

GUAM DEPARTMENT OF EDUCATION

**BALANCE SHEET AND
INDEPENDENT AUDITORS' REPORT
AND ADDITIONAL INFORMATION**

AS OF SEPTEMBER 30, 2001

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheet of Guam Department of Education, a line agency of the Government of Guam, as of September 30, 2001. This financial statement is the responsibility of Guam Department of Education's management. Our responsibility is to express an opinion on this financial statement 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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the balance sheet. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall balance sheet presentation. We believe that our audit of the balance sheet provides a reasonable basis for our opinion.

During the year ended September 30, 2001, the Guam Department of Education did not maintain an adequate system of internal control. As a result of these inadequacies, we did not audit the accompanying statement of revenues, expenditures and changes in fund balances (deficit), and therefore, we are not in a position to, and we do not, express any form of assurance on that statement.

No fixed asset balances are recorded in the general ledger, and no fixed asset list was compiled. The Guam Department of Education's fixed assets have historically been accounted for in the Government of Guam's General Fixed Assets Account Group. The Guam Department of Education does not maintain separate records of its assets and therefore, no general fixed assets account group is provided in the accompanying balance sheet, which in our opinion, should be presented to conform with accounting principles generally accepted in the United States of America.

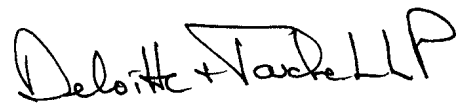
The agency fund presentation is incomplete. Therefore, we are unable to form an opinion on cash and fund balances of agency funds as of September 30, 2001.

In our opinion, based on our audit, except for the effects on the balance sheet of such adjustments, if any, as might have been determined to be necessary had we audited the statement of revenues and expenditures, had we been able to apply audit procedures to fixed asset balances, and had we been able to apply audit procedures to satisfy ourselves as to the completeness of the agency fund presentation, the accompanying balance sheet presents fairly, in all material respects, the financial position of the Guam Department of Education, as of September 30, 2001, in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 3, the Guam Department of Education changed its method of accounting for pension costs during the year ended September 30, 2001.

Our audit was conducted for the purpose of forming an opinion on the balance sheet as a whole. The individual fund financial statements (page 3), the statement of revenues, expenditures and changes in deficit – Budget and Actual (page 4) and the Supplemental Schedule of Additional Expenditures and Other Information (page 13), which are also the responsibility of the management of the Guam Department of Education, are presented for purposes of additional analysis and are not a required part of the balance sheet of the Guam Department of Education. Such additional information has been subjected to the auditing procedures applied in our audit of the balance sheet and, due to the effect of the items described in the third through fifth paragraphs above, we are not in a position to, and we do not, express any form of assurance on this additional information.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2003, 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.

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

October 10, 2003

GUAM DEPARTMENT OF EDUCATION

Combined Balance Sheet
All Fund Types
September 30, 2001

	<u>Governmental Fund Types</u>			<u>Account Group</u>	<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Agency Fund</u>	<u>General Long-Term Debt</u>	
ASSETS					
Cash and equivalents	\$ 948,349	\$ -	\$ 1,139,370	\$ -	\$ 2,087,719
Receivables from DOA	19,754,828	-	-	-	19,754,828
Receivables from federal agencies, net	640,909	2,868,885	-	-	3,509,794
Interfund receivables	4,491,529	8,621,893	-	-	13,113,422
Other receivables	-	63,974	-	-	63,974
Prepayments	1,215,156	19,635	-	-	1,234,791
	<u>27,050,771</u>	<u>11,574,387</u>	<u>1,139,370</u>	<u>-</u>	<u>39,764,528</u>
Other debits:					
Amount to be provided for retirement of general long-term debt	-	-	-	19,189,484	19,189,484
Total assets	\$ <u>27,050,771</u>	\$ <u>11,574,387</u>	\$ <u>1,139,370</u>	\$ <u>19,189,484</u>	\$ <u>58,954,012</u>
LIABILITIES AND FUND EQUITY (DEFICIENCY)					
Liabilities:					
Bank overdraft	\$ 10,637,139	\$ -	\$ -	\$ -	\$ 10,637,139
Accounts payable and other liabilities	5,505,119	136,437	-	-	5,641,556
Accrued payroll	1,390,468	-	-	-	1,390,468
Interfund payables	13,113,422	-	-	-	13,113,422
Payable to Federal Government	159,483	4,310,398	-	-	4,469,881
Other accrued expenses	145,068	1,283,948	1,139,370	-	2,568,386
Due to Guam Power Authority	11,257,729	-	-	-	11,257,729
Vacation leave accrual	-	-	-	5,641,014	5,641,014
Accrued unfunded retirement liability (Note 3)	-	-	-	13,548,470	13,548,470
Total liabilities	<u>42,208,428</u>	<u>5,730,783</u>	<u>1,139,370</u>	<u>19,189,484</u>	<u>68,268,065</u>
Fund equity (deficiency):					
Reserved for:					
Encumbrances	4,178,378	1,939,763	-	-	6,118,141
Unreserved (deficit)	<u>(19,336,035)</u>	<u>3,903,841</u>	<u>-</u>	<u>-</u>	<u>(15,432,194)</u>
Total fund equity (deficiency)	<u>(15,157,657)</u>	<u>5,843,604</u>	<u>-</u>	<u>-</u>	<u>(9,314,053)</u>
Commitments and contingencies (Note 2)					
Total liabilities and fund equity (deficiency)	\$ <u>27,050,771</u>	\$ <u>11,574,387</u>	\$ <u>1,139,370</u>	\$ <u>19,189,484</u>	\$ <u>58,954,012</u>

See accompanying notes to financial statement.

GUAM DEPARTMENT OF EDUCATION

Combined Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit)
 All Governmental Fund Types
 Year Ended September 30, 2001
 (Unaudited)

	<u>Governmental Fund Types</u>		<u>Totals</u>
	<u>General</u>	<u>Special Revenue</u>	<u>(Memorandum Only)</u>
Revenues:			
Local appropriations	\$ 161,315,215	\$ -	\$ 161,315,215
Federal grants and contributions	567,076	30,863,716	31,430,792
Cafeteria sales	701,778	-	701,778
Fees and other program receipts	144,074	750	144,824
Total revenues	<u>162,728,143</u>	<u>30,864,466</u>	<u>193,592,609</u>
Expenditures:			
Salaries	110,927,408	16,307,001	127,234,409
Benefits	26,752,738	3,739,118	30,491,856
Supplies	10,049,871	645,934	10,695,805
Power	10,628,133	-	10,628,133
Contractual	6,863,697	2,203,131	9,066,828
Capital outlay	349,119	2,109,389	2,458,508
Textbooks	2,259,540	-	2,259,540
Stipends	823,908	467,026	1,290,934
Equipment	565,175	326,720	891,895
Travel	197,517	398,353	595,870
Water	559,941	-	559,941
Phone	381,225	12,286	393,511
Overtime	79,753	32,182	111,935
Total expenditures	<u>170,438,025</u>	<u>26,241,140</u>	<u>196,679,165</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(7,709,882)</u>	<u>4,623,326</u>	<u>(3,086,556)</u>
Other financing sources (uses):			
Transfers in from General Fund (Note 4)	-	1,227,406	1,227,406
General Fund Transfers Out (Note 4)	<u>(1,227,406)</u>	<u>-</u>	<u>(1,227,406)</u>
Total other financing sources (uses), net	<u>(1,227,406)</u>	<u>1,227,406</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	<u>(8,937,288)</u>	<u>5,850,732</u>	<u>(3,086,556)</u>
Fund deficit at beginning of year	<u>(6,220,369)</u>	<u>(7,128)</u>	<u>(6,227,497)</u>
Fund balances (deficit) at end of year	<u>\$ (15,157,657)</u>	<u>\$ 5,843,604</u>	<u>\$ (9,314,053)</u>

See accompanying notes to financial statements.

GUAM DEPARTMENT OF EDUCATION

Combined Statement of Revenues, Expenditures and Changes in Fund Balance
All Government Fund Types
Year Ended September 30, 2001
(Unaudited)

	Governmental Fund Types											Total (Memorandum Only) 2001	
	Local Annual Fund 11	Local Continuing Fund 12	JROTC Fund 26	DOD Fund 27	Lost Book Fund 28	PEC Fund 60	Total General	Subgrants Fund 13	Paka Fund 15	Federal Annual Fund 21	Federal Continuing Fund 22		Total Special Revenues
REVENUES:													
Local appropriations	\$ 159,240,915	\$ 2,074,300	\$ -	\$ -	\$ -	\$ -	\$ 161,315,215	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 161,315,215
Federal grants and contributions	-	-	567,076	-	-	-	567,076	-	-	2,652,895	28,210,821	30,863,716	31,430,792
Cafeteria sales	701,778	-	-	-	-	-	701,778	-	-	-	-	-	701,778
Fees and other program receipts	-	-	-	-	22,193	121,881	144,074	750	-	-	-	750	144,824
Total Revenues	159,942,693	2,074,300	567,076	-	22,193	121,881	162,728,143	750	-	2,652,895	28,210,821	30,864,466	193,592,609
EXPENDITURES:													
Salaries	110,924,260	-	-	3,148	-	-	110,927,408	39,945	-	1,319,646	14,947,410	16,307,001	127,234,409
Benefits	26,751,737	-	-	1,001	-	-	26,752,738	7,588	644	359,727	3,371,159	3,739,118	30,491,856
Supplies	10,005,029	138	5,729	-	-	38,975	10,049,871	3,395	-	106,356	536,183	645,934	10,695,805
Power	10,628,133	-	-	-	-	-	10,628,133	-	-	-	-	-	10,628,133
Contractual	6,811,097	-	1,125	-	-	51,475	6,863,697	2,850	554,337	446,364	1,199,580	2,203,131	9,066,828
Capital outlay	311,457	-	37,662	-	-	-	349,119	-	553,199	294,022	1,262,168	2,109,389	2,458,508
Textbooks	-	2,259,540	-	-	-	-	2,259,540	-	-	-	-	-	2,259,540
Stipends	823,532	-	-	-	-	376	823,908	-	-	4,658	462,368	467,026	1,290,934
Equipment	435,170	125,740	4,265	-	-	-	565,175	-	182	115,672	210,866	326,720	891,895
Travel	11,871	1,150	184,496	-	-	-	197,517	-	-	97,863	300,490	398,353	595,870
Water	559,941	-	-	-	-	-	559,941	-	-	-	-	-	559,941
Phone	381,225	-	-	-	-	-	381,225	-	-	-	12,286	12,286	393,511
Overtime	78,888	-	-	865	-	-	79,753	-	27,631	-	4,551	32,182	111,935
Total expenditures	167,722,340	2,386,568	233,277	5,014	-	90,826	170,438,025	53,778	1,135,993	2,744,308	22,307,061	26,241,140	196,679,165
OTHER FINANCING SOURCES (USES)													
General Fund transfers out (note 4)	(1,232,420)	-	-	-	-	-	(1,232,420)	-	-	-	-	-	(1,232,420)
Transfers in from General Fund (note 4)	-	-	-	5,014	-	-	5,014	-	1,135,993	91,413	-	1,227,406	1,232,420
Total other financing sources (uses)	(1,232,420)	-	-	5,014	-	-	(1,227,406)	-	1,135,993	91,413	-	1,227,406	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(9,012,067)	(312,268)	333,799	-	22,193	31,055	(8,937,288)	(53,028)	-	-	5,903,760	5,850,732	(3,086,556)
FUND BALANCES (DEFICIT), BEGINNING OF YEAR	(12,266,190)	5,914,212	131,609	-	-	-	(6,220,369)	106,799	344,499	3,916,706	(4,375,132)	(7,128)	(6,227,497)
FUND BALANCE (DEFICIT), END OF YEAR	\$ (21,278,257)	\$ 5,601,944	\$ 465,408	\$ -	\$ 22,193	\$ 31,055	\$ (15,157,657)	\$ 53,771	\$ 344,499	\$ 3,916,706	\$ 1,528,628	\$ 5,843,604	\$ (9,314,053)

See accompanying notes to financial statements.

GUAM DEPARTMENT OF EDUCATION

Statement of Revenues, Expenditures and Changes in Deficit
Budget and Actual (Budgetary Basis)
General Fund
Year Ended September 30, 2001
(Unaudited)

	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Local appropriations	\$ 150,854,467	\$ 152,231,802	\$ 1,377,335
Local appropriations - Federal contributions (Note 5)	5,141,029	5,141,029	-
Local appropriations - textbooks	5,025,300	3,942,384	(1,082,916)
Cafeteria sales	-	701,778	701,778
Fees and other program receipts	-	711,150	711,150
	<u>161,020,796</u>	<u>162,728,143</u>	<u>1,707,347</u>
Total revenues			
Expenditures - Budgetary Basis:			
Personnel	130,983,190	137,748,802	(6,765,612)
Utilities	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	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
Miscellaneous	4,452,334	1,370,544	3,081,790
	<u>161,020,796</u>	<u>170,438,025</u>	<u>(9,417,229)</u>
Total expenditures			
Deficiency of revenues over expenditures	<u>-</u>	<u>(7,709,882)</u>	<u>(7,709,882)</u>
Other financing uses:			
Transfers out	-	(1,227,406)	(1,227,406)
	<u>-</u>	<u>(1,227,406)</u>	<u>(1,227,406)</u>
Total other financing uses			
Deficiency of revenues and other financing sources over expenditures and other financing uses	-	(8,937,288)	(8,937,288)
Deficit at beginning of year	-	(6,220,369)	(6,220,369)
	<u>-</u>	<u>(6,220,369)</u>	<u>(6,220,369)</u>
Deficit at end of year	<u>\$ -</u>	<u>\$ (15,157,657)</u>	<u>\$ (15,157,657)</u>

See accompanying notes to financial statements.

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statement
September 30, 2001

(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 balance sheet of the Guam Department of Education (GDOE) has been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units.

B. Measurement Focus and Basis of Accounting

GDOE uses funds to report on its financial position. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain GDOE functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. They are concerned only with the measurement of financial position and are not involved with the measurement of results of operations.

The accompanying balance sheet has been prepared in conformity with GAAP for governments. Accordingly, it is structured into two broad categories of funds - governmental funds and fiduciary funds. An account group is presented for general long-term debt.

The Governmental Funds include the following:

1. The General Fund accounts for all financial transactions not accounted for in any other fund;
2. The Special Revenue Funds account for specific revenues earmarked to finance particular programs and activities.

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. However, GDOE changed its method of accounting for nonexchange transactions to conform with Governmental Accounting Standards Board Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions." No material impact on the financial statements arose due to the implementation of this statement. Revenues and receivables from U.S. federal programs are recorded at the time that expenditures are recorded. Expenditures are recorded at the time liabilities are incurred.

As more fully explained in Note 1.I., 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 Fiduciary Fund includes the Agency Fund, which is 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.

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statement
September 30, 2001

(1) Summary of Significant Accounting Policies, Continued

B. Measurement Focus and Basis of Accounting, Continued

The Account Group includes the General Long-Term Debt Account Group, which is maintained to account for general long-term accrued unfunded retirement benefits and accrued annual and compensatory leave. The long-term portion of accrued annual leave for governmental fund types is recorded in the General Long-Term Debt Account Group.

Descriptions of GDOE's major funds are as follows:

Fund 11 – Local Annual is used to account for local appropriations available only during the year of appropriation.

Fund 12 – Local Continuing is used to account for local appropriations available in succeeding years, such as appropriations for textbooks.

Fund 21 – Federal Annual is used to account for federal grant awards and contracts available only during the grant year.

Fund 22 – Federal Continuing is used to account for federal grant awards and contracts available for multiple years.

C. 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 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. In fiscal year 2001, the Governor is authorized to transfer not more than 5% of the combined total operating expense amounts appropriated into or out of the object categories within a department or agency of the Executive Branch, not including the personnel services object category. The Governor is also authorized to transfer not more than 5% of the combined total of the personnel service and operating expense amounts appropriated into or out of the object categories between a department or agency of the Executive Branch. The Governor shall report to the Guam Legislature all such transfers within twenty days of the end of each month. During the year ended September 30, 2001, there were no such transfers of prior year appropriations into 2001. 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 2001, Public Law 25-164, amended by Public Law 26-01, was approved for the executive branch. Budgets for Special Revenue Funds are generally not submitted.

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statement
September 30, 2001

(1) Summary of Significant Accounting Policies, Continued

C. Budgetary Process, Continued

The Government'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.

D. Accounting Standards

In fiscal year 2001, GDOE adopted provisions of Statement No. 27 of the Governmental Accounting Standards Board (GASB 27), "Accounting for Pensions by State and Local Governmental Employers." GASB 27 establishes standards for the measurement, recognition, and display of pension expenditures/expense and related liabilities, assets, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers.

E. Cash and 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.

F. 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, 2001, with the remaining balance of \$1,787,719 being unsecured and uncollateralized.

G. Receivables

Receivables in GDOE's governmental funds primarily consist of federal grants and appropriations from the Government of Guam general fund. The allowance for uncollectible federal grants as of September 30, 2001, is \$2,441,141.

H. Interfund Transactions

GDOE essentially has two types of potential interfund transactions:

1. The majority of GDOE's financial operations are centrally administered, and this administration is facilitated by the use of a "pooled" cash account. For practical purposes, cash is primarily maintained in a series of bank accounts which are considered to be assets of the GDOE's general fund. As a result of this cash pooling practice, cash transactions normally include entries which adjust the relative balances of affected funds' interfund asset/liability accounts; each fund's interfund balance therefore represents a net interest in GDOE's actual cash. The general fund, unless otherwise restricted by law, is the beneficiary of interest income derived from cash held in the general fund.

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statement
September 30, 2001

(1) Summary of Significant Accounting Policies, Continued

H. Interfund Transactions, Continued

2. Operating appropriations/subsidies are accounted for as operating transfers in the funds involved.

As of September 30, 2001, net interfund balances are as follows:

	<u>Receivable From Fund 11</u>
Fund 12 - Local Continuing	\$ 4,438,281
Fund 13 – Subgrants	53,778
Fund 21 - Federal Annual	2,733,954
Fund 22 - Federal Continuing	5,834,161
Fund 28 - Lost Textbook	22,193
Fund 60 – Pacific Education Conference	<u>31,055</u>
	<u>\$ 13,113,422</u>

I. Fund Balance Reserves and Designations

GDOE's fund balance reserves represent those portions of fund balance legally segregated for a specific future use, further defined as follows:

Encumbrances

Encumbrances are commitments related to unperformed (executory) contracts for goods or services and are generally evidenced by outstanding purchase orders, contracts, and interdepartmental work requests. Encumbrances outstanding at year end are reported as a reservation of fund balance since they do not constitute expenditures or liabilities.

J. Accrued Annual Leave

Non-teacher employees are credited with vacation at rates of 104, 160 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)
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 more than 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).

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statement
September 30, 2001

(1) Summary of Significant Accounting Policies, Continued

J. Accrued Annual Leave, Continued

Accumulation of such vacation credits is limited to 480 hours at fiscal year-end and is convertible to pay upon termination of employment. Annual leave which is expected to be paid out within the next fiscal year is accrued in the General Fund to the extent of available funds within the related appropriation account. Accrued annual leave in excess of this amount is included in the General Long-Term Debt Account Group.

K. Totals - Memorandum Only

The "Total - Memorandum Only" columns represent an aggregate of the individual combined financial statements. The total column is presented for overview informational purposes and does not represent consolidated financial information.

L. 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 the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results may differ from those estimates.

(2) 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. For this reason, no sick leave liability is recorded at September 30, 2001. The estimated accumulated amount of unused sick leave at September 30, 2001, is \$22,840,681.

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 2001 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 balance sheet.

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 balance sheet, 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, 2001. Therefore, no provision for any liability for claims and judgments has been made in the accompanying balance sheet.

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statement
September 30, 2001

(2) Commitments and Contingencies, Continued

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 will be required to pay the majority of these losses. An annual appropriation is made to the Government of Guam's Government Claims Fund (an expendable trust fund) and then valid claims are paid out against the appropriated amount.

(3) Unfunded Retirement Fund Contribution

As of the fiscal year ended September 30, 1994 and prior, 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.

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

Participants of the DB plan with less than twenty years of service at September 30, 1995, have the option to transfer to the DC plan. Participants with over twenty years of service do not have an option to transfer. Transferring employees would have their employee contribution balances with interest transferred to the DC plan. Once participants have elected to transfer, they are no longer eligible for DB plan benefits nor are they allowed to transfer back to the DB plan.

The assumption regarding employees who will elect to transfer is:

1. 6% of participants with less than five years of service as of September 30, 1995 and still active members of the DB plan as of September 30, 1998 will elect to transfer.
2. 3% of participants with between five and twenty years of service as of September 30, 1995 and still active members of the DB plan as of September 30, 1998 will elect to transfer.

The window period for election is the two year period ended September 30, 1999. Therefore, all transfers are assumed to occur prior to September 30, 1999. However, Public Law 25-19 extended the opportunity to transfer to the DC plan to December 31, 1999 and provided an additional incentive to do so. The incentive is an additional transfer of assets from the DB plan to the DC plan equal to 5% of such member's pay for each year of service, with a maximum transfer of 25% of pay. This incentive is applied retroactively to include members who transferred to the DC plan prior to Public Law 25-19.

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statement
September 30, 2001

(3) Unfunded Retirement Fund Contribution, Continued

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 8% and an assumed salary scale increase of 4% per year for longer service employees to 8.5% per year for shorter service employees. The most recent actuarial valuation performed as of September 30, 2000, 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.

According to the latest actuary's report, the actuarial value of benefits (vested and non-vested) for employees of all funds and agencies participating in the Retirement Plan at September 30, 2000 is \$2,126,149,616. This represents an increase of \$29,532,622 over the previous actuarial valuation performed as of September 30, 1999. The latest actuarial valuation also determined that the Retirement Fund has an unfunded accrued liability which increased from \$750,412,333 at September 30, 1999, to \$777,388,804 at September 30, 2000.

The accrued liability on the balance sheet of \$13,548,470 represents only that portion of the total unfunded liability accrued by GDOE and unpaid to the Retirement Fund as of September 30, 2001. This liability resulted primarily from changes in plan provisions or actuarial assumptions and gains and losses that occur when actual experience differs from the actuarial assumptions, with only a minor change (decrease) in the statutory contribution rate to the Retirement Fund for the employer of 6.77%. Hence, since GDOE is contributing at a rate less than the required contribution rate of 24.23% and the shortfall in contributions attributable to this decision is estimated to be about \$17.1M, the actuarial survey recommended that this "funding waiver" be amortized over a period of five years to make up for the lack of adequate contributions in past years. The amortization rate of the funding waivers as a percent of payroll is 1.14% for line agencies. Based on the actuarial valuation performed as of September 30, 2000, it is estimated that for the fiscal year ended September 30, 2001, the minimum employer contribution rate is changed to 25.37% of covered payroll for line agencies, plus the statutory employee contribution rate of 9.5% of covered payroll which is necessary to fund current retirement costs, to amortize the unfunded liability over 12 years, and to provide for interest on the unfunded accrued liability. The actual funding rate is 18.6% for both the DB and DC plan for line agencies. For the DC plan, the difference of 13.6% over the defined contribution rate of 5% is contributed to assist in amortizing the unfunded liability.

In 2001, GDOE adopted the provisions of Governmental Accounting Standards Board Statement No. 27, "Accounting for Pensions by State and Local Governmental Employees." The effect of this change, which was retroactively applied, is as follows:

	<u>As Originally Stated at September 30, 2000</u>	<u>As Restated at September 30, 2000</u>
Unfunded pension liability	\$ 79,384,068	\$ 12,518,523

(4) Interfund Transfers

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

GUAM DEPARTMENT OF EDUCATION

Notes to Financial Statement
September 30, 2001

(5) Local Appropriations

The General Appropriations Act of 2001 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 to GDOE for non-personnel operating expenses. The total of such reimbursements from the U.S. Department of Agriculture for fiscal year 2001 is \$5,141,029.

(6) Subsequent Events

In May 2002, GDOE entered into an installment payment agreement with Guam Power Authority for past due bills for electrical service in the amount of \$13,359,484 for periods prior to April 1, 2002.

In July 2002, a major typhoon (Chata'an) caused material damage to the island of Guam's infrastructure. The final assessment of the dollar value of damage has not been completed as such is still ongoing.

Another major typhoon (Pongsona) hit the island on December 8, 2002. The determination of the economic impact on the Guam Department of Education from this devastating typhoon has not yet been finalized.

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

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

Supplemental Schedule of Additional Expenditures
and Other Information
Year Ended September 30, 2001

Local Annual Fund Expenditures:	
General administration	\$ 33,911,023
Direct Student Support	6,642,483
Elementary Division	66,735,343
Secondary Division	<u>63,149,176</u>
Total revenues	\$ <u><u>170,438,025</u></u>
Number of employees as of the pay period ended October 6, 2001	3,677

See accompanying independent auditors' report.