

GUAM PUBLIC SCHOOL SYSTEM

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

YEAR ENDED SEPTEMBER 30, 2006

GUAM PUBLIC SCHOOL SYSTEM

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INDEPENDENT AUDITORS' REPORT

Luis S.N. Reyes
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, 2006, 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.

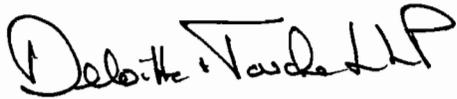
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Guam Public School System as of September 30, 2006, and the respective 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 7 and the Schedule of Revenues, Expenditures, and Changes in Deficit – Budget and Actual – General Fund and notes thereto (pages 29 and 30) 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 basic financial statements that collectively comprise GPSS's financial statements. The Other Supplementary Information (pages 32 through 42) is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This supplementary information is the responsibility of GPSS's management. Such

2006 information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2007, 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 considered in assessing the results of our audit.

A handwritten signature in black ink, appearing to read "Deloitte Touche LLP". The signature is stylized and cursive.

May 31, 2007

GUAM PUBLIC SCHOOL SYSTEM

Management's Discussion and Analysis
Year Ended September 30, 2006

INTRODUCTION

The Guam Public School System (GPSS) for many years has faced many operational and financial challenges. In spite of these challenges, teachers, administrators, and support staff continue to remain focused on our mission of *"...Preparing all students for life; Promoting excellence; and Providing support!"* This Management Discussion & Analysis presents a synopsis of the financial activities for the fiscal year ended September 30, 2006, along with the operational challenges in providing an adequate public education to over 31,000 school children. The operational and financial obstacle to successfully manage public education is a result of the public school system's arduous statutory and policy requirements, limiting management's ability to maximize resources; crippled by the inadequate accounting infrastructure and dependency on local government appropriations.

Notwithstanding the Government of Guam's current financial situation and GPSS's *"high-risk"* designation together with Special Conditions imposed by the U.S. Department of Education (USDOE), pro-active measures have been implemented to address USDOE's concerns. Through the progressive programmatic and financial controls, GPSS remains steadfast in its commitment of ensuring fiscal accountability.

FISCAL YEAR 2006 OVERVIEW

One impediment for management to maximize human resources thereby reducing personnel cost is the *Collective Bargaining Agreements between the GFT and the Guam Education Policy Board for Guam Public School System Faculty & Staff*. This current labor agreement limits management's ability to maximize resources. For example, staffing requirements strain current resources. Pursuant to the GFT (Guam Federation of Teachers) agreement Article IX, Special Areas 9.F.2 and 9.F.6, GPSS must hire a School Health Counselor (Registered Nurse) and must hire an additional License Practical Nurse (LPN) for every seven hundred (700) students. Although School Health Counselors' (SHC) duty hours (considered 10-month employees) are equivalent to teachers, they (SHC's) are not teachers. SHC's have been given a thirty-seven percent (37%) increase in their salaries but are not required to perform additional duties unlike their counterparts at the Department of Public Health and Social Services and the Guam Memorial Hospital Authority who perform duties twelve (12) months out of the year. This has placed additional financial burden on GPSS. In addition, SHC's are also entitled to a clerical assistant.

GPSS management must hire additional personnel (school aides and custodial personnel) to perform functions outside classroom activities since *"...teachers are not required to perform non-professional chores such as bus duty, hall duty, parking lot duty, money-collecting, restroom duty, lunch room and playground duty...Teachers shall not be required to perform custodial services..."* (Article V 5.A.2). Moreover, as a result of the Agreement *"...teachers' instructional load shall not exceed twenty-five (25) hours per week."* Yet, teachers are paid forty (40) hours per week. In summary, management's ability to maximize human resources is limited, and therefore, requires additional funds (Cost: over \$8.5 million annually for school aides and school support staff) to hire school personnel to perform school related activities.

GUAM PUBLIC SCHOOL SYSTEM

Management's Discussion and Analysis
Year Ended September 30, 2006

In addition to the Agreement, GPSS must comply with Public Law 28-45, *Every Child is Entitled to an Adequate Public Education Act*. The Guam law imposes certain compliance provisions upon management to ensure that the fourteen (14) points are met. Failure to comply with the provisions of P.L. 28-45 may result in personal liability upon the GPSS Superintendent of Education. The Superintendent of Education is not indemnified.

Another challenge faced by GPSS is the inadequate accounting infrastructure of the department. Although continuous announcements to recruit accountants are on-going, there has been minimal response by prospective applicants. This is a result of the private sector and autonomous GovGuam agencies offering higher salaries than that of Government of Guam's pay-scale for accountants. As a result of GPSS's inadequate accounting structure, financial reporting and operational requirements have been crippled. To address the deficiency, GPSS has opted to outsource specific accounting functions such as the reconciliation of its General Ledger.

Finally, the Guam Public School System receives most of its funds through local government appropriations. Although GPSS is dependent on the "General Fund," the department realizes that over fifty percent (50%) of its funding source comes from the same "pot" of funds as other line agencies. Hence, the financial impact public education has on the "General Fund" is a concern and without a consistent funding source, the ability to provide an adequate public education will continue to be compromised.

Pursuant to P.L. 28-68, the approved total local government appropriations (including the Interscholastic Sports Fund, Health and Physical Fund, *Y Kuantan Salappe' Prinsepat*, and Textbook Fund) for the department decreased from \$169,953,933 in fiscal year 2005 to \$165,371,424 in fiscal year 2006. However, actual total Government of Guam appropriation cash allotments received were \$13,105,438, below the appropriations prior to the end of the fiscal year as shown in Figure 1.

Fiscal Year	GEPB Approved Budget	Appropriation	Received	Appropriation vs. GEPB Approved Budget	Received vs. Appropriation
2005	\$ 168,465,271	\$ 169,953,933	\$ 143,012,658	\$ 1,488,662	\$ (26,941,275)
2006	\$ 184,213,039	\$ 165,371,424	\$ 152,265,986	\$ (18,841,615)	\$ (13,105,438)

Figure 1

GUAM PUBLIC SCHOOL SYSTEM

Management's Discussion and Analysis
Year Ended September 30, 2006

Of the \$152,265,986 GPSS received \$138,900,452 for its Operations in Fiscal Year 2006, leaving a remaining balance due of \$13,365,534. The remaining balance due from Department of Administration is recorded as Deferred Revenue since its collectibility is uncertain. GPSS is not foregoing its right to the collection of the receivable, but would rather not recognize the claim until cash is received or until such time GPSS can determine its collection. On October 6, 2007, GPSS subsequently received \$8,100,000. Of the \$8.1 million, \$1,382,839 was applied to Fiscal Year 2006.

GPSS continues to have an unfunded liability of approximately \$30 million for retirement and utilities obligations. The GFT Agreement will further exacerbate GPSS's unfunded liabilities by the requirements it imposes.

During fiscal year 2006, GPSS conducted a physical fixed asset inventory. This was satisfactorily completed and a comprehensive fixed asset listing was prepared. The schedule provided by GPSS also included estimates and capitalized repair costs for some schools. The Department of Administration maintains 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

GPSS is a line agency of the Government of Guam. Its policies are established by an elected twelve-(12-) member board. GPSS operates twenty-five (25) elementary schools, seven (7) middle schools, four (4) high schools, and one (1) alternative education school. The public school system serves over 31,000 students residing on Guam.

The GPSS financial statements are comprised of a Statement of Net Assets and a Statement of Activities, plus certain required supplementary and other supplementary information.

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

The *Other Supplementary Information* is presented for additional analysis of the financial statements.

GUAM PUBLIC SCHOOL SYSTEM

Management's Discussion and Analysis
Year Ended September 30, 2006

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>2006</u>	<u>2005</u>
Assets:		
Current assets	\$ 25,404,902	\$ 16,226,747
Capital assets, net	<u>142,215,149</u>	<u>146,229,453</u>
	<u>167,620,051</u>	<u>162,456,200</u>
Liabilities:		
Current liabilities	61,210,061	41,241,230
Noncurrent liabilities	<u>77,959,893</u>	<u>72,715,130</u>
	<u>139,169,954</u>	<u>113,956,360</u>
Net assets:		
Invested in capital assets, net of related debt	142,215,149	146,229,453
Restricted for federal programs	3,113,700	4,116,386
Unrestricted	<u>(116,878,752)</u>	<u>(101,845,999)</u>
	<u>128,449,100</u>	<u>148,500,840</u>
Total net assets	\$ <u>28,450,097</u>	\$ <u>48,499,840</u>

The total assets of GPSS increased by \$5,163,851, while total liabilities increased by \$25,213,594, resulting in an overall decrease of net assets by \$20,049,743.

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 2006. 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.

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.

GUAM PUBLIC SCHOOL SYSTEM

Management's Discussion and Analysis
Year Ended September 30, 2006

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

	<u>2006</u>	<u>2005</u>
General revenues:		
Appropriations	\$ 161,022,875	\$ 152,464,618
Other	<u>212,214</u>	<u>42,547</u>
	<u>161,235,089</u>	<u>152,507,165</u>
Program revenues:		
Federal grants and contributions	44,903,167	49,251,444
Other	<u>923,068</u>	<u>657,888</u>
	<u>45,826,235</u>	<u>49,909,332</u>
Total revenues	<u>207,061,324</u>	<u>202,416,497</u>
Expenditures:		
Program related:		
Elementary education	88,706,717	75,923,542
Secondary education	76,599,676	63,268,042
Direct student support	36,391,813	37,462,728
General administration	<u>25,412,861</u>	<u>53,151,927</u>
Total expenditures	<u>(227,111,067)</u>	<u>(229,806,239)</u>
Decrease in net assets	(20,049,743)	(27,389,742)
Net assets at beginning of year	<u>48,499,840</u>	<u>75,889,582</u>
Net assets at end of year	\$ <u>28,450,097</u>	\$ <u>48,499,840</u>

The statement of revenues, expenditures, and changes in net assets reflects a decrease in net assets of \$20,049,743. This is 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, 2006

<u>ASSETS</u>	<u>Governmental Activities</u>
Current assets:	
Cash and cash equivalents	\$ 5,617,438
Receivables:	
Federal grants and reimbursement receivables	3,516,617
Due from primary government	15,705,706
Prepayments	565,141
Total current assets	<u>25,404,902</u>
Noncurrent assets:	
Capital assets, net of accumulated depreciation	142,215,149
Total noncurrent assets	<u>142,215,149</u>
Total assets	<u>167,620,051</u>
 <u>LIABILITIES</u> 	
Current liabilities:	
Current portion of payment arrangement with GPA	1,339,642
Accounts payable	20,443,048
Accrued payroll	5,823,853
Other accruals and liabilities	557,970
Deferred revenue	13,365,534
Retirement payable	17,174,884
Current portion of compensated absences	2,505,130
Total current liabilities	<u>61,210,061</u>
Noncurrent liabilities:	
Compensated absences, net of current portion	1,029,074
Accrued sick leave liability	3,386,049
Unfunded pension liability	61,661,063
Payment arrangement with GPA, net of current portion	11,883,707
Total noncurrent liabilities	<u>77,959,893</u>
Total liabilities	<u>139,169,954</u>
Commitments and contingencies	
 <u>NET ASSETS</u> 	
Invested in capital assets, net of related debt	142,215,149
Restricted for:	
Federal programs	3,113,700
Unrestricted	(116,878,752)
Total net assets	<u>\$ 28,450,097</u>

See accompanying notes to financial statements.

GUAM PUBLIC SCHOOL SYSTEM

Statement of Activities
Year Ended September 30, 2006

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	
Governmental Activities:				
Elementary Education	\$ 88,706,717	\$ -	\$ 14,214,727	\$ (74,491,990)
Secondary Education	76,599,676	-	3,955,771	(72,643,905)
Direct Student Support	36,391,813	923,068	25,864,993	(9,603,752)
General Administration	25,412,861	-	867,676	(24,545,185)
Total governmental activities	\$ 227,111,067	923,068	44,903,167	(181,284,832)
General revenues:				
Appropriations:				
				156,882,908
				3,500,000
				639,967
				212,214
				<u>161,235,089</u>
				(20,049,743)
				<u>48,499,840</u>
				<u>\$ 28,450,097</u>

See accompanying notes to financial statements.

GUAM PUBLIC SCHOOL SYSTEM

Balance Sheet
Governmental Funds
September 30, 2006

<u>ASSETS</u>	<u>General</u>	<u>Special Revenue Federal Grants Assistance</u>	<u>Total</u>
Cash and cash equivalents	\$ 4,929,360	\$ 688,078	\$ 5,617,438
Receivables from Federal agencies	1,197,786	2,318,831	3,516,617
Due from primary government	15,705,706	-	15,705,706
Prepayments and other receivables	462,425	102,716	565,141
Due from other funds	-	2,058,607	2,058,607
	<hr/>	<hr/>	<hr/>
Total assets	\$ 22,295,277	\$ 5,168,232	\$ 27,463,509
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
 <u>LIABILITIES AND FUND BALANCES (DEFICIT)</u> 			
Liabilities:			
Accounts payable	\$ 19,284,220	\$ 1,158,828	\$ 20,443,048
Accrued payroll	4,914,542	909,311	5,823,853
Other accruals and liabilities	442,653	115,317	557,970
Deferred revenues	13,365,534	-	13,365,534
Retirement payable	17,174,884	-	17,174,884
Due to Federal agencies	163,591	2,950,109	3,113,700
Due to other funds	2,058,607	-	2,058,607
Payment arrangement with GPA	13,223,349	-	13,223,349
	<hr/>	<hr/>	<hr/>
Total liabilities	70,627,380	5,133,565	75,760,945
	<hr/>	<hr/>	<hr/>
Fund balances (deficits):			
Reserved for:			
Encumbrances	5,583,544	3,391,720	8,975,264
Unreserved	(53,915,647)	(3,357,053)	(57,272,700)
	<hr/>	<hr/>	<hr/>
Total fund balances (deficits)	(48,332,103)	34,667	(48,297,436)
	<hr/>	<hr/>	<hr/>
Total liabilities and fund balances	\$ 22,295,277	\$ 5,168,232	\$ 27,463,509
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

See accompanying notes to financial statements.

GUAM PUBLIC SCHOOL SYSTEM

Reconciliation of Deficit to the Statement of Net Assets
September 30, 2006

Total deficit	\$ (48,297,436)
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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 \$63,912,141 of accumulated depreciation	\$ <u>142,215,149</u>	
Capital assets, net of accumulated depreciation		142,215,149

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	(6,920,253)	
Unfunded pension liability	<u>(61,661,063)</u>	
Long - term liabilities		(68,581,316)

Amounts due to federal agencies are recorded as liabilities in the funds	<u>3,113,700</u>
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Net assets of governmental activities	\$ <u><u>28,450,097</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, 2006

	<u>General</u>	<u>Special Revenue Federal Grants Assistance</u>	<u>Total</u>
Revenues:			
Appropriations	\$ 152,904,173	\$ -	\$ 152,904,173
Federal grants and contributions	7,478,735	45,550,946	53,029,681
Cafeteria sales	923,068	-	923,068
Fees and other receipts	852,181	-	852,181
	<u>162,158,157</u>	<u>45,550,946</u>	<u>207,709,103</u>
Total revenues			
Expenditures:			
Current:			
Elementary Education	74,491,990	14,214,727	88,706,717
Secondary Education	72,643,905	3,955,771	76,599,676
Direct Student Support	10,526,819	25,864,993	36,391,812
General Administration	10,754,502	2,529,073	13,283,575
	<u>168,417,216</u>	<u>46,564,564</u>	<u>214,981,780</u>
Total expenditures			
Excess of expenditures over revenues	(6,259,059)	(1,013,618)	(7,272,677)
Fund balances (deficit) at beginning of year	<u>(42,073,044)</u>	<u>1,048,285</u>	<u>(41,024,759)</u>
Fund balances (deficit) at end of year	<u>\$ (48,332,103)</u>	<u>\$ 34,667</u>	<u>\$ (48,297,436)</u>

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
Year Ended September 30, 2006

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

Net change in deficit - total governmental funds	\$ (7,272,677)
Plus:	
Change in capital assets	354,904
Less:	
Change in annual leave activity	(588,101)
Change in amounts due to federal agencies	(1,002,685)
Retirement contribution and accrual	(7,171,976)
Depreciation expense	<u>(4,369,208)</u>
Change in net assets of governmental activities	<u>\$ (20,049,743)</u>

See accompanying notes to financial statements.

GOVERNMENT OF GUAM

Statement of Fiduciary Net Assets
Agency Fund
September 30, 2006

ASSETS

Cash and cash equivalents	\$ <u>692,619</u>
Total assets	\$ <u><u>692,619</u></u>

LIABILITIES

Deposits and other liabilities	\$ <u>692,619</u>
Total liabilities	\$ <u><u>692,619</u></u>

See accompanying notes to financial statements.

GUAM PUBLIC SCHOOL SYSTEM

Notes to Financial Statements
September 30, 2006

(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. Additionally, the Government of Guam's general fund is ultimately liable for the financial operations of GPSS.

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, 2006

(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 are 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, 2006

(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, 2006

(1) Summary of Significant Accounting Policies, Continued

G. Deposits in Banks, Continued

As of September 30, 2006, the carrying amount of GPSS's total cash and cash equivalents was \$5,617,438, and the corresponding bank balance was \$8,296,376, which is maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2006, 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 \$8,196,376 were uncollateralized. These deposits are therefore exposed to custodial credit risk. GPSS has not experienced any significant losses in such accounts and GPSS management believes it is not exposed to any significant credit risk on its deposits.

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.

GUAM PUBLIC SCHOOL SYSTEM

Notes to Financial Statements
September 30, 2006

(1) Summary of Significant Accounting Policies, Continued

J. Fixed Assets and Depreciation, Continued

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, 2006 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	\$ 202,950,453	\$ -	\$ -	\$ 202,950,453
Vehicles, Furniture and Equipment	<u>2,821,933</u>	<u>354,904</u>	<u>-</u>	<u>3,176,837</u>
	205,772,386	354,904	-	206,127,290
Less: accumulated depreciation	<u>(59,542,933)</u>	<u>(4,369,208)</u>	<u>-</u>	<u>(63,912,141)</u>
Governmental activity capital assets, net	<u>\$ 146,229,453</u>	<u>\$ (4,014,304)</u>	<u>\$ -</u>	<u>\$ 142,215,149</u>

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

Governmental activities:	
Elementary Education	\$ 1,756,435
Secondary Education	2,599,773
General Administration	<u>13,000</u>
Total depreciation expense-governmental activities	<u>\$ 4,369,208</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.

GUAM PUBLIC SCHOOL SYSTEM

Notes to Financial Statements
September 30, 2006

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, 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, 2006, are recorded as prepayments.

N. Fund Deficits

The following fund has a deficit fund balance as of September 30, 2006:

Major Governmental Fund

General Fund	\$ <u>48,332,103</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

During fiscal year 2006, GPSS implemented the following pronouncements:

GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which establishes standards for impairment of capital assets when service utility has declined significantly and unexpectedly.

GUAM PUBLIC SCHOOL SYSTEM

Notes to Financial Statements
September 30, 2006

(1) Summary of Significant Accounting Policies, Continued

P. New Accounting Standards

GASB 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.

GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation (an amendment to GASB Statement No. 34)*, which requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets.

GASB Statement No. 47, *Accounting for Termination Benefits*, which 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.

GASB Technical Bulletin No. 2004-2, *Recognition of Pension and Other Postemployment Benefits Expenditures/Expense and Liabilities by Cost-Sharing Employers*, which clarifies the requirements of GASB Statement Nos. 27 and 45 for recognition of pension and other postemployment benefit expenditures/expense and liabilities by cost-sharing employers.

The implementation of these pronouncements did not have a material impact on the accompanying financial statements.

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 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, 2006. GPSS does not believe the implementation of this Statement will have a material effect on its financial statements.

GUAM PUBLIC SCHOOL SYSTEM

Notes to Financial Statements
September 30, 2006

(1) Summary of Significant Accounting Policies, Continued

P. New Accounting Standards

In September 2006, GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues*. GASB Statement No. 48 establishes criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or collateralized borrowing. The Statement also includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components. The provisions of this Statement are effective for periods beginning after December 15, 2006. GPSS does not believe 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.

\$ 13,223,349

Less current maturities

(1,339,642)

Total long-term debt

\$ 11,883,707

The annual requirements to amortize the debt outstanding as of September 30, 2006, including interest payments, are as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 1,339,642	\$ 561,303
2008	1,575,298	499,702
2009	1,953,398	421,602
2010	2,068,569	331,431
2011	2,162,953	237,047
2012-2013	<u>4,123,489</u>	<u>175,026</u>
	\$ <u>13,223,349</u>	\$ <u>2,226,111</u>

GUAM PUBLIC SCHOOL SYSTEM

Notes to Financial Statements
September 30, 2006

(2) Long-Term Debt Obligations, Continued

Changes in Long-Term Liabilities

Changes in long-term liabilities for the year ended September 30, 2006, 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	\$ 13,965,279	\$ -	\$ (741,930)	\$ 13,223,349	\$ 1,339,642
Accrued sick leave liability	3,283,542	102,507	-	3,386,049	-
Compensated absences	3,048,610	3,022,305	(2,536,711)	3,534,204	2,505,130
Unfunded pension liability	<u>54,489,088</u>	<u>7,171,975</u>	<u>-</u>	<u>61,661,063</u>	<u>-</u>
	<u>\$ 74,786,519</u>	<u>\$ 10,296,787</u>	<u>\$ (3,278,641)</u>	<u>\$ 81,804,665</u>	<u>\$ 3,844,772</u>

The GPSS General Fund will bear responsibility for the ultimate liquidation of substantially all long-term liabilities. Total interest paid in FY 2006 for long-term liabilities is \$607,125.

(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, 2006. The estimated accumulated amount of unused sick leave at September 30, 2006, is \$27,749,541, of which an estimated \$3,386,049 may be convertible by DCRS employees upon retirement.

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 2006 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.

GUAM PUBLIC SCHOOL SYSTEM

Notes to Financial Statements
September 30, 2006

(3) Contingencies, Continued

B. Federal Grants, Continued

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

C. Non-Appropriated Funds

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

E. Court Order

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.

F. Public Law 28-45

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

(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), single-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, 2006

(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, 2004, 2003, and 2002, contribution rates for the years ended September 30, 2006, 2005 and 2004, respectively, have been determined as follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Normal costs (% of DB Plan payroll)	17.83%	18.30%	17.66%
Unfunded liability costs (% of total payroll)	<u>21.36%</u>	<u>19.93%</u>	<u>16.23%</u>
	39.19%	38.23%	33.89%
Employee contributions (DB Plan employees)	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>
Government contribution as a % of DB Plan payroll	<u>29.69%</u>	<u>28.73%</u>	<u>24.39%</u>
Government contribution as a % of total payroll	<u>26.00%</u>	<u>24.89%</u>	<u>20.81%</u>

Statutory contribution rates for employer and employee contributions were 21.81% and 20.81% of qualifying payroll for the years ended September 30, 2006 and 2005, respectively. The statutory employee contribution rate for the DB Plan was 9.50% of qualifying payroll for both years.

The Plan utilizes the actuarial cost method termed "entry age normal." Significant actuarial assumptions are as follows:

	<u>2004</u> <u>Actuarial Valuation</u>	<u>2003</u> <u>Actuarial Valuation</u>
Interest rate and rate of return	7.0%	7.0%
Payroll growth	3.5%	3.5%
Salary increases	4.0% - 8.5%	4.0% - 8.5%

The actuarial valuations performed as of September 30, 2004, 2003, and 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 Public School System as a separate sponsor, the accrued unfunded liability for September 30, 2006, 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.

GUAM PUBLIC SCHOOL SYSTEM

Notes to Financial Statements
September 30, 2006

(4) Unfunded Retirement Fund Contribution, Continued

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 GPSS of retirement contributions for the year ended September 30, 2006 approximated \$30.7 million, which is 81% of the required contribution amount of \$37.8 million. Contributions for the years ended September 30, 2005 and 2004 approximated \$30.4 million and \$23 million, respectively.

The Government of Guam Retirement Fund issues annual financial reports that include its financial statements and required supplementary information. Reports may be obtained in writing to the Director of the Government of Guam Retirement Fund, 424 A Route 8, Maite, Guam 96910.

(5) Retirement Liability

As of September 30, 2006, a total of \$17,174,884 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, 2006, this liability includes interest and penalties totaling \$4,601,584.

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, 2006, the Government of Guam general fund paid interest totaling \$2,315,460 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 2006 appropriates \$5,500,000 of 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 2006 is \$7,805,899, which is accounted for in GPSS's general fund, except for \$373,867, which is accounted for in GPSS's special revenue fund.

GUAM PUBLIC SCHOOL SYSTEM

Notes to Financial Statements
September 30, 2006

(8) Due from Government Agencies

Due from Primary Government consists of receivables from the Government of Guam General Fund. At September 30, 2006, the GPSS has been informed that it has fiscal year 2006 appropriations due from the Government of Guam of \$2,340,172. GPSS has not received any of the remaining 2006 appropriations subsequent to September 30, 2006 to date. Therefore, revenue recognition for the remaining receivables has been deferred and will only occur upon receipt of the cash. The net receivable is as follows:

Receivable from the Government of Guam	\$ 15,705,706
Amount deferred	<u>13,365,534</u>
Net receivable from the Government of Guam	\$ <u>2,340,172</u>

(9) Municipal School Lease Agreement

On May 25, 2005, the Government of Guam, acting through GPSS, entered into a financing lease agreement with a third party for the design, construction and maintenance of new schools on Guam, with lease payments funded by a pledge of U.S. Compact Impact Fund revenues. The lease agreement is effective October 1, 2006; however, certain payments were due and payable on September 1, 2005 and December 1, 2005 of \$6,100,000 and \$6,100,000, respectively, during the construction period. As of September 30, 2006, construction of these new schools has yet to commence. Accordingly, these payments have not been made to initially fund the project, but are expected to occur in fiscal year 2007. The lease agreement contains an automatic renewal clause, which provides for consecutive one-year terms, in order to create a lease term through September 30, 2024. GovGuam management is of the opinion that this agreement represents a capital lease and will accordingly account for the agreement in that manner when construction commences.

At September 30, 2006, future minimum lease payments for the aforementioned lease are as follows:

<u>Year Ending</u> <u>September 30,</u>	
2007	\$ 18,300,000
2008	6,100,000
2009	6,100,000
2010	6,100,000
2011	6,100,000
2012-2016	30,500,000
2017-2021	30,500,000
2022-2024	<u>18,300,000</u>
	\$ <u>122,000,000</u>

GUAM PUBLIC SCHOOL SYSTEM

**REQUIRED SUPPLEMENTARY
INFORMATION**

YEAR ENDED SEPTEMBER 30, 2006

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Revenues, Expenditures, and Changes in Deficit - Budget and Actual
General Fund
Year Ended September 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual - Budgetary Basis</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Revenues:				
Local appropriations				
General fund - textbooks	\$	\$ 3,500,000	\$ 3,500,000	\$ -
GPSS Operations Fund	160,569,362	160,569,362	147,203,826	(13,365,536)
ECEAPE Fund	160,000	160,000	160,000	-
Public library system fund	-	899,285	899,285	-
Healthy futures fund	833,662	833,662	908,662	75,000
Territorial Education Facilities Fund	307,400	307,400	232,400	(75,000)
Federal contributions	5,500,000	5,500,000	7,478,735	1,978,735
Cafeteria sales	-	-	923,068	923,068
Fees and other program receipts	-	-	852,181	852,181
	<u>167,370,424</u>	<u>171,769,709</u>	<u>162,158,157</u>	<u>(9,611,552)</u>
Expenditures - Budgetary Basis:				
Personnel	-	-	133,398,187	(133,398,187)
Utilities	-	-	12,202,649	(12,202,649)
Contractual	-	-	9,475,678	(9,475,678)
Supplies/equipment	-	-	1,266,514	(1,266,514)
Capital Outlay	-	-	1,491,624	(1,491,624)
Textbooks	3,500,000	4,555,431	5,203,221	(647,790)
Food services	5,500,000	5,636,342	8,785,479	(3,149,137)
Other	158,370,424	166,809,977	2,177,408	164,632,569
	<u>167,370,424</u>	<u>177,001,750</u>	<u>174,000,760</u>	<u>3,000,990</u>
Excess (deficiency) of revenues over (under) expenditures	-	(5,232,041)	(11,842,603)	(6,610,562)
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	-	-	5,232,040	5,232,040
Unreserved deficit at beginning of year	<u>(47,073,044)</u>	<u>(47,305,084)</u>	<u>(47,305,084)</u>	<u>-</u>
Unreserved deficit at end of year	<u>\$ (47,073,044)</u>	<u>\$ (52,537,125)</u>	<u>\$ (53,915,647)</u>	<u>\$ (1,378,522)</u>

See accompanying independent auditors' report.

GUAM PUBLIC SCHOOL SYSTEM

Notes to Required Supplementary Information – Budgetary Reporting September 30, 2006

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 2006, Public Law 28-68 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, 2006, the general fund has significant budget-to-actual deficits as follows:

Operations	\$ 6,797,917
Food Services	\$ 3,149,137

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, 2006

GUAM PUBLIC SCHOOL SYSTEM

Special Revenue Funds and Agency Fund September 30, 2006

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, 2006, 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, 2006

(With Comparative Totals as of September 30, 2005)

<u>ASSETS</u>	<u>2006</u>	<u>2005</u>
Current assets:		
Cash and cash equivalents	\$ 5,617,438	\$ 1,121,123
Receivables:		
Federal grants and reimbursement receivables	3,516,617	5,520,367
Due from primary government	15,705,706	9,183,050
Prepayments	565,141	402,207
Total current assets	<u>25,404,902</u>	<u>16,226,747</u>
Noncurrent assets:		
Capital assets, net of accumulated depreciation	<u>142,215,149</u>	<u>146,229,453</u>
Total noncurrent assets	<u>142,215,149</u>	<u>146,229,453</u>
Total assets	<u>167,620,051</u>	<u>162,456,200</u>
 <u>LIABILITIES</u> 		
Current liabilities:		
Current portion of payment arrangement with GPA	1,339,642	867,875
Accounts payable	20,443,048	14,446,495
Accrued payroll	5,823,853	5,369,192
Other accruals and liabilities	557,970	2,613,140
Deferred revenues	13,365,534	-
Retirement payable	17,174,884	16,741,014
Current portion of compensated absences	2,505,130	1,203,514
Total current liabilities	<u>61,210,061</u>	<u>41,241,230</u>
Noncurrent liabilities:		
Compensated absences, net of current portion	1,029,074	1,845,096
Accrued sick leave liability	3,386,049	3,283,542
Unfunded pension liability	61,661,063	54,489,088
Payment arrangement with GPA, net of current portion	11,883,707	13,097,404
Total noncurrent liabilities	<u>77,959,893</u>	<u>72,715,130</u>
Total liabilities	<u>139,169,954</u>	<u>113,956,360</u>
 <u>NET ASSETS</u> 		
Invested in capital assets, net of related debt	142,215,149	146,229,453
Restricted for:		
Federal programs	3,113,700	4,116,386
Unrestricted	<u>(116,878,752)</u>	<u>(101,845,999)</u>
Total net assets	<u>\$ 28,450,097</u>	<u>\$ 48,499,840</u>

See accompanying independent auditors' report.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Activities - Governmental Activities

Year Ended September 30, 2006

(With Comparative Totals for the Year Ended September 30, 2005)

	2006	2005 (As Restated)
Program Revenues:		
Elementary Education	\$ 14,214,727	\$ 15,572,968
Secondary Education	3,955,771	3,936,012
Direct Student Support	26,788,061	25,112,976
General Administration	867,676	5,287,376
Total program revenues	45,826,235	49,909,332
Expenses for Governmental Activities:		
Elementary Education	88,706,717	75,923,542
Secondary Education	76,599,676	63,268,042
Direct Student Support	36,391,813	37,462,728
General Administration	25,412,861	53,151,927
Total expenses for governmental activities	227,111,067	229,806,239
Deficiency of program revenues under expenses	(181,284,832)	(179,896,907)
General revenues:		
Appropriations:		
Operations	156,882,908	149,079,118
Textbooks	3,500,000	3,200,000
Other	639,967	185,500
Interest income	212,214	42,547
Total general revenues	161,235,089	152,507,165
Change in net assets	(20,049,743)	(27,389,742)
Net assets at beginning of year	48,499,840	75,889,582
Net assets at end of year	\$ 28,450,097	\$ 48,499,840

See accompanying independent auditors' report.

GUAM PUBLIC SCHOOL SYSTEM

Balance Sheet
Governmental Funds
September 30, 2006

(With Comparative Totals as of September 30, 2005)

<u>ASSETS</u>	2006			2005		
	General	Federal Grants Assistance	Total	General	Federal Grants Assistance	Total
Cash and cash equivalents	\$ 4,929,360	\$ 688,078	\$ 5,617,438	\$ 606,868	\$ 514,255	\$ 1,121,123
Receivables from Federal agencies	1,197,786	2,318,831	3,516,617	1,256,710	4,263,657	5,520,367
Due from primary government	15,705,706	-	15,705,706	9,183,050	-	9,183,050
Prepayments	462,425	102,716	565,141	298,491	103,716	402,207
Due from other funds	-	2,058,607	2,058,607	-	3,063,559	3,063,559
Total assets	\$ 22,295,277	\$ 5,168,232	\$ 27,463,509	\$ 11,345,119	\$ 7,945,187	\$ 19,290,306
<u>LIABILITIES AND FUND</u>						
<u>BALANCES (DEFICIT)</u>						
Liabilities:						
Accounts payable	\$ 19,284,220	\$ 1,158,828	\$ 20,443,048	\$ 14,013,448	\$ 433,047	\$ 14,446,495
Accrued payroll	4,914,542	909,311	5,823,853	4,164,835	1,204,357	5,369,192
Other liabilities and accruals	442,653	115,317	557,970	1,299,743	1,313,397	2,613,140
Deferred revenues	13,365,534	-	13,365,534	-	-	-
Retirement payable	17,174,884	-	17,174,884	16,741,014	-	16,741,014
Payable to federal agencies	163,591	2,950,109	3,113,700	170,285	3,946,101	4,116,386
Due to other funds	2,058,607	-	2,058,607	3,063,559	-	3,063,559
Notes payable	13,223,349	-	13,223,349	13,965,279	-	13,965,279
Total liabilities	70,627,380	5,133,565	75,760,945	53,418,163	6,896,902	60,315,065
Fund Balances (deficit):						
Reserved for:						
Encumbrances	5,583,544	3,391,720	8,975,264	5,232,040	9,694,500	14,926,540
Unreserved	(53,915,647)	(3,357,053)	(57,272,700)	(47,305,084)	(8,646,215)	(55,951,299)
Total fund balances (deficits)	(48,332,103)	34,667	(48,297,436)	(42,073,044)	1,048,285	(41,024,759)
Total liabilities and fund balances	\$ 22,295,277	\$ 5,168,232	\$ 27,463,509	\$ 11,345,119	\$ 7,945,187	\$ 19,290,306

See accompanying independent auditors' report.

GUAM PUBLIC SCHOOL SYSTEM

Reconciliation of Deficit to the Statement of Net Assets
September 30, 2006
(With Comparative Totals as of September 30, 2005)

	<u>2006</u>	<u>2005</u>
Total deficit	\$ (48,297,436)	\$ (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 and infrastructure, net of \$63,912,141 and \$59,542,933 of accumulated depreciation, respectively	142,215,149	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	(6,920,253)	(6,332,152)
Unfunded pension liability	(61,661,063)	(54,489,088)
Amounts due to federal agencies are recorded as liabilities in the funds	<u>3,113,700</u>	<u>4,116,386</u>
Net assets of governmental activities	<u>\$ 28,450,097</u>	<u>\$ 48,499,840</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, 2006
 (With Comparative Totals for the Year Ended September 30, 2005)

	2006			2005		
	General	Federal Grants Assistance	Total	General	Federal Grants Assistance	Total
Revenues:						
Appropriations	\$ 152,904,173	\$ -	\$ 152,904,173	\$ 146,793,568	\$ -	\$ 146,793,568
Federal grants and contributions	7,478,735	45,550,946	53,029,681	5,528,097	46,719,324	52,247,421
Cafeteria sales	923,068	-	923,068	657,888	-	657,888
Fees and other program receipts	852,181	-	852,181	185,500	-	185,500
Total revenues	162,158,157	45,550,946	207,709,103	153,165,053	46,719,324	199,884,377
Expenditures:						
Current:						
Elementary Education	74,491,990	14,214,727	88,706,717	58,374,153	15,572,968	73,947,121
Secondary Education	72,643,905	3,955,771	76,599,676	56,741,961	3,936,012	60,677,973
Direct Student Support	10,526,819	25,864,993	36,391,812	13,007,640	24,455,088	37,462,728
General Administration	10,754,502	2,529,073	13,283,575	41,186,861	2,087,150	43,274,011
Total expenditures	168,417,216	46,564,564	214,981,780	169,310,615	46,051,218	215,361,833
Excess (deficiency) of revenues over (under) expenditures	(6,259,059)	(1,013,618)	(7,272,677)	(16,145,562)	668,106	(15,477,456)
Fund balances (deficit) at beginning of year	(42,073,044)	1,048,285	(41,024,759)	(25,927,482)	380,179	(25,547,303)
Fund balances (deficit) at end of year	\$ (48,332,103)	\$ 34,667	\$ (48,297,436)	\$ (42,073,044)	\$ 1,048,285	\$ (41,024,759)

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, 2006

(With Comparative Totals as of September 30, 2005)

	2006	2005
Amounts reported for governmental activities in the statement of activities are different because:		
Net change in deficit - total governmental funds	\$ (7,272,677)	\$ (15,477,456)
(Less) Plus:		
Change in capital assets	354,904	-
Change in annual leave activity	(588,101)	348,839
Change in amounts due to federal agencies	(1,002,685)	2,532,121
Retirement contribution and accrual	(7,171,976)	(10,207,756)
Depreciation expense	(4,369,208)	(4,585,490)
Change in net assets of governmental activities	\$ (20,049,743)	\$ (27,389,742)

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, 2006

(With Comparative Totals for the Year Ended September 30, 2005)

	2006				2005			
	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)
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	-	3,500,000	3,500,000	-	5,200,000	5,200,000	3,200,000	(2,000,000)
GFSS Operations Fund	160,569,362	160,569,362	147,203,826	(13,365,536)	-	-	-	-
ECEAPE Fund	160,000	160,000	160,000	-	-	-	-	-
Safe home, safe streets fund	-	899,285	899,285	-	100,000	100,000	100,000	-
Public library system fund	-	833,662	908,662	75,000	-	1,127,814	630,577	(497,237)
Healthy futures fund	833,662	833,662	908,662	75,000	833,662	833,662	798,662	(35,000)
Territorial Education Facilities Fund	307,400	307,400	232,400	(75,000)	-	-	-	-
Federal contributions	5,500,000	5,500,000	7,478,735	1,978,735	5,500,000	5,500,000	5,528,097	28,097
Cafeteria sales	-	-	923,068	923,068	-	-	657,888	657,888
Fees and other program receipts	-	-	852,181	852,181	-	-	185,500	185,500
Total revenues	167,370,424	171,769,709	162,158,157	(9,611,552)	165,364,094	161,296,908	153,165,053	(8,131,855)
Expenditures - Budgetary Basis:								
Personnel	-	-	133,398,187	(133,398,187)	134,846,177	128,846,177	130,327,399	(1,481,222)
Utilities	-	-	12,202,649	(12,202,649)	8,000,000	8,006,534	11,136,777	(3,130,243)
Contractual	-	-	9,475,678	(9,475,678)	3,230,432	4,594,893	8,984,095	(4,389,202)
Supplies/equipment	-	-	1,266,514	(1,266,514)	4,453,823	4,978,831	3,743,772	1,235,059
Capital outlay	-	-	1,491,624	(1,491,624)	3,200,000	3,832,453	2,795,855	1,036,598
Textbooks	3,500,000	4,555,431	5,203,221	(647,790)	5,200,000	6,584,375	7,875,389	(1,291,014)
Food service	5,500,000	5,636,342	8,785,479	(3,149,137)	5,500,000	5,500,000	8,785,479	(3,285,479)
Other	158,370,424	166,809,977	2,177,408	164,632,569	933,662	2,941,601	893,889	2,047,712
Total expenditures	167,370,424	177,001,750	174,000,760	3,000,990	165,364,094	165,284,864	174,542,655	(9,257,791)
Excess (deficiency) of revenues over (under) expenditures	-	(5,232,041)	(11,842,603)	(6,610,562)	-	(3,987,956)	(21,377,602)	(17,389,646)
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	(47,073,044)	(47,305,084)	5,232,040	5,232,040	(29,915,438)	(29,915,438)	3,987,956	3,987,956
Deficit at beginning of year	(47,073,044)	(47,305,084)	(47,305,084)	-	(29,915,438)	(29,915,438)	(29,915,438)	-
Deficit at end of year	\$ (47,073,044)	\$ (52,537,125)	\$ (53,915,647)	\$ (1,378,522)	\$ (29,915,438)	\$ (33,903,394)	\$ (47,305,084)	\$ (13,401,690)

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, 2006
 (With Comparative Totals for the Year Ended September 30, 2005)

	2006			2005		
	General	Federal Grants Assistance	Total	General	Federal Grants Assistance	Total
Revenues:						
Local appropriations	\$ 152,904,173	\$ -	\$ 152,904,173	\$ 146,793,568	\$ -	\$ 146,793,568
Federal grants and contributions	7,478,735	45,550,946	53,029,681	5,528,097	46,719,324	52,247,421
Cafeteria sales	923,068	-	923,068	657,888	-	657,888
Fees and other program receipts	852,181	-	852,181	185,500	-	185,500
Total revenues	162,158,157	45,550,946	207,709,103	153,165,053	46,719,324	199,884,377
Expenditures:						
Salaries	105,057,030	26,692,408	131,749,438	104,366,506	27,609,037	131,975,543
Benefits	28,286,367	6,152,295	34,438,662	25,910,107	6,452,505	32,362,612
Contractual	12,463,371	5,637,036	18,100,407	12,065,916	4,063,520	16,129,436
Power	10,004,074	-	10,004,074	10,229,556	-	10,229,556
Supplies	3,764,852	2,830,310	6,595,162	5,903,666	3,054,719	8,958,385
Textbooks	3,345,910	-	3,345,910	6,819,958	-	6,819,958
Capital outlay	1,491,624	1,013,499	2,505,123	1,834,361	1,739,945	3,574,306
Equipment	630,656	2,447,045	3,077,701	446,672	2,031,117	2,477,789
Travel	260,947	831,392	1,092,339	97,175	828,502	925,677
Interest	607,125	-	607,125	637,949	-	637,949
Water	1,555,500	-	1,555,500	556,523	-	556,523
Phone	643,076	5,199	648,275	349,500	13,272	362,772
Overtime	54,790	40,824	95,614	50,786	60,030	110,816
Stipends and other	251,894	914,556	1,166,450	41,940	198,571	240,511
Total expenditures	168,417,216	46,564,564	214,981,780	169,310,615	46,051,218	215,361,833
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(6,259,059)	(1,013,618)	(7,272,677)	(16,145,562)	668,106	(15,477,456)
Fund balances (deficit), beginning of year	(42,073,044)	1,048,285	(41,024,759)	(25,927,482)	380,179	(25,547,303)
Fund balance (deficit), end of year	\$ (48,332,103)	\$ 34,667	\$ (48,297,436)	\$ (42,073,044)	\$ 1,048,285	\$ (41,024,759)

See accompanying independent auditors' report.

GUAM PUBLIC SCHOOL SYSTEM

Agency Fund
September 30, 2006

The schedule of cash receipts and cash disbursements for the agency fund during fiscal year 2006 is as follows:

	<u>NAF</u>	<u>Deed</u>	<u>Total</u>
Cash balance at beginning of year	\$ 775,389	80,896	856,285
Adjustments	51,870	13,383	65,253
	827,259	94,279	921,538
 Cash receipts:			
Elementary school activities	277,562	392,501	670,063
Secondary school activities	1,165,274	-	1,165,274
Total receipts	1,442,836	392,501	1,835,337
 Cash disbursements:			
Elementary school activities	317,282	456,348	773,630
Secondary school activities	1,290,626	-	1,290,626
Total disbursements	1,607,908	456,348	2,064,256
 Deficiency of receipts over disbursements	 (165,072)	 (63,847)	 (228,919)
Cash balance at end of year	\$ 662,187	30,432	692,619

The number of individual funds at the schools during fiscal year 2006 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, 2006

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

	Employee Count as of PPE <u>September 30, 2006</u>	Employee Count as of PPE <u>October 1, 2005</u>
100% Locally Funded	2,997	2,538
100% Federally Funded	809	1,139
Locally/Federally Funded	<u>55</u>	<u>482</u>
Total Employee Count	<u>3,861</u>	<u>4,159</u>

See accompanying independent auditors' report.