-wide financial statements. Interest expense for capital leases is not capitalized. Amortization of assets acquired under capital lease is included with depreciation expense. Details are as follows:

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2019

(8) Municipal School Lease Agreements, Continued

Guam Public School Facilities Project:

Guam Education Financing Foundation, Inc. (GEFF) was incorporated in Guam as a not-for-profit corporation for the purpose of financing the construction of four new schools to be leased to GDOE upon completion. In 2006, GEFF issued \$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, Okkodo High School, Astumbo Middle School, Adacao Elementary School and Liguán Elementary School. The proceeds of the COPS were remitted to a trustee, who then remitted the amounts to a developer as construction progressed. In 2008, GEFF issued \$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. On May 25, 2005, GovGuam, on behalf of GDOE, entered into a twenty-year lease agreement with GEFF for the use of the four new schools, which commenced in October 2006. In 2016, GEFF issued \$25,665,000 in 2016 Series A, COPS and \$12,905,000 in 2016 Series B, COPS. The proceeds of the COPS were remitted to a trustee, who then used the funds to provide a portion necessary to defease the lien of the Trust indenture dated September 1, 2006 and supplement dated October 1, 2008, by and between the trustee and holders of the COPS. Proceeds were also used to refund and redeem the 2006 Series A, COPS and 2006 Series B, COPS on October 1, 2026 and to refund the 2008 Series A, COPS as they become due. Accordingly, the lease agreement was amended effective August 1, 2016.

Annual rental payments for the use of the Leased Schools and Facilities commenced on December 1, 2006 and are funded by a pledge of U.S. Compact Impact grant revenues through December 1, 2022, which are paid to a trustee, who then remits those amounts to the holders of the COPS, with the remaining payments subject to future appropriations by the Guam Legislature. After a period of twenty years and after all lease payments have been made, title to the Leased Schools and Facilities will transfer to GDOE upon the payment of all required rents.

Rental payments made under the lease include a base rent and additional rent. The base rent is equal to the required principal and interest payment due under the COPS. The additional rent of \$1,000,000 per year of the lease is used by GEFF for the payment of certain ongoing costs, including maintenance and insurance.

John F. Kennedy High School Project:

CaPFA Capital Corp. 2010A (CaPFA) was incorporated in the State of Florida as a not-for-profit corporation for the purpose of financing the new John F. Kennedy (JFK) High School to be leased to GDOE upon completion. In 2010, CaPFA issued \$65,735,000 in 2010 Series A, COPS to finance the demolition, acquisition, construction, renovation and installation of facilities comprising the new 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. On August 1, 2010, GovGuam, on behalf of GDOE, entered into a thirty-year lease agreement with CaPFA for the use of the new High School, which commenced in August 2011.

Annual rental payments for the use of the new High School commenced on December 1, 2010, which are paid to a trustee, who then remits those amounts to the holders of the COPS, and are funded by annual appropriations by the Guam Legislature. After a period of thirty years and after all lease payments have been made, 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, 2019

(8) Municipal School Lease Agreements, Continued

Rental payments made under the lease include a base rent and additional rent. The base rent is equal to the required principal and interest payment due under the COPS. The additional rent of \$1,568,000 per year of the lease is used by CaPFA for the payment of certain ongoing costs, including maintenance and insurance.

Okkodo High School Expansion Project:

Guam Education Financing Foundation II, Inc. (GEFF II) was incorporated in Guam as a not-for-profit corporation for the purpose of financing the expansion of Okkodo High School to be leased to GDOE upon completion. In 2013, GEFF II issued \$21,818,000 in 2013 Series A, COPS and \$1,000,000 in 2013 Series B, COPS to finance the expansion. 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 current owners of Okkodo High School. On March 1, 2013, GovGuam, on behalf of GDOE, entered into an eighteen-year lease agreement with GEFF II for the use of the expansion, which commenced in July 2014. In 2016, the 2013 Series B, COPS were refunded through the issuance of the Limited Obligation (Section 30) 2016 Series A, bonds.

Annual rental payments for the use of the expansion commenced on June 1, 2013, which are paid to a trustee, who then remits those amounts to the holders of the COPS, and are funded by annual appropriations by the Guam Legislature. After a period of eighteen years and after all lease payments have been made, title to the expansion will transfer to GDOE upon the payment of all required rents.

Rental payments made under the lease include a base rent and additional rent. The base rent is equal to the required principal and interest payment due under the COPS. The additional rent of \$650,000 per year of the lease is used by GEFF II for the payment of certain ongoing costs, including maintenance and insurance.

Tiyan Lease:

In 2009, GovGuam, on behalf of GDOE, entered 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 2011 and subsequently occupied by Untalan Middle School in 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 Academy Charter School and the Guam Police Department, representing a small portion of the total Tiyan property under lease.

In 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.

In 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, 2019

(8) Municipal School Lease Agreements, Continued

In 2014, the Tiyan Lease Purchase Agreement was amended to extend the lease term through December 31, 2041 plus \$7,499,090 of collateral equipment for the buildings to be constructed. Repayment in the form of tax credits only apply for lease amounts due through January 2015 and included the aforementioned collateral equipment. Effective February 2015, rent and additional rent (insurance and maintenance) due are to be paid in the form of cash.

Annual rent includes principal, interest at 10% per annum of outstanding principal balance, insurance and maintenance costs.

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

<u>Year ending</u> <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 7,353,892	\$ 13,048,759	\$ 20,402,651
2021	7,805,437	12,570,227	20,375,664
2022	8,268,000	12,060,050	20,328,050
2023	8,972,783	11,518,345	20,491,128
2024	9,592,828	10,926,680	20,519,508
2025 - 2029	40,648,685	45,048,189	85,696,874
2030 - 2034	33,174,118	31,304,410	64,478,528
2035 - 2039	44,024,370	14,652,348	58,676,718
2040 - 2041	<u>9,055,051</u>	<u>935,768</u>	<u>9,990,819</u>
	<u>\$ 168,895,164</u>	<u>\$ 152,064,776</u>	<u>\$ 320,959,940</u>

Assets acquired through the aforementioned capital leases are as follows:

Assets:	
Buildings and leasehold improvements	\$ 239,159,248
Less accumulated depreciation	<u>(41,333,501)</u>
	197,825,747
Land	<u>435,280</u>
	<u>\$ 198,261,027</u>

9) Subsequent Event

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommend containment and mitigation measures worldwide. On March 13, 2020, President Donald J. Trump declared a national emergency within the United States. In response to the national emergency declared by the U.S. President, on March 14, 2020, Governor Lourdes A. Leon Guerrero issued Executive Order 2020-03 declaring a state of emergency in response to COVID-19. Further, Executive Order 2020-04 ordered the closure of all non-essential Government of Guam offices, prohibited large gatherings, and restricted entry into Guam from countries with confirmed COVID-19 cases. As a result, schools and non-essential government agencies and businesses have closed. GDOE has closed its offices to the public and has required all non-essential employees to work from home. On May 10, 2020, certain businesses and government agencies were allowed to reopen. While this matter is expected to negatively impact GDOE's operations and financial position, the related financial impact cannot be reasonably estimated at this time.

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2019

(10) Restatement

Subsequent to the issuance of GDOE's 2018 financial statements, GDOE's management determined that capital lease assets and related capital lease liabilities were overstated by \$21,292,187 and \$16,292,200, respectively. As a result of this determination, beginning net position of governmental activities has been restated by \$4,999,987.

GUAM DEPARTMENT OF EDUCATION

**REQUIRED SUPPLEMENTARY
INFORMATION**

YEAR ENDED SEPTEMBER 30, 2019

GUAM DEPARTMENT OF EDUCATION

Schedule of Revenues, Expenditures and Changes in Fund Balance (Deficit) - Budget and Actual
General Fund (Unaudited)
Year Ended September 30, 2019

	Original Budget	Final Budget	Actual - Budgetary Basis	Variance with Final Budget - Positive (Negative)
Revenues:				
Local appropriations:				
Government of Guam General Fund:				
Operations	\$ 188,360,743	\$ 188,360,743	\$ 188,360,743	\$ -
Retiree healthcare benefits	11,539,386	11,539,386	11,539,386	-
JFK High School Lease	5,131,900	5,131,900	5,131,900	-
Okkodo High School Expansion Project Lease	2,288,960	2,288,960	2,288,960	-
Guahan Academy Charter School	4,505,120	4,505,120	3,846,882	(658,238)
iLearn Academy Charter School	3,774,560	3,774,560	3,774,560	-
Science is Fun and Awesome Academy Charter School	2,130,800	2,130,800	1,418,504	(712,296)
Textbooks	1,500,000	1,500,000	1,027,545	(472,455)
Simon Sanchez High School Construction	1,000,000	1,000,000	1,000,000	-
Chamorro Studies Division	401,207	401,207	401,207	-
Secure Our Schools Act	-	-	19,720	19,720
Territorial Educational Facilities Fund:				
Operations	13,697,608	13,697,608	10,948,242	(2,749,366)
Tiyan Lease	10,113,927	10,113,927	10,113,927	-
JFK High School Lease-Additional rental and GRT	1,568,000	1,568,000	2,228,187	660,187
Okkodo High School Expansion Project Lease	650,000	650,000	650,000	-
First Generation Trust Fund	100,000	100,000	84,748	(15,252)
Healthy Futures Fund:				
Interscholastic sports	612,000	612,000	612,000	-
Health and Physical Education Activities	279,754	279,754	279,754	-
Public Library System Fund	978,236	978,236	978,236	-
Limited Gaming Fund	524,913	524,913	524,913	-
Federal grants and contributions	-	-	1,290,615	1,290,615
Contributions from component units	450,000	450,000	800,801	350,801
Fees and other program receipts	-	-	429,769	429,769
Cafeteria sales	-	-	6,120	6,120
Total revenues	249,607,114	249,607,114	247,756,719	(1,850,395)
Expenditures - Budgetary Basis:				
Elementary Education	73,552,002	72,951,947	74,565,496	(1,613,549)
Secondary Education	88,360,979	85,941,081	85,981,797	(40,716)
Direct Student Support	15,975,426	17,870,583	17,152,056	718,527
General Administration	36,381,039	38,162,644	34,522,945	3,639,699
Retiree healthcare benefits	11,539,386	11,539,386	11,539,386	-
Guahan Academy Charter School	4,505,120	5,217,416	3,846,882	1,370,534
iLearn Academy Charter School	3,774,560	3,774,560	3,774,560	-
Science is Fun and Awesome Academy Charter School	2,130,800	1,418,504	1,418,504	-
Debt service:				
Tiyan Lease	10,113,927	10,113,927	10,113,927	-
JFK High School Lease	6,699,900	6,699,900	7,360,088	(660,188)
Okkodo High School Expansion Project Lease	2,938,960	2,938,960	2,938,960	-
Total expenditures	255,972,099	256,628,908	253,214,601	3,414,307
Deficiency of revenues under expenditures	(6,364,985)	(7,021,794)	(5,457,882)	1,563,912
Other changes in fund balance (deficit):				
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	2,578,964	2,578,964	1,753,894	(825,070)
Net change in fund balance (deficit)	\$(3,786,021)	\$(4,442,830)	\$(3,703,988)	\$ 738,842

See accompanying notes to the required supplementary information.
See Accompanying Independent Auditors' Report.

GUAM DEPARTMENT OF EDUCATION

Notes to the Required Supplementary Information – Budgetary Reporting
September 30, 2019

(1) Budgetary Process

The Budget Act for fiscal year 2019, Public Law No. 34-116, was approved for the Executive branch and the Legislative branch. Supplemental appropriations were also provided through Public Law 33-117 and 33-07. 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 re-appropriated and honored during the subsequent fiscal year.

See Accompanying Independent Auditors' Report.

GUAM DEPARTMENT OF EDUCATION

Required Supplemental Information (Unaudited)
 Schedule of Proportionate Share of the Net Pension Liability
 Last 10 Fiscal Years*

Defined Benefit Plan

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total net pension liability	\$ 1,179,192,550	\$ 1,142,249,393	\$ 1,368,645,126	\$ 1,436,814,230	\$ 1,246,306,754	\$ 1,303,304,636
GDOE's proportionate share of the net pension liability	\$ 346,092,450	\$ 342,294,195	\$ 412,990,587	\$ 428,094,817	\$ 362,292,905	\$ 400,356,244
GDOE's proportion of the net pension liability	29.35%	29.97%	30.18%	29.79%	29.07%	30.72%
GDOE's covered-employee payroll**	\$ 121,059,937	\$ 121,636,415	\$ 130,844,236	\$ 130,880,955	\$ 146,783,636	\$ 155,111,296
GDOE's proportionate share of the net pension liability as percentage of its covered-employee payroll	285.89%	281.41%	315.64%	327.09%	246.82%	258.11%
Plan fiduciary net position as a percentage of the total pension liability	63.28%	60.63%	54.62%	52.32%	56.60%	53.94%

* This data is presented for those years for which information is available.

** Covered-employee payroll data from the actuarial valuation date with one-year lag.

See Accompanying Independent Auditors' Report.

GUAM DEPARTMENT OF EDUCATION

Required Supplemental Information (Unaudited)
 Schedule of Proportionate Share of the Net Pension Liability
 Last 10 Fiscal Years*

Ad Hoc COLA/Supplemental Annuity Plan for DB Retirees

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Total net pension liability***	\$ 289,875,672	\$ 288,147,121	\$ 229,486,687	\$ 235,799,709
GDOE's proportionate share of the net pension liability	\$ 81,448,019	\$ 82,317,193	\$ 65,258,484	\$ 67,420,706
GDOE's proportion of the net pension liability	28.10%	28.57%	28.44%	28.59%
GDOE's covered-employee payroll**	\$ 28,489,764	\$ 29,251,937	\$ 20,675,281	\$ 20,612,458
GDOE's proportionate share of the net pension liability as percentage of its covered-employee payroll	285.89%	281.41%	315.64%	327.09%

* This data is presented for those years for which information is available.

** Covered-employee payroll data from the actuarial valuation date with one-year lag.

*** No assets accumulated in a trust to pay the benefits.

See Accompanying Independent Auditors' Report.

GUAM DEPARTMENT OF EDUCATION

Required Supplemental Information (Unaudited)
 Schedule of Proportionate Share of the Net Pension Liability
 Last 10 Fiscal Years*

Ad Hoc COLA Plan for DCRS Retirees

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Total net pension liability***	\$ 49,342,424	\$ 62,445,490	\$ 61,688,067	\$ 52,115,736
GDOE's proportionate share of the net pension liability	\$ 12,849,041	\$ 16,768,473	\$ 16,247,634	\$ 13,924,782
GDOE's proportion of the net pension liability	26.04%	26.85%	26.34%	26.72%
GDOE's covered-employee payroll**	\$ 68,870,908	\$ 101,178,251	\$ 96,153,385	\$ 95,091,577
GDOE's proportionate share of the net pension liability as percentage of its covered employee payroll	18.66%	16.57%	16.90%	14.64%

* This data is presented for those years for which information is available.

** Covered-employee payroll data from the actuarial valuation date with one-year lag.

*** No assets accumulated in a trust to pay the benefits.

See Accompanying Independent Auditors' Report.

GUAM DEPARTMENT OF EDUCATION

Required Supplemental Information (Unaudited)
Schedule of Pension Contributions
Last 10 Fiscal Years*

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Statutorily required contribution	\$ 39,463,244	\$ 42,175,174	\$ 41,850,125	\$ 43,136,172	\$ 45,690,371	\$ 44,308,308
Contributions in relation to the statutorily required contribution	<u>39,463,244</u>	<u>42,179,430</u>	<u>41,854,257</u>	<u>43,136,172</u>	<u>45,696,846</u>	<u>44,308,308</u>
Contribution (excess) deficiency	\$ <u>-</u>	\$ <u>(4,256)</u>	\$ <u>(4,132)</u>	\$ <u>-</u>	\$ <u>(6,475)</u>	\$ <u>-</u>
GDOE's covered-employee payroll **	\$ <u>149,549,701</u>	\$ <u>150,888,353</u>	\$ <u>151,519,518</u>	\$ <u>151,493,413</u>	\$ <u>146,783,636</u>	\$ <u>155,111,296</u>
Contribution as a percentage of covered-employee payroll	26.39%	27.95%	27.62%	28.47%	31.13%	28.57%

* This data is presented for those years for which information is available.

** Covered-employee payroll data from the actuarial valuation date with one-year lag.

See Accompanying Independent Auditors' Report.

GUAM DEPARTMENT OF EDUCATION

Schedules of Required Supplemental Information
 Schedule of Changes in the Proportionate Share of the Total OPEB Liability and Related Ratios
 Last 10 Fiscal Years*

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Total OPEB liability:				
Service cost	\$ 30,708,931	\$ 34,599,930	27,776,711	
Interest	27,255,757	24,004,223	24,294,993	
Changes of benefit terms	-	-	-	
Change in proportionate share	(18,604,832)	(2,009,292)	-	
Differences between expected and actual experience	(153,112,854)	-	-	
Changes of assumptions	(50,405,671)	(74,661,716)	82,755,758	
Benefit payments	(12,781,766)	(11,537,472)	(11,537,472)	
 Net change in total OPEB liability	 (176,940,435)	 (29,604,327)	 123,289,990	
 Total OPEB liability - beginning	 <u>726,529,256</u>	 <u>756,133,583</u>	 <u>632,843,593</u>	
 Total OPEB liability - ending **	 \$ <u>549,588,821</u>	 \$ <u>726,529,256</u>	 \$ <u>756,133,583</u>	 <u>632,843,593</u>
 Covered-employee payroll	 138,949,496	 138,949,496	 138,949,496	
 GDOE's total OPEB liability as a percentage of covered-employee payroll	 396%	 523%	 544%	

Notes to schedule

Discount rate 4.18% 3.63% 3.058% 3.710%

Changes of benefit terms:
None.

Changes of assumptions:
Discount rate has changed from respective measurement dates.

* This data is presented for those years for which information is available.
 ** No assets accumulated in a trust to pay the benefits

See Accompanying Independent Auditors' Report.

GUAM DEPARTMENT OF EDUCATION

Schedules of Required Supplemental Information (Unaudited)
 Schedule of Proportionate Share of the Total OPEB Liability
 Last 10 Fiscal Years*

	2019	2018	2017
Total OPEB liability **	\$ 1,874,970,335	\$ 2,431,048,672	2,532,753,040
GDOE's proportionate share of the total OPEB liability	\$ 549,588,821	\$ 726,529,256	756,133,583
GDOE's proportion of the total OPEB liability	29.31%	29.89%	29.85%
GDOE's covered-employee payroll	\$ 140,090,378	\$ 138,949,496	138,949,496
GDOE's proportionate share of the total OPEB liability as percentage of its covered-employee payroll	392.31%	522.87%	544.18%

* This data is presented for those years for which information is available.

** No assets accumulated in a trust to pay the benefits.

See Accompanying Independent Auditors' Report.

GUAM DEPARTMENT OF EDUCATION

Schedules of Required Supplemental Information
 Schedule of OPEB Contributions
 Last 10 Fiscal Years*

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Actuarially determined contribution	\$ 71,978,453	\$ 74,523,639	64,131,344
Contributions in relation to the actuarially determined contribution	<u>12,781,766</u>	<u>11,537,472</u>	<u>11,537,472</u>
Contribution deficiency	\$ <u>59,196,687</u>	\$ <u>62,986,167</u>	<u>52,593,872</u>
GDOE's covered-employee payroll	\$ 140,090,378	\$ 138,949,496	138,949,496
Contributions as a percentage of covered-employee payroll	9.12%	8.30%	8.30%

Notes to Schedule

Valuation date:

Actuarially determined contributions rates are calculated as of September 30, 2018 and 2016.

Method and assumptions used to determine contributions rates:

Actuarial cost method:	Entry age normal.
Amortization method:	Level dollar amount on an open amortization period for pay-as-you-go
Amortization period:	30 years
Inflation:	3%
Healthcare cost trend rates:	8% initial, decreasing 0.25% per year to an ultimate rate of 4.5%
Salary increase:	4.5% to 7.5%
Mortality (Healthy Retiree):	RP-2000 Combined Healthy Mortality Table, set forward 4 years and 1 males and females, respectively.
Mortality (Disabled Retiree):	RP-2000 Disabled Mortality Table for males and females.

* This data is presented for those years for which information is available.

See Accompanying Independent Auditors' Report.

GUAM DEPARTMENT OF EDUCATION

**OTHER SUPPLEMENTARY
INFORMATION**

YEAR ENDED SEPTEMBER 30, 2019

GUAM DEPARTMENT OF EDUCATION

Statements of Net Position - Governmental Activities
September 30, 2019
(With Comparative Totals as of September 30, 2018)

<u>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u>	<u>2019</u>	<u>2018</u>
Current assets:		
Cash and cash equivalents	\$ 9,666,976	\$ 15,353,707
Receivables from federal agencies	8,663,846	9,171,721
Due from component units	43,278	-
Prepayments and other assets	664,928	394,779
Deposit	4,896,253	5,761,403
Total current assets	<u>23,935,281</u>	<u>30,681,610</u>
Noncurrent assets:		
Deferred maintenance and insurance costs	875,000	1,000,000
Capital assets:		
Nondepreciable capital assets	2,262,342	1,144,552
Depreciable capital assets, net of accumulated depreciation	<u>325,255,085</u>	<u>335,831,566</u>
Total noncurrent assets	<u>328,392,427</u>	<u>337,976,118</u>
Total assets	<u>352,327,708</u>	<u>368,657,728</u>
Deferred outflows of resources:		
Deferred outflows from OPEB	53,227,666	68,256,194
Deferred outflows from pension	<u>47,844,087</u>	<u>47,217,702</u>
Total deferred outflows of resources	<u>101,071,753</u>	<u>115,473,896</u>
	<u>\$ 453,399,461</u>	<u>\$ 484,131,624</u>
 <u>LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</u>		
Current liabilities:		
Accounts payable	\$ 12,240,397	\$ 12,758,840
Accrued payroll	8,627,207	8,592,933
Other liabilities and accruals	4,488,918	5,617,054
Payable to federal agencies	50,695	1,480,731
Current portion of obligation under capital lease	7,353,893	6,900,505
Current portion of compensated absences payable	<u>382,322</u>	<u>393,953</u>
Total current liabilities	<u>33,143,432</u>	<u>35,744,016</u>
Noncurrent liabilities:		
OPEB liability	549,588,821	726,529,256
Net pension liability	440,389,510	441,379,861
Compensated absences payable, net of current portion	4,396,728	4,530,482
Accrued sick leave liability	6,794,821	6,473,203
Obligation under capital lease, net of current portion	<u>161,541,271</u>	<u>168,895,164</u>
Total noncurrent liabilities	<u>1,162,711,151</u>	<u>1,347,807,966</u>
Total liabilities	<u>1,195,854,583</u>	<u>1,383,551,982</u>
Deferred inflows of resources:		
Deferred inflows from OPEB	228,758,899	62,257,855
Deferred inflows from pension	<u>17,249,684</u>	<u>18,711,357</u>
Total deferred inflows of resources	<u>246,008,583</u>	<u>80,969,212</u>
Commitments and contingencies		
<u>NET POSITION</u>		
Net investment in capital assets	158,622,263	161,180,449
Restricted for:		
First Generation Trust Fund Initiative	1,658,237	759,279
Unrestricted	<u>(1,148,744,205)</u>	<u>(1,142,329,298)</u>
Total net position	<u>(988,463,705)</u>	<u>(980,389,570)</u>
	<u>\$ 453,399,461</u>	<u>\$ 484,131,624</u>

See Accompanying Independent Auditors' Report.

GUAM DEPARTMENT OF EDUCATION

Statements of Activities - Governmental Activities

Year Ended September 30, 2019

(With Comparative Totals for the Year Ended September 30, 2018)

	2019	2018
Program revenues:		
Secondary Education	\$ 27,330	\$ 992,958
Direct Student Support	57,517,540	59,336,352
General Administration	5,714,516	2,701,791
Retiree healthcare benefits	11,539,386	11,732,727
Charter Schools	9,039,946	7,426,907
Total program revenues	83,838,718	82,190,735
Expenses:		
Elementary Education	78,764,485	81,527,830
Secondary Education	111,711,268	119,618,509
Direct Student Support	72,674,224	74,534,632
General Administration	39,335,026	40,142,716
Retiree healthcare benefits	11,539,386	11,732,727
Charter Schools	9,039,946	7,426,907
Total expenses for governmental activities	323,064,335	334,983,321
Net expense	(239,225,617)	(252,792,586)
General revenues:		
Appropriations:		
Operations	230,123,937	236,778,963
Textbooks	1,027,545	192,353
Total general revenues	231,151,482	236,971,316
Change in net position	(8,074,135)	(15,821,270)
Net position at beginning of year	(980,389,570)	(964,568,300)
Net position at end of year	\$ (988,463,705)	\$ (980,389,570)

See Accompanying Independent Auditors' Report.

GUAM DEPARTMENT OF EDUCATION
 Balance Sheets
 Governmental Funds
 September 30, 2019
 (With Comparative Totals as of September 30, 2018)

ASSETS	2019			2018		
	General	Federal Grants Assistance	Total	General	Federal Grants Assistance	Total
Cash and cash equivalents	\$ 9,485,438	\$ 181,538	\$ 9,666,976	\$ 14,441,839	\$ 911,868	\$ 15,353,707
Receivables from federal agencies	-	8,663,846	8,663,846	-	9,171,721	9,171,721
Due from component units	43,278	-	43,278	-	-	-
Prepayments and other assets	664,928	-	664,928	386,714	8,065	394,779
Deposit	4,896,253	-	4,896,253	5,761,403	-	5,761,403
Due from other funds	5,698,364	-	5,698,364	1,144,158	-	1,144,158
Total assets	\$ 20,788,261	\$ 8,845,384	\$ 29,633,645	\$ 21,734,114	\$ 10,091,654	\$ 31,825,768
LIABILITIES AND FUND BALANCES (DEFICIT)						
Liabilities:						
Accounts payable	\$ 11,235,541	\$ 1,004,856	\$ 12,240,397	\$ 8,833,815	\$ 3,925,025	\$ 12,758,840
Accrued payroll	7,391,273	1,235,934	8,627,207	7,266,530	1,326,403	8,592,933
Other liabilities and accruals	3,633,383	855,535	4,488,918	3,401,717	2,215,337	5,617,054
Payable to federal agencies	-	50,695	50,695	-	1,480,731	1,480,731
Due to other funds	-	5,698,364	5,698,364	-	1,144,158	1,144,158
Total liabilities	22,260,197	8,845,384	31,105,581	19,502,062	10,091,654	29,593,716
Fund balances (deficit):						
Committed	1,658,237	-	1,658,237	100,000	-	100,000
Unassigned	(3,130,173)	-	(3,130,173)	2,132,052	-	2,132,052
Total fund balances (deficit)	(1,471,936)	-	(1,471,936)	2,232,052	-	2,232,052
Total liabilities and fund balances (deficit)	\$ 20,788,261	\$ 8,845,384	\$ 29,633,645	\$ 21,734,114	\$ 10,091,654	\$ 31,825,768

See Accompanying Independent Auditors' Report.

GUAM DEPARTMENT OF EDUCATION

Reconciliations of the Governmental Funds Balance Sheet to the Statement of Net Position
September 30, 2019
(With Comparative Totals as of September 30, 2018)

	<u>2019</u>	<u>2018</u>
Total fund balance (deficit) - governmental funds	\$ (1,471,936)	\$ 2,232,052
Amounts reported for governmental activities in the statements of net position are different because:		
Maintenance costs associated with capital lease obligations in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	875,000	1,000,000
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	\$ 490,376,217	\$ 489,679,264
Vehicles, furniture and equipment	15,862,976	15,403,928
Land	435,280	435,280
Construction in progress	1,827,062	632,952
Accumulated depreciation	<u>(180,984,108)</u>	<u>(169,175,306)</u>
Capital assets, net of accumulated depreciation	327,517,427	336,976,118
Deferred outflows are charged to future periods and are not reported in the governmental funds. Those deferred outflows consist of:		
Deferred outflows from pensions	47,844,087	47,217,702
Deferred outflows from OPEB	<u>53,227,666</u>	<u>68,256,194</u>
	101,071,753	115,473,896
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds. These liabilities include:		
OPEB liability	(549,588,821)	(726,529,256)
Net pension liability	(440,389,510)	(441,379,861)
Accrued sick leave liability	(6,794,821)	(6,473,203)
Compensated absences payable	(4,779,050)	(4,924,435)
Obligations under capital lease	<u>(168,895,164)</u>	<u>(175,795,669)</u>
Long-term liabilities	(1,170,447,366)	(1,355,102,424)
Deferred inflows benefit future periods and are not reported in the governmental funds. Those deferred inflows consists of:		
Deferred inflows from pensions	(17,249,684)	(18,711,357)
Deferred inflows from OPEB	<u>(228,758,899)</u>	<u>(62,257,855)</u>
	<u>(246,008,583)</u>	<u>(80,969,212)</u>
Net position of governmental activities	\$ <u><u>(988,463,705)</u></u>	\$ <u><u>(980,389,570)</u></u>

See Accompanying Independent Auditors' Report.

GUAM DEPARTMENT OF EDUCATION

Statements of Revenues, Expenditures and Changes in Fund Balances (Deficit)
 Governmental Funds
 Year Ended September 30, 2019
 (With Comparative Totals for the Year Ended September 30, 2018)

	2019			2018		
	General	Federal Grants Assistance	Total	General	Federal Grants Assistance	Total
Revenues:						
Appropriations	\$ 245,229,414	\$ 6,601,400	\$ 251,830,814	\$ 248,469,400	\$ 7,661,550	\$ 256,130,950
Federal grants and contributions	1,290,615	60,422,383	61,712,998	1,755,297	59,696,828	61,452,125
Contributions from component units	800,801	-	800,801	-	-	-
Cafeteria sales	6,120	-	6,120	31,213	-	31,213
Fees and other program receipts	429,769	209,698	639,467	1,369,625	178,138	1,547,763
Total revenues	247,756,719	67,233,481	314,990,200	251,625,535	67,536,516	319,162,051
Expenditures:						
Current:						
Elementary Education	74,329,849	-	74,329,849	74,978,384	-	74,978,384
Secondary Education	85,769,546	27,330	85,796,876	88,066,239	992,958	89,059,197
Direct Student Support	16,614,314	55,971,152	72,585,466	15,991,909	57,477,449	73,469,358
General Administration	33,754,691	4,633,599	38,388,290	36,452,632	1,440,209	37,892,841
Retiree healthcare benefits	11,539,386	-	11,539,386	11,732,727	-	11,732,727
Guahan Academy Charter School	3,846,882	-	3,846,882	4,458,474	-	4,458,474
iLearn Academy Charter School	3,774,560	-	3,774,560	2,968,433	-	2,968,433
Science is Fun and Awesome Academy Charter School	1,418,504	-	1,418,504	-	-	-
Debt service:						
Lease payments	20,412,975	6,601,400	27,014,375	19,615,485	7,625,900	27,241,385
Total expenditures	251,460,707	67,233,481	318,694,188	254,264,283	67,536,516	321,800,799
Net change in fund balances (deficit)	(3,703,988)	-	(3,703,988)	(2,638,748)	-	(2,638,748)
Fund balances at beginning of year	2,232,052	-	2,232,052	4,870,800	-	4,870,800
Fund (deficit) balances at end of year	\$ (1,471,936)	\$ -	\$ (1,471,936)	\$ 2,232,052	\$ -	\$ 2,232,052

See Accompanying Independent Auditors' Report.

GUAM DEPARTMENT OF EDUCATION

Reconciliations of the Governmental Funds Statement of Revenues, Expenditures and
Changes in Fund Balances (Deficit) to the Statement of Activities
Year Ended September 30, 2019
(With Comparative Totals for the Year Ended September 30, 2018)

	2019	2018
Total net change in fund balances (deficit)- governmental funds	\$ (3,703,988)	\$ (2,638,748)
<p>Amounts reported for governmental activities in the statements of activities are different because:</p>		
<p>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 depreciation exceeded capital outlays.</p>	(9,458,691)	(30,641,524)
<p>Prepayment of capital lease obligations in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.</p>	(125,000)	(906,574)
<p>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.</p>	6,900,505	24,266,347
<p>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.</p>	<u>(1,686,961)</u>	<u>(5,900,771)</u>
Change in net position of governmental activities	<u>\$ (8,074,135)</u>	<u>\$ (15,821,270)</u>

See Accompanying Independent Auditors' Report.

GUAM DEPARTMENT OF EDUCATION

Combined Statements of Revenues, Expenditures by Account and Changes in Fund Balances (Deficit)
Governmental Funds
Year Ended September 30, 2019

	2019			2018		
	General	Federal Grants Assistance	Total	General	Federal Grants Assistance	Total
Revenues:						
Local appropriations	\$ 245,229,414	\$ 6,601,400	\$ 251,830,814	\$ 248,469,400	\$ 7,661,550	\$ 256,130,950
Federal grants and contributions	1,290,615	60,422,383	61,712,998	1,755,297	59,696,828	61,452,125
Contributions from component units	800,801	-	800,801	-	-	-
Cafeteria sales	6,120	-	6,120	31,213	-	31,213
Fees and other program receipts	429,769	209,698	639,467	1,369,625	178,138	1,547,763
Total revenues	247,756,719	67,233,481	314,990,200	251,625,535	67,536,516	319,162,051
Expenditures:						
Salaries and wages	131,769,829	21,052,731	152,822,560	132,943,174	22,642,589	155,585,763
Benefits	44,634,925	7,234,943	51,869,868	46,829,102	8,079,465	54,908,567
Capital lease payments	20,412,975	6,601,400	27,014,375	19,615,485	7,625,900	27,241,385
Food management contract	6,315,371	12,466,501	18,781,872	6,428,150	11,687,902	18,116,052
Contractual	9,620,288	7,570,585	17,190,873	11,649,351	8,831,348	20,480,699
Power	11,166,118	2,302,657	13,468,775	12,472,661	-	12,472,661
Retiree healthcare benefits	11,539,386	-	11,539,386	11,732,727	-	11,732,727
Supplies	794,817	6,265,463	7,060,280	801,945	3,734,451	4,536,396
Guahan Academy Charter School	3,846,882	-	3,846,882	4,458,474	-	4,458,474
iLearn Academy Charter School	3,774,560	-	3,774,560	2,968,433	-	2,968,433
Water	2,847,950	-	2,847,950	2,538,289	-	2,538,289
Equipment	1,017,458	1,183,763	2,201,221	571,129	3,076,517	3,647,646
Travel	587,307	1,368,101	1,955,408	513,817	825,809	1,339,626
Science is Fun and Awesome Academy Charter School	1,418,504	-	1,418,504	-	-	-
Indirect costs	-	896,505	896,505	-	975,210	975,210
Textbooks	696,462	-	696,462	192,353	-	192,353
Capital outlay	281,630	290,782	572,412	21,491	57,290	78,781
Phone	361,612	-	361,612	221,664	-	221,664
Library books and equipment	202,321	-	202,321	81,224	-	81,224
Fuel	171,041	-	171,041	169,602	-	169,602
Miscellaneous	1,271	50	1,321	55,212	35	55,247
Total expenditures	251,460,707	67,233,481	318,694,188	254,264,283	67,536,516	321,800,799
Net change in fund balances (deficit)	(3,703,988)	-	(3,703,988)	(2,638,748)	-	(2,638,748)
Fund balances at beginning of year	2,232,052	-	2,232,052	4,870,800	-	4,870,800
Fund (deficit) balances at end of year	<u>\$ (1,471,936)</u>	<u>\$ -</u>	<u>\$ (1,471,936)</u>	<u>\$ 2,232,052</u>	<u>\$ -</u>	<u>\$ 2,232,052</u>

See Accompanying Independent Auditors' Report.

GUAM DEPARTMENT OF EDUCATION

Schedule of Revenues, Expenditures and Changes in Fund Balance (Deficit) - Budget and Actual
General Fund
Year Ended September 30, 2019
(With Comparative Totals for the Year Ended September 30, 2018)

	2019				2018			
	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)
Revenues:								
Local appropriations:								
Government of Guam General Fund:								
Operations	\$ 188,360,743	\$ 188,360,743	\$ 188,360,743	\$ -	\$ 214,310,861	\$ 214,310,861	\$ 201,354,656	\$ (12,956,205)
Retiree healthcare benefits	11,539,386	11,539,386	11,539,386	-	11,732,727	11,732,727	11,732,727	-
JFK High School Lease	5,131,900	5,131,900	5,131,900	-	5,128,200	5,128,200	5,128,200	-
Okkodo High School Expansion	2,288,960	2,288,960	2,288,960	-	2,286,685	2,286,685	2,286,685	-
Guahan Academy Charter School	4,505,120	4,505,120	3,846,882	(658,238)	4,810,000	4,810,000	4,458,474	(351,526)
iLearn Academy Charter School	3,774,560	3,774,560	3,774,560	-	3,250,000	3,250,000	2,968,433	(281,567)
Science is Fun and Awesome Academy Charter School	2,130,800	2,130,800	1,418,504	(712,296)	-	-	-	-
Textbooks	1,500,000	1,500,000	1,027,545	(472,455)	1,500,000	1,500,000	1,500,000	-
Simon Sanchez High School Construction	1,000,000	1,000,000	1,000,000	-	-	1,500,000	-	(1,500,000)
Chamorro studies division	401,207	401,207	401,207	-	401,207	401,207	401,207	-
Secure Our Schools Act	-	-	19,720	19,720	-	-	8,627	8,627
Pre-Kindergarten Pilot Program	-	-	-	-	1,054,596	1,054,596	-	(1,054,596)
School maintenance and repairs	-	-	-	-	500,000	500,000	500,000	-
Territorial Education Facilities Fund:								
Operations	13,697,608	13,697,608	10,948,242	(2,749,366)	4,353,375	4,353,375	3,770,009	(583,366)
Tiyan Lease	10,113,927	10,113,927	10,113,927	-	10,113,927	10,113,927	9,113,927	(1,000,000)
JFK High School Lease	1,568,000	1,568,000	2,228,187	660,187	1,568,000	1,568,000	2,151,366	583,366
Okkodo High School Expansion Project Lease	650,000	650,000	650,000	-	650,000	650,000	650,000	-
First Generation Trust Fund	100,000	100,000	84,748	(15,252)	100,000	100,000	100,000	-
Healthy Futures Fund:								
Interscholastic Sports	612,000	612,000	612,000	-	612,000	612,000	612,000	-
Health and Physical Education Activities	279,754	279,754	279,754	-	279,754	279,754	279,754	-
Public Library System Fund	978,236	978,236	978,236	-	996,946	996,946	996,946	-
Limited Gaming Fund	524,913	524,913	524,913	-	608,518	608,518	456,389	(152,129)
Federal grants and contributions	-	-	1,290,615	1,290,615	-	-	1,755,297	1,755,297
Contributions from component units	450,000	450,000	800,801	350,801	450,000	450,000	-	(450,000)
Fees and other program receipts	-	-	429,769	429,769	-	-	1,369,625	1,369,625
Cafeteria sales	-	-	6,120	6,120	-	-	31,213	31,213
Total revenues	249,607,114	249,607,114	247,756,719	(1,850,395)	264,706,796	266,206,796	251,625,535	(14,581,261)
Expenditures - Budgetary Basis:								
Personnel	177,691,298	176,323,381	176,404,754	(81,373)	185,405,148	178,886,562	179,772,275	(885,713)
Contractual	17,220,560	18,351,860	17,117,294	1,234,566	22,085,413	20,611,235	19,238,303	1,372,932
Utilities	10,686,816	14,417,554	14,377,214	40,340	15,497,777	15,252,324	15,232,841	19,483
Retiree healthcare benefits	11,539,386	11,539,386	11,539,386	-	11,732,727	11,732,727	11,732,727	-
Tiyan Lease	10,113,927	10,113,927	10,113,927	-	10,113,927	10,113,927	9,399,234	714,693
JFK High School Lease	6,699,900	6,699,900	7,360,088	(660,188)	6,696,200	6,696,200	7,279,566	(583,366)
Guahan Academy Charter School	4,505,120	4,505,120	3,846,882	658,238	4,810,000	4,458,474	4,458,474	-
iLearn Academy Charter School	3,774,560	3,774,560	3,774,560	-	3,250,000	2,968,433	2,968,433	-
Supplies/equipment	2,651,454	1,912,902	2,693,726	(780,824)	4,226,930	1,367,936	2,070,361	(702,425)
Okkodo High School Expansion Project Lease	2,938,960	2,938,960	2,938,960	-	2,936,685	2,936,685	2,936,685	-
Science is Fun and Awesome Academy Charter School	2,130,800	2,130,800	1,418,504	712,296	-	-	-	-
Textbooks	2,737,040	1,227,330	696,462	530,868	1,400,000	463,707	888,082	(424,375)
Capital projects	1,360,872	344,265	344,265	-	804,040	503,678	297,236	206,442
Other	1,921,406	2,348,963	588,579	1,760,384	836,000	1,042,379	569,030	473,349
Total expenditures	255,972,099	256,628,908	253,214,601	3,414,307	269,794,847	257,034,267	256,843,247	191,020
Excess (deficiency) of revenues over (under) expenditures	(6,364,985)	(7,021,794)	(5,457,882)	1,563,912	(5,088,051)	9,172,529	(5,217,712)	(14,390,241)
Other changes in fund balance (deficit):								
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	2,578,964	2,578,964	1,753,894	(825,070)	3,861,140	3,861,140	2,578,964	(1,282,176)
Net change in fund balance (deficit)	\$ (3,786,021)	\$ (4,442,830)	\$ (3,703,988)	\$ 738,842	\$ (1,226,911)	\$ 13,033,669	\$ (2,638,748)	\$ (15,672,417)

See Accompanying Independent Auditors' Report.

GUAM DEPARTMENT OF EDUCATION

Combining Schedule of Balance Sheet Accounts
General Fund
September 30, 2019

<u>ASSETS</u>	<u>Operations</u>	First Generation Trust Fund Initiative	<u>Total</u>
Cash and cash equivalents	\$ 7,870,479	\$ 1,614,959	\$ 9,485,438
Due from component units	-	43,278	43,278
Prepayments and other assets	664,928	-	664,928
Deposit	4,896,253	-	4,896,253
Due from other funds	<u>5,698,364</u>	-	<u>5,698,364</u>
Total assets	<u>\$ 19,130,024</u>	<u>\$ 1,658,237</u>	<u>\$ 20,788,261</u>
 <u>LIABILITIES AND FUND BALANCES (DEFICIT)</u>			
Liabilities:			
Accounts payable	\$ 11,235,541	\$ -	\$ 11,235,541
Accrued payroll	7,391,273	-	7,391,273
Other liabilities and accruals	<u>3,633,383</u>	-	<u>3,633,383</u>
Total liabilities	<u>22,260,197</u>	-	<u>22,260,197</u>
Fund balances (deficit):			
Committed	-	1,658,237	1,658,237
Unassigned	<u>(3,130,173)</u>	-	<u>(3,130,173)</u>
Total fund balances (deficit)	<u>(3,130,173)</u>	<u>1,658,237</u>	<u>(1,471,936)</u>
Total liabilities and fund balances (deficit)	<u>\$ 19,130,024</u>	<u>\$ 1,658,237</u>	<u>\$ 20,788,261</u>

See Accompanying Independent Auditors' Report.

GUAM DEPARTMENT OF EDUCATION

Combining Statement of Revenues, Expenditures and
Changes in Fund Balances (Deficit) Accounts
General Fund
Year Ended September 30, 2019

	<u>Operations</u>	<u>First Generation Trust Fund Initiative</u>	<u>Total</u>
Revenues:			
Appropriations	\$ 245,144,666	\$ 84,748	\$ 245,229,414
Federal grants and contributions	1,290,615	-	1,290,615
Contributions from component units	-	800,801	800,801
Cafeteria sales	6,120	-	6,120
Fees and other program receipts	<u>416,360</u>	<u>13,409</u>	<u>429,769</u>
 Total revenues	 <u>246,857,761</u>	 <u>898,958</u>	 <u>247,756,719</u>
Expenditures:			
Elementary Education	74,329,849	-	74,329,849
Secondary Education	85,769,546	-	85,769,546
Direct Student Support	16,614,314	-	16,614,314
General Administration	33,754,691	-	33,754,691
Retiree healthcare benefits	11,539,386	-	11,539,386
Guahan Academy Charter School	3,846,882	-	3,846,882
iLearn Academy Charter School	3,774,560	-	3,774,560
Science is Fun and Awesome Academy Charter School	1,418,504	-	1,418,504
Debt service:			
Lease payments	<u>20,412,975</u>	<u>-</u>	<u>20,412,975</u>
 Total expenditures	 <u>251,460,707</u>	 <u>-</u>	 <u>251,460,707</u>
 Net change in fund balances (deficit)	 <u>(4,602,946)</u>	 <u>898,958</u>	 <u>(3,703,988)</u>
 Fund balances at beginning of year	 <u>1,472,773</u>	 <u>759,279</u>	 <u>2,232,052</u>
 Fund balances (deficit) at end of year	 <u>\$ (3,130,173)</u>	 <u>\$ 1,658,237</u>	 <u>\$ (1,471,936)</u>

See Accompanying Independent Auditors' Report.

GUAM DEPARTMENT OF EDUCATION

Agency Fund
September 30, 2019

The schedule of cash receipts and cash disbursements for the agency fund during fiscal year 2019 is as follows:

	<u>NAF</u>
Cash balance at beginning of year	\$ <u>719,515</u>
Cash receipts:	
Elementary school activities	434,953
Secondary school activities	<u>1,353,655</u>
Total receipts	<u>1,788,608</u>
Cash disbursements:	
Elementary school activities	417,372
Secondary school activities	<u>1,335,344</u>
Total disbursements	<u>1,752,716</u>
Cash balance at end of year	\$ <u>755,407</u>

The number of individual funds at the schools during fiscal year 2019 is as follows:

Elementary schools	286
Secondary schools	447

See Accompanying Independent Auditors' Report.

GUAM DEPARTMENT OF EDUCATION

Personnel
September 30, 2019 and 2018

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

	Employee Count as of PPE <u>September 28, 2019</u>	Employee Count as of PPE <u>September 29, 2018</u>
100% Locally Funded	2,811	2,721
100% Federally Funded	762	780
Locally/Federally Funded	<u>22</u>	<u>143</u>
Total Employee Count	<u>3,595</u>	<u>3,644</u>

Due to the impact of the federal Tax Cut and Jobs Act of 2017 on Government of Guam revenues and the subsequent Fiscal Realignment Plan implementation, a freeze on hiring 'central office' staff as well as school administrators was implemented. The plan also called for a delay in onboarding of Substitute Teachers at the start of the school year in August until the beginning of FY19. This resulted in a reduction of locally funded employees.

"Locally / Federally Funded" employees are locally funded teachers who also participate in federally funded projects, such as GATE (Gifted and Talented Program), GIHA and T&FASEG (Territories & Freely Associated States Educational Program). Teachers are paid a stipend for work outside of their normal duty hours. Also note that the consolidated grant has chosen to expand the payment of stipends to ASPIRE, Eskuelan Puengi and Summer School projects; teachers who previously received payments based on hours worked now receive lump sum payments either at the end of the project or at milestones specified during the project.

See Accompanying Independent Auditors' Report.