

GUAM DEPARTMENT OF EDUCATION

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

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

YEAR ENDED SEPTEMBER 30, 2011

GUAM DEPARTMENT OF EDUCATION

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INDEPENDENT AUDITORS' REPORT

Ms. Taling Taitano
Acting Superintendent of Education
Guam Department of Education

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Guam Department of Education (GDOE), a line agency of the Government of Guam, as of and for the year ended September 30, 2011, 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, 2011 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.

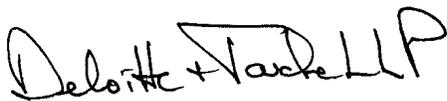
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Guam Department of Education as of September 30, 2011, and the respective 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 1 to the financial statements, during the year ended September 30, 2011, GDOE adopted Government Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2012, 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.

The Management's Discussion and Analysis, on pages 3 through 9 and the Schedule of Revenues, Expenditures, and Changes in Deficit – Budget and Actual – General Fund and notes thereto, as set forth in Section III of the foregoing table of contents, are not a required part of the financial statements but are supplementary information required by the GASB. Such information is the responsibility of GDOE's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the respective financial statements that collectively comprise of GDOE's basic financial statements. The Other Supplementary Information, as set forth in Section IV of the foregoing table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements of GDOE. This supplementary information is the responsibility of GDOE's management. The additional 2011 information on pages 39 through 46 as well as the additional information on page 49 has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The additional 2010 information on pages 39 through 46 and page 49, as well as the additional information on pages 47, 48 and 50, has not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and accordingly we express no opinion on it.

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

June 27, 2012

GUAM DEPARTMENT OF EDUCATION

Management's Discussion and Analysis
Year Ended September 30, 2011

INTRODUCTION

The Guam Department of Education (GDOE) for the past many years has faced many operational and financial challenges. In spite of these challenges, teachers, administrators, and support staff continue to remain focused to our mission of "Preparing all students for life; Promoting excellence; and Providing support!" This Management Discussion and Analysis presents a synopsis of the financial activities for Fiscal Year ending September 30, 2011, along with the operational challenges in providing an adequate public education to 31,463 school children. The operational and financial obstacles to successfully manage public education are the result of the public school system's arduous statutory and policy requirements, limiting management's ability to maximize resources, crippled by the dependency on local government appropriations.

Pursuant to Public Law 31-19, the Guam Education Board (GEB) is responsible for all policies that govern GDOE and has the authority to delegate its powers but retains responsibility of 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; a non-voting student member elected by the Island-wide Board of Governing Students; and a non-voting member appointed by the exclusive bargaining unit, which represents GDOE teachers and other employees. The new Governor appointed five members to the GEB during the 2-year interim period before the next election of board members. Additionally, the Deputy Superintendent of Finance was assigned to be the Interim Superintendent after the retirement of the Superintendent of Education in July 2011. Recruitment of the Superintendent was ongoing at the end of the fiscal year.

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

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>.

Although the Department was faced with many operational and financial challenges in FY 2011, it remained committed to providing education to our students. In SY 10-11, 97% of 12th grade students graduated from the Department. More importantly, SY 10-11 produced the second highest percentage of cohort graduation rates in the last five years despite the slight increase in the dropout rate of 6.8% in SY 10-11 from 6% in SY 09-10. In addition, SAT-10 scores improved in all schools in both content and grade level. Several schools either equaled or exceeded the national rate of improvement. Of the 29 schools that were inspected, 23 received "A" ratings on their building and cafeteria facilities in CY 2012.

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, 2011. 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 2011 single audit represents GDOE's commitment to, and support of, programmatic and financial accountability. Two high schools, five middle schools, and five elementary schools were visited in SY10-11 by the Western Association of Schools and Colleges and had their accreditation status affirmed or extended.

GUAM DEPARTMENT OF EDUCATION

Management's Discussion and Analysis
Year Ended September 30, 2011

FISCAL YEAR 2011 OVERVIEW

Local Appropriations

GDOE's mission is to provide adequate public education for all public school students consistent with policies of the Guam Education Policy Board. GDOE receives most of its funds through local government appropriations from the Government of Guam's (GovGuam) 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.) 30-196, total local government appropriations (including the Interscholastic Sports Fund, Health and Physical Activities Fund, Public School Library, Indirect Cost fund, Chamorro Studies Division, and Textbooks Fund) for the Department increased slightly from \$188,150,387 in fiscal year 2010 to \$189,697,848 in fiscal year 2011. GDOE was appropriated a budget \$77,130,714 less than the \$266,828,562 the Board had approved. In February 2011, GovGuam's Bureau of Budget Management and Research (BBMR) issued Circular 11-05 on Austerity Measures, which imposed a 3%, or \$5,185,328 reserve on GDOE's General Fund appropriations. The reserves were released and actual allotments received in FY 2011 were \$189,263,417.

A total amount of \$172,844,266 was appropriated from the General Fund and \$11,631,167 was appropriated from the Territorial Education Facilities Fund (TEFF), which includes \$2.4 million for the Guam Power Authority (GPA) promissory note. The remaining amount of \$5,222,415 was appropriated from miscellaneous funding for designated purposes, as follows:

Interscholastic Sports Programs	\$ 612,000
Health and Physical Education Activities	279,754
Public School Library	805,876
Indirect Cost	250,000
Chamorro Studies Division	399,785
School Lunch Program Cash Collection	875,000
Textbooks	<u>2,000,000</u>
Total	\$ <u>5,222,415</u>

The FY2011 GDOE Budget also identified \$7.5 million 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 \$875,000 associated with the School Lunch Program was also identified as a funding source in the budget.

PL 31-75 (FY 2012 Budget Law) gave temporary budgetary transfer authority to the Superintendent expanding the transfer of funds from appropriations made to GDOE in PL 30-196, as amended by PL 30-224 and PL 31-74 to cover shortfalls that GDOE may have in FY2011 related to increases in Health Insurance.

GUAM DEPARTMENT OF EDUCATION

Management's Discussion and Analysis Year Ended September 30, 2011

In FY 2011, pursuant to PL 30-196, the implementation of the pay adjustments as recommended by the Hay Group went into effect. The Department was allocated \$4 million for the adoption of and implementation of the Hay Study in FY 2011, pursuant to Executive Orders 2010-24 and 2010-25. In January 2011, the Governor issued Executive Order 2011-02 temporarily suspending the adoption and continuing implementation of the Hay Study until sufficient funds become available and financial stability of GovGuam is restored.

In FY 2011, the Supplemental Appropriations Act of 2011, pursuant to PL 31-74, authorized additional funding to address the increase in the costs of medical and dental insurance for retirees and line agencies, where GDOE received \$1.3 million. Additionally, this Act appropriated an additional \$440,477 from the Supplemental Appropriations Revenue (SAR) to object class 361 (power).

Federal Grants and Programs

In Fiscal Year 2011, the following amounts were expended by GDOE through a variety of Federal grants:

Grantor	Amount
U. S. Department of Agriculture	\$ 9,315,650
U. S. Department of Education	123,404,536
U. S. Department of Health & Human Services	2,931,610
U. S. Department of the Interior	<u>7,100,000</u>
Sub-Total	142,751,796
JROTC & US Dept of Homeland Security	<u>362,528</u>
Total Federal Expenditures	<u>\$143,114,324</u>

This represents 42% of total expenditures for FY 2011 of \$340,076,794.

In FY 2011, 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 was 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 the Special Conditions imposed by USDOE. As a result, 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.

GUAM DEPARTMENT OF EDUCATION

Management's Discussion and Analysis Year Ended September 30, 2011

To augment the FY 2011 budget per PL 30-196, and ensure the Department keeps teachers in the classrooms, GDOE used the USDOE Education Jobs Fund to pay for locally-funded teacher salaries over School Year 2010-2011. A total of \$20,146,108 was utilized to fund nearly 500 teaching positions across all 41 public schools. This one-time grant provided much needed relief to the General Fund.

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. GDOE operates twenty-six (26) elementary schools, eight (8) middle schools, five (5) high schools, and one (1) alternative education school.

GDOE's department-wide financial statements are composed of a Statement of Net Assets and a Statement of Activities, plus certain required supplementary and other supplementary information.

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

The *Statement of Activities* presents information demonstrating the degree to which the direct expense of a given function or segment is offset by program revenues.

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

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

Statement of Net Assets

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

Summary Statement of Net Assets

	2011	2010
Assets:		
Current and other assets	\$ 80,885,047	\$ 21,858,597
Capital assets	<u>269,117,825</u>	<u>210,942,217</u>
Total assets	\$ <u>350,002,872</u>	\$ <u>232,800,814</u>
Liabilities:		
Current liabilities	\$ 43,076,592	\$ 38,993,397
Noncurrent liabilities	<u>130,877,941</u>	<u>70,824,781</u>
Total liabilities	<u>173,954,533</u>	<u>109,818,178</u>

GUAM DEPARTMENT OF EDUCATION

Management's Discussion and Analysis Year Ended September 30, 2011

Net Assets:

Invested in capital assets, net of related debt	143,972,825	148,472,217
Restricted for CIP, technology and equipment projects	60,090,993	-
Restricted for maintenance and insurance	2,691,616	2,865,810
Restricted for federal programs	2,265,596	2,643,771
Unrestricted	<u>(32,972,691)</u>	<u>(30,999,162)</u>
Total net assets	<u>176,048,339</u>	<u>122,982,636</u>
	<u>\$ 350,002,872</u>	<u>\$ 232,800,814</u>

From FY2010 to FY2011, total assets of GDOE increased by \$117,202,058 and correspondingly, total liabilities increased by \$64,136,355 resulting in an overall increase in net assets of \$53,065,703 as noted in the Statement of Revenues, Expenses, and Changes in Fund Balances.

Statement of Revenues, Expenses, and Changes in Net Assets

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

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

	2011	2010
Revenues:		
Appropriations	\$ 189,039,116	\$ 198,487,347
Federal grants and contributions	142,869,582	53,417,922
Other	<u>948,113</u>	<u>1,261,873</u>
Total revenues	<u>332,856,811</u>	<u>253,167,142</u>
Expenses:		
Elementary education	56,195,238	92,673,166
Secondary education	59,124,433	98,298,485
Direct student support	66,428,838	41,732,275
General administration	89,357,447	16,441,466
Retiree healthcare benefits	<u>8,685,152</u>	<u>6,079,477</u>
Total expenses	<u>279,791,108</u>	<u>255,224,869</u>
Change in net assets	53,065,703	(2,057,727)
Net assets at beginning of year	<u>122,982,636</u>	<u>125,040,363</u>
Net assets at end of year	<u>\$ 176,048,339</u>	<u>\$ 122,982,636</u>

GUAM DEPARTMENT OF EDUCATION

Management's Discussion and Analysis Year Ended September 30, 2011

The statement of revenues, expenses, and changes in net assets reflects an increase in net assets of \$53,065,703. The increase in net assets is due to the establishment of the Adequate Education Trust Fund in the amount of approximately \$60 million, which is reported as restricted for CIP, technology and equipment projects.

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. The original budgeted expenditures of \$187.5M decreased by \$38.5M, primarily due to the redesignation of ARRA funds to the Adequate Education Trust Account. A detailed statement of budget variances for the General Fund can be found as required supplemental information accompanying the basic financial statements.

CAPITAL ASSET AND DEBT ADMINISTRATION AND UNASSIGNED FUND BALANCE

Capital Assets and Debt Administration

In June 2011, the Legislature passed P.L. 31-74 authorizing \$21,818,000 for the expansion of Okkodo High School. The financing for this project is through the Qualified School Construction Bonds under the ARRA and the issuance of tax exempt bonds for lease certificates, refer to Note (3) H. However, no commitment has been made for the Okkodo construction as of September 30, 2011. Also, GDOE recorded the new John F Kennedy High School building at \$64,420,300 (net of accumulated depreciation) as a capital lease in FY 2011. JFK moved out of the Tiyan campus and into its new building at the beginning of SY11-12. For additional information concerning capital assets, please refer to Notes 1M and Note 7 to the financial statements.

Capital lease obligations were incurred in fiscal year 2011 as stated above. For additional information concerning debt, please refer to Notes 2 and 7.

Unassigned Fund Balance

As a result of the P.L. 31-40, approximately \$60 million in ARRA funds were re-programmed to cover personnel costs into a trust account to be used for projects initially identified in the SFSF grant application. As of the end of fiscal year 2011, GDOE's governmental funds reported a combined fund balance of \$36.3 million, which represents an increase in fund balance of \$58.9 million (or 260.4%) compared to the fiscal year 2010 combined fund deficit of \$22.6 million. The decrease in the deficit can mostly be attributed to the re-designation of ARRA funds. Without the re-programming of the \$60 million in ARRA funds, there would have been an increase in the deficit of \$1,195,743 to \$23,814,178 in FY 2011. For additional information concerning GDOE unassigned Fund Balance, please refer to Note (8) to the accompanying financial statements and other supplementary information.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

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

GUAM DEPARTMENT OF EDUCATION

Management's Discussion and Analysis
Year Ended September 30, 2011

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

Although GDOE receives significant amounts of federal dollars in FY 2011, Government of Guam's revenue and cash shortfalls continues to impact the Department's cash allotments and financial position. In addition, the lack of local appropriation to off-set USDA reimbursements in the operation of the School Lunch Program continues to be an on-going concern. GDOE recognizes the financial pressures and expects to continue dialogue with all stakeholders to submit a Departmental budget that reflects the current financial climate of the island without sacrificing public education.

MANAGEMENT CONTACT

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

GUAM DEPARTMENT OF EDUCATION

Statement of Net Assets September 30, 2011

ASSETS

Current assets:	
Receivables from federal agencies	\$ 8,912,786
Due from primary government	4,343,656
Prepayments and other assets	3,167,988
Restricted assets:	
Cash and cash equivalents	60,090,993
Total current assets	<u>76,515,423</u>
Noncurrent assets:	
Deferred maintenance and insurance costs	2,691,616
Capital assets, net of accumulated depreciation	269,117,825
Other deferred costs, net	1,678,008
Total noncurrent assets	<u>273,487,449</u>
Total assets	<u>\$ 350,002,872</u>

LIABILITIES

Current liabilities:	
Bank overdraft	\$ 2,733,106
Current portion of payment arrangement with GPA	2,261,642
Accounts payable	8,926,302
Accrued payroll	4,013,336
Other liabilities and accruals	10,959,352
Retirement payable	6,559,766
Current portion of obligations under capital lease	3,990,000
Current portion of compensated absences payable	3,633,088
Total current liabilities	<u>43,076,592</u>
Noncurrent liabilities:	
Compensated absences payable, net of current portion	1,095,413
Accrued sick leave liability	6,803,462
Obligations under capital lease, net of current portion	121,155,000
Payment arrangement with GPA, net of current portion	1,824,066
Total noncurrent liabilities	<u>130,877,941</u>
Total liabilities	<u>173,954,533</u>
Commitments and contingencies	

NET ASSETS

Invested in capital assets, net of related debt	143,972,825
Restricted for:	
CIP, technology and equipment projects	60,090,993
Maintenance and insurance costs	2,691,616
Federal programs	2,265,596
Unrestricted	<u>(32,972,691)</u>
Total net assets	<u>176,048,339</u>
	<u>\$ 350,002,872</u>

See accompanying notes to financial statements.

GUAM DEPARTMENT OF EDUCATION

Statement of Activities
Year Ended September 30, 2011

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	
Governmental Activities:				
Elementary Education	\$ 56,195,238	\$ -	\$ 17,887,591	\$ (38,307,647)
Secondary Education	59,124,433	-	10,186,630	(48,937,803)
Direct Student Support	66,428,838	948,113	102,458,117	36,977,392
General Administration	89,357,447	-	12,337,244	(77,020,203)
Retiree healthcare benefits	<u>8,685,152</u>	<u>-</u>	<u>-</u>	<u>(8,685,152)</u>
Total governmental activities	<u>\$ 279,791,108</u>	<u>\$ 948,113</u>	<u>\$ 142,869,582</u>	<u>(135,973,413)</u>

General revenues:

Appropriations:

Operations

189,039,116

Total general revenues

189,039,116

Change in net assets

53,065,703

Net assets at beginning of year

122,982,636

Net assets at end of year

\$ 176,048,339

See accompanying notes to financial statements.

GUAM DEPARTMENT OF EDUCATION

Balance Sheet
Governmental Funds
September 30, 2011

<u>ASSETS</u>	<u>General</u>	<u>Special Revenue</u>	
		<u>Federal Grants Assistance</u>	<u>Total</u>
Receivables from federal agencies	\$ -	\$ 8,912,786	\$ 8,912,786
Due from primary government	4,343,656	-	4,343,656
Prepayments and other assets	1,474,134	996,354	2,470,488
Due from other funds	-	1,219,416	1,219,416
Restricted assets:			
Cash and cash equivalents	<u>60,090,993</u>	<u>-</u>	<u>60,090,993</u>
Total assets	<u>\$ 65,908,783</u>	<u>\$ 11,128,556</u>	<u>\$ 77,037,339</u>
 <u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Bank overdraft	\$ 2,733,106	\$ -	\$ 2,733,106
Accounts payable	5,454,027	3,472,275	8,926,302
Accrued payroll	3,305,353	707,983	4,013,336
Other liabilities and accruals	6,276,650	4,681,105	10,957,755
Retirement payable	6,559,766	-	6,559,766
Deferred revenues	-	2,267,193	2,267,193
Due to other funds	1,219,416	-	1,219,416
Payment arrangement with GPA	<u>4,085,708</u>	<u>-</u>	<u>4,085,708</u>
Total liabilities	<u>29,634,026</u>	<u>11,128,556</u>	<u>40,762,582</u>
Fund balances:			
Non-spendable			
Prepayment for textbook orders	1,474,134	-	1,474,134
Restricted	60,090,993	-	60,090,993
Unassigned	<u>(25,290,370)</u>	<u>-</u>	<u>(25,290,370)</u>
Total fund balances	<u>36,274,757</u>	<u>-</u>	<u>36,274,757</u>
Total liabilities and fund balances	<u>\$ 65,908,783</u>	<u>\$ 11,128,556</u>	<u>\$ 77,037,339</u>

See accompanying notes to financial statements.

GUAM DEPARTMENT OF EDUCATION

Reconciliation of Governmental Fund Balance to Net Assets of Governmental Activities
September 30, 2011

Total fund balance-governmental funds	\$	36,274,757
Amounts reported for governmental activities in the statement of net assets are different because:		
Prepayment of capital lease obligations in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. These assets consist of:		
Prepayment-interest	540,833	
Prepayment-maintenance	<u>156,667</u>	697,500
Borrowing costs associated with capital lease obligations in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		1,678,008
Maintenance costs associated with capital lease obligations in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		2,691,616
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	
Vehicles, furniture and equipment	7,474,196	
Construction in progress	517,884	
Accumulated depreciation	<u>(95,327,074)</u>	
Capital assets, net of accumulated depreciation		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	(6,803,462)	
Compensated absences payable	(4,728,501)	
Obligations under capital lease	<u>(125,145,000)</u>	
Long-term liabilities		(136,676,963)
Certain revenues are earned but not available and, therefore, are deferred in the governmental funds:		
Adjustment of deferred revenue		<u>2,265,596</u>
Net assets of governmental activities	\$	<u><u>176,048,339</u></u>

See accompanying notes to financial statements.

GUAM DEPARTMENT OF EDUCATION

Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit)
Governmental Funds
Year Ended September 30, 2011

	<u>General</u>	<u>Special Revenue Federal Grants Assistance</u>	<u>Total</u>
Revenues:			
Appropriations	\$ 189,039,116	\$ 7,100,000	\$ 196,139,116
Federal grants and contributions	563,700	135,584,057	136,147,757
Cafeteria sales	793,281	-	793,281
Fees and other program receipts	72,587	82,245	154,832
Total revenues	<u>190,468,684</u>	<u>142,766,302</u>	<u>333,234,986</u>
Expenditures:			
Current:			
Elementary Education	45,032,180	7,653,718	52,685,898
Secondary Education	50,751,822	2,440,477	53,192,299
Direct Student Support	8,333,970	57,576,963	65,910,933
General Administration	18,772,368	67,995,144	86,767,512
Retiree healthcare benefits	8,685,152	-	8,685,152
Debt service:			
Lease payment	-	7,100,000	7,100,000
Capital projects:			
Capital lease acquisition	65,735,000	-	65,735,000
Total expenditures	<u>197,310,492</u>	<u>142,766,302</u>	<u>340,076,794</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(6,841,808)</u>	<u>-</u>	<u>(6,841,808)</u>
Other financing sources:			
Capital leases	65,735,000	-	65,735,000
Net change in fund balances (deficit)	58,893,192	-	58,893,192
Fund balances (deficit) at beginning of year	<u>(22,618,435)</u>	<u>-</u>	<u>(22,618,435)</u>
Fund balances at end of year	<u>\$ 36,274,757</u>	<u>\$ -</u>	<u>\$ 36,274,757</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, 2011

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

Total net change in fund balances (deficit) - governmental funds	\$	58,893,192
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over the estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. For the current year, these

Capital outlays, net of disposals	66,010,618	
Depreciation expense, net	<u>(7,835,010)</u>	58,175,608

The net effect of various miscellaneous transactions involving capital assets (ie. Capital lease prepayment) is to decrease net assets.		(279,069)
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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	(65,735,000)	
Repayment of capital leases	<u>3,060,000</u>	(62,675,000)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. For the current year, these activities consist of:

Increase in compensated absence payable	(63,269)	
Increase in accrued sick leave liability	<u>(607,584)</u>	(670,853)

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

Adjustment of deferred revenues		<u>(378,175)</u>
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Change in net assets of governmental activities	\$	<u><u>53,065,703</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, 2011

ASSETS

Cash and cash equivalents	\$ <u>492,388</u>
Total assets	\$ <u><u>492,388</u></u>

LIABILITIES

Deposits and other liabilities	\$ <u>492,388</u>
Total liabilities	\$ <u><u>492,388</u></u>

See accompanying notes to financial statements.

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2011

(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.

In September 2010, Public Law 30-183 reorganized the elected policy board for GDOE to the Guam Education Board. The governance of GDOE is vested in the Board composed of 10 members; six members are elected, one is employed in an upper level managerial position in a private business, one GDOE student parent, one retired teacher or administrator of GDOE, and one GDOE student. GDOE operates 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, 2011

(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, 2011

(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, 2011

(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, 2011, GDOE has significant encumbrances summarized as follows:

<u>General</u>	<u>Federal Grants Assistance</u>	<u>Total</u>
\$ <u>4,212,848</u>	\$ <u>20,205,338</u>	\$ <u>24,418,186</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. Deposits in Banks

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

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

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2011

(1) Summary of Significant Accounting Policies, Continued

H. Deposits in Banks, Continued

GASB Statement No. 40 amended GASB Statement No. 3 to eliminate disclosure for deposits falling into categories 1 and 2, but retained disclosures for deposits falling under Category 3. Category 3 deposits are those deposits that have exposure to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, GDOE's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized, or collateralized with securities held by the pledging financial institution or held by the pledging institution but not in the depositor-government's name. GDOE does not have a deposit policy for custodial credit risk.

As of September 30, 2011, the carrying amount of GDOE's total cash and cash equivalents was \$60,090,993 and the corresponding bank balance was \$67,158,103, which is maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2011, bank deposits in the amount of \$1,829,298 were FDIC insured. The remaining bank deposits of \$65,328,805 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.

As of September 30, 2011, cash and cash equivalents in the amount of \$60,090,993 are restricted for Capital Improvement Projects in the State Fiscal Stabilization Fund (SFSF) budget as allocated.

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, 2011, 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.

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2011

(1) Summary of Significant Accounting Policies, Continued

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

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

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

Capital asset activities for the year ended September 30, 2011 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	\$ 291,617,819	\$ 65,735,000	\$ (900,000)	\$ 356,452,819
Vehicles, furniture and equipment	<u>7,032,462</u>	<u>441,734</u>	<u>-</u>	<u>7,474,196</u>
	298,650,281	66,176,734	(900,000)	363,927,015
Less: accumulated depreciation	<u>(87,708,064)</u>	<u>(7,835,010)</u>	<u>216,000</u>	<u>(95,327,074)</u>
Depreciable capital assets, net	<u>210,942,217</u>	<u>58,341,724</u>	<u>(684,000)</u>	<u>268,599,941</u>
Nondepreciable capital assets:				
Construction in progress	<u>-</u>	<u>517,884</u>	<u>-</u>	<u>517,884</u>
	<u>\$ 210,942,217</u>	<u>\$ 58,859,608</u>	<u>\$ (684,000)</u>	<u>\$ 269,117,825</u>

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2011

(1) Summary of Significant Accounting Policies, Continued

M. Capital Assets, Continued

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

Governmental activities:	
Elementary Education	\$ 2,219,340
Secondary Education	5,326,134
Direct Student Support	146,989
General Administration	<u>142,547</u>
	<u>\$ 7,835,010</u>

N. Net Assets

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

Net Assets have been restricted as follows:

CIP, technology and equipment projects - identifies amounts legislatively and externally restricted for Capital Improvement Projects identified in the State Fiscal Stabilization Fund (SFSF) budget as allocated.

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.

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2011

(1) Summary of Significant Accounting Policies, Continued

P. Compensated Absences, Continued

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

Q. Deferred Revenues

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

R. Dedicated Revenues and Pledges

GDOE has entered into a municipal school lease agreement 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 \$105,600,000 payable through December 2025. For the year ended September 30, 2011, 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, 2010 from which summarized information was derived.

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2011

(1) Summary of Significant Accounting Policies, Continued

U. New Accounting Standards

During fiscal year 2011, GDOE implemented the following pronouncements:

- GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions.
- GASB Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools.

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

In December 2009, GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans. The provisions of Statement 57 related to the use and reporting of the alternative measurement method are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GDOE.

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.

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2011

(1) Summary of Significant Accounting Policies, Continued

U. New Accounting Standards, Continued

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 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. 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 provisions of this statement are effective for periods beginning after June 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GDOE.

(2) Long-Term Debt

Installment payment agreement payable to Guam Power Authority (GPA) commencing on July 20, 2004, (principal of \$15,855,083), interest rate at 4.47% per annum, payable in fixed monthly installments for 109 months (\$500,000 per month for first three months, then \$100,000 per month escalating at intervals to \$200,000 per month), due in July 2013. \$ 4,085,708

The annual requirements to amortize the debt outstanding as of September 30, 2011, including interest payments, are as follows:

<u>Year Ending</u> <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 2,261,642	\$ 138,358	\$ 2,400,000
2013	<u>1,824,066</u>	<u>36,668</u>	<u>1,860,734</u>
	<u>\$ 4,085,708</u>	<u>\$ 175,026</u>	<u>\$ 4,260,734</u>

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.

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2011

(2) Long-Term Debt

Changes in Long-Term Liabilities

Changes in long-term liabilities for the year ended September 30, 2011, are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<u>Governmental activities:</u>					
Installment payment agreement with GPA	\$ 6,447,691	\$ -	\$(2,361,983)	\$ 4,085,708	\$2,261,642
Accrued sick leave liability	6,195,878	607,584	-	6,803,462	-
Compensated absences	4,665,232	804,512	(741,243)	4,728,501	3,633,088
Obligations under capital lease	<u>62,470,000</u>	<u>65,735,000</u>	<u>(3,060,000)</u>	<u>125,145,000</u>	<u>3,990,000</u>
	<u>\$79,778,801</u>	<u>\$67,147,096</u>	<u>\$(6,163,226)</u>	<u>\$140,762,671</u>	<u>\$9,884,730</u>

(3) Commitments and Contingencies

A. Sick Leave

It is the policy of GDOE to record the cost of sick leave when leave is actually taken and a liability is actually incurred. Generally, sick leave is paid only when an employee is absent due to illness, injury or related-family death. Under the Defined Contribution Retirement System (DCRS), an employee may convert into cash up to 50% of the accrued sick leave liability. For this reason, a sick leave liability is recorded at September 30, 2011. The estimated accumulated amount of unused sick leave at September 30, 2011, is \$35,726,078, of which an estimated \$6,803,462 may be convertible by DCRS employees upon retirement.

B. Federal Grants

GDOE has received federal grants for specific purposes that are subject to review and audit by the grantor agencies. Questioned costs for the 2011 and prior year audits aggregate to a material amount. If the questioned costs are ultimately disallowed, the general fund would be liable for the return of such funds. However, no liability which may arise from the ultimate outcome of this matter has been provided for in the accompanying financial statements.

Audits of federal program funds are also performed by various federal agencies. If the audit results in cost disallowances, the general fund may be liable. However, management does not believe that resolution of this matter will result in a material liability. Therefore, no liability for any amount, which may ultimately arise from these matters, has been recorded in the accompanying financial statements.

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

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

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2011

(3) 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, 2011. Hence, it is not possible to predict a reasonable estimation of these claims to be paid through the claims process. No provision that may result has been made in the accompanying financial statements except as disclosed on Note 3E.

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2011

(3) Commitments and Contingencies, Continued

H. Ukudo High School Expansion

On June 3, 2011, the Guam Legislature enacted Public Law 31-74 authorizing the expansion of Ukudo 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, 2011, no commitment has been entered into with respect to the construction of this facility.

(4) Employee Retirement Plans

Defined Benefit Plan

Plan Description:

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

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, 2009, 2008, and 2007, contribution rates required to fully fund the Retirement Fund liability, as required by Guam law, for the years ended September 30, 2011, 2010 and 2009, respectively, have been determined by the Guam Legislature as follows:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Normal costs (% of DB Plan payroll)	17.00%	18.34%	17.36%
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>7.50%</u>	<u>8.84%</u>	<u>7.86%</u>
Employer portion of normal costs (% of total payroll)	3.03%	3.73%	3.70%
Unfunded liability cost (% of total payroll)	<u>21.75%</u>	<u>22.69%</u>	<u>19.68%</u>
Government contribution as a % of total payroll	<u>24.78%</u>	<u>26.42%</u>	<u>23.38%</u>
Statutory contribution rates as a % of DB Plan payroll:			
Employer	<u>27.46%</u>	<u>26.04%</u>	<u>25.20%</u>
Employee	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2011

(4) Employee Retirement Plans, Continued

Defined Benefit Plan, Continued

Funding Policy, Continued:

During the year ended September 30, 2011, the Guam Legislature enacted Public Law 31-74 temporarily reducing the statutory contributions rate from 27.46% to 21.44% for the period June 4, 2011 through September 30, 2011, which resulted in a savings of \$2,506,651. Public Law 31-74 required this savings to be deferred and paid to GGRF upon the issuance of a GovGuam bond. Accordingly, this liability has been recorded by GovGuam at September 30, 2011 and is not a liability of GDOE.

GDOE's required contributions to the DB Plan for the years ending September 30, 2011, 2010 and 2009 were \$13,839,066, \$15,480,638 and \$14,563,208, respectively, which were equal to the required contributions for each year.

Defined Contribution Plan

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

Statutory employer contributions into the DCRS plan for the year ended September 30, 2011 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, 2011, 2010 and 2009 were \$24,724,957, \$22,237,767 and \$21,303,693, respectively, which were equal to the required contributions for each year.

Other Post Employment Benefits

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

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2011

(4) Employee Retirement Plans, Continued

Other Post Employment Benefits, Continued

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

During the years ended September 30, 2011, 2010 and 2009, GDOE recognized certain on-behalf payments as appropriations from GovGuam, totaling \$8,685,152, \$6,079,477, and \$6,740,014, respectively, representing certain healthcare benefits that GovGuam's general fund paid directly on behalf of GDOE retirees.

(5) Retirement Liability

As of September 30, 2011, a total of \$6,559,766 is payable to the GovGuam Retirement Fund for delinquent contributions, inclusive of interest and penalties, related to pay periods in FY 2003 for locally funded employees. Contributions for Federally funded employees have been remitted in full. Interest and penalties continue to accrue on this liability based on the provisions set forth in 4GCA 8137(c), which states that GovGuam Retirement Fund will impose interest at a rate equivalent to the average rate of return on its investments from the previous fiscal year and a 1% penalty for delinquent payments.

In September 2010, Public Law 30-196 amended Public Law 28-38, requiring a computation and recognition of interest for the aforementioned liability every first of the month beginning October 2010. Liability shall equal to the outstanding liability multiplied by the (1/12) of the most recent historical five year average portfolio. Payments shall be credited to the liability prior to the next month's interest affecting the repayment of the liability. If payments are not current for the applicable fiscal year, the Fund shall cease processing of applications from employees of GDOE until payment is made in full. During the year ended September 30, 2011, GovGuam's general fund paid interest-only payments, totaling \$370,744, to the GovGuam Retirement Fund.

(6) Appropriations

During the year ended September 30, 2011, appropriations provided to GDOE by the Guam Legislature were as follows:

General Fund:

Public Law 30-196:

GPSS Operations Fund	\$ 171,857,912
Territorial Education Facilities Fund	2,400,000
Retiree healthcare benefits	8,685,152
Healthy Futures Fund	533,894
Chamorro Studies Division	1,069,098

Public Law 30-37:

John F. Kennedy High School lease	<u>4,493,256</u>
	<u>\$ 189,039,116</u>

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2011

(6) Appropriations, Continued

Federal Grants Assistance Fund:

Public Law 28-47

Municipal School Lease Agreement \$ 7,100,000

In addition, Public Law 29-113 appropriates \$7,500,000 of all monies collected by GDOE from Federal funds paid to GDOE for reimbursement under the National School Lunch Program and Breakfast Program and the State Administrative Expenses for Child Nutrition Program to GDOE for non-personnel operating expenses. The total of such reimbursements from the U.S. Department of Agriculture during the year ended September 30, 2011 is \$8,112,996, which is accounted for within GDOE's federal grants assistance fund.

(7) Municipal School Lease Agreements

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

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

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.

The assets acquired through capital leases are as follows:

Asset:	
Buildings	\$ 88,529,866
Less accumulated depreciation	<u>(7,513,782)</u>
	\$ <u>81,016,084</u>

These buildings are summarized as follows:

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

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2011

(7) Municipal School Lease Agreements, Continued

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2011, were as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>
2012	\$ 6,185,000
2013	6,186,667
2014	6,184,167
2015	6,190,000
2016	6,191,667
2017-2021	27,792,500
2022-2026	<u>25,706,667</u>
Total lease payments	84,436,667
Less amount representing interest and rent	(25,026,667)
Less current portion	<u>(3,210,000)</u>
Total	\$ <u>56,200,000</u>

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

On September 16, 2010, GovGuam issued on behalf of GDOE, \$65,735,000 in Series 2010 Certificates of Participation (COPS) to finance the demolition, acquisition, renovation and installation of facilities to provide for the new John F. Kennedy High School on Guam. The proceeds of the COPS were remitted to a trustee, who then remitted amounts to the 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 new John F. Kennedy High School acquired through capital lease is as follows:

Asset:	
Building	\$ 65,735,000
less accumulated depreciation	<u>(1,314,700)</u>
	\$ <u>64,420,300</u>

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2011

(7) Municipal School Lease Agreements, Continued

<u>Year Ending September 30,</u>	<u>Principal</u>
2012	\$ 6,698,663
2013	6,699,938
2014	6,699,012
2015	6,695,612
2016	6,695,850
2017-2021	33,489,300
2022-2026	33,484,803
2027-0031	33,482,356
2032-2036	33,480,156
2037-2041	<u>33,483,266</u>
Total lease payments	200,908,956
Less amount representing interest and rent	(135,173,956)
Less current portion	<u>(780,000)</u>
Total	\$ <u>64,955,000</u>

(8) Comparability of General Fund Expenditures

For the year ended September 30, 2011, due to the use of \$60 million of re-designated ARRA funds, the 2011 and 2010 results of operations for the General Fund are not comparable. To better analyze the 2011 results of operations for the General Fund, the following is offered:

Fund deficit reported as of September 30, 2010	\$ (22,618,435)
Results of activities for 2011 without taking into effect the impact of the re-designated ARRA funds	<u>(1,195,743)</u>
Deficit as of September 30, 2011 that would have otherwise been reported	(23,814,178)
Impact of the ARRA re-designation	<u>60,088,935</u>
Fund balance reported as of September 30, 2011	\$ <u>36,274,757</u>

GUAM DEPARTMENT OF EDUCATION

**REQUIRED SUPPLEMENTARY
INFORMATION**

YEAR ENDED SEPTEMBER 30, 2011

GUAM DEPARTMENT OF EDUCATION

Schedule of Revenues, Expenditures, and Changes in Fund Balance (Deficit) - Budget and Actual
 General Fund
 Year Ended September 30, 2011

	Original Budget	Final Budget	Actual - Budgetary Basis	Variance with Final Budget - Positive (Negative)
Revenues:				
Local appropriations:				
Government of Guam General Fund:				
Base Operational Fund	\$ 172,844,266	\$ 184,989,074	\$ 185,036,125	\$ 47,051
Textbooks	2,000,000	-	-	-
Chamorro Studies Division	399,785	1,069,098	1,069,098	-
Territorial Educational Facilities Fund:				
Operations	9,231,167	-	-	-
GPA long-term debt	2,400,000	2,400,000	2,400,000	-
Healthy Futures Fund:				
Interscholastic sports	612,000	141,570	141,570	-
Health and Physical Education Activities	279,754	392,324	392,324	-
Public School Library Resources Fund	805,876	-	-	-
Indirect Cost Fund	250,000	-	-	-
Fees and other program receipts	-	-	72,586	72,586
Federal grants and contributions	-	-	563,700	563,700
Cafeteria sales	875,000	875,000	793,281	(81,719)
Total revenues	189,697,848	189,867,066	190,468,684	601,618
Expenditures - Budgetary Basis:				
Elementary Education	40,145,954	41,477,428	45,628,538	(4,151,110)
Secondary Education	46,668,288	49,769,547	53,155,538	(3,385,991)
Direct Student Support	7,059,911	10,592,268	8,704,166	1,888,102
General Administration	93,642,415	47,218,708	28,300,098	18,918,610
Total expenditures	187,516,568	149,057,951	135,788,340	13,269,611
Excess of revenues over expenditures	2,181,280	40,809,115	54,680,344	13,871,229
Other changes in fund balance (deficit):				
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary purposes, but in the year the items are received for financial reporting purposes	-	-	4,212,848	4,212,848
Total fund deficit at beginning of year	(22,618,435)	(22,618,435)	(22,618,435)	-
Total fund balances (deficit) at end of year	\$ (20,437,155)	\$ 18,190,680	\$ 36,274,757	\$ 18,084,077

	Reconciliation of	
	Revenues	Expenditures
Non-cash transactions:		
JFK building	\$ -	\$ 65,735,000
Total non-cash transactions	-	65,735,000
Total revenues/expenditures, per above	190,468,684	135,788,340
Less current year encumbrances	-	(4,212,848)
Total revenues/expenditures, per page 14	\$ 190,468,684	\$ 197,310,492

See accompanying notes to required supplementary information.

GUAM DEPARTMENT OF EDUCATION

Notes to Required Supplementary Information – Budgetary Reporting September 30, 2011

(1) Budgetary Process

The Budget Act for fiscal year 2011, Public Law No. 30-196, 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

**OTHER SUPPLEMENTARY
INFORMATION**

YEAR ENDED SEPTEMBER 30, 2011

GUAM DEPARTMENT OF EDUCATION

Statements of Net Assets - Governmental Activities

September 30, 2011

(With Comparative Totals as of September 30, 2010)

<u>ASSETS</u>	<u>2011</u>	<u>2010</u>
Current assets:		
Cash and cash equivalents	\$ -	\$ 1,831,329
Receivables from federal agencies	8,912,786	6,297,254
Due from primary government	4,343,656	7,844,859
Prepayments and other assets	3,167,988	1,236,462
Restricted assets:		
Cash and cash equivalents	60,090,993	-
Total current assets	<u>76,515,423</u>	<u>17,209,904</u>
Noncurrent assets:		
Deferred maintenance and insurance costs	2,691,616	2,865,810
Capital assets, net of accumulated depreciation	269,117,825	210,942,217
Other deferred costs, net	1,678,008	1,782,883
Total noncurrent assets	<u>273,487,449</u>	<u>215,590,910</u>
Total assets	<u>\$ 350,002,872</u>	<u>\$ 232,800,814</u>
<u>LIABILITIES</u>		
Current liabilities:		
Bank overdraft	\$ 2,733,106	\$ -
Current portion of payment arrangement with GPA	2,261,642	2,324,201
Accounts payable	8,926,302	8,994,656
Accrued payroll	4,013,336	7,659,959
Other liabilities and accruals	10,959,352	6,822,262
Retirement payable	6,559,766	6,562,500
Current portion of obligation under capital lease	3,990,000	3,060,000
Current portion of compensated absences payable	3,633,088	3,569,819
Total current liabilities	<u>43,076,592</u>	<u>38,993,397</u>
Noncurrent liabilities:		
Compensated absences payable, net of current portion	1,095,413	1,095,413
Accrued sick leave liability	6,803,462	6,195,878
Obligation under capital lease, net of current portion	121,155,000	59,410,000
Payment arrangement with GPA, net of current portion	1,824,066	4,123,490
Total noncurrent liabilities	<u>130,877,941</u>	<u>70,824,781</u>
Total liabilities	<u>173,954,533</u>	<u>109,818,178</u>
<u>NET ASSETS</u>		
Invested in capital assets, net of related debt	143,972,825	148,472,217
Restricted for:		
CIP, technology and equipment projects	60,090,993	-
Maintenance and insurance costs	2,691,616	2,865,810
Federal programs	2,265,596	2,643,771
Unrestricted	<u>(32,972,691)</u>	<u>(30,999,162)</u>
Total net assets	<u>176,048,339</u>	<u>122,982,636</u>
	<u>\$ 350,002,872</u>	<u>\$ 232,800,814</u>

See Accompanying Independent Auditors' Report. 39

GUAM DEPARTMENT OF EDUCATION

Statements of Activities - Governmental Activities
 Year Ended September 30, 2011
 (With Comparative Totals for the Year Ended September 30, 2010)

	2011	2010
Program Revenues:		
Elementary Education	\$ 17,887,591	\$ 14,481,434
Secondary Education	10,186,630	9,055,068
Direct Student Support	103,406,230	27,933,882
General Administration	12,337,244	603,626
Capital projects	-	2,605,785
	<u>143,817,695</u>	<u>54,679,795</u>
Expenses:		
Elementary Education	56,195,238	92,673,166
Secondary Education	59,124,433	98,298,485
Direct Student Support	66,428,838	41,732,275
General Administration	89,357,447	16,441,466
Retiree healthcare benefits	8,685,152	6,079,477
	<u>279,791,108</u>	<u>255,224,869</u>
Deficiency of program revenues under expenses	<u>(135,973,413)</u>	<u>(200,545,074)</u>
General revenues:		
Appropriations:		
Operations	189,039,116	196,547,347
Textbooks	-	1,940,000
	<u>189,039,116</u>	<u>198,487,347</u>
Change in net assets	53,065,703	(2,057,727)
Net assets at beginning of year	<u>122,982,636</u>	<u>125,040,363</u>
Net assets at end of year	<u>\$ 176,048,339</u>	<u>\$ 122,982,636</u>

See Accompanying Independent Auditors' Report.

GUAM DEPARTMENT OF EDUCATION

Balance Sheets
Governmental Funds
September 30, 2011

(With Comparative Totals as of September 30, 2010)

	2011			2010		
	General	Federal Grants Assistance	Total	General	Federal Grants Assistance	Total
<u>ASSETS</u>						
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 791,761	\$ 1,039,568	\$ 1,831,329
Receivables from federal agencies	-	8,912,786	8,912,786	-	6,297,254	6,297,254
Due from primary government	4,343,656	-	4,343,656	7,844,859	-	7,844,859
Prepayments and other assets	1,474,134	996,354	2,470,488	538,962	-	538,962
Due from other funds	-	1,219,416	1,219,416	1,190,112	-	1,190,112
Restricted assets:						
Cash and cash equivalents	60,090,993	-	60,090,993	-	-	-
Total assets	<u>\$ 65,908,783</u>	<u>\$ 11,128,556</u>	<u>\$ 77,037,339</u>	<u>\$ 10,365,694</u>	<u>\$ 7,336,822</u>	<u>\$ 17,702,516</u>
<u>LIABILITIES AND FUND BALANCES (DEFICIT)</u>						
Liabilities:						
Bank overdraft	\$ 2,733,106	\$ -	\$ 2,733,106	\$ -	\$ -	\$ -
Accounts payable	5,454,027	3,472,275	8,926,302	6,922,465	2,072,191	8,994,656
Accrued payroll	3,305,353	707,983	4,013,336	6,272,164	1,387,795	7,659,959
Other liabilities and accruals	6,276,650	4,681,105	10,957,755	6,779,309	42,953	6,822,262
Retirement payable	6,559,766	-	6,559,766	6,562,500	-	6,562,500
Deferred revenues	-	2,267,193	2,267,193	-	2,643,771	2,643,771
Due to other funds	1,219,416	-	1,219,416	-	1,190,112	1,190,112
Payment arrangement with GPA	4,085,708	-	4,085,708	6,447,691	-	6,447,691
Total liabilities	<u>29,634,026</u>	<u>11,128,556</u>	<u>40,762,582</u>	<u>32,984,129</u>	<u>7,336,822</u>	<u>40,320,951</u>
Fund balances (deficit):						
Non-spendable:						
Prepayment for textbook orders	1,474,134	-	1,474,134	538,962	-	538,962
Restricted	60,090,993	-	60,090,993	-	-	-
Unassigned	<u>(25,290,370)</u>	<u>-</u>	<u>(25,290,370)</u>	<u>(23,157,397)</u>	<u>-</u>	<u>(23,157,397)</u>
Total fund balances (deficits)	<u>36,274,757</u>	<u>-</u>	<u>36,274,757</u>	<u>(22,618,435)</u>	<u>-</u>	<u>(22,618,435)</u>
Total liabilities and fund balances	<u>\$ 65,908,783</u>	<u>\$ 11,128,556</u>	<u>\$ 77,037,339</u>	<u>\$ 10,365,694</u>	<u>\$ 7,336,822</u>	<u>\$ 17,702,516</u>

See Accompanying Independent Auditors' Report.

GUAM DEPARTMENT OF EDUCATION

Reconciliations of Governmental Fund Balance (Deficit) to Net Assets of Governmental Activities
September 30, 2011
(With Comparative Totals as of September 30, 2010)

	2011	2010
	<u> </u>	<u> </u>
Total fund balance (deficit) - governmental funds	\$ 36,274,757	\$ (22,618,435)
Amounts reported for governmental activities in the statements of net assets are different because:		
Prepayment of capital lease obligations in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	697,500	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.	1,678,008	1,782,883
Maintenance costs associated with capital lease obligations in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	2,691,616	2,865,810
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. These assets consist of:		
Buildings and improvements	\$ 356,452,819	291,617,819
Vehicles, furniture and equipment	7,474,196	7,032,462
Construction in progress	517,884	-
Accumulated depreciation	<u>(95,327,074)</u>	<u>(87,708,064)</u>
Capital assets, net of accumulated depreciation	269,117,825	210,942,217
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds. These liabilities include:		
Accrued sick leave liability	(6,803,462)	(6,195,878)
Compensated absences payable	(4,728,501)	(4,665,232)
Obligations under capital lease	<u>(125,145,000)</u>	<u>(62,470,000)</u>
Long-term liabilities	(136,676,963)	(73,331,110)
Certain revenues are earned but not available and, therefore, are deferred in the governmental funds:		
Adjustment of deferred revenue	<u>2,265,596</u>	<u>2,643,771</u>
Net assets of governmental activities	\$ <u>176,048,339</u>	\$ <u>122,982,636</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, 2011
 (With Comparative Totals for the Year Ended September 30, 2010)

	2011			2010		
	General	Federal Grants Assistance	Total	General	Federal Grants Assistance	Total
Revenues:						
Appropriations	\$ 189,039,116	\$ 7,100,000	\$ 196,139,116	\$ 198,487,347	\$ 7,100,000	\$ 205,587,347
Federal grants and contributions	563,700	135,584,057	136,147,757	3,309,981	42,766,617	46,076,598
Cafeteria sales	793,281	-	793,281	864,661	-	864,661
Fees and other program receipts	72,587	82,245	154,832	97,969	299,243	397,212
Total revenues	190,468,684	142,766,302	333,234,986	202,759,958	50,165,860	252,925,818
Expenditures:						
Current:						
Elementary Education	45,032,180	7,653,718	52,685,898	81,495,562	7,555,157	89,050,719
Secondary Education	50,751,822	2,440,477	53,192,299	88,719,470	2,721,010	91,440,480
Direct Student Support	8,333,970	57,576,963	65,910,933	9,203,538	32,427,391	41,630,929
General Administration	18,772,368	67,995,144	86,767,512	15,337,398	362,302	15,699,700
Retiree healthcare benefits	8,685,152	-	8,685,152	6,079,477	-	6,079,477
Debt service:						
Lease payment	-	7,100,000	7,100,000	-	7,100,000	7,100,000
Capital projects:						
Capital asset acquisition from contributions	-	-	-	2,605,785	-	2,605,785
Capital lease acquisition	65,735,000	-	65,735,000	-	-	-
Total expenditures	197,310,492	142,766,302	340,076,794	203,441,230	50,165,860	253,607,090
Excess (deficiency) of revenues over (under) expenditures	(6,841,808)	-	(6,841,808)	(681,272)	-	(681,272)
Other financing sources:						
Capital leases	65,735,000	-	65,735,000	-	-	-
Net change in fund balances (deficit)	58,893,192	-	58,893,192	(681,272)	-	(681,272)
Fund balances (deficit) at beginning of year	(22,618,435)	-	(22,618,435)	(21,937,163)	-	(21,937,163)
Fund balances (deficit) at end of year	\$ 36,274,757	\$ -	\$ 36,274,757	\$ (22,618,435)	\$ -	\$ (22,618,435)

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, 2011
(With Comparative Totals as of September 30, 2010)

	2011	2010
Amounts reported for governmental activities in the statements of activities are different because:		
Total net change in fund balances (deficit) - governmental funds	\$ 58,893,192	\$ (681,272)
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).	58,175,608	(3,913,482)
The net effect of various miscellaneous transactions involving capital assets (ie. Capital lease prepayment) is to increase (decrease) net assets.	(279,069)	55,030
The issuance of long-term debt (eg. leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt.	(62,675,000)	2,915,000
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.	(670,853)	(674,327)
Certain revenues are earned but not available and therefore are deferred in the governmental funds.	(378,175)	241,324
Change in net assets of governmental activities	\$ 53,065,703	\$ (2,057,727)

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, 2011
 (With Comparative Totals for the Year Ended September 30, 2010)

	2011				2010			
	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	\$ 172,844,266	\$ 184,989,074	\$ 185,036,125	\$ 47,051	\$ 174,986,508	\$ 174,986,508	\$ 170,577,866	\$ (4,408,642)
Government of Guam bond proceeds	-	-	-	-	-	-	4,497,890	4,497,890
Textbooks	2,000,000	-	-	-	2,000,000	2,000,000	1,940,000	(60,000)
Chamorro studies division	399,785	1,069,098	1,069,098	-	-	-	-	-
Principal Mentorship	-	-	-	-	100,000	100,000	97,000	(3,000)
Contractual	-	-	-	-	6,169	6,169	5,984	(185)
Territorial Education Facilities Fund	11,631,167	2,400,000	2,400,000	-	9,410,474	9,410,474	9,410,474	-
Healthy Futures Fund:								
Operations	-	-	-	-	8,000	8,000	8,000	-
Interscholastic Sports	612,000	141,570	141,570	-	612,000	612,000	429,375	(182,625)
Health and Physical Education Activities	279,754	392,324	392,324	-	271,754	271,754	216,985	(54,769)
Public School Library Resources Fund	805,876	-	-	-	755,482	755,482	755,482	-
Indirect Cost Fund	250,000	-	-	-	-	-	-	-
Fees and other program receipts	-	-	72,586	72,586	-	176,775	73,527	(103,248)
Federal grants and contributions	-	-	563,700	563,700	-	437,000	704,196	267,196
Cafeteria sales	875,000	875,000	793,281	(81,719)	700,000	861,020	864,661	3,641
Total revenues	<u>189,697,848</u>	<u>189,867,066</u>	<u>190,468,684</u>	<u>601,618</u>	<u>188,850,387</u>	<u>189,625,182</u>	<u>189,581,440</u>	<u>(43,742)</u>
Expenditures - Budgetary Basis:								
Personnel	95,441,734	96,254,988	96,217,553	37,435	165,183,327	165,194,327	165,188,844	5,483
Utilities	14,266,858	14,371,107	14,504,874	(133,767)	14,174,933	14,174,933	14,340,065	(165,132)
Contractual	9,241,044	12,866,434	12,418,797	447,637	12,457,618	12,644,644	12,635,798	8,846
Supplies/equipment	5,523,762	8,441,942	2,804,244	5,637,698	4,396,655	4,580,840	4,579,882	958
Textbooks	126,896	2,294,922	1,360,986	933,936	1,085,115	1,085,115	1,077,073	8,042
Capital projects	57,590,569	9,162,290	2,917,033	6,245,257	3,573,568	3,573,568	3,565,784	7,784
Lease	4,493,256	4,493,256	4,493,256	-	4,493,256	4,493,256	4,493,256	-
Other	832,449	1,173,012	1,071,597	101,415	760,348	1,152,932	1,148,680	4,252
Total expenditures	<u>187,516,568</u>	<u>149,057,951</u>	<u>135,788,340</u>	<u>13,269,611</u>	<u>206,124,820</u>	<u>206,899,615</u>	<u>207,029,382</u>	<u>(129,767)</u>
Excess (deficiency) of revenues over (under) expenditures	2,181,280	40,809,115	54,680,344	13,871,229	(4,095,915)	(4,095,915)	(4,269,424)	(173,509)
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	-	-	4,212,848	4,212,848	-	-	3,588,152	3,588,152
Total fund deficit at beginning of year	<u>(22,618,435)</u>	<u>(22,618,435)</u>	<u>(22,618,435)</u>	<u>-</u>	<u>(21,937,163)</u>	<u>(21,937,163)</u>	<u>(21,937,163)</u>	<u>-</u>
Total fund balance (deficit) at end of year	<u>\$ (20,437,155)</u>	<u>\$ 18,190,680</u>	<u>\$ 36,274,757</u>	<u>\$ 18,084,077</u>	<u>\$ (26,033,078)</u>	<u>\$ (26,033,078)</u>	<u>\$ (22,618,435)</u>	<u>\$ 3,414,643</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, 2011
 (With Comparative Totals for the Year Ended September 30, 2010)

	2011			2010		
	General	Federal Grants Assistance	Total	General	Federal Grants Assistance	Total
Revenues:						
Local appropriations	\$ 189,039,116	\$ 7,100,000	\$ 196,139,116	\$ 198,487,347	\$ 7,100,000	\$ 205,587,347
Federal grants and contributions	563,700	135,584,057	136,147,757	3,309,981	42,766,617	46,076,598
Cafeteria sales	793,281	-	793,281	864,661	-	864,661
Fees and other program receipts	72,587	82,245	154,832	97,969	299,243	397,212
Total revenues	190,468,684	142,766,302	333,234,986	202,759,958	50,165,860	252,925,818
Expenditures:						
Salaries	66,009,085	82,081,060	148,090,145	122,519,603	21,392,719	143,912,322
Capital lease acquisitions	65,735,000	-	65,735,000	-	-	-
Benefits	29,075,694	27,652,056	56,727,750	42,669,241	6,296,605	48,965,846
Contractual	10,719,493	20,177,617	30,897,110	10,822,430	11,410,204	22,232,634
Power	12,350,225	-	12,350,225	11,597,228	-	11,597,228
Capital projects	-	7,100,000	7,100,000	-	7,100,000	7,100,000
Lease	4,493,256	-	4,493,256	4,493,256	-	4,493,256
Supplies	1,494,634	2,784,974	4,279,608	2,181,917	2,368,231	4,550,148
Travel	313,177	1,956,220	2,269,397	247,383	525,572	772,955
Water	1,916,633	-	1,916,633	2,230,553	-	2,230,553
Capital outlay	1,363,986	396,537	1,760,523	280,067	166,101	446,168
Equipment	1,116,016	411,264	1,527,280	630,921	495,066	1,125,987
Interest and penalties	1,385,264	-	1,385,264	322,063	-	322,063
Bad debt	330,603	-	330,603	-	-	-
Phone	324,110	-	324,110	512,285	-	512,285
Library books	307,089	-	307,089	320,719	94,479	415,198
Fuel	252,816	-	252,816	504,710	-	504,710
Textbooks	31,834	139,419	171,253	926,882	263,522	1,190,404
Stipends and other	91,577	61,071	152,648	576,187	53,361	629,548
Indirect costs	-	6,084	6,084	-	-	-
Capital asset acquisition from contributions	-	-	-	2,605,785	-	2,605,785
Total expenditures	197,310,492	142,766,302	340,076,794	203,441,230	50,165,860	253,607,090
Excess (deficiency) of revenues over (under) expenditures	(6,841,808)	-	(6,841,808)	(681,272)	-	(681,272)
Other financing sources:						
Capital leases	65,735,000	-	65,735,000	-	-	-
Net change in fund balances (deficit)	58,893,192	-	58,893,192	(681,272)	-	(681,272)
Fund balances (deficit), beginning of year	(22,618,435)	-	(22,618,435)	(21,937,163)	-	(21,937,163)
Fund balances (deficit), end of year	\$ 36,274,757	\$ -	\$ 36,274,757	\$ (22,618,435)	\$ -	\$ (22,618,435)

See Accompanying Independent Auditors' Report.

GUAM DEPARTMENT OF EDUCATION

Agency Fund
September 30, 2011

The schedule of cash receipts and cash disbursements for the agency fund during fiscal year 2011 is as follows:

	<u>NAF</u>
Cash balance at beginning of year	\$ <u>435,221</u>
Cash receipts:	
Elementary school activities	365,782
Secondary school activities	<u>1,226,377</u>
Total receipts	<u>1,592,159</u>
Cash disbursements:	
Elementary school activities	362,788
Secondary school activities	<u>1,172,204</u>
Total disbursements	<u>1,534,992</u>
Cash balance at end of year	\$ <u>492,388</u>

The number of individual funds at the schools during fiscal year 2011 is as follows:

Elementary schools	381
Secondary schools	517

See Accompanying Independent Auditors' Report.

GUAM DEPARTMENT OF EDUCATION

Personnel
September 30, 2011 and 2010

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

	Employee Count as of PPE <u>October 8, 2011</u>	Employee Count as of PPE <u>October 09, 2010</u>
100% Locally Funded	2,391	2,875
100% Federally Funded	832	691
Locally/Federally Funded	<u>618</u>	<u>136</u>
Total Employee Count	<u>3,841</u>	<u>3,702</u>

See Accompanying Independent Auditors' Report.

GUAM DEPARTMENT OF EDUCATION

Comparability of General Fund Statement of Revenues and Expenditures
Years Ended September 30, 2011 and 2010

	FY2011				FY2010	
	As reported on page 43	ARRA Funds Transferred	US Ed Jobs Transferred	Adjusted Total	As reported on page 43	Net Change
General Fund revenues:	\$ 190,468,684				\$ 202,759,958	\$ (12,291,274)
Less ARRA Funds transferred	<u>(60,088,935)</u>					
Net General Fund revenues	<u>130,379,749</u>					
General Fund expenditures:						
Current:						
Elementary Education	45,032,180	28,865,784	9,793,011	83,690,975	81,495,562	2,195,413
Secondary Education	50,751,822	31,223,151	10,353,097	92,328,070	88,719,470	3,608,600
Direct Student Support	8,333,970	-	-	8,333,970	9,203,538	(869,568)
General Administration	18,772,368	-	-	18,727,368	15,337,398	3,434,970
Retiree healthcare benefits	8,685,152	-	-	8,685,152	6,079,477	2,605,675
Capital projects:						
Capital asset acquisition from contributions	-	-	-	-	2,605,785	(2,605,785)
Capital lease acquisition	<u>65,735,000</u>	<u>-</u>	<u>-</u>	<u>65,735,000</u>	<u>-</u>	<u>65,735,000</u>
Less capital lease acquisition	<u>197,310,492</u>	<u>60,088,935</u>	<u>20,146,108</u>	<u>277,545,535</u>	<u>203,441,230</u>	<u>74,104,305</u>
	<u>(65,735,000)</u>	<u>-</u>	<u>-</u>	<u>(65,735,000)</u>	<u>-</u>	<u>(65,735,000)</u>
Net General Fund expenditures	<u>131,575,492</u>	<u>\$ 60,088,935</u>	<u>\$ 20,146,108</u>	<u>\$ 211,810,535</u>	<u>\$ 203,441,230</u>	<u>\$ 8,369,305</u>
Change in deficit	\$ <u>(1,195,743)</u>					

See Accompanying Independent Auditors' Report.

GUAM DEPARTMENT OF EDUCATION

Contracts Affecting Current Operations and Investments in FMIP Year Ended September 30, 2011

As a condition of receiving further United States Department of Education (US Ed) funding, US Ed has mandated that GDOE contract with a third party service provider to administer its funding to GDOE and to purchase a new financial management information program (FMIP).

The Third-Party Fiduciary Agent (TPFA) was contracted for two years from 09/15/2010 thru 09/15/2012 for \$8,350,000. The contract is subject to review and renewal with terms to be negotiated by the parties for up to four years.

During the year ended September 30, 2011, the following contractual costs were incurred:

	<u>Total Contract Amount</u>	<u>Incurred as of 09/30/11</u>	<u>Available as of 09/30/11</u>
TPFA	\$8,350,000	\$4,208,923	\$4,141,077
FMIP	4,956,745	7,785	4,948,960

See Accompanying Independent Auditors' Report.