

GUAM DEPARTMENT OF EDUCATION

**(A LINE AGENCY OF THE
GOVERNMENT OF GUAM)**

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

YEAR ENDED SEPTEMBER 30, 2012

GUAM DEPARTMENT OF EDUCATION

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INDEPENDENT AUDITORS' REPORT

Mr. Jon Fernandez
Superintendent
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, as of and for the year ended September 30, 2012, 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, 2012 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, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

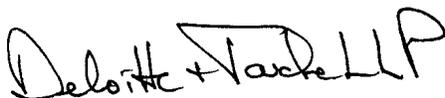
As discussed in Note 1V to the financial statements, the beginning net assets of the governmental activities has been restated for the correction of an error.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2013, 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 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 9 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. 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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Revenues, Expenditures, and Changes in Deficit – Budget and Actual – General Fund are fairly stated in all material respects in relation to the financial statements as a whole.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The other supplementary information as set forth on Section IV of the foregoing table of contents, is presented for the purposes of additional analysis and is not a required part of the financial statements. The additional information on pages 39 through 48 has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

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

June 29, 2013

GUAM DEPARTMENT OF EDUCATION

Management's Discussion and Analysis Year Ended September 30, 2012

The Management's Discussion and Analysis (MD&A) is an element of a reporting model that is required by the Governmental Accounting Standard Board's (GASB) Statement No. 34 – Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments issued in June 1999. Statement No. 34 contains significant requirements that enhance financial reporting. These requirements are also designed to make annual reports easier for the public to understand and more useful to stakeholders. Specifically, Statement No. 34 establishes reporting requirements that include financial statements, expanded disclosure, and supplemental information, including the MD&A.

The following MD&A provides an overview of the Guam Department of Education's (GDOE, Department) financial activities for fiscal year (FY) ended September 30, 2012. This Management Discussion and Analysis presents a synopsis of the financial activities for Fiscal Year ended September 30, 2012 (FY12). Readers should also review the basic financial statements and notes to enhance their understanding of the Department's financial performance.

INTRODUCTION

GDOE continues to face many operational and financial challenges. These challenges include the public school system's arduous statutory and policy requirements, which limit management's ability to maximize resources. The dependency on local government appropriations for resources sufficient to meet the needs of our students and support our staff is another major challenge.

In spite of financial and operational challenges, the over 3,800 teachers, administrators, and support staff of GDOE continue to remain focus on our mission of *"Preparing all students for life; Promoting excellence; and Providing support!"* to ensure an adequate public education to approximately 31,700 school children.

Pursuant to Public Law (PL) 31-19, the Guam Education Board (GEB, Board) is responsible for all policies governing the Department. The GEB has the authority to delegate its powers as deemed appropriate, but retains its responsibility to exercise its powers. The Board consists of eleven members, which include:

- Six elected members who serve a term of two years;
- Three appointed members who serve a term of three years;
- One non-voting student member elected by the Island-wide Board of Governing Students; and
- One non-voting member appointed by the exclusive bargaining unit, which represents GDOE teachers and other employees.

For the two-year interim-period before the next election of Board members in November 2012, Governor Edward J.B. Calvo appointed five members to the GEB. The Board selected Taling M. Taitano, the Deputy Superintendent of Finance as the Interim Superintendent after Superintendent Dr. Nerissa Schaefer-Underwood retired in July 2011. A year later, in July 2012, Jon J.P. Fernandez took over the helm as the new Superintendent of Education.

In September 2003, US Department of Education (USDOE) designated GDOE a high risk grantee. On September 25, 2009, USDOE issued amended special conditions after concluding that GDOE had not made any significant progress to address the high risk status. GDOE must comply with the amended special conditions in order to continue to access USDOE grant funds.

GDOE was required to enter into a contract with a Third Party Fiduciary Agent (TPFA) who would be responsible for the financial management of USDOE grants. Alvarez and Marsal was selected as the TPFA and officially started in September 15, 2010.

Additionally, a revised Comprehensive Corrective Action Plan (CCAP) was required by the amended special conditions, to address underlying problems associated with the high-risk designation. Progress on the CCAP is reported to USDOE quarterly and is posted on the GDOE website.

GDOE was also required by USDOE to purchase and implement a new Financial Management Information System (FMIS). GDOE purchased its new FMIS, Tyler MUNIS in August 2011. Following an ambitious plan, the GDOE project team installed its financial and procurement modules in April 2012 and its payroll, human

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Management's Discussion and Analysis Year Ended September 30, 2012

resources, and maintenance modules in July 2012. Desktop procedures and updates to existing standard operating procedures were created. Additionally, computers and equipment to support the new system were purchased and distributed throughout the Department. The Vendor and Employee Self-Serve modules were later launched and allow vendors and employees to interact directly with the FMIS to research and update information.

On September 25, 2009, US Department of Education (USDOE) issued amended special conditions that GDOE must comply with in order to continue to access USDOE grant funds. As part of the amended special conditions, GDOE was required to purchase and implement a new Financial Management Information System (FMIS). GDOE purchased its new FMIS, Tyler MUNIS in August 2011.

Following an ambitious plan, the GDOE project team installed its financial and procurement modules in April 2012 and its payroll, human resources, and maintenance modules in July 2012. Desktop procedures and updates to existing standard operating procedures were created. Additionally, computers and equipment to support the new system were purchased and distributed throughout the Department. The Vendor and Employee Self-Serve modules were later launched and allow vendors and employees to interact directly with the FMIS to research and update information.

In August 2012, USDOE Office of Risk Management representatives were given a demonstration of the new FMIS by the project team. Officials also visited various divisions and schools to validate the use of the system. While the new FMIS creates opportunities for efficiency, productivity and responsiveness, this project was a huge undertaking over a short timeframe. Reconciliation between the legacy system (CIMS), the new FMIS and the Third Party Fiduciary Agent's FMIS system and the interdependence between the MUNIS modules added complexity to this year's operations. We would like to commend our staff for their support and dedication during this process.

The imposition of a 15% reserve on local appropriations by the Guam Bureau of Budget and Management Research (BBMR) created uncertainties regarding spending levels throughout the year. However, BBMR released funds necessary for the Department's continued operations towards the end of the fiscal year.

Executive Order 2011-14 froze increments for classified employees and raises for unclassified employees effective October 10, 2011, reducing the cash needed for payroll expenses. On April 2, 2012, the Office of the Attorney General (OAG) issued a memorandum to Senator Ben Pangelinan stating that, while the Governor has the authority to freeze increments, the increments remain an obligation unless the obligation is removed by legislation.

The Education Finance Supervisory Commission (EFSC) continues to monitor the financial health of the Department. The EFSC minutes and financial designations are located on the EFSC's website <http://www.senbenp.com/EFSC.html>.

On February 6, 2012, Governor Calvo issued Executive Order 2012-03 empanelling the Education Task Force. Although the Task Force established subcommittees and held community meetings throughout the summer, an official report has yet to be transmitted to the Department.

Implementation of stringent procurement procedures and bidder protests continued to stall the timely encumbrance of Adequate Education Trust Act (Trust) and American Recovery and Reinvestment Act (ARRA) funds as well as delayed the ability of the Department to enter into a repair and maintenance contract for its over 3,000 air conditioning units. Extension requests for the obligation and liquidation of the ARRA and Trust funds were granted to ensure continued use of these funds. Additionally, the legislature mandated expedited appeal proceedings in PL 31-196 through December 2012 for Capital Improvement Projects and air conditioning repair and maintenance. The procurement delays resulted in a surplus of due to balances in the Trust.

JFK High School moved to their Tumon Campus during the summer of 2011, leaving the Tiyan facilities empty. Although GDOE requested the continued use of Tiyan for a Central High School, funding was not provided. However, in December 2011, the Governor's Office offered the Tiyan facilities for the use of LP Untalan Middle School (LPUMS). On January 11, 2012, the GEB voted to move LPUMS to the Tiyan Campus. The move was expedited after the Department of Public Health and Social Services closed the LPUMS campus on January 12, 2012. LPUMS opened at the Tiyan Campus on January 24, 2012.

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Management's Discussion and Analysis Year Ended September 30, 2012

In October 2011 the GEB voted to extend the Collective Bargaining Agreement (CBA) between the Department and the Guam Federation of Teachers (GFT). In a January 27, 2012 letter, the OAG provided guidance that the GFT should have taken steps to approve the Board's offer to extend. Further, because a written agreement of approval was never signed by the necessary parties, the CBA expired on its own terms on November 7, 2011. Since then, the Department has requested clarification from the Guam Department of Administration (DOA) of the GFT's authority to negotiate on behalf of certain employee units with GDOE. Additionally, in May 2012, the GFT lodged an unfair labor practice charge with DOA against GDOE

In February 2012, the GEB voted to adopt the Common Core State Standards (CCSS). The CCSS was developed by the National Governor's Association Center for Best Practices and the Council of Chief State School Officers and has been adopted by 45 states, the District of Columbia and four territories. The standards clearly communicate what is expected of every student at every grade level.

GDOE has seen significant improvements in SAT10 score in schools that have made deliberate efforts to address school achievement. Several schools have surpassed the SAT10 national average in a number of areas.

Based on the September 30, 2011 official student enrollment, 97% of 12th grade students graduated from the Department. The SY11-12 cohort graduation rate remained the same as the last school year at 69%. Dropout rates for SY11-12 dropped to 5.3% from 6.8% of the previous year.

Two high schools, one middle school, and three elementary schools were visited in SY11-12 by the Western Association of Schools and Colleges. PC Lujan Elementary School received its initial accreditation and the remaining schools had their accreditation status affirmed or extended.

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, 2012. 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 2012 single audit represents GDOE's commitment to, and support of, programmatic and financial accountability

THE FISCAL YEAR IN REVIEW

Key financial items for FY 2011-2012 include the following:

- The unassigned fund balance of about negative \$10.9 million decreased substantially in FY 2012 from the negative \$25.3 million reported last year in FY 2011 was mainly due to payments made by the primary Government on behalf of GDOE to unwind the GDOE Retirement Liability and GPA promissory note agreement, and other cash.
- The anticipated encumbrances at year-end of \$31.4 million, of which \$20.8 million in the General Fund and \$10.6 million in the Federal Grants Assistance Fund.

Local Appropriations

GDOE's mission is to provide adequate public education for all public school students consistent with policies of the GEB. GDOE receives most of its funds through local government appropriations from the General Fund, which includes all government revenues, not otherwise restricted by statute. The ability of the "General Fund" to adequately fund public education continues to be a concern. Without a consistent and dedicated funding source, it is a continuing challenge for GDOE to provide an adequate public education at the primary and secondary school levels, direct student support, meet all its mandates, and administer a Department of its size.

Pursuant to Public Law (P.L.) 31-75, 31-76 and 31-77, total local government appropriations (to include the Interscholastic Sports Fund, Health and Physical Activities Fund, Public School Library, Indirect Cost fund, Chamorro Studies Division, Textbooks Fund and other miscellaneous Funds) for the Department increased from \$189,867,066 in FY11 to \$228,171,378 in FY12. In September 28, 2011, BBMR issued Circular 12-01 on FY12 Budget Allotment Process, which imposed a 15%, or \$29,983,306 reserve on GDOE's General Fund appropriations. The reserves were released and actual allotments received in FY12 were \$222,937,488.

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Management's Discussion and Analysis Year Ended September 30, 2012

A total amount of \$199,888,708 was appropriated from the General Fund, which includes \$8,058,962 for retiree healthcare benefits and \$6,348,628 from bond proceeds to pay off the GDOE Retirement Liability. From the Territorial Education Facilities Fund (TEFF), \$27,545,825 was appropriated, which includes \$7,734,935 for the Untalan Middle School lease..

The remaining amount of \$3,736,845 was appropriated from miscellaneous funding for designated purposes, as follows:

School Lunch Program Cash Collection	\$ 1,095,091
Autonomous Agency Collection Fund	875,000
Interscholastic Sports Programs	612,000
SAR	525,000
Health and Physical Education Activities	279,754
Indirect Cost Fund	250,000
Health and Human Services Fund	<u>100,000</u>
Total	<u>\$ 3,736,845</u>

The FY2012 GDOE Budget also identified \$10,069,218 in federal reimbursements from the School Nutritional Meals Program provided by the U.S. Department of Agriculture and Nutrition Services (USDA, FNS) for meals served to students in the public school system and the Department of Defense Education Activity-Domestic Dependents Elementary and Secondary Schools (DoDEA-DDESS), wards of the Department of Youth Affairs, and children that attend various child care centers; however, no local appropriation is provided. Further, cash collections of \$1,095,091 associated with the School Lunch Program was also identified as a funding source in the budget.

Federal Grants and Programs

In Fiscal Year 2012, the following amounts were expended by GDOE through a variety of Federal grants:

<u>Grantor</u>	<u>Amount</u>
U. S. Department of Agriculture	\$ 9,508,353
U. S. Department of Education	55,590,790
U. S. Department of Interior	7,103,468
U. S. Department of Health & Human Services	<u>2,647,597</u>
Subtotal	74,850,208
JROTC and U. S. Department of Defense	<u>346,578</u>
Total Federal Expenditures	<u>\$ 75,196,786</u>

This represents 25.1% of total expenditures for FY 2012 of \$299,355,465. In FY 2012, USDOE approved over \$75 million of the ARRA State Fiscal Stabilization Funds (SFSF) through the Governor's Office to GDOE for use on Capital Improvement Projects, Technology, and Equipment. These funds were targeted to be spent on technology (including a new financial management system), renovations of the schools, and the costs for a third party fiduciary agent. Sixty million dollars were reprogrammed into school based salaries at the end of the fiscal year to meet obligation timelines. As part of the agreement to reprogram, the \$60 million was set up in a trust account to continue to fund the projects originally identified in the SFSF grant application.

Part of the SFSF was used to purchase and implement a Financial Management Information System (FMIS) as required by Special Conditions imposed by USDOE, GDOE selected Tyler Technologies' MUNIS. The new system includes modules for finance, human resources, procurement, payroll, and grants management, with the goal of increasing the efficiency and effectiveness of our operations. More importantly, the new system promises to provide real-time and accurate data, with comprehensive report-writing capabilities that address transparency and stakeholder requirements.

Additionally, a number of ARRA related grants provided additional funding for Headstart, Special Education, and supplemental curricular needs.

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Management's Discussion and Analysis
Year Ended September 30, 2012

FINANCIAL ANALYSIS OF GUAM DEPARTMENT OF EDUCATION AS A WHOLE

Overview of the Financial Statements

GDOE is an agency within the Government of Guam, which is primarily funded through the General Fund. Its policies are established by a combination of elected and Governor-appointed board members and headed by the Superintendent of Education selected by the Board. GDOE operates 26 elementary schools and 14 secondary schools (eight middle schools, five high schools, and an alternative education school) to provide free education to students living on Guam.

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 of Net Assets

	<u>2012</u>	<u>2011</u>
Assets:		
Current assets	\$ 76,173,249	\$ 76,515,423
Noncurrent assets	<u>279,752,901</u>	<u>273,487,449</u>
Total assets	<u>\$ 355,926,150</u>	<u>\$ 350,002,872</u>
Liabilities:		
Current liabilities	\$ 38,858,336	\$ 43,076,592
Noncurrent liabilities	<u>123,874,070</u>	<u>130,877,941</u>
Total liabilities	<u>162,732,406</u>	<u>173,954,533</u>
Net Assets:		
Invested in capital assets, net of related debt	<u>154,393,007</u>	<u>143,972,825</u>
Restricted for CIP, technology and equipment projects	55,385,640	60,090,993
Restricted for maintenance and insurance	2,631,761	2,691,616
Restricted for federal programs	-	2,265,596
Unrestricted	<u>(19,216,664)</u>	<u>(32,972,691)</u>
Total net assets	<u>193,193,744</u>	<u>176,048,339</u>
	<u>\$ 355,926,150</u>	<u>\$ 350,002,872</u>

From FY2011 to FY2012, total assets increased by \$5,923,278 and correspondingly, total liabilities decreased by \$11,222,127 plus a prior-year adjustment (Refer to Note 1V) of \$2,265,596 resulting in an overall increase in net assets of \$19,411,001 as noted in the Statement of Revenues, Expenses, and Changes in Fund Balances.

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Management's Discussion and Analysis Year Ended September 30, 2012

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.

	<u>2012</u>	<u>2011</u>
Revenues:		
Appropriations	\$ 237,558,401	\$ 196,139,116
Federal grants and contributions	67,959,041	136,147,757
Cafeteria Sales	676,874	793,281
Other	<u>1,396,682</u>	<u>154,832</u>
Total revenues	<u>307,590,998</u>	<u>333,234,986</u>
Expenses:		
Elementary education	\$ 92,497,924	\$ 56,195,238
Secondary education	114,355,548	59,124,433
Direct student support	59,750,361	66,428,838
General administration	13,517,203	89,357,447
Retiree healthcare benefits	<u>8,058,962</u>	<u>8,685,152</u>
Total expenses	<u>288,179,997</u>	<u>279,791,108</u>
Change in net assets	<u>19,411,001</u>	<u>53,065,703</u>
Net assets at beginning of year	176,048,339	122,982,636
Prior-period adjustment (Note 1V)	<u>(2,265,596)</u>	<u>-</u>
Net assets at beginning of year, as restated	<u>173,782,743</u>	<u>122,982,636</u>
Net assets at end of year	\$ <u>193,193,744</u>	\$ <u>176,048,339</u>

The statement of revenues, expenses, and changes in net assets reflects an increase in net assets of \$17,145,405. The decrease to net assets from FY 2011 to FY 2012 is mainly due to the increase in expenses related to CIP, technology and equipment projects funded by the Adequate Education Trust Fund.

FINANCIAL ANALYSIS OF GUAM DEPARTMENT OF EDUCATION'S FUNDS

General Fund Budgetary Highlights

GDOE uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Differences in the General Fund original budget and the final amended budget reflected noteworthy changes in expenditure amounts as well as in revenue amounts. As of September 30, 2012, the Department reported a combined fund balance of \$44.5 million, which represents an increase of \$8.2 million (or 22.7%) compared to last year's \$36.3 million. Other changes in fund balances included encumbrances for supplies and equipment ordered but not received at the end of FY 2012 of \$20.8 million. A detailed statement of budget variances for the General Fund can be found as required supplemental information accompanying the basic financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

While the military buildup has stalled, tourist arrivals continue to improve. Government revenues for FY13 are projected to be approximately the same as FY12. The Calvo Administration continues to place a 15% reserve on appropriations in order to free up cash to pay prior liabilities including merit bonus payments past due since 1992 and to stay current on tax refunds.

GUAM DEPARTMENT OF EDUCATION

Management's Discussion and Analysis Year Ended September 30, 2012

The GDOE FY13 Budget was appropriated at similar levels to FY12. However, additional expenses, such as the insurance and maintenance costs of the new JFK and the financing of the Third Party Fiduciary Agency, previously funded outside of the GDOE budget create further financial pressures.

In February 2013, power rates went up an average of 6.1% and water an average of 6%. Subsequently, Guam Power Authority requested a roll back in power rates of about 6% to go into effect August 2013.

In May 2013, Executive Order 2013-004 lifted the freeze on increments. In June 2013, Executive Order 2013-005 ordered the payment of past due merit bonuses, promised compensation and civil service and court ordered legal claims. Additionally, the Governor provided notice to the Legislature in Executive Order 2013-005 that the Hay Plan would be phased-in in FY14 subject to cash availability.

Renovations of school buildings and improvements to technology infrastructure continue through FY13 primarily funded by the Adequate Education Trust. Additionally, ARRA funds were used to purchase laptops for teachers, mobile laptop carts for students, and smart boards for our schools. The Department of Interior also provided a \$2.8 million grant for additional funding for GDOE operations.

In March 2013, Qualified School Construction Certificates and Tax Exempt Certificates of participation provided funding for the expansion of Okkodo (also referred to as Ukodo) High School. The expansion will increase capacity from 1,200 to 2,000 students. Included in this \$22 million project is a culinary arts kitchen, 24 standard classrooms, four special education classrooms, nine labs and signalization at the entrance to the school.

In the last quarter of 2012, the Department of Interior funded an assessment by the Army Corps of Engineers of the Guam public school buildings. This assessment also included an energy audit. The assessment will be used to support additional funding requests for school improvements. Although Public Law 31-229 provides a financing mechanism for the construction and renovation of school facilities, a funding source has yet to be identified.

Although GDOE continues to have access to significant amounts of federal dollars in FY 2012, Government of Guam's revenue and cash shortfalls impact the Department's cash allotments and financial position. GDOE recognizes the financial pressures and expects to continue dialogue with all stakeholders to submit Departmental budgets that reflect the current financial climate of the island without sacrificing public education.

MANAGEMENT CONTACT

This financial report is designed to provide GDOE's stakeholders (citizens, taxpayers, customers, investors and creditors) with a general overview of GDOE's finances and to demonstrate the Department's accountability for the money it receives.

For questions or additional information, please contact Taling M. Taitano, Deputy Superintendent of Finance and Administrative Support, Business Office, P.O. Box DE, Hagatna, Guam, 96932; email tmtaitano@gdoe.net; call (671) 300-1575; or log on to our website at: www.gdoe.net.

GUAM DEPARTMENT OF EDUCATION

Statement of Net Assets September 30, 2012

ASSETS

Current assets:	
Cash and cash equivalents	\$ 10,115,705
Receivables from federal agencies	8,012,033
Prepayments and other assets	2,659,871
Restricted assets:	
Cash and cash equivalents	36,347,899
Investments	19,037,741
Total current assets	<u>76,173,249</u>
Noncurrent assets:	
Deferred maintenance and insurance costs	2,631,761
Capital assets:	
Nondepreciable capital assets	9,381,698
Capital assets, net of accumulated depreciation	266,166,309
Other deferred costs, net	1,573,133
Total noncurrent assets	<u>279,752,901</u>
Total assets	<u><u>\$ 355,926,150</u></u>

LIABILITIES

Current liabilities:	
Current portion of payment arrangement with GPA	\$ 1,822,750
Accounts payable	8,557,133
Accrued payroll	3,285,502
Other liabilities and accruals	12,164,511
Payable to federal agencies	5,184,730
Current portion of obligations under capital lease	4,195,000
Current portion of compensated absences payable	3,648,710
Total current liabilities	<u>38,858,336</u>
Noncurrent liabilities:	
Compensated absences payable, net of current portion	1,029,215
Accrued sick leave liability	5,884,855
Obligations under capital lease, net of current portion	116,960,000
Total noncurrent liabilities	<u>123,874,070</u>
Total liabilities	<u>162,732,406</u>
Commitments and contingencies	

NET ASSETS

Invested in capital assets, net of related debt	154,393,007
Restricted for:	
CIP, technology and equipment projects	55,385,640
Maintenance and insurance costs	2,631,761
Unrestricted	(19,216,664)
Total net assets	<u>193,193,744</u>
	<u><u>\$ 355,926,150</u></u>

See accompanying notes to financial statements.

GUAM DEPARTMENT OF EDUCATION

Statement of Activities
Year Ended September 30, 2012

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	
Governmental Activities:				
Elementary Education	\$ 92,497,924	\$ -	\$ 5,013,296	\$ (87,484,628)
Secondary Education	114,355,548	-	3,049,794	(111,305,754)
Direct Student Support	59,750,361	2,073,556	47,465,436	(10,211,369)
General Administration	13,517,203	-	12,430,515	(1,086,688)
Retiree healthcare benefits	<u>8,058,962</u>	<u>-</u>	<u>-</u>	<u>(8,058,962)</u>
Total governmental activities	\$ <u>288,179,997</u>	\$ <u>2,073,556</u>	\$ <u>67,959,041</u>	<u>(218,147,400)</u>
General revenues:				
Appropriations:				
				235,858,401
				<u>1,700,000</u>
				<u>237,558,401</u>
				<u>19,411,001</u>
				176,048,339
				<u>(2,265,596)</u>
				<u>173,782,743</u>
				<u>\$ 193,193,744</u>

See accompanying notes to financial statements.

GUAM DEPARTMENT OF EDUCATION

Balance Sheet
Governmental Funds
September 30, 2012

<u>ASSETS</u>	<u>General</u>	<u>Special Revenue</u>	
		<u>Federal Grants Assistance</u>	<u>Total</u>
Cash and cash equivalents	\$ 3,839,759	\$ 6,275,946	\$ 10,115,705
Receivables from federal agencies	-	8,012,033	8,012,033
Prepayments and other assets	2,011,483	55	2,011,538
Due from other funds	3,244,506	-	3,244,506
Restricted assets:			
Cash and cash equivalents	36,347,899	-	36,347,899
Investments	19,037,741	-	19,037,741
Total assets	\$ 64,481,388	\$ 14,288,034	\$ 78,769,422
 <u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ 6,952,413	\$ 1,604,720	\$ 8,557,133
Accrued payroll	3,258,867	26,635	3,285,502
Other liabilities and accruals	7,937,068	4,227,443	12,164,511
Payable to federal agencies	-	5,184,730	5,184,730
Due to other funds	-	3,244,506	3,244,506
Payment arrangement with GPA	1,822,750	-	1,822,750
Total liabilities	19,971,098	14,288,034	34,259,132
Fund balances:			
Restricted	55,385,640	-	55,385,640
Unassigned	(10,875,350)	-	(10,875,350)
Total fund balances	44,510,290	-	44,510,290
Total liabilities and fund balances	\$ 64,481,388	\$ 14,288,034	\$ 78,769,422

See accompanying notes to financial statements.

GUAM DEPARTMENT OF EDUCATION

Reconciliation of Governmental Fund Balance to Net Assets of Governmental Activities
September 30, 2012

Total fund balance-governmental funds	\$	44,510,290
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	491,666	
Prepayment-maintenance	<u>156,667</u>	648,333
Borrowing costs associated with capital lease obligations in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		1,573,133
Maintenance costs associated with capital lease obligations in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		2,631,761
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	356,452,819	
Vehicles, furniture and equipment	13,644,423	
Construction in progress	9,381,698	
Accumulated depreciation	<u>(103,930,933)</u>	
Capital assets, net of accumulated depreciation		275,548,007
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds. These liabilities include:		
Accrued sick leave liability	(5,884,855)	
Compensated absences payable	(4,677,925)	
Obligations under capital lease	<u>(121,155,000)</u>	
Long-term liabilities		<u>(131,717,780)</u>
Net assets of governmental activities	\$	<u>193,193,744</u>

See accompanying notes to financial statements.

GUAM DEPARTMENT OF EDUCATION

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended September 30, 2012

	<u>General</u>	<u>Special Revenue Federal Grants Assistance</u>	<u>Total</u>
Revenues:			
Appropriations	\$ 230,458,401	\$ 7,100,000	\$ 237,558,401
Federal grants and contributions	564,041	67,395,000	67,959,041
Cafeteria sales	676,874	-	676,874
Fees and other program receipts	1,041,474	355,208	1,396,682
Total revenues	<u>232,740,790</u>	<u>74,850,208</u>	<u>307,590,998</u>
Expenditures:			
Current:			
Elementary Education	84,463,796	5,013,296	89,477,092
Secondary Education	99,519,353	3,049,794	102,569,147
Direct Student Support	11,015,453	47,465,436	58,480,889
General Administration	14,749,030	12,221,682	26,970,712
Retiree healthcare benefits	8,058,962	-	8,058,962
Debt service:			
Lease payment	6,698,663	7,100,000	13,798,663.00
Total expenditures	<u>224,505,257</u>	<u>74,850,208</u>	<u>299,355,465</u>
Net change in fund balances	8,235,533	-	8,235,533
Fund balances at beginning of year	36,274,757	-	36,274,757
Fund balances at end of year	<u>\$ 44,510,290</u>	<u>\$ -</u>	<u>\$ 44,510,290</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, 2012

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

Total net change in fund balances (deficit) - governmental funds	\$	8,235,533
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over the estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. For the current year, these amounts consist of:

Capital outlays, net of disposals	15,034,040	
Depreciation expense, net	<u>(8,603,858)</u>	6,430,182

Prepayment of capital lease obligations in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	(109,022)
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Borrowing costs are deferred and amortized in the Statement of Activities over the term of the related long-term debt.	(104,875)
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The issuance of long-term debt (eg. leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. For the current year, these amounts consist of:

Obligation under capital lease		
Repayment of capital leases	<u>3,990,000</u>	3,990,000

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:

Decrease in compensated absence payable	50,576	
Decrease in accrued sick leave liability	<u>918,607</u>	<u>969,183</u>

Change in net assets of governmental activities	\$	<u><u>19,411,001</u></u>
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See accompanying notes to financial statements.

GUAM DEPARTMENT OF EDUCATION

Statement of Fiduciary Net Assets
Agency Fund
September 30, 2012

ASSETS

Cash and cash equivalents	\$ <u>449,044</u>
Total assets	\$ <u><u>449,044</u></u>

LIABILITIES

Deposits and other liabilities	\$ <u>449,044</u>
Total liabilities	\$ <u><u>449,044</u></u>

See accompanying notes to financial statements.

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2012

(1) Summary of Significant Accounting Policies

The accompanying basic financial statements of the Guam Department of Education (GDOE) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized Standard-setting body for establishing governmental accounting and financial reporting principles. GDOE's significant 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 financial statements. 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 GovGuam. GovGuam's general fund is ultimately liable for the financial operations of GDOE.

The governance of GDOE is vested in the Board per 17CGA Chapter 3 section § 3102.3, composed of 9 voting members, 6 elected, 3 appointed and 2 nonvoting members. GDOE operates 26 elementary schools and 14 secondary schools to provide free and appropriate education to students residing on Guam.

In July 2011, the Guam Education Board made a decision to close F.Q. Sanchez Elementary School due to funding issues.

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 all of 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, 2012

(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 fund is used to account for federally funded programs for GDOE's major activities. This fund is made up entirely by special revenue funds which account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. In this case, the expenditures are for activities authorized by the federal agency grantor.

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. Fund Balance

Effective October 1, 2010, GDOE implemented GASB Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB 54 provides clearer fund balance classifications and clarifies the existing governmental fund type definitions. The new hierarchical fund balance classification structure is based primarily on the extent to which a government is bound to follow constraints on how resources can be spent. Classifications include the following:

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2012

(1) Summary of Significant Accounting Policies, Continued

D. Fund Balance, Continued

Non-spendable – Balances that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

Restricted – Balances that are restricted for specific purposes by external parties such as creditors, grantors or other governments.

Committed – Balances that can only be used for specific purposes pursuant to constraints imposed by formal action of the Guam Legislature.

Assigned – Balances that are constrained by management to be used for specific purposes, but are neither restricted or committed.

Unassigned – Residual balances that are not contained in the other classifications.

GDOE has a general policy to first use restricted resources for expenditures incurred for which both restricted and unrestricted (committed, assigned, and unassigned) resources are available. When expenditures are incurred for which only unrestricted resources are available, the general policy of GDOE is to use committed resources first, followed by assigned, and then unassigned. The use of restricted/committed resources may be deferred based on a review of the specific transaction.

A formal minimum fund balance policy has not been adopted.

E. Measurement Focus and Basis of Accounting

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

Governmental Funds – account for the general governmental activities of 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.

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2012

(1) Summary of Significant Accounting Policies, Continued

E. Measurement Focus and Basis of Accounting, Continued

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.

F. 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. At September 30, 2012, GDOE has significant encumbrances summarized as follows:

<u>General</u>	<u>Federal Grants Assistance</u>	<u>Total</u>
\$ <u>20,826,472</u>	\$ <u>10,581,639</u>	\$ <u>31,408,111</u>

G. Cash and Cash Equivalents

Cash and cash equivalents includes deposits with financial institutions on Guam in interest and non-interest bearing accounts.

H. Investments

Investments and related investment earnings are recorded at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale and are primarily determined based on quoted market values.

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2012

(1) Summary of Significant Accounting Policies, Continued

I. Receivables

Receivables primarily consist of federal grants due from U.S. federal grantor agencies and appropriations from the Government of Guam general fund.

J. Prepayments

Payments made to textbook vendors for services that will benefit periods beyond September 30, 2012, are recorded as prepayments.

K. Interfund Receivables/Payables

As a general rule, the effect of interfund activity has been eliminated in the department-wide financial statements. Interfund receivables and payables have been eliminated from the Statement of Net Assets. Interfund balances account for general fund payments for Federal programs that are expected to be repaid within one year by the special revenue fund with Federal fund reimbursements.

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

L. 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.

M. Capital Assets

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

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

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2012

(1) Summary of Significant Accounting Policies, Continued

M. Capital Assets, Continued

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

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

Capital asset activities for the year ended September 30, 2012 are as follows:

Governmental Activities

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Depreciable capital assets:				
Buildings and improvements	\$ 356,452,819	\$ -	\$ -	\$ 356,452,819
Vehicles, furniture and equipment	<u>7,474,196</u>	<u>6,170,226</u>	<u>-</u>	<u>13,644,423</u>
	363,927,015	6,170,226	-	370,097,242
Less: accumulated depreciation	<u>(95,327,074)</u>	<u>(8,603,858)</u>	<u>-</u>	<u>(103,930,933)</u>
Depreciable capital assets, net	<u>268,599,941</u>	<u>(2,433,632)</u>	<u>-</u>	<u>266,166,309</u>
Nondepreciable capital assets:				
Construction in progress	<u>517,884</u>	<u>9,178,714</u>	<u>(314,900)</u>	<u>9,381,698</u>
	<u>\$ 269,117,825</u>	<u>\$ 6,745,082</u>	<u>\$(314,900)</u>	<u>\$ 275,548,007</u>

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

Governmental activities:	
Elementary Education	\$ 2,330,383
Secondary Education	5,177,289
Direct Student Support	413,672
General Administration	<u>682,514</u>
	<u>\$ 8,603,858</u>

N. Net Assets

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

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2012

(1) Summary of Significant Accounting Policies, Continued

N. Net Assets, Continued

Net Assets have been restricted as follows:

CIP, technology and equipment projects - identifies amounts legislatively and externally restricted for the Adequate Education Act Trust Account.

Maintenance and insurance costs – identifies amounts from the Municipal School Lease Agreement.

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

O. Deferred Assets

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

P. Compensated Absences

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

1. One-half day (4 hours) for each full bi-weekly pay period in the case of employees with less than five years of service (5 years of service accrue 4 hours).
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).
3. One (1) day (8 hours) for each full bi-weekly pay period in the case of employees with more than fifteen (15) years of service.

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

Q. Payable to Federal Agencies

In the department-wide financial statements, payable to federal agencies is recognized when cash, receivables or other assets are recorded prior to their being earned. In the governmental fund financial statements, payable to federal agencies 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 payable to federal agencies in the governmental fund financial statements represents federal funds received in advance of eligible expenditures.

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2012

(1) Summary of Significant Accounting Policies, Continued

R. Dedicated Revenues and Pledges

GDOE has entered into a municipal school lease agreement for certain leased schools and facilities 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 \$98,500,000 payable through December 2025. For the year ended September 30, 2012, lease payments made and total Compact Impact grant revenues received were \$7,100,000.

S. Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results may differ from those estimates.

T. Total Columns

Total columns are presented primarily to facilitate financial analysis. The Management's Discussion and Analysis includes certain prior year summarized comparative information in total. Such information does not include sufficient detail to constitute a full comparative presentation. Accordingly, such information should be read in conjunction with GDOE's financial statements for the year ended September 30, 2011 from which summarized information was derived.

U. New Accounting Standards

During fiscal year 2012, GDOE implemented the following pronouncements:

- GASB 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 the frequency and timing of measurements for actuarial valuations first used to report funded status information in OPEB plan financial statements. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* (an amendment of GASB Statement No. 53), which will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2012

(1) Summary of Significant Accounting Policies, Continued

U. New Accounting Standards, Continued

In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GDOE.

In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*, which is designed to improve financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The provisions of this statement are effective for periods beginning after June 15, 2012. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GDOE.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GDOE.

In July 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The provisions of this statement are effective for periods beginning after December 15, 2011. Management has not yet determined the effect of implementation of this statement on the financial statements of GDOE.

In April 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of GDOE.

In April 2012, GASB issued Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of GDOE.

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2012

(1) Summary of Significant Accounting Policies, Continued

U. New Accounting Standards, Continued

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans, and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements on the financial statements of GDOE.

V. Restatement

Subsequent to the issuance of GDOE's 2011 financial statements, GDOE management determined that payables of the governmental activities were understated by \$2,265,596. As a result of this determination, payables have been restated from the amounts previously reported resulting in a prior-period adjustment of \$2,265,596.

(2) Deposits in Banks and Investments

A. Deposit in Banks

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, 2012, the carrying amount of GDOE's total cash and cash equivalents was \$46,463,604 and the corresponding bank balance was \$56,978,697, which is maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2012, bank deposits in the amount of \$56,978,697 were FDIC insured. The remaining bank deposits of \$250,000 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.

Per Public Law 31-40, the Legislature created the Adequate Education Act Trust Account to be separate and apart from the General Fund. As of September 30, 2012, investments of \$19,000,000 are restricted for this purpose. Subsequently, Public Law 31-77 required interest and investment earnings to be continuously appropriated for the payment of GDOE's GPA Promissory Note. Upon full payment of the Promissory Note, succeeding interest and investment earnings shall be used solely to pay for projects approved per PL 31-40 or the projects approved in the original SFSF grant application and any approved amendments thereafter.

(2) Deposits in Banks and Investments, Continued

B. Investments

Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2012

(2) Deposits in Banks and Investments, Continued

B. Investments, Continued

Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments for GDOE.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. GDOE does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

As of September 30, 2012, GDOE's investments recorded at fair value are classified as follows:

	<u>General Fund</u>
Investments:	
Cash, money funds and FDIC deposits	\$ 7,594,658
Fixed income	<u>11,443,083</u>
	<u>\$19,037,741</u>

Per Public Law 31-40, the Legislature created the Adequate Education Act Trust Account to be separate and apart from the General Fund. As of September 30, 2012, investments of \$19,000,000 are restricted for this purpose. Subsequently, Public Law 31-77 required interest and investment earnings to be continuously appropriated for the payment of GDOE's GPA Promissory Note. Upon full payment of the Promissory Note, succeeding interest and investment earnings shall be used solely to pay for projects approved per PL 31-40 or the projects approved in the original SFSF grant application and any approved amendments thereafter.

(3) Short-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). Final payment is due in July 2013.

\$ 1,822,750

The annual requirements to amortize the debt outstanding as of September 30, 2012, including interest payments, are as follows:

<u>Year Ending</u> <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 1,822,750	\$ 36,668	\$ 1,859,418

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2012

(3) Short-Term Debt, Continued

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Payment arrangement with GPA	\$ 4,085,708	\$ -	\$ (2,235,958)	\$ 1,822,750	\$ 1,822,750

(4) Changes in Long-Term Liabilities

Changes in long-term liabilities for the year ended September 30, 2012, 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>					
Accrued sick leave liability	\$ 6,803,462	\$ 717,537	\$ (1,636,144)	\$ 5,884,855	\$ -
Compensated absences	4,728,501	703,291	(753,867)	4,677,925	3,648,710
Obligations under capital lease	<u>125,145,000</u>	<u>-</u>	<u>(3,990,000)</u>	<u>121,155,000</u>	<u>4,195,000</u>
	<u>\$ 136,676,963</u>	<u>\$ 1,420,828</u>	<u>\$ (6,380,011)</u>	<u>\$ 131,717,780</u>	<u>\$ 7,843,710</u>

(5) 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 illness. 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, 2012. The estimated accumulated amount of unused sick leave at September 30, 2012, is \$24,486,133, of which an estimated \$5,884,855 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. If the audit results in cost disallowances, the general fund may be liable. However, management does not believe this matter will result in a material liability. Therefore, no liability for any amount, which may ultimately arise from these matters, has been recorded in the accompanying financial statements.

Fines and penalties may also be imposed by various federal agencies for violations of certain regulations. However, no provision for any amount has been recorded in the accompanying financial statements, as it is not possible to predict a reasonable estimation of these fines and penalties.

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

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2012

(5) Commitments and Contingencies, Continued

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.

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. 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, 2012. 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 5E.

H. Ukudo High School Expansion

On June 3, 2011, the Guam Legislature enacted Public Law 31-74 authorizing the expansion of Ukudo (also referred as Okkodo) High School in the amount of \$21,818,000. The financing of this facility is to be funded by entering into Qualified School Construction Bonds as authorized under Section 1521 of the American Recovery and Reinvestment Act of 2009 and the issuance of tax exempt bonds of lease certificates. As of September 30, 2012, no commitment has been entered into with respect to the construction of this facility.

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2012

(6) 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.

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, 2010, 2009, and 2008, contribution rates required to fully fund the Retirement Fund liability, as required by Guam law, for the years ended September 30, 2012, 2011 and 2010, respectively, have been determined as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Normal costs (% of DB Plan payroll)	17.07%	17.00%	18.34%
Employee contributions (DB Plan employees)	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>
Employer portion of normal costs (% of DB Plan payroll)	<u>7.57%</u>	<u>7.50%</u>	<u>8.84%</u>
Employer portion of normal costs (% of total payroll)	3.03%	3.03%	3.73%
Unfunded liability cost (% of total payroll)	<u>23.75%</u>	<u>21.75%</u>	<u>22.69%</u>
Government contribution as a % of total payroll	<u>26.78%</u>	<u>24.78%</u>	<u>26.42%</u>
Statutory contribution rates as a % of DB Plan payroll			
Employer	<u>28.30%</u>	<u>27.46%</u>	<u>26.04%</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, 2012, 2011 and 2010 were \$14,683,595, \$13,839,066 and \$15,480,638, respectively, which were equal to the required contributions for each year.

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2012

(6) Employee Retirement Plans, Continued

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, 2012 are determined using the same rates as the DB Plan. Of the amount contributed by the employer, only 5% of the member's regular pay is deposited into the member's individual investment account. The remaining amount is contributed towards the unfunded liability of the defined benefit plan.

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

GDOE's contributions to the DCRS plan for the years ended September 30, 2012, 2011 and 2010 were \$28,142,136, \$24,724,957 and \$22,237,767, 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, 2012, 2011 and 2010, GDOE recognized certain on-behalf payments as appropriations from GovGuam, totaling \$8,058,962, \$8,685,152, and \$6,079,477, respectively, representing certain healthcare benefits that GovGuam's general fund paid directly on behalf of GDOE retirees.

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2012

(7) Appropriations

During the year ended September 30, 2012, appropriations provided to GDOE by the Guam Legislature were as follows:

General Fund:

Public Law 31-75 and 31-77:

GPSS Operations Fund	\$ 179,607,210
Territorial Education Facilities Fund	16,810,890
Retiree healthcare benefits	8,058,962
Autonomous Agency Collection Fund	743,750
Indirect Cost Fund	212,500
Health and Human Services Fund	85,000
Healthy Futures Fund	786,661
Textbooks	1,700,000
SAR Fund	525,000
Chamorro Studies Division	323,952

Public Law 31-76:

Government of Guam bond proceeds for GGRF liability	6,348,628
Untalan Middle School lease	7,734,935

Public Law 29-19:

Government of Guam bond proceeds for CIP Projects	822,250
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Public Law 30-37:

John F. Kennedy High School lease	<u>6,698,663</u>
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\$ 230,458,401

Federal Grants Assistance Fund:

Public Law 28-47

Municipal School Lease Agreement	\$ <u>7,100,000</u>
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In addition, Public Law 31-75 and 31-77 appropriates \$10,069,218 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, 2012 is \$9,438,786, which is accounted for within GDOE's federal grants assistance fund.

(8) Municipal School Lease Agreements

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

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2012

(8) Municipal School Lease Agreements, Continued

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

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

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.

On September 16, 2010, GovGuam issued on behalf of GDOE \$65,735,000 in 2010 Series A COPS to finance the demolition, acquisition, construction, renovation and installation of facilities comprising the new John F. Kennedy High School to be located in Guam and to be leased to Lessee by Lessor pursuant to the Lease. The proceeds of the COPS were remitted to a trustee, who then remitted the amounts to a developer as construction progressed.

The holders of the COPS are the owners of the new High School. Accordingly, GDOE's rental payments for the use of the new High School are paid to a trustee, who then remits those payments to the holders of the COPS, with annual rental payments subject to appropriations by the Guam Legislature. Payments commenced 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% per annum. Title to the new High School will transfer to GDOE upon the payment of all required rents.

The assets acquired through capital leases are as follows:

Asset:	
Buildings	\$ 154,264,866
Less accumulated depreciation	<u>(12,083,003)</u>
	<u>\$ 142,181,863</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
John F. Kennedy High School	65,735,000
Ukudo High School	<u>42,581,348</u>
	<u>\$ 154,264,866</u>

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2012

(8) Municipal School Lease Agreements, Continued

Future minimum lease obligations to maturity for municipal school lease agreements are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Additional Rental</u>	<u>Total</u>
2013	\$ 4,195,000	\$ 7,058,156	\$ 2,573,448	\$ 13,826,604
2014	4,385,000	6,864,530	2,573,649	13,823,179
2015	4,610,000	6,643,207	2,572,405	13,825,612
2016	4,865,000	6,388,926	2,573,591	13,827,517
2017	5,110,000	6,146,725	2,575,208	13,831,933
2018 – 2022	25,540,000	26,749,564	12,869,879	65,159,443
2023 – 2027	26,690,000	19,520,918	11,847,229	58,058,147
2028 – 2032	11,710,000	13,931,681	7,840,000	33,481,681
2033 – 2037	16,305,000	9,334,188	7,840,000	33,479,188
2037 – 2041	<u>17,745,000</u>	<u>4,183,266</u>	<u>6,272,000</u>	<u>28,200,266</u>
	<u>\$ 121,155,000</u>	<u>\$ 106,821,161</u>	<u>\$ 59,537,409</u>	<u>\$ 287,513,570</u>

(9) Merit Bonus

In 1991, Public Law 21-59 was enacted to establish a bonus system for employees of the Government of Guam, autonomous and semi-autonomous agencies, public corporations and other public instrumentalities of the Government of Guam who earn a superior performances grade. The bonus is calculated at 3.5% of the employee's base salary beginning in 1991. GDOE has not assessed the impact of the requirements of the law as of September 30, 2012 and 2011. Therefore, no liability which may ultimately arise from this matter has been recorded in the accompanying financial statements.

(10) Subsequent Events

On March 1, 2013, GovGuam obtained a loan of \$21,818,000 from a local bank to finance the expansion of Ukodo High School.

GUAM DEPARTMENT OF EDUCATION

**REQUIRED SUPPLEMENTARY
INFORMATION**

YEAR ENDED SEPTEMBER 30, 2012

GUAM DEPARTMENT OF EDUCATION

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
 General Fund
 Year Ended September 30, 2012

	Original Budget	Final Budget	Actual - Budgetary Basis	Variance with Final Budget - Positive (Negative)
Revenues:				
Local appropriations:				
Government of Guam General Fund:				
Base Operational Fund	\$ 171,614,766	\$ 183,099,998	\$ 179,607,210	\$ (3,492,788)
Textbooks	2,000,000	2,000,000	1,700,000	(300,000)
Chamorro Studies Division	381,120	381,120	323,952	(57,168)
Retiree healthcare benefits	-	8,058,962	8,058,962	-
Government of Guam 2008 bond proceeds	-	-	822,250	822,250
Government of Guam 2012 bond proceeds	-	6,348,628	6,348,628	-
Territorial Educational Facilities Fund:				
Operations	19,619,104	16,810,890	16,810,890	-
Untalan Middle School lease	-	7,734,935	7,734,935	-
Healthy Futures Fund:				
Interscholastic sports	612,000	612,000	548,870	(63,130)
Health and Physical Education Activities	279,754	279,754	237,791	(41,963)
Public School Library Resources Fund	652,440	-	-	-
Indirect Cost Fund	250,000	250,000	212,500	(37,500)
Autonomous Agency Collection Fund	-	875,000	743,750	(131,250)
SAR				
Aircon equipment and maintenance	525,000	525,000	525,000	-
Health and Human Services Fund	100,000	100,000	85,000	(15,000)
Fees and other program receipts	-	-	1,041,474	1,041,474
Federal grants and contributions	-	-	564,041	564,041
Cafeteria sales	1,095,091	1,095,091	676,874	(418,217)
Total revenues	197,129,275	228,171,378	226,042,127	(2,129,251)
Expenditures - Budgetary Basis:				
Elementary Education	72,198,690	81,649,796	84,990,708	(3,340,912)
Secondary Education	77,827,922	98,611,187	100,209,921	(1,598,734)
Direct Student Support	11,099,469	13,269,354	11,016,117	2,253,237
General Administration	41,785,001	55,891,075	34,357,358	21,533,717
Retiree healthcare benefits	-	8,058,962	8,058,962	-
Total expenditures	202,911,082	257,480,374	238,633,066	18,847,308
Excess of revenues over expenditures	(5,781,807)	(29,308,996)	(12,590,939)	16,718,057
Other changes in fund balance:				
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	-	-	-	-
Total fund deficit at beginning of year	36,274,757	36,274,757	36,274,757	-
Total fund balances at end of year	\$ 30,492,950	\$ 6,965,761	\$ 23,683,818	\$ 16,718,057

	Reconciliation of Revenues	Expenditures
Non-cash transactions:		
JFK building	\$ 6,698,663	\$ 6,698,663
Total non-cash transactions	6,698,663	6,698,663
Total revenues/expenditures, per above	226,042,127	238,633,066
Less current year encumbrances	-	(20,826,472)
Total revenues/expenditures, per page 14	\$ 232,740,790	\$ 224,505,257

See accompanying notes to required supplementary information.

GUAM DEPARTMENT OF EDUCATION

Notes to Required Supplementary Information – Budgetary Reporting September 30, 2012

(1) Budgetary Process

The Budget Act for fiscal year 2012, Public Law No. 31-75 and 31-77, was approved for the Executive branch and the Legislative branch. Budgets for Special Revenue Funds are generally not submitted. Accordingly, a budget to actual presentation for Special Revenue Funds is not required or presented. Project length financial plans are adopted for capital projects funds.

GovGuam's annual budget has been prepared on a basis that differs from governmental GAAP. Actual amounts in the accompanying budgetary comparison statements are presented on a budgetary basis, which includes outstanding encumbrances as a budgetary expenditure.

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.

See Accompanying Independent Auditors' Report.

GUAM DEPARTMENT OF EDUCATION

Schedule of Funding Progress - Post Employment Benefits
Other than Pension (Unaudited)

The Schedule of Funding Progress presents GASB 45 results of OPEB valuations as of fiscal years ended September 30, 2011, 2009, and 2007 for GovGuam's Post Employment Benefits other than Pensions. The schedule provides an information trend about whether the actuarial values of Plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
October 1, 2007	\$ -	\$ 1,635,223,000	\$ 1,635,223,000	0.0%	\$ 466,346,000	350.6%
October 1, 2009	\$ -	\$ 1,852,558,000	\$ 1,852,558,000	0.0%	\$ 466,346,000	397.2%
October 1, 2011	\$ -	\$ 2,088,331,000	\$ 2,088,331,000	0.0%	\$ 466,346,000	447.8%

See Accompanying Independent Auditors' Report.

GUAM DEPARTMENT OF EDUCATION

**OTHER SUPPLEMENTARY
INFORMATION**

YEAR ENDED SEPTEMBER 30, 2012

GUAM DEPARTMENT OF EDUCATION

Statements of Net Assets - Governmental Activities

September 30, 2012

(With Comparative Totals as of September 30, 2011)

<u>ASSETS</u>	<u>2012</u>	<u>2011</u>
Current assets:		
Cash and cash equivalents	\$ 10,115,705	\$ -
Receivables from federal agencies	8,012,033	8,912,786
Due from primary government	-	4,343,656
Prepayments and other assets	2,659,871	3,167,988
Restricted assets:		
Cash and cash equivalents	36,347,899	60,090,993
Investments	19,037,741	-
Total current assets	<u>76,173,249</u>	<u>76,515,423</u>
Noncurrent assets:		
Deferred maintenance and insurance costs	2,631,761	2,691,616
Capital assets:		
Nondepreciable capital assets	9,381,698	517,884
Capital assets, net of accumulated depreciation	266,166,309	268,599,941
Other deferred costs, net	<u>1,573,133</u>	<u>1,678,008</u>
Total noncurrent assets	<u>279,752,901</u>	<u>273,487,449</u>
Total assets	<u>\$ 355,926,150</u>	<u>\$ 350,002,872</u>
<u>LIABILITIES</u>		
Current liabilities:		
Bank overdraft	\$ -	\$ 2,733,106
Current portion of payment arrangement with GPA	1,822,750	2,261,642
Accounts payable	8,557,133	8,926,302
Due to primary government	-	-
Accrued payroll	3,285,502	4,013,336
Other liabilities and accruals	12,164,511	10,959,352
Deferred revenues	5,184,730	
Retirement payable	-	6,559,766
Current portion of obligation under capital lease	4,195,000	3,990,000
Current portion of compensated absences payable	<u>3,648,710</u>	<u>3,633,088</u>
Total current liabilities	<u>38,858,336</u>	<u>43,076,592</u>
Noncurrent liabilities:		
Compensated absences payable, net of current portion	1,029,215	1,095,413
Accrued sick leave liability	5,884,855	6,803,462
Obligation under capital lease, net of current portion	116,960,000	121,155,000
Payment arrangement with GPA, net of current portion	<u>-</u>	<u>1,824,066</u>
Total noncurrent liabilities	<u>123,874,070</u>	<u>130,877,941</u>
Total liabilities	<u>162,732,406</u>	<u>173,954,533</u>
<u>NET ASSETS</u>		
Invested in capital assets, net of related debt	154,393,007	143,972,825
Restricted for:		
CIP, technology and equipment projects	55,385,640	60,090,993
Maintenance and insurance costs	2,631,761	2,691,616
Federal programs	-	2,265,596
Unrestricted	<u>(19,216,664)</u>	<u>(32,972,691)</u>
Total net assets	<u>193,193,744</u>	<u>176,048,339</u>
	<u>\$ 355,926,150</u>	<u>\$ 350,002,872</u>

See Accompanying Independent Auditors' Report.

GUAM DEPARTMENT OF EDUCATION

Statements of Activities - Governmental Activities
 Year Ended September 30, 2012
 (With Comparative Totals for the Year Ended September 30, 2011)

	2012	2011
Program Revenues:		
Elementary Education	\$ 5,013,296	\$ 17,887,591
Secondary Education	3,049,794	10,186,630
Direct Student Support	49,538,992	103,406,230
General Administration	12,430,515	12,337,244
Total program revenues	70,032,597	143,817,695
Expenses:		
Elementary Education	92,497,924	56,195,238
Secondary Education	114,355,548	59,124,433
Direct Student Support	59,750,361	66,428,838
General Administration	13,517,203	89,357,447
Retiree healthcare benefits	8,058,962	8,685,152
Total expenses for governmental activities	288,179,997	279,791,108
Deficiency of program revenues under expenses	(218,147,400)	(135,973,413)
General revenues:		
Appropriations:		
Operations	235,858,401	189,039,116
Textbooks	1,700,000	-
Total general revenues	237,558,401	189,039,116
Change in net assets	19,411,001	53,065,703
Net assets at beginning of year, as previously reported	176,048,339	122,982,636
Prior-period adjustment	(2,265,596)	-
Net assets at beginning of year, as restated	173,782,743	122,982,636
Net assets at end of year	\$ 193,193,744	\$ 176,048,339

See Accompanying Independent Auditors' Report.

GUAM DEPARTMENT OF EDUCATION

Balance Sheets
Governmental Funds
September 30, 2012

(With Comparative Totals as of September 30, 2011)

<u>ASSETS</u>	2012			2011		
	General	Federal Grants Assistance	Total	General	Federal Grants Assistance	Total
Cash and cash equivalents	\$ 3,839,759	\$ 6,275,946	\$ 10,115,705	\$ -	\$ -	\$ -
Receivables from federal agencies	-	8,012,033	8,012,033	-	8,912,786	8,912,786
Due from primary government	-	-	-	4,343,656	-	4,343,656
Prepayments and other assets	2,011,483	55	2,011,538	1,474,134	996,354	2,470,488
Due from other funds	3,244,506	-	3,244,506	-	1,219,416	1,219,416
Restricted assets:						
Cash and cash equivalents	36,347,899	-	36,347,899	60,090,993	-	60,090,993
Investment	19,037,741	-	19,037,741	-	-	-
Total assets	\$ 64,481,388	\$ 14,288,034	\$ 78,769,422	\$ 65,908,783	\$ 11,128,556	\$ 77,037,339
<u>LIABILITIES AND FUND BALANCES (DEFICIT)</u>						
Liabilities:						
Bank overdraft	\$ -	\$ -	\$ -	\$ 2,733,106	\$ -	\$ 2,733,106
Accounts payable	6,952,413	1,604,720	8,557,133	5,454,027	3,472,275	8,926,302
Due to primary government	-	-	-	-	-	-
Accrued payroll	3,258,867	26,635	3,285,502	3,305,353	707,983	4,013,336
Other liabilities and accruals	7,937,068	4,227,443	12,164,511	6,276,650	4,681,105	10,957,755
Retirement payable	-	-	-	6,559,766	-	6,559,766
Payable to federal agencies	-	5,184,730	5,184,730	-	2,267,193	2,267,193
Due to other funds	-	3,244,506	3,244,506	1,219,416	-	1,219,416
Payment arrangement with GPA	1,822,750	-	1,822,750	4,085,708	-	4,085,708
Total liabilities	19,971,098	14,288,034	34,259,132	29,634,026	11,128,556	40,762,582
Fund balances (deficit):						
Non-spendable:						
Prepayment for textbook orders	-	-	-	1,474,134	-	1,474,134
Restricted	55,385,640	-	55,385,640	60,090,993	-	60,090,993
Unassigned	(10,875,350)	-	(10,875,350)	(25,290,370)	-	(25,290,370)
Total fund balances (deficits)	44,510,290	-	44,510,290	36,274,757	-	36,274,757
Total liabilities and fund balances	\$ 64,481,388	\$ 14,288,034	\$ 78,769,422	\$ 65,908,783	\$ 11,128,556	\$ 77,037,339

See Accompanying Independent Auditors' Report.

GUAM DEPARTMENT OF EDUCATION

Reconciliations of Governmental Fund Balance (Deficit) to Net Assets of Governmental Activities
September 30, 2012
(With Comparative Totals as of September 30, 2011)

	2012	2011
Total fund balance (deficit) - governmental funds	\$ 44,510,290	\$ 95,167,949
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.	648,333	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.	1,573,133	1,678,008
Maintenance costs associated with capital lease obligations in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	2,631,761	2,691,616
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	\$ 356,452,819	356,452,819
Vehicles, furniture and equipment	13,644,423	7,474,196
Construction in progress	9,381,698	517,884
Accumulated depreciation	<u>(103,930,933)</u>	<u>(95,327,074)</u>
Capital assets, net of accumulated depreciation	275,548,007	269,117,825
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds. These liabilities include:		
Accrued sick leave liability	(5,884,855)	(6,803,462)
Compensated absences payable	(4,677,925)	(4,728,501)
Obligations under capital lease	<u>(121,155,000)</u>	<u>(125,145,000)</u>
Long-term liabilities	(131,717,780)	(136,676,963)
Certain revenues are earned but not available and, therefore, are deferred in the governmental funds:		
Adjustment of payable to federal agencies	<u>-</u>	<u>2,265,596</u>
Net assets of governmental activities	<u>\$ 193,193,744</u>	<u>\$ 234,941,531</u>

See Accompanying Independent Auditors' Report.

GUAM DEPARTMENT OF EDUCATION

Statements of Revenues, Expenditure and Changes in Fund Balances (Deficit)
 Governmental Funds
 Year Ended September 30, 2012
 (With Comparative Totals for the Year Ended September 30, 2011)

	2012			2011		
	General	Federal Grants Assistance	Total	General	Federal Grants Assistance	Total
Revenues:						
Appropriations	\$ 230,458,401	\$ 7,100,000	\$ 237,558,401	\$ 189,039,116	\$ 7,100,000	\$ 196,139,116
Federal grants and contributions	564,041	67,395,000	67,959,041	563,700	135,584,057	136,147,757
Cafeteria sales	676,874	-	676,874	793,281	-	793,281
Fees and other program receipts	1,041,474	355,208	1,396,682	72,587	82,245	154,832
Total revenues	232,740,790	74,850,208	307,590,998	190,468,684	142,766,302	333,234,986
Expenditures:						
Current:						
Elementary Education	84,463,796	5,013,296	89,477,092	45,032,180	7,653,718	52,685,898
Secondary Education	99,519,353	3,049,794	102,569,147	50,751,822	2,440,477	53,192,299
Direct Student Support	11,015,453	47,465,436	58,480,889	8,333,970	57,576,963	65,910,933
General Administration	14,749,030	12,221,682	26,970,712	18,772,368	67,995,144	86,767,512
Retiree healthcare benefits	8,058,962	-	8,058,962	8,685,152	-	8,685,152
Debt service:						
Lease payment	6,698,663	7,100,000	13,798,663	-	7,100,000	7,100,000
Capital projects:						
Capital asset acquisition from contributions	-	-	-	-	-	-
Capital lease acquisition	-	-	-	65,735,000	-	65,735,000
Total expenditures	224,505,257	74,850,208	299,355,465	197,310,492	142,766,302	340,076,794
Excess (deficiency) of revenues over (under) expenditures	8,235,533	-	8,235,533	(6,841,808)	-	(6,841,808)
Other financing sources:						
Capital leases	-	-	-	65,735,000	-	65,735,000
Net change in fund balances (deficit)	8,235,533	-	8,235,533	58,893,192	-	58,893,192
Fund balances (deficit) at beginning of year	36,274,757	-	36,274,757	(22,618,435)	-	(22,618,435)
Fund balances at end of year	\$ 44,510,290	\$ -	\$ 44,510,290	\$ 36,274,757	\$ -	\$ 36,274,757

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, 2012
(With Comparative Totals as of September 30, 2011)

	2012	2011
Amounts reported for governmental activities in the statements of activities are different because:		
Total net change in fund balances (deficit) - governmental funds	\$ 8,235,533	\$ 58,893,192
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).	6,430,182	58,175,608
Prepayment of capital lease obligations in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	(104,875)	(104,875)
Borrowing costs are deferred and amortized in the Statement of Activities over the term of the related long-term debt.	(109,022)	(174,194)
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.	3,990,000	(62,675,000)
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.	969,183	(670,853)
Certain revenues are earned but not available and therefore are deferred in the governmental funds.	-	(378,175)
Change in net assets of governmental activities	\$ 19,411,001	\$ 53,065,703

See Accompanying Independent Auditors' Report.

GUAM DEPARTMENT OF EDUCATION

Schedules of Revenues, Expenditures, and Changes in Fund Balance (Deficit) - Budget and Actual
 General Fund
 Year Ended September 30, 2012
 (With Comparative Totals for the Year Ended September 30, 2011)

	2012				2011			
	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	\$ 178,313,429	\$ 189,798,661	\$ 186,305,873	\$ (3,492,788)	\$ 172,844,266	\$ 184,989,074	\$ 185,036,125	\$ 47,051
Textbooks	2,000,000	2,000,000	1,700,000	(300,000)	2,000,000	-	-	-
Chamorro studies division	381,120	381,120	323,952	(57,168)	399,785	1,069,098	1,069,098	-
Government of Guam 2008 bond proceeds	-	-	822,250	822,250	-	-	-	-
Government of Guam 2012 bond proceeds	-	6,348,628	6,348,628	-	-	-	-	-
Territorial Education Facilities Fund	19,619,104	24,545,825	24,545,825	-	11,631,167	2,400,000	2,400,000	-
Healthy Futures Fund:								
Interscholastic Sports	612,000	612,000	548,870	(63,130)	612,000	141,570	141,570	-
Health and Physical Education Activities	279,754	279,754	237,791	(41,963)	279,754	392,324	392,324	-
Public School Library Resources Fund	652,440	-	-	-	805,876	-	-	-
Indirect Cost Fund	250,000	250,000	212,500	(37,500)	250,000	-	-	-
Autonomous Agency Collection Fund	-	875,000	743,750	(131,250)	-	-	-	-
SAR Fund	525,000	525,000	525,000	-	-	-	-	-
Health and Human Services Fund	100,000	100,000	85,000	(15,000)	-	-	-	-
Fees and other program receipts	-	-	1,041,474	1,041,474	-	-	72,586	72,586
Federal grants and contributions	-	-	564,041	564,041	-	-	563,700	563,700
Cafeteria sales	1,095,091	1,095,091	676,874	(418,217)	875,000	875,000	793,281	(81,719)
Total revenues	<u>203,827,938</u>	<u>226,811,079</u>	<u>224,681,828</u>	<u>(2,129,251)</u>	<u>189,697,848</u>	<u>189,867,066</u>	<u>190,468,684</u>	<u>601,618</u>
Expenditures - Budgetary Basis:								
Personnel	145,753,775	172,050,030	165,855,865	6,194,165	95,441,734	96,254,988	96,217,553	37,435
Utilities	12,349,683	16,541,175	16,461,166	80,009	14,266,858	14,371,107	14,504,874	(133,767)
Contractual	8,662,036	20,441,402	10,781,633	9,659,769	9,241,044	12,866,434	12,418,797	447,637
Supplies/equipment	3,834,425	10,226,142	8,355,488	1,870,654	5,523,762	8,441,942	2,804,244	5,637,698
Textbooks	-	81,235	315,262	(234,027)	126,896	2,294,922	1,360,986	933,936
Capital projects	189,646	22,413,924	20,486,514	1,927,410	57,590,569	9,162,290	2,917,033	6,245,257
Lease	12,935,846	12,935,846	12,935,846	-	4,493,256	4,493,256	4,493,256	-
Other	32,121,517	1,430,321	2,080,993	(650,672)	832,449	1,173,012	1,071,597	101,415
Total expenditures	<u>215,846,928</u>	<u>256,120,075</u>	<u>237,272,767</u>	<u>18,847,308</u>	<u>187,516,568</u>	<u>149,057,951</u>	<u>135,788,340</u>	<u>13,269,611</u>
Excess (deficiency) of revenues over (under) expenditures	(12,018,990)	(29,308,996)	(12,590,939)	16,718,057	2,181,280	40,809,115	54,680,344	13,871,229
Other changes in fund balances (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	-	-	20,826,472	20,826,472	-	-	4,212,848	4,212,848
Total fund deficit at beginning of year	<u>36,274,757</u>	<u>36,274,757</u>	<u>36,274,757</u>	<u>-</u>	<u>(22,618,435)</u>	<u>(22,618,435)</u>	<u>(22,618,435)</u>	<u>-</u>
Total fund balance (deficit) at end of year	<u>\$ 24,255,767</u>	<u>\$ 6,965,761</u>	<u>\$ 44,510,290</u>	<u>\$ 37,544,529</u>	<u>\$ (20,437,155)</u>	<u>\$ 18,190,680</u>	<u>\$ 36,274,757</u>	<u>\$ 18,084,077</u>

See Accompanying Independent Auditors' Report.

GUAM DEPARTMENT OF EDUCATION

Combined Statements of Revenues, Expenditures By Account and Changes in Fund Balances (Deficit)
 Governmental Funds
 Year Ended September 30, 2012
 (With Comparative Totals for the Year Ended September 30, 2011)

	2012			2011		
	General	Federal Grants Assistance	Total	General	Federal Grants Assistance	Total
Revenues:						
Local appropriations	\$ 230,458,401	\$ 7,100,000	\$ 237,558,401	\$ 189,039,116	\$ 7,100,000	\$ 196,139,116
Federal grants and contributions	564,041	67,395,000	67,959,041	563,700	135,584,057	136,147,757
Cafeteria sales	676,874	-	676,874	793,281	-	793,281
Fees and other program receipts	1,041,474	355,208	1,396,682	72,587	82,245	154,832
Total revenues	232,740,790	74,850,208	307,590,998	190,468,684	142,766,302	333,234,986
Expenditures:						
Salaries and wages	123,273,248	24,392,541	147,665,789	66,009,085	82,081,060	148,090,145
Capital lease acquisitions	-	-	-	65,735,000	-	65,735,000
Benefits	51,875,963	7,441,254	59,317,217	29,075,694	27,652,056	56,727,750
Contractual	8,189,489	24,895,078	33,084,567	10,719,493	20,177,617	30,897,110
Power	14,415,200	44,930	14,460,130	12,350,225	-	12,350,225
Capital projects	4,843,669	407,400	5,251,069	1,363,986	396,537	1,760,523
Capital lease	6,698,663	7,100,000	13,798,663	-	7,100,000	7,100,000
Operating lease	2,995,504	-	2,995,504	4,493,256	-	4,493,256
Supplies	1,109,792	3,166,611	4,276,403	1,494,634	2,784,974	4,279,608
Travel	331,402	909,579	1,240,981	313,177	1,956,220	2,269,397
Water	1,950,981	-	1,950,981	1,916,633	-	1,916,633
Capital outlay	3,241,679	-	3,241,679	-	-	-
Equipment	4,670,571	3,298,610	7,969,181	1,116,016	411,264	1,527,280
Interest and penalties	137,042	-	137,042	1,385,264	-	1,385,264
Bad debt	-	-	-	330,603	-	330,603
Phone	115,847	-	115,847	324,110	-	324,110
Library books	1,750	-	1,750	307,089	-	307,089
Fuel	300,282	-	300,282	252,816	-	252,816
Textbooks	315,262	-	315,262	31,834	139,419	171,253
Food management contract	-	1,749,147	1,749,147	-	-	-
Indirect costs	-	1,260,911	1,260,911	-	6,084	6,084
Miscellaneous	38,913	184,147	223,060	91,577	61,071	152,648
Total expenditures	224,505,257	74,850,208	299,355,465	197,310,492	142,766,302	340,076,794
Excess (deficiency) of revenues over (under) expenditures	8,235,533	-	8,235,533	(6,841,808)	-	(6,841,808)
Other financing sources:						
Capital leases	-	-	-	65,735,000	-	65,735,000
Net change in fund balances (deficit)	8,235,533	-	8,235,533	58,893,192	-	58,893,192
Fund balances (deficit), beginning of year	36,274,757	-	36,274,757	(22,618,435)	-	(22,618,435)
Fund balances (deficit), end of year	\$ 44,510,290	\$ -	\$ 44,510,290	\$ 36,274,757	\$ -	\$ 36,274,757

See Accompanying Independent Auditors' Report.

GUAM DEPARTMENT OF EDUCATION

Agency Fund
September 30, 2012

The schedule of cash receipts and cash disbursements for the agency fund during fiscal year 2012 is as follows:

	<u>NAF</u>
Cash balance at beginning of year	\$ <u>492,388</u>
Cash receipts:	
Elementary school activities	316,183
Secondary school activities	<u>1,235,078</u>
Total receipts	<u>1,551,261</u>
Cash disbursements:	
Elementary school activities	326,590
Secondary school activities	<u>1,268,015</u>
Total disbursements	<u>1,594,605</u>
Cash balance at end of year	\$ <u>449,044</u>

The number of individual funds at the schools during fiscal year 2012 is as follows:

Elementary schools	123
Secondary schools	145

See Accompanying Independent Auditors' Report.

GUAM DEPARTMENT OF EDUCATION

Personnel
September 30, 2012 and 2011

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

	Employee Count as of PPE <u>October 6, 2012</u>	Employee Count as of PPE <u>October 09, 2011</u>
100% Locally Funded	2,810	2,391
100% Federally Funded	846	832
Locally/Federally Funded	<u>147</u>	<u>618</u>
Total Employee Count	<u>3,803</u>	<u>3,841</u>

See Accompanying Independent Auditors' Report.