

**GUAM DEPARTMENT OF EDUCATION**

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

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

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**YEAR ENDED SEPTEMBER 30, 2013**

**GUAM DEPARTMENT OF EDUCATION**

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## **INDEPENDENT AUDITORS' REPORT**

Mr. Jon Fernandez  
Superintendent  
Guam Department of Education

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Guam Department of Education (GDOE), a line agency of the Government of Guam (GovGuam), as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise GDOE's basic financial statements as set forth in Section III of the forgoing table of contents.

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

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

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

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

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

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

## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund information of the Guam Department of Education as of September 30, 2013, and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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

As discussed in Note 1A, the financial statements of GDOE are intended to present the financial position and the changes in financial position of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of GovGuam that is attributable to the transactions of GDOE. They do not purport to, and do not, present fairly the financial position of GovGuam as of September 30, 2013 and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### ***Emphasis of Matter - Accounting Pronouncements***

As described in Note 1V to the financial statements, during the year ended September 30, 2013, GDOE has implemented Governmental Accounting Standards Board (GASB), Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The beginning net position of the governmental activities has been restated as a result of adopting these accounting pronouncements. Our opinion is not modified with respect to this matter.

## ***Other Matters***

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

Accounting principles generally accepted in the United States of America require the Management's Discussion and Analysis on pages 4 through 13, the Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund and notes thereto, on pages 41 and 42, and the Schedule of Funding Progress – Post Employment Benefits Other than Pension, on page 43 be presented to supplement the basic financial statements. Such information, although are not a part of the basic financial statements, is required by the GASB who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the Management's Discussion and Analysis on pages 4 through 13, and the Schedule of Funding Progress – Post Employment Benefits Other than Pension, on page 43, in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information, comparing the information for consistency with management's responses to our inquiries of the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund and notes thereto, on pages 41 and 42, was subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund and notes thereto, on pages 41 and 42 are fairly stated in all material respects in relation to the basic financial statements as a whole.

### *Other Information*

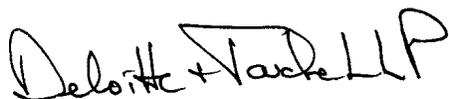
Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise GDOE's basic financial statements. The Other Supplementary Information, as set forth in Section V of the foregoing table of contents, is presented for purposes of additional analysis and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

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2014, on our consideration of GDOE's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering GDOE's internal control over financial reporting and compliance.

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

June 26, 2014

# GUAM DEPARTMENT OF EDUCATION

## Management's Discussion and Analysis Year Ended September 30, 2013

### INTRODUCTION

The following Management's Discussion and Analysis (MD & A) provides an overview of the financial activities of the Guam Department of Education (GDOE), an agency within the Government of Guam, which is primarily funded through the General Fund. GDOE's policies are established by a combination of elected and Governor-appointed board members and headed by the Superintendent of Education selected by the Board. GDOE operates 26 elementary schools and 14 secondary schools (eight middle schools, five high schools, and an alternative education school) to provide free education to students living on Guam.

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

This discussion has been prepared by GDOE management to provide an overview of the Department's financial activities for the fiscal year (FY) ended September 30, 2013. It is based on the financial statements provided in the annual audit report. Comparable financial data from the prior year is also provided. GDOE's department-wide financial statements are composed of a Statement of Net Position and a Statement of Activities, plus certain required supplementary and other supplementary information:

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

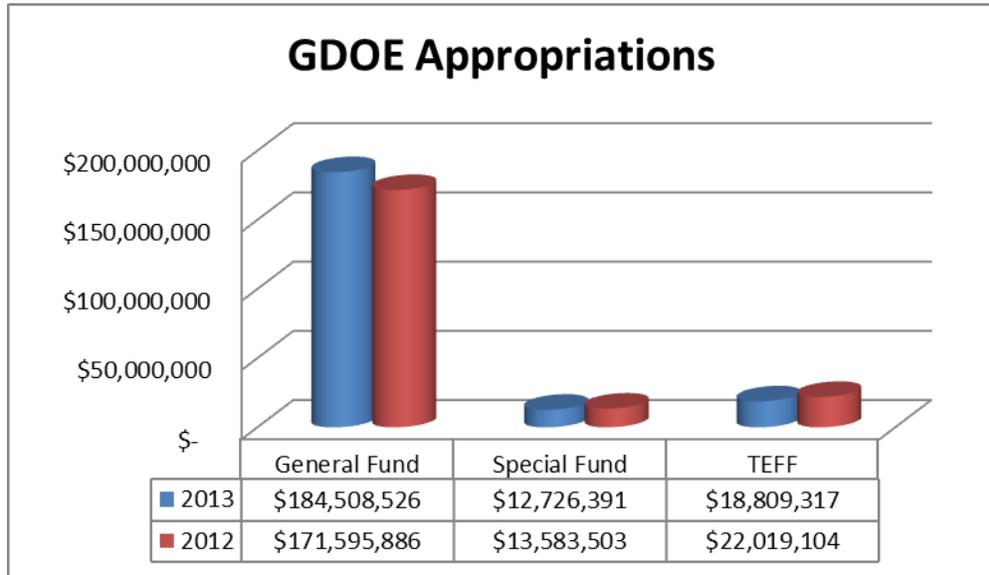
The MD & A should be read in conjunction with GDOE's basic financial statements and related notes to enhance understanding of the Department's financial performance. Additionally, the completion of the 2013 single audit represents GDOE's commitment to, and support of, programmatic and financial accountability.

### Local Appropriations

Pursuant to Public Law (PL) 31-233 and 31-229, GDOE appropriations in FY13 totaled \$216,044,234; an increase of \$8,845,741 in comparison with FY12 appropriation levels. Of the \$8.8M increase, \$2.27 million was designated for new expenditures (\$1.58 million was designated for additional rent and maintenance for John F. Kennedy High School, a modest \$17,888 increase for school libraries, and \$5,500 per student for the Guahan Academy Charter School); leaving a balance of \$6.5M to cover organic growth in the cost of personnel, primarily, the increased cost of the retirement rate from 28.30% in FY12 to 30.09%.

**GUAM DEPARTMENT OF EDUCATION**

Management’s Discussion and Analysis  
Year Ended September 30, 2013



Of the \$12,726,391 in special fund appropriations, \$1.56 million was designated for interscholastic sports, health and physical education activities, and school libraries. The remaining \$11.16 million represents anticipated federal reimbursements to GDOE from the federal School Nutritional Meals Program and includes an estimated \$875,000 in cash collections associated with the School Lunch Program. The reimbursements are provided by the U.S. Department of Agriculture’s Food and Nutrition Services for meals served to students and children who attend public schools, Department of Defense schools, various child care centers, and wards of the Department of Youth Affairs.

**General Fund**

As of September 30, 2013, the Department reported a combined fund balance of \$11.7 million, which represents a decrease of \$32.8 million (or 73.7%) compared to last year's \$44.5 million. The net change in the General Fund was mainly due to expenditures in the Adequate Education Trust Fund.

**Federal Grants and Programs**

In Fiscal Year 2013, the following amounts were expended by GDOE through a variety of Federal grants, representing \$69.6 million or 22% of total expenditures \$323,214,084:

Grantor	FY13 Amount	FY12 Amount	Change
U. S. Department of Agriculture	\$ 10,757,631	\$ 9,508,353	\$ 1,249,278
U. S. Department of Education	47,490,836	55,590,790	(8,099,954)
U. S. Department of Interior	8,407,155	7,103,468	1,303,687
U. S. Department of Health & Human Services	<u>2,536,353</u>	<u>2,647,597</u>	<u>(111,244)</u>
Federal Grants Assistance Fund Expenditures	69,191,975	74,850,208	(5,658,233)
U. S. Department of Defense	<u>368,549</u>	<u>346,578</u>	<u>21,971</u>
Total Federal Expenditures	<u>\$ 69,560,524</u>	<u>\$ 75,196,786</u>	<u>\$ (5,636,262)</u>

The decrease in expenditures (\$5.5 million) in FY13 in comparison to FY12, largely occurred in grants received from U.S. Department of Education due to the non-reauthorization of ARRA grants.

# **GUAM DEPARTMENT OF EDUCATION**

Management's Discussion and Analysis  
Year Ended September 30, 2013

## **FISCAL YEAR 2013 OVERVIEW**

Fiscal year 2013 proved to be a tough year financially for GDOE as restrictions continued to be placed on local funding appropriations. The imposition of a 15% reserve of \$27,676,279 by Bureau of Budget and Management Research (BBMR) created uncertainties regarding spending levels throughout FY13. Moreover, Territorial Education Facilities Fund (TEFF) revenues from real property tax collections were 69% or \$9.3 million less than projected revenues of \$30,483,566. For GDOE, BBMR allotted \$8.3 million less than GDOE's \$17.3 million appropriation from the TEFF. Although the Governor's Office asserted that allotments would be released to cover GDOE operation needs, the Department ended the year with expenditures and encumbrances exceeding cash provided.

Mandated payments from GDOE's FY13 local appropriations for additional rents to cover insurance and maintenance of John F. Kennedy High School, the Third Party Fiduciary Agent, and Guam's first charter school created additional financial pressures on GDOE's operations. A total of \$687,500 was deducted in the last quarter of FY13 to fund the Guahan Academy Charter School (GACS), pursuant to a provision contained in the FY13 Budget Act. GACS opened on August 19, 2013, mirroring GDOE's SY13-14 calendar.

In July 2012, the US Department of the Interior (USDOI) provided a \$2.8 million grant from compact-impact funds designated by Congress; this funding provided significant relief to GDOE FY13 locally funded operations. GDOE teachers were allotted \$500 each to purchase instructional supplies and classroom materials and nearly a million dollars was distributed to GDOE principals for operational supplies and equipment. Portions of the grant funding were also used to cover the cost of double sessions and additional busing needed at George Washington High School in the first quarter of FY13 to allow facility improvement construction renovations to proceed.

Under special conditions imposed by the US Department of Education (USDOE) to address GDOE's designation as a 'High Risk' grantee, FY13 marked the third consecutive fiscal year USDOE grant funding was administered and supervised by a Third Party Fiduciary Agent (TPFA). In September 2010, a new Comprehensive Corrective Action Plan (CCAP) was developed, to address underlying problems associated with GDOE's high risk grant status. Progress on the CCAP is reported to USDOE quarterly and is posted on the GDOE website.

Reconciliations between TPFA and GDOE have been an ongoing issue. Changes in key TPFA staff and retention of GDOE accountants have contributed to delays in the reconciliation. Additionally, protracted turn-around times for reimbursements from the TPFA have negatively impacted GDOE's cash flow. GDOE hopes to work with the TPFA to transfer processes as local capacity is developed. In FY13, payments to the TPFA were \$2.6 million; payments from the inception of the contract through FY13 totaled \$9.8 million.

It is noteworthy that the auditor's report on compliance contains unmodified or clean opinions for all major programs. In the previous five years, qualified opinions were given on at least two of the major programs. This accomplishment marks a first and is evidence of GDOE's commitment to moving off of high risk.

FY13 also marked the first full fiscal year all GDOE financial transactions were processed in GDOE's new Financial Management Information System (FMIS). Tyler MUNIS financial and procurement modules were installed in April 2012 and its payroll, human resources, and maintenance modules in July 2012. PULSE, a database software designed to interact with MUNIS and PowerSchool, GDOE's student information system, was installed in FY13 and provides a dashboard of relevant reports to users.

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### Management's Discussion and Analysis Year Ended September 30, 2013

The MUNIS system allows users to attach relevant documents, such as invoices and contracts, electronically to files and keeps electronic copies of computer generated documents, such as purchase orders and checks. This makes auditing transactions easier as electronic documents are readily available. GDOE continues to work with Tyler to develop and customize reports to support audits, reconciliations, management decisions and other analysis. The MUNIS was mainly funded with ARRA SFSF funding and totaled \$4.9 million. Annual maintenance and support expenditures in FY13 were \$290 thousand.

In August 2012, USDOE Office of Risk Management representatives were given a demonstration of the new system. They also visited various divisions and schools to validate GDOE's use of the system. Other modules, to include Vendor and Employee Self-Serve and Fixed Assets have been installed since then. The FMIS implementation has and continues to create opportunities for efficiency, productivity and responsiveness.

GDOE's employee count decreased by 44, from 3,803 (pay period ending October 16, 2012) to 3,759 (pay period ending October 5, 2013) and is reflected in the reduction in expenditures for salaries (less \$3.1 million). The increase of \$2.2 million in expenditures for benefits is attributed to the increase in the retirement rate, from 28.30% to 30.09%. There were also other significant changes in employee compensation during FY13.

While Executive Order 2011-14 froze salary increments for classified employees and raises for unclassified employees effective October 10, 2011, the freeze was lifted in May 2013 under Executive Order 2013-004. At the end of the Fiscal Year, \$3.2 million in FY13 increments remained outstanding. These increments were fully paid by June, 2014.

In June 2013, Executive Order 2013-005 ordered the payment of past due merit bonuses, promised compensation and civil service and court ordered legal claims. GDOE received \$1.3 million for merit bonuses, going back to October 2009. Cash to fund the FY13 merit bonuses of \$476 thousand was not provided until FY14 and remained outstanding at the end of the fiscal year.

Additionally, the Governor provided notice to the Legislature in Executive Order 2013-005 that the Government of Guam Competitive Wage Act would be phased-in in FY14 subject to cash availability.

Throughout FY13, renovations of school buildings and improvements to technology infrastructure continued, primarily funded by the Adequate Education Trust Act (Trust). Extension requests for the obligation and liquidation of the Trust funds were granted by USDOE and the Guam Legislature for September 30, 2013 (PL 31-234) and for January 31, 2014 (PL 32-104) to ensure continued use of these funds.

From a beginning balance of \$60,088,935 in May 2011, GDOE successfully obligated just over \$59.7 million or 99.4% in projects authorized under the Trust by September 30, 2013. Trust expenditures in FY13 totaled \$31.5million. Projects funded by the Trust include:

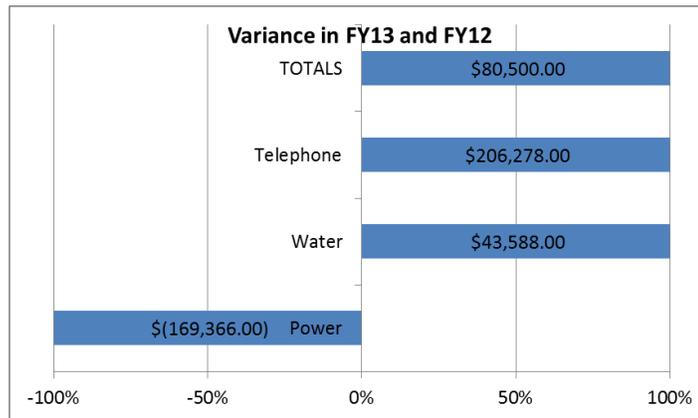
- Roofing/Structural Repairs
- Southern High Fine Arts Renovation
- Southern High Gymnasium Renovation
- Untalan Middle School Renovation
- Technology Infrastructure, Software and Equipment
- Fire Alarms/PA/Electrical Repairs
- Air Conditioning Upgrades/Replacement
- STEM Classroom Renovations
- STEM Classroom Equipment
- Technology Safe Rooms

## GUAM DEPARTMENT OF EDUCATION

### Management's Discussion and Analysis Year Ended September 30, 2013

In December 2012, nearly \$2.5 million in construction renovations under the Trust were completed at George Washington Southern High School, resulting in 15 renovated classrooms with the capacity to support Science, Technology, Engineering and Mathematics (STEM) instruction and curriculum, Southern High School's gymnasium and fine arts auditorium reopened in August 2013, after nearly \$6.5 million from the Trust was used for construction repairs.

The procurement of a \$7.5 million contract, also funded by the Trust, was awarded in July 2013 for the installation of 2,100 air conditioners throughout GDOE's public schools. The contract was allowed to proceed on September 30, 2013 following an eleventh hour settlement of a protest appeal to the Office of Public Accountability was reached.



FY13 Utilities (power, water, telephone) accounted for 5% or \$16.6M in expenditures, an increase of \$80,500 compared to FY12.

During FY13, in spite of a 7 and 8 percent increase in power and water rates, GDOE managed to mitigate the impact with conservation practices, e.g., replacement of energy efficient air conditioning units (nearly 20% or 600 units), and ceiling, roofing, and plumbing repairs throughout GDOE's school facilities. These initiatives resulted in a modest \$43K increase in water and a \$169K decrease in power expenditures in FY13, compared to FY12.

GDOE's annual Telecommunication Services expenditures cover Plain Old Telephone System (POTS) lines and Centrix lines which provide a combined total of 245 phone lines, digital transmission service for ISDN-PRI (trunk lines) and DID services, and long distance telephone service. The variance in expenditures in FY13 (\$322,125) and FY12 (\$115,847) is attributed to the reclassification of certain telecommunications expenses which were previously recorded as contractual services.

In March 2013, Qualified School Construction Certificates and Tax Exempt Certificates of Participation provided funding for the expansion of Okkodo (also referred to as Ukodo) High School. The expansion project, which broke ground in August 2013, is expected to be completed by summer 2014. Capacity will increase from 1,200 to 2,000 students. Included in this \$22 million project is a culinary arts kitchen, 24 standard classrooms, four special education classrooms, nine labs and signalization at the entrance to the school.

In July 2013, the U.S. Army Corps of Engineers (USACE) identified \$65 million in needed repairs throughout 35 GDOE public schools, in a study funded by the USDOJ Office of Insular Affairs (The study excluded the five leased schools). The Insular Schools Assessment of Building and Classroom Initiative provided for a comprehensive school building condition assessment of K-12 public schools in Guam, the CNMI, American Samoa and US Virgin Islands. The assessment will assist GDOE in guiding

# GUAM DEPARTMENT OF EDUCATION

## Management's Discussion and Analysis Year Ended September 30, 2013

public school facility investment decisions and will provide standard baseline data for all four insular areas.

In August 2013, nine GDOE schools began operating as Provision 2 schools under the Child Nutrition Program (School Breakfast & National School Lunch programs), serving meals to all students at no charge. Anticipated savings (simplified paperwork, faster serving lines, reduced associated labor costs, improved economies of scale in per-meal costs) will help offset the cost differential.

GDOE has seen significant improvements in SAT10 scores in schools that have made deliberate efforts to address school achievement. Several schools have surpassed the SAT10 national average in a number of areas. The SY12-13 cohort graduation rate decreased from the previous school year by 1%, from 69% to 68%. Dropout rates for SY12-13 dropped to 4% from 5.3% of the previous year.

Twenty-one of GDOE's 40 schools are accredited by the Western Association of Schools and Colleges. During SY12-13, accreditations for Vicente SA Benavente Middle and Southern High schools were affirmed and each school was granted 6-Year Accreditation status by WASC.

The Education Finance Supervisory Commission (EFSC) continues to monitor the financial health of the Department. The EFSC minutes and financial designations are located on the EFSC's website <http://www.senbenp.com/EFSC.html>.

GDOE continues to face many operational and financial challenges. These challenges include the public school system's arduous statutory and policy requirements, which limit management's ability to maximize resources. The dependency on local government appropriations for resources sufficient to meet the needs of our students and support our staff is another major challenge.

In spite of financial and operational challenges, GDOE's teachers, administrators, and support staff continue to remain focused on our mission of *"Preparing all students for life; Promoting excellence; and Providing support!"* to ensure an adequate public education to approximately 31,698 school children.

### STATEMENT OF NET POSITION

Net Position consists of current assets and capital assets, net of accumulated depreciation less both current and noncurrent liabilities. From FY2012 to FY2013, total assets decreased by \$10,878,280 while total liabilities decreased by \$371,059.

#### Summary of Net Position

	<u>2013</u>	<u>2012</u> <u>(Restated)</u>	<u>%</u> <u>Change</u>
<b>Assets:</b>			
Current assets	\$ 47,037,700	\$ 76,173,249	(38.2%)
Noncurrent assets	<u>296,437,037</u>	<u>278,179,768</u>	6.6%
Total assets	<u>\$ 343,474,737</u>	<u>\$ 354,353,017</u>	(2.2%)
<b>Liabilities:</b>			
Current liabilities	\$ 42,745,945	\$ 38,858,336	10.0%
Noncurrent liabilities	<u>119,615,402</u>	<u>123,874,070</u>	(3.4%)
Total liabilities	<u>162,361,347</u>	<u>162,732,406</u>	(0.2%)

## GUAM DEPARTMENT OF EDUCATION

### Management's Discussion and Analysis Year Ended September 30, 2013

#### Summary of Net Position, Continued

	<u>2013</u>	2012 (Restated)	% Change
<b>Net Position:</b>			
Invested in capital assets, net of related debt	177,727,037	154,393,007	15.1%
Restricted for CIP, technology, equipment projects	24,983,812	55,385,640	(54.9%)
Restricted for maintenance and insurance	2,371,667	2,631,761	(9.9%)
Unrestricted	<u>(23,969,126)</u>	<u>(20,789,797)</u>	15.3%
Total net position	<u>181,113,390</u>	<u>191,620,611</u>	(5.5%)
	<u>\$343,474,737</u>	<u>\$ 354,353,017</u>	(3.1%)

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

The statement of activities and changes in net position represents revenues and expenses for the current fiscal year. The statement of activities and changes in net position reflects a decrease in net position of \$10,507,221 for FY 2013.

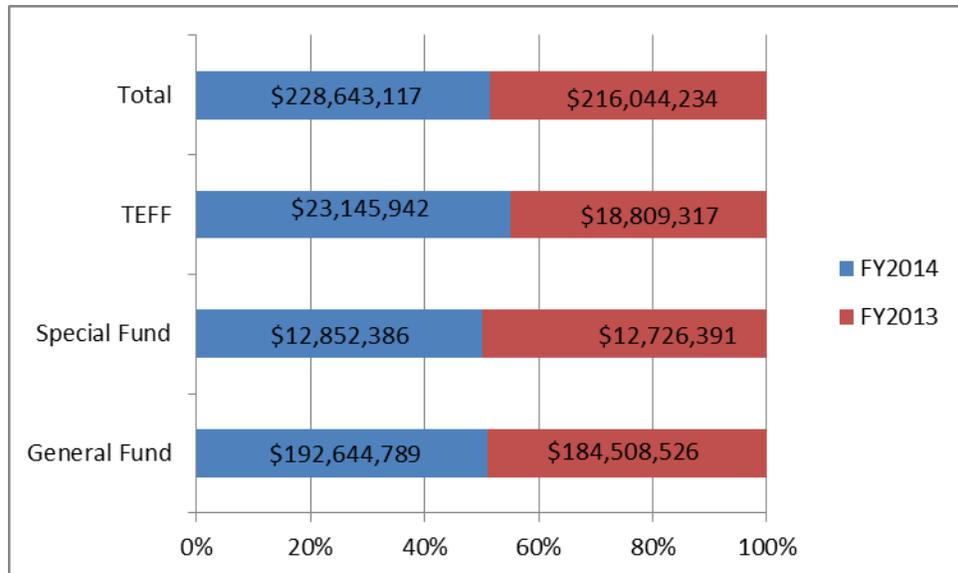
	<u>2013</u>	2012 (Restated)	% Change
<b>Revenues:</b>			
Appropriations	\$ 226,373,210	\$ 235,382,633	(3.8%)
Federal grants and contributions	62,100,353	67,959,041	(8.6%)
Cafeteria Sales	553,763	676,874	(18.2%)
Other	1,380,266	1,396,682	(1.2%)
Total revenues	<u>290,407,592</u>	<u>305,415,230</u>	(4.9%)
<b>Expenses:</b>			
Elementary education	72,157,347	92,497,924	(22.0%)
Secondary education	81,321,094	107,515,729	(24.4%)
Direct student support	76,990,830	59,750,361	28.9%
General administration	57,187,526	13,517,203	323.1%
Retiree healthcare benefits	8,077,260	8,058,962	0.2%
Tiyan Operating Lease	4,493,256	6,237,183	(28.0%)
Transfer to Guahan charter Schools Fund	687,500	-	100.0%
Total expenses	<u>300,914,813</u>	<u>287,577,362</u>	4.6%
Change in net position	<u>(10,507,221)</u>	<u>17,837,868</u>	(158.9%)
Net position at beginning of year	<u>191,620,611</u>	<u>173,782,743</u>	10.3%
Net position at end of year	<u>\$181,113,390</u>	<u>\$191,620,611</u>	(5.5%)

# GUAM DEPARTMENT OF EDUCATION

Management's Discussion and Analysis  
Year Ended September 30, 2013

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Pursuant to the FY14 Budget Act (PL 32-068), General Fund revenues for FY14 are projected to increase approximately \$83.7 million, from \$689 million in FY13 to \$772 million. Despite the improved economic outlook, BBMR Circular 14-01 imposed a 10% reserve on all appropriations, 5% less the reserve imposed on FY13 appropriations.



While FY14 appropriations (PL 32-009, 32-063, 32-068) for GDOE totaled \$228,643,117, of the \$12.5 million increase over FY13 levels, nearly 99% or \$12.4 million of the increase is prescriptive:

- \$800,000 Security Equipment and Services
- \$350,000 George Washington High School Track Repair
- \$1,081,000 Principal Fund – small equipment and supply purchases for schools
- \$2,606,954 Implementation of the Government of Guam Competitive Wage Act
- \$2,832,500 Guahan Academy Charter School
- \$1,707,652 Okkodo High School (OHS) Expansion annual payment of additional rent, maintenance & insurance
- \$3,105,100 Simon Sanchez High School (SSHS) Repair Renovation

Funding for the SSHS repairs and lease of the OHS Expansion are also dependent on additional revenue anticipated in the TEFF from the re-valuation of real property assessments due to commence in calendar year 2014. The SSHS repairs also require the issuance of a General Obligation bond. The \$3.1 million appropriation is to be used as a source of payment with anticipated bond proceeds to cover the cost of replacing or renovating SSHS, other GDOE facility maintenance needs and new construction.

In his annual State of Our Island Address (February 20, 2014), Governor Eddie Calvo announced preparations for a Request for Proposal (RFP) are underway to provide \$100 million in financing to modernize all public schools, to include construction of at least one new school. His announcement followed the passage (February 10, 2014) of PL 32-120 and 32-121 which authorizes the use of lease lease-back to renovate or replace SSHS, appropriates an additional \$1.3 million from anticipated revenues from the re-evaluation of real property assessments and authorizes the use of business taxes

## GUAM DEPARTMENT OF EDUCATION

### Management's Discussion and Analysis Year Ended September 30, 2013

(until the maturity of Business Private Tax Bond Series 2013C) as sources of funding for lease payments and interest payments to finance needed public school improvements.

Enacted in June 2012, PL 31-229 had similarly authorized lease financing for educational facility improvements, collateral equipment, and funding for a GDOE capital improvement plan. With the various financial instruments (lease lease-back, bond issuance) and funding options (tax credits, business taxes, additional revenue from real property taxes) authorized, the planned \$100 million RFP is expected to yield a more affordable means to address school facility concerns over the next several years.

On June 11, 2014, Department of Public Works issued RFP 730-5-1054-6-YIG, Lease Financing for the Rehabilitation, Construction, Expansion, and Renovation of Public School Facilities. Responses to the RFP are due on July 7, 2014.

Since the beginning of FY14, GDOE has assumed new water and power expenses, previously paid by the Department of Administration (DOA), for its Central Offices in Hagatna. DOA vacated the building in late August 2013 after regulatory agencies confirmed the deteriorated conditions of the building.

The FY14 Budget Act (Sections 1 and 2 Chapter XI of PL 32-068) authorized and allotted \$2.6 million to GDOE for the implementation of the Government of Guam Competitive Wage Act (GGCWA) of 2014. On February 14, 2014, Department of Administration Circular 2014-03 effectuated the new government-wide Pay Plan (also known as the Hay Study or Competitive Wage Act). GDOE teachers, school administrators, certified and specialty personnel received 100% of the applicable pay adjustments, while the remaining non-teaching GDOE employees received 50% of the pay adjustments. Non-teaching GDOE employees are scheduled to receive the remaining 50% of the pay adjustment in August 2014.

GDOE is assessing the full financial impacts of the GGCWA pay adjustments to its federally funded programs as awarded funding for personnel will also need to be adjusted in accordance with the DOA Circular. Current and future multi-year grants, such as Head Start funding (US Dept. of Health & Human Services Administration), will also need to be evaluated to determine potential budget shortfalls and program changes that may be necessary as result of increased costs in personnel.

On March 7, 2014, the pay adjustments were amended when PL 32-136 lapsed into law without the Governor's signature, rolling back adjustments in pay under the Government of Guam Competitive Wage Act to October 1, 2013 salary levels for elected government officials and unclassified public employees. Prior to the rollback, Governor Eddie J. Calvo donated \$674 of his Competitive Wage Act pay adjustments each to Juan M. Guerrero Elementary and Simon Sanchez High schools.

GDOE continues to closely track the overall economic situation of the Government of Guam as it receives roughly 76% of its operational funding locally, and 79% of the local appropriation is used for personnel costs. As of May 31, 2014, \$147 million in GDOE's FY14 allotments had been released, of that amount however, only \$133 million in cash had been received.

In October 2013, the Public Utilities Commission approved a five-year rate plan filed by the Guam Waterworks Authority (GWA), constituting a 57% aggregate rate increase spread over fiscal years 2014 through 2018:

- 15 percent increase in FY14, effective November 1, 2013
- 14.5 percent increase in FY15, effective October 1, 2014
- 16.5 percent increase in FY16, effective October 1, 2015
- 7 percent increase in FY17, effective October 1, 2016
- 4 percent increase in FY18, effective October 1, 2017

## **GUAM DEPARTMENT OF EDUCATION**

### **Management's Discussion and Analysis Year Ended September 30, 2013**

A 33 percent increase in water expenditures for the first quarter of FY14 largely reflects the impact of the November 2013 rate increase. The reopening of Southern High School's fine arts auditorium and gymnasium, as well as, new water expenses at GDOE's Central Offices are to a lesser degree attributing factors to the increase.

In November 27, 2013, Public Law 32-096 was signed into law that amended public law 25-55 in reference to the telephone service's "911 Surcharge". Public Law 25-55 established the "911 surcharge" at one dollar per month per line up to a maximum of 25 phone line per account. Public Law 32-096 amended the 911 surcharge deleting the maximum number of phone lines to include all phone lines. The 911 surcharge at one dollar per line per month now applies to all 245 lines in DOE in FY 2014 commencing in January 2014.

Trust funded renovations and repairs to the Untalan Middle School (UMS) campus in Barrigada (Army Corps Drive) began in November 2013 and will total nearly \$11 million. Renovations are expected to be completed in July 2014. UMS faculty and students are scheduled to vacate the temporary campus in Tiyan and return to Barrigada in time to begin the SY14-15 in August 2014.

In December 2013, Governor Calvo exercised an option contained in Government of Guam's amended lease agreement with Core-Tech International, to purchase the Tiyan campus. The initial lease was authorized under PL 31-76 identifying tax credits for lease payments for the Tiyan campus, which first served as a temporary campus for John F. Kennedy High and later for UMS. PL 31-229 amended the order of priority for occupancy of the Tiyan lease, as well, as authorized the expansion of facilities and added specific lots. GDOE is proceeding with plans to open a new central high school at the Tiyan campus, as well as, relocate GDOE headquarters (Central Offices) and warehouses to existing buildings adjacent to the campus.

On February 18, 2014, after convening a series of village meetings, the GEB approved a reassignment of attendance areas of public schools. The reassignment of attendance areas focused on the realignment of enrollment at the high schools, which will be accomplished through both the opening of the new Central High School in Tiyan and the expansion of Okkodo High School.

In November 2013, the US Department of Interior (USDOI) provided supplemental funding of \$2.8 million from compact-impact funds designated by Congress. This funding will be used to provide and expand student access to technology in all of our public schools.

In an effort to assist GDOE in addressing the rising cost of electricity, GDOE was authorized under PL 32-095 to enter into a power purchase agreement with a qualified provider of solar energy. GDOE is working with the General Service Agency (GSA) to prepare an RFP, which may ultimately result in a contract to pilot the use of solar energy in a number of GDOE schools.

### **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; email [tmtaitano@gdoe.net](mailto:tmtaitano@gdoe.net); call (671) 300-1575; or log on to our website at: [www.gdoe.net](http://www.gdoe.net).

# GUAM DEPARTMENT OF EDUCATION

## Statement of Net Position September 30, 2013

### ASSETS

Current assets:	
Cash and cash equivalents	\$ 2,924,432
Receivables from federal agencies	14,535,064
Due from primary government	2,354,899
Prepayments and other assets	2,239,493
Restricted assets:	
Cash and cash equivalents	5,904,904
Investments	19,078,908
Total current assets	<u>47,037,700</u>
Noncurrent assets:	
Deferred maintenance and insurance costs	1,750,000
Capital assets:	
Non-depreciable capital assets	12,659,756
Capital assets, net of accumulated depreciation	282,027,281
Total noncurrent assets	<u>296,437,037</u>
Total assets	<u>\$ 343,474,737</u>

### LIABILITIES

Current liabilities:	
Accounts payable	\$ 16,718,261
Accrued payroll	4,656,776
Other liabilities and accruals	9,355,432
Payable to federal agencies	3,981,766
Current portion of obligations under capital lease	4,385,000
Current portion of compensated absences payable	3,648,710
Total current liabilities	<u>42,745,945</u>
Noncurrent liabilities:	
Compensated absences payable, net of current portion	1,042,727
Accrued sick leave liability	5,997,675
Obligations under capital lease, net of current portion	112,575,000
Total noncurrent liabilities	<u>119,615,402</u>
Total liabilities	<u>162,361,347</u>
Commitments and contingencies	

### NET POSITION

Net investment in capital assets	177,727,037
Restricted for:	
CIP, technology and equipment projects	24,983,812
Maintenance and insurance costs	2,371,667
Unrestricted	(23,969,126)
Total net position	<u>181,113,390</u>
	<u>\$ 343,474,737</u>

See accompanying notes to financial statements.

**GUAM DEPARTMENT OF EDUCATION**

Statement of Activities  
Year Ended September 30, 2013

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
Governmental Activities:				
Elementary Education	\$ 72,157,347	\$ -	\$ 484,009	\$ (71,673,338)
Secondary Education	81,321,094	-	469,523	(80,851,571)
Direct Student Support	76,990,830	1,934,029	60,516,226	(14,540,575)
General Administration	57,187,526	-	630,595	(56,556,931)
Retiree healthcare benefits	8,077,260	-	-	(8,077,260)
Tiyan Operating lease	4,493,256	-	-	(4,493,256)
Transfer to Guahan Charter Schools Fund	687,500	-	-	(687,500)
<b>Total governmental activities</b>	<b>\$ 300,914,813</b>	<b>\$ 1,934,029</b>	<b>\$ 62,100,353</b>	<b>\$ (236,880,431)</b>
General revenues:				
Appropriations:				
				211,738,449
				8,077,260
				4,493,256
				1,376,745
				687,500
				<u>226,373,210</u>
				<u>(10,507,221)</u>
				<u>191,620,611</u>
				<u>\$ 181,113,390</u>

See accompanying notes to financial statements.

**GUAM DEPARTMENT OF EDUCATION**

Balance Sheet  
Governmental Funds  
September 30, 2013

<u>ASSETS</u>	<u>General</u>	<u>Special Revenue</u>	
		<u>Federal Grants Assistance</u>	<u>Total</u>
Cash and cash equivalents	\$ 1,467,344	\$ 1,457,088	\$ 2,924,432
Receivables from federal agencies	-	14,535,064	14,535,064
Due from primary government	2,354,899	-	2,354,899
Prepayments and other assets	1,610,137	7,689	1,617,826
Due from other funds	4,182,032	-	4,182,032
Restricted assets:			
Cash and cash equivalents	5,904,904	-	5,904,904
Investments	19,078,908	-	19,078,908
<b>Total assets</b>	<b>\$ 34,598,224</b>	<b>\$ 15,999,841</b>	<b>\$ 50,598,065</b>
 <u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ 12,981,518	\$ 3,736,743	\$ 16,718,261
Accrued payroll	3,991,217	665,559	4,656,776
Other liabilities and accruals	5,921,691	3,433,741	9,355,432
Payable to federal agencies	-	3,981,766	3,981,766
Due to other funds	-	4,182,032	4,182,032
<b>Total liabilities</b>	<b>22,894,426</b>	<b>15,999,841</b>	<b>38,894,267</b>
Fund balances:			
Restricted	24,983,812	-	24,983,812
Unassigned	(13,280,014)	-	(13,280,014)
<b>Total fund balances</b>	<b>11,703,798</b>	<b>-</b>	<b>11,703,798</b>
<b>Total liabilities and fund balances</b>	<b>\$ 34,598,224</b>	<b>\$ 15,999,841</b>	<b>\$ 50,598,065</b>

See accompanying notes to financial statements.

**GUAM DEPARTMENT OF EDUCATION**

Reconciliation of Governmental Fund Balance to Net Position of Governmental Activities  
September 30, 2013

Total fund balance-governmental funds	\$	11,703,798
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Amounts reported for governmental activities in the statement of net position are different because:

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

Prepayment-interest	465,000	
Prepayment-maintenance	<u>156,667</u>	
		621,667

Maintenance costs associated with capital lease obligations in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		1,750,000
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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	380,824,612	
Vehicles, furniture and equipment	13,543,743	
Construction in progress	12,659,756	
Accumulated depreciation	<u>(112,341,074)</u>	
Capital assets, net of accumulated depreciation		294,687,037

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

Accrued sick leave liability	(5,997,675)	
Compensated absences payable	(4,691,437)	
Obligations under capital lease	<u>(116,960,000)</u>	
Long-term liabilities		<u>(127,649,112)</u>

Net position of governmental activities	\$	<u><u>181,113,390</u></u>
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See accompanying notes to financial statements.

**GUAM DEPARTMENT OF EDUCATION**

Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
Year Ended September 30, 2013

	<u>General</u>	<u>Special Revenue Federal Grants Assistance</u>	<u>Total</u>
<b>Revenues:</b>			
Appropriations	\$ 219,273,210	\$ 7,100,000	\$ 226,373,210
Federal grants and contributions	563,658	61,536,695	62,100,353
Cafeteria sales	553,763	-	553,763
Fees and other program receipts	939,436	440,830	1,380,266
Total revenues	<u>221,330,067</u>	<u>69,077,525</u>	<u>290,407,592</u>
<b>Expenditures:</b>			
Elementary Education	75,352,478	484,009	75,836,487
Secondary Education	82,969,904	469,523	83,439,427
Direct Student Support	14,715,756	61,138,443	75,854,199
General Administration	60,758,020	-	60,758,020
Retiree healthcare benefits	8,077,260	-	8,077,260
Tiyan Operating Lease	4,493,256	-	4,493,256
Transfer to Guahan Charter Schools Fund	687,500	-	687,500
<b>Debt service:</b>			
Lease payment	6,967,935	7,100,000	14,067,935
Total expenditures	<u>254,022,109</u>	<u>69,191,975</u>	<u>323,214,084</u>
Deficiency of revenues under expenditures	<u>(32,692,042)</u>	<u>(114,450)</u>	<u>(32,806,492)</u>
<b>Other financing sources (uses):</b>			
Transfer in	-	114,450	114,450
Transfer out	(114,450)	-	(114,450)
Total other financing sources (uses), net	<u>(114,450)</u>	<u>114,450</u>	<u>-</u>
Net change in fund balances	(32,806,492)	-	(32,806,492)
Fund balances at beginning of year	<u>44,510,290</u>	<u>-</u>	<u>44,510,290</u>
Fund balances at end of year	<u>\$ 11,703,798</u>	<u>\$ -</u>	<u>\$ 11,703,798</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 to the Statement of Activities  
Year Ended September 30, 2013

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

Total net change in fund balances - governmental funds \$ (32,806,492)

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over the estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. For the current year, these amounts consist of:

Capital outlays, net of disposals	28,784,500	
Depreciation expense, net	<u>(9,645,470)</u>	19,139,030

Prepayment of capital lease obligations in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. (908,427)

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

Repayment of capital leases		4,195,000
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. For the current year, these activities consist of:

Increase in compensated absence payable	(13,512)	
Increase in accrued sick leave liability	<u>(112,820)</u>	<u>(126,332)</u>

Change in net position of governmental activities \$ (10,507,221)

See accompanying notes to financial statements.

**GUAM DEPARTMENT OF EDUCATION**

Statement of Fiduciary Net Position  
Agency Fund  
September 30, 2013

ASSETS

Cash and cash equivalents	\$ <u>538,899</u>
Total assets	\$ <u><u>538,899</u></u>

LIABILITIES

Deposits and other liabilities	\$ <u>538,899</u>
Total liabilities	\$ <u><u>538,899</u></u>

See accompanying notes to financial statements.

# GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements  
September 30, 2013

## (1) Summary of Significant Accounting Policies

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

### A. Reporting Entity

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

The governance of GDOE is vested in the Board per 17CGA Chapter 3 section § 3102.3, composed of 9 voting members, 6 elected, 3 appointed and 2 nonvoting members. GDOE operates 26 elementary schools and 14 secondary schools to provide free and appropriate education to students residing on Guam.

### B. Department-Wide Financial Statements

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

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

- *Net Investment in capital assets* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for other debt that is attributed to the acquisition, construction or improvement of those assets.
- *Restricted net position* results when constraints placed on net position use is either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through enabling legislation.
- *Unrestricted net position* consist of net position, which does not meet the definition of the two preceding categories. Unrestricted net position often is designated, to indicate that management does not consider them to be available for general operations. Such often has restrictions that are imposed by management, but can be removed or modified.

# GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements  
September 30, 2013

(1) Summary of Significant Accounting Policies, Continued

B. Department-Wide Financial Statements, Continued

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

C. Fund Financial Statements

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

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

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

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

D. Fund Balance

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

# GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements  
September 30, 2013

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

### D. Fund Balance, Continued

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

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

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

Assigned – Balances that are constrained by management to be used for specific purposes, but are neither restricted or committed.

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

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

A formal minimum fund balance policy has not been adopted.

### E. Measurement Focus and Basis of Accounting

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

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

**GUAM DEPARTMENT OF EDUCATION**

Notes to Financial Statements  
September 30, 2013

(1) Summary of Significant Accounting Policies, Continued

E. Measurement Focus and Basis of Accounting, Continued

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

GDOE reports the following major governmental funds:

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

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

F. Encumbrances

Encumbrances are commitments related to unperformed (executory) contracts for goods or services and are generally evidenced by outstanding purchase orders, contracts and interdepartmental work requests. At September 30, 2013, GDOE has significant encumbrances summarized as follows:

General Fund	\$ 25,955,447
Federal Grants Assistance Fund	<u>4,508,323</u>
	<u>\$ 30,463,770</u>

G. Cash and Cash Equivalents

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

H. Investments

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

**GUAM DEPARTMENT OF EDUCATION**

Notes to Financial Statements  
September 30, 2013

(1) Summary of Significant Accounting Policies, Continued

I. Receivables

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

J. Prepayments

Payments made to textbook vendors for services that will benefit periods beyond September 30, 2013, are recorded as prepayments.

K. Interfund Receivables/Payables

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

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

L. Capital Assets

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

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, 2013

(1) Summary of Significant Accounting Policies, Continued

L. Capital Assets, Continued

Capital asset activities for the year ended September 30, 2013 are as follows:

Governmental Activities

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Depreciable capital assets:				
Buildings and improvements	\$ 356,452,819	\$ 24,371,793	\$ -	\$ 380,824,612
Vehicles, furniture and equipment	<u>13,644,423</u>	<u>1,134,649</u>	<u>(1,235,329)</u>	<u>13,543,743</u>
	370,097,242	25,506,442	(1,235,329)	394,368,355
Less: accumulated depreciation	<u>(103,930,933)</u>	<u>(9,645,470)</u>	<u>1,235,329</u>	<u>(112,341,074)</u>
Depreciable capital assets, net	<u>266,166,309</u>	<u>15,860,972</u>	<u>-</u>	<u>282,027,281</u>
Non-depreciable capital assets:				
Construction in progress	<u>9,381,698</u>	<u>12,352,080</u>	<u>(9,074,022)</u>	<u>12,659,756</u>
	<u>\$ 275,548,007</u>	<u>\$ 28,213,052</u>	<u>\$ (9,074,022)</u>	<u>\$ 294,687,037</u>

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

Governmental activities:	
Elementary Education	\$ 2,630,542
Secondary Education	6,127,439
Direct Student Support	193,695
General Administration	<u>693,794</u>
	<u>\$ 9,645,470</u>

M. Deferred Outflows of Resources

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

N. Net Position

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

Net Position has been restricted as follows:

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, 2013

(1) Summary of Significant Accounting Policies, Continued

O. Deferred Inflows of Resources

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

P. Compensated Absences

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

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

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

Q. Payable to Federal Agencies

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

R. Interfund Transactions

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

# GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements  
September 30, 2013

(1) Summary of Significant Accounting Policies, Continued

S. Dedicated Revenues and Pledges

GDOE has entered into a municipal school lease agreement for certain leased schools and facilities whereby GovGuam, on behalf of GDOE, has pledged a portion of future Compact Impact grant funds to finance annual lease payments under this agreement. This lease obligation is payable solely from Compact Impact grant revenues payable to GovGuam by the United States Government pursuant to the Compact of Free Association Act, U.S. Public Law 108-188. Total payments remaining on this municipal school lease agreement are approximately \$84,300,000 payable through December 2025. For the year ended September 30, 2013, lease payments made and total Compact Impact grant revenues received were \$7,100,000.

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 liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results may differ from those estimates.

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, 2012 from which summarized information was derived.

V. New Accounting Standards

During the year ended September 30, 2013, GDOE implemented the following pronouncements:

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addressed how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, which improved financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The implementation of this statement did not have a material effect on the accompanying financial statements.

**GUAM DEPARTMENT OF EDUCATION**

Notes to Financial Statements  
September 30, 2013

(1) Summary of Significant Accounting Policies, Continued

V. New Accounting Standards, Continued

- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which enhanced the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements. GASB Statement No. 62 superseded GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. The implementation of this statement did not have a material effect on the accompanying financial statements.
  
- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which established guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. These Statements amend the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. With the implementation of GASB Statement No. 63 and Statement No. 65, the Statement of Net Assets was renamed the Statement of Net Position. In addition, the Statement of Net Position includes two new classifications separate from assets and liabilities. Amounts reported as deferred outflows of resources are reported in a separate section following assets. Likewise, amounts reported as deferred inflows of resources are reported in a separate section following liabilities. The effect on the financial statements of the implementation of GASB Statement No. 65 is as follows:

Net position as of September 30, 2012, as originally reported	\$193,193,744
Reversal of deferred assets	<u>(1,573,133)</u>
Net position as of September 30, 2012, as restated	<u>\$191,620,611</u>

In April 2012, GASB issued Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of GDOE.

# GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements  
September 30, 2013

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

### V. New Accounting Standards, Continued

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans, and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements on the financial statements of GDOE.

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

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The provisions in Statement 70 are effective for fiscal years beginning after June 15, 2013. Management has not yet determined the effect of implementation of these statements on the financial statements of GDOE.

## (2) Deposits in Banks and Investments

### A. Deposit in Banks

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

As of September 30, 2013, the carrying amount of GDOE's total cash and cash equivalents was \$8,829,336 and the corresponding bank balance was \$13,543,742, which is maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2013, bank deposits in the amount of \$250,000 were FDIC insured. GDOE does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk. GDOE has not experienced any significant losses in such accounts and GDOE management believes it is not exposed to any significant credit risk on its deposits.

**GUAM DEPARTMENT OF EDUCATION**

Notes to Financial Statements  
September 30, 2013

(2) Deposits in Banks and Investments, Continued

B. Investments

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

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

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

As of September 30, 2013, GDOE's General Fund investments of \$19,078,908 are recorded at fair value and classified as cash, money funds and FDIC deposits.

Per Public Law 31-40, the Legislature created the Adequate Education Act Trust Account to be separate and apart from the General Fund. As of September 30, 2013, investments of \$19,000,000 are restricted for this purpose. Subsequently, Public Law 31-77 required interest and investment earnings to be continuously appropriated for the payment of GDOE's GPA Promissory Note. Upon full payment of the Promissory Note, succeeding interest and investment earnings shall be used solely to pay for projects approved per PL 31-40 or the projects approved in the original SFSF grant application and any approved amendments thereafter.

As of August 2013, the GPA Promissory Note was paid in full.

(3) Changes in Long-Term Liabilities

Changes in long-term liabilities for the year ended September 30, 2013, are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<u>Governmental activities:</u>					
Accrued sick leave liability	\$ 5,884,855	\$ 316,101	\$ (203,281)	\$ 5,997,675	\$ -
Compensated absences	4,677,925	283,999	(270,487)	4,691,437	3,648,710
Obligations under capital lease	<u>121,155,000</u>	<u>-</u>	<u>(4,195,000)</u>	<u>116,960,000</u>	<u>4,385,000</u>
	<u>\$ 131,717,780</u>	<u>\$ 600,100</u>	<u>\$ (4,668,768)</u>	<u>\$ 127,649,112</u>	<u>\$ 8,033,710</u>

# GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements  
September 30, 2013

## (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, 2013. The estimated accumulated amount of unused sick leave at September 30, 2013, is \$25,500,750, of which an estimated \$5,997,675 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 Government of Guam'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. Court Order

In April 2006, a court order was issued, ordering GDOE to pay approximately \$3,800,000 in teacher salaries. As of September 30, 2012, this was reflected as a liability.

In August 2013, the case was dismissed and an appeal was filed. Decrease in accrual is reflected as a decrease in General Funds General Administration costs of salaries and wages in the accompanying financial statements.

**GUAM DEPARTMENT OF EDUCATION**

Notes to Financial Statements  
September 30, 2013

(4) Commitments and Contingencies, Continued

F. 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 the Government of Guam 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.

G. 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, 2013. 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 except as disclosed on Note 4E.

H. Tiyan Operating Lease

On June 23, 2009, GovGuam on behalf of GDOE, entered into a lease agreement for certain property located in Tiyan to temporarily house the John F. Kennedy (JFK) High School. The facility was vacated by JFK High School on September 2011 and occupied by Untalan Middle School in January 2013. The lease, which is renewable annually, has a fixed annual rent of \$4,493,256 for the first five years, commencing October 1, 2009. The rent shall increase by 10% for every five-year period with a term of June 30, 2024. The lease agreement provides an option for GovGuam to pay in cash or by transferable tax credits. On December 30, 2011, GovGuam entered into an amendment extending the initial term to October 31, 2024 with rent abatement from October 1, 2011 through January 31, 2012 due to non-occupancy of the property. GovGuam has the option to purchase the premises for a purchase price of \$43,500,000 to be exercised no later than December 31, 2013 (See Note 9). As of September 30, 2013, a prepayment of \$1,497,752 in tax credits has carried over from the prior year.

Total future minimum lease obligations for subsequent years ending September 30, are as follows:

<u>Year Ending</u> <u>September 30,</u>	
2014	\$ 4,493,256
2015	4,942,582
2016	4,942,582
2017	4,942,582
2018	4,942,582
2019	<u>4,942,582</u>
	<u>\$ 29,206,166</u>

**GUAM DEPARTMENT OF EDUCATION**

Notes to Financial Statements  
September 30, 2013

(4) Commitments and Contingencies, Continued

I. Okkodo High School Expansion

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 the following Certificates of Participation (COPS) to finance the expansion:

2013 Series A	\$21,818,000
2013 Series B	1,000,000

The holders of the COPS are the current owners of Okkodo High School as noted on Note 7.

Expansion will be 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.

Payments include base rental and additional rental. Base rental commenced on June 1, 2013 for interest of \$337,199. On June 1, 2014 and on June 1 and December 1 of each year through September 2030, payments of principal and interest at true rate of 2.44% (calculated on a 360 day year and 30 day month) will commence. Additional rental payment will commence on October 15, 2013 of \$1,217,336. On October 15, 2014, and on October 15 of each year thereafter through September 2030, additional rental will increase to \$1,867,336.

GovGuam management is of the opinion that this agreement represents a capital lease and will accordingly account for the expansion in that manner when construction is completed.

At September 30, 2013, future minimum lease payments for the aforementioned expansion 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>
2014	\$ -	\$ 1,597,260	\$ 1,217,336	\$ 2,814,596
2015	775,000	1,583,960	1,867,336	4,226,296
2016	830,000	1,528,835	1,867,336	4,226,171
2017	885,000	1,469,685	1,867,336	4,222,021
2018	950,000	1,406,685	1,867,336	4,224,021
2019 – 2023	5,870,000	5,915,525	9,336,680	21,122,205
2024 – 2028	9,300,000	3,326,575	9,336,680	21,963,225
2029 – 2033	<u>4,208,000</u>	<u>371,315</u>	<u>3,734,672</u>	<u>8,313,987</u>
	<u>\$ 22,818,000</u>	<u>\$ 17,199,840</u>	<u>\$ 31,094,712</u>	<u>\$ 71,112,552</u>

**GUAM DEPARTMENT OF EDUCATION**

Notes to Financial Statements  
September 30, 2013

(5) Employee Retirement Plans

Defined Benefit Plan

Plan Description:

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

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

Funding Policy:

As a result of actuarial valuations performed as of September 30, 2011, 2010, and 2009, contribution rates required to fully fund the Retirement Fund liability, as required by Guam law, for the years ended September 30, 2013, 2012 and 2011, respectively, have been determined as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Normal costs (% of DB Plan payroll)	17.52%	17.07%	17.00%
Employee contributions (DB Plan employees)	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>
Employer portion of normal costs (% of DB Plan payroll)	<u>8.02%</u>	<u>7.57%</u>	<u>7.50%</u>
Employer portion of normal costs (% of total payroll)	3.00%	3.03%	3.03%
Unfunded liability cost (% of total payroll)	<u>24.33%</u>	<u>23.75%</u>	<u>21.75%</u>
Government contribution as a % of total payroll	<u>27.33%</u>	<u>26.78%</u>	<u>24.78%</u>
Statutory contribution rates as a % of DB Plan payroll:			
Employer	<u>30.09%</u>	<u>28.30%</u>	<u>27.46%</u>
Employee	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>

GDOE's required contributions to the DB Plan for the years ended September 30, 2013, 2012 and 2011 were \$14,198,885, \$14,683,595, and \$13,839,066, respectively, which were equal to the required contributions for each year.

## GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements  
September 30, 2013

(5) Employee Retirement Plans, Continued

Defined Contribution Plan, Continued

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

Statutory employer contributions into the DCRS plan for the year ended September 30, 2013 are determined using the same rates as the DB Plan. Of the amount contributed by the employer, only 5% of the member's regular pay is deposited into the member's individual investment account. The remaining amount is contributed towards the unfunded liability of the defined benefit plan.

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

GDOE's contributions to the DCRS plan for the years ended September 30, 2013, 2012 and 2011 were \$29,595,708, \$28,142,136, and \$24,724,957, respectively, which were equal to the required contributions for each year.

Other Post Employment Benefits

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

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

During the years ended September 30, 2013, 2012 and 2011, GDOE recognized certain on-behalf payments as appropriations from GovGuam, totaling \$8,077,260, \$8,058,962, and \$8,685,152, respectively, representing certain healthcare benefits that GovGuam's general fund paid directly on behalf of GDOE retirees.

## GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements  
September 30, 2013

(6) Appropriations

During the year ended September 30, 2013, appropriations provided to GDOE by the Guam Legislature were as follows:

General Fund:

Public Law 31-233:

Government of Guam General Fund	
Operations	\$ 181,558,786
Guahan Academy Charter School	687,500
Chamorro Studies Division	80,257
Textbooks	1,376,745
John F. Kennedy High School Lease Agreement	5,399,935
Tiyan Operating Lease	4,493,256
Retiree healthcare benefits	8,077,260
Territorial Education Facilities Fund	
Operations	7,466,018
John F. Kennedy High School-Additional rental	1,568,000
GPA promissory note	1,864,457
Healthy Futures Fund	523,946
Public Library Resource Fund	569,779

Public Law 31-77

SAR Fund	212,351
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Public Law 21-59:

Government of Guam General Fund	
Promised compensation (merit, increments, settlements)	<u>5,394,920</u>
	219,273,210

Federal Grants Assistance Fund:

Public Law 28-47

Municipal School Lease Agreement	<u>7,100,000</u>
	<u>\$226,373,210</u>

In addition, Public Law 31-233 appropriates \$11,164,309 of all monies collected by GDOE from Federal funds paid to GDOE for reimbursement under the National School Lunch Program and Breakfast Program and the State Administrative Expenses for Child Nutrition Program to GDOE for non-personnel operating expenses. The total of such reimbursements from the U.S. Department of Agriculture during the year ended September 30, 2013 is \$10,295,861, which is accounted for within GDOE's federal grants assistance fund.

(7) School Lease Agreements

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

**GUAM DEPARTMENT OF EDUCATION**

Notes to Financial Statements  
September 30, 2013

(7) School Lease Agreements, Continued

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

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

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

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 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.

The assets acquired through capital leases are as follows:

Asset:	
Buildings	\$ 154,264,866
Less accumulated depreciation	<u>(15,394,919)</u>
	<u>\$ 138,869,947</u>

These buildings are summarized as follows:

Liguan Elementary School	\$ 13,082,080
Adacao Elementary School	14,482,938
Astumbo Middle School	18,383,500
John F. Kennedy High School	65,735,000
Okkodo High School	<u>42,581,348</u>
	<u>\$ 154,264,866</u>

**GUAM DEPARTMENT OF EDUCATION**

Notes to Financial Statements  
September 30, 2013

(7) School Lease Agreements, Continued

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

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Additional Rental</u>	<u>Total</u>
2014	\$ 4,385,000	\$ 6,864,530	\$ 2,573,649	\$ 13,823,179
2015	4,610,000	6,643,207	2,572,405	13,825,612
2016	4,865,000	6,388,926	2,573,591	13,827,517
2017	5,110,000	6,146,725	2,575,208	13,831,933
2018	5,380,000	5,874,027	2,577,173	13,831,200
2019 – 2023	25,890,000	25,409,374	12,862,698	64,162,072
2024 – 2028	23,000,000	18,076,809	10,845,238	51,922,047
2029 – 2033	12,505,000	13,134,250	7,840,000	33,479,250
2034 – 2038	21,700,000	9,067,266	7,840,000	38,607,266
2039 – 2041	<u>9,515,000</u>	<u>746,281</u>	<u>6,272,000</u>	<u>16,533,281</u>
	<u>\$ 116,960,000</u>	<u>\$ 98,351,395</u>	<u>\$ 58,531,962</u>	<u>\$ 273,843,357</u>

As of September 30, 2013, plans were in progress to expand the Okkodo High School as noted on Note 4I.

(8) Merit Bonus and Salary Increment

In 1991, Public Law 21-59 was enacted to establish a bonus system for employees of the Government of Guam, autonomous and semi-autonomous agencies, public corporations and other public instrumentalities of the Government of Guam who earn a superior performance grade. The bonus is calculated at 3.5% of the employee's base salary. As of September 30, 2013, GDOE paid \$1,100,000 for superior performance ratings or equivalent. No merit bonus accrual was recorded as of September 30, 2013 as evaluations were still in progress.

Public Law 21-50 also established salary increments for every classified employee in Pay Grades A through V. As of September 30, 2013, \$3,174,000 was accrued and no disbursements were released as of that date.

(9) Subsequent Events

On December 30, 2013, GovGuam on behalf of GDOE exercised an option to purchase certain property located in Tiyan. In addition to the purchase price of \$43,500,000 that comprises the school premises, GovGuam on behalf of GDOE elected to purchase additional property in the amount of \$43,648,970. The total purchase price is to be paid in the form of tax credits over a period of 10 years commencing January 1, 2014 in the aggregate amount of \$175,433,826, inclusive of \$88,284,856 of interest and other costs.

**GUAM DEPARTMENT OF EDUCATION**

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**REQUIRED SUPPLEMENTARY  
INFORMATION**

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**YEAR ENDED SEPTEMBER 30, 2013**

## GUAM DEPARTMENT OF EDUCATION

### Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual General Fund Year Ended September 30, 2013

	Original Budget	Final Budget	Actual - Budgetary Basis	Variance with Final Budget - Positive (Negative)
Revenues:				
Local appropriations:				
Government of Guam General Fund:				
Operations	\$ 181,939,906	\$ 181,558,786	\$ 181,558,786	\$ -
Guahan Academy Charter Schools	687,500	687,500	687,500	-
Textbooks	1,500,000	1,500,000	1,376,745	(123,255)
Chamorro Studies Division	381,120	381,120	80,257	(300,863)
Retiree healthcare benefits	-	8,077,260	8,077,260	-
Tiyan Operating Lease Agreement	-	4,493,256	4,493,256	-
JFK High School Lease Agreement (Base rental)	-	5,131,938	5,399,935	267,997
Promised compensation	-	-	365,784	365,784
Merit bonus and increments	-	2,850,953	5,029,136	2,178,183
Territorial Educational Facilities Fund:				
Operations	15,808,564	15,808,564	7,466,018	(8,342,546)
GPA promissory note	1,432,753	1,432,753	1,864,457	431,704
JFK High School Lease Agreement (Additional rental)	1,568,000	1,568,000	1,568,000	-
Healthy Futures Fund:				
Interscholastic sports	612,000	612,000	366,599	(245,401)
Health and Physical Education Activities	279,754	279,754	157,347	(122,407)
Public School Library Resources Fund	670,328	670,328	569,779	(100,549)
SAR	-	-	212,351	212,351
Fees and other program receipts	-	61,251	939,436	878,185
Federal grants and contributions	-	528,500	563,658	35,158
Cafeteria sales	-	553,763	553,763	-
Total revenues	<u>204,879,925</u>	<u>226,195,726</u>	<u>221,330,067</u>	<u>(4,865,659)</u>
Expenditures - Budgetary Basis:				
Elementary Education	65,454,237	74,693,322	76,061,395	(1,368,073)
Secondary Education	70,410,990	82,304,052	83,608,923	(1,304,871)
Direct Student Support	10,848,427	18,335,546	16,239,198	2,096,348
General Administration	49,402,738	96,035,488	83,842,089	12,193,399
Retiree healthcare benefits	-	8,077,260	8,077,260	-
Tiyan Operating Lease	-	4,493,256	4,493,256	-
Transfer to Guahan Charter Schools Fund	687,500	687,500	687,500	-
Debt service:				
JFK High School Lease Agreement	1,568,000	6,967,935	6,967,935	-
Total expenditures	<u>198,371,892</u>	<u>291,594,359</u>	<u>279,977,556</u>	<u>11,616,803</u>
Deficiency of revenues under expenditures	6,508,033	(65,398,633)	(58,647,489)	6,751,144
Other financing uses:				
Transfers out	-	-	(114,450)	(114,450)
Net change in fund balance	6,508,033	(65,398,633)	(58,761,939)	6,636,694
Other changes in fund balance:				
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary purposes, but in the year the items are received for financial reporting purposes	-	-	25,955,447	25,955,447
Fund balance at beginning of year	<u>44,510,290</u>	<u>44,510,290</u>	<u>44,510,290</u>	<u>-</u>
Fund balance at end of year	<u>\$ 51,018,323</u>	<u>\$ (20,888,343)</u>	<u>\$ 11,703,798</u>	<u>\$ 32,706,591</u>

See accompanying notes to required supplementary information.

## **GUAM DEPARTMENT OF EDUCATION**

### **Notes to Required Supplementary Information – Budgetary Reporting September 30, 2013**

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

The Budget Act for fiscal year 2013, Public Law No. 31-233, was approved for the Executive branch and the Legislative branch. Budgets for Special Revenue Funds are generally not submitted. Accordingly, a budget to actual presentation for Special Revenue Funds is not required or presented. Project length financial plans are adopted for capital projects funds.

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

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

See Accompanying Independent Auditors' Report.

**GUAM DEPARTMENT OF EDUCATION**

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

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

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

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

See Accompanying Independent Auditors' Report.

**GUAM DEPARTMENT OF EDUCATION**

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**OTHER SUPPLEMENTARY  
INFORMATION**

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**YEAR ENDED SEPTEMBER 30, 2013**

**GUAM DEPARTMENT OF EDUCATION**

Statements of Net Position - Governmental Activities

September 30, 2013

(With Comparative Totals as of September 30, 2012)

<u>ASSETS</u>	<u>2013</u>	<u>2012 (Restated)</u>
Current assets:		
Cash and cash equivalents	\$ 2,924,432	\$ 10,115,705
Receivables from federal agencies	14,535,064	8,012,033
Due from primary government	2,354,899	-
Prepayments and other assets	2,239,493	2,659,871
Restricted assets:		
Cash and cash equivalents	5,904,904	36,347,899
Investments	19,078,908	19,037,741
Total current assets	<u>47,037,700</u>	<u>76,173,249</u>
Noncurrent assets:		
Deferred maintenance and insurance costs	1,750,000	2,631,761
Capital assets:		
Non-depreciable capital assets	12,659,756	9,381,698
Capital assets, net of accumulated depreciation	282,027,281	266,166,309
Total noncurrent assets	<u>296,437,037</u>	<u>278,179,768</u>
Total assets	<u>\$ 343,474,737</u>	<u>\$ 354,353,017</u>
<u>LIABILITIES</u>		
Current liabilities:		
Current portion of payment arrangement with GPA	\$ -	\$ 1,822,750
Accounts payable	16,718,261	8,557,133
Accrued payroll	4,656,776	3,285,502
Other liabilities and accruals	9,355,432	12,164,511
Payable to federal agencies	3,981,766	5,184,730
Current portion of obligation under capital lease	4,385,000	4,195,000
Current portion of compensated absences payable	3,648,710	3,648,710
Total current liabilities	<u>42,745,945</u>	<u>38,858,336</u>
Noncurrent liabilities:		
Compensated absences payable, net of current portion	1,042,727	1,029,215
Accrued sick leave liability	5,997,675	5,884,855
Obligation under capital lease, net of current portion	112,575,000	116,960,000
Total noncurrent liabilities	<u>119,615,402</u>	<u>123,874,070</u>
Total liabilities	<u>162,361,347</u>	<u>162,732,406</u>
<u>NET POSITION</u>		
Net investment in capital assets	177,727,037	154,393,007
Restricted for:		
CIP, technology and equipment projects	24,983,812	55,385,640
Maintenance and insurance costs	2,371,667	2,631,761
Unrestricted	<u>(23,969,126)</u>	<u>(20,789,797)</u>
Total net position	<u>181,113,390</u>	<u>191,620,611</u>
	<u>\$ 343,474,737</u>	<u>\$ 354,353,017</u>

See Accompanying Independent Auditors' Report.

**GUAM DEPARTMENT OF EDUCATION**

Statement of Activities - Governmental Activities

Year Ended September 30, 2013

(With Comparative Totals for the Year Ended September 30, 2012)

	2013	2012 (Restated)
<b>Program Revenues:</b>		
Elementary Education	\$ 484,009	\$ 5,013,296
Secondary Education	469,523	3,049,794
Direct Student Support	62,450,255	49,538,992
General Administration	630,595	12,430,515
	<u>64,034,382</u>	<u>70,032,597</u>
<b>Expenses:</b>		
Elementary Education	72,157,347	92,497,924
Secondary Education	81,321,094	107,515,729
Direct Student Support	76,990,830	59,750,361
General Administration	57,187,526	13,517,203
Retiree healthcare benefits	8,077,260	8,058,962
Tiyan Operating Lease	4,493,256	6,237,183
Transfer to Guahan Charter Schools Fund	687,500	-
	<u>300,914,813</u>	<u>287,577,362</u>
Deficiency of program revenues under expenses	<u>(236,880,431)</u>	<u>(217,544,765)</u>
<b>General revenues:</b>		
<b>Appropriations:</b>		
Operations	211,738,449	217,888,736
Retiree healthcare benefits	8,077,260	8,058,962
Tiyan Operating Lease	4,493,256	7,734,935
Textbooks	1,376,745	1,700,000
Guahan Academy Charter School	687,500	-
	<u>226,373,210</u>	<u>235,382,633</u>
Change in net position	<u>(10,507,221)</u>	<u>17,837,868</u>
Net position at beginning of year	<u>191,620,611</u>	<u>173,782,743</u>
Net position at end of year	<u>\$ 181,113,390</u>	<u>\$ 191,620,611</u>

See Accompanying Independent Auditors' Report.

**GUAM DEPARTMENT OF EDUCATION**

Balance Sheets  
Governmental Funds  
September 30, 2013

(With Comparative Totals as of September 30, 2012)

<u>ASSETS</u>	2013			2012		
	General	Federal Grants Assistance	Total	General	Federal Grants Assistance	Total
Cash and cash equivalents	\$ 1,467,344	\$ 1,457,088	\$ 2,924,432	\$ 3,839,759	\$ 6,275,946	\$ 10,115,705
Receivables from federal agencies	-	14,535,064	14,535,064	-	8,012,033	8,012,033
Due from primary government	2,354,899	-	2,354,899	-	-	-
Prepayments and other assets	1,610,137	7,689	1,617,826	2,011,483	55	2,011,538
Due from other funds	4,182,032	-	4,182,032	3,244,506	-	3,244,506
Restricted assets:						
Cash and cash equivalents	5,904,904	-	5,904,904	36,347,899	-	36,347,899
Investment	19,078,908	-	19,078,908	19,037,741	-	19,037,741
<b>Total assets</b>	<b>\$ 34,598,224</b>	<b>\$ 15,999,841</b>	<b>\$ 50,598,065</b>	<b>\$ 64,481,388</b>	<b>\$ 14,288,034</b>	<b>\$ 78,769,422</b>
 <u>LIABILITIES AND FUND BALANCES</u>						
Liabilities:						
Accounts payable	\$ 12,981,518	\$ 3,736,743	\$ 16,718,261	\$ 6,952,413	\$ 1,604,720	\$ 8,557,133
Accrued payroll	3,991,217	665,559	4,656,776	3,258,867	26,635	3,285,502
Other liabilities and accruals	5,921,691	3,433,741	9,355,432	7,937,068	4,227,443	12,164,511
Payable to federal agencies	-	3,981,766	3,981,766	-	5,184,730	5,184,730
Due to other funds	-	4,182,032	4,182,032	-	3,244,506	3,244,506
Payment arrangement with GPA	-	-	-	1,822,750	-	1,822,750
<b>Total liabilities</b>	<b>22,894,426</b>	<b>15,999,841</b>	<b>38,894,267</b>	<b>19,971,098</b>	<b>14,288,034</b>	<b>34,259,132</b>
Fund balances:						
Restricted	24,983,812	-	24,983,812	55,385,640	-	55,385,640
Unassigned	(13,280,014)	-	(13,280,014)	(10,875,350)	-	(10,875,350)
<b>Total fund balances</b>	<b>11,703,798</b>	<b>-</b>	<b>11,703,798</b>	<b>44,510,290</b>	<b>-</b>	<b>44,510,290</b>
<b>Total liabilities and fund balances</b>	<b>\$ 34,598,224</b>	<b>\$ 15,999,841</b>	<b>\$ 50,598,065</b>	<b>\$ 64,481,388</b>	<b>\$ 14,288,034</b>	<b>\$ 78,769,422</b>

See Accompanying Independent Auditors' Report.

**GUAM DEPARTMENT OF EDUCATION**

Reconciliations of Governmental Fund Balance to Net Position of Governmental Activities  
September 30, 2013  
(With Comparative Totals as of September 30, 2012)

	2013	2012 (Restated)
	<u>2013</u>	<u>(Restated)</u>
Total fund balance - governmental funds	\$ 11,703,798	\$ 44,510,290
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.	621,667	648,333
Maintenance costs associated with capital lease obligations in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	1,750,000	2,631,761
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	\$ 380,824,612	356,452,819
Vehicles, furniture and equipment	13,543,743	13,644,423
Construction in progress	12,659,756	9,381,698
Accumulated depreciation	<u>(112,341,074)</u>	<u>(103,930,933)</u>
Capital assets, net of accumulated depreciation	294,687,037	275,548,007
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds. These liabilities include:		
Accrued sick leave liability	(5,997,675)	(5,884,855)
Compensated absences payable	(4,691,437)	(4,677,925)
Obligations under capital lease	<u>(116,960,000)</u>	<u>(121,155,000)</u>
Long-term liabilities	<u>(127,649,112)</u>	<u>(131,717,780)</u>
Net position of governmental activities	<u>\$ 181,113,390</u>	<u>\$ 191,620,611</u>

See Accompanying Independent Auditors' Report.

**GUAM DEPARTMENT OF EDUCATION**

Statements of Revenues, Expenditure and Changes in Fund Balances  
 Governmental Funds  
 Year Ended September 30, 2013  
 (With Comparative Totals for the Year Ended September 30, 2012)

	2013			2012		
	General	Federal Grants Assistance	Total	General	Federal Grants Assistance	Total
<b>Revenues:</b>						
Appropriations	\$ 219,273,210	\$ 7,100,000	\$ 226,373,210	\$ 228,282,633	\$ 7,100,000	\$ 235,382,633
Federal grants and contributions	563,658	61,536,695	62,100,353	564,041	67,395,000	67,959,041
Cafeteria sales	553,763	-	553,763	676,874	-	676,874
Fees and other program receipts	939,436	440,830	1,380,266	1,041,474	355,208	1,396,682
<b>Total revenues</b>	<b>221,330,067</b>	<b>69,077,525</b>	<b>290,407,592</b>	<b>230,565,022</b>	<b>74,850,208</b>	<b>305,415,230</b>
<b>Expenditures:</b>						
<b>Current:</b>						
Elementary Education	75,352,478	484,009	75,836,487	84,463,796	5,013,296	89,477,092
Secondary Education	82,969,904	469,523	83,439,427	93,282,170	3,049,794	96,331,964
Direct Student Support	14,715,756	61,138,443	75,854,199	11,015,453	47,465,436	58,480,889
General Administration	60,758,020	-	60,758,020	14,749,030	12,221,682	26,970,712
Retiree healthcare benefits	8,077,260	-	8,077,260	8,058,962	-	8,058,962
Tiyan Operating Lease	4,493,256	-	4,493,256	6,237,183	-	6,237,183
Transfer to Guahan Charter Schools Fund	687,500	-	687,500	-	-	-
<b>Debt service:</b>						
Lease payment	6,967,935	7,100,000	14,067,935	4,522,895	7,100,000	11,622,895
<b>Total expenditures</b>	<b>254,022,109</b>	<b>69,191,975</b>	<b>323,214,084</b>	<b>222,329,489</b>	<b>74,850,208</b>	<b>297,179,697</b>
Excess (deficiency) of revenues over (under) expenditures	(32,692,042)	(114,450)	(32,806,492)	8,235,533	-	8,235,533
<b>Other financing sources (uses):</b>						
Transfers in	-	114,450	114,450	-	-	-
Transfers out	(114,450)	-	(114,450)	-	-	-
<b>Total other financing sources (uses), net</b>	<b>(114,450)</b>	<b>114,450</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Net change in fund balances	(32,806,492)	-	(32,806,492)	8,235,533	-	8,235,533
Fund balances at beginning of year	44,510,290	-	44,510,290	36,274,757	-	36,274,757
Fund balances at end of year	\$ 11,703,798	\$ -	\$ 11,703,798	\$ 44,510,290	\$ -	\$ 44,510,290

See Accompanying Independent Auditors' Report.

**GUAM DEPARTMENT OF EDUCATION**

Reconciliations of the Governmental Funds Statement of Revenues, Expenditures and  
Changes in Fund Balances to the Statement of Activities  
September 30, 2013  
(With Comparative Totals as of September 30, 2012)

	2013	2012 (Restated)
Amounts reported for governmental activities in the statements of activities are different because:		
Total net change in fund balances - governmental funds	\$ (32,806,492)	\$ 8,235,533
Governmental funds report capital outlays as expenditures. However, in the statements of activities the cost of those assets is allocated over the estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation (or depreciation exceeded capital outlays).	19,139,030	6,430,182
Prepayment of capital lease obligations in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	-	(104,875)
Prepayment of capital lease obligations in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	(908,427)	(109,022)
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.	4,195,000	3,990,000
Reversal of deferred assets (NOTE 1V)	-	(1,573,133)
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.	(126,332)	969,183
Change in net position of governmental activities	\$ (10,507,221)	\$ 17,837,868

See Accompanying Independent Auditors' Report.

**GUAM DEPARTMENT OF EDUCATION**

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

General Fund

Year Ended September 30, 2013

(With Comparative Totals for the Year Ended September 30, 2012)

	2013				2012			
	Original Budget	Final Budget	Actual - Budgetary Basis	Variance with Final Budget - Positive (Negative)	Original Budget	Final Budget	Actual - Budgetary Basis	Variance with Final Budget - Positive (Negative)
<b>Revenues:</b>								
<b>Local appropriations:</b>								
Government of Guam General Fund:								
Operations	\$ 181,939,906	\$ 181,558,786	\$ 181,558,786	\$ -	\$ 169,214,766	\$ 183,099,998	\$ 177,207,210	\$ (5,892,788)
Guahan Academy Charter Schools	687,500	687,500	687,500	-	-	-	-	-
Textbooks	1,500,000	1,500,000	1,376,745	(123,255)	2,000,000	2,000,000	1,700,000	(300,000)
Chamorro studies division	381,120	381,120	80,257	(300,863)	381,120	381,120	323,952	(57,168)
Retiree healthcare benefits	-	8,077,260	8,077,260	-	-	8,058,962	8,058,962	-
Tiyan Operating Lease Agreement	-	4,493,256	4,493,256	-	-	-	-	-
JFK High School Lease Agreement	-	5,131,938	5,399,935	267,997	-	4,522,895	4,522,895	-
Promised compensation	-	-	365,784	365,784	-	-	-	-
Merit bonus and increments	-	2,850,953	5,029,136	2,178,183	-	-	-	-
Government of Guam 2008 bond proceeds	-	-	-	-	-	-	822,250	822,250
Government of Guam 2012 bond proceeds	-	-	-	-	-	6,348,628	6,348,628	-
Territorial Education Facilities Fund								
Operations	15,808,564	15,808,564	7,466,018	(8,342,546)	19,619,104	16,810,890	16,810,890	-
GPA promissory note	1,432,753	1,432,753	1,864,457	431,704	2,400,000	2,400,000	2,400,000	-
Tiyan Operating Lease Agreement	-	-	-	-	-	7,734,935	7,734,935	-
JFK High School Lease Agreement (Additional rental)	1,568,000	1,568,000	1,568,000	-	-	-	-	-
Healthy Futures Fund:								
Interscholastic Sports	612,000	612,000	366,599	(245,401)	612,000	612,000	548,870	(63,130)
Health and Physical Education Activities	279,754	279,754	157,347	(122,407)	279,754	279,754	237,791	(41,963)
Public School Library Resources Fund	670,328	670,328	569,779	(100,549)	652,440	-	-	-
Indirect Cost Fund	-	-	-	-	250,000	250,000	212,500	(37,500)
Autonomous Agency Collection Fund	-	-	-	-	-	875,000	743,750	(131,250)
SAR Fund	-	-	212,351	212,351	525,000	525,000	525,000	-
Health and Human Services Fund	-	-	-	-	100,000	100,000	85,000	(15,000)
Fees and other program receipts	-	61,251	939,436	878,185	-	-	1,041,474	1,041,474
Federal grants and contributions	-	528,500	563,658	35,158	-	-	564,041	564,041
Cafeteria sales	-	553,763	553,763	-	1,095,091	1,095,091	676,874	(418,217)
<b>Total revenues</b>	<b>204,879,925</b>	<b>226,195,726</b>	<b>221,330,067</b>	<b>(4,865,659)</b>	<b>197,129,275</b>	<b>235,094,273</b>	<b>230,565,022</b>	<b>(4,529,251)</b>
<b>Expenditures - Budgetary Basis:</b>								
Personnel	144,576,590	170,794,324	170,912,002	(117,678)	145,753,775	172,050,030	165,855,865	6,194,165
Utilities	11,880,780	16,390,090	16,589,646	(199,556)	12,349,683	16,541,175	16,461,166	80,009
Contractual	13,966,835	25,974,970	21,072,541	4,902,429	8,662,036	20,441,402	10,781,633	9,659,769
Supplies/equipment	6,601,800	11,163,408	4,156,291	7,007,117	3,834,425	10,226,142	8,355,488	1,870,654
Textbooks	2,804,103	5,568,739	2,258,859	3,309,880	-	81,235	315,262	(234,027)
Capital projects	15,714,432	46,336,401	27,903,322	18,433,079	189,646	22,413,924	20,486,514	1,927,410
Tiyan Operating Lease	-	4,493,256	4,493,256	-	-	6,237,183	6,237,183	-
JFK High School Lease	-	6,967,935	6,967,935	-	-	4,522,895	4,522,895	-
Retiree healthcare benefits	-	8,077,260	8,077,260	-	-	8,058,962	8,058,962	-
Transfer to Guahan Charter Schools Fund	687,500	687,500	687,500	-	-	-	-	-
Other	2,139,852	(4,859,524)	16,858,944	(21,718,468)	32,121,517	1,430,321	2,080,993	(650,672)
<b>Total expenditures</b>	<b>198,371,892</b>	<b>291,594,359</b>	<b>279,977,556</b>	<b>11,616,803</b>	<b>202,911,082</b>	<b>262,003,269</b>	<b>243,155,961</b>	<b>18,847,308</b>
Deficiency of revenues under expenditures	6,508,033	(65,398,633)	(58,647,489)	6,751,144	(5,781,807)	(26,908,996)	(12,590,939)	14,318,057
<b>Other financing uses and uses:</b>								
Transfers in	-	-	(114,450)	(114,450)	-	-	-	-
<b>Net change in fund balance</b>	<b>6,508,033</b>	<b>(65,398,633)</b>	<b>(58,761,939)</b>	<b>6,636,694</b>	<b>(5,781,807)</b>	<b>(26,908,996)</b>	<b>(12,590,939)</b>	<b>14,318,057</b>
<b>Other changes in fund balance:</b>								
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary purposes, but in the year the items are received for financial statement purposes	-	-	25,955,447	25,955,447	-	-	20,826,472	20,826,472
<b>Fund balance at beginning of year</b>	<b>44,510,290</b>	<b>44,510,290</b>	<b>44,510,290</b>	<b>-</b>	<b>36,274,757</b>	<b>36,274,757</b>	<b>36,274,757</b>	<b>-</b>
<b>Fund balance at end of year</b>	<b>\$ 51,018,323</b>	<b>\$ (20,888,343)</b>	<b>\$ 11,703,798</b>	<b>\$ 32,592,141</b>	<b>\$ 30,492,950</b>	<b>\$ 9,365,761</b>	<b>\$ 44,510,290</b>	<b>\$ 35,144,529</b>

See Accompanying Independent Auditors' Report.

**GUAM DEPARTMENT OF EDUCATION**

Combined Statements of Revenues, Expenditures By Account and Changes in Fund Balances  
 Governmental Funds  
 Year Ended September 30, 2013  
 (With Comparative Totals for the Year Ended September 30, 2012)

	2013			2012		
	General	Federal Grants Assistance	Total	General	Federal Grants Assistance	Total
<b>Revenues:</b>						
Local appropriations	\$ 219,273,210	\$ 7,100,000	\$ 226,373,210	\$ 228,282,633	\$ 7,100,000	\$ 235,382,633
Federal grants and contributions	563,658	61,536,695	62,100,353	564,041	67,395,000	67,959,041
Cafeteria sales	553,763	-	553,763	676,874	-	676,874
Fees and other program receipts	939,436	440,830	1,380,266	1,041,474	355,208	1,396,682
<b>Total revenues</b>	<b>221,330,067</b>	<b>69,077,525</b>	<b>290,407,592</b>	<b>230,565,022</b>	<b>74,850,208</b>	<b>305,415,230</b>
<b>Expenditures:</b>						
Salaries and wages	120,185,423	24,324,980	144,510,403	123,273,248	24,392,541	147,665,789
Benefits	46,282,059	7,216,890	53,498,949	43,817,001	7,441,254	51,258,255
Contractual	15,642,189	17,157,191	32,799,380	8,173,167	26,705,895	34,879,062
Capital outlay	28,837,807	301,169	29,138,976	4,843,669	407,400	5,251,069
Power	14,290,764	-	14,290,764	14,415,200	44,930	14,460,130
Capital lease	6,967,935	7,100,000	14,067,935	4,522,895	7,100,000	11,622,895
Equipment	1,517,952	7,969,677	9,487,629	2,806,428	3,002,789	5,809,217
Retiree healthcare benefits	8,077,260	-	8,077,260	8,058,962	-	8,058,962
Tiyan Operating Lease	4,493,256	-	4,493,256	6,237,183	-	6,237,183
Supplies	1,035,963	2,360,668	3,396,631	1,112,876	3,128,039	4,240,915
Textbooks	2,258,859	100,131	2,358,990	1,761,299	230,915	1,992,214
Water	1,994,569	-	1,994,569	1,950,981	-	1,950,981
Travel	332,855	1,083,714	1,416,569	331,402	909,579	1,240,981
Food commodity	727	1,386,758	1,387,485	-	38,572	38,572
Transfer to Guahan Charter Schools Fund	687,500	-	687,500	-	-	-
Bad debt	423,557	-	423,557	-	-	-
Phone	322,125	-	322,125	115,847	-	115,847
Library books and equipment	291,108	13,398	304,506	433,094	64,906	498,000
Fuel	282,019	-	282,019	300,282	-	300,282
Indirect costs	-	177,226	177,226	-	1,260,911	1,260,911
Interest and penalties	70,863	-	70,863	137,042	-	137,042
Miscellaneous	27,319	173	27,492	38,913	122,477	161,390
<b>Total expenditures</b>	<b>254,022,109</b>	<b>69,191,975</b>	<b>323,214,084</b>	<b>222,329,489</b>	<b>74,850,208</b>	<b>297,179,697</b>
Excess (deficiency) of revenues over (under) expenditures	(32,692,042)	(114,450)	(32,806,492)	8,235,533	-	8,235,533
<b>Other financing sources (uses):</b>						
Transfer in	-	114,450	114,450	-	-	-
Transfer out	(114,450)	-	(114,450)	-	-	-
<b>Total other financing sources (uses), net</b>	<b>(114,450)</b>	<b>114,450</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Net change in fund balances	(32,806,492)	-	(32,806,492)	8,235,533	-	8,235,533
Fund balances, beginning of year	44,510,290	-	44,510,290	36,274,757	-	36,274,757
Fund balances, end of year	\$ 11,703,798	\$ -	\$ 11,703,798	\$ 44,510,290	\$ -	\$ 44,510,290

See Accompanying Independent Auditors' Report.

**GUAM DEPARTMENT OF EDUCATION**

Agency Fund  
September 30, 2013

The schedule of cash receipts and cash disbursements for the agency fund during fiscal year 2013 is as follows:

	<u>NAF</u>
Cash balance at beginning of year	\$ <u>449,044</u>
Cash receipts:	
Elementary school activities	269,646
Secondary school activities	<u>1,168,932</u>
Total receipts	<u>1,438,578</u>
Cash disbursements:	
Elementary school activities	254,125
Secondary school activities	<u>1,094,598</u>
Total disbursements	<u>1,348,723</u>
Cash balance at end of year	\$ <u>538,899</u>

The number of individual funds at the schools during fiscal year 2013 is as follows:

Elementary schools	137
Secondary schools	156

See Accompanying Independent Auditors' Report.

**GUAM DEPARTMENT OF EDUCATION**

Personnel  
September 30, 2013 and 2012

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

	Employee Count as of PPE <u>October 5, 2013</u>	Employee Count as of PPE <u>October 6, 2012</u>
100% Locally Funded	2,770	2,810
100% Federally Funded	947	846
Locally/Federally Funded	<u>42</u>	<u>147</u>
Total Employee Count	<u>3,759</u>	<u>3,803</u>

See Accompanying Independent Auditors' Report.