

GUAM PUBLIC SCHOOL SYSTEM

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

YEAR ENDED SEPTEMBER 30, 2005

GUAM PUBLIC SCHOOL SYSTEM

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INDEPENDENT AUDITORS' REPORT

Luis S.N. Reyes
Interim Superintendent of Education
Guam Public School System
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 Public School System (GPSS), a line agency of the Government of Guam, as of and for the year ended September 30, 2005, which collectively comprise GPSS's financial statements as listed in the table of contents. These financial statements are the responsibility of the Guam Public School System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

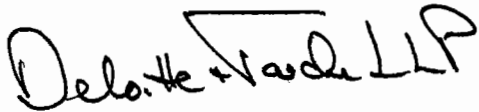
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 GPSS'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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Guam Public School System as of September 30, 2005, 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 GPSS'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 GPSS'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 GPSS's management. Such 2005 information has been subjected to the auditing procedures applied by us in the audit of the financial statements and, 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 9, 2006, on our consideration of the Guam Public School System'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 considered in assessing 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 9, 2006

GUAM PUBLIC SCHOOL SYSTEM

Management's Discussion and Analysis Year Ended September 30, 2005

Introduction

As management of the Guam Public School System, we offer readers of its financial statements this narrative overview and analysis of its financial activities for the fiscal year ended September 30, 2005. This discussion was prepared by GPSS'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 2005 single audit represents the GPSS's commitment to, and support of financial accountability.

Fiscal Year 2005 Overview

The Guam Public School System continued its third year on high-risk status. Fiscal year 2005 continued to involve significant challenges for the GPSS while keeping in compliance with conditions of the high-risk status. The GPSS 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 2005 increased from one hundred and thirty eight million (\$138 million) dollars in fiscal year 2004 to one hundred and fifty three million (\$153 million) dollars.

The Government of Guam's appropriation and allotments from the General Fund to the GPSS were not completely received for the fiscal year. Allotments received amounted to one hundred and thirty two million (\$132 million) dollars prior to the end of the fiscal year with six million (\$6 million) dollars being received in the month of October 2005. Expenditures for the year were thirteen point six million (\$13.6 million) over the budgeted amounts for personnel, utilities, contractual services, food services, and textbooks resulting in an additional increase to fund balance deficit.

The GPSS continues to have an unfunded liability exceeding thirty million (\$30 million) dollars for retirement and utilities obligations. In the event that excess revenues are realized, management is committed to making payments against these debts.

During the fiscal year, the GPSS conducted a physical fixed asset inventory. This was satisfactorily completed and a comprehensive fixed asset listing was prepared. Accordingly, a downward adjustment of eight million (\$8 million) dollars was recorded in order to correctly state assets for the fiscal year. The schedule provided by GPSS also included estimates for some schools. The Department of Administration maintained the records to support the actual costs for those schools, which were paid with bond funds. Accordingly, the actual costs used to record these building costs were those compiled from records maintained by the DOA.

Overview of the Financial Statements

The GPSS is a line agency of the Government of Guam. Its policies are established by an elected twelve (12) member board. We operate twenty five (25) elementary school and twelve (12) secondary schools to provide for the education of students residing in Guam.

The GPSS financial statements are comprised of a Statement of Net Assets and a Statement of Activities. Also included is certain required supplementary and other supplementary information.

GUAM PUBLIC SCHOOL SYSTEM

Management's Discussion and Analysis
Year Ended September 30, 2005

Overview of the Financial Statements, Continued

The *statement of net assets* presents information on the GPSS non-fiduciary assets and liabilities with the resulting difference being reported as *net assets*. Net assets are reported in three categories: Invested in Capital Assets, Restricted Net Assets, and Unrestricted Net Assets.

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 additional information that is essential to a full understanding of the data provided in the financial statements.

The *other supplementary information* is presented for additional analysis of the financial statements.

Financial Analysis

Statement of Net Assets:

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

Summary Statement of Net Assets

	<u>2005</u>	<u>2004</u>
Assets:		
Current assets	\$ 16,226,747	\$ 22,464,625
Capital assets, net	<u>146,229,453</u>	<u>158,910,029</u>
	<u>162,456,200</u>	<u>181,374,654</u>
Liabilities:		
Current liabilities	41,241,230	33,030,878
Noncurrent liabilities	<u>72,715,130</u>	<u>64,359,109</u>
	<u>113,956,360</u>	<u>97,389,987</u>
Net assets:		
Invested in capital assets, net of related debt	146,229,453	158,910,029
Restricted for federal programs	4,116,386	3,472,492
Unrestricted	<u>(101,845,999)</u>	<u>(78,397,854)</u>
Total net assets	\$ <u>48,499,840</u>	\$ <u>83,984,667</u>

The total assets of GPSS decreased by eighteen point nine million (\$18.9 million) dollars, while total liabilities increased by sixteen point six million (\$16.6 million) dollars, resulting in an overall decrease of net assets by thirty five point four million (\$35.4 million) dollars.

The decrease of net assets is a result of cash balances on hand at the end of the fiscal year, federal grant receivables, collections of local government appropriations for the current year, prepayments to vendors, and net capital assets. No significant capital asset additions occurred in 2005. Please see the accompanying financial statements and notes thereto for additional information concerning capital assets.

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

GUAM PUBLIC SCHOOL SYSTEM

Management's Discussion and Analysis
Year Ended September 30, 2005

Statement of Revenues, Expenditures, and Changes in Net Assets

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

Summary Statement of Revenues, Expenditures, and Changes in Net Assets

	<u>2005</u>	<u>2004</u>
General revenues:		
Appropriations	\$ 152,464,618	\$ 145,715,655
Other	<u>42,547</u>	<u>1,330</u>
	<u>152,507,165</u>	<u>145,716,985</u>
Program revenues:		
Federal grants and contributions	49,251,444	43,174,311
Other	<u>657,888</u>	<u>536,279</u>
	<u>49,909,332</u>	<u>43,710,590</u>
Total revenues	<u>202,416,497</u>	<u>189,427,575</u>
Expenditures:		
Program related:		
Elementary education	75,923,542	70,316,906
Secondary education	63,268,042	61,959,920
Direct student support	37,462,728	34,720,487
General administration	<u>53,151,927</u>	<u>36,774,161</u>
Total expenditures	<u>(229,806,239)</u>	<u>(203,771,474)</u>
Decrease in net assets	(27,389,742)	(14,343,899)
Net assets at beginning of year (see below)	<u>75,889,582</u>	<u>98,328,566</u>
Net assets at end of year	\$ <u>48,499,840</u>	\$ <u>83,984,667</u>
Restatement:		
Net assets as of September 30, 2004		\$ 83,984,667
Overstatement of Capital Assets		<u>(8,095,085)</u>
Restated net assets as of September 30, 2004		\$ <u>75,889,582</u>

Please see the financial statements and notes thereto relative to additional information concerning the restatement.

The statement of revenues, expenditures, and changes in net assets reflects a decrease in net assets of \$27.4 million. This is primarily a result of the net change in current year deficit, calculation of retirement contributions, and depreciation expense.

GUAM PUBLIC SCHOOL SYSTEM

Statement of Net Assets
September 30, 2005

<u>ASSETS</u>	<u>Governmental Activities</u>
Current assets:	
Cash and cash equivalents	\$ 1,121,123
Receivables:	
Federal grants and reimbursement receivables	5,520,367
Due from primary government	9,183,050
Prepayments	402,207
Total current assets	<u>16,226,747</u>
Noncurrent assets:	
Capital assets, net of accumulated depreciation	<u>146,229,453</u>
Total noncurrent assets	<u>146,229,453</u>
Total assets	<u>162,456,200</u>
 <u>LIABILITIES</u> 	
Current liabilities:	
Current portion of payment arrangement with GPA	867,875
Accounts payable	14,446,495
Accrued payroll	5,369,192
Other accruals and liabilities	2,613,140
Retirement payable	16,741,014
Current portion of compensated absences	1,203,514
Total current liabilities	<u>41,241,230</u>
Noncurrent liabilities:	
Compensated absences, net of current portion	1,845,096
Accrued sick leave liability	3,283,542
Unfunded pension liability	54,489,088
Payment arrangement with GPA, net of current portion	13,097,404
Total noncurrent liabilities	<u>72,715,130</u>
Total liabilities	<u>113,956,360</u>
Commitments and contingencies	
 <u>NET ASSETS</u> 	
Invested in capital assets, net of related debt	146,229,453
Restricted for:	
Federal programs	4,116,386
Unrestricted	<u>(101,845,999)</u>
Total net assets	<u>\$ 48,499,840</u>

See accompanying notes to financial statements.

GUAM PUBLIC SCHOOL SYSTEM

Statement of Activities
Year Ended September 30, 2005

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	
Governmental Activities:				
Elementary Education	\$ 75,923,542	\$ -	\$ 15,572,968	\$ (60,350,574)
Secondary Education	63,268,042	-	3,936,012	(59,332,030)
Direct Student Support	37,462,728	657,888	24,455,088	(12,349,752)
General Administration	53,151,927	-	5,287,376	(47,864,551)
Total governmental activities	\$ 229,806,239	657,888	49,251,444	(179,896,907)
	General revenues:			
	Appropriations:			
	Operations			149,079,118
	Textbooks			3,200,000
	Other			185,500
	Interest income			42,547
	Total general revenues			152,507,165
	Change in net assets			(27,389,742)
	Net assets at beginning of year, as restated			75,889,582
	Net assets at end of year			\$ 48,499,840

See accompanying notes to financial statements.

GUAM PUBLIC SCHOOL SYSTEM

Balance Sheet
Governmental Funds
September 30, 2005

<u>ASSETS</u>	<u>General</u>	<u>Special Revenue Federal Grants Assistance</u>	<u>Total</u>
Cash and cash equivalents	\$ 606,868	\$ 514,255	\$ 1,121,123
Receivables from Federal agencies	1,256,710	4,263,657	5,520,367
Due from primary government	9,183,050	-	9,183,050
Prepayments	298,491	103,716	402,207
Due from other funds	-	3,063,559	3,063,559
Total assets	<u>\$ 11,345,119</u>	<u>\$ 7,945,187</u>	<u>\$ 19,290,306</u>
 <u>LIABILITIES AND FUND BALANCES (DEFICIT)</u>			
Liabilities:			
Accounts payable	\$ 14,013,448	\$ 433,047	\$ 14,446,495
Accrued payroll	4,164,835	1,204,357	5,369,192
Other accruals and liabilities	1,299,743	1,313,397	2,613,140
Retirement payable	16,741,014		16,741,014
Due to Federal agencies	170,285	3,946,101	4,116,386
Due to other funds	3,063,559	-	3,063,559
Payment arrangement with GPA	13,965,279	-	13,965,279
Total liabilities	<u>53,418,163</u>	<u>6,896,902</u>	<u>60,315,065</u>
 Fund balances (deficits):			
Reserved for:			
Encumbrances	5,232,040	9,694,500	14,926,540
Unreserved	<u>(47,305,084)</u>	<u>(8,646,215)</u>	<u>(55,951,299)</u>
Total fund balances (deficits)	<u>(42,073,044)</u>	<u>1,048,285</u>	<u>(41,024,759)</u>
Total liabilities and fund balances	<u>\$ 11,345,119</u>	<u>\$ 7,945,187</u>	<u>\$ 19,290,306</u>

See accompanying notes to financial statements.

GUAM PUBLIC SCHOOL SYSTEM

Reconciliation of Deficit to the Statement of Net Assets
September 30, 2005

Total deficit \$ (41,024,759)

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 \$59,542,933 of accumulated depreciation	\$ <u>146,229,453</u>	
Capital assets, net of accumulated depreciation		146,229,453

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	(6,332,152)	
Unfunded pension liability	<u>(54,489,088)</u>	
Long - term liabilities		(60,821,240)

Amounts due to federal agencies are recorded as liabilities in the funds		<u>4,116,386</u>
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Net assets of governmental activities		\$ <u><u>48,499,840</u></u>
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See accompanying notes to financial statements.

GUAM PUBLIC SCHOOL SYSTEM

Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit)
 Governmental Funds
 Year Ended September 30, 2005

	General	Special Revenue Federal Grants Assistance	Total
Revenues:			
Appropriations	\$ 146,793,568	\$ -	\$ 146,793,568
Federal grants and contributions	5,528,097	46,719,324	52,247,421
Cafeteria sales	657,888	-	657,888
Fees and other receipts	185,500	-	185,500
	153,165,053	46,719,324	199,884,377
Total revenues			
Expenditures:			
Current:			
Elementary Education	58,374,153	15,572,968	73,947,121
Secondary Education	56,741,961	3,936,012	60,677,973
Direct Student Support	13,007,640	24,455,088	37,462,728
General Administration	41,186,861	2,087,150	43,274,011
	169,310,615	46,051,218	215,361,833
Total expenditures			
Excess (deficiency) of revenues over (under) expenditures	(16,145,562)	668,106	(15,477,456)
Other financing sources (uses):			
Transfers in (out)	-	-	-
Total other financing sources (uses), net			
	-	-	-
Net change in fund balances (deficit)	(16,145,562)	668,106	(15,477,456)
Deficit at beginning of year	(25,927,482)	380,179	(25,547,303)
Fund balances (deficit) at end of year	\$ (42,073,044)	\$ 1,048,285	\$ (41,024,759)

See accompanying notes to financial statements.

GUAM PUBLIC SCHOOL SYSTEM

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit) of Governmental Funds to the Statement of Activities September 30, 2005

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

Net change in deficit - total governmental funds	\$ (15,477,456)
Plus:	
Change in annual leave activity	348,839
Change in amounts due to federal agencies	2,532,121
Less:	
Retirement contribution and accrual	(10,207,756)
Depreciation expense	<u>(4,585,490)</u>
Change in net assets of governmental activities	<u>\$ (27,389,742)</u>

See accompanying notes to financial statements.

GOVERNMENT OF GUAM

Statement of Fiduciary Net Assets
Agency Fund
September 30, 2005

ASSETS

Cash and cash equivalents	\$ <u>856,285</u>
Total assets	\$ <u><u>856,285</u></u>

LIABILITIES

Deposits and other liabilities	\$ <u>856,285</u>
Total liabilities	\$ <u><u>856,285</u></u>

See accompanying notes to financial statements.

GUAM PUBLIC SCHOOL SYSTEM

Notes to Financial Statements
September 30, 2005

(1) Summary of Significant Accounting Policies

A. Reporting Entity

The Guam Public School System (GPSS) 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 GPSS have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Guam Public School System 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.

An elected education policy board establishes policies for GPSS. GPSS 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 GPSS. GPSS 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 is 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 PUBLIC SCHOOL SYSTEM

Notes to Financial Statements
September 30, 2005

(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 Public School System 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 Public School System 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 Public School System 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 expenditures 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 Public School System. 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 Public School System 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 GPSS functions or activities.

GUAM PUBLIC SCHOOL SYSTEM

Notes to Financial Statements
September 30, 2005

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

GPSS reports the following major governmental funds:

1. The General Fund is GPSS'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 GPSS 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

GASB Statement No. 3 requires government entities to categorize investments to give an indication of the level of credit risk assumed by the entity at year end. The three categories are described below:

- | | |
|------------|--|
| Category 1 | Insured or registered, or securities held by GPSS or its agent in GPSS's name; |
| Category 2 | Uninsured and unregistered, with securities held by the broker's or dealer's trust department or agent in GPSS's name; or |
| Category 3 | Uninsured and unregistered, with securities held by the broker or dealer, or by its trust department or agent, but not in GPSS's name. |

GASB Statement No. 40 amended GASB Statement No. 3 to eliminate disclosure for deposits falling into categories 1 and 2, but retained disclosures for deposits falling under Category 3. Category 3 deposits are those deposits that have exposure to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, GPSS'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. GPSS does not have a deposit policy for custodial credit risk.

GUAM PUBLIC SCHOOL SYSTEM

Notes to Financial Statements
September 30, 2005

(1) Summary of Significant Accounting Policies, Continued

G. Deposits in Banks, Continued

As of September 30, 2005, the carrying amount of GPSS's total cash and cash equivalents was \$1,121,122, and the corresponding bank balance was \$4,650,675, which is maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2005, bank deposits in the amount of \$100,000 were FDIC insured. 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. The remaining bank deposits of \$4,550,675 were uncollateralized. These deposits are therefore exposed to custodial credit risk.

H. Receivables

Receivables in GPSS'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.

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 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 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 PUBLIC SCHOOL SYSTEM

Notes to Financial Statements
September 30, 2005

(1) Summary of Significant Accounting Policies, Continued

J. Fixed Assets and Depreciation, Continued

Capital asset activities for the fiscal year ended September 30, 2005 are as follows.

<u>Governmental Activities</u>	<u>Beginning Balance, as Restated</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Buildings and Improvements	\$ 210,324,512	\$ -	\$ (7,374,059)	\$ 202,950,453
Vehicles, Furniture and Equipment	<u>3,056,070</u>	<u>-</u>	<u>(234,137)</u>	<u>2,821,933</u>
	213,380,582	-	(7,608,196)	205,772,386
Less: accumulated depreciation	<u>(54,957,443)</u>	<u>(4,585,490)</u>	<u>-</u>	<u>(59,542,933)</u>
Governmental activity capital assets, net	<u>\$ 158,423,139</u>	<u>\$ (4,585,490)</u>	<u>\$ (7,608,196)</u>	<u>\$ 146,229,453</u>

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

Governmental activities:	
Elementary Education	\$ 1,976,421
Secondary Education	2,590,069
General Administration	<u>19,000</u>
Total depreciation expense-governmental activities	<u>\$ 4,585,490</u>

K. Net Assets

The GPSS 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).

GUAM PUBLIC SCHOOL SYSTEM

Notes to Financial Statements
September 30, 2005

(1) Summary of Significant Accounting Policies, Continued

L. Compensated Absences, Continued

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, 2005, are recorded as prepayments.

N. Fund Deficits

The following fund has a deficit fund balance as of September 30, 2005:

Major Governmental Fund

General Fund	\$ <u>42,073,044</u>
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GPSS 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

In fiscal year 2005, GPSS implemented GASB Statement No. 40, Deposit and Investment Risk Disclosures (an amendment of GASB Statement No. 3), which addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest risk, GASB Statement No. 40 requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates.

In November 2003, GASB issued Statement No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries. The provisions of the Statement are effective for periods beginning after December 15, 2004. GPSS does not believe that the implementation of this Statement will have a material effect on its financial statements.

GUAM PUBLIC SCHOOL SYSTEM

Notes to Financial Statements
September 30, 2005

(1) Summary of Significant Accounting Policies, Continued

P. New Accounting Standards

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. GASB Statement No. 43 establishes uniform financial reporting for other postemployment benefit plans by state and local governments. The provisions of this Statement are effective for periods beginning after December 15, 2007. GPSS does not believe that the implementation of this Statement will have a material effect on its financial statements.

In May 2004, GASB issued Statement No. 44, *Economic Condition Reporting: The Statistical Section*, an amendment to NCGA Statement 1. GASB Statement No. 44 improves the understandability and usefulness of statistical section information and adds information from the new financial reporting model for state and local governments required by GASB Statement No. 34. The provisions of this Statement are effective for periods beginning after June 15, 2005. GPSS does not believe the implementation of this Statement will have a material effect on its financial statements.

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB Statement No. 45 establishes standards for the measurement, recognition, and display of other postemployment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The provisions of this Statement are effective for periods beginning after December 15, 2008. GPSS does not believe the implementation of this Statement will have a material effect on its financial statements.

In June 2005, GASB issued Statement No. 47, *Accounting for Termination Benefits*. GASB Statement No. 47 establishes guidance for state and local governmental employers on accounting and financial reporting for termination benefits. These benefits include incentives for voluntary terminations (e.g., early retirement window programs) and severance payments with respect to involuntary terminations. The provisions of this Statement are effective for periods beginning after June 15, 2005. GPSS does not believe that the implementation of this Statement will have a material effect on its financial statements.

(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.	\$ 13,965,279
Less current maturities	<u>(867,875)</u>
Total long-term debt	\$ <u>13,097,404</u>

GUAM PUBLIC SCHOOL SYSTEM

Notes to Financial Statements
September 30, 2005

(2) Long-Term Debt Obligations, Continued

Governmental Activities, Continued:

The annual requirements to amortize the debt outstanding as of September 30, 2005, including interest payments, are as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 867,875	\$ 607,125
2007	1,213,697	561,303
2008	1,575,298	499,702
2009	1,953,398	421,602
2010	2,068,569	331,431
2011-2013	<u>6,286,442</u>	<u>412,073</u>
	<u>\$ 13,965,279</u>	<u>\$ 2,009,090</u>

Changes in Long-Term Liabilities

Changes in long-term liabilities for the year ended September 30, 2005, 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 with GPA	\$ 14,527,330	\$ -	\$ (562,051)	\$ 13,965,279	\$ 867,875
Accrued sick leave liability	2,623,593	659,949	-	3,283,542	-
Compensated absences	4,057,399	1,464,760	(2,473,549)	3,048,610	1,203,514
Unfunded pension liability	<u>44,281,331</u>	<u>10,207,757</u>	<u>-</u>	<u>54,489,088</u>	<u>-</u>
	<u>\$ 65,489,653</u>	<u>\$ 12,332,466</u>	<u>\$ (3,035,600)</u>	<u>\$ 74,786,519</u>	<u>\$ 2,071,389</u>

The General Fund will bear responsibility for the ultimate liquidation of substantially all long-term liabilities. Total interest paid in FY 2005 for long-term liabilities is \$637,949.

(3) Contingencies

A. Sick Leave

It is the policy of GPSS 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, 2005. The estimated accumulated amount of unused sick leave at September 30, 2005, is \$27,287,972, of which \$3,283,542 may be convertible by DCRS employees upon retirement.

GUAM PUBLIC SCHOOL SYSTEM

Notes to Financial Statements
September 30, 2005

(3) Contingencies, Continued

B. Federal Grants

GPSS has received federal grants for specific purposes that are subject to review and audit by the grantor agencies. Questioned costs for the 2005 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 GPSS.

D. Self-Insurance

GPSS 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.

(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.

GUAM PUBLIC SCHOOL SYSTEM

Notes to Financial Statements
September 30, 2005

(4) Unfunded Retirement Fund Contribution, Continued

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, 2003, 2002 and 2001, contribution rates for the years ended September 30, 2005, 2004 and 2003, respectively, have been determined as follows:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Normal costs (% of DB Plan payroll)	18.30%	17.66%	16.42%
Unfunded liability costs (% of total payroll)	<u>19.93%</u>	<u>16.23%</u>	<u>22.94%</u>
	38.23%	33.89%	39.36%
Employee contributions (DB Plan employees)	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>
	28.73%	24.39%	29.86%
Agency specific adjustments	<u>- %</u>	<u>- %</u>	<u>1.91%</u>
Government contribution as a % of DB Plan payroll	<u>28.73%</u>	<u>24.39%</u>	<u>31.77%</u>
Government contribution as a % of total payroll	<u>24.89%</u>	<u>20.81%</u>	<u>29.25</u>

Statutory contribution rates for employer and employee contributions were 20.81% and 9.5%, respectively, of qualifying payroll for both of the years ended September 30, 2005 and 2004, respectively.

The Plan utilizes the actuarial cost method termed "entry age normal" with an assumed rate of return of 7.0% 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, 2003, 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 Public School System as a separate sponsor, the accrued unfunded liability for September 30, 2005, may be materially different than that recorded in the accompanying financial statements.

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.

GUAM PUBLIC SCHOOL SYSTEM

Notes to Financial Statements
September 30, 2005

(4) Unfunded Retirement Fund Contribution, Continued

The cost to GPSS of retirement contributions for the year ended September 30, 2005 approximated \$30.4 million, which is 75% of the required contribution amount of \$40.6 million. Contributions for the years ended September 30, 2004 and 2003 approximated \$23 million and \$28.3 million, respectively.

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 \$3,283,542 has been recorded in the accompanying financial statements for this potential liability as of September 30, 2005. However, this accrual is an estimate, and the actual payout may be materially different than estimated.

For additional information on the Government of Guam Retirement Fund, inquiries may be addressed to the Director of the Government of Guam Retirement Fund, 424 A Route 8, Maite, Guam 96910.

(5) Retirement Liability

As of September 30, 2005, a total of \$16,741,014 is payable to the Government of Guam Retirement Fund for delinquent contributions related to pay periods in FY 2003 for locally funded employees. Contributions for Federally funded employees have been remitted in full. Interest and penalties continue to accrue on this liability based on the provisions set forth in 4GCA 8137(c), which states that the Government of Guam Retirement Fund will impose interest a rate equivalent to the average rate of return on its investments from the previous fiscal year and a 1% penalty for delinquent payments. As of September 30, 2005, this liability includes interest and penalties totaling \$3,466,058.

Public Law 28-38, passed in June 2005, requires that the Government of Guam general fund remit interest-only payments monthly to the Government of Guam Retirement Fund for the aforementioned liability. The law indicates that monthly payments totaling \$192,955 will continue until the outstanding balance is fully paid. However, if the obligations are not paid within five years, payments by GPSS will resume per 4GCA Section 8137. During the fiscal year ended September 30, 2005, the Government of Guam general fund paid interest totaling \$578,865 for GPSS.

(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 2005 appropriates all monies collected by GPSS from Federal funds paid to GPSS for reimbursement under the National School Lunch Program and Breakfast Program and the State Administrative Expenses for Child Nutrition Program to GPSS for non-personnel operating expenses. The total of such reimbursements from the U.S. Department of Agriculture during fiscal year 2005 is \$5,528,097, which is accounted for in GPSS's general fund.

GUAM PUBLIC SCHOOL SYSTEM

Notes to Financial Statements
September 30, 2005

(8) Subsequent Event

In November 2005, GPSS decided to pay the unpaid personal leave of teachers, aggregating \$243,955 as of September 30, 2005, which is reflected in accounts payable in the accompanying financial statements.

In April 2006, a court order was issued, ordering GPSS to pay \$3.8 million in teacher salaries and is reflected in accounts payable in the accompanying financial statements. GPSS will not be able to make the required payments without an appropriation from the Government of Guam's general fund.

(9) Restatement

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, 2004	\$ 83,984,667
Overstatement of capital assets	<u>8,095,085</u>
Restated net assets as of September 30, 2004	\$ <u>75,889,582</u>

GUAM PUBLIC SCHOOL SYSTEM

**REQUIRED SUPPLEMENTARY
INFORMATION**

YEAR ENDED SEPTEMBER 30, 2005

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Revenues, Expenditures, and Changes in Deficit - Budget and Actual
 General Fund
 Year Ended September 30, 2005

	Original Budget	Final Budget	Actual - Budgetary Basis	Variance with Final Budget - Positive (Negative)
Revenues:				
Local appropriations				
General fund - personnel	\$ 134,846,177	\$ 128,846,177	\$ 127,346,147	\$ (1,500,030)
General fund - utilities	8,000,000	8,000,000	5,999,994	(2,000,006)
General fund - contractual	3,230,432	3,230,432	2,422,827	(807,605)
General fund - supplies/equipment	4,453,823	4,453,823	3,340,367	(1,113,456)
General fund - capital outlay	3,200,000	3,200,000	2,399,994	(800,006)
General fund - other operations	-	805,000	555,000	(250,000)
General fund - textbooks	5,200,000	5,200,000	3,200,000	(2,000,000)
Safe home, safe streets fund	100,000	100,000	100,000	-
Public library system fund	-	1,127,814	630,577	(497,237)
Healthy futures fund	833,662	833,662	798,662	(35,000)
Federal contributions	5,500,000	5,500,000	5,528,097	28,097
Cafeteria sales	-	-	657,888	657,888
Fees and other program receipts	-	-	185,500	185,500
Total revenues	<u>165,364,094</u>	<u>161,296,908</u>	<u>153,165,053</u>	<u>(8,131,855)</u>
Expenditures - Budgetary Basis:				
Personnel	134,846,177	128,846,177	130,327,399	(1,481,222)
Utilities	8,000,000	8,006,534	11,136,777	(3,130,243)
Contractual	3,230,432	4,594,893	8,984,095	(4,389,202)
Supplies/equipment	4,453,823	4,978,831	3,743,772	1,235,059
Capital outlay	3,200,000	3,832,453	2,795,855	1,036,598
Textbooks	5,200,000	6,584,375	7,875,389	(1,291,014)
Food services	5,500,000	5,500,000	8,785,479	(3,285,479)
Other	933,662	2,941,601	893,889	2,047,712
Total expenditures	<u>165,364,094</u>	<u>165,284,864</u>	<u>174,542,655</u>	<u>(9,257,791)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>(3,987,956)</u>	<u>(21,377,602)</u>	<u>(17,389,646)</u>
Other financing sources (uses):				
Transfers in (out)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses), net	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	<u>-</u>	<u>(3,987,956)</u>	<u>(21,377,602)</u>	<u>(17,389,646)</u>
Other changes in unreserved deficit:				
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary purposes, but in the year the items are received for financial reporting purposes	-	-	3,987,956	3,987,956
Unreserved deficit at beginning of year	<u>(29,915,438)</u>	<u>(29,915,438)</u>	<u>(29,915,438)</u>	<u>-</u>
Unreserved deficit at end of year	<u>\$ (29,915,438)</u>	<u>\$ (33,903,394)</u>	<u>\$ (47,305,084)</u>	<u>\$ (13,401,690)</u>

See accompanying independent auditors' report.

GUAM PUBLIC SCHOOL SYSTEM

Notes to Required Supplementary Information – Budgetary Reporting September 30, 2005

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 2005, Public Law 27-106 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.

Accounting principles used in developing data on a budgetary basis differ from those used in preparing the basic financial statements in conformity with GAAP. Amounts included on the Statement of Revenues, Expenditures, and Changes in Deficit – Budget and Actual – General Fund (which are presented on a non-GAAP budgetary basis) are reconciled to unreserved deficit of the Department-wide Balance Sheet within the other changes in unreserved deficit section of that statement.

Budget Deficit

As of September 30, 2005, the general fund has significant budget-to-actual deficits as follows:

Personnel	\$ 1,481,222
Utilities	\$ 3,130,243
Contractual	\$ 4,389,202
Textbooks	\$ 1,291,014
Food Services	\$ 3,285,479

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

See Accompanying Independent Auditors' Report.

GUAM PUBLIC SCHOOL SYSTEM

**OTHER SUPPLEMENTARY
INFORMATION**

YEAR ENDED SEPTEMBER 30, 2005

GUAM PUBLIC SCHOOL SYSTEM

Special Revenue Funds and Agency Fund September 30, 2005

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 Public School System's Special Revenue Fund as of September 30, 2005, follows:

Federal Grants Fund - This fund accounts for all activities of federal assistance grants utilized by the Guam Public School System 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 Public School System 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 GPSS 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 PUBLIC SCHOOL SYSTEM

Schedule of Net Assets - Governmental Activities

September 30, 2005

(With Comparative Totals as of September 30, 2004)

<u>ASSETS</u>	<u>2005</u>	<u>2004</u>
Current assets:		
Cash and cash equivalents	\$ 1,121,123	\$ 12,300,680
Receivables, net of allowance for uncollectibles:		
Federal grants and reimbursement receivables	5,520,367	3,838,416
Due from primary government	9,183,050	5,914,293
Prepayments	402,207	411,236
Total current assets	<u>16,226,747</u>	<u>22,464,625</u>
Noncurrent assets:		
Capital assets, net of accumulated depreciation	<u>146,229,453</u>	<u>158,910,029</u>
Total noncurrent assets	<u>146,229,453</u>	<u>158,910,029</u>
Total assets	<u>162,456,200</u>	<u>181,374,654</u>
 <u>LIABILITIES</u> 		
Current liabilities:		
Current portion of payment arrangement with GPA	867,875	562,051
Accounts payable	14,446,495	7,984,742
Accrued payroll	5,369,192	4,996,346
Other accruals and liabilities	2,613,140	1,626,589
Retirement payable	16,741,014	17,292,654
Current portion of compensated absences	1,203,514	568,496
Total current liabilities	<u>41,241,230</u>	<u>33,030,878</u>
Noncurrent liabilities:		
Compensated absences, net of current portion	1,845,096	3,488,903
Accrued sick leave liability	3,283,542	2,623,593
Unfunded pension liability	54,489,088	44,281,334
Payment arrangement with GPA, net of current portion	13,097,404	13,965,279
Total noncurrent liabilities	<u>72,715,130</u>	<u>64,359,109</u>
Total liabilities	<u>113,956,360</u>	<u>97,389,987</u>
 <u>NET ASSETS</u> 		
Invested in capital assets, net of related debt	146,229,453	158,910,029
Restricted for:		
Federal programs	4,116,386	3,472,492
Unrestricted	<u>(101,845,999)</u>	<u>(78,397,854)</u>
Total net assets	<u>\$ 48,499,840</u>	<u>\$ 83,984,667</u>

See accompanying independent auditors' report.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Activities - Governmental Activities

Year Ended September 30, 2005

(With Comparative Totals for the Year Ended September 30, 2004)

	2005	2004
Program Revenues:		
Elementary Education	\$ 15,572,968	\$ 12,314,497
Secondary Education	3,936,012	2,720,954
Direct Student Support	25,112,976	26,846,068
General Administration	5,287,376	1,829,071
Total program revenues	49,909,332	43,710,590
Expenses for Governmental Activities:		
Elementary Education	75,923,542	70,316,906
Secondary Education	63,268,042	61,959,920
Direct Student Support	37,462,728	34,720,487
General Administration	53,151,927	36,774,161
Total expenses for governmental activities	229,806,239	203,771,474
Deficiency of program revenues under expenses	(179,896,907)	(160,060,884)
General revenues:		
Appropriations:		
Operations	149,079,118	141,818,717
Textbooks	3,200,000	3,500,000
Other	185,500	396,938
Interest income	42,547	1,330
Total general revenues	152,507,165	145,716,985
Change in net assets	(27,389,742)	(14,343,899)
Net assets at beginning of year, as restated	75,889,582	98,328,566
Net assets at end of year	\$ 48,499,840	\$ 83,984,667

See accompanying independent auditors' report.

GUAM PUBLIC SCHOOL SYSTEM

Balance Sheet
Governmental Funds
September 30, 2005

(With Comparative Totals as of September 30, 2004)

<u>ASSETS</u>	2005			2004		
	General	Federal Grants Assistance	Total	General	Federal Grants Assistance	Total
Cash and cash equivalents	\$ 606,868	\$ 514,255	\$ 1,121,123	\$ 6,704,795	\$ 5,595,885	\$ 12,300,680
Receivables from Federal agencies	1,256,710	4,263,657	5,520,367	412,926	3,425,490	3,838,416
Due from primary government	9,183,050	-	9,183,050	5,914,293	-	5,914,293
Prepayments	298,491	103,716	402,207	298,488	112,748	411,236
Due from other funds	-	3,063,559	3,063,559	6,150,970	-	6,150,970
Total assets	\$ 11,345,119	\$ 7,945,187	\$ 19,290,306	\$ 19,481,472	\$ 9,134,123	\$ 28,615,595
 <u>LIABILITIES AND FUND BALANCES (DEFICIT)</u>						
Liabilities:						
Accounts payable	\$ 14,013,448	\$ 433,047	\$ 14,446,495	\$ 7,682,254	\$ 302,488	\$ 7,984,742
Accrued payroll	4,164,835	1,204,357	5,369,192	4,996,346	-	4,996,346
Other liabilities and accruals	1,299,743	1,313,397	2,613,140	750,887	875,702	1,626,589
Retirement payable	16,741,014	-	16,741,014	17,292,654	-	17,292,654
Payable to federal agencies	170,285	3,946,101	4,116,386	159,483	1,424,784	1,584,267
Due to other funds	3,063,559	-	3,063,559	-	6,150,970	6,150,970
Notes payable	13,965,279	-	13,965,279	14,527,330	-	14,527,330
Total liabilities	53,418,163	6,896,902	60,315,065	45,408,954	8,753,944	54,162,898
Fund Balances (deficit):						
Reserved for:						
Encumbrances	5,232,040	9,694,500	14,926,540	3,987,956	9,994,042	13,981,998
Unreserved	(47,305,084)	(8,646,215)	(55,951,299)	(29,915,438)	(9,613,863)	(39,529,301)
Total fund balances (deficits)	(42,073,044)	1,048,285	(41,024,759)	(25,927,482)	380,179	(25,547,303)
Total liabilities and fund balances	\$ 11,345,119	\$ 7,945,187	\$ 19,290,306	\$ 19,481,472	\$ 9,134,123	\$ 28,615,595

See accompanying independent auditors' report.

GUAM PUBLIC SCHOOL SYSTEM

Reconciliation of Deficit to the Statement of Net Assets
September 30, 2005
(With Comparative Totals as of September 30, 2004)

	<u>2005</u>	<u>2004</u>
Total deficit	\$ (41,024,759)	\$ (25,547,303)
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 \$59,542,933 and \$54,470,553 of accumulated depreciation, respectively	146,229,453	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	(6,332,152)	(6,680,992)
Unfunded pension liability	(54,489,088)	(44,281,334)
Amounts due to federal agencies are recorded as liabilities in the funds	<u>4,116,386</u>	<u>1,584,267</u>
Net assets of governmental activities	<u>\$ 48,499,840</u>	<u>\$ 83,984,667</u>

See accompanying independent auditors' report.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Revenues, Expenditure and Changes in Fund Balances (Deficit)
 Governmental Funds
 Year Ended September 30, 2005
 (With Comparative Totals for the Year Ended September 30, 2004)

	2005			2004		
	General	Federal Grants Assistance	Total	General	Federal Grants Assistance	Total
Revenues:						
Appropriations	\$ 146,793,568	\$ -	\$ 146,793,568	\$ 139,876,623	\$ -	\$ 139,876,623
Federal grants and contributions	5,528,097	46,719,324	52,247,421	5,759,424	42,224,811	47,984,235
Cafeteria sales	657,888	-	657,888	536,279	-	536,279
Fees and other program receipts	185,500	-	185,500	80,940	-	80,940
Total revenues	153,165,053	46,719,324	199,884,377	146,253,266	42,224,811	188,478,077
Expenditures:						
Current:						
Elementary Education	58,374,153	15,572,968	73,947,121	57,375,318	12,314,497	69,689,815
Secondary Education	56,741,961	3,936,012	60,677,973	57,965,781	2,720,954	60,686,735
Direct Student Support	13,007,640	24,455,088	37,462,728	8,775,025	25,945,462	34,720,487
General Administration	41,186,861	2,087,150	43,274,011	21,978,525	1,829,070	23,807,595
Total expenditures	169,310,615	46,051,218	215,361,833	146,094,649	42,809,983	188,904,632
Excess (deficiency) of revenues over (under) expenditures	(16,145,562)	668,106	(15,477,456)	158,617	(585,172)	(426,555)
Other financing sources (uses):						
Transfers in (out), net	-	-	-	(965,351)	965,351	-
Total other financing sources (uses), net	-	-	-	(965,351)	965,351	-
Net change in fund balances (deficit)	(16,145,562)	668,106	(15,477,456)	(806,734)	380,179	(426,555)
Fund balances (deficit) at beginning of year	(25,927,482)	380,179	(25,547,303)	(25,120,748)	-	(25,120,748)
Fund balances (deficit) at end of year	\$ (42,073,044)	\$ 1,048,285	\$ (41,024,759)	\$ (25,927,482)	\$ 380,179	\$ (25,547,303)

See accompanying independent auditors' report.

GUAM PUBLIC SCHOOL SYSTEM

Reconciliation of the Statement of Revenues, Expenditures and Changes in Deficit of
Governmental Funds to the Statement of Activities
September 30, 2005
(With Comparative Totals as of September 30, 2004)

	2005	2004
Amounts reported for governmental activities in the statement of activities are different because:		
Net change in deficit - total governmental funds	\$ (15,477,456)	\$ (426,555)
Plus:		
Change in annual leave activity	348,839	1,960,877
Change in amounts due to federal agencies	2,532,121	949,501
Less:		
Retirement contribution and accrual	(10,207,756)	(14,840,063)
Depreciation expense	(4,585,490)	(1,987,659)
Change in net assets of governmental activities	\$ (27,389,742)	\$ (14,343,899)

See accompanying independent auditors' report.

GUAM PUBLIC SCHOOL SYSTEM

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

General Fund

Year Ended September 30, 2005

(With Comparative Totals for the Year Ended September 30, 2004)

	2005				2004			
	Original Budget	Final Budget	Actual - Budgetary Basis	Variance with Final Budget - Positive (Negative)	Original Budget	Final Budget	Actual - Budgetary Basis	Variance with Final Budget - Positive (Negative)
Revenues:								
Local appropriations:								
General fund - personnel	\$ 134,846,177	\$ 128,846,177	\$ 127,346,147	\$ (1,500,030)	\$ 119,750,000	\$ 119,500,000	\$ 123,831,132	\$ 4,331,132
General fund - utilities	8,000,000	8,000,000	5,999,994	(2,000,006)	6,000,000	6,000,000	6,000,000	-
General fund - contractual	3,230,432	3,230,432	2,422,827	(807,605)	4,000,000	4,000,000	4,000,000	-
General fund - supplies/equipment	4,453,823	4,453,823	3,340,367	(1,113,456)	3,050,542	3,050,542	3,050,542	-
General fund - capital outlay	3,200,000	3,200,000	2,399,994	(800,006)	2,500,000	2,500,000	2,500,000	-
General fund - other operations	-	805,000	555,000	(250,000)	-	-	-	(3,500,000)
General fund - textbooks	5,200,000	5,200,000	3,200,000	(2,000,000)	6,700,000	3,500,000	-	-
Safe home, safe streets fund	100,000	100,000	100,000	-	-	-	-	-
Public library system fund	-	1,127,814	630,577	(497,237)	-	-	494,949	494,949
Healthy futures fund	833,662	833,662	798,662	(35,000)	833,662	533,662	-	(533,662)
Guam education facility fund	-	-	-	-	542,543	542,543	-	(542,543)
Federal contributions	5,500,000	5,500,000	5,528,097	28,097	5,759,424	5,759,424	5,759,424	-
Cafeteria sales	-	-	657,888	657,888	-	-	536,279	536,279
Fees and other program receipts	-	-	185,500	185,500	-	-	80,940	80,940
Total revenues	165,364,094	161,296,908	153,165,053	(8,131,855)	149,136,171	145,922,450	146,253,266	330,816
Expenditures - Budgetary Basis:								
Personnel	134,846,177	128,846,177	130,327,399	(1,481,222)	119,750,000	119,750,000	119,880,013	(130,013)
Utilities	8,000,000	8,006,534	11,136,777	(3,130,243)	6,000,000	6,000,000	11,428,574	(5,428,574)
Contractual	3,230,432	4,594,893	8,984,095	(4,389,202)	4,000,000	4,000,000	6,482,947	(2,482,947)
Supplies/equipment	4,453,823	4,978,831	3,743,772	1,235,059	3,050,542	3,433,954	5,840,229	(2,406,275)
Capital outlay	3,200,000	3,832,453	2,795,855	1,036,598	2,500,000	2,500,000	669,611	1,830,389
Textbooks	5,200,000	6,584,375	7,875,389	(1,291,014)	6,700,000	4,135,200	4,726,403	(591,203)
Food service	5,500,000	5,500,000	8,785,479	(3,285,479)	5,759,424	5,759,424	-	5,759,142
Other	933,662	2,941,601	893,889	2,047,712	1,376,205	1,362,766	1,054,830	307,936
Total expenditures	165,364,094	165,284,864	174,542,655	(9,257,791)	149,136,171	146,941,062	150,082,607	(3,141,545)
Excess (deficiency) of revenues over (under) expenditures	-	(3,987,956)	(21,377,602)	(17,389,646)	-	(1,018,612)	(3,829,341)	(2,810,729)
Other financing sources (uses):								
Transfers out - unreimbursed typhoon expenses	-	-	-	-	-	-	(965,351)	(965,351)
Transfers out - other	-	-	-	-	-	-	-	-
Total other financing sources (uses), net	-	(3,987,956)	(21,377,602)	(17,389,646)	-	(1,018,612)	(4,794,692)	(3,776,080)
Net change in deficit	-	(3,987,956)	(21,377,602)	(17,389,646)	-	(1,018,612)	(4,794,692)	(3,776,080)
Other changes in unreserved deficit:								
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary purposes, but in the year the items are received for financial reporting purposes	(29,915,438)	(29,915,438)	3,987,956	-	-	-	1,018,612	1,018,612
Deficit at beginning of year	(29,915,438)	(29,915,438)	(29,915,438)	-	(26,139,358)	(26,139,358)	(26,139,358)	-
Deficit at end of year	(29,915,438)	(33,903,394)	(47,305,084)	(17,389,646)	(26,139,358)	(27,157,970)	(29,915,438)	(2,757,468)

See accompanying independent auditors' report.

GUAM PUBLIC SCHOOL SYSTEM

Supplementary Combined Statement of Revenues, Expenditures By Account and Changes in Fund Balances (Deficits)
 Governmental Funds
 Year Ended September 30, 2005
 (With Comparative Totals for the Year Ended September 30, 2004)

	2005			2004		
	General	Federal Grants Assistance	Total	General	Federal Grants Assistance	Total
Revenues:						
Local appropriations	\$ 146,793,568	\$ -	\$ 146,793,568	\$ 139,876,623	\$ -	\$ 139,876,623
Federal grants and contributions	5,528,097	46,719,324	52,247,421	5,759,424	42,224,811	47,984,235
Cafeteria sales	657,888	-	657,888	536,279	-	536,279
Fees and other program receipts	185,500	-	185,500	80,940	-	80,940
Total revenues	153,165,053	46,719,324	199,884,377	146,253,266	42,224,811	188,478,077
Expenditures:						
Salaries	104,366,506	27,609,037	131,975,543	94,772,348	24,767,250	119,539,598
Benefits	25,910,107	6,452,505	32,362,612	24,986,257	5,537,202	30,523,459
Contractual	12,065,916	4,063,520	16,129,436	5,118,486	3,127,529	8,246,015
Power	10,229,556	-	10,229,556	10,404,210	-	10,404,210
Supplies	5,903,666	3,054,719	8,958,385	4,530,725	3,120,580	7,651,305
Textbooks	6,819,958	-	6,819,958	3,342,028	-	3,342,028
Capital outlay	1,834,361	1,739,945	3,574,306	37,158	1,380,683	1,417,841
Equipment	446,672	2,031,117	2,477,789	61,858	2,025,861	2,087,719
Travel	97,175	828,502	925,677	266,245	1,300,883	1,567,128
Interest	637,949	-	637,949	617,393	-	617,393
Water	556,523	-	556,523	791,512	-	791,512
Phone	349,500	13,272	362,772	226,318	5,252	231,570
Overtime	50,786	60,030	110,816	121,408	47,770	169,178
Stipends and other	41,940	198,571	240,511	96,065	1,496,973	1,593,038
Claim settlement	-	-	-	722,638	-	722,638
Total expenditures	169,310,615	46,051,218	215,361,833	146,094,649	42,809,983	188,904,632
Other financing sources (uses):						
Transfers in (out), net	-	-	-	(965,351)	965,351	-
Total other financing sources (uses)	-	-	-	(965,351)	965,351	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(16,145,562)	668,106	(15,477,456)	(806,734)	380,179	(426,555)
Fund balances (deficit), beginning of year	(25,927,482)	380,179	(25,547,303)	(25,120,748)	-	(25,120,748)
Fund balance (deficit), end of year	\$ (42,073,044)	\$ 1,048,285	\$ (41,024,759)	\$ (25,927,482)	\$ 380,179	\$ (25,547,303)

See accompanying independent auditors' report.

GUAM PUBLIC SCHOOL SYSTEM

Agency Fund
September 30, 2005

The schedule of cash receipts and cash disbursements for the agency fund during fiscal year 2005 is as follows:

	<u>NAF</u>	<u>Deed</u>	<u>Total</u>
Cash balance at beginning of year	\$ 798,349	136,231	934,580
Adjustments	61,863	(34,293)	27,570
	<hr/>	<hr/>	<hr/>
	860,212	101,938	962,150
Cash receipts:			
Elementary school activities	351,252	422,628	773,880
Secondary school activities	1,384,518	-	1,384,518
Total receipts	<hr/>	<hr/>	<hr/>
	1,735,770	422,628	2,158,398
Cash disbursements:			
Elementary school activities	368,484	443,670	812,154
Secondary school activities	1,452,109	-	1,452,109
Total disbursements	<hr/>	<hr/>	<hr/>
	1,820,593	443,670	2,264,263
Deficiency of receipts over disbursements	<hr/>	<hr/>	<hr/>
	(84,823)	(21,042)	(105,865)
Cash balance at end of year	\$ <hr/>	80,896	<hr/>
	775,389		856,285

The number of individual funds at the schools during fiscal year 2005 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 PUBLIC SCHOOL SYSTEM

Personnel
September 30, 2005

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

	<u>Employee Count</u>
FY 2005 – as of the pay period ended October 1, 2005	4,641
FY 2004 – as of the pay period ended September 18, 2004	3,868

See accompanying independent auditors' report.