

**GUAM DEPARTMENT OF EDUCATION**  
**(A LINE AGENCY OF THE GOVERNMENT**  
**OF GUAM'S GENERAL FUND)**

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

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**YEAR ENDED SEPTEMBER 30, 2009**

# GUAM DEPARTMENT OF EDUCATION

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## **INDEPENDENT AUDITORS' REPORT**

Dr. Nerissa Bretania Underwood, Ph. D  
Superintendent of Education  
Guam Department of Education

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Guam Department of Education (GDOE), a line agency of the Government of Guam's general fund, as of and for the year ended September 30, 2009, which collectively comprise GDOE's basic financial statements as set forth in Section II of the foregoing table of contents. These financial statements are the responsibility of the Guam Department of Education's management. Our responsibility is to express an opinion on the respective 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 GDOE's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1A, the financial statements of the Guam Department of Education are intended to present the financial position and the changes in financial position of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the Government of Guam that is attributable to the transactions of the Guam Department of Education. They do not purport to, and do not, present fairly the financial position of the Government of Guam as of September 30, 2009 and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

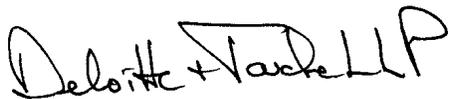
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Guam Department of Education as of September 30, 2009, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 9, the Guam Department of Education restated its 2008 financial statements to reflect the effects of the redesignation of the Government of Guam Defined Benefit Pension Plan from a single-employer plan to a cost-sharing multiple-employer plan, in conformity with the accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, on pages 3 through 8 and the Schedule of Revenues, Expenditures, and Changes in Deficit – Budget and Actual – General Fund and notes thereto, as set forth in Section III of the foregoing table of contents, are not a required part of the financial statements but are supplementary information required by the Governmental Accounting Standards Board. Such information is the responsibility of GDOE's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on GDOE's financial statements that collectively comprise GDOE's basic financial statements. The Other Supplementary Information, as set forth in Section IV of the foregoing table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements of GDOE. This supplementary information is the responsibility of GDOE's management. Such 2009 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 March 31, 2010, on our consideration of the Guam Department of Education's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 that reads "Deloitte + Touche LLP". The signature is written in a cursive, stylized font.

March 31, 2010

# GUAM DEPARTMENT OF EDUCATION

## Management's Discussion and Analysis Year Ended September 30, 2009

### INTRODUCTION

The Guam Department of Education (GDOE) 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 and Analysis presents a synopsis of the financial activities for Fiscal Year ending September 30, 2009, along with the operational challenges in providing an adequate public education to 30,769<sup>1</sup> school children. The operational and financial obstacles to successfully manage public education is a result of the public school systems' arduous statutory and policy requirements, limiting management's ability to maximize resources, crippled by the dependency on local government appropriations. Note that Public Law 30-50 changed the name of the Department back to the Department of Education from Guam Public School System on July 14, 2009.

In September 2008, Evergreen Solutions, LLC was contracted to perform a management audit of the management and curriculum of GDOE. The management audit report was issued in April 2009 and is posted on the Department's website. The Department continues to make progress in implementing recommendations contained in the report.

On September 28, 2009, U.S. Department of Education (US-Ed) sent a letter to GDOE requesting that GDOE demonstrate why US-Ed should not take immediate administrative action because of GDOE's lack of fiscal and programmatic accountability in the administration of the Department's funds. This was precipitated by the resignation of key staff, high profile procurement issues and poor results of the US-Ed confirmation of progress on the Comprehensive Corrective Action Plan (CCAP). Despite the fact that GDOE has been able to: (1) provide timely audits in the last two years; (2) significantly reduce the number of findings and the amount of questioned costs; and (3) resolve any programmatic concerns. On November 25, 2009, US-Ed subsequently amended the Special Conditions to include the requirement of a Third Party Fiduciary Agent to monitor all US-Ed grants. This letter is posted on the GDOE website.

As management of GDOE, we offer readers of its financial statements this narrative overview and analysis of its financial activities for the Fiscal Year ended September 30, 2009. This discussion was prepared by GDOE's management along with the financial statements and related footnote disclosures and should be read in conjunction with GDOE's basic financial statements and related notes. The completion of the 2009 single audit represents GDOE's commitment to, and support of, programmatic and financial accountability.

### FISCAL YEAR 2009 OVERVIEW

#### Local Appropriations

GDOE receives most of its funds through local government appropriations from the General Fund of the Government of Guam. The General Fund is the same source of revenue that funds all other line agencies and departments, hence, the financial impact of the "General Fund" on public education is a concern. Without a consistent and dedicated funding source, the ability to provide an adequate public education will continue to be compromised.

Pursuant to Public Law (P.L.) 29-113, total local government appropriations (including the Interscholastic Sports Fund, Health and Physical Activities Fund, Suruhano, School Nutritional Meals, and Textbook Fund) for the department increased from \$183,443,455 in fiscal year 2008 to \$189,753,771 in Fiscal Year 2009. Of this amount, \$169,516,690 is appropriated from the General Fund and \$9,875,705 is appropriated from the Territorial Education Facilities Fund, both for operational needs, with the remaining amount of \$10,361,376 appropriated from the General Fund (\$2,163,041), Nutritional Meal Reimbursement Fund (\$7,500,000) and the Healthy Futures Fund (\$698,335) for designated purposes as follows:

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<sup>1</sup> Department of Education Official Student Enrollment for SY2009-10 September 30, 2009

**GUAM DEPARTMENT OF EDUCATION**

Management's Discussion and Analysis  
Year Ended September 30, 2009

Interscholastic Sports	\$ 426,581
Health and Physical Education Activities	271,754
Office of the Education Suruhanu	163,041
Textbooks	2,000,000
School Nutritional Meals Program	<u>7,500,000</u>
	\$ <u>10,361,376</u>

Although P.L. 29-113 appropriated \$7.5 million for the School Nutritional Meals program, these funds are not local appropriations; but, rather Federal reimbursement funds provided by the US Department of Agriculture, Food and Nutrition Services (USDA, FNS) for meals served to students in the public school system and the Department of Defense Education Activity-Domestic Dependents Elementary and Secondary Schools (DoDEA-DDESS), wards of the Department of Youth Affairs, and children that attend various child care centers.

Public Law 29-102 appropriated GDOE the sum of \$800,000 from the FY09 General Fund Revenues for the purchase of Library books for the new schools. Textbook appropriations of \$2.9 million from the previous fiscal year were made available in FY2009. In addition, there were \$666,895 in revenues generated from passport fees deposited into the Public School Library Resources Fund that were not released to the Department.

**Figure 1 is shown below:**

Fiscal Year	GEPB Approved Budget	Appropriation	Received	Appropriation vs Approved Budget		Received vs Appropriation	
2007	\$202,858,320	\$174,387,107	\$174,269,817	\$ (28,471,213)	\$ (117,290)		
2008	\$274,069,377	\$180,928,992	\$179,137,074	\$ (93,140,385)	\$ (1,791,918)		
2009	\$263,048,293	\$186,620,666	\$179,698,779	\$ (76,427,627)	\$ (6,921,887)		

**Figure 1**

Note: GDOE does not receive cash allotments of \$7,500,000 for the School Nutritional Meals Fund as such represent Federal Reimbursements by the United States Department of Agriculture, Food and Nutrition Services. Therefore, it was deducted from the appropriation column.

The balance of allotments due to GDOE of \$6,921,887 is broken down as follows:

General Fund	\$ 5,991,256
Interscholastic Sports	52,915
Health and Physical Education Activities	101,650
Public School Library Resources Fund	748,895
Office of the Education Suruhanu	<u>27,171</u>
	\$ <u>6,921,887</u>

In FY2010, GDOE subsequently received \$6,117,161, leaving a balance of \$804,726.

In April 2009, GDOE submitted to the Guam Legislature a supplemental budget request of \$8.977 million for various legal settlements, subsidies for the school nutritional meals program and textbooks. This supplemental request was not acted on. However, because the Department would not have been able to continue to stay open without additional spending authority for operations, PL 30-56 gave GDOE the

# GUAM DEPARTMENT OF EDUCATION

## Management's Discussion and Analysis Year Ended September 30, 2009

authority to use Bond proceeds to cover the \$4.3 million in operational shortfalls for FY2009. Unless replenished, this will severely impact the Department's future ability to fund maintenance projects using the Bond proceeds.

There were \$12,106,301 of carry over funds available from the Bond proceeds for maintenance projects. However, \$3,668,023 has been put into reserve by the Department of Administration for the Landfill and, as discussed above, a portion was used to cover operational shortfalls towards the end of FY2009.

The Department of Administration was appropriated \$10,867,640 to pay for debt to the retirement fund for GDOE in FY2009. However, GDOE continues to have a liability of approximately \$6.6 million for retirement and utilities obligations.

### Federal Grants and Programs

In Fiscal Year 2009, the following amounts were expended by GDOE through a variety of Federal grants:

Grantor	Amount
US Department of Agriculture	\$ 8,048,030
US Department of Defense	327,965
US Department of the Interior	7,191,820
US Department of Education	33,249,995
US Department of Health & Human Services	2,250,865
US Department of Homeland Security	21,007
Subtotal <sup>2</sup>	\$51,089,682
JROTC and Commodities Expenses	(919,278)
Municipal School Lease (Compact Impact)	9,734,250
Total Federal Expenditures <sup>3</sup>	\$59,904,654

This represents 23% of total expenditures for FY2009 of \$260,245,067.

## FINANCIAL ANALYSIS OF GUAM DEPARTMENT OF EDUCATION AS A WHOLE

### Overview of the Financial Statements

GDOE is a line agency of the Government of Guam's General Fund. Its policies are established by a combination of elected and Governor-appointed board members. GDOE operates twenty-seven (27) elementary schools, eight (8) middle schools, five (5) high schools, and one (1) alternative education school.

GDOE's department-wide 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 GDOE 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.

<sup>2</sup> Schedule of Expenditures of Federal Award, page 5 of Single Audit Report

<sup>3</sup> Statement of Revenues, Expenditures, and Changes in Fund Balance, page 13 of GDOE's 2009 Basic Financial Statements

**GUAM DEPARTMENT OF EDUCATION**

Management's Discussion and Analysis  
Year Ended September 30, 2009

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.

**Statement of Net Assets:**

Net assets consist of current assets and capital assets, net of accumulated depreciation less both current and noncurrent liabilities.

Summary Statement of Net Assets

	<u>2009</u>	As Restated <u>2008</u>
Assets:		
Current assets	\$ 18,431,556	\$ 25,427,831
Noncurrent assets	<u>219,433,528</u>	<u>209,352,465</u>
	<u>237,865,084</u>	<u>234,780,296</u>
Liabilities:		
Current liabilities	35,165,426	45,824,010
Noncurrent liabilities	<u>77,659,295</u>	<u>65,669,229</u>
	<u>112,824,721</u>	<u>111,493,239</u>
Net assets:		
Invested in capital assets, net of related debt	149,470,699	150,569,248
Restricted for maintenance and insurance	2,690,071	2,500,000
Restricted for federal programs	2,402,447	2,478,477
Unrestricted	<u>(29,522,854)</u>	<u>(32,260,668)</u>
Total net assets	\$ <u>125,040,363</u>	\$ <u>123,287,057</u>

From 2008-2009, total assets of GDOE increased by \$3,084,788 and total liabilities increased by \$1,331,482 resulting in an **overall** increase in net assets of \$1,753,306 as noted in the Summary Statement of Revenues, Expenses, and Changes in Net Assets.

The increase in net assets is a result of cash balances on hand at the end of the fiscal year, prior year obligations paid in current year and payment of long-term debts.

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

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

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

	<u>2009</u>	As Restated <u>2008</u>
General revenues:		
Appropriations	\$ 211,449,210	\$ 206,608,311
Other	<u>-</u>	<u>60,083</u>
	<u>211,449,210</u>	<u>206,668,394</u>
Program revenues:		
Federal grants and contributions	50,404,611	54,631,679
Other	<u>892,876</u>	<u>2,771,126</u>
	<u>51,297,487</u>	<u>57,402,805</u>
Total revenues	\$ <u>262,746,697</u>	\$ <u>264,071,199</u>

# GUAM DEPARTMENT OF EDUCATION

## Management's Discussion and Analysis Year Ended September 30, 2009

	<u>2009</u>	As Restated <u>2008</u>
Program expenses:		
Elementary education	96,930,746	99,149,402
Secondary education	95,881,242	87,768,368
Direct student support	41,604,034	38,315,294
General administration	<u>26,577,369</u>	<u>21,074,467</u>
Total expenses	<u>260,993,391</u>	<u>246,307,531</u>
Change in net assets	1,753,306	17,763,668
Net assets at beginning of year	<u>123,287,057</u>	<u>105,523,389</u>
Net assets at end of year	\$ <u>125,040,363</u>	\$ <u>123,287,057</u>

The statement of revenues, expenses, and changes in net assets reflects an increase in net assets of \$1,753,306. This result excludes the prior period adjustment of \$88,196,549 related to the unfunded retirement liability, for which the 2008 amounts have been restated. Accordingly, the above financial statements have been restated. Please see note 9 for additional discussion on the restatement.

### FINANCIAL ANALYSIS OF GUAM DEPARTMENT OF EDUCATION'S FUNDS

GDOE uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. As of the end of fiscal year 2009, GDOE's governmental funds reported a combined fund deficit of \$22 million, which represents a decrease of \$5.5 million (or 20%) in comparison with the fiscal year 2008 combined fund balance deficit of \$27.5 million. This is primarily attributable to the decrease in the fund deficit of the General Fund of \$7.0 million and a decrease in fund balance of the Federal Grants Assistance Fund of \$1.5 million. Of this total combined fund deficit, \$7.1 million is reserved to indicate that it is not available for new spending because it has already been committed to liquidate contracts and purchase orders of the prior period. The combined unreserved fund deficit of GDOE's governmental funds is \$29.1 million, a decrease of \$18.6 million (or 39%) from fiscal year 2008. This deficit will be funded through future budgetary surpluses.

### General Fund Budgetary Highlights

Differences in the General Fund original budget and the final amended budget reflected noteworthy changes in expenditure amounts and a relatively minor variance in revenue amounts. Actual General Fund resources available for spending on budgeted needs were \$4.7 million more than the final amended budget adopted by GDOE because of cafeteria sales and such fees and program receipts as Miscellaneous (Copying Services, Interest Income, etc.). Actual expenditures were \$1.9 million less than the final amended budget adopted by GDOE and were related to unspent restricted balances in special funds. A detailed statement of budget variances for the General Fund can be found within the other supplemental information accompanying the basic financial statements.

### CAPITAL ASSET AND DEBT ADMINISTRATION

#### Capital Assets

The Government of Guam has assisted GDOE in obtaining access to new schools through a capital lease program. This program resulted in access to one new school during the year ended September 30, 2009: Adacao Elementary School. Outside of this capital lease program, other capital assets were acquired through proceeds from a Government of Guam bond refunding issue, which set aside various funds for the repair and maintenance of schools. For additional information concerning capital assets, please refer to notes 1M and 8 of the accompanying financial statements.

# **GUAM DEPARTMENT OF EDUCATION**

Management's Discussion and Analysis  
Year Ended September 30, 2009

## **Debt Administration**

In total, four schools were constructed through a capital lease program in the amount of \$88.5 million. No material construction commitments exist outside of this program. For additional information concerning GDOE debt, please refer to notes 2 and 8 to the accompanying financial statements.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

In 2006, Guam was chosen as the location for the military build-up from Okinawa, Japan. The build-up would consist of relocating 8,000 U.S. Marines and their families to Guam, improving the Guam Naval Base to serve as the forward operations and logistics hub, and developing Andersen Air Force Base to serve as the new forward-base requirements. This move will occur during 2010 through 2014. The increase in military presence will provide challenges for Guam's economy especially in education. Although the military provides its own school system, DoDEA-DDESS, for dependent children whose parents are full-time military, contract workers will more than likely bring their children, which will increase GDOE's student enrollment.

Guam's economy is struggling to keep up with the financial needs of its schools and a budget deficit. With an expected increase in population with the military buildup, Guam can expect an increase in revenues via income taxes paid by all island residents that contribute to Guam's General Fund. The increase in revenues, however, will not be realized until after the military actually relocates to Guam, yet Guam and GDOE must prepare.

In Fiscal Year 2009, GDOE opened one new school, Adacao Elementary School. Additionally, because the construction of the JFK campus is under protest, a lease was obtained to temporarily house the JFK staff and students until the new school is constructed or other facilities are found. Construction of a northern high school under the capital lease program is also on hold as the site originally identified is no longer available. Note that GDOE still needs to consider six to nine more schools as recommended by the Governor's Civilian Military Task Force.

Not only does GDOE have to be concerned about the military build-up and the construction of new schools, GDOE must address the structural and infrastructure maintenance of its existing educational facilities in which the majority are over twenty-five years and older. Budget shortfalls prevent GDOE from tackling maintenance service orders for its schools. To fund the citations, GDOE used the General Issuance Bond appropriation of approximately \$5.5 million for Capital Improvement Projects. Additionally, GDOE applied for stimulus funds for school upgrades through the Office of the Governor for use in FY2010 – 2011.

With the anticipated military build-up and the existing structural concerns of school facilities, GDOE will need additional funding through a dedicated funding source to ensure that an adequate education is provided to Guam's public school children.

The Guam Legislature appropriated \$196,350,387 for fiscal year 2010.

## **MANAGEMENT CONTACT**

Management can be contacted at Guam Department of Education, P.O. Box DE, Hagatna, Guam 96932, or [tmtatitano@gdoe.net](mailto:tmtatitano@gdoe.net).

# GUAM DEPARTMENT OF EDUCATION

## Statement of Net Assets September 30, 2009

### ASSETS

Current assets:	
Cash and cash equivalents	\$ 5,981,193
Receivables from federal agencies	5,171,082
Due from primary government	6,172,073
Prepayments and other assets	<u>1,107,208</u>
Total current assets	<u>18,431,556</u>
Noncurrent assets:	
Deferred maintenance and insurance costs	2,690,071
Capital assets, net of accumulated depreciation	214,855,699
Other assets	<u>1,887,758</u>
Total noncurrent assets	<u>219,433,528</u>
Total assets	<u>\$ 237,865,084</u>

### LIABILITIES

Current liabilities:	
Current portion of payment arrangement with GPA	\$ 2,068,570
Accounts payable	14,681,978
Accrued payroll	1,438,646
Other liabilities and accruals	6,235,369
Retirement payable	6,571,317
Current portion of obligation under capital lease	2,915,000
Current portion of compensated absences payable	<u>1,254,546</u>
Total current liabilities	<u>35,165,426</u>
Noncurrent liabilities:	
Compensated absences payable, net of current portion	3,325,874
Accrued sick leave liability	5,606,363
Obligation under capital lease, net of current portion	62,470,000
Payment arrangement with GPA, net of current portion	<u>6,257,058</u>
Total noncurrent liabilities	<u>77,659,295</u>
Total liabilities	<u>112,824,721</u>
Commitments and contingencies	

### NET ASSETS

Invested in capital assets, net of related debt	149,470,699
Restricted for:	
Maintenance and insurance costs	2,690,071
Federal programs	2,402,447
Unrestricted	<u>(29,522,854)</u>
Total net assets	<u>125,040,363</u>
	<u>\$ 237,865,084</u>

See accompanying notes to financial statements.

**GUAM DEPARTMENT OF EDUCATION**

Statement of Activities  
Year Ended September 30, 2009

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	
<b>Governmental Activities:</b>				
Elementary Education	\$ 96,930,746	\$ -	\$ 11,633,873	\$ (85,296,873)
Secondary Education	95,881,242	-	3,735,128	(92,146,114)
Direct Student Support	41,604,034	892,876	27,206,432	(13,504,726)
General Administration	26,577,369	-	729,178	(25,848,191)
Capital projects	-	-	7,100,000	7,100,000
<b>Total governmental activities</b>	<b>\$ 260,993,391</b>	<b>\$ 892,876</b>	<b>\$ 50,404,611</b>	<b>(209,695,904)</b>
General revenues:				
Appropriations:				
				206,549,210
				4,900,000
				<u>211,449,210</u>
				Change in net assets <u>1,753,306</u>
				Net assets at beginning of year, as previously reported 35,090,508
				Prior period adjustment (see Note 9) <u>88,196,549</u>
				Net assets at beginning of year, as restated <u>123,287,057</u>
				Net assets at end of year \$ <u><u>125,040,363</u></u>

See accompanying notes to financial statements.

**GUAM DEPARTMENT OF EDUCATION**

Balance Sheet  
Governmental Funds  
September 30, 2009

<u>ASSETS</u>	<u>General</u>	<u>Special Revenue Federal Grants Assistance</u>	<u>Total</u>
Cash and cash equivalents	\$ 4,086,222	\$ 1,894,971	\$ 5,981,193
Receivables from Federal agencies	-	5,171,082	5,171,082
Due from primary government	6,172,073	-	6,172,073
Prepayments and other assets	393,874	-	393,874
Due from other funds	1,246,443	-	1,246,443
Total assets	<u>\$ 11,898,612</u>	<u>\$ 7,066,053</u>	<u>\$ 18,964,665</u>
 <u>LIABILITIES AND FUND BALANCES (DEFICIT)</u>			
Liabilities:			
Accounts payable	\$ 12,004,884	\$ 2,677,094	\$ 14,681,978
Accrued payroll	1,214,951	223,695	1,438,646
Other liabilities and accruals	5,717,175	250,839	5,968,014
Retirement payable	6,305,782	265,535	6,571,317
Deferred revenues	267,355	2,402,447	2,669,802
Due to other funds	-	1,246,443	1,246,443
Payment arrangement with GPA	8,325,628	-	8,325,628
Total liabilities	<u>33,835,775</u>	<u>7,066,053</u>	<u>40,901,828</u>
 Fund balances (deficit):			
Reserved for:			
Encumbrances	4,461,973	2,633,071	7,095,044
Unreserved deficit	<u>(26,399,136)</u>	<u>(2,633,071)</u>	<u>(29,032,207)</u>
Total fund balances (deficit)	<u>(21,937,163)</u>	<u>-</u>	<u>(21,937,163)</u>
Total liabilities and fund balances	<u>\$ 11,898,612</u>	<u>\$ 7,066,053</u>	<u>\$ 18,964,665</u>

See accompanying notes to financial statements.

**GUAM DEPARTMENT OF EDUCATION**

Reconciliation of Deficit to Net Assets of Governmental Activities  
September 30, 2009

Total deficit-governmental funds		\$ (21,937,163)
Amounts reported for governmental activities in the statement of net assets are different because:		
Prepayment of capital lease obligations in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. These assets consist of:		
Prepayment-interest	556,667	
Prepayment-maintenance	<u>156,667</u>	713,334
Borrowing costs associated with capital lease obligations in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		1,887,758
Maintenance costs associated with capital lease obligations in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		2,690,071
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. These assets consist of:		
Buildings and improvements	291,617,819	
Vehicles, furniture and equipment	4,426,677	
Accumulated depreciation	<u>(81,188,797)</u>	
Capital assets, net of accumulated depreciation		214,855,699
Long - term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds. These liabilities include:		
Accrued sick leave liability	(5,606,363)	
Compensated absences payable	(4,580,420)	
Obligation under capital lease	<u>(65,385,000)</u>	
Long - term liabilities		(75,571,783)
Certain revenues are earned but not available and, therefore, are deferred in the governmental funds:		
Adjustment of deferred revenue		<u>2,402,447</u>
Net assets of governmental activities		<u>\$ 125,040,363</u>

See accompanying notes to financial statements.

**GUAM DEPARTMENT OF EDUCATION**

Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit)  
Governmental Funds  
Year Ended September 30, 2009

		<u>Special Revenue</u>	
	<u>General</u>	<u>Federal Grants Assistance</u>	<u>Total</u>
<b>Revenues:</b>			
Appropriations	\$ 211,449,210	\$ -	\$ 211,449,210
Federal grants and contributions	310,237	50,170,404	50,480,641
Cafeteria sales	766,564	-	766,564
Fees and other program receipts	126,312	-	126,312
<b>Total revenues</b>	<u>212,652,323</u>	<u>50,170,404</u>	<u>262,822,727</u>
<b>Expenditures:</b>			
<b>Current:</b>			
Elementary Education	82,160,345	11,633,873	93,794,218
Secondary Education	85,538,372	3,735,128	89,273,500
Direct Student Support	14,397,602	27,206,432	41,604,034
General Administration	24,984,108	494,971	25,479,079
<b>Debt service:</b>			
Lease payment	-	7,100,000	7,100,000
<b>Capital projects:</b>			
Capital lease acquisition	-	17,254,250	17,254,250
<b>Total expenditures</b>	<u>207,080,427</u>	<u>67,424,654</u>	<u>274,505,081</u>
Excess (deficiency) of revenues over (under) expenditures	<u>5,571,896</u>	<u>(17,254,250)</u>	<u>(11,682,354)</u>
<b>Other financing sources (uses):</b>			
Transfers in	1,456,752	-	1,456,752
Transfers out	-	(1,456,752)	(1,456,752)
Capital leases	-	17,254,250	17,254,250
<b>Total other financing sources (uses), net</b>	<u>1,456,752</u>	<u>15,797,498</u>	<u>17,254,250</u>
Net change in fund balances (deficit)	7,028,648	(1,456,752)	5,571,896
Fund balances (deficit) at beginning of year	<u>(28,965,811)</u>	<u>1,456,752</u>	<u>(27,509,059)</u>
Fund balances (deficit) at end of year	<u>\$ (21,937,163)</u>	<u>\$ -</u>	<u>\$ (21,937,163)</u>

See accompanying notes to financial statements.

**GUAM DEPARTMENT OF EDUCATION**

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund  
Balances (Deficit) to the Statement of Activities  
Year Ended September 30, 2009

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

Total net change in deficit - governmental funds	\$	5,571,896
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over the estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. For the current year, these

Capital outlays, net of disposals	19,936,674	
Depreciation expense, net	<u>(7,232,473)</u>	12,704,201

The net effect of various miscellaneous transactions involving capital assets (ie. Capital lease prepayment) is to increase net assets.		1,241,187
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The issuance of long-term debt (eg. leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. For the current year, these amounts consist of:

Capital leases	(17,254,250)	
Repayment of capital leases	<u>3,451,500</u>	(13,802,750)

Borrowing costs, deferred maintenance and insurance costs reflected as expenditures in governmental funds and reported in the statement of net assets, net of amortization.		(3,063,971)
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. For the current year, these activities consist of:

Increase in compensated absence payable	(262,916)	
Increase in accrued sick leave liability	<u>(558,311)</u>	(821,227)

Certain revenues are earned but not available and therefore are deferred in the governmental funds:

Adjustment of deferred revenues		<u>(76,030)</u>
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Change in net assets of governmental activities	\$	<u><u>1,753,306</u></u>
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See accompanying notes to financial statements.

**GUAM DEPARTMENT OF EDUCATION**

Statement of Fiduciary Net Assets  
Agency Fund  
September 30, 2009

ASSETS

Cash and cash equivalents	\$ <u>458,700</u>
Total assets	\$ <u><u>458,700</u></u>

LIABILITIES

Deposits and other liabilities	\$ <u>458,700</u>
Total liabilities	\$ <u><u>458,700</u></u>

See accompanying notes to financial statements.

# GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements  
September 30, 2009

## (1) Summary of Significant Accounting Policies

### A. Reporting Entity

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

An elected education policy board establishes policies for GDOE. GDOE operates 29 elementary schools and 14 secondary schools to provide free and appropriate education to students residing on Guam.

### B. Department-Wide Financial Statements

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

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

- *Invested in capital assets* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for other debt that is attributed to the acquisition, construction or improvement of those assets.
- *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 DEPARTMENT OF EDUCATION

Notes to Financial Statements  
September 30, 2009

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

### C. Fund Financial Statements

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

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

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

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

### D. Measurement Focus and Basis of Accounting

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

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

# GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements  
September 30, 2009

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

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

GDOE reports the following major governmental funds:

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

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

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 deposits held by GDOE or its agent in GDOE's name;   |
| Category 2 | Uninsured and unregistered, with deposits held by the broker's or dealer's trust department or agent in GDOE's name; or              |
| Category 3 | Uninsured and unregistered, with deposits held by the broker or dealer, or by its trust department or agent, but not in GDOE's name. |

# GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements  
September 30, 2009

(1) Summary of Significant Accounting Policies, Continued

G. Deposits in Banks, Continued

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

As of September 30, 2009, the carrying amount of GDOE's total cash and cash equivalents was \$5,981,193, and the corresponding bank balance was \$7,207,603, which is maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2009, bank deposits in the amount of \$250,000 were FDIC insured. The remaining bank deposits of \$6,957,603 were uncollateralized. These deposits are therefore exposed to custodial credit risk. GDOE has not experienced any significant losses in such accounts and GDOE management believes it is not exposed to any significant credit risk on its deposits.

H. Receivables

Receivables primarily consist of federal grants and appropriations from the Government of Guam general fund.

I. Prepayments

Payments made to textbook vendors for services that will benefit periods beyond September 30, 2009, are recorded as prepayments.

J. Interfund Receivables/Payables

As a general rule, the effect of interfund activity has been eliminated in the department-wide financial statements. Interfund receivables and payables have been eliminated from the Statement of Net 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.

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

**GUAM DEPARTMENT OF EDUCATION**

Notes to Financial Statements  
September 30, 2009

(1) Summary of Significant Accounting Policies, Continued

**K. Interfund Transaction**

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

During the year ended September 30, 2009, GDOE made a one-time transfer in the amount of \$1,456,752 from the Federal Grants Assistance Fund to the General Fund representing the transfer of residual fund equity.

**L. Interest Capitalized**

GDOE follows the policy of capitalizing interest as a component of the cost of property, plant and equipment constructed for its own use. During the year ended September 30, 2009, interest associated with the municipal school lease agreement of \$1,316,000 was capitalized.

**M. Capital Assets**

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

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

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

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

**GUAM DEPARTMENT OF EDUCATION**

Notes to Financial Statements  
September 30, 2009

(1) Summary of Significant Accounting Policies, Continued

M. Capital Assets, Continued

Capital asset activities for the fiscal year ended September 30, 2009 are as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Buildings and improvements	\$ 272,093,756	\$ 19,661,563	\$ (137,500)	\$ 291,617,819
Vehicles, furniture and equipment	<u>4,014,066</u>	<u>412,611</u>	<u>-</u>	<u>4,426,677</u>
	276,107,822	20,074,174	(137,500)	296,044,496
Less: accumulated depreciation	<u>(73,956,324)</u>	<u>(7,235,223)</u>	<u>2,750</u>	<u>(81,188,797)</u>
	\$ <u>202,151,498</u>	\$ <u>12,838,951</u>	\$ <u>(134,750)</u>	\$ <u>214,855,699</u>

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

Governmental activities:	
Elementary Education	\$ 2,217,336
Secondary Education	4,462,963
General Administration	<u>554,924</u>
	\$ <u>7,235,223</u>

N. Net Assets

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

Net Assets have been restricted as follows:

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

Capital improvement projects – identifies amounts appropriated by the legislature from bond proceeds to fund the capital improvement project of GDOE needed to comply with the Every Child is Entitled to an Adequate Public Education Act.

O. Deferred Assets

In the department-wide financial statements, certain maintenance costs associated with the municipal school lease agreement as well as lease issuance costs are deferred and amortized over the remaining term of the lease agreement using the straight-line method upon completion of the related capital lease assets.

P. Compensated Absences

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

1. One-half day (4 hours) for each full bi-weekly pay period in the case of employees with less than five years of service (5 years of service accrue 4 hours).

# GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements  
September 30, 2009

(1) Summary of Significant Accounting Policies, Continued

P. Compensated Absences, Continued

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.

Q. Deferred Revenues

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

R. Dedicated Revenues and Pledges

GDOE has entered into a municipal school lease agreement whereby GDOE has pledged a portion of future Compact Impact grant funds to finance annual lease payments under this agreement. This lease obligation is payable solely from Compact Impact grant revenues payable to GovGuam by the United States Government pursuant to the Compact of Free Association Act, U.S. Public Law 108-188. Total payments remaining on this municipal school lease agreement are approximately \$112,700,000 payable through December 2025. For the year ended September 30, 2009, lease payments made and total Compact Impact grant revenues received were \$7,100,000.

S. 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.

T. Total Columns

Total columns are presented primarily to facilitate financial analysis. The Management's Discussion and Analysis includes certain prior year summarized comparative information in total. Such information does not include sufficient detail to constitute a full comparative presentation. Accordingly, such information should be read in conjunction with GDOE's financial statements for the year ended September 30, 2008 from which summarized information was derived.

# GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements  
September 30, 2009

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

### U. New Accounting Standards

During fiscal year 2009, GDOE implemented the following pronouncements:

- GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation.
- GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, which improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income.
- GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which improves financial reporting by contributing to the GASB's efforts to codify all GAAP for state and local governments so that they derive from a single source.
- GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, which incorporates accounting and financial reporting guidance previously only contained in the American Institute of Certified Public Accountants (AICPA) auditing literature into the GASB's accounting and financial reporting literature for state and local governments, and addresses three issues from the AICPA's literature - related party transactions, going concern considerations, and subsequent events.

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

In June 2007, GASB issued statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GDOE.

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which is intended to improve how state and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GDOE.

**GUAM DEPARTMENT OF EDUCATION**

Notes to Financial Statements  
September 30, 2009

(1) Summary of Significant Accounting Policies, Continued

U. New Accounting Standards, Continued

In December 2008, GASB issued Technical Bulletin No. 2008-1, *Determining the Annual Required Contribution Adjustment for Postemployment Benefits*, which clarifies the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for calculating the annual required contribution (ARC) adjustment. The provisions of this statement are effective for periods beginning after December 15, 2008. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GDOE.

In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The provisions of this statement are effective for periods beginning after June 15, 2010. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GDOE.

(2) Long-Term Debt

Installment payment agreement signed with Guam Power Authority on July 20, 2004, (principal of \$15,855,083), interest rate at 4.47% per annum, 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.

\$ 8,325,628

The annual requirements to amortize the debt outstanding as of September 30, 2009, including interest payments, are as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 2,068,570	\$ 331,430	\$ 2,400,000
2011	2,162,953	237,047	2,400,000
2012	2,261,642	138,358	2,400,000
2013	<u>1,832,463</u>	<u>36,669</u>	<u>1,869,132</u>
	\$ <u>8,325,628</u>	\$ <u>743,504</u>	\$ <u>9,069,132</u>

**GUAM DEPARTMENT OF EDUCATION**

Notes to Financial Statements  
September 30, 2009

(2) Long-Term Debt, Continued

Changes in Long-Term Liabilities

Changes in long-term liabilities for the year ended September 30, 2009, 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	\$ 10,288,408	\$ -	\$ (1,962,780)	\$ 8,325,628	\$ 2,068,570
Accrued sick leave liability	5,048,052	558,311	-	5,606,363	-
Compensated absences	4,317,504	2,876,116	(2,613,200)	4,580,420	1,254,546
Obligations under capital lease	<u>51,582,250</u>	<u>17,254,250</u>	<u>(3,451,500)</u>	<u>65,385,000</u>	<u>2,915,000</u>
	<u>\$ 71,236,214</u>	<u>\$ 20,688,677</u>	<u>\$ (8,027,480)</u>	<u>\$ 83,897,411</u>	<u>\$ 6,238,116</u>

(3) Commitments and Contingencies

A. Sick Leave

It is the policy of GDOE to record the cost of sick leave when leave is actually taken and a liability is actually incurred. Generally, sick leave is paid only when an employee is absent due to illness, injury or related-family 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, 2009. The estimated accumulated amount of unused sick leave at September 30, 2009, is \$33,842,320, of which an estimated \$5,606,363 may be convertible by DCRS employees upon retirement.

B. Federal Grants

GDOE has received federal grants for specific purposes that are subject to review and audit by the grantor agencies. Questioned costs for the 2009 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.

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

**GUAM DEPARTMENT OF EDUCATION**

Notes to Financial Statements  
September 30, 2009

(3) Commitments and Contingencies, Continued

C. Non-Appropriated Funds

Non-appropriated funds are maintained at the individual schools. No provision has been recorded in the accompanying financial statements for any liability that may arise from these funds held in trust by GDOE.

D. Self-Insurance

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

E. Court Order

In April 2006, a court order was issued, ordering GDOE to pay \$3,800,000 in teacher salaries. This balance is reflected in accounts payable in the accompanying financial statements. GDOE 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 GDOE and legal costs will be incurred.

G. John F. Kennedy High School Lease

In June 2009, the Government of Guam, on behalf of GDOE, entered into a ten year operating lease agreement commencing July 1, 2009 and ending July 1, 2019 to temporarily facilitate the John F. Kennedy High School. Rent is due beginning August 1, 2009 at \$4,493,256 annually.

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

<u>Year Ending</u> <u>September 30,</u>	
2010	\$ 4,493,256
2011	4,493,256
2012	4,493,256
2013	4,493,256
2014	4,493,256
2015-2019	<u>21,717,404</u>
Total payments	\$ <u>44,183,684</u>

**GUAM DEPARTMENT OF EDUCATION**

Notes to Financial Statements  
September 30, 2009

(4) Employee Retirement Plans

Defined Benefit Plan

Plan Description:

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

The DB Plan was originally designated as a single-employer plan but was redesignated by GovGuam’s Department of Administration as a cost-sharing multiple-employer plan, effective October 1, 2008. The redesignation was based on the determination as outlined under GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers*, wherein all risks, rewards, and costs, including benefit costs, are shared and are not attributed individually to the separate employers. A single actuarial valuation is performed annually covering all plan members and the same contribution rate applies to each employer. GGRF issues a publicly available financial report that includes financial statements and required supplementary information for the DB Plan. That report may be obtained by writing to the Government of Guam Retirement Fund, 424 A Route 8, Maite, Guam 96910, or by visiting GGRF’s website – [www.ggrf.com](http://www.ggrf.com).

As more fully discussed in Note 9, the redesignation from a single-employer plan to a cost-sharing multiple-employer plan resulted in a restatement relating to the accrued unfunded liability.

Funding Policy:

As a result of actuarial valuations performed as of September 30, 2007, 2006, and 2005, contribution rates required to fully fund the Retirement Fund liability, as required by Guam law, for the years ended September 30, 2009, 2008 and 2007, respectively, have been determined by the Guam Legislature as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Normal costs (% of DB Plan payroll)	17.36%	17.94%	18.21%
Employee contributions (DB Plan employees)	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>
Employer portion of normal costs (% of DB Plan payroll)	<u>7.86%</u>	<u>8.44%</u>	<u>8.71%</u>
Employer portion of normal costs (% of total payroll)	3.70%	3.99%	4.26%
Unfunded liability cost (% of total payroll)	<u>19.68%</u>	<u>20.75%</u>	<u>20.66%</u>
Government contribution as a % of total payroll	<u>23.38%</u>	<u>24.74%</u>	<u>24.92%</u>

**GUAM DEPARTMENT OF EDUCATION**

Notes to Financial Statements  
September 30, 2009

(4) Employee Retirement Plans, Continued

Defined Benefit Plan, Continued

Plan Description, Continued:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Statutory contribution rates as a % of DB Plan payroll:			
Employer	<u>25.20%</u>	<u>24.07%</u>	<u>22.94%</u>
Employee	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>

GDOE's required contributions to the DB Plan for the years ending September 30, 2009, 2008 and 2007 were \$14,563,208, \$14,404,978 and \$14,181,200, respectively, which were equal to the required contributions for each year.

Defined Contribution Retirement System (DCRS)

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

Statutory employer contributions into the DCRS plan for the year ended September 30, 2009 are determined using the same rates as the DB Plan. Of the amount contributed by the employer, only 5% of the member's regular pay is deposited into the member's individual investment account. The remaining amount is contributed towards the unfunded liability of the defined benefit plan.

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

GDOE's contributions to the DCRS plan for the years ended September 30, 2009, 2008 and 2007 were \$21,303,693, \$20,190,882 and \$16,501,746, respectively, which were equal to the required contributions for each year.

Other Post Employment Benefits

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

# GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements  
September 30, 2009

(4) Employee Retirement Plans, Continued

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

During the years ended September 30, 2009, 2008 and 2007, GDOE recognized certain on-behalf payments as appropriations from GovGuam, totaling \$6,740,014, \$6,204,194, and \$2,277,657, respectively, representing certain healthcare benefits that GovGuam's general fund paid directly on behalf of GDOE retirees.

(5) Retirement Liability

As of September 30, 2009, a total of \$1,770,458 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 at 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, 2009, interest and penalties were paid in full.

Public Law 28-38, passed in June 2005, as amended by Public Law 29-19, 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 ten years following the enactment of P.L. 28-38, payments by GDOE will resume per 4GCA Section 8137. During the year ended September 30, 2009, the Government of Guam general fund paid interest totaling \$2,315,461 to the Government of Guam Retirement Fund.

In April 2009, Public Law 30-7 was passed, appropriating \$10,867,640 from the Government of Guam bond proceeds to pay the Government of Guam Retirement Fund liability of past due contributions and interest. As of September 30, 2009, \$10,458,850 was paid.

(6) Local Appropriations

During the year ended September 30, 2009, appropriations provided to GDOE by the Guam Legislature were as follows:

Public Law 29-19:	
2007 Bond proceeds	\$ 3,741,530
Textbooks	2,000,000
Public Law 29-102:	
Library school books	718,000
Public Law 29-113:	
GPSS Operations Fund	179,392,395
General Fund – Suruhanu Office	163,041
Healthy Futures Fund	642,504
Retiree healthcare benefits	6,740,014

**GUAM DEPARTMENT OF EDUCATION**

Notes to Financial Statements  
September 30, 2009

(6) Local Appropriations, Continued

Public Law 30-7:	
2009 Bond proceeds	10,458,850
Public Law 30-12:	
Textbooks	2,900,000
Public Law 30-37:	
John F. Kennedy High School lease	748,876
John F. Kennedy High School collateral equipment	<u>3,944,000</u>
	<u>\$ 211,449,210</u>

In addition, Public Law 29-113 appropriates \$7,500,000 of all monies collected by GDOE from Federal funds paid to GDOE for reimbursement under the National School Lunch Program and Breakfast Program and the State Administrative Expenses for Child Nutrition Program to GDOE for non-personnel operating expenses. The total of such reimbursements from the U.S. Department of Agriculture during fiscal year 2009 is \$7,561,774, which is accounted for separately in GDOE's special revenue fund.

(7) Due from Government Agencies

Due from primary government consists of receivables from the Government of Guam General Fund.

(8) Municipal School Lease Agreement

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

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

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

**GUAM DEPARTMENT OF EDUCATION**

Notes to Financial Statements  
September 30, 2009

(8) Municipal School Lease Agreement, Continued

The assets acquired through capital leases are as follows:

Asset:	
Buildings	\$ 88,529,866
Less accumulated depreciation	<u>(3,576,745)</u>
	\$ <u>84,953,121</u>

These buildings are summarized as follows:

Liguan Elementary School	\$ 13,082,080
Adacao Elementary School	14,482,938
Astumbo Middle School	18,383,500
Ukudo High School	<u>42,581,348</u>
	\$ <u>88,529,866</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2009, were as follows:

<u>Year Ending</u> <u>September 30,</u>	<u>Principal</u>
2010	\$ 6,175,833
2011	6,184,167
2012	6,185,000
2013	6,186,667
2014	6,184,167
2015-2019	29,914,167
2020-2024	25,660,833
2025-2027	<u>10,305,833</u>
Total lease payments	96,796,667
Less amount representing interest	(31,411,667)
Less current portion	<u>(2,915,000)</u>
Total	\$ <u>62,470,000</u>

Commencing in 2009, \$7,100,000 of Compact Impact grant revenues will be received annually for a ten year period. Of this amount, \$1,000,000 will be allocated for rental, principal and interest, to fund additional equipment requirements, as defined. Subsequent to that ten year period, the annual grant returns to \$6,100,000.

(9) Prior Year Restatement

Subsequent to the issuance of GDOE's 2008 financial statements, GovGuam's Department of Administration issued a determination concerning the redesignation of the GovGuam's Defined Benefit Pension Plan (DB Plan) as a cost-sharing multiple-employer plan. Prior to this determination, the DB Plan was designated as a single-employer plan, requiring GDOE to measure and disclose an amount for annual pension cost. Annual pension cost amounted to GDOE's annual required contributions (ARC) to the plan with the difference between the ARC and actual required contributions recognized as a net pension obligation. The redesignation of the DB Plan as a cost-sharing multiple-employer plan resulted in the reversal of the previously reported unfunded pension liability of the governmental activities, totaling \$88,196,549.

**GUAM DEPARTMENT OF EDUCATION**

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**REQUIRED SUPPLEMENTARY  
INFORMATION**

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**YEAR ENDED SEPTEMBER 30, 2009**

**GUAM DEPARTMENT OF EDUCATION**

Schedule of Revenues, Expenditures, and Changes in Deficit - Budget and Actual  
General Fund  
Year Ended September 30, 2009

	Original Budget	Final Budget	Actual - Budgetary Basis	Variance with Final Budget - Positive (Negative)
Revenues:				
Local appropriations:				
GPSS Operations Fund	\$ 179,392,395	\$ 179,392,395	\$ 179,392,395	\$ -
Government of Guam General Fund:				
Government of Guam bond proceeds	19,049,972	19,049,972	14,200,380	(4,849,592)
Textbooks	4,900,000	4,900,000	4,900,000	-
John F. Kennedy appropriations	4,692,876	4,692,876	4,692,876	-
Suruhanu office	163,041	163,041	163,041	-
Retiree healthcare benefits	6,740,014	6,740,014	6,740,014	-
Healthy Futures Fund:				
Interscholastic sports	426,581	426,581	392,476	(34,105)
Health and Physical Education Activities	271,754	271,754	250,028	(21,726)
Public School Library Resources Fund	1,466,895	1,466,895	718,000	(748,895)
Fees and other program receipts	-	-	126,312	126,312
Federal grants and contributions	-	-	310,237	310,237
Cafeteria sales	-	-	766,564	766,564
Total revenues	<u>217,103,528</u>	<u>217,103,528</u>	<u>212,652,323</u>	<u>(4,451,205)</u>
Expenditures - Budgetary Basis:				
Elementary Education	82,291,544	82,291,544	82,217,092	74,452
Secondary Education	86,362,430	86,362,430	86,331,881	30,549
Direct Student Support	15,000,000	15,000,000	14,906,459	93,541
General Administration	29,512,888	29,512,888	28,086,968	1,425,920
Total expenditures	<u>213,166,862</u>	<u>213,166,862</u>	<u>211,542,400</u>	<u>1,624,462</u>
Excess of revenues over expenditures	3,936,666	3,936,666	1,109,923	(2,826,743)
Other financing sources:				
Transfers in	-	-	1,456,752	1,456,752
Excess of revenues and other financing sources over expenditures	3,936,666	3,936,666	2,566,675	(1,369,991)
Other changes in unreserved deficit:				
Budgetary allocation applied against GPA installment payment agreement	2,175,000	2,175,000	-	(2,175,000)
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	-	-	9,105,974	9,105,974
Unreserved deficit at beginning of year	<u>(38,071,785)</u>	<u>(38,071,785)</u>	<u>(38,071,785)</u>	<u>-</u>
Unreserved deficit at end of year	<u>\$ (31,960,119)</u>	<u>\$ (31,960,119)</u>	<u>\$ (26,399,136)</u>	<u>\$ 5,560,983</u>

See accompanying notes to required supplementary information and independent auditors' report.

## GUAM DEPARTMENT OF EDUCATION

### Notes to Required Supplementary Information – Budgetary Reporting September 30, 2009

#### (1) 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 2009, Public Law No. 29-113, approved for the executive branch. Supplemental 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 Governmental Fund Balance Sheet within the other changes in unreserved deficit section of that statement.

#### (2) Reconciliation - GAAP and Budgetary Bases of Accounting

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

Accounting principles used in developing data on a budgetary basis differ from those used in preparing the 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 Governmental Fund Balance Sheet within the other changes in unreserved deficit section of that statement. Furthermore, the net change in fund deficit to the net change in unreserved fund deficit for the General Fund is as follows:

Net change in fund deficit	\$ 7,028,648
Increase in fund balance reservations:	
Encumbrances	<u>4,644,001</u>
Net change in unreserved fund deficit	\$ <u>11,672,649</u>

See Accompanying Independent Auditors' Report.

**GUAM DEPARTMENT OF EDUCATION**

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**OTHER SUPPLEMENTARY  
INFORMATION**

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**YEAR ENDED SEPTEMBER 30, 2009**

**GUAM DEPARTMENT OF EDUCATION**

Statements of Net Assets - Governmental Activities

September 30, 2009

(With Comparative Totals as of September 30, 2008)

<u>ASSETS</u>	<u>2009</u>	<u>2008</u>
Current assets:		
Cash and cash equivalents	\$ 5,981,193	\$ 9,584,351
Receivables from federal agencies	5,171,082	3,977,279
Due from primary government	6,172,073	8,849,493
Prepayments and other assets	1,107,208	3,016,708
Total current assets	<u>18,431,556</u>	<u>25,427,831</u>
Noncurrent assets:		
Deferred maintenance and insurance costs	2,690,071	5,208,333
Capital assets, net of accumulated depreciation	214,855,699	202,151,498
Other deferred costs	1,887,758	1,992,634
Total noncurrent assets	<u>219,433,528</u>	<u>209,352,465</u>
Total assets	<u>\$ 237,865,084</u>	<u>\$ 234,780,296</u>
<u>LIABILITIES</u>		
Current liabilities:		
Current portion of payment arrangement with GPA	\$ 2,068,570	\$ 1,933,396
Accounts payable	14,681,978	12,687,410
Accrued payroll	1,438,646	1,438,646
Interest and deferred maintenance payable	-	2,773,125
Other liabilities and accruals	6,235,369	6,067,005
Retirement payable	6,571,317	17,290,839
Current portion of obligation under capital lease	2,915,000	1,857,250
Current portion of compensated absences payable	1,254,546	1,776,339
Total current liabilities	<u>35,165,426</u>	<u>45,824,010</u>
Noncurrent liabilities:		
Compensated absences payable, net of current portion	3,325,874	2,541,165
Accrued sick leave liability	5,606,363	5,048,052
Obligation under capital lease, net of current portion	62,470,000	49,725,000
Payment arrangement with GPA, net of current portion	6,257,058	8,355,012
Total noncurrent liabilities	<u>77,659,295</u>	<u>65,669,229</u>
Total liabilities	<u>112,824,721</u>	<u>111,493,239</u>
<u>NET ASSETS</u>		
Invested in capital assets, net of related debt	149,470,699	150,569,248
Restricted for:		
Maintenance and insurance costs	2,690,071	2,500,000
Federal programs	2,402,447	2,478,477
Unrestricted	(29,522,854)	(32,260,668)
Total net assets	<u>125,040,363</u>	<u>123,287,057</u>
	<u>\$ 237,865,084</u>	<u>\$ 234,780,296</u>

See accompanying independent auditors' report.

**GUAM DEPARTMENT OF EDUCATION**

Statements of Activities - Governmental Activities

Year Ended September 30, 2009

(With Comparative Totals for the Year Ended September 30, 2008)

	2009	2008
<b>Program Revenues:</b>		
Elementary Education	\$ 11,633,873	\$ 15,559,559
Secondary Education	3,735,128	6,936,274
Direct Student Support	28,099,308	28,159,190
General Administration	729,178	647,782
Capital projects	7,100,000	6,100,000
	51,297,487	57,402,805
<b>Expenses for Governmental Activities:</b>		
Elementary Education	96,930,746	99,149,402
Secondary Education	95,881,242	87,768,368
Direct Student Support	41,604,034	38,315,294
General Administration	26,577,369	21,074,467
	260,993,391	246,307,531
Deficiency of program revenues under expenses	(209,695,904)	(188,904,726)
<b>General revenues:</b>		
<b>Appropriations:</b>		
Operations	206,549,210	201,708,311
Textbooks	4,900,000	4,900,000
Other	-	60,083
	211,449,210	206,668,394
Change in net assets	1,753,306	17,763,668
Net assets at beginning of year	123,287,057	105,523,389
Net assets at end of year	\$ 125,040,363	\$ 123,287,057

See accompanying independent auditors' report.

**GUAM DEPARTMENT OF EDUCATION**

Balance Sheets  
Governmental Funds  
September 30, 2009

(With Comparative Totals as of September 30, 2008)

<u>ASSETS</u>	2009			2008		
	General	Federal Grants Assistance	Total	General	Federal Grants Assistance	Total
Cash and cash equivalents	\$ 4,086,222	\$ 1,894,971	\$ 5,981,193	\$ 8,176,564	\$ 1,407,787	\$ 9,584,351
Receivables from Federal agencies	-	5,171,082	5,171,082	-	3,830,208	3,830,208
Due from primary government	6,172,073	-	6,172,073	8,849,493	-	8,849,493
Prepayments and other assets	393,874	-	393,874	477,674	-	477,674
Due from other funds	1,246,443	-	1,246,443	-	568,417	568,417
<b>Total assets</b>	<b>\$ 11,898,612</b>	<b>\$ 7,066,053</b>	<b>\$ 18,964,665</b>	<b>\$ 17,503,731</b>	<b>\$ 5,806,412</b>	<b>\$ 23,310,143</b>
 <u>LIABILITIES AND FUND BALANCES (DEFICIT)</u>						
Liabilities:						
Accounts payable	\$ 12,004,884	\$ 2,677,094	\$ 14,681,978	\$ 11,576,083	\$ 1,111,327	\$ 12,687,410
Accrued payroll	1,214,951	223,695	1,438,646	1,214,951	223,695	1,438,646
Other liabilities and accruals	5,717,175	250,839	5,968,014	5,763,890	303,115	6,067,005
Retirement payable	6,305,782	265,535	6,571,317	17,057,793	233,046	17,290,839
Deferred revenues	267,355	2,402,447	2,669,802	-	2,478,477	2,478,477
Due to other funds	-	1,246,443	1,246,443	568,417	-	568,417
Payment arrangement with GPA	8,325,628	-	8,325,628	10,288,408	-	10,288,408
<b>Total liabilities</b>	<b>33,835,775</b>	<b>7,066,053</b>	<b>40,901,828</b>	<b>46,469,542</b>	<b>4,349,660</b>	<b>50,819,202</b>
Fund balances (deficit):						
Reserved for:						
Encumbrances	4,461,973	2,633,071	7,095,044	9,105,974	2,579,387	11,685,361
Unreserved	(26,399,136)	(2,633,071)	(29,032,207)	(38,071,785)	(1,122,635)	(39,194,420)
<b>Total fund balances (deficits)</b>	<b>(21,937,163)</b>	<b>-</b>	<b>(21,937,163)</b>	<b>(28,965,811)</b>	<b>1,456,752</b>	<b>(27,509,059)</b>
<b>Total liabilities and fund balances</b>	<b>\$ 11,898,612</b>	<b>\$ 7,066,053</b>	<b>\$ 18,964,665</b>	<b>\$ 17,503,731</b>	<b>\$ 5,806,412</b>	<b>\$ 23,310,143</b>

See accompanying independent auditors' report.

**GUAM DEPARTMENT OF EDUCATION**

Reconciliations of Deficit to the Statement of Net Assets  
September 30, 2009  
(With Comparative Totals as of September 30, 2008)

	2009	2008
Total deficit - governmental funds	\$ (21,937,163)	\$ (27,509,059)
Amounts reported for governmental activities in the statements of net assets are different because:		
Prepayment of capital lease obligations in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	713,334	2,686,105
Borrowing costs associated with capital lease obligations in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	1,887,758	1,992,634
Maintenance costs associated with capital lease obligations in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	2,690,071	2,435,208
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. These assets consist of:		
Buildings and improvements	\$ 291,617,819	272,093,756
Vehicles, furniture and equipment	4,426,677	4,014,066
Accumulated depreciation	<u>(81,188,797)</u>	<u>(73,956,324)</u>
Capital assets, net of accumulated depreciation	214,855,699	202,151,498
Long - term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds. These liabilities include:		
Accrued sick leave liability	(5,606,363)	(5,048,052)
Compensated absences payable and accrued sick leave liability	(4,580,420)	(4,317,504)
Obligation under capital lease	<u>(65,385,000)</u>	<u>(51,582,250)</u>
Long - term liabilities	(75,571,783)	(60,947,806)
Certain revenues are earned but not available and therefore are deferred in the governmental funds:		
Adjustment of deferred revenue	<u>2,402,447</u>	<u>2,478,477</u>
Net assets of governmental activities	<u>\$ 125,040,363</u>	<u>\$ 123,287,057</u>

See accompanying independent auditors' report.

**GUAM DEPARTMENT OF EDUCATION**

Statements of Revenues, Expenditure and Changes in Fund Balances (Deficit)  
 Governmental Funds  
 Year Ended September 30, 2009  
 (With Comparative Totals for the Year Ended September 30, 2008)

	2009			2008		
	General	Federal Grants Assistance	Total	General	Federal Grants Assistance	Total
<b>Revenues:</b>						
Appropriations	\$ 211,449,210	\$ -	\$ 211,449,210	\$ 206,608,311	\$ -	\$ 206,608,311
Federal grants and contributions	310,237	43,070,404	43,380,641	422,030	48,595,280	49,017,310
Federal grants - capital projects	-	7,100,000	7,100,000	-	6,100,000	6,100,000
Cafeteria sales	766,564	-	766,564	737,266	-	737,266
Fees and other program receipts	126,312	-	126,312	1,671,913	-	1,671,913
<b>Total revenues</b>	<b>212,652,323</b>	<b>50,170,404</b>	<b>262,822,727</b>	<b>209,439,520</b>	<b>54,695,280</b>	<b>264,134,800</b>
<b>Expenditures:</b>						
<b>Current:</b>						
Elementary Education	82,160,345	11,633,873	93,794,218	81,423,182	15,559,559	96,982,741
Secondary Education	85,538,372	3,735,128	89,273,500	77,323,781	6,936,274	84,260,055
Direct Student Support	14,397,602	27,206,432	41,604,034	12,927,230	25,388,064	38,315,294
General Administration	24,984,108	494,971	25,479,079	20,690,967	495,659	21,186,626
<b>Debt service:</b>						
Lease payment	-	7,100,000	7,100,000	-	6,100,000	6,100,000
<b>Capital projects:</b>						
Capital lease acquisition	-	17,254,250	17,254,250	-	55,160,750	55,160,750
<b>Total expenditures</b>	<b>207,080,427</b>	<b>67,424,654</b>	<b>274,505,081</b>	<b>192,365,160</b>	<b>109,640,306</b>	<b>302,005,466</b>
Excess (deficiency) of revenues over (under) expenditures	5,571,896	(17,254,250)	(11,682,354)	17,074,360	(54,945,026)	(37,870,666)
<b>Other financing sources (uses):</b>						
Transfers in	1,456,752	-	1,456,752	-	-	-
Transfers out	-	(1,456,752)	(1,456,752)	-	-	-
Capital lease	-	17,254,250	17,254,250	-	55,160,750	55,160,750
<b>Total other financing sources, net</b>	<b>1,456,752</b>	<b>15,797,498</b>	<b>17,254,250</b>	<b>-</b>	<b>55,160,750</b>	<b>55,160,750</b>
<b>Net change in fund balances (deficit)</b>	<b>7,028,648</b>	<b>(1,456,752)</b>	<b>5,571,896</b>	<b>17,074,360</b>	<b>215,724</b>	<b>17,290,084</b>
Fund balances (deficit) at beginning of year	(28,965,811)	1,456,752	(27,509,059)	(46,040,171)	1,241,028	(44,799,143)
<b>Fund balances (deficit) at end of year</b>	<b>\$ (21,937,163)</b>	<b>\$ -</b>	<b>\$ (21,937,163)</b>	<b>\$ (28,965,811)</b>	<b>\$ 1,456,752</b>	<b>\$ (27,509,059)</b>

See accompanying independent auditors' report.

**GUAM DEPARTMENT OF EDUCATION**

Reconciliations of the Statement of Revenues, Expenditures and Changes in Deficit of  
Governmental Funds to the Statement of Activities  
September 30, 2009  
(With Comparative Totals as of September 30, 2008)

	2009	2008
Amounts reported for governmental activities in the statements of activities are different because:		
Total net change in deficit - governmental funds	\$ 5,571,896	\$ 17,290,084
Governmental funds report capital outlays as expenditures. However, in the statements of activities the cost of those assets is allocated over the estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation (or depreciation exceeded capital outlays).	12,704,201	64,305,559
Borrowing costs, rental and deferred maintenance costs reflected as expenditures in governmental funds and reported in the statement of net assets, net of amortization.	(3,063,971)	7,200,967
The net effect of various miscellaneous transactions involving capital assets (ie. Capital lease prepayment) is to increase (decrease) net assets.	1,241,187	(18,387,021)
The issuance of long-term debt (eg. leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt.	(13,802,750)	(51,582,250)
Some expenses reported in the statements of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(821,227)	(1,000,070)
Certain revenues are earned but not available and therefore are deferred in the governmental funds.	(76,030)	(63,601)
Change in net assets of governmental activities	\$ 1,753,306	\$ 17,763,668

See accompanying independent auditors' report.

**GUAM DEPARTMENT OF EDUCATION**

Schedules of Revenues, Expenditures, and Changes in Deficit - Budget and Actual  
 General Fund  
 Year Ended September 30, 2009  
 (With Comparative Totals for the Year Ended September 30, 2008)

	2009				2008			
	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:								
GPSS Operations Fund	\$ 179,392,395	\$ 179,392,395	\$ 179,392,395	\$ -	\$ 173,109,793	\$ 179,416,577	\$ 180,492,922	\$ 1,076,345
Government of Guam General Fund:								
Government of Guam bond proceeds	22,673,941 (a)	22,673,941 (a)	14,200,380	(8,473,561)	29,804,000	26,135,977	14,004,683	(12,131,294)
Textbooks	4,900,000	4,900,000	4,900,000	-	2,000,000	7,800,000	4,900,000	(2,900,000)
John F. Kennedy appropriations	4,692,876	4,692,876	4,692,876	-	-	-	-	-
Suruhanu office	163,041	163,041	163,041	-	-	150,000	150,000	-
Retiree healthcare benefits	6,740,014	6,740,014	6,740,014	-	6,204,194	6,204,194	6,204,194	-
Healthy Futures Fund:								
Interscholastic Sports	426,581	426,581	392,476	(34,105)	509,246	509,246	509,246	-
Health and Physical Education Activities	271,754	271,754	250,028	(21,726)	324,416	324,416	324,416	-
Public School Library Resources Fund	1,466,895	1,466,895	718,000	(748,895)	-	800,000	-	(800,000)
Federal grants and contributions	-	-	310,237	310,237	-	-	422,030	422,030
Cafeteria sales	-	-	766,564	766,564	-	-	737,266	737,266
ECEAPE Fund	-	-	-	-	-	-	22,850	22,850
Fees and other program receipts	-	-	126,312	126,312	-	-	1,671,913	1,671,913
Total revenues	<u>220,727,497</u>	<u>220,727,497</u>	<u>212,652,323</u>	<u>(8,075,174)</u>	<u>211,951,649</u>	<u>221,340,410</u>	<u>209,439,520</u>	<u>(11,900,890)</u>
Expenditures - Budgetary Basis:								
Personnel	165,458,120	165,458,120	165,433,478	24,642	165,463,535	169,613,535	160,955,348	8,658,187
Utilities	12,114,790	12,114,790	12,040,696	74,094	13,875,452	14,917,714	13,361,400	1,556,314
Contractual	8,411,593	8,411,593	8,319,334	92,259	9,568,488	10,715,815	10,687,904	27,911
Supplies/equipment	8,571,959	8,571,959	7,659,214	912,745	9,616,690	8,981,749	8,971,582	10,167
Textbooks	6,212,499	6,212,499	6,205,089	7,410	2,000,000	8,925,598	988,860	7,936,738
Capital projects	15,220,531 (a)	15,220,531 (a)	11,185,578	4,034,953	9,102,484	8,737,894	5,622,814	3,115,080
Other	801,339	801,339	699,011	102,328	-	-	883,226	(883,226)
Total expenditures	<u>216,790,831</u>	<u>216,790,831</u>	<u>211,542,400</u>	<u>5,248,431</u>	<u>209,626,649</u>	<u>221,892,305</u>	<u>201,471,134</u>	<u>20,421,171</u>
Excess of revenues over expenditures	3,936,666	3,936,666	1,109,923	(2,826,743)	2,325,000	(551,895)	7,968,386	8,520,281
Other financing uses:								
Transfers in	-	-	1,456,752	1,456,752	-	-	-	-
Net change in deficit	3,936,666	3,936,666	2,566,675	(1,369,991)	2,325,000	(551,895)	7,968,386	8,520,281
Other changes in unreserved deficit:								
Budgetary allocation applied against GPA installment payment agreement	2,175,000	2,175,000	-	(2,175,000)	2,075,000	2,075,000	-	(2,075,000)
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary purposes, but in the year the items are received for financial statement purposes	-	-	9,105,974	9,105,974	-	-	5,847,930	5,847,930
Unreserved deficit at beginning of year	<u>(38,071,785)</u>	<u>(38,071,785)</u>	<u>(38,071,785)</u>	<u>-</u>	<u>(51,888,101)</u>	<u>(51,888,101)</u>	<u>(51,888,101)</u>	<u>-</u>
Unreserved deficit at end of year	<u>\$ (31,960,119)</u>	<u>\$ (31,960,119)</u>	<u>\$ (26,399,136)</u>	<u>\$ 5,560,983</u>	<u>\$ (47,488,101)</u>	<u>\$ (50,364,996)</u>	<u>\$ (38,071,785)</u>	<u>\$ 12,293,211</u>

See accompanying independent auditors' report.

(a) \$3,623,969 is restricted by the Government of Guam Department of Administration and is unavailable for use.

NOTE: \$7,500,000 appropriated for the National School Breakfast and Lunch Program is accounted for in the Federal Grants Assistance Fund, special revenue fund.

**GUAM DEPARTMENT OF EDUCATION**

Combined Statements of Revenues, Expenditures By Account and Changes in Fund Balances (Deficits) Governmental  
Funds  
Year Ended September 30, 2009  
(With Comparative Totals for the Year Ended September 30, 2008)

	2009			2008		
	General	Federal Grants Assistance	Total	General	Federal Grants Assistance	Total
<b>Revenues:</b>						
Local appropriations	\$ 211,449,210	\$ -	\$ 211,449,210	\$ 206,608,311	\$ -	\$ 206,608,311
Federal grants and contributions	310,237	43,070,404	43,380,641	422,030	48,595,280	49,017,310
Federal grants - capital projects	-	7,100,000	7,100,000	-	6,100,000	6,100,000
Cafeteria sales	766,564	-	766,564	737,266	-	737,266
Fees and other program receipts	126,312	-	126,312	1,671,913	-	1,671,913
<b>Total revenues</b>	<b>212,652,323</b>	<b>50,170,404</b>	<b>262,822,727</b>	<b>209,439,520</b>	<b>54,695,280</b>	<b>264,134,800</b>
<b>Expenditures:</b>						
Salaries	121,003,591	21,500,812	142,504,403	117,927,685	22,507,156	140,434,841
Benefits	44,342,457	6,142,448	50,484,905	43,027,663	8,805,022	51,832,685
Contractual	10,652,955	10,481,041	21,133,996	5,594,816	11,964,798	17,559,614
Power	11,442,497	-	11,442,497	11,086,116	-	11,086,116
Textbooks	5,900,048	143,690	6,043,738	988,860	988,860	1,977,720
Supplies	2,202,294	3,409,480	5,611,774	3,857,433	2,424,529	6,281,962
Equipment	5,143,979	614,008	5,757,987	804,861	484,275	1,289,136
Capital outlay	1,900,471	82,800	1,983,271	3,927,704	579,829	4,507,533
Water	1,419,925	-	1,419,925	1,463,898	-	1,463,898
Library books	897,179	-	897,179	-	-	-
Travel	162,252	602,518	764,770	354,574	534,174	888,748
Lease	748,876	-	748,876	-	-	-
Phone	642,762	3,218	645,980	811,386	4,450	815,836
Interest and penalties	489,897	-	489,897	1,785,876	-	1,785,876
Stipends and other	43,814	227	44,041	372,665	56,685	429,350
Overtime	87,430	47,905	135,335	361,623	29,778	391,401
Indirect costs	-	42,257	42,257	-	-	-
Capital projects	-	7,100,000	7,100,000	-	6,100,000	6,100,000
Capital lease acquisitions	-	17,254,250	17,254,250	-	55,160,750	55,160,750
<b>Total expenditures</b>	<b>207,080,427</b>	<b>67,424,654</b>	<b>274,505,081</b>	<b>192,365,160</b>	<b>109,640,306</b>	<b>302,005,466</b>
<b>Other financing sources (uses):</b>						
Transfer in	1,456,752	-	1,456,752	-	-	-
Transfer out	-	(1,456,752)	(1,456,752)	-	-	-
Capital lease	-	17,254,250	17,254,250	-	55,160,750	55,160,750
<b>Total other financing sources (uses), net</b>	<b>1,456,752</b>	<b>15,797,498</b>	<b>17,254,250</b>	<b>-</b>	<b>55,160,750</b>	<b>55,160,750</b>
<b>Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses</b>	<b>7,028,648</b>	<b>(1,456,752)</b>	<b>5,571,896</b>	<b>17,074,360</b>	<b>215,724</b>	<b>17,290,084</b>
<b>Fund balances (deficit), beginning of year</b>	<b>(28,965,811)</b>	<b>1,456,752</b>	<b>(27,509,059)</b>	<b>(46,040,171)</b>	<b>1,241,028</b>	<b>(44,799,143)</b>
<b>Fund balance (deficit), end of year</b>	<b>\$ (21,937,163)</b>	<b>\$ -</b>	<b>\$ (21,937,163)</b>	<b>\$ (28,965,811)</b>	<b>\$ 1,456,752</b>	<b>\$ (27,509,059)</b>

See accompanying independent auditors' report.

**GUAM DEPARTMENT OF EDUCATION**

Agency Fund  
September 30, 2009

The schedule of cash receipts and cash disbursements for the agency fund during fiscal year 2009 is as follows:

	<u>NAF</u>	<u>Deed</u>	<u>Total</u>
Cash balance at beginning of year	\$ 566,831	30,432	597,263
Cash receipts:			
Elementary school activities	398,214	-	398,214
Secondary school activities	1,046,765	-	1,046,765
Total receipts	1,444,979	-	1,444,979
Cash disbursements:			
Elementary school activities	386,905	30,432	417,337
Secondary school activities	1,166,205	-	1,166,205
Total disbursements	1,553,110	30,432	1,583,542
Cash balance at end of year	\$ 458,700	-	458,700

The number of individual funds at the schools during fiscal year 2009 is as follows:

Elementary schools	40
Secondary schools	18
High schools:	10
GWHS	2
JFKHS	2
SSHS	2
SHS	2
OHS	2

See accompanying independent auditors' report.

**GUAM DEPARTMENT OF EDUCATION**

Personnel  
September 30, 2009

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

	Employee Count as of PPE <u>September 26, 2009</u>	Employee Count as of PPE <u>October 11, 2008</u>
100% Locally Funded	2,745	2,891
100% Federally Funded	780	622
Locally/Federally Funded	<u>212</u>	<u>130</u>
Total Employee Count	<u>3,737</u>	<u>3,643</u>

See accompanying independent auditors' report.