

**GUAM DEPARTMENT OF EDUCATION**

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

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

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**YEAR ENDED SEPTEMBER 30, 2016**

# 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, 2016, and the related notes to the financial statements, which collectively comprise GDOE's basic financial statements as set forth in Section III of the forgoing table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Guam Department of Education as of September 30, 2016, 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-Matter***

### *Reporting Entity*

As discussed in Note 1A to the financial statements, the financial statements of GDOE are intended to present the financial position and the changes in financial position of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of GovGuam that is attributable to the transactions of GDOE. They do not purport to, and do not, present fairly the financial position of GovGuam as of September 30, 2016 and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

## ***Other Matters***

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 14, the Schedule of Revenues, Expenditures, and Changes in Deficit – Budget and Actual – General Fund and notes thereto, on pages 48 and 49, the Schedule of Proportionate Share of the Net Pension Liability, on page 50, and the Schedule of Pension Contributions, on page 51, be presented to supplement the basic financial statements. Such information, although are not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB) who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the 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, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the Schedule of Funding Progress and Actuarial Accrued Liability – Post Employment Benefits Other Than Pension that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by GASB who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

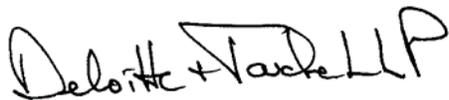
## *Other Information*

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 2016 information on pages 53 through 59 as well as the additional information on pages 61 through 63 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 2015 information on pages 53 through 59 as well as the additional information on pages 60 and 64 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 May 2, 2017, on our consideration of GDOE's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering GDOE's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Deloitte + Tatchell LLP". The signature is written in a cursive, stylized font.

May 2, 2017

## GUAM DEPARTMENT OF EDUCATION

Management's Discussion and Analysis  
Year Ended September 30, 2016

### 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. GDOE is governed by policies established by the Guam Education Board (GEB, Board). GEB is comprised of a combination of elected and appointed board members. The Board appoints the Superintendent of Education who is the Chief Executive Officer of the Department.

GDOE is a single unified school district (Kindergarten thru Grade 12) that serves nearly 31,000 students. There are 26 elementary schools, eight middle schools, six high schools, and an alternative school for a total of 41 schools. Additionally, the Department administers the Head Start and pre-Kindergarten GATE (Gifted and Talented Education) programs and is piloting pre-kindergarten classes at selected elementary schools.

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

This discussion has been prepared by GDOE management to provide an overview of the Department's financial activities for fiscal year (FY) ending September 30, 2016. It is based on the financial statements provided in the annual audit report. Comparable financial data from the prior year is also provided. GDOE's department-wide financial statements are composed of a Statement of Net Position and a Statement of Activities, plus certain required supplementary and other supplementary information:

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

The MD&A should be read in conjunction with GDOE's basic financial statements and related notes to enhance understanding of the Department's financial performance. Additionally, the completion of the FY16 Single Audit represents GDOE's commitment to, and support of, programmatic and financial accountability.

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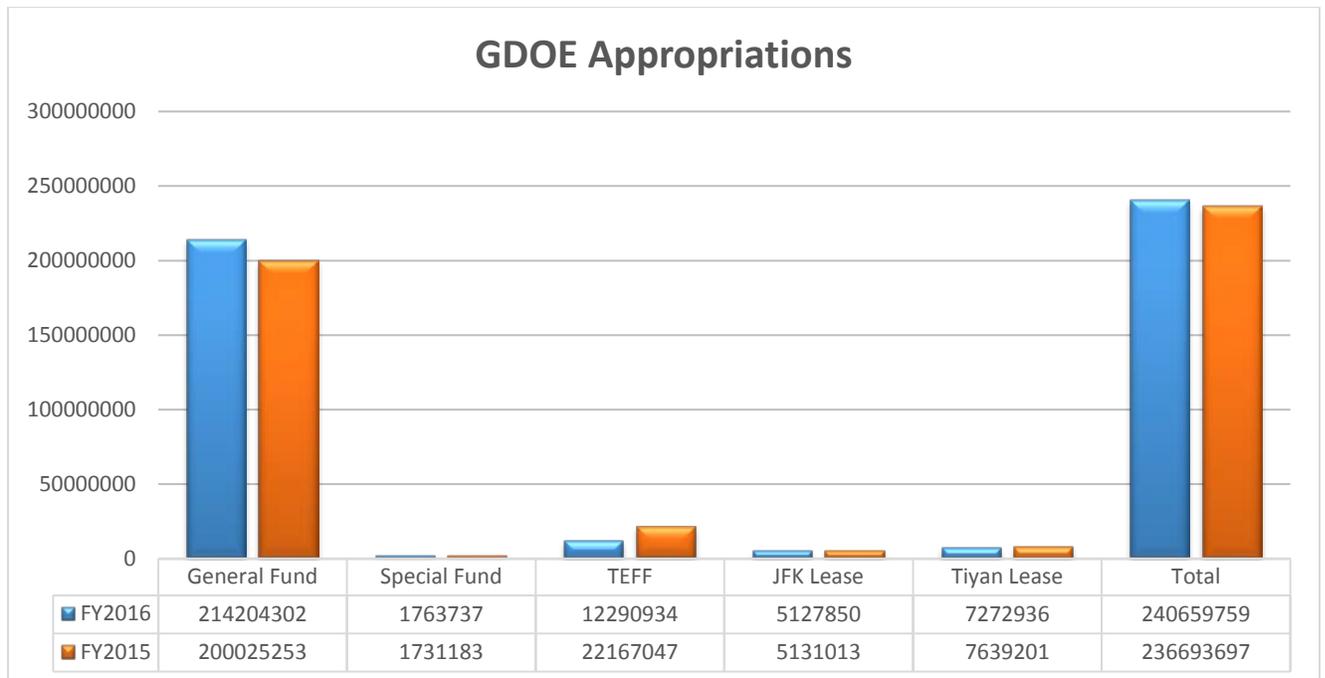
Management’s Discussion and Analysis  
Year Ended September 30, 2016

For FY15 and FY16, GDOE received unmodified opinions with no material weaknesses for both the financial statement and the single audit meeting the conditions for a low-risk auditee and should qualify for the designation in FY17 absent any significant changes. The criteria for a low-risk auditee per 2 CFR 200.520 include meeting the following conditions for the preceding two audit periods:

- (a) Annual Single Audits
- (b) Auditor’s opinion that the financial statements were prepared in accordance with GAAP and the auditor’s opinion on the schedule of expenditures of Federal awards were unmodified
- (c) No internal control deficiencies identified as material weaknesses
- (d) Auditee not a going concern
- (e) No audit findings in Type A Federal programs in the following areas:
  - 1. Internal control deficiencies identified as material weaknesses
  - 2. Modified opinion on a major program
  - 3. Known or likely questioned costs that exceed five percent of the total Federal awards expended for a Type A program during the audit period

**Local Appropriations**

Pursuant to Public Law (PL) 33-66 and 33-162, GDOE appropriations in FY16 totaled \$240,659,759, an overall increase of \$3.9 million (M) in comparison to FY15 appropriation levels.



The \$4M increase in authorized spending included the following:

1. \$506 thousand (K) in appropriations for *I'Learn* Academy Charter School, from \$2M in FY15 to \$2.5M in FY16;
2. \$100K in new start-up funding to implement the First Generation Trust Initiative (PL 33-007) to provide scholarships to GDOE graduates attending the University of Guam or Guam Community College;
3. an additional \$32K in funding for school libraries under the Public Library Resource Fund, from \$839K in FY15 to \$872K in FY16; and
4. \$3.4M to cover organic growth in the cost of GDOE personnel and operations expenditures.

## GUAM DEPARTMENT OF EDUCATION

### Management's Discussion and Analysis Year Ended September 30, 2016

The \$1.7M in special fund appropriations in FY16 were designated for interscholastic sports, health and physical education activities, and school libraries; the appropriation included an increase of \$32K in funding for the Guam Public School Library Resource Fund as compared to FY15.

Additionally, funding provided to benefit GDOE not included in the comparative table above:

- ✓ \$14.6M in payments (\$12.3M in retiree healthcare benefits and \$2.3M in lease payments for the Okkodo High School Expansion);
- ✓ \$450K in payments from University of Guam and the Guam Community College to implement the First Generation Trust Initiative;
- ✓ \$11.2M in additional appropriations (\$10.3M in Federal reimbursements and \$875K in cash collections) related to the National School Lunch and School Breakfast Programs. The reimbursements are provided by the U.S. Department of Agriculture (USDA)'s Food and Nutrition Services for eligible meals served to students who attend public schools.

In May 2016, PL 33-162 mandated any and all collections from the Territorial Education Facilities Fund (TEFF), in excess of \$29,255,710, in additional appropriations to GDOE. However, this did not come to fruition.

#### Federal Grants and Programs

Non-discretionary federal grant funding increased \$1.48M in FY16 as compared to FY15 in the following programs: Consolidated Grant to Insular Areas; Special Education – Grants to States SPED Part B and Funding for SPED Part C.

| <u>FEDERAL GRANT AWARDS</u> | <u>FY16</u>   | <u>FY15</u>   | <u>Change</u> | <u>% Change</u> |
|-----------------------------|---------------|---------------|---------------|-----------------|
| Consolidated Grant          | \$ 26,413,292 | \$ 24,925,098 | \$ 1,488,194  | 5.97%           |
| Head Start                  | \$ 2,540,620  | \$ 2,570,248  | \$ (29,628)   | -1.15%          |
| SPED Part B                 | \$ 14,120,991 | \$ 14,096,945 | \$ 24,046     | 0.17%           |
| SPED Part C                 | \$ 1,489,809  | \$ 1,487,272  | \$ 2,537      | 0.17%           |

In FY2016, the following amounts were expended by GDOE through a variety of Federal grants, representing \$64.4M or 20% of total expenditures of \$322,415,570:

| <u>Grantor</u>                              | <u>FY16 Amount</u>  | <u>FY15 Amount</u>  | <u>Change</u>       |
|---|---------------------|---------------------|---------------------|
| U.S. Department of Agriculture              | \$ 11,728,876       | \$ 11,919,166       | \$ (190,290)        |
| U.S. Department of Education                | \$ 40,620,424       | \$ 40,012,582       | \$ 607,842          |
| U.S. Department of Health & Human Services  | \$ 2,741,585        | \$ 2,726,499        | \$ 15,086           |
| U.S. Department of the Interior             | \$ 8,929,495        | \$ 9,951,922        | \$ (1,022,428)      |
| Federal Grants Assistance Fund Expenditures | \$ 64,020,380       | \$ 64,610,169       | \$ (589,789)        |
| U.S. Department of Defense                  | \$ 418,432          | \$ 621,559          | \$ (203,127)        |
| <b>Total Federal Expenditures</b>           | <b>\$64,438,812</b> | <b>\$65,231,728</b> | <b>\$ (792,916)</b> |

The \$1M overall decrease in expenditures in FY16 in comparison to FY15, largely occurred in grants received from USDA and the U.S. Departments of the Interior (DOI) and Defense (DOD), offset by increases in expenditures from U.S. Department of Education (USDOE) funding. The decrease in USDA funding is related to a decrease in eligible meals served, the decrease in DOI is related to amounts provided through the Governor's Office and the decrease in DOD funding is related to staffing changes in the Junior Reserve Officer Training Corps program.

## **GUAM DEPARTMENT OF EDUCATION**

Management's Discussion and Analysis  
Year Ended September 30, 2016

### **FISCAL YEAR 2016 OVERVIEW**

Cash shortfalls, totaling \$5.1M in GDOE's FY16 General Fund (GF) appropriations, once again negatively impacted GDOE operations. In previous fiscal years, the shortages occurred in appropriations from the Territorial Educational Facilities Fund (TEFF): \$3.2M in FY15 and \$5M in FY14. This recurrence impacted cash flow throughout FY16 as the combined FY15 TEFF carryover and FY16 GF shortfall of \$5.1M slowed payments of outstanding invoices.

FY16 marked the fourth year GDOE incurred local expenditures associated with addressing its 'high risk' grantee status by USDOE. Special Conditions issued by USDOE require financial management functions of USDOE grants to be supervised by a Third Party Fiduciary Agent (TPFA). Outstanding reimbursements averaged \$3.5M monthly, adding to the cash flow pressures. USDOE Risk Management's visit in November 2015 affirmed continued improvement has been made and encouraged GDOE to consider a request to amend the Special Conditions.

Meanwhile, transition plans first developed between the TPFA and GDOE in FY15 continued to be monitored and updated throughout FY16. The plans identify resources and activities necessary should the requirement for the TPFA be reduced in scope or removed. The master transition work plan is updated bi-weekly and tracks the progress of completed tasks. Note that any transition of tasks from the TPFA to GDOE must be officially sanctioned by USDOE.

Annually, USDOE updates its special conditions letter in June. The June 2015 and 2016 letters acknowledged the plan to support the gradual transition that would result in the removal of USDOE's third party requirement, while requiring GDOE's commitment to secure necessary human resources and complete and test all new standard operating procedures.

GDOE continues to work to optimize its Financial Management Information System (FMIS, Tyler MUNIS) and, in June 2016, GDOE upgraded its FMIS from version 10 to 11.1. The upgrades ensure maximization and use of the system's various modules. Additionally, in FY16, system generated financials were scheduled to automatically be sent to school administrators on a monthly basis, automated approvals of personnel actions were piloted, the Contract Management Module was activated, and GDOE accountants began to actively use the Billing Module to generate invoices.

In September 2015, GDOE was awarded a total of \$1.4M in FY15 DOI Compact Impact funding, which was primarily used to offset expenditures in school operations. GDOE received \$2M in FY14 and \$2.8M in FY13. These funds were primarily used to fund: trainings to integrate the use of computer carts, tablets, smartboards, and internet subscriptions/resources in classroom instruction and lesson plans; capital outlay to increase bandwidth and wireless access; and procurement of additional mobile laptops and tablets to ensure all GDOE students have access to technology and gain proficiency in technology- use standards.

In October 2015, GDOE launched its Pre-Kindergarten Program (GEB Resolution 2014-08), and began operating an additional classroom in all four regions (Haya, Kattan, Luchan and Lagu districts). Total of 72 students were enrolled at J.Q. San Miguel, Lyndon B. Johnson, Marcial Sablan, and Finegayan Elementary Schools. Although additional local funding was provided through PL 33-29, additional cash was not provided for the pilot.

In December 2015, GDOE cut the ribbon on the newly constructed Tiyan High School gymnasium. Financing for the construction was authorized under provisions of local law that allow for school construction and facilities in Tiyan, including the construction of an additional central office building and warehouses under lease lease-back terms.

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Also in December 2015, GDOE received its second year (\$1M) funding under Phase II of the USDOJ Office of Insular Affairs (OIA) Insular Assessment of Buildings and Classroom Initiative. The initiative sets aside \$1M of OIA Capital Improvement Project funds beginning in FY15 through FY18 to address deferred maintenance projects in GDOE schools. Authorizations to proceed were issued on February 24 and April 12, 2016. First year funding projects includes: installation of a new fire alarm and bell/public announcement system and canopy repairs at Southern High School; and electrical repairs and fire alarm repairs at various schools. Second year funding includes: drainage system improvements; and fire alarm and Public Announcement system repairs and installation in other schools.

In January 2016, GovGuam General Services Agency (GSA) awarded a bid, GSA/DOE 030-15, to install security systems throughout Guam public schools under The Secure our School Act of 2013. PL 32-009 was signed into law on April 2, 2013 and appropriated \$800K for the installation and maintenance of electronic or other security systems at all Guam public schools. The investment will help reduce the number of school burglaries, incidences of vandalism, and other crimes and associated costs of repairs and replacement of equipment.

The Superintendent is serving his fifth year and is contracted to serve until June 30, 2020. A recent modification to the Superintendent’s contract, if approved, would extend the term until June 30, 2021.

Salaries and benefits, including retirement and healthcare benefits, represent a primary component of GDOE expenditures, accounting for \$226,948,981 or 70.4% of total (federal and local) expenditures in FY16. Eighty-five percent or \$193,384,888 was funded through local appropriations and \$33,564,093 was funded through federal grants. In comparison to FY15, these expenditures increased by .34% or \$776K (\$1.8M local offset by \$1.1M decrease in federal).

The overall number of GDOE employees increased by 11 from 3,897 (pay period ending October 3, 2015) to 3,908 (pay period ending October 1, 2016). *Local/Federally Funded Employees* include teachers and school aides that are locally funded and receive payment for work on federally funded programs such as Active Student Participation Inspires Real Engagement (ASPIRE), an afterschool program for elementary students. Note that this is a count of employees at a point in time and is a function of a number of factors including funding availability, program start dates, staff turnover, and availability of applicants.

|                                    | Pay period<br>ending<br><u>10/01/2016</u> | Pay period<br>ending<br><u>10/03/2015</u> | <u>Change</u> |
|------------------------------------|---|---|---------------|
| 100% Locally Funded Employees      | 3,027                                     | 2,905                                     | 122           |
| 100% Federally Funded Employees    | 875                                       | 877                                       | -2            |
| Locally/Federally Funded Employees | <u>6</u>                                  | <u>115</u>                                | <u>-109</u>   |
| Total Employee Count               | 3,908                                     | 3,897                                     | 11            |

The costs of a number of critical contracts and services (listed in the table below) netted an increase in expenditure of nearly \$1.1M in FY16. While payments to GDOE’s copier, internet, TPFA, cash and trash collections, and accreditation expenditures declined, this decrease served to offset increases in the costs of custodial, food services, and air conditioning preventive maintenance services.

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Year Ended September 30, 2016

| <b><u>CRITICAL CONTRACTS</u></b> | <b><u>FY16</u></b> | <b><u>FY15</u></b> | <b><u>Change</u></b> |
|----------------------------------|--------------------|--------------------|----------------------|
| Custodial Services               | \$ 3,021,492       | \$ 2,906,535       | \$ 114,958           |
| Copier Services                  | \$ 848,705         | \$ 893,059         | \$ (44,354)          |
| Cash Collection                  | \$ 29,718          | \$ 83,514          | \$ (53,797)          |
| Internet                         | \$ 835,878         | \$ 924,412         | \$ (88,534)          |
| Trash Collection                 | \$ 974,032         | \$ 1,079,999       | \$ (105,968)         |
| Accreditation                    | \$ -               | \$ 65,670          | \$ (65,670)          |
| Food Services                    | \$ 15,981,498      | \$ 15,599,896      | \$ 381,602           |
| Third Party Fiduciary Agent      | \$ 2,937,165       | \$ 3,083,192       | \$ (146,027)         |
| Air-Conditioning Maintenance     | \$ 3,122,227       | \$ 1,436,816       | \$ 1,685,411         |

At the start of School Year (SY) 15-16 in August 2015, GDOE changed the ratio of outsourced cafeterias to GDOE operated from 35:6 to 37:4, and opted to increase the number of schools serving meals at no charge from 21 to 27. While these changes slightly increased cost of GDOE's food management services, GDOE's total reimbursements under the federal Child Nutrition Program (CNP) Community Eligibility Program for all 41 schools decreased from \$11,261,867 in FY15 to \$10,874,195 in FY16. To some degree, this can be attributed to the decrease in the number of meals actually served between SY15-16 and SY14-15.

**GDOE CNP** Table below, is the number of reimbursed meals (lunch & breakfast) served under GDOE's Child Nutrition Program School Lunch Program for SY15-16 and SY14-15. ADP calculated amount using Total Meal Served divided by 180 school days.

| NATIONAL SCHOOL LUNCH & B-FAST PROGRAM | LUNCH     |         |         |                        |        |              | BREAKFAST |         |         |                     |        |              |
|--|-----------|---------|---------|------------------------|--------|--------------|-----------|---------|---------|---------------------|--------|--------------|
|  | FREE      | PAID    | REDUCED | TOTAL LUNCHESES SERVED | * ADP  | ENROLL -MENT | FREE      | PAID    | REDUCED | TOTAL B-FAST SERVED | * ADP  | ENROLL -MENT |
| SY 2015-2016**                         | 2,457,965 | 325,924 | 26,892  | 2,810,781              | 17,903 | 33,440       | 1,361,305 | 165,549 | 12,102  | 1,538,956           | 9,802  | 33,440       |
| SY 2014-2015**                         | 2,483,897 | 259,023 | 29,300  | 2,772,220              | 17,657 | 30,661       | 1,464,248 | 127,076 | 11,321  | 1,602,645           | 10,208 | 30,661       |
| Variance                               | -25,932   | 66,901  | -2,408  | 38,561                 | 246    | 2,779        | -102,943  | 38,473  | 781     | -63,689             | -406   | 2,779        |
| % of Variance                          | -1.04%    | 25.83%  | -8.22%  | 1.39%                  | 1.39%  | 9.06%        | -7.03%    | 30.28%  | 6.90%   | -3.97%              | -3.97% | 9.06%        |

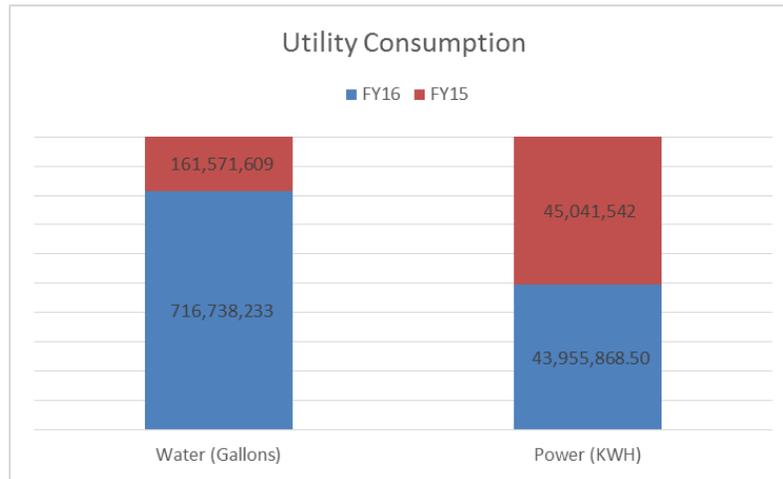
\* Average Daily Participation; \*\* SY14-15 audited figures, SY15-16 figures are unaudited, & subject to change.

Reimbursements from USDA for eligible meals through the National School Lunch and School Breakfast Programs are currently based on rates established for the 48 contiguous states. The University of Guam was contracted to perform a cost study of the programs to make a case to USDA that costs on Guam are significantly higher and Guam rates should be aligned with those established for Hawaii or Alaska. In April 2015, the study was completed and submitted to USDA. To date, no adjustments in the reimbursable rates under the programs have been made.

FY16 Utilities (power, water, telephone) combined accounted for 4% or \$13.9M of total expenditures. The table below shows water and power consumption for FY15 and FY16. In comparison to FY15, power expenditures declined by \$1.3M with a corresponding decrease in consumption, nearly 1M KWH or -2.41%.

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Year Ended September 30, 2016



Meanwhile, water expenditures decreased in FY16 by \$191K or -6.83% with a significantly larger increase in gallons consumed, 343.6% or 555M gallons. Although a 7% increase in water rates went into effect in November 2015, there were reported water leaks in nearly half a dozen schools which were still under repair and billings still in dispute at the fiscal year end. While there were no significant decreases in the level of telephone services or number of telephone lines, telephone expenditures decreased by \$33K, as a result of changes in contract rates.

In February 2016, GDOE became the first school district in the nation to receive district-level accreditation (6 years) from the Western Association of Schools and Colleges (WASC). Under GDOE’s state strategic plan ‘2020: A Clear Vision for Education on Guam’ School District accreditation status as a means to provide a continuous cycle of improvement of support services to our schools and hold the central office operations accountable to established standards.

Twenty-nine GDOE schools are accredited by WASC. In spring 2016, seven of the 29 schools were visited by WASC teams resulting in four newly accredited schools (Adacao Elementary, C.L. Taitano Elementary, Liguán Elementary, and H.B. Price Elementary), and the affirmation or renewal of accreditation statuses for three others. An accreditation plan has been developed to have the remaining 11 elementary schools and one alternative school accredited by 2020.

**STATEMENT OF NET POSITION**

Net Position consists of current assets, capital assets (net of accumulated depreciation), and deferred outflows of resources less both current and noncurrent liabilities and deferred inflows of resources. From FY15 to FY16, total assets and deferred outflows of resources increased by \$7.3M, total liabilities and deferred inflows of resources increased by \$14.5M, and net position decreased by \$7.2M. This is a reversal from FY14 to FY15, when total assets decreased by \$10.6M and total liabilities decreased by \$42.3M.

Summary of Net Position

|                                       | <u>2016</u>           | <u>2015</u>           | <u>%<br/>Change</u> |
|---------------------------------------|-----------------------|-----------------------|---------------------|
| <b>Assets:</b>                        |                       |                       |                     |
| Current assets                        | \$ 24,154,093         | \$ 18,060,648         | 33.7%               |
| Capital and other assets              | <u>353,233,112</u>    | <u>359,224,505</u>    | -1.7%               |
| Total assets                          | <u>377,387,205</u>    | <u>377,285,153</u>    | 0.0%                |
| <b>Deferred outflows of resources</b> | <u>50,059,821</u>     | <u>42,849,189</u>     | 16.8%               |
|                                       | \$ <u>427,447,026</u> | \$ <u>420,134,342</u> | 1.7%                |

## GUAM DEPARTMENT OF EDUCATION

### Management's Discussion and Analysis Year Ended September 30, 2016

|  | <u>2016</u>                | <u>2015</u>           | <u>%<br/>Change</u> |
|--|----------------------------|-----------------------|---------------------|
| <b>Liabilities:</b>                                |                            |                       |                     |
| Current liabilities                                | \$ 43,887,096              | \$ 38,683,337         | 13.5%               |
| Noncurrent liabilities                             | <u>597,481,807</u>         | <u>553,313,813</u>    | 8.0%                |
| Total liabilities                                  | 641,368,903                | 591,997,150           | 8.3%                |
| <b>Deferred inflows of resources</b>               | <u>                  -</u> | <u>  34,739,317</u>   | -100.0%             |
|  | <u>641,368,903</u>         | <u>626,736,467</u>    | 2.3%                |
| <b>Net Position:</b>                               |                            |                       |                     |
| Net investment in capital assets                   | 170,777,209                | 174,596,555           | -2.2%               |
| Restricted for CIP, technology, equipment projects | 224,667                    | 293,131               | -23.4%              |
| Restricted for maintenance and insurance           | 1,250,000                  | 1,375,000             | -9.1%               |
| Unrestricted                                       | <u>(386,173,753)</u>       | <u>(382,866,811)</u>  | 0.9%                |
| Total net position                                 | <u>(213,921,877)</u>       | <u>(206,602,125)</u>  | 3.5%                |
|  | <u>\$ 427,447,026</u>      | <u>\$ 420,134,342</u> | 1.7%                |

Increases in assets were largely due to an increase of \$9.7M in cash and cash equivalents, a \$2.4M increase in Federal agency receivables, and a \$7.2M increase in deferred outflows of resources related to pensions, offset by a \$6M decrease in receivables from GovGuam and a \$5.9M decrease in net capital assets. Note the decrease in GovGuam receivables was largely due to a write-off of outstanding amounts.

The increase in liabilities was due to a \$5.2M increase in current liabilities and a \$44.2M increase in noncurrent liabilities; the largest increase was a \$46M increase in net pension liability estimated from \$362.3M in FY 2015 to \$408.2M in FY 2016. The inclusion of net pension liability was a result of the Government of Guam's adoption of GASB Statement No. 68, Accounting and Financial Reporting for Pensions, and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date. These increases were offset by a \$34.7M decrease in deferred inflows of resources related to pensions.

The \$7.3M decrease in net position is the difference between revenues of \$322M and expenses of \$329.3M. Note that the FY16 Balance Sheet prepared for Governmental Funds show a surplus of \$1.2M due to differences in amounts reported for governmental funds versus governmental activities.

Additionally, GDOE's \$352M capital assets in FY 2016 included buildings and improvements, vehicles, furniture, equipment, and technology. This \$5.8M decrease in capital assets, from \$357.8M in FY 2015, was primarily due to the \$12.5M in accumulated depreciation offset mainly by \$4.9M in capital lease acquisition for the completion of the Tiyan High School gymnasium. Additionally, there was no significant change to the debt of GDOE. For more information on GDOE's capital assets and Municipal School Lease Agreements, please refer to Note 1 (L) and Note 7 under Notes to Financial Statements.

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

The statement of activities and changes in net position represents revenues and expenses for the current fiscal year. The statement of activities and changes in net position reflects a decrease in net position of \$7.2M for FY16.

## GUAM DEPARTMENT OF EDUCATION

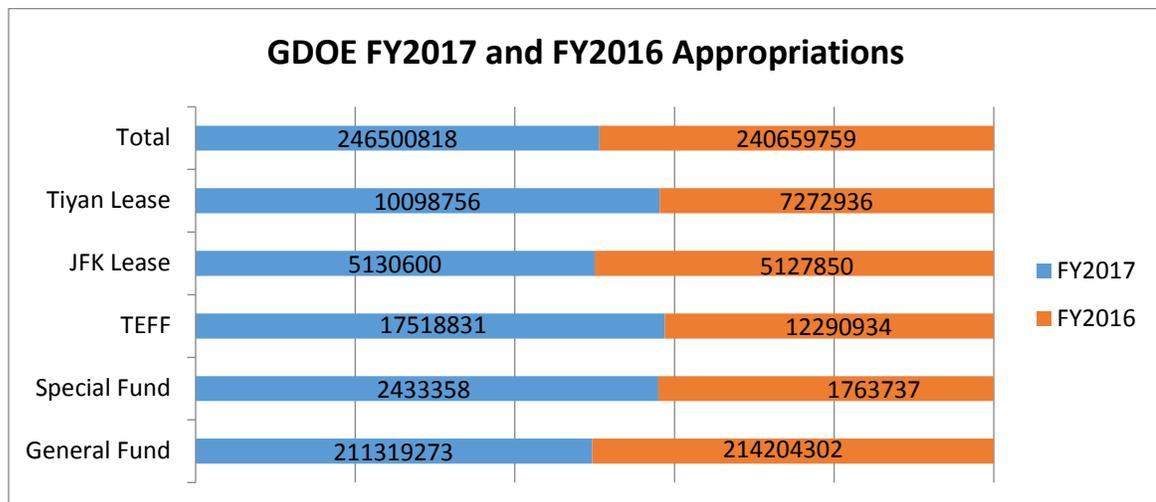
### Management's Discussion and Analysis Year Ended September 30, 2016

|                                    | <u>2016</u>             | <u>2015</u>             | <u>% Change</u> |
|------------------------------------|-------------------------|-------------------------|-----------------|
| <b>Revenues:</b>                   |                         |                         |                 |
| Appropriations                     | \$ 263,032,455          | \$ 257,260,165          | 0.97%           |
| Federal grants and contributions   | 56,874,788              | 58,052,789              | -1.88%          |
| Contributions from component units | 450,000                 | -                       | 100.00%         |
| Cafeteria Sales                    | 199,734                 | 231,703                 | -13.80%         |
| Other                              | <u>1,416,498</u>        | <u>1,040,777</u>        | 36.10%          |
| Total revenues                     | <u>321,973,475</u>      | <u>316,585,434</u>      | 0.69%           |
| <b>Expenses:</b>                   |                         |                         |                 |
| Elementary education               | 82,820,859              | 69,861,118              | 25.48%          |
| Secondary education                | 116,946,705             | 100,428,861             | 8.36%           |
| Direct student support             | 69,610,559              | 62,609,907              | 11.18%          |
| General administration             | 41,783,320              | 43,591,603              | -4.15%          |
| Retiree healthcare benefits        | 12,356,784              | 11,182,542              | 10.50%          |
| Charter Schools                    | <u>5,775,000</u>        | <u>4,795,548</u>        | 20.42%          |
| Total expenses                     | <u>329,293,227</u>      | <u>292,469,579</u>      | 13.85%          |
| Change in net position             | (7,319,752)             | 24,115,855              | -129.98%        |
| Net position at beginning of year  | <u>(206,602,125)</u>    | <u>(230,717,980)</u>    | -10.45%         |
| Net position at end of year        | \$ <u>(213,921,877)</u> | \$ <u>(206,602,125)</u> | 3.50%           |

Although total revenues increased by \$5.3M, total expenses increased by \$36.8M. The fiscal year ended with a change in net position of -\$7.3M. Although General Administrative expenses decreased by \$1.8M, all other expenses increased, with the largest increase in Secondary Education of \$16.5M.

#### ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Pursuant to the FY17 Budget Act (PL 33-185), General Fund revenues for FY17 are projected to increase approximately \$17M, from \$824M in FY16 to \$841M. While Bureau of Budget and Management Research Circular 17-01 imposed a 15% reserve on all executive branch agency appropriations, Section 19 Chapter II of the FY17 Budget Act mandated an exemption of any reserves imposed on GDOE's FY17 appropriations.



## GUAM DEPARTMENT OF EDUCATION

Management's Discussion and Analysis  
Year Ended September 30, 2016

FY17 appropriations (PL 33-185) for GDOE totaled \$246.5M, a 2.43% or \$5.8M increase over FY16 appropriation levels (\$240.7M).

The \$5.8M increase in authorized spending included the following:

1. \$2.285M increase in appropriations for the Guahan Academy (\$1.510M) and *I'Learn* (\$775K) charter schools, from a combined total of \$5,775,000 in FY16 to \$8,060,000 in FY17;
2. \$2,825,820 in additional funding for the new Tiyan Central Office Building B;
3. \$633,936 in Limited Gaming funding for sports equipment, supplies, and facility maintenance and repairs;
4. \$35,685 in additional funding for school libraries under the Public Library Resource Fund, from \$871,983 in FY16 to \$907,668 in FY17; and
5. a modest \$60,618 to cover projected organic growth in the cost of GDOE personnel and operations expenditures.

The \$2.4M in special fund appropriations in FY17 was designated for interscholastic sports, health and physical education activities, school libraries, and GDOE sports facilities and equipment.

Additionally, and not included in the comparative table above:

- ✓ \$2.2M in lease payments for Okkodo High School Expansion to include maintenance; and
- ✓ \$11,164,309 in additional appropriations (\$10.3M in Federal reimbursements and \$875K in cash collections) related to the National School Lunch and School Breakfast Programs. The reimbursements are provided by USDA's Food and Nutrition Services for meals served to students and children who attend public schools;

In November 2016, a notice to proceed was issued to begin the installation of a fire alarm, sprinkler, intercom and school bell system at Southern High School. The project is financed under the USDOJ Office of Insular Affairs' (OIA) Phase III of the Insular Assessment of Buildings and Classroom Initiative, and is scheduled to be completed in May 2017. The initiative sets aside \$1M of OIA Capital Improvement Project funds each year, beginning in FY15 thru FY18 to address deferred maintenance projects in 35 of GDOE's 41 schools.

In January 2017, the GEB elected Peter A. Ada as GEB Chair and Maria Gutierrez as GEB Vice Chair, after they and other elected members began their two-year (2017-2019) term. GEB consists of 12 members: 6 elected members (Ada, Gutierrez, James A. Lujan, Lourdes B. San Nicolas, Lourdes M. Benavente, Vacant); 3 appointed: (Mark C. Mendiola, Dr. Ronald L. McNinch, Vacant) and 3 ex-officio, non-voting members: an alternating student representative (Vacant); Franklin R. Perez, GFT (collective bargaining unit representative); and Mayor Rudy Matanane, Mayor's Council of Guam representative. The elected vacancy resulting from the resignation of elected member Kenneth P. Chargualaf is pending an appointment by the Governor. Board appointments must also be confirmed by the Guam Legislature.

In January 2017, the installation of security cameras and monitoring equipment under the local Secure Our Schools Act 2013 in 33 schools was completed. PL 32-009 provided \$800K to secure 35 schools in an effort to deter burglary and vandalism incidents.

A new Request for Proposal (RFP) RFP 730-5-1056-L-YIG was issued by the Department of Public Works in January 2017 to provide up to \$100M in financing and lease financing to repair/replace Simon Sanchez High School, update GDOE's facilities master plan, and fund deferred maintenance projects. The RFP cancels RFP 730-5-1054-6-YIG and re-starts the bid process following the Public Auditor's response to protests and appeals in the original bid. In March 2017, an appeal to the Public Auditor has placed the procurement on hold.

## **GUAM DEPARTMENT OF EDUCATION**

### **Management's Discussion and Analysis Year Ended September 30, 2016**

By FY17 year end, GDOE anticipates occupancy of an additional office building and warehouses in Tiyan. The newly constructed three-storied Building B is 82,300 square feet or 27,450 square feet per floor. The additional facilities will mark the consolidation of all of GDOE's central office operations into one centralized location. Delay in completion and occupancy of the building is largely related to installation and activation of the fire suppression system.

The TPFA contract, originally expired in October 2016, was extended for an additional year while procurement is in process. As required by the Special Conditions, USDOE must approve of the selection in order for GDOE to continue to have access to USDOE grant funding.

As a result of the passage of the Every Student Succeeds Act (ESSA) signed by President Obama on December 10, 2015, the Insular Areas inclusive of Guam was informed that ESSA will be implemented in the FY17 grant cycle. Consequently, the Title V – Part A, Innovative Programs, may no longer be a vehicle for GDOE to consolidate USDOE Insular Areas formula grant funds. During the USDOE Technical Assistance Grantee Meeting for the Insular Areas, which will be held on April 3 – 5, 2017 in Washington, D.C., the GDOE delegation will be provided with updated guidance and technical assistance as it pertains to the ESSA requirements and available options for consolidating formula funds.

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 and increases in subsidies for internet services.

The full impact of changes as a result of the Trump Administration to current levels of Federal Funding is unknown and is being monitored by GDOE management.

In the course of its normal operations, GDOE is party to several legal proceedings. Management doesn't believe that this will result in claims that will have a material effect on the financial statements.

### **MANAGEMENT CONTACT**

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

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

**GUAM DEPARTMENT OF EDUCATION**

Statement of Net Position  
September 30, 2016

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

|   |                |
|---|----------------|
| Current assets:                                 |                |
| Cash and cash equivalents                       | \$ 12,941,047  |
| Receivables from federal agencies               | 8,334,728      |
| Due from primary government                     | 1,600,007      |
| Due from component units                        | 304,167        |
| Prepayments and other assets                    | 749,477        |
| Restricted assets:                              |                |
| Cash and cash equivalents                       | 224,667        |
| Total current assets                            | 24,154,093     |
| Noncurrent assets:                              |                |
| Deferred maintenance and insurance costs        | 1,250,000      |
| Capital assets, net of accumulated depreciation | 351,983,112    |
| Total noncurrent assets                         | 353,233,112    |
| Total assets                                    | 377,387,205    |
| Deferred outflows of resources:                 |                |
| Deferred outflows from pension                  | 50,059,821     |
|   | \$ 427,447,026 |

LIABILITIES

|   |               |
|---|---------------|
| Current liabilities:                                    |               |
| Accounts payable  | \$ 16,796,087 |
| Accrued payroll   | 8,435,549     |
| Other liabilities and accruals                          | 7,329,515     |
| Payable to federal agencies                             | 3,719,200     |
| Current portion of obligations under capital lease      | 7,335,098     |
| Current portion of compensated absences payable         | 271,647       |
| Total current liabilities                               | 43,887,096    |
| Noncurrent liabilities:                                 |               |
| Net pension liability                                   | 408,239,530   |
| Compensated absences payable, net of current portion    | 4,580,982     |
| Accrued sick leave liability                            | 10,790,490    |
| Obligations under capital lease, net of current portion | 173,870,805   |
| Total noncurrent liabilities                            | 597,481,807   |
| Total liabilities                                       | 641,368,903   |

Commitments and contingencies

NET POSITION

|  |                |
|--|----------------|
| Net investment in capital assets       | 170,777,209    |
| Restricted for:                        |                |
| CIP, technology and equipment projects | 224,667        |
| Maintenance and insurance costs        | 1,250,000      |
| Unrestricted                           | (386,173,753)  |
| Total net position                     | (213,921,877)  |
|  | \$ 427,447,026 |

See accompanying notes to financial statements.

**GUAM DEPARTMENT OF EDUCATION**

Statement of Activities  
Year Ended September 30, 2016

| Functions/Programs                     | Expenses              | Program Revenues        |  | Net (Expense)<br>Revenue and<br>Changes in Net Position |
|--|-----------------------|-------------------------|--|---|
|  |                       | Charges for<br>Services | Operating<br>Grants and<br>Contributions |   |
| Governmental Activities:               |                       |                         |  |   |
| Elementary Education                   | \$ 82,820,859         | \$ -                    | \$ 25,947                                | \$ (82,794,912)   |
| Secondary Education                    | 116,946,705           | -                       | 1,099,642                                | (115,847,063)   |
| Direct Student Support                 | 69,610,559            | 1,616,232               | 52,449,689                               | (15,544,638)  |
| General Administration                 | 41,783,320            | -                       | 3,299,510                                | (38,483,810)  |
| Retiree healthcare benefits            | 12,356,784            | -                       | 12,356,784                               | -   |
| Charter Schools                        | 5,775,000             | -                       | 5,775,000                                | -   |
| First Generation Trust Fund Initiative | -                     | -                       | 550,000                                  | 550,000   |
| Total governmental activities          | <u>\$ 329,293,227</u> | <u>\$ 1,616,232</u>     | <u>\$ 75,556,572</u>                     | <u>(252,120,423)</u>                                    |
| General revenues:                      |                       |                         |  |   |
| Appropriations:                        |                       |                         |  |   |
| Operations                             |                       |                         |  | 244,787,893   |
| Textbooks                              |                       |                         |  | <u>12,778</u>   |
| Total general revenues                 |                       |                         |  | <u>244,800,671</u>                                      |
| Change in net position                 |                       |                         |  | (7,319,752)   |
| Net position at beginning of year      |                       |                         |  | <u>(206,602,125)</u>                                    |
| Net position at end of year            |                       |                         |  | <u>\$ (213,921,877)</u>                                 |

See accompanying notes to financial statements.

**GUAM DEPARTMENT OF EDUCATION**

Balance Sheet  
Governmental Funds  
September 30, 2016

| <u>ASSETS</u>  | <u>General</u>       | <u>Special Revenue</u>           |                      |
|--|----------------------|----------------------------------|----------------------|
|  |                      | <u>Federal Grants Assistance</u> | <u>Total</u>         |
| Cash and cash equivalents                            | \$ 6,434,158         | \$ 6,506,889                     | \$ 12,941,047        |
| Receivables from federal agencies                    | -                    | 8,334,728                        | 8,334,728            |
| Due from primary government                          | 1,600,007            | -                                | 1,600,007            |
| Due from component units                             | 304,167              | -                                | 304,167              |
| Prepayments and other assets                         | 180,555              | 33,088                           | 213,643              |
| Due from other funds                                 | 2,148,530            | -                                | 2,148,530            |
| Restricted assets:                                   |                      |                                  |                      |
| Cash and cash equivalents                            | 224,667              | -                                | 224,667              |
| <b>Total assets</b>                                  | <b>\$ 10,892,084</b> | <b>\$ 14,874,705</b>             | <b>\$ 25,766,789</b> |
| <br><u>LIABILITIES AND FUND BALANCES (DEFICIT)</u>   |                      |                                  |                      |
| Liabilities:   |                      |                                  |                      |
| Accounts payable                                     | \$ 13,833,342        | \$ 2,962,745                     | \$ 16,796,087        |
| Accrued payroll                                      | 7,084,184            | 1,351,365                        | 8,435,549            |
| Other liabilities and accruals                       | 2,636,650            | 4,692,865                        | 7,329,515            |
| Payable to federal agencies                          | -                    | 3,719,200                        | 3,719,200            |
| Due to other funds                                   | -                    | 2,148,530                        | 2,148,530            |
| <b>Total liabilities</b>                             | <b>23,554,176</b>    | <b>14,874,705</b>                | <b>38,428,881</b>    |
| Fund balances (deficit):                             |                      |                                  |                      |
| Restricted   | 224,667              | -                                | 224,667              |
| Committed  | 550,183              | -                                | 550,183              |
| Unassigned   | (13,436,942)         | -                                | (13,436,942)         |
| <b>Total fund balances (deficit)</b>                 | <b>(12,662,092)</b>  | <b>-</b>                         | <b>(12,662,092)</b>  |
| <b>Total liabilities and fund balances (deficit)</b> | <b>\$ 10,892,084</b> | <b>\$ 14,874,705</b>             | <b>\$ 25,766,789</b> |

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, 2016

|   |                      |                         |
|---|----------------------|-------------------------|
| Total fund balance-governmental funds   |                      | \$ (12,662,092)         |
| Amounts reported for governmental activities in the statement of net position are different because:  |                      |                         |
| Prepayment of capital lease obligations in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. These assets consist of: |                      |                         |
| Prepayment-interest   | 379,167              |                         |
| Prepayment-maintenance  | <u>156,667</u>       | 535,834                 |
| Maintenance costs associated with capital lease obligations in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.      |                      | 1,250,000               |
| 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  | 486,389,266          |                         |
| Vehicles, furniture and equipment   | 14,037,931           |                         |
| Accumulated depreciation  | <u>(148,444,085)</u> |                         |
| Capital assets, net of accumulated depreciation   |                      | 351,983,112             |
| Deferred outflows related to pensions benefit future periods and are not reported in the governmental funds.  |                      | 50,059,821              |
| Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds. These liabilities include:                          |                      |                         |
| Net pension liability   | (408,239,530)        |                         |
| Accrued sick leave liability  | (10,790,490)         |                         |
| Compensated absences payable  | (4,852,629)          |                         |
| Obligations under capital lease   | <u>(181,205,903)</u> |                         |
| Long-term liabilities   |                      | <u>(605,088,552)</u>    |
| Net position of governmental activities   |                      | \$ <u>(213,921,877)</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, 2016

|   | <u>General</u>         | <u>Special Revenue<br/>Federal<br/>Grants<br/>Assistance</u> | <u>Total</u>           |
|---|------------------------|--|------------------------|
| Revenues:   |                        |  |                        |
| Appropriations  | \$ 254,441,455         | \$ 8,591,000   | \$ 263,032,455         |
| Federal grants and contributions                          | 425,584                | 56,449,204   | 56,874,788             |
| Contributions from component units                        | 450,000                | -  | 450,000                |
| Cafeteria sales   | 199,734                | -  | 199,734                |
| Fees and other program receipts                           | <u>1,141,118</u>       | <u>275,380</u>   | <u>1,416,498</u>       |
| Total revenues  | <u>256,657,891</u>     | <u>65,315,584</u>  | <u>321,973,475</u>     |
| Expenditures:   |                        |  |                        |
| Elementary Education                                      | 77,315,884             | 25,947   | 77,341,831             |
| Secondary Education                                       | 87,764,423             | 1,099,642  | 88,864,065             |
| Direct Student Support                                    | 16,150,163             | 53,879,372   | 70,029,535             |
| General Administration                                    | 37,430,759             | 1,826,532  | 39,257,291             |
| Retiree healthcare benefits                               | 12,356,784             | -  | 12,356,784             |
| Guahan Academy Charter School                             | 3,300,000              | -  | 3,300,000              |
| iLearn Academy Charter School                             | 2,475,000              | -  | 2,475,000              |
| Debt service:   |                        |  |                        |
| Lease payments  | 20,031,291             | 7,100,000  | 27,131,291             |
| Capital projects:   |                        |  |                        |
| Capital lease acquisition                                 | <u>4,947,008</u>       | <u>-</u>   | <u>4,947,008</u>       |
| Total expenditures  | <u>261,771,312</u>     | <u>63,931,493</u>  | <u>325,702,805</u>     |
| Excess (deficiency) of revenues over (under) expenditures | <u>(5,113,421)</u>     | <u>1,384,091</u>   | <u>(3,729,330)</u>     |
| Other financing sources (uses):                           |                        |  |                        |
| Transfer in   | 1,384,091              | -  | 1,384,091              |
| Transfer out  | -                      | (1,384,091)  | (1,384,091)            |
| Capital lease   | <u>4,947,008</u>       | <u>-</u>   | <u>4,947,008</u>       |
| Total other financing sources (uses), net                 | <u>6,331,099</u>       | <u>(1,384,091)</u>   | <u>4,947,008</u>       |
| Net change in fund balances (deficit)                     | 1,217,678              | -  | 1,217,678              |
| Fund balances (deficit) at beginning of year              | <u>(13,879,770)</u>    | <u>-</u>   | <u>(13,879,770)</u>    |
| Fund balances (deficit) at end of year                    | <u>\$ (12,662,092)</u> | <u>\$ -</u>  | <u>\$ (12,662,092)</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, 2016

Total net change in fund balances - governmental funds \$ 1,217,678

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 | 6,655,597           |             |
| Depreciation expense              | <u>(12,521,990)</u> | (5,866,393) |

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

(156,666)

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

|                             |                  |           |
|-----------------------------|------------------|-----------|
| Capital lease acquisition   | (4,947,008)      |           |
| Repayment of capital leases | <u>6,994,055</u> | 2,047,047 |

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:

|  |                  |                    |
|--|------------------|--------------------|
| Net pension activity                   | (3,996,677)      |                    |
| Change in compensated absences payable | (13,265)         |                    |
| Change in accrued sick leave liability | <u>(551,476)</u> | <u>(4,561,418)</u> |

Change in net position of governmental activities \$ (7,319,752)

See accompanying notes to financial statements.

**GUAM DEPARTMENT OF EDUCATION**

Statement of Fiduciary Net Position  
Agency Fund  
September 30, 2016

ASSETS

|                           |                          |
|---------------------------|--------------------------|
| Cash and cash equivalents | \$ <u>600,501</u>        |
| Total assets              | \$ <u><u>600,501</u></u> |

LIABILITIES

|                                |                          |
|--------------------------------|--------------------------|
| Deposits and other liabilities | \$ <u>600,501</u>        |
| Total liabilities              | \$ <u><u>600,501</u></u> |

See accompanying notes to financial statements.

## GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements  
September 30, 2016

### (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 17GCA Chapter 3 section § 3102.3, composed of 9 voting members, 6 elected, 3 appointed and 2 nonvoting members. GDOE operates 26 elementary schools and 15 secondary schools to provide free and appropriate education to students residing on Guam.

In August 2013, the Foundation for Public Education, Inc. (the Foundation) was established. The Foundation is a legally separate, tax-exempt entity which meets the criteria set forth for component units under GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. The Foundation provides financial support for the objectives, purposes and programs of GDOE. Although GDOE does not control the timing, purpose, or amount of receipts from the Foundation, the resources (and income thereon) that the Foundation holds and invests are restricted to the activities of GDOE. Because the resources held by the Foundation can only be used by, or for the benefit of GDOE, the Foundation is considered a component unit of GDOE. As of September 30, 2016, 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.

## GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements  
September 30, 2016

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

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

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 is either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through enabling legislation.
- *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 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.

## GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements  
September 30, 2016

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

#### D. Fund Balance

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

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

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

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

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

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

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

A formal minimum fund balance policy has not been adopted.

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

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 revenue is derived from legislative appropriations.

**GUAM DEPARTMENT OF EDUCATION**

Notes to Financial Statements  
September 30, 2016

(1) Summary of Significant Accounting Policies, Continued

E. Measurement Focus and Basis of Accounting, Continued

Governmental Funds Financial Statements:

Governmental funds 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.

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, 2016, GDOE has significant encumbrances summarized as follows:

|                                |                      |
|--------------------------------|----------------------|
| General Fund                   | \$ 1,292,374         |
| Federal Grants Assistance Fund | <u>9,908,834</u>     |
|                                | \$ <u>11,201,208</u> |

## GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements  
September 30, 2016

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

#### G. Cash and Cash Equivalents

Cash and cash equivalents includes 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 and appropriations from the GovGuam general fund.

#### I. Due from Component Units

Due from component units represent amounts due from the University of Guam (UOG) and the Guam Community College (GCC) for contributions to the First Generation Trust Fund Initiative created by Public Law 33-007. During the year ended September 30, 2016, GDOE received contributions from UOG and GCC of \$250,000 and \$200,000, respectively. The First Generation Trust Fund Initiative was created for the purpose of encouraging GDOE high school students to pursue post-secondary learning. This fund is accounted for within the GDOE General Fund.

#### J. 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.

#### K. Interfund Receivables/Payables

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

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

#### L. 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.

**GUAM DEPARTMENT OF EDUCATION**

Notes to Financial Statements  
September 30, 2016

(1) Summary of Significant Accounting Policies, Continued

L. Capital Assets, Continued

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                                 |

Capital asset activities for the year ended September 30, 2016 are as follows:

Governmental Activities

|                                   | <u>Beginning Balance</u> | <u>Increases</u>      | <u>Decreases</u> | <u>Ending Balance</u> |
|-----------------------------------|--------------------------|-----------------------|------------------|-----------------------|
| Depreciable capital assets:       |                          |                       |                  |                       |
| Buildings and improvements        | \$ 480,782,198           | \$ 5,607,068          | \$ -             | \$ 486,389,266        |
| Vehicles, furniture and equipment | <u>13,027,786</u>        | <u>1,048,529</u>      | <u>(38,384)</u>  | <u>14,037,931</u>     |
|                                   | 493,809,984              | 6,655,597             | (38,384)         | 500,427,197           |
| Less: accumulated depreciation    | <u>(135,960,479)</u>     | <u>(12,521,990)</u>   | <u>38,384</u>    | <u>(148,444,085)</u>  |
| Depreciable capital assets, net   | \$ <u>357,849,505</u>    | \$ <u>(5,866,393)</u> | \$ _____         | \$ <u>351,983,112</u> |

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

|                          |                      |
|--------------------------|----------------------|
| Governmental activities: |                      |
| Elementary Education     | \$ 3,095,669         |
| Secondary Education      | 8,398,139            |
| Direct Student Support   | 270,547              |
| General Administration   | <u>757,635</u>       |
|                          | \$ <u>12,521,990</u> |

M. 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.

## GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements  
September 30, 2016

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

#### N. 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, and pension.

#### O. Net Position

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

Net Position has been restricted as follows:

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

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

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

#### P. 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.

#### Q. 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.

## GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements  
September 30, 2016

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

#### R. 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.

#### S. 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. Specifically, GDOE transferred \$1,384,091 from the Federal Grants Assistance Fund to the General Fund representing reimbursement of eligible costs from GovGuam to GDOE originally recorded in GDOE's General Fund. Reimbursement occurred during the year ended September 30, 2016 and was initially recorded in the Federal Grants Assistance Fund prior to transfer out to the General Fund.

#### T. Dedicated Revenues and Pledges

GDOE has entered into a municipal school lease agreement for certain leased schools and facilities whereby GovGuam, on behalf of GDOE, has pledged a portion of future Compact Impact grant funds to finance annual lease payments under this agreement. This lease obligation is payable solely from Compact Impact grant revenues payable to GovGuam by the United States Government pursuant to the Compact of Free Association Act, U.S. Public Law 108-188. Total payments remaining on this municipal school lease agreement are approximately \$63,000,000 payable through December 2025. For the year ended September 30, 2016, lease payments made and total Compact Impact grant revenues received were \$7,100,000.

#### U. Pensions

Pensions are required to be recognized and disclosed using the accrual basis of accounting. GDOE recognizes a net pension liability for the pension plan in which it participates, which represents GDOE's proportional share of excess total pension liability over the pension plan assets – actuarially calculated – of a single employer plan, measured as of the fiscal year-end. 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 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.

## GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements  
September 30, 2016

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

#### V. Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and 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, 2015 from which summarized information was derived.

#### X. New Accounting Standards

During the year ended September 30, 2016, GDOE implemented the following pronouncements:

- GASB Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by Statement No. 55. The two categories that will remain under the new standard are (1) GASB Statements and (2) GASB technical bulletins and implementation guides in addition to AICPA guidance that the GASB clears. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, addresses for certain external investment pools and their participants the accounting and financial reporting implications that result from changes in the regulatory provisions referenced by previous accounting and financial reporting standards. Those provisions were based on the Investment Company Act of 1940, Rule 2a7. Rule 2a7 contains the Securities and Exchange Commission's regulations that apply to money market funds and were significantly amended in 2014. The implementation of this statement did not have a material effect on the accompanying financial statements.

## GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements  
September 30, 2016

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

#### X. New Accounting Standards, Continued

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements No. 67 and No. 68 with the reporting requirements in Statement No. 68. The provisions in Statement No. 73 are effective for fiscal years beginning after June 15, 2016. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB). The provisions in Statement No. 74 are effective for fiscal years beginning after June 15, 2016. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In December 2015, GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, which improves financial reporting by clarifying the financial statement presentation requirements for certain component units. The provisions in Statement No. 80 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

**GUAM DEPARTMENT OF EDUCATION**

Notes to Financial Statements  
September 30, 2016

(1) Summary of Significant Accounting Policies, Continued

X. New Accounting Standards, Continued

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions in Statement No. 81 are effective for fiscal years beginning after December 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2016, GASB issued Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The provisions in Statement No. 82 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

(2) Deposits in Banks

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

As of September 30, 2016, the carrying amount of GDOE's total cash and cash equivalents was \$13,165,714 and the corresponding bank balance was \$15,290,819, which is maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2016, bank deposits in the amount of \$395,179 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.

(3) Changes in Long-Term Liabilities

Changes in long-term liabilities for the year ended September 30, 2016, are as follows:

|                                 | Beginning<br>Balance  | Additions            | Reductions             | Ending<br>Balance     | Due Within<br>One Year |
|---------------------------------|-----------------------|----------------------|------------------------|-----------------------|------------------------|
| <u>Governmental activities:</u> |                       |                      |                        |                       |                        |
| Accrued sick leave liability    | \$ 10,239,014         | \$ 1,333,661         | \$ (782,185)           | \$ 10,790,490         | \$ -                   |
| Compensated absences            | 4,839,364             | 271,647              | (258,382)              | 4,852,629             | 271,647                |
| Net pension liability           | 362,292,904           | 85,432,892           | (39,486,266)           | 408,239,530           | -                      |
| Obligations under capital lease | <u>183,252,950</u>    | <u>4,947,008</u>     | <u>(6,994,055)</u>     | <u>181,205,903</u>    | <u>7,335,098</u>       |
|                                 | <u>\$ 560,624,232</u> | <u>\$ 91,985,208</u> | <u>\$ (47,520,888)</u> | <u>\$ 605,088,552</u> | <u>\$ 7,606,745</u>    |

## GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements  
September 30, 2016

### (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, 2016. The estimated accumulated amount of unused sick leave at September 30, 2016, is \$41,197,650, of which an estimated \$10,790,490 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.

#### E. Public Law 28-45

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

**GUAM DEPARTMENT OF EDUCATION**

Notes to Financial Statements  
September 30, 2016

(4) Commitments and Contingencies, Continued

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, 2016. 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) Employee Retirement Plans

Defined Benefit Plan

A. General Information About the Pension Plan:

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

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

*Plan Membership:* As of September 30, 2015, the date of the most recent valuation, plan membership consisted of the following:

|  |               |
|--|---------------|
| Retirees and beneficiaries currently receiving benefits              | 7,197         |
| Terminated employees entitled to benefits but not yet receiving them | 4,701         |
| Current members  | <u>2,460</u>  |
|  | <u>14,358</u> |

## GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements  
September 30, 2016

### (5) Employees' Retirement Plan, Continued

#### Defined Benefit Plan, Continued

##### A. General Information About the Pension Plan, Continued:

*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. Cost-of-living adjustments and other supplemental annuity benefits are provided to members and beneficiaries at the discretion of the Guam Legislature, but are provided outside of the Plan.

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 20 to 24 years of service regardless of age with a reduced benefit if the member is under age 60; or 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 25 to 29 years of service regardless of age with a reduced benefit if the member is under age 60; or 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 25 to 29 years of service regardless of age with a reduced benefit if the member is under age 65; or 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.

*Contributions and Funding Policy:* Contribution requirements of participating employers and active members 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, 2014 actuarial valuation was used for determining the year ended September 30, 2016 statutory contributions. Member contributions are required at 9.54% of base pay.

**GUAM DEPARTMENT OF EDUCATION**

Notes to Financial Statements  
September 30, 2016

(5) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

As a result of actuarial valuations performed as of September 30, 2014, 2013, and 2012, contribution rates required to fully fund the Retirement Fund liability, as required by Guam law, for the years ended September 30, 2016, 2015 and 2014, respectively, have been determined as follows:

|   | <u>2016</u>   | <u>2015</u>   | <u>2014</u>   |
|---|---------------|---------------|---------------|
| Normal costs (% of DB Plan payroll)                     | 15.86%        | 15.92%        | 16.61%        |
| Employee contributions (DB Plan employees)              | <u>9.54%</u>  | <u>9.55%</u>  | <u>9.50%</u>  |
| Employer portion of normal costs (% of DB Plan payroll) | <u>6.32%</u>  | <u>6.37%</u>  | <u>7.11%</u>  |
| Employer portion of normal costs (% of total payroll)   | 1.94%         | 2.05%         | 2.39%         |
| Unfunded liability cost (% of total payroll)            | <u>22.42%</u> | <u>24.09%</u> | <u>24.01%</u> |
| Government contribution as a % of total payroll         | <u>24.36%</u> | <u>26.14%</u> | <u>26.40%</u> |
| Statutory contribution rates as a % of DB Plan payroll: |               |               |               |
| Employer  | <u>28.16%</u> | <u>29.85%</u> | <u>30.03%</u> |
| Employee  | <u>9.54%</u>  | <u>9.55%</u>  | <u>9.50%</u>  |

GDOE's contributions to the DB Plan for the years ending September 30, 2016, 2015 and 2014 were \$11,241,089, \$12,829,428 and \$13,982,663, respectively, which were equal to the statutorily required contributions for each year.

*Actuarial Assumptions:* Actuarially determined contribution rates 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, 2014                  |
| Actuarial Cost Method:         | Entry age normal                    |
| Amortization Method:           | Level percentage of payroll, closed |
| Remaining Amortization Period: | 16.58 years                         |
| Asset Valuation Method:        | 3-year smoothed market value        |
| Inflation:                     | 2.75%                               |
| Total payroll growth:          | 3.00% per year                      |
| Salary Increases:              | 4.50% to 7.50%                      |
| Expected Rate of Return:       | 7.00%                               |
| Discount Rate:                 | 7.00%                               |

**GUAM DEPARTMENT OF EDUCATION**

Notes to Financial Statements  
September 30, 2016

(5) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

|                    |  |
|--------------------|--|
| Retirement age:    | 40% are assumed to retire upon first eligibility for unreduced retirement. Thereafter, the probabilities of retirement are 15% until age 65, 20% from 65-69, and 100% at age 70.                             |
| Mortality:         | RP-2000 healthy mortality table set forward by 4 years for males and 1 year for females. Mortality for disabled lives is the RP 2000 disability mortality table with no set forwards.                        |
| Other information: | Actuarial assumptions are based upon periodic experience studies. The last experience study reviewed experience from 2007-2011, and was first reflected in the actuarial valuation as of September 30, 2012. |

*Discount Rate:* The total pension liability is calculated using a discount rate of 7.0% that is a blend of the expected investment rate of return and a high quality bond index rate. There was no change in the discount rate since the previous year. The expected investment rate of return applies for as long as the plan assets (including future contributions) are projected to be sufficient to make the projected benefit payments. If plan assets are projected to be depleted at some point in the future, the rate of return of a high quality bond index is used for the period after the depletion date.

*Discount Rate Sensitivity Analysis:* The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (7%) in measuring the 2015 Net Pension Liability.

|                       | 1% Decrease in<br>Discount Rate<br><u>6.0%</u> | Current<br>Discount Rate<br><u>7.0%</u> | 1% Increase in<br>Discount Rate<br><u>8.0%</u> |
|-----------------------|--|---|--|
| Net Pension Liability | \$ <u>496,037,481</u>                          | \$ <u>408,239,530</u>                   | \$ <u>332,716,167</u>                          |

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

*Pension Liability:* At September 30, 2016, GDOE reported a liability of \$408,239,530 for its proportionate share of the net pension liability. GDOE's proportion of the net pension liability was based on projection of GDOE's long-term share of contributions to the pension plan relative to the projected contributions of GovGuam and GovGuam's component units, actuarially determined. At September 30, 2016, GDOE's proportion was 29.795%.

*Pension Expense:* For the year ended September 30, 2016, GDOE recognized pension expense of \$41,477,059.

**GUAM DEPARTMENT OF EDUCATION**

Notes to Financial Statements  
September 30, 2016

(5) Employee Retirement Plans, Continued

Defined Benefit Plan, Continued

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

*Deferred Outflows and Inflows of Resources:* At September 30, 2016, GDOE reported total deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|   | <u>Deferred<br/>Outflows of<br/>Resources</u> | <u>Deferred<br/>Inflows of<br/>Resources</u> |
|---|---|--|
| Difference between expected and actual experience   | \$ 5,119,824                                  | \$ -   |
| Net difference between projected and actual earnings<br>on pension plan investments                         | 4,613,253                                     | -  |
| Contributions subsequent to the measurement date  | 37,566,363                                    | -  |
| Changes in proportion and difference between GDOE<br>contributions and proportionate share of contributions | <u>2,760,381</u>                              | <u>-</u>                                     |
|   | <u>\$ 50,059,821</u>                          | <u>\$ -</u>                                  |

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at September 30, 2016 will be recognized in pension expense as follows:

| <u>Year Ended<br/>September 30</u> |              |
|------------------------------------|--------------|
| 2017                               | \$ 5,453,822 |
| 2018                               | (2,426,383)  |
| 2019                               | 3,376,106    |
| 2020                               | 6,089,913    |

Defined Contribution Plan

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

Statutory employer contributions into the DCRS for the year ended September 30, 2016 are determined using the same rates as the DB plan. Of the amount contributed by the employer, only 5% of the member's regular base pay is deposited into the member's individual account. The remaining amount is contributed towards the unfunded liability of the defined benefit plan.

**GUAM DEPARTMENT OF EDUCATION**

Notes to Financial Statements  
September 30, 2016

(5) Employee Retirement Plans, Continued

Defined Contribution Plan, Continued

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

GDOE's contributions to the DCRS plan for the years ended September 30, 2016, 2015 and 2014 were \$33,455,686, \$34,250,423, and \$32,030,284, respectively, which were equal to the required contributions for the respective years then ended. Of these amounts \$26,325,274, \$27,331,911 and \$25,589,585 were contributed toward the unfunded liability of the DB Plan for the years ended September 30, 2016, 2015 and 2014, respectively.

Defined Benefit 1.75 Retirement System (the DB 1.75 Plan) and the Guam Retirement Security Plan (GRSP)

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 GRSP. Commencing April 1, 2017 through September 30, 2017, eligible employees may elect, during the "election window", to participate in the DB 1.75 Plan or the GRSP with an effective date of January 1, 2018. Beginning January 1, 2018, all new employees shall be automatically enrolled in the GRSP. New employees have sixty (60) days from the date of hire to elect to participate in the DCRS.

Other Post-Employment Benefits

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

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

During the years ended September 30, 2016, 2015 and 2014, GDOE recognized certain on-behalf payments as appropriations from GovGuam, totaling \$12,356,784, \$11,182,542 and \$8,267,264, respectively, representing certain healthcare benefits that GovGuam's general fund paid directly on behalf of GDOE retirees.

**GUAM DEPARTMENT OF EDUCATION**

Notes to Financial Statements  
September 30, 2016

(6) Appropriations

During the year ended September 30, 2016, appropriations provided to GDOE were as follows:

General Fund:

|  |                    |
|--|--------------------|
| Public Law 33-66:                      |                    |
| GovGuam General Fund:                  |                    |
| Operations                             | \$ 202,153,189     |
| Retiree healthcare benefits            | 12,356,784         |
| Guahan Academy Charter School          | 3,300,000          |
| iLearn Academy Charter School          | 2,475,000          |
| Textbooks                              | 12,558             |
| First Generation Trust Fund            | 100,000            |
| Kuantan Salappe Prinsepat              | 658,249            |
| Chamorro Studies Division              | 364,874            |
| Secure Our Schools Act                 | 561,471            |
| Lease Agreements:                      |                    |
| Okkodo Expansion                       | 2,284,685          |
| JFK High School lease                  | 5,127,850          |
| Territorial Education Facilities Fund: |                    |
| Operations                             | 10,722,934         |
| JFK High School lease                  | 1,568,000          |
| Tiyán lease                            | 7,272,935          |
| Healthy Futures Fund                   | 891,754            |
| Public Library System Fund             | 871,983            |
| Public Law 31-229:                     |                    |
| Bond Proceeds                          | 3,287,233          |
| Public Law 29-19:                      |                    |
| Bond Proceeds                          | <u>431,956</u>     |
|  | <u>254,441,455</u> |

Federal Grants Assistance Fund:

|   |                       |
|---|-----------------------|
| Public Law 28-47:                           |                       |
| Guam Public School Facilities Project Lease | 7,100,000             |
| Operations                                  |                       |
|   | <u>1,491,000</u>      |
|   | <u>8,591,000</u>      |
|   | \$ <u>263,032,455</u> |

In addition, Public Law 33-66 appropriates \$11,164,309 of all monies collected by GDOE from Federal funds paid to GDOE for reimbursement under the National School Lunch Program and Breakfast Program and the State Administrative Expenses for Child Nutrition Program to GDOE for non-personnel operating expenses. The total of such reimbursements from the U.S. Department of Agriculture during the year ended September 30, 2016 is \$10,578,888, which is accounted for within GDOE's Federal Grants Assistance Fund.

**GUAM DEPARTMENT OF EDUCATION**

Notes to Financial Statements  
September 30, 2016

(7) Municipal School Lease Agreements

A. Guam Public School Facilities Project

On October 19, 2006, GovGuam issued, on behalf of GDOE, \$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.

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

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

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

On January 20, 2016, the Guam Legislature enacted Public Law 33-118 authorizing the refinance of the 2006 Series A COPS, the 2006 Series B COPS and the 2008 Series A COPS with the obligation of GovGuam not to exceed 30 years or extend the original leaseback period.

On August 4, 2016, GovGuam issued, on behalf of GDOE, \$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. Proceeds were also used to fund the reserve requirement with respect to the Certificate Debt Service Fund for the COPS and delivery costs.

The refund and issuance of the aforementioned COPS does not change the capital lease liability reported, the terms of the lease or the funding source.

**GUAM DEPARTMENT OF EDUCATION**

Notes to Financial Statements  
September 30, 2016

(7) Municipal School Lease Agreements, Continued

A. Guam Public School Facilities Project, Continued

Future minimum lease obligations to maturity for the Guam Public School Facilities Project Lease, are as follows:

| <u>Year ending<br/>September 30,</u> | <u>Principal</u>     | <u>Interest</u>      | <u>Additional<br/>Rental</u> | <u>Total</u>         |
|--------------------------------------|----------------------|----------------------|------------------------------|----------------------|
| 2017                                 | \$ 4,085,000         | \$ 2,007,525         | \$ 1,007,475                 | \$ 7,100,000         |
| 2018                                 | 4,295,000            | 1,795,488            | 1,009,512                    | 7,100,000            |
| 2019                                 | 3,500,000            | 1,597,675            | 1,002,325                    | 6,100,000            |
| 2020                                 | 3,675,000            | 1,422,675            | 1,002,325                    | 6,100,000            |
| 2021                                 | 3,860,000            | 1,238,925            | 1,001,075                    | 6,100,000            |
| 2022 - 2026                          | <u>22,320,000</u>    | <u>3,169,375</u>     | <u>5,010,625</u>             | <u>30,500,000</u>    |
|                                      | \$ <u>41,735,000</u> | \$ <u>11,231,663</u> | \$ <u>10,033,337</u>         | \$ <u>63,000,000</u> |

B. John F. Kennedy High School Project

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

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

Future minimum lease obligations to maturity for the John F. Kennedy High School Project Lease are as follows:

| <u>Year ending<br/>September 30,</u> | <u>Principal</u>     | <u>Interest</u>      | <u>Additional<br/>Rental</u> | <u>Total</u>          |
|--------------------------------------|----------------------|----------------------|------------------------------|-----------------------|
| 2017                                 | \$ 1,025,000         | \$ 4,105,600         | \$ 1,568,000                 | \$ 6,698,600          |
| 2018                                 | 1,085,000            | 4,043,200            | 1,568,000                    | 6,696,200             |
| 2019                                 | 1,155,000            | 3,976,900            | 1,568,000                    | 6,699,900             |
| 2020                                 | 1,225,000            | 3,906,550            | 1,568,000                    | 6,699,550             |
| 2021                                 | 1,315,000            | 3,812,050            | 1,568,000                    | 6,695,050             |
| 2022 - 2026                          | 6,990,000            | 16,100,047           | 7,840,000                    | 30,930,047            |
| 2027 - 2031                          | 11,870,000           | 15,065,550           | 7,840,000                    | 34,775,550            |
| 2032 - 2036                          | 13,500,000           | 10,864,219           | 7,840,000                    | 32,204,219            |
| 2037 - 2041                          | <u>23,200,000</u>    | <u>4,980,765</u>     | <u>7,840,000</u>             | <u>36,020,765</u>     |
|                                      | \$ <u>61,365,000</u> | \$ <u>66,854,881</u> | \$ <u>39,200,000</u>         | \$ <u>167,419,881</u> |

**GUAM DEPARTMENT OF EDUCATION**

Notes to Financial Statements  
September 30, 2016

(7) Municipal School Lease Agreements, Continued

C. Okkodo High School Expansion Project

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

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

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

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

Future minimum lease obligations to maturity for the Okkodo High School Expansion Project Lease are as follows:

| <u>Year ending</u><br><u>September 30,</u> | <u>Principal</u>     | <u>Interest</u>      | <u>Additional</u><br><u>Rental</u> | <u>Total</u>         |
|--|----------------------|----------------------|------------------------------------|----------------------|
| 2017                                       | \$ 885,000           | \$ 1,469,685         | \$ 1,867,336                       | \$ 4,222,021         |
| 2018                                       | 950,000              | 1,406,685            | 1,867,336                          | 4,224,021            |
| 2019                                       | 1,020,000            | 1,338,960            | 1,867,336                          | 4,226,296            |
| 2020                                       | 1,090,000            | 1,266,335            | 1,867,336                          | 4,223,671            |
| 2021                                       | 1,170,000            | 1,188,635            | 1,867,336                          | 4,225,971            |
| 2022 - 2026                                | 7,960,000            | 4,512,725            | 9,336,680                          | 21,809,405           |
| 2027 - 2031                                | <u>8,138,000</u>     | <u>1,306,760</u>     | <u>7,469,344</u>                   | <u>16,914,104</u>    |
|  | \$ <u>21,213,000</u> | \$ <u>12,489,785</u> | \$ <u>26,142,704</u>               | \$ <u>59,845,489</u> |

D. Tiyan Lease

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

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

**GUAM DEPARTMENT OF EDUCATION**

Notes to Financial Statements  
September 30, 2016

(7) Municipal School Lease Agreements, Continued

D. Tiyan Lease, Continued

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

On October 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 will only apply for lease amounts due through January 2015 to include the aforementioned collateral equipment. Effective February 2015, rent and additional rent (insurance and maintenance) due will be paid in the form of cash.

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 Tiyan lease agreement is as follows:

| <u>Year ending</u><br><u>September 30,</u> | <u>Principal</u>     | <u>Interest</u>      | <u>Additional</u><br><u>Rental</u> | <u>Total</u>          |
|--|----------------------|----------------------|------------------------------------|-----------------------|
| 2017                                       | \$ 1,340,098         | \$ 4,436,060         | \$ 1,211,470                       | \$ 6,987,628          |
| 2018                                       | 1,411,160            | 4,364,998            | 1,211,470                          | 6,987,628             |
| 2019                                       | 1,487,167            | 4,205,870            | 1,294,591                          | 6,987,628             |
| 2020                                       | 1,585,639            | 4,079,691            | 1,322,298                          | 6,987,628             |
| 2021                                       | 1,690,245            | 3,967,347            | 1,330,038                          | 6,987,620             |
| 2022 - 2026                                | 9,827,027            | 18,104,261           | 7,006,855                          | 34,938,143            |
| 2027 - 2031                                | 12,770,105           | 14,460,498           | 7,707,540                          | 34,938,143            |
| 2032 - 2036                                | 16,958,655           | 9,501,194            | 8,478,295                          | 34,938,143            |
| 2037 - 2041                                | <u>9,822,807</u>     | <u>2,759,313</u>     | <u>4,293,024</u>                   | <u>16,875,144</u>     |
|  | <u>\$ 56,892,903</u> | <u>\$ 65,879,232</u> | <u>\$ 33,855,581</u>               | <u>\$ 156,627,716</u> |

As of September 30, 2016, \$60,153,208 of the Tiyan properties purchased were occupied. The remaining \$26,995,762 of properties have not been recorded as of September 30, 2016 and will be accordingly accounted for when construction is complete.

|                         |                      |
|-------------------------|----------------------|
| New Office              | \$ 24,587,809        |
| Warehouse II            | 1,360,427            |
| Warehouse / Mezzanine   | 535,926              |
| Office and Warehouse II | <u>511,600</u>       |
|                         | <u>\$ 26,995,762</u> |

**GUAM DEPARTMENT OF EDUCATION**

Notes to Financial Statements  
September 30, 2016

(7) Municipal School Lease Agreements, Continued

Assets acquired through the aforementioned capital leases are as follows:

|                               |                       |
|-------------------------------|-----------------------|
| Asset:                        |                       |
| Buildings                     | \$ 237,236,074        |
| Less accumulated depreciation | <u>(30,123,907)</u>   |
|                               | \$ <u>207,112,167</u> |

These buildings are summarized as follows:

|                              |                       |
|------------------------------|-----------------------|
| JFK High School              | \$ 65,735,000         |
| Tiyan High School            | 43,500,000            |
| Okkodo High School           | 42,581,348            |
| Okkodo High School Expansion | 22,818,000            |
| Astumbo Middle School        | 18,383,500            |
| Adacao Elementary School     | 14,482,938            |
| Liguan Elementary School     | 13,082,080            |
| Tiyan 3 (lot)                | 8,000,000             |
| Tiyan Gymnasium              | 4,947,008             |
| Tiyan Office                 | 2,900,000             |
| Tiyan Warehouse              | <u>806,200</u>        |
|                              | \$ <u>237,236,074</u> |

During the year ended September 30, 2016, total lease payments of \$23,844,058 were allocated as follows:

| <u>Lease</u>                          | <u>Principal</u>    | <u>Interest</u>      | <u>Additional Rental</u> | <u>Collateral Equipment</u> | <u>Total</u>         |
|---------------------------------------|---------------------|----------------------|--------------------------|-----------------------------|----------------------|
| Guam Public School Facilities Project | \$ 3,885,000        | \$ 2,209,125         | \$ 1,005,875             | \$ -                        | \$ 7,100,000         |
| Tiyan Lease                           | 1,299,056           | 4,358,845            | 1,615,034                | 3,287,233                   | 10,560,168           |
| JFK High School                       | 980,000             | 4,147,850            | 2,058,588                | -                           | 7,186,438            |
| Okkodo High School Expansion          | <u>830,000</u>      | <u>1,454,685</u>     | -                        | -                           | <u>2,284,685</u>     |
|                                       | \$ <u>6,994,056</u> | \$ <u>12,170,505</u> | \$ <u>4,679,497</u>      | \$ <u>3,287,233</u>         | \$ <u>27,131,291</u> |

Future minimum lease obligations to maturity for the Municipal School lease agreements are as follows:

| <u>Year ending September 30,</u> | <u>Principal</u>      | <u>Interest</u>       | <u>Additional Rental</u> | <u>Total</u>          |
|----------------------------------|-----------------------|-----------------------|--------------------------|-----------------------|
| 2017                             | \$ 7,335,098          | \$ 12,018,870         | \$ 5,654,281             | \$ 25,008,249         |
| 2018                             | 7,741,160             | 11,610,371            | 5,656,318                | 25,007,849            |
| 2019                             | 7,162,167             | 11,119,405            | 5,732,252                | 24,013,824            |
| 2020                             | 7,575,639             | 10,675,251            | 5,759,959                | 24,010,849            |
| 2021                             | 8,035,245             | 10,206,957            | 5,766,449                | 24,008,651            |
| 2022 - 2026                      | 47,097,027            | 41,886,408            | 29,194,160               | 118,177,595           |
| 2027 - 2031                      | 32,778,105            | 30,832,808            | 23,016,884               | 86,627,797            |
| 2032 - 2036                      | 30,458,655            | 20,365,413            | 16,318,295               | 67,142,363            |
| 2037 - 2041                      | <u>33,022,807</u>     | <u>7,740,078</u>      | <u>12,133,024</u>        | <u>52,895,909</u>     |
|                                  | \$ <u>181,205,903</u> | \$ <u>156,455,561</u> | \$ <u>109,231,622</u>    | \$ <u>446,893,086</u> |

## GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements  
September 30, 2016

(8) Subsequent Event

In November 2016, a \$7M lawsuit was filed against the Board of Directors in their official and personal capacities for violated rights and injunctive relief. The Attorney General will be defending the Board in their official capacities. No liability for this matter has been recorded as of September 30, 2016. A motion to dismiss the case has been filed by the Attorney General; however settlements are still ongoing.

**GUAM DEPARTMENT OF EDUCATION**

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**REQUIRED SUPPLEMENTARY  
INFORMATION**

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**YEAR ENDED SEPTEMBER 30, 2016**

**GUAM DEPARTMENT OF EDUCATION**

Schedule of Revenues, Expenditures and Changes in Deficit - Budget and Actual  
General Fund  
Year Ended September 30, 2016

|   | Original<br>Budget   | Final<br>Budget        | Actual -<br>Budgetary<br>Basis | Variance with<br>Final Budget -<br>Positive<br>(Negative) |
|---|----------------------|------------------------|--------------------------------|---|
| <b>Revenues:</b>  |                      |                        |                                |   |
| <b>Local appropriations:</b>  |                      |                        |                                |   |
| <b>Government of Guam General Fund:</b>   |                      |                        |                                |   |
| Operations  | \$ 205,347,095       | \$ 205,347,095         | \$ 202,153,189                 | \$ (3,193,906)  |
| Retiree healthcare benefits   | 12,356,784           | 12,356,784             | 12,356,784                     | -   |
| Guahan Academy Charter School   | 3,300,000            | 3,300,000              | 3,300,000                      | -   |
| iLearn Academy Charter School   | 2,475,000            | 2,475,000              | 2,475,000                      | -   |
| Textbooks   | 1,500,000            | 1,500,000              | 12,558                         | (1,487,442)   |
| Chamorro Studies Division   | 461,207              | 461,207                | 364,874                        | (96,333)  |
| JFK High School Lease   | 5,127,850            | 5,127,850              | 5,127,850                      | -   |
| Tiyan Lease   | -                    | 3,287,233              | 3,287,233                      | -   |
| Okkodo High School Expansion Lease  | 2,358,835            | 2,358,835              | 2,284,685                      | (74,150)  |
| Kuantan Salappe Prinsepat   | 1,081,000            | 1,081,000              | 658,249                        | (422,751)   |
| First Generation Trust Fund   | 100,000              | 100,000                | 100,000                        | -   |
| Secure Our Schools Act  | -                    | -                      | 561,471                        | 561,471   |
| Web-based electronic directory  | 15,000               | 15,000                 | -                              | (15,000)  |
| <b>Territorial Educational Facilities Fund:</b>   |                      |                        |                                |   |
| Operations  | 10,722,934           | 10,722,934             | 10,232,346                     | (490,588)   |
| JFK High School Lease (Additional rental)   | 1,568,000            | 1,568,000              | 2,058,588                      | 490,588   |
| Tiyan Lease   | 7,272,936            | 7,272,936              | 7,272,935                      | (1)   |
| <b>Healthy Futures Fund:</b>  |                      |                        |                                |   |
| Interscholastic sports  | 612,000              | 612,000                | 612,000                        | -   |
| Health and Physical Education Activities  | 279,754              | 279,754                | 279,754                        | -   |
| Public Library System Fund  | 871,983              | 871,983                | 871,983                        | -   |
| Government of Guam 2008 bond proceeds   | -                    | -                      | 431,956                        | 431,956   |
| Fees and other program receipts   | -                    | -                      | 1,141,118                      | 1,141,118   |
| Federal grants and contributions  | -                    | -                      | 425,584                        | 425,584   |
| Contributions from component units  | -                    | -                      | 450,000                        | 450,000   |
| Cafeteria sales   | -                    | -                      | 199,734                        | 199,734   |
| <b>Total revenues</b>   | <b>255,450,378</b>   | <b>258,737,611</b>     | <b>256,657,891</b>             | <b>(2,079,720)</b>  |
| <b>Expenditures - Budgetary Basis:</b>  |                      |                        |                                |   |
| Elementary Education  | 78,273,395           | 75,672,464             | 77,315,884                     | (1,643,420)   |
| Secondary Education   | 88,813,618           | 86,249,741             | 87,850,603                     | (1,600,862)   |
| Direct Student Support  | 16,481,241           | 20,274,797             | 16,560,741                     | 3,714,056   |
| General Administration  | 35,509,697           | 81,183,525             | 38,226,375                     | 42,957,150  |
| Retiree healthcare benefits   | 12,356,784           | 12,356,784             | 12,356,784                     | -   |
| Guahan Academy Charter School   | -                    | 3,300,000              | 3,300,000                      | -   |
| iLearn Academy Charter School   | -                    | 2,475,000              | 2,475,000                      | -   |
| <b>Debt service:</b>  |                      |                        |                                |   |
| Okkodo Expansion Lease  | -                    | 2,284,685              | 2,284,685                      | -   |
| Tiyan Lease   | -                    | 10,560,168             | 10,560,168                     | -   |
| JFK High School Lease   | -                    | 7,186,438              | 7,186,438                      | -   |
| <b>Capital projects:</b>  |                      |                        |                                |   |
| Capital lease acquisition   | -                    | 4,947,008              | 4,947,008                      | -   |
| <b>Total expenditures</b>   | <b>231,434,735</b>   | <b>306,490,610</b>     | <b>263,063,686</b>             | <b>43,426,924</b>   |
| <b>Excess (deficiency) of revenues over (under) expenditures</b>  | <b>24,015,643</b>    | <b>(47,752,999)</b>    | <b>(6,405,795)</b>             | <b>41,347,204</b>   |
| <b>Other financing sources:</b>   |                      |                        |                                |   |
| Capital lease   | -                    | 4,947,008              | 4,947,008                      | -   |
| Transfers in  | -                    | -                      | 1,384,091                      | 1,384,091   |
| <b>Total other financing sources (uses), net</b>  | <b>-</b>             | <b>4,947,008</b>       | <b>6,331,099</b>               | <b>1,384,091</b>  |
| <b>Other changes in fund deficit:</b>   |                      |                        |                                |   |
| 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 | 2,971,090            | 2,971,090              | 1,292,374                      | (1,678,716)   |
| <b>Net change in fund deficit</b>   | <b>\$ 26,986,733</b> | <b>\$ (39,834,901)</b> | <b>\$ 1,217,678</b>            | <b>\$ 41,052,579</b>                                      |

See accompanying notes to required supplementary information.

## GUAM DEPARTMENT OF EDUCATION

Notes to Required Supplementary Information – Budgetary Reporting  
September 30, 2016

### (1) Budgetary Process

The Budget Act for fiscal year 2016, Public Law No. 33-66, was approved for the Executive branch and the Legislative branch. Budgets for Special Revenue Funds are generally not submitted. Accordingly, a budget to actual presentation for Special Revenue Funds is not required or presented. Project length financial plans are adopted for capital projects funds.

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

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

See Accompanying Independent Auditors' Report.

**GUAM DEPARTMENT OF EDUCATION**

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

|   | <u>2016</u>      | <u>2015</u>      | <u>2014</u>      |
|---|------------------|------------------|------------------|
| Total net pension liability   | \$ 1,370,173,934 | \$ 1,246,306,754 | \$ 1,303,304,636 |
| GDOE's proportionate share of the net pension liability   | \$ 408,239,530   | \$ 362,292,904   | \$ 400,356,244   |
| GDOE's proportion of the net pension liability  | 29.79%           | 29.07%           | 30.72%           |
| GDOE's covered-employee payroll**   | \$ 37,658,591    | \$ 42,979,658    | \$ 46,562,315    |
| GDOE's proportionate share of the net pension liability as percentage of its covered employee payroll | 1084.05%         | 842.94%          | 859.83%          |
| Plan fiduciary net position as a percentage of the total pension liability                            |                  |                  |                  |

\* 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 Pension Contributions  
Last 10 Fiscal Years\*

|   | <u>2016</u>          | <u>2015</u>          | <u>2014</u>          |
|---|----------------------|----------------------|----------------------|
| Actuarially determined contribution                                 | \$ 40,177,617        | \$ 39,208,696        | \$ 38,003,918        |
| Contribution in relation to the actuarially determined contribution | <u>40,161,339</u>    | <u>39,572,248</u>    | <u>37,768,425</u>    |
| Contribution deficiency (excess)                                    | <u>\$ 16,278</u>     | <u>\$ (363,552)</u>  | <u>\$ 235,493</u>    |
| GDOE's covered-employee payroll **                                  | <u>\$ 37,658,591</u> | <u>\$ 42,979,658</u> | <u>\$ 46,562,315</u> |
| Contribution as a percentage of covered-employee payroll            | 106.65%              | 92.07%               | 81.11%               |

\* 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**

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**OTHER SUPPLEMENTARY  
INFORMATION**

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**YEAR ENDED SEPTEMBER 30, 2016**

**GUAM DEPARTMENT OF EDUCATION**

Statements of Net Position - Governmental Activities  
September 30, 2016  
(With Comparative Totals as of September 30, 2015)

| <u>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u>         | <u>2016</u>           | <u>2015</u>           |
|--|-----------------------|-----------------------|
| Current assets:  |                       |                       |
| Cash and cash equivalents                                | \$ 12,941,047         | \$ 3,231,702          |
| Receivables from federal agencies                        | 8,334,728             | 5,967,495             |
| Due from primary government                              | 1,600,007             | 7,586,515             |
| Due from component units                                 | 304,167               | -                     |
| Prepayments and other assets                             | 749,477               | 981,805               |
| Restricted assets:                                       |                       |                       |
| Cash and cash equivalents                                | <u>224,667</u>        | <u>293,131</u>        |
| Total current assets                                     | <u>24,154,093</u>     | <u>18,060,648</u>     |
| Noncurrent assets:                                       |                       |                       |
| Deferred maintenance and insurance costs                 | 1,250,000             | 1,375,000             |
| Capital assets, net of accumulated depreciation          | <u>351,983,112</u>    | <u>357,849,505</u>    |
| Total noncurrent assets                                  | <u>353,233,112</u>    | <u>359,224,505</u>    |
| Total assets   | <u>377,387,205</u>    | <u>377,285,153</u>    |
| Deferred outflows of resources:                          |                       |                       |
| Deferred outflows from pension                           | <u>50,059,821</u>     | <u>42,849,189</u>     |
|  | <u>\$ 427,447,026</u> | <u>\$ 420,134,342</u> |
| <br><u>LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</u> |                       |                       |
| Current liabilities:                                     |                       |                       |
| Accounts payable   | \$ 16,796,087         | \$ 14,520,021         |
| Accrued payroll  | 8,435,549             | 6,866,675             |
| Other liabilities and accruals                           | 7,329,515             | 4,340,625             |
| Payable to federal agencies                              | 3,719,200             | 5,645,597             |
| Current portion of obligation under capital lease        | 7,335,098             | 6,923,270             |
| Current portion of compensated absences payable          | <u>271,647</u>        | <u>387,149</u>        |
| Total current liabilities                                | <u>43,887,096</u>     | <u>38,683,337</u>     |
| Noncurrent liabilities:                                  |                       |                       |
| Net pension liability                                    | 408,239,530           | 362,292,904           |
| Compensated absences payable, net of current portion     | 4,580,982             | 4,452,215             |
| Accrued sick leave liability                             | 10,790,490            | 10,239,014            |
| Obligation under capital lease, net of current portion   | <u>173,870,805</u>    | <u>176,329,680</u>    |
| Total noncurrent liabilities                             | <u>597,481,807</u>    | <u>553,313,813</u>    |
| Total liabilities  | <u>641,368,903</u>    | <u>591,997,150</u>    |
| Deferred inflows of resources:                           |                       |                       |
| Deferred inflows from pension                            | -                     | 34,739,317            |
|  | <u>641,368,903</u>    | <u>626,736,467</u>    |
| Commitments and contingencies                            |                       |                       |
| <u>NET POSITION</u>                                      |                       |                       |
| Net investment in capital assets                         | 170,777,209           | 174,596,555           |
| Restricted for:  |                       |                       |
| CIP, technology and equipment projects                   | 224,667               | 293,131               |
| Maintenance and insurance costs                          | 1,250,000             | 1,375,000             |
| Unrestricted   | <u>(386,173,753)</u>  | <u>(382,866,811)</u>  |
| Total net position                                       | <u>(213,921,877)</u>  | <u>(206,602,125)</u>  |
|  | <u>\$ 427,447,026</u> | <u>\$ 420,134,342</u> |

See Accompanying Independent Auditors' Report.

**GUAM DEPARTMENT OF EDUCATION**

Statement of Activities - Governmental Activities  
 Year Ended September 30, 2016  
 (With Comparative Totals for the Year Ended September 30, 2015)

|  | 2016             | 2015             |
|--|------------------|------------------|
| Program revenues:                          |                  |                  |
| Elementary Education                       | \$ 25,947        | \$ 115,111       |
| Secondary Education                        | 1,099,642        | 103,117          |
| Direct Student Support                     | 54,065,921       | 56,418,754       |
| General Administration                     | 3,299,510        | 2,688,287        |
| Retiree healthcare benefits                | 12,356,784       | 11,182,542       |
| Charter Schools                            | 5,775,000        | 4,795,548        |
| First Generation Trust Fund Initiative     | 550,000          | -                |
| Total program revenues                     | 77,172,804       | 75,303,359       |
| Expenses:                                  |                  |                  |
| Elementary Education                       | 82,820,859       | 69,861,118       |
| Secondary Education                        | 116,946,705      | 100,428,861      |
| Direct Student Support                     | 69,610,559       | 62,609,907       |
| General Administration                     | 41,783,320       | 43,591,603       |
| Retiree healthcare benefits                | 12,356,784       | 11,182,542       |
| Charter Schools                            | 5,775,000        | 4,795,548        |
| Total expenses for governmental activities | 329,293,227      | 292,469,579      |
| Net expense                                | (252,120,423)    | (217,166,220)    |
| General revenues:                          |                  |                  |
| Appropriations:                            |                  |                  |
| Operations                                 | 244,787,893      | 239,782,075      |
| Textbooks                                  | 12,778           | 1,500,000        |
| Total general revenues                     | 244,800,671      | 241,282,075      |
| Change in net position                     | (7,319,752)      | 24,115,855       |
| Net position at beginning of year          | (206,602,125)    | (230,717,980)    |
| Net position at end of year                | \$ (213,921,877) | \$ (206,602,125) |

See Accompanying Independent Auditors' Report.

**GUAM DEPARTMENT OF EDUCATION**

Balance Sheets  
Governmental Funds  
September 30, 2016  
(With Comparative Totals as of September 30, 2015)

| ASSETS   | 2016                 |                           |                      | 2015                |                           |                      |
|--|----------------------|---------------------------|----------------------|---------------------|---------------------------|----------------------|
|  | General              | Federal Grants Assistance | Total                | General             | Federal Grants Assistance | Total                |
| Cash and cash equivalents                      | \$ 6,434,158         | \$ 6,506,889              | \$ 12,941,047        | \$ 1,424,412        | \$ 1,807,290              | \$ 3,231,702         |
| Receivables from federal agencies              | -                    | 8,334,728                 | 8,334,728            | -                   | 5,967,495                 | 5,967,495            |
| Due from primary government                    | 1,600,007            | -                         | 1,600,007            | 7,586,515           | -                         | 7,586,515            |
| Due from component units                       | 304,167              | -                         | 304,167              | -                   | -                         | -                    |
| Prepayments and other assets                   | 180,555              | 33,088                    | 213,643              | 412,716             | 1,589                     | 414,305              |
| Due from other funds                           | 2,148,530            | -                         | 2,148,530            | -                   | 3,772,436                 | 3,772,436            |
| Restricted assets:                             |                      |                           |                      |                     |                           |                      |
| Cash and cash equivalents                      | 224,667              | -                         | 224,667              | 293,131             | -                         | 293,131              |
| Total assets                                   | <u>\$ 10,892,084</u> | <u>\$ 14,874,705</u>      | <u>\$ 25,766,789</u> | <u>\$ 9,716,774</u> | <u>\$ 11,548,810</u>      | <u>\$ 21,265,584</u> |
| <u>LIABILITIES AND FUND BALANCES (DEFICIT)</u> |                      |                           |                      |                     |                           |                      |
| Liabilities:                                   |                      |                           |                      |                     |                           |                      |
| Accounts payable                               | \$ 13,833,342        | \$ 2,962,745              | \$ 16,796,087        | \$ 12,071,240       | \$ 2,448,781              | \$ 14,520,021        |
| Accrued payroll                                | 7,084,184            | 1,351,365                 | 8,435,549            | 5,820,460           | 1,046,215                 | 6,866,675            |
| Other liabilities and accruals                 | 2,636,650            | 4,692,865                 | 7,329,515            | 1,932,408           | 2,408,217                 | 4,340,625            |
| Payable to federal agencies                    | -                    | 3,719,200                 | 3,719,200            | -                   | 5,645,597                 | 5,645,597            |
| Due to other funds                             | -                    | 2,148,530                 | 2,148,530            | 3,772,436           | -                         | 3,772,436            |
| Total liabilities                              | <u>23,554,176</u>    | <u>14,874,705</u>         | <u>38,428,881</u>    | <u>23,596,544</u>   | <u>11,548,810</u>         | <u>35,145,354</u>    |
| Fund balances (deficit):                       |                      |                           |                      |                     |                           |                      |
| Restricted                                     | 224,667              | -                         | 224,667              | 293,131             | -                         | 293,131              |
| Committed                                      | 550,183              | -                         | 550,183              | -                   | -                         | -                    |
| Unassigned                                     | (13,436,942)         | -                         | (13,436,942)         | (14,172,901)        | -                         | (14,172,901)         |
| Total fund balances (deficit)                  | <u>(12,662,092)</u>  | <u>-</u>                  | <u>(12,662,092)</u>  | <u>(13,879,770)</u> | <u>-</u>                  | <u>(13,879,770)</u>  |
| Total liabilities and fund balances (deficit)  | <u>\$ 10,892,084</u> | <u>\$ 14,874,705</u>      | <u>\$ 25,766,789</u> | <u>\$ 9,716,774</u> | <u>\$ 11,548,810</u>      | <u>\$ 21,265,584</u> |

See Accompanying Independent Auditors' Report.

**GUAM DEPARTMENT OF EDUCATION**

Reconciliations of the Governmental Funds Balance Sheet to the Statement of Net Position  
September 30, 2016  
(With Comparative Totals as of September 30, 2015)

|  | 2016                    | 2015                    |
|--|-------------------------|-------------------------|
| Total fund balance - governmental funds  | \$ (12,662,092)         | \$ (13,879,770)         |
| Amounts reported for governmental activities in the statements of net position are different because:  |                         |                         |
| Prepayment of capital lease obligations in activities are not financial resources and, therefore, not reported in the governmental funds.                                      | 535,834                 | 567,500                 |
| Maintenance costs associated with capital lease obligations in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. | 1,250,000               | 1,375,000               |
| 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   | \$ 486,389,266          | 480,782,198             |
| Vehicles, furniture and equipment  | 14,037,931              | 13,027,786              |
| Accumulated depreciation   | <u>(148,444,085)</u>    | <u>(135,960,479)</u>    |
| Capital assets, net of accumulated depreciation  | 351,983,112             | 357,849,505             |
| Deferred outflows related to pensions benefit future periods and are not reported in the governmental funds.   | 50,059,821              | 42,849,189              |
| Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds. These liabilities include:                     |                         |                         |
| Net pension liability  | (408,239,530)           | (362,292,904)           |
| Accrued sick leave liability   | (10,790,490)            | (10,239,014)            |
| Compensated absences payable   | (4,852,629)             | (4,839,364)             |
| Obligations under capital lease  | <u>(181,205,903)</u>    | <u>(183,252,950)</u>    |
| Long-term liabilities  | (605,088,552)           | (560,624,232)           |
| Deferred inflows related to pensions benefit future periods and are not reported in the governmental funds.  | <u>-</u>                | <u>(34,739,317)</u>     |
| Net position of governmental activities  | <u>\$ (213,921,877)</u> | <u>\$ (206,602,125)</u> |

See Accompanying Independent Auditors' Report.

**GUAM DEPARTMENT OF EDUCATION**

Statements of Revenues, Expenditure and Changes in Fund Balances (Deficit)  
 Governmental Funds  
 Year Ended September 30, 2016  
 (With Comparative Totals for the Year Ended September 30, 2015)

|  | 2016                   |                           |                        | 2015                   |                           |                        |
|--|------------------------|---------------------------|------------------------|------------------------|---------------------------|------------------------|
|  | General                | Federal Grants Assistance | Total                  | General                | Federal Grants Assistance | Total                  |
| <b>Revenues:</b>   |                        |                           |                        |                        |                           |                        |
| Appropriations   | \$ 254,441,455         | \$ 8,591,000              | \$ 263,032,455         | \$ 250,160,165         | \$ 7,100,000              | \$ 257,260,165         |
| Federal grants and contributions                                 | 425,584                | 56,449,204                | 56,874,788             | 554,293                | 57,498,496                | 58,052,789             |
| Contributions from component units                               | 450,000                | -                         | 450,000                | -                      | -                         | -                      |
| Cafeteria sales  | 199,734                | -                         | 199,734                | 231,703                | -                         | 231,703                |
| Fees and other program receipts                                  | 1,141,118              | 275,380                   | 1,416,498              | 737,812                | 302,965                   | 1,040,777              |
| <b>Total revenues</b>  | <b>256,657,891</b>     | <b>65,315,584</b>         | <b>321,973,475</b>     | <b>251,683,973</b>     | <b>64,901,461</b>         | <b>316,585,434</b>     |
| <b>Expenditures:</b>   |                        |                           |                        |                        |                           |                        |
| <b>Current:</b>  |                        |                           |                        |                        |                           |                        |
| Elementary Education   | 77,315,884             | 25,947                    | 77,341,831             | 76,245,543             | 115,111                   | 76,360,654             |
| Secondary Education  | 87,764,423             | 1,099,642                 | 88,864,065             | 88,362,065             | 103,117                   | 88,465,182             |
| Direct Student Support   | 16,150,163             | 53,879,372                | 70,029,535             | 13,648,926             | 54,894,946                | 68,543,872             |
| General Administration   | 37,430,759             | 1,826,532                 | 39,257,291             | 39,392,029             | 2,688,287                 | 42,080,316             |
| Retiree healthcare benefits                                      | 12,356,784             | -                         | 12,356,784             | 11,182,542             | -                         | 11,182,542             |
| Guahan Academy Charter School                                    | 3,300,000              | -                         | 3,300,000              | 3,335,910              | -                         | 3,335,910              |
| iLearn Academy Charter School                                    | 2,475,000              | -                         | 2,475,000              | 1,459,638              | -                         | 1,459,638              |
| <b>Debt service:</b>   |                        |                           |                        |                        |                           |                        |
| Lease payments   | 20,031,291             | 7,100,000                 | 27,131,291             | 17,725,162             | 7,100,000                 | 24,825,162             |
| <b>Capital projects:</b>   |                        |                           |                        |                        |                           |                        |
| Capital lease acquisition  | 4,947,008              | -                         | 4,947,008              | -                      | -                         | -                      |
| <b>Total expenditures</b>  | <b>261,771,312</b>     | <b>63,931,493</b>         | <b>325,702,805</b>     | <b>251,351,815</b>     | <b>64,901,461</b>         | <b>316,253,276</b>     |
| <b>Excess (deficiency) of revenues over (under) expenditures</b> | <b>(5,113,421)</b>     | <b>1,384,091</b>          | <b>(3,729,330)</b>     | <b>332,158</b>         | <b>-</b>                  | <b>332,158</b>         |
| <b>Other financing sources (uses):</b>                           |                        |                           |                        |                        |                           |                        |
| Transfer in  | 1,384,091              | -                         | 1,384,091              | -                      | -                         | -                      |
| Transfer out   | -                      | (1,384,091)               | (1,384,091)            | -                      | -                         | -                      |
| Capital lease  | 4,947,008              | -                         | 4,947,008              | -                      | -                         | -                      |
| <b>Total other financing sources (uses), net</b>                 | <b>6,331,099</b>       | <b>(1,384,091)</b>        | <b>4,947,008</b>       | <b>-</b>               | <b>-</b>                  | <b>-</b>               |
| <b>Net change in fund balances (deficit)</b>                     | <b>1,217,678</b>       | <b>-</b>                  | <b>1,217,678</b>       | <b>332,158</b>         | <b>-</b>                  | <b>332,158</b>         |
| <b>Fund balances (deficit) at beginning of year</b>              | <b>(13,879,770)</b>    | <b>-</b>                  | <b>(13,879,770)</b>    | <b>(14,211,928)</b>    | <b>-</b>                  | <b>(14,211,928)</b>    |
| <b>Fund balances (deficit) at end of year</b>                    | <b>\$ (12,662,092)</b> | <b>\$ -</b>               | <b>\$ (12,662,092)</b> | <b>\$ (13,879,770)</b> | <b>\$ -</b>               | <b>\$ (13,879,770)</b> |

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, 2016  
(With Comparative Totals for the Year Ended September 30, 2015)

|  | 2016                  | 2015                 |
|--|-----------------------|----------------------|
| Total net change in fund balances - governmental funds   | \$ 1,217,678          | \$ 332,158           |
| <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>  | (5,866,393)           | (12,113,468)         |
| <p>Prepayment of capital lease obligations in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.</p>  | (156,666)             | (172,439)            |
| <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> | 2,047,047             | 6,530,851            |
| <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>(4,561,418)</u>    | <u>29,538,753</u>    |
| Change in net position of governmental activities  | <u>\$ (7,319,752)</u> | <u>\$ 24,115,855</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, 2016  
 (With Comparative Totals for the Year Ended September 30, 2015)

|   | 2016               |                           |                    | 2015               |                           |                    |
|---|--------------------|---------------------------|--------------------|--------------------|---------------------------|--------------------|
|   | General            | Federal Grants Assistance | Total              | General            | Federal Grants Assistance | Total              |
| <b>Revenues:</b>  |                    |                           |                    |                    |                           |                    |
| Local appropriations                                      | \$ 254,441,455     | \$ 8,591,000              | \$ 263,032,455     | \$ 250,160,165     | \$ 7,100,000              | \$ 257,260,165     |
| Federal grants and contributions                          | 425,584            | 56,449,204                | 56,874,788         | 554,293            | 57,498,496                | 58,052,789         |
| Contributions from component units                        | 450,000            | -                         | 450,000            | -                  | -                         | -                  |
| Cafeteria sales   | 199,734            | -                         | 199,734            | 231,703            | -                         | 231,703            |
| Fees and other program receipts                           | 1,141,118          | 275,380                   | 1,416,498          | 737,812            | 302,965                   | 1,040,777          |
| <b>Total revenues</b>                                     | <b>256,657,891</b> | <b>65,315,584</b>         | <b>321,973,475</b> | <b>251,683,973</b> | <b>64,901,461</b>         | <b>316,585,434</b> |
| <b>Expenditures:</b>                                      |                    |                           |                    |                    |                           |                    |
| Salaries and wages  | 133,712,681        | 24,728,034                | 158,440,715        | 131,651,314        | 24,916,493                | 156,567,807        |
| Benefits  | 47,315,423         | 8,836,059                 | 56,151,482         | 48,668,658         | 9,752,984                 | 58,421,642         |
| Contractual   | 14,629,895         | 5,543,994                 | 20,173,889         | 12,906,493         | 5,818,169                 | 18,724,662         |
| Capital lease payments                                    | 20,031,291         | 7,100,000                 | 27,131,291         | 17,725,162         | 7,100,000                 | 24,825,162         |
| Food management contract                                  | 5,107,303          | 10,874,195                | 15,981,498         | 4,338,028          | 11,261,867                | 15,599,895         |
| Retiree healthcare benefits                               | 12,356,784         | -                         | 12,356,784         | 11,182,542         | -                         | 11,182,542         |
| Power   | 10,036,742         | 958,475                   | 10,995,217         | 12,386,102         | -                         | 12,386,102         |
| Capital lease acquisition                                 | 4,947,008          | -                         | 4,947,008          | -                  | -                         | -                  |
| Supplies  | 1,159,847          | 2,257,391                 | 3,417,238          | 1,012,054          | 1,245,485                 | 2,257,539          |
| Guahan Academy Charter School                             | 3,300,000          | -                         | 3,300,000          | 3,335,910          | -                         | 3,335,910          |
| Water   | 2,616,199          | -                         | 2,616,199          | 2,807,902          | -                         | 2,807,902          |
| iLearn Academy Charter School                             | 2,475,000          | -                         | 2,475,000          | 1,459,638          | -                         | 1,459,638          |
| Equipment   | 1,646,768          | 739,520                   | 2,386,288          | 922,478            | 2,581,393                 | 3,503,871          |
| Capital outlay  | 967,973            | 806,553                   | 1,774,526          | 1,155,133          | 108,235                   | 1,263,368          |
| Indirect costs  | -                  | 1,223,268                 | 1,223,268          | -                  | 732,733                   | 732,733            |
| Travel  | 452,544            | 747,733                   | 1,200,277          | 566,135            | 689,037                   | 1,255,172          |
| Library books and equipment                               | 534,311            | 3,120                     | 537,431            | 138,303            | -                         | 138,303            |
| Phone   | 328,486            | -                         | 328,486            | 385,560            | -                         | 385,560            |
| Fuel  | 133,223            | -                         | 133,223            | 186,458            | -                         | 186,458            |
| Textbooks   | 13,152             | 113,133                   | 126,285            | 163,242            | 695,047                   | 858,289            |
| Interest and penalties                                    | -                  | -                         | -                  | 247,042            | -                         | 247,042            |
| Miscellaneous   | 6,682              | 18                        | 6,700              | 113,661            | 18                        | 113,679            |
| <b>Total expenditures</b>                                 | <b>261,771,312</b> | <b>63,931,493</b>         | <b>325,702,805</b> | <b>251,351,815</b> | <b>64,901,461</b>         | <b>316,253,276</b> |
| Excess (deficiency) of revenues over (under) expenditures | (5,113,421)        | 1,384,091                 | (3,729,330)        | 332,158            | -                         | 332,158            |
| <b>Other financing sources (uses):</b>                    |                    |                           |                    |                    |                           |                    |
| Transfer in   | 1,384,091          | -                         | 1,384,091          | -                  | -                         | -                  |
| Transfer out  | -                  | (1,384,091)               | (1,384,091)        | -                  | -                         | -                  |
| Capital lease   | 4,947,008          | -                         | 4,947,008          | -                  | -                         | -                  |
| <b>Total other financing sources (uses), net</b>          | <b>6,331,099</b>   | <b>(1,384,091)</b>        | <b>4,947,008</b>   | <b>-</b>           | <b>-</b>                  | <b>-</b>           |
| Net change in fund balances (deficit)                     | 1,217,678          | -                         | 1,217,678          | 332,158            | -                         | 332,158            |
| Fund balances (deficit) at beginning of year              | (13,879,770)       | -                         | (13,879,770)       | (14,211,928)       | -                         | (14,211,928)       |
| Fund balances (deficit) at end of year                    | \$ (12,662,092)    | \$ -                      | \$ (12,662,092)    | \$ (13,879,770)    | \$ -                      | \$ (13,879,770)    |

See Accompanying Independent Auditors' Report.

**GUAM DEPARTMENT OF EDUCATION**

Schedule of Revenues, Expenditures and Changes in Deficit - Budget and Actual  
General Fund  
Year Ended September 30, 2016  
(With Comparative Totals for the Year Ended September 30, 2015)

|   | 2016                 |                        |                          |  | 2015                |                       |                          |  |
|---|----------------------|------------------------|--------------------------|--|---------------------|-----------------------|--------------------------|--|
|   | 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  | \$ 205,347,095       | \$ 205,347,095         | \$ 202,153,189           | \$ (3,193,906)                                   | \$ 194,183,046      | \$ 191,774,046        | \$ 192,876,551           | \$ 1,102,505                                     |
| Retiree healthcare benefits   | 12,356,784           | 12,356,784             | 12,356,784               | -  | 11,182,542          | 11,182,542            | 11,182,542               | -  |
| Guahan Academy Charter School   | 3,300,000            | 3,300,000              | 3,300,000                | -  | 2,860,000           | 3,300,000             | 3,335,910                | 35,910   |
| iLearn Academy Charter School   | 2,475,000            | 2,475,000              | 2,475,000                | -  | -                   | 1,969,000             | 1,459,638                | (509,362)  |
| JFK High School Lease   | 5,127,850            | 5,127,850              | 5,127,850                | -  | 5,131,013           | 5,131,013             | 5,131,013                | -  |
| Tiyan Lease   | -                    | 3,287,233              | 3,287,233                | -  | -                   | -                     | -                        | -  |
| Okkodo High School Expansion  | 2,358,835            | 2,358,835              | 2,284,685                | (74,150)   | -                   | -                     | 2,900,000                | 2,900,000  |
| Tiyan Lease   | -                    | -                      | -                        | -  | 2,500,861           | 2,500,861             | 7,639,201                | 5,138,340  |
| Textbooks   | 1,500,000            | 1,500,000              | 12,558                   | (1,487,442)                                      | 1,500,000           | 1,500,000             | 1,500,000                | -  |
| Kuantan Salappe Prinsepat   | 1,081,000            | 1,081,000              | 658,249                  | (422,751)  | 1,081,000           | 1,081,000             | 1,081,000                | -  |
| Chamorro studies division   | 461,207              | 461,207                | 364,874                  | (96,333)   | 401,207             | 401,207               | 401,207                  | -  |
| First Generation Trust Fund   | 100,000              | 100,000                | 100,000                  | -  | -                   | -                     | -                        | -  |
| Secure Our Schools Act  | -                    | -                      | 561,471                  | 561,471  | -                   | -                     | -                        | -  |
| Web-based electronic directory  | 15,000               | 15,000                 | -                        | (15,000)   | -                   | -                     | -                        | -  |
| Competitive Wage Act  | -                    | -                      | -                        | -  | -                   | 1,000,000             | 1,000,000                | -  |
| Territorial Education Facilities Fund:  |                      |                        |                          |  |                     |                       |                          |  |
| Operations  | 10,722,934           | 10,722,934             | 10,232,346               | (490,588)  | 17,967,302          | 19,616,424            | 17,174,695               | (2,441,729)                                      |
| Tiyan Lease   | 7,272,936            | 7,272,936              | 7,272,935                | (1)  | -                   | -                     | -                        | -  |
| JFK High School Lease   | 1,568,000            | 1,568,000              | 2,058,588                | 490,588  | 1,568,000           | 1,568,000             | 2,054,948                | 486,948  |
| Early Education Childhood Program   | -                    | -                      | -                        | -  | -                   | 982,593               | -                        | (982,593)  |
| 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  | 871,983              | 871,983                | 871,983                  | -  | 839,429             | 839,429               | 839,429                  | -  |
| Government of Guam 2008 bond proceeds   | -                    | -                      | 431,956                  | 431,956  | -                   | -                     | 692,277                  | 692,277  |
| Fees and other program receipts   | -                    | -                      | 1,141,118                | 1,141,118  | -                   | -                     | 737,812                  | 737,812  |
| Federal grants and contributions  | -                    | -                      | 425,584                  | 425,584  | -                   | -                     | 554,293                  | 554,293  |
| Contributions from component units  | -                    | -                      | 450,000                  | 450,000  | -                   | -                     | -                        | -  |
| Cafeteria sales   | -                    | -                      | 199,734                  | 199,734  | -                   | -                     | 231,703                  | 231,703  |
| <b>Total revenues</b>   | <b>255,450,378</b>   | <b>258,737,611</b>     | <b>256,657,891</b>       | <b>(2,079,720)</b>                               | <b>240,106,154</b>  | <b>243,737,869</b>    | <b>251,683,973</b>       | <b>7,946,104</b>                                 |
| Expenditures - Budgetary Basis:   |                      |                        |                          |  |                     |                       |                          |  |
| Personnel   | 191,532,699          | 193,939,497            | 181,021,952              | 12,917,545                                       | 174,178,433         | 179,696,393           | 180,319,972              | (623,579)  |
| Retiree healthcare benefits   | 12,356,784           | 12,356,784             | 12,356,784               | -  | 11,182,542          | 11,182,542            | 11,182,542               | -  |
| Contractual   | 15,662,968           | 27,396,057             | 20,783,669               | 6,612,388  | 17,333,815          | 24,577,661            | 18,443,223               | 6,134,438  |
| Utilities   | 4,301,899            | 13,955,355             | 12,996,880               | 958,475  | 16,063,245          | 15,707,669            | 15,621,609               | 86,060   |
| Tiyan Lease   | -                    | 10,560,168             | 10,560,168               | -  | -                   | 5,617,968             | 7,639,201                | (2,021,233)                                      |
| JFK High School Lease   | -                    | 7,186,438              | 7,186,438                | -  | -                   | 2,054,958             | 7,185,961                | (5,131,003)                                      |
| Tiyan Gymnasium   | -                    | 4,947,008              | 4,947,008                | -  | -                   | -                     | -                        | -  |
| Supplies/equipment  | 2,843,519            | 3,933,616              | 2,798,370                | 1,135,246  | 2,380,488           | 2,065,838             | 3,219,253                | (1,153,415)                                      |
| Guahan Academy Charter School   | -                    | 3,300,000              | 3,300,000                | -  | -                   | 3,335,910             | 3,335,910                | -  |
| iLearn Academy Charter School   | -                    | 2,475,000              | 2,475,000                | -  | -                   | 1,459,638             | 1,459,638                | -  |
| Okkodo Expansion Lease  | -                    | 2,284,685              | 2,284,685                | -  | -                   | 2,900,000             | 2,900,000                | -  |
| Capital projects  | 158,620              | 16,128,138             | 968,075                  | 15,160,063                                       | 1,399,010           | 1,886,123             | 1,920,096                | (33,973)   |
| Textbooks   | 3,814,291            | 1,178,315              | 919,278                  | 259,037  | 4,382,079           | 3,897,606             | 168,664                  | 3,728,942  |
| Other   | 763,955              | 6,849,549              | 465,379                  | 6,384,170  | 11,368,148          | 1,625,423             | 926,836                  | 698,587  |
| <b>Total expenditures</b>   | <b>231,434,735</b>   | <b>306,490,610</b>     | <b>263,063,686</b>       | <b>43,426,924</b>                                | <b>238,287,760</b>  | <b>256,007,729</b>    | <b>254,322,905</b>       | <b>1,684,824</b>                                 |
| Excess (deficiency) of revenues over (under) expenditures   | 24,015,643           | (47,752,999)           | (6,405,795)              | 41,347,204                                       | 1,818,394           | (12,269,860)          | (2,638,932)              | 9,630,928  |
| Other financing sources:  |                      |                        |                          |  |                     |                       |                          |  |
| Capital lease   | -                    | 4,947,008              | 4,947,008                | -  | -                   | -                     | -                        | -  |
| Transfer in   | -                    | -                      | 1,384,091                | 1,384,091  | -                   | -                     | -                        | -  |
| <b>Total other financing sources</b>  | <b>-</b>             | <b>4,947,008</b>       | <b>6,331,099</b>         | <b>1,384,091</b>                                 | <b>-</b>            | <b>-</b>              | <b>-</b>                 | <b>-</b>   |
| Other changes in fund 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 | 2,971,090            | 2,971,090              | 1,292,374                | (1,678,716)                                      | 4,886,677           | 4,886,677             | 2,971,090                | (1,915,587)                                      |
| <b>Net change in fund deficit</b>   | <b>\$ 26,986,733</b> | <b>\$ (39,834,901)</b> | <b>\$ 1,217,678</b>      | <b>\$ 41,052,579</b>                             | <b>\$ 6,705,071</b> | <b>\$ (7,383,183)</b> | <b>\$ 332,158</b>        | <b>\$ 7,715,341</b>                              |

See Accompanying Independent Auditors' Report.

**GUAM DEPARTMENT OF EDUCATION**

Combining Schedule of Balance Sheet Accounts  
General Fund  
September 30, 2016

| <u>ASSETS</u>  | <u>Operations</u>    | <u>First Generation<br/>Trust Fund<br/>Initiative</u> | <u>Total</u>         |
|--|----------------------|---|----------------------|
| Cash and cash equivalents                              | \$ 6,188,142         | \$ 246,016  | \$ 6,434,158         |
| Due from primary government                            | 1,600,007            | -   | 1,600,007            |
| Due from component units                               | -                    | 304,167   | 304,167              |
| Prepayments and other assets                           | 180,555              | -   | 180,555              |
| Due from other funds                                   | 2,148,530            | -   | 2,148,530            |
| Restricted assets:                                     |                      |   |                      |
| Cash and cash equivalents                              | <u>224,667</u>       | <u>-</u>  | <u>224,667</u>       |
| Total assets   | <u>\$ 10,341,901</u> | <u>\$ 550,183</u>                                     | <u>\$ 10,892,084</u> |
| <br><u>LIABILITIES AND FUND<br/>BALANCES (DEFICIT)</u> |                      |   |                      |
| Liabilities:   |                      |   |                      |
| Accounts payable                                       | \$ 13,833,342        | \$ -  | \$ 13,833,342        |
| Accrued payroll  | 7,084,184            | -   | 7,084,184            |
| Other liabilities and accruals                         | <u>2,636,650</u>     | <u>-</u>  | <u>2,636,650</u>     |
| Total liabilities                                      | <u>23,554,176</u>    | <u>-</u>  | <u>23,554,176</u>    |
| Fund balances (deficit):                               |                      |   |                      |
| Restricted   | 224,667              | -   | 224,667              |
| Committed  | -                    | 550,183   | 550,183              |
| Unassigned   | <u>(13,436,942)</u>  | <u>-</u>  | <u>(13,436,942)</u>  |
| Total fund balances (deficit)                          | <u>(13,212,275)</u>  | <u>550,183</u>  | <u>(12,662,092)</u>  |
| Total liabilities and fund balances (deficit)          | <u>\$ 10,341,901</u> | <u>\$ 550,183</u>                                     | <u>\$ 10,892,084</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, 2016

|  | <u>Operations</u>          | <u>First Generation<br/>Trust Fund<br/>Initiative</u> | <u>Total</u>               |
|--|----------------------------|---|----------------------------|
| <b>Revenues:</b>   |                            |   |                            |
| Appropriations   | \$ 254,341,455             | \$ 100,000  | \$ 254,441,455             |
| Federal grants and contributions                                 | 425,584                    | -   | 425,584                    |
| Contributions from component units                               | -                          | 450,000   | 450,000                    |
| Cafeteria sales  | 199,734                    | -   | 199,734                    |
| Fees and other program receipts                                  | <u>1,140,935</u>           | <u>183</u>  | <u>1,141,118</u>           |
| <br>Total revenues   | <br><u>256,107,708</u>     | <br><u>550,183</u>                                    | <br><u>256,657,891</u>     |
| <b>Expenditures:</b>   |                            |   |                            |
| Elementary Education   | 77,315,884                 | -   | 77,315,884                 |
| Secondary Education  | 87,764,423                 | -   | 87,764,423                 |
| Direct Student Support   | 16,150,163                 | -   | 16,150,163                 |
| General Administration   | 37,430,759                 | -   | 37,430,759                 |
| Retiree healthcare benefits                                      | 12,356,784                 | -   | 12,356,784                 |
| Guahan Academy Charter School                                    | 3,300,000                  | -   | 3,300,000                  |
| iLearn Academy Charter School                                    | 2,475,000                  | -   | 2,475,000                  |
| Debt service:  |                            |   |                            |
| Lease payments   | 20,031,291                 | -   | 20,031,291                 |
| Capital projects:  |                            |   |                            |
| Capital lease acquisition  | <u>4,947,008</u>           | <u>-</u>  | <u>4,947,008</u>           |
| <br>Total expenditures   | <br><u>261,771,312</u>     | <br><u>-</u>  | <br><u>261,771,312</u>     |
| <br>Excess (deficiency) of revenues over<br>(under) expenditures | <br><u>(5,663,604)</u>     | <br><u>550,183</u>                                    | <br><u>(5,113,421)</u>     |
| <b>Other financing sources:</b>                                  |                            |   |                            |
| Transfer in  | 1,384,091                  | -   | 1,384,091                  |
| Capital leases   | <u>4,947,008</u>           | <u>-</u>  | <u>4,947,008</u>           |
| Total other financing sources                                    | <u>6,331,099</u>           | <u>-</u>  | <u>6,331,099</u>           |
| <br>Net change in fund balances (deficit)                        | <br>667,495                | <br>550,183   | <br>1,217,678              |
| <br>Fund balances (deficit) at beginning of year                 | <br><u>(13,879,770)</u>    | <br><u>-</u>  | <br><u>(13,879,770)</u>    |
| <br>Fund balances (deficit) at end of year                       | <br><u>\$ (13,212,275)</u> | <br><u>\$ 550,183</u>                                 | <br><u>\$ (12,662,092)</u> |

See Accompanying Independent Auditors' Report.

**GUAM DEPARTMENT OF EDUCATION**

Agency Fund  
September 30, 2016

The schedule of cash receipts and cash disbursements for the agency fund during fiscal year 2015 is as follows:

|                                   | <u>NAF</u>        |
|-----------------------------------|-------------------|
| Cash balance at beginning of year | \$ <u>625,403</u> |
| Cash receipts:                    |                   |
| Elementary school activities      | 370,456           |
| Secondary school activities       | <u>1,403,082</u>  |
| Total receipts                    | <u>1,773,538</u>  |
| Cash disbursements:               |                   |
| Elementary school activities      | 362,924           |
| Secondary school activities       | <u>1,435,516</u>  |
| Total disbursements               | <u>1,798,440</u>  |
| Cash balance at end of year       | \$ <u>600,501</u> |

The number of individual funds at the schools during fiscal year 2016 is as follows:

|                    |     |
|--------------------|-----|
| Elementary schools | 325 |
| Secondary schools  | 535 |

See Accompanying Independent Auditors' Report.

**GUAM DEPARTMENT OF EDUCATION**

Personnel  
September 30, 2016 and 2015

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

|                          | Employee Count as of PPE<br><u>October 1, 2016</u> | Employee Count as of PPE<br><u>October 3, 2015</u> |
|--------------------------|--|--|
| 100% Locally Funded      | 3,027  | 2,905  |
| 100% Federally Funded    | 875  | 877  |
| Locally/Federally Funded | <u>6</u>   | <u>115</u>   |
| Total Employee Count     | <u>3,908</u>                                       | <u>3,897</u>                                       |

See Accompanying Independent Auditors' Report.