

**GUAM DEPARTMENT OF EDUCATION**

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

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**YEAR ENDED SEPTEMBER 30, 2004**

# GUAM DEPARTMENT OF EDUCATION

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## **INDEPENDENT AUDITORS' REPORT**

Juan P. Flores  
Superintendent of Education  
Guam Department of Education  
Government of Guam:

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, as of and for the year ended September 30, 2004, which collectively comprise GDOE's financial statements as listed in the table of contents. These financial statements are the responsibility of the Guam Department of Education's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, 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 of material misstatement. An audit includes consideration of 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 GDOE's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

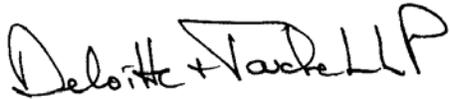
We were unable to ensure the physical presence of recorded fixed assets, and the Guam Department of Education has not performed a comprehensive inventory of its fixed assets.

In our opinion, except for the effects on the financial statements of such adjustments, if any, as might have been determined to be necessary, had we been able to assure ourselves as to the propriety of fixed assets, of depreciation expense, and of the net assets invested in capital assets, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Guam Department of Education as of September 30, 2004, 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.

The Management's Discussion and Analysis, on pages 3 through 5 and the Schedule of Revenues, Expenditures, and Changes in Deficit – Budget and Actual – General Fund and notes thereto (pages 25 and 26) are not a required part of the financial statements but are supplementary information required by the Governmental Accounting Standards Board. Such information is the responsibility of GDOE's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise GDOE's financial statements. The Other Supplementary Information (pages 28 through 38) is presented for the purpose of additional analysis and is not a required part of the financial statements. This supplementary information is the responsibility of GDOE's management. Such 2004 information has been subjected to the auditing procedures applied by us in the audit of the financial statements and, except for the effects of the items described in the third paragraph above, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 6, 2005, on our consideration of the Guam Department of Education's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

June 6, 2005

# GUAM DEPARTMENT OF EDUCATION

Management's Discussion and Analysis  
Year Ended September 30, 2004

## Introduction

This section of Guam Department of Education's (GDOE) annual financial report presents our discussion and analysis of the financial performance of GDOE during the fiscal year ended September 30, 2004. This discussion was prepared by GDOE's management along with the financial statements and related footnote disclosures and should be read in conjunction with our basic financial statements and related notes. The completion of the 2004 single audit represents the Department's commitment to, and support of financial accountability.

## Fiscal Year 2004 Overview

Fiscal year 2004 continued to involve significant challenges for the Department of Education. The GDOE received most of its funding through local government appropriations, federal grants, and USDA Child Nutrition Program reimbursements. A nominal amount was collected as cash payments in the school breakfast and lunch programs. The approved appropriation for the Department in fiscal year 2004 was \$130 million in contrast to FY 2003, when the appropriation was \$150 million. The Government of Guam's appropriation and allotments from the General Fund to the Department were completely received for the fiscal year. However, appropriations from the Territorial Education Fund (TEFF) in excess of \$4.8 million were not recognized. Expenditures for the year were \$4.5 million over the budgeted amounts for utilities, resulting in an additional increase in the deficit.

The Department of Education continues to have an unfunded liability exceeding \$30 million for retirement and utility obligations. In the event that excess revenues are realized, management is committed to making payments against these debts.

## Statement of Net Assets

Net assets consist of current assets and capital assets, net of accumulated depreciation.

### Summary Statement of Net Assets:

	<u>2004</u>	<u>2003</u>
Assets:		
Current assets	\$ 22,464,625	\$ 18,914,079
Capital assets, net	<u>158,910,029</u>	<u>159,151,819</u>
	\$ <u>181,374,654</u>	\$ <u>178,065,898</u>
Liabilities:		
Current liabilities	\$ 33,030,878	\$ 33,096,485
Noncurrent liabilities	<u>64,359,109</u>	<u>46,455,903</u>
	<u>97,389,987</u>	<u>79,552,388</u>
Net assets:		
Invested in capital assets, net of related debt	158,910,029	159,151,819
Restricted for federal programs	3,472,492	634,767
Unrestricted	<u>(78,397,854)</u>	<u>(60,638,309)</u>
	\$ <u>83,984,667</u>	\$ <u>99,148,277</u>

The 2003 information above has not been adjusted for the restatement disclosed in note 9.

# GUAM DEPARTMENT OF EDUCATION

## Management's Discussion and Analysis Year Ended September 30, 2004

The total assets of GDOE increased by \$3.3 million, while total liabilities increased by \$17.8 million, resulting in a overall decrease of net assets by \$15.1 million.

The decrease in net assets is a result of the cash balance on hand at the end of the fiscal year, federal grant receivables, collections on local government appropriations for the current year, prepayments to vendors, and net capital assets.

The increase in liabilities is primarily due to the significant increase in unfunded pension liability and compensated absences.

### Statement of Revenues, Expenses, and Changes in Net Assets

The statement of revenues, expenses, and changes in net assets represents revenues and expenses for the current year.

### Summary Statement of Revenues, Expenses, and Changes in Net Assets:

	<u>2004</u>	<u>2003</u>
Program revenues:		
Federal grants and contributions	\$ 43,174,311	\$ 39,806,889
Other	<u>536,279</u>	<u>1,313,092</u>
	<u>43,710,590</u>	<u>41,119,981</u>
Expenses		
Program Expenses:		
Elementary education	12,314,497	9,560,748
Secondary education	2,720,954	1,780,561
Direct student support	25,945,462	22,222,570
General administration	<u>1,829,070</u>	<u>3,458,739</u>
Total Program Expenses	42,809,983	37,022,618
General Expenses	<u>160,961,491</u>	<u>168,594,010</u>
Total Expenses	(203,771,474)	(205,616,628)
General revenues:		
Appropriations	145,715,655	139,002,730
Other	<u>1,330</u>	<u>1,051</u>
	<u>145,716,985</u>	<u>139,003,781</u>
Decrease in net assets	(14,343,899)	(25,492,866)
Net assets at beginning of year	<u>98,328,566</u>	<u>124,641,143</u>
Net assets at end of year	\$ <u>83,984,667</u>	\$ <u>99,148,277</u>

The 2003 information above has not been adjusted for the restatement disclosed in note 9.

# **GUAM DEPARTMENT OF EDUCATION**

## **Management's Discussion and Analysis Year Ended September 30, 2004**

The statement of revenues, expenses, and changes in net assets reflects a decrease in net assets of \$14.5 million. This is primarily a result of the net change in current year deficit, calculation of retirement contributions, and depreciation expense.

**GUAM DEPARTMENT OF EDUCATION**

Statement of Net Assets  
September 30, 2004

ASSETS	Governmental Activities
Current assets:	
Cash and cash equivalents	\$ 12,300,680
Receivables:	
Federal grants and reimbursement receivables	3,838,416
Due from primary government	5,914,293
Prepayments	<u>411,236</u>
Total current assets	<u>22,464,625</u>
Noncurrent assets:	
Capital assets, net of accumulated depreciation	<u>158,910,029</u>
Total noncurrent assets	<u>158,910,029</u>
Total assets	<u>181,374,654</u>
LIABILITIES	
Current liabilities:	
Current portion of notes payable	562,051
Accounts payable	7,984,742
Accrued payroll	4,996,346
Other accruals and liabilities	1,626,589
Retirement payable	17,292,654
Current portion of compensated absences	<u>568,496</u>
Total current liabilities	<u>33,030,878</u>
Noncurrent liabilities:	
Compensated absences, net of current portion	3,488,903
Accrued sick leave liability	2,623,593
Unfunded pension liability	44,281,334
Notes payable, net of current portion	<u>13,965,279</u>
Total noncurrent liabilities	<u>64,359,109</u>
Total liabilities	<u>97,389,987</u>
Commitments and contingencies	
NET ASSETS	
Invested in capital assets, net of related debt	158,910,029
Restricted for:	
Federal programs	3,472,492
Unrestricted	<u>(78,397,854)</u>
Total net assets	<u>\$ 83,984,667</u>

See accompanying notes to financial statements.

**GUAM DEPARTMENT OF EDUCATION**

Statement of Activities  
Year Ended September 30, 2004

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	
Governmental Activities:				
Elementary Education	\$ 70,316,906	\$ -	\$ 12,314,497	\$ (58,002,409)
Secondary Education	61,959,920	-	2,720,954	(59,238,966)
Direct Student Support	34,720,487	536,279	26,309,789	(7,874,419)
General Administration	<u>36,774,161</u>	<u>-</u>	<u>1,829,071</u>	<u>(34,945,090)</u>
Total governmental activities	<u>\$ 203,771,474</u>	<u>536,279</u>	<u>43,174,311</u>	<u>(160,060,884)</u>
General revenues:				
Appropriations:				
				141,818,717
				3,500,000
				396,938
				<u>1,330</u>
				<u>145,716,985</u>
				(14,343,899)
				<u>98,328,566</u>
				<u>\$ 83,984,667</u>

See accompanying notes to financial statements.

**GUAM DEPARTMENT OF EDUCATION**

Balance Sheet  
Governmental Funds  
September 30, 2004

<u>ASSETS</u>	<u>General</u>	<u>Special Revenue</u>	
		<u>Federal Grants Assistance</u>	<u>Total</u>
Cash and cash equivalents	\$ 6,704,795	\$ 5,595,885	\$ 12,300,680
Receivables from Federal agencies	412,926	3,425,490	3,838,416
Due from primary government	5,914,293	-	5,914,293
Prepayments	298,488	112,748	411,236
Due from other funds	6,150,970	-	6,150,970
<b>Total assets</b>	<b>\$ 19,481,472</b>	<b>\$ 9,134,123</b>	<b>\$ 28,615,595</b>
 <u>LIABILITIES AND FUND BALANCES (DEFICIT)</u>			
Liabilities:			
Accounts payable	\$ 7,682,254	\$ 302,488	\$ 7,984,742
Accrued payroll	4,996,346	-	4,996,346
Other accruals and liabilities	750,887	875,702	1,626,589
Retirement payable	17,292,654	-	17,292,654
Due to Federal agencies	159,483	1,424,784	1,584,267
Due to other funds	-	6,150,970	6,150,970
Notes payable	14,527,330	-	14,527,330
<b>Total liabilities</b>	<b>45,408,954</b>	<b>8,753,944</b>	<b>54,162,898</b>
Fund balances (deficits):			
Reserved for:			
Encumbrances	3,987,956	9,994,042	13,981,998
Unreserved	(29,915,438)	(9,613,863)	(39,529,301)
<b>Total fund balances (deficits)</b>	<b>(25,927,482)</b>	<b>380,179</b>	<b>(25,547,303)</b>
<b>Total liabilities and fund balances</b>	<b>\$ 19,481,472</b>	<b>\$ 9,134,123</b>	<b>\$ 28,615,595</b>

See accompanying notes to financial statements.

**GUAM DEPARTMENT OF EDUCATION**

Reconciliation of Deficit to the Statement of Net Assets  
September 30, 2004

Total deficit	\$	(25,547,303)
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. Those assets consist of:

Depreciable capital assets net of \$54,470,553 of accumulated depreciation	\$	<u>158,910,029</u>	
Capital assets, net of accumulated depreciation			158,910,029

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

Compensated absences and accrued sick leave	(6,680,992)	
Unfunded pension liability	<u>(44,281,334)</u>	
Long - term liabilities		(50,962,326)

Amounts due to federal agencies are recorded as liabilities in the funds		<u>1,584,267</u>
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Net assets of governmental activities	\$	<u><u>83,984,667</u></u>
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See accompanying notes to financial statements.

**GUAM DEPARTMENT OF EDUCATION**

Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit)  
Governmental Funds  
Year Ended September 30, 2004

	<u>General</u>	<u>Special Revenue</u> Federal Grants Assistance	<u>Total</u>
Revenues:			
Appropriations	\$ 139,876,623	\$ -	\$ 139,876,623
Federal grants and contributions	5,759,424	42,224,811	47,984,235
Cafeteria sales	536,279	-	536,279
Fees and other receipts	80,940	-	80,940
	<u>146,253,266</u>	<u>42,224,811</u>	<u>188,478,077</u>
Total revenues			
Expenditures:			
Current:			
Elementary Education	57,375,318	12,314,497	69,689,815
Secondary Education	57,965,781	2,720,954	60,686,735
Direct Student Support	8,775,025	25,945,462	34,720,487
General Administration	21,978,525	1,829,070	23,807,595
	<u>146,094,649</u>	<u>42,809,983</u>	<u>188,904,632</u>
Total expenditures			
Excess (deficiency) of revenues over (under) expenditures	<u>158,617</u>	<u>(585,172)</u>	<u>(426,555)</u>
Other financing sources (uses):			
Transfers in (out)	<u>(965,351)</u>	<u>965,351</u>	<u>-</u>
Total other financing sources (uses), net	<u>(965,351)</u>	<u>965,351</u>	<u>-</u>
Net change in fund balances (deficit)	(806,734)	380,179	(426,555)
Deficit at beginning of year	<u>(25,120,748)</u>	<u>-</u>	<u>(25,120,748)</u>
Fund balances (deficit) at end of year	<u><u>\$ (25,927,482)</u></u>	<u><u>\$ 380,179</u></u>	<u><u>\$ (25,547,303)</u></u>

See accompanying notes to financial statements.

**GUAM DEPARTMENT OF EDUCATION**

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances  
(Deficit) of Governmental Funds to the Statement of Activities  
September 30, 2004

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

Net change in deficit - total governmental funds	\$	(426,555)
Plus:		
Change in annual leave activity		1,960,877
Change in amounts due to federal agencies		949,501
Less:		
Retirement contribution and accrual		(14,840,063)
Depreciation expense		<u>(1,987,659)</u>
Change in net assets of governmental activities	\$	<u><u>(14,343,899)</u></u>

See accompanying notes to financial statements.

**GOVERNMENT OF GUAM**

Statement of Fiduciary Net Assets  
Agency Fund  
September 30, 2004

ASSETS

Cash and cash equivalents	\$ <u>934,580</u>
Total assets	\$ <u><u>934,580</u></u>

LIABILITIES

Deposits and other liabilities	\$ <u>934,580</u>
Total liabilities	\$ <u><u>934,580</u></u>

See accompanying notes to financial statements.

# GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements  
September 30, 2004

## (1) Summary of Significant Accounting Policies

### A. Reporting Entity

The Guam Department of Education (GDOE) is a line agency of the Government of Guam, which is the primary government, and the accompanying financial statements are included within the Government of Guam's general fund. The accompanying financial statements of GDOE have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Guam Department of Education has followed the same reporting framework as utilized by the Government of Guam in preparation of its annual financial statements to allow combination of these financial statements with those of the Government of Guam's general fund.

In January 2003, an elected education policy board was created to establish policies for GDOE. GDOE operates 25 elementary schools and 12 secondary schools to provide free and appropriate education to students residing on Guam.

### B. Department-Wide Financial Statements

The Statement of Net Assets and the Statement of Activities report information on all non-fiduciary activities of GDOE. GDOE activities are governmental activities, which generally are financed through local appropriations and intergovernmental revenues.

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

- *Invested in capital assets*, consists of capital assets, net of accumulated depreciation.
- *Restricted net assets* result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through enabling legislation.
- *Unrestricted net assets* consist of net assets, which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. They often have restrictions that are imposed by management, but can be removed or modified.
- The *Statement of Activities* demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. 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.

# GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements  
September 30, 2004

## (1) Summary of Significant Accounting Policies

### 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, with non-major funds being combined into a single column. The Guam Department of Education presents a balance sheet and a statement of revenues, expenditures and changes in fund balances (deficits) for its governmental funds. The ending fund balance on the balance sheet is then reconciled to the ending governmental net assets.

The Guam Department of Education 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.

Federal Grants Fund - This fund accounts for all activities of federal assistance grants utilized by the Guam Department of Education to finance department operations. This fund does not account for any federal assistance for construction-type grants.

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

### D. Measurement Focus and Basis of Accounting

The department-wide financial statements are reported using the economic resources management focus and the accrual basis of accounting, as is 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 the Guam Department of Education. 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.

#### 1. Measurement Focus and Basis of Accounting-Fund Perspective

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

# GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements  
September 30, 2004

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

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

GDOE reports the following major governmental funds:

1. The General Fund is GDOE's primary operating fund. It accounts for all financial transactions not accounted for in any other fund;
2. The Special Revenue Fund accounts for all activities of U.S. federal assistance grants and contracts utilized by GDOE to finance general governmental 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 expenditures are incurred.

### E. 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. Encumbrances outstanding at year end are reported as a reservation of fund balance since they do not constitute expenditures or liabilities and remain as reservations of fund balance until expended or cancelled.

### F. Cash and Cash Equivalents

Cash and cash equivalents includes deposits with financial institutions on Guam and short-term time certificates of deposit with original maturities of less than three months.

### G. Deposits in Banks

Deposits in banks are required by local statute to be secured by qualified collateral in the amount of 110% or more of the deposit balance. However, the Government of Guam does not enforce this requirement on a consistent basis. Therefore, substantially all cash and cash equivalents of GDOE are uncollateralized. FDIC insured deposits aggregate \$100,000 as of September 30, 2004, with the remaining bank balance of \$12,250,272 being unsecured and uncollateralized.

### H. Receivables

Receivables in GDOE's governmental funds primarily consist of federal grants and appropriations from the Government of Guam general fund.

### I. Interfund Transactions

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 Assets. Interfund balances account for general fund payments for Federal programs that are expected to be repaid within one year by the special revenue fund with Federal fund reimbursements.

**GUAM DEPARTMENT OF EDUCATION**

Notes to Financial Statements  
September 30, 2004

(1) Summary of Significant Accounting Policies, Continued

J. Fixed Assets and Depreciation

Capital assets, which include property, plant, equipment and infrastructure (e.g. roads, sidewalks, and other similar items), are reported in the applicable governmental columns of the department-wide financial statements.

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at fair market value at the date of donation.

All land and non-depreciable land improvements are capitalized regardless of cost. Singular pieces of equipment, vehicles, computer equipment and software that equal or exceed \$5,000 are capitalized for financial statement purposes. Buildings and infrastructure projects with a cost that equals or exceeds \$5,000 are capitalized for financial statement purposes. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend asset lives are not capitalized.

As a result of the absence of adequate records and documentation pertaining to capital assets acquired in prior years, management has elected to present only assets acquired subsequent to 1986. GDOE plans to perform a comprehensive inventory and costing of all general fixed assets, and management anticipates that sufficient records will be available in a subsequent period to meet financial reporting requirements.

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

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

Capital asset activities for the fiscal year ended September 30, 2004 are as follows.

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Buildings and Improvements	\$ 208,719,486	\$ 1,605,026	\$ -	\$ 210,324,512
Vehicles, Furniture and Equipment	<u>2,915,227</u>	<u>140,843</u>	<u>-</u>	<u>3,056,070</u>
	211,634,713	1,745,869	-	213,380,582
Less: accumulated depreciation	<u>(52,482,894)</u>	<u>(1,987,659)</u>	<u>-</u>	<u>(54,470,553)</u>
Governmental activity capital assets, net	\$ <u>159,151,819</u>	\$ <u>(241,790)</u>	\$ <u>-</u>	\$ <u>158,910,029</u>

**GUAM DEPARTMENT OF EDUCATION**

Notes to Financial Statements  
September 30, 2004

(1) Summary of Significant Accounting Policies, Continued

J. Fixed Assets and Depreciation, Continued

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
Elementary Education	\$ 627,091
Secondary Education	1,273,184
General Administration	<u>87,384</u>
Total depreciation expense-governmental activities	\$ <u>1,987,659</u>

K. Net Assets

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

Net Assets have been restricted as follows:

“Restricted for federal programs” – identifies amounts held for various externally imposed restrictions either by grantors or laws and regulations of other governments.

L. 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).

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 assets. Amounts to be paid during the next fiscal year are reported as current. For the governmental fund statements for governmental funds, vested or accumulated vacation and sick leave expected to be liquidated with expendable available financial resources are reported as expenditures and fund liabilities.

M. Prepayments

Payments made to textbook vendors for services that will benefit periods beyond September 30, 2004, are recorded as prepayments.

**GUAM DEPARTMENT OF EDUCATION**

Notes to Financial Statements  
September 30, 2004

(1) Summary of Significant Accounting Policies, Continued

N. Fund Deficits

The following fund has a deficit fund balance as of September 30, 2004:

Major Governmental Fund

General Fund	\$ <u>25,927,482</u>
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GDOE plans to address the deficit by appealing to the Guam Legislature for supplemental appropriations.

O. 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.

P. New Accounting Standards

For fiscal year 2005, GDOE will be implementing GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. GDOE has not evaluated the financial statement impact of GASB Statement No. 42.

(2) Long-Term Debt Obligations

Governmental Activities:

Installment payment agreement signed with Guam Power Authority on July 20, 2004, (principal of \$15,855,083), interest rate at 4.47%, payable in fixed monthly installments for 109 months (\$500,000 per month for first three months, then \$100,000 per month escalating at intervals to \$200,000 per month), due in July 2013.

	\$ 14,527,330
Less current maturities	<u>(562,051)</u>
Total long-term debt	\$ <u>13,965,279</u>

**GUAM DEPARTMENT OF EDUCATION**

Notes to Financial Statements  
September 30, 2004

(2) Long-Term Debt Obligations, Continued

The annual requirements to amortize the debt outstanding as of September 30, 2004, including interest payments, are as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 562,051	\$ 637,949
2006	867,875	607,125
2007	1,213,697	561,303
2008	1,575,298	499,702
2009	1,953,398	421,602
2010-2013	<u>8,355,011</u>	<u>743,504</u>
	<u>\$ 14,527,330</u>	<u>\$ 3,471,185</u>

Changes in Long-Term Liabilities

Changes in long-term liabilities for the year ended September 30, 2004, 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>					
Installment payment agreement	\$ 12,753,409	\$ 15,855,083	\$ (14,081,162)	\$ 14,527,330	\$ 562,051
Accrued sick leave liability	2,565,580	58,013	-	2,623,593	-
Compensated absences	6,076,287	1,199,183	(3,218,071)	4,057,399	568,496
Unfunded pension liability	<u>29,441,272</u>	<u>37,043,066</u>	<u>(22,203,007)</u>	<u>44,281,331</u>	<u>-</u>
	<u>\$ 50,836,548</u>	<u>\$ 54,155,345</u>	<u>\$ (39,502,240)</u>	<u>\$ 65,489,653</u>	<u>\$ 1,130,547</u>

The General Fund will bear responsibility for the ultimate liquidation of substantially all long-term liabilities. Total interest paid in FY 2004 for long-term liabilities is \$617,393.

(3) 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 death. 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, 2004. The estimated accumulated amount of unused sick leave at September 30, 2004, is \$24,548,763, of which \$2,623,593 may be convertible by DCRS employees upon retirement.

# GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements  
September 30, 2004

## (3) Contingencies, Continued

### B. Federal Grants

GDOE has received federal grants for specific purposes that are subject to review and audit by the grantor agencies. Questioned costs for the 2004 and prior year audits aggregate to a material amount. If the questioned costs are ultimately disallowed, the general fund would be liable for the return of such funds. However, no liability which may arise from the ultimate outcome of this matter has been provided for in the accompanying financial statements.

Audits of federal program funds are also performed by various federal agencies. If the audit results in cost disallowances, the general fund may be liable. However, management does not believe that resolution of 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.

### C. Non-Appropriated Funds

Non-appropriated funds are maintained at the individual schools. 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. Litigation

GDOE legal counsel has opined that there is one outstanding claim as of September 30, 2004. GDOE is appealing a Civil Service Commission decision that GDOE pay teachers an additional two weeks of compensation. The cost of this decision could exceed \$3.7 million. GDOE is scheduled to go to trial in July 2005. As the ultimate outcome of the appeal is uncertain, no provision for any liability for claims and judgments has been made in the accompanying financial statements. GDOE will not be able to make the required payments, if any, without an appropriation from the Government of Guam's general fund.

### E. 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, the Government of Guam General Fund would be required to pay the majority of these losses. An annual appropriation is made to the Government Claims Fund (an expendable trust fund) and then valid claims are paid out against the appropriated amount.

**GUAM DEPARTMENT OF EDUCATION**

Notes to Financial Statements  
September 30, 2004

(4) Unfunded Retirement Fund Contribution

As of the fiscal year ended September 30, 1994, the Government of Guam Retirement Plan is a defined benefit (DB), cost sharing multi-employer contributory pension plan established and administered by the Government of Guam. Membership in the Plan is mandatory for all full-time employees, except for those compensated on a fee basis, independent contractors, and persons aged 60 or over upon employment. The Plan is administered by the Government of Guam Retirement Fund to which all funds and agencies, including component units, as well as employees who are members of the Plan, contribute a fixed percentage of the payroll. Most employees may retire with full benefits at age 60 with at least 10 years of service, or after 25 years of service, regardless of age. Vesting of benefits is optional for employees with 3 to 19 years of service, but is mandatory for employees with 20 or more years of service.

On September 30, 1995, the Government of Guam Retirement Fund Defined Contribution Retirement System (DCRS) Plan was established. All employees hired after September 30, 1995, are participants in the DCRS plan. The Government of Guam Retirement Fund Defined Benefit (DB) plan became a closed group.

As a result of actuarial valuations performed as of September 30, 2002, 2001 and 2000, contribution rates for the years ended September 30, 2004, 2003 and 2002, respectively, have been determined as follows:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Normal costs (% of DB Plan payroll)	17.66%	16.42%	15.15%
Unfunded liability costs (% of total payroll)	<u>16.23%</u>	<u>22.94%</u>	<u>18.58%</u>
	33.89%	39.36%	33.73%
Employee contributions (DB Plan employees)	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>
	24.39%	29.86%	24.23%
Agency specific adjustments	<u>- %</u>	<u>1.91%</u>	<u>.91%</u>
Government contribution as a % of DB Plan payroll	<u>24.39%</u>	<u>31.77%</u>	<u>25.14%</u>
Government contribution as a % of total payroll	<u>20.81%</u>	<u>29.25%</u>	<u>N/A</u>

Statutory contribution rates for employer and employee contributions were 20.81% and 9.5%, respectively, for the year ended September 30, 2004. For the year ended September 30, 2003, statutory contribution rates for employer and employee contributions were initially set at 26% and 9.5%, respectively, by the Guam Legislature. The employer contribution rate was reduced to 18% by legislative action effective March 1, 2003.

The Plan utilizes the actuarial cost method termed "entry age normal" with an assumed rate of return of 7.5% and an assumed salary scale increase of 8.5% per annum for short service employees and 4% per annum for longer service employees. The actuarial valuation performed as of September 30, 2002, did not provide a breakdown of actuarial present value of vested and non-vested accumulated plan benefits by sponsor or net assets available for benefits by sponsor. If the actuarial valuation were performed for the Guam Department of Education as a separate sponsor, the accrued unfunded liability for September 30, 2004, may be materially different than that recorded in the accompanying financial statements.

# GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements  
September 30, 2004

(4) Unfunded Retirement Fund Contribution, Continued

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

Employer contributions into the DCRS are based on the same statutory 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 annuity account. The remaining amount is contributed towards the unfunded liability of the defined benefit plan.

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

The cost to GDOE of retirement contributions for the year ended September 30, 2004 approximated \$23 million, which is 62% of the required contribution amount of \$37 million.

Public Law 26-86 (effective in fiscal year 2003) allows members of the DCRS to receive a lump sum payment of one-half of their accumulated sick leave upon retirement. An accrual of \$2,623,593 has been recorded in the accompanying financial statements for this potential liability as of September 30, 2004. (See note 9).

(5) Retirement Liability

As of September 30, 2004, a total of \$16,627,332 is payable to the Government of Guam Retirement Fund for delinquent contributions related to pay periods in FY 2003 for locally funded employees. The liability includes interest and penalties totaling \$2,327,719. Contributions for Federally funded employees have been remitted in full.

(6) Interfund Transfers

Transfers between governmental fund types are normally recorded on a cash basis. The general fund transfer out balance represents amounts paid by the general fund for program expenditures that are not expected to be reimbursed by other funds. Should any of this amount be subsequently collected, it will be recognized as a recovery in the year of receipt.

(7) Local Appropriations

The General Appropriations Act of 2004 appropriates all monies collected by GDOE from Federal funds paid to GDOE for reimbursement under the National School Lunch 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 fiscal year 2004 is \$5,998,243, which is accounted for in GDOE's general fund.

(8) Subsequent Event

On January 31, 2005, GDOE was assessed a penalty of \$898,536 by the Internal Revenue Service for failure to file Forms W-2 for tax period December 31, 2001, in the required magnetic tape format. As GDOE is appealing the assessment, no amount is accrued in the financial statements.

**GUAM DEPARTMENT OF EDUCATION**

Notes to Financial Statements  
September 30, 2004

(9) Restatement

Due to a misstatement of sick leave accruals and capital assets, the beginning net assets of the Governmental Activities in the Statement of Net Assets have been restated as follows:

Net assets reported as of September 30, 2003	\$ 99,148,277
Understatement of sick leave accrual (see note 4)	(2,565,580)
Understatement of capital assets	<u>1,745,869</u>
Restated net assets as of September 30, 2003	\$ <u>98,328,566</u>

**GUAM DEPARTMENT OF EDUCATION**

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**REQUIRED SUPPLEMENTARY  
INFORMATION**

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**YEAR ENDED SEPTEMBER 30, 2004**

**GUAM DEPARTMENT OF EDUCATION**

Schedule of Revenues, Expenditures, and Changes in Deficit - Budget and Actual  
General Fund  
Year Ended September 30, 2004

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:				
Local appropriations	\$ 131,308,955	\$ 131,308,955	\$ 136,376,623	\$ 5,067,668
Local appropriations - Federal contributions	5,759,424	5,759,424	5,759,424	-
Local appropriations - textbooks	3,500,000	3,500,000	3,500,000	-
Cafeteria sales	536,279	536,279	536,279	-
Fees and other program receipts	<u>-</u>	<u>-</u>	<u>80,940</u>	<u>80,940</u>
 Total revenues	 <u>141,104,658</u>	 <u>141,104,658</u>	 <u>146,253,266</u>	 <u>5,148,608</u>
 Expenditures - Budgetary Basis:				
Personnel	119,750,000	119,750,000	119,880,013	(130,013)
Utilities	6,000,000	6,000,000	11,188,753	(5,188,753)
Textbooks	3,500,000	3,500,000	3,342,028	157,972
Other	<u>11,854,658</u>	<u>11,854,658</u>	<u>11,683,855</u>	<u>170,803</u>
 Total expenditures	 <u>141,104,658</u>	 <u>141,104,658</u>	 <u>146,094,649</u>	 <u>(4,989,991)</u>
 Excess (deficiency) of revenues over (under) expenditures	 <u>-</u>	 <u>-</u>	 <u>158,617</u>	 <u>158,617</u>
 Other financing sources (uses):				
Transfers in (out)	<u>-</u>	<u>-</u>	<u>(965,351)</u>	<u>(965,351)</u>
 Total other financing sources (uses), net	 <u>-</u>	 <u>-</u>	 <u>(965,351)</u>	 <u>(965,351)</u>
 Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	 <u>-</u>	 <u>-</u>	 <u>(806,734)</u>	 <u>(806,734)</u>
 Unreserved deficit at beginning of year	 <u>(19,805,704)</u>	 <u>(19,805,704)</u>	 <u>(25,120,748)</u>	 <u>(5,315,044)</u>
 Unreserved deficit at end of year	 <u><u>\$ (19,805,704)</u></u>	 <u><u>\$ (19,805,704)</u></u>	 <u><u>\$ (25,927,482)</u></u>	 <u><u>\$ (6,121,778)</u></u>

See accompanying independent auditors' report.

## GUAM DEPARTMENT OF EDUCATION

Notes to Required Supplementary Information – Budgetary Reporting  
September 30, 2004

### Budgetary Process

Legislation requires the Governor to present a proposed budget to the Legislature at the beginning of each annual session. The Legislature enacts the budget through passage of specific departmental appropriations. Before signing the Appropriations Act, the Governor may veto or reduce any specific appropriation, subject to legislative override. Once passed and signed, the budget becomes the Territorial financial plan for the ensuing fiscal year. Supplemental appropriations for specific purposes are made throughout the year.

Budgetary control is maintained within the departmental level. Budget revisions during the year, reflecting program changes or intradepartmental transfers of an administrative nature, may be effective with certain executive and legislative branch approval. Unencumbered appropriations normally lapse at the end of each fiscal year unless they are designated by the Legislature as representing continuing appropriations.

The Budget Act for Fiscal Year 2004, Public Law 27-29 was approved for the executive 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.

Guam Department of Education'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 basis that excludes outstanding encumbrances as a budgetary expenditure.

### Budget Deficit

As of September 30, 2004, the general fund has significant budget-to-actual deficits as follows:

Personnel	\$ 130,013
Utilities	\$ 5,188,753

GDOE plans to address the deficits by appealing to the Guam Legislature for supplemental appropriations.

See Accompanying Independent Auditors' Report.

**GUAM DEPARTMENT OF EDUCATION**

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**OTHER SUPPLEMENTARY  
INFORMATION**

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**YEAR ENDED SEPTEMBER 30, 2004**

## **GUAM DEPARTMENT OF EDUCATION**

### Special Revenue Funds and Agency Fund September 30, 2004

Special revenue funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes. A brief discussion of the Guam Department of Education's Special Revenue Fund as of September 30, 2004, follows:

Federal Grants Fund - This fund accounts for all activities of federal assistance grants utilized by the Guam Department of Education to finance department operations. This fund does not account for any federal assistance for construction-type grants.

Fiduciary funds are used to account for assets held by the Guam Department of Education in a fiduciary capacity. A brief description of the fund follows:

#### Agency Fund

Agency funds are normally used to account for assets held by a government as an agent for individuals, private organizations or other governments and/or other funds. Agency funds are purely custodial (assets equal liabilities) and thus do not involve measurement of results of operations. The agency fund of GDOE is used to account for student activities at the school level, such as student organization fund raisings and after-school programs.

Non-Appropriated Funds (NAF) - This fund accounts for all activities of student organizations.

Deed - This fund accounts for after-school programs.

See Accompanying Independent Auditors' Report.

**GUAM DEPARTMENT OF EDUCATION**

Statement of Net Assets - Governmental Activities  
September 30, 2004

(With Comparative Totals as of September 30, 2003)

<u>ASSETS</u>	<u>2004</u>	<u>2003</u>
Current assets:		
Cash and cash equivalents	\$ 12,300,680	\$ 7,645,961
Receivables, net of allowance for uncollectibles:		
Federal grants and reimbursement receivables	3,838,416	4,431,600
Due from primary government	5,914,293	6,704,278
Prepayments	411,236	132,240
Total current assets	<u>22,464,625</u>	<u>18,914,079</u>
Noncurrent assets:		
Capital assets, net of accumulated depreciation	<u>158,910,029</u>	<u>159,151,819</u>
Total noncurrent assets	<u>158,910,029</u>	<u>159,151,819</u>
Total assets	<u>181,374,654</u>	<u>178,065,898</u>
 <u>LIABILITIES</u> 		
Current liabilities:		
Current portion of notes payable	562,051	1,437,632
Accounts payable	7,984,742	7,811,645
Accrued payroll	4,996,346	1,613,052
Other accruals and liabilities	1,626,589	1,627,936
Retirement payable	17,292,654	19,594,018
Current portion of compensated absences	568,496	377,435
Total current liabilities	<u>33,030,878</u>	<u>32,461,718</u>
Noncurrent liabilities:		
Compensated absences, net of current portion	3,488,903	5,698,854
Accrued sick leave liability	2,623,593	-
Unfunded pension liability	44,281,334	29,441,272
Notes payable, net of current portion	13,965,279	11,315,777
Total noncurrent liabilities	<u>64,359,109</u>	<u>46,455,903</u>
Total liabilities	<u>97,389,987</u>	<u>78,917,621</u>
 <u>NET ASSETS</u> 		
Invested in capital assets, net of related debt	158,910,029	159,151,819
Restricted for:		
Federal programs	3,472,492	634,767
Unrestricted	(78,397,854)	(60,638,309)
Total net assets	<u>\$ 83,984,667</u>	<u>\$ 99,148,277</u>

See accompanying independent auditors' report.

**GUAM DEPARTMENT OF EDUCATION**

Statement of Activities - Governmental Activities

Year Ended September 30, 2004

(With Comparative Totals for the Year Ended September 30, 2003)

	2004	2003
Program Revenues:		
Elementary Education	\$ 12,314,497	\$ 9,560,748
Secondary Education	2,720,954	1,780,561
Direct Student Support	26,846,068	26,319,935
General Administration	1,829,071	3,458,737
Total program revenues	43,710,590	41,119,981
Expenses for Governmental Activities:		
Elementary Education	70,316,906	72,999,033
Secondary Education	61,959,920	63,124,594
Direct Student Support	34,720,487	33,984,717
General Administration	36,774,161	35,508,284
Total expenses for governmental activities	203,771,474	205,616,628
Deficiency of program revenues under expenses	(160,060,884)	(164,496,647)
General revenues:		
Appropriations:		
Operations	141,818,717	134,945,012
Textbooks	3,500,000	3,200,000
Other	396,938	857,718
Interest income	1,330	1,051
Total general revenues	145,716,985	139,003,781
Change in net assets	(14,343,899)	(25,492,866)
Net assets at beginning of year	98,328,566	124,641,143
Net assets at end of year	\$ 83,984,667	\$ 99,148,277

See accompanying independent auditors' report.

**GUAM DEPARTMENT OF EDUCATION**

Balance Sheet  
Governmental Funds  
September 30, 2004

(With Comparative Totals as of September 30, 2003)

	2004			2003		
	General	Federal Grants Assistance	Total	General	Federal Grants Assistance	Total
<b><u>ASSETS</u></b>						
Cash and cash equivalents	\$ 6,704,795	\$ 5,595,885	\$ 12,300,680	\$ 6,281,696	\$ 1,364,265	\$ 7,645,961
Receivables from Federal agencies	412,926	3,425,490	3,838,416	479,353	3,952,247	4,431,600
Due from primary government	5,914,293	-	5,914,293	6,704,278	-	6,704,278
Prepayments	298,488	112,748	411,236	28,978	103,262	132,240
Due from other funds	6,150,970	-	6,150,970	3,029,598	-	3,029,598
Total assets	<u>\$ 19,481,472</u>	<u>\$ 9,134,123</u>	<u>\$ 28,615,595</u>	<u>\$ 16,523,903</u>	<u>\$ 5,419,774</u>	<u>\$ 21,943,677</u>
<b><u>LIABILITIES AND FUND BALANCES (DEFICIT)</u></b>						
Liabilities:						
Accounts payable	\$ 7,682,254	\$ 302,488	\$ 7,984,742	\$ 6,722,133	\$ 1,089,512	\$ 7,811,645
Accrued payroll	4,996,346	-	4,996,346	1,613,052	-	1,613,052
Other liabilities and accruals	750,887	875,702	1,626,589	802,556	825,380	1,627,936
Retirement payable	17,292,654	-	17,292,654	19,594,018	-	19,594,018
Payable to federal agencies	159,483	1,424,784	1,584,267	159,483	475,284	634,767
Due to other funds	-	6,150,970	6,150,970	-	3,029,598	3,029,598
Notes payable	14,527,330	-	14,527,330	12,753,409	-	12,753,409
Total liabilities	<u>45,408,954</u>	<u>8,753,944</u>	<u>54,162,898</u>	<u>41,644,651</u>	<u>5,419,774</u>	<u>47,064,425</u>
Fund Balances (deficit):						
Reserved for:						
Encumbrances	3,987,956	9,994,042	13,981,998	1,018,620	1,919,776	2,938,396
Unreserved	(29,915,438)	(9,613,863)	(39,529,301)	(26,139,368)	(1,919,776)	(28,059,144)
Total fund balances (deficits)	<u>(25,927,482)</u>	<u>380,179</u>	<u>(25,547,303)</u>	<u>(25,120,748)</u>	<u>-</u>	<u>(25,120,748)</u>
Total liabilities and fund balances	<u>\$ 19,481,472</u>	<u>\$ 9,134,123</u>	<u>\$ 28,615,595</u>	<u>\$ 16,523,903</u>	<u>\$ 5,419,774</u>	<u>\$ 21,943,677</u>

See accompanying independent auditors' report.

**GUAM DEPARTMENT OF EDUCATION**

Reconciliation of Deficit to the Statement of Net Assets  
September 30, 2004  
(With Comparative Totals as of September 30, 2003)

	2004	2003
Total deficit	\$ (25,547,303)	\$ (25,120,748)
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. Those assets consist of:		
Depreciable capital assets and infrastructure, net of \$54,470,553 and \$52,482,894 of accumulated depreciation, respectively	158,910,029	159,151,819
Long - term liabilities are not due and payable in the current period and therefore are not reported in the funds. These liabilities include:		
Compensated absences and accrued sick leave	(6,680,992)	(6,076,289)
Unfunded pension liability	(44,281,334)	(29,441,272)
Amounts due to federal agencies are recorded as liabilities in the funds	1,584,267	634,767
Net assets of governmental activities	\$ 83,984,667	\$ 99,148,277

See accompanying independent auditors' report.

**GUAM DEPARTMENT OF EDUCATION**

Statement of Revenues, Expenditure and Changes in Fund Balances (Deficit)  
 Governmental Funds  
 Year Ended September 30, 2004  
 (With Comparative Totals for the Year Ended September 30, 2003)

	2004			2003		
	General	Federal Grants Assistance	Total	General	Federal Grants Assistance	Total
<b>Revenues:</b>						
Appropriations	\$ 139,876,623	\$ -	\$ 139,876,623	\$ 138,145,012	\$ -	\$ 138,145,012
Federal grants and contributions	5,759,424	42,224,811	47,984,235	5,032,143	34,774,746	39,806,889
Cafeteria sales	536,279	-	536,279	678,325	-	678,325
Fees and other program receipts	80,940	-	80,940	858,769	-	858,769
<b>Total revenues</b>	<b>146,253,266</b>	<b>42,224,811</b>	<b>188,478,077</b>	<b>144,714,249</b>	<b>34,774,746</b>	<b>179,488,995</b>
<b>Expenditures:</b>						
<b>Current:</b>						
Elementary Education	57,375,318	12,314,497	69,689,815	62,062,386	9,560,748	71,623,134
Secondary Education	57,965,781	2,720,954	60,686,735	57,997,536	1,780,561	59,778,097
Direct Student Support	8,775,025	25,945,462	34,720,487	11,762,147	22,222,570	33,984,717
General Administration	21,978,525	1,829,070	23,807,595	15,959,352	3,458,739	19,418,091
<b>Total expenditures</b>	<b>146,094,649</b>	<b>42,809,983</b>	<b>188,904,632</b>	<b>147,781,421</b>	<b>37,022,618</b>	<b>184,804,039</b>
Excess (deficiency) of revenues over (under) expenditures	158,617	(585,172)	(426,555)	(3,067,172)	(2,247,872)	(5,315,044)
<b>Other financing sources (uses):</b>						
Transfers in (out), net	(965,351)	965,351	-	(2,247,872)	2,247,872	-
<b>Total other financing sources (uses), net</b>	<b>(965,351)</b>	<b>965,351</b>	<b>-</b>	<b>(2,247,872)</b>	<b>2,247,872</b>	<b>-</b>
<b>Net change in fund balances (deficit)</b>	<b>(806,734)</b>	<b>380,179</b>	<b>(426,555)</b>	<b>(5,315,044)</b>	<b>-</b>	<b>(5,315,044)</b>
Fund balances (deficit) at beginning of year	(25,120,748)	-	(25,120,748)	(19,805,704)	-	(19,805,704)
<b>Fund balances (deficit) at end of year</b>	<b>\$ (25,927,482)</b>	<b>\$ 380,179</b>	<b>\$ (25,547,303)</b>	<b>\$ (25,120,748)</b>	<b>\$ -</b>	<b>\$ (25,120,748)</b>

See accompanying independent auditors' report.

**GUAM DEPARTMENT OF EDUCATION**

Reconciliation of the Statement of Revenues, Expenditures and Changes in Deficit of  
 Governmental Funds to the Statement of Activities  
 September 30, 2004  
 (With Comparative Totals as of September 30, 2003)

	2004	2003
Amounts reported for governmental activities in the statement of activities are different because:		
Net change in deficit - total governmental funds	\$ (426,555)	\$ (5,315,044)
Plus:		
Change in annual leave activity	1,960,877	41,514
Change in amounts due to federal agencies	949,501	634,767
Less:		
Retirement contribution and accrual	(14,840,063)	(15,892,802)
Depreciation expense	(1,987,659)	(4,961,301)
Change in net assets of governmental activities	\$ (14,343,899)	\$ (25,492,866)

See accompanying independent auditors' report.

**GUAM DEPARTMENT OF EDUCATION**

Schedule of Revenues, Expenditures, and Changes in Deficit - Budget and Actual

General Fund

Year Ended September 30, 2004

(With Comparative Totals for the Year Ended September 30, 2003)

	2004				2003			
	Original Budget	Final Budget	Actual	Variance	Original Budget	Final Budget	Actual	Variance
Revenues:								
Local appropriations	\$ 131,308,955	\$ 131,308,955	\$ 136,376,623	\$ 5,067,668	\$ 49,062,694	\$ 138,466,653	\$ 134,945,012	\$ (3,521,641)
Local appropriations - Federal contributions	5,759,424	5,759,424	5,759,424	-	5,914,763	5,914,763	5,032,143	(882,620)
Local appropriations - textbooks	3,500,000	3,500,000	3,500,000	-	5,821,298	5,821,298	3,200,000	(2,621,298)
Cafeteria sales	536,279	536,279	536,279	-	-	-	678,325	678,325
Fees and other program receipts	-	-	80,940	80,940	-	-	858,769	858,769
<b>Total revenues</b>	<b>141,104,658</b>	<b>141,104,658</b>	<b>146,253,266</b>	<b>5,148,608</b>	<b>60,798,755</b>	<b>150,202,714</b>	<b>144,714,249</b>	<b>(5,488,465)</b>
Expenditures - Budgetary Basis:								
Personnel	119,750,000	119,750,000	119,880,013	(130,013)	49,033,249	122,969,320	126,101,499	(3,132,179)
Utilities	6,000,000	6,000,000	11,188,753	(5,188,753)	-	4,514,396	6,860,812	(2,346,416)
Textbooks	3,500,000	3,500,000	3,342,028	157,972	5,821,298	5,821,298	6,273,946	(452,648)
Other	11,854,658	11,854,658	11,683,855	170,803	5,944,208	5,944,208	8,545,164	(2,600,956)
<b>Total expenditures</b>	<b>141,104,658</b>	<b>141,104,658</b>	<b>146,094,649</b>	<b>(4,989,991)</b>	<b>60,798,755</b>	<b>139,249,222</b>	<b>147,781,421</b>	<b>(8,532,199)</b>
Excess (deficiency) of revenues over (under) expenditures	-	-	158,617	158,617	-	10,953,492	(3,067,172)	(14,020,664)
Other financing sources (uses):								
Transfers out - unreimbursed typhoon expenses	-	-	(965,351)	(965,351)	-	(10,953,492)	(1,833,154)	9,120,338
Transfers out - other	-	-	-	-	-	-	(414,718)	(414,718)
<b>Total other financing sources (uses), net</b>	<b>-</b>	<b>-</b>	<b>(965,351)</b>	<b>(965,351)</b>	<b>-</b>	<b>(10,953,492)</b>	<b>(2,247,872)</b>	<b>8,705,620</b>
Net change in deficit	-	-	(806,734)	(806,734)	-	-	(5,315,044)	(5,315,044)
Deficit at beginning of year	(19,805,704)	(19,805,704)	(25,120,748)	(5,315,044)	(19,805,704)	(19,805,704)	(19,805,704)	-
Deficit at end of year	<u>\$ (19,805,704)</u>	<u>\$ (19,805,704)</u>	<u>\$ (25,927,482)</u>	<u>\$ (6,121,778)</u>	<u>\$ (19,805,704)</u>	<u>\$ (19,805,704)</u>	<u>\$ (25,120,748)</u>	<u>\$ (5,315,044)</u>

See accompanying independent auditors' report.

**GUAM DEPARTMENT OF EDUCATION**

Supplementary Combined Statement of Revenues, Expenditures By Account and Changes in Fund Balances (Deficits)  
 Governmental Funds  
 Year Ended September 30, 2004  
 (With Comparative Totals for the Year Ended September 30, 2003)

	2004			2003		
	General	Federal Grants Assistance	Total	General	Federal Grants Assistance	Total
<b>Revenues:</b>						
Local appropriations	\$ 139,876,623	\$ -	\$ 139,876,623	\$ 138,145,012	\$ -	\$ 138,145,012
Federal grants and contributions	5,759,424	42,224,811	47,984,235	5,032,143	34,774,746	39,806,889
Cafeteria sales	536,279	-	536,279	678,325	-	678,325
Fees and other program receipts	80,940	-	80,940	858,769	-	858,769
<b>Total revenues</b>	<b>146,253,266</b>	<b>42,224,811</b>	<b>188,478,077</b>	<b>144,714,249</b>	<b>34,774,746</b>	<b>179,488,995</b>
<b>Expenditures:</b>						
Salaries	94,772,348	24,767,250	119,539,598	99,321,804	20,978,212	120,300,016
Benefits	24,986,257	5,537,202	30,523,459	26,777,464	5,148,686	31,926,150
Power	10,404,210	-	10,404,210	5,894,594	-	5,894,594
Contractual	5,118,486	3,127,529	8,246,015	3,492,831	3,466,669	6,959,500
Supplies	4,530,725	3,120,580	7,651,305	3,573,989	4,075,564	7,649,553
Textbooks	3,342,028	-	3,342,028	6,273,946	-	6,273,946
Stipends and other	96,065	1,496,973	1,593,038	354,218	497,200	851,418
Equipment	61,858	2,025,861	2,087,719	96,502	300,374	396,876
Travel	266,245	1,300,883	1,567,128	259,020	294,961	553,981
Capital outlay	37,158	1,380,683	1,417,841	215,238	1,146,357	1,361,595
Water	791,512	-	791,512	750,036	-	750,036
Claim settlement	722,638	-	722,638	-	-	-
Phone	226,318	5,252	231,570	216,182	4,037	220,219
Overtime	121,408	47,770	169,178	2,230	1,110,558	1,112,788
Interest	617,393	-	617,393	553,367	-	553,367
<b>Total expenditures</b>	<b>146,094,649</b>	<b>42,809,983</b>	<b>188,904,632</b>	<b>147,781,421</b>	<b>37,022,618</b>	<b>184,804,039</b>
<b>Other financing sources (uses):</b>						
Transfers in (out), net	(965,351)	965,351	-	(2,247,872)	2,247,872	-
<b>Total other financing sources (uses)</b>	<b>(965,351)</b>	<b>965,351</b>	<b>-</b>	<b>(2,247,872)</b>	<b>2,247,872</b>	<b>-</b>
<b>Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses</b>	<b>(806,734)</b>	<b>380,179</b>	<b>(426,555)</b>	<b>(5,315,044)</b>	<b>-</b>	<b>(5,315,044)</b>
<b>Fund balances (deficit), beginning of year</b>	<b>(25,120,748)</b>	<b>-</b>	<b>(25,120,748)</b>	<b>(19,805,704)</b>	<b>-</b>	<b>(19,805,704)</b>
<b>Fund balance (deficit), end of year</b>	<b>\$ (25,927,482)</b>	<b>\$ 380,179</b>	<b>\$ (25,547,303)</b>	<b>\$ (25,120,748)</b>	<b>\$ -</b>	<b>\$ (25,120,748)</b>

See accompanying independent auditors' report.

**GUAM DEPARTMENT OF EDUCATION**

Agency Fund  
September 30, 2004

The schedule of cash receipts and cash disbursements for the agency fund during fiscal year 2004 is as follows:

	<u>NAF</u>	<u>Deed</u>	<u>Total</u>
Cash balance at beginning of year	\$ 835,749	-	835,749
Adjustments	81,671	93,516	175,187
	<hr/>	<hr/>	<hr/>
	917,420	93,516	1,010,936
Cash receipts:			
Elementary school activities	385,793	430,880	816,673
Secondary school activities	1,594,339	-	1,594,339
Total receipts	<hr/>	<hr/>	<hr/>
	1,980,132	430,880	2,411,012
Cash disbursements:			
Elementary school activities	404,641	388,165	792,806
Secondary school activities	1,694,562	-	1,694,562
Total disbursements	<hr/>	<hr/>	<hr/>
	2,099,203	388,165	2,487,368
Deficiency of receipts over disbursements	<hr/>	<hr/>	<hr/>
	(119,071)	42,715	(76,356)
Cash balance at end of year	<hr/>	<hr/>	<hr/>
	\$ 798,349	136,231	934,580

The number of individual funds at the schools during fiscal year 2004 is as follows:

Elementary schools	306
Secondary schools	195
High schools:	215
GWHS	48
JFKHS	48
SSHS	75
SHS	44

See accompanying independent auditors' report.

**GUAM DEPARTMENT OF EDUCATION**

Personnel  
September 30, 2004

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

	<u>Employee Count</u>
FY 2004 – as of the pay period ended September 18, 2004	3,868
FY 2003 – as of the pay period ended October 4, 2003	3,687

See accompanying independent auditors' report.