



OFFICE OF PUBLIC ACCOUNTABILITY  
Doris Flores Brooks, CPA, CGFM  
Public Auditor

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8:30 AM  
CARL SANCHEZ

July 8, 2014

Honorable Judith T. Won Pat, Ed.D.  
Speaker  
I Mina'Trentai Dos Na Liheslaturan Guåhan  
155 Hesler Place  
Hagatna, Guam 96910

GUAM LEGISLATURE  
CENTRAL FILES

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Dear Speaker Won Pat:

Hafa Adai! Transmitted herewith is the Guam Department of Education (GDOE)'s Fiscal Year (FY) 2013 Financial Audit. Independent auditors Deloitte & Touche, LLP expressed an unmodified (clean) opinion for GDOE's financial statements.

To recap FY 2013:

- FY 2013 was the 11<sup>th</sup> consecutive year of GDOE's high-risk grantee status with the U.S. Department of Education. GDOE closed FY 2013 with a \$32.8 million (M) decrease (deficit) in fund balance from \$44.5M in FY 2012 to \$11.7M in FY 2013. The \$32.8M deficit was a result of GDOE's American Recovery and Reinvestment Act State Fiscal Stabilization Funds expenditures paid out during FY 2013, which represented the first year of completion of these projects.
- Revenues decreased by \$15M from \$305.4M in FY 2012 to \$290.4M in FY 2013 due to an \$8.3M decreased allotment from the Territorial Education Facilities Fund and decline in federal grants. In contrast, expenditures increased by \$26M from \$297.2M in FY 2012 to \$323.2M in FY 2013.
- Although Deloitte & Touche rendered an unmodified "clean" opinion of all of GDOE's major federal programs, they identified seven findings, of which two were considered material weaknesses in internal control.
- Year-end reconciliation of federal award expenditures between GDOE and their Third Party Fiduciary Agent, took over six months to complete, remains problematic and is determined a material weakness. This is partly attributed to the loss of GDOE's key accounting personnel and reflects GDOE's struggle to retain qualified personnel to effectively prepare timely reconciliations and financial reporting.

For your convenience and further detail, you may also view and download the Office of Public Accountability's two page highlights and reports in their entirety at [www.guamopa.org](http://www.guamopa.org).

Senseramente

Doris Flores Brooks, CPA, CGFM  
Public Auditor

RECEIPT ACKNOWLEDGED:

By: \_\_\_\_\_

Date: \_\_\_\_\_

1811



## Guam Department of Education FY 2013 Financial Highlights

June 28, 2014

The Guam Department of Education (GDOE) closed Fiscal Year (FY) 2013 with a \$32.8 million (M) decrease (deficit) in fund balance from \$44.5M in FY 2012 to \$11.7M in FY 2013. The \$32.8M deficit was a result of GDOE's American Recovery and Reinvestment Act (ARRA) State Fiscal Stabilization Funds expenditures paid out during FY 2013. In FY 2011, GDOE had a surplus of \$59M when GDOE received \$60M from the ARRA grants. In FY 2012, GDOE again had a surplus of \$8.2M due to ARRA. FY 2013 represents the first year of completion of these projects of \$32M. Similarly, GDOE will likely incur a deficit in FY 2014 due to the completion and payment of the remaining ARRA projects.

GDOE received an unmodified (clean) opinion on its financial statements from its independent auditors, Deloitte & Touche, LLP. However, in order to receive the clean opinion, 15 audit adjustments were made that cumulatively increased GDOE's fund balance by \$5.4M.

### **\$15M Decrease in Revenues**

GDOE's revenues totaled \$290.4M, of which \$221.3M were local funds and \$69.1M were federal funds. The local appropriations of \$221.3M declined by \$9.2M compared to prior year's \$230.6M. The decline was primarily due to an \$8.3M decreased allotment from the Territorial Education Facilities Fund. Likewise, federal grants also declined to \$69.1M compared to \$74.9M in the prior year, with the largest reduction due to USDOE's non-reauthorization of ARRA grants.

### **\$26M Increase in Expenditures**

GDOE's expenditures totaled \$323.2M, of which \$254M were local funds and \$69.2M were federal funds. Local expenditures went from \$222.3M to \$254M, an increase of \$31.7M primarily due to the Adequate Education Trust Fund (Trust) expenditures. Otherwise, local operations essentially remained the same.

In FY 2012, USDOE approved \$60M of the ARRA funds to be used towards school-based salaries to meet obligation timelines and in exchange, funds were placed in the local Trust to continue to fund projects originally identified.

Within the local expenditures, \$4.5M represents the operating lease of the Tiyan campus (paid via tax credits) and the annual debt service lease payment of JFK of \$7M. Meanwhile, Okkodo High, Astumbo Middle, Adacao Elementary, and Liguana Elementary schools' annual debt service lease payment of \$7.1M was paid from federal Compact Impact funds from the U.S. Department of the Interior (DOI).

While overall federal grant expenditures declined by \$5.7M to \$69.2M compared to \$74.9M in FY 2012, USDOE expenditures represented the largest decline or \$8.1M. On the other hand, GDOE received an increase in the US Department of Agriculture of \$1.2M, and an increase in funding from Compact Impact grants funded by the US DOI of \$1.3M.

The \$32.4M ARRA related expenditures were spent on the following:

- Roof and structural repairs (\$12M);
- Southern High School renovations (\$7.1M);
- Fire alarms, electrical repairs and air-conditioning upgrades (\$4.1M);
- Science, Technology, Engineering, and Math renovations and equipment (\$3.5M);
- Project design and construction management and administration (\$2.8M); and
- Technology, software, and equipment (\$2.6M).

### **Financial Management Information System (FMIS)**

In FY 2013, GDOE fully implemented its FMIS to process financial, procurement, payroll, human resources, maintenance, self-service, and fixed assets transactions. The new FMIS cost \$4.9M and was mainly funded with SFSF funding. Annual maintenance and support cost for the new FMIS was \$290K in FY 2013. As this was the first year of full implementation, staff are still adjusting to the system and have yet to capitalize on its full capabilities and potential.

### **Merit Bonus Payments and Employee Compensation**

In 1991, Public Law 21-59 established a bonus system for GovGuam employees who earned a superior performance grade. The bonus is calculated at 3.5% of the employee's base salary beginning in 1991. In June 2013, the Governor issued Executive Order 2013-005, ordering GDOE to pay past due merit bonuses, promised compensation, and civil service and court-ordered legal claims. GDOE received \$1.3M for merit bonuses incurred since October 2009. In FY 2013, GDOE paid \$1.1M of merit bonuses and had \$500K outstanding.

In May 2013, Executive order 2013-004 lifted the freeze on salary increments for classified employees and raises for unclassified employees since October 2011. As of FY 2013, GDOE had yet to pay \$3.2M in salary increments, but these were fully paid in June 2014.

### **Compliance**

Please refer to the Compliance Highlights for a separate commentary on the Single Audit Report and Management Letter. For a more detailed discussion on GDOE's operations, see the Management's Discussion and Analysis in the audit report at [www.guamopa.org](http://www.guamopa.org).

**Deloitte.**

**GUAM DEPARTMENT OF EDUCATION**

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

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

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**YEAR ENDED SEPTEMBER 30, 2013**

**GUAM DEPARTMENT OF EDUCATION**

Table of Contents  
Year Ended September 30, 2013

	<u>Page</u>
I. Independent Auditors' Report	1
II. Management's Discussion and Analysis	4
III. Financial Statements:	
Department-Wide Financial Statements:	
Statement of Net Position	14
Statement of Activities	15
Governmental Fund Financial Statements:	
Balance Sheet	16
Reconciliation of Governmental Fund Balance to Net Position of Governmental Activities	17
Statement of Revenues, Expenditures, and Changes in Fund Balances	18
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit) to the Statement of Activities	19
Fiduciary Fund Financial Statements:	
Statement of Fiduciary Net Position	20
Notes to Financial Statements	21
IV. Required Supplementary Information - Other than Management's Discussion and Analysis:	
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund	41
Notes to the Required Supplementary Information-Budgetary Reporting	42
Schedule of Funding Progress - Post Employment Benefits Other than Pension (Unaudited)	43
V. Other Supplementary Information:	
Department-Wide Financial Statements:	
Comparative Statements of Net Position	45
Comparative Statements of Activities	46
Governmental Fund Financial Statements:	
Comparative Balance Sheets	47
Comparative Reconciliations of Governmental Fund Balance Net Position of Governmental Activities	48
Comparative Statements of Revenues, Expenditures, and Changes in Fund Balances	49
Comparative Reconciliations of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities	50
General Fund:	
Comparative Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual	51
Comparative Combined Statement of Revenues, Expenditures by Account and Changes in Fund Balances	52
Agency Fund	53
Personnel	54



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## INDEPENDENT AUDITORS' REPORT

Mr. Jon Fernandez  
Superintendent  
Guam Department of Education

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

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

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

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

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

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

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

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

## ***Opinions***

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

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

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

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

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

## ***Other Matters***

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

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

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

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

*Other Information*

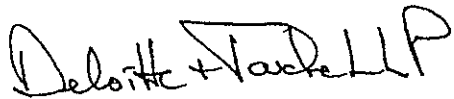
Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise GDOE's basic financial statements. The Other Supplementary Information, as set forth in Section V of the foregoing table of contents, is presented for purposes of additional analysis and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

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

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

*Other Reporting Required by Government Auditing Standards*

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



June 26, 2014



# GUAM DEPARTMENT OF EDUCATION

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

## INTRODUCTION

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

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

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

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

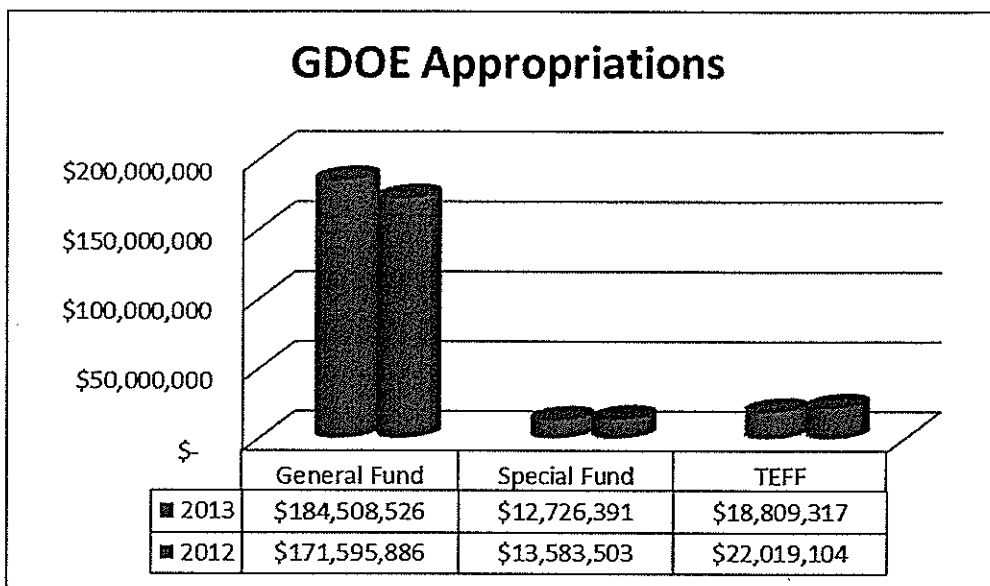
The MD & A should be read in conjunction with GDOE's basic financial statements and related notes to enhance understanding of the Department's financial performance. Additionally, the completion of the 2013 single audit represents GDOE's commitment to, and support of, programmatic and financial accountability.

## Local Appropriations

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

# GUAM DEPARTMENT OF EDUCATION

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



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

## General Fund

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

## Federal Grants and Programs

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

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

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

# GUAM DEPARTMENT OF EDUCATION

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

## FISCAL YEAR 2013 OVERVIEW

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

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

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

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

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

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

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

## GUAM DEPARTMENT OF EDUCATION

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

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

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

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

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

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

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

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

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

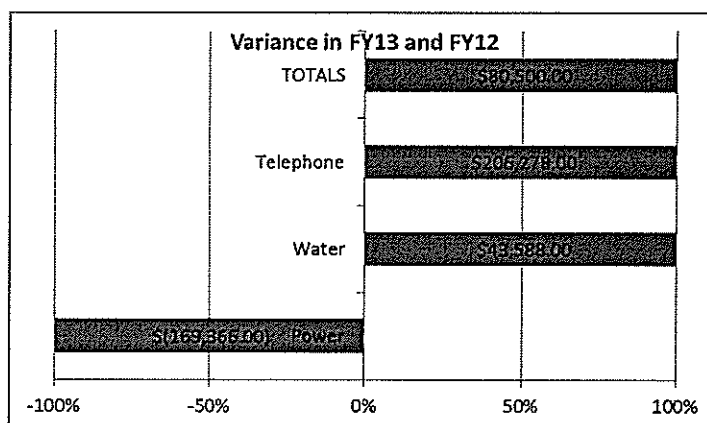
- Roofing/Structural Repairs
- Southern High Fine Arts Renovation
- Southern High Gymnasium Renovation
- Untalan Middle School Renovation
- Technology Infrastructure, Software and Equipment
- Fire Alarms/PA/Electrical Repairs
- Air Conditioning Upgrades/Replacement
- STEM Classroom Renovations
- STEM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

# GUAM DEPARTMENT OF EDUCATION

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

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

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



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

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

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

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

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

# GUAM DEPARTMENT OF EDUCATION

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

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

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

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

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

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

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

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

### STATEMENT OF NET POSITION

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

#### Summary of Net Position

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

**GUAM DEPARTMENT OF EDUCATION**

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

Summary of Net Position, Continued

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

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

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

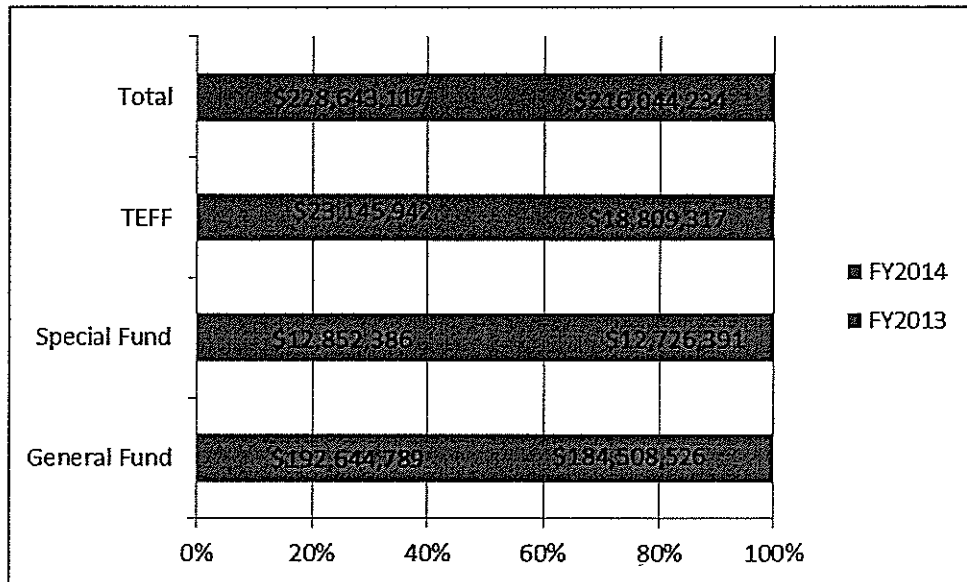
	<u>2013</u>	<u>2012</u> <u>(Restated)</u>	<u>%</u> <u>Change</u>
<b>Revenues:</b>			
Appropriations	\$ 226,373,210	\$ 235,382,633	(3.8%)
Federal grants and contributions	62,100,353	67,959,041	(8.6%)
Cafeteria Sales	553,763	676,874	(18.2%)
Other	<u>1,380,266</u>	<u>1,396,682</u>	(1.2%)
Total revenues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

# GUAM DEPARTMENT OF EDUCATION

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

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

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



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

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

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

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



## GUAM DEPARTMENT OF EDUCATION

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

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

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

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

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

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

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

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

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

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

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

## GUAM DEPARTMENT OF EDUCATION

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

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

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

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

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

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

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

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

#### MANAGEMENT CONTACT

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

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

**GUAM DEPARTMENT OF EDUCATION**

Statement of Net Position  
September 30, 2013

ASSETS

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

LIABILITIES

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

NET POSITION

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

See accompanying notes to financial statements.

GUAM DEPARTMENT OF EDUCATION

Statement of Activities  
Year Ended September 30, 2013

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

See accompanying notes to financial statements.

**GUAM DEPARTMENT OF EDUCATION**

Balance Sheet  
Governmental Funds  
September 30, 2013

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

See accompanying notes to financial statements.

**GUAM DEPARTMENT OF EDUCATION**

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

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

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

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

Maintenance costs associated with capital lease obligations in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		1,750,000
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. These assets consist of:

Buildings and improvements	380,824,612	
Vehicles, furniture and equipment	13,543,743	
Construction in progress	12,659,756	
Accumulated depreciation	<u>(112,341,074)</u>	
Capital assets, net of accumulated depreciation		294,687,037

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

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

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

**GUAM DEPARTMENT OF EDUCATION**

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

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

See accompanying notes to financial statements.

**GUAM DEPARTMENT OF EDUCATION**

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

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

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

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

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

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

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

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

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

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

See accompanying notes to financial statements.



GUAM DEPARTMENT OF EDUCATION

Statement of Fiduciary Net Position  
Agency Fund  
September 30, 2013

ASSETS

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

LIABILITIES

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

See accompanying notes to financial statements.

# GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements  
September 30, 2013

## (1) Summary of Significant Accounting Policies

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

### A. Reporting Entity

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

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

### B. Department-Wide Financial Statements

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

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

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

# GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements  
September 30, 2013

(1) Summary of Significant Accounting Policies, Continued

B. Department-Wide Financial Statements, Continued

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

C. Fund Financial Statements

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

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

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

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

D. Fund Balance

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

# GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements  
September 30, 2013

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

### D. Fund Balance, Continued

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

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

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

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

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

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

A formal minimum fund balance policy has not been adopted.

### E. Measurement Focus and Basis of Accounting

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

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

# GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements  
September 30, 2013

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

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

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

GDOE reports the following major governmental funds:

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

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

### F. Encumbrances

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

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

### G. Cash and Cash Equivalents

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

### H. Investments

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

**GUAM DEPARTMENT OF EDUCATION**

Notes to Financial Statements  
September 30, 2013

(1) Summary of Significant Accounting Policies, Continued

I. Receivables

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

J. Prepayments

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

K. Interfund Receivables/Payables

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

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

L. Capital Assets

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

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

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

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

**GUAM DEPARTMENT OF EDUCATION**

Notes to Financial Statements  
September 30, 2013

(1) Summary of Significant Accounting Policies, Continued

L. Capital Assets, Continued

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

Governmental Activities

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

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

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

M. Deferred Outflows of Resources

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

N. Net Position

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

Net Position has been restricted as follows:

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

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

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

# GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements  
September 30, 2013

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

### O. Deferred Inflows of Resources

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

### P. Compensated Absences

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

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

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

### Q. Payable to Federal Agencies

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

### R. Interfund Transactions

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



# GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements  
September 30, 2013

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

### S. Dedicated Revenues and Pledges

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

### T. Estimates

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

### U. Total Columns

Total columns are presented primarily to facilitate financial analysis. The Management's Discussion and Analysis includes certain prior year summarized comparative information in total. Such information does not include sufficient detail to constitute a full comparative presentation. Accordingly, such information should be read in conjunction with GDOE's financial statements for the year ended September 30, 2012 from which summarized information was derived.

### V. New Accounting Standards

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

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

# GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements  
September 30, 2013

(1) Summary of Significant Accounting Policies, Continued

V. New Accounting Standards, Continued

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

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

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

# GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements  
September 30, 2013

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

### V. New Accounting Standards, Continued

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

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

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

## (2) Deposits in Banks and Investments

### A. Deposit in Banks

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

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

**GUAM DEPARTMENT OF EDUCATION**

Notes to Financial Statements  
September 30, 2013

(2) Deposits in Banks and Investments, Continued

B. Investments

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

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

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

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

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

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

(3) Changes in Long-Term Liabilities

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

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

# GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements  
September 30, 2013

## (4) Commitments and Contingencies

### A. Sick Leave

It is the policy of GDOE to record the cost of sick leave when leave is actually taken and a liability is actually incurred. Generally, sick leave is paid only when an employee is absent due to illness, injury or related-family illness. Under the Defined Contribution Retirement System (DCRS), an employee may convert into cash up to 50% of the accrued sick leave liability. For this reason, a sick leave liability is recorded at September 30, 2013. The estimated accumulated amount of unused sick leave at September 30, 2013, is \$25,500,750, of which an estimated \$5,997,675 may be convertible by DCRS employees upon retirement.

### B. Federal Grants

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

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

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

### C. Non-Appropriated Funds

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

### D. Self-Insurance

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

### E. Court Order

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

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

# GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements  
September 30, 2013

## (4) Commitments and Contingencies, Continued

### F. Public Law 28-45

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

### G. Litigation

GDOE is party to several legal proceedings arising from governmental operations, however, the Legal Counsel and Attorney General of Guam is unable to assess the likelihood of potential liabilities related to claims outstanding as of September 30, 2013. Hence, it is not possible to predict a reasonable estimation of these claims to be paid through the claims process. No provision that may result has been made in the accompanying financial statements except as disclosed on Note 4E.

### H. Tiyan Operating Lease

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

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

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

**GUAM DEPARTMENT OF EDUCATION**

Notes to Financial Statements  
September 30, 2013

(4) Commitments and Contingencies, Continued

I. Okkodo High School Expansion

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

On March 15, 2013, GovGuam issued, on behalf of GDOE the following Certificates of Participation (COPS) to finance the expansion:

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

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

Expansion will be funded by appropriations from the Guam Legislature from available Section 30 revenues, tax credits, 2013 Series A Construction Account, 2013 Series B Construction Account, the Holding Fund and the Trust Fund established pursuant to the Trust Agreement.

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

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

At September 30, 2013, future minimum lease payments for the aforementioned expansion are as follows:

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

**GUAM DEPARTMENT OF EDUCATION**

Notes to Financial Statements  
September 30, 2013

(5) Employee Retirement Plans

Defined Benefit Plan

Plan Description:

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

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

Funding Policy:

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

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

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



# GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements  
September 30, 2013

(5) Employee Retirement Plans, Continued

Defined Contribution Plan, Continued

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

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

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

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

Other Post Employment Benefits

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

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

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

# GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements  
September 30, 2013

## (6) Appropriations

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

### General Fund:

#### Public Law 31-233:

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

#### Public Law 31-77

SAR Fund	212,351
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#### Public Law 21-59:

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

### Federal Grants Assistance Fund:

#### Public Law 28-47

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

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

## (7) School Lease Agreements

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

# GUAM DEPARTMENT OF EDUCATION

## Notes to Financial Statements

September 30, 2013

### (7) School Lease Agreements, Continued

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

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

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

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

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

The assets acquired through capital leases are as follows:

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

These buildings are summarized as follows:

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

**GUAM DEPARTMENT OF EDUCATION**

Notes to Financial Statements  
September 30, 2013

(7) School Lease Agreements, Continued

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

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

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

(8) Merit Bonus and Salary Increment

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

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

(9) Subsequent Events

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

**GUAM DEPARTMENT OF EDUCATION**

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**REQUIRED SUPPLEMENTARY  
INFORMATION**

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**YEAR ENDED SEPTEMBER 30, 2013**

**GUAM DEPARTMENT OF EDUCATION**

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

	Original Budget	Final Budget	Actual - Budgetary Basis	Variance with Final Budget - Positive (Negative)
<b>Revenues:</b>				
<b>Local appropriations:</b>				
<b>Government of Guam General Fund:</b>				
Operations	\$ 181,939,906	\$ 181,558,786	\$ 181,558,786	\$ -
Guahan Academy Charter Schools	687,500	687,500	687,500	-
Textbooks	1,500,000	1,500,000	1,376,745	(123,255)
Chamorro Studies Division	381,120	381,120	80,257	(300,863)
Retiree healthcare benefits	-	8,077,260	8,077,260	-
Tiyan Operating Lease Agreement	-	4,493,256	4,493,256	-
JFK High School Lease Agreement (Base rental)	-	5,131,938	5,399,935	267,997
Promised compensation	-	-	365,784	365,784
Merit bonus and increments	-	2,850,953	5,029,136	2,178,183
<b>Territorial Educational Facilities Fund:</b>				
Operations	15,808,564	15,808,564	7,466,018	(8,342,546)
GPA promissory note	1,432,753	1,432,753	1,864,457	431,704
JFK High School Lease Agreement (Additional rental)	1,568,000	1,568,000	1,568,000	-
<b>Healthy Futures Fund:</b>				
Interscholastic sports	612,000	612,000	366,599	(245,401)
Health and Physical Education Activities	279,754	279,754	157,347	(122,407)
Public School Library Resources Fund	670,328	670,328	569,779	(100,549)
SAR	-	-	212,351	212,351
Fees and other program receipts	-	61,251	939,436	878,185
Federal grants and contributions	-	528,500	563,658	35,158
Cafeteria sales	-	553,763	553,763	-
<b>Total revenues</b>	<b>204,879,925</b>	<b>226,195,726</b>	<b>221,330,067</b>	<b>(4,865,659)</b>
<b>Expenditures - Budgetary Basis:</b>				
Elementary Education	65,454,237	74,693,322	76,061,395	(1,368,073)
Secondary Education	70,410,990	82,304,052	83,608,923	(1,304,871)
Direct Student Support	10,848,427	18,335,546	16,239,198	2,096,348
General Administration	49,402,738	96,035,488	83,842,089	12,193,399
Retiree healthcare benefits	-	8,077,260	8,077,260	-
Tiyan Operating Lease	-	4,493,256	4,493,256	-
Transfer to Guahan Charter Schools Fund	687,500	687,500	687,500	-
<b>Debt service:</b>				
JFK High School Lease Agreement	1,568,000	6,967,935	6,967,935	-
<b>Total expenditures</b>	<b>198,371,892</b>	<b>291,594,359</b>	<b>279,977,556</b>	<b>11,616,803</b>
Deficiency of revenues under expenditures	6,508,033	(65,398,633)	(58,647,489)	6,751,144
<b>Other financing uses:</b>				
Transfers out	-	-	(114,450)	(114,450)
<b>Net change in fund balance</b>	<b>6,508,033</b>	<b>(65,398,633)</b>	<b>(58,761,939)</b>	<b>6,636,694</b>
<b>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 reporting purposes	-	-	25,955,447	25,955,447
Fund balance at beginning of year	44,510,290	44,510,290	44,510,290	-
<b>Fund balance at end of year</b>	<b>\$ 51,018,323</b>	<b>\$ (20,888,343)</b>	<b>\$ 11,703,798</b>	<b>\$ 32,706,591</b>

See accompanying notes to required supplementary information.

## GUAM DEPARTMENT OF EDUCATION

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

#### (1) Budgetary Process

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

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

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

See Accompanying Independent Auditors' Report.

**GUAM DEPARTMENT OF EDUCATION**

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

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

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

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

See Accompanying Independent Auditors' Report.



**GUAM DEPARTMENT OF EDUCATION**

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**OTHER SUPPLEMENTARY  
INFORMATION**

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**YEAR ENDED SEPTEMBER 30, 2013**

**GUAM DEPARTMENT OF EDUCATION**

Statements of Net Position - Governmental Activities

September 30, 2013

(With Comparative Totals as of September 30, 2012)

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

See Accompanying Independent Auditors' Report.

**GUAM DEPARTMENT OF EDUCATION**

Statement of Activities - Governmental Activities  
 Year Ended September 30, 2013  
 (With Comparative Totals for the Year Ended September 30, 2012)

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

See Accompanying Independent Auditors' Report.

**GUAM DEPARTMENT OF EDUCATION**

Balance Sheets  
Governmental Funds  
September 30, 2013

(With Comparative Totals as of September 30, 2012)

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

See Accompanying Independent Auditors' Report.

**GUAM DEPARTMENT OF EDUCATION**

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

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

See Accompanying Independent Auditors' Report.

**GUAM DEPARTMENT OF EDUCATION**

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

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

See Accompanying Independent Auditors' Report.

**GUAM DEPARTMENT OF EDUCATION**

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

	2013	2012 (Restated)
Amounts reported for governmental activities in the statements of activities are different because:		
Total net change in fund balances - governmental funds	\$ (32,806,492) \$	8,235,533
Governmental funds report capital outlays as expenditures. However, in the statements of activities the cost of those assets is allocated over the estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation (or depreciation exceeded capital outlays).	19,139,030	6,430,182
Prepayment of capital lease obligations in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	-	(104,875)
Prepayment of capital lease obligations in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	(908,427)	(109,022)
The issuance of long-term debt (eg. leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt.	4,195,000	3,990,000
Reversal of deferred assets (NOTE 1V)	-	(1,573,133)
Some expenses reported in the statements of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(126,332)	969,183
Change in net position of governmental activities	\$ (10,507,221) \$	17,837,868

See Accompanying Independent Auditors' Report.

**GUAM DEPARTMENT OF EDUCATION**

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual  
 General Fund  
 Year Ended September 30, 2013  
 (With Comparative Totals for the Year Ended September 30, 2012)

	2013				2012			
	Original Budget	Final Budget	Actual - Budgetary Basis	Variance with Final Budget - Positive (Negative)	Original Budget	Final Budget	Actual - Budgetary Basis	Variance with Final Budget - Positive (Negative)
<b>Revenues:</b>								
<b>Local appropriations:</b>								
<b>Government of Guam General Fund:</b>								
Operations	\$ 181,939,906	\$ 181,558,786	\$ 181,558,786	\$ -	\$ 169,214,766	\$ 183,099,998	\$ 177,207,210	\$ (5,892,788)
Guahan Academy Charter Schools	687,500	687,500	687,500	-	-	-	-	-
Textbooks	1,500,000	1,500,000	1,376,745	(123,255)	2,000,000	2,000,000	1,700,000	(300,000)
Chamorro studies division	381,120	381,120	80,257	(300,863)	381,120	381,120	323,952	(57,168)
Retiree healthcare benefits	-	8,077,260	8,077,260	-	-	8,058,962	8,058,962	-
Tiyan Operating Lease Agreement	-	4,493,256	4,493,256	-	-	-	-	-
JFK High School Lease Agreement	-	5,131,938	5,399,935	267,997	-	4,522,895	4,522,895	-
Promised compensation	-	-	365,784	365,784	-	-	-	-
Merit bonus and increments	-	2,850,953	5,029,136	2,178,183	-	-	-	-
Government of Guam 2008 bond proceeds	-	-	-	-	-	-	822,250	822,250
Government of Guam 2012 bond proceeds	-	-	-	-	-	6,348,628	6,348,628	-
<b>Territorial Education Facilities Fund</b>								
Operations	15,808,564	15,808,564	7,466,017	(8,342,546)	19,619,104	16,810,890	16,810,890	-
GPA promissory note	1,432,753	1,432,753	1,864,457	431,704	2,400,000	2,400,000	2,400,000	-
Tiyan Operating Lease Agreement	-	-	-	-	-	7,734,935	7,734,935	-
JFK High School Lease Agreement (Additional rental)	1,568,000	1,568,000	1,568,000	-	-	-	-	-
<b>Healthy Futures Fund:</b>								
Interscholastic Sports	612,000	612,000	366,599	(245,401)	612,000	612,000	548,870	(63,130)
Health and Physical Education Activities	279,754	279,754	157,347	(122,407)	279,754	279,754	237,791	(41,963)
Public School Library Resources Fund	670,328	670,328	569,779	(100,549)	652,440	-	-	-
Indirect Cost Fund	-	-	-	-	250,000	250,000	212,500	(37,500)
Autonomous Agency Collection Fund	-	-	-	-	-	875,000	743,750	(131,250)
SAR Fund	-	-	212,351	212,351	525,000	525,000	525,000	-
Health and Human Services Fund	-	-	-	-	100,000	100,000	85,000	(15,000)
Fees and other program receipts	-	61,251	939,436	878,185	-	-	1,041,474	1,041,474
Federal grants and contributions	-	528,500	563,658	35,158	-	-	564,041	564,041
Cafeteria sales	-	553,763	553,763	-	1,095,091	1,095,091	676,874	(418,217)
<b>Total revenues</b>	<b>204,879,925</b>	<b>226,195,726</b>	<b>221,330,067</b>	<b>(4,865,659)</b>	<b>197,129,275</b>	<b>235,094,273</b>	<b>230,565,022</b>	<b>(4,529,251)</b>
<b>Expenditures - Budgetary Basis:</b>								
Personnel	144,576,590	170,794,324	170,912,002	(117,678)	145,753,775	172,050,030	165,855,865	6,194,165
Utilities	11,880,780	16,390,090	16,589,646	(199,556)	12,349,683	16,541,175	16,461,166	80,009
Contractual	13,966,835	25,974,970	21,072,541	4,902,429	8,662,036	20,441,402	10,781,633	9,659,769
Supplies/equipment	6,601,800	11,163,408	4,156,291	7,007,117	3,834,425	10,226,142	8,355,488	1,870,654
Textbooks	2,804,103	5,568,739	2,258,859	3,309,880	-	81,235	315,262	(234,027)
Capital projects	15,714,432	46,336,401	27,903,322	18,433,079	189,646	22,413,924	20,486,514	1,927,410
Tiyan Operating Lease	-	4,493,256	4,493,256	-	-	6,237,183	6,237,183	-
JFK High School Lease	-	6,967,935	6,967,935	-	-	4,522,895	4,522,895	-
Retiree healthcare benefits	-	8,077,260	8,077,260	-	-	8,058,962	8,058,962	-
Transfer to Guahan Charter Schools Fund	687,500	687,500	687,500	-	-	-	-	-
Other	2,139,852	(4,859,524)	16,858,944	(21,718,468)	32,121,517	1,430,321	2,080,993	(650,672)
<b>Total expenditures</b>	<b>198,371,892</b>	<b>291,594,359</b>	<b>279,977,556</b>	<b>11,616,803</b>	<b>202,911,082</b>	<b>262,003,269</b>	<b>243,155,961</b>	<b>18,847,308</b>
<b>Deficiency of revenues under expenditures</b>	<b>6,508,033</b>	<b>(65,398,633)</b>	<b>(58,647,489)</b>	<b>6,751,144</b>	<b>(5,781,807)</b>	<b>(26,908,996)</b>	<b>(12,590,939)</b>	<b>14,318,057</b>
<b>Other financing uses and uses:</b>								
Transfers in	-	-	(114,450)	(114,450)	-	-	-	-
<b>Net change in fund balance</b>	<b>6,508,033</b>	<b>(65,398,633)</b>	<b>(58,761,939)</b>	<b>6,636,694</b>	<b>(5,781,807)</b>	<b>(26,908,996)</b>	<b>(12,590,939)</b>	<b>14,318,057</b>
<b>Other changes in fund balance:</b>								
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary purposes, but in the year the items are received for financial statement purposes	-	-	25,955,447	25,955,447	-	-	20,826,472	20,826,472
<b>Fund balance at beginning of year</b>	<b>44,510,290</b>	<b>44,510,290</b>	<b>44,510,290</b>	<b>-</b>	<b>36,274,757</b>	<b>36,274,757</b>	<b>36,274,757</b>	<b>-</b>
<b>Fund balance at end of year</b>	<b>\$ 51,018,323</b>	<b>\$ (20,888,343)</b>	<b>\$ 11,703,798</b>	<b>\$ 32,592,141</b>	<b>\$ 30,492,950</b>	<b>\$ 9,365,761</b>	<b>\$ 44,510,290</b>	<b>\$ 35,144,529</b>

See Accompanying Independent Auditors' Report.



**GUAM DEPARTMENT OF EDUCATION**

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

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

See Accompanying Independent Auditors' Report.

GUAM DEPARTMENT OF EDUCATION

Agency Fund  
September 30, 2013

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

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

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

Elementary schools	137
Secondary schools	156

See Accompanying Independent Auditors' Report.

**GUAM DEPARTMENT OF EDUCATION**

Personnel  
September 30, 2013 and 2012

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

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

See Accompanying Independent Auditors' Report.



## **Guam Department of Education FY 2013 Compliance Highlights**

June 29, 2014

Fiscal year (FY) 2013 was the 11th consecutive year of the Guam Department of Education (GDOE)'s high-risk grantee status with the U.S. Department of Education (USDOE). In November 2009, USDOE determined that GDOE should be assisted by a Third Party Fiduciary Agent (TPFA) to assist in implementing GDOE's financial management of USDOE funds, GDOE's Comprehensive Corrective Action Plan (CCAP), and a new financial management information system (FMIS). GDOE paid \$2.6 million (M) in FY 2013 and \$9.8M year-to-date to the TPFA.

Although independent auditors Deloitte & Touche rendered an unmodified "clean" opinion on all of GDOE's major federal programs, they identified seven findings, of which two were considered material weaknesses in internal control. Of the seven findings, five were reiterative of prior year conditions. Findings related to Equipment and Real Property Management, Non-Appropriated Funds (NAF), and Procurement, Suspension, and Debarment were reported in GDOE's single audit reports for at least 10 years.

### **Federal Program Funding**

In FY 2013, GDOE expended \$69.6M in federal awards from five grantor agencies: (1) \$47.5M from USDOE, (2) \$10.8M from the U.S. Department of Agriculture, (3) \$8.4M from the USDOE, (4) \$2.5M from the U.S. Department of Health and Human Services, and (5) \$369 thousand (K) from the U.S. Department of Defense. Of the \$69.6M, the three largest expenditures were for USDOE Consolidated Grants to the Outlying Areas at \$27M, Special Education at \$13.1M, and the National School Lunch Program and School Breakfast Program at \$10.1M.

In February 2009, the federal government enacted the American Recovery and Reinvestment Act (ARRA) and granted GDOE \$89.3M for capital improvement projects, technology, and equipment. In FY 2013, GDOE spent \$5.4M. Year to date expenditures were \$89.3M.

### **Transition Plan from Third Party Fiduciary Agent (TPFA) to GDOE**

For the third consecutive year and as part of the special conditions imposed by USDOE, GDOE's federal grants from USDOE was administered by the TPFA. In September 2010, GDOE developed a CCAP to address GDOE's high-risk status. Year-end reconciliation of federal award expenditures between GDOE and the TPFA remains problematic and determined a material weakness. The reconciliation took over six months to complete. This is partly attributed to the loss of GDOE's key accounting personnel. Furthermore, GDOE's accounting department struggles to retain qualified personnel to effectively prepare timely reconciliations and financial reporting. We urge GDOE to work with USDOE and the TPFA to develop a mutually acceptable transition plan to get GDOE off high-risk.

### **Material Weaknesses and Significant Deficiencies Identified**

Of the seven findings, two were material weaknesses in internal control (\*) and five were significant deficiencies (^). Five findings are repeat conditions identified in prior GDOE single audit reports.

Equipment and Real Property (2013-001\*) – The following issues were noted:

- Locally-funded capital improvement projects of \$1.8M were excluded from GDOE's financial statements;
- GDOE did not perform preventive maintenance for a generator purchased in 2009;
- There were no acquisition costs for three vehicles purchased with federal funds;
- GDOE did not monitor the Guam Education Financing Foundation's maintenance of new schools;
- GDOE did not reconcile acquisition costs for 10 vehicles; and
- GDOE included, instead of depreciating, three irreparable vehicles in its financial statements.

Procurement and Suspension and Debarment (2013-002^ and 2013-003^) – For two findings, GDOE did not use competitive procurement:

- GDOE used sole source procurement for learning materials (\$2K). GDOE did not provide documentation that no other vendor could provide the materials.
- GDOE used emergency procurement for security services (\$32K) and competitive procurement was not performed for the small purchase of instructional materials (\$650). The independent auditors found that GDOE had more than sufficient time to procure the security services and materials through an Invitation for Bid.

Financial Management (2013-004^ and 2013-005\*) – GDOE did not perform timely reconciliations between its Federal Grants Fund and Schedule of Expenditures of Federal Awards, and its general and subsidiary ledgers. While there was a slight improvement in the reconciliation of GDOE's ledgers, the full implementation of GDOE's FMIS affected its closing process and substantial effort was required to reconcile with the TPFA's records.

NAF (2013-006^) – While the independent auditors noted improvements in NAF, expenditures continue to lack supporting documentation and cash balances were not reconciled. Approximately \$70K in expenditures did not meet NAF documentation requirements. Bank reconciliations or statements of 10 schools were not available for review. Moreover, there were variances between bank reconciliations and cash balances of 20 schools.

Budgets (2013-007^) – Certain budget line items were loaded in excess of amounts allotted by the Bureau of Budget and Management Research. In addition, internal reports indicated approximately \$19M was available for appropriation accounts created between FY 2005 and FY 2012.

### **Management Letter Comments**

The independent auditors issued a management letter containing six findings relating to:

- (1) Stale-dated checks of \$127K;
- (2) Lack of supporting documentation for certain liabilities and paid accruals were not offset against the liability;
- (3) Different beginning of year balances for several general ledger accounts;
- (4) Unrecorded liabilities of \$954K;
- (5) Lack of control over network activities; and
- (6) Lack of comprehensive manual process and a compatible disaster recovery system in the event of a system disruption or failure in GDOE's business operation.

To view the reports in their entirety, visit our website at [www.guamopa.org](http://www.guamopa.org).

**Deloitte.**

**GUAM DEPARTMENT OF EDUCATION**

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

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**SINGLE AUDIT REPORTS**

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**YEAR ENDED SEPTEMBER 30, 2013**



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USA

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June 26, 2014

Mr. Jon Fernandez  
Superintendent  
Guam Department of Education  
Government of Guam  
P.O. Box DE  
Hagatna, Guam 96932

Dear Mr. Fernandez:

In planning and performing our audit of the financial statements of Guam Department of Education (GDOE) as of and for the year ended September 30, 2013 (on which we have issued our report dated June 26, 2014), 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, we considered the GDOE's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the GDOE's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the GDOE's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting. However, in connection with our audit, we identified, and included in the attached Appendix I, deficiencies related to the GDOE's internal control over financial reporting and other matters as of September 30, 2013 that we wish to bring to your attention.

We have also issued a separate report to GDOE, also dated June 26, 2014, on our consideration of the 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 definition of a deficiency is also set forth in the attached Appendix I.

A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with this report.

This report is intended solely for the information and use of the Office of the Superintendent, management, others within the organization, the Office of Public Accountability – Guam, federal awarding agencies, pass-through entities, and the cognizant audit and other federal agencies and is not intended to be and should not be used by anyone other than these specified parties. However, this report is also a matter of public record.

We will be pleased to discuss the attached comments with you and, if desired, to assist you in implementing any of the suggestions.

We wish to thank the staff and management of the GDOE for their cooperation and assistance during the course of this engagement.

Very truly yours,

## SECTION I –DEFICIENCIES

We identified, and have included below, deficiencies involving the GDOE’s internal control over financial reporting as of September 30, 2013 that we wish to bring to your attention:

1. Stale-Dated Checks

Comment: The bank reconciliation for the operation and payroll accounts included a total of \$127,000 stale-dated checks.

Recommendation: Management should review outstanding checks and consider reclassifying stale-dated checks as liabilities. Management should develop a stale-dated check policy.

2. Outstanding Liabilities

Comment 1: Invoices, applicable receiving records or equivalent documentation to support the validity of the following liabilities were not available.

<u>GL Account</u>	<u>Invoice or Ref</u>	<u>Amount</u>
110-310100	25271345001	\$100,000
110-310100	11265077001	92,842

Comment 2: Accrual liquidations should be reflected as an offset against the liability.

Recommendation: Management should periodically review subsidiary ledgers for ongoing pertinence. Additionally, payments of accrued expenses should be reflected against the liability.

3. Account Reconciliation

Comment: General ledger details for several accounts indicated two different beginning of year (BOY) balances. Final balances of the affected accounts reflected either the first or the second BOY balance. The cause of this condition was not identified, and the issue has not been resolved.

Recommendation: Management should continue to investigate and make corrections.

4. Unrecorded Liabilities

Comment: As of September 30, 2013, our tests indicated \$954,474 of unrecorded liabilities in the General Fund. An audit adjustment was proposed to correct this misstatement.

Recommendation: GDOE should periodically reconcile vendor statements to recorded payables. Additionally, we recommend retention fees be accrued and be recorded in the period incurred.



## SECTION II – OTHER MATTERS

We identified, and have included below, other matters involving the GDOE's internal control over financial reporting as of September 30, 2013, we wish to bring to your attention.

### 1. Enhancement on Network Security

Comment: There is a lack of control over network activities. Without control over network activities, there will be a higher chance of having data integrity and confidentiality issues.

Recommendation: Network violation reports should be regularly reviewed. Also, network vulnerability testing and/or network penetration testing should be performed annually to identify weak network areas.

### 2. Enhancement of Disaster Recovery Plan and Business Continuity Plan

Comment: The impact of a system disruption or failure in the business operation is critical because of the lack of comprehensive manual processes to substitute the automated process during a system disruption. Also, the current disaster recovery system indicates use of the Department of Administration's AS400 system, which is not compatible with GDOE's AS400 system.

The operation of GDOE could be discontinued for a significant time period after the system disruption or failure because of the lack of comprehensive manual processes and the lack of a compatible disaster recovery system. It could also result in the delay of financial data processing and the loss of data integrity.

Recommendation: GDOE should establish a comprehensive manual process and a compatible disaster recovery system to minimize the impact of system disruption or failure.

## SECTION III – DEFINITIONS

The definition of a deficiency is as follows:

*A deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or competence to perform the control effectively.

**MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING**

The following comments concerning management's responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are adapted from auditing standards generally accepted in the United States of America.

**Management's Responsibility**

The GDOE's management is responsible for the overall accuracy of the financial statements and their conformity with generally accepted accounting principles. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

**Objectives of Internal Control over Financial Reporting**

Internal control over financial reporting is a process affected by those charged with governance, management, and other personnel and designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity's objective of reliable financial reporting (i.e., the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles).

**Inherent Limitations of Internal Control over Financial Reporting**

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.



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June 26, 2014

Mr. Jon Fernandez  
Superintendent  
Guam Department of Education  
P.O. Box DE  
Hagatna, GU 96932

We have performed an audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Guam Department of Education (GDOE) as of and for the year ended September 30, 2013, in accordance with auditing standards generally accepted in the United States of America (“generally accepted auditing standards”) and have issued our report thereon dated June 26, 2014.

We have prepared the following comments to assist you in fulfilling your obligation to oversee the financial reporting and disclosure process for which management of GDOE is responsible.

#### **OUR RESPONSIBILITY UNDER GENERALLY ACCEPTED AUDITING STANDARDS AND GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS**

Our responsibility under generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, have been described in our engagement letter dated January 20, 2014. As described in that letter, the objective of a financial statement audit conducted in accordance with the aforementioned standards is:

- To express an opinion on the fairness of each opinion unit in GDOE’s basic financial statements and the accompanying supplementary information, and to disclaim an opinion on the required supplementary information for the year ended September 30, 2013 in conformity with accounting principles generally accepted in the United States of America (“generally accepted accounting principles”), in all material respects;
- To express an opinion on whether the supplementary information that accompanies the basic financial statements is presented fairly, in all material respects, in relation to the basic financial statements taken as a whole;
- To report on GDOE’s internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended September 30, 2013 based on an audit of financial statements performed in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*; and

- To report on GDOE 's compliance with requirements applicable to each major federal program and on internal control over compliance in accordance with the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* (OMB Circular A-133).

Our responsibilities under generally accepted auditing standards include forming and expressing an opinion about whether the financial statements that have been prepared with the oversight of management and the Office of the Superintendent are presented fairly, in all material respects, in conformity with generally accepted accounting principles. The audit of the financial statements does not relieve management or the Office of the Superintendent of their responsibilities.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether caused by fraud or error. In making those risk assessments, we considered internal control over financial reporting relevant to GDOE's preparation and fair presentation of the financial statements in order to design audit procedures that were appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of GDOE's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of GDOE's internal control over financial reporting. Our consideration of internal control over financial reporting was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses

We also considered GDOE's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133. Our audit does not, however, provide a legal determination of GDOE's compliance with those requirements.

## **ACCOUNTING ESTIMATES**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and on assumptions about future events. Significant accounting estimates reflected in GDOE's 2013 financial statements include management's estimate of the allowance for uncollectible accounts, which is determined based upon past collection experience and aging of the accounts, and management's estimate of depreciation expense, which is based on estimated useful lives of the respective capital assets. During the year ended September 30, 2013, we are not aware of any significant changes in accounting estimates or in management's judgments relating to such estimates.

## **AUDIT ADJUSTMENTS AND UNCORRECTED MISSTATEMENTS**

Our audit of the financial statements was designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. As the result of our audit work, we identified matters that resulted in audit adjustments that we believe, either individually or in the aggregate, would have a significant effect on GDOE's financial reporting process. Such proposed adjustments, listed in Appendix I, have been recorded in the accounting records and are reflected in the 2013 financial statements. Those proposed adjustments that were not recorded by management are also included in the schedule described in the next paragraph.

In addition, we have attached to this letter, as Appendix II, a summary of uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

## SIGNIFICANT ACCOUNTING POLICIES

GDOE's significant accounting policies are set forth in Note 1 to GDOE's 2013 financial statements. During the year ended September 30, 2013, there were no significant changes in previously adopted accounting policies or their application, except as follows:

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

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addressed how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into.
- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, which improved financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively.
- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which enhanced the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements. GASB Statement no. 62 superceded GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*.
- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which established guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. These Statements amend the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. With the implementation of GASB Statement No. 63 and Statement No. 65, the Statement of Net Assets was renamed the Statement of Net Position. In addition, the Statement of Net Position includes two new classifications separate from assets and liabilities. Amounts reported as deferred outflows of resources are reported in a separate section following assets. Likewise, amounts reported as deferred inflows of resources are reported in a separate section following liabilities. The effect on the financial statements of the implementation of GASB Statement No. 65 is as follows:

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

The implementation of these pronouncements with the exception of GASB Statement no. 63 and 65, did not have a material effect on GDOE's 2013 financial statements.

## **OTHER INFORMATION IN THE ANNUAL REPORTS OF GDOE**

When audited financial statements are included in documents containing other information such as GDOE's 2013 Annual Report, we will read such other information and consider whether it, or the manner of its presentation, is materially inconsistent with the information, or the manner of its presentation, in the financial statements audited by us. We will read the other information in GDOE's 2013 Annual Report and will inquire as to the methods of measurement and presentation of such information. If we note a material inconsistency or if we obtain any knowledge of a material misstatement of fact in the other information, we will discuss this matter with management and, if appropriate, with the Board.

## **DISAGREEMENTS WITH MANAGEMENT**

We have not had any disagreements with management related to matters that are material to GDOE's 2013 financial statements.

## **OUR VIEWS ABOUT SIGNIFICANT MATTERS THAT WERE THE SUBJECT OF CONSULTATION WITH OTHER ACCOUNTANTS**

We are not aware of any consultations that management may have had with other accountants about auditing and accounting matters during 2013.

## **MANAGEMENT'S REPRESENTATIONS**

We have made specific inquiries of GDOE's management about the representations embodied in the financial statements. Additionally, we have requested that management provide to us the written representations GDOE is required to provide to its independent auditors under generally accepted auditing standards. We have attached to this letter, as Appendix III, a copy of the representation letters we obtained from management.

## **OTHER SIGNIFICANT FINDINGS OR ISSUES ARISING FROM THE AUDIT DISCUSSED, OR SUBJECT OF CORRESPONDENCE, WITH MANAGEMENT**

Throughout the year, routine discussions were held, or were the subject of correspondence, with management. In our judgment, such discussions or correspondence did not involve significant findings or issues requiring communication to GDOE.

## **SIGNIFICANT DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT**

In our judgment, we received the full cooperation of GDOE's management and staff and had unrestricted access to GDOE's senior management in the performance of our audit.

## **CONTROL-RELATED MATTERS**

We have issued a separate report to you, dated June 26, 2014, on the GDOE's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, which was based upon the audit performed in accordance with *Government Auditing Standards*. We have also issued a separate report to you, also dated June 26, 2014, involving the GDOE's compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133. Within those reports, we noted certain matters that were considered to be material weaknesses and significant deficiencies under standards established by the American Institute of Certified Public Accountants and OMB Circular A-133. Although we have included management's written responses to our comments contained in those reports, such responses have not been subjected to the auditing procedures applied on our audit of the basic financial statements and, accordingly, we do not express an opinion or provide any form of assurance on the appropriateness of the responses or the effectiveness of any corrective actions described therein.

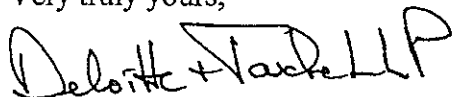
We have communicated to management, in separate letters also dated June 26, 2014, certain deficiencies and other matters related to the GDOE's internal control over financial reporting and the information technology environment that we identified during our audit.

\* \* \* \* \*

This report is intended solely for the information and use of management, the Office of the Superintendent, the Office of Public Accountability of Guam, and others within the entity and is not intended to be and should not be used by anyone other than these specified parties.

We wish to thank the staff and management of GDOE for their cooperation and assistance during the course of this engagement.

Very truly yours,

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

Guam Department of Education  
GOVERNMENT WIDE  
Summary of Corrected Misstatements  
For the year ended September 30, 2013

Account#	Description	Debit	Credit
<b>1 AJE To adjust Capital Lease</b>			
<i>JFK High School</i>			
820-380100	AMT TOBE PROVIDED-C.LEASE	-	1,650,000.00
820-380300	CAPITAL LEASE -CURRENT	-	45,000.00
820-380200	CAPITAL LEASE-LONG TERM	1,695,000.00	-
<i>Municipal Schools</i>			
820-380100	AMT TOBE PROVIDED-C.LEASE	-	63,441.00
820-380300	CAPITAL LEASE -CURRENT	-	145,000.00
820-380200	CAPITAL LEASE-LONG TERM	2,690,000.00	-
820-280400	DEFERRED MAINT. COST	-	881,761.00
820-280500	OTHER DEFERRED ASSETS	-	1,573,132.00
820-280300	PREPAYMENT-CAPITAL LEASE	-	26,666.00
		<u>4,385,000.00</u>	<u>4,385,000.00</u>
<b>2 AJE To adjust leave accrual</b>			
<i>Sick leave</i>			
820-381300	DEF.CONTRIB.RETIRE/SICK	-	109,774.00
820-381200	EMPLOYEE BENEFITS	109,774.00	-
<i>Annual leave</i>			
820-340300	ACCRUED ANNUAL LEAVE-CURR	-	36,303.00
820-340700	ACCRUED ANNUAL LEAVE-LT	36,303.00	-
		<u>146,077.00</u>	<u>146,077.00</u>
<b>3 AJE To correct capitalized assets</b>			
<i>To reconcile to subsidiary ledger</i>			
810-251500	ACCUM. DEPR-BUILDINGS	58,485.00	-
810-253500	ACCUM. DEPRE-OTHER EQUIPMENT	-	7,257.00
810-252500	ACCUM. DEPR-VEHICLES	1,182,810.00	-
810-255000	FIXED ASSET CONTROL	8,266,242.00	-
810-253000	FIXED ASSETS-OTHER EQUIPMENT	-	138,573.00
810-060000-GADM	DEPRECIATION-BUILDINGS	-	7,266,935.00
810-060100-GADM	DEPRECIATION-VEHICLES	-	157,685.00
810-060200-GADM	DEPRECIATION-OTHER EQUIPT	-	994,177.00
810-252000	FIXED ASSETS-VEHICLES	-	942,910.00
<i>To record uncapitalized assets</i>			
810-251500	ACCUM. DEPR-BUILDINGS	-	194,761.00
810-253500	ACCUM. DEPRE-OTHER EQUIPMENT	-	142,931.00
810-255100	CONSTRUCTION IN PROGRESS	-	1,680,090.00
810-255000	FIXED ASSET CONTROL	-	4,031,144.00
810-251000	FIXED ASSETS-BUILDINGS	4,869,003.00	-
810-253000	FIXED ASSETS-OTHER EQUIPMENT	705,186.00	-
810-254000	FIXED ASSETS-TECHNOLOGY	137,045.00	-
810-060000-GADM	DEPRECIATION-BUILDINGS	194,761.00	-
810-060200-GADM	DEPRECIATION-OTHER EQUIPT	142,931.00	-
		<u>15,556,463.00</u>	<u>15,556,463.00</u>



## APPENDIX I, CONTINUED

Guam Department of Education  
GENERAL FUND  
Summary of Corrected Misstatements  
For the year ended September 30, 2013

Account number	Description	Debit	Credit
<b>1 AJE To reconcile Fund balance</b>			
110-441900	FUND BALANCE	91,881.35	-
180-441900	FUND BALANCE	6,069.96	-
181-441900	FUND BALANCE	-	6,069.96
190-441900	FUND BALANCE	-	102,611.06
110-210000	INTERFUND CASH	-	97,245.98
180-210000	INTERFUND CASH	-	6,069.96
181-210000	INTERFUND CASH	6,069.96	-
190-210000	INTERFUND CASH	97,245.98	-
110-340100	ACCRUAL	5,364.63	-
190-200800	SAVINGS-SCHOOL MEALS/LUNCH	5,365.08	-
		211,996.96	211,996.96
<b>2 AJE To record DOA transactions paid on behalf of GDOE and reconcile to confirmation</b>			
<i>GPA note payoff</i>			
110-036100-GADM	POWER	41,706.97	-
110-350100	CURR PORT LONG-TERM DEBT	1,822,750.03	-
110-110000	TRANSFERS IN FROM GF	-	1,864,457.00
<i>Tiyan Operating Lease</i>			
110-045000-OPLS	OPERATION LEASE EXPENSE	4,493,256.00	-
110-110000	TRANSFERS IN FROM GF	-	4,493,256.00
<i>Post-employment retirement benefits</i>			
110-110000	TRANSFERS IN FROM GF	-	8,077,260.48
110-012100-RETB	POST EMPLOYMENT BENEFITS	8,077,260.48	-
<i>JFK Capital lease</i>			
110-045000-CAPL	CAPITAL LEASE PAYMENT	5,399,935.00	-
110-110000	TRANSFERS IN FROM GF	-	5,399,935.00
<i>Transfers to Guahan Academy Charter Schools</i>			
110-110000	TRANSFERS IN FROM GF	-	687,500.00
110-029000-GACS	GUAHAN ACADEMY CHARTER SCHOOLS	687,500.00	-
<i>To reconcile to DOA Confirmation</i>			
110-024200-GADM	FUEL CHARGES	44,699.18	-
110-340100	ACCRUAL	226,375.80	-
110-110000	TRANSFERS IN FROM GF	-	447,790.51
116-110500	MISCELLANEOUS INCOME ACCOUNTS	-	476,429.94
117-110500	MISCELLANEOUS INCOME ACCOUNTS	-	1,701,754.00
110-230100	DUE FROM GENERAL FUND	176,715.53	-
116-230100	DUE FROM GENERAL FUND	476,429.94	-
117-230100	DUE FROM GENERAL FUND	1,701,754.00	-
		23,148,382.93	23,148,382.93

## APPENDIX I, CONTINUED

Guam Department of Education  
GENERAL FUND  
Summary of Corrected Misstatements  
For the year ended September 30, 2013

Account number	Description	Debit	Credit
	<b>3 AJE To write off milk purchases</b>		
190-023037-DTSS	FOOD MANAGEMENT CONTRACT	423,556.39	-
190-230500	A/R-IOU MEALS PROGRAM	-	423,556.39
		<u>423,556.39</u>	<u>423,556.39</u>
	<b>4 AJE To adjust liabilities</b>		
	<i>To record PPE 10/05/13 Accrual</i>		
110-011100-GADM	REGULAR SALARIES	2,027,422.25	-
110-012100-GADM	BENEFITS	748,743.75	-
110-340100-DTT	PAYROLL ACCRUAL	-	1,215,051.25
110-340100-DTT	PAYROLL ACCRUAL	-	2,776,166.00
110-340100	ACCRUAL	1,215,051.25	-
	<i>To reconcile claims and prior year unpaid obligations to subsidiary ledger</i>		
110-011100-GADM	REGULAR SALARIES	-	4,445,027.00
110-029002-GADM	PENALTIES	68,405.00	-
110-029003-GADM	PRIOR YEAR OBLIGATION	-	114,999.70
116-029003-GADM	PRIOR YEAR OBLIGATION	-	111,095.30
110-310100	ACCOUNTS PAYABLE OTHER	4,602,717.00	-
	<i>To record additional liabilities</i>		
180-045001-GADM	BUILDING IMPROVEMENT	570,452.78	-
180-045000-GADM	CAPITAL IMPROVEMENT	364,032.63	-
110-023012-GADM	CUSTODIAL SERVICES	8,730.00	-
110-023020-GADM	MAINTENANCE-AIRCON	10,476.50	-
110-023024-GADM	MAINTENANCE-TECHNOLOGY	781.97	-
110-405000	RESERVE FOR ENCUMBRANCE	19,988.47	-
180-405000	RESERVE FOR ENCUMBRANCE	934,485.41	-
110-441900	FUND BALANCE	-	19,988.47
180-441900	FUND BALANCE	-	934,485.41
110-340100	ACCRUAL	-	19,988.47
180-340100	ACCRUAL	-	934,485.41
	<i>To record additional claims</i>		
110-011100-GADM	REGULAR SALARIES	224,934.92	-
110-310100	ACCRUAL	-	224,934.92
	<i>To reconcile accounts payable</i>		
110-210000	INTERFUND CASH	856,582.92	-
110-300000	ACCOUNTS PAYABLE	-	856,582.92
		<u>11,652,804.85</u>	<u>11,652,804.85</u>
	<b>5 AJE To transfer Non-Fed expenditures from Federal Grants Assistance Fund</b>		
180-024000-DTSS	SUPPLIES	4,745.48	-
180-011100-DTSS	REGULAR SALARIES	30,254.00	-
180-110500	REVENUE	-	34,999.48
		<u>34,999.48</u>	<u>34,999.48</u>

## APPENDIX I, CONTINUED

Guam Department of Education  
**FEDERAL GRANTS ASSISTANCE FUND**  
 Summary of Corrected Misstatements  
 For the year ended September 30, 2013

Account number	Description	Debit	Credit
<b>1 AJE To reconcile Fund balance</b>			
200-210000	INTERFUND CASH	545.00	-
210-210000	INTERFUND CASH	-	413,669.94
211-210000	INTERFUND CASH	46,553.05	-
215-210000	INTERFUND CASH	-	154,837.41
216-210000	INTERFUND CASH	17,385.37	-
220-210000	INTERFUND CASH	98,395.65	-
221-210000	INTERFUND CASH	405,628.28	-
221-340100	ACCRUAL	646,890.87	-
200-441900	FUND BALANCE	-	545.00
210-441900	FUND BALANCE	1,851,951.14	-
211-441900	FUND BALANCE	-	51,584.26
215-441900	FUND BALANCE	-	40,352.48
216-441900	FUND BALANCE	-	27,533.77
220-441900	FUND BALANCE	-	537,243.40
221-441900	FUND BALANCE	-	1,052,519.15
210-120000	REVENUE	-	1,438,281.20
211-120000	REVENUE	5,031.21	-
215-120000	REVENUE	195,189.89	-
216-120000	REVENUE	10,148.40	-
220-120000	REVENUE	438,847.75	-
		<u>3,716,566.61</u>	<u>3,716,566.61</u>
<b>2 AJE To correct CFDA 84.394A</b>			
221-120000	REVENUE	445,918.05	-
221-023000-GADM	CONTRACTUAL	-	445,918.05
		<u>445,918.05</u>	<u>445,918.05</u>
<b>3 AJE To transfer Non-Fed Exp to General Fund</b>			
210-120000	REVENUE	34,999.48	-
210-023000-DTSS	CONTRACTUAL	-	30,254.00
210-024000-DTSS	SUPPLIES	-	4,745.48
		<u>34,999.48</u>	<u>34,999.48</u>
<b>4 AJE To reconcile interfund</b>			
220-210000	INTERFUND CASH	-	2,322,068.62
221-210000	INTERFUND CASH	-	3,500.00
230-210000	INTERFUND CASH	-	561,916.59
220-310200	DUE TO FEDERAL AGENCIES	2,322,068.62	-
221-310200	DUE TO FEDERAL AGENCIES	3,500.00	-
230-310200	DUE TO FEDERAL AGENCIES	561,916.59	-
		<u>2,887,485.21</u>	<u>2,887,485.21</u>

## APPENDIX I, CONTINUED

Guam Department of Education  
**FEDERAL GRANTS ASSISTANCE FUND**  
 Summary of Corrected Misstatements  
 For the year ended September 30, 2013

Account number	Description	Debit	Credit
	<b>5 AJE To reconcile Due to/fr federal agencies</b>		
210-230300	ACCOUNTS RECEIVABLE	-	252,130.00
210-310200	DUE TO FEDERAL AGENCIES	1,021,658.00	-
210-340100	ACCRUAL	-	769,528.00
211-230000	ACCOUNTS RECEIVABLE	-	55,109.00
211-310700	DUE TO OTHER FED AGENCY	453,399.00	-
211-340100	ACCRUAL	-	398,290.00
215-230100	ACCT RECEIVABLE-PAYROLL	-	42,006.03
215-230300	ACCT RECEIVABLE-OTHER	-	54,064.21
215-310200	DUE TO FEDERAL AGENCIES	-	99,120.00
215-340100	ACCRUAL	195,190.24	-
216-230300	ACCT RECEIVABLE-OTHER	-	7,361.00
216-310700	DUE TO OTHER FED AGENCY	15,055.00	-
216-340100	ACCRUAL	-	7,694.00
220-230000	ACCOUNTS RECEIVABLE	3,513,822.00	-
220-310700	DUE TO OTHER FED AGENCY	285,159.00	-
220-340100	ACCRUAL	-	3,798,981.00
221-230000	ACCOUNTS RECEIVABLE	-	31,922.00
221-340100	ACCRUAL	31,922.00	-
		5,516,205.24	5,516,205.24
	<b>6 AJE To correct CFDA 84.402A</b>		
221-120000	REVENUE	98,009.18	-
221-025003-DTSS	COMPUTERS & ELECTRONICS	-	98,009.18
		98,009.18	98,009.18
	<b>7 AJE To reconcile liabilities</b>		
220-210000	INTERFUND CASH	-	856,582.92
220-340100	ACCRUAL	856,582.92	-
		856,582.92	856,582.92

**Guam Department of Education**  
**Summary of Uncorrected Misstatements**  
**For the year ended September 30, 2013**

<i>General Fund</i>	<b>Correcting Entry</b>			
	Assets	Liabilities	Fund Balance	Income Statement
	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
<b>Current-Year Known Misstatements</b>				
To correct overstated liabilities		192,842		(192,842)
<b>TOTAL</b>	0	192,842		(192,842)

<i>Federal Grants Fund</i>	<b>Correcting Entry</b>			
	Assets	Liabilities	Fund Balance	Income Statement
	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
<b>Current-Year Known Misstatements</b>				
To record accrued payroll	64,172	(64,172)		64,172 (64,172)
<b>TOTAL</b>	64,172	(64,172)		0



# DEPARTMENT OF EDUCATION OFFICE OF THE SUPERINTENDENT

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**JON J. P. FERNANDEZ**  
Superintendent of Education

June 26, 2014

Deloitte & Touche LLP  
361 South Marine Corps Drive  
Tamuning, GU 96913

We are providing this letter in connection with your audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Guam Department of Education (GDOE), as of and for the year ended September 30, 2013, which collectively comprise the GDOE's basic financial statements for the purpose of expressing an opinion as to whether the basic financial statements present fairly, in all material respects, the financial position, results of operations or changes in fund balances, and cash flows of the GDOE in conformity with accounting principles generally accepted in the United States of America.

We confirm that we are responsible for the following:

- a. The fair presentation in the basic financial statements of financial position of the governmental activities, each major fund, and the aggregate remaining fund information, in conformity with accounting principles generally accepted in the United States of America.
- b. The design, implementation, and maintenance of programs and controls to prevent and detect fraud, including fraud related to federal awards.
- c. Establishing and maintaining effective internal control over financial reporting.
- d. The review and approval of the financial statements and related notes and acknowledge your role in the preparation of this information. Specifically, we acknowledge that your role in the preparation of the financial statements was a matter of convenience rather than one of necessity. We have reviewed the financial statements preparation assistance provided by you and acknowledge that the financial statements are prepared in accordance with GAAP. Our review was based on the use of the financial statement disclosure checklist for general-purpose governments obtained from the Government Finance Officers Association.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit.

1. The basic financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America. In addition:

- a. The financial statements properly disclose all other related organizations.
  - b. The financial statements properly classify all funds and activities, including special and extraordinary items.
  - c. All funds that meet the quantitative criteria in the GASB Codification of Government Accounting and Financial Reporting Standards section 2200.153 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
  - d. Net asset components (net investment in capital assets; restricted; and unrestricted) are properly classified and, if applicable, approved.
  - e. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
  - f. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
  - g. Interfund, internal, and intra-GDOE activity and balances have been appropriately classified and reported.
  - h. Fund balance restrictions, commitments, and assignments are properly classified and, if applicable, approved.
  - i. Deposits and investment securities are properly classified in the category of custodial credit risk.
  - j. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.
  - k. Required supplementary information is measured and presented within prescribed guidelines.
  - l. Applicable laws and regulations are followed in adopting, approving, and amending budgets.
  - m. Federal awards expenditures have been charged in accordance with applicable cost principles.
2. Regarding required supplementary information:
    - a. We confirm that we are responsible for the required supplementary information
    - b. The required supplementary information is measured and presented in accordance with GASB Codification of Government Accounting and Financial Reporting Standards Section 2200, *Comprehensive Annual Financial Report*.
    - c. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period.
  3. Regarding supplementary information:

- a. We are responsible for the fair presentation of the supplementary information in accordance with GASB Codification of Government Accounting and Financial Reporting Standards 2200, *Comprehensive Annual Financial Report*.
  - b. We believe the supplementary information, including its form and content, is fairly presented in accordance with GASB Codification of Government Accounting and Financial Reporting Standards Section 2200, *Comprehensive Annual Financial Report*.
  - c. The methods of measurement and presentation of the supplementary information has not changed from those used in the prior period.
4. The GDOE has provided to you all relevant information and access as agreed in the terms of the audit engagement letter.
5. The GDOE has provided you:
- a. Public Laws as enacted by the Guam Legislature.
  - b. Minutes of the meetings of the Guam Education Board (GEB) from October 2012 through the date of this letter, which meetings were held on the following dates:

October 25, 2012	September 24, 2013
November 21, 2012	October 29, 2013
December 20, 2012	November 26, 2013
January 4, 2013	December 17, 2013
January 31, 2013	January 21, 2014
February 27, 2013	January 29, 2014
March 19, 2013	February 18, 2014
April 23, 2013	February 28, 2014
May 21, 2013	March 25, 2014
June 18, 2013	April 7, 2014
August 6, 2013	April 22, 2014
August 13, 2013	May 20, 2014
August 26, 2013	May 28, 2014
  - c. Minutes of the meetings of Education Financial Support Commission (EFSC) from October 2012 through the date of this letter, which meetings were held on the following dates:

October 31, 2012	November 26, 2013
December 21, 2012	December 12, 2013
January 23, 2013	January 31, 2014
February 27, 2013	February 4, 2014
March 26, 2013	February 26, 2014
April 24, 2013	February 27, 2014
May 22, 2013	March 27, 2014
July 31, 2013	April 30, 2014
September 30, 2013	June 5, 2014
October 30, 2013	
  - d. Financial records and related data for all financial transactions of the GDOE and for all funds administered by the GDOE. The records, books, and accounts, as provided to you, record the



financial and fiscal operations of all funds administered by the GDOE and provide the audit trail to be used in a review of accountability. Information presented in financial reports is supported by the books and records from which the financial statements have been prepared.

- e. Contracts and grant agreements (including amendments, if any) and any other correspondence that has taken place with federal agencies.
6. There has been no:
    - a. Action taken by GDOE management that contravenes the provisions of federal laws and Guam laws and regulations or of contracts and grants applicable to the GDOE, except as disclosed in the Schedule of Findings and Questioned Costs Section of your Independent Auditor's Reports on Internal Control and on Compliance.
    - b. Communication from other regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices or other matters that could have a material effect on the financial statements, except for the United States of Department of Education Federal Fiscal year (FFY) 2012 Special Conditions dated June 10, 2013.
  7. We believe the effects of any uncorrected financial statement misstatements aggregated by you during the current audit engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix A.
  8. We understand accounts payable was tested using statistical or other sampling techniques and that certain errors in recording liabilities and expenditures as of September 30, 2013, were found by you in the sample items selected. The effect of the factual errors identified has been included in the summary of uncorrected misstatements attached to this letter as Appendix A. Based on our judgment of materiality of understatement, we believe the effects of such potential unrecorded errors in Appendix A, are immaterial to the financial statements taken as a whole.
  9. The GDOE has not performed a risk assessment, including the assessment of the risk that the financial statements may be materially misstated as a result of fraud. However, management has made available to you their understanding about the risks of fraud in GDOE and do not believe that the financial statements are materially misstated as a result of fraud.
  10. We have no knowledge of any fraud or suspected fraud affecting the GDOE involving:
    - a. Management.
    - b. Employees who have significant roles in internal control over financial reporting.
    - c. Others if the fraud could have a material effect on the financial statements.
  11. We have no knowledge of any allegations of fraud or suspected fraud affecting the GDOE received in communications from employees, former employees, analysts, regulators, or others except for communications from GDOE's internal auditors that have been provided you concerning NAF activities.
  12. There are no unasserted claims or assessments that legal counsel has advised us are probable of assertion and must be disclosed in accordance with GASB Codification of Governmental

Accounting and Financial Reporting Standards ("GASB Codification") Section C50, *Claims and Judgments*, except as disclosed in Note 4 to the financial statements.

13. Significant assumptions used by us in making accounting estimates are reasonable.
14. The Schedule of Expenditures of Federal Awards was prepared in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. We have identified in that schedule all awards provided by federal agencies in the form of grants, contracts, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, or direct appropriations. We have also properly identified subrecipient expenditures. In addition, we have accurately completed the appropriate sections of the data collection form.
15. We are responsible for compliance with local, state, and federal laws, rules, and regulations, including compliance with the requirements of OMB Circular A-133, and provisions of grants and contracts relating to the GDOE's operations. We are responsible for establishing and maintaining the components of internal control relating to our activities in order to achieve the objectives of providing reliable financial reports, effective and efficient operations, and compliance with laws and regulations. The GDOE is responsible for maintaining accounting and administrative control over revenues, obligations, expenditures, assets, and liabilities.
16. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance for federal programs that provides reasonable assurance that we are managing federal awards in compliance with laws, regulations, and provisions of contracts or grant agreements that could have a material effect on its federal programs, except as disclosed in the Schedule of Findings and Questioned Costs Section of your Independent Auditor's Reports on Internal Control and on Compliance.
17. We have disclosed to you all deficiencies in the design or operation of internal control over financial reporting identified as part of our evaluation, including separately disclosing to you all such deficiencies that are significant deficiencies or material weaknesses in internal control over financial reporting.
18. We have:
  - a. Identified the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each federal program as identified in Part 3 of the relevant Compliance Supplements related to the year under audit.
  - b. Complied, in all material respects, with the requirements identified above in connection with federal awards, except as disclosed in the Schedule of Findings and Questioned Costs Section of your Independent Auditor's Reports on Internal Control and on Compliance.
  - c. Identified and disclosed interpretations of any compliance requirements that have varying interpretations.
  - d. Made available all information related to federal financial reports and claims for advances and reimbursements. Federal financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared and are prepared on a basis consistent with that presented in the Schedule of Expenditures of Federal Awards. The copies of federal program financial reports provided are true copies of

the reports submitted, or electronically transmitted, to the federal agency or pass-through GDOE, as applicable.

- e. Monitored subrecipients to determine that they have expended pass-through assistance in accordance with applicable laws and regulations and have met the requirements of OMB Circular A-133.
  - f. Taken appropriate corrective action on a timely basis after receipt of a subrecipient's auditor's report that identifies noncompliance with laws, regulations, or the provisions of contracts or grant agreements.
  - g. Considered the results of the subrecipient's audits and made any necessary adjustments to the auditee's own books and records.
  - h. Identified and disclosed all amounts questioned and any known noncompliance with the requirements of federal awards, including the results of other audits or program reviews related to the objectives of the audit.
  - i. Identified previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of the audit and the corrective actions taken to address significant findings and recommendations, including the status of follow-up on prior audit findings (and information about all management decisions) by federal awarding agencies and pass-through Entities
  - j. Provided to you our views on the reported findings, conclusions, and recommendations for your report.
19. We are responsible for follow-up on all prior-year(s) findings. We have prepared a summary schedule of prior-year findings reporting the status of our efforts in implementation of the prior-year's corrective action plan.
  20. We have included in the corrective action plan for current-year findings, the name of the person in our organization responsible for implementation of the actions, the best actions to be taken, and the estimate of a completion date. We have taken timely and appropriate steps to remedy fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse that you report.
  21. Management has identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts.
  22. No organizations were identified that meet the criteria established in GASB Codification of Government Accounting and Financial Reporting Standards Section 2100, *Defining the Financial Reporting GDOE*.

Except where otherwise stated below, matters less than \$620,000 collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to, or disclosure in, the basic financial statements.

23. Except as listed in Appendix A, there are no transactions that have not been properly recorded in the accounting records underlying the financial statements.

24. The GDOE has no plans or intentions that may affect the carrying value or classification of assets and liabilities.
25. The following, to the extent applicable, have been appropriately identified, properly recorded, and disclosed in the financial statements:
  - a. Related-party transactions and associated amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements, and guarantees (written or oral).
  - b. Guarantees, whether written or oral, under which the Entity is contingently liable.
26. In preparing the financial statements in conformity with accounting principles generally accepted in the United States of America, management uses estimates. All estimates have been disclosed in the financial statements for which known information available prior to the issuance of the financial statements indicates that both of the following criteria are met:
  - a. It is at least reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events
  - b. The effect of the change would be material to the financial statements.
27. Risks associated with concentrations, based on information known to management, that meet all of the following criteria have been disclosed in the financial statements:
  - a. The concentration exists at the date of the financial statements
  - b. The concentration makes the enterprise vulnerable to the risk of a near-term severe impact
  - c. It is at least reasonably possible that the events that could cause the severe impact will occur in the near term.
28. There are no:
  - a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
  - b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB Codification Section C50, *Claims and Judgments*, other than those disclosed in note 4 to the financial statements.
29. The GDOE has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
30. The GDOE has complied with all aspects of contractual agreements that may have an effect on the financial statements in the event of noncompliance, except as disclosed in the Schedule of Findings and Questioned Costs Section of your Independent Auditor's Reports on Internal Control and on Compliance.
31. No division of the GDOE has reported a material instance of noncompliance to us, except as disclosed in the Schedule of Findings and Questioned Costs Section of your Independent Auditor's

Reports on Internal Control and on Compliance.

32. Management has disclosed whether, subsequent to September 30, 2013, any changes in internal control or other factors that might significantly affect internal control, including any corrective action taken by management with regard to significant deficiencies and material weaknesses have occurred.
33. The GDOE is exposed to various risks of loss related to torts; theft of damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. It is the policy of the primary government not to purchase commercial insurance for the risks of loss to which it is exposed. Instead, the Government management believes it is more economical to manage its risks internally. In the event of claim settlements and judgments, the GDOE reports all of its risk management activities in its General Fund. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. No losses have occurred as a result of these risks in the past three fiscal years.
34. We have appropriately identified and properly recorded and disclosed in the financial statements all interfund transactions, including repayment terms.
35. Arrangements with financial institutions involving compensating balances or other arrangements involving restriction on cash balances, line of credit, or similar arrangements have been properly disclosed in the financial statements.
36. Receivables recorded in the financial statements represent valid claims against debtors for appropriations or grants arising on or before the balance sheet date and have been appropriately reduced to their estimated net realizable value.
37. We believe that all expenditures that have been deferred for future periods are recoverable.
38. We believe that the actuarial assumptions and methods used to measure pension costs for financial accounting purposes are appropriate in the circumstances.
39. We do not plan to make frequent amendments to our pension or other post -retirement benefit plans.
40. We have no intention of terminating any of our pension plans or taking any other action that could result in an effective termination or reportable event for any of the plans. We are not aware of any occurrences that could result in the termination of any of our pension plans to which we contribute.
41. During fiscal year 2013, GDOE implemented the following pronouncements:
  - GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addressed how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The implementation of this statement did not have a material effect on GDOE's 2013 financial statements.
  - GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, which improved financial reporting for governmental entities by amending the requirements of Statements No. 14, *The*

*Financial Reporting Entity, and No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The implementation of this statement did not have a material effect on GDOE's 2013 financial statements.

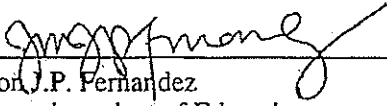
- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which enhanced the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements. GASB Statement No. 62 superseded GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. The implementation of this statement did not have a material effect on GDOE's 2013 financial statements.
- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which established guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. These Statements amend the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. With the implementation of GASB Statement No. 63 and Statement No. 65, the Statement of Net Assets was renamed the Statement of Net Position. In addition, the Statement of Net Position includes two new classifications separate from assets and liabilities. Amounts reported as deferred outflows of resources are reported in a separate section following assets. Likewise, amounts reported as deferred inflows of resources are reported in a separate section following liabilities. The effect on the financial statements of the implementation of GASB Statement No. 65 is as follows:

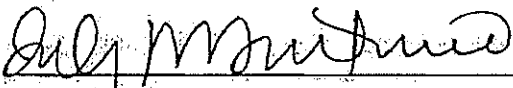
Net position as of September 30, 2012, as originally reported	\$193,193,744
Reversal of deferred assets	<u>(1,573,133)</u>
Net position as of September 30, 2012, as restated	<u>\$191,620,611</u>

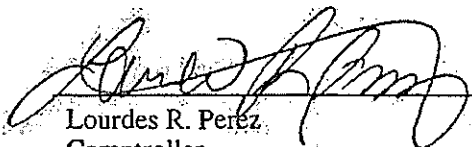
42. GDOE will adopt the following pronouncements during the year ending September 30, 2013 and after:
- In April 2012, GASB issued Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of GDOE.
  - In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans, and Statement No. 68,

*Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements on the financial statements of GDOE.

- In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of this statement on the financial statements of GDOE.
  - In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The provisions in Statement 70 are effective for fiscal years beginning after June 15, 2013. Management has not yet determined the effect of implementation of this statement on the financial statements of GDOE.
43. 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. Certificates of Participation were issued by GovGuam on behalf of GDOE totaling \$22,818,000 to finance the expansion. Expansion will be funded by appropriations from the Guam Legislature from available Section 30 revenues, tax credits, 2013 Series A Construction Account, 2013 Series B Construction Account, the Holding Fund and the Trust Fund established pursuant to the Trust Agreement. GovGuam management is of the opinion that this agreement represents a capital lease and will accordingly account for the expansion in that manner when construction is completed.
  44. GDOE estimated about \$3 million in merit bonus and salary increments were owed at the end of FY13. Because the lengthy and extensive review process occurred subsequent to September 30, 2013, this amount was not accrued. However, GDOE has made a concerted effort to payout nearly all merit bonuses and salary increments as of June 2014.
  45. In December 2013, GovGuam on behalf of GDOE entered into an agreement to convert the operating lease to a capital lease. Additional property, The facilities will be used to house Tiyan High School upon return of Untalan Middle to its Barrigada campus, as well as GDOE administrative offices previously located in Hagatna.
  46. Other than those disclosed in note 5 to the financial statements, as discussed in item 45 of this letter, no events have occurred after September 30, 2013, but before June 26, 2014, the date the financial statements were available to be issued that require consideration as adjustments to or disclosures in the financial statements.

  
\_\_\_\_\_  
Jon J.P. Fernandez  
Superintendent of Education

  
\_\_\_\_\_  
Taling M. Taitano  
Deputy Superintendent of Finance and Administrative  
Services

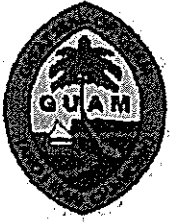
  
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Lourdes R. Perez  
Comptroller



APPENDIX A

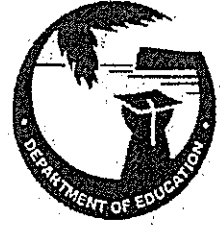
Guam Department of Education  
 Summary of Uncorrected Misstatements  
 For the year ended September 30, 2013

<i>General Fund</i>	Correcting Entry			
	Assets	Liabilities	Fund Balance	Income Statement
	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
<b>Current-Year Known Misstatements</b>				
To correct overstated liabilities		192,842		(192,842)
<b>TOTAL</b>	0	192,842		(192,842)
<i>Federal Grants Assistance Fund</i>	Correcting Entry			
	Assets	Liabilities	Fund Balance	Income Statement
	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
<b>Current-Year Known Misstatements</b>				
To record accrued payroll	64,172	(64,172)		64,172 (64,172)
<b>TOTAL</b>	64,172	(64,172)		0



**DEPARTMENT OF EDUCATION  
OFFICE OF THE SUPERINTENDENT**

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**JON J. P. FERNANDEZ**  
Superintendent of Education

June 26, 2014

Deloitte & Touche, LLP  
361 South Marine Corps Drive  
Tamuning, GU 96913

Dear Deloitte & Touche,

We are providing this letter in connection with your audit of the compliance requirements of the federal award programs of the Guam of Education (GDOE) for the year ended September 30, 2013, namely the following major programs:

10.555	Child Nutrition Cluster
15.875	Economic, Social and Political Development of the Territories
84.027	Special Education – Grants to States (IDEA, Part B)
84.402	Consolidated Grants to the Outlying Areas, Recovery Act
84.403	Consolidated Grants to the Outlying Areas
93.600	Head Start

1. We are responsible for the compliance with local and federal laws, rules, and regulations, including compliance with the requirements of OMB Circular A-133 and provisions of grants and contracts relating to GDOE's operations. We are responsible for establishing and maintaining the components of internal control relating to our activities, in order to achieve the objectives of: providing reliable financial reports, effective and efficient operations, and compliance with laws and regulations. We are responsible for maintaining accounting and administrative control over revenues, obligations, expenditures, assets, and liabilities.
2. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance for federal programs that provide reasonable assurance that we are managing federal awards in compliance with laws, regulations, and provisions of contracts or grant agreements that could have a material effect on its federal programs.
3. GDOE management has identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts.
4. GDOE has made available to you all records and related data for all financial transactions of GDOE and for all funds administered by GDOE. The records, books, and accounts, as provided to you, record the financial and fiscal operations of all funds administered by GDOE and provide the audit trail to be used in a review of accountability. Information presented in federal financial reports and claims for advances and reimbursements are supported by the books and records from which the basic financial statements have been prepared, except as disclosed in the Schedule of Findings and Questioned Costs.

5. GDOE has obligated, expended, received, and used public funds of the Government of Guam in accordance with the purpose for which such funds have been appropriated or otherwise authorized by local or federal law. Such obligation, expenditure, receipt, or use of public funds was in accordance with any limitations, conditions, or mandatory directions imposed by local or federal law, except as disclosed in the Schedule of Findings and Questioned Costs.
6. Money or similar assets handled by GDOE on behalf of the Government of Guam or Federal Government have been properly and legally administered, and the accounting and record keeping related thereto is proper, accurate, and in accordance with law, except as disclosed in the Schedule of Findings and Questioned Costs.
7. Regarding the Schedule of Expenditures of Federal Awards (SEFA):
  - a. We confirm that we are responsible for the SEFA.
  - b. We believe the SEFA, including its form and content, is fairly presented in relation to the basic financial statements taken as a whole and in accordance with the requirements of OMB Circular A-133.
  - c. The methods of measurement and presentation of the SEFA have not changed from those used in the prior period.
8. GDOE has identified in the Schedule of Expenditures of Federal Awards all awards provided by federal agencies in the form of grants, contracts, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, or direct appropriations.
9. GDOE has identified the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each federal program as identified in Part 3 of the Compliance Supplement dated March 2013.
10. We have identified previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of the audit and the corrective actions taken to address significant findings and recommendations, including the status of follow-up on prior audit findings (and information about all management decisions) by federal awarding agencies and pass-through entities.
11. GDOE has complied, in all material respects, with the requirements identified above in connection with federal awards, except as disclosed in the Schedule of Findings and Questioned Costs.
12. We have identified and disclosed interpretations of any compliance requirements that have varying interpretations.
13. GDOE has made available all information related to federal financial reports and claims for advances and reimbursements. Federal financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared and are prepared on a basis consistent with that presented in the Schedule of Expenditures of Federal Awards. The copies of federal program financial reports provided are true copies of the reports submitted, or electronically transmitted, to the federal agency or pass-through entity, as applicable.
14. GDOE has certified to federal granting agencies that it has not used federal funds for lobbying for specific federal awards and that it has disclosed, or will disclose, any expenditures of nonfederal funds made for


lobbying purposes. GDOE has also required all sub-recipients of \$100,000 or more of federal funds to make the same certification.


15. GDOE has monitored sub-recipient expenditures of federal financial assistance in accordance with applicable laws and regulations.
16. GDOE has taken appropriate corrective action on a timely basis after receipt of a sub-recipient's auditor's report that identifies noncompliance with laws, regulations, or the provisions of contracts or grant agreements.
17. GDOE has considered the results of sub-recipients' audits and made any necessary adjustments to GDOE's own books and records.
18. GDOE has identified and disclosed all amounts questioned and any known noncompliance with the requirements of federal awards including the results of other audits or program reviews.
19. GDOE is responsible for complying, and has complied, with Circular A-133, except as disclosed in the Schedule of Findings and Questioned Costs.
20. GDOE is responsible for and has accurately prepared the Summary Schedule of Prior Audit findings. The schedule contains all findings required to be included by Circular A-133.

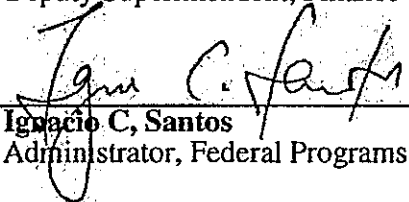
Except where otherwise stated below, matters less than \$10,000 collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to or disclosure in the financial statements.

21. GDOE has disclosed whether, subsequent to September 30, 2013, any changes in internal control or other factors that might significantly affect internal control, including any corrective action taken by management with regard to significant deficiencies and material weaknesses have occurred.
22. No evidence of fraud, possible irregularities, or dishonesty in fiscal operations of programs administered by GDOE has been discovered.
23. No events have occurred subsequent to September 30, 2013, that requires consideration as adjustments to or disclosures in the schedule of federal awards and related notes.
24. GDOE has disclosed all contracts or other agreements with the auditee's service organization.
25. GDOE has disclosed all communications from the auditee's third-party service organization relating to noncompliance with the auditee's operations at that service organization.
26. There is no program income in FY 2013 for all major programs listed above, except for CFDA 84.403 Consolidated Grants to the Outlying Areas
27. As of September 30, 2013, GDOE's American Recovery and Reinvestment Act (ARRA) expenditures during FY 2013 and related grant award notifications are as follows:

<u>CFDA Number</u>	<u>Grant Amount</u>	<u>FY 2013 Expenditures</u>
10.568	\$ 23,569	\$ 11,023
84.394	75,742,784	466,811
84.402	12,206,153	4,880,968
	<u>\$87,972,506</u>	<u>\$5,358,802</u>

  
 Jon J.P. Fernandez  
 Superintendent of Education  
 6/26/14  
 Date

  
 Taling M. Taitano  
 Deputy Superintendent, Finance & Administrative Services  
 6/26/14  
 Date

  
 Ignacio C. Santos  
 Administrator, Federal Programs  
 6/26/14  
 Date

GUAM DEPARTMENT OF EDUCATION  
SINGLE AUDIT REPORTS  
Year Ended September 30, 2013

CONTENTS

	<u>PAGE</u>
Part I. Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1
Part II. Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A- 133	3
Part III. Schedule of Expenditures of Federal Awards	6
Notes to Schedule of Expenditures of Federal Awards	7
Reconciliation of Schedule of Expenditures of Federal Awards to Basic Financial Statements	9
Schedule of Findings and Questioned Costs	10
Part IV. Summary Schedule of Prior Audit Findings	40



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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Mr. Jon Fernandez  
Superintendent of Education  
Guam Department of Education:

We have audited, in accordance with the 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Guam Department of Education (GDOE) as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise GDOE's basic financial statements, and have issued our report thereon dated June 26, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered GDOE's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of GDOE's internal control. Accordingly, we do not express an opinion on the effectiveness of GDOE's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2013-001 and 2013-005 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as item 2013-004, 2013-006 and 2013-007 to be significant deficiencies.

## Compliance and Other Matters

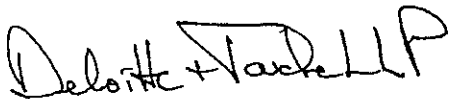
As part of obtaining reasonable assurance about whether GDOE's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2013-001.

## GDOE's Response to Findings

GDOE's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. GDOE's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



June 26, 2014





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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133**

Mr. Jon Fernandez  
Superintendent of Education  
Guam Department of Education:

**Report on Compliance for Each Major Federal Program**

We have audited Guam Department of Education's (GDOE's) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of GDOE's major federal programs for the year ended September 30, 2013. GDOE's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of GDOE's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about GDOE's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of GDOE's compliance.

## ***Opinion on Each Major Federal Program***

In our opinion, GDOE complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2013.

## ***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2013-001 through 2013-004. Our opinion on each major federal program is not modified with respect to these matters.

GDOE's responses to the noncompliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. GDOE's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

## **Report on Internal Control Over Compliance**

Management of GDOE is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered GDOE's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of GDOE's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

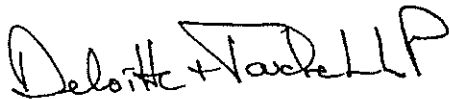
Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as items 2013-001 through 2013-004 that we consider to be significant deficiencies.

GDOE's responses to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. GDOE's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

**Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Guam Department of Education as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collective comprise GDOE's basic financial statements. We issued our report thereon dated June 26, 2014, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise GDOE's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



June 26, 2014

**GUAM DEPARTMENT OF EDUCATION**

Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2013

Grantor/CFDA Grantor's Program Title	Federal CFDA Number	Expenditures
<b>U.S. DEPARTMENT OF AGRICULTURE:</b>		
Direct:		
National School Lunch Program	10.555	* \$ 10,130,165
State Administrative Expenses for Child Nutrition	10.560	493,683
ARRA Emergency Food Assistance Program (Administrative Costs)	10.568	11,023
Team Nutrition Grants	10.574	<u>122,760</u>
Total U.S. Department of Agriculture		\$ <u>10,757,631</u>
<b>U.S. DEPARTMENT OF DEFENSE:</b>		
Direct:		
Army JROTC	12.000	\$ 246,635
Air Force JROTC	12.000	14,669
Marine JROTC	12.000	<u>107,245</u>
Total U.S. Department of Defense		\$ <u>368,549</u>
<b>U.S. DEPARTMENT OF THE INTERIOR:</b>		
Pass-Through Government of Guam - Department of Administration: Economic, Social, and Political Development of the Territories	15.875	* \$ <u>8,407,155</u>
Total U.S. Department of the Interior		\$ <u>8,407,155</u>
<b>U.S. DEPARTMENT OF EDUCATION:</b>		
Direct:		
Special Education-Grants to States	84.027	* \$ 13,140,680
Impact Aid	84.041	118,453
Special Education: Grants for Infants and Families	84.181	1,544,808
Territories and Freely Associated States Education Grant Program	84.256	332,248
Striving Readers	84.371	78,839
ARRA Consolidated Grants to the Outlying Areas, Recovery Act	84.402A	* 4,880,968
Consolidated Grants to the Outlying Areas	84.403A	* <u>26,928,029</u>
Subtotal Direct Programs		<u>47,024,025</u>
Pass-Through Government of Guam - Office of the Governor: ARRA State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394A	<u>466,811</u>
Subtotal Pass-Through Government of Guam - Office of the Governor		<u>466,811</u>
Total U.S. Department of Education		\$ <u>47,490,836</u>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:</b>		
Direct:		
Personal Responsibility Education Program (PREP) Competitive Grants under the Affordable Care Act (ACA)	93.092	163,762
Head Start	93.600	* \$ <u>2,318,953</u>
Subtotal Direct Programs		2,482,715
Pass-Through Government of Guam - Department of Administration: Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	<u>53,638</u>
Total U.S. Department of Health and Human Services		\$ <u>2,536,353</u>
Total Federal Awards Expended		\$ <u>69,560,524</u>

\* Based on requirements imposed in the audit, this program is audited as a major program.

See notes to Schedule of Expenditures of Federal Awards.

## GUAM DEPARTMENT OF EDUCATION

### Notes to Schedule of Expenditures of Federal Awards Year Ended September 30, 2013

1. Scope of Audit:

The Guam Department of Education (GDOE) is a line agency of the Government of Guam, a governmental entity established by the 1950 Organic Act of Guam, as amended, and has the powers of a body corporate, as defined in the act and local statutes. Only the operations of the Guam Department of Education are included within the scope of the audit. The U.S. Department of Education has been designated as GDOE's cognizant agency for the Single Audit.

2. Summary of Significant Accounting Policies:

a. Basis of Accounting:

GDOE is named as the grant recipient on grant awards and is responsible for maintaining the accounting records for federal expenditures. The federal programs were not charged allocated costs or indirect costs. Therefore, all costs charged were direct.

All expenditures and capital outlays that represent the federal share are reported as expenditures. Expenditures are recognized on the modified accrual basis of accounting, consistent with the manner in which GDOE maintains its accounting records.

b. Subgrants:

Certain program funds are passed through the Guam Department of Education to subrecipient organizations. Federal awards provided to subrecipients are treated as expenditures when paid to the subrecipient. The Schedule of Expenditures of Federal Awards does not contain separate schedules disclosing how the subrecipients outside of the Guam Department of Education's control utilized the funds. If the subrecipient expends more than \$500,000 in federal awards, the subrecipient separately satisfies the audit requirements of OMB Circular A-133.

3. High-Risk Grantee Status:

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

4. CFDA Number 10.555:

Expenditures for CFDA number 10.555 include expenditures for both the National School Lunch Program and the School Breakfast Program, which is listed in the CFDA index as CFDA number 10.553. Only CFDA number 10.555 is presented in the Schedule of Expenditures of Federal Awards as the U.S. Department of Agriculture awarded Child Nutrition Program funds under the one CFDA number in its Grant Award Document.

GUAM DEPARTMENT OF EDUCATION

Notes to Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2013

5. American Recovery and Reinvestment Act of 2009:

In February 2009, the Federal Government enacted the American Recovery and Reinvestment Act of 2009 (ARRA). As of September 30, 2013, GDOE's ARRA expenditures and grant award notifications are as follows:

<u>CFDA Number</u>	<u>Grant Amount</u>	<u>FY 2013 Expenditures</u>
10.568	\$ 29,493	\$ 11,023
84.394	75,742,784	466,811
84.402	<u>12,206,153</u>	<u>4,880,968</u>
	\$ <u>87,978,430</u>	\$ <u>5,358,802</u>

GUAM DEPARTMENT OF EDUCATION

Reconciliation of Schedule of Expenditures of Federal Awards to  
Basic Financial Statements  
Year Ended September 30, 2013

	<u>Expenditures</u>
Federal contributions, as reported in the 2013 financial statements:	
Federal Grants Assistance Fund expenditures	\$ 69,191,975
<u>CFDA Program</u>	
12.000 Army JROTC	246,635
12.000 Air Force JROTC	14,669
12.000 Marine JROTC	<u>107,245</u>
Total Federal Expenditures Subject to Audit	\$ <u>69,560,524</u>

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2013

**Section I – Summary of Auditors’ Results**

*Financial Statements*

- |  |            |
|--|------------|
| 1. Type of auditors’ report issued:                      | Unmodified |
| Internal control over financial reporting:               |            |
| 2. Material weakness(es) identified?                     | Yes        |
| 3. Significant deficiency(ies) identified?               | Yes        |
| 4. Noncompliance material to financial statements noted? | Yes        |

*Federal Awards*

- |  |            |
|--|------------|
| Internal control over major programs:  |            |
| 5. Material weakness(es) identified?   | No         |
| 6. Significant deficiency(ies) identified?   | Yes        |
| 7. Type of auditors’ report issued on compliance for major programs  | Unmodified |
| 8. Any audit findings disclosed that are required to be reported in accordance with section .510(a) of OMB Circular A-133? | Yes        |
| 9. Identification of major programs:   |            |

<u>CFDA</u> <u>Numbers</u>	<u>Name of Federal Program or Cluster</u>
	Child Nutrition Cluster:
10.555	National School Lunch Program
15.875	Economic, Social and Political Development of the Territories
84.027	Special Education – Grants to States
84.402	Consolidated Grants to the Outlying Areas, Recovery Act
84.403	Consolidated Grants to the Outlying Areas
93.600	Head Start

- |  |             |
|--|-------------|
| 10. Dollar threshold used to distinguish between Type A and Type B Programs: | \$2,086,815 |
| 11. Auditee qualified as low-risk auditee?                                   | No          |



GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2013

**Section II – Financial Statement Findings**

<u>Reference Number</u>	<u>Finding</u>
2013-001	Equipment and Real Property Management
2013-004	Schedule of Expenditures of Federal Awards (SEFA)
2013-005	General Ledger and SEFA Reconciliations
2013-006	Non-Appropriated Funds (Agency Funds)
2013-007	Budgets

**Section III - Federal Award Findings and Questioned Costs**

<u>Reference Number</u>	<u>CFDA Number</u>	<u>Finding</u>	<u>Questioned Costs</u>	<u>Federal Agency</u>
2013-001	10.555	Equipment and Real Property Management	\$ -	U.S. DA
2013-001	12.000	Equipment and Real Property Management	-	U.S. DOD
2013-001	15.875	Equipment and Real Property Management	-	U.S. DOI
2013-002	15.875	Procurement and Suspension and Debarment	650	U.S. DOI
2013-001	84.027	Equipment and Real Property Management	-	U.S. ED
2013-004	84.394A	Schedule of Expenditures of Federal Awards (SEFA)	-	U.S. ED
2013-004	84.402A	Schedule of Expenditures of Federal Awards (SEFA)	-	U.S. ED
2013-001	93.600	Equipment and Real Property Management	-	U.S. HHS
2013-003	93.600	Procurement and Suspension and Debarment	1,635	U.S. HHS
2013-001	97.036	Equipment and Real Property Management	-	U.S. HS
Total Questioned Costs			\$ 2,285	

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2013

Finding No.: 2013-001

Federal Agency: U.S. Department of Agriculture  
CFDA Program: 10.555 Child Nutrition Cluster

Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories

Federal Agency: U.S. Department of Education  
CFDA Program: 84.027 Special Education – Grants to States

Federal Agency: U.S. Department of Health Human Services  
CFDA Program: 93.600 Head Start

Federal Agency: U.S. Department of Homeland Security  
CFDA Program: 97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters)

Federal Agency: U.S. Department of Defense  
CFDA Program: 12.000 Army JROTC

Area: Equipment and Real Property Management  
Questioned Costs: \$0

Criteria:

In accordance with applicable equipment and real property management requirements, equipment records shall be maintained, a physical inventory of equipment shall be taken at least once every two years and be reconciled to the equipment records, an appropriate control system shall be used to safeguard equipment, and equipment shall be adequately maintained.

Asset maintenance schedules should be prepared, updated, and monitored by management, and activity per the asset maintenance schedule should be reconciled to the asset maintenance history register regularly.

Property records of assets purchased with Federal funds should contain description (including serial number or other identification number), source, who holds title, acquisition date and cost, percentage of Federal participation in the cost, location, condition, and disposition data.

Condition:

1. Locally funded capital improvements of approximately \$1,769,221 were not included as current year fixed asset additions for financial statement reporting purposes.

<u>Reference</u>	<u>Description</u>	<u>Amount</u>
21200334	Fiber optic upgrade	\$ 247,849
21200335	Fiber optic upgrade	457,337
20111272	FMIS upgrades	137,045
21101540	Gymnasium repairs	<u>926,990</u>
		<u>\$1,769,221</u>

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2013

Finding No.: 2013-001, Continued

Federal Agency: U.S. Department of Agriculture  
CFDA Program: 10.555 Child Nutrition Cluster

Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories

Federal Agency: U.S. Department of Education  
CFDA Program: 84.027 Special Education – Grants to States

Federal Agency: U.S. Department of Health Human Services  
CFDA Program: 93.600 Head Start

Federal Agency: U.S. Department of Homeland Security  
CFDA Program: 97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters)

Federal Agency: U.S. Department of Defense  
CFDA Program: 12.000 Army JROTC

Area: Equipment and Real Property Management  
Questioned Costs: \$0

Condition, Continued:

- Preventative maintenance has not been performed since acquisition for property number 04659 and 11829. Generators were purchased in February 2009 for \$160,508 and \$227,883, respectively, with funds from CFDA # 97.036.
- Property records for several prior year assets purchased with federal funds did not include applicable acquisition costs.

<u>CFDA#</u>	<u>New Tag#</u>	<u>Description</u>	<u>Division</u>	<u>Location</u>
12.000	11775	Wagon	Army-JROTC	Army-JROTC
12.000	11776	Wagon	Army-JROTC	Army-JROTC
Undeterminable	11894	Van	Facilities and Maintenance	Refrigeration

- Maintenance of the new schools rests with the Guam Education Financing Foundation; however, no documentation was provided to demonstrate GDOE's monitoring of GEFM maintenance activities, for which annual funding of approximately \$1,000,000 is provided by CFDA # 15.875.

Although GDOE has subsequently improved documentation of monitored GEFM maintenance activities, such was not available for efforts in fiscal year 2013.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2013

Finding No.: 2013-001, Continued

Federal Agency: U.S. Department of Agriculture  
CFDA Program: 10.555 Child Nutrition Cluster

Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories

Federal Agency: U.S. Department of Education  
CFDA Program: 84.027 Special Education – Grants to States

Federal Agency: U.S. Department of Health Human Services  
CFDA Program: 93.600 Head Start

Federal Agency: U.S. Department of Homeland Security  
CFDA Program: 97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters)

Federal Agency: U.S. Department of Defense  
CFDA Program: 12.000 Army JROTC

Area: Equipment and Real Property Management  
Questioned Costs: \$0

Condition, Continued:

5. For CFDA # 84.027, acquisition costs of vehicles and busses reported by the SPED Program Office do not reconcile to the general ledger. Items listed below were purchased with federal funds.

<u>Description</u>	<u>Per GL</u>	<u>Per SPED</u>	<u>Variance</u>
2002 Ford (3536)	67,894	79,374	11,480
2013 Collins (6088)	97,473	113,662	16,189
2006 Collins (4460)	79,374	72,735	(6,639)
2005 Collins (4225)	71,419	72,735	1,316
2003 Collins (3645)	66,116	72,735	6,619
2001 Collins (3390)	72,735	71,419	(1,316)
2003 Collins (3644)	66,116	67,894	1,778
2011 Mini Bus (5414)	113,662	67,894	(45,768)
2006 Collins (4462)	79,374	66,116	(13,258)
2002 Ford (3533)	67,894	66,116	(1,778)

An updated program equipment and vehicle listing was provided subsequent to fieldwork. No audit procedures were performed on the listing; however, acquisition costs appeared to be reconciled to the general ledger.

6. Several vehicles were reported in the financial statements, but were noted to be unrepairable. Items were fully depreciated as of September 30, 2013:

<u>CFDA#</u>	<u>Property Number</u>	<u>Survey Number</u>	<u>Acquisition Cost</u>	<u>Fiscal Year Acquired</u>
12.000	C-4045-97-00	ED13-013	\$21,900	1998
12.000	C-4045-97-00	ED11-004	\$23,534	1998
93.600	C-3100-93-00	ED12-011	\$23,534	1998

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2013

Finding No.: 2013-001, Continued

Federal Agency: U.S. Department of Agriculture  
CFDA Program: 10.555 Child Nutrition Cluster

Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories

Federal Agency: U.S. Department of Education  
CFDA Program: 84.027 Special Education – Grants to States

Federal Agency: U.S. Department of Health Human Services  
CFDA Program: 93.600 Head Start

Federal Agency: U.S. Department of Homeland Security  
CFDA Program: 97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters)

Federal Agency: U.S. Department of Defense  
CFDA Program: 12.000 Army JROTC

Area: Equipment and Real Property Management  
Questioned Costs: \$0

Condition, Continued:

7. Incurred professional fees totaling \$1,659,966 for construction management services, design and other administrative duties related to various capital projects, were not considered in the non-depreciable capital assets listing. An audit adjustment was proposed to reflect these General Fund costs.

Cause:

There appears to be a lack of resources allocated to establishing compliance with applicable equipment management requirements in FY 2013.

Effect:

GDOE is in noncompliance with applicable equipment management requirements for FY 2013. Furthermore, the loss or theft of equipment could go undetected, and fixed assets may be misstated. No questioned cost is presented as we are unable to quantify the extent of noncompliance.

Prior Year Status:

The above condition is reiterative of conditions identified in the prior audit of GDOE.

Recommendation:

GDOE should comply with applicable equipment management requirements, including enforcement of established equipment management procedures at the school or division level, performance of required reconciliations, and generation of comprehensive fixed asset reports. In addition, maintenance budgets

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2013

Finding No.: 2013-001, Continued

Federal Agency: U.S. Department of Agriculture  
CFDA Program: 10.555 Child Nutrition Cluster

Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories

Federal Agency: U.S. Department of Education  
CFDA Program: 84.027 Special Education – Grants to States

Federal Agency: U.S. Department of Health Human Services  
CFDA Program: 93.600 Head Start

Federal Agency: U.S. Department of Homeland Security  
CFDA Program: 97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters)

Federal Agency: U.S. Department of Defense  
CFDA Program: 12.000 Army JROTC

Area: Equipment and Real Property Management  
Questioned Costs: \$0

Recommendation, Continued:

generated by the Guam Education Financing Foundation could be monitored through a quarterly reporting process.

Auditee Response and Corrective Action Plan:

Condition 1: The Guam Department of Education (GDOE) concurs with the finding and recommendation.

Actions Planned —GDOE will improve its communications and coordination between accounting and the appropriate program, division heads, and federal program staff to compile the financial data information for construction and other capital projects to be accurately recorded and timely reported in GDOE's financial reports. This will be accomplished by meeting periodically to review and discuss the listing of active projects which includes: date funded; amount budgeted; amount spent since the start date; remaining budget; fiscal impact of known changes to financial assumptions underlying the project; estimated expenditures by fiscal year of the project; estimated completion date; and supporting documentation on the execution of substantial completion on contracts, occupancy, or when the asset is placed into service occurs.

GDOE is currently updating existing GDOE Standard Operating Procedures under the Financial Affairs Division to improve its accounting processes in this area.

Plan to Monitor — The assigned accountant will be responsible for collaborating with the appropriate individuals in monitoring actual amounts spent on projects (since their start dates) and comparing them to budgeted amounts, to include review and tracking of transactions in cost categories 230 (contracts for services), 250 (Equipment), 450 (Capital Outlay). As a result of such monitoring, Financial Affairs will have the ability to ascertain which projects are near completion so as to ensure they are added to the

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2013

Finding No.: 2013-001, Continued

Federal Agency: U.S. Department of Agriculture  
CFDA Program: 10.555 Child Nutrition Cluster

Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories

Federal Agency: U.S. Department of Education  
CFDA Program: 84.027 Special Education – Grants to States

Federal Agency: U.S. Department of Health Human Services  
CFDA Program: 93.600 Head Start

Federal Agency: U.S. Department of Homeland Security  
CFDA Program: 97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters)

Federal Agency: U.S. Department of Defense  
CFDA Program: 12.000 Army JROTC

Area: Equipment and Real Property Management  
Questioned Costs: \$0

Auditee Response and Corrective Action Plan, Continued:

GDOE's fixed assets system in a timely manner. Final review and approval will be made by the Comptroller on the information provided.

Officials Responsible — Comptroller Lourdes Perez will work with Designated Program Managers, Division Heads, Third Party Fiduciary Agent, and the designated Accountant

Planned Completion Date — September 30, 2014

Condition 2:

GDOE concurs with the finding and recommendations. In 2010, there was a rash of copper wire thefts and the wires connecting generators to the schools were stolen. GDOE did not have funding to replace the copper wires and therefore discontinued the maintenance contracts in place for the generators.

Actions Planned – Funding to replace the copper wires and initiate the maintenance contracts has been identified. The CIP Section has developed a scope of work and entered a requisition to begin the procurement process.

Plan to Monitor – The CIP Section will work with the Procurement Division to ensure the contract is in place and installation of wires is performed. The CIP Section will also monitor the maintenance contract.

Official Responsible – CIP Section, Program Coordinator IV Randy Romero

Planned Completion Date – September 30, 2014

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2013

Finding No.: 2013-001, Continued

Federal Agency:	U.S. Department of Agriculture
CFDA Program:	10.555 Child Nutrition Cluster
Federal Agency:	U.S. Department of the Interior
CFDA Program:	15.875 Economic, Social, and Political Development of the Territories
Federal Agency:	U.S. Department of Education
CFDA Program:	84.027 Special Education – Grants to States
Federal Agency:	U.S. Department of Health Human Services
CFDA Program:	93.600 Head Start
Federal Agency:	U.S. Department of Homeland Security
CFDA Program:	97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters)
Federal Agency:	U.S. Department of Defense
CFDA Program:	12.000 Army JROTC
Area:	Equipment and Real Property Management
Questioned Costs:	\$0

Auditee Response and Corrective Action Plan, Continued:

Condition 3:

GDOE concurs with this finding. Records indicate that the 2003 JROTC Suzuki XL7 Wagons were purchased with PO 200202078 for \$18,995 each. The fixed asset listing will be updated with this information.

The 1997 Dodge Ram Van is not running and will be surveyed. Entries will be made to take the vehicle off the fixed asset listing.

Actions Planned – For fixed assets that are greater than ten years old and records are not readily available to determine initial acquisition cost, alternate methods will be used to determine a cost. For example, the Kelly Blue Book will be used to assign a value to vehicles. The assigned fixed asset accountant will be responsible to ensure costs are assigned to the fixed assets and that surveyed items are taken off the fixed asset listing.

Additionally, as part of the fixed asset inventory, the condition of the fixed asset will be determined. If the asset is irreparable and cannot be economically repaired, it will be surveyed and taken off the fixed asset list.

Standard Operating Procedures will be developed to document how the fixed asset ledger will be kept up to date and regularly reconciled. Training will be held at least annually and staff will be expected to comply with the SOPs.

Plan to Monitor – The Comptroller and the Supply Management Administrator will monitor their staff to ensure compliance with the approved SOP. The Internal Audit Office will randomly audit the fixed asset records for compliance.



GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2013

Finding No.: 2013-001, Continued

Federal Agency: U.S. Department of Agriculture  
CFDA Program: 10.555 Child Nutrition Cluster

Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories

Federal Agency: U.S. Department of Education  
CFDA Program: 84.027 Special Education – Grants to States

Federal Agency: U.S. Department of Health Human Services  
CFDA Program: 93.600 Head Start

Federal Agency: U.S. Department of Homeland Security  
CFDA Program: 97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters)

Federal Agency: U.S. Department of Defense  
CFDA Program: 12.000 Army JROTC

Area: Equipment and Real Property Management  
Questioned Costs: \$0

Auditee Response and Corrective Action Plan, Continued:

Officials Responsible – Comptroller Lourdes Perez and Inventory Management Officer George Mendiola will work with Property Management Section, Supply Management Administrator, Fixed Asset Accountant and the Internal Audit Office.

Planned Completion Date – September 30, 2014 and training scheduled at least annually.

Condition 4:

GDOE disagrees with the audit finding. Annually GEFF submits an insurance and maintenance agreement and related budget. Scope and costs are negotiated with GDOE. Principals of these schools are given an opportunity for input. Additionally, an annual sum is paid into a capital fund from which maintenance costs that are not routine may be funded.

As part of the maintenance agreement, GEFF has contracted for custodial and maintenance service. A work order system is set up for repairs and maintenance outside of the regularly scheduled work. School staff work directly with the contractor. If work is outside the contracted services, after discussions with GDOE, charges may be made to the capital fund to cover the costs of the services or GDOE maintenance may perform or contract out the work.

Additionally, preventive maintenance is scheduled during the year for major equipment such as air conditioners and generators through GEFF contractors.

During quarterly meetings between GEFF and the Superintendent, other maintenance needs might be discussed and scheduled. For instance, recoating of the roofs as well as painting of the schools were projects that occurred in the recent past.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2013

Finding No.: 2013-001, Continued

Federal Agency: U.S. Department of Agriculture  
CFDA Program: 10.555 Child Nutrition Cluster

Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories

Federal Agency: U.S. Department of Education  
CFDA Program: 84.027 Special Education – Grants to States

Federal Agency: U.S. Department of Health Human Services  
CFDA Program: 93.600 Head Start

Federal Agency: U.S. Department of Homeland Security  
CFDA Program: 97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters)

Federal Agency: U.S. Department of Defense  
CFDA Program: 12.000 Army JROTC

Area: Equipment and Real Property Management  
Questioned Costs: \$0

Auditee Response and Corrective Action Plan, Continued:

Condition 5:

GDOE does not concur with this finding. The Financial Affairs Office has provided documentation to substantiate the acquisition price of these vehicles, which ties to the general ledger. The Special Education Division's list was a working list and has since been updated with the correct information which ties to the general ledger.

The updated list was subsequently provided to the auditors.

Note that the Financial Affairs Office maintains the official fixed asset list. Additionally, of the ten vehicles identified, two have been surveyed and six are fully depreciated and have no impact on the financial statements.

However, GDOE agrees that information regarding fixed assets should be consistent across the Department.

Actions Planned – The new financial management information system, MUNIS, has a fixed asset module. Before the end of FY14, it is intended that the module will be populated with fixed asset records. These records will be shared between the Financial Affairs Office and the Property Management Section, as well as with the Third Party Fiduciary and all relevant Divisions, including Special Education. By providing the records on MUNIS, it should eliminate the need to keep manual fixed asset records.

The Property Management Section and the Fixed Asset Accountant will reconcile the fixed asset ledger on a monthly basis as well as after the physical inventory.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2013

Finding No.: 2013-001, Continued

Federal Agency: U.S. Department of Agriculture  
CFDA Program: 10.555 Child Nutrition Cluster

Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories

Federal Agency: U.S. Department of Education  
CFDA Program: 84.027 Special Education – Grants to States

Federal Agency: U.S. Department of Health Human Services  
CFDA Program: 93.600 Head Start

Federal Agency: U.S. Department of Homeland Security  
CFDA Program: 97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters)

Federal Agency: U.S. Department of Defense  
CFDA Program: 12.000 Army JROTC

Area: Equipment and Real Property Management  
Questioned Costs: \$0

Auditee Response and Corrective Action Plan, Continued:

Once the Fixed Asset Module is functional, the Financial Affairs Office and the Property Management Section will develop Standard Operating Procedures to document how the fixed asset ledger will be kept up to date and regularly reconciled. Training will be held at least annually and staff will be expected to comply with the SOPs.

Plan to Monitor – The Comptroller and the Supply Management Administrator will monitor their staff to ensure compliance with the approved SOP. The Internal Audit Office will randomly audit the fixed asset records for compliance.

Officials Responsible – Comptroller Lourdes Perez and Inventory Management Officer George Mendiola will work with Property Management Section, Supply Management Administrator, Fixed Asset Accountant, Program Managers and the Internal Audit Office.

Planned Completion Date – September 30, 2014 with ongoing updates and training scheduled at least annually.

Condition 6:

GDOE concurs with this finding. Surveyed items should be taken off the fixed asset listing.

Actions Planned – As part of the fixed asset inventory, the condition of the fixed asset will be determined. If the asset is irreparable and cannot be economically repaired, it will be surveyed and taken off the fixed asset list.

The Property Management Section and the designated Fixed Asset accountant will work together to ensure that any surveyed items are taken off the fixed asset listing.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2013

Finding No.: 2013-001, Continued

Federal Agency: U.S. Department of Agriculture  
CFDA Program: 10.555 Child Nutrition Cluster

Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories

Federal Agency: U.S. Department of Education  
CFDA Program: 84.027 Special Education – Grants to States

Federal Agency: U.S. Department of Health Human Services  
CFDA Program: 93.600 Head Start

Federal Agency: U.S. Department of Homeland Security  
CFDA Program: 97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters)

Federal Agency: U.S. Department of Defense  
CFDA Program: 12.000 Army JROTC

Area: Equipment and Real Property Management  
Questioned Costs: \$0

Auditee Response and Corrective Action Plan, Continued:

The new financial management information system, MUNIS, has a fixed asset module. Before the end of FY14, it is intended that the module will be populated with fixed asset records. These records will be shared between the Financial Affairs Office and the Property Management Section as well as with the Third Party Fiduciary and all relevant Divisions. By providing the records on MUNIS, it should eliminate the need to keep manual fixed asset records.

The Property Management Section and the Fixed Asset Accountant will reconcile the fixed asset ledger on a monthly basis as well as after the physical inventory.

Once the Fixed Asset Module is functional, the Financial Affairs Office and the Property Management Section will develop Standard Operating Procedures to document how the fixed asset ledger will be kept up to date and regularly reconciled. Training will be held at least annually, and staff will be expected to comply with the SOPs.

Plan to Monitor – The Comptroller and the Supply Management Administrator will monitor their staff to ensure compliance with the approved SOP. The Internal Audit Office will randomly audit the fixed asset records for compliance.

Officials Responsible – Comptroller Lourdes Perez and Inventory Management Officer George Mendiola will work with Property Management Section, Supply Management Administrator, Fixed Asset Accountant, relevant Division Heads and the Internal Audit Office

Planned Completion Date – September 30, 2014 and training scheduled at least annually.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2013

Finding No.: 2013-001, Continued

Federal Agency: U.S. Department of Agriculture  
CFDA Program: 10.555 Child Nutrition Cluster

Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories

Federal Agency: U.S. Department of Education  
CFDA Program: 84.027 Special Education – Grants to States

Federal Agency: U.S. Department of Health Human Services  
CFDA Program: 93.600 Head Start

Federal Agency: U.S. Department of Homeland Security  
CFDA Program: 97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters)

Federal Agency: U.S. Department of Defense  
CFDA Program: 12.000 Army JROTC

Area: Equipment and Real Property Management  
Questioned Costs: \$0

Auditee Response and Corrective Action Plan, Continued:

Condition 7:

The Guam Department of Education (GDOE) concurs with the finding and recommendation.

Actions Planned — GDOE will perform periodic review of active Construction-Work-in-Projects to determine if they are properly accounted for and journal entries to recognize assets are prepared, reviewed, and approved on a monthly basis.

In addition, GDOE is currently updating existing GDOE Standard Operating Procedures under the Financial Affairs Division to include the accounting of fixed assets.

Plan to Monitor — The assigned accountant will be responsible for ensuring that all CWIP with the collaboration of program managers and division heads and/or CIP Coordinator are properly recognized to post journal entry of capitalized assets. The Comptroller will review and approve all proposed postings.

Officials Responsible — Comptroller Lourdes Perez will work with Assigned Accountant, Applicable Division Heads, CIP Coordinator, and the Third Party Fiduciary Agent

Planned Completion Date — September 30, 2014

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2013

Finding No.: 2013-002  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories  
Grant Number: D12AF00056  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$650

Criteria:

In accordance with applicable procurement requirements, the grantee will conduct procurement transactions in a manner providing full and open competition, and will maintain records sufficient to detail the significant history of procurement. These records will include a rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.

Local procurement specifies that the Superintendent of Education or a designee may make or authorize others to make emergency procurements when there exists a threat to public, welfare, or safety under emergency conditions.

Local procurement requires that the Superintendent shall adopt operational procedures for making small purchases of less than five hundred dollars. Such operational procedures shall provide for obtaining adequate and reasonable competition and for making records to properly account for funds and facilitate auditing of the Procurement Section.

Condition:

- 1) For two (or 3%) of 68 transactions tested, security services in the amount of \$7,474 and \$13,547 through PO Number 20130143 and \$10,509 through PO Number 20130145 were procured using emergency procurement, instead of competitive sealed bidding. However, the records in the procurement file are not sufficient to demonstrate that emergency procurement was the appropriate procurement method. The situation occurred in December 2012 prior to Christmas break, which would have allowed sufficient time to apply competitive sealed bidding procedures for the services that exceeded \$15,000.

No questioned cost is presented as GDOE attempted competition by obtaining four quotations.

- 2) For five (or 7%) of 68 transactions tested, the procurement of small purchases of \$500 or less was used per GDOE's operational procedures. However, competitive procurement was not performed for the purchase of the following instructional materials:

<u>PO Number</u>	<u>Amount</u>
20131319	\$ 140
20131534	72
20132349	229
20132500	40
20134116	169
	<u>\$ 650</u>

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2013

Finding No.: 2013-002, Continued  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories  
Grant Number: D12AF00056  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$650

Condition, Continued:

We determined that the items procured were similar to the items specified under IFB 003-2013, issued October 19, 2012, and the requisitions were obtained from the same vendors who submitted a proposal to the invitation for bid, therefore, competition should have been performed. A questioned cost of \$650 exists.

Cause:

GDOE Supply Management did not enforce internal control over compliance with procurement requirements applicable to federal funds.

Effect:

GDOE may be in noncompliance with applicable procurement regulations. No questioned cost is presented for Condition 1 for reasons set forth in the condition above. Questioned costs of \$650 exist for Condition 2. Although the known questioned costs are below \$10,000, the projected questioned costs exceed the threshold; therefore, the finding is considered reportable.

Prior Year Status:

The above condition is reiterative of conditions identified in the prior audit of GDOE.

Recommendation:

GDOE should maintain records sufficient to detail the significant history of a procurement to substantiate compliance with applicable procurement requirements.

Auditee Response and Corrective Action Plan:

Condition 1:

GDOE does not concur with this finding. Per 1 GCA § 715(12) (f) a Certificate of Emergency was obtained from the Governor to authorize the emergency procurement. Break-ins increase over the school breaks and GDOE addressed the needs of our students and protected our school assets by procuring the security to prevent further loss of our copper wiring.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2013

Finding No.: 2013-002, Continued  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories  
Grant Number: D12AF00056  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$650

Auditee Response and Corrective Action Plan, Continued:

Condition 2:

GDOE concurs with this finding and recommendation. Procurement of items has been assigned to buyers by commodity code so that the buyers can monitor the procurement activity of various divisions, consolidate purchasing of similar items, and use the appropriate procurement method. Indefinite quantity bids for commonly purchased items will continue to be used so that competition is encouraged while providing for efficiencies in purchasing.

Actions Planned - The Office of Supply Management is in the process of finalizing Standard Operating Procedures (SOPs). Once the SOPs have been finalized, training of the procurement staff will be scheduled and staff will be asked to verify that they understand the SOPs and have been through the training. Staff will be held responsible for failing to comply with the procedures and related regulations. Training will be held at least annually.

Plan to Monitor – The Buyer Supervisors, under the supervision of the Supply Management Administrator, will monitor procurements to ensure the Buyers are consolidating purchases of similar items when practical and using the appropriate procurement method. Identification of commonly procured items will be made so that, when practical, these items will be included in Indefinite Quantity Bids.

The Internal Audit Office will audit small purchases to ensure, where practical, purchases are consolidated and the appropriate procurement methods are used.

Officials Responsible – Buyer Supervisors, Albert Garcia and Carmen Taitano, will work with the Buyers, Supply Management Administrator, and Internal Audit Office

Planned Completion Date – SOP finalization, training, and monitoring will occur by September 30, 2014. Training will occur at least annually. Monitoring will occur on an ongoing basis.

Auditor Response:

Condition 1:

As it is a normal risk that break-ins increase over the school breaks, GDOE could have planned the timing of procuring security services and exercised competitive sealed bidding. Additionally, emergency procurement for federally funded expenditures are presidentially declared, approved by the grantor agency or if the grant award specifically authorizes such to occur.



GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2013

Finding No.: 2013-002, Continued  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories  
Grant Number: D12AF00056  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$650

Auditor Response, Continued:

Condition 2:

We have read the documents provided. The Operational Procedures also states, "The Procurement Section will further assure the requisitions submitted are not artificially limited by the dollar amount of \$500 or less in order to avoid competition. In cases where multiple requisitions within the dollar figures stated are submitted by a single division within a certain date, consolidation and solicitation will occur." The items procured appeared to be equivalent to those that were procured through an invitation for bid advertised in October 2012. As the need for supplies and materials from schools are expected, the dollar figure for all items combined would have been greater than \$500; therefore, competitive procurement should have been performed.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2013

Finding No.: 2013-003  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.600 Head Start Cluster  
Grant Number: 09CH8453/47/48  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$1,635

Criteria:

In accordance with applicable procurement requirements, the grantee will conduct procurement transactions in a manner providing full and open competition, and will maintain records sufficient to detail the significant history of procurement. These records will include a rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.

Furthermore, in accordance with local procurement regulations, sole source procurement is not permissible unless a requirement is available from only a single supplier. A requirement for a particular proprietary item does not justify a sole source procurement if there is more than one potential bidder or offeror for that item.

Condition:

For one (or 11%) of 9 transactions tested, sole source procurement was used, based on the rationale that the vendor was the only distributor/agent. No documentation was available to indicate how the grantee determined that no other vendor could provide the required materials.

<u>Description</u>	<u>Purchase order</u>	<u>Vendor</u>	<u>Amount</u>
Learning materials	20132796	20353	\$1,635

Cause:

GDOE Supply Management did not enforce internal control over compliance with procurement requirements applicable to federal funds.

Effect:

GDOE may be in noncompliance with applicable procurement regulations. A questioned cost of 1,635 exists. Although the known questioned cost is below \$10,000; the projected questioned cost exceeds the threshold; therefore, the finding is considered reportable.

Prior Year Status:

The above condition is reiterative of conditions identified in the prior audit of GDOE.

Recommendation:

GDOE should maintain records sufficient to detail the significant history of a procurement to substantiate compliance with applicable procurement requirements.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2013

Finding No.: 2013-003, Continued  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.600 Head Start Cluster  
Grant Number: 09CH8453/47/48  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$1,635

Auditee Response and Corrective Action Plan:

PO 20132796 in the amount of \$1,635.00 is an accurate finding. The buyer who processed this purchase failed to perform due diligence and source additional vendors who could have supplied the division with the supplies needed for this purchase.

Actions Planned – The Office of Supply Management is in the process of finalizing Standard Operating Procedures (SOPs) on Sole Source Procurements and Small Purchases. Once the SOPs have been finalized, training of the procurement staff will be scheduled and staff will be asked to verify that they understand the SOP and have been through the training. Staff will be held responsible for failing to comply with the procedures and related regulations. Training will be held at least annually.

Plan to Monitor – All sole source procurements regardless of price will require approval by the Supply Management Administrator.

The Internal Audit Office will audit sole source procurements to determine that the appropriate documents have been attached and that due diligence was performed.

Officials Responsible – Buyer Supervisors Albert Garcia and Carmen Taitano will work with the Buyers, Supply Management Administrator, and Internal Audit Office

Planned Completion Date – SOP finalization, training, and monitoring will occur by September 30, 2014. Training will occur at least annually. Monitoring will occur on an ongoing basis.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2013

Finding No.: 2013-004  
Federal Agency: U.S. Department of Education  
  
CFDA Program: 84.394A ARRA State Fiscal Stabilization Fund (SFSF)  
Grant Number: S394A090055  
  
CFDA Program: 84.402A Consolidated Grants to the Outlying Areas, Recovery Act  
Grant Number: S402A090002A  
  
Area: Schedule of Expenditures of Federal Awards (SEFA)  
Questioned Costs: \$0

Criteria:

Expenditures reported on the SEFA should reflect expenditures incurred for that period and should not exceed award amount.

Conditions:

The following federal programs reported expenditures that exceeded the amount awarded.

1) CFDA# 84.394A-ARRA SFSF

Total award	\$ 75,742,784
Total expenditures reported as of 09/30/13	<u>76,188,702</u>
Expenditures exceeding award	\$ <u>445,918</u>

2) CFDA# 84.402A Consolidated Grants to the Outlying Areas, Recovery Act

Total award	\$ 12,206,153
Total expenditures reported as of 09/30/13	<u>12,304,162</u>
Expenditures exceeding award	\$ <u>98,009</u>

An audit adjustment was proposed to correct the overstated program expenditures.

Cause:

Reconciliation to award balances was not performed.

Effect:

An overstatement of expenditures in the Federal Grants Fund resulted. No questioned costs result as drawdowns did not exceed the award.

Recommendation:

Budgets should be monitored to ascertain that programs do not exceed award balances.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2013

Finding No.: 2013-004, Continued  
Federal Agency: U.S. Department of Education

CFDA Program: 84.394A ARRA State Fiscal Stabilization Fund (SFSF)  
Grant Number: S394A090055

CFDA Program: 84.402 Consolidated Grants to the Outlying Areas, Recovery Act  
Grant Number: S402A090002A

Area: Schedule of Expenditures of Federal Awards (SEFA)  
Questioned Costs: \$0

Auditee Response and Corrective Action Plan:

The Guam Department of Education (GDOE) concurs with the finding and recommendation.

Actions Planned —GDOE will take measures to improve the reconciliation of the federal awards by assigning and cross-training accounting staff; improve communications and coordination between accounting and program staff to perform, review, and approve the reconciliation of the SEFA on a monthly basis to ensure that reported federal expenditures do not exceed award amounts. The reconciliation and any differences should be investigated and adjustments be made as warranted.

GDOE is currently updating existing GDOE Standard Operating Procedures under the Financial Affairs Division to improve its accounting processes in this area.

Plan to Monitor — The Comptroller will monitor the progress made in this area as reported by the designated accountant by reviewing the SEFA and the reconciliation to the general ledger. The review will include a verification of correct CFDA numbers and program titles, as well as proper formatting and clustering of programs prior to providing the SEFA to the external auditor.

Officials Responsible — Comptroller Lourdes Perez will coordinate with Designated Program Managers, Division heads, Third Party Fiduciary Agent, and designated Accountant

Planned Completion Date — August 31, 2014

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2013

Finding No.: 2013-005  
Area: General Ledger and SEFA Reconciliations

Criteria:

General ledger balances should be timely reconciled to the subsidiary ledger or supporting details and reviewed for ongoing pertinence.

Conditions:

- 1) Reconciliation between the general ledger and the subsidiary ledgers should be timely performed.

Reconciliation of subsidiary ledgers was still in progress as of March 31, 2014. Audit adjustments have been proposed to reconcile fund balance, capital assets, accounts payable, receivables to federal agencies, payable to federal agencies, long-term debt, accrued payroll, other liabilities and accruals, appropriations, and expenditures.

- 2) Periodic reconciliations should occur with records maintained by the third party fiduciary agent (third party) to allow for timely recordation of payables and receivables in the appropriate period and to substantiate the completeness of the Schedule of Expenditures of Federal Awards.

Cause:

Due to the new system implementation, the department continues to learn the system capabilities and limitations and resolve and determine resolutions as issues are encountered. These include the different types of system generated reports and reconciliation of these reports to the general ledger. Under these circumstances, reconciliations of the general ledger to subsidiary ledgers and recording of necessary year-end adjustment were adversely affected.

In addition, substantial effort was required to reconcile to third party records as those records are maintained on a cash basis. The provided third party SEFA included reimbursements for expenditures previously reported excluded unreimbursed payroll and travel expenditures prepaid by GDOE and excluded various accruals. Reconciliation between the TPFA SEFA and the GDOE SEFA was not complete until six months after year end.

Furthermore, the accounting department struggles to retain and qualified personnel to effectively prepare timely reconciliations and financial reporting.

Effect:

The year-end closing process was delayed by six months.

Prior Year Status:

The above condition is reiterative of conditions identified in the prior audits of GDOE. However, we noted that reconciliations for FY 2013 were performed slightly sooner than those for FY 2012.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2013

Finding No.: 2013-005, Continued  
Area: General Ledger and SEFA Reconciliations

Recommendation:

While we are aware of the impact of the major system implementation that continued to during the period, the lack of certain reconciliations has previously been reported and we continue to recommend that management strengthen controls and hire personnel necessary to timely update and reconcile general ledger accounts and the Schedule of Expenditures of Federal Awards, with corresponding subsidiary ledgers.

Auditee Response and Corrective Action Plan:

The Guam Department of Education (GDOE) concurs with the finding and recommendation.

Actions Planned — With GDOE recently hiring two accounting personnel, GDOE will take measures to improve the reconciliation of the federal awards by assigning and cross-training accounting liaison; improve communications and coordination between accounting and program staff to perform the reconciliation of grant expenditures to the general ledger.

GDOE is currently updating existing GDOE Standard Operating Procedures under the Financial Affairs Division to improve its accounting processes in this area.

Plan to Monitor — The designated accountant will ensure that responsible individuals provide timely updates and perform monthly reconciliation between the general ledger accounts and the SEFA, with subsidiary ledgers occur. The Comptroller will review and approve the reconciliation.

Officials Responsible — Comptroller Lourdes Perez will work with Designated Program Managers, Division heads, Third Party Fiduciary Agent, and the designated Accountant

Planned Completion Date — August 31, 2014

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2013

Finding No.: 2013-006  
Area: Non-Appropriated Funds (Agency Fund)

Criteria:

All funds maintained in an agency capacity at each public school should be properly accounted for and should be subject to periodic audits. GDOE classifies such agency funds as "Non-Appropriated Funds" (NAF).

Conditions:

Although GDOE continued to evidence challenges associated with NAF funds during the year ended September 30, 2013, it appears that improvements are occurring. Due to the new automated system, reports are easily assessable for monitoring purposes, which provides for faster and better analysis of potential matters of noncompliance.

- 1) Opening balances did not reconcile to prior year ending balances for 3 schools resulting in \$5,841 of prior year funds that were not carried forward to the current year.
- 2) Bank reconciliation(s) should be performed on a timely basis and be supported with attendant schedules (e.g., outstanding check register, bank statement, receipts).

a. Bank reconciliations from the following schools were not available:

CL Taitano Elementary School (All funds)  
Inarajan Elementary School (All funds)  
Marcial Sablan Elementary School (Student Activity Fund)  
MU Lujan Elementary School (Student Activity Fund)  
FB Leon Guerrero Middle School (All funds)  
Simon Sanchez High School (Admin fund)

b. June 2013 or July 2013 bank statements from the following schools were not:

Agana Heights Elementary School (All funds)  
Finegayan Elementary School (All funds)  
JQ San Miguel Elementary School (All funds)  
Marcial Sablan Elementary School (All funds)  
MU Lujan Elementary School (Student Activity Fund)  
Ordot Chalan Pago Elementary School (All funds)

- 3) Variances were noted between bank reconciliation(s) and ending cash balances reported for the following schools:

<u>School</u>	<u>Per Bank or Bank Recon</u>	<u>Reported</u>	<u>Variance</u>
Astumbo Elementary School	1,791	6,048	4,257
BP Carbullido Elementary School	7,538	7,758	220
Finegayan Elementary School	5,476	6,968	1,492
HS Truman Elementary School	1,302	324	(978)



GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2013

Finding No.: 2013-006, Continued  
Area: Non-Appropriated Funds (Agency Fund)

Condition, Continued:

3) Variances were noted between bank reconciliation(s) and ending cash balances reported for the following schools:

<u>School</u>	<u>Per Bank or Bank Recon</u>	<u>Reported</u>	<u>Variance</u>
Inarajan Elementary School	6,721	11,492	4,771
JQ SanMiguel Elementary School	4,216	10,025	5,809
Marcial Sablan Elementary School	42	100	58
Maria A Ulloa Elementary School	2,056	1,176	(880)
Merizo Martyrs Elementary School	185	86	(99)
MU Lujan Elementary School	2,292	1,289	(1,003)
Agueda Johnston Middle School	16,244	16,414	170
Astumbo Middle School	18,097	17,216	(881)
FBLG Middle School	26,191	20,370	(5,821)
LP Untalan Middle School	12,122	11,031	(1,091)
OceanView School	7,933	17,728	9,795
Okkudo High School	42,361	58,858	16,497
Simon Sanchez High School	87,483	90,345	2,862
Southern High School	23,381	24,440	1,059
John F. Kennedy High School	66,074	66,728	654
GW High School	57,249	78,366	21,117

4) Of the five schools selected, the following exceptions were noted:

a. Bank statements identified higher deposits versus NAF recorded receipts. Cash collections do not appear to be fully reported.

	<u>Receipts recorded</u>	<u>Deposits per bank</u>	<u>Variance</u>
CL Taitano Elementary School	2,129	2,532	(403)
Carbullido Elementary School	18,001	21,471	(3,471)
Liguan Elementary School	21,710	31,501	(9,791)
Merizo Martyrs Memorial School	2,469	2,549	(79)
Oceanview Middle School	59,307	66,395	(7,088)

b. Merizo Martyrs Memorial School – For 2 of 15 receipts tested, receipt copies were not available. The nature of the collection was not determinable.

c. Oceanview Middle School - For 6 of 68 receipts tested, receipt copies were not available. Bank statements for July 2012 thru May 2013 were not available.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2013

Finding No.: 2013-006, Continued  
Area: Non-Appropriated Funds (Agency Fund)

Condition, Continued:

- 5) We tested 98 expenditures approximating \$95,189, of which certain items did not appear to meet NAF documentation requirements:
- a. 22 aggregating \$26,050 were not supported by invoices, receiving reports or other evidential matter.
  - b. 13 aggregating \$2,620 indicated an absence of competitive procurement considerations.
  - c. 47 aggregating \$40,985 were either not supported by a required voucher slip, voucher information was incomplete, disbursement was not properly approved or transaction did not appear to be in line with the mission of the individual fund or was questionable in nature.

Cause:

Accounting for NAF is frequently vested in personnel who are not capable of handling the task.

Effect:

NAF were subject to inadequate accounting controls during fiscal year 2013 and the above conditions could facilitate fraudulent use of these funds for illegal purposes. Additionally, inappropriate use of these funds exposes GDOE and possibly the Guam Education Board members, to potential lawsuits and increases in the Organization's financial exposure.

Prior Year Status:

The above condition is reiterative of conditions identified in the prior audits of GDOE.

Recommendation:

To continue the improvements noted during the year, we recommend that GDOE consider several matters:

1. NAF administration should be formally built into principal evaluations and input from Internal Audit should be requested, at least annually.
2. GDOE central office should consider whether it can obtain read only access of NAF bank accounts.
3. Continued education relative to competitive procurement and adequacy of disbursement documentation should occur.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2013

Finding No.: 2013-006, Continued  
Area: Non-Appropriated Funds (Agency Fund)

Auditee Response and Corrective Action Plan:

The Guam Department of Education (GDOE) concurs with the finding and recommendations.

Actions Planned – The Internal Audit Office (IAO) personnel will provide the audit results to each individual school detailing the findings noted during the audit and any suggestions for improvement. Schools identified with high variances will be monitored and provided additional training and guidance by IAO to understand controls and account for all Non-Appropriated Funds.

Plan to Monitor – IAO will ensure that the responsible individuals are aware of the requirements for cash disbursements per the NAF Standard Operating Procedures Manual for their respective schools, and will direct School Administrators to monitor NAF cash receipts and disbursements to ensure that all NAF transactions are signed off on, approved and properly supported by documentation.

Officials Responsible – Chief Auditor Franklin Cooper-Nurse will coordinate with School Administrators and designated school staff

Planned Completion Date – July 31, 2014

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2013

Finding No.: 2013-007  
Area: Budgets

Criteria:

Budgets should be timely reviewed and available balances should be released based on availability to minimize the opportunity for creating unfunded liabilities.

Condition 1:

In fiscal year 2013, budgets were loaded in excess of amounts allotted by BBMR:

<u>GL Acct</u>	<u>Description</u>	<u>Allotment per BBMR</u>	<u>Budget loaded per GDOE</u>	<u>Variance</u>
180.21.000.0xxx00.13	Chamorro Studies Division	\$ 87,951	\$367,896	\$(279,945)
140.40.000.0xxx00.13	Interscholastic Sports Fund	\$366,599	\$552,793	\$(186,194)
150.20.000.0xxx00.13	Health and P.E activities	\$157,347	\$262,891	\$(105,544)
160.xx.000.0xxx00.13	Public Library Resource Fund	\$569,779	\$572,806	\$ (3,027)

Condition 2:

As of September 30, 2013, internal reports indicated that approximately \$19M was available for obligation in appropriation accounts created in fiscal years 2005 thru 2012.

Cause:

Budgets are loaded based on appropriations and do not consider the realization of funding resources.

Effect:

Unfunded liabilities may be incurred.

Recommendation:

We recommend the management consider releasing available funding based on allotments released by the office of BBMR.

Auditee Response and Corrective Action Plan:

GDOE does not concur with the finding and recommendations. Per 11 GCA Chapter 52 § 52102, all appropriations of GDOE are subject to the allotment schedule process administered by the Bureau of Budget Management Research (BBMR). Budgets are loaded according to the allotment schedule approved and signed by the Director of BBMR at the beginning of the fiscal year.

GDOE recognizes the rationale in the auditor's recommendation; however it would only be possible if BBMR and DOA would agree to release allotments and cash in the amounts needed to encumber contracts vital to the operations of GDOE. Given the history of allotment and cash provided to GDOE, this is not a likely situation. Fiscal Year 2013 cash and allotment releases are a prime example of this.

GUAM DEPARTMENT OF EDUCATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2013

Finding No.: 2013-007, Continued  
Area: Budgets

Auditee Response and Corrective Action Plan, Continued:

Actions Planned - With regard to funding made available for obligation from prior year appropriation accounts, e.g., approximately \$19M for fiscal years 2005 thru 2012, GDOE shall institute an annual procedure to zero out prior year carryovers of unobligated balances after determining collectability from the Department of Administration is unlikely.

Plan to Monitor – The Budget Management Analyst IV, will develop a schedule to ensure this work is accomplished. The Internal Audit Office will review accounts to ensure work was completed.

Officials Responsible – Management Analyst IV Jeremy Rojas, Budget Office will be responsible. The Internal Audit Office will perform periodic reviews.

Planned Completion Date:

August 31, 2014 for fiscal years 2005 through 2012  
October 31<sup>st</sup> will be the deadline for each subsequent year.

Auditor response:

Over expenditures occurred due to this condition and we recommend that management consider releasing available funding based on allotments released.

GUAM DEPARTMENT OF EDUCATION

Summary Schedule of Prior Audit Findings and Questioned Costs  
Year Ended September 30, 2013

<u>Finding Number</u>	<u>CFDA Number</u>	<u>Requirement</u>	<u>Questioned Cost Unresolved</u>	<u>Questioned Cost Resolved</u>	<u>Status</u>
2012-1	15.875	Equipment Management	\$ -	\$ -	All Federal and Non U.S. DOE Fixed Assets captured will be completed by June 30, 2014. Security has been placed to various school campuses to address vandalism and pilferage.
2012-1	84.394	Equipment Management	-	-	Closed by U.S. ED PDL, 091239787
2012-1	84.402	Equipment Management	-	-	Closed by U.S. ED PDL, 091239787
2012-2	93.600/93.708	Procurement	-	-	Closed BY HHS, A-09-13-23038
2012-3	10.555 84.403	Financial Management	-	-	The new implementation of the new Financial Management Information System (FMIS) called MUNIS is addressing all of these reconciliation issues. Like any new implementation, validation plays a major role for all accounting issues and this is currently on-going to provide reasonable assurance that all internal controls are all in compliance and parallel to the newly establish SOP(s).
2011-1	15.875	Equipment Management	-	-	All Federal and Non U.S. DOE Fixed Assets captured will be completed by June 30, 2014. Security has been placed to various school campuses to address vandalism and pilferage.
10-3	93.600	Procurement	-	-	OMB A-133 .315(b)(4)
09-01	84.027	Maintenance of Effort	-	-	Corrective action was taken
09-03	93.600	Procurement	-	-	OMB A-133 .315(b)(4)
08-01	10.555	Procurement	-	3,856	OMB A-133 .315(b)(4)
08-06	93.600	Procurement	-	-	OMB A-133 .315(b)(4)
08-07	93.600	Allowable Costs	-	-	OMB A-133 .315(b)(4)
08-08	93.600	Equipment Management	-	-	OMB A-133 .315(b)(4)
07-03	84.027	Procurement	-	-	Corrective action was taken
07-14	93.600	Allowable Costs	-	-	OMB A-133 .315(b)(4)
			\$ -	\$ 3,856	