

GUAM DEPARTMENT OF EDUCATION

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

YEAR ENDED SEPTEMBER 30, 2002

GUAM DEPARTMENT OF EDUCATION

Table of Contents Year Ended September 30, 2002

	<u>Page</u>
I. Independent Auditors' Report	1
Management's Discussion and Analysis	3
II. Basic Financial Statements:	
Department-Wide Financial Statements:	
Statement of Net Assets	7
Statement of Activities	8
Governmental Fund Financial Statements:	
Balance Sheet	9
Reconciliation of Deficit to the Statement of Net Assets	10
Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit)	11
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit) of Governmental Funds to the Statement of Activities	12
Fiduciary Fund Financial Statements:	
Statement of Fiduciary Net Assets	13
Notes to the Basic Financial Statements	14
III. Additional Information:	
Required Supplementary Information - Other than Management's Discussion and Analysis:	
Schedule of Revenues, Expenditures and Changes in Deficit – Budget and Actual – General Fund	26
Notes to the Required Supplementary Information-Budgetary Reporting	27
Other Supplementary Information:	
Introductions:	
Special Revenue Funds and Agency Fund	29
Government-Wide Financial Statements (Comparative):	
Statement of Net Assets (Comparative)	30
Statement of Activities (Comparative)	31
Governmental Fund Financial Statements (Comparative):	
Balance Sheet (Comparative)	32
Reconciliation of Deficit to the Statement of Net Assets (Comparative)	33
Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit) (Comparative)	34
Reconciliation of the Statement of Revenues, Expenditures and Changes in Deficit of Governmental Funds to the Statement of Activities (Comparative)	35
Schedule of Revenues, Expenditures and Changes in Deficit – Budget and Actual – General Fund (Comparative)	36
Supplementary Combined Statement of Revenues, Expenditures and Changes in Fund Balances (Deficits) by Object Code (Comparative)	37
Personnel	38



INDEPENDENT AUDITORS' REPORT

Juan P. Flores
Superintendent of Education
Guam Department of Education
Government of Guam:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Guam Department of Education (GDOE), a line agency of the Government of Guam, as of and for the year ended September 30, 2002, which collectively comprise GDOE's basic financial statements as listed in the 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.

Except as discussed in the following paragraphs, 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 respective financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Capital assets acquired prior to fiscal year 1987 and disposals since fiscal year 1987 have not been recorded. Additionally, the detail of fixed asset acquisitions for fiscal years 1998 to 2002 has not been recorded in the detail fixed asset listing and we are not able to determine the composition of this detail, including related depreciation, through alternative auditing procedures. We were unable to ensure the physical presence of recorded assets and the Guam Department of Education has not performed a comprehensive inventory of its fixed assets.

The agency fund presentation is incomplete. Therefore, we are unable to form an opinion on cash and fund balances of the agency funds as of September 30, 2002.

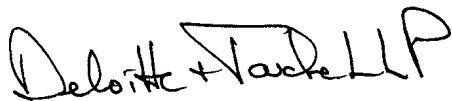
In our opinion, except for the effects on the basic financial statements of such adjustments, if any, as might have been determined to be necessary, had we been able to assure ourselves as to the propriety of fixed assets and the net assets invested in capital assets and as to the completeness of the agency fund presentation, the financial statements referred to above present fairly, in all material respects, the 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, 2002, 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, during the fiscal year ended September 30, 2002 the Guam Department of Education adopted the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments; Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. The implementation of these standards changed the basic financial statement reporting model to include government-wide, full accrual statements and created a modified reporting of the fund perspective financial statements. Implementing these standards also required reporting of infrastructure assets, changed the method of reporting cash flows from the indirect method to the direct method and included the requirement for reporting a Management’s Discussion and Analysis as required supplementary information. Beginning net asset and fund balances have been restated to account for the implementation of these accounting standards.

The Management’s Discussion and Analysis, on pages 3 through 6 and the Schedule of Revenues, Expenditures, and Changes in Deficit – Budget and Actual – General Fund and notes thereto (pages 26 and 27) are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. Such information is the responsibility of Government of Guam’s management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise GDOE’s basic financial statements. The Other Supplementary Information (pages 28 through 38), is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This supplementary information is the responsibility of GDOE’s management. Such 2002 information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, except for the effects of the items described in the third and fourth paragraphs above, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. However, the 2001 information presented therein has not been subject to auditing procedures sufficient to allow us to, and we do not express any assurance on such 2001 information contained in the Other Supplementary Information.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 5, 2004, on our consideration of the Guam Department of Education's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



March 5, 2004

**GUAM DEPARTMENT OF EDUCATION
SEPTEMBER 30, 2002**

MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

This section of Guam's Department of Education (GDOE) annual financial report presents our discussion and analysis of the financial performance of GDOE during the fiscal year ended September 30, 2002. This discussion was prepared by GDOE's management along with the financial statements and related footnote disclosures and should be read in conjunction with our basic financial statements and related notes. This is the Department's first complete single audit since 1997, the last year that GDOE was included in the Government of Guam's single audit. Five superintendents and five financial comptrollers have led the Department since 1997 leading to the inconsistent administrative and financial management. The completion of the 2002 single audit represents the Department's commitment to, and support of financial accountability. Only one year of the management's discussion and analysis is presented here. The management discussion and analysis for fiscal year 2003 will include a comparison of consecutive fiscal years.

Fiscal Year 2002 Overview

Fiscal year 2002 involved significant challenges for the Department. The GDOE received most of its funding through local government appropriations, federal grants, and reimbursements. A nominal amount was collected as cash payments in the school breakfast and lunch programs. The approved appropriation for the department in fiscal year 2002 was \$156 million in contrast to FY 2001 when the appropriation was \$161 million. The public law that appropriated the funds for fiscal year 2002, limited local spending to salaries, benefits, utilities, and textbooks. The Government of Guam's appropriation and allotments to the Department were significantly lower than the budgeted amounts, resulting in reduced work hours for employees, and reduced payments for utilities. The Department also has an unfunded liability exceeding \$30 million for retirement, school nurse pay raises, and utilities. Moreover, while every effort was made to maintain school facilities that were safe and conducive to learning, all schools are in dire need of repairs as a result of a major earthquake and two typhoons that devastated the island in FY 2002.

**GUAM DEPARTMENT OF EDUCATION
SEPTEMBER 30, 2002**

MANAGEMENT'S DISCUSSION AND ANALYSIS

Statement of Net Assets

The Statement of Net Assets includes all assets and liabilities. Assets and liabilities are categorized as current or noncurrent. Current assets represent economic benefits that are generally available during the next year.

Summary Statement of Net Assets

Assets:

Current Assets	\$ 47,160,730
Capital Assets, Net	<u>164,113,120</u>
	<u><u>\$211,273,850</u></u>

Liabilities:

Current Liabilities	\$ 55,435,677
Noncurrent Liabilities	<u>31,197,030</u>
	<u><u>\$ 86,632,707</u></u>

Net Assets:

Invested in capital assets	\$164,113,120
Restricted for:	
Continuing Appropriations	4,541,074
Unrestricted	<u>(44,013,051)</u>
	<u><u>\$124,641,143</u></u>

Net assets are divided into three categories: invested in capital assets (presents our equity in property, plant and equipment); restricted assets for continuing appropriations; and unrestricted.

**GUAM DEPARTMENT OF EDUCATION
SEPTEMBER 30, 2002**

MANAGEMENT'S DISCUSSION AND ANALYSIS

SUMMARY STATEMENT OF ACTIVITIES

Expenses for Governmental Activities:	
Elementary Education	\$ 68,597,990
Secondary Education	66,956,889
Direct Student Support	28,117,246
General Administration	<u>27,536,751</u>
 Total expenses for governmental activities	 191,208,876
Program Revenues:	
Elementary Education	3,495,025
Secondary Education	355,725
Direct Student Support	32,582,333
General Administration	<u>-</u>
 Total program revenues	 <u>36,433,083</u>
 Deficiency of program revenues under expenses	 (154,775,793)
General revenues:	
Appropriations:	
Operations	134,216,095
Textbooks	4,060,000
Other	186,746
Interest income	<u>383,211</u>
 Total general revenues	 <u>138,846,052</u>
 Change in net assets	 (15,929,741)
 Net assets at beginning of year	 <u>140,570,884</u>
 Net assets at end of year	 <u>\$ 124,641,143</u>

**GUAM DEPARTMENT OF EDUCATION
SEPTEMBER 30, 2002**

MANAGEMENT'S DISCUSSION AND ANALYSIS

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
(DEFICIT)**

The Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit) presents the revenues and the expenses incurred during the year.

**Summary Statement of Revenues, Expenditures and Changes in
Fund Balances (Deficit)**

Revenues	\$ 175,279,136
Expenditures	<u>185,770,787</u>
Deficiency of Revenues Under Expenditures	(10,491,651)

Fund Balance (Deficit) Beginning of Year	<u>(9,134,053)</u>
Fund Balance (Deficit) End of Year	<u><u>\$ (19,805,704)</u></u>

The Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit) reflects a deficit of \$19,805,704. The deficit is a direct result of insufficient Government Appropriations and allotments to pay for utilities and other operating costs.

Economic Outlook

The GDOE has gone through some of the most significant and trying days in the history of public education on this island. The Department is still dealing with damages to the physical and organizational infrastructure caused by the earthquake and Typhoons Chata'an and Pongsona. All schools are in dire need of repairs. In addition, the department is faced with the financial realities of Guam's economic condition. The GDOE has had to operate with significantly reduced financial resources. Although tourist arrivals are increasing, Guam's economic outlook is still uncertain. Furthermore, the incremental increase in revenue generated by the revised Gross Receipts Tax will no longer be available to supplement the General Fund.

GUAM DEPARTMENT OF EDUCATION

Statement of Net Assets
September 30, 2002

<u>ASSETS</u>	<u>Governmental Activities</u>
Current assets:	
Cash and cash equivalents	\$ 9,408,997
Receivables, net of allowance for uncollectibles:	
Federal grants and reimbursement receivables	4,946,000
Other receivables	78,772
Due from primary government	30,408,217
Prepayments	2,318,744
Total current assets	<u>47,160,730</u>
Noncurrent assets:	
Capital assets, net of accumulated depreciation	<u>164,113,120</u>
Total noncurrent assets	<u>164,113,120</u>
Total assets	<u>211,273,850</u>
 <u>LIABILITIES</u> 	
Current liabilities:	
Current portion of notes payable	983,630
Accounts payable	9,124,804
Accrued payroll	1,390,470
Other liabilities and accruals	42,245,757
Payable to federal agencies	1,206,518
Current portion of compensated absences	484,498
Total current liabilities	<u>55,435,677</u>
Noncurrent liabilities:	
Compensated absences, net of current portion	5,633,305
Unfunded pension liability	13,548,470
Notes payable, net of current portion	12,015,255
Total noncurrent liabilities	<u>31,197,030</u>
Total liabilities	<u>86,632,707</u>
Commitments and contingencies	
 <u>NET ASSETS</u> 	
Invested in capital assets, net of related debt	164,113,120
Restricted for:	
Continuing appropriations	4,541,074
Unrestricted	(44,013,051)
Total net assets	<u>\$ 124,641,143</u>

See accompanying notes to financial statements.

GUAM DEPARTMENT OF EDUCATION

Statement of Activities
Year Ended September 30, 2002

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	
Governmental Activities:				
Elementary Education	\$ 68,597,990	\$ -	\$ 3,495,025	\$ (65,102,965)
Secondary Education	66,956,889	-	355,725	(66,601,164)
Direct Student Support	28,117,246	871,481	31,710,852	4,465,087
General Administration	27,536,751	-	-	(27,536,751)
Total governmental activities	\$ 191,208,876	871,481	35,561,602	(154,775,793)
General revenues:				
Appropriations:				
				134,216,095
				4,060,000
				186,746
				383,211
				<u>138,846,052</u>
				(15,929,741)
				<u>140,570,884</u>
				<u>\$ 124,641,143</u>

See accompanying notes to financial statements.

GUAM DEPARTMENT OF EDUCATION

Balance Sheet
Governmental Funds
September 30, 2002

<u>ASSETS</u>	<u>General</u>	<u>Federal Grants Assistance</u>	<u>Total</u>
Cash and cash equivalents	\$ 8,606,303	\$ 802,694	\$ 9,408,997
Receivables from Federal agencies	1,452,520	3,493,480	4,946,000
Other receivables	19,050	59,722	78,772
Due from primary government	30,408,217	-	30,408,217
Prepayments	2,046,287	272,457	2,318,744
Interfund balances	<u>682,149</u>	<u>(682,149)</u>	<u>-</u>
Total assets	<u>\$ 43,214,526</u>	<u>\$ 3,946,204</u>	<u>\$ 47,160,730</u>
 <u>LIABILITIES AND FUND BALANCES (DEFICIT)</u>			
Liabilities:			
Accounts payable	\$ 8,742,791	\$ 382,013	\$ 9,124,804
Accrued payroll	1,390,470	-	1,390,470
Other liabilities and accruals	39,712,558	2,533,199	42,245,757
Payable to federal agencies	175,526	1,030,992	1,206,518
Notes payable	<u>12,998,885</u>	<u>-</u>	<u>12,998,885</u>
Total liabilities	<u>63,020,230</u>	<u>3,946,204</u>	<u>66,966,434</u>
Fund balances (deficit):			
Reserved for:			
Encumbrances	2,621,298	1,919,776	4,541,074
Unreserved	<u>(22,427,002)</u>	<u>(1,919,776)</u>	<u>(24,346,778)</u>
Total fund balances (deficits)	<u>(19,805,704)</u>	<u>-</u>	<u>(19,805,704)</u>
Total liabilities and fund balances	<u>\$ 43,214,526</u>	<u>\$ 3,946,204</u>	<u>\$ 47,160,730</u>

See accompanying notes to financial statements.

GUAM DEPARTMENT OF EDUCATION

Reconciliation of Deficit to the Statement of Net Assets
September 30, 2002

Total deficit \$ (19,805,704)

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. Those assets consist of:

Depreciable capital assets net of \$47,521,593 of accumulated depreciation	\$ <u>164,113,120</u>	
Capital assets, net of accumulated depreciation		164,113,120
Long - term liabilities are not due and payable in the current period and therefore are not reported in the funds. These liabilities include:		
Compensated absences	(6,117,803)	
Unfunded pension liability	<u>(13,548,470)</u>	
Long - term liabilities		<u>(19,666,273)</u>
Net assets of governmental activities		\$ <u><u>124,641,143</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, 2002

	<u>General</u>	<u>Federal Grants Assistance</u>	<u>Total</u>
Revenues:			
Appropriations	\$ 138,462,841	\$ -	\$ 138,462,841
Federal grants and contributions	4,685,251	30,876,352	35,561,603
Cafeteria sales	779,068	-	779,068
Fees and other program receipts	<u>475,624</u>	<u>-</u>	<u>475,624</u>
Total revenues	<u>144,402,784</u>	<u>30,876,352</u>	<u>175,279,136</u>
Expenditures:			
Current:			
Elementary Education	65,102,964	2,119,126	67,222,090
Secondary Education	63,254,667	355,725	63,610,392
Direct Student Support	2,454,448	25,662,798	28,117,246
General Administration	<u>25,213,720</u>	<u>1,607,339</u>	<u>26,821,059</u>
Total expenditures	<u>156,025,799</u>	<u>29,744,988</u>	<u>185,770,787</u>
Net change in fund balances (deficit)	(11,623,015)	1,131,364	(10,491,651)
Deficit at beginning of year	<u>(8,182,689)</u>	<u>(1,131,364)</u>	<u>(9,314,053)</u>
Fund balances (deficit) at end of year	<u><u>\$ (19,805,704)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (19,805,704)</u></u>

See accompanying notes to financial statements.

GUAM DEPARTMENT OF EDUCATION

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
(Deficit) of Governmental Funds to the Statement of Activities
September 30, 2002

Net change in deficit - total governmental funds	\$ (10,491,651)
Less:	
Depreciation expense	(4,961,301)
Annual leave expense	<u>(476,789)</u>
Change in net assets of governmental activities	\$ <u><u>(15,929,741)</u></u>

See accompanying notes to financial statements.

GOVERNMENT OF GUAM

Statement of Fiduciary Net Assets
Agency Fund
September 30, 2002

ASSETS

Cash and cash equivalents	\$ <u>1,015,685</u>
Total assets	<u>1,015,685</u>

LIABILITIES

Deposits and other liabilities	<u>1,015,685</u>
Total liabilities	<u>1,015,685</u>

NET ASSETS

Total net assets	\$ <u><u>-</u></u>
------------------	--------------------

See accompanying notes to financial statements.

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2002

(1) Summary of Significant Accounting Policies

A. Reporting Entity

The Guam Department of Education (GDOE) is a line agency of the Government of Guam. The accompanying financial statements of GDOE have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units.

B. Government-Wide and Fund Financial Statements

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

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

- *Invested in capital assets*, consists of capital assets, net of accumulated depreciation.
- *Restricted net assets* result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through enabling legislation.
- *Unrestricted net assets* consist of net assets, which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. They often have restrictions that are imposed by management, but can be removed or modified.
- The *Statement of Activities* demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues include charges to customers or students who purchase, use, or directly benefit from goods, services, or privileges that are restricted to meeting the operational requirements of a particular function. Local appropriations and other items not meeting the definition of program revenues are instead reported as general revenue.

C. Fund Financial Statements

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter is excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements, with non-major funds being combined into a single column. The Guam Department of Education presents a balance sheet and a statement of revenues, expenditures and changes in fund balances for its governmental funds. The ending fund balance on the balance sheet is then reconciled to the ending governmental net assets.

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2002

(1) Summary of Significant Accounting Policies, Continued

C. Fund Financial Statements, Continued

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

D. Measurement Focus and Basis of Accounting

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

Governmental Funds – account for the general governmental activities of the Guam Department of Education. Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual; generally when they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. Significant revenues susceptible to accrual include local appropriations, federal grants, federal reimbursements and other reimbursements for use of materials and services. Revenues from other financing sources are recognized when received. Expenditures are recorded in the period in which the related fund liability is incurred.

1. Measurement Focus and Basis of Accounting-Fund Perspective

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

GDOE reports the following major governmental funds:

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

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

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2002

(1) Summary of Significant Accounting Policies, Continued

E. Budgetary Process

Legislation requires the Governor to present a proposed budget to the Legislature at the beginning of each annual session. The Legislature enacts the budget through passage of specific departmental appropriations. Before signing the Appropriations Act, the Governor may veto or reduce any specific appropriation, subject to legislative override. Once passed and signed, the budget becomes the Territorial financial plan for the ensuing fiscal year. Supplemental appropriations for specific purposes are made throughout the year.

Budgetary control is maintained within the departmental level. Budget revisions during the year, reflecting program changes or intradepartmental transfers of an administrative nature, may be effective with certain executive and legislative branch approval. Unencumbered appropriations normally lapse at the end of each fiscal year unless they are designated by the Legislature as representing continuing appropriations. Encumbrance accounting is utilized for budgetary control purposes. Encumbrances outstanding at year end are reported as reservations of fund balance and remain as reservations of fund balance until expended or cancelled.

The Budget Act for Fiscal Year 2002, Public Law 26-34, and amended by Public Law 26-35 was approved for the executive branch. Budgets for Special Revenue Funds are generally not submitted. Accordingly, a budget to actual presentation for Special Revenue Funds is not required or presented.

The Guam Department of Education annual budget has been prepared on a basis, which differs from governmental GAAP. Actual amounts in the accompanying budgetary comparison statements are presented on a basis, which excludes outstanding encumbrances as a budgetary expenditure. Encumbrances are commitments related to unperformed (executory) contracts for goods or services and are generally evidenced by outstanding purchase orders, contracts and interdepartmental work requests. Encumbrances outstanding at year end are reported as a reservation of fund balance since they do not constitute expenditures or liabilities.

F. Cash and Cash Equivalents

Cash and cash equivalents includes deposits with financial institutions on Guam and short-term time certificates of deposit with original maturities of less than three months.

G. Deposits in Banks

Deposits in banks are required by local statute to be secured by qualified collateral in the amount of 120% or more of the deposit balance. However, the Government of Guam does not enforce this requirement on a consistent basis. Therefore, substantially all cash and equivalents of GDOE are uncollateralized. FDIC insured deposits aggregate \$300,000 as of September 30, 2002, with the remaining bank balance of \$9,108,997 being unsecured and uncollateralized. The book value of deposits does not differ materially from the bank balance of deposits.

H. Receivables

Receivables in GDOE's governmental funds primarily consist of federal grants and appropriations from the Government of Guam general fund.

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2002

(1) Summary of Significant Accounting Policies, Continued

I. Interfund Transactions

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

J. Fixed Assets and Depreciation

Capital assets, which include property, plant, equipment and infrastructure (e.g. roads, sidewalks, and other similar items), are reported in the applicable governmental columns of the government-wide financial statements.

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at fair market value at the date of donation.

All land, non-depreciable land improvements are capitalized, regardless of cost. Singular pieces of equipment, vehicles, computer equipment and software that equal or exceed \$500 are capitalized. Buildings and infrastructure projects with a cost that equals or exceeds \$500 are capitalized. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend asset lives are not capitalized.

As a result of the absence of adequate records and documentation pertaining to capital assets acquired in prior years, management has elected to present only assets acquired subsequent to 1986. However, the asset lists do not include the detail of assets acquired in fiscal years 1997 through 2002, and disposals of fixed assets since 1987 have not been recorded. GDOE plans to perform a comprehensive inventory and costing of all general fixed assets, and management anticipates that sufficient records will be available in a subsequent period to meet financial reporting requirements.

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

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

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2002

(1) Summary of Significant Accounting Policies, Continued

J. Fixed Assets and Depreciation, Continued

Capital asset activities for the fiscal year ended September 30, 2002 are as follows.

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Buildings and Improvements	\$ 208,719,486	\$ -	\$ -	\$ 208,719,486
Vehicles, Furniture and Equipment	<u>2,915,227</u>	<u>-</u>	<u>-</u>	<u>2,915,227</u>
	211,634,713	-	-	211,634,713
Less: accumulated depreciation	<u>(42,560,292)</u>	<u>(4,961,301)</u>	<u>-</u>	<u>(47,521,593)</u>
Governmental activity capital assets, net	\$ <u>169,074,421</u>	\$ <u>(4,961,301)</u>	\$ <u>-</u>	\$ <u>164,113,120</u>

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

Governmental activities:	
Elementary Education	\$ 1,375,899
Secondary Education	3,346,497
General Administration	<u>238,905</u>
Total depreciation expense-governmental activities	\$ <u>4,961,301</u>

K. Net Assets

The 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:

“Restricted for other purposes” – identifies amounts held for various externally imposed restrictions either by creditors, grantors or laws and regulations of other governments. It also includes various restrictions put forth by the Government of Guam’s enabling statutes. Included in this restriction are reserves for prior appropriations continued.

L. Compensated Absences

Non-teacher employees are credited with vacation at rates of 104, 156 or 208 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 three years of service (3 years of service accrue 4 hours).

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2002

(1) Summary of Significant Accounting Policies, Continued

L. Compensated Absences, Continued

2. Three fourths day (6 hours) for each full bi-weekly pay period except that the accrual for the last full bi-weekly pay period in the year shall be one and one-fourth day (10 hours) in the case of employees with three but less than fifteen years of service (3-15 years of service accrue 6 hours, except for last full pay period where accrual will be 10 hours).
3. One day (8 hours) for each bi-weekly pay period in the case of employees with fifteen or more years of service (15 years of service accrue 8 hours).

Accumulation of such vacation credits is limited to 480 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 for governmental funds, vested or accumulated vacation and sick leave expected to be liquidated with expendable available financial resources are reported as expenditures and fund liabilities.

M. Prepayments

Payments made to textbook vendors for services that will benefit periods beyond September 30, 2002, are recorded as prepayments.

N. Fund Deficits

The following funds have deficit fund balances as of September 30, 2002:

<u>Major Governmental Fund</u>	<u>Deficit</u>
General Fund – Governmental Funds	\$ <u>19,805,704</u>

GDOE plans to address the deficit by appealing to the Guam Legislature for supplemental appropriations.

O. Reclassifications and Restatements

During fiscal year 2002, the Guam Department of Education implemented the following new accounting standards issued by the GASB:

Statement No. 34 *Basic Financial Statements – and Management’s Discussion and Analysis – For State and Local Governments (GASB 34)*. GASB 34 as amended by Statement No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis – Omnibus* establishes new financial reporting standards for local governments. The requirements of this statement result in significant change in the financial reporting model used by governments, including statement formats and changes in fund types and account groups. In addition to the traditional fund financial statements, governments are required to report government-wide financial statements, prepared using the accrual basis of accounting and the economic resources measurement focus. As a result, fund reclassifications and adjustments to the fund equities reported in the prior financial statements were required.

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2002

(1) Summary of Significant Accounting Policies, Continued

O. Reclassifications and Restatements, Continued

Statement No. 38 *Certain Financial Note Disclosures (GASB 38)*. GASB 38 amends certain note disclosures and adds additional note disclosure requirements related to GASB 34 and 37.

Due to the adoption of GASB Statement 34 and 37, the beginning net assets of the Governmental Activities in the Statement of Net Assets have been restated. Net assets at September 30, 2001 (as disclosed below) were increased by \$149,884,937 for the cumulative effect of these changes on years prior to fiscal year 2002.

The effects on these items are as follows:

Deficit reported as of September 30, 2001	\$ (9,314,053)
Adjustments:	
Compensated absences	(5,641,014)
Unfunded pension liabilities	(13,548,470)
Accumulated depreciation	(42,560,292)
Capital assets	<u>211,634,713</u>
	<u>149,884,937</u>
Restated net assets as of September 30, 2001	\$ <u>140,570,884</u>

Prior year fund balances (deficit) for the General Fund and the Federal Grants Assistance Fund have been restated due to a misstatement of interfund balances, as follows:

	<u>General Fund</u>	<u>Federal Grant Assistance</u>	<u>Total</u>
Fund balance (deficit) reported as of September 30, 2001	\$ (15,157,657)	\$ 5,843,604	\$ (9,314,053)
Understatement (overstatement) of interfund balances	<u>6,974,968</u>	<u>(6,974,968)</u>	<u>-</u>
Restated fund balance (deficit) as of September 30, 2001	\$ <u>(8,182,689)</u>	\$ <u>(1,131,364)</u>	\$ <u>(9,314,053)</u>

P. 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.

(2) Long-Term Debt Obligations

Governmental Activities:

Installment payment agreement signed with Guam Power Authority on May 1, 2002, (principal of \$13,305,177), interest rate at 4.5%, payable in 84 monthly installments of \$100,000, with a lump sum payment of \$7,868,952 due in April 2009.

	\$ 12,998,885
Less current maturities	<u>(983,630)</u>
Total long-term debt	\$ <u>12,015,255</u>

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2002

(2) Long-Term Debt Obligations, Continued

GDOE has been delinquent on its monthly payments, and therefore, has accrued interest expenses, which have been added to the principal amount due currently. The annual requirements to amortize the debt outstanding as of September 30, 2002, including interest payments, are as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>
2003	\$ 983,630	\$ 562,067
2004	667,547	532,453
2005	698,536	501,464
2006	730,964	469,036
2007	764,897	435,103
2008-2009	<u>9,153,311</u>	<u>615,642</u>
	\$ <u>12,998,885</u>	\$ <u>3,115,765</u>

Changes in Long-Term Liabilities

Changes in long-term liabilities for the year ended September 30, 2002, 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	\$ -	\$ 13,305,177	\$ (306,292)	\$ 12,998,885	\$ 983,630
Compensated absences	5,641,014	747,162	(270,373)	6,117,803	484,498
Unfunded pension liability	<u>13,548,470</u>	<u>-</u>	<u>-</u>	<u>13,548,470</u>	<u>-</u>
	\$ <u>19,189,484</u>	\$ <u>14,052,339</u>	\$ <u>(576,665)</u>	\$ <u>32,665,158</u>	\$ <u>1,468,128</u>

The General Fund will bear responsibility for the ultimate liquidation of all long-term liabilities.

(3) 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. For this reason, no sick leave liability is recorded at September 30, 2002. The estimated accumulated amount of unused sick leave at September 30, 2002, is \$25,030,827.

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 2002 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 basic financial statements.

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2002

(3) Commitments and Contingencies

B. Federal Grants, Continued

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 basic 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 basic financial statements, as it is not possible to predict a reasonable estimation of these fines and penalties.

C. Litigation

GDOE legal counsel has opined that no material claims are outstanding as of the year ended September 30, 2002. Therefore, no provision for any liability for claims and judgments has been made in the accompanying balance sheet.

D. Self-Insurance

GDOE does not purchase insurance covering potential risks; it is substantially self-insured against claims for negligence and catastrophic losses. In the event that losses arise from such claims or disasters, the Government of Guam General Fund would be required to pay the majority of these losses. An annual appropriation is made to the Government Claims Fund (an expendable trust fund) and then valid claims are paid out against the appropriated amount.

E. Tax Levy

In July 2003, the Guam Department of Revenue and Taxation (DRT) issued a notice of levy to GDOE for delinquent withholding taxes for the FY 2002 tax period, including approximately \$6.8 million in penalties and interest. The interest accrual of \$1,251,269 and partial penalty accrual of \$3,318,331 have been recorded in the accompanying financial statements; however, no liability has been recorded for \$2.3 million in penalties, as such were subsequently abated in a notice of adjustment from DRT in August 2003.

(4) Unfunded Retirement Fund Contribution

As of the fiscal year ended September 30, 1994, the Government of Guam Retirement Plan is a defined benefit (DB), cost sharing multi-employer contributory pension plan established and administered by the Government of Guam. Membership in the Plan is mandatory for all full-time employees, except for those compensated on a fee basis, independent contractors, and persons aged 60 or over upon employment. The Plan is administered by the Government of Guam Retirement Fund to which all funds and agencies, including component units, as well as employees who are members of the Plan, contribute a fixed percentage of the payroll. Most employees may retire with full benefits at age 60 with at least 10 years of service, or after 25 years of service, regardless of age. Vesting of benefits is optional for employees with 3 to 19 years of service, but is mandatory for employees with 20 or more years of service.

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2002

(4) Unfunded Retirement Fund Contribution, Continued

On September 30, 1995, the Government of Guam Retirement Fund Defined Contribution Retirement System (DCRS) Plan was established. All employees hired after September 30, 1995, are participants in the DCRS plan. The Government of Guam Retirement Fund Defined Benefit (DB) plan became a closed group.

As a result of the most recent actuarial valuation performed as of September 30, 2001, it has been determined that for the year ended September 30, 2002, a minimum combined employer and employee contribution rate of 41.24% (9.5% for employees and 31.74% for employer) of covered Defined Benefit Plan payroll is required to appropriately fund the current cost, amortize prior service costs and provide for interest on the unfunded accrued liability. Statutory contribution rate for employee and employer contributions were 9.5% and 19.8016%, respectively, for the years ended September 30, 2002.

The latest actuary's report indicates that the Plan has 6,807 active members, 4,640 service retirees, 509 disability retirees, 684 spouse pensioners and 261 child pensioners.

The Plan utilizes the actuarial cost method termed "entry age normal" with an assumed rate of return of 7.5% and an assumed salary scale increase of 5.5% per annum. The most recent actuarial valuation performed as of September 30, 2001, did not provide a breakdown of actuarial present value of vested and non-vested accumulated plan benefits by sponsor or net assets available for benefits by sponsor. If the actuarial valuation was performed for the Guam Department of Education as a stand alone entity, the accrued unfunded liability for September 30, 2002, may be materially different than that recorded in the accompanying financial statements.

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

Employer contributions into the DCRS are based on a statutory amount of 19.8016% of the member's regular base pay. Of the amount contributed by the employer, only 5% of the member's regular pay is deposited into the member's individual annuity account. The remaining 14.8016% is contributed towards the unfunded liability of the defined benefit plan.

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

In 2002, the Government of Guam, as a whole, adopted the provisions of Governmental Accounting Standards Board Statement No. 27, *Accounting for Pensions by State and Local Governmental Employees*.

The cost to GDOE of retirement contributions for the year ended September 30, 2002 approximated \$25 million.

(5) Interfund Transfers

Transfers between governmental fund types are normally recorded on a cash basis.

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statements
September 30, 2002

(6) Local Appropriations

The General Appropriations Act of 2002 appropriates all monies collected by GDOE from Federal funds paid to the Government of Guam for reimbursement under the National School Lunch 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 for fiscal year 2002 is \$4,675,106 and is accounted for in the general fund.

(7) Agency Fund

The schedule of cash receipts and cash disbursements for the agency fund during fiscal year 2002 is as follows:

Cash receipts:

Elementary school activities	\$ 312,129
Secondary school activities	<u>1,825,808</u>
Total receipts	<u>2,137,937</u>

Disbursements:

Elementary school activities	312,430
Secondary school activities	<u>1,773,743</u>
Total disbursements	<u>2,086,173</u>

Excess receipts over disbursements \$ 51,764

(8) Subsequent Events

Typhoon Pongsona

On December 8, 2002, Supertyphoon Pongsona struck Guam with destructive winds of approximately 180 miles per hour. An estimate of the damages to property, plant and equipment has not been finalized. Management intends to seek reimbursement from federal sources for self-insurance amounts.

Guam Education Policy Board

In January 2003, an elected education policy board was created to establish policies for GDOE.

High-Risk Designation

Effective September 17, 2003, the U.S. Department of Education designated GDOE a "high-risk grantee," making it subject to special conditions in all of the Federal education programs it administers.

GUAM DEPARTMENT OF EDUCATION

**REQUIRED SUPPLEMENTARY
INFORMATION**

YEAR ENDED SEPTEMBER 30, 2002

GUAM DEPARTMENT OF EDUCATION

Schedule of Revenues, Expenditures, and Changes in Deficit - Budget and Actual
General Fund
Year Ended September 30, 2002

	Original Budget	Final Budget	Actual	Variance
Revenues:				
Local appropriations	\$ 138,886,299	\$ 144,476,299	\$ 134,402,841	\$ (10,073,458)
Local appropriations - Federal contributions	4,675,106	4,675,106	4,685,251	10,145
Local appropriations - textbooks	6,400,000	6,400,000	4,060,000	(2,340,000)
Cafeteria sales	-	-	779,068	779,068
Fees and other program receipts	22,745	22,745	475,624	452,879
Total revenues	149,984,150	155,574,150	144,402,784	(11,171,366)
Expenditures - Budgetary Basis:				
Personnel	133,320,640	133,320,640	135,169,262	(1,848,622)
Utilities	5,565,659	5,565,659	10,904,026	(5,338,367)
Textbooks	6,400,000	6,400,000	665,301	5,734,699
Other	4,697,851	10,287,851	9,287,210	1,000,641
Total expenditures	149,984,150	155,574,150	156,025,799	(451,649)
Excess (deficiency) of revenues over (under) expenditures	-	-	(11,623,015)	(11,623,015)
Deficit at beginning of year	-	-	(8,182,689)	(8,182,689)
Deficit at end of year	-	-	\$ (19,805,704)	\$ (19,805,704)

See accompanying independent auditors' report.

GUAM DEPARTMENT OF EDUCATION

Notes to Required Supplementary Information – Budgetary Reporting
September 30, 2002

Budgetary Process

Legislation requires the Governor to present a proposed budget to the Legislature at the beginning of each annual session. The Legislature enacts the budget through passage of specific departmental appropriations. Before signing the Appropriations Act, the Governor may veto or reduce any specific appropriation, subject to legislative override. Once passed and signed, the budget becomes the Territorial financial plan for the ensuing fiscal year. Supplemental appropriations for specific purposes are made throughout the year.

Budgetary control is maintained within the departmental level. Budget revisions during the year, reflecting program changes or intradepartmental transfers of an administrative nature, may be effective with certain executive and legislative branch approval. Unencumbered appropriations normally lapse at the end of each fiscal year unless they are designated by the Legislature as representing continuing appropriations.

The Budget Act for Fiscal Year 2002, Public Law 26-34, and amended by Public Law 26-35 was approved for the executive branch. Budgets for Special Revenue Funds are generally not submitted. Accordingly, a budget to actual presentation for Special Revenue Funds is not required or presented.

Guam Department of Education's annual budget has been prepared on a basis which differs from governmental GAAP. Actual amounts in the accompanying budgetary comparison statements are presented on a basis which excludes outstanding encumbrances as a budgetary expenditure.

See Accompanying Independent Auditors' Report.

GUAM DEPARTMENT OF EDUCATION

**OTHER SUPPLEMENTARY
INFORMATION**

YEAR ENDED SEPTEMBER 30, 2002

GUAM DEPARTMENT OF EDUCATION

Special Revenue Funds and Agency Fund September 30, 2002

Special revenue funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes. A brief discussion of the Guam Department of Education's Special Revenue Fund as of September 30, 2002, follows:

Federal Grants Assistance Fund - This fund accounts for all activities of special federal assistance grants and contracts utilized by the Guam Department of Education to finance general government operations. This fund does not account for any special federal assistance for construction-type grants.

Fiduciary funds are used to account for assets held by the Guam Department of Education in a fiduciary capacity. A brief description of the fund follows:

Agency Fund

Agency funds are normally used to account for assets held by a government as an agent for individuals, private organizations or other governments and/or other funds. Agency funds are purely custodial (assets equal liabilities) and thus do not involve measurement of results of operations.

Non-Appropriated Funds - This fund accounts for all activities of student organizations.

See Accompanying Independent Auditors' Report.

GUAM DEPARTMENT OF EDUCATION

Statement of Net Assets - Governmental Activities
September 30, 2002

(With Comparative Totals as of September 30, 2001)

<u>ASSETS</u>	<u>2002</u>	<u>2001</u>
Current assets:		
Cash and cash equivalents	\$ 9,408,997	\$ 2,087,719
Receivables, net of allowance for uncollectibles:		
Federal grants and reimbursement receivables	4,946,000	3,509,794
Other receivables	78,772	63,974
Due from primary government	30,408,217	19,754,828
Prepayments	2,318,744	1,234,791
Total current assets	<u>47,160,730</u>	<u>26,651,106</u>
Noncurrent assets:		
Capital assets, net of accumulated depreciation	164,113,120	169,074,421
Total noncurrent assets	<u>164,113,120</u>	<u>169,074,421</u>
Total assets	<u>211,273,850</u>	<u>195,725,527</u>
 <u>LIABILITIES</u>		
Current liabilities:		
Current portion of notes payable	983,630	-
Accounts payable	9,124,804	16,278,695
Accrued payroll	1,390,470	1,390,468
Other liabilities and accruals	42,245,757	2,568,386
Payable to federal agencies	1,206,518	4,469,881
Due to Guam Power Authority	-	11,257,729
Current portion of compensated absences	484,498	-
Total current liabilities	<u>55,435,677</u>	<u>35,965,159</u>
Noncurrent liabilities:		
Compensated absences, net of current portion	5,633,305	5,641,014
Unfunded pension liability	13,548,470	13,548,470
Notes payable, net of current portion	12,015,255	-
Total noncurrent liabilities	<u>31,197,030</u>	<u>19,189,484</u>
Total liabilities	<u>86,632,707</u>	<u>55,154,643</u>
 <u>NET ASSETS</u>		
Invested in capital assets, net of related debt	164,113,120	169,074,421
Restricted for:		
Continuing Appropriations	4,541,074	6,118,141
Unrestricted	<u>(44,013,051)</u>	<u>(34,621,678)</u>
Total net assets	<u>\$ 124,641,143</u>	<u>\$ 140,570,884</u>

See accompanying independent auditors' report.

GUAM DEPARTMENT OF EDUCATION

Statement of Activities - Governmental Activities

Year Ended September 30, 2002

(With Comparative Totals for the Year Ended September 30, 2001)

	<u>2002</u>	<u>2001</u>
Expenses for Governmental Activities:		
Elementary Education	\$ 68,597,990	\$ 74,121,200
Secondary Education	66,956,889	65,656,165
Direct Student Support	28,117,246	20,995,137
General Administration	<u>27,536,751</u>	<u>35,906,663</u>
Total expenses for governmental activities	<u>\$ 191,208,876</u>	<u>196,679,165</u>
Program Revenues:		
Elementary Education	3,495,025	7,385,856
Secondary Education	355,725	2,506,989
Direct Student Support	32,582,333	24,117,010
General Administration	<u>-</u>	<u>1,995,640</u>
Total program revenues	<u>36,433,083</u>	<u>36,005,495</u>
Deficiency of program revenues under expenses	(154,775,793)	(160,673,670)
General revenues:		
Appropriations:		
Operations	134,216,095	152,231,802
Textbooks	4,060,000	3,942,384
Other	186,746	1,412,928
Interest income	<u>383,211</u>	<u>-</u>
Total general revenues	<u>138,846,052</u>	<u>157,587,114</u>
Change in net assets	(15,929,741)	(3,086,556)
Net assets at beginning of year	<u>140,570,884</u>	<u>143,657,440</u>
Net assets at end of year	<u>\$ 124,641,143</u>	<u>\$ 140,570,884</u>

See accompanying independent auditors' report.

GUAM DEPARTMENT OF EDUCATION

Balance Sheet
Governmental Funds
September 30, 2002

(With Comparative Totals as of September 30, 2001)

	2002			2001		
	General	Federal Grants Assistance	Total	General	Federal Grants Assistance	Total
ASSETS						
Cash and cash equivalents	\$ 8,606,303	\$ 802,694	\$ 9,408,997	\$ 948,349	\$ -	\$ 948,349
Receivables from Federal agencies	1,452,520	3,493,480	4,946,000	640,909	2,868,885	3,509,794
Other receivables	19,050	59,722	78,772	-	-	-
Due from primary government	30,408,217	-	30,408,217	19,754,828	-	19,754,828
Prepayments	2,046,287	272,457	2,318,744	1,215,156	19,635	1,234,791
Other assets	682,149	(682,149)	-	(1,646,925)	1,710,899	63,974
Total assets	\$ 43,214,526	\$ 3,946,204	\$ 47,160,730	\$ 20,912,317	\$ 4,599,419	\$ 25,511,736
LIABILITIES AND FUND BALANCES (DEFICIT)						
Liabilities:						
Accounts payable	\$ 8,742,791	\$ 382,013	\$ 9,124,804	\$ 16,142,258	\$ 136,437	\$ 16,278,695
Accrued payroll	1,390,470	-	1,390,470	1,390,468	-	1,390,468
Other liabilities and accruals	39,712,558	2,533,199	42,245,757	145,068	1,283,948	1,429,016
Payable to federal agencies	175,526	1,030,992	1,206,518	159,483	4,310,398	4,469,881
Notes payable	12,998,885	-	12,998,885	11,257,729	-	11,257,729
Total liabilities	63,020,230	3,946,204	66,966,434	29,095,006	5,730,783	34,825,789
Fund Balances (deficit):						
Reserved for:						
Encumbrances	2,621,298	1,919,776	4,541,074	4,178,378	1,939,763	6,118,141
Unreserved	(22,427,002)	(1,919,776)	(24,346,778)	(12,361,067)	(3,071,127)	(15,432,194)
Total fund balances (deficits)	(19,805,704)	-	(19,805,704)	(8,182,689)	(1,131,364)	(9,314,053)
Total liabilities and fund balances	\$ 43,214,526	\$ 3,946,204	\$ 47,160,730	\$ 20,912,317	\$ 4,599,419	\$ 25,511,736

See accompanying independent auditors' report.

GUAM DEPARTMENT OF EDUCATION

Reconciliation of Deficit to the Statement of Net Assets
September 30, 2002
(With Comparative Totals as of September 30, 2001)

	2002	2001
Total deficit	\$ (19,805,704)	\$ (9,314,053)
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p> <p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. Those assets consist of:</p> <p>Depreciable capital assets and infrastructure, net of \$47,521,593 of accumulated depreciation</p>		
	164,113,120	169,074,421
<p>Long - term liabilities are not due and payable in the current period and therefore are not reported in the funds. These liabilities include:</p> <p>Compensated absences</p>		
	(6,117,803)	(5,641,014)
Unfunded pension liability	(13,548,470)	(13,548,470)
Net assets of governmental activities	\$ 124,641,143	\$ 140,570,884

See accompanying independent auditors' report.

GUAM DEPARTMENT OF EDUCATION

Statement of Revenues, Expenditure and Changes in Fund Balances (Deficit)
 Governmental Funds
 Year Ended September 30, 2002
 (With Comparative Totals for the Year Ended September 30, 2001)

	2002			2001		
	General	Federal Grants Assistance	Total	General	Federal Grants Assistance	Total
Revenues:						
Appropriations	\$ 138,462,841	\$ -	\$ 138,462,841	\$ 161,315,215	\$ -	\$ 161,315,215
Federal grants and contributions	4,685,251	30,876,352	35,561,603	567,076	30,863,716	31,430,792
Cafeteria Sales	779,068	-	779,068	701,778	-	701,778
Fees and other program receipts	475,624	-	475,624	144,074	750	144,824
Total revenues	144,402,784	30,876,352	175,279,136	162,728,143	30,864,466	193,592,609
Expenditures:						
Current:						
Elementary Education	65,102,964	2,119,126	67,222,090	66,735,343	7,385,856	74,121,199
Secondary Education	63,254,667	355,725	63,610,392	63,149,176	2,506,989	65,656,165
Direct Student Support	2,454,448	25,662,798	28,117,246	6,642,483	14,352,655	20,995,138
General Administration	25,213,720	1,607,339	26,821,059	33,911,023	1,995,640	35,906,663
Total expenditures	156,025,799	29,744,988	185,770,787	170,438,025	26,241,140	196,679,165
Net change in fund balances (deficit)	(11,623,015)	1,131,364	(10,491,651)	(7,709,882)	4,623,326	(3,086,556)
Other financing sources (uses):						
Transfers in (out), net	-	-	-	(1,227,406)	1,227,406	-
Total other financing sources (uses), net	-	-	-	(1,227,406)	1,227,406	-
Net change in fund balances (deficit)	(11,623,015)	1,131,364	(10,491,651)	(8,937,288)	5,850,732	(3,086,556)
Fund balances (deficit) at beginning of year	(8,182,689)	(1,131,364)	(9,314,053)	754,599	(6,982,096)	(6,227,497)
Fund balances (deficit) at end of year	\$ (19,805,704)	\$ -	\$ (19,805,704)	\$ (8,182,689)	\$ (1,131,364)	\$ (9,314,053)

See accompanying independent auditors' report.

GUAM DEPARTMENT OF EDUCATION

Reconciliation of the Statement of Revenues, Expenditures and Changes in Deficit of
Governmental Funds to the Statement of Activities
September 30, 2002
(With Comparative Totals as of September 30, 2001)

	<u>2002</u>	<u>2001</u>
Net change in deficit - total governmental funds	\$ (10,491,651)	\$ (3,086,556)
Less:		
Depreciation expense	(4,961,301)	-
Annual leave expense	<u>(476,789)</u>	<u>-</u>
Change in net assets of governmental activities	<u>\$ (15,929,741)</u>	<u>\$ (3,086,556)</u>

See accompanying independent auditors' report.

GUAM DEPARTMENT OF EDUCATION

Schedule of Revenues, Expenditures, and Changes in Deficit - Budget and Actual
General Fund
Year Ended September 30, 2002
(With Comparative Totals for the Year Ended September 30, 2001)

	2002				2001		
	Original Budget	Final Budget	Actual	Variance	Final Budget	Actual	Variance
Revenues:							
Local appropriations	\$ 138,886,299	\$ 144,476,299	\$ 134,402,841	\$ (10,073,458)	\$ 150,854,467	\$ 152,231,802	\$ 1,377,335
Local appropriations - Federal contributions	4,675,106	4,675,106	4,685,251	10,145	5,141,029	5,141,029	-
Local appropriations - textbooks	6,400,000	6,400,000	4,060,000	(2,340,000)	5,025,300	3,942,384	(1,082,916)
Cafeteria sales	-	-	779,068	779,068	-	701,778	701,778
Fees and other program receipts	22,745	22,745	475,624	452,879	-	711,150	711,150
Total revenues	149,984,150	155,574,150	144,402,784	(11,171,366)	161,020,796	162,728,143	1,707,347
Expenditures - Budgetary Basis:							
Personnel	133,320,640	133,320,640	135,169,262	(1,848,622)	130,983,190	137,748,802	(6,765,612)
Utilities	5,565,659	5,565,659	10,904,026	(5,338,367)	4,027,068	11,569,299	(7,542,231)
Supplies	-	-	-	-	10,746,183	10,049,871	696,312
Contractual	-	-	-	-	4,688,650	6,863,697	(2,175,047)
Textbooks	6,400,000	6,400,000	665,301	5,734,699	5,025,300	2,259,540	2,765,760
Equipment	-	-	-	-	1,069,891	565,175	504,716
Mileage reimbursements	-	-	-	-	28,180	11,097	17,083
Other	4,697,851	10,287,851	9,287,210	1,000,641	4,452,334	1,370,544	3,081,790
Total expenditures	149,984,150	155,574,150	156,025,799	(451,649)	161,020,796	170,438,025	(9,417,229)
Excess (deficiency) of revenues over (under) expenditures	-	-	(11,623,015)	(11,623,015)	-	(7,709,882)	(7,709,882)
Other financing sources (uses):							
Transfers out	-	-	-	-	-	(1,227,406)	(1,227,406)
Total other financing sources (uses), net	-	-	-	-	-	(1,227,406)	(1,227,406)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	-	-	(11,623,015)	(11,623,015)	-	(8,937,288)	(8,937,288)
Deficit at beginning of year			(8,182,689)	(8,182,689)		754,599	754,599
Deficit at end of year	\$ -	\$ -	\$ (19,805,704)	\$ (19,805,704)	\$ -	\$ (8,182,689)	\$ (8,182,689)

See accompanying independent auditors' report.

GUAM DEPARTMENT OF EDUCATION

Combined Statement of Revenues, Expenditures and Changes in Fund Balance
 Governmental Funds
 Year Ended September 30, 2002
 (With Comparative Totals for the Year Ended September 30, 2001)

	2002			2001		
	General Fund	FGA Fund	Total	General Fund	FGA Fund	Total
Revenues:						
Local appropriations	\$ 138,462,841	\$ -	\$ 138,462,841	\$ 161,315,215	\$ -	\$ 161,315,215
Federal grants and contributions	4,685,251	30,876,352	35,561,603	567,076	30,863,716	31,430,792
Cafeteria sales	779,068	-	779,068	701,778	-	701,778
Fees and other program receipts	475,624	-	475,624	144,074	750	144,824
Total revenues	144,402,784	30,876,352	175,279,136	162,728,143	30,864,466	193,592,609
Expenditures:						
Salaries	108,142,714	17,800,363	125,943,077	110,927,408	16,307,001	127,234,409
Benefits	27,020,982	4,217,998	31,238,980	26,752,738	3,739,118	30,491,856
Power	7,705,245	-	7,705,245	10,628,133	-	10,628,133
Contractual	4,010,641	2,878,394	6,889,035	6,863,697	2,203,131	9,066,828
Stipends and other	2,816,562	643,130	3,459,692	823,908	467,026	1,290,934
Supplies	1,093,955	1,454,771	2,548,726	10,049,871	645,934	10,695,805
Equipment	1,787,243	396,640	2,183,883	565,175	326,720	891,895
Capital outlay	321,395	1,375,641	1,697,036	349,119	2,109,389	2,458,508
Interest	1,588,058	-	1,588,058	-	-	-
Textbooks	665,301	-	665,301	2,259,540	-	2,259,540
Travel	183,510	438,887	622,397	197,517	398,353	595,870
Water	587,731	-	587,731	559,941	-	559,941
Overtime	5,566	538,158	543,724	79,753	32,182	111,935
Phone	96,896	1,006	97,902	381,225	12,286	393,511
Total expenditures	156,025,799	29,744,988	185,770,787	170,438,025	26,241,140	196,679,165
Other financing sources (uses):						
Transfers in (out), net	-	-	-	(1,227,406)	1,227,406	-
Total other financing sources (uses)	-	-	-	(1,227,406)	1,227,406	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(11,623,015)	1,131,364	(10,491,651)	(8,937,288)	5,850,732	(3,086,556)
Fund balances (deficit), beginning of year	(8,182,689)	(1,131,364)	(9,314,053)	754,599	(6,982,096)	(6,227,497)
Fund balance (deficit), end of year	\$ (19,805,704)	\$ -	\$ (19,805,704)	\$ (8,182,689)	\$ (1,131,364)	\$ (9,314,053)

See accompanying independent auditors' report.

GUAM DEPARTMENT OF EDUCATION

Personnel
September 30, 2002

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

	<u>Employee Count</u>
FY 2002 – as of the pay period ended October 5, 2002	3,825
FY 2001 – as of the pay period ended October 6, 2001	3,677