

GUAM DEPARTMENT OF EDUCATION

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

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

YEAR ENDED SEPTEMBER 30, 2017

GUAM DEPARTMENT OF EDUCATION

Table of Contents
Year Ended September 30, 2017

	<u>Page</u>
I. Independent Auditors' Report	1
II. Management's Discussion and Analysis	4
III. Basic Financial Statements:	
Department-Wide Financial Statements:	
Statement of Net Position	15
Statement of Activities	16
Governmental Fund Financial Statements:	
Balance Sheet	17
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	18
Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit)	19
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit) to the Statement of Activities	20
Fiduciary Fund Financial Statements:	
Statement of Fiduciary Net Position – Agency Fund	21
Notes to Financial Statements	22
IV. Required Supplementary Information - Other than Management's Discussion and Analysis:	
Schedule of Revenues, Expenditures and Changes in Deficit – Budget and Actual – General Fund (Unaudited)	52
Notes to the Required Supplementary Information-Budgetary Reporting	53
Schedule of Funding Progress and Actuarial Accrued Liability – Post Employment Benefits Other than Pensions (Unaudited)	54
Schedule of Proportionate Share of the Net Pension Liability – Defined Benefit Plan (Unaudited)	55
Schedule of Proportionate Share of the Net Pension Liability – Ad Hoc COLA/Supplemental Annuity Plan for DB Retirees (Unaudited)	56
Schedule of Proportionate Share of the Net Pension Liability – Ad Hoc COLA Plan for DCRS Retirees (Unaudited)	57
Schedule of Pension Contributions (Unaudited)	58

GUAM DEPARTMENT OF EDUCATION

Table of Contents, Continued
Year Ended September 30, 2017

	<u>Page</u>
V. Other Supplementary Information:	
Department-Wide Financial Statements:	
Comparative Statements of Net Position	60
Comparative Statements of Activities	61
Governmental Fund Financial Statements:	
Comparative Balance Sheets	62
Comparative Reconciliations of the Governmental Funds Balance Sheet to the Statement of Net Position	63
Comparative Statements of Revenues, Expenditures and Changes in Fund Balances (Deficit)	64
Comparative Reconciliations of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit) to the Statement of Activities	65
Comparative Combined Statements of Revenues, Expenditures by Account and Changes in Fund Balances (Deficit)	66
General Fund:	
Comparative Schedule of Revenues, Expenditures and Changes in Deficit – Budget and Actual	67
Combining Schedule of Balance Sheet Accounts	68
Combining Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit) Accounts	69
Agency Fund	70
Personnel	71

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, 2017, 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, 2017, 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

Implementation of New Accounting Standards

As discussed in Note 1V to the financial statements, GDOE adopted Governmental Accounting Standards Board (GASB) 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*. 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 52 and 53, the Schedule of Funding Progress and Actuarial Accrued Liability – Post Employment Benefits Other than Pensions on page 54, the Schedule of Proportionate Share of the Net Pension Liability, on pages 55 through 57, and the Schedule of Pension Contributions on page 58, be presented to supplement the basic financial statements. Such information, although are not a part of the basic financial statements, is required by the GASB who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information, in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information, comparing the information for consistency with management's responses to our inquiries of the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

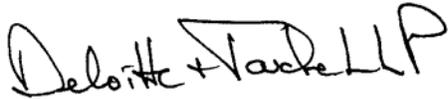
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise GDOE's basic financial statements. The Other Supplementary Information, as set forth in Section V of the foregoing table of contents, is presented for purposes of additional analysis and are not a required part of the basic financial statements. The Other Supplementary Information is the responsibility of management. The 2017 information on pages 60 through 66 as well as the additional information on pages 68 through 70 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 2016 information on pages 60 through 66 as well as the additional information on pages 67 and 71 have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2018, on our consideration of GDOE's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of GDOE's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering GDOE's internal control over financial reporting and compliance.

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

June 25, 2018

GUAM DEPARTMENT OF EDUCATION

Management's Discussion and Analysis
Year Ended September 30, 2017

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 a single unified school district (Kindergarten thru Grade 12) that serves just over 30,000 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.

GDOE is governed by policies established by the Guam Education Board (GEB, Board) 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. In March 2017, the Board approved an amendment to Superintendent Jon J.P. Fernandez's contract, which included extending his contract through June 2021.

At the beginning of the fiscal year, Mr. Peter A. Ada was the GEB Chair and Ms. Maria Gutierrez was the Vice Chair, having been elected to those positions in January 2017. In January 2018, the GEB elected Mr. Mark B. Mendiola as Chair and Ms. Gutierrez as Vice Chair, after they and other elected members began the second year of their two-year (2017-2019) term.

The GEB consists of 12 members: 6 elected members (Ada, Gutierrez, James A. Lujan, Lourdes B. San Nicolas, Lourdes M. Benavente, and one vacancy); 3 appointed: (Mendiola, Dr. Ronald L. McNinch, and Robert Crisostomo) and 3 ex-officio, non-voting members: an alternating student representative; Audrey Mandapat, Guam Federation of Teachers (collective bargaining unit representative); and Mayor Rudy Matanane, Mayor's Council of Guam representative. The elected vacancy, resulting from the resignation of an elected member, is pending an appointment by the Governor. Board appointments must also be confirmed by the Guam Legislature.

Public Law 29-140 established the process to authorize Charter Schools on Guam through the Guam Academy Charter Schools Council. Although the Charter Schools are considered public schools, they operate independently from GDOE.

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

This discussion has been prepared by GDOE management to provide an overview of the Department's financial activities for fiscal year (FY) ending September 30, 2017. 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.

GUAM DEPARTMENT OF EDUCATION

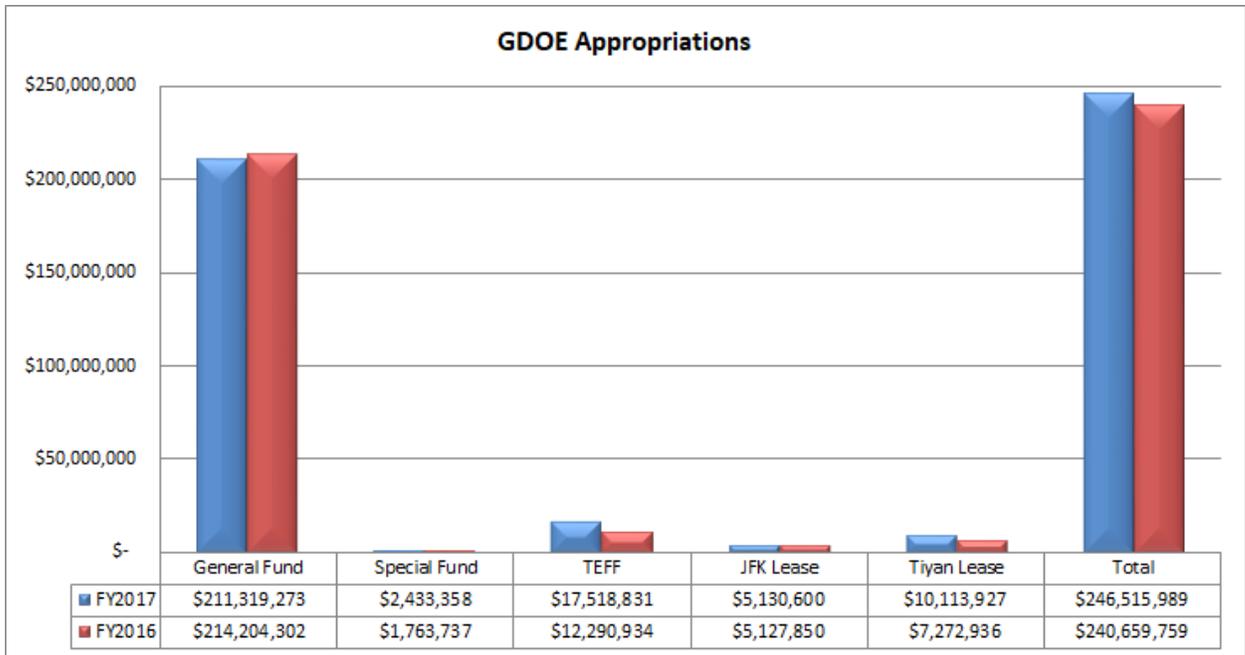
Management's Discussion and Analysis
Year Ended September 30, 2017

- *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 FY17 Single Audit represents GDOE's commitment to, and support of, programmatic and financial accountability.

Local Appropriations

Pursuant to Public Laws (PL) 33-185, 34-26, and 34-29 GDOE appropriations in FY17 totaled \$246,515,989, an overall increase of \$5.8 million (M) in comparison to FY16 appropriation levels.



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

1. \$2.285M in appropriations for Guahan Academy (\$1.510M) and *iLearn* Academy (\$775 thousand (K)) charter schools, from a combined total of \$5,775,000 in FY16 to \$8,060,000 in FY17;
2. \$2.84M 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 \$57,868 to cover projected organic growth in the cost of GDOE personnel and operations expenditures.

The \$2.4M in special fund appropriations in FY17 were designated for interscholastic sports, health and physical education activities; sports facility maintenance and repairs; and school libraries. The appropriation included an increase of \$36K for the Guam Public School Library Resource Fund and \$634K in a new funding allotment for sports facility maintenance and repairs, as compared to FY16.

GUAM DEPARTMENT OF EDUCATION

Management’s Discussion and Analysis
Year Ended September 30, 2017

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

- \$15M in payments (\$12.7M 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;
- \$430K from the Guam Legislature’s Capital District Fund to GDOE under PL 34-26 to fund maintenance and repairs in GDOE schools;
- \$150K from an FY17 General Fund appropriation to the Guam Legislature was de-appropriated under PL 34-29 and re-appropriated to GDOE to fund maintenance and repairs in GDOE schools.

Legislature approved \$11.2M of local appropriations to fund the National School Lunch and School Breakfast Programs (\$10.3M in Federal reimbursements and \$875K in cash collections). 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. The estimated cash collections identified in the appropriation are also much higher than realized as in SY16-17, 36 schools were enrolled in the Community Eligibility Provision (CEP) program, which allowed students to eat at no cost. Cafeteria Sales were \$146,591 in FY17.

Federal Grants and Programs

Federal grant funding increased by \$2.75M in FY17 as compared to FY16 in the following programs: Consolidated Grant to Insular Areas and Head Start.

<u>FEDERAL GRANT AWARDS</u>	<u>FY17</u>	<u>FY16</u>	<u>FY15</u>	<u>Change</u>
Consolidated Grant	\$ 28,860,399	\$ 26,413,292	\$ 24,925,098	\$ 2,447,107
Head Start	\$ 2,845,155	\$ 2,540,620	\$ 2,570,248	\$ 304,535
SPED Part B	\$ 14,120,991	\$14,120,991	\$ 14,096,945	\$ -
SPED Part C	\$ 1,489,809	\$ 1,489,809	\$ 1,487,272	\$ -

In FY17, the following amounts were expended by GDOE through a variety of Federal grants, representing \$66.3M or 19% of total expenditures of \$346,753,214:

<u>Grantor</u>	<u>FY17 Amount</u>	<u>FY16 Amount</u>	<u>Change</u>
U.S. Department of Agriculture	\$ 12,732,146	\$ 11,728,876	\$1,003,270
U.S. Department of Education	\$ 40,322,092	\$ 40,620,424	\$ (298,332)
U.S. Department of Health & Human Services	\$ 2,853,062	\$ 2,741,585	\$ 111,477
U.S. Department of the Interior	\$ 9,933,097	\$ 8,929,495	\$1,003,602
Federal Grants Assistance Fund Expenditures	\$ 65,840,397	\$ 64,020,380	\$1,820,017
U.S. Department of Defense	\$ 436,826	\$ 418,432	\$ 18,394
Total Federal Expenditures	\$66,277,223	\$64,438,812	\$1,838,411

The \$1.8M overall increase in expenditures in FY17 in comparison to FY16 occurred in grants received from USDA and U.S. Departments of Health and Human Services, Defense, and Interior, offset by a decrease in expenditures from the U.S. Department of Education (US Ed) funding.

FISCAL YEAR 2017 OVERVIEW

GDOE once again received less cash than appropriated in FY17 - \$737K in General Fund (GF) \$1.2M in Territorial Educational Facilities Fund (TEFF), \$82K in Public Library Resource Fund (PLRF), and \$89K in the Limited Gaming Fund – a combined total of \$2M in its appropriations for operations. In previous fiscal years, the shortages occurred in appropriations, alternatively, from both the GF and TEFF: \$5.1M in FY16 GF; and \$3.2M and \$5M in FY15 and FY14 TEFF. This recurrence, albeit smaller in FY17, impacted cash flow and slowed payments of outstanding invoices. However, working to stay within cash allotments, GDOE was able to end the year with a surplus. Additionally, a one-time reclassification of debt payments from expense to deposit with trustee increased fund balance by \$4.8M.

GUAM DEPARTMENT OF EDUCATION

Management's Discussion and Analysis Year Ended September 30, 2017

FY17 marked the fifth year GDOE incurred local expenditures associated with addressing its 'high risk' grantee status by US Ed Special Conditions issued by US Ed, which require financial management functions of US Ed grants to be supervised by a Third Party Fiduciary Agent (TPFA). The TPFA contract, which originally expired in October 2016, was extended while procurement is in process. As required by the Special Conditions, US Ed must approve of the selection in order for GDOE to continue to have access to US Ed grant funding.

Meanwhile, a number of changes in the federal reimbursement processes contributed to the reduction of the average monthly outstanding reimbursements from a monthly average of \$4M to \$2.2-\$2.8M. US Ed Risk Management's planned on-site visit in March 2017 was conducted via tele-conferences. Risk Management reaffirmed GDOE has continued to make improvements and encouraged GDOE to consider a request to amend the Special Conditions.

Transition plans, first developed between the TPFA and GDOE in FY15, continued to be monitored and updated throughout FY17. The plans identify tasks necessary to complete the Comprehensive Correction Plan as well as identify resources and activities necessary should the requirement for the TPFA be reduced in scope or removed. The transition work plan is updated weekly and tracks the progress of completed tasks. Progress is shared with US Ed on a bi-weekly basis. Note that any transition of tasks from the TPFA to GDOE must be officially sanctioned by US Ed.

Annually, US Ed updates its special conditions letter in June. The June 2017 and 2016 letters acknowledged the plan to support the gradual transition that would result in the removal of US Ed's third party requirement, while requiring GDOE's commitment to secure necessary human resources and complete and test all new standard operating procedures.

In September 2016, GDOE was awarded a total of \$1.18M in FY16 Department of Interior (DOI) Compact Impact funding, which will primarily be used to offset expenditures in school operations. GDOE had previously received \$1.4M in FY15, \$2M in FY14 and \$2.8M in FY13.

In November 2017, GDOE received its third year (\$1M) funding and authorization to proceed under Phase II of the Office of Insular Affairs (OIA) Insular Assessment of Buildings and Classroom (ABC) Initiative. The initiative sets aside \$1M of OIA Capital Improvement Project funds beginning in FY15 through FY18 to address deferred maintenance projects in GDOE schools. First year funding projects include: 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 scheduled to be completed in May 2018. Second year funding includes: drainage system improvements; and fire alarm and Public Announcement system repairs and installation in other schools. At the end of FY17, GDOE had access to two years of funding.

A new Request for Proposal (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 and update GDOE's facilities master plan. However, the RFP was subsequently cancelled; and the findings of the Office of Public Accountability (OPA) related to this RFP has been appealed by a potential bidder to the Superior Court of Guam. The case was dismissed in June 2018 and sent back to OPA.

Both the Legislature and Governor provided additional funding to address maintenance concerns related to the opening of the SY17-18. The legislature transferred \$580,000 from its budget and the Governor provided \$1.4M in DOI funds for this effort.

By FY17 year end, GDOE had not assumed occupancy of an additional office building and warehouses in Tiyan, although payment under a lease to purchase agreement for the improvements were rendered. The newly constructed three-storied Building B is 82,300 square feet or 27,450 square feet per floor. The additional facilities are intended to consolidate all of GDOE's central office operations into one centralized location. Delay in completion and occupancy of the building was largely related to installation and activation of the fire suppression system and sufficient water pressure to support the system.

GUAM DEPARTMENT OF EDUCATION

Management’s Discussion and Analysis
Year Ended September 30, 2017

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. During the US Ed Technical Assistance Grantee Meeting for the Insular Areas held from April 3 to 5, 2017 in Washington, D.C., the GDOE delegation was provided with updated guidance and technical assistance relative to the ESSA requirements and available options for consolidating formula funds. GDOE has elected to consolidate under Title V Part B Rural and Low-Income School program. US Ed has implemented a three year grant application with FY17 being the first grant year.

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 with cameras, alarms and monitoring services in an effort to deter burglary and vandalism incidents.

Salaries and benefits, including retirement and healthcare benefits, represent a primary component of GDOE expenditures, accounting for \$223,676,226 or 64.5% of total (federal and local) expenditures in FY17. In comparison to FY16, these expenditures decreased by 1.44% or \$3.27M (-\$2.57M local, -\$1.02M federal offset by \$314K increase in retirement health care benefits). Eighty-five percent or \$191,130,977 was funded through local appropriations and fifteen percent or \$32,545,249 was funded through federal grants. GDOE attributes this reduction in personnel costs to the shortage of teachers and other positions requiring certification; and having to temporarily fill such positions with limited term substitute teachers, limited term part-time employees who have not completed their certification.

The overall number of GDOE employees decreased from 3,908 (pay period ending October 3, 2016) to 3,841 (pay period ending September 30, 2017). *Local/Federally Funded Employees* include teachers and school aides that are locally funded and receive payment for work on Federally Funded programs such as ASPIRE, an afterschool program for elementary students.

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 Ending <u>9/30/2017</u>	Pay Period Ending <u>10/3/2016</u>	<u>Change</u>
100% Locally Funded Employees	2,970	3,027	-57
100% Federally Funded Employees	819	875	-56
Locally/Federally Funded Employees	<u>52</u>	<u>6</u>	<u>46</u>
Total Employee Count	3,841	3,908	-67

The costs of a number of critical contracts and services (listed in the table below) netted an overall decrease in these expenditures of nearly \$1.4M in FY17. Some of the decrease is largely due to GDOE’s attempts to contain FY17 expenses, wherever possible, in order to offset payments for carryover outstanding vendor payments resulting from perennial cash shortfalls in its local appropriations. The decrease in cost of the Third Party Fiduciary services in FY17 were the result of reduction in hours charged to the contract while the decline in air conditioning maintenance services was simply a decision to scale back and postpone the number of units serviced because of cash pressures on local appropriations. The reduction in copier services and internet was a result of rebidding of the contracts.

GUAM DEPARTMENT OF EDUCATION

Management's Discussion and Analysis
Year Ended September 30, 2017

CRITICAL CONTRACTS	FY17	FY16	Change
Custodial Services	\$ 3,114,506	\$ 3,021,492	\$ 93,014
Copier Services	\$ 679,915	\$ 848,705	\$ (168,790)
Cash Collection	\$ 24,242	\$ 29,718	\$ (5,476)
Internet	\$ 467,846	\$ 835,878	\$ (368,032)
Trash Collection	\$ 920,112	\$ 974,032	\$ (53,920)
Accreditation	\$ 109,206	\$ -	\$ 109,206
Food Services	\$ 17,086,916	\$15,981,498	\$ 1,105,418
Third Party Fiduciary Agent	\$ 2,536,532	\$ 2,937,165	\$ (400,633)
Air-Conditioning Maintenance	\$ 1,435,518	\$ 3,122,227	\$ (1,686,709)

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 (from \$835,878 in FY16 to \$467,846 in FY17).

At the start of School Year (SY) 16-17 in August 2016, GDOE retained the ratio of outsourced cafeterias to GDOE operated at 37:4, and opted to increase the number of schools serving meals at no charge from 27 to 36. While these changes increased cost of GDOE's food management services, from \$15.98M in FY16 to \$17.08M in FY17, GDOE's total reimbursements under the federal Child Nutrition Program (CNP) CEP for all 41 schools increased from \$10,874,195 in FY16 to \$12,043,055 in FY17.

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. In 2015, GDOE had requested an adjustment and realignment of GDOE's reimbursement rate, however, to date no adjustments have been made.

SY 2016-2017 SCHOOL LUNCH PROGRAM	LUNCH						BREAKFAST					
	FREE	PAID	REDUCED	Total Lunch Served	* ADP	Enroll	FREE	PAID	REDUCED	Total B-Fast Served	* ADP	Enroll
OUTSOURCED CAFETERIAS												
ELEMENTARY	1,303,035	102,833	20,423	1,426,291	7,924	12,408	808,452	54,405	10,192	873,049	4,850	12,408
MIDDLE	494,459	69,666	4,018	568,143	3,156	6,634	281,525	38,523	1,885	321,933	1,789	6,634
HIGH	355,750	84,149	2,768	442,667	2,459	8,512	168,094	40,361	1,153	209,608	1,164	8,512
TOTAL	2,153,244	256,648	27,209	2,437,101	13,539	27,554	1,258,071	133,289	13,230	1,404,590	7,803	27,554
GDOE OPERATED CAFETERIAS												
ELEMENTARY	220,464	17,082	-	237,546	1,320	1,705	109,950	7,117	-	117,067	650	1,705
MIDDLE												
HIGH	97,228	47,089	-	144,317	802	1,685	39,174	18,733	-	57,907	322	1,685
TOTAL	317,692	64,171	-	381,863	2,121	3,390	149,124	25,850	-	174,974	972	3,390
*Average Daily Participation: Calculated amount using the Total Meals Served divided by 180 School Days												
**ENROLLMENT: Data provided from the School Year 2016-2017 Child Nutrition Program Data as of October 31, 2016												
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 2016-2017*	2,462,173	321,546	27,209	2,810,928	17,904	30,944	1,425,757	163,203	13,230	1,602,190	10,205	30,944
Variance between each SY	4,208	-4,378	317	147	1	-2,496	64,452	-2,346	1,128	63,234	403	-2,496
% of Variance	0.17%	-1.34%	1.18%	0.01%	0.01%	-7.46%	4.73%	-1.42%	9.32%	4.11%	4.11%	-7.46%

The table above reflects the number of meals served in SY16-17 and provides a comparison between SY16-17 and SY15-16. The Average Daily Participation calculated amount uses Total Meals Served divided by 180 school days.

GUAM DEPARTMENT OF EDUCATION

Management's Discussion and Analysis
Year Ended September 30, 2017

FY17 Utilities (power, water, telephone) combined accounted for 4.75% of total expenditures or \$15.03M, an increase of \$1.10M as compared to FY16. In comparison to FY16, power and water expenditures increased \$250K and \$972K, respectively, while telephone expenditures decreased by \$124K. While there were no significant decreases in the level of telephone services, the decrease may be attributable to changes in contract rates.

Although a 3.5% increase in water rates went into effect in October 2016, a portion of the \$972K increases in costs in FY17 may also be attributed to 1) disputed billings from the previous year resulting in replacement meters with improved and more accurate meter readings for consumption; and 2) reported water leaks in nearly a dozen schools needing repairs.

Thirty-two GDOE schools are accredited by Western Association of Schools and Colleges (WASC). In spring 2017, 14 schools were visited by WASC teams resulting in three newly accredited schools (Agana Heights Elementary, Machananao Elementary, and Marcial Sablan Elementary), and the affirmation or renewal of accreditation statuses for 11 others. An accreditation plan has been developed to have the remaining nine elementary schools accredited by 2020.

STATEMENT OF NET POSITION - GOVERNMENTAL ACTIVITIES

Net Position consists of current assets and capital assets, net of accumulated depreciation less both current and noncurrent liabilities. From FY16 to FY17, total assets and deferred outflows of resources increased by \$4.9M, total liabilities and deferred inflows decreased by \$4.2M, and net position increased by \$9.1M.

Summary of Net Position

	<u>2017</u>	As Restated <u>2016</u>	<u>% Change</u>
Assets:			
Current and other assets	\$ 31,313,550	\$ 25,404,093	23.3%
Capital assets	<u>367,617,642</u>	<u>351,983,112</u>	4.4%
Total assets	398,931,192	377,387,205	5.7%
Deferred outflows of resources	<u>48,267,647</u>	<u>64,880,456</u>	-25.6%
	\$ <u>447,198,839</u>	\$ <u>442,267,661</u>	1.1%
Liabilities:			
Current and other liabilities	\$ 535,043,745	\$ 561,363,775	-4.7%
Long-term debt	<u>200,062,016</u>	<u>181,205,903</u>	10.4%
Total liabilities	735,105,761	742,569,678	-1.0%
Deferred inflows of resources	<u>3,605,120</u>	<u>356,788</u>	910.4%
	<u>738,710,881</u>	<u>742,926,466</u>	-0.6%
Net Position:			
Net investment in capital assets	167,555,626	170,777,209	-1.9%
Restricted for CIP, technology, equip projects	73,105	224,667	-67.5%
Restricted for First Generation Trust Fund Initiative	653,826	550,183	18.8%
Restricted for maintenance and insurance	1,125,000	1,250,000	-10.0%
Restricted for capital lease obligation	4,800,125	-	100.0%
Unrestricted	<u>(465,719,724)</u>	<u>(473,460,864)</u>	-1.6%
Total net position	<u>(291,512,042)</u>	<u>(300,658,805)</u>	-3.0%
	\$ <u>447,198,839</u>	\$ <u>442,267,661</u>	1.1%

GUAM DEPARTMENT OF EDUCATION

Management's Discussion and Analysis
Year Ended September 30, 2017

Increases in assets were largely due to a \$1.5M increase in Federal agency receivables, a \$16.6M decrease in deferred outflows related to payments to the retirement fund, a \$4.8M deposit with trustee related to capital lease obligations, and a \$15.6M increase in net capital assets due primarily to the additional Tiyan properties reported in current year.

The decrease in liabilities was due to a \$10.9M decrease in current liabilities and a \$3.5M increase in noncurrent liabilities; the largest decrease was a \$14.9M decrease in the net pension liability offset by the increase in capital lease obligations of \$18.8M and \$3.2M in deferred inflows related to payments to the retirement fund.

The \$9.1M increase in net position is the difference between revenues of \$332.5M and expenditures of \$323.4M. Note that the FY17 Balance Sheet prepared for Governmental Funds shows a surplus of \$4.8M.

During the year ended September 30, 2017, GDOE implemented GASB Statement No. 73, which resulted in the restatement of the 2016 financial statements. Refer to Note IV for additional information regarding this restatement.

STATEMENT OF ACTIVITIES AND CHANGES IN NET POSITION - GOVERNMENTAL ACTIVITIES

The statement of activities and changes in net position represents revenues and expenses for the current fiscal year. The statement of activities and changes in net position reflects an increase in net position of \$9.1M for FY17.

	<u>2017</u>	As Restated <u>2016</u>	<u>% Change</u>
Revenues:			
Appropriations	\$ 267,429,792	\$ 263,032,455	1.67%
Federal grants and contributions	64,445,317	56,874,788	13.31%
Contributions from component units	-	450,000	-100.00%
Cafeteria Sales	146,591	199,734	-26.61%
Other	530,282	1,416,498	-62.56%
Total revenues	<u>332,551,982</u>	<u>321,973,475</u>	3.29%
Expenses:			
Elementary education	79,081,253	84,559,876	-6.48%
Secondary education	110,010,904	118,925,586	-7.50%
Direct student support	71,905,022	70,570,017	1.89%
General administration	41,731,607	43,102,575	-3.18%
Retiree healthcare benefits	12,670,871	12,356,784	2.54%
Charter Schools	8,005,562	5,775,000	38.62%
Total expenses	<u>323,405,219</u>	<u>335,289,838</u>	-3.54%
Change in net position	9,146,763	(13,316,363)	-168.69%
Net position at beginning of year	<u>(300,658,805)</u>	<u>(287,342,442)</u>	4.63%
Net position at end of year	<u>\$ (291,512,042)</u>	<u>\$ (300,658,805)</u>	-3.04%

Total revenues increased by \$10.6M with local appropriations increasing by \$4.4M and federal grants and contributions increasing by \$7.6M. Cafeteria sales will continue to decrease as GDOE enrolls more schools in the Community Eligibility Provision program in which students eat at no cost.

Overall total expenses decreased by \$11.9M. Charter school expenses increased by \$2.2M due to an increase in enrollment (from 1,050 to 1,240 enrollees) as well as per enrollee fees (from \$5,500 to \$6,500 per enrollee) as approved in the Budget Act. Decreases in elementary education expenditures of \$5.5M and secondary education expenditures of \$8.9M were largely due to a combination of reductions in operational costs, lease expenses and net pension liability.

GUAM DEPARTMENT OF EDUCATION

Management’s Discussion and Analysis
Year Ended September 30, 2017

CAPITAL ASSETS AND LONG-TERM DEBT

GDOE’s investment in capital assets for its governmental activities as of September 30, 2017 amounted to \$527.7M, net of accumulated depreciation of \$160.1M, leaving a net book value of \$367.6M. GDOE’s capital assts include buildings and improvements, vehicles, furniture and equipment, and construction in progress. See table below:

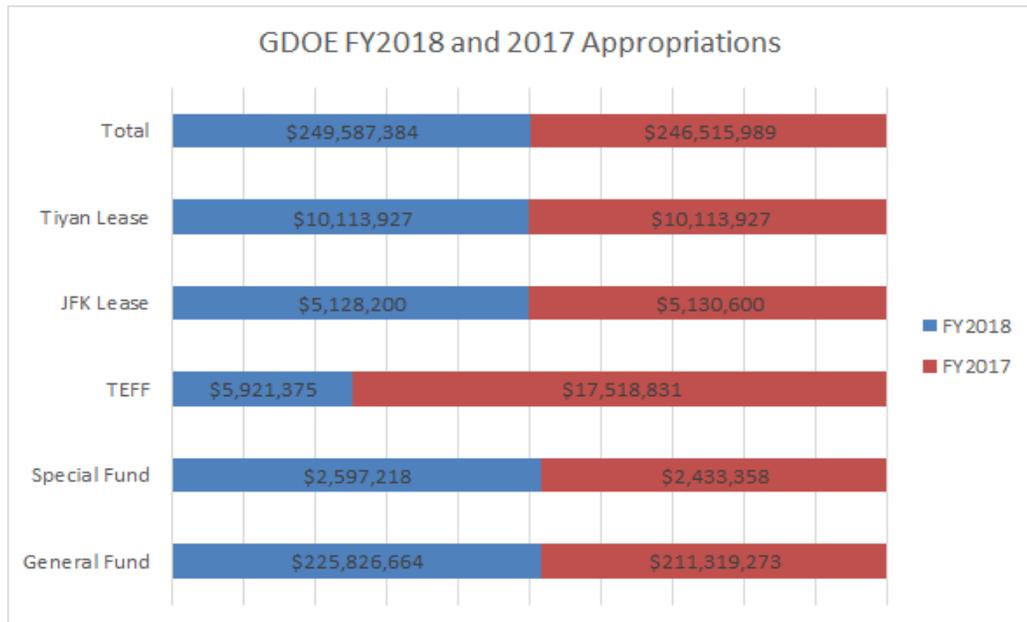
GDOE’s Capital Assets			
	<u>2017</u>	<u>2016</u>	<u>% Change</u>
Buildings and improvements	\$ 513,385,028	\$ 486,389,266	5.55%
Vehicles, furniture and equipment	<u>13,353,657</u>	<u>14,037,931</u>	-4.87%
	526,738,685	500,427,197	5.26%
Accumulated depreciation	<u>(160,125,166)</u>	<u>(148,444,085)</u>	7.87%
	366,613,519	351,983,112	4.16%
Construction in progress	<u>1,004,123</u>	-	100.00%
	<u>\$ 367,617,642</u>	<u>\$ 351,983,112</u>	4.44%

The \$14.6M increase included the addition of \$27M for the new Tiyan office building and warehouses offset by the \$736K retirement of 14 vehicles and accumulated depreciation of \$12M. Additions of \$1M in construction in progress represents upgrades to Southern High School’s canopies, fire alarm and intercom systems paid with DOI funds.

Capital lease obligations were also increased by \$27M due to the new Tiyan office building and warehouses. A \$4.5M principal adjustment was noted from the Guam Public School Facilities Project and Okkodo High School Expansion leases. For more information on GDOE’s capital assets and Municipal School Lease Agreements, please refer to Note 1J and Note 7, respectively, of the financial statements.

FACTORS AND NEXT YEAR’S BUDGET

Pursuant to the FY18 Budget Act (PL 34-42), General Fund revenues for FY18 were projected to increase approximately \$9M, from \$841M in FY17 to \$850M. While Bureau of Budget and Management Research (BBMR) Circular 18-01 continued to impose a 15% reserve on all executive branch agency appropriations, Section 16, Chapter II of the FY18 Budget Act mandated an exemption of any reserves imposed on GDOE’s FY18 appropriations.



GUAM DEPARTMENT OF EDUCATION

Management's Discussion and Analysis
Year Ended September 30, 2017

FY18 appropriations (PL 34-42) for GDOE totaled \$249.5M, a 1.25% or \$3M increase over FY17 appropriation levels (\$246.5M).

The \$3M increase in authorized spending included the following:

1. \$1,054,596 in additional funding to expand the Early Childhood Education program, adding four additional classrooms (72 students);
2. \$500K targeted for school maintenance and repairs;
3. \$89,278 in additional funding for school libraries under the Public Library Resource Fund, from \$907,668 in FY17 to \$996,946 in FY18; and
4. less \$1,081,000 to maintain funding levels for the Salappe Prinsepap left \$346,521 to cover projected organic growth in the cost of GDOE personnel and operations expenditures.

The \$2.6M in special fund appropriations in FY18 was designated for interscholastic sports, health and physical education activities, school libraries, GDOE sports facilities and equipment, and GDOE funding for the First Generation Trust Initiative investment.

Additionally and not included in the comparative table above:

- \$2.2M in lease payments for Okkodo High School Expansion; and
- \$12,504,000 in additional appropriations (Federal reimbursements and 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.

The Budget Act also provided for the access to just over \$2M in FY17 balances in FY18. However, the Department of Administration (DOA) noted there is no cash available to fund these balances.

Additionally, GDOE was awarded the following federal grants:

- \$1M for Year 3 of the DOI ABC project,
- \$491,000 of DOI funds for playgrounds and sports equipment,
- \$28,860,399 in Consolidated Grant Funds,
- \$14,120,991 (Part B) and \$1,489,809 (Part C) in Special Education Funds, and
- \$3,052,923 for Head Start.

Additionally, GDOE has opted to expand the CEP program to all elementary schools, allowing students in all 36 of the 41 schools to eat breakfast and lunch at no cost.

On January 23, 2018, following the enactment of the federal Tax Cut and Jobs Act (TCJA) of 2017 (PL 115-97) in December 2017, BBMR announced projected General Fund revenue losses, which would require pro-rata reductions in FY2018 appropriations for all agencies. For GDOE, this represents an estimated \$19.6M in cuts from its FY 2018 appropriations. In line with this directive, DOA advised GDOE, as early as February 2018, that GDOE's weekly \$3.8M cash disbursement schedule would be adjusted to \$3.6M from the General Fund Operating Fund. All other sources would be made available as cash become available.

On March 2, 2018, the Governor issued Executive Order No. 2018-04, ordering DOA to begin furlough and layoff procedures to be applied to all departments, bureaus or agencies, including autonomous and semi-autonomous agencies. In compliance, on March 13, 2018, GEB passed GEB Resolution 2018-004 affirming the Superintendent's implementation of austerity measures and nearly \$12.2M budgetary cuts, and providing authorization to initiate furlough procedures.

GUAM DEPARTMENT OF EDUCATION

Management's Discussion and Analysis
Year Ended September 30, 2017

PL 34-87, enacted on March 16, 2018, provided some financial relief in a number of provisions:

- Temporarily increasing the Business Privilege Tax from 4 to 5% beginning April 1 to September 30, 2018;
- Imposing a permanent 2% General Sales Tax beginning October 1, 2018, apportioning the revenue to the Guam Memorial Hospital Authority (.75%), GDOE (.25%), and the GovGuam General Fund (1%) to address the tax erosion resulting from TCJA;
- Establishing new authority to the Governor to use his Executive Order to reorganize the various entities of the executive branch.

Additionally, PL 34-87 required the Governor to submit a FY2018 Fiscal Realignment Plan that reduces net appropriations by not less than \$30M as compared to the FY2018 Budget Act. GDOE's share of the cuts moved from \$19M to \$12M under the realignment plan submitted to the Guam Legislature on March 23, 2018. On April 13, 2018, the Governor issued Executive Order No. 2018-05, rescinding furlough and layoff procedures under Executive Order 2018-04.

In April 2018, the Superintendent and GEB Chairman met with various GovGuam and US Ed officials to announce GDOE's intentions to request for a reconsideration of the Special Conditions imposed on US Ed grants to GDOE; and request, per Title 2 of the Code of Federal Regulations §200.207(b), for the nature of actions needed to remove the special conditions and the time allowed for completing these actions. A letter officially requesting the reconsideration was issued in May 2018.

GDOE has received unmodified opinions on its financial and Single Audits for FY14, FY15 and FY16. GDOE staff perform personnel, payroll, procurement, property management, and accounts payable activities with various levels of oversight from the required TPFA over transactions funded with US Ed grants; financial transactions from the TPFA system are mirrored on GDOE's financial management system. A majority of the actions required in the US Ed approved Comprehensive Corrective Action Plan have been completed.

The Power Purchase Agreement, between the Guam Education Financing Foundation and GDOE for the installation of solar panels and related generation of power for Okkodo High, Astumbo Middle, and Ligan and Adacao Elementary Schools, is with the Office of Attorney General for approval.

After three failed attempts to procure the financing and reconstruction of Simon Sanchez High School, the Guam Legislature passed Bill 204-34 on May 1, 2018, to transfer the procurement authority to GDOE and allow GDOE to procure separately the design and the construction of the school. The bill has been transmitted to the Governor for action. The bill lapsed into law on May 16, 2018 as Public Law 34-101.

It is anticipated that GDOE operational and support units will move into the newly constructed central office building and warehouses in Tiyan sometime in 2018.

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; call (671) 300-1575; or log on to our website at: www.gdoe.net.

GUAM DEPARTMENT OF EDUCATION

Statement of Net Position
September 30, 2017

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

Current assets:	
Cash and cash equivalents	\$ 12,372,154
Receivables from federal agencies	9,892,482
Due from primary government	1,526,707
Prepayments and other assets	870,151
Deposit	4,800,125
Restricted assets:	
Cash and cash equivalents	<u>726,931</u>
Total current assets	<u>30,188,550</u>
Noncurrent assets:	
Deferred maintenance and insurance costs	1,125,000
Capital assets:	
Nondepreciable capital assets	1,004,123
Depreciable capital assets, net of accumulated depreciation	<u>366,613,519</u>
Total noncurrent assets	<u>368,742,642</u>
Total assets	<u>398,931,192</u>
Deferred outflows of resources:	
Deferred outflows from pension	48,267,647
	<u>\$ 447,198,839</u>

LIABILITIES

Current liabilities:	
Accounts payable	\$ 9,059,374
Accrued payroll	8,314,967
Other liabilities and accruals	5,403,081
Payable to federal agencies	1,758,754
Current portion of obligations under capital lease	7,921,554
Current portion of compensated absences payable	<u>380,986</u>
Total current liabilities	<u>32,838,716</u>
Noncurrent liabilities:	
Net pension liability	494,496,705
Compensated absences payable, net of current portion	4,379,336
Accrued sick leave liability	11,250,542
Obligations under capital lease, net of current portion	<u>192,140,462</u>
Total noncurrent liabilities	<u>702,267,045</u>
Total liabilities	<u>735,105,761</u>
Deferred inflows of resources:	
Deferred inflows from pension	3,605,120
	<u>738,710,881</u>

Commitments and contingencies

NET POSITION

Net investment in capital assets	167,555,626
Restricted for:	
CIP, technology and equipment projects	73,105
First Generation Trust Fund Initiative	653,826
Maintenance and insurance costs	1,125,000
Capital lease obligation	4,800,125
Unrestricted	<u>(465,719,724)</u>
Total net position	<u>(291,512,042)</u>
	<u>\$ 447,198,839</u>

See accompanying notes to financial statements.

GUAM DEPARTMENT OF EDUCATION

Statement of Activities
Year Ended September 30, 2017

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
Governmental Activities:				
Elementary Education	\$ 79,081,253	\$ -	\$ 4,122	\$ (79,077,131)
Secondary Education	110,010,904	-	801,094	(109,209,810)
Direct Student Support	71,905,022	676,873	55,856,726	(15,371,423)
General Administration	41,731,607	-	7,783,375	(33,948,232)
Retiree healthcare benefits	12,670,871	-	12,670,871	-
Charter Schools	8,005,562	-	8,005,562	-
Total governmental activities	\$ <u>323,405,219</u>	\$ <u>676,873</u>	\$ <u>85,121,750</u>	<u>(237,606,596)</u>
General revenues:				
Appropriations:				
Operations				245,547,254
Textbooks				<u>1,206,105</u>
Total general revenues				<u>246,753,359</u>
Change in net position				<u>9,146,763</u>
Net position at beginning of year, as previously reported				(213,921,877)
Implementation of GASB Statement No. 73 (Note IV)				<u>(86,736,928)</u>
Net position at beginning of year, as restated				<u>(300,658,805)</u>
Net position at end of year				\$ <u><u>(291,512,042)</u></u>

See accompanying notes to financial statements.

GUAM DEPARTMENT OF EDUCATION

Balance Sheet
Governmental Funds
September 30, 2017

<u>ASSETS</u>	<u>General</u>	<u>Special Revenue Federal Grants Assistance</u>	<u>Total</u>
Cash and cash equivalents	\$ 11,813,973	\$ 558,181	\$ 12,372,154
Receivables from federal agencies	-	9,892,482	9,892,482
Due from primary government	1,526,707	-	1,526,707
Due from component units	-	-	-
Prepayments and other assets	88,577	-	88,577
Deposit	4,800,125	-	4,800,125
Due from other funds	2,576,855	-	2,576,855
Restricted assets:			
Cash and cash equivalents	726,931	-	726,931
Total assets	\$ 21,533,168	\$ 10,450,663	\$ 31,983,831
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ 6,611,424	\$ 2,447,950	\$ 9,059,374
Accrued payroll	7,041,627	1,273,340	8,314,967
Other liabilities and accruals	3,009,317	2,393,764	5,403,081
Payable to federal agencies	-	1,758,754	1,758,754
Due to other funds	-	2,576,855	2,576,855
Total liabilities	16,662,368	10,450,663	27,113,031
Fund balances:			
Restricted	5,527,056	-	5,527,056
Unassigned	(656,256)	-	(656,256)
Total fund balances	4,870,800	-	4,870,800
Total liabilities and fund balances	\$ 21,533,168	\$ 10,450,663	\$ 31,983,831

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, 2017

Total fund balance-governmental funds		\$ 4,870,800
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.		
Prepayment-interest and principal	580,201	
Prepayment-lease maintenance	<u>201,373</u>	781,574
Maintenance costs associated with capital lease obligations in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		
		1,125,000
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	513,385,028	
Vehicles, furniture and equipment	13,353,657	
Construction in progress	1,004,123	
Accumulated depreciation	<u>(160,125,166)</u>	
Capital assets, net of accumulated depreciation		367,617,642
Deferred outflows related to pensions to benefit future periods and are not reported in the governmental funds.		
		48,267,647
Deferred inflows of resources benefit future periods and are not reported in the funds. Those deferred inflows consist of deferred inflows on the net pension liability.		
		(3,605,120)
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	(494,496,705)	
Accrued sick leave liability	(11,250,542)	
Compensated absences payable	(4,760,322)	
Obligations under capital lease	<u>(200,062,016)</u>	
Long-term liabilities		<u>(710,569,585)</u>
Net position of governmental activities		\$ <u><u>(291,512,042)</u></u>

See accompanying notes to financial statements.

GUAM DEPARTMENT OF EDUCATION

Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit)
Governmental Funds
Year Ended September 30, 2017

	<u>General</u>	<u>Special Revenue Federal Grants Assistance</u>	<u>Total</u>
Revenues:			
Appropriations	\$ 267,429,792	\$ -	\$ 267,429,792
Federal grants and contributions	4,458,316	59,987,001	64,445,317
Cafeteria sales	146,591	-	146,591
Fees and other program receipts	351,533	178,749	530,282
Total revenues	<u>272,386,232</u>	<u>60,165,750</u>	<u>332,551,982</u>
Expenditures:			
Elementary Education	74,640,441	4,122	74,644,563
Secondary Education	87,386,744	801,094	88,187,838
Direct Student Support	15,974,242	54,836,301	70,810,543
General Administration	35,057,864	3,533,630	38,591,494
Retiree healthcare benefits	12,670,871	-	12,670,871
Guahan Academy Charter School	4,759,415	-	4,759,415
iLearn Academy Charter School	3,246,147	-	3,246,147
Debt service:			
Lease payments	22,108,219	-	22,108,219
Capital projects:			
Capital lease acquisition	26,995,762	-	26,995,762
Total expenditures	<u>282,839,705</u>	<u>59,175,147</u>	<u>342,014,852</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(10,453,473)</u>	<u>990,603</u>	<u>(9,462,870)</u>
Other financing sources (uses):			
Transfers in	990,603	-	990,603
Transfers out	-	(990,603)	(990,603)
Capital lease	26,995,762	-	26,995,762
Total other financing sources (uses), net	<u>27,986,365</u>	<u>(990,603)</u>	<u>26,995,762</u>
Net change in fund balances	17,532,892	-	17,532,892
Fund balances (deficit) at beginning of year	<u>(12,662,092)</u>	-	<u>(12,662,092)</u>
Fund balances at end of year	<u>\$ 4,870,800</u>	<u>\$ -</u>	<u>\$ 4,870,800</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, 2017

Total net change in fund balances - governmental funds \$ 17,532,892

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:

Construction in progress	1,004,123	
Capital outlays, net of disposals	27,047,762	
Depreciation expense	<u>(12,417,355)</u>	15,634,530

Prepayment of capital lease obligations in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. 120,740

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	(26,995,762)	
Capita lease principal adjustment	4,505,000	
Repayment of capital leases	<u>3,634,649</u>	(18,856,113)

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	(4,917,541)	
Change in compensated absences payable	92,307	
Change in accrued sick leave liability	<u>(460,052)</u>	<u>(5,285,286)</u>

Change in net position of governmental activities \$ 9,146,763

See accompanying notes to financial statements.

GUAM DEPARTMENT OF EDUCATION

Statement of Fiduciary Net Position
Agency Fund
September 30, 2017

ASSETS

Cash and cash equivalents	\$ <u>733,806</u>
Total assets	\$ <u><u>733,806</u></u>

LIABILITIES

Deposits and other liabilities	\$ <u>733,806</u>
Total liabilities	\$ <u><u>733,806</u></u>

See accompanying notes to financial statements.

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2017

(1) Summary of Significant Accounting Policies

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

A. Reporting Entity

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

The governance of GDOE is vested in the Guam Education Board per Title 17 of the Guam Code Annotated (GCA) Chapter 3 section § 3102.3, composed of 9 voting members, 6 elected, 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, 2017, the Foundation reported minimal collections, therefore omission of the Foundation is not considered material to the accompanying financial statements.

B. Department-Wide Financial Statements

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

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

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

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2017

(1) Summary of Significant Accounting Policies, Continued

B. Department-Wide Financial Statements, Continued

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

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

C. Fund Financial Statements

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

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

D. Fund Balance

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

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2017

(1) Summary of Significant Accounting Policies, Continued

D. Fund Balance, Continued

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

A formal minimum fund balance policy has not been adopted.

E. Measurement Focus and Basis of Accounting

Department -Wide Financial Statements:

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

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

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.

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2017

(1) Summary of Significant Accounting Policies, Continued

E. Measurement Focus and Basis of Accounting, Continued

GDOE reports the following major governmental funds:

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

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

In addition, GDOE reports the following fiduciary fund types:

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

F. Encumbrances

Encumbrances are commitments related to unperformed (executory) contracts for goods or services and are generally evidenced by outstanding purchase orders, contracts and interdepartmental work requests. At September 30, 2017, GDOE has significant encumbrances summarized as follows:

General Fund	\$ 3,861,140
Federal Grants Assistance Fund	<u>7,360,289</u>
	\$ <u>11,221,429</u>

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. 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.

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

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2017

(1) Summary of Significant Accounting Policies, Continued

I. Prepaid Items, Continued

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

J. Capital Assets

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

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

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

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

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2017

(1) Summary of Significant Accounting Policies, Continued

J. Capital Assets, Continued

Capital asset activities for the year ended September 30, 2017 are as follows:

Governmental Activities

	Beginning <u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	Ending <u>Balance</u>
Nondepreciable capital assets:				
Construction in progress	\$ _____ -	\$ <u>1,004,123</u>	\$ _____ -	\$ <u>1,004,123</u>
Depreciable capital assets:				
Buildings and improvements	486,389,266	26,995,762	-	513,385,028
Vehicles, furniture and equipment	<u>14,037,931</u>	<u>52,000</u>	<u>(736,274)</u>	<u>13,353,657</u>
	500,427,197	27,047,762	(736,274)	526,738,685
Less: accumulated depreciation	<u>(148,444,085)</u>	<u>(12,417,355)</u>	<u>736,274</u>	<u>(160,125,166)</u>
Depreciable capital assets, net	<u>351,983,112</u>	<u>14,630,407</u>	_____ -	<u>366,613,519</u>
	\$ <u>351,983,112</u>	\$ <u>15,634,530</u>	\$ _____ -	\$ <u>367,617,642</u>

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

Governmental activities:	
Elementary Education	\$ 3,095,669
Secondary Education	8,324,015
Direct Student Support	248,833
General Administration	<u>748,838</u>
	\$ <u>12,417,355</u>

K. 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.

L. 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.

M. Net Position

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

Net Position has been restricted as follows:

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

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

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

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2017

(1) Summary of Significant Accounting Policies, Continued

N. Deferred Inflows of Resources

In addition to liabilities, the statements of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element 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.

O. Compensated Absences

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

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

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

P. Payable to Federal Agencies

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.

Q. Interfund Transactions

Transfers are used to 1) move revenues from the fund that enabling legislation or budget requires to collect them to the fund that enabling legislation or budget requires to expend them, 2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, and 3) record reductions in interfund loans for amounts that are not expected to be repaid. Specifically, GDOE transferred \$990,603 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, 2017 and was initially recorded in the Federal Grants Assistance Fund prior to transfer out to the General Fund.

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2017

(1) Summary of Significant Accounting Policies, Continued

R. Dedicated Revenues and Pledges

GDOE has entered into a municipal school lease agreement for certain leased schools and facilities whereby GovGuam, on behalf of GDOE, has pledged a portion of future Compact Impact grant funds to finance annual lease payments under this agreement. This lease obligation is payable solely from Compact Impact grant revenues payable to GovGuam by the United States Government pursuant to the Compact of Free Association Act, U.S. Public Law 108-188. Total payments remaining on this municipal school lease agreement are approximately \$58,369,175 payable through October 1, 2026. For the year ended September 30, 2017, lease payments made and total Compact Impact grant revenues received were \$6,665,250.

GovGuam, on behalf of GDOE, has also pledged a portion of future Section 30 revenues to finance annual lease payments for the Okkodo High School Expansion lease agreement. Total payments remaining on this lease are approximately \$35,598,100 payable through December 1, 2030. For the year ended September 30, 2017, lease payments made and total Section 30 revenues received were \$2,936,685 and \$87,154,735, respectively.

S. Pensions

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

T. 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.

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2017

(1) Summary of Significant Accounting Policies, Continued

U. 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, 2016 from which summarized information was derived.

V. New Accounting Standards

During the year ended September 30, 2017, GDOE implemented the following pronouncements:

- GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements 67 and 68 with the reporting requirements in Statement 68. The implementation of this statement has no impact on GDOE's governmental fund financial statements, which continue to report expenditures in the amount statutorily required. However, implementation has resulted in the restatement of GDOE's government-wide financial statements to reflect the reporting of net pension liabilities, deferred inflows of resources and deferred outflows of resources for certain ad hoc COLA and supplemental annuity payments and the recognition of pension expense in accordance with the provisions of GASB Statement No. 73. The government-wide financial statements were also restated due to changes in actuarial assumptions and other inputs used to determine net pension liabilities, deferred inflows of resources and deferred outflows of resources for the qualified defined benefit pension plan.

Net pension as of October 1, 2016 for governmental activities decreased by \$86,736,928 as a result of the implementation of GASB Statement No. 73 and the change in actuarial assumptions and other inputs. Refer to Note 5 for more information regarding GDOE's pensions.

- GASB 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).
- GASB Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements.
- GASB 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*.
- GASB 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.

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2017

(1) Summary of Significant Accounting Policies, Continued

V. New Accounting Standards, Continued

- GASB 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.

Except for GASB Statement No. 73, the implementation of these statements did not have a material effect on the GDOE's 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 Statement 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. Based on an actuarial valuation dated October 1, 2015, the net OPEB obligation that GDOE will record upon implementation of Statement 75 is anticipated to be \$360,793,746 as of September 30, 2017.

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 November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset. The provisions in Statement No. 83 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

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

In March 2017, GASB issued Statement No. 85, *Omnibus 2017*, which address practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). The provisions in Statement No. 85 are effective for fiscal years beginning after June 15, 2017. 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, 2017

(1) Summary of Significant Accounting Policies, Continued

V. New Accounting Standards, Continued

In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt. The provisions in Statement No. 86 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

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

(2) Deposits

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

As of September 30, 2017, the carrying amount of GDOE's total cash and cash equivalents was \$12,372,154 and the corresponding bank balances were \$17,535,639. Of the bank balances, \$16,926,493 is maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining amount of \$609,146 represents short-term investments held and administered by GDOE's trustees in accordance with various trust agreements. Based on negotiated trust and custody contracts, all of the investments were held in GDOE's name by GDOE's custodial financial institutions at September 30, 2017. As of September 30, 2017, bank deposits in the amount of \$856,146 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, 2017, are as follows:

	Beginning <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	Ending <u>Balance</u>	Due Within <u>One Year</u>
<u>Governmental activities:</u>					
Accrued sick leave liability	\$ 10,790,490	\$ 1,228,058	\$ (768,006)	\$ 11,250,542	\$ -
Compensated absences	4,852,629	279,096	(371,403)	4,760,322	380,986
Net pension liability	509,440,305	48,077,667	(63,021,267)	494,496,705	-
Obligations under capital lease	<u>181,205,903</u>	<u>26,995,762</u>	<u>(8,139,649)</u>	<u>200,062,016</u>	<u>7,921,554</u>
	<u>\$ 706,289,327</u>	<u>\$ 76,580,583</u>	<u>\$ (72,300,325)</u>	<u>\$ 710,569,585</u>	<u>\$ 8,302,540</u>

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2017

(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, 2017. The estimated accumulated amount of unused sick leave at September 30, 2017, is \$41,653,296, of which an estimated \$11,250,542 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, 2017

(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, 2017. 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

A. General Information About the Pension Plans:

Defined Benefit 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 Chapter 8, Section 8105, requires that all employees of GovGuam, regardless of age or length of service, become members of the DB Plan prior to the operative date. Employees of a public corporation of GovGuam, which includes GDOE, have the option of becoming members of the DB Plan prior to the operative date. All employees of GovGuam, including employees of GovGuam public corporations, whose employment commences on or after October 1, 1995, are required to participate in the 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.

Plan Membership: As of September 30, 2016, the date of the most recent valuation, plan membership consisted of the following:

Retirees and beneficiaries currently receiving benefits	7,298
Terminated employees entitled to benefits but not yet receiving them	4,463
Current members	<u>2,208</u>
	<u>13,969</u>

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2017

(5) Employee Retirement Plans, Continued

A. General Information About the Pension Plans, Continued

Defined Benefit 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.

Members who joined the DB Plan prior to October 1, 1981 may retire with 10 years of service at age 60 (age 55 for uniformed personnel); or with 20 to 24 years of service regardless of age with a reduced benefit if the member is under age 60; or upon completion of 25 years of service at any age.

Members who joined the DB Plan on or after October 1, 1981 and prior to August 22, 1984 may retire with 15 years of service at age 60 (age 55 for uniformed personnel); or with 25 to 29 years of service regardless of age with a reduced benefit if the member is under age 60; or upon completion of 30 years of service at any age.

Members who joined the DB Plan after August 22, 1984 and prior to October 1, 1995 may retire with 15 years of service at age 65 (age 60 for uniformed personnel); or with 25 to 29 years of service regardless of age with a reduced benefit if the member is under age 65; or upon completion of 30 years of service at any age.

Upon termination of employment before attaining at least 25 years of total service, a member is entitled to receive a refund of total contributions including interest. A member who terminates after completing at least 5 years of service has the option of leaving contributions in the GGRF and receiving a service retirement benefit upon attainment of the age of 60 years. In the event of disability during employment, members under the age of 65 with six or more years of credited service who are not entitled to receive disability payments from the United States Government are eligible to receive sixty-six and two-thirds of the average of their three highest annual salaries received during years of credited service. The DB Plan also provides death benefits.

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, 2015 actuarial valuation was used for determining the year ended September 30, 2017 statutory contributions. Member contributions are required at 9.55% of base pay.

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2017

(5) Employee Retirement Plans, Continued

A. General Information About the Pension Plans, Continued

Defined Benefit Plan, Continued

As a result of actuarial valuations performed as of September 30, 2015, 2014, and 2013, contribution rates required to fully fund the Retirement Fund liability, as required by Guam law, for the years ended September 30, 2017, 2016 and 2015, respectively, have been determined as follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Normal costs (% of DB Plan payroll)	16.27%	15.86%	15.92%
Employee contributions (DB Plan employees)	<u>9.55%</u>	<u>9.54%</u>	<u>9.55%</u>
Employer portion of normal costs (% of DB Plan payroll)	<u>6.72%</u>	<u>6.32%</u>	<u>6.37%</u>
Employer portion of normal costs (% of total payroll)	1.87%	1.94%	2.05%
Unfunded liability cost (% of total payroll)	<u>21.60%</u>	<u>22.42%</u>	<u>24.09%</u>
Government contribution as a % of total payroll	<u>23.47%</u>	<u>24.36%</u>	<u>26.14%</u>
Statutory contribution rates as a % of DB Plan payroll:			
Employer	<u>27.41%</u>	<u>28.16%</u>	<u>29.85%</u>
Employee	<u>9.55%</u>	<u>9.54%</u>	<u>9.55%</u>

GDOE's contributions to the DB Plan for the years ended September 30, 2017, 2016 and 2015 totaled \$10,131,154, \$11,241,089, and \$12,829,428, respectively, which were equal to the statutorily required contributions for the respective years then ended.

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, 2015
Actuarial Cost Method:	Entry age normal
Amortization Method:	Level percentage of payroll, closed
Remaining Amortization Period:	14.58 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:	6.70%

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2017

(5) Employee Retirement Plans, Continued

A. General Information About the Pension Plans, Continued

Defined Benefit 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 that is a blend of the expected investment rate of return and a high quality bond index rate. The expected investment rate of return applies to benefit payments that are funded by plan assets (including future contributions), which includes all plan benefits except ad hoc cost-of-living adjustments (COLA) and supplemental annuity (SA) payments to DB retirees. The rate of return of a high quality bond index applies to the ad hoc COLAs and SA payments to DB retirees, which are not funded by the plan assets. The blended rate calculated as described above is 6.70%.

Discount Rate Sensitivity Analysis: The following schedule shows the impact on the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (6.70%) in measuring the 2016 Net Pension Liability.

	1% Decrease in Discount Rate <u>5.70%</u>	Current Discount Rate <u>6.70%</u>	1% Increase in Discount Rate <u>7.70%</u>
Net Pension Liability	\$ <u>503,550,939</u>	\$ <u>412,990,587</u>	\$ <u>335,042,668</u>

Ad Hoc COLA/Supplemental Annuity Plan for DB Retirees

Plan Description: GDOE participates in the GovGuam ad hoc COLA/supplemental annuity plan for DB retirees, a single-employer defined benefit pension plan administered by the GGRF. GDOE considers this as a separate pension plan for DB retirees. A single actuarial calculation 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 this 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.

Plan Membership: The plan membership is the same as the DB plan described above.

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2017

(5) Employee Retirement Plans, Continued

A. General Information About the Pension Plans, Continued

Ad Hoc COLA/Supplemental Annuity Plan for DB Retirees, Continued

Benefits Provided, Contributions and Funding Policy: Ad hoc COLA and supplemental annuity benefits are provided to members and beneficiaries at the discretion of the Guam Legislature, but are funded on a “pay-as-you-go” basis so there is no plan trust. Ad hoc COLAs are made through annual allocations to provide DB Plan retired members and spouse survivors with COLA payments of \$2,000 per year. In addition, DB Plan retired members and survivors whose benefits commenced prior to October 1, 1995, have received supplemental annuity payments in the amount of \$4,238 per year, but not to exceed \$40,000 per year when combined with their regular annual retirement annuity. It is anticipated that ad hoc COLA and supplemental annuity payments will continue to be made for future years at the same level currently being paid.

GDOE’s contributions to the Ad Hoc COLA/Supplemental Annuity Plan for DB Retirees for the years ended September 30, 2017, 2016 and 2015 totaled \$6,719,773, \$6,871,519 and \$7,025,637, respectively, which were equal to the statutorily required contributions for the respective years then ended.

Actuarial Assumptions: The methods and assumptions used to determine contribution rates are as follows:

Valuation Date:	September 30, 2015
Actuarial Cost Method:	Entry age normal
Amortization Method:	Level percentage of payroll, closed
Inflation:	2.75%
Total payroll growth:	3.00% per year
Salary Increases:	4.50% to 7.50%
Discount Rate:	6.70%
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.

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2017

(5) Employee Retirement Plans, Continued

A. General Information About the Pension Plans, Continued

Ad Hoc COLA/Supplemental Annuity Plan for DB Retirees, Continued

Discount Rate: The total pension liability is calculated using a discount rate that is a blend of the expected investment rate of return and a high quality bond index rate. The expected investment rate of return applies to benefit payments that are funded by plan assets (including future contributions), which includes all plan benefits except ad hoc cost-of-living adjustments (COLA) and supplemental annuity payments to DB retirees. The rate of return of a high quality bond index applies to the ad hoc COLAs and supplemental annuity payments to DB retirees, which are not funded by plan assets. The blended rate calculated as described above is 6.70%.

Discount Rate Sensitivity Analysis: The following schedule shows the impact on the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (6.70%) in measuring the 2016 Net Pension Liability.

	1% Decrease in Discount Rate <u>5.70%</u>	Current Discount Rate <u>6.70%</u>	1% Increase in Discount Rate <u>7.70%</u>
Net Pension Liability	\$ <u>70,219,479</u>	\$ <u>65,258,484</u>	\$ <u>60,866,917</u>

Ad Hoc COLA Plan for DCRS Retirees

Plan Description: GDOE participates in the GovGuam ad hoc COLA plan for DCRS retirees, a single-employer defined benefit pension plan administered by the GGRF. GDOE considers this as a separate pension plan for DCRS retirees. A single actuarial calculation 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 this 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.

Plan Membership: As of September 30, 2016, the most recent measurement date, plan membership consisted of 8,858 active DCRS participants.

Benefits Provided, Contributions and Funding Policy: Ad hoc COLA benefits, contributions and funding policy are the same as those for DB retirees.

GDOE’s contributions to the Ad Hoc COLA Plan for DCRS Retirees for the years ended September 30, 2017, 2016 and 2015 totaled \$442,000, \$378,000 and \$324,000, respectively, which were equal to the statutorily required contributions for the respective years then ended.

Actuarial Assumptions: The methods and assumptions used to determine contribution rates are as follows:

Valuation Date:	September 30, 2015
Actuarial Cost Method:	Entry age normal
Amortization Method:	Level percentage of payroll
Inflation:	2.75%
Total payroll growth:	3.00% per year
Salary Increases:	4.50% to 7.50%
Discount Rate:	3.058%

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2017

(5) Employee Retirement Plans, Continued

A. General Information About the Pension Plans, Continued

Ad Hoc COLA for DCRS Retirees, Continued

Retirement age:	5% per year from age 55 to 64, 10% per year from age 65 to age 74, 100% at age 75.
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 3.058% that is the high quality bond index rate. The rate of return of a high quality bond index applies to benefit payments that are not funded by plan assets.

Discount Rate Sensitivity Analysis: The following schedule shows the impact on the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (3.058%) in measuring the 2016 Net Pension Liability.

	1% Decrease in Discount Rate <u>2.058%</u>	Current Discount Rate <u>3.058%</u>	1% Increase in Discount Rate <u>4.058%</u>
Net Pension Liability	\$ <u>18,559,422</u>	\$ <u>16,247,634</u>	\$ <u>14,280,531</u>

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

Pension Liability: At September 30, 2017, GDOE reported a net pension liability for its proportionate share of the GovGuam net pension liabilities, which is comprised of the following:

Defined benefit plan	\$ 412,990,587
Ad hoc COLA/supplemental annuity plan for DB retirees	65,258,484
Ad hoc COLA plan for DCRS retirees	<u>16,247,634</u>
	\$ <u>494,496,705</u>

GDOE's proportion of the GovGuam net pension liabilities was based on projection of GDOE's long-term share of contributions to the pension plans relative to the projected contributions of GovGuam and GovGuam's component units, actuarially determined. At September 30, 2017, GDOE's proportionate shares of the GovGuam net pension liabilities were as follows:

Defined benefit plan	30.18%
Ad hoc COLA/supplemental annuity plan for DB retirees	28.44%
Ad hoc COLA plan for DCRS retirees	26.34%

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2017

(5) Employee Retirement Plans, Continued

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

Pension Expense: For the year ended September 30, 2017, GDOE recognized pension expense from the above pension plans as follows:

Defined benefit plan	\$ 41,814,028
Ad hoc COLA/supplemental annuity plan for DB retirees	4,801,508
Ad hoc COLA plan for DCRS retirees	<u>1,462,131</u>
	\$ <u>48,077,667</u>

Deferred Outflows and Inflows of Resources: At September 30, 2017, GDOE reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Defined Benefit Plan</u>		<u>Ad Hoc COLA/SA Plan for DB Retirees</u>		<u>Ad Hoc COLA Plan for DCRS Retirees</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ 1,360,531	\$ 5,105	\$ -	\$ 176,868	\$ -
Net difference between projected and actual earnings on pension plan investments	-	2,160,141	-	-	-	-
Changes of assumptions	1,175,896	-	67,316	-	1,774,396	-
Contributions subsequent to the measurement date	36,080,363	-	6,719,773	-	442,000	-
Changes in proportion and difference between GDOE contributions and proportionate share of contributions	<u>1,216,017</u>	<u>-</u>	<u>-</u>	<u>84,448</u>	<u>609,913</u>	<u>-</u>
	\$ <u>38,472,276</u>	\$ <u>3,520,672</u>	\$ <u>6,792,194</u>	\$ <u>84,448</u>	\$ <u>3,003,177</u>	\$ <u>-</u>

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2017

(5) Employee Retirement Plans, Continued

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

Deferred outflows resulting from contributions subsequent to measurement date will be recognized as reduction of the net pension liability in the following year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at September 30, 2017 will be recognized in pension expense as follows:

<u>Year Ending</u> <u>September 30</u>	<u>Defined</u> <u>Benefit Plan</u>	<u>Ad Hoc COLA/SA</u> <u>Plan for DB Retirees</u>	<u>Ad Hoc COLA Plan</u> <u>for DCRS Retirees</u>
2018	\$ (3,748,392)	\$ (12,027)	\$ 164,666
2019	1,096,794	-	164,666
2020	3,845,252	-	164,666
2021	(2,322,413)	-	164,666
2022	-	-	164,666
Thereafter	<u>-</u>	<u>-</u>	<u>1,737,847</u>
	<u>\$ (1,128,759)</u>	<u>\$ (12,027)</u>	<u>\$ 2,561,177</u>

Defined Contributions Retirement System (DCRS)

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

Statutory employer contributions for the DCRS plan for the year ended September 30, 2017 are determined using the same rates as the DB Plan. Of the amount contributed by the employer, only 5% of the member's regular pay is deposited into the DCRS. The remaining amount is contributed towards the unfunded liability of the defined benefit plan.

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, 2017, 2016 and 2015 totaled \$33,192,763, \$33,455,686, and \$34,250,423, respectively, which were equal to the required contributions for the respective years then ended. Of these amounts, \$25,949,209, \$26,325,274, and \$27,331,911 were contributed toward the unfunded liability of the DB Plan for the years ended September 30, 2017, 2016 and 2015, respectively.

Public Law 26-86 allows members of the DCRS plan to receive a lump sum payment of one-half of their accumulated sick leave upon retirement. GDOE has accrued an estimated liability of \$11,250,542 at September 30, 2017 for potential future sick leave payments as a result of this law. However, this amount is an estimate and actual payout may be materially different than estimated.

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2017

(5) Employee Retirement Plans, Continued

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

Other Post-Employment Benefits

Plan Description: 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 postemployment medical, dental and life insurance benefits to retirees, spouses, children and survivors. Active employees and retirees who waive medical and dental coverage are considered eligible for the life insurance benefit only. 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.

Funding Policy: GovGuam contributes to the Plan a portion of the medical and dental premiums based on a schedule of semi-monthly rates provided through insurance companies, with GovGuam's contribution amount set each year at renewal. Retirees are also required to pay a portion of the medical and dental insurance premiums. Medical coverage continues to the spouse after the death of the retiree provided the spouse makes the required contributions. Retirees and covered spouses are eligible for a \$10,000 life insurance benefit. Retirees do not share in the cost of this benefit. Monthly life insurance premium is \$15.52 per covered life.

For the years ended September 30, 2017, 2016 and 2015, GDOE reimbursed GovGuam for its contributions to the abovementioned Plan of \$12,670,871, \$12,356,784 and \$11,182,542, respectively, which were equal to the statutorily required contributions.

GDOE's net OPEB obligation at September 30, 2017, 2016 and 2015 for the above mentioned Plan is as follows:

<u>2017</u>	<u>2016</u>	<u>2015</u>
\$ <u>360,793,746</u>	\$ <u>316,215,077</u>	\$ <u>273,301,000</u>

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2017

(5) Employee Retirement Plans, Continued

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

In September 2016, Public Law 33-186 was enacted to create two new retirement plans; the Defined Benefit 1.75 plan (DB 1.75 Plan) and the Guam Retirement Security Plan (GRSP). Beginning 2018, the DB 1.75 plan and GRSP are to become the primary retirement systems for all new hires.

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

The GRSP will be the primary retirement plan for new employees beginning January 1, 2018, unless the employee elects to participate in the DC Plan within 60 days of the employee's hire date. Certain existing and reemployed employees are also provided limited opportunity to participate in the GRSP. Employee contributions are made by mandatory pre-tax payroll deduction at the rate of 6.2% of the employee's base salary. The employer makes matching contributions at the same rate of 6.2% of the employee's base salary.

No actuarial valuation of the DB 1.75 Plan or the GRSP has been performed.

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2017

(6) Appropriations

During the year ended September 30, 2017, appropriations provided to GDOE were as follows:

General Fund:

Public Law 33-185:	
GovGuam General Fund:	
Operations	\$ 200,177,066
Retiree healthcare benefits	12,670,871
Guahan Academy Charter School	4,759,415
iLearn Academy Charter School	3,246,147
Textbooks	1,206,105
First Generation Trust Fund	100,000
Kuantan Salappe Prinsepat	637,198
Chamorro Studies Division	401,207
Secure Our Schools Act	189,103
Lease Agreements:	
Okkodo Expansion	2,936,685
JFK High School lease	5,130,600
Territorial Education Facilities Fund:	
Operations	14,292,724
JFK High School lease	2,061,882
Tiyán lease	10,113,927
Healthy Futures Fund	891,754
Public Library System Fund	825,390
Limited Gaming Fund	544,468
Public Law 34-29:	
GovGuam General Fund:	
School maintenance and repairs	150,000
Public Law 34-26:	
Capital District Fund	430,000
Public Law 28-47:	
Guam Public School Facilities Project Lease	<u>6,665,250</u>
	\$ <u>267,429,792</u>

In addition, Public Law 33-185 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 expenditures. The total of such reimbursements from the U.S. Department of Agriculture during the year ended September 30, 2017 is \$12,349,234, which is accounted for within GDOE's Federal Grants Assistance Fund.

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2017

(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.

On October 1, 2016, the lease commenced the first automatic annual renewal term through September 30, 2026 as stated on the amended lease agreement dated August 1, 2016.

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2017

(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 September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Additional Rental</u>	<u>Total</u>
2018	\$ 3,935,000	\$ 1,690,900	\$ 1,000,000	\$ 6,625,900
2019	4,010,000	1,591,400	1,000,000	6,601,400
2020	3,205,000	1,451,125	1,000,000	5,656,125
2021	3,370,000	1,286,750	1,000,000	5,656,750
2022	3,535,000	1,114,125	1,000,000	5,649,125
2023 – 2027	<u>20,515,000</u>	<u>2,664,875</u>	<u>5,000,000</u>	<u>28,179,875</u>
	<u>\$ 38,570,000</u>	<u>\$ 9,799,175</u>	<u>\$ 10,000,000</u>	<u>\$ 58,369,175</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 JFK High School Project Lease are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Additional Rental</u>	<u>Total</u>
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	1,380,000	3,749,909	1,568,000	6,697,909
2023 – 2027	8,420,000	17,223,147	7,840,000	33,483,147
2028 – 2032	11,710,000	13,931,681	7,840,000	33,481,681
2033 – 2037	16,305,000	9,334,188	7,840,000	33,479,188
2038 – 2041	<u>17,745,000</u>	<u>2,771,656</u>	<u>6,272,000</u>	<u>26,788,656</u>
	<u>\$ 60,340,000</u>	<u>\$ 62,749,281</u>	<u>\$ 37,632,000</u>	<u>\$ 160,721,281</u>

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2017

(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 decrease to \$650,000.

On August 17, 2016 the 2013 Series B COPS was refunded with lease terms decreasing the additional rental from \$1,867,336 to \$650,000 each year.

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

<u>Year ending</u> <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Additional</u> <u>Rental</u>	<u>Total</u>
2018	\$ 950,000	\$ 1,336,685	\$ 650,000	\$ 2,936,685
2019	1,020,000	1,268,960	650,000	2,938,960
2020	1,090,000	1,196,335	650,000	2,936,335
2021	1,170,000	1,118,635	650,000	2,938,635
2022	1,250,000	1,035,335	650,000	2,935,335
2023 – 2027	8,655,000	3,593,450	3,250,000	15,498,450
2028 – 2031	<u>4,853,000</u>	<u>560,700</u>	<u>-</u>	<u>5,413,700</u>
	<u>\$ 18,988,000</u>	<u>\$ 10,110,100</u>	<u>\$ 6,500,000</u>	<u>\$ 35,598,100</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.

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2017

(7) Municipal School Lease Agreements, Continued

D. Tiyan Lease, Continued

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

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

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> <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Additional</u> <u>Rental</u>	<u>Total</u>
2018	\$ 1,951,554	\$ 6,400,740	\$ 1,761,633	\$ 10,113,927
2019	2,066,432	6,202,741	1,844,754	10,113,927
2020	2,206,571	6,034,895	1,872,461	10,113,927
2021	2,355,839	5,877,887	1,880,201	10,113,927
2022	2,388,154	5,801,730	1,924,043	10,113,927
2023 – 2027	14,313,766	26,044,470	10,211,401	50,569,637
2028 – 2032	18,659,907	20,677,188	11,232,541	50,569,636
2033 – 2037	24,797,771	13,416,070	12,355,795	50,569,636
2038 – 2041	<u>13,424,022</u>	<u>3,807,605</u>	<u>5,942,660</u>	<u>23,174,287</u>
	<u>\$ 82,164,016</u>	<u>\$ 94,263,326</u>	<u>\$ 49,025,489</u>	<u>\$ 225,452,831</u>

As of September 30, 2017, \$60,153,208 of the Tiyan properties purchased were occupied. The remaining \$26,995,762 of properties are recorded as of September 30, 2017 and will begin depreciation when such are occupied.

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, 2017

(7) Municipal School Lease Agreements, Continued

Assets acquired through the aforementioned capital leases are as follows:

Asset:	
Buildings	\$ 264,231,836
Less accumulated depreciation	<u>(35,165,490)</u>
	\$ <u>229,066,346</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
New Office	24,587,809
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
Warehouse II	1,360,427
Tiyan Warehouse	806,200
Warehouse/Mezzanine	535,926
Office and Warehouse II	<u>511,600</u>
	\$ <u>264,231,836</u>

During the year ended September 30, 2017, total lease payments of \$26,908,345 were allocated as follows:

<u>Lease</u>	<u>Principal</u>	<u>Interest</u>	<u>Additional Rental</u>	<u>Deposit/Prepayment</u>	<u>Total</u>
Guam Public School Facilities Project	\$ -	\$ 865,125	\$ 1,000,000	\$ 4,800,125	\$ 6,665,250
Tiyan Lease	1,724,648	5,983,612	1,624,093	781,574	10,113,927
JFK High School	1,025,000	4,105,600	2,061,882	-	7,192,482
Okkodo High School Expansion	<u>885,000</u>	<u>1,401,685</u>	<u>650,000</u>	<u>-</u>	<u>2,936,685</u>
	\$ <u>3,634,648</u>	\$ <u>12,356,022</u>	\$ <u>5,335,975</u>	\$ <u>5,581,699</u>	\$ <u>26,908,344</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>
2018	\$ 7,921,554	\$ 13,471,525	\$ 4,979,633	\$ 26,372,712
2019	8,251,432	13,040,001	5,062,754	26,354,187
2020	7,726,571	12,588,905	5,090,461	25,405,937
2021	8,210,839	12,095,322	5,098,201	25,404,362
2022	8,553,154	11,701,099	5,142,043	25,396,296
2023 – 2027	51,903,766	49,525,942	26,301,401	127,731,109
2028 – 2032	35,222,907	35,169,569	19,072,541	89,465,017
2033 – 2037	41,102,771	22,750,258	20,195,795	84,048,824
2038 – 2041	<u>31,169,022</u>	<u>6,579,261</u>	<u>12,214,660</u>	<u>49,962,943</u>
	\$ <u>200,062,016</u>	\$ <u>176,921,882</u>	\$ <u>103,157,489</u>	\$ <u>480,141,387</u>

GUAM DEPARTMENT OF EDUCATION

**REQUIRED SUPPLEMENTARY
INFORMATION**

YEAR ENDED SEPTEMBER 30, 2017

GUAM DEPARTMENT OF EDUCATION

Schedule of Revenues, Expenditures and Changes in Deficit - Budget and Actual
General Fund (Unaudited)
Year Ended September 30, 2017

	Original Budget	Final Budget	Actual - Budgetary Basis	Variance with Final Budget - Positive (Negative)
Revenues:				
Local appropriations:				
Government of Guam General Fund:				
Operations	\$ 200,177,066	\$ 200,177,066	\$ 200,177,066	\$ -
Retiree healthcare benefits	12,670,871	12,670,871	12,670,871	-
Guahan Academy Charter School	4,810,000	4,810,000	4,759,415	(50,585)
iLearn Academy Charter School	3,250,000	3,250,000	3,246,147	(3,853)
Textbooks	1,500,000	1,500,000	1,206,105	(293,895)
Chamorro Studies Division	401,207	401,207	401,207	-
JFK High School Lease	5,130,600	5,130,600	5,130,600	-
Okkodo High School Expansion Lease	2,284,685	2,284,685	2,936,685	652,000
Kuantan Salappe Prinsepat	1,081,000	1,081,000	637,198	(443,802)
First Generation Trust Fund	100,000	100,000	100,000	-
Secure Our Schools Act	-	-	189,103	189,103
School maintenance and repairs	-	150,000	150,000	-
Territorial Educational Facilities Fund:				
Operations	15,950,831	15,950,831	14,292,724	(1,658,107)
JFK High School Lease-Additional rental and GRT	1,568,000	1,568,000	2,061,882	493,882
Tiyan Lease	10,113,927	10,113,927	10,113,927	-
Healthy Futures Fund:				
Interscholastic sports	612,000	612,000	612,000	-
Health and Physical Education Activities	279,754	279,754	279,754	-
Public Library System Fund	907,668	907,668	825,390	(82,278)
Limited Gaming Fund	633,936	633,936	544,468	(89,468)
Capitol District Fund	-	430,000	430,000	-
Guam Public School Facilities Project	6,665,250	6,665,250	6,665,250	-
Fees and other program receipts	-	-	351,533	351,533
Federal grants and contributions	-	-	4,458,316	4,458,316
Contributions from component units	-	450,000	-	(450,000)
Cafeteria sales	-	-	146,591	146,591
Total revenues	268,136,795	269,166,795	272,386,232	3,219,437
Expenditures - Budgetary Basis:				
Elementary Education	76,377,006	73,752,794	74,872,643	(1,119,849)
Secondary Education	90,548,664	86,016,553	87,921,954	(1,905,401)
Direct Student Support	19,746,463	17,193,331	16,472,762	720,569
General Administration	42,569,679	46,298,686	37,653,072	8,645,614
Retiree healthcare benefits	12,670,870	12,670,870	12,670,871	(1)
Guahan Academy Charter School	4,810,000	4,810,000	4,759,415	50,585
iLearn Academy Charter School	3,250,000	3,250,000	3,246,147	3,853
Debt service:				
Okkodo Expansion Lease	2,284,685	2,936,686	4,801,810	(1,865,124)
Tiyan Lease	10,113,927	10,113,927	10,113,927	-
JFK High School Lease	6,968,600	6,698,600	7,192,482	(493,882)
Capital projects:				
Capital lease acquisition	-	26,995,762	26,995,762	-
Total expenditures	269,339,894	290,737,209	286,700,845	4,036,364
Excess (deficiency) of revenues over (under) expenditures	(1,203,099)	(21,570,414)	(14,314,613)	7,255,801
Other financing sources:				
Capital lease	-	26,995,762	26,995,762	-
Transfers in	-	-	990,603	990,603
Total other financing sources (uses), net	-	26,995,762	27,986,365	990,603
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 reporting purposes	1,292,374	1,292,374	3,861,140	2,568,766
Net change in fund deficit	\$ 89,275	\$ 6,717,722	\$ 17,532,892	\$ 10,815,170

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

GUAM DEPARTMENT OF EDUCATION

Notes to the Required Supplementary Information – Budgetary Reporting
September 30, 2017

(1) Budgetary Process

The Budget Act for fiscal year 2017, Public Law No. 33-185, was approved for the Executive branch and the Legislative branch. Supplemental appropriations were also provided through Public Law 33-07, 34-26 and 34-29. Budgets for Special Revenue Funds are generally not submitted. Accordingly, a budget to actual presentation for Special Revenue Funds is not required or presented. Project length financial plans are adopted for capital projects funds.

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

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

See Accompanying Independent Auditors' Report.

GUAM DEPARTMENT OF EDUCATION

Schedule of Funding Progress and Actuarial Accrued Liability - Post-Employment Benefits
Other than Pensions (Unaudited)

The Schedule of Funding Progress presents GASB 45 results of OPEB valuations as of fiscal years ended September 30, 2015, 2011, and 2007 for GovGuam's Post Employment Benefits other than Pensions. The schedule provides an information trend about whether the actuarial values of Plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
October 1, 2007	\$ -	\$ 255,131,000	\$ 255,131,000	0.0%	\$ 141,047,226	180.9%
October 1, 2011	\$ -	\$ 382,476,000	\$ 382,476,000	0.0%	\$ 148,090,145	258.3%
October 1, 2015	\$ -	\$ 582,457,794	\$ 582,457,794	0.0%	\$ 156,567,807	372.0%

See Accompanying Independent Auditors' Report.

GUAM DEPARTMENT OF EDUCATION

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

Defined Benefit Plan

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total net pension liability	\$ 1,368,645,126	\$ 1,436,814,230	\$ 1,246,306,754	\$ 1,303,304,636
GDOE's proportionate share of the net pension liability	\$ 412,990,587	\$ 428,094,817	\$ 362,292,905	\$ 400,356,244
GDOE's proportion of the net pension liability	30.18%	29.79%	29.07%	30.72%
GDOE's covered-employee payroll**	\$ 152,783,459	\$ 152,360,205	\$ 146,783,499	\$ 141,412,148
GDOE's proportionate share of the net pension liability as percentage of its covered employee payroll	270.31%	280.98%	246.82%	283.11%
Plan fiduciary net position as a percentage of the total pension liability	54.62%	52.32%	56.60%	53.94%

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

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

See Accompanying Independent Auditors' Report.

GUAM DEPARTMENT OF EDUCATION

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

Ad Hoc COLA/Supplemental Annuity Plan for DB Retirees

	<u>2017</u>	<u>2016</u>
Total net pension liability***	\$ 229,486,687	\$ 235,799,709
GDOE's proportionate share of the net pension liability	\$ 65,258,484	\$ 67,420,706
GDOE's proportion of the net pension liability	28.44%	28.59%
GDOE's covered-employee payroll**	\$ 143,981,444	\$ 146,211,735
GDOE's proportionate share of the net pension liability as percentage of its covered employee payroll	45.32%	46.11%

* 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.

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

See Accompanying Independent Auditors' Report.

GUAM DEPARTMENT OF EDUCATION

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

Ad Hoc COLA Plan for DCRS Retirees

	<u>2017</u>	<u>2016</u>
Total net pension liability***	\$ 61,688,067	\$ 52,115,736
GDOE's proportionate share of the net pension liability	\$ 16,247,634	\$ 13,924,782
GDOE's proportion of the net pension liability	26.34%	26.72%
GDOE's covered-employee payroll**	\$ 96,153,385	\$ 95,091,577
GDOE's proportionate share of the net pension liability as percentage of its covered employee payroll	16.90%	14.64%

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

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

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

See Accompanying Independent Auditors' Report.

GUAM DEPARTMENT OF EDUCATION

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Statutorily required contribution	\$ 36,080,363	\$ 37,566,363	\$ 40,161,339	\$ 39,572,248
Contributions in relation to the statutorily required contribution	<u>37,543,748</u>	<u>40,075,800</u>	<u>38,983,955</u>	<u>37,458,482</u>
Contribution (excess) deficiency	<u>\$ (1,463,385)</u>	<u>\$ (2,509,437)</u>	<u>\$ 1,177,384</u>	<u>\$ 2,113,766</u>
GDOE's covered-employee payroll **	<u>\$ 152,783,459</u>	<u>\$ 152,360,205</u>	<u>\$ 146,783,499</u>	<u>\$ 141,412,148</u>
Contribution as a percentage of covered-employee payroll	24.57%	26.30%	26.56%	26.49%

* 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

**OTHER SUPPLEMENTARY
INFORMATION**

YEAR ENDED SEPTEMBER 30, 2017

GUAM DEPARTMENT OF EDUCATION

Statements of Net Position - Governmental Activities
September 30, 2017
(With Comparative Totals as of September 30, 2016)

<u>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u>	<u>2017</u>	<u>2016</u>
Current assets:		
Cash and cash equivalents	\$ 12,372,154	\$ 12,941,047
Receivables from federal agencies	9,892,482	8,334,728
Due from primary government	1,526,707	1,600,007
Due from component units	-	304,167
Prepayments and other assets	870,151	749,477
Deposit	4,800,125	-
Restricted assets:		
Cash and cash equivalents	726,931	224,667
Total current assets	<u>30,188,550</u>	<u>24,154,093</u>
Noncurrent assets:		
Deferred maintenance and insurance costs	1,125,000	1,250,000
Capital assets:		
Nondepreciable capital assets	1,004,123	-
Depreciable capital assets, net of accumulated depreciation	366,613,519	351,983,112
Total noncurrent assets	<u>368,742,642</u>	<u>353,233,112</u>
Total assets	<u>398,931,192</u>	<u>377,387,205</u>
Deferred outflows of resources:		
Deferred outflows from pension	48,267,647	64,880,456
	<u>\$ 447,198,839</u>	<u>\$ 442,267,661</u>
 <u>LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</u>		
Current liabilities:		
Accounts payable	\$ 9,059,374	\$ 16,796,087
Accrued payroll	8,314,967	8,435,549
Other liabilities and accruals	5,403,081	7,329,515
Payable to federal agencies	1,758,754	3,719,200
Current portion of obligation under capital lease	7,921,554	7,335,098
Current portion of compensated absences payable	380,986	271,647
Total current liabilities	<u>32,838,716</u>	<u>43,887,096</u>
Noncurrent liabilities:		
Net pension liability	494,496,705	509,440,305
Compensated absences payable, net of current portion	4,379,336	4,580,982
Accrued sick leave liability	11,250,542	10,790,490
Obligation under capital lease, net of current portion	192,140,462	173,870,805
Total noncurrent liabilities	<u>702,267,045</u>	<u>698,682,582</u>
Total liabilities	<u>735,105,761</u>	<u>742,569,678</u>
Deferred inflows of resources:		
Deferred inflows from pension	3,605,120	356,788
	<u>738,710,881</u>	<u>742,926,466</u>
Commitments and contingencies		
<u>NET POSITION</u>		
Net investment in capital assets	167,555,626	170,777,209
Restricted for:		
CIP, technology and equipment projects	73,105	224,667
First Generation Trust Fund Initiative	653,826	550,183
Maintenance and insurance costs	1,125,000	1,250,000
Capital lease obligation	4,800,125	-
Unrestricted	<u>(465,719,724)</u>	<u>(473,460,864)</u>
Total net position	<u>(291,512,042)</u>	<u>(300,658,805)</u>
	<u>\$ 447,198,839</u>	<u>\$ 442,267,661</u>

See Accompanying Independent Auditors' Report.

GUAM DEPARTMENT OF EDUCATION

Statement of Activities - Governmental Activities
 Year Ended September 30, 2017
 (With Comparative Totals for the Year Ended September 30, 2016)

	<u>2017</u>	<u>2016</u>
Program revenues:		
Elementary Education	\$ 4,122	\$ 25,947
Secondary Education	801,094	1,099,642
Direct Student Support	56,533,599	54,065,921
General Administration	7,783,375	3,299,510
Retiree healthcare benefits	12,670,871	12,356,784
Charter Schools	8,005,562	5,775,000
First Generation Trust Fund Initiative	-	550,000
	<u>85,798,623</u>	<u>77,172,804</u>
Expenses:		
Elementary Education	79,081,253	84,559,876
Secondary Education	110,010,904	118,925,586
Direct Student Support	71,905,022	70,570,017
General Administration	41,731,607	43,102,575
Retiree healthcare benefits	12,670,871	12,356,784
Charter Schools	8,005,562	5,775,000
	<u>323,405,219</u>	<u>335,289,838</u>
Total expenses for governmental activities	<u>323,405,219</u>	<u>335,289,838</u>
Net expense	<u>(237,606,596)</u>	<u>(258,117,034)</u>
General revenues:		
Appropriations:		
Operations	245,547,254	244,787,893
Textbooks	1,206,105	12,778
	<u>246,753,359</u>	<u>244,800,671</u>
Total general revenues	<u>246,753,359</u>	<u>244,800,671</u>
Change in net position	9,146,763	(13,316,363)
Net position at beginning of year	<u>(300,658,805)</u>	<u>(287,342,442)</u>
Net position at end of year	\$ <u><u>(291,512,042)</u></u>	\$ <u><u>(300,658,805)</u></u>

See Accompanying Independent Auditors' Report.

GUAM DEPARTMENT OF EDUCATION

Balance Sheets
 Governmental Funds
 September 30, 2017
 (With Comparative Totals as of September 30, 2016)

ASSETS	2017			2016		
	General	Federal Grants Assistance	Total	General	Federal Grants Assistance	Total
Cash and cash equivalents	\$ 11,813,973	\$ 558,181	\$ 12,372,154	\$ 6,434,158	\$ 6,506,889	\$ 12,941,047
Receivables from federal agencies	-	9,892,482	9,892,482	-	8,334,728	8,334,728
Due from primary government	1,526,707	-	1,526,707	1,600,007	-	1,600,007
Due from component units	-	-	-	304,167	-	304,167
Prepayments and other assets	88,577	-	88,577	180,555	33,088	213,643
Deposit	4,800,125	-	4,800,125	-	-	-
Due from other funds	2,576,855	-	2,576,855	2,148,530	-	2,148,530
Restricted assets:						
Cash and cash equivalents	726,931	-	726,931	224,667	-	224,667
Total assets	\$ 21,533,168	\$ 10,450,663	\$ 31,983,831	\$ 10,892,084	\$ 14,874,705	\$ 25,766,789
LIABILITIES AND FUND BALANCES (DEFICIT)						
Liabilities:						
Accounts payable	\$ 6,611,424	\$ 2,447,950	\$ 9,059,374	\$ 13,833,342	\$ 2,962,745	\$ 16,796,087
Accrued payroll	7,041,627	1,273,340	8,314,967	7,084,184	1,351,365	8,435,549
Other liabilities and accruals	3,009,317	2,393,764	5,403,081	2,636,650	4,692,865	7,329,515
Payable to federal agencies	-	1,758,754	1,758,754	-	3,719,200	3,719,200
Due to other funds	-	2,576,855	2,576,855	-	2,148,530	2,148,530
Total liabilities	16,662,368	10,450,663	27,113,031	23,554,176	14,874,705	38,428,881
Fund balances (deficit):						
Restricted	5,527,056	-	5,527,056	774,850	-	774,850
Unassigned	(656,256)	-	(656,256)	(13,436,942)	-	(13,436,942)
Total fund balances (deficit)	4,870,800	-	4,870,800	(12,662,092)	-	(12,662,092)
Total liabilities and fund balances (deficit)	\$ 21,533,168	\$ 10,450,663	\$ 31,983,831	\$ 10,892,084	\$ 14,874,705	\$ 25,766,789

See Accompanying Independent Auditors' Report.

GUAM DEPARTMENT OF EDUCATION

Reconciliations of the Governmental Funds Balance Sheet to the Statement of Net Position
September 30, 2017
(With Comparative Totals as of September 30, 2016)

	<u>2017</u>	<u>2016</u>
Total fund balance - governmental funds	\$ 4,870,800	\$ (12,662,092)
Amounts reported for governmental activities in the statements of net position are different because:		
Prepayment of capital lease obligations in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	781,574	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.	1,125,000	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	\$ 513,385,028	486,389,266
Vehicles, furniture and equipment	13,353,657	14,037,931
Construction in progress	1,004,123	-
Accumulated depreciation	<u>(160,125,166)</u>	<u>(148,444,085)</u>
Capital assets, net of accumulated depreciation	367,617,642	351,983,112
Deferred outflows related to pensions benefit future periods and are not reported in the governmental funds.	48,267,647	64,880,456
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	(494,496,705)	(509,440,305)
Accrued sick leave liability	(11,250,542)	(10,790,490)
Compensated absences payable	(4,760,322)	(4,852,629)
Obligations under capital lease	<u>(200,062,016)</u>	<u>(181,205,903)</u>
Long-term liabilities	(710,569,585)	(706,289,327)
Deferred inflows related to pensions benefit future periods and are not reported in the governmental funds.	<u>(3,605,120)</u>	<u>(356,788)</u>
Net position of governmental activities	\$ <u><u>(291,512,042)</u></u>	\$ <u><u>(300,658,805)</u></u>

See Accompanying Independent Auditors' Report.

GUAM DEPARTMENT OF EDUCATION

Statements of Revenues, Expenditures and Changes in Fund Balances (Deficit)
Governmental Funds
Year Ended September 30, 2017
(With Comparative Totals for the Year Ended September 30, 2016)

	2017			2016		
	General	Federal Grants Assistance	Total	General	Federal Grants Assistance	Total
Revenues:						
Appropriations	\$ 267,429,792	\$ -	\$ 267,429,792	\$ 254,441,455	\$ 8,591,000	\$ 263,032,455
Federal grants and contributions	4,458,316	59,987,001	64,445,317	425,584	56,449,204	56,874,788
Contributions from component units	-	-	-	450,000	-	450,000
Cafeteria sales	146,591	-	146,591	199,734	-	199,734
Fees and other program receipts	351,533	178,749	530,282	1,141,118	275,380	1,416,498
Total revenues	272,386,232	60,165,750	332,551,982	256,657,891	65,315,584	321,973,475
Expenditures:						
Current:						
Elementary Education	74,640,441	4,122	74,644,563	77,315,884	25,947	77,341,831
Secondary Education	87,386,744	801,094	88,187,838	87,764,423	1,099,642	88,864,065
Direct Student Support	15,974,242	54,836,301	70,810,543	16,150,163	53,879,372	70,029,535
General Administration	35,057,864	3,533,630	38,591,494	37,430,759	1,826,532	39,257,291
Retiree healthcare benefits	12,670,871	-	12,670,871	12,356,784	-	12,356,784
Guahan Academy Charter School	4,759,415	-	4,759,415	3,300,000	-	3,300,000
iLearn Academy Charter School	3,246,147	-	3,246,147	2,475,000	-	2,475,000
Debt service:						
Lease payments	22,108,219	-	22,108,219	20,031,291	7,100,000	27,131,291
Capital projects:						
Capital lease acquisition	26,995,762	-	26,995,762	4,947,008	-	4,947,008
Total expenditures	282,839,705	59,175,147	342,014,852	261,771,312	63,931,493	325,702,805
Excess (deficiency) of revenues over (under) expenditures	(10,453,473)	990,603	(9,462,870)	(5,113,421)	1,384,091	(3,729,330)
Other financing sources (uses):						
Transfers in	990,603	-	990,603	1,384,091	-	1,384,091
Transfers out	-	(990,603)	(990,603)	-	(1,384,091)	(1,384,091)
Capital lease	26,995,762	-	26,995,762	4,947,008	-	4,947,008
Total other financing sources (uses), net	27,986,365	(990,603)	26,995,762	6,331,099	(1,384,091)	4,947,008
Net change in fund balances	17,532,892	-	17,532,892	1,217,678	-	1,217,678
Fund balances (deficit) at beginning of year	(12,662,092)	-	(12,662,092)	(13,879,770)	-	(13,879,770)
Fund balances (deficit) at end of year	\$ 4,870,800	\$ -	\$ 4,870,800	\$ (12,662,092)	\$ -	\$ (12,662,092)

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, 2017
(With Comparative Totals for the Year Ended September 30, 2016)

	<u>2017</u>	<u>2016</u>
Total net change in fund balances - governmental funds	\$ 17,532,892	\$ 1,217,678
Amounts reported for governmental activities in the statements of activities are different because:		
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.	15,634,530	(5,866,393)
Prepayment of capital lease obligations in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	120,740	(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. This amount is the net effect of these differences in the treatment of long-term debt.	(18,856,113)	2,047,047
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.	<u>(5,285,286)</u>	<u>(10,558,029)</u>
Change in net position of governmental activities	\$ <u>9,146,763</u>	\$ <u>(13,316,363)</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, 2017
 (With Comparative Totals for the Year Ended September 30, 2016)

	2017			2016		
	General	Federal Grants Assistance	Total	General	Federal Grants Assistance	Total
Revenues:						
Local appropriations	\$ 267,429,792	\$ 0	\$ 267,429,792	\$ 254,441,455	\$ 8,591,000	\$ 263,032,455
Federal grants and contributions	4,458,316	59,987,001	64,445,317	425,584	56,449,204	56,874,788
Contributions from component units	-	-	-	450,000	-	450,000
Cafeteria sales	146,591	-	146,591	199,734	-	199,734
Fees and other program receipts	351,533	178,749	530,282	1,141,118	275,380	1,416,498
Total revenues	272,386,232	60,165,750	332,551,982	256,657,891	65,315,584	321,973,475
Expenditures:						
Salaries and wages	132,224,567	23,669,919	155,894,486	133,712,681	24,728,034	158,440,715
Benefits	46,235,539	8,875,330	55,110,869	47,315,423	8,836,059	56,151,482
Capital lease acquisition	26,995,762	-	26,995,762	4,947,008	-	4,947,008
Capital lease payments	22,108,219	-	22,108,219	20,031,291	7,100,000	27,131,291
Contractual	10,104,420	9,148,731	19,253,151	14,629,895	5,543,994	20,173,889
Food management contract	5,723,094	11,363,822	17,086,916	5,107,303	10,874,195	15,981,498
Retiree healthcare benefits	12,670,871	-	12,670,871	12,356,784	-	12,356,784
Power	11,245,796	-	11,245,796	10,036,742	958,475	10,995,217
Guahan Academy Charter School	4,759,415	-	4,759,415	3,300,000	-	3,300,000
Equipment	930,763	2,792,078	3,722,841	1,646,768	739,520	2,386,288
Water	3,588,774	-	3,588,774	2,616,199	-	2,616,199
Supplies	1,730,435	1,724,586	3,455,021	1,159,847	2,257,391	3,417,238
iLearn Academy Charter School	3,246,147	-	3,246,147	2,475,000	-	2,475,000
Travel	380,367	617,486	997,853	452,544	747,733	1,200,277
Indirect costs	-	912,045	912,045	-	1,223,268	1,223,268
Phone	204,549	-	204,549	328,486	-	328,486
Library books and equipment	193,426	-	193,426	534,311	3,120	537,431
Fuel	149,627	-	149,627	133,223	-	133,223
Capital outlay	-	71,150	71,150	967,973	806,553	1,774,526
Textbooks	56,925	-	56,925	13,152	113,133	126,285
Miscellaneous	291,009	-	291,009	6,682	18	6,700
Total expenditures	282,839,705	59,175,147	342,014,852	261,771,312	63,931,493	325,702,805
Excess (deficiency) of revenues over (under) expenditures	(10,453,473)	990,603	(9,462,870)	(5,113,421)	1,384,091	(3,729,330)
Other financing sources (uses):						
Transfers in	990,603	-	990,603	1,384,091	-	1,384,091
Transfers out	-	(990,603)	(990,603)	-	(1,384,091)	(1,384,091)
Capital lease	26,995,762	-	26,995,762	4,947,008	-	4,947,008
Total other financing sources (uses), net	27,986,365	(990,603)	26,995,762	6,331,099	(1,384,091)	4,947,008
Net change in fund balances (deficit)	17,532,892	-	17,532,892	1,217,678	-	1,217,678
Fund balances (deficit) at beginning of year	(12,662,092)	-	(12,662,092)	(13,879,770)	-	(13,879,770)
Fund balances (deficit) at end of year	\$ 4,870,800	\$ -	\$ 4,870,800	\$ (12,662,092)	\$ -	\$ (12,662,092)

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, 2017
 (With Comparative Totals for the Year Ended September 30, 2016)

	2017				2016			
	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	\$ 200,177,066	\$ 200,177,066	\$ 200,177,066	\$ -	\$ 205,347,095	\$ 205,347,095	\$ 202,153,189	\$ (3,193,906)
Retiree healthcare benefits	12,670,871	12,670,871	12,670,871	-	12,356,784	12,356,784	12,356,784	-
Guahan Academy Charter School	4,810,000	4,810,000	4,759,415	(50,585)	3,300,000	3,300,000	3,300,000	-
iLearn Academy Charter School	3,250,000	3,250,000	3,246,147	(3,853)	2,475,000	2,475,000	2,475,000	-
JFK High School Lease	5,130,600	5,130,600	5,130,600	-	5,127,850	5,127,850	5,127,850	-
Tiyan Lease	-	-	-	-	-	3,287,233	3,287,233	-
Okkodo High School Expansion	2,284,685	2,284,685	2,936,685	652,000	2,358,835	2,358,835	2,284,685	(74,150)
Textbooks	1,500,000	1,500,000	1,206,105	(293,895)	1,500,000	1,500,000	12,558	(1,487,442)
Kuantan Salappe Prinsepap	1,081,000	1,081,000	637,198	(443,802)	1,081,000	1,081,000	658,249	(422,751)
Chamorro studies division	401,207	401,207	401,207	-	461,207	461,207	364,874	(96,333)
Secure Our Schools Act	-	-	189,103	189,103	-	-	561,471	561,471
First Generation Trust Fund	100,000	100,000	100,000	-	100,000	100,000	100,000	-
School maintenance and repairs	-	150,000	150,000	-	-	-	-	-
Web-based electronic directory	-	-	-	-	15,000	15,000	-	(15,000)
Territorial Education Facilities Fund:								
Operations	15,950,831	15,950,831	14,292,724	(1,658,107)	10,722,934	10,722,934	10,232,346	(490,588)
Tiyan Lease	10,113,927	10,113,927	10,113,927	-	7,272,936	7,272,936	7,272,935	(1)
JFK High School Lease	1,568,000	1,568,000	2,061,882	493,882	1,568,000	1,568,000	2,058,588	490,588
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	907,668	907,668	825,390	(82,278)	871,983	871,983	871,983	-
Limited Gaming Fund	633,936	633,936	544,468	(89,468)	-	-	-	-
Capitol District Fund	-	430,000	430,000	-	-	-	-	-
Guam Public School Facilities Project	6,665,250	6,665,250	6,665,250	-	-	-	-	-
Government of Guam 2008 bond proceeds	-	-	-	-	-	-	431,956	431,956
Fees and other program receipts	-	-	351,533	351,533	-	-	1,141,118	1,141,118
Federal grants and contributions	-	-	4,458,316	4,458,316	-	-	425,584	425,584
Contributions from component units	-	450,000	-	(450,000)	-	-	450,000	450,000
Cafeteria sales	-	-	146,591	146,591	-	-	199,734	199,734
Total revenues	268,136,795	269,166,795	272,386,232	3,219,437	255,450,378	258,737,611	256,657,891	(2,079,720)
Expenditures - Budgetary Basis:								
Personnel	195,165,099	180,036,868	178,460,106	1,576,762	191,532,699	193,939,497	181,021,952	12,917,545
Contractual	23,102,951	22,294,732	18,361,268	3,933,464	15,662,968	27,396,057	20,783,669	6,612,388
Utilities	4,018,784	15,303,324	15,042,306	261,018	4,301,899	13,955,355	12,996,880	958,475
Retiree healthcare benefits	12,670,870	12,670,870	12,670,870	-	5,107,303	5,107,303	5,107,303	-
Tiyan Lease	10,113,927	10,113,927	10,113,927	-	-	10,560,168	10,560,168	-
JFK High School Lease	6,968,600	6,698,600	7,192,482	(493,882)	-	7,186,438	7,186,438	-
Guahan Academy Charter School	4,810,000	4,810,000	4,759,415	50,585	-	3,300,000	3,300,000	-
Supplies/equipment	3,875,452	3,471,568	4,090,650	(619,082)	2,843,519	3,933,616	2,798,370	1,135,246
iLearn Academy Charter School	3,250,000	3,250,000	3,246,147	3,853	-	2,475,000	2,475,000	-
Okkodo Expansion Lease	2,284,685	2,936,686	4,801,810	(1,865,124)	-	2,284,685	2,284,685	-
Capital projects	181,867	-	237,800	(237,800)	158,620	16,128,138	968,075	15,160,063
Textbooks	1,759,037	1,090,671	56,925	1,033,746	3,814,291	1,178,315	919,278	259,037
Tiyan lease acquisitions	-	26,995,762	26,995,762	-	-	4,947,008	4,947,008	-
Other	1,138,622	1,064,201	671,377	392,824	763,955	6,849,549	465,379	6,384,170
Total expenditures	269,339,894	290,737,209	286,700,845	4,036,364	224,185,254	299,241,129	255,814,205	43,426,924
Excess (deficiency) of revenues over (under) expenditures	(1,203,099)	(21,570,414)	(14,314,613)	7,255,801	31,265,124	(40,503,518)	843,686	41,347,204
Other financing sources:								
Capital lease	-	26,995,762	26,995,762	-	-	4,947,008	4,947,008	-
Transfer in	-	-	990,603	990,603	-	-	1,384,091	1,384,091
Total other financing sources	-	26,995,762	27,986,365	990,603	-	4,947,008	6,331,099	1,384,091
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	1,292,374	1,292,374	3,861,140	2,568,766	2,971,090	2,971,090	1,292,374	(1,678,716)
Net change in fund deficit	\$ 89,275	\$ 6,717,722	\$ 17,532,892	\$ 10,815,170	\$ 34,236,214	\$ (32,585,420)	\$ 8,467,159	\$ 41,052,579

See Accompanying Independent Auditors' Report.

GUAM DEPARTMENT OF EDUCATION

Combining Schedule of Balance Sheet Accounts
General Fund
September 30, 2017

<u>ASSETS</u>	<u>Operations</u>	<u>First Generation Trust Fund Initiative</u>	<u>Total</u>
Cash and cash equivalents	\$ 11,813,973	\$ -	\$ 11,813,973
Due from primary government	1,526,707	-	1,526,707
Prepayments and other assets	88,577	-	88,577
Deposit	4,800,125	-	4,800,125
Due from other funds	2,576,855	-	2,576,855
Restricted assets:			
Cash and cash equivalents	<u>73,105</u>	<u>653,826</u>	<u>726,931</u>
Total assets	<u>\$ 20,879,342</u>	<u>\$ 653,826</u>	<u>\$ 21,533,168</u>
 <u>LIABILITIES AND FUND BALANCES (DEFICIT)</u>			
Liabilities:			
Accounts payable	\$ 6,611,424	\$ -	\$ 6,611,424
Accrued payroll	7,041,627	-	7,041,627
Other liabilities and accruals	<u>3,009,317</u>	<u>-</u>	<u>3,009,317</u>
Total liabilities	<u>16,662,368</u>	<u>-</u>	<u>16,662,368</u>
Fund balances (deficit):			
Restricted	4,873,230	653,826	5,527,056
Unassigned	<u>(656,256)</u>	<u>-</u>	<u>(656,256)</u>
Total fund balances	<u>4,216,974</u>	<u>653,826</u>	<u>4,870,800</u>
Total liabilities and fund balances (deficit)	<u>\$ 20,879,342</u>	<u>\$ 653,826</u>	<u>\$ 21,533,168</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, 2017

	<u>Operations</u>	<u>First Generation Trust Fund Initiative</u>	<u>Total</u>
Revenues:			
Appropriations	\$ 267,329,792	\$ 100,000	\$ 267,429,792
Federal grants and contributions	4,458,316	-	4,458,316
Cafeteria sales	146,591	-	146,591
Fees and other program receipts	<u>347,890</u>	<u>3,643</u>	<u>351,533</u>
 Total revenues	 <u>272,282,589</u>	 <u>103,643</u>	 <u>272,386,232</u>
Expenditures:			
Elementary Education	74,640,441	-	74,640,441
Secondary Education	87,386,744	-	87,386,744
Direct Student Support	15,974,242	-	15,974,242
General Administration	35,057,864	-	35,057,864
Retiree healthcare benefits	12,670,871	-	12,670,871
Guahan Academy Charter School	4,759,415	-	4,759,415
iLearn Academy Charter School	3,246,147	-	3,246,147
Debt service:			
Lease payments	22,108,219	-	22,108,219
Capital projects:			
Capital lease acquisition	<u>26,995,762</u>	<u>-</u>	<u>26,995,762</u>
 Total expenditures	 <u>282,839,705</u>	 <u>-</u>	 <u>282,839,705</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(10,557,116)</u>	<u>103,643</u>	<u>(10,453,473)</u>
Other financing sources:			
Transfers in	990,603	-	990,603
Capital leases	<u>26,995,762</u>	<u>-</u>	<u>26,995,762</u>
Total other financing sources	<u>27,986,365</u>	<u>-</u>	<u>27,986,365</u>
Net change in fund balances	<u>17,429,249</u>	<u>103,643</u>	<u>17,532,892</u>
Fund balances (deficit) at beginning of year	<u>(13,212,275)</u>	<u>550,183</u>	<u>(12,662,092)</u>
Fund balances at end of year	\$ <u>4,216,974</u>	\$ <u>653,826</u>	\$ <u>4,870,800</u>

See Accompanying Independent Auditors' Report.

GUAM DEPARTMENT OF EDUCATION

Agency Fund
September 30, 2017

The schedule of cash receipts and cash disbursements for the agency fund during fiscal year 2017 is as follows:

	<u>NAF</u>
Cash balance at beginning of year	\$ <u>600,501</u>
Cash receipts:	
Elementary school activities	402,676
Secondary school activities	<u>1,430,311</u>
Total receipts	<u>1,832,987</u>
Cash disbursements:	
Elementary school activities	372,714
Secondary school activities	<u>1,326,968</u>
Total disbursements	<u>1,699,682</u>
Cash balance at end of year	\$ <u>733,806</u>

The number of individual funds at the schools during fiscal year 2017 is as follows:

Elementary schools	286
Secondary schools	447

See Accompanying Independent Auditors' Report.

GUAM DEPARTMENT OF EDUCATION

Personnel
September 30, 2017 and 2016

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

	Employee Count as of PPE <u>September 30, 2017</u>	Employee Count as of PPE <u>October 3, 2016</u>
100% Locally Funded	2,970	3,027
100% Federally Funded	819	875
Locally/Federally Funded	<u>52</u>	<u>6</u>
Total Employee Count	<u>3,841</u>	<u>3,908</u>

Due to concerns that the future funding level of federal grants would be reduced, GDOE did not fill a number of federally funded vacancies in FY17. Additionally, at the beginning of SY17-18, there were some unanticipated delays in hiring certain federally funded positions. As shown above, the number of federally funded employees reduced by 56 between FY16 and FY17.

The "Locally/Federally Funded" employees are locally funded teachers who also participate in the ASPIRE after school project; on top of their teacher salaries, they were paid as part time employees using federal funds for their work in the ASPIRE project. In FY16, the program started later in the school year, SY16-17, and the 6 employees listed above represent teachers who also were also ASPIRE coordinators. The 52 employees in FY17 represent both ASPIRE teachers and coordinators. Over all, the number of locally funded employees (combining "100% Locally Funded" and "Locally/Federally Funded") reduced by 11 between FY16 and FY17.

See Accompanying Independent Auditors' Report.