

GUAM DEPARTMENT OF EDUCATION

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

YEAR ENDED SEPTEMBER 30, 2003

GUAM DEPARTMENT OF EDUCATION

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Deloitte & Touche LLP
361 South Marine Drive
Tamuning, Guam 96913-3911

Tel: (671)646-3884
Fax: (671)649-4932
www.dttguam.com



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, 2003, 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 opinions on these 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 opinions.

Capital assets acquired prior to fiscal year 1987 and disposals since fiscal year 1987 have not been recorded within the accompanying statement of net assets. Additionally, the detail of fixed asset acquisitions for fiscal years 1998 to 2003 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 expense, 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.

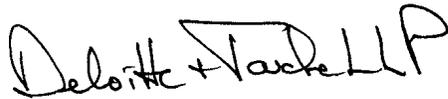
The agency fund presentation is incomplete. Therefore, we are unable to form an opinion on cash and liabilities of the agency funds as of September 30, 2003.

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, of depreciation expense, and of 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 respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Guam Department of Education as of September 30, 2003, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, on pages 3 and 4 and the Schedule of Revenues, Expenditures, and Changes in Deficit – Budget and Actual – General Fund and notes thereto (pages 25 and 26) 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 GDOE's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise GDOE's basic financial statements. The Other Supplementary Information (pages 28 through 37) 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 2003 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 paragraph above, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 21, 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.

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

May 21, 2004
(except for Note 8, as to which the date is June 24, 2004)

GUAM DEPARTMENT OF EDUCATION

Management's Discussion and Analysis
Year Ended September 30, 2003

Introduction

This section of Guam Department of Education's (GDOE) annual financial report presents our discussion and analysis of the financial performance of GDOE during the fiscal year ended September 30, 2003. 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. The completion of the 2003 single audit represents the Department's commitment to, and support of financial accountability.

Fiscal Year 2003 Overview

Fiscal year 2003 continued to involve significant challenges for the Department of Education. 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 2003 was \$150 million in contrast to FY 2002, when the appropriation was \$156 million. The public law that appropriated the funds for fiscal year 2003 limited local spending to salaries, benefits, utilities, and textbooks. The Government of Guam's appropriation and allotments to the Department were \$7.5 million lower than the appropriated amounts. Expenditures for the year were \$5.3 million over the budgeted amounts, resulting in an additional increase to fund balance deficit.

The Department of Education continues to have an unfunded liability exceeding \$42 million for retirement and utilities obligations. Because of the insufficient appropriations that GDOE receives, it is unable to make significant payments against these liabilities.

Statement of Net Assets

Net assets consist of total assets net of total liabilities.

Summary Statement of Net Assets

	<u>2003</u>	<u>2002</u>
Assets:		
Current assets	\$ 18,914,079	\$ 47,160,730
Capital assets, net	<u>159,151,819</u>	<u>164,113,120</u>
	\$ <u>178,065,898</u>	\$ <u>211,273,850</u>
Liabilities:		
Current liabilities	\$ 33,096,485	\$ 55,435,677
Noncurrent liabilities	<u>46,455,903</u>	<u>31,197,030</u>
	\$ <u>79,552,388</u>	\$ <u>86,632,707</u>
Net assets:		
Invested in capital assets, net of related debt	\$ 159,151,819	\$ 164,113,120
Restricted for encumbrances	-	4,541,074
Unrestricted	<u>(60,638,309)</u>	<u>(44,013,051)</u>
	\$ <u>98,513,510</u>	\$ <u>124,641,143</u>

GUAM DEPARTMENT OF EDUCATION

Management's Discussion and Analysis Year Ended September 30, 2003

The total assets of GDOE decreased by \$33.2 million, while total liabilities decreased by \$7 million, resulting in an overall total decrease of net assets by \$26.1 million.

The decrease in total assets is a result of reductions in the cash balance on hand at the end of the fiscal year, federal grant receivables, collections on local government appropriations for the current year, prepayments to vendors, and net capital assets.

The decrease in liabilities is primarily due to the payment of federal withholding taxes and accounts payable plus the significant increase in unfunded pension liability. Payment for the federal withholding taxes of approximately \$26 million was deducted from the allotment releases by the Department of Administration.

Statement of Revenues, Expenses, and Changes in Net Assets

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

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

	<u>2003</u>	<u>2002</u>
General revenues		
Appropriations	\$139,002,730	\$138,462,841
Other	<u>1,051</u>	<u>383,211</u>
	<u>139,003,781</u>	<u>138,846,052</u>
Program revenues		
Federal grants and contributions	39,806,889	35,561,602
Other	<u>678,325</u>	<u>871,481</u>
	<u>40,485,214</u>	<u>36,433,083</u>
Total revenues	<u>179,488,995</u>	<u>175,279,135</u>
Expenses		
Program expenses:		
Elementary education	9,560,748	2,119,126
Secondary education	1,780,561	355,725
Direct student support	22,222,570	25,662,798
General administration	<u>3,458,739</u>	<u>1,607,339</u>
Total program expenses	37,022,618	29,744,988
General expenses	<u>168,594,010</u>	<u>162,003,888</u>
Total expenses	<u>205,616,628</u>	<u>191,208,876</u>
Decrease in net assets	(26,127,633)	(15,929,741)
Net assets at beginning of year	<u>124,641,143</u>	<u>140,570,884</u>
Net assets at end of year	<u>\$ 98,513,510</u>	<u>\$124,641,143</u>

The statement of revenues, expenses, and changes in net assets reflects a decrease in net assets of \$26.1 million. This is primarily a result of the net change in current year deficit, calculation of retirement contributions, and depreciation expense.

GUAM DEPARTMENT OF EDUCATION

Statement of Net Assets
September 30, 2003

<u>ASSETS</u>	<u>Governmental Activities</u>
Current assets:	
Cash and cash equivalents	\$ 7,645,961
Receivables:	
Federal grants and reimbursement receivables	4,431,600
Due from primary government	6,704,278
Prepayments	132,240
Total current assets	<u>18,914,079</u>
Noncurrent assets:	
Capital assets, net of accumulated depreciation	<u>159,151,819</u>
Total noncurrent assets	<u>159,151,819</u>
Total assets	<u>178,065,898</u>
 <u>LIABILITIES</u> 	
Current liabilities:	
Current portion of notes payable	1,437,632
Accounts payable	7,811,645
Accrued payroll	1,613,052
Due to Federal agencies	634,767
Other liabilities and accruals	21,221,954
Current portion of compensated absences	377,435
Total current liabilities	<u>33,096,485</u>
Noncurrent liabilities:	
Compensated absences, net of current portion	5,698,854
Unfunded pension liability	29,441,272
Notes payable, net of current portion	11,315,777
Total noncurrent liabilities	<u>46,455,903</u>
Total liabilities	<u>79,552,388</u>
Commitments and contingencies	
 <u>NET ASSETS</u> 	
Invested in capital assets, net of related debt	159,151,819
Unrestricted	<u>(60,638,309)</u>
Total net assets	<u>\$ 98,513,510</u>

See accompanying notes to basic financial statements.

GUAM DEPARTMENT OF EDUCATION

Statement of Activities
Year Ended September 30, 2003

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	
Governmental Activities:				
Elementary Education	\$ 72,999,033	\$ -	\$ 9,560,748	\$ (63,438,285)
Secondary Education	63,124,594	-	1,780,561	(61,344,033)
Direct Student Support	33,984,717	678,325	25,006,843	(8,299,549)
General Administration	35,508,284	-	3,458,737	(32,049,547)
Total governmental activities	<u>\$ 205,616,628</u>	<u>678,325</u>	<u>39,806,889</u>	<u>(165,131,414)</u>
General revenues:				
Appropriations:				
Operations				134,945,012
Textbooks				3,200,000
Other				857,718
Interest income				1,051
Total general revenues				<u>139,003,781</u>
Change in net assets				(26,127,633)
Net assets at beginning of year				<u>124,641,143</u>
Net assets at end of year				<u>\$ 98,513,510</u>

See accompanying notes to basic financial statements.

GUAM DEPARTMENT OF EDUCATION

Balance Sheet
Governmental Funds
September 30, 2003

<u>ASSETS</u>	<u>General</u>	<u>Special Revenue</u>		<u>Total</u>
		<u>Federal Grants Assistance</u>		
Cash and cash equivalents	\$ 6,281,696	\$ 1,364,265	\$	7,645,961
Receivables from Federal agencies	479,353	3,952,247		4,431,600
Due from primary government	6,704,278	-		6,704,278
Prepayments	28,978	103,262		132,240
Due from other funds	3,029,598	-		3,029,598
	<hr/>	<hr/>		<hr/>
Total assets	\$ 16,523,903	\$ 5,419,774	\$	21,943,677
	<hr/>	<hr/>		<hr/>
<u>LIABILITIES AND FUND BALANCES (DEFICIT)</u>				
Liabilities:				
Accounts payable	\$ 6,722,133	\$ 1,089,512	\$	7,811,645
Accrued payroll	1,613,052	-		1,613,052
Other liabilities and accruals	20,396,574	825,380		21,221,954
Due to Federal agencies	159,483	475,284		634,767
Due to other funds	-	3,029,598		3,029,598
Notes payable	12,753,409	-		12,753,409
	<hr/>	<hr/>		<hr/>
Total liabilities	41,644,651	5,419,774		47,064,425
	<hr/>	<hr/>		<hr/>
Fund balances (deficit):				
Reserved for:				
Encumbrances	1,018,620	4,309,538		5,328,158
Unreserved	(26,139,368)	(4,309,538)		(30,448,906)
	<hr/>	<hr/>		<hr/>
Total fund balances (deficits)	(25,120,748)	-		(25,120,748)
	<hr/>	<hr/>		<hr/>
Total liabilities and fund balances	\$ 16,523,903	\$ 5,419,774	\$	21,943,677
	<hr/>	<hr/>		<hr/>

See accompanying notes to basic financial statements.

GUAM DEPARTMENT OF EDUCATION

Reconciliation of Deficit to the Statement of Net Assets
September 30, 2003

Total deficit	\$	(25,120,748)
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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 \$52,482,894 of accumulated depreciation	\$	<u>159,151,819</u>	
Capital assets, net of accumulated depreciation			159,151,819

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	(6,076,289)	
Unfunded pension liability	<u>(29,441,272)</u>	

Long - term liabilities		<u>(35,517,561)</u>
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Net assets of governmental activities	\$	<u><u>98,513,510</u></u>
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See accompanying notes to basic financial statements.

GUAM DEPARTMENT OF EDUCATION

Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit)
Governmental Funds
Year Ended September 30, 2003

	<u>General</u>	<u>Special Revenue</u> Federal Grants Assistance	<u>Total</u>
Revenues:			
Appropriations	\$ 138,145,012	\$ -	\$ 138,145,012
Federal grants and contributions	5,032,143	34,774,746	39,806,889
Cafeteria sales	678,325	-	678,325
Fees and other receipts	858,769	-	858,769
	<hr/>	<hr/>	<hr/>
Total revenues	144,714,249	34,774,746	179,488,995
	<hr/>	<hr/>	<hr/>
Expenditures:			
Current:			
Elementary Education	62,062,386	9,560,748	71,623,134
Secondary Education	57,997,536	1,780,561	59,778,097
Direct Student Support	11,762,147	22,222,570	33,984,717
General Administration	15,959,352	3,458,739	19,418,091
	<hr/>	<hr/>	<hr/>
Total expenditures	147,781,421	37,022,618	184,804,039
	<hr/>	<hr/>	<hr/>
Deficiency of revenues under expenditures	(3,067,172)	(2,247,872)	(5,315,044)
Other financing sources (uses):			
Transfers in (out)	(2,247,872)	2,247,872	-
	<hr/>	<hr/>	<hr/>
Total other financing sources (uses), net	(2,247,872)	2,247,872	-
	<hr/>	<hr/>	<hr/>
Net change in fund balances (deficit)	(5,315,044)	-	(5,315,044)
Deficit at beginning of year	(19,805,704)	-	(19,805,704)
	<hr/>	<hr/>	<hr/>
Deficit at end of year	\$ (25,120,748)	\$ -	\$ (25,120,748)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

See accompanying notes to basic 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, 2003

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

Net change in deficit - total governmental funds	\$	(5,315,044)
Plus:		
Net change in annual leave activity		41,514
Less:		
Retirement contribution and accrual		(15,892,802)
Depreciation expense		<u>(4,961,301)</u>
Change in net assets of governmental activities	\$	<u><u>(26,127,633)</u></u>

See accompanying notes to basic financial statements.

GUAM DEPARTMENT OF EDUCATION

Statement of Fiduciary Net Assets
Agency Fund
September 30, 2003

ASSETS

Cash and cash equivalents	\$ <u>835,749</u>
Total assets	\$ <u><u>835,749</u></u>

LIABILITIES

Deposits and other liabilities	\$ <u>835,749</u>
Total liabilities	\$ <u><u>835,749</u></u>

See accompanying notes to basic financial statements.

GUAM DEPARTMENT OF EDUCATION

Notes to Basic Financial Statements
September 30, 2003

(1) Summary of Significant Accounting Policies

A. Reporting Entity

The Guam Department of Education (GDOE) is a line agency of the Government of Guam, which is the primary government, and the accompanying financial statements are included within the Government of Guam's general fund. The accompanying financial statements of GDOE have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units.

In January 2003, an elected education policy board was created to establish policies for GDOE. GDOE operates 27 elementary schools and 11 secondary schools to provide free and appropriate education to students residing on Guam.

B. Department-Wide Financial Statements

The Statement of Net Assets and the Statement of Activities report 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.

GUAM DEPARTMENT OF EDUCATION

Notes to Basic Financial Statements
September 30, 2003

(1) Summary of Significant Accounting Policies

C. Fund Financial Statements

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter is excluded from the department-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements, 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 (deficits) for its governmental funds. The ending fund balance on the balance sheet is then reconciled to the ending governmental net assets.

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.

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

Agency Fund - The agency fund is used to account for student activities at the school level, such as student organization fund raisings and after-school programs.

D. Measurement Focus and Basis of Accounting

The department-wide financial statements are reported using the economic resources 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.

GUAM DEPARTMENT OF EDUCATION

Notes to Basic Financial Statements
September 30, 2003

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

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 qualifying expenditures are incurred.

E. Encumbrances

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

F. Cash and Cash Equivalents

Cash and cash equivalents includes deposits with financial institutions on Guam 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 cash equivalents of GDOE are uncollateralized. FDIC insured deposits aggregate \$100,000 as of September 30, 2003, with the remaining bank balance of \$9,951,316 being unsecured and uncollateralized.

H. Receivables

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

I. Interfund Transactions

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

GUAM DEPARTMENT OF EDUCATION

Notes to Basic Financial Statements
September 30, 2003

(1) Summary of Significant Accounting Policies, Continued

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 department-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 and 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 2003, 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 Basic Financial Statements
September 30, 2003

(1) Summary of Significant Accounting Policies, Continued

J. Fixed Assets and Depreciation, Continued

Capital asset activities for the fiscal year ended September 30, 2003 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>(47,521,593)</u>	<u>(4,961,301)</u>	<u>-</u>	<u>(52,482,894)</u>
Governmental activity capital assets, net	\$ <u>164,113,120</u>	\$ <u>(4,961,301)</u>	\$ <u>-</u>	\$ <u>159,151,819</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 or 156 hours per fiscal year, depending upon their length of service.

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

GUAM DEPARTMENT OF EDUCATION

Notes to Basic Financial Statements
September 30, 2003

(1) Summary of Significant Accounting Policies, Continued

L. Compensated Absences, Continued

Accumulation of such vacation credits is limited to 320 hours at fiscal year-end and is convertible to pay upon termination of employment. Compensated absences are recorded as a long-term liability in the statement of net assets. Amounts to be paid during the next fiscal year are reported as current. For the governmental fund statements 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, 2003, are recorded as prepayments.

N. Fund Deficits

The following funds have deficit fund balances as of September 30, 2003:

Major Governmental Fund

General Fund \$ 25,120,748

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

O. 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.

P. New Accounting Standards

For fiscal year 2004, GDOE will be implementing GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units* and GASB Statement No. 40, *Deposit and Investment Risk Disclosures* (an amendment of GASB Statement No. 3). For fiscal year 2005, GDOE will be implementing GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. As of the date of the opinion, GDOE has not evaluated the financial statement impact of GASB Statement Nos. 39, 40, and 42.

GUAM DEPARTMENT OF EDUCATION

Notes to Basic Financial Statements
September 30, 2003

(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.	\$ 12,753,409
Less current maturities	<u>(1,437,632)</u>
Total long-term debt	\$ <u>11,315,777</u>

GDOE has been delinquent on its monthly payments, and therefore, has accrued interest expenses of \$553,367, which have been added to the principal amount due currently. The annual requirements to amortize the debt outstanding as of September 30, 2003, including interest payments, are as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>
2004	\$ 1,437,632	\$ 532,453
2005	698,536	501,464
2006	730,964	469,036
2007	764,897	435,103
2008	800,405	399,595
2009	<u>8,320,975</u>	<u>216,046</u>
	\$ <u>12,753,409</u>	\$ <u>2,553,697</u>

Changes in Long-Term Liabilities

Changes in long-term liabilities for the year ended September 30, 2003, 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	\$ 12,998,885	\$ 553,367	\$ (798,843)	\$ 12,753,409	\$ 1,437,632
Compensated absences	6,117,803	442,984	(484,498)	6,076,289	377,435
Unfunded pension liability	<u>13,548,470</u>	<u>30,573,912</u>	<u>(14,681,110)</u>	<u>29,441,272</u>	<u>-</u>
	\$ <u>32,665,158</u>	\$ <u>31,570,263</u>	\$ <u>(15,964,451)</u>	\$ <u>48,270,970</u>	\$ <u>1,815,067</u>

The General Fund will bear responsibility for the ultimate liquidation of substantially all long-term liabilities. Total interest paid in FY 2003 for long-term liabilities is \$1,785,261.

GUAM DEPARTMENT OF EDUCATION

Notes to Basic Financial Statements
September 30, 2003

(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, or when an employee retires under the defined contribution retirement system (DCRS). For this reason, no sick leave liability is recorded at September 30, 2003. The estimated accumulated amount of unused sick leave at September 30, 2003, is \$27,184,222, of which \$2,565,580 may be convertible by DCRS employees upon retirement.

B. Federal Grants

GDOE has received federal grants for specific purposes that are subject to review and audit by the grantor agencies. Questioned costs for the 2003 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.

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, 2003. Therefore, no provision for any liability for claims and judgments has been made in the accompanying financial statements.

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.

GUAM DEPARTMENT OF EDUCATION

Notes to Basic Financial Statements
September 30, 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.

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, 2003, a minimum combined employer and employee contribution rate of 37.59% (9.5% for employees and 28.09% 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 initially set at 9.5% and 26%, respectively, for the year ended September 30, 2003. The employer contribution rate was reduced to 18% by legislative action effective March 1, 2003.

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 ranging from 8.5% per annum for short service employees to 4% per annum for longer service employees. 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, 2003, 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.

Statutory employer contributions into the DCRS are determined using the same rates as those of the DB Plan. Of the amount contributed by the employer, only 5% of the member's regular pay is deposited into the member's individual annuity account. The remaining amount 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.

GUAM DEPARTMENT OF EDUCATION

Notes to Basic Financial Statements
September 30, 2003

(4) Unfunded Retirement Fund Contribution, Continued

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, 2003 approximated \$28.3 million, which is 93% of the required contribution amount of \$30.5 million.

(5) Interfund Transfers

Transfers between governmental fund types are normally recorded on a cash basis. The special revenue fund transfer represents amounts paid by the general fund for program expenditures that are not expected to be reimbursed by Federal grantor agencies, namely the Department of Homeland Security for unapproved typhoon-related expenditures in the amount of \$1,833,154. Should any of this amount be subsequently collected, it will be recognized as a recovery in the year of receipt.

(6) Local Appropriations

The General Appropriations Act of 2003 appropriates all monies collected by GDOE from Federal funds paid to GDOE 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 during fiscal year 2003 is \$5,914,763, which is accounted for in GDOE's general fund.

(7) Tax Levy and Abatement

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. As of September 30, 2003, the levy has been paid and recorded as reductions in the FY 2002 accrual, except for \$2.3 million in penalties, which were abated in a notice of adjustment from DRT in August 2003.

(8) Subsequent Events

On December 3, 2003, a vendor claimed damages in the amount of \$722,638 with regard to the termination of contracts for FY 2004. As of February 19, 2004, the claim was settled in full. No provision for this amount has been made in the accompanying financial statements as the settlement pertains to contracts for the subsequent fiscal year.

On June 24, 2004, the Civil Service Commission rendered a decision, ordering GDOE to pay teachers an additional two weeks of compensation. The cost of this decision could exceed \$3.7 million. GDOE is awaiting the final written order to determine whether an appeal is warranted. No provision for this amount has been made in the accompanying financial statements as management is of the opinion that it cannot yet determine whether an appeal will be filed. GDOE will not be able to make the required payments without an appropriation from the Government of Guam's general fund.

GUAM DEPARTMENT OF EDUCATION

Notes to Basic Financial Statements
September 30, 2003

(9) Agency Fund

The schedule of cash receipts and cash disbursements for the agency fund during fiscal year 2003 is as follows:

Cash receipts:	
Elementary school activities	\$ 397,367
Secondary school activities	<u>1,425,336</u>
Total receipts	<u>1,822,703</u>
Cash disbursements:	
Elementary school activities	357,203
Secondary school activities	<u>1,645,436</u>
Total disbursements	<u>2,002,639</u>
Deficiency of receipts over disbursements	(179,936)
Cash balance at beginning of year	<u>1,015,685</u>
Cash balance at end of year	\$ <u>835,749</u>

GUAM DEPARTMENT OF EDUCATION

**REQUIRED SUPPLEMENTARY
INFORMATION**

YEAR ENDED SEPTEMBER 30, 2003

GUAM DEPARTMENT OF EDUCATION

Schedule of Revenues, Expenditures, and Changes in Deficit - Budget and Actual
 General Fund
 Year Ended September 30, 2003

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:				
Local appropriations	\$ 49,062,694	\$ 138,466,653	\$ 134,945,012	\$ (3,521,641)
Local appropriations - Federal contributions	5,914,763	5,914,763	5,032,143	(882,620)
Local appropriations - textbooks	5,821,298	5,821,298	3,200,000	(2,621,298)
Cafeteria sales	-	-	678,325	678,325
Fees and other program receipts	<u>-</u>	<u>-</u>	<u>858,769</u>	<u>858,769</u>
 Total revenues	 <u>60,798,755</u>	 <u>150,202,714</u>	 <u>144,714,249</u>	 <u>(5,488,465)</u>
 Expenditures - Budgetary Basis:				
Personnel	49,033,249	122,969,320	126,101,499	(3,132,179)
Utilities	-	4,514,396	6,860,812	(2,346,416)
Textbooks	5,821,298	5,821,298	6,273,946	(452,648)
Other	<u>5,944,208</u>	<u>5,944,208</u>	<u>8,545,164</u>	<u>(2,600,956)</u>
 Total expenditures	 <u>60,798,755</u>	 <u>139,249,222</u>	 <u>147,781,421</u>	 <u>(8,532,199)</u>
 Excess (deficiency) of revenues over (under) expenditures	 <u>-</u>	 <u>10,953,492</u>	 <u>(3,067,172)</u>	 <u>(14,020,664)</u>
 Other financing sources (uses):				
Transfers out - typhoon related expenditures	-	(10,953,492)	(1,833,154)	9,120,338
Transfers out - other	<u>-</u>	<u>-</u>	<u>(414,718)</u>	<u>(414,718)</u>
 Total other financing sources (uses), net	 <u>-</u>	 <u>(10,953,492)</u>	 <u>(2,247,872)</u>	 <u>8,705,620</u>
 Net change in deficit	 -	 -	 (5,315,044)	 (5,315,044)
Unreserved deficit at beginning of year	<u>(19,805,704)</u>	<u>(19,805,704)</u>	<u>(19,805,704)</u>	<u>-</u>
 Unreserved deficit at end of year	 <u>\$ (19,805,704)</u>	 <u>\$ (19,805,704)</u>	 <u>\$ (25,120,748)</u>	 <u>\$ (5,315,044)</u>

See accompanying independent auditors' report.

GUAM DEPARTMENT OF EDUCATION

Notes to Required Supplementary Information – Budgetary Reporting
September 30, 2003

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 2003, Public Law 26-152, and amended by Public Laws 27-02 and 27-05 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 that differs from GAAP. Actual amounts in the accompanying budgetary comparison statements are presented on a basis that excludes outstanding encumbrances as a budgetary expenditure.

Budget Deficit

As of September 30, 2003, the general fund has significant budget-to-actual deficits as follows:

Personnel	\$ 3,132,179
Utilities	\$ 2,346,416
Other	\$ 2,600,956

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

See Accompanying Independent Auditors' Report.

GUAM DEPARTMENT OF EDUCATION

**OTHER SUPPLEMENTARY
INFORMATION**

YEAR ENDED SEPTEMBER 30, 2003

GUAM DEPARTMENT OF EDUCATION

Special Revenue Funds and Agency Fund September 30, 2003

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, 2003, follows:

Federal Grants Assistance Fund - This fund accounts for all activities of federal assistance grants utilized by the Guam Department of Education to finance department operations. This fund does not account for any 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. The agency fund of GDOE is used to account for student activities at the school level, such as student organization fund raisings and after-school programs.

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, 2003

(With Comparative Totals as of September 30, 2002)

<u>ASSETS</u>	<u>2003</u>	<u>2002</u>
Current assets:		
Cash and cash equivalents	\$ 7,645,961	\$ 9,408,997
Receivables, net of allowance for uncollectibles:		
Federal grants and reimbursement receivables	4,431,600	4,946,000
Other receivables	-	78,772
Due from primary government	6,704,278	30,408,217
Prepayments	132,240	2,318,744
Total current assets	<u>18,914,079</u>	<u>47,160,730</u>
Noncurrent assets:		
Capital assets, net of accumulated depreciation	<u>159,151,819</u>	<u>164,113,120</u>
Total noncurrent assets	<u>159,151,819</u>	<u>164,113,120</u>
Total assets	<u>178,065,898</u>	<u>211,273,850</u>
 <u>LIABILITIES</u> 		
Current liabilities:		
Current portion of notes payable	1,437,632	983,630
Accounts payable	7,811,645	9,124,804
Accrued payroll	1,613,052	1,390,470
Other liabilities and accruals	21,221,954	42,245,757
Payable to federal agencies	634,767	1,206,518
Current portion of compensated absences	377,435	484,498
Total current liabilities	<u>33,096,485</u>	<u>55,435,677</u>
Noncurrent liabilities:		
Compensated absences, net of current portion	5,698,854	5,633,305
Unfunded pension liability	29,441,272	13,548,470
Notes payable, net of current portion	11,315,777	12,015,255
Total noncurrent liabilities	<u>46,455,903</u>	<u>31,197,030</u>
Total liabilities	<u>79,552,388</u>	<u>86,632,707</u>
 <u>NET ASSETS</u> 		
Invested in capital assets, net of related debt	159,151,819	164,113,120
Restricted for:		
Encumbrances	-	4,541,074
Unrestricted	(60,638,309)	(44,013,051)
Total net assets	<u>\$ 98,513,510</u>	<u>\$ 124,641,143</u>

See accompanying independent auditors' report.

GUAM DEPARTMENT OF EDUCATION

Statement of Activities - Governmental Activities

Year Ended September 30, 2003

(With Comparative Totals for the Year Ended September 30, 2002)

	2003	2002
Program Revenues:		
Elementary Education	\$ 9,560,748	\$ 3,495,025
Secondary Education	1,780,561	355,725
Direct Student Support	25,685,168	32,582,333
General Administration	3,458,737	-
	<u>40,485,214</u>	<u>36,433,083</u>
Expenses for Governmental Activities:		
Elementary Education	72,999,033	68,597,990
Secondary Education	63,124,594	66,956,889
Direct Student Support	33,984,717	28,117,246
General Administration	35,508,284	27,536,751
	<u>205,616,628</u>	<u>191,208,876</u>
Deficiency of program revenues under expenses	<u>(165,131,414)</u>	<u>(154,775,793)</u>
General revenues:		
Appropriations:		
Operations	134,945,012	134,216,095
Textbooks	3,200,000	4,060,000
Other	857,718	186,746
Interest income	1,051	383,211
	<u>139,003,781</u>	<u>138,846,052</u>
Total general revenues	<u>139,003,781</u>	<u>138,846,052</u>
Change in net assets	(26,127,633)	(15,929,741)
Net assets at beginning of year	<u>124,641,143</u>	<u>140,570,884</u>
Net assets at end of year	<u>\$ 98,513,510</u>	<u>\$ 124,641,143</u>

See accompanying independent auditors' report.

GUAM DEPARTMENT OF EDUCATION

Balance Sheet
Governmental Funds
September 30, 2003

(With Comparative Totals as of September 30, 2002)

<u>ASSETS</u>	2003			2002		
	General	Federal Grants Assistance	Total	General	Federal Grants Assistance	Total
Cash and cash equivalents	\$ 6,281,696	\$ 1,364,265	\$ 7,645,961	\$ 8,606,303	\$ 802,694	\$ 9,408,997
Receivables from Federal agencies	479,353	3,952,247	4,431,600	1,452,520	3,493,480	4,946,000
Other receivables	-	-	-	19,050	59,722	78,772
Due from primary government	6,704,278	-	6,704,278	30,408,217	-	30,408,217
Prepayments	28,978	103,262	132,240	2,046,287	272,457	2,318,744
Due from other funds	3,029,598	-	3,029,598	682,149	-	682,149
	<u>\$ 16,523,903</u>	<u>\$ 5,419,774</u>	<u>\$ 21,943,677</u>	<u>\$ 43,214,526</u>	<u>\$ 4,628,353</u>	<u>\$ 47,842,879</u>
<u>LIABILITIES AND FUND BALANCES (DEFICIT)</u>						
Liabilities:						
Accounts payable	\$ 6,722,133	\$ 1,089,512	\$ 7,811,645	\$ 8,742,791	\$ 382,013	\$ 9,124,804
Accrued payroll	1,613,052	-	1,613,052	1,390,470	-	1,390,470
Other liabilities and accruals	20,396,574	825,380	21,221,954	39,712,558	2,533,199	42,245,757
Payable to federal agencies	159,483	475,284	634,767	175,526	1,030,992	1,206,518
Due to other funds	-	3,029,598	3,029,598	-	682,149	682,149
Notes payable	12,753,409	-	12,753,409	12,998,885	-	12,998,885
	<u>41,644,651</u>	<u>5,419,774</u>	<u>47,064,425</u>	<u>63,020,230</u>	<u>4,628,353</u>	<u>67,648,583</u>
Fund Balances (deficit):						
Reserved for:						
Encumbrances	1,018,620	4,309,538	5,328,158	2,621,298	1,919,776	4,541,074
Unreserved	(26,139,368)	(4,309,538)	(30,448,906)	(22,427,002)	(1,919,776)	(24,346,778)
	<u>(25,120,748)</u>	<u>-</u>	<u>(25,120,748)</u>	<u>(19,805,704)</u>	<u>-</u>	<u>(19,805,704)</u>
Total liabilities and fund balances	<u>\$ 16,523,903</u>	<u>\$ 5,419,774</u>	<u>\$ 21,943,677</u>	<u>\$ 43,214,526</u>	<u>\$ 4,628,353</u>	<u>\$ 47,842,879</u>

See accompanying independent auditors' report.

GUAM DEPARTMENT OF EDUCATION

Reconciliation of Deficit to the Statement of Net Assets
September 30, 2003
(With Comparative Totals as of September 30, 2002)

	2003	2002
Total deficit	\$ (25,120,748)	\$ (19,805,704)
<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 \$52,482,894 and \$47,521,593 of accumulated depreciation, respectively</p>		
	159,151,819	164,113,120
<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>		
	(6,076,289)	(6,117,803)
Unfunded pension liability	(29,441,272)	(13,548,470)
Net assets of governmental activities	\$ 98,513,510	\$ 124,641,143

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, 2003
 (With Comparative Totals for the Year Ended September 30, 2002)

	2003			2002		
	General	Federal Grants Assistance	Total	General	Federal Grants Assistance	Total
Revenues:						
Appropriations	\$ 138,145,012	\$ -	\$ 138,145,012	\$ 138,462,841	\$ -	\$ 138,462,841
Federal grants and contributions	5,032,143	34,774,746	39,806,889	4,685,251	30,876,352	35,561,603
Cafeteria Sales	678,325	-	678,325	779,068	-	779,068
Fees and other program receipts	858,769	-	858,769	475,624	-	475,624
Total revenues	144,714,249	34,774,746	179,488,995	144,402,784	30,876,352	175,279,136
Expenditures:						
Current:						
Elementary Education	62,062,386	9,560,748	71,623,134	65,102,964	2,119,126	67,222,090
Secondary Education	57,997,536	1,780,561	59,778,097	63,254,667	355,725	63,610,392
Direct Student Support	11,762,147	22,222,570	33,984,717	2,454,448	25,662,798	28,117,246
General Administration	15,959,352	3,458,739	19,418,091	25,213,720	1,607,339	26,821,059
Total expenditures	147,781,421	37,022,618	184,804,039	156,025,799	29,744,988	185,770,787
Excess (deficiency) of revenues over (under) expenditures	(3,067,172)	(2,247,872)	(5,315,044)	(11,623,015)	1,131,364	(10,491,651)
Other financing sources (uses):						
Transfers in (out), net	(2,247,872)	2,247,872	-	-	-	-
Total other financing sources (uses), net	(2,247,872)	2,247,872	-	-	-	-
Net change in fund balances (deficit)	(5,315,044)	-	(5,315,044)	(11,623,015)	1,131,364	(10,491,651)
Fund balances (deficit) at beginning of year	(19,805,704)	-	(19,805,704)	(8,182,689)	(1,131,364)	(9,314,053)
Fund balances (deficit) at end of year	\$ (25,120,748)	\$ -	\$ (25,120,748)	\$ (19,805,704)	\$ -	\$ (19,805,704)

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, 2003
(With Comparative Totals as of September 30, 2002)

	2003	2002
Amounts reported for governmental activities in the statement of activities are different because:		
Net change in deficit - total governmental funds	\$ (5,315,044)	\$ (10,491,651)
Plus:		
Net change in annual leave activity	41,514	-
Less:		
Retirement contribution	(15,892,802)	-
Depreciation expense	(4,961,301)	(4,961,301)
Annual leave expense	-	(476,789)
Change in net assets of governmental activities	\$ (26,127,633)	\$ (15,929,741)

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, 2003

(With Comparative Totals for the Year Ended September 30, 2002)

	2003				2002			
	Original Budget	Final Budget	Actual	Variance	Original Budget	Final Budget	Actual	Variance
Revenues:								
Local appropriations	\$ 49,062,694	\$ 138,466,653	\$ 134,945,012	\$ (3,521,641)	\$ 138,886,299	\$ 144,476,299	\$ 134,402,841	\$ (10,073,458)
Local appropriations - Federal contributions	5,914,763	5,914,763	5,032,143	(882,620)	4,675,106	4,675,106	4,685,251	10,145
Local appropriations - textbooks	5,821,298	5,821,298	3,200,000	(2,621,298)	6,400,000	6,400,000	4,060,000	(2,340,000)
Cafeteria sales	-	-	678,325	678,325	-	-	779,068	779,068
Fees and other program receipts	-	-	858,769	858,769	22,745	22,745	475,624	452,879
Total revenues	60,798,755	150,202,714	144,714,249	(5,488,465)	149,984,150	155,574,150	144,402,784	(11,171,366)
Expenditures - Budgetary Basis:								
Personnel	49,033,249	122,969,320	126,101,499	(3,132,179)	133,320,640	133,320,640	135,169,262	(1,848,622)
Utilities	-	4,514,396	6,860,812	(2,346,416)	5,565,659	5,565,659	10,904,026	(5,338,367)
Textbooks	5,821,298	5,821,298	6,273,946	(452,648)	6,400,000	6,400,000	665,301	5,734,699
Other	5,944,208	5,944,208	8,545,164	(2,600,956)	4,697,851	10,287,851	9,287,210	1,000,641
Total expenditures	60,798,755	139,249,222	147,781,421	(8,532,199)	149,984,150	155,574,150	156,025,799	(451,649)
Excess (deficiency) of revenues over (under) expenditures	-	10,953,492	(3,067,172)	(14,020,664)	-	-	(11,623,015)	(11,623,015)
Other financing sources (uses):								
Transfers out - unreimbursed typhoon expenses	-	(10,953,492)	(1,833,154)	9,120,338	-	-	-	-
Transfers out - other	-	-	(414,718)	(414,718)	-	-	-	-
Total other financing sources (uses), net	-	(10,953,492)	(2,247,872)	8,705,620	-	-	-	-
Net change in deficit	-	-	(5,315,044)	(5,315,044)	-	-	(11,623,015)	(11,623,015)
Deficit at beginning of year	(19,805,704)	(19,805,704)	(19,805,704)	-	(8,182,689)	(8,182,689)	(8,182,689)	-
Deficit at end of year	\$ (19,805,704)	\$ (19,805,704)	\$ (25,120,748)	\$ (5,315,044)	\$ (8,182,689)	\$ (8,182,689)	\$ (19,805,704)	\$ (11,623,015)

See accompanying independent auditors' report.

GUAM DEPARTMENT OF EDUCATION

Supplementary Combined Statement of Revenues, Expenditures By Account and Changes in Fund Balances (Deficits)
 Governmental Funds
 Year Ended September 30, 2003
 (With Comparative Totals for the Year Ended September 30, 2002)

	2003			2002		
	General	Federal Grants Assistance	Total	General	Federal Grants Assistance	Total
Revenues:						
Local appropriations	\$ 138,145,012	\$ -	\$ 138,145,012	\$ 138,462,841	\$ -	\$ 138,462,841
Federal grants and contributions	5,032,143	34,774,746	39,806,889	4,685,251	30,876,352	35,561,603
Cafeteria sales	678,325	-	678,325	779,068	-	779,068
Fees and other program receipts	858,769	-	858,769	475,624	-	475,624
Total revenues	144,714,249	34,774,746	179,488,995	144,402,784	30,876,352	175,279,136
Expenditures:						
Salaries	99,321,804	20,978,212	120,300,016	108,142,714	17,800,363	125,943,077
Benefits	26,777,464	5,148,686	31,926,150	27,020,982	4,217,998	31,238,980
Power	5,894,594	-	5,894,594	7,705,245	-	7,705,245
Contractual	3,492,831	3,466,669	6,959,500	4,010,641	2,878,394	6,889,035
Stipends and other	354,218	497,200	851,418	2,816,562	643,130	3,459,692
Supplies	3,573,989	4,075,564	7,649,553	1,093,955	1,454,771	2,548,726
Equipment	96,502	300,374	396,876	1,787,243	396,640	2,183,883
Capital outlay	215,238	1,146,357	1,361,595	321,395	1,375,641	1,697,036
Interest	553,367	-	553,367	1,588,058	-	1,588,058
Textbooks	6,273,946	-	6,273,946	665,301	-	665,301
Travel	259,020	294,961	553,981	183,510	438,887	622,397
Water	750,036	-	750,036	587,731	-	587,731
Overtime	2,230	1,110,558	1,112,788	5,566	538,158	543,724
Phone	216,182	4,037	220,219	96,896	1,006	97,902
Total expenditures	147,781,421	37,022,618	184,804,039	156,025,799	29,744,988	185,770,787
Other financing sources (uses):						
Transfers in (out), net	(2,247,872)	2,247,872	-	-	-	-
Total other financing sources (uses)	(2,247,872)	2,247,872	-	-	-	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(5,315,044)	-	(5,315,044)	(11,623,015)	1,131,364	(10,491,651)
Fund balances (deficit), beginning of year	(19,805,704)	-	(19,805,704)	(8,182,689)	(1,131,364)	(9,314,053)
Fund balance (deficit), end of year	\$ (25,120,748)	\$ -	\$ (25,120,748)	\$ (19,805,704)	\$ -	\$ (19,805,704)

See accompanying independent auditors' report.

GUAM DEPARTMENT OF EDUCATION

Personnel
September 30, 2003

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

	<u>Employee Count</u>
FY 2003 – as of the pay period ended October 4, 2003	3,687
FY 2002 – as of the pay period ended October 5, 2002	3,825