

**GUAM PUBLIC SCHOOL SYSTEM
(A LINE AGENCY OF THE GOVERNMENT
OF GUAM'S GENERAL FUND)**

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

YEAR ENDED SEPTEMBER 30, 2008

GUAM PUBLIC SCHOOL SYSTEM

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INDEPENDENT AUDITORS' REPORT

Dr. Nerissa Bretania Shafer
Superintendent of Education
Guam Public School System
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 Public School System (GPSS), a line agency of the Government of Guam's general fund, as of and for the year ended September 30, 2008, which collectively comprise GPSS's basic financial statements as set forth in Section II of the foregoing table of contents. These financial statements are the responsibility of the Guam Public School System's management. Our responsibility is to express an opinion on the respective financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of GPSS's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the Guam Public School System are intended to present the financial position and the changes in financial position of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the Government of Guam that is attributable to the transactions of the Guam Public School System. They do not purport to, and do not, present fairly the financial position of the Government of Guam as of September 30, 2008 and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

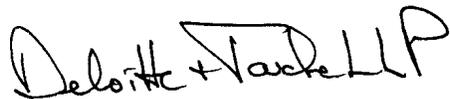
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Guam Public School System as of September 30, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 11 to the financial statements, beginning net assets of the governmental activities has been restated to correct a misstatement.

The Management's Discussion and Analysis, on pages 3 through 7 and the Schedule of Revenues, Expenditures, and Changes in Deficit – Budget and Actual – General Fund and notes thereto, as set forth in Section III of the foregoing table of contents, are not a required part of the financial statements but are supplementary information required by the Governmental Accounting Standards Board. Such information is the responsibility of GPSS's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on GPSS's financial statements that collectively comprise GPSS's basic financial statements. The Other Supplementary Information, as set forth in Section IV of the foregoing table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements of GPSS. This supplementary information is the responsibility of GPSS's management. Such 2008 information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 29, 2009 on our consideration of the Guam Public School System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

May 29, 2009

GUAM PUBLIC SCHOOL SYSTEM

Management's Discussion and Analysis
Year Ended September 30, 2008

INTRODUCTION

The Guam Public School System (GPSS) for many years has faced many operational and financial challenges. In spite of these challenges, teachers, administrators, and support staff continue to remain focused on our mission of “...*Preparing all students for life; Promoting excellence; and Providing support!*” This Management Discussion and Analysis presents a synopsis of the financial activities for Fiscal Year ending September 30, 2008, along with the operational challenges in providing an adequate public education to 30,823 school children. The operational and financial obstacles to successfully manage public education is a result of the public school systems' arduous statutory and policy requirements, limiting management's ability to maximize resources, crippled by the dependency on local government appropriations.

Notwithstanding the Government of Guam's current financial situation and GPSS's “*high risk*” designation, together with Special Conditions imposed by the U.S. Department of Education (US-Ed), GPSS continues to take pro-active measures to address US-Ed concerns. Through progressive programmatic and financial controls, GPSS remains steadfast in its commitment of ensuring programmatic and fiscal accountability through the implementation of GPSS's Comprehensive Corrective Action Plan (CCAP).

As management of the GPSS, we offer readers of its financial statements this narrative overview and analysis of its financial activities for the Fiscal Year ended September 30, 2008. This discussion was prepared by GPSS's management along with the financial statements and related footnote disclosures and should be read in conjunction with GPSS's basic financial statements and related notes. The completion of the 2008 single audit represents GPSS's commitment to, and support of, programmatic and financial accountability.

FISCAL YEAR 2008 OVERVIEW

GPSS receives most of its funds through local government appropriations from the General Fund of the Government of Guam. The General Fund is the same source of revenue that funds all other line agencies and departments, hence, the financial impact of the “General Fund” on public education is a concern. Without a consistent and dedicated funding source, the ability to provide an adequate public education will continue to be compromised.

Pursuant to Public Law (P.L.) 29-19, total local government appropriations (including the Interscholastic Sports Fund, Health and Physical Fund, *Kuantan Salappe' Prinsepat*, School Nutritional Meals, and Textbook Fund) for the department decreased from \$184,346,466 in fiscal year 2007 to \$183,443,455 in Fiscal Year 2008. P.L. 29-19 also appropriated \$29,804,000 from the Issuance of the General Obligation Bond. This appropriation was later decreased by 12.31% to \$26,135,977. (See Figure 1 shown below)

Although P.L. 29-19 appropriated \$7.5 million to the School Nutritional Meals, these funds are not local appropriations; but, rather Federal reimbursement funds provided by the US Department of Agriculture, Food and Nutrition Services (USDA, FNS) for meals served to students in the public school system and the Department of Defense Education Activity-Domestic Dependents Elementary and Secondary Schools (DoDEA-DDESS), wards of the Department of Youth Affairs, and children that attend various child care centers.

GUAM PUBLIC SCHOOL SYSTEM

Management's Discussion and Analysis Year Ended September 30, 2008

Through the Governor's transfer authority on April 23, 2008, GPSS's appropriation was reduced by \$820,891 for the Government of Guam Retirees' Health Insurance. And on June 11, 2008, GPSS's appropriation was increased by \$80,000 for the Summer School meals. The balance due to GPSS is \$1,791,918 broken down as follows:

General Fund	\$ 83,716
Interscholastic Sports	127,101
Health/Physical Education Activities	81,101
Textbook Orders	1,500,000

Figure 1 is shown below:

Fiscal Year	GEPB Approved Budget	Appropriation	Received	Appropriation vs Approved Budget	Received vs Appropriation
2006	\$184,213,039	\$165,371,424	\$152,265,986	\$(18,841,615)	\$(13,105,438)
2007	202,858,320	174,387,107	174,269,817	(28,471,213)	(117,290)
2008	274,069,377	180,928,992	179,137,074	(93,140,385)	(1,791,918)

Figure 1

Note: GPSS does not receive cash allotments of \$7,500,000 for the School Nutritional Meals Fund as such represent Federal Reimbursements by the United States Department of Agriculture, Food & Nutrition Services. Therefore, it was deducted from the appropriation column.

In addition, P.L. 29 – 106 appropriated \$5,800,000 for Textbook Reorders and \$2,971,035 for the procurement of Commodities for the Child Nutrition Program by the Department of Defense-Defense Supply Center, Philadelphia.

On October 10, 2007, GPSS subsequently received \$8,100,000, of this amount; \$1,382,839 was applied to Fiscal Year 2006. Although this amount was received, GPSS is still due \$13,365,534 dollars for Fiscal Year 2006 from the Department of Administration. This is recorded as Deferred Revenue since its collectability is uncertain. GPSS is not foregoing its right to the collection of the receivable. However, we will not recognize the claim until cash is received or until such time as GPSS can determine its collectability.

For Fiscal Year 2008, GPSS subsequently received a total of \$291,918 broken down as follows:

General Fund	\$ 83,716
Interscholastic Sports	127,101
Health/Physical Education Activities	81,101

GPSS continues to have a delinquent liability of approximately \$25 million for retirement and utilities obligations.

Overview of the Financial Statements

GPSS is a line agency of the Government of Guam's General Fund. Its policies are established by a combination of elected and Governor appointed board members. GPSS operates (26) elementary schools, (8) middle schools, (5) high schools, and (1) alternative education school.

GUAM PUBLIC SCHOOL SYSTEM

Management's Discussion and Analysis Year Ended September 30, 2008

GPSS financial statements are comprised of a Statement of Net Assets and a Statement of Activities, plus certain required supplementary and other supplementary information.

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

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

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

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

FINANCIAL ANALYSIS OF GUAM PUBLIC SCHOOL SYSTEM AS A WHOLE

Statement of Net Assets:

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

Summary Statement of Net Assets

	<u>2008</u>	As Restated <u>2007</u>
Assets:		
Current assets	\$ 25,427,831	\$ 28,271,662
Noncurrent assets	<u>209,352,465</u>	<u>143,338,573</u>
	<u>234,780,296</u>	<u>171,610,235</u>
Liabilities:		
Current liabilities	45,824,010	50,030,654
Noncurrent liabilities	<u>153,865,778</u>	<u>80,252,220</u>
	<u>199,689,788</u>	<u>130,282,874</u>
Net assets:		
Invested in capital assets, net of related debt	150,569,248	137,845,939
Restricted for federal programs	10,946,121	2,542,078
Unrestricted	<u>(126,424,861)</u>	<u>(99,060,656)</u>
Total net assets	\$ <u>35,090,508</u>	\$ <u>41,327,361</u>

From 2007-2008, total assets of GPSS increased by \$63,170,061 and total liabilities increased by \$69,406,914 resulting in an **overall** decrease of net assets by \$6,236,853 as noted in the Summary Statement of Revenues, Expenditures, and Changes in Net Assets.

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

GUAM PUBLIC SCHOOL SYSTEM

Management's Discussion and Analysis
Year Ended September 30, 2008

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>2008</u>	As Restated <u>2007</u>
General revenues:		
Appropriations	\$ 200,404,117	\$ 177,882,788
Other	<u>60,083</u>	<u>181,099</u>
	<u>200,464,200</u>	<u>178,063,887</u>
Program revenues:		
Federal grants and contributions	54,631,679	66,797,124
Other	<u>2,771,126</u>	<u>833,851</u>
	<u>57,402,805</u>	<u>67,630,975</u>
Total revenues	<u>257,867,005</u>	<u>245,694,862</u>
Expenses:		
Program related:		
Elementary education	99,149,402	93,965,238
Secondary education	87,768,368	81,403,208
Direct student support	38,315,294	30,959,552
General administration	<u>38,870,794</u>	<u>28,482,234</u>
Total expenses	<u>264,103,858</u>	<u>234,810,232</u>
Change in net assets	(6,236,853)	10,884,630
Net assets at beginning of year	<u>41,327,361</u>	<u>30,442,731</u>
Net assets at end of year	\$ <u>35,090,508</u>	\$ <u>41,327,361</u>

The statement of revenues, expenses, and changes in net assets reflects a decrease in net assets of \$6,236,853. This is a result of the net change in current year deficit, calculation of unfunded retirement contributions, and depreciation expense. As noted, the above financial statements have been restated. Please see note 11 for additional discussion on the restatement.

FINANCIAL ANALYSIS OF GUAM PUBLIC SCHOOL SYSTEM'S FUNDS

GPSS uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. As of the end of fiscal year 2008, GPSS's governmental funds reported a combined fund balance deficit of \$27.5 million, which represents a decrease of \$17.2 million (or 38%) in comparison with the fiscal year 2007 combined fund balance deficit of \$44.7 million. This is primarily attributable to the decrease in the fund balance deficit of the General Fund of \$17 million, and an increase in fund balance of the Federal Grants Assistance Fund of \$215,724. Of this total combined fund balance deficit, \$20.1 million is reserved to indicate that it is not available for new spending because it has already been committed: 1) to liquidate contracts and purchase orders of the prior period (\$11.6 million); or 2) to liquidate continuing appropriation commitments (\$8.4 million). The combined unreserved fund balance deficit of GPSS's governmental funds is \$47.6 million, a decrease of \$8.1 million (or 14.6%) from fiscal year 2007. This deficit will be funded through future budgetary surpluses.

GUAM PUBLIC SCHOOL SYSTEM

Management's Discussion and Analysis
Year Ended September 30, 2008

General Fund Budgetary Highlights

Differences in the General Fund original budget and the final amended budget reflected noteworthy changes in expenditure amounts and a relatively minor variance in revenue amounts. Actual General Fund resources available for spending on budgeted needs were \$19.4 million more than the final amended budget adopted by GPSS because of cafeteria sales and such fees and program receipts as Miscellaneous (Copying Services, Interest Income, etc.). Actual expenditures were \$33.2 million less than the final amended budget adopted by GPSS because of the cost saving measures implemented by GPSS. A detailed statement of budget variances for the General Fund can be found **on page 32**.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Government of Guam has assisted GPSS in obtaining access to new schools through a capital lease program. This program resulted in access to three new schools during the year ended September 30, 2008: Ligan Elementary School, Astumbo Middle School and Ukudo High School. Outside of this capital lease program, other capital assets were acquired through proceeds from a Government of Guam bond refunding issue, which set aside various funds for the repair and maintenance of schools. For additional information concerning capital assets, please refer to notes 1M and 10.

Debt Administration

Adacao Elementary School is being constructed through the capital lease program and this school is expected to be completed in fiscal year 2009. No material construction commitments exist outside of this program. For additional information concerning GPSS debt, please refer to note 2 to the financial statements.

Management's Discussion and Analysis for the years ended September 30, 2007 and 2006, is set forth in GPSS's report on the audit of the financial statements, which is dated June 27, 2008, and that Discussion and Analysis explains the major factors impacting the 2007 and 2006 financial statements and can be viewed at the Office of the Public Auditor's website at www.guamopa.com.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

In 2006, Guam was chosen as the location for the military build-up from Okinawa, Japan. The build-up would consist of relocating 10,000 U.S. Marines and their families to Guam, improving the Guam Naval Base to serve as the forward operations and logistics hub, and developing Andersen Air Force Base to serve as the new forward-base requirements. This move will occur during 2010 thru 2014. The increase in military presence will provide challenges for Guam's economy especially in education. Although the military provides its own school system, DoDEA-DDESS, for dependent children whose parents are full time military. Contract workers will more than likely bring their children which will increase GPSS' student enrollment.

Guam's economy is struggling to keep up with the financial needs of its schools and a budget deficit. With an expected increase in population with the military buildup, Guam can expect an increase in revenues via income taxes paid by all island residents that contribute to Guam's General Fund. The increase in revenues, however, will not be realized until after the military actually relocates to Guam, yet Guam and GPSS must prepare.

GUAM PUBLIC SCHOOL SYSTEM

Management's Discussion and Analysis
Year Ended September 30, 2008

In Fiscal Year 2008, GPSS opened three new schools 1) Liguán Elementary, 2) AsTumbo Middle, 3) Okkodo High. A new elementary school, Adacao Elementary School, is expected to open in School Year 2009 – 2010. Although the three new schools are opened and another elementary school will be opened, GPSS still needs to consider six to nine more schools as recommended by the Governor's Civilian Military Task Force starting 2010.

Not only does GPSS have to be concerned about the military build-up and the construction of new schools, GPSS must address the structural and infrastructure maintenance of its existing educational facilities in which the majority are over twenty-five years and older. Budget shortfalls prevent GPSS from tackling maintenance service orders for its schools. In Fiscal Year 2008, the Attorney General's Task Force inspected and closed schools requiring GPSS to conduct repairs at all cost. To fund the citations, GPSS used the General Issuance Bond appropriation of approximately \$21 million for Capital Improvement Projects.

With the anticipated military build-up, the opening of new schools, and the existing structural concerns of school facilities, GPSS will need additional funding through a dedicated funding source to ensure that an adequate education is provided to Guam's public school children.

The Guam Legislature appropriated \$189,753,771 for fiscal year 2009.

MANAGEMENT CONTACT

Management can be contacted at Guam Public School System, P.O. Box DE, Hagatna, Guam 96932, or sgtsgambelluri@gdoe.net.

GUAM PUBLIC SCHOOL SYSTEM

Statement of Net Assets
September 30, 2008

ASSETS

Current assets:	
Cash and cash equivalents	\$ 9,584,351
Receivables from federal agencies	3,977,279
Due from primary government	8,849,493
Prepayments and other assets	3,016,708
Total current assets	25,427,831
Noncurrent assets:	
Deferred maintenance costs	5,208,333
Capital assets, net of accumulated depreciation	202,151,498
Other deferred assets	1,992,634
Total noncurrent assets	209,352,465
Total assets	\$ 234,780,296

LIABILITIES

Current liabilities:	
Current portion of payment arrangement with GPA	\$ 1,933,396
Accounts payable	12,687,410
Accrued payroll	1,438,646
Interest and deferred maintenance payable	2,773,125
Other liabilities and accruals	6,067,005
Retirement payable	17,290,839
Current portion of obligation under capital lease	1,857,250
Current portion of compensated absences payable	1,776,339
Total current liabilities	45,824,010
Noncurrent liabilities:	
Compensated absences payable, net of current portion	2,541,165
Accrued sick leave liability	5,048,052
Unfunded pension liability	88,196,549
Obligation under capital lease, net of current portion	49,725,000
Payment arrangement with GPA, net of current portion	8,355,012
Total noncurrent liabilities	153,865,778
Total liabilities	199,689,788
Commitments and contingencies	

NET ASSETS

Invested in capital assets, net of related debt	150,569,248
Restricted for:	
Federal programs	2,478,477
Capital improvement projects	8,467,644
Unrestricted	(126,424,861)
Total net assets	35,090,508
	\$ 234,780,296

See accompanying notes to financial statements.

GUAM PUBLIC SCHOOL SYSTEM

Statement of Activities
Year Ended September 30, 2008

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	
Governmental Activities:				
Elementary Education	\$ 99,149,402	\$ -	\$ 15,559,559	\$ (83,589,843)
Secondary Education	87,768,368	-	6,936,274	(80,832,094)
Direct Student Support	38,315,294	2,771,126	25,388,064	(10,156,104)
General Administration	38,870,794	-	647,782	(38,223,012)
Capital projects	-	-	6,100,000	6,100,000
Total governmental activities	<u>\$ 264,103,858</u>	<u>\$ 2,771,126</u>	<u>\$ 54,631,679</u>	<u>(206,701,053)</u>
General revenues:				
Appropriations:				
Operations				195,504,117
Textbooks				4,900,000
Other				<u>60,083</u>
Total general revenues				<u>200,464,200</u>
Change in net assets				(6,236,853)
Net assets at beginning of year, as restated				<u>41,327,361</u>
Net assets at end of year				<u>\$ 35,090,508</u>

See accompanying notes to financial statements.

GUAM PUBLIC SCHOOL SYSTEM

Balance Sheet
Governmental Funds
September 30, 2008

<u>ASSETS</u>	<u>General</u>	<u>Special Revenue Federal Grants Assistance</u>	<u>Total</u>
Cash and cash equivalents	\$ 8,176,564	\$ 1,407,787	\$ 9,584,351
Receivables from Federal agencies	147,071	3,830,208	3,977,279
Due from primary government	8,849,493	-	8,849,493
Prepayments and other assets	330,603	-	330,603
Due from other funds	-	568,417	568,417
	<hr/>	<hr/>	<hr/>
Total assets	\$ 17,503,731	\$ 5,806,412	\$ 23,310,143
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<u>LIABILITIES AND FUND BALANCES (DEFICIT)</u>			
Liabilities:			
Accounts payable	\$ 11,576,083	\$ 1,111,327	\$ 12,687,410
Accrued payroll	1,214,951	223,695	1,438,646
Other liabilities and accruals	5,763,890	303,115	6,067,005
Retirement payable	17,057,793	233,046	17,290,839
Deferred revenues	-	2,478,477	2,478,477
Due to other funds	568,417	-	568,417
Payment arrangement with GPA	10,288,408	-	10,288,408
	<hr/>	<hr/>	<hr/>
Total liabilities	46,469,542	4,349,660	50,819,202
	<hr/>	<hr/>	<hr/>
Fund balances (deficit):			
Reserved for:			
Encumbrances	9,105,974	2,579,387	11,685,361
Continuing appropriations	8,467,644	-	8,467,644
Unreserved deficit	(46,539,429)	(1,122,635)	(47,662,064)
	<hr/>	<hr/>	<hr/>
Total fund balances (deficit)	(28,965,811)	1,456,752	(27,509,059)
	<hr/>	<hr/>	<hr/>
Total liabilities and fund balances	\$ 17,503,731	\$ 5,806,412	\$ 23,310,143
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

See accompanying notes to financial statements.

GUAM PUBLIC SCHOOL SYSTEM

Reconciliation of Deficit to Net Assets of Governmental Activities September 30, 2008

Total deficit-governmental funds		\$ (27,509,059)
Amounts reported for governmental activities in the statement of net assets are different because:		
Prepayment of capital lease obligations in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		2,686,105
Borrowing costs associated with capital lease obligations in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		1,992,634
Maintenance costs associated with capital lease obligations in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		5,208,333
Capital assets used in governmental activities are not financial resources and, therefore, and not reported in the governmental funds. Those assets consist of:		
Buildings and improvements	272,093,756	
Vehicles, furniture and equipment	4,014,066	
Accumulated depreciation	<u>(73,956,324)</u>	
Capital assets, net of accumulated depreciation		202,151,498
Long - term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds. These liabilities include:		
Interest and deferred maintenance payable	(2,773,125)	
Accrued sick leave liability	(5,048,052)	
Compensated absences payable	(4,317,504)	
Unfunded pension liability	(88,196,549)	
Obligation under capital lease	<u>(51,582,250)</u>	
Long - term liabilities		(151,917,480)
Certain revenues are earned but not available and therefore are deferred in the governmental funds:		
Adjustment of deferred revenue		<u>2,478,477</u>
Net assets of governmental activities		<u>\$ 35,090,508</u>

See accompanying notes to financial statements.

GUAM PUBLIC SCHOOL SYSTEM

Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit) Governmental Funds Year Ended September 30, 2008

	<u>General</u>	<u>Special Revenue Federal Grants Assistance</u>	<u>Total</u>
Revenues:			
Appropriations	\$ 200,404,117	\$ -	\$ 200,404,117
Federal grants and contributions	-	54,695,280	54,695,280
Cafeteria sales	737,266	-	737,266
Fees and other program receipts	2,093,943	-	2,093,943
Total revenues	<u>203,235,326</u>	<u>54,695,280</u>	<u>257,930,606</u>
Expenditures:			
Current:			
Elementary Education	81,423,182	15,559,559	96,982,741
Secondary Education	77,323,781	6,936,274	84,260,055
Direct Student Support	12,927,230	25,388,064	38,315,294
Maintenance	-	1,000,000	1,000,000
General Administration	14,486,773	495,659	14,982,432
Debt service:			
Lease payment	-	5,100,000	5,100,000
Capital projects:			
Capital lease acquisition	-	55,160,750	55,160,750
Total expenditures	<u>186,160,966</u>	<u>109,640,306</u>	<u>295,801,272</u>
Excess (deficiency) of revenues over (under) expenditures	17,074,360	(54,945,026)	(37,870,666)
Other financing sources:			
Capital leases	-	55,160,750	55,160,750
Net change in fund balances (deficit)	17,074,360	215,724	17,290,084
Fund balances (deficit) at beginning of year	<u>(46,040,171)</u>	<u>1,241,028</u>	<u>(44,799,143)</u>
Fund balances (deficit) at end of year	<u>\$ (28,965,811)</u>	<u>\$ 1,456,752</u>	<u>\$ (27,509,059)</u>

See accompanying notes to financial statements.

GUAM PUBLIC SCHOOL SYSTEM

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit) to the Statement of Activities Year Ended September 30, 2008

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

Total net change in deficit - governmental funds	\$ 17,290,084
--	---------------

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over the estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	64,305,559
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The net effect of various miscellaneous transactions involving capital assets (ie. Capital lease prepayment) is to decrease net assets.	(11,186,054)
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The issuance of long-term debt (eg. leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. For the current year, these amounts consist of:

Capital leases	(55,160,750)	
Repayment of capital leases	<u>3,578,500</u>	(51,582,250)

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

Decrease in compensated absence payable	51,691	
Increase in unfunded pension liability	(24,000,521)	
Increase in accrued sick leave liability	<u>(1,051,761)</u>	(25,000,591)

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

Adjustment of deferred revenues	<u>(63,601)</u>
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Change in net assets of governmental activities	\$ <u><u>(6,236,853)</u></u>
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See accompanying notes to financial statements.

GUAM PUBLIC SCHOOL SYSTEM

Statement of Fiduciary Net Assets
Agency Fund
September 30, 2008

ASSETS

Cash and cash equivalents	\$ <u>597,263</u>
Total assets	\$ <u><u>597,263</u></u>

LIABILITIES

Deposits and other liabilities	\$ <u>597,263</u>
Total liabilities	\$ <u><u>597,263</u></u>

See accompanying notes to financial statements.

GUAM PUBLIC SCHOOL SYSTEM

Notes to Financial Statements
September 30, 2008

(1) Summary of Significant Accounting Policies

A. Reporting Entity

The Guam Public School System (GPSS) 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 GPSS have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Guam Public School System has followed the same reporting framework as utilized by the Government of Guam in preparation of its annual financial statements to allow combination of these financial statements with those of the Government of Guam's general fund. Additionally, the Government of Guam's general fund is ultimately liable for the financial operations of GPSS.

An elected education policy board establishes policies for GPSS. GPSS operates 25 elementary schools and 12 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 financial information on all non-fiduciary activities of GPSS. GPSS 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 and reduced by outstanding balances for other debt that is attributed to the acquisition, construction or improvement of those assets.
- *Restricted net assets* result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through enabling legislation.
- *Unrestricted net assets* consist of net assets, which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. They often have restrictions that are imposed by management, but can be removed or modified.

The *Statement of Activities* demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. 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 PUBLIC SCHOOL SYSTEM

Notes to Financial Statements
September 30, 2008

(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 pursuant to GASB reporting standards. The Guam Public School System presents a balance sheet and a statement of revenues, expenditures and changes in fund balances (deficits) for its governmental funds. The ending fund balance on the balance sheet is then reconciled to the ending governmental activities net assets.

The Guam Public School System 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. GPSS reports the following fund types:

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

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

D. Measurement Focus and Basis of Accounting

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

Governmental Funds - account for the general governmental activities of the Guam Public School System. Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual; generally when they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. Significant revenues susceptible to accrual include local appropriations, federal grants, federal reimbursements and other reimbursements for use of materials and services. Revenues from other financing sources are recognized when received. Expenditures are recorded in the period in which the related fund liability is incurred. Principal and interest on general long-term obligations are recorded as fund liabilities when due. Compensated absences, claims and judgments, termination benefits and similar activities are recognized to the extent that they are normally expected to be liquidated with expendable available financial resources.

GUAM PUBLIC SCHOOL SYSTEM

Notes to Financial Statements
September 30, 2008

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

The Guam Public School System 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 GPSS functions or activities.

GPSS reports the following major governmental funds:

1. The General Fund is the primary operating fund of GPSS. 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. federal assistance grants and contracts utilized by GPSS 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 related 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

GASB Statement No. 3 requires government entities to categorize investments to give an indication of the level of credit risk assumed by the entity at year end. The three categories are described below:

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

GUAM PUBLIC SCHOOL SYSTEM

Notes to Financial Statements
September 30, 2008

(1) Summary of Significant Accounting Policies, Continued

G. Deposits in Banks, Continued

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

As of September 30, 2008, the carrying amount of GPSS's total cash and cash equivalents was \$9,584,351, and the corresponding bank balance was \$11,124,074, which is maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2008, bank deposits in the amount of \$100,000 were FDIC insured. Deposits in banks are required by local statute to be secured by qualified collateral in the amount of 110% or more of the deposit balance. However, the Government of Guam does not enforce this requirement on a consistent basis. The remaining bank deposits of \$11,024,074 were uncollateralized. These deposits are therefore exposed to custodial credit risk. GPSS has not experienced any significant losses in such accounts and GPSS management believes it is not exposed to any significant credit risk on its deposits.

H. Receivables

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

I. Prepayments

Payments made to textbook vendors for services that will benefit periods beyond September 30, 2008, are recorded as prepayments.

J. Interfund Receivables/Payables

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

K. 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 PUBLIC SCHOOL SYSTEM

Notes to Financial Statements
September 30, 2008

(1) Summary of Significant Accounting Policies, Continued

L. Interest Capitalized

GPSS follows the policy of capitalizing interest as a component of the cost of property, plant and equipment constructed for its own use. During the year ended September 30, 2008, interest associated with the municipal school lease agreement of \$7,156,292 was capitalized.

M. Capital Assets

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

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

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

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

Capital asset activities for the fiscal year ended September 30, 2008 are as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Buildings and improvements	\$ 202,950,453	\$ 69,143,303	\$ -	\$ 272,093,756
Vehicles, furniture and equipment	<u>3,176,836</u>	<u>837,230</u>	<u>-</u>	<u>4,014,066</u>
	206,127,289	69,980,533	-	276,107,822
Less: accumulated depreciation	<u>(68,281,350)</u>	<u>(5,674,974)</u>	<u>-</u>	<u>(73,956,324)</u>
	<u>\$137,845,939</u>	<u>\$ 64,305,559</u>	<u>\$ -</u>	<u>\$ 202,151,498</u>

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

GUAM PUBLIC SCHOOL SYSTEM

Notes to Financial Statements
September 30, 2008

(1) Summary of Significant Accounting Policies, Continued

M. Capital Assets, Continued

Governmental activities:	
Elementary Education	\$ 2,166,661
Secondary Education	<u>3,508,313</u>
	<u>\$ 5,674,974</u>

N. Net Assets

GPSS 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:

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

Capital improvement projects – identifies amounts appropriated by the legislature from bond proceeds to fund the capital improvement project of GPSS needed to comply with the Every Child is Entitled to an Adequate Public Education Act.

O. Deferred Assets

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

P. Compensated Absences

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

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

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

GUAM PUBLIC SCHOOL SYSTEM

Notes to Financial Statements
September 30, 2008

(1) Summary of Significant Accounting Policies, Continued

Q. Deferred Revenues

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

R. Dedicated Revenues and Pledges

GPSS has entered into a municipal school lease agreement whereby GPSS has pledged a portion of future Compact Impact grant funds to finance annual lease payments under this agreement. This lease obligation is payable solely from Compact Impact grant revenues payable to GovGuam by the United States Government pursuant to the Compact of Free Association Act, U.S. Public Law 108-188. Total payments remaining on this municipal school lease agreement are approximately \$109,800,000 payable through December 2025. For the year ended September 30, 2008, lease payments made and total Compact Impact grant revenues received were \$6,100,000 and \$6,100,000, respectively.

S. Estimates

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

T. Total Columns

Total columns are presented primarily to facilitate financial analysis. The Management’s Discussion and Analysis includes certain prior year summarized comparative information in total. Such information does not include sufficient detail to constitute a full comparative presentation. Accordingly, such information should be read in conjunction with GPSS’s financial statements for the year ended September 30, 2007 from which summarized information was derived.

U. New Accounting Standards

During fiscal year 2008, GPSS implemented the following pronouncements:

- GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post employment Benefits Other Than Pensions*, which establishes standards for the measurement, recognition, and display of other post employment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The Government of Guam has determined that implementation of GASB Statement No 45 does not have a material effect on its financial statements or on the financial statements of its component units, including the financial statements of GPSS.

GUAM PUBLIC SCHOOL SYSTEM

Notes to Financial Statements
September 30, 2008

(1) Summary of Significant Accounting Policies, Continued

U. New Accounting Standards, Continued

Furthermore, GPSS implemented the following pronouncements during fiscal year 2008:

- GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues*, which establishes criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing, and includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components.
- GASB Statement No. 50, *Pension Disclosures an amendment of GASB Statements No. 25 and 27*, which more closely aligns the financial reporting requirements for pensions with those for other post-employment benefits.

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

In December 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. GASB Statement No. 49 provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation. The provisions of this statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GPSS.

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. GASB Statement No. 51 addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GPSS.

In November 2007, GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. GASB Statement No. 52 improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income. The provisions of this statement are effective for periods beginning after June 15, 2008. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GPSS.

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. GASB Statement No. 53 is intended to improve how state and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GPSS.

GUAM PUBLIC SCHOOL SYSTEM

Notes to Financial Statements
September 30, 2008

(2) Long-Term Debt

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

\$ 10,288,408

The annual requirements to amortize the debt outstanding as of September 30, 2008, including interest payments, are as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 1,933,396	\$ 421,602	\$ 2,354,998
2010	2,068,569	331,431	2,400,000
2011	2,162,953	237,047	2,400,000
2012	2,261,642	138,358	2,400,000
2013	<u>1,861,848</u>	<u>36,668</u>	<u>1,898,516</u>
	\$ <u>10,288,408</u>	\$ <u>1,165,106</u>	\$ <u>11,453,514</u>

Changes in Long-Term Liabilities

Changes in long-term liabilities for the year ended September 30, 2008, are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<u>Governmental activities:</u>					
Installment payment agreement with GPA	\$12,023,181	\$ -	\$(1,734,773)	\$ 10,288,408	\$1,933,396
Accrued sick leave liability	3,996,291	1,051,761	-	5,048,052	-
Compensated absences	4,369,195	1,484,577	(1,536,268)	4,317,504	1,776,339
Unfunded pension liability	64,196,028	24,000,521	-	88,196,549	-
Obligations under capital lease	<u>-</u>	<u>55,160,750</u>	<u>(3,758,500)</u>	<u>51,582,250</u>	<u>1,857,250</u>
	<u>\$84,584,695</u>	<u>\$81,697,609</u>	<u>\$(7,029,541)</u>	<u>\$159,432,763</u>	<u>\$5,566,985</u>

(3) Contingencies

A. Sick Leave

It is the policy of GPSS to record the cost of sick leave when leave is actually taken and a liability is actually incurred. Generally, sick leave is paid only when an employee is absent due to illness, injury or related-family death. Under the defined contribution retirement system (DCRS), an employee may convert into cash up to 50% of the accrued sick leave liability. For this reason, a sick leave liability is recorded at September 30, 2008. The estimated accumulated amount of unused sick leave at September 30, 2008, is \$32,817,031, of which an estimated \$5,048,052 may be convertible by DCRS employees upon retirement.

GUAM PUBLIC SCHOOL SYSTEM

Notes to Financial Statements
September 30, 2008

(3) Contingencies, Continued

B. Federal Grants

GPSS has received federal grants for specific purposes that are subject to review and audit by the grantor agencies. Questioned costs for the 2008 and prior year audits aggregate to a material amount. If the questioned costs are ultimately disallowed, the general fund would be liable for the return of such funds. However, no liability which may arise from the ultimate outcome of this matter has been provided for in the accompanying financial statements.

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

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

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

C. Non-Appropriated Funds

Non-appropriated funds are maintained at the individual schools. No provision has been recorded in the accompanying financial statements for any liability that may arise from these funds held in trust by GPSS.

D. Self-Insurance

GPSS 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. No material losses have occurred as a result of the policy in the past three years.

E. Court Order

In April 2006, a court order was issued, ordering GPSS to pay \$3,800,000 in teacher salaries. This balance is reflected in accounts payable in the accompanying financial statements. GPSS will not be able to make the required payments without an appropriation from the Government of Guam's general fund.

GUAM PUBLIC SCHOOL SYSTEM

Notes to Financial Statements
September 30, 2008

(3) Contingencies, Continued

F. Public Law 28-45

Under Public Law 28-45, entitled “Every Child is Entitled to an Adequate Public Education Act,” effective October 1, 2007, a public school student shall have a claim and standing to sue the Government of Guam and any officer of the Executive Branch of the Government of Guam in his official capacity only for the purpose of enjoining such officer from failing to provide an adequate public education to that public school student but *not* for money damages. Given the lack of adequate funding to meet all of the requirements of Public Law 28-45, it is reasonably possible that law suits will be filed against GPSS and legal costs will increase.

G. Post Employment Benefits

GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, became effective October 1, 2007. Management received a legal opinion from the Office of the Attorney General concerning the applicability of this Statement and subsequently determined that implementation of GASB Statement No 45 does not have a material effect on the basic financial statements of the Government of Guam, including the accompanying financial statements.

(4) Employee Retirement Plans

Defined Benefit Plan

Plan Description:

The GovGuam Defined Benefit (DB) Plan is single-employer defined benefit contributory pension plan administered by the GovGuam Retirement Fund (GGRF) to which all funds and agencies, including component units, as well as employees who are members of the DB Plan, contribute a fixed percentage of the payroll. The DB Plan provides retirement, disability, and survivor benefits to members and beneficiaries who enrolled in the plan prior to October 1, 1995. Cost-of-living adjustments are provided to members and beneficiaries at the discretion of the Guam Legislature. All employees whose employment commences on or after October 1, 1995, are required to participate in the Defined Contribution Retirement System (DCRS). Hence, the DB Plan became a closed group.

Membership in the DB Plan was mandatory for all full-time employees, except for those compensated on a fee basis, independent contractors, and persons aged 60 or over upon employment. 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. GGRF issues a publicly available financial report that includes financial statements and required supplementary information for the DB Plan. That report may be obtained by writing to the Government of Guam Retirement Fund, 424 A Route 8, Maite, Guam 96910, or by visiting GGRF’s website – www.ggrf.com.

GUAM PUBLIC SCHOOL SYSTEM

Notes to Financial Statements
September 30, 2008

(4) Employee Retirement Plans, Continued

Defined Benefit Plan, Continued

Funding Policy:

As a result of actuarial valuations performed as of September 30, 2006, 2005, and 2004, contribution rates required to fully fund the Retirement Fund liability, as required by Guam law, for the years ended September 30, 2008, 2007 and 2006, respectively, have been determined by the Guam Legislature as follows:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Normal costs (% of DB Plan payroll)	17.94%	18.21%	17.83%
Employee contributions (DB Plan employees)	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>
Employer portion of normal costs (% of DB Plan payroll)	<u>8.44%</u>	<u>8.71%</u>	<u>8.33%</u>
Employer portion of normal costs (% of total payroll)	3.99%	4.26%	4.64%
Unfunded liability cost (% of total payroll)	<u>20.75%</u>	<u>20.66%</u>	<u>21.36%</u>
Government contribution as a % of total payroll	<u>24.74%</u>	<u>24.92%</u>	<u>26.00%</u>
Statutory contribution rates as a % of DB Plan payroll			
Employer	<u>24.07%</u>	<u>22.94%</u>	<u>21.81%</u>
Employee	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>

Statutory contribution rates for the DB Plan are established annually by the Guam Legislature. GPSS's required contributions for the years ended September 30, 2008, 2007 and 2006 were \$53,306,034, \$37,044,456 and \$37,884,425, respectively, whereas the actual contributions were \$29,305,513, \$34,509,491 and \$30,712,450, respectively.

Annual Pension Cost and Net Pension Obligation:

GPSS's annual pension cost and net pension obligation to the DB Plan for the years ended September 30, 2008, 2007 and 2006 were as follows:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Annual Required Contribution	\$ 41,239,802	\$ 37,697,226	\$ 38,461,269
Interest on Net Pension Obligation	5,395,477	4,316,274	3,814,236
Adjustment to Annual Required Contribution	<u>6,670,755</u>	<u>(4,969,044)</u>	<u>(4,391,080)</u>
Annual pension cost	53,306,034	37,044,456	37,884,425
Contributions made	<u>(29,305,513)</u>	<u>(34,509,491)</u>	<u>(30,712,450)</u>
Change in Net Pension Obligation	24,000,521	2,534,965	7,171,975
Net Pension Obligation, beginning of year	<u>64,196,028</u>	<u>61,661,063</u>	<u>54,489,088</u>
Net Pension Obligation, end of year	\$ <u>88,196,549</u>	\$ <u>64,196,028</u>	\$ <u>61,661,063</u>

GUAM PUBLIC SCHOOL SYSTEM

Notes to Financial Statements
September 30, 2008

(4) Employee Retirement Plans, Continued

Annual Pension Cost and Net Pension Obligation, Continued:

The Annual Required Contribution for the years ended September 30, 2008, 2007 and 2006 were determined as part of the September 30, 2006, 2005 and 2004 actuarial valuations using the entry age normal actuarial cost method. The actuarial assumptions included the following:

Interest rate and rate of return	7.0%
Payroll growth	3.5%
Salary increases	4.0% - 8.5%

The assumptions did not include cost-of-living adjustments, which are funded by GPSS when required through legislation. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of total payroll through May 1, 2031. The remaining amortization period at September 30, 2008 was 22.58 years.

The actuarial valuations performed as of September 30, 2006, 2005 and 2004, 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 were performed for GPSS as a separate sponsor, the accrued unfunded liability at September 30, 2008 may be materially different than that recorded in the accompanying financial statements.

The actuarial valuations and contribution rates are based on estimates and assumptions. Changes in estimates and actuarial assumptions may result in revisions in actuarial valuations and contributions rates. The effects of such revisions are recognized in the period in which the revisions are determined.

Defined Contribution Retirement System (DCRS)

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

Statutory employer contributions into the DCRS plan for the years ended September 30, 2008 and 2007, are determined using the same rates as the DB Plan. Of the amount contributed by the employer, only 5% of the member's regular pay is deposited into the member's individual investment account. The remaining amount is contributed towards the unfunded liability of the defined benefit plan.

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

GUAM PUBLIC SCHOOL SYSTEM

Notes to Financial Statements
September 30, 2008

(5) Retirement Liability

As of September 30, 2008, a total of \$10,357,150 is payable to the Government of Guam Retirement Fund for delinquent contributions related to pay periods in FY 2003 for locally funded employees. Contributions for Federally funded employees have been remitted in full. Interest and penalties continue to accrue on this liability based on the provisions set forth in 4GCA 8137(c), which states that the Government of Guam Retirement Fund will impose interest a rate equivalent to the average rate of return on its investments from the previous fiscal year and a 1% penalty for delinquent payments. As of September 30, 2008, this liability includes interest and penalties, totaling \$6,700,643, and is recorded as a liability of the General Fund.

Public Law 28-38, passed in June 2005, as amended by Public Law 29-19 requires that the Government of Guam general fund remit interest-only payments monthly to the Government of Guam Retirement Fund for the aforementioned liability. The law indicates that monthly payments, totaling \$192,955, will continue until the outstanding balance is fully paid. However, if the obligations are not paid within ten years following the enactment of P.L. 28-38, payments by GPSS will resume per 4GCA Section 8137. During the fiscal year ended September 30, 2008, the Government of Guam general fund paid interest, totaling \$2,315,461, for GPSS.

(6) Continuing Appropriations

As of September 30, 2008, the General Fund recorded continuing appropriations, representing amounts legally segregated for a specific future use from unspent bond proceeds, as follows:

Public Law No. 29-19:

General Obligation Bonds, Series 2007:

Guam Public School System Capital Improvement Projects \$ 8,467,644

(7) Interfund Transfers

Transfers between governmental fund types are normally recorded on a cash basis. The general fund transfer out balance represents amounts paid by the general fund for program expenditures that are not expected to be reimbursed by other funds. Should any of this amount be subsequently collected, it will be recognized as a recovery in the year of receipt.

(8) Local Appropriations

The General Appropriations Act of 2008 appropriates \$7,500,000 of all monies collected by GPSS from Federal funds paid to GPSS for reimbursement under the National School Lunch Program and Breakfast Program and the State Administrative Expenses for Child Nutrition Program to GPSS for non-personnel operating expenses. The total of such reimbursements from the U.S. Department of Agriculture during fiscal year 2008 is \$8,468,254, which is accounted for in GPSS' special revenue fund.

(9) Due from Government Agencies

Due from primary government consists of receivables from the Government of Guam General Fund. At September 30, 2008, the GPSS has been informed that it has fiscal year 2007 and 2008 appropriations due from the Government of Guam of \$8,849,493. GPSS has not received any of the remaining 2006 appropriations subsequent to September 30, 2008 to date. Therefore, revenue recognition for the remaining receivables has been reserved and will only occur upon receipt of the cash. The net receivable is as follows:

GUAM PUBLIC SCHOOL SYSTEM

Notes to Financial Statements
September 30, 2008

(9) Due from Government Agencies, Continued

Receivable from the Government of Guam	\$ 22,215,027
Provision for FY06 appropriations uncollected	(13,365,534)
	<u>\$ 8,849,493</u>

(10) Municipal School Lease Agreement

On May 25, 2005, the Government of Guam, acting through GPSS, entered into a financing lease agreement with a third party for the design, construction and maintenance of four new schools on Guam, with lease payments funded by a pledge of U.S. Compact Impact Fund revenues. This lease agreement qualifies as a capital lease for accounting purposes and therefore, has been recorded at the present value of the future minimum lease payments as of inception date, being the date of completion of the new schools. As of September 30, 2008, three of the four schools have been completed.

The completed assets acquired through capital leases are as follows:

Asset:	
Buildings	\$ 68,868,303
Less accumulated depreciation	<u>(1,377,366)</u>
	<u>\$ 67,490,937</u>

These buildings are summarized as follows:

Liguan Elementary School	\$ 12,610,789
Astumbo Middle School	17,495,233
Ukudo High School	<u>38,762,281</u>
	<u>\$ 68,868,303</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2008, were as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>
2009	\$ 4,257,083
2010	4,253,542
2011	4,250,000
2012	4,246,458
2013	4,260,625
2014-2018	21,150,833
2019-2023	20,991,458
2024	<u>12,555,209</u>
Total minimum lease payments	75,965,208
Less amount representing interest	<u>(24,382,958)</u>
Total	<u>\$ 51,582,250</u>

GUAM PUBLIC SCHOOL SYSTEM

Notes to Financial Statements
September 30, 2008

(10) Municipal School Lease Agreement, Continued

Of the \$6,100,000 U.S. Compact Impact grant revenues received annually to fund the municipal school lease, a total of \$1,000,000 is allocated for maintenance.

As discussed in Note 11, capital grants and contributions for fiscal year 2007 was restated in the amount of \$16,307,366, which is due to the aforementioned annual Compact Impact grant revenues being received in FY2007 as follows:

	<u>Received in FY 2007</u>
For FY 2005	\$ 4,107,366
For FY 2006	6,100,000
For FY 2007	<u>6,100,000</u>
	<u>\$ 16,307,366</u>

(11) Restatement

Subsequent to the issuance of GPSS's 2007 basic financial statements, GPSS management determined that certain lease transactions associated with a municipal school lease agreement were not recorded as related facilities had yet to be completed. As a result of this determination, the following account balances have been restated from the amounts previously reported, due to the completion of the related construction, as follows:

	<u>As Previously Reported</u>	<u>As Restated</u>
At September 30:		
Current assets:		
Prepayments and other assets	\$ <u>401,207</u>	\$ <u>13,208,573</u>
Noncurrent assets:		
Deferred maintenance costs	\$ <u>-</u>	\$ <u>3,500,000</u>
Other deferred assets	\$ <u>-</u>	\$ <u>1,992,634</u>
Net Assets:		
Unrestricted	\$ <u>(117,360,656)</u>	\$ <u>(99,060,656)</u>
For the year ended September 30:		
Capital projects:		
Capital grants and contributions	\$ <u>-</u>	\$ <u>16,307,366</u>
Net expense	\$ <u>(183,486,623)</u>	\$ <u>(167,179,257)</u>
Change in net assets	\$ <u>(5,422,736)</u>	\$ <u>10,884,630</u>
Net assets at beginning of year	\$ <u>28,450,097</u>	\$ <u>30,442,731</u>

GUAM PUBLIC SCHOOL SYSTEM

**REQUIRED SUPPLEMENTARY
INFORMATION**

YEAR ENDED SEPTEMBER 30, 2008

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Revenues, Expenditures, and Changes in Deficit - Budget and Actual
General Fund
Year Ended September 30, 2008

	Original Budget	Final Budget	Actual - Budgetary Basis	Variance with Final Budget - Positive (Negative)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Revenues:				
Local appropriations				
GPSS Operations Fund	\$ 193,022,120	\$ 195,660,881	\$ 184,605,932	\$ (11,054,949)
Territorial Education Facilities Fund	9,891,673	9,891,673	9,891,673	-
General fund - textbooks	2,000,000	7,800,000	4,900,000	(2,900,000)
Interscholastic sports	509,246	509,246	509,246	-
Health and Physical Education Activities fund	324,416	324,416	324,416	-
ECEAPE fund	-	-	22,850	22,850
Suruhanu office	-	150,000	150,000	-
Public library system fund	-	800,000	-	(800,000)
School Lunch/SAE/Child Nutritional Meal Reimbursement Fund	7,500,000	7,500,000	737,266	(6,762,734)
Fees and other program receipts	-	-	2,093,943	2,093,943
	<u>213,247,455</u>	<u>222,636,216</u>	<u>203,235,326</u>	<u>(19,400,890)</u>
 Expenditures - Budgetary Basis:				
Personnel	159,259,341	163,409,341	154,751,154	8,658,187
Utilities	15,950,452	16,992,714	12,319,138	4,673,576
Contractual	9,568,488	10,715,815	8,393,245	2,322,570
Supplies/equipment	9,616,690	8,981,749	7,894,367	1,087,382
Textbooks	2,000,000	8,925,598	(136,738)	9,062,336
Food services	7,750,000	10,721,035	575,030	10,146,005
Other	9,102,484	8,737,894	5,622,814	3,115,080
	<u>213,247,455</u>	<u>228,484,146</u>	<u>189,419,010</u>	<u>39,065,136</u>
 Excess (deficiency) of revenues over (under) expenditures	-	(5,847,930)	13,816,316	19,664,246
 Other changes in unreserved deficit:				
Increase in continuing appropriations	-	-	(8,467,644)	(8,467,644)
Unreserved deficit at beginning of year	<u>(51,888,101)</u>	<u>(51,888,101)</u>	<u>(51,888,101)</u>	<u>-</u>
 Unreserved deficit at end of year	<u>\$ (51,888,101)</u>	<u>\$ (57,736,031)</u>	<u>\$ (46,539,429)</u>	<u>\$ 11,196,602</u>

See accompanying notes to required supplementary information and independent auditors' report.

GUAM PUBLIC SCHOOL SYSTEM

Notes to Required Supplementary Information – Budgetary Reporting September 30, 2008

(1) 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 2008, Public Law Nos. 29-19, 29-41, 29-52, 29-102, and 29-106 were approved for the executive branch. Supplemental budgets for Special Revenue Funds are generally not submitted. Accordingly, a budget to actual presentation for Special Revenue Funds is not required or presented.

Accounting principles used in developing data on a budgetary basis differ from those used in preparing the basic financial statements in conformity with GAAP. Amounts included on the Statement of Revenues, Expenditures, and Changes in Deficit – Budget and Actual – General Fund (which are presented on a non-GAAP budgetary basis) are reconciled to unreserved deficit of the Governmental Fund Balance Sheet within the other changes in unreserved deficit section of that statement.

(2) Reconciliation - GAAP and Budgetary Bases of Accounting

Encumbrance accounting is employed in governmental funds. For budgetary purposes, the encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For GAAP reporting purposes, encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent fiscal year.

Accounting principles used in developing data on a budgetary basis differ from those used in preparing the financial statements in conformity with GAAP. Amounts included on the Statement of Revenues, Expenditures, and Changes in Deficit - Budget and Actual - General Fund (which are presented on a non-GAAP budgetary basis) are reconciled to unreserved deficit of the Governmental Fund Balance Sheet within the other changes in unreserved deficit section of that statement. Furthermore, the net change in fund balance (deficit) to the net change in unreserved fund deficit for the General Fund is as follows:

Net change in fund balance (deficit)	\$ <u>17,074,360</u>
Increase in fund balance reservations:	
Encumbrances	(3,258,044)
Continuing appropriations	<u>(8,467,644)</u>
	(11,725,688)
Net change in unreserved fund deficit	\$ <u>5,348,672</u>

See Accompanying Independent Auditors' Report.

GUAM PUBLIC SCHOOL SYSTEM

**OTHER SUPPLEMENTARY
INFORMATION**

YEAR ENDED SEPTEMBER 30, 2008

GUAM PUBLIC SCHOOL SYSTEM

Special Revenue Funds and Agency Fund September 30, 2008

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 Public School System's Special Revenue Fund as of September 30, 2008, follows:

Federal Grants Fund - This fund accounts for all activities of federal assistance grants utilized by the Guam Public School System 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 Public School System 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 GPSS is used to account for student activities at the school level, such as student organization fund raisings and after-school programs.

See Accompanying Independent Auditors' Report.

GUAM PUBLIC SCHOOL SYSTEM

Statements of Net Assets - Governmental Activities

September 30, 2008

(With Comparative Totals as of September 30, 2007)

<u>ASSETS</u>	<u>2008</u>	<u>2007</u>
Current assets:		
Cash and cash equivalents	\$ 9,584,351	\$ 10,137,943
Receivables from federal agencies	3,977,279	4,506,655
Due from primary government	8,849,493	418,491
Prepayments and other assets	3,016,708	13,208,573
Total current assets	<u>25,427,831</u>	<u>28,271,662</u>
Noncurrent assets:		
Deferred maintenance costs	5,208,333	3,500,000
Capital assets, net of accumulated depreciation	202,151,498	137,845,939
Other deferred costs	1,992,634	1,992,634
Total noncurrent assets	<u>209,352,465</u>	<u>143,338,573</u>
Total assets	<u>\$ 234,780,296</u>	<u>\$ 171,610,235</u>
 <u>LIABILITIES</u>		
Current liabilities:		
Current portion of payment arrangement with GPA	\$ 1,933,396	\$ 1,851,373
Accounts payable	12,687,410	22,828,016
Accrued payroll	1,438,646	5,837,041
Interest and deferred maintenance payable	2,773,125	-
Other liabilities and accruals	6,067,005	482,460
Retirement payable	17,290,839	16,550,662
Current portion of obligation under capital lease	1,857,250	-
Current portion of compensated absences payable	1,776,339	2,481,102
Total current liabilities	<u>45,824,010</u>	<u>50,030,654</u>
Noncurrent liabilities:		
Compensated absences payable, net of current portion	2,541,165	1,888,093
Accrued sick leave liability	5,048,052	3,996,291
Unfunded pension liability	88,196,549	64,196,028
Obligation under capital lease, net of current portion	49,725,000	-
Payment arrangement with GPA, net of current portion	8,355,012	10,171,808
Total noncurrent liabilities	<u>153,865,778</u>	<u>80,252,220</u>
Total liabilities	<u>199,689,788</u>	<u>130,282,874</u>
 <u>NET ASSETS</u>		
Invested in capital assets, net of related debt	150,569,248	137,845,939
Restricted for:		
Federal programs	2,478,477	2,542,078
Capital improvement projects	8,467,644	-
Unrestricted	<u>(126,424,861)</u>	<u>(99,060,656)</u>
Total net assets	<u>35,090,508</u>	<u>41,327,361</u>
	<u>\$ 234,780,296</u>	<u>\$ 171,610,235</u>

See accompanying independent auditors' report.

GUAM PUBLIC SCHOOL SYSTEM

Statements of Activities - Governmental Activities
 Year Ended September 30, 2008
 (With Comparative Totals for the Year Ended September 30, 2007)

	2008	2007
Program Revenues:		
Elementary Education	\$ 15,559,559	\$ 15,458,056
Secondary Education	6,936,274	6,408,738
Direct Student Support	28,159,190	24,566,364
General Administration	647,782	4,890,451
Capital projects	6,100,000	16,307,366
Total program revenues	57,402,805	67,630,975
Expenses for Governmental Activities:		
Elementary Education	99,149,402	93,965,238
Secondary Education	87,768,368	81,403,208
Direct Student Support	38,315,294	30,959,552
General Administration	38,870,794	28,482,234
Total expenses for governmental activities	264,103,858	234,810,232
Deficiency of program revenues under expenses	(206,701,053)	(167,179,257)
General revenues:		
Appropriations:		
Operations	195,504,117	172,053,445
Textbooks	4,900,000	1,500,000
Other	-	4,329,343
Other	60,083	181,099
Total general revenues	200,464,200	178,063,887
Change in net assets	(6,236,853)	10,884,630
Net assets at beginning of year	41,327,361	30,442,731
Net assets at end of year	\$ 35,090,508	\$ 41,327,361

See accompanying independent auditors' report.

GUAM PUBLIC SCHOOL SYSTEM

Balance Sheets
Governmental Funds
September 30, 2008

(With Comparative Totals as of September 30, 2007)

<u>ASSETS</u>	2008			2007		
	General	Federal Grants Assistance	Total	General	Federal Grants Assistance	Total
Cash and cash equivalents	\$ 8,176,564	\$ 1,407,787	\$ 9,584,351	\$ 10,042,602	\$ 95,341	\$ 10,137,943
Receivables from Federal agencies	147,071	3,830,208	3,977,279	8,572	4,222,033	4,230,605
Due from primary government	8,849,493	-	8,849,493	418,491	-	418,491
Prepayments and other assets	330,603	-	330,603	574,996	102,260	677,256
Due from other funds	-	568,417	568,417	-	949,142	949,142
Total assets	\$ 17,503,731	\$ 5,806,412	\$ 23,310,143	\$ 11,044,661	\$ 5,368,776	\$ 16,413,437
 <u>LIABILITIES AND FUND BALANCES (DEFICIT)</u>						
Liabilities:						
Accounts payable	\$ 11,576,083	\$ 1,111,327	\$ 12,687,410	\$ 17,988,700	\$ 494,011	\$ 18,482,711
Accrued payroll	1,214,951	223,695	1,438,646	4,927,730	909,311	5,837,041
Other liabilities and accruals	5,763,890	303,115	6,067,005	4,645,417	186,456	4,831,873
Retirement payable	17,057,793	233,046	17,290,839	16,550,662	-	16,550,662
Deferred revenues	-	2,478,477	2,478,477	-	2,537,970	2,537,970
Due to other funds	568,417	-	568,417	949,142	-	949,142
Payment agreement with GPA	10,288,408	-	10,288,408	12,023,181	-	12,023,181
Total liabilities	46,469,542	4,349,660	50,819,202	57,084,832	4,127,748	61,212,580
Fund Balances (deficit):						
Reserved for:						
Encumbrances	9,105,974	2,579,387	11,685,361	5,847,930	5,169,641	11,017,571
Continuing appropriations	8,467,644	-	8,467,644	-	-	-
Unreserved	(46,539,429)	(1,122,635)	(47,662,064)	(51,888,101)	(3,928,613)	(55,816,714)
Total fund balances (deficits)	(28,965,811)	1,456,752	(27,509,059)	(46,040,171)	1,241,028	(44,799,143)
Total liabilities and fund balances	\$ 17,503,731	\$ 5,806,412	\$ 23,310,143	\$ 11,044,661	\$ 5,368,776	\$ 16,413,437

See accompanying independent auditors' report.

GUAM PUBLIC SCHOOL SYSTEM

Reconciliations of Deficit to the Statement of Net Assets September 30, 2008 (With Comparative Totals as of September 30, 2007)

	2008	2007
Total deficit - governmental funds	\$ (27,509,059)	\$ (44,799,143)
Amounts reported for governmental activities in the statements of net assets are different because:		
Prepayment of capital lease obligations in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	2,686,105	12,807,366
Borrowing costs associated with capital lease obligations in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	1,992,634	1,992,634
Maintenance costs associated with capital lease obligations in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	5,208,333	3,500,000
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. Those assets consist of:		
Buildings and improvements	\$ 272,093,756	202,950,453
Vehicles, furniture and equipment	4,014,066	3,176,836
Accumulated depreciation	<u>(73,956,324)</u>	<u>(68,281,350)</u>
Capital assets, net of accumulated depreciation	202,151,498	137,845,939
Long - term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds. These liabilities include:		
Interest and deferred maintenance payable	(2,773,125)	
Accrued sick leave liability	(5,048,052)	(3,996,291)
Compensated absences payable and accrued sick leave liability	(4,317,504)	(4,369,195)
Unfunded pension liability	(88,196,549)	(64,196,027)
Obligation under capital lease	<u>(51,582,250)</u>	<u>-</u>
Long - term liabilities	(151,917,480)	(72,561,513)
Certain revenues are earned but not available and therefore are deferred in the governmental funds:		
Adjustment of deferred revenue	<u>2,478,477</u>	<u>2,542,078</u>
Net assets of governmental activities	<u>\$ 35,090,508</u>	<u>\$ 41,327,361</u>

See accompanying independent auditors' report.

GUAM PUBLIC SCHOOL SYSTEM

Statements of Revenues, Expenditure and Changes in Fund Balances (Deficit) Governmental Funds Year Ended September 30, 2008 (With Comparative Totals for the Year Ended September 30, 2007)

	2008			2007		
	General	Federal Grants Assistance	Total	General	Federal Grants Assistance	Total
Revenues:						
Appropriations	\$ 200,404,117	\$ -	\$ 200,404,117	\$ 177,413,440	\$ -	\$ 177,413,440
Federal grants and contributions	-	48,595,280	48,595,280	-	50,489,758	50,489,758
Federal grants - capital projects	-	6,100,000	6,100,000	-	16,307,366	16,307,366
Cafeteria sales	737,266	-	737,266	833,851	-	833,851
Fees and other program receipts	2,093,943	-	2,093,943	650,447	-	650,447
Total revenues	203,235,326	54,695,280	257,930,606	178,897,738	66,797,124	245,694,862
Expenditures:						
Current:						
Elementary Education	81,423,182	15,559,559	96,982,741	78,507,182	15,458,056	93,965,238
Secondary Education	77,323,781	6,936,274	84,260,055	74,994,470	6,408,738	81,403,208
Direct Student Support	12,927,230	25,388,064	38,315,294	7,227,040	23,732,513	30,959,553
Maintenance	-	1,000,000	1,000,000	-	3,500,000	3,500,000
General Administration	14,486,773	495,659	14,982,432	15,761,494	3,799,710	19,561,204
Debt service:						
Lease payment	-	5,100,000	5,100,000	-	12,807,366	12,807,366
Capital projects:						
Capital lease acquisition	-	55,160,750	55,160,750	-	-	-
Total expenditures	186,160,966	109,640,306	295,801,272	176,490,186	65,706,383	242,196,569
Excess (deficiency) of revenues over (under) expenditures	17,074,360	(54,945,026)	(37,870,666)	2,407,552	1,090,741	3,498,293
Other financing sources (uses):						
Transfers in (out), net	-	-	-	(115,620)	115,620	-
Capital lease	-	55,160,750	55,160,750	-	-	-
Total other financing sources (uses), net	-	55,160,750	55,160,750	(115,620)	115,620	-
Net change in fund balances (deficit)	17,074,360	215,724	17,290,084	2,291,932	1,206,361	3,498,293
Fund balances (deficit) at beginning of year	(46,040,171)	1,241,028	(44,799,143)	(48,332,103)	34,667	(48,297,436)
Fund balances (deficit) at end of year	\$ (28,965,811)	\$ 1,456,752	\$ (27,509,059)	\$ (46,040,171)	\$ 1,241,028	\$ (44,799,143)

See accompanying independent auditors' report.

GUAM PUBLIC SCHOOL SYSTEM

Reconciliations of the Statement of Revenues, Expenditures and Changes in Deficit of Governmental Funds to the Statement of Activities September 30, 2008 (With Comparative Totals as of September 30, 2007)

	2008	2007
Amounts reported for governmental activities in the statements of activities are different because:		
Total net change in deficit - governmental funds	\$ 17,290,084	\$ 3,498,293
Governmental funds report capital outlays as expenditures. However, in the statements of activities the cost of those assets is allocated over the estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation (or depreciation exceeded capital outlays).	64,305,559	(4,369,208)
The net effect of various miscellaneous transactions involving capital assets (ie. Capital lease prepayment) is to increase (decrease) net assets.	(11,186,054)	18,300,000
The issuance of long-term debt (eg. leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt.	(51,582,250)	-
Some expenses reported in the statements of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(25,000,591)	(3,980,199)
Certain revenues are earned but not available and therefore are deferred in the governmental funds.	(63,601)	(571,622)
Change in net assets of governmental activities	\$ (6,236,853)	\$ 12,877,264

See accompanying independent auditors' report.

GUAM PUBLIC SCHOOL SYSTEM

Schedules of Revenues, Expenditures, and Changes in Deficit - Budget and Actual General Fund Year Ended September 30, 2008 (With Comparative Totals for the Year Ended September 30, 2007)

	2008				2007			
	Original Budget	Final Budget	Actual - Budgetary Basis	Variance with Final Budget - Positive (Negative)	Original Budget	Final Budget	Actual - Budgetary Basis	Variance with Final Budget - Positive (Negative)
Revenues:								
Local appropriations:								
GPSS Operations Fund	\$ 193,022,120	\$ 195,660,881	\$ 184,605,932	\$ (11,054,949)	\$ 172,957,804	\$ 172,053,445	\$ 172,053,445	\$ -
Territorial Education Facilities Fund	9,891,673	9,891,673	9,891,673	-	-	-	-	-
General fund - textbooks	2,000,000	7,800,000	4,900,000	(2,900,000)	3,500,000	1,500,000	1,500,000	-
Air condition Fund-Restricted	-	-	-	-	-	1,503,510	1,503,510	-
Air condition Fund	-	-	-	-	-	450,421	450,421	-
Retirement Contribution	-	-	-	-	-	784,000	784,000	-
Interscholastic Sports	509,246	509,246	509,246	-	509,246	509,246	509,246	-
Health and Physical Education Activities Fund	324,416	324,416	324,416	-	324,416	324,416	324,416	-
ECEAPE Fund	-	-	22,850	22,850	-	140,000	140,000	-
Principals Fund	-	150,000	150,000	-	555,000	-	110,000	110,000
Public library system fund	-	800,000	-	(800,000)	-	38,402	38,402	-
School Lunch/SAE/Child Nutritional Meal Reimbursement Fund	7,500,000	7,500,000	737,266	(6,762,734)	-	-	833,851	833,851
Fees and other program receipts	-	-	2,093,943	2,093,943	-	-	650,447	650,447
Total revenues	213,247,455	222,636,216	203,235,326	(19,400,890)	177,846,466	177,303,440	178,897,738	1,594,298
Expenditures - Budgetary Basis:								
Personnel	159,259,341	163,409,341	154,751,154	8,658,187	-	-	149,804,762	(149,804,762)
Utilities	15,950,452	16,992,714	12,319,138	4,673,576	-	-	15,779,149	(15,779,149)
Contractual	9,568,488	10,715,815	8,393,245	2,322,570	-	1,492,917	8,978,093	(7,485,176)
Supplies/equipment	9,616,690	8,981,749	7,894,367	1,087,382	-	1,790,399	600,019	1,190,380
Textbooks	2,000,000	8,925,598	(136,738)	9,062,336	3,500,000	3,357,311	(148,247)	3,505,558
Food service	7,750,000	10,721,035	575,030	10,146,005	-	-	-	-
Other	9,102,484	8,737,894	5,622,814	3,115,080	174,346,466	176,246,357	1,740,796	174,505,561
Total expenditures	213,247,455	228,484,146	189,419,010	39,065,136	177,846,466	182,886,984	176,754,572	6,132,412
Excess (deficiency) of revenues over (under) expenditures	-	(5,847,930)	13,816,316	19,664,246	-	(5,583,544)	2,143,166	7,726,710
Other financing uses:								
Transfers out - other	-	-	-	-	-	-	(115,620)	(115,620)
Net change in deficit	-	(5,847,930)	13,816,316	19,664,246	-	(5,583,544)	2,027,546	7,611,090
Other changes in unreserved deficit:								
Increase in continuing appropriations	-	-	(8,467,644)	(8,467,644)	-	-	-	-
Deficit at beginning of year	(51,888,101)	(51,888,101)	(51,888,101)	-	(47,073,044)	(53,915,647)	(53,915,647)	-
Deficit at end of year	\$ (51,888,101)	\$ (57,736,031)	\$ (46,539,429)	\$ 11,196,602	\$ (47,073,044)	\$ (59,499,191)	\$ (51,888,101)	\$ 7,611,090

See accompanying independent auditors' report.

GUAM PUBLIC SCHOOL SYSTEM

Combined Statements of Revenues, Expenditures By Account and Changes in Fund Balances (Deficits) Governmental
Funds
Year Ended September 30, 2008
(With Comparative Totals for the Year Ended September 30, 2007)

	2008			2007		
	General	Federal Grants Assistance	Total	General	Federal Grants Assistance	Total
Revenues:						
Local appropriations	\$ 200,404,117	\$ -	\$ 200,404,117	\$ 177,413,440	\$ -	\$ 177,413,440
Federal grants and contributions	-	48,595,280	48,595,280	-	50,489,758	50,489,758
Federal grants - capital projects	-	6,100,000	6,100,000	-	16,307,366	16,307,366
Cafeteria sales	737,266	-	737,266	833,851	-	833,851
Fees and other program receipts	2,093,943	-	2,093,943	650,447	-	650,447
Total revenues	203,235,326	54,695,280	257,930,606	178,897,738	66,797,124	245,694,862
Expenditures:						
Salaries	117,927,685	22,507,156	140,434,841	115,729,766	25,317,460	141,047,226
Benefits	36,823,469	8,805,022	45,628,491	34,074,996	6,607,037	40,682,033
Contractual	5,594,816	11,964,798	17,559,614	8,176,351	9,539,527	17,715,878
Power	11,086,116	-	11,086,116	12,356,367	-	12,356,367
Supplies	3,857,433	2,424,529	6,281,962	943,128	4,516,744	5,459,872
Textbooks	988,860	988,860	1,977,720	583,466	1,338,123	1,921,589
Water	1,463,898	-	1,463,898	1,586,301	-	1,586,301
Equipment	804,861	484,275	1,289,136	670,075	498,713	1,168,788
Travel	354,574	534,174	888,748	261,312	825,383	1,086,695
Capital outlay	3,927,704	579,829	4,507,533	308,621	548,663	857,284
Interest and penalties	1,785,876	-	1,785,876	823,123	-	823,123
Phone	811,386	4,450	815,836	794,218	-	794,218
Stipends and other	372,665	56,685	429,350	177,961	167,598	345,559
Overtime	361,623	29,778	391,401	4,501	39,769	44,270
Capital projects	-	6,100,000	6,100,000	-	16,307,366	16,307,366
Capital lease acquisitions	-	55,160,750	55,160,750	-	-	-
Total expenditures	186,160,966	109,640,306	295,801,272	176,490,186	65,706,383	225,889,203
Other financing sources (uses):						
Transfers in (out), net	-	-	-	(115,620)	115,620	-
Capital lease	-	55,160,750	55,160,750	-	-	-
Total other financing sources (uses), net	-	55,160,750	55,160,750	(115,620)	115,620	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	17,074,360	215,724	17,290,084	2,291,932	1,206,361	19,805,659
Fund balances (deficit), beginning of year	(46,040,171)	1,241,028	(44,799,143)	(48,332,103)	34,667	(48,297,436)
Fund balance (deficit), end of year	\$ (28,965,811)	\$ 1,456,752	\$ (27,509,059)	\$ (46,040,171)	\$ 1,241,028	\$ (28,491,777)

See accompanying independent auditors' report.

GUAM PUBLIC SCHOOL SYSTEM

Schedule of Federal Receivables and Deferrals Year Ended September 30, 2008

Grantor/CFDA Grantor's Program Title	Federal CFDA Number	Accrued (Deferred) Balance at October 1, 2007	FY 2008 Cash Receipts and Adjustments	FY 2008 Expenditures	Accrued (Deferred) Balance at September 30, 2008	
USDA	National School Lunch Program	10.555	\$ 1,141,471	\$ 7,894,144	\$ 8,434,180	\$ 1,681,507
USDA	State Administrative Expenses for Child Nutrition	10.560	146,391	285,873	336,821	197,339
USDA	Commodity Supplemental Food Program	10.565	(88,345)	556,444	556,444	(88,345)
USDA	Emergency Food Assistance Program (Administrative Costs)	10.568	(117,186)	16,441	13,222	(120,405)
USDA	Community Facilities Loans and Grants	10.766	(15,422)	-	-	(15,422)
DOD	Army JROTC	12.000	-	322,590	310,910	(11,680)
DOD	Air Force JROTC	12.000	-	99,440	93,392	(6,048)
DOI	Economic, Social, and Political Development of the Territories	15.875	(101,574)	6,217,997	6,100,000	(219,571)
DHS/FEMA	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	83.544	(1,249,173)	624,888	515,854	(1,358,207)
U.S. ED	Services for Children with Deaf-Blindness	84.025	(176)	-	-	(176)
U.S. ED	Special Education-Grants to States	84.027	451,458	15,520,956	15,251,627	182,129
U.S. ED	Special Education-Personnel Development and Parent Training	84.029	(12,023)	-	-	(12,023)
U.S. ED	Impact Aid	84.041	(47,700)	53,426	47,687	(53,438)
U.S. ED	Vocational Education: Basic Grants to States	84.048	(184,749)	89,577	139,065	(135,261)
U.S. ED	National Diffusion Network (NDN)	84.073	(3,455)	-	-	(3,455)
U.S. ED	Special Education-Preschool Grants	84.173	(27,795)	-	-	(27,795)
U.S. ED	Special Education: Grants for Infants and Families With Disabilities	84.181	878,623	1,133,773	1,150,459	895,309
U.S. ED	Byrd Honors Scholarships	84.185	58,500	112,000	56,500	3,000
U.S. ED	Bilingual Education Support Services	84.194	-	-	-	0
U.S. ED	Partnerships in Character Education	84.215	22,910	517,901	523,548	28,557
U.S. ED	Freely Associated States-Education Grant Program	84.256	(39,798)	75,811	229,749	114,140
U.S. ED	Twenty-First Century Community Learning Centers	84.287	12,972	-	-	12,972
U.S. ED	Advanced Placement Program	84.330	(4,743)	-	-	(4,743)
U.S. ED	Teacher Quality Education (HATSA)	84.336	259,216	1,958,877	1,780,523	80,862
U.S. ED	Class Size Reduction	84.340	-	-	-	0
U.S. ED	School Renovation Grants	84.352	(8,808)	-	-	(8,808)
U.S. ED	Literacy through School Libraries	84.364	-	5,922	5,922	0
U.S. ED	Mathematics and Science Partnerships	84.366	1,925	-	-	1,925
U.S. ED	Consolidated Grants	84.922	1,220,048	18,233,456	17,631,363	617,955
DHHS	Child Care and Development Block Grant	93.575	(131,427)	-	-	(131,427)
DHHS	Head Start	93.600	(501,866)	2,050,327	2,164,447	(387,746)
DHHS	Prevent the Spread of HIV and Other Important Health Problems	93.938	28,519	108,926	89,870	9,463
Corporation for National and Community Service	Learn and Serve America_School and Community Based Programs	94.004	(3,730)	-	8,780	5,050
Total Federal Awards		\$	<u>1,684,063</u>	<u>55,878,769</u>	<u>55,440,363</u>	<u>1,245,658</u>
Expenditures accounted for in the General Fund					(6,060,807)	
Debt service: lease payment					5,100,000	
Capital acquisition					55,160,750	
Total Expenditures					<u>\$ 109,640,306</u>	
Receivables from Federal agencies		\$	4,222,033			3,830,208
Payable to federal agencies			(2,537,970)			(2,478,477)
Payables accounts for in the General Fund			-			(106,073)
		\$	<u>1,684,063</u>			<u>\$ 1,245,658</u>

See accompanying independent auditors' report.

GUAM PUBLIC SCHOOL SYSTEM

Agency Fund
September 30, 2008

The schedule of cash receipts and cash disbursements for the agency fund during fiscal year 2008 is as follows:

	<u>NAF</u>	<u>Deed</u>	<u>Total</u>
Cash balance at beginning of year	\$ 631,396	30,432	661,828
Adjustments	5,149	-	5,149
	636,545	30,432	666,977
Cash receipts:			
Elementary school activities	362,018	311,320	673,338
Secondary school activities	1,080,230	-	1,080,230
Total receipts	1,442,248	311,320	1,753,568
Cash disbursements:			
Elementary school activities	381,880	311,320	693,200
Secondary school activities	1,130,092	-	1,130,082
Total disbursements	1,511,962	311,320	1,823,282
Deficiency of receipts over disbursements	(69,714)	-	(69,714)
Cash balance at end of year	\$ 566,831	30,432	597,263

The number of individual funds at the schools during fiscal year 2008 is as follows:

Elementary schools	249
Secondary schools	159
High schools:	196
GWHS	45
JFKHS	61
SSHS	41
SHS	21
UHS	28

See accompanying independent auditors' report.

GUAM PUBLIC SCHOOL SYSTEM

Personnel
September 30, 2008

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

	Employee Count as of PPE <u>September 29, 2008</u>	Employee Count as of PPE <u>October 1, 2007</u>
100% Locally Funded	2,891	2,944
100% Federally Funded	622	922
Locally/Federally Funded	<u>130</u>	<u>182</u>
Total Employee Count	<u>3,643</u>	<u>4,048</u>

See accompanying independent auditors' report.