

**GUAM DEPARTMENT OF EDUCATION**

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

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

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**YEAR ENDED SEPTEMBER 30, 2018**

**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, 2018, and the related notes to the financial statements, which collectively comprise GDOE's basic financial statements as set forth in Section III of the forgoing table of contents.

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

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

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

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

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Guam Department of Education as of September 30, 2018, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis-of-Matter**

### *Implementation of New Accounting Standards*

As discussed in Note 2 to the financial statements, GDOE adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective October 1, 2017. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 16, the Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund and notes thereto on pages 56 and 57, the Schedule of Proportionate Share of the Net Pension Liability, on pages 58 through 60, the Schedule of Pension Contributions on page 61, the Schedule of Changes in the Proportionate Share of the Total OPEB Liability and Related Ratios on page 62, the Schedule of Proportionate Share of the Total OPEB Liability on page 63, and the Schedule of OPEB Contributions on page 64, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information, in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information, comparing the information for consistency with management's responses to our inquiries of the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

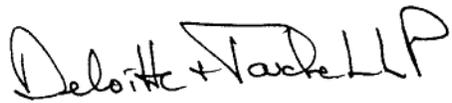
### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise GDOE's basic financial statements. The Other Supplementary Information, as set forth in Section V of the foregoing table of contents, is presented for purposes of additional analysis and are not a required part of the basic financial statements. The Other Supplementary Information is the responsibility of management. The 2018 information on pages 66 through 72 as well as the additional information on pages 74 through 76 was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The 2017 information on pages 66 through 72 as well as the additional information on pages 73 and 77 have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 14, 2019, on our consideration of GDOE's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of GDOE's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering GDOE's internal control over financial reporting and compliance.

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

May 14, 2019

## GUAM DEPARTMENT OF EDUCATION

Management's Discussion and Analysis  
Year Ended September 30, 2018

### INTRODUCTION

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

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

GDOE is governed by policies established by the Guam Education Board (GEB, Board) comprised of a combination of elected and appointed board members. The Board appoints the Superintendent of Education who is the Chief Executive Officer of the Department. At the beginning of the fiscal year, Mr. Mark B. Mendiola was the GEB Chair and Ms. Maria Gutierrez was the Vice Chair, having been elected to those positions in January 2018, after they and other elected members began the second year of their two-year (2017-2018) term. In January 2019, Mendiola and Gutierrez retained these positions as they and other GEB members began their 2019-2020 term.

The GEB consists of 12 members: 6 elected members (Mendiola, Gutierrez, James A. Lujan, Lourdes M. Benavente, and appointees Ray P. Chargualaf, Jr. and John T. Burch, both of whom are pending legislative confirmation); 3 appointed: (Dr. Ronald L. McNinch (business representative), appointee Carlyn R.C.G. Borja (parent representative also pending legislative confirmation), one vacancy (retired school administrator or teacher)) and 3 ex-officio, non-voting members: an alternating student representative of the Island wide Board of Governing Students; Guam Federation of Teachers (collective bargaining unit representative) Mark D. McCarthy; and Mayor Rudy Matanane, Mayor's Council of Guam representative. The remaining vacancy is pending an appointment by the Governor. Board appointments must also be confirmed by the Guam Legislature.

Public Law 29-140 established the process to authorize Charter Schools on Guam through the Guam Academy Charter Schools Council. Although the Charter Schools are considered public schools, they operate independently from the Guam Department of Education. However, appropriations and expenditures of the Charter Schools are included in the GDOE financial statements.

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

This discussion has been prepared by GDOE management to provide an overview of the Department's financial activities for fiscal year (FY) ending September 30, 2018. 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:

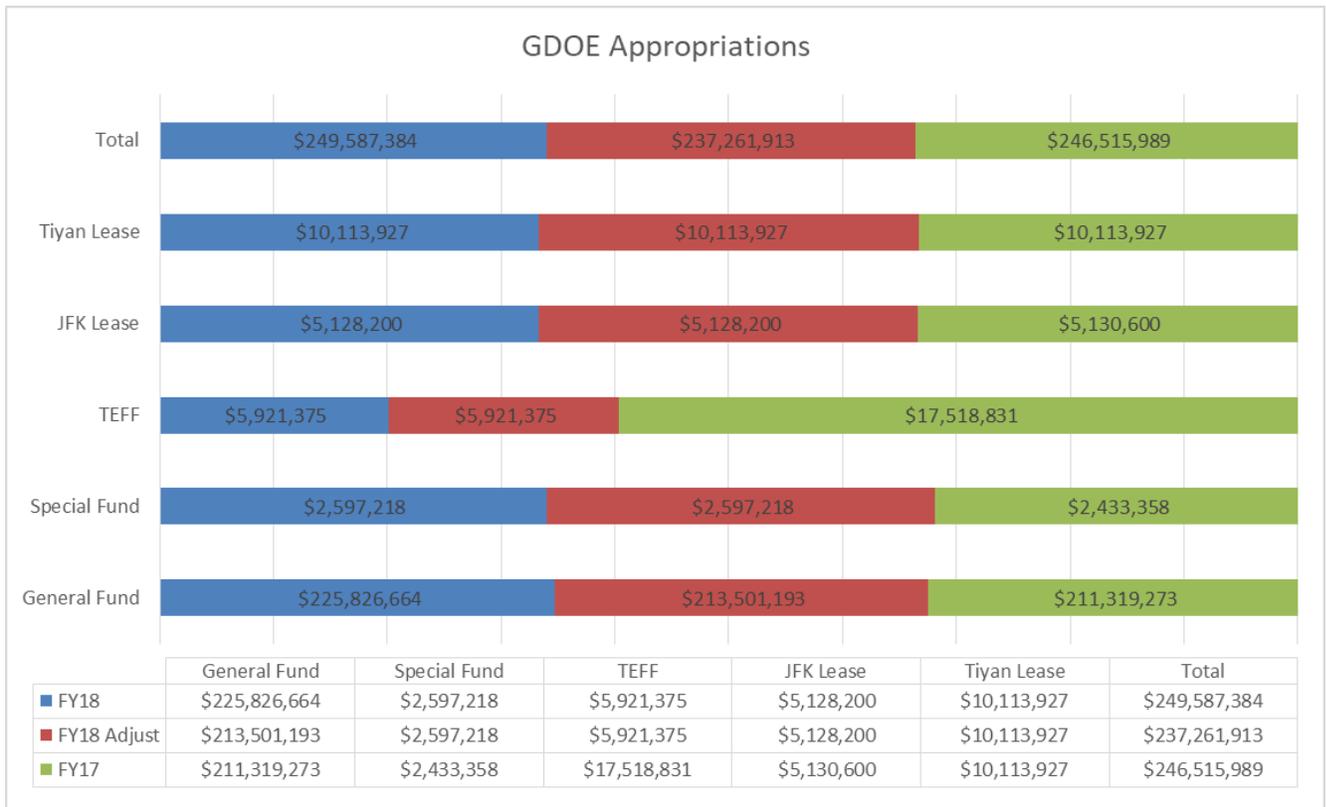
## GUAM DEPARTMENT OF EDUCATION

Management's Discussion and Analysis  
Year Ended September 30, 2018

- *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 FY18 Single Audit represents GDOE's commitment to, and support of, programmatic and financial accountability.

### Local Appropriations cut \$12.3M Due to Federal Tax Cut and Jobs Act (TCJA) of 2017



Pursuant to the FY2018 Budget Act or Public Law (PL) 34-42, GDOE appropriations in FY18 had *initially* totaled \$249,587,384, with no increases in the \$8,060,000 appropriation for charter schools, and an overall increase of \$3 million (M) in comparison to FY17 appropriation levels.

## GUAM DEPARTMENT OF EDUCATION

Management's Discussion and Analysis  
Year Ended September 30, 2018

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

1. \$1,054,596 in additional funding to expand the Early Childhood Education program, adding four additional classrooms (72 students) with requisite staff, equipment and instructional materials;
2. \$500 thousand (K) targeted for school maintenance and repairs;
3. \$89,278 in additional funding for school libraries under the Public Library Resource Fund, from \$907,668 in FY17 to \$996,946 in FY18;
4. with the remaining \$1,427,521 to cover projected organic growth in the cost of GDOE personnel and operations expenditures.

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

Following the enactment of the Federal Tax Cut and Jobs Act (TCJA) of 2017 (PL 115-97) in December 2017, GDOE's FY2018 Budget was reduced by \$12.3M under a Fiscal Year Realignment Plan (FRP) mandated under PL 34-87 and adopted by the Governor. The reduction was prorated between GDOE (\$11,627,185) and Charter Schools (\$698,286).

	General Fund	Special Fund	TEFF	JFK Lease	Tiyan Lease	Total
FY18	225,826,664	2,597,218	5,921,375	5,128,200	10,113,927	249,587,384
FY18 Adjust	213,501,193	2,597,218	5,921,375	5,128,200	10,113,927	237,261,913
Change	(12,325,471)	-	-	-	-	(12,325,471)

Additional appropriations provided to benefit GDOE not included in the comparative table above include \$15.1M in payments (\$11.7M in retiree healthcare benefits and \$2.9M in lease payments for Okkodo High School Expansion) and \$450K from the University of Guam and the Guam Community College to implement the First Generation Trust Initiative.

The Legislature approved \$12.5M in additional appropriations (\$12.3M in Federal reimbursements and \$119K cash collections) related to the National School Lunch and School Breakfast Programs. The reimbursements are provided by USDA's Food and Nutrition Services for meals served to students and children who attend public schools. In FY18, cafeteria sales were \$31,213; the estimated cash collections identified in the appropriation are much higher than what was realized. Cash collections were impacted by the expansion of schools enrolled in the Community Eligibility Provision (CEP) program, which enables high-poverty districts to offer school breakfast and lunch at no cost to students. In SY17-18, 36 schools were enrolled, 9 more than the previous school year, and in August 2018 or the 4<sup>th</sup> quarter of the fiscal year, all 41 GDOE schools were enrolled in the program.

Public Law 34-117 appropriated an additional \$1.5M, in continuing appropriations, for the SSHS Renovation project from FY2018 proceeds of the Tax Amnesty program. However, the Department of Administration (DOA) noted there is no cash available to fund the appropriation.

**GUAM DEPARTMENT OF EDUCATION**

Management's Discussion and Analysis  
Year Ended September 30, 2018

**Federal Grants and Programs**

Federal grant awards increased by \$789K in FY18 as compared to FY17 from the following U.S. departments:

<u>Grantor</u>	<u>FY 2018</u>	<u>FY 2017</u>	<u>Change</u>
U.S. Department of Agriculture	\$ 13,217,545	\$ 14,267,307	\$ (1,049,762)
U.S. Department of Education	\$ 44,947,011	\$ 43,061,598	\$ 1,885,413
U.S. Department of Health & Human Services	\$ 3,302,923	\$ 3,166,149	\$ 136,774
U.S. Department of the Interior	\$ <u>2,982,000</u>	\$ <u>3,164,545</u>	\$ <u>(182,545)</u>
<b>TOTAL</b>	\$ <u>64,449,479</u>	\$ <u>63,659,599</u>	\$ <u>789,880</u>

GDOE was awarded funding from the U.S. Department of the Interior (DOI) for a facilities plan, playground equipment and deferred maintenance projects discussed below. GDOE also received \$34,579 in DOI grant funding for training of audit and accounting personnel and \$491,000 to be used for operational offsets.

In FY18, the following amounts were expended by GDOE through a variety of Federal grants, representing \$68.1M or 21.16% of total (federal and local) expenditures of \$321,800,799:

<u>Grantor</u>	<u>FY 2018</u>	<u>FY 2017</u>	<u>Change</u>
U.S. Department of Agriculture	\$ 13,917,516	\$ 12,732,144	\$ 1,185,372
U.S. Department of Education	\$ 41,428,920	\$ 40,322,092	\$ 1,106,828
U.S. Department of Health & Human Services	\$ 3,285,873	\$ 2,853,063	\$ 432,810
U.S. Department of the Interior	\$ <u>8,904,208</u>	\$ <u>9,933,098</u>	\$ <u>(1,028,890)</u>
Federal Grants Assistance Fund Expenditures	\$ <u>67,536,517</u>	\$ <u>65,840,397</u>	\$ <u>1,696,120</u>

Reconciling items to the Schedules of Expenditures of Federal Awards:

U.S. Department of Defense	\$ 476,277	\$ 436,827	\$ 39,450
U.S. Department of Homeland Security	\$ 74,251	\$ -	\$ 74,251
U.S. Department of the Interior	\$ 35,650	\$ -	\$ 35,650
U.S. Department of Agriculture	\$ <u>70,869</u>	\$ <u>-</u>	\$ <u>70,869</u>
	\$ <u>657,047</u>	\$ <u>436,827</u>	\$ <u>220,220</u>
<b>Total Federal Expenditures</b>	\$ <u>68,193,564</u>	\$ <u>66,277,224</u>	\$ <u>1,916,340</u>

The \$1.9M overall increase or 2.89% in expenditures in FY18 in comparison to FY17 occurred in all grants received from U.S. Departments of Agriculture, Health and Human Services, Defense, and Education, offset by a decrease in expenditures from the U.S. Department of the Interior.

**FISCAL YEAR 2018 OVERVIEW**

GDOE once again received less cash than appropriated in FY18 - \$2.3M in General Fund (GF), \$152K in the Limited Gaming Fund, and \$12.3M associated with the FY18 Fiscal Realignment Plan - for a combined cash shortfall total of \$14.8M. In previous fiscal years, the shortages occurred in appropriations, alternatively, from both the GF and TEFF: \$2M in FY17 GF and TEFF; \$5.1M in FY16 GF; and \$3.2M and \$5M in FY15 and FY14 TEFF. This recurrence in FY2018 impacted cash flow and slowed payments of outstanding invoices.

## GUAM DEPARTMENT OF EDUCATION

### Management's Discussion and Analysis Year Ended September 30, 2018

In January 23, 2018, the Bureau of Budget Management and Research (BBMR) announced projected General Fund revenue losses from the Federal Tax Cuts and Jobs Act would require pro-rata reductions in FY18 appropriations across all agencies. For GDOE, this had represented an estimated \$19.6M in cuts. In line with this directive, the Department of Administration (DOA) advised GDOE that GDOE's weekly \$3.8M cash disbursement schedule, as early as February 2018, would be adjusted to \$3.6M from the General Fund Operating Fund. All other sources would be remitted as cash became available.

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

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

- Temporarily increasing the Business Privilege Tax from 4% to 5% beginning April 1 to September 30, 2018;
- Imposing a permanent 2% General Sales Tax beginning October 1, 2018, apportioning the revenue to the Guam Memorial Hospital Authority (.75%), GDOE (.25%), and the GovGuam General Fund (1%) to address the tax erosion resulting from TCJA; however, this provision was repealed in July 17, 2018 under PL 34-113;
- Establishing new authority for the Governor to use his Executive Order to reorganize the various entities of the executive branch.

Additionally, PL 34-87 required the Governor to submit a FY2018 Fiscal Realignment Plan that reduced net appropriations by not less than \$30M as compared to the FY2018 Budget Act or PL 34-42. GDOE's share of the cuts shrank from the projected \$19.6M to \$12.3M in budgetary cuts under the realignment plan submitted to the Guam Legislature on March 23, 2018. The resultant \$12,325,471 in local budgetary reductions compelled foregoing the expansion of GDOE's Early Childhood (Pre-K), curtailing, and redirecting planned procurements affecting school libraries, textbooks for students, interscholastic sports and health and physical activities, sports facility improvements, and technology purchases to advance the use of technology in the classroom. Additionally, \$2,383,616 in cash shortfalls in local appropriations delayed the payment of teacher reclassifications, onboarding of substitute teachers, and the filling of school administrator and central office vacancies.

On April 13, 2018, the Governor issued Executive Order No. 2018-05, rescinding furlough and layoff procedures under Executive Order 2018-04.

FY18 marked the sixth year GDOE incurred local expenditures associated with addressing its 'high risk' grantee status by U.S. Department of Education under Special Conditions issued by USEd, which require financial management functions of USEd grants to be supervised by a Third Party Fiduciary Agent (TPFA). Transition plans, first developed between the TPFA and GDOE in FY15, continued to be monitored and updated throughout FY18. The plans identify tasks necessary to complete the Comprehensive Correction Plan as well as identify resources and activities necessary should the requirement for the TPFA be reduced in scope or removed. The transition work plan is updated weekly and tracks the progress of completed tasks. Progress is shared with USEd on a bi-weekly basis. Note that any transition of tasks from the TPFA to GDOE must be officially sanctioned by USEd.

## **GUAM DEPARTMENT OF EDUCATION**

### Management's Discussion and Analysis Year Ended September 30, 2018

In April 2018, the Superintendent and GEB Chairman met with various GovGuam and USEd officials to announce GDOE's intentions to request for a reconsideration of the Special Conditions imposed on USEd grants to GDOE. On May 29, 2018, an official request for reconsideration of Special Conditions imposed on GDOE was sent to USEd in which it was noted that GDOE has reduced its audit findings and questioned costs since the original designation of high risk status and, beginning in FY13, received unmodified opinions on its financial and Single Audits.

GDOE staff perform budget, personnel, payroll, procurement, property management, and accounts payable activities with various levels of oversight from the required Third-Party Fiduciary Agent (TPFA) over transactions funded with USEd grants; financial transactions from the TPFA system are mirrored on GDOE's financial management system. Because the TPFA operates on a cash basis and GDOE on a modified accrual basis, reconciliations, particularly at the end of the year, are time consuming and have required adjustments months after the fiscal year end.

A majority of the actions required in the USEd approved Comprehensive Corrective Action Plan have been completed. Per Title 2 of the Code of Federal Regulations §200.207(b), in May 2018 GDOE officially requested reconsideration of the special (now called specific) conditions, the nature of actions needed to remove the special conditions, and the timeline for the reconsideration.

Annually, USEd updates its special/specific conditions letter in June. The June 2018 letter acknowledged GDOE's request for reconsideration and replaced the Comprehensive Corrective Action Plan (CCAP) with a Reconsideration Evaluation Plan (REP). The REP contains significantly more requirements than the CCAP.

On March 13, 2019, USEd amended the FY18 specific conditions to remove three conditions related to (1) prompt access, (2) program-specific conditions, and (3) compliance with program requirements. The four remaining conditions include (1) requirements for a TPFA, (2) responsibilities of GDOE and the TPFA concerning administration of USEd grant funds, (3) REP, and (4) single audits.

GDOE has received unmodified opinions on its Financial and Single Audits for FY14 thru FY18. Beginning in FY15, there were no identified material weaknesses and no or minimal questioned costs. Except for the high risk designation by US Ed, GDOE management is of the opinion that GDOE would likely be designated a low risk auditee.

In November 2017 and July 2018, GDOE received its third and fourth year (\$1M each year) funding and authorization to proceed under Phase II of the Office of Insular Affairs (OIA) Insular Assessment of Buildings and Classroom (ABC) Initiative. The initiative sets aside \$1M of OIA Capital Improvement Project funds annually, beginning in FY15 and totaling \$5M, to address deferred maintenance projects in GDOE schools. Third year funding projects include canopy replacements and stage structural repairs at various schools. Fourth year funding projects include fire alarm and fire suppression system repairs and preventative maintenance for 35 Schools, and canopy replacements, drainage improvements, civil work, engineering services, and electrical repairs at various schools. Additionally, in August 2018, GDOE was awarded \$750,000 to be used for the ABC Initiative and \$173,442 for a facilities plan in DOI Maintenance Assistance Program funds. The Governor's Office also awarded to GDOE a Department of the Interior grant of \$1 million for playground equipment.

After three failed attempts to procure the financing and reconstruction of Simon Sanchez High School, on May 1, 2018, the Guam Legislature passed Bill 204-34 to transfer the procurement authority to GDOE and allow GDOE to procure separately the design and the construction of the school. The bill lapsed into law on May 16, 2018 as Public Law 34-101. However, at the time the bill lapsed into law, a procurement protest related to the reconstruction prohibited any procurement associated with this project until the protest was settled. The protest has since been resolved, and GDOE successfully

**GUAM DEPARTMENT OF EDUCATION**

Management’s Discussion and Analysis  
Year Ended September 30, 2018

By FY18 year end, GDOE had assumed occupancy of an additional office building and warehouses in Tiyan. The newly constructed three story Building B is 82,300 square feet or 27,450 square feet per floor. The additional facilities are intended to consolidate all of GDOE’s central office operations into one centralized location and thereby create opportunities to generate revenue or improve operations at the former sites.

Salaries and benefits, including retirement and healthcare benefits, represent a primary component of GDOE expenditures, accounting for \$222,227,057 or 69% of total (federal and local) expenditures in FY18. In comparison to FY17, these expenditures decreased by 0.65% or \$1,449,169.

The overall number of GDOE employees decreased from 3,841 (pay period ending September 30, 2017) to 3,644 (pay period ending September 30, 2018). *Local/Federally Funded Employees* include teachers and school aides that are locally funded and receive payment for work on Federally Funded programs such as ASPIRE, an afterschool program for elementary students.

Note that this is a count of employees at a point in time and is a function of a number of factors including funding availability, program start dates, staff turnover, and availability of applicants. For instance, onboarding of substitute teachers for the 2018-2019 school year was delayed until FY2019 due to funding constraints.

	Pay Period Ending <u>9/29/2018</u>	Pay Period Ending <u>9/30/2017</u>	<u>Change</u>
100% Locally Funded Employees	2,721	2,970	(249)
100% Federally Funded Employees	780	819	(39)
Locally/Federally Funded Employees	<u>143</u>	<u>52</u>	<u>91</u>
Total Employee Count	<u>3,644</u>	<u>3,841</u>	<u>(197)</u>

The costs of a number of critical contracts and services (listed in the table below) netted an overall increase in these expenditures of \$1,818,117 in FY18, largely due to changes in the School Lunch Program. Decreases in a number of contracts were largely due to GDOE’s attempts to contain FY18 expenses, wherever possible, in order to offset payments for carryover outstanding vendor payments resulting from perennial cash shortfalls in its local appropriations. The decrease in cost of the Third-Party Fiduciary services in FY18 were the result of reduction in hours charged to the contract.

<b><u>CRITICAL CONTRACTS</u></b>	<b><u>FY18</u></b>	<b><u>FY17</u></b>	<b><u>Change</u></b>
Custodial Services	\$ 3,071,179	\$ 3,114,506	\$ (43,327)
Copier Services	\$ 515,547	\$ 679,915	\$ (164,368)
Cash Collection	\$ -	\$ 24,242	\$ (24,242)
Internet	\$ 743,510	\$ 467,846	\$ 275,664
Trash Collection	\$ 721,877	\$ 920,112	\$ (198,235)
Accreditation	\$ 121,597	\$ 109,206	\$ 12,391
Food Services	\$18,879,152	\$ 17,086,916	\$1,792,236
Third Party Fiduciary Agent	\$ 2,411,430	\$ 2,536,532	\$ (125,102)
Air-Conditioning Maintenance	\$ 1,728,618	\$ 1,435,518	\$ 293,100

Changes in ERATE (Schools and Libraries Program of the Universal Service Fund, which is administered by the Universal Service Administrative Company under the direction of the Federal Communications Commission) include reductions in subsidies for telephone services and increases in subsidies for internet services.

At the start of School Year (SY) 18-19 in August 2018, GDOE retained the ratio of outsourced cafeterias to GDOE operated at 37:4, and opted to have all 41 schools serve meals at no charge to

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students. While these changes, in the last quarter of the fiscal year, increased costs of GDOE's food management services, including food commodities, from \$17.5M in FY17 to \$18.8M in FY18, GDOE's total reimbursements under the federal Child Nutrition Program (CNP) for all 41 schools increased from \$11,891,712 in FY17 to \$12,527,594 in FY18.

SY 2017- 2018 SCHOOL LUNCH PROGRAM	LUNCH						BREAKFAST					
	FREE	PAID	REDUCED	Total Lunch Served	ADP*	Enroll**	FREE	PAID	REDUCED	Total B-Fast Served	ADP*	Enroll**
<b>OUTSOURCED CAFETERIAS</b>												
ELEMENTARY	1,464,199	7,002	-	1,471,201	8,173	11,748	919,447	4,396	-	923,843	5,132	11,748
MIDDLE	457,685	35,685	4,079	497,449	2,764	6,525	268,988	20,443	2,450	291,881	1,622	6,525
HIGH	356,766	52,655	2,046	411,467	2,286	7,696	172,662	21,879	842	195,383	1,085	7,696
<b>TOTAL</b>	<b>2,278,650</b>	<b>95,342</b>	<b>6,125</b>	<b>2,380,117</b>	<b>13,223</b>	<b>25,969</b>	<b>1,361,097</b>	<b>46,718</b>	<b>3,292</b>	<b>1,411,107</b>	<b>7,839</b>	<b>25,969</b>
<b>GDOE OPERATED CAFETERIAS</b>												
ELEMENTARY	214,851	1,016	-	215,867	1,199	1,920	122,198	574	-	122,772	682	1,920
MIDDLE												
HIGH	105,743	47,846	-	153,589	853	1,676	47,170	21,342	-	68,512	381	1,676
<b>TOTAL</b>	<b>320,594</b>	<b>48,862</b>	<b>-</b>	<b>369,456</b>	<b>2,053</b>	<b>3,596</b>	<b>169,368</b>	<b>21,916</b>	<b>-</b>	<b>191,284</b>	<b>1,063</b>	<b>3,596</b>
*Average Daily Participation: Calculated amount using the Total Meals Served divided by 180 School Days												
**ENROLLMENT: Data provided from the School Year 2016-2017 Child Nutrition Program Data as of October 31, 2018												
SY 2016-2017*	2,462,173	321,546	27,209	2,810,928	17,904	30,944	1,425,757	163,203	13,230	1,602,190	10,205	30,944
SY 2017-2018	2,599,244	144,204	6,125	2,749,573	17,513	29,562	1,530,465	68,634	3,292	1,602,391	10,206	29,562
Variance between SY	137,071	-177,342	-21,084	-61,355	-391	-1,382	104,708	-94,569	-9,938	201	1	-1,382
% of Variance	5.57%	-55.15%	-77.49%	-2.18%	-2.18%	-4.47%	7.34%	-57.95%	-75.12%	0.01%	0.01%	-4.47%

The table above reflects number of meals served for SY16-17 and SY17-18. SY16-17 figures have been updated to reflect reconciled activities due to audits and evaluations while SY17-18 figures are subject to change, pending the completion of reconciliations and audit. Reimbursements from USDA for eligible meals through the National School Lunch and School Breakfast Programs are currently based on rates established for the 48 contiguous states. GDOE has requested U.S. Department of Agriculture for an upward adjustment and realignment of GDOE's reimbursement rate on par with the State of Hawaii, however, to date no adjustments have been made.

FY18 Utilities (power, water, telephone) combined accounted for 4.73% of total expenditures or \$15.23M, an increase of \$193K as compared to FY17. In comparison to FY17, power and water expenditures increased \$1.2M and decreased \$1M, respectively, while telephone expenditures slightly increased by \$17K.

In March 2018, the Guam Power Authority (GPA) approached GDOE to partner on the Bringing Energy Savings to (BEST) Schools Program to "assess utilizing renewable energy and optimize energy efficiency at GDOE to reduce electric utility bills." GPA funded a preliminary feasibility assessment of GDOE's schools and central offices. Also in line with this partnership, GPA applied for and was awarded Department of the Interior Empowering Insular Communities grants, making available \$1,250,000 for LED Lighting Retrofit projects at Southern High and George Washington High Schools.

Thirty-six GDOE schools are accredited by Western Association of Schools and Colleges (WASC). In Spring 2018, fourteen schools were visited by WASC teams resulting in three newly accredited schools (J.M. Guerrero Elementary, M.U. Lujan Elementary, and Merizo Martyrs' Memorial Elementary), and the affirmation or renewal of accreditation statuses for eleven others. An accreditation plan has been developed to have the remaining five elementary schools accredited by 2020. Additionally, a midcycle review of the District's Accreditation will be conducted in 2019.

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**STATEMENT OF NET POSITION - GOVERNMENTAL ACTIVITIES**

Net Position consists of current assets and capital assets, net of accumulated depreciation less both current and noncurrent liabilities. From FY18 to FY17, total assets and deferred outflows of resources decreased by \$25M, total liabilities and deferred inflows decreased by \$14.2M, and net position decreased by \$10.8M.

	<u>2018</u>	<u>(As Restated)</u> <u>2017</u>	<u>% Change</u>
<b>Assets:</b>			
Current assets	\$ 30,681,610	\$ 30,188,550	1.6%
Noncurrent assets	<u>359,268,305</u>	<u>368,742,642</u>	(2.6%)
Total assets	389,949,915	398,931,192	(2.3%)
<b>Deferred outflows of resources</b>	<u>115,305,102</u>	<u>131,344,972</u>	(12.2%)
	\$ <u>505,255,017</u>	\$ <u>530,276,164</u>	(4.7%)
<b>Liabilities:</b>			
Current Liabilities	\$ 37,098,726	\$ 32,838,716	13.0%
Noncurrent Liabilities	<u>1,362,745,456</u>	<u>1,458,400,628</u>	(6.6%)
Total liabilities	1,399,844,182	1,491,239,344	(6.1%)
<b>Deferred inflows of resources</b>	<u>80,800,418</u>	<u>3,605,120</u>	2141.3%
	<u>1,480,644,600</u>	<u>1,494,844,464</u>	(0.9%)
<b>Net Position:</b>			
Invested in capital assets, net of related debt	166,180,436	167,555,626	(0.8%)
Restricted	7,593,878	6,652,056	14.2%
Unrestricted	<u>(1,149,163,897)</u>	<u>(1,138,775,982)</u>	0.9%
Total net position	<u>(975,389,583)</u>	<u>(964,568,300)</u>	1.1%
	\$ <u>505,255,017</u>	\$ <u>530,276,164</u>	(4.7%)

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

The decrease in liabilities was mainly due to the Fiscal Year Realignment Plan (FRP) mandated under PL 34-87, restricting hiring and non-essential procurements.

The \$10.8M decrease in net position is discussed below. Note that the FY18 Balance Sheet prepared for Governmental Funds shows a surplus of \$2.2M, reduced from \$4.9M in FY17. A reconciliation between the Governmental Funds and Statement of Activities is included as part of other supplementary information contained in these statements.

During the year ended September 30, 2018, GDOE implemented a number of GASB Statements including GASB Statement No. 75, which resulted in the restatement of the 2017 financial statements. Accordingly, GDOE's net position as of October 1, 2017 and statement of revenues, expenses, and changes in net position for the year ended September 30, 2017 reflect the required adjustments.

**GUAM DEPARTMENT OF EDUCATION**

Management's Discussion and Analysis  
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**STATEMENT OF ACTIVITIES AND CHANGES IN NET POSITION - GOVERNMENTAL ACTIVITIES**

The statement of activities and changes in net position represents revenues and expenses for the current fiscal year. The statement of activities and changes in net position reflects a decrease in net position of \$10.8M for FY18.

	<u>2018</u>	<u>(As Restated)</u> <u>2017</u>	<u>% Change</u>
Revenues:			
Appropriations	\$ 256,130,950	\$ 267,429,792	(4.22%)
Federal grants and contributions	61,172,198	64,445,317	(5.08%)
Cafeteria Sales	31,213	146,591	(78.71%)
Other charges for services	<u>1,827,690</u>	<u>530,282</u>	244.66%
Total revenues	<u>319,162,051</u>	<u>332,551,982</u>	(4.03%)
Expenses:			
Elementary education	81,050,203	94,013,746	(13.79%)
Secondary education	115,783,317	127,245,878	(9.01%)
Direct student support	74,534,632	78,003,645	(4.45%)
General administration	39,455,548	43,678,182	(9.67%)
Retiree healthcare benefits	11,732,727	12,670,871	(7.40%)
Charter Schools	<u>7,426,907</u>	<u>8,005,562</u>	(7.23%)
Total expenses	<u>329,983,334</u>	<u>363,617,884</u>	(9.25%)
Change in net position	(10,821,283)	(31,065,902)	(65.17%)
Net position at beginning of year (as restated)	<u>(964,568,300)</u>	<u>(933,502,398)</u>	3.33%
Net position at end of year	\$ <u>(975,389,583)</u>	\$ <u>(964,568,300)</u>	1.12%

Total revenues decreased by \$13.4M largely due to a decrease in appropriations of \$11.3M, as discussed earlier, and a reduction of federal grants and contributions of \$3.3M. As noted earlier, the decline in cafeteria sales is attributed to the increase in the number of schools participating in the Community Eligibility Provision program.

Overall total expenses decreased by \$33.6M in every category depicted in the table above; decreases were largely due to local funding budgetary reductions under the FY18 Fiscal Realignment Plan which resulted in a reduction in operational costs. Additionally, the decrease was impacted by decreases in lease expenses and net pension liability.

## GUAM DEPARTMENT OF EDUCATION

Management's Discussion and Analysis  
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### CAPITAL ASSETS AND LONG-TERM DEBT

GDOE's investment in capital assets for its governmental activities as of September 30, 2018 amounted to \$521.6M net of accumulated depreciation of \$172.5M, leaving a net book value of \$349.1M. GDOE's capital assets include buildings and improvements, vehicles, furniture and equipment, and construction in progress. (See table below)

#### GDOE's Capital Assets

	<u>2018</u>	<u>2017</u>	<u>% Change</u>
Buildings and improvements	\$ 506,240,252	\$ 513,385,028	(1.39%)
Vehicles, furniture and equipment	<u>15,403,928</u>	<u>13,353,657</u>	15.35%
	521,644,180	526,738,685	(0.97%)
Accumulated depreciation	<u>(172,520,427)</u>	<u>(160,125,166)</u>	7.74%
	349,123,753	366,613,519	(4.77%)
Land	8,511,600	-	
Construction in progress	<u>632,952</u>	<u>1,004,123</u>	(36.96%)
	\$ <u>358,268,305</u>	\$ <u>367,617,642</u>	(2.54%)

As noted above, a reclassification totaling \$8.5M accounted for much of the decrease in buildings and improvements and the increase in land. Increases in vehicles, furniture and equipment were related to purchases of maintenance vehicles, software, George Washington High wireless LAN (local area network) installation, and Tiyan High gym equipment. Structural repairs and part of the intercom, bell, fire alarm and suppression systems upgrades at Southern High as well as repairs to the John F Kennedy High track were completed in FY18 and moved from Construction in Progress to Buildings and Improvements. For additional information concerning capital assets, please refer to Note 1J to the financial statements.

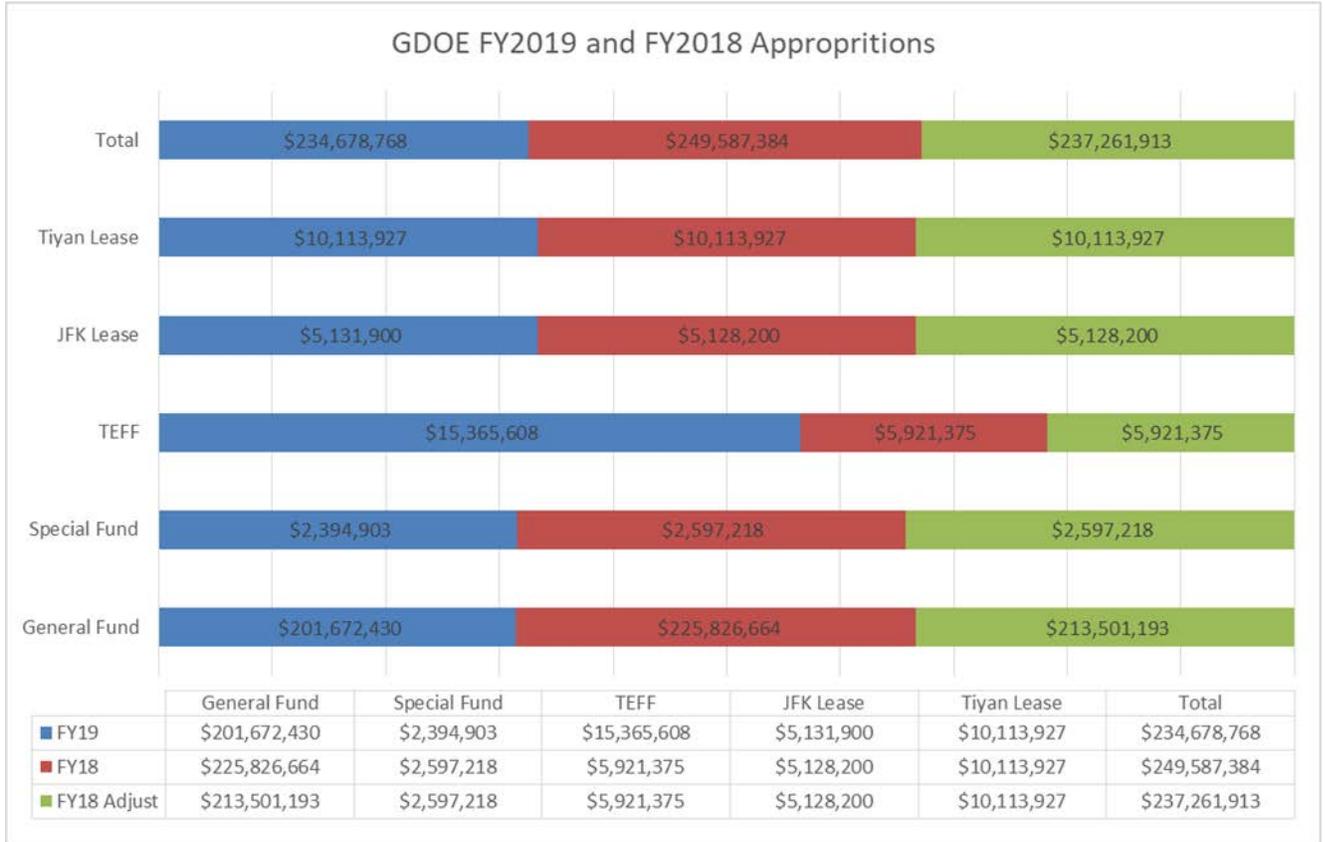
Capital leases associated with GDOE leased schools totaled \$192.1M of which \$183.8M were long term and \$8.3M were current obligations. OPEB and pension liability of \$1.168M made up the lion's share of noncurrent liabilities. The balance of noncurrent assets of \$11M are payroll related, compensated absences and sick leave liability. For additional information concerning long-term debt, please refer to Note 3 to the financial statements.

### FACTORS AND NEXT YEAR'S BUDGET

Pursuant to the FY19 Budget Act (PL 34-116), General Fund revenues for FY19 were projected to decrease approximately \$75M, from \$850M in FY18 to \$775M. While Bureau of Budget and Management Research Circular 19-01 continued to impose a 15% reserve on all executive branch agency appropriations, Section 16, Chapter II of the FY19 Budget Act mandated an exemption of any reserves imposed on GDOE's FY19 appropriations.

**GUAM DEPARTMENT OF EDUCATION**

Management’s Discussion and Analysis  
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FY19 appropriations (PL 34-116) for GDOE totaled \$234.6M, a 6.35% or \$14.9M decrease over FY18 appropriation levels (\$249.5M), and 1.1% or \$2.5M decrease over the adjusted FY18 (\$237.2M) Fiscal Realignment Plan.

The \$14.9M decrease in authorized spending included the following:

1. \$18,160,481 in reduced funding for operations,
2. \$102,315 in reduced funding for school libraries and sports facilities under the Public Library Resource Fund, from \$996,946 in FY18 to \$978,236; and under the Limited Gaming Fund, from \$608,518 in FY18 to \$524,913; and
3. Increases, totaling \$3,354,180: \$1 million in new funding for the Simon Sanchez High School Renovation project, \$2,350,480 in increased funding for charters schools, from \$8,060,000 to \$10,410,480; and \$3,700 for the John F. Kennedy lease payment, from \$5,128,200 in FY18 to \$5,131,900.

The \$2.3M in special fund appropriations in FY19 was designated for interscholastic sports, health and physical education activities, school libraries, and GDOE sports facilities repairs. Additionally and not included in the comparative table above:

- ✓ \$2.9M in lease payments for Okkodo High School Expansion; and
- ✓ \$12,504,000 in additional appropriations (Federal reimbursements and cash collections) related to the National School Lunch and School Breakfast Programs. The reimbursements are provided by USDA’s Food and Nutrition Services for meals served to students and children who attend public schools.

## **GUAM DEPARTMENT OF EDUCATION**

### Management's Discussion and Analysis Year Ended September 30, 2018

PL 34-116 also contained spending control provisions to include:

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

On October 15 and December 12, 2018, the Attorney General issued opinions stating the hiring freeze and freeze on promotions was inorganic and unenforceable.

The Power Purchase Agreement, between the Guam Education Financing Foundation and GDOE for the installation of solar panels and related generation of power for Okkodo High, Astumbo Middle, and Liguana and Adacao Elementary Schools, continues to undergo review and discussion with the Office of Attorney General.

GDOE anticipates a number of BEST Schools Program energy initiatives in FY19 may proactively generate future cost savings. The retrofitting of conventional lighting at Southern and George Washington High schools to LED lighting will occur in the summer of 2019. GPA will also implement recommendations in their feasibility assessment study through a pilot project at Carbullido Elementary School. The study also looked at recommendations related to water and wastewater systems which will also be reviewed and evaluated for possible calendaring and implementation by GDOE.

#### **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, 501 Mariner Avenue, Barrigada, Guam 96913; e-mail [tmtaitano@gdoe.net](mailto:tmtaitano@gdoe.net); call (671) 300-1556; or log on to our website at: [www.gdoe.net](http://www.gdoe.net).

**GUAM DEPARTMENT OF EDUCATION**

Statement of Net Position  
September 30, 2018

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

Current assets:	
Cash and cash equivalents	\$ 14,621,232
Receivables from federal agencies	9,171,721
Prepayments and other assets	394,779
Deposit	5,761,403
Restricted assets:	
Cash and cash equivalents	732,475
Total current assets	30,681,610
Noncurrent assets:	
Deferred maintenance and insurance costs	1,000,000
Capital assets:	
Nondepreciable capital assets	9,144,552
Depreciable capital assets, net of accumulated depreciation	349,123,753
Total noncurrent assets	359,268,305
Total assets	389,949,915
Deferred outflows of resources:	
Deferred outflows from OPEB	68,256,194
Deferred outflows from pension	47,048,908
Total deferred outflows of resources	115,305,102
	\$ 505,255,017

LIABILITIES

Current liabilities:	
Accounts payable	\$ 12,758,840
Accrued payroll	8,592,933
Other liabilities and accruals	5,617,054
Payable to federal agencies	1,480,731
Current portion of obligations under capital lease	8,255,215
Current portion of compensated absences payable	393,953
Total current liabilities	37,098,726
Noncurrent liabilities:	
OPEB liability	726,529,256
Net pension liability	441,379,861
Compensated absences payable, net of current portion	4,530,482
Accrued sick leave liability	6,473,203
Obligations under capital lease, net of current portion	183,832,654
Total noncurrent liabilities	1,362,745,456
Total liabilities	1,399,844,182
Deferred inflows of resources:	
Deferred inflows from OPEB	62,257,855
Deferred inflows from pension	18,542,563
Total deferred inflows of resources	80,800,418

Commitments and contingencies

NET POSITION

Net investment in capital assets	166,180,436
Restricted for:	
CIP, technology and equipment projects	73,196
First Generation Trust Fund Initiative	759,279
Maintenance and insurance costs	1,000,000
Capital lease obligation	5,761,403
Unrestricted	(1,149,163,897)
Total net position	(975,389,583)
	\$ 505,255,017

See accompanying notes to financial statements.

**GUAM DEPARTMENT OF EDUCATION**

Statement of Activities  
Year Ended September 30, 2018

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
Governmental Activities:				
Elementary Education	\$ 81,050,203	\$ -	\$ -	\$ (81,050,203)
Secondary Education	115,783,317	-	992,958	(114,790,359)
Direct Student Support	74,534,632	1,858,903	57,477,449	(15,198,280)
General Administration	39,455,548	-	2,701,791	(36,753,757)
Retiree healthcare benefits	11,732,727	-	11,732,727	-
Charter Schools	<u>7,426,907</u>	<u>-</u>	<u>7,426,907</u>	<u>-</u>
Total governmental activities	<u>\$ 329,983,334</u>	<u>\$ 1,858,903</u>	<u>\$ 80,331,832</u>	<u>(247,792,599)</u>
General revenues:				
Appropriations:				
Operations				236,778,963
Textbooks				<u>192,353</u>
Total general revenues				<u>236,971,316</u>
Change in net position				<u>(10,821,283)</u>
Net position at beginning of year, as previously reported				(291,512,042)
Implementation of GASB Statement No. 75 (Note 1.W)				<u>(673,056,258)</u>
Net position at beginning of year, as restated				<u>(964,568,300)</u>
Net position at end of year				<u>\$ (975,389,583)</u>

See accompanying notes to financial statements.

**GUAM DEPARTMENT OF EDUCATION**

Balance Sheet  
Governmental Funds  
September 30, 2018

<u>ASSETS</u>	<u>General</u>	<u>Special Revenue Federal Grants Assistance</u>	<u>Total</u>
Cash and cash equivalents	\$ 13,709,364	\$ 911,868	\$ 14,621,232
Receivables from federal agencies	-	9,171,721	9,171,721
Prepayments and other assets	386,714	8,065	394,779
Deposit	5,761,403	-	5,761,403
Due from other funds	1,144,158	-	1,144,158
Restricted assets:			
Cash and cash equivalents	<u>732,475</u>	<u>-</u>	<u>732,475</u>
 Total assets	 <u>\$ 21,734,114</u>	 <u>\$ 10,091,654</u>	 <u>\$ 31,825,768</u>
 <u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ 8,833,815	\$ 3,925,025	\$ 12,758,840
Accrued payroll	7,266,530	1,326,403	8,592,933
Other liabilities and accruals	3,401,717	2,215,337	5,617,054
Payable to federal agencies	-	1,480,731	1,480,731
Due to other funds	<u>-</u>	<u>1,144,158</u>	<u>1,144,158</u>
 Total liabilities	 <u>19,502,062</u>	 <u>10,091,654</u>	 <u>29,593,716</u>
 Fund balances:			
Restricted	6,493,878	-	6,493,878
Committed	100,000	-	100,000
Unassigned	<u>(4,361,826)</u>	<u>-</u>	<u>(4,361,826)</u>
 Total fund balances	 <u>2,232,052</u>	 <u>-</u>	 <u>2,232,052</u>
 Total liabilities and fund balances	 <u>\$ 21,734,114</u>	 <u>\$ 10,091,654</u>	 <u>\$ 31,825,768</u>

See accompanying notes to financial statements.

**GUAM DEPARTMENT OF EDUCATION**

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position  
September 30, 2018

Total fund balance-governmental funds	\$	2,232,052
Amounts reported for governmental activities in the statement of net position are different because:		
Maintenance costs associated with capital lease obligations in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		1,000,000
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. These assets consist of:		
Buildings and improvements	506,240,252	
Vehicles, furniture and equipment	15,403,928	
Land	8,511,600	
Construction in progress	632,952	
Accumulated depreciation	<u>(172,520,427)</u>	
Capital assets, net of accumulated depreciation		358,268,305
Deferred outflows related to pensions and OPEB to benefit future periods and are not reported in the governmental funds.		115,305,102
Deferred inflows of resources benefit future periods and are not reported in the funds. Those deferred inflows consist of deferred inflows on the net pension and OPEB liability.		(80,800,418)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds. These liabilities include:		
OPEB liability	(726,529,256)	
Net pension liability	(441,379,861)	
Accrued sick leave liability	(6,473,203)	
Compensated absences payable	(4,924,435)	
Obligations under capital lease	<u>(192,087,869)</u>	
Long-term liabilities		<u>(1,371,394,624)</u>
Net position of governmental activities		\$ <u><u>(975,389,583)</u></u>

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, 2018

	<u>General</u>	<u>Special Revenue Federal Grants Assistance</u>	<u>Total</u>
Revenues:			
Appropriations	\$ 248,469,400	\$ 7,661,550	\$ 256,130,950
Federal grants and contributions	1,475,370	59,696,828	61,172,198
Cafeteria sales	31,213	-	31,213
Fees and other program receipts	<u>1,649,552</u>	<u>178,138</u>	<u>1,827,690</u>
Total revenues	<u>251,625,535</u>	<u>67,536,516</u>	<u>319,162,051</u>
Expenditures:			
Elementary Education	74,978,384	-	74,978,384
Secondary Education	88,066,239	992,958	89,059,197
Direct Student Support	15,991,909	57,477,449	73,469,358
General Administration	36,452,632	1,440,209	37,892,841
Retiree healthcare benefits	11,732,727	-	11,732,727
Guahan Academy Charter School	4,458,474	-	4,458,474
iLearn Academy Charter School	2,968,433	-	2,968,433
Debt service:			
Lease payments	<u>19,615,485</u>	<u>7,625,900</u>	<u>27,241,385</u>
Total expenditures	<u>254,264,283</u>	<u>67,536,516</u>	<u>321,800,799</u>
Net change in fund balances	(2,638,748)	-	(2,638,748)
Fund balances at beginning of year	<u>4,870,800</u>	-	<u>4,870,800</u>
Fund balances at end of year	<u>\$ 2,232,052</u>	<u>\$ -</u>	<u>\$ 2,232,052</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, 2018

Total net change in fund balances - governmental funds \$ (2,638,748)

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

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

Capital outlays, net of disposals	3,058,503	
Depreciation expense	<u>(12,407,840)</u>	(9,349,337)

Prepayment of capital lease obligations in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. (906,574)

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		7,974,147
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. For the current year, these activities consist of:

OPEB activity	(47,474,659)	
Net pension activity	36,960,662	
Change in compensated absences payable	(164,113)	
Change in accrued sick leave liability	<u>4,777,339</u>	<u>(5,900,771)</u>

Change in net position of governmental activities \$ (10,821,283)

See accompanying notes to financial statements.

**GUAM DEPARTMENT OF EDUCATION**

Statement of Fiduciary Net Position  
Agency Fund  
September 30, 2018

ASSETS

Cash and cash equivalents	\$ <u>719,515</u>
Total assets	\$ <u><u>719,515</u></u>

LIABILITIES

Deposits and other liabilities	\$ <u>719,515</u>
Total liabilities	\$ <u><u>719,515</u></u>

See accompanying notes to financial statements.

## GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements  
September 30, 2018

### (1) Summary of Significant Accounting Policies

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

#### A. Reporting Entity

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

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

In August 2013, the Foundation for Public Education, Inc. (the Foundation) was established. The Foundation is a legally separate, tax-exempt entity which meets the criteria set forth for component units under GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. The Foundation provides financial support for the objectives, purposes and programs of GDOE. Although GDOE does not control the timing, purpose, or amount of receipts from the Foundation, the resources (and income thereon) that the Foundation holds and invests are restricted to the activities of GDOE. Because the resources held by the Foundation can only be used by, or for the benefit of GDOE, the Foundation is considered a component unit of GDOE. As of September 30, 2018, the Foundation reported minimal collections, therefore omission of the Foundation is not considered material to the accompanying financial statements.

#### B. Department-Wide Financial Statements

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

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

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

# GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements  
September 30, 2018

(1) Summary of Significant Accounting Policies, Continued

B. Department-Wide Financial Statements, Continued

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

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

C. Fund Financial Statements

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

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

D. Fund Balance

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

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

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

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

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

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

**GUAM DEPARTMENT OF EDUCATION**

Notes to Financial Statements  
September 30, 2018

(1) Summary of Significant Accounting Policies, Continued

D. Fund Balance, Continued

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

A formal minimum fund balance policy has not been adopted.

E. Measurement Focus and Basis of Accounting

Department -Wide Financial Statements:

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

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

Governmental Funds Financial Statements:

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

Fund Accounting:

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

**GUAM DEPARTMENT OF EDUCATION**

Notes to Financial Statements  
September 30, 2018

(1) Summary of Significant Accounting Policies, Continued

E. Measurement Focus and Basis of Accounting, Continued

GDOE reports the following major governmental funds:

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

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

In addition, GDOE reports the following fiduciary fund types:

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

F. Encumbrances

Encumbrances are commitments related to unperformed (executory) contracts for goods or services and are generally evidenced by outstanding purchase orders, contracts and interdepartmental work requests. At September 30, 2018, GDOE has significant encumbrances summarized as follows:

General Fund	\$ 2,578,964
Federal Grants Assistance Fund	<u>6,743,718</u>
	\$ <u>9,322,682</u>

G. Cash and Cash Equivalents

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

H. Receivables

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

I. Prepaid Items

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

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

**GUAM DEPARTMENT OF EDUCATION**

Notes to Financial Statements  
September 30, 2018

(1) Summary of Significant Accounting Policies, Continued

I. Prepaid Items, Continued

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

J. Capital Assets

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

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

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

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

**GUAM DEPARTMENT OF EDUCATION**

Notes to Financial Statements  
September 30, 2018

(1) Summary of Significant Accounting Policies, Continued

J. Capital Assets, Continued

Capital asset activities for the year ended September 30, 2018 are as follows:

Governmental Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers and Retirements</u>	<u>Ending Balance</u>
Non-depreciable capital assets:				
Land	\$ -	\$ -	\$ 8,511,600	\$ 8,511,600
Construction in progress	<u>1,004,123</u>	<u>1,776,628</u>	<u>(2,147,799)</u>	<u>632,952</u>
	<u>1,004,123</u>	<u>1,776,628</u>	<u>6,363,801</u>	<u>9,144,552</u>
Depreciable capital assets:				
Buildings and improvements	513,385,028	394,400	(7,539,176)	506,240,252
Vehicles, furniture and equipment	<u>13,353,657</u>	<u>887,475</u>	<u>1,162,796</u>	<u>15,403,928</u>
	526,738,685	1,281,875	(6,376,380)	521,644,180
Less: accumulated depreciation	<u>(160,125,166)</u>	<u>(12,407,840)</u>	<u>12,579</u>	<u>(172,520,427)</u>
Depreciable capital assets, net	<u>366,613,519</u>	<u>(11,125,965)</u>	<u>(6,363,801)</u>	<u>349,123,753</u>
	\$ <u>367,617,642</u>	\$ <u>(9,349,337)</u>	\$ <u>-</u>	\$ <u>358,268,305</u>

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

Governmental activities:	
Elementary Education	\$ 3,035,869
Secondary Education	7,652,506
Direct Student Support	194,397
General Administration	<u>1,525,068</u>
	\$ <u>12,407,840</u>

K. Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then.

L. Long-Term Debt

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

M. Net Position

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

Net Position has been restricted as follows:

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

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

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

**GUAM DEPARTMENT OF EDUCATION**

Notes to Financial Statements  
September 30, 2018

(1) Summary of Significant Accounting Policies, Continued

N. Deferred Inflows of Resources

In addition to liabilities, the statements of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (additions to net position) until then.

O. Compensated Absences

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

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

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

P. Payable to Federal Agencies

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

Q. Interfund Transactions

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

## GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements  
September 30, 2018

(1) Summary of Significant Accounting Policies, Continued

R. Dedicated Revenues and Pledges

GDOE has entered into a municipal school lease agreement for certain leased schools and facilities whereby GovGuam, on behalf of GDOE, has pledged a portion of future Compact Impact grant funds to finance annual lease payments under this agreement. This lease obligation is payable solely from Compact Impact grant revenues payable to GovGuam by the United States Government pursuant to the Compact of Free Association Act, U.S. Public Law 108-188. Total payments remaining on this municipal school lease agreement are approximately \$51,743,275 payable through October 1, 2026. For the year ended September 30, 2018, lease payments made and total Compact Impact grant revenues received were \$6,625,900.

GovGuam, on behalf of GDOE, has also pledged a portion of future Section 30 revenues to finance annual lease payments for the Okkodo High School Expansion lease agreement. Total payments remaining on this lease are approximately \$32,661,415 payable through December 1, 2030. For the year ended September 30, 2018, lease payments made and total Section 30 revenues received were \$2,936,685 and \$77,795,541, respectively.

S. Pensions

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

T. Other Postemployment Benefits (OPEB)

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

## GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements  
September 30, 2018

(1) Summary of Significant Accounting Policies, Continued

T. Other Postemployment Benefits (OPEB), Continued

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

U. Estimates

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

V. 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, 2017 from which summarized information was derived.

W. New Accounting Standards

During the year ended September 30, 2018, GDOE implemented the following pronouncements:

- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The implementation of this statement had no impact on GDOE's governmental fund financial statements, which continue to report expenditures in the amount contractually required. However, implementation has resulted in the restatement of GDOE's 2017 government-wide financial statements to reflect the reporting of an OPEB liability, deferred inflows of resources, and deferred outflows of resources for its qualified OPEB program and the recognition of OPEB expense in accordance with the provisions of GASB Statement No. 75. Net position as of October 1, 2017 for governmental activities decreased by \$673,056,258 as result of the implementation of GASB Statement No. 75. Refer to Note 6 for information regarding GDOE's OPEB.

## GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements  
September 30, 2018

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

#### W. New Accounting Standards, Continued

- GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.
- GASB Statement No. 85, *Omnibus 2017*, which address practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits).
- GASB Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt.

Except for GASB Statement No. 75, the implementation of these statements did not have a material effect on GDOE's financial statements.

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

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

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

In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. The provisions in Statement No. 88 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

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

**GUAM DEPARTMENT OF EDUCATION**

Notes to Financial Statements  
September 30, 2018

(1) Summary of Significant Accounting Policies, Continued

W. New Accounting Standards, Continued

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

(2) Deposits

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

As of September 30, 2018, the carrying amount of GDOE's total cash and cash equivalents was \$15,353,707 and the corresponding bank balances were \$18,339,249. Of the bank balances, \$17,730,103 is maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining amount of \$609,146 represents short-term investments held and administered by GDOE's trustees in accordance with various trust agreements. Based on negotiated trust and custody contracts, all of the investments were held in GDOE's name by GDOE's custodial financial institutions at September 30, 2018. As of September 30, 2018, bank deposits in the amount of \$524,840 were FDIC insured. GDOE does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk. GDOE has not experienced any significant losses in such accounts and GDOE management believes it is not exposed to any significant credit risk on its deposits.

(3) Changes in Long-Term Liabilities

Changes in long-term liabilities for the year ended September 30, 2018, are as follows:

	Beginning <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	Ending <u>Balance</u>	Due Within <u>One Year</u>
<u>Governmental activities:</u>					
Accrued sick leave liability	\$ 11,250,542	\$ -	\$ (4,777,339)	\$ 6,473,203	\$ -
Compensated absences	4,760,322	534,798	(370,685)	4,924,435	393,953
Net pension liability	494,496,705	8,203,244	(61,320,088)	441,379,861	-
OPEB liability	756,133,583	58,073,987	(87,678,314)	726,529,256	-
Obligations under capital lease	<u>200,062,016</u>	<u>-</u>	<u>(7,974,147)</u>	<u>192,087,869</u>	<u>8,255,215</u>
	<u>\$ 1,466,703,168</u>	<u>\$ 66,812,029</u>	<u>\$ (162,120,573)</u>	<u>\$ 1,371,394,624</u>	<u>\$ 8,649,168</u>

## GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements  
September 30, 2018

### (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, 2018. The estimated accumulated amount of unused sick leave at September 30, 2018, is \$41,362,999, of which an estimated \$6,473,203 may be convertible by DCRS employees upon retirement.

#### B. Federal Grants

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

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

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

#### C. Non-Appropriated Funds

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

#### D. Self-Insurance

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

#### E. Public Law 28-45

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

**GUAM DEPARTMENT OF EDUCATION**

Notes to Financial Statements  
September 30, 2018

(4) Commitments and Contingencies, Continued

F. Litigation

GDOE is party to several legal proceedings arising from governmental operations, however, the Legal Counsel and Attorney General of Guam is unable to assess the likelihood of potential liabilities related to claims outstanding as of September 30, 2018. Hence, it is not possible to predict a reasonable estimation of these claims to be paid through the claims process. No provision that may result has been made in the accompanying financial statements.

G. Internal Audits

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

(5) Pensions

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

A. General Information About the Pension Plans:

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

Members of the DB Plan who retired prior to October 1, 1995, or their survivors, are eligible to receive annual supplemental annuity payments. In addition, members of the DB Plan and the DCRS Plan who retired prior to September 30, 2017 are eligible to receive an annual ad hoc cost of living allowance (COLA).

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

*Plan Membership:* As of September 30, 2017 (the measurement date), plan membership consisted of the following:

DB members:	
Inactive employees or beneficiaries currently receiving benefits	7,279
Inactive employees entitled to but not yet receiving benefits	4,289
Active employees	<u>2,058</u>
	13,626
DCRS members:	
Active employees	<u>9,027</u>
	<u>22,653</u>

## GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements  
September 30, 2018

### (5) Pensions, Continued

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

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

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

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

On September 20, 2016, the Guam Legislature enacted Public Law 33-186, which created two new government retirement plans; the DB 1.75 Plan and the Guam Retirement Security Plan (GRSP). Commencing April 1, 2017 through September 30, 2018, eligible employees may elect, during the "election window", to participate in the DB 1.75 Plan or the GRSP with an effective date of January 1, 2018. Beginning January 1, 2018, all new employees shall be automatically enrolled in the GRSP. New employees have sixty (60) days from the date of hire to elect to participate in the DCRS.

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

**GUAM DEPARTMENT OF EDUCATION**

Notes to Financial Statements  
September 30, 2018

(5) Pensions, Continued

A. General Information About the Pension Plans, Continued:

*Contributions and Funding Policy:* Contribution requirements of participating employers and active members to the DB Plan are determined in accordance with Guam law. Employer contributions are actuarially determined under the One-Year Lag Methodology. Under this methodology, the actuarial valuation date is used for calculating the employer contributions for the second following fiscal year. For example the September 30, 2016 actuarial valuation was used for determining the year ended September 30, 2018 statutory contributions. Member contributions are required at 9.55% of base pay.

As a result of actuarial valuations performed as of September 30, 2016, 2015 and 2014, contribution rates required to fully fund the Retirement Fund liability, as required by Guam law, for the years ended September 30, 2018, 2017 and 2016, respectively, have been determined as follows:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Normal costs (% of DB Plan payroll)	15.97%	16.27%	15.86%
Employee contributions (DB Plan employees)	<u>9.55%</u>	<u>9.55%</u>	<u>9.54%</u>
Employer portion of normal costs (% of DB Plan payroll)	<u>6.42%</u>	<u>6.72%</u>	<u>6.32%</u>
Employer portion of normal costs (% of total payroll)	1.60%	1.87%	1.94%
Unfunded liability cost (% of total payroll)	<u>22.12%</u>	<u>21.60%</u>	<u>22.42%</u>
Government contribution as a % of total payroll	<u>23.72%</u>	<u>23.47%</u>	<u>24.36%</u>
Statutory contribution rates as a % of DB Plan payroll:			
Employer	<u>27.83%</u>	<u>27.41%</u>	<u>28.16%</u>
Employee	<u>9.55%</u>	<u>9.55%</u>	<u>9.54%</u>

GDOE's contributions to the DB Plan for the years ended September 30, 2018, 2017 and 2016 were \$18,563,577, \$10,131,154 and \$11,241,089, respectively, which were equal to the statutorily required contributions for the respective years then ended.

GDOE's contributions for supplemental annuity benefit and COLA payments for the years ended September 30, 2018, 2017 and 2016 were \$7,167,944, \$6,719,773 and \$6,871,519, respectively, which were equal to the statutorily required contributions for the respective years then ended.

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

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

Statutory employer contributions for the DCRS plan for the year ended September 30, 2018 are determined using the same rates as the DB Plan. Of the amount contributed by the employer, only 5% of the member's regular pay is deposited into the DCRS. The remaining amount is contributed towards the unfunded liability of the defined benefit plan.

**GUAM DEPARTMENT OF EDUCATION**

Notes to Financial Statements  
September 30, 2018

(5) Pensions, Continued

A. General Information About the Pension Plans, Continued:

GDOE's contributions to the DCRS Plan for the years ended September 30, 2018, 2017 and 2016 were \$24,741,207, \$33,192,763 and \$33,455,686, respectively, which were equal to the required contributions for the respective years then ended. Of these amounts, \$18,708,951, \$25,949,209 and \$26,325,274 were contributed toward the unfunded liability of the DB Plan for the years ended September 30, 2018, 2017 and 2016, respectively.

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

*Pension Liability:* At September 30, 2018, GDOE reported a net pension liability for its proportionate share of the net pension liabilities measured as of September 30, 2017, which is comprised of the following:

Defined Benefit Plan	\$ 342,294,195
Ad Hoc COLA/supplemental annuity Plan for DB retirees	82,317,193
Ad Hoc COLA Plan for DCRS retirees	<u>16,768,473</u>
	<u>\$ 441,379,861</u>

GDOE's proportion of the GovGuam net pension liabilities was based on GDOE's expected plan contributions relative to the total expected contributions received by the respective pension plans for GovGuam and GovGuam's component units. At September 30, 2018, GDOE's proportionate shares of the GovGuam net pension liabilities were as follows:

Defined Benefit Plan	29.97%
Ad Hoc COLA/supplemental annuity Plan for DB retirees	28.57%
Ad Hoc COLA Plan for DCRS retirees	26.85%

*Pension Expense (Benefit):* For the year ended September 30, 2018, GDOE recognized pension expense (benefit) for its proportionate share of plan pension expense from the above pension plans as follows:

Defined Benefit Plan	\$(16,986,891)
Ad Hoc COLA/supplemental annuity Plan for DB retirees	23,749,791
Ad Hoc COLA Plan for DCRS retirees	<u>1,440,344</u>
	<u>\$ 8,203,244</u>

**GUAM DEPARTMENT OF EDUCATION**

Notes to Financial Statements  
September 30, 2018

(5) Pensions, Continued

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

*Deferred Outflows and Inflows of Resources:* At September 30, 2018, GDOE reported total deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Defined Benefit Plan</u>		<u>Ad Hoc COLA/ Supplemental Annuity Plan for DB Retirees</u>		<u>Ad Hoc COLA Plan for DCRS Retirees</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ -	\$ -	\$ -	\$ 761,881	\$ 130,256
Net difference between projected and actual earnings on pension plan investments	-	16,635,052	-	-	-	-
Changes of assumptions	-	-	-	-	1,693,561	1,115,222
Contributions subsequent to the measurement date	37,272,528	-	6,673,944	-	494,000	-
Changes in proportion and difference between GDOE contributions and proportionate share of contributions	-	662,033	69,322	-	83,672	-
	<u>\$ 37,272,528</u>	<u>\$ 17,297,085</u>	<u>\$ 6,743,266</u>	<u>\$ -</u>	<u>\$ 3,033,114</u>	<u>\$ 1,245,478</u>

Deferred outflows resulting from contributions subsequent to measurement date will be recognized as reduction of the net pension liability in the following year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at September 30, 2018 will be recognized in pension expense as follows:

<u>Year Ending September 30</u>	<u>Defined Benefit Plan</u>	<u>Ad Hoc COLA/ Supplemental Annuity Plan for DB Retirees</u>	<u>Ad Hoc COLA Plan for DCRS Retirees</u>
2019	\$ (3,867,975)	\$ 69,322	\$ 60,914
2020	(1,029,874)	-	60,914
2021	(7,398,697)	-	60,914
2022	(5,000,539)	-	60,914
2023	-	-	60,914
Thereafter	-	-	989,066
	<u>\$ (17,297,085)</u>	<u>\$ 69,322</u>	<u>\$ 1,293,636</u>

**GUAM DEPARTMENT OF EDUCATION**

Notes to Financial Statements  
September 30, 2018

(5) Pensions, Continued

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

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

Valuation Date:	September 30, 2016
Actuarial Cost Method:	Entry age normal
Amortization Method:	Level percentage of payroll, closed
Remaining Amortization Period:	May 1, 2031 (14.58 years remaining as of September 30, 2016)
Asset Valuation Method:	3-year smoothed market value (effective September 30, 2009)
Inflation:	2.75% per year
Total payroll growth:	2.75% per year
Salary Increases:	4% to 7.50%
Retirement age:	50% are assumed to retire upon first eligibility for unreduced retirement. Thereafter, the probabilities of retirement are 20% until age 75, and increases to 100% at age 75.
Mortality:	RP-2000 healthy mortality table set forward by 3 years for males and 2 years for females. Mortality for disabled lives is the RP 2000 disability mortality table set forward by 6 years for males and 4 years for females.

The actuarial assumptions used in the September 30, 2016 valuation were based on the results of an actuarial experience study for the period October 1, 2011 to September 30, 2015.

The investment rate assumption as of September 30, 2016 was 7%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and the assumed rate of inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of the expected nominal return for each major asset class are summarized in the following table:

**GUAM DEPARTMENT OF EDUCATION**

Notes to Financial Statements  
September 30, 2018

(5) Pensions, Continued

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Nominal Return</u>
U.S. Equities (large cap)	29%	8.78%
U.S. Equities (small cap)	7%	9.45%
Non-U.S. Equities	13%	9.15%
Non-U.S. Equities (small cap)	4%	9.15%
Non-U.S. Equities (emerging markets)	1%	10.75%
U.S. Fixed Income (aggregate)	25%	4.85%
Risk parity	8%	8.36%
High yield bonds	8%	7.35%
Global Real Estate (REITs)	5%	8.71%

*Changes in Actuarial Assumptions:* The following changes in actuarial assumptions occurred from the September 30, 2015 valuation to the September 30, 2016 valuation:

**Mortality:** The mortality table used as of September 30, 2016, is the RP-2000 combined mortality table, set forward by 3 years for males and 2 years for females. The mortality table used for disabled lives is the RP-2000 disability mortality table, set forward by 6 years for males and 4 years for females. Mortality improvement is assumed to be 30% of Scale BB, projected generationally from 2016. For the prior valuation, the mortality table used was the RP-2000 combined mortality table, set forward by 4 years for males and 1 year for females. The mortality table used for disabled lives was the RP-2000 disability mortality table for males and females. No provision was made for future mortality improvement in the prior valuation.

**Salary Increases:** Salaries are assumed to increase 7.5% per year for employees in their first 5 years of service, 6.0% for service between 6 and 10 years, 5.0% for service between 11 and 15 years, and 4.0% for service after 15 years. For the prior valuation, salaries were assumed to increase 7.5% per year for employees in their first 5 years of service, 6.0% for service between 6 and 10 years, 5.0% for service between 11 and 15 years, and 4.5% for service after 15 years.

**Total Payroll Growth:** Total payroll for defined benefit and defined contribution members is assumed to increase 2.75% per year. For the prior valuation, total payroll for defined benefit and defined contribution members was assumed to increase 3.0% per year.

**Retirement Age:** 50% of employees are assumed to retire when first eligible for unreduced retirement. Thereafter, 20% of employees will retire at each year until age 75, at which time all remaining employees are assumed to retire. For the prior valuation, 40% of employees are assumed to retire when first eligible for unreduced retirement. Thereafter, 15% of employees would retire at each year until age 65, and 20% of employees would retire from age 65 until age 70, at which time all remaining employees were assumed to retire.

**Rates of Disability:** The assumed rates of disability are based on the 1974-78 Society of Actuaries Long Term Disability Non-Jumbo table, with rates reduced by 50% for males and 75% for females. For the prior valuation, these rates were based on the 1974-78 Society of Actuaries Long Term Disability Non-Jumbo, with rates reduced by 50% for both males and females.

**GUAM DEPARTMENT OF EDUCATION**

Notes to Financial Statements  
September 30, 2018

(5) Pensions, Continued

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

Leave Adjustments: Unused leave is assumed to increase a member's service by 1.5 years and increases average earnings by 5% at retirement. For the prior valuation, unused leave is assumed to increase service by 1.5 years and increased average earnings by 10% at retirement.

Survivor Benefit - Minor Children: An average of 0.2 eligible child survivors is assumed at the time of a retiree's death, with payments to the child survivor continuing for 6 years. For the prior valuation, this survivor benefit was assumed to increase the value of retirement benefits by 0.67% and survivor benefits by 20% for active members.

*Discount Rate:* The discount rate used to measure the total pension liability for the DB Plan as of September 30, 2017 was 7.0% (6.7% as of September 30, 2016), which is equal to the expected investment rate of return. The expected investment rate of return applies to benefit payments that are funded by plan assets (including future contributions), which includes all plan benefits except supplemental annuity payments to DB retirees and ad hoc COLA to both DB and DCRS retirees. The discount rate used to measure the total pension liability for the supplemental annuity and ad hoc COLA payments as of September 30, 2017 was 3.64% (3.058% as of September 30, 2016), which is equal to the rate of return of a high quality bond index.

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

Defined Benefit Plan:

	1% Decrease in Discount Rate <u>6.0%</u>	Current Discount Rate <u>7.0%</u>	1% Increase in Discount Rate <u>8.0%</u>
Net Pension Liability	\$ <u>424,827,010</u>	\$ <u>342,294,195</u>	\$ <u>271,209,516</u>

Ad Hoc COLA/Supplemental Annuity Plan for DB Retirees:

	1% Decrease in Discount Rate <u>2.64%</u>	Current Discount Rate <u>3.64%</u>	1% Increase in Discount Rate <u>4.64%</u>
Net Pension Liability	\$ <u>89,816,022</u>	\$ <u>82,317,193</u>	\$ <u>75,796,304</u>

Ad Hoc COLA Plan for DCRS Retirees:

	1% Decrease in Discount Rate <u>2.64%</u>	Current Discount Rate <u>3.64%</u>	1% Increase in Discount Rate <u>4.64%</u>
Net Pension Liability	\$ <u>19,067,525</u>	\$ <u>16,768,473</u>	\$ <u>14,809,696</u>

**GUAM DEPARTMENT OF EDUCATION**

Notes to Financial Statements  
September 30, 2018

(5) Pensions, Continued

C. Payables to the Pension Plans:

As of September 30, 2018, GDOE recorded a payable to GGFR of \$1,236,222 representing statutorily required contributions unremitted as of the year-end.

(6) Other Post-Employment Benefits (OPEB)

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

A. General Information About the OPEB Plan:

*Plan Description:* The other postemployment benefits plan is an agent multiple-employer defined benefit plan that provides healthcare benefits to eligible employees and retirees who are members of the GovGuam Retirement Fund. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75. The Governor's recommended budget and the annual General Appropriations Act enacted by the Guam Legislature provide for a premium level necessary for funding the program each year on a "pay-as-you-go" basis. Because the OPEB Plan consists solely of GovGuam's firm commitment to provide OPEB through the payment of premiums to insurance companies on behalf of its eligible retirees, no stand-alone financial report is either available or generated.

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

Inactive plan members or beneficiaries currently receiving benefits	7,342
Active plan members	<u>10,282</u>
	<u>17,624</u>

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

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

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

**GUAM DEPARTMENT OF EDUCATION**

Notes to Financial Statements  
September 30, 2018

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

A. General Information About the OPEB Plan, Continued:

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

B. Total OPEB Liability:

As of September 30, 2018, GDOE reported a total OPEB liability of \$726,529,256 for its proportionate share of the GovGuam total OPEB liability measured as of September 30, 2017. The following presents GDOE’s proportion change in proportion since the prior measurement date:

Proportion at prior measurement date, September 30, 2016	<u>29.85%</u>
Proportion at measurement date, September 30, 2017	<u>29.89%</u>
Increase in proportion	<u>0.04%</u>

The total OPEB liability for the OPEB Plan was determined by an actuarial valuation as of September 30, 2016 rolled forward to September 30, 2017 (the measurement date) using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation:	3%.
Amortization method:	Level dollar amount over 30 years on an open amortization period for pay-as-you-go funding.
Salary increases:	7.5% per year for the first 5 years of service, 6% for 5-10 years, 5% for 11-15 years and 4.5% for service over 15 years.
Healthcare cost trend rates:	8% for 2016, decreasing 0.25% per year to an ultimate rate of 4.5% for 2030 and later years. Health care trend assumptions begin at current levels and grade down over a period of years to a lower level equal to some real rate plus inflation. The principal components of health trend are medical inflation, deductible erosion, cost shifting, utilization, technology and catastrophic claims. The overall effect of these components are expected to decline year by year.
Dental trend rates:	4% per year.
Participation rates:	Medical - 100% of eligible retired employees will elect to participate. Dental - 100% of eligible retirees will elect to participate. Life - 100% of eligible retirees will elect to participate.

**GUAM DEPARTMENT OF EDUCATION**

Notes to Financial Statements  
September 30, 2018

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

B. Total OPEB Liability, Continued:

Medicare enrollment:	15% of current and future retirees are assumed to enroll in Medicare and will enroll in a Retiree Supplemental Plan upon attainment of age 65. All employees retired prior to September 30, 2008 are assumed ineligible for Medicare upon attainment of age 65 and therefore will not enroll in a Medicare Supplemental Plan.
Dependent status:	Male spouses are assumed to be three years older and female spouses are assumed to be three years younger than the retired employee. 60% of employees are assumed to retire with a covered spouse. For current retired employees, the actual census information is used.
Actuarial cost method:	Entry Age Normal. The costs of each employee's post-employment benefits are allocated as a level basis over the earnings of the employee between the employee's date of hire and the assumed exit ages.
Healthy Retiree mortality rates:	RP-2000 Combined Healthy Mortality Table, set forward 4 years and 1 year for males and females, respectively.
Disabled Retiree mortality rates:	RP-2000 Disabled Mortality Table for males and females.
Withdrawal rates:	15% for less than 1 year of service, decreasing 1% for each additional year of service up to 10 years, further decreasing 0.5% for each additional year of service up to 15 years, and 2% for service over 15 years.
Disability rates:	0.05% for beneficiaries aged 20-39 years, 0.1% - 0.53% for beneficiaries aged 40-59 years, and 0.76% for beneficiaries aged 60-64 years.
Retirement rates:	40% of employees are assumed to retire at earliest eligibility for unreduced benefits under the Government of Guam Retirement Fund, 15% per year thereafter until age 65, 20% per year thereafter until age 70 and 100% at age 70. Previously, 50% of employees were assumed to retire at first eligibility for postretirement health benefits, 20% per year thereafter until age 70, and 100% at age 70.

*OPEB plan fiduciary net position:* As of September 30, 2018, an OPEB trust has not been established thus the OPEB Plan does not presently report OPEB plan fiduciary net position.

**GUAM DEPARTMENT OF EDUCATION**

Notes to Financial Statements  
September 30, 2018

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

B. Total OPEB Liability, Continued:

*Discount rate:* The discount rate used to measure the total OPEB liability was 3.63% as of September 30, 2017 (3.058% as of September 30, 2016). The projection of cash flows used to determine the discount rate assumed that contributions from GDOE will be made in accordance with the plan's funding policy. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be insufficient to make all projected benefit payments of current plan members. Therefore, the 3.63% municipal bond rate as of September 30, 2017 (3.058% as of September 30, 2016) was applied to all periods of projected benefit payments to determine the total OPEB liability.

C. Change in the Total OPEB Liability:

Change in GDOE's proportionate share of the total OPEB liability for the year ended September 30, 2018 is as follows:

Balance at beginning of the year	\$ <u>756,133,583</u>
Changes for the year:	
Service cost	34,599,930
Interest	24,004,223
Change of assumptions	(76,671,008)
Benefit payments	<u>(11,537,472)</u>
Net change	<u>(29,604,327)</u>
Balance at end of the year	\$ <u>726,529,256</u>

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

	1% Decrease in Discount Rate <u>2.63%</u>	Current Discount Rate <u>3.63%</u>	1% Increase in Discount Rate <u>4.63%</u>
Total OPEB Liability	\$ <u>863,651,424</u>	\$ <u>726,529,256</u>	\$ <u>616,544,940</u>

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

	1% Decrease 7% Year 1 Decreasing to <u>3.5%</u>	Healthcare Cost Trend Rates 8% Year 1 Decreasing to <u>4.5%</u>	1% Increase 9% Year 1 Decreasing to <u>5.5%</u>
Total OPEB Liability	\$ <u>596,480,381</u>	\$ <u>726,529,256</u>	\$ <u>896,279,897</u>

**GUAM DEPARTMENT OF EDUCATION**

Notes to Financial Statements  
September 30, 2018

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

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

For the year ended September 30, 2018, GDOE reported total OPEB expense of \$58,073,987 for its proportionate share of the GovGuam total OPEB expense measured for the year ended September 30, 2017. At September 30, 2018, GDOE reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes of assumptions	\$ 54,021,639	\$ 62,257,855
Contributions subsequent to the measurement date	11,732,727	-
Changes in proportion and difference between employer contributions and proportionate share of contributions	<u>2,501,828</u>	<u>-</u>
	\$ <u>68,256,194</u>	\$ <u>62,257,855</u>

Deferred outflows resulting from contributions subsequent to measurement date will be recognized as reduction of the total OPEB liability in the following year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB at September 30, 2018 will be recognized in OPEB expense as follows:

<u>Year Ending September 30</u>	
2019	\$ 721,483
2020	721,483
2021	721,483
2022	721,483
2023	(8,447,626)
Thereafter	<u>(172,694)</u>
	\$ <u>(5,734,388)</u>

**GUAM DEPARTMENT OF EDUCATION**

Notes to Financial Statements  
September 30, 2018

(7) Appropriations

During the year ended September 30, 2018, appropriations provided to GDOE were as follows:

General Fund:

Public Law 34-42:	
GovGuam General Fund:	
Operations	\$ 201,354,656
Retiree healthcare benefits	11,732,727
Guahan Academy Charter School	4,458,474
iLearn Academy Charter School	2,968,433
Textbooks	1,500,000
Chamorro Studies Division	401,207
Lease Agreements:	
Okkodo Expansion lease	2,286,685
JFK High School lease	5,128,200
Territorial Education Facilities Fund:	
Operations	3,770,009
First Generation Trust Fund	100,000
Lease Agreements:	
Tiyán lease	9,113,927
JFK High School lease	2,151,366
Okkodo Expansion lease	650,000
Healthy Futures Fund	891,754
Public Library System Fund	996,946
Limited Gaming Fund	456,389
Public Law 34-29:	
GovGuam General Fund:	
School maintenance and repairs	500,000
Public Law 33-185:	
GovGuam General Fund:	
Secure One School Acts	8,627
Public Law 31-229:	
Tiyán Lease	1,000,000
Public Law 28-47:	
Guam Public School Facilities Project Lease	<u>6,661,550</u>
	<u>\$ 256,130,950</u>

In addition, Public Law 34-42 appropriates \$11,164,309 of all monies collected by GDOE from Federal funds paid to GDOE for reimbursement under the National School Lunch Program and Breakfast Program and the State Administrative Expenses for Child Nutrition Program to GDOE for non-personnel operating expenditures. The total of such reimbursements from the U.S. Department of Agriculture during the year ended September 30, 2018 is \$12,487,117, which is accounted for within GDOE's Federal Grants Assistance Fund.

## GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements  
September 30, 2018

(8) Municipal School Lease Agreements

A. Guam Public School Facilities Project

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

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

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

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

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

On August 4, 2016, GovGuam issued, on behalf of GDOE, \$25,665,000 in 2016 Series A COPS and \$12,905,000 in 2016 Series B COPS. The proceeds of the COPS were remitted to a trustee, who then used the funds to provide a portion necessary to defease the lien of the Trust indenture dated September 1, 2006 and supplement dated October 1, 2008, by and between the trustee and holders of the COPS. Proceeds were also used to refund and redeem the 2006 Series A COPS and 2006 Series B COPS on October 1, 2026 and to refund the 2008 Series A COPS as they become due. Proceeds were also used to fund the reserve requirement with respect to the Certificate Debt Service Fund for the COPS and delivery costs.

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

**GUAM DEPARTMENT OF EDUCATION**

Notes to Financial Statements  
September 30, 2018

(8) Municipal School Lease Agreements, Continued

A. Guam Public School Facilities Project, Continued

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

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Additional Rental</u>	<u>Total</u>
2019	\$ 4,010,000	\$ 1,591,400	\$ 1,000,000	\$ 6,601,400
2020	3,205,000	1,451,125	1,000,000	5,656,125
2021	3,370,000	1,286,750	1,000,000	5,656,750
2022	3,535,000	1,114,125	1,000,000	5,649,125
2023	3,710,000	933,000	1,000,000	5,643,000
2024 – 2027	<u>16,805,000</u>	<u>1,731,875</u>	<u>4,000,000</u>	<u>22,536,875</u>
	\$ <u>34,635,000</u>	\$ <u>8,108,275</u>	\$ <u>9,000,000</u>	\$ <u>51,743,275</u>

B. John F. Kennedy High School Project

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

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

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

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Additional Rental</u>	<u>Total</u>
2019	\$ 1,155,000	\$ 3,976,900	\$ 1,568,000	\$ 6,699,900
2020	1,225,000	3,906,550	1,568,000	6,699,550
2021	1,315,000	3,812,050	1,568,000	6,695,050
2022	1,380,000	3,749,909	1,568,000	6,697,909
2023	1,475,000	3,656,663	1,568,000	6,699,663
2024 – 2028	8,985,000	16,656,213	7,840,000	33,481,213
2029 – 2033	12,505,000	13,134,250	7,840,000	33,479,250
2034 – 2038	17,445,000	8,193,625	7,840,000	33,478,625
2039 – 2041	<u>13,770,000</u>	<u>1,619,921</u>	<u>4,704,000</u>	<u>20,093,921</u>
	\$ <u>59,255,000</u>	\$ <u>58,706,081</u>	\$ <u>36,064,000</u>	\$ <u>154,025,081</u>

**GUAM DEPARTMENT OF EDUCATION**

Notes to Financial Statements  
September 30, 2018

(8) Municipal School Lease Agreements, Continued

C. Okkodo High School Expansion Project

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

On March 15, 2013, GovGuam issued, on behalf of GDOE, \$21,818,000 in 2013 Series A COPS and \$1,000,000 in 2013 Series B COPS to finance the expansion. The holders of the COPS are the current owners of Okkodo High School as noted on Note 8A.

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

Payments include base rental and additional rental. On June 1, 2014 and on June 1 and December 1 of each year through September 2030, payments of principal and interest at true rate of 2.44% per annum (calculated on a 360 day year and 30 day month) commence. Additional rental payment of \$1,217,336 commenced on October 15, 2013. On October 15, 2014, and on October 15 of each year thereafter through September 2030, additional rental will decrease to \$650,000.

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

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

<u>Year ending</u> <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Additional</u> <u>Rental</u>	<u>Total</u>
2019	\$ 1,020,000	\$ 1,268,960	\$ 650,000	\$ 2,938,960
2020	1,090,000	1,196,335	650,000	2,936,335
2021	1,170,000	1,118,635	650,000	2,938,635
2022	1,250,000	1,035,335	650,000	2,935,335
2023	1,340,000	946,260	650,000	2,936,260
2024 – 2028	9,300,000	2,976,575	2,600,000	14,876,575
2029 – 2031	<u>2,868,000</u>	<u>231,315</u>	<u>-</u>	<u>3,099,315</u>
	<u>\$ 18,038,000</u>	<u>\$ 8,773,415</u>	<u>\$ 5,850,000</u>	<u>\$ 32,661,415</u>

D. Tiyan Lease

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

**GUAM DEPARTMENT OF EDUCATION**

Notes to Financial Statements  
September 30, 2018

(8) Municipal School Lease Agreements, Continued

D. Tiyan Lease, Continued

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

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

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

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

Future minimum lease obligations to maturity for the Tiyan lease agreement is as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Additional Rental</u>	<u>Total</u>
2019	\$ 2,070,215	\$ 6,198,958	\$ 1,844,754	\$ 10,113,927
2020	2,210,626	6,030,840	1,872,461	10,113,927
2021	2,355,270	5,874,430	1,884,227	10,113,927
2022	2,390,821	5,797,721	1,925,385	10,113,927
2023	2,519,800	5,656,331	1,937,797	10,113,928
2024-2028	15,107,163	25,051,387	10,411,086	50,569,636
2029-2033	19,755,820	19,361,622	11,452,195	50,569,637
2034-2038	26,159,763	11,812,866	12,597,414	50,570,043
2039-2041	<u>7,590,391</u>	<u>1,899,403</u>	<u>3,284,852</u>	<u>12,774,646</u>
	<u>\$ 80,159,869</u>	<u>\$ 87,683,558</u>	<u>\$ 47,210,171</u>	<u>\$ 215,053,598</u>

As of September 30, 2018, all Tiyan properties purchased were occupied.

**GUAM DEPARTMENT OF EDUCATION**

Notes to Financial Statements  
September 30, 2018

(8) Municipal School Lease Agreements, Continued

Assets acquired through the aforementioned capital leases are as follows:

Asset:	
Buildings	\$ 255,720,236
Land	<u>8,511,600</u>
	264,231,836
Less accumulated depreciation	<u>(39,936,756)</u>
	\$ <u>224,295,080</u>

These buildings are summarized as follows:

JFK High School	\$ 65,735,000
Tiyan High School	43,500,000
Okkodo High School	42,581,348
Okkodo High School Expansion	22,818,000
New Office	24,587,809
Astumbo Middle School	18,383,500
Adacao Elementary School	14,482,938
Liguan Elementary School	13,082,080
Tiyan 3 (lot)	8,000,000
Tiyan Gymnasium	4,947,008
Tiyan Office	2,900,000
Warehouse II	1,360,427
Tiyan Warehouse	806,200
Warehouse/Mezzanine	535,926
Office and Warehouse II (lot)	<u>511,600</u>
	\$ <u>264,231,836</u>

During the year ended September 30, 2018, total lease payments of \$27,241,385 were allocated as follows:

<u>Lease</u>	<u>Principal</u>	<u>Interest</u>	<u>Rental</u>	<u>Total</u>
Guam Public School Facilities Project	\$ 3,935,000	\$ 1,690,900	\$ 1,000,000	\$ 6,625,900
Tiyan Lease	2,004,147	6,579,769	1,815,318	10,399,234
JFK High School	1,085,000	4,043,200	2,151,366	7,279,566
Okkodo High School Expansion	<u>950,000</u>	<u>1,336,685</u>	<u>650,000</u>	<u>2,936,685</u>
	\$ <u>7,974,147</u>	\$ <u>13,650,554</u>	\$ <u>5,616,684</u>	\$ <u>27,241,385</u>

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

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Additional Rental</u>	<u>Total</u>
2019	\$ 8,255,215	\$ 13,036,218	\$ 5,062,754	\$ 26,354,187
2020	7,730,626	12,584,850	5,090,461	25,405,937
2021	8,210,270	12,091,865	5,102,227	25,404,362
2022	8,555,821	11,697,090	5,143,385	25,396,296
2023	9,044,800	11,192,254	5,155,797	25,392,851
2024-2028	50,197,163	46,416,050	24,851,086	121,464,299
2029-2033	35,128,820	32,727,187	19,292,195	87,148,202
2034-3038	43,604,763	20,006,491	20,437,414	84,048,668
2039-2041	<u>21,360,391</u>	<u>3,519,324</u>	<u>7,988,852</u>	<u>32,868,567</u>
	\$ <u>192,087,869</u>	\$ <u>163,271,329</u>	\$ <u>98,124,171</u>	\$ <u>453,483,369</u>

**GUAM DEPARTMENT OF EDUCATION**

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**REQUIRED SUPPLEMENTARY  
INFORMATION**

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**YEAR ENDED SEPTEMBER 30, 2018**

**GUAM DEPARTMENT OF EDUCATION**

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual  
General Fund (Unaudited)  
Year Ended September 30, 2018

	Original Budget	Final Budget	Actual - Budgetary Basis	Variance with Final Budget - Positive (Negative)
Revenues:				
Local appropriations:				
Government of Guam General Fund:				
Operations	\$ 214,310,861	\$ 214,310,861	\$ 201,354,656	\$ (12,956,205)
Retiree healthcare benefits	11,732,727	11,732,727	11,732,727	-
Guahan Academy Charter School	4,810,000	4,810,000	4,458,474	(351,526)
iLearn Academy Charter School	3,250,000	3,250,000	2,968,433	(281,567)
Textbooks	1,500,000	1,500,000	1,500,000	-
Chamorro Studies Division	401,207	401,207	401,207	-
JFK High School Lease	5,128,200	5,128,200	5,128,200	-
Okkodo High School Expansion Project Lease	2,286,685	2,286,685	2,286,685	-
Pre-Kindergarten Pilot Program	1,054,596	1,054,596	-	(1,054,596)
Simon Sanchez High School Construction	-	1,500,000	-	(1,500,000)
Secure Our Schools Act	-	-	8,627	8,627
School maintenance and repairs	500,000	500,000	500,000	-
Territorial Educational Facilities Fund:				
Operations	4,353,375	4,353,375	3,770,009	(583,366)
JFK High School Lease-Additional rental and GRT	1,568,000	1,568,000	2,151,366	583,366
Tiyan Lease	10,113,927	10,113,927	9,113,927	(1,000,000)
Okkodo High School Expansion Project Lease	650,000	650,000	650,000	-
First Generation Trust Fund	100,000	100,000	100,000	-
Healthy Futures Fund:				
Interscholastic sports	612,000	612,000	612,000	-
Health and Physical Education Activities	279,754	279,754	279,754	-
Public Library System Fund	996,946	996,946	996,946	-
Limited Gaming Fund	608,518	608,518	456,389	(152,129)
Fees and other program receipts	-	-	1,649,552	1,649,552
Federal grants and contributions	-	-	1,475,370	1,475,370
Contributions from component units	450,000	450,000	-	(450,000)
Cafeteria sales	-	-	31,213	31,213
<b>Total revenues</b>	<b>264,706,796</b>	<b>266,206,796</b>	<b>251,625,535</b>	<b>(14,581,261)</b>
Expenditures - Budgetary Basis:				
Elementary Education	76,981,628	73,839,582	75,090,747	(1,251,165)
Secondary Education	91,696,661	88,231,936	88,498,528	(266,592)
Direct Student Support	17,707,046	17,740,655	16,999,499	741,156
General Administration	43,869,973	38,315,648	37,479,354	836,294
Retiree healthcare benefits	11,732,727	11,732,727	11,732,727	-
Guahan Academy Charter School	4,810,000	4,458,474	4,458,474	-
iLearn Academy Charter School	3,250,000	2,968,433	2,968,433	-
Debt service:				
Okkodo High School Expansion Project Lease	2,936,685	2,936,685	2,936,685	-
Tiyan Lease	10,113,927	10,113,927	9,399,234	714,693
JFK High School Lease	6,696,200	6,696,200	7,279,566	(583,366)
<b>Total expenditures</b>	<b>269,794,847</b>	<b>257,034,267</b>	<b>256,843,247</b>	<b>191,020</b>
Excess (deficiency) of revenues over (under) expenditures	<u>(5,088,051)</u>	<u>9,172,529</u>	<u>(5,217,712)</u>	<u>(14,390,241)</u>
Other changes in fund balance:				
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary purposes, but in the year the items are received for financial reporting purposes	3,861,140	3,861,140	2,578,964	(1,282,176)
<b>Net change in fund balance</b>	<b>\$ (1,226,911)</b>	<b>\$ 13,033,669</b>	<b>\$ (2,638,748)</b>	<b>\$ (15,672,417)</b>

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

## GUAM DEPARTMENT OF EDUCATION

Notes to the Required Supplementary Information – Budgetary Reporting  
September 30, 2018

### (1) Budgetary Process

The Budget Act for fiscal year 2018, Public Law No. 34-42, was approved for the Executive branch and the Legislative branch. Supplemental appropriations were also provided through Public Law 33-07 and 34-117. Budgets for Special Revenue Funds are generally not submitted. Accordingly, a budget to actual presentation for Special Revenue Funds is not required or presented. Project length financial plans are adopted for capital projects funds.

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

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

See Accompanying Independent Auditors' Report.

**GUAM DEPARTMENT OF EDUCATION**

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

Defined Benefit Plan

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total net pension liability	\$ 1,142,249,393	\$ 1,368,645,126	\$ 1,436,814,230	\$ 1,246,306,754	\$ 1,303,304,636
GDOE's proportionate share of the net pension liability	\$ 342,294,195	\$ 412,990,587	\$ 428,094,817	\$ 362,292,905	\$ 400,356,244
GDOE's proportion of the net pension liability	29.97%	30.18%	29.79%	29.07%	30.72%
GDOE's covered-employee payroll**	\$ 152,320,768	\$ 152,783,459	\$ 152,360,205	\$ 146,783,499	\$ 141,412,148
GDOE's proportionate share of the net pension liability as percentage of its covered-employee payroll	224.72%	270.31%	280.98%	246.82%	283.11%
Plan fiduciary net position as a percentage of the total pension liability	60.63%	54.62%	52.32%	56.60%	53.94%

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

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

See Accompanying Independent Auditors' Report.

**GUAM DEPARTMENT OF EDUCATION**

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

Ad Hoc COLA/Supplemental Annuity Plan for DB Retirees

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Total net pension liability***	\$ 288,147,121	\$ 229,486,687	\$ 235,799,709
GDOE's proportionate share of the net pension liability	\$ 82,317,193	\$ 65,258,484	\$ 67,420,706
GDOE's proportion of the net pension liability	28.57%	28.44%	28.59%
GDOE's covered-employee payroll**	\$ 145,210,089	\$ 143,981,444	\$ 146,211,735
GDOE's proportionate share of the net pension liability as percentage of its covered-employee payroll	56.69%	45.32%	46.11%

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

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

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

See Accompanying Independent Auditors' Report.

**GUAM DEPARTMENT OF EDUCATION**

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

Ad Hoc COLA Plan for DCRS Retirees

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

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

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

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

See Accompanying Independent Auditors' Report.

**GUAM DEPARTMENT OF EDUCATION**

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Statutorily required contribution	\$ 36,080,363	\$ 37,566,363	\$ 40,161,339	\$ 39,572,248
Contributions in relation to the statutorily required contribution	<u>37,284,380</u>	<u>40,587,486</u>	<u>39,956,769</u>	<u>35,447,400</u>
Contribution (excess) deficiency	<u>\$ (1,204,017)</u>	<u>\$ (3,021,123)</u>	<u>\$ 204,570</u>	<u>\$ 4,124,848</u>
GDOE's covered-employee payroll **	<u>\$ 152,320,768</u>	<u>\$ 152,783,459</u>	<u>\$ 152,360,205</u>	<u>\$ 146,783,499</u>
Contribution as a percentage of covered-employee payroll	24.48%	26.57%	26.23%	24.15%

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

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

See Accompanying Independent Auditors' Report.

**GUAM DEPARTMENT OF EDUCATION**

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Total OPEB liability:			
Service cost	\$ 34,599,930	\$ 27,776,711	
Interest	24,004,223	24,294,993	
Changes of benefit terms	-	-	
Differences between expected and actual experience	-	-	
Changes of assumptions	(76,671,008)	82,755,758	
Benefit payments	<u>(11,537,472)</u>	<u>(11,537,472)</u>	
Net change in total OPEB liability	(29,604,327)	123,289,990	
Total OPEB liability - beginning	<u>756,133,583</u>	<u>632,843,593</u>	
Total OPEB liability - ending **	\$ <u>726,529,256</u>	\$ <u>756,133,583</u>	\$ <u>632,843,593</u>
Covered-employee payroll	138,949,496	138,949,496	
GDOE's total OPEB liability as a percentage of covered-employee payroll	523%	544%	

Notes to schedule

<i>Discount rate</i>	3.63%	3.058%	3.71%
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*Changes of benefit terms:*

None.

*Changes of assumptions:*

Discount rate has changed from respective measurement dates.

\* Information for 2009 - 2015 is not available

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

See Accompanying Independent Auditors' Report.

**GUAM DEPARTMENT OF EDUCATION**

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

	2018	2017
Total OPEB liability **	\$ 2,431,048,672	\$ 2,532,753,040
GDOE's proportionate share of the total OPEB liability	\$ 726,529,256	\$ 756,133,583
GDOE's proportionate of the total OPEB liability	29.89%	29.85%
GDOE's covered-employee payroll	\$ 138,949,496	\$ 138,949,496
GDOE's proportionate share of the total OPEB liability as percentage of its covered-employee payroll	522.87%	544.18%

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

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

See Accompanying Independent Auditors' Report.

**GUAM DEPARTMENT OF EDUCATION**

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

	<u>2018</u>	<u>2017</u>
Actuarially determined contribution	\$ 74,523,639	\$ 64,131,344
Contributions in relation to the actuarially determined contribution	<u>11,537,472</u>	<u>11,537,472</u>
Contribution deficiency	\$ <u>62,986,167</u>	\$ <u>52,593,872</u>
GDOE's covered-employee payroll	\$ 138,949,496	\$ 138,949,496
Contributions as a percentage of covered-employee payroll	8.30%	8.30%

Notes to Schedule

Valuation date:

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

Method and assumptions used to determine contributions rates:

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

\* Information for 2009 - 2016 is not available

See Accompanying Independent Auditors' Report.

**GUAM DEPARTMENT OF EDUCATION**

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**OTHER SUPPLEMENTARY  
INFORMATION**

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**YEAR ENDED SEPTEMBER 30, 2018**

**GUAM DEPARTMENT OF EDUCATION**

Statements of Net Position - Governmental Activities  
September 30, 2018  
(With Comparative Totals as of September 30, 2017)

<u>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u>	<u>2018</u>	<u>2017</u>
Current assets:		
Cash and cash equivalents	\$ 14,621,232	\$ 12,372,154
Receivables from federal agencies	9,171,721	9,892,482
Due from primary government	-	1,526,707
Prepayments and other assets	394,779	870,151
Deposit	5,761,403	4,800,125
Restricted assets:		
Cash and cash equivalents	732,475	726,931
Total current assets	<u>30,681,610</u>	<u>30,188,550</u>
Noncurrent assets:		
Deferred maintenance and insurance costs	1,000,000	1,125,000
Capital assets:		
Nondepreciable capital assets	9,144,552	1,004,123
Depreciable capital assets, net of accumulated depreciation	<u>349,123,753</u>	<u>366,613,519</u>
Total noncurrent assets	<u>359,268,305</u>	<u>368,742,642</u>
Total assets	<u>389,949,915</u>	<u>398,931,192</u>
Deferred outflows of resources:		
Deferred outflows from OPEB	68,256,194	83,077,325
Deferred outflows from pension	<u>47,048,908</u>	<u>48,267,647</u>
Total deferred outflows of resources	<u>115,305,102</u>	<u>131,344,972</u>
	<u>\$ 505,255,017</u>	<u>\$ 530,276,164</u>
 <u>LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</u>		
Current liabilities:		
Accounts payable	\$ 12,758,840	\$ 9,059,374
Accrued payroll	8,592,933	8,314,967
Other liabilities and accruals	5,617,054	5,403,081
Payable to federal agencies	1,480,731	1,758,754
Current portion of obligation under capital lease	8,255,215	7,921,554
Current portion of compensated absences payable	<u>393,953</u>	<u>380,986</u>
Total current liabilities	<u>37,098,726</u>	<u>32,838,716</u>
Noncurrent liabilities:		
OPEB liability	726,529,256	756,133,583
Net pension liability	441,379,861	494,496,705
Compensated absences payable, net of current portion	4,530,482	4,379,336
Accrued sick leave liability	6,473,203	11,250,542
Obligation under capital lease, net of current portion	<u>183,832,654</u>	<u>192,140,462</u>
Total noncurrent liabilities	<u>1,362,745,456</u>	<u>1,458,400,628</u>
Total liabilities	<u>1,399,844,182</u>	<u>1,491,239,344</u>
Deferred inflows of resources:		
Deferred inflows from OPEB	62,257,855	-
Deferred inflows from pension	<u>18,542,563</u>	<u>3,605,120</u>
Total deferred inflows of resources	<u>80,800,418</u>	<u>3,605,120</u>
Commitments and contingencies		
<u>NET POSITION</u>		
Net investment in capital assets	166,180,436	167,555,626
Restricted for:		
CIP, technology and equipment projects	73,196	73,105
First Generation Trust Fund Initiative	759,279	653,826
Maintenance and insurance costs	1,000,000	1,125,000
Capital lease obligation	5,761,403	4,800,125
Unrestricted	<u>(1,149,163,897)</u>	<u>(1,138,775,982)</u>
Total net position	<u>(975,389,583)</u>	<u>(964,568,300)</u>
	<u>\$ 505,255,017</u>	<u>\$ 530,276,164</u>

See Accompanying Independent Auditors' Report.

## GUAM DEPARTMENT OF EDUCATION

### Statement of Activities - Governmental Activities Year Ended September 30, 2018 (With Comparative Totals for the Year Ended September 30, 2017)

	2018	2017
Program revenues:		
Elementary Education	\$ -	\$ 4,122
Secondary Education	992,958	801,094
Direct Student Support	59,336,352	56,533,599
General Administration	2,701,791	7,783,375
Retiree healthcare benefits	11,732,727	12,670,871
Charter Schools	7,426,907	8,005,562
Total program revenues	82,190,735	85,798,623
Expenses:		
Elementary Education	81,050,203	94,013,746
Secondary Education	115,783,317	127,245,878
Direct Student Support	74,534,632	78,003,645
General Administration	39,455,548	43,678,182
Retiree healthcare benefits	11,732,727	12,670,871
Charter Schools	7,426,907	8,005,562
Total expenses for governmental activities	329,983,334	363,617,884
Net expense	(247,792,599)	(277,819,261)
General revenues:		
Appropriations:		
Operations	236,778,963	245,547,254
Textbooks	192,353	1,206,105
Total general revenues	236,971,316	246,753,359
Change in net position	(10,821,283)	(31,065,902)
Net position at beginning of year	(964,568,300)	(933,502,398)
Net position at end of year	\$ (975,389,583)	\$ (964,568,300)

See Accompanying Independent Auditors' Report.

**GUAM DEPARTMENT OF EDUCATION**

Balance Sheets  
Governmental Funds  
September 30, 2018

(With Comparative Totals as of September 30, 2017)

ASSETS	2018			2017		
	General	Federal	Total	General	Federal	Total
		Grants			Grants	
		Assistance		Assistance		
Cash and cash equivalents	\$ 13,709,364	\$ 911,868	\$ 14,621,232	\$ 11,813,973	\$ 558,181	\$ 12,372,154
Receivables from federal agencies	-	9,171,721	9,171,721	-	9,892,482	9,892,482
Due from primary government	-	-	-	1,526,707	-	1,526,707
Prepayments and other assets	386,714	8,065	394,779	88,577	-	88,577
Deposit	5,761,403	-	5,761,403	4,800,125	-	4,800,125
Due from other funds	1,144,158	-	1,144,158	2,576,855	-	2,576,855
Restricted assets:						
Cash and cash equivalents	732,475	-	732,475	726,931	-	726,931
<b>Total assets</b>	<b>\$ 21,734,114</b>	<b>\$ 10,091,654</b>	<b>\$ 31,825,768</b>	<b>\$ 21,533,168</b>	<b>\$ 10,450,663</b>	<b>\$ 31,983,831</b>
 <b>LIABILITIES AND FUND BALANCES</b>						
Liabilities:						
Accounts payable	\$ 8,833,815	\$ 3,925,025	\$ 12,758,840	\$ 6,611,424	\$ 2,447,950	\$ 9,059,374
Accrued payroll	7,266,530	1,326,403	8,592,933	7,041,627	1,273,340	8,314,967
Other liabilities and accruals	3,401,717	2,215,337	5,617,054	3,009,317	2,393,764	5,403,081
Payable to federal agencies	-	1,480,731	1,480,731	-	1,758,754	1,758,754
Due to other funds	-	1,144,158	1,144,158	-	2,576,855	2,576,855
<b>Total liabilities</b>	<b>19,502,062</b>	<b>10,091,654</b>	<b>29,593,716</b>	<b>16,662,368</b>	<b>10,450,663</b>	<b>27,113,031</b>
Fund balances:						
Restricted	6,493,878	-	6,493,878	5,527,056	-	5,527,056
Committed	100,000	-	100,000	-	-	-
Unassigned	(4,361,826)	-	(4,361,826)	(656,256)	-	(656,256)
<b>Total fund balances</b>	<b>2,232,052</b>	<b>-</b>	<b>2,232,052</b>	<b>4,870,800</b>	<b>-</b>	<b>4,870,800</b>
<b>Total liabilities and fund balances</b>	<b>\$ 21,734,114</b>	<b>\$ 10,091,654</b>	<b>\$ 31,825,768</b>	<b>\$ 21,533,168</b>	<b>\$ 10,450,663</b>	<b>\$ 31,983,831</b>

See Accompanying Independent Auditors' Report.

**GUAM DEPARTMENT OF EDUCATION**

Reconciliations of the Governmental Funds Balance Sheet to the Statement of Net Position  
September 30, 2018  
(With Comparative Totals as of September 30, 2017)

	<u>2018</u>	<u>2017</u>
Total fund balance - governmental funds	\$ 2,232,052	\$ 4,870,800
Amounts reported for governmental activities in the statements of net position are different because:		
Prepayment of capital lease obligations in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	-	781,574
Maintenance costs associated with capital lease obligations in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	1,000,000	1,125,000
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. These assets consist of:		
Buildings and improvements	\$ 506,240,252	513,385,028
Vehicles, furniture and equipment	15,403,928	13,353,657
Land	8,511,600	-
Construction in progress	632,952	1,004,123
Accumulated depreciation	<u>(172,520,427)</u>	<u>(160,125,166)</u>
Capital assets, net of accumulated depreciation	358,268,305	367,617,642
Deferred outflows related to pensions benefit future periods and are not reported in the governmental funds.	115,305,102	131,344,972
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds. These liabilities include:		
OPEB liability	(726,529,256)	(756,133,583)
Net pension liability	(441,379,861)	(494,496,705)
Accrued sick leave liability	(6,473,203)	(11,250,542)
Compensated absences payable	(4,924,435)	(4,760,322)
Obligations under capital lease	<u>(192,087,869)</u>	<u>(200,062,016)</u>
Long-term liabilities	(1,371,394,624)	(1,466,703,168)
Deferred inflows related to pensions benefit future periods and are not reported in the governmental funds.	<u>(80,800,418)</u>	<u>(3,605,120)</u>
Net position of governmental activities	\$ <u><u>(975,389,583)</u></u>	\$ <u><u>(964,568,300)</u></u>

See Accompanying Independent Auditors' Report.

**GUAM DEPARTMENT OF EDUCATION**

Statements of Revenues, Expenditures and Changes in Fund Balances (Deficit)  
Governmental Funds  
Year Ended September 30, 2018  
(With Comparative Totals for the Year Ended September 30, 2017)

	2018			2017		
	General	Federal Grants Assistance	Total	General	Federal Grants Assistance	Total
<b>Revenues:</b>						
Appropriations	\$ 248,469,400	\$ 7,661,550	\$ 256,130,950	\$ 267,429,792	\$ -	\$ 267,429,792
Federal grants and contributions	1,475,370	59,696,828	61,172,198	4,458,316	59,987,001	64,445,317
Cafeteria sales	31,213	-	31,213	146,591	-	146,591
Fees and other program receipts	1,649,552	178,138	1,827,690	351,533	178,749	530,282
<b>Total revenues</b>	<b>251,625,535</b>	<b>67,536,516</b>	<b>319,162,051</b>	<b>272,386,232</b>	<b>60,165,750</b>	<b>332,551,982</b>
<b>Expenditures:</b>						
Current:						
Elementary Education	74,978,384	-	74,978,384	74,640,441	4,122	74,644,563
Secondary Education	88,066,239	992,958	89,059,197	87,386,744	801,094	88,187,838
Direct Student Support	15,991,909	57,477,449	73,469,358	15,974,242	54,836,301	70,810,543
General Administration	36,452,632	1,440,209	37,892,841	35,057,864	3,533,630	38,591,494
Retiree healthcare benefits	11,732,727	-	11,732,727	12,670,871	-	12,670,871
Guahan Academy Charter School	4,458,474	-	4,458,474	4,759,415	-	4,759,415
iLearn Academy Charter School	2,968,433	-	2,968,433	3,246,147	-	3,246,147
Debt service:						
Lease payments	19,615,485	7,625,900	27,241,385	22,108,219	-	22,108,219
Capital projects:						
Capital lease acquisition	-	-	-	26,995,762	-	26,995,762
<b>Total expenditures</b>	<b>254,264,283</b>	<b>67,536,516</b>	<b>321,800,799</b>	<b>282,839,705</b>	<b>59,175,147</b>	<b>342,014,852</b>
Excess (deficiency) of revenues over (under) expenditures	(2,638,748)	-	(2,638,748)	(10,453,473)	990,603	(9,462,870)
<b>Other financing sources (uses):</b>						
Transfers in	-	-	-	990,603	-	990,603
Transfers out	-	-	-	-	(990,603)	(990,603)
Capital lease	-	-	-	26,995,762	-	26,995,762
<b>Total other financing sources (uses), net</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>27,986,365</b>	<b>(990,603)</b>	<b>26,995,762</b>
Net change in fund balances	(2,638,748)	-	(2,638,748)	17,532,892	-	17,532,892
Fund balances (deficit) at beginning of year	4,870,800	-	4,870,800	(12,662,092)	-	(12,662,092)
Fund balances at end of year	\$ 2,232,052	\$ -	\$ 2,232,052	\$ 4,870,800	\$ -	\$ 4,870,800

See Accompanying Independent Auditors' Report.

## GUAM DEPARTMENT OF EDUCATION

Reconciliations of the Governmental Funds Statement of Revenues, Expenditures and  
Changes in Fund Balances (Deficit) to the Statement of Activities  
Year Ended September 30, 2018  
(With Comparative Totals for the Year Ended September 30, 2017)

	2018	2017
Total net change in fund balances - governmental funds	\$ (2,638,748)	\$ 17,532,892
Amounts reported for governmental activities in the statements of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statements of activities the cost of those assets is allocated over the estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays.		
	(9,349,337)	15,634,530
Prepayment of capital lease obligations in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		
	(906,574)	120,740
The issuance of long-term debt (eg. leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt.		
	7,974,147	(18,856,113)
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.		
	(5,900,771)	(45,497,951)
Change in net position of governmental activities	\$ (10,821,283)	\$ (31,065,902)

See Accompanying Independent Auditors' Report.

**GUAM DEPARTMENT OF EDUCATION**

Combined Statements of Revenues, Expenditures by Account and Changes in Fund Balances (Deficit)  
Governmental Funds  
Year Ended September 30, 2018  
(With Comparative Totals for the Year Ended September 30, 2017)

	2018			2017		
	General	Federal Grants Assistance	Total	General	Federal Grants Assistance	Total
<b>Revenues:</b>						
Local appropriations	\$ 248,469,400	\$ 7,661,550	\$ 256,130,950	\$ 267,429,792	\$ -	\$ 267,429,792
Federal grants and contributions	1,475,370	59,696,828	61,172,198	4,458,316	59,987,001	64,445,317
Cafeteria sales	31,213	-	31,213	146,591	-	146,591
Fees and other program receipts	1,649,552	178,138	1,827,690	351,533	178,749	530,282
<b>Total revenues</b>	<b>251,625,535</b>	<b>67,536,516</b>	<b>319,162,051</b>	<b>272,386,232</b>	<b>60,165,750</b>	<b>332,551,982</b>
<b>Expenditures:</b>						
Salaries and wages	132,943,174	22,642,589	155,585,763	132,224,567	23,669,919	155,894,486
Benefits	46,829,102	8,079,465	54,908,567	46,235,539	8,875,330	55,110,869
Capital lease payments	19,615,485	7,625,900	27,241,385	22,108,219	-	22,108,219
Contractual	11,649,351	8,831,348	20,480,699	10,104,420	9,148,731	19,253,151
Food management contract	6,428,150	11,687,902	18,116,052	5,723,094	11,363,822	17,086,916
Power	12,472,661	-	12,472,661	11,245,796	-	11,245,796
Retiree healthcare benefits	11,732,727	-	11,732,727	12,670,871	-	12,670,871
Supplies	801,945	3,734,451	4,536,396	1,730,435	1,724,586	3,455,021
Guahan Academy Charter School	4,458,474	-	4,458,474	4,759,415	-	4,759,415
Equipment	571,129	3,076,517	3,647,646	930,763	2,792,078	3,722,841
iLearn Academy Charter School	2,968,433	-	2,968,433	3,246,147	-	3,246,147
Water	2,538,289	-	2,538,289	3,588,774	-	3,588,774
Travel	513,817	825,809	1,339,626	380,367	617,486	997,853
Indirect costs	-	975,210	975,210	-	912,045	912,045
Textbooks	192,353	-	192,353	56,925	-	56,925
Capital outlay	21,491	57,290	78,781	-	71,150	71,150
Phone	221,664	-	221,664	204,549	-	204,549
Fuel	169,602	-	169,602	149,627	-	149,627
Library books and equipment	81,224	-	81,224	193,426	-	193,426
Capital lease acquisition	-	-	-	26,995,762	-	26,995,762
Miscellaneous	55,212	35	55,247	291,009	-	291,009
<b>Total expenditures</b>	<b>254,264,283</b>	<b>67,536,516</b>	<b>321,800,799</b>	<b>282,839,705</b>	<b>59,175,147</b>	<b>342,014,852</b>
Excess (deficiency) of revenues over (under) expenditures	(2,638,748)	-	(2,638,748)	(10,453,473)	990,603	(9,462,870)
<b>Other financing sources (uses):</b>						
Transfers in	-	-	-	990,603	-	990,603
Transfers out	-	-	-	-	(990,603)	(990,603)
Capital lease	-	-	-	26,995,762	-	26,995,762
<b>Total other financing sources (uses), net</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>27,986,365</b>	<b>(990,603)</b>	<b>26,995,762</b>
Net change in fund balances (deficit)	(2,638,748)	-	(2,638,748)	17,532,892	-	17,532,892
Fund balances (deficit) at beginning of year	4,870,800	-	4,870,800	(12,662,092)	-	(12,662,092)
Fund balances at end of year	\$ 2,232,052	\$ -	\$ 2,232,052	\$ 4,870,800	\$ -	\$ 4,870,800

See Accompanying Independent Auditors' Report.

**GUAM DEPARTMENT OF EDUCATION**

Schedule of Revenues, Expenditures and Changes in Deficit - Budget and Actual  
General Fund  
Year Ended September 30, 2018  
(With Comparative Totals for the Year Ended September 30, 2017)

	2018				2017			
	Original Budget	Final Budget	Actual - Budgetary Basis	Variance with Final Budget - Positive (Negative)	Original Budget	Final Budget	Actual - Budgetary Basis	Variance with Final Budget - Positive (Negative)
<b>Revenues:</b>								
Local appropriations:								
Government of Guam General Fund:								
Operations	\$ 214,310,861	\$ 214,310,861	\$ 201,354,656	\$ (12,956,205)	\$ 200,177,066	\$ 200,177,066	\$ 200,177,066	\$ -
Retiree healthcare benefits	11,732,727	11,732,727	11,732,727	-	12,670,871	12,670,871	12,670,871	-
JFK High School Lease	5,128,200	5,128,200	5,128,200	-	5,130,600	5,130,600	5,130,600	-
Guahan Academy Charter School	4,810,000	4,810,000	4,458,474	(351,526)	4,810,000	4,810,000	4,759,415	(50,585)
iLearn Academy Charter School	3,250,000	3,250,000	2,968,433	(281,567)	3,250,000	3,250,000	3,246,147	(3,853)
Okkodo High School Expansion	2,286,685	2,286,685	2,286,685	-	2,284,685	2,284,685	2,936,685	652,000
Textbooks	1,500,000	1,500,000	1,500,000	-	1,500,000	1,500,000	1,206,105	(293,895)
Pre-Kindergarten Pilot Program	1,054,596	1,054,596	-	(1,054,596)	-	-	-	-
School maintenance and repairs	500,000	500,000	500,000	-	-	150,000	150,000	-
Chamorro studies division	401,207	401,207	401,207	-	401,207	401,207	401,207	-
Simon Sanchez High School Construction	-	1,500,000	-	(1,500,000)	-	-	-	-
Kuantan Salappe Prinsepap	-	-	-	-	1,081,000	1,081,000	637,198	(443,802)
Secure Our Schools Act	-	-	8,627	8,627	-	-	189,103	189,103
First Generation Trust Fund	-	-	-	-	100,000	100,000	100,000	-
Territorial Education Facilities Fund:								
Operations	4,353,375	4,353,375	3,770,009	(583,366)	15,950,831	15,950,831	14,292,724	(1,658,107)
Tiyan Lease	10,113,927	10,113,927	9,113,927	(1,000,000)	10,113,927	10,113,927	10,113,927	-
JFK High School Lease	1,568,000	1,568,000	2,151,366	583,366	1,568,000	1,568,000	2,061,882	493,882
Okkodo High School Expansion Project Lease	650,000	650,000	650,000	-	-	-	-	-
First Generation Trust Fund	100,000	100,000	100,000	-	-	-	-	-
Healthy Futures Fund:								
Interscholastic Sports	612,000	612,000	612,000	-	612,000	612,000	612,000	-
Health and Physical Education Activities	279,754	279,754	279,754	-	279,754	279,754	279,754	-
Public Library System Fund	996,946	996,946	996,946	-	907,668	907,668	825,390	(82,278)
Limited Gaming Fund	608,518	608,518	456,389	(152,129)	633,936	633,936	544,468	(89,468)
Guam Public School Facilities Project Lease	-	-	-	-	6,665,250	6,665,250	6,665,250	-
Capitol District Fund	-	-	-	-	-	430,000	430,000	-
Fees and other program receipts	-	-	1,649,552	1,649,552	-	-	351,533	351,533
Federal grants and contributions	-	-	1,475,370	1,475,370	-	-	4,458,316	4,458,316
Contributions from component units	450,000	450,000	-	(450,000)	-	450,000	-	(450,000)
Cafeteria sales	-	-	31,213	31,213	-	-	146,591	146,591
<b>Total revenues</b>	<b>264,706,796</b>	<b>266,206,796</b>	<b>251,625,535</b>	<b>(14,581,261)</b>	<b>268,136,795</b>	<b>269,166,795</b>	<b>272,386,232</b>	<b>3,219,437</b>
<b>Expenditures - Budgetary Basis:</b>								
Personnel	185,405,148	178,886,562	179,772,275	(885,713)	195,165,099	180,036,868	178,460,106	1,576,762
Contractual	22,085,413	20,611,235	19,238,303	1,372,932	23,102,951	22,294,732	18,361,268	3,933,464
Utilities	15,497,777	15,252,324	15,232,841	19,483	4,018,784	15,303,324	15,042,306	261,018
Retiree healthcare benefits	11,732,727	11,732,727	11,732,727	-	12,670,870	12,670,870	12,670,870	-
Tiyan Lease	10,113,927	10,113,927	9,399,234	714,693	10,113,927	10,113,927	10,113,927	-
JFK High School Lease	6,696,200	6,696,200	7,279,566	(583,366)	6,968,600	6,698,600	7,192,482	(493,882)
Guahan Academy Charter School	4,810,000	4,458,474	4,458,474	-	4,810,000	4,810,000	4,759,415	50,585
Supplies/equipment	4,226,930	1,367,936	2,070,361	(702,425)	3,875,452	3,471,568	4,090,650	(619,082)
iLearn Academy Charter School	3,250,000	2,968,433	2,968,433	-	3,250,000	3,250,000	3,246,147	3,853
Okkodo High School Expansion Project Lease	2,936,685	2,936,685	2,936,685	-	2,284,685	2,936,686	4,801,810	(1,865,124)
Capital projects	804,040	503,678	297,236	206,442	181,867	-	237,800	(237,800)
Textbooks	1,400,000	463,707	888,082	(424,375)	1,759,037	1,090,671	56,925	1,033,746
Tiyan lease acquisitions	-	-	-	-	-	26,995,762	26,995,762	-
Other	836,000	1,042,379	569,030	473,349	1,138,622	1,064,201	671,377	392,824
<b>Total expenditures</b>	<b>269,794,847</b>	<b>257,034,267</b>	<b>256,843,247</b>	<b>191,020</b>	<b>269,339,894</b>	<b>290,737,209</b>	<b>286,700,845</b>	<b>4,036,364</b>
Excess (deficiency) of revenues over (under) expenditures	<u>(5,088,051)</u>	<u>9,172,529</u>	<u>(5,217,712)</u>	<u>(14,390,241)</u>	<u>(1,203,099)</u>	<u>(21,570,414)</u>	<u>(14,314,613)</u>	<u>7,255,801</u>
<b>Other financing sources:</b>								
Capital lease	-	-	-	-	-	26,995,762	26,995,762	-
Transfer in	-	-	-	-	-	-	990,603	990,603
<b>Total other financing sources</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>26,995,762</b>	<b>27,986,365</b>	<b>990,603</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	3,861,140	3,861,140	2,578,964	(1,282,176)	1,292,374	1,292,374	3,861,140	2,568,766
<b>Net change in fund balance</b>	<b>\$ (1,226,911)</b>	<b>\$ 13,033,669</b>	<b>\$ (2,638,748)</b>	<b>\$ (15,672,417)</b>	<b>\$ 89,275</b>	<b>\$ 6,717,722</b>	<b>\$ 17,532,892</b>	<b>\$ 10,815,170</b>

See Accompanying Independent Auditors' Report.

**GUAM DEPARTMENT OF EDUCATION**

Combining Schedule of Balance Sheet Accounts  
General Fund  
September 30, 2018

<u>ASSETS</u>	<u>Operations</u>	First Generation Trust Fund Initiative	<u>Total</u>
Cash and cash equivalents	\$ 13,609,364	\$ 100,000	\$ 13,709,364
Prepayments and other assets	386,714	-	386,714
Deposit	5,761,403	-	5,761,403
Due from other funds	1,144,158	-	1,144,158
Restricted assets:			
Cash and cash equivalents	<u>73,196</u>	<u>659,279</u>	<u>732,475</u>
Total assets	<u>\$ 20,974,835</u>	<u>\$ 759,279</u>	<u>\$ 21,734,114</u>
<u>LIABILITIES AND FUND</u>			
<u>BALANCES</u>			
Liabilities:			
Accounts payable	\$ 8,833,815	\$ -	\$ 8,833,815
Accrued payroll	7,266,530	-	7,266,530
Other liabilities and accruals	<u>3,401,717</u>	<u>-</u>	<u>3,401,717</u>
Total liabilities	<u>19,502,062</u>	<u>-</u>	<u>19,502,062</u>
Fund balances:			
Restricted	5,834,599	659,279	6,493,878
Committed	-	100,000	100,000
Unassigned	<u>(4,361,826)</u>	<u>-</u>	<u>(4,361,826)</u>
Total fund balances	<u>1,472,773</u>	<u>759,279</u>	<u>2,232,052</u>
Total liabilities and fund balances	<u>\$ 20,974,835</u>	<u>\$ 759,279</u>	<u>\$ 21,734,114</u>

See Accompanying Independent Auditors' Report.

**GUAM DEPARTMENT OF EDUCATION**

Combining Statement of Revenues, Expenditures and  
Changes in Fund Balances Accounts  
General Fund  
Year Ended September 30, 2018

	<u>Operations</u>	<u>First Generation Trust Fund Initiative</u>	<u>Total</u>
Revenues:			
Appropriations	\$ 248,369,400	\$ 100,000	\$ 248,469,400
Federal grants and contributions	1,475,370	-	1,475,370
Cafeteria sales	31,213	-	31,213
Fees and other program receipts	<u>1,644,099</u>	<u>5,453</u>	<u>1,649,552</u>
 Total revenues	 <u>251,520,082</u>	 <u>105,453</u>	 <u>251,625,535</u>
Expenditures:			
Elementary Education	74,978,384	-	74,978,384
Secondary Education	88,066,239	-	88,066,239
Direct Student Support	15,991,909	-	15,991,909
General Administration	36,452,632	-	36,452,632
Retiree healthcare benefits	11,732,727	-	11,732,727
Guahan Academy Charter School	4,458,474	-	4,458,474
iLearn Academy Charter School	2,968,433	-	2,968,433
Debt service:			
Lease payments	<u>19,615,485</u>	<u>-</u>	<u>19,615,485</u>
 Total expenditures	 <u>254,264,283</u>	 <u>-</u>	 <u>254,264,283</u>
 Net change in fund balances	 <u>(2,744,201)</u>	 <u>105,453</u>	 <u>(2,638,748)</u>
 Fund balances at beginning of year	 <u>4,216,974</u>	 <u>653,826</u>	 <u>4,870,800</u>
 Fund balances at end of year	 <u>\$ 1,472,773</u>	 <u>\$ 759,279</u>	 <u>\$ 2,232,052</u>

See Accompanying Independent Auditors' Report.

**GUAM DEPARTMENT OF EDUCATION**

Agency Fund  
September 30, 2018

The schedule of cash receipts and cash disbursements for the agency fund during fiscal year 2018 is as follows:

	<u>NAF</u>
Cash balance at beginning of year	\$ <u>733,806</u>
Cash receipts:	
Elementary school activities	437,084
Secondary school activities	<u>1,336,794</u>
Total receipts	<u>1,773,878</u>
Cash disbursements:	
Elementary school activities	441,219
Secondary school activities	<u>1,346,950</u>
Total disbursements	<u>1,788,169</u>
Cash balance at end of year	\$ <u>719,515</u>

The number of individual funds at the schools during fiscal year 2018 is as follows:

Elementary schools	286
Secondary schools	447

See Accompanying Independent Auditors' Report.

**GUAM DEPARTMENT OF EDUCATION**

Personnel  
September 30, 2018 and 2016

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

	Employee Count as of PPE <u>September 29, 2018</u>	Employee Count as of PPE <u>September 30, 2017</u>
100% Locally Funded	2,721	2,970
100% Federally Funded	780	819
Locally/Federally Funded	<u>143</u>	<u>52</u>
Total Employee Count	<u>3,644</u>	<u>3,841</u>

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

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

See Accompanying Independent Auditors' Report.