

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

FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION AND
INDEPENDENT AUDITORS' REPORT

YEAR ENDED SEPTEMBER 30, 2010

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, 2010, 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.

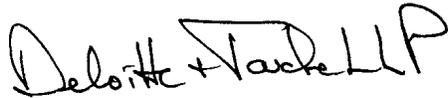
As discussed in Note 1A, the financial statements of the Guam Department of Education are intended to present the financial position and the changes in financial position of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the Government 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, 2010 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, 2010, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, on pages 3 through 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 opinions on the 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 2010 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 April 6, 2011, 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.

April 6, 2011

GUAM DEPARTMENT OF EDUCATION

Management's Discussion and Analysis Year Ended September 30, 2010

INTRODUCTION

The Guam Department of Education (GDOE) for the past many years has faced many operational and financial challenges. In spite of these challenges, teachers, administrators, and support staff continue to remain focused to 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, 2010, along with the operational challenges in providing an adequate public education to 31,095 school children. The operational and financial obstacles to successfully manage public education are the 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.

On November 25, 2009, GDOE was issued an amended Federal Fiscal Year (FFY) 2009 special conditions letter by the US Department of Education because of GDOE's failure to make significant progress in addressing the Comprehensive Corrective Action Plan (CCAP) required in the Federal Fiscal Year (FFY) 2007 special conditions. USDOE determined that GDOE must have the assistance of a third-party fiduciary agent (TPFA) to oversee GDOE in implementing the financial management of USDOE funds, assist GDOE in implementing its CCAP, and assist GDOE in implementing a new financial management information system. The Request for Proposal was released in March 2010 and the contract for the TPFA, Alvarez & Marshall, was signed in September 2010 for \$8.35M, funded by USDOE, ARRA State Fiscal Stabilization Fund (CFDA 84.394A).

One of the concerns expressed by USDOE was stabilization of GDOE management. In October 2009, the vacant Deputy Superintendent of Finance and Administrative Services position was filled. The senior management team remained in place for the remainder of the fiscal year.

The amended Special Conditions prevented GDOE from access to USDOE grant funds, except for ARRA (American Recovery and Reinvestment Act) grants, awarded after November 25, 2009 until the TPFA was in place. This created cash flow pressures as existing grant funds were stretched and, where necessary, local funds advanced to cover federal program expenses. The implementation of certain programs were delayed or canceled. Access to USDOE grants issued after the amended special conditions was not provided until December 2010, only after the TPFA put its financial system in place.

In response to the amended Special Conditions, PL 30-164 was signed into law in July 2010 creating the Education Finance Supervisory Commission (EFSC) to monitor the financial health of the Department. The EFSC's website <http://www.senbenp.com/EFSC.html> contains meeting minutes as well as various reports.

GDOE transferred management of procurement activities to the General Services Agency (GSA) in September 2009. The loss of key procurement staff as well as several well publicized procurement protests prompted the transfer. In March 2010, after recommendations made by outside consultants and the recruitment of a Supply Management Administrator, additional buyers, and an attorney with procurement background, procurement activities were transferred back to the Department.

Title 5 GCA §5150, amended by PL30-72 required that the Attorney General act as the legal adviser during all phases of solicitation and procurement that are estimated to result in an award of \$500,000 and above. In July 2010, PL30-157 further amended this section of the law to allow the Attorney General the ability to designate Special Assistant Attorney Generals (SAGs) to act as the legal adviser. In August, 2010, GDOE Attorneys were designated as SAGs for certain procurement activities. The State Fiscal Stabilization Fund and Rural Low Income School Program provided an additional \$75.7 million in ARRA funds to the Department. However, the impact of changes to Title 5 GCA §5150, delays in the replacement of the Supply Management Administrator and Attorney, and limited staff stalled the implementation of some of these programs.

GUAM DEPARTMENT OF EDUCATION

Management's Discussion and Analysis Year Ended September 30, 2010

As the fiscal year came to a close, it became clear that Bureau of Budget and Management Research was not going to release the reserves placed on GDOE appropriations. Concerns were raised to both the Governor and the Legislature about the projected shortage in funds.

Despite these challenges, initiatives to improve operations were implemented and learning continued in the classroom. Graduation rates increased; SY09-10 had the most students graduating in the history of GDOE. Dropout rates decreased to an all time low of 6%, almost half of what it was 10 years ago. Improvement in SAT-10 scores was noted for all schools, by content and grade level and several schools equaled or exceeded the national rate of improvement. For SY09-10, of 41 schools, 31 received a grade of A for its buildings compared to 14 in SY08-09 and 39 cafeterias received a grade of A compared to 33 in SY08-09. Schools opened on time in SY09-10 with the fewest teacher vacancies in recent memory.

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, 2010. 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 2010 single audit represents GDOE's commitment to, and support of, programmatic and financial accountability.

FISCAL YEAR 2010 OVERVIEW

Local Appropriations

GDOE, being a line agency of the Government of Guam, 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; thus, 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.) 30-55, total local government appropriations (including the Interscholastic Sports Fund, Health and Physical Activities Fund, Public School Library, Principal's Mentorship Fund, and Textbooks Fund) for the Department decreased from \$189,753,771 in fiscal year 2009 to \$188,150,387 in fiscal year 2010. Of this total appropriation of \$188,150,387, a 3% reserve or \$4,471,827 was not released from the General Fund by the Bureau of Budget & Management Research and the Department of Administration to GDOE.

A total amount of \$174,986,508 was appropriated from the General Fund and \$9,410,474 was appropriated from the Territorial Education Facilities Fund (TEFF), both for operational needs, with the remaining amount of \$3,753,405 appropriated from miscellaneous funding for designated purposes, as follows:

| | |
|--|---------------------|
| Interscholastic Sports Programs | \$ 520,000 |
| Interscholastic Sports Busing Services | 92,000 |
| Health and Physical Education Activities | 271,754 |
| Healthy Futures | 8,000 |
| Public School Library | 755,482 |
| Principal's Mentorship Program | 100,000 |
| GDOE Contractual Services | 6,169 |
| Textbooks | <u>2,000,000</u> |
| Total | \$ <u>3,753,405</u> |

As in previous years, GDOE was again allotted an appropriation for the School Nutritional Meals Program in the total amount of \$7.5 million per P.L. 30-55. However, these are not a local appropriation as these are provided by the U.S. Department of Agriculture and Nutrition Services (USDA, FNS) for meals served to

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Management's Discussion and Analysis
Year Ended September 30, 2010

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. GDOE was further appropriated \$700K per P.L. 30-55 identifying the School Lunch Program cash collection as the funding source.

P.L. 30-104 was passed in March 2010 for \$5,150,000 from TEFF, to assist GDOE in its CIP, textbooks, vehicles for maintenance, and for the rehabilitation of the Eugene Ramsey Field but this did not materialize due to non-availability of funds from the TEFF as per the Department of Administration.

| Fiscal Year | GEPB Approved Budget | Appropriation | Allotment Received | Appropriation vs. Approved Budget | Allotment 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 | \$185,815,940 | \$(76,427,627) | \$ (804,726) |
| 2010 | \$256,497,262 | \$188,150,387 | \$180,822,792 | \$(68,346,875) | \$(7,327,595) |

The balance of \$7,327,595 is broken down as follows:

| | |
|--|---------------------|
| General Fund | \$ 2,515,391 |
| Interscholastic Sports | 182,624 |
| Health and Physical Education Activities | 54,769 |
| Principal's Mentorship Fund | 97,000 |
| GDOE Contract Fund | 5,984 |
| 3% Reserve by BBMR | <u>4,471,827</u> |
| Total | \$ <u>7,327,595</u> |

In FY2011, DOA remitted \$1,500,000 to GDOE in October 2010 and further reduced its payable by applying a total of \$912,610 of prior year (2007-10) fuel costs, thus leaving an unpaid balance of \$443,158 and the 3% Reserve of \$4,471,827.

Federal Grants and Programs

In Fiscal Year 2010, the following amounts were expended by GDOE through a variety of Federal grants:

| Grantor | Amount |
|---|----------------------|
| U. S. Department of Agriculture | \$ 8,896,184 |
| U. S. Department of Education | 31,754,365 |
| U. S. Department of Health & Human Services | 2,415,311 |
| U. S. Department of Interior | <u>7,100,000</u> |
| Sub-Total | 50,165,860 |
| JROTC and Commodities Expenditures | <u>431,025</u> |
| Total Federal Expenditures | \$ <u>50,596,885</u> |

This represents 20% of total expenditures for FY 2010 of \$253,607,090.

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Management's Discussion and Analysis
Year Ended September 30, 2010

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 composed 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.

The *Notes to the Financial Statements* provide information that is essential to the full understanding of the data provided in the financial statements.

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

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>2010</u> | <u>2009</u> |
|---|-----------------------|-----------------------|
| Assets: | | |
| Current assets | \$ 17,209,904 | \$ 18,431,556 |
| Noncurrent assets | <u>215,590,910</u> | <u>219,433,528</u> |
| Total assets | \$ <u>232,800,814</u> | \$ <u>237,865,084</u> |
| Liabilities: | | |
| Current liabilities | \$ 38,993,397 | \$ 35,165,426 |
| Noncurrent liabilities | <u>70,824,781</u> | <u>77,659,295</u> |
| Total liabilities | <u>109,818,178</u> | <u>112,824,721</u> |
| Net Assets: | | |
| Invested in capital assets, net of related debt | 148,472,217 | 149,470,699 |
| Restricted for maintenance and insurance | 2,865,810 | 2,690,071 |
| Restricted for federal programs | 2,643,771 | 2,402,447 |
| Unrestricted | <u>(30,799,162)</u> | <u>(29,522,854)</u> |
| Total net assets | <u>122,982,636</u> | <u>125,040,363</u> |
| | \$ <u>232,800,814</u> | \$ <u>237,865,084</u> |

GUAM DEPARTMENT OF EDUCATION

Management's Discussion and Analysis Year Ended September 30, 2010

From 2009-2010, total assets of GDOE decreased by \$5,064,270 and correspondingly total liabilities decreased by \$3,006,543 resulting in an overall decrease in net assets by \$2,057,727 as noted in the Statement of Revenues, Expenses, and Changes in Fund Balances.

The decrease in net assets is caused mostly by the recorded depreciation of \$6,519,267 and acquisition of assets of \$2,605,785, which resulted in a net decrease of \$3,913,482 for FY 2010.

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 fiscal year.

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

| | <u>2010</u> | <u>2009</u> |
|----------------------------------|-----------------------|-----------------------|
| General revenues: | | |
| Appropriations | \$ <u>198,487,347</u> | \$ <u>211,449,210</u> |
| Program revenues: | | |
| Federal grants and contributions | 53,417,922 | 50,404,611 |
| Other | <u>1,261,873</u> | <u>892,876</u> |
| | <u>54,679,795</u> | <u>51,297,487</u> |
| Total revenues | <u>253,167,142</u> | <u>262,746,697</u> |
| Program expenses: | | |
| Elementary education | 97,855,462 | 96,930,746 |
| Secondary education | 100,046,786 | 95,881,242 |
| Direct student support | 31,604,719 | 41,604,034 |
| General administration | 19,638,425 | 19,837,355 |
| Retiree healthcare benefits | <u>6,079,477</u> | <u>6,740,014</u> |
| Total expenses | <u>255,224,869</u> | <u>260,993,391</u> |
| Change in net assets | (2,057,727) | 1,753,306 |
| Net assets at beginning of year | <u>125,040,363</u> | <u>123,287,057</u> |
| Net assets at end of year | \$ <u>122,982,636</u> | \$ <u>125,040,363</u> |

The statement of revenues, expenses, and changes in net assets reflects a decrease in net assets of \$2,057,727. This is primarily caused by the acquisition of generators worth \$2,605,785 and recognition of the depreciation of \$6,519,267 in 2010.

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 2010, GDOE's governmental funds reported a combined fund deficit of \$22.6 million, which represents an increase of \$681K (or 3%) in comparison with the fiscal year 2009 combined fund balance deficit of \$21.9 million. This is primarily attributable to the increase in the fund balance deficit of the General Fund of \$681,272. Of this total combined fund deficit, \$10.5 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 \$33.1 million, an increase of \$4.1 million (or 14%) from fiscal year 2009. This deficit will be funded through future budgetary surpluses.

GUAM DEPARTMENT OF EDUCATION

Management's Discussion and Analysis
Year Ended September 30, 2010

General Fund Budgetary Highlights

Differences in the General Fund original budget and the final amended budget reflected noteworthy changes in expenditure amounts as well as in revenue amounts. Actual General Fund resources available for spending on budgeted needs were \$4.2 million more than the final amended budget adopted by GDOE caused by the \$4.5 million (3%) reserve as held by BMR. In effect, actual budgetary expenditures were \$4.2 million more than the final amended budget adopted by GDOE. A detailed statement of budget variances for the General Fund can be found as required 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 four new schools: Liguán Elementary School, Astumbo Middle School, Okkodo High School, and 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, refer to Note (1) L of the accompanying financial statements. Over \$2.6 million has been spent for generators for at least 16 schools, as financed by FEMA and the U.S. Department of the Interior. In fiscal 2011, a total amount of \$4,493,256 has been appropriated from the Guam Governor's Office from the General Fund for the reconstruction of JFK High School.

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 Note (2) of the accompanying financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The island community continues to be optimistic about improvements to our economy related to activity from the military buildup. However, the earthquake and resultant tsunami, and nuclear power plants damage in Japan in March 2011 will most likely negatively affect tourist revenues.

To bridge the gap between expenditures and revenues, the \$20 million Education Jobs Program (EJP) Grant was allocated to pay for salaries of school based personnel over SY2010-2011. If the EJP was included in the appropriation total, the funds available for operations increased by a modest 2%. Additionally, GDOE has been awarded close to \$90 million in ARRA funds which are directed towards the funding of renovations to our schools, investments in technology, professional development, a new financial management system and the third party fiduciary agent.

Recent changes in legislation affecting the makeup of the GDOE board went into effect in January 2011, changing the Board from a policy to a governing board with elections island wide instead of by district. Newly elected Governor Eddie Calvo has appointed five members to the GDOE board during the 2 year interim period before the next election of board members. Additionally, the current Superintendent's contract will be expiring in July and the search for Dr. Nerissa Bretania Underwood's replacement is ongoing.

MANAGEMENT CONTACT

Management can be contacted at Guam Department of Education, P.O. Box DE, Hagatna, Guam 96932, or tmtatitano@gdoe.net.

GUAM DEPARTMENT OF EDUCATION

Statement of Net Assets September 30, 2010

ASSETS

| | |
|---|-----------------------|
| Current assets: | |
| Cash and cash equivalents | \$ 1,831,329 |
| Receivables from federal agencies | 6,297,254 |
| Due from primary government | 7,844,859 |
| Prepayments and other assets | 1,236,462 |
| Total current assets | <u>17,209,904</u> |
| Noncurrent assets: | |
| Deferred maintenance and insurance costs | 2,865,810 |
| Capital assets, net of accumulated depreciation | 210,942,217 |
| Other assets | 1,782,883 |
| Total noncurrent assets | <u>215,590,910</u> |
| Total assets | <u>\$ 232,800,814</u> |

LIABILITIES

| | |
|--|--------------------|
| Current liabilities: | |
| Current portion of payment arrangement with GPA | \$ 2,324,201 |
| Accounts payable | 8,994,656 |
| Accrued payroll | 7,659,959 |
| Other liabilities and accruals | 6,822,262 |
| Retirement payable | 6,562,500 |
| Current portion of obligation under capital lease | 3,060,000 |
| Current portion of compensated absences payable | 3,569,819 |
| Total current liabilities | <u>38,993,397</u> |
| Noncurrent liabilities: | |
| Compensated absences payable, net of current portion | 1,095,413 |
| Accrued sick leave liability | 6,195,878 |
| Obligation under capital lease, net of current portion | 59,410,000 |
| Payment arrangement with GPA, net of current portion | 4,123,490 |
| Total noncurrent liabilities | <u>70,824,781</u> |
| Total liabilities | <u>109,818,178</u> |
| Commitments and contingencies | |

NET ASSETS

| | |
|---|-----------------------|
| Invested in capital assets, net of related debt | 148,472,217 |
| Restricted for: | |
| Maintenance and insurance costs | 2,865,810 |
| Federal programs | 2,643,771 |
| Unrestricted | <u>(30,999,162)</u> |
| Total net assets | <u>122,982,636</u> |
| | <u>\$ 232,800,814</u> |

See accompanying notes to financial statements.

GUAM DEPARTMENT OF EDUCATION

Statement of Activities
Year Ended September 30, 2010

| Functions/Programs | Expenses | Program Revenues | | Net (Expense) Revenue and Changes in Net Assets |
|---------------------------------|-----------------------|-------------------------|--|---|
| | | Charges for Services | Operating Grants and Contributions | |
| Governmental Activities: | | | | |
| Elementary Education | \$ 97,855,462 | \$ - | \$ 12,290,377 | \$ (85,565,085) |
| Secondary Education | 100,046,786 | - | 4,146,125 | (95,900,661) |
| Direct Student Support | 31,604,719 | 1,261,873 | 26,672,009 | (3,670,837) |
| General Administration | 19,638,425 | - | 603,626 | (19,034,799) |
| Retiree healthcare benefits | 6,079,477 | - | - | (6,079,477) |
| Capital projects | - | - | 9,705,785 | 9,705,785 |
| Total governmental activities | <u>\$ 255,224,869</u> | <u>\$ 1,261,873</u> | <u>\$ 53,417,922</u> | <u>(200,545,074)</u> |
| | | | | |
| General revenues: | | | | |
| Appropriations: | | | | |
| Operations | | | | 196,547,347 |
| Textbooks | | | | <u>1,940,000</u> |
| Total general revenues | | | | <u>198,487,347</u> |
| Change in net assets | | | | (2,057,727) |
| Net assets at beginning of year | | | | <u>125,040,363</u> |
| Net assets at end of year | | | | <u>\$ 122,982,636</u> |

See accompanying notes to financial statements.

GUAM DEPARTMENT OF EDUCATION

Balance Sheet
Governmental Funds
September 30, 2010

| <u>ASSETS</u> | <u>General</u> | <u>Special Revenue</u> | |
|--|----------------------|---------------------------------|----------------------|
| | | Federal Grants Assistance | <u>Total</u> |
| Cash and cash equivalents | \$ 791,761 | \$ 1,039,568 | \$ 1,831,329 |
| Receivables from Federal agencies | - | 6,297,254 | 6,297,254 |
| Due from primary government | 7,844,859 | - | 7,844,859 |
| Prepayments and other assets | 538,962 | - | 538,962 |
| Due from other funds | 1,190,112 | - | 1,190,112 |
| | | | |
| Total assets | \$ <u>10,365,694</u> | \$ <u>7,336,822</u> | \$ <u>17,702,516</u> |
| | | | |
| <u>LIABILITIES AND FUND BALANCES (DEFICIT)</u> | | | |
| Liabilities: | | | |
| Accounts payable | \$ 6,922,465 | \$ 2,072,191 | \$ 8,994,656 |
| Accrued payroll | 6,272,164 | 1,387,795 | 7,659,959 |
| Other liabilities and accruals | 6,779,309 | 42,953 | 6,822,262 |
| Retirement payable | 6,562,500 | - | 6,562,500 |
| Deferred revenues | - | 2,643,771 | 2,643,771 |
| Due to other funds | - | 1,190,112 | 1,190,112 |
| Payment arrangement with GPA | 6,447,691 | - | 6,447,691 |
| | | | |
| Total liabilities | <u>32,984,129</u> | <u>7,336,822</u> | <u>40,320,951</u> |
| | | | |
| Fund balances (deficit): | | | |
| Reserved for: | | | |
| Encumbrances | 3,588,152 | 6,916,785 | 10,504,937 |
| Unreserved deficit | <u>(26,206,587)</u> | <u>(6,916,785)</u> | <u>(33,123,372)</u> |
| | | | |
| Total fund balances (deficit) | <u>(22,618,435)</u> | <u>-</u> | <u>(22,618,435)</u> |
| | | | |
| Total liabilities and fund balances | \$ <u>10,365,694</u> | \$ <u>7,336,822</u> | \$ <u>17,702,516</u> |

See accompanying notes to financial statements.

GUAM DEPARTMENT OF EDUCATION

Reconciliation of Governmental Fund Deficit to Net Assets of Governmental Activities
September 30, 2010

| | | |
|---|---------------------|---------------------------|
| Total deficit-governmental funds | \$ | (22,618,435) |
| 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 | 540,833 | |
| Prepayment-maintenance | <u>156,667</u> | 697,500 |
| Borrowing costs associated with capital lease obligations in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. | | 1,782,883 |
| Maintenance costs associated with capital lease obligations in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. | | 2,865,810 |
| 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 | 7,032,462 | |
| Accumulated depreciation | <u>(87,708,064)</u> | |
| Capital assets, net of accumulated depreciation | | 210,942,217 |
| 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 | (6,195,878) | |
| Compensated absences payable | (4,665,232) | |
| Obligation under capital lease | <u>(62,470,000)</u> | |
| Long - term liabilities | | (73,331,110) |
| Certain revenues are earned but not available and, therefore, are deferred in the governmental funds: | | |
| Adjustment of deferred revenue | | <u>2,643,771</u> |
| Net assets of governmental activities | \$ | <u><u>122,982,636</u></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, 2010

| | | <u>Special Revenue</u> | |
|---|-------------------------------|--|-------------------------------|
| | <u>General</u> | <u>Federal Grants Assistance</u> | <u>Total</u> |
| Revenues: | | | |
| Appropriations | \$ 198,487,347 | \$ 7,100,000 | \$ 205,587,347 |
| Federal grants and contributions | 3,309,981 | 42,766,617 | 46,076,598 |
| Cafeteria sales | 864,661 | - | 864,661 |
| Fees and other program receipts | 97,969 | 299,243 | 397,212 |
| Total revenues | <u>202,759,958</u> | <u>50,165,860</u> | <u>252,925,818</u> |
| Expenditures: | | | |
| Current: | | | |
| Elementary Education | 81,942,638 | 12,290,377 | 94,233,015 |
| Secondary Education | 89,042,656 | 4,146,125 | 93,188,781 |
| Direct Student Support | 5,236,317 | 26,267,056 | 31,503,373 |
| General Administration | 18,534,357 | 362,302 | 18,896,659 |
| Retiree healthcare benefits | 6,079,477 | - | 6,079,477 |
| Debt service: | | | |
| Lease payment | - | 7,100,000 | 7,100,000 |
| Capital projects: | | | |
| Capital asset acquisition from contributions | 2,605,785 | - | 2,605,785 |
| Total expenditures | <u>203,441,230</u> | <u>50,165,860</u> | <u>253,607,090</u> |
| Net change in fund balances (deficit) | (681,272) | - | (681,272) |
| Fund balances (deficit) at beginning of year | <u>(21,937,163)</u> | <u>-</u> | <u>(21,937,163)</u> |
| Fund balances (deficit) at end of year | <u><u>\$ (22,618,435)</u></u> | <u><u>-</u></u> | <u><u>\$ (22,618,435)</u></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, 2010

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

| | | |
|--|----|-----------|
| Total net change in deficit - governmental funds | \$ | (681,272) |
|--|----|-----------|

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 | 2,605,785 | |
| Depreciation expense, net | <u>(6,519,267)</u> | (3,913,482) |

| | |
|---|--------|
| The net effect of various miscellaneous transactions involving capital assets (ie. Capital lease prepayment) is to increase net assets. | 55,030 |
|---|--------|

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:

| | |
|-----------------------------|-----------|
| Repayment of capital leases | 2,915,000 |
|-----------------------------|-----------|

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 | (84,812) | |
| Increase in accrued sick leave liability | <u>(589,515)</u> | (674,327) |

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

| | |
|---------------------------------|----------------|
| Adjustment of deferred revenues | <u>241,324</u> |
|---------------------------------|----------------|

| | |
|---|------------------------------|
| Change in net assets of governmental activities | \$ <u><u>(2,057,727)</u></u> |
|---|------------------------------|

See accompanying notes to financial statements.

GUAM DEPARTMENT OF EDUCATION

Statement of Fiduciary Net Assets
Agency Fund
September 30, 2010

ASSETS

| | |
|---------------------------|--------------------------|
| Cash and cash equivalents | \$ <u>435,221</u> |
| Total assets | \$ <u><u>435,221</u></u> |

LIABILITIES

| | |
|--------------------------------|--------------------------|
| Deposits and other liabilities | \$ <u>435,221</u> |
| Total liabilities | \$ <u><u>435,221</u></u> |

See accompanying notes to financial statements.

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2010

(1) Summary of Significant Accounting Policies

The Governmental Accounting Standards Board (GASB) is the recognized Standard-setting body for establishing governmental accounting and financial reporting principles. The significant GDOE accounting policies are described below:

A. Reporting Entity

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

In September 2010, Public Law 30-183 reorganized the elected policy board for GDOE to the Guam Education Board. The governance of GDOE is vested in the Board composed of 10 members; six members are elected, one is employed in an upper level managerial position in a private business, one GDOE student parent, one retired teacher or administrator of GDOE, and one GDOE student. 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. For the most part, the effect of interfund activity has been eliminated from these statements. GDOE activities are governmental activities, which generally are financed through local appropriations and intergovernmental revenues.

The Statement of Net 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.

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2010

(1) Summary of Significant Accounting Policies, Continued

B. Department-Wide Financial Statements, Continued

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

C. Fund Financial Statements

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

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

Federal Grants Assistance Fund - This governmental fund accounts for all activities of U.S. federal assistance grants utilized by GDOE 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.

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2010

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

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

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

GDOE reports the following major governmental funds:

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

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

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 in interest and non-interest bearing accounts.

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2010

1) Summary of Significant Accounting Policies, Continued

G. Deposits in Banks

GASB Statement No. 3 previously required government entities present deposit risks in terms of whether the deposits fell into the following categories:

- 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.

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, 2010, the carrying amount of GDOE's total cash and cash equivalents was \$1,831,329 and the corresponding bank balance was \$3,112,587, which is maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2010, bank deposits in the amount of \$250,000 were FDIC insured. The remaining bank deposits of \$2,862,587 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, 2010, 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.

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2010

(1) Summary of Significant Accounting Policies, Continued

J. Interfund Receivables/Payables, Continued

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.

K. Interfund Transactions

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

L. Capital Assets

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

Capital assets are capitalized when the cost of the individual item 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, 2010

(1) Summary of Significant Accounting Policies, Continued

L. Capital Assets, Continued

Capital asset activities for the year ended September 30, 2010 are as follows:

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|-----------------------------------|------------------------------|-----------------------|------------------|---------------------------|
| Buildings and improvements | \$ 291,617,819 | \$ - | \$ - | \$ 291,617,819 |
| Vehicles, furniture and equipment | <u>4,426,677</u> | <u>2,605,785</u> | <u>-</u> | <u>7,032,462</u> |
| | 296,044,496 | 2,605,785 | - | 298,650,281 |
| Less: accumulated depreciation | <u>(81,188,797)</u> | <u>(6,519,267)</u> | <u>-</u> | <u>(87,708,064)</u> |
| | <u>\$ 214,855,699</u> | <u>\$ (3,913,482)</u> | <u>\$ -</u> | <u>\$ 210,942,217</u> |

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

| | |
|--------------------------|---------------------|
| Governmental activities: | |
| Elementary Education | \$ 2,343,205 |
| Secondary Education | 4,007,277 |
| Direct Student Support | 101,346 |
| General Administration | <u>67,439</u> |
| | <u>\$ 6,519,267</u> |

M. 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.

N. 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.

O. 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.

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2010

(1) Summary of Significant Accounting Policies, Continued

O. Compensated Absences, Continued

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

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

P. 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.

Q. Dedicated Revenues and Pledges

GDOE has entered into a municipal school lease agreement whereby GovGuam on behalf of GDOE has pledged a portion of future Compact Impact grant funds to finance annual lease payments under this agreement. This lease obligation is payable solely from Compact Impact grant revenues payable to GovGuam by the United States Government pursuant to the Compact of Free Association Act, U.S. Public Law 108-188. Total payments remaining on this municipal school lease agreement are approximately \$105,600,000 payable through December 2025. For the year ended September 30, 2010, lease payments made and total Compact Impact grant revenues received were \$7,100,000.

R. 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.

S. 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, 2009 from which summarized information was derived.

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2010

(1) Summary of Significant Accounting Policies, Continued

T. New Accounting Standards

During fiscal year 2010, GDOE implemented the following pronouncements:

- GASB 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.
- GASB 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.
- GASB 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.
- GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, which provides guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code, and establishes requirements for recognizing and measuring the effects of the bankruptcy process on assets and liabilities, and for classifying changes in those items and related costs.

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

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 has not evaluated the effect that the implementation of this statement will have on the financial statements of GDOE.

In December 2009, GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans. The provisions of Statement 57 related to the use and reporting of the alternative measurement method are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011. 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, 2010

(1) Summary of Significant Accounting Policies, Continued

T. New Accounting Standards, Continued

In June 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. The provisions of this statement are effective for periods beginning after June 15, 2010. Management has not evaluated the effect that the implementation of this statement will have on the financial statements of GDOE.

(2) Long-Term Debt

Installment payment agreement payable to Guam Power Authority (GPA) commencing 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. \$ 6,447,691

The annual requirements to amortize the debt outstanding as of September 30, 2010, including interest payments, are as follows:

| <u>Year Ending September 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------------------------|---------------------|-------------------|---------------------|
| 2011 | \$ 2,324,201 | \$ 261,120 | \$ 2,585,321 |
| 2012 | 2,261,642 | 138,358 | 2,400,000 |
| 2013 | <u>1,861,848</u> | <u>36,667</u> | <u>1,898,515</u> |
| | <u>\$ 6,447,691</u> | <u>\$ 436,145</u> | <u>\$ 6,883,836</u> |

On August 20, 2010, Public Law 30-181 assigned GovGuam's Department of Administration to act solely in the capacity of an agent for transacting timely payment of the GPA note.

Changes in Long-Term Liabilities

Changes in long-term liabilities for the year ended September 30, 2010, 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 | \$ 8,325,628 | \$ - | \$(1,877,937) | \$ 6,447,691 | \$ 2,324,201 |
| Accrued sick leave liability | 5,606,363 | 589,515 | - | 6,195,878 | - |
| Compensated absences | 4,580,420 | 704,614 | (619,802) | 4,665,232 | 3,569,819 |
| Obligations under capital lease | <u>65,385,000</u> | <u>-</u> | <u>(2,915,000)</u> | <u>62,470,000</u> | <u>3,060,000</u> |
| | <u>\$ 83,897,411</u> | <u>\$ 1,294,129</u> | <u>\$(5,412,739)</u> | <u>\$ 79,778,801</u> | <u>\$ 8,954,020</u> |

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2010

(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, 2010. The estimated accumulated amount of unused sick leave at September 30, 2010, is \$35,119,849, of which an estimated \$6,195,878 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 2010 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.

C. Non-Appropriated Funds

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

D. Self-Insurance

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

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2010

(3) Commitments and Contingencies, Continued

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 GovGuam’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 GovGuam and any officer of the Executive Branch of the Government of Guam in his official capacity only for the purpose of enjoining such officer from failing to provide an adequate public education to that public school student but *not* for money damages. Given the lack of adequate funding to meet all of the requirements of Public Law 28-45, it is reasonably possible that law suits will be filed against GDOE and legal costs will be incurred.

G. John F. Kennedy High School Lease

In June 2009, GovGuam, 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 at \$4,493,256 annually.

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

| <u>Year Ending September 30,</u> | <u>Land and Buildings</u> | <u>Insurance</u> | <u>Maintenance</u> | <u>Total</u> |
|--------------------------------------|-------------------------------|---------------------|---------------------|----------------------|
| 2011 | \$ 3,480,000 | \$ 331,700 | \$ 681,556 | \$ 4,493,256 |
| 2012 | 3,480,000 | 331,700 | 681,556 | 4,493,256 |
| 2013 | 3,480,000 | 331,700 | 681,556 | 4,493,256 |
| 2014 | 3,480,000 | 331,700 | 681,556 | 4,493,256 |
| 2015 | 3,480,000 | 331,700 | 681,556 | 4,493,256 |
| 2016-2019 | <u>13,340,000</u> | <u>1,271,517</u> | <u>2,612,631</u> | <u>17,224,148</u> |
| Total payments | \$ <u>30,740,000</u> | \$ <u>2,930,017</u> | \$ <u>6,020,411</u> | \$ <u>39,690,428</u> |

H. Litigation

GDOE is party to several legal proceedings arising from governmental operations, however, the Legal Counsel and Attorney General of Guam is unable to assess the likelihood of potential liabilities related to claims outstanding as of September 30, 2010. Hence, it is not possible to predict a reasonable estimation of these claims to be paid through the claims process. No provision that may result has been made in the accompanying financial statements except as disclosed on Note 3E.

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2010

(3) Commitments and Contingencies, Continued

I. John F. Kennedy High School Project

On August 24, 2010, GovGuam issued on behalf of GDOE, \$65,735,000 in Series 2010 Certificates of Participation (COPS) to finance the demolition, acquisition, renovation and installation of facilities to provide for the new John F. Kennedy High School on Guam. The proceeds of the COPS were remitted to a trustee, who then will remit amounts to the developer as construction progresses.

The holders of the COPS will be the owners of the new High School. Accordingly, GDOE's rental payments for the use of the new High School will be paid to a trustee, who will then remit those payments to the holders of the COPS, with annual rental payments subject to appropriations by the Guam Legislature. Payments will commence on December 1, 2010, for base and additional rentals and continue through December 1, 2040 (with incremental increases subsequent to the first payment), with varying interest rates of 5.5% - 6.875%. Title to the new High School will transfer to GDOE upon the payment of all requested rents. GDOE management is of the opinion that this financing facility represents a capital lease and will accordingly account for such in that manner when construction is completed. It is expected that the new High School will be turned over to GDOE for use in December 2011.

J. Public Law 30-182

To substitute, in part, the facility needs of a new northern high school to existing land under lease to GDOE at considerable cost savings to GovGuam, Public Law 30-182 was passed by the Guam Legislature, authorizing GovGuam to enter into contracts for the financing, design, construction and long-term capital maintenance of additions and improvements at Okkodu High School.

Pursuant to the American Recovery and Reinvestment Act of 2009, GovGuam was authorized to issue a total of \$21,818,000 in Qualified School Construction Bonds. No bonds have been issued as at September 30, 2010.

(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.

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2010

(4) Employee Retirement Plans, Continued

Defined Benefit Plan, Continued

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.

Funding Policy:

As a result of actuarial valuations performed as of September 30, 2008, 2007, and 2006, contribution rates required to fully fund the Retirement Fund liability, as required by Guam law, for the years ended September 30, 2010, 2009 and 2008, respectively, have been determined by the Guam Legislature as follows:

| | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|---|---------------|---------------|---------------|
| Normal costs (% of DB Plan payroll) | 18.34% | 17.36% | 17.94% |
| Employee contributions (DB Plan employees) | <u>9.50%</u> | <u>9.50%</u> | <u>9.50%</u> |
| Employer portion of normal costs (% of DB Plan payroll) | <u>8.84%</u> | <u>7.86%</u> | <u>8.44%</u> |
| Employer portion of normal costs (% of total payroll) | 3.73% | 3.70% | 3.99% |
| Unfunded liability cost (% of total payroll) | <u>22.69%</u> | <u>19.68%</u> | <u>20.75%</u> |
| Government contribution as a % of total payroll | <u>26.42%</u> | <u>23.38%</u> | <u>24.74%</u> |
| Statutory contribution rates as a % of DB Plan payroll: | | | |
| Employer | <u>26.04%</u> | <u>25.20%</u> | <u>24.07%</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, 2010, 2009 and 2008 were \$15,480,638, \$14,563,208 and \$14,404,978, respectively, which were equal to the required contributions for each year.

Defined Contribution Plan

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, 2010 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.

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2010

(4) Employee Retirement Plans, Continued

Defined Contribution Plan, Continued

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, 2010, 2009 and 2008 were \$22,237,767, \$21,303,693 and \$20,190,882, respectively, which were equal to the required contributions for each year.

Other Post Employment Benefits

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

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

During the years ended September 30, 2010, 2009 and 2008, GDOE recognized certain on-behalf payments as appropriations from GovGuam, totaling \$6,079,477, \$6,740,014, and \$6,204,194, respectively, representing certain healthcare benefits that GovGuam's general fund paid directly on behalf of GDOE retirees.

(5) Retirement Liability

As of September 30, 2010, a total of \$6,562,500 is payable to the GovGuam Retirement Fund for delinquent contributions, inclusive of interest and penalties, 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 GovGuam 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.

Public Law 28-38, passed in June 2005, as amended by Public Law 29-19, requires that GovGuam's general fund remit interest-only payments monthly to GovGuam 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, 2010, GovGuam's general fund paid interest-only payments, totaling \$2,315,461, to GovGuam Retirement Fund.

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2010

(6) Appropriations

During the year ended September 30, 2010, appropriations provided to GDOE by the Guam Legislature were as follows:

General Fund:

| | |
|---------------------------------------|--------------------|
| Public Law 29-19: | |
| 2007 Bond proceeds | \$ 4,473,448 |
| Public Law 30-55: | |
| GPSS Operations Fund | 170,577,866 |
| Textbooks | 1,940,000 |
| Territorial Education Facilities Fund | 9,410,474 |
| Principal mentorship | 97,000 |
| Contractual services | 5,984 |
| Healthy Futures Fund | 654,360 |
| Retiree healthcare benefits | 6,079,477 |
| Public School Library Resources Fund | 755,482 |
| Public Law 30-37: | |
| John F. Kennedy High School lease | <u>4,493,256</u> |
| | <u>198,487,347</u> |

Federal Grants Assistance Fund:

| | |
|----------------------------------|-----------------------|
| Public Law 28-47 | |
| Municipal School Lease Agreement | <u>7,100,000</u> |
| | \$ <u>205,587,347</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 the year ended September 30, 2010 is \$8,648,137, which is accounted for within GDOE's federal grants assistance fund.

(7) Due from Government Agencies

Due from primary government consists of receivables from GovGuam General Fund.

(8) Municipal School Lease Agreement

On October 19, 2006, GovGuam issued, on behalf of GDOE, \$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.

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2010

(8) Municipal School Lease Agreement, Continued

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.

The assets acquired through capital leases are as follows:

| | |
|-------------------------------|----------------------|
| Asset: | |
| Buildings | \$ 88,529,866 |
| Less accumulated depreciation | <u>(5,545,263)</u> |
| | <u>\$ 82,984,603</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, 2010, were as follows:

| <u>Year Ending</u> <u>September 30,</u> | <u>Principal</u> |
|--|----------------------|
| 2011 | \$ 6,184,167 |
| 2012 | 6,185,000 |
| 2013 | 6,186,667 |
| 2014 | 6,184,167 |
| 2015 | 6,190,000 |
| 2016-2020 | 28,853,333 |
| 2021-2025 | 25,665,833 |
| 2026-2027 | <u>5,171,666</u> |
| Total lease payments | 90,620,833 |
| Less amount representing interest | (28,150,833) |
| Less current portion | <u>(3,060,000)</u> |
| Total | <u>\$ 59,410,000</u> |

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

GUAM DEPARTMENT OF EDUCATION

**REQUIRED SUPPLEMENTARY
INFORMATION**

YEAR ENDED SEPTEMBER 30, 2010

GUAM DEPARTMENT OF EDUCATION

Schedule of Revenues, Expenditures, and Changes in Deficit - Budget and Actual
 General Fund
 Year Ended September 30, 2010

| | Original Budget | Final Budget | Actual - Budgetary Basis | Variance with Final Budget - Positive (Negative) |
|--|------------------------|------------------------|--------------------------------|---|
| Revenues: | | | | |
| Local appropriations: | | | | |
| Government of Guam General Fund: | | | | |
| Base Operational Fund | \$ 174,986,508 | \$ 174,986,508 | \$ 170,577,866 | \$ (4,408,642) |
| Government of Guam bond proceeds | - | - | 4,497,890 | 4,497,890 |
| Textbooks | 2,000,000 | 2,000,000 | 1,940,000 | (60,000) |
| Principal mentorship | 100,000 | 100,000 | 97,000 | (3,000) |
| Contractual services | 6,169 | 6,169 | 5,984 | (185) |
| Territorial Educational Facilities Fund | 9,410,474 | 9,410,474 | 9,410,474 | - |
| Healthy Futures Fund: | | | | |
| Base Operational Fund | 8,000 | 8,000 | 8,000 | - |
| Interscholastic sports | 520,000 | 520,000 | 346,575 | (173,425) |
| Interscholastic sports-busing | 92,000 | 92,000 | 82,800 | (9,200) |
| Health and Physical Education Activities | 271,754 | 271,754 | 216,985 | (54,769) |
| Public School Library Resources Fund | 755,482 | 755,482 | 755,482 | - |
| Fees and other program receipts | - | 176,775 | 73,527 | (103,248) |
| Federal grants and contributions | - | 437,000 | 704,196 | 267,196 |
| Cafeteria sales | 700,000 | 861,020 | 864,661 | 3,641 |
| Total revenues | <u>188,850,387</u> | <u>189,625,182</u> | <u>189,581,440</u> | <u>(43,742)</u> |
| Expenditures - Budgetary Basis: | | | | |
| Elementary Education | 81,877,951 | 81,877,951 | 82,550,261 | (672,310) |
| Secondary Education | 83,632,194 | 84,069,194 | 85,906,666 | (1,837,472) |
| Direct Student Support | 5,409,946 | 5,409,946 | 5,373,470 | 36,476 |
| General Administration | 22,026,211 | 22,364,006 | 20,020,467 | 2,343,539 |
| Total expenditures | <u>192,946,302</u> | <u>193,721,097</u> | <u>193,850,864</u> | <u>(129,767)</u> |
| Deficiency of revenues under expenditures | (4,095,915) | (4,095,915) | (4,269,424) | (173,509) |
| Other changes in unreserved deficit: | | | | |
| Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary purposes, but in the year the items are received for financial reporting purposes | - | - | 3,588,152 | 3,588,152 |
| Total fund deficit at beginning of year | <u>(21,937,163)</u> | <u>(21,937,163)</u> | <u>(21,937,163)</u> | <u>-</u> |
| Total fund deficit at end of year | <u>\$ (26,033,078)</u> | <u>\$ (26,033,078)</u> | <u>\$ (22,618,435)</u> | <u>\$ 3,414,643</u> |

| | Reconciliation of | |
|---|-----------------------|-----------------------|
| | Revenues | Expenditures |
| Non-cash transactions: | | |
| Retiree healthcare benefits | \$ 6,079,477 | \$ 6,079,477 |
| JFK Lease | 4,493,256 | 4,493,256 |
| Capital asset acquisitions from contributions | 2,605,785 | 2,605,785 |
| Total non-cash transactions | <u>13,178,518</u> | <u>13,178,518</u> |
| Total revenues/expenditures, per above | 189,581,440 | 193,850,864 |
| Less current year encumbrances | - | (3,588,152) |
| Total revenues/expenditures, per page 13 | <u>\$ 202,759,958</u> | <u>\$ 203,441,230</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, 2010

(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 2010, Public Law No. 30-55, 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 | \$ (681,272) |
| Decrease in fund balance reservations: | |
| Encumbrances | <u>873,821</u> |
| Net change in unreserved fund deficit | \$ <u>192,549</u> |

See Accompanying Independent Auditors' Report.

GUAM DEPARTMENT OF EDUCATION

**OTHER SUPPLEMENTARY
INFORMATION**

YEAR ENDED SEPTEMBER 30, 2010

GUAM DEPARTMENT OF EDUCATION

Statements of Net Assets - Governmental Activities

September 30, 2010

(With Comparative Totals as of September 30, 2009)

| <u>ASSETS</u> | <u>2010</u> | <u>2009</u> |
|--|-----------------------|-----------------------|
| Current assets: | | |
| Cash and cash equivalents | \$ 1,831,329 | \$ 5,981,193 |
| Receivables from federal agencies | 6,297,254 | 5,171,082 |
| Due from primary government | 7,844,859 | 6,172,073 |
| Prepayments and other assets | <u>1,236,462</u> | <u>1,107,208</u> |
| Total current assets | <u>17,209,904</u> | <u>18,431,556</u> |
| Noncurrent assets: | | |
| Deferred maintenance and insurance costs | 2,865,810 | 2,690,071 |
| Capital assets, net of accumulated depreciation | 210,942,217 | 214,855,699 |
| Other deferred costs | <u>1,782,883</u> | <u>1,887,758</u> |
| Total noncurrent assets | <u>215,590,910</u> | <u>219,433,528</u> |
| Total assets | <u>\$ 232,800,814</u> | <u>\$ 237,865,084</u> |
| <u>LIABILITIES</u> | | |
| Current liabilities: | | |
| Current portion of payment arrangement with GPA | \$ 2,324,201 | \$ 2,068,570 |
| Accounts payable | 8,994,656 | 9,037,044 |
| Accrued payroll | 7,659,959 | 7,083,580 |
| Other liabilities and accruals | 6,822,262 | 6,235,369 |
| Retirement payable | 6,562,500 | 6,571,317 |
| Current portion of obligation under capital lease | 3,060,000 | 2,915,000 |
| Current portion of compensated absences payable | <u>3,569,819</u> | <u>1,254,546</u> |
| Total current liabilities | <u>38,993,397</u> | <u>35,165,426</u> |
| Noncurrent liabilities: | | |
| Compensated absences payable, net of current portion | 1,095,413 | 3,325,874 |
| Accrued sick leave liability | 6,195,878 | 5,606,363 |
| Obligation under capital lease, net of current portion | 59,410,000 | 62,470,000 |
| Payment arrangement with GPA, net of current portion | <u>4,123,490</u> | <u>6,257,058</u> |
| Total noncurrent liabilities | <u>70,824,781</u> | <u>77,659,295</u> |
| Total liabilities | <u>109,818,178</u> | <u>112,824,721</u> |
| <u>NET ASSETS</u> | | |
| Invested in capital assets, net of related debt | 148,472,217 | 149,470,699 |
| Restricted for: | | |
| Maintenance and insurance costs | 2,865,810 | 2,690,071 |
| Federal programs | 2,643,771 | 2,402,447 |
| Unrestricted | <u>(30,999,162)</u> | <u>(29,522,854)</u> |
| Total net assets | <u>122,982,636</u> | <u>125,040,363</u> |
| | <u>\$ 232,800,814</u> | <u>\$ 237,865,084</u> |

See accompanying independent auditors' report.

GUAM DEPARTMENT OF EDUCATION

Statements of Activities - Governmental Activities
 Year Ended September 30, 2010
 (With Comparative Totals for the Year Ended September 30, 2009)

| | 2010 | 2009 |
|---|-----------------------|-----------------------|
| Program Revenues: | | |
| Elementary Education | \$ 12,290,377 | \$ 11,633,873 |
| Secondary Education | 4,146,125 | 3,735,128 |
| Direct Student Support | 27,933,882 | 28,099,308 |
| General Administration | 603,626 | 729,178 |
| Capital projects | 9,705,785 | 7,100,000 |
| | <u>54,679,795</u> | <u>51,297,487</u> |
| Expenses for Governmental Activities: | | |
| Elementary Education | 97,855,462 | 96,930,746 |
| Secondary Education | 100,046,786 | 95,881,242 |
| Direct Student Support | 31,604,719 | 41,604,034 |
| General Administration | 19,638,425 | 19,837,355 |
| Retiree healthcare benefits | 6,079,477 | 6,740,014 |
| | <u>255,224,869</u> | <u>260,993,391</u> |
| Deficiency of program revenues under expenses | <u>(200,545,074)</u> | <u>(209,695,904)</u> |
| General revenues: | | |
| Appropriations: | | |
| Operations | 196,547,347 | 206,549,210 |
| Textbooks | 1,940,000 | 4,900,000 |
| | <u>198,487,347</u> | <u>211,449,210</u> |
| Total general revenues | <u>198,487,347</u> | <u>211,449,210</u> |
| Change in net assets | (2,057,727) | 1,753,306 |
| Net assets at beginning of year | <u>125,040,363</u> | <u>123,287,057</u> |
| Net assets at end of year | <u>\$ 122,982,636</u> | <u>\$ 125,040,363</u> |

See accompanying independent auditors' report.

GUAM DEPARTMENT OF EDUCATION

Balance Sheets
Governmental Funds
September 30, 2010

(With Comparative Totals as of September 30, 2009)

| <u>ASSETS</u> | 2010 | | | 2009 | | |
|--|----------------------|---------------------------------|----------------------|----------------------|---------------------------------|----------------------|
| | General | Federal Grants Assistance | Total | General | Federal Grants Assistance | Total |
| Cash and cash equivalents | \$ 791,761 | \$ 1,039,568 | \$ 1,831,329 | \$ 4,086,222 | \$ 1,894,971 | \$ 5,981,193 |
| Receivables from Federal agencies | - | 6,297,254 | 6,297,254 | - | 5,171,082 | 5,171,082 |
| Due from primary government | 7,844,859 | - | 7,844,859 | 6,172,073 | - | 6,172,073 |
| Prepayments and other assets | 538,962 | - | 538,962 | 393,874 | - | 393,874 |
| Due from other funds | 1,190,112 | - | 1,190,112 | 1,246,443 | - | 1,246,443 |
| Total assets | \$ 10,365,694 | \$ 7,336,822 | \$ 17,702,516 | \$ 11,898,612 | \$ 7,066,053 | \$ 18,964,665 |
| <u>LIABILITIES AND FUND</u> | | | | | | |
| <u>BALANCES (DEFICIT)</u> | | | | | | |
| Liabilities: | | | | | | |
| Accounts payable | \$ 6,922,465 | \$ 2,072,191 | \$ 8,994,656 | \$ 7,262,999 | \$ 1,774,044 | \$ 9,037,043 |
| Accrued payroll | 6,272,164 | 1,387,795 | 7,659,959 | 5,956,836 | 1,126,745 | 7,083,581 |
| Other liabilities and accruals | 6,779,309 | 42,953 | 6,822,262 | 5,717,175 | 250,839 | 5,968,014 |
| Retirement payable | 6,562,500 | - | 6,562,500 | 6,305,782 | 265,535 | 6,571,317 |
| Deferred revenues | - | 2,643,771 | 2,643,771 | 267,355 | 2,402,447 | 2,669,802 |
| Due to other funds | - | 1,190,112 | 1,190,112 | - | 1,246,443 | 1,246,443 |
| Payment arrangement with GPA | 6,447,691 | - | 6,447,691 | 8,325,628 | - | 8,325,628 |
| Total liabilities | 32,984,129 | 7,336,822 | 40,320,951 | 33,835,775 | 7,066,053 | 40,901,828 |
| Fund balances (deficit): | | | | | | |
| Reserved for: | | | | | | |
| Encumbrances | 3,588,152 | 6,916,785 | 10,504,937 | 4,461,973 | 2,633,071 | 7,095,044 |
| Unreserved | (26,206,587) | (6,916,785) | (33,123,372) | (26,399,136) | (2,633,071) | (29,032,207) |
| Total fund balances (deficits) | (22,618,435) | - | (22,618,435) | (21,937,163) | - | (21,937,163) |
| Total liabilities and fund balances | \$ 10,365,694 | \$ 7,336,822 | \$ 17,702,516 | \$ 11,898,612 | \$ 7,066,053 | \$ 18,964,665 |

See accompanying independent auditors' report.

GUAM DEPARTMENT OF EDUCATION

Reconciliations of Governmental Fund Deficit to Net Assets of Governmental Activities
September 30, 2010
(With Comparative Totals as of September 30, 2009)

| | 2010 | 2009 |
|--|-----------------|-----------------|
| Total deficit - governmental funds | \$ (22,618,435) | \$ (21,937,163) |
| 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. | 697,500 | 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. | 1,782,883 | 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. | 2,865,810 | 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 | 291,617,819 |
| Vehicles, furniture and equipment | 7,032,462 | 4,426,677 |
| Accumulated depreciation | (87,708,064) | (81,188,797) |
| Capital assets, net of accumulated depreciation | 210,942,217 | 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 | (6,195,878) | (5,606,363) |
| Compensated absences payable | (4,665,232) | (4,580,420) |
| Obligation under capital lease | (62,470,000) | (65,385,000) |
| Long - term liabilities | (73,331,110) | (75,571,783) |
| Certain revenues are earned but not available and therefore are deferred in the governmental funds: | | |
| Adjustment of deferred revenue | 2,643,771 | 2,402,447 |
| Net assets of governmental activities | \$ 122,982,636 | \$ 125,040,363 |

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, 2010
 (With Comparative Totals for the Year Ended September 30, 2009)

| | 2010 | | | 2009 | | |
|---|------------------------|---------------------------|------------------------|------------------------|---------------------------|------------------------|
| | General | Federal Grants Assistance | Total | General | Federal Grants Assistance | Total |
| Revenues: | | | | | | |
| Appropriations | \$ 198,487,347 | \$ 7,100,000 | \$ 205,587,347 | \$ 211,449,210 | \$ 7,100,000 | \$ 218,549,210 |
| Federal grants and contributions | 3,309,981 | 42,766,617 | 46,076,598 | 310,237 | 43,070,404 | 43,380,641 |
| Cafeteria sales | 864,661 | - | 864,661 | 766,564 | - | 766,564 |
| Fees and other program receipts | 97,969 | 299,243 | 397,212 | 126,312 | - | 126,312 |
| Total revenues | 202,759,958 | 50,165,860 | 252,925,818 | 212,652,323 | 50,170,404 | 262,822,727 |
| Expenditures: | | | | | | |
| Current: | | | | | | |
| Elementary Education | 81,942,638 | 12,290,377 | 94,233,015 | 82,160,345 | 11,633,873 | 93,794,218 |
| Secondary Education | 89,042,656 | 4,146,125 | 93,188,781 | 85,538,372 | 3,735,128 | 89,273,500 |
| Direct Student Support | 5,236,317 | 26,267,056 | 31,503,373 | 14,397,602 | 27,206,432 | 41,604,034 |
| General Administration | 18,534,357 | 362,302 | 18,896,659 | 18,244,094 | 494,971 | 18,739,065 |
| Retiree healthcare benefits | 6,079,477 | - | 6,079,477 | 6,740,014 | - | 6,740,014 |
| Debt service: | | | | | | |
| Lease payment | - | 7,100,000 | 7,100,000 | - | 7,100,000 | 7,100,000 |
| Capital projects: | | | | | | |
| Capital asset acquisition from contributions | 2,605,785 | - | 2,605,785 | - | - | - |
| Capital lease acquisition | - | - | - | - | 17,254,250 | 17,254,250 |
| Total expenditures | 203,441,230 | 50,165,860 | 253,607,090 | 207,080,427 | 67,424,654 | 274,505,081 |
| Excess (deficiency) of revenues over (under) expenditures | (681,272) | - | (681,272) | 5,571,896 | (17,254,250) | (11,682,354) |
| Other financing sources (uses): | | | | | | |
| Transfers in | - | - | - | 1,456,752 | - | 1,456,752 |
| Transfers out | - | - | - | - | (1,456,752) | (1,456,752) |
| Capital leases | - | - | - | - | 17,254,250 | 17,254,250 |
| Total other financing sources, net | - | - | - | 1,456,752 | 15,797,498 | 17,254,250 |
| Net change in fund balances (deficit) | (681,272) | - | (681,272) | 7,028,648 | (1,456,752) | 5,571,896 |
| Fund balances (deficit) at beginning of year | (21,937,163) | - | (21,937,163) | (28,965,811) | 1,456,752 | (27,509,059) |
| Fund balances (deficit) at end of year | \$ (22,618,435) | \$ - | \$ (22,618,435) | \$ (21,937,163) | \$ - | \$ (21,937,163) |

See accompanying independent auditors' report.

GUAM DEPARTMENT OF EDUCATION

Reconciliations of the Governmental Funds Statement of Revenues, Expenditures and
Changes in Fund Balances (Deficit) to the Statement of Activities
September 30, 2010
(With Comparative Totals as of September 30, 2009)

| | 2010 | 2009 |
|---|----------------|--------------|
| Amounts reported for governmental activities in the statements of activities are different because: | | |
| Total net change in deficit - governmental funds | \$ (681,272) | \$ 5,571,896 |
| 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). | (3,913,482) | 12,704,201 |
| 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) |
| The net effect of various miscellaneous transactions involving capital assets (ie. Capital lease prepayment) is to increase (decrease) net assets. | 55,030 | 1,241,187 |
| 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. | 2,915,000 | (13,802,750) |
| 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. | (674,327) | (821,227) |
| Certain revenues are earned but not available and therefore are deferred in the governmental funds. | 241,324 | (76,030) |
| Change in net assets of governmental activities | \$ (2,057,727) | \$ 1,753,306 |

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, 2010
(With Comparative Totals for the Year Ended September 30, 2009)

| | 2010 | | | | 2009 | | | |
|---|------------------------|------------------------|--------------------------|--|------------------------|------------------------|--------------------------|--|
| | 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: | | | | | | | | |
| Government of Guam General Fund: | | | | | | | | |
| Operations Fund | \$ 174,986,508 | \$ 174,986,508 | \$ 170,577,866 | \$ (4,408,642) | \$ 162,776,676 | \$ 162,776,676 | \$ 169,516,690 | \$ 6,740,014 |
| Government of Guam bond proceeds | - | - | 4,497,890 | 4,497,890 | 22,673,941 | 22,673,941 | 14,200,380 | (8,473,561) |
| Textbooks | 2,000,000 | 2,000,000 | 1,940,000 | (60,000) | 4,900,000 | 4,900,000 | 4,900,000 | - |
| Principal Mentorship | 100,000 | 100,000 | 97,000 | (3,000) | - | - | - | - |
| Suruhanu office | - | - | - | - | 163,041 | 163,041 | 163,041 | - |
| Contractual | 6,169 | 6,169 | 5,984 | (185) | - | - | - | - |
| Territorial Education Facilities Fund | 9,410,474 | 9,410,474 | 9,410,474 | - | 9,875,705 | 9,875,705 | 9,875,705 | - |
| Healthy Futures Fund: | | | | | | | | |
| Operations | 8,000 | 8,000 | 8,000 | - | - | - | - | - |
| Interscholastic Sports | 612,000 | 612,000 | 429,375 | (182,625) | 426,581 | 426,581 | 392,476 | (34,105) |
| Health and Physical Education Activities | 271,754 | 271,754 | 216,985 | (54,769) | 271,754 | 271,754 | 250,028 | (21,726) |
| Public School Library Resources Fund | 755,482 | 755,482 | 755,482 | - | 1,466,895 | 1,466,895 | 718,000 | (748,895) |
| Fees and other program receipts | - | 176,775 | 73,527 | (103,248) | - | - | 310,237 | 310,237 |
| Federal grants and contributions | - | 437,000 | 704,196 | 267,196 | - | - | 766,564 | 766,564 |
| Cafeteria sales | 700,000 | 861,020 | 864,661 | 3,641 | - | - | 126,312 | 126,312 |
| Total revenues | <u>188,850,387</u> | <u>189,625,182</u> | <u>189,581,440</u> | <u>(43,742)</u> | <u>202,554,593</u> | <u>202,554,593</u> | <u>201,219,433</u> | <u>(1,335,160)</u> |
| Expenditures - Budgetary Basis: | | | | | | | | |
| Personnel | 159,103,850 | 159,114,850 | 159,109,367 | 5,483 | 158,718,106 | 158,718,106 | 158,693,464 | 24,642 |
| Utilities | 14,174,933 | 14,174,933 | 14,340,065 | (165,132) | 12,114,790 | 12,114,790 | 12,040,696 | 74,094 |
| Contractual | 12,457,618 | 12,644,644 | 12,635,798 | 8,846 | 8,411,593 | 8,411,593 | 8,319,334 | 92,259 |
| Supplies/equipment | 4,396,655 | 4,580,840 | 4,579,882 | 958 | 8,571,959 | 8,571,959 | 7,659,214 | 912,745 |
| Textbooks | 1,085,115 | 1,085,115 | 1,077,073 | 8,042 | 6,212,499 | 6,212,499 | 6,205,089 | 7,410 |
| Capital projects | 967,783 | 967,783 | 959,999 | 7,784 | 10,527,655 | 10,527,655 | 6,492,702 | 4,034,953 |
| Other | 760,348 | 1,152,932 | 1,148,680 | 4,252 | 801,339 | 801,339 | 699,011 | 102,328 |
| Total expenditures | <u>192,946,302</u> | <u>193,721,097</u> | <u>193,850,864</u> | <u>(129,767)</u> | <u>205,357,941</u> | <u>205,357,941</u> | <u>200,109,510</u> | <u>5,248,431</u> |
| Excess (deficiency) of revenues over (under) expenditures | (4,095,915) | (4,095,915) | (4,269,424) | (173,509) | (2,803,348) | (2,803,348) | 1,109,923 | 3,913,271 |
| Other financing uses: | | | | | | | | |
| Transfers in | - | - | - | - | - | - | 1,456,752 | 1,456,752 |
| Net change in deficit | (4,095,915) | (4,095,915) | (4,269,424) | (173,509) | (2,803,348) | (2,803,348) | 2,566,675 | 5,370,023 |
| Other changes in unreserved deficit: | | | | | | | | |
| Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary purposes, but in the year the items are received for financial statement purposes | - | - | 3,588,152 | 3,588,152 | - | - | 4,461,973 | 4,461,973 |
| Total fund deficit at beginning of year | (21,937,163) | (21,937,163) | (21,937,163) | - | (28,965,811) | (28,965,811) | (28,965,811) | - |
| Total fund deficit at end of year | <u>\$ (26,033,078)</u> | <u>\$ (26,033,078)</u> | <u>\$ (22,618,435)</u> | <u>\$ 3,414,643</u> | <u>\$ (31,769,159)</u> | <u>\$ (31,769,159)</u> | <u>\$ (21,937,163)</u> | <u>\$ 9,831,996</u> |

See accompanying independent auditors' report.

GUAM DEPARTMENT OF EDUCATION

Combined Statements of Revenues, Expenditures By Account and Changes in Fund Balances (Deficits)
 Governmental Funds
 Year Ended September 30, 2010
 (With Comparative Totals for the Year Ended September 30, 2009)

| | 2010 | | | 2009 | | |
|--|--------------------|---------------------------|--------------------|--------------------|---------------------------|--------------------|
| | General | Federal Grants Assistance | Total | General | Federal Grants Assistance | Total |
| Revenues: | | | | | | |
| Local appropriations | \$ 198,487,347 | \$ 7,100,000 | \$ 205,587,347 | \$ 211,449,210 | \$ 7,100,000 | \$ 218,549,210 |
| Federal grants and contributions | 3,309,981 | 42,766,617 | 46,076,598 | 310,237 | 43,070,404 | 43,380,641 |
| Cafeteria sales | 864,661 | - | 864,661 | 766,564 | - | 766,564 |
| Fees and other program receipts | 97,969 | 299,243 | 397,212 | 126,312 | - | 126,312 |
| Total revenues | 202,759,958 | 50,165,860 | 252,925,818 | 212,652,323 | 50,170,404 | 262,822,727 |
| Expenditures: | | | | | | |
| Salaries | 122,519,603 | 21,392,719 | 143,912,322 | 121,091,021 | 21,548,717 | 142,639,738 |
| Benefits | 42,669,241 | 6,296,605 | 48,965,846 | 44,342,457 | 6,142,448 | 50,484,905 |
| Contractual | 10,822,430 | 11,410,204 | 22,232,634 | 10,652,955 | 10,481,041 | 21,133,996 |
| Power | 11,597,228 | - | 11,597,228 | 11,442,497 | - | 11,442,497 |
| Capital projects | - | 7,100,000 | 7,100,000 | - | 7,100,000 | 7,100,000 |
| Supplies | 2,181,917 | 2,368,231 | 4,550,148 | 2,202,294 | 3,409,480 | 5,611,774 |
| Lease | 4,493,256 | - | 4,493,256 | 748,876 | - | 748,876 |
| Capital asset acquisition from contributions | 2,605,785 | - | 2,605,785 | - | - | - |
| Water | 2,230,553 | - | 2,230,553 | 1,419,925 | - | 1,419,925 |
| Textbooks | 926,882 | 263,522 | 1,190,404 | 5,900,048 | 143,690 | 6,043,738 |
| Equipment | 630,921 | 495,066 | 1,125,987 | 5,143,979 | 614,008 | 5,757,987 |
| Travel | 247,383 | 525,572 | 772,955 | 162,252 | 602,518 | 764,770 |
| Stipends and other | 576,187 | 53,361 | 629,548 | 43,814 | 227 | 44,041 |
| Phone | 512,285 | - | 512,285 | 642,762 | 3,218 | 645,980 |
| Fuel | 504,710 | - | 504,710 | - | - | - |
| Capital outlay | 280,067 | 166,101 | 446,168 | 1,900,471 | 82,800 | 1,983,271 |
| Library books | 320,719 | 94,479 | 415,198 | 897,179 | - | 897,179 |
| Interest and penalties | 322,063 | - | 322,063 | 489,897 | - | 489,897 |
| Indirect costs | - | - | - | - | 42,257 | 42,257 |
| Capital lease acquisitions | - | - | - | - | 17,254,250 | 17,254,250 |
| Total expenditures | 203,441,230 | 50,165,860 | 253,607,090 | 207,080,427 | 67,424,654 | 274,505,081 |
| Other financing sources (uses): | | | | | | |
| Transfer in | - | - | - | 1,456,752 | - | 1,456,752 |
| Transfer out | - | - | - | - | (1,456,752) | (1,456,752) |
| Capital leases | - | - | - | - | 17,254,250 | 17,254,250 |
| Total other financing sources (uses), net | - | - | - | 1,456,752 | 15,797,498 | 17,254,250 |
| Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses | (681,272) | - | (681,272) | 7,028,648 | (1,456,752) | 5,571,896 |
| Fund balances (deficit), beginning of year | (21,937,163) | - | (21,937,163) | (28,965,811) | 1,456,752 | (27,509,059) |
| Fund balance (deficit), end of year | \$ (22,618,435) | \$ - | \$ (22,618,435) | \$ (21,937,163) | \$ - | \$ (21,937,163) |

See accompanying independent auditors' report.

GUAM DEPARTMENT OF EDUCATION

Agency Fund
September 30, 2010

The schedule of cash receipts and cash disbursements for the agency fund during fiscal year 2010 is as follows:

| | <u>NAF</u> |
|-----------------------------------|-------------------|
| Cash balance at beginning of year | \$ <u>458,700</u> |
| Cash receipts: | |
| Elementary school activities | 451,641 |
| Secondary school activities | <u>1,079,995</u> |
| Total receipts | <u>1,531,636</u> |
| Cash disbursements: | |
| Elementary school activities | 477,847 |
| Secondary school activities | <u>1,077,268</u> |
| Total disbursements | <u>1,555,115</u> |
| Cash balance at end of year | \$ <u>435,221</u> |

The number of individual funds at the schools during fiscal year 2010 is as follows:

| | |
|--------------------|-----|
| Elementary schools | 378 |
| Secondary schools | 462 |

See accompanying independent auditors' report.

GUAM DEPARTMENT OF EDUCATION

Personnel
September 30, 2010 and 2009

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

| | Employee Count as of PPE <u>October 9, 2010</u> | Employee Count as of PPE <u>October 10, 2009</u> |
|--------------------------|--|---|
| 100% Locally Funded | 2,875 | 2,790 |
| 100% Federally Funded | 691 | 781 |
| Locally/Federally Funded | <u>136</u> | <u>167</u> |
| Total Employee Count | <u>3,702</u> | <u>3,738</u> |

See accompanying independent auditors' report.