

UNIVERSITY OF GUAM

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT
AND REPORT ON SUPPLEMENTARY
INFORMATION**

YEAR ENDED SEPTEMBER 30, 2002

UNIVERSITY OF GUAM
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INDEPENDENT AUDITORS' REPORT

Board of Regents
University of Guam:

We have audited the accompanying statement of net assets of the University of Guam, a component unit of the Government of Guam, as of September 30, 2002, and the related statements of revenues, expenses and changes in net assets, and of cash flows for the year then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

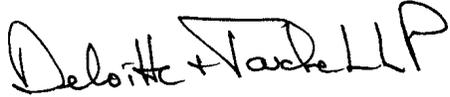
In our opinion, such financial statements present fairly, in all material respects, the financial position of the University of Guam as of September 30, 2002, and the changes in its fund balances (deficits) and its current funds revenues, expenditures and other changes for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit of the financial statements for the year ended September 30, 2002, was made for the purpose of expressing our opinion on the basic financial statements taken as a whole. The accompanying schedules on pages 20 through 23 are presented for purposes of additional analysis and are not a required part of the basic financial statements. These schedules are the responsibility of the University of Guam's management. Such information has been subjected to the auditing procedures applied 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.

As discussed in note 2 to the financial statements, the University adopted the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities* as of October 1, 2001.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 6, 2003, on our consideration of the University of Guam's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 3-6 is not a required part of the basic financial statements but is supplementary information required by the GASB. This information is the responsibility of the University's management. We have applied certain limited procedures to such information, which consisted principally of inquiries of management regarding the methods of measurements and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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

May 6, 2003

UNIVERSITY OF GUAM

Management Discussion and Analysis Year Ended September 30, 2002

Introduction

This section of University of Guam's annual financial report presents our discussion and analysis of the financial performance of the University during the fiscal year ended September 30, 2002. This discussion has been prepared by University management along with the financial statements and related footnote disclosures and should be read in conjunction with the University's basic financial statements beginning on page 7 and related notes. Since this is a transition year for this format, only one year of the management's discussion and analysis is presented. Future analyses will compare consecutive fiscal years.

Fiscal Year 2002 Overview

There are many factors used to evaluate the health of a college or university. These include strategic direction of the University, the financial status of the institution, student enrollment, and the capabilities of employees. In evaluating the financial status, one of the most important questions is whether the University is financially better off at the beginning of the year or at the end of the year. In sum, the net asset position of the University was \$73.7 million at year end, not significantly changed from the prior year (a -1.7% change).

Looking at our Statement of Net Assets, 94% of the University's net assets are non-current (buildings and investments), while 6% are current. Of total assets, 74% are in property, plant and equipment, 16% in current assets, and the remaining 10% in investments. Receivables make up 66% of current assets; about half of total receivables are from the local government for FY2002 appropriations. Of total liabilities, 40% are current, meaning current resources will be required to pay these in the coming year. The noncurrent portion, 60%, will require resources spread over several periods. At year end, the University had very little long-term debt, about 6% of total liabilities.

Looking at our revenues and expenditures, the University brought in \$33.6 million from our own operations and the federal government. These revenues were higher than the Government of Guam appropriations to the University of \$31.3 million. The University spent \$27.7 million on the core of our mission. Of that total, 53% went to instruction, 25% to research, and the remaining 22% to public service. In addition, the University spent \$10.9 million on student aid, \$4.8 million to maintain the campus, and \$17 million on libraries, technology, and student, academic and administrative support.

Overview of the Financial Statements and Financial Analysis

This financial report is very different from previous years since the University of Guam has implemented Government Accounting Standards Board Standard 35 (GASB 35), *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. The major result of GASB 35 is the presentation of the entire University's accounts in one column, as seen in a typical statement for a business concern. This contrasts with the accounting by funds presentation from previous years.

Statement of Net Assets

The Statement of Net Assets includes all assets and liabilities. For the first time, assets and liabilities are categorized as either Current or Noncurrent. Current assets represent economic benefits that are generally available during the next year. Noncurrent assets are expected to convert to economic benefits in a period beyond the next year. Current liabilities are expected to require cash payments or the use of current assets in the next year. Noncurrent liabilities are expected to require cash payments or the use of assets in a period beyond the next year.

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Management Discussion and Analysis Year Ended September 30, 2002

Net assets are divided into three categories. Invested in capital assets, net of related debt, presents our equity in property, plant and equipment. Restricted net assets are either nonexpendable or expendable. The corpus of nonexpendable restricted sources is only available for investment purposes. Expendable restricted net assets are available for expenditure by the University, but must be spent for purposes as determined by donors and/or external entities that have place, time or purpose restrictions on the use of the assets. Lastly, unrestricted net assets are available for any lawful purpose of the institution.

Summary Statement of Net Assets

	<u>(In thousands)</u>
Assets:	
Current assets	\$ 14,269
Investments	9,191
Capital assets, net	<u>66,257</u>
	\$ <u>89,717</u>
Liabilities:	
Current liabilities	\$ 9,952
Noncurrent liabilities	<u>6,108</u>
	\$ <u>16,060</u>
Net assets:	
Invested in capital assets, net of related debt	\$ 65,116
Restricted – nonexpendable	4,047
Restricted – expendable	5,261
Unrestricted	<u>(767)</u>
	\$ <u>73,657</u>

The total assets of the University increased by about \$1.6 million, while total liabilities increased by \$2.8 million, resulting in a decrease in net assets of \$1.2 million.

The total asset increase of about \$1.6 million is the net result of local government appropriations outstanding at the end of FY2002, less cumulative reductions in grant and contract amounts receivables, tuition receivable, carrying values of long-term investments, and net capital assets. Outstanding local appropriations have since been received in full during FY2003. Net capital assets decreased due to depreciation expense, which was recognized for the first time under a new accounting standard.

The increase in total liabilities of about \$2.8 million is primarily the result of an increase in accounts payable and accrued liabilities. Due to the delay in receiving local government appropriations, there was a delay in paying vendors towards the end of FY2002. However, with appropriations caught-up in FY2003, the University has managed to eliminate those amounts, and currently manages to existing cash flows, successfully preventing loss of service from critical vendors that late payments may cause.

Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets presents the revenues earned and the expenses incurred during the year. Activities are reported as either operating or nonoperating. GASB 35 requires state appropriations to be presented as nonoperating revenues.

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Management Discussion and Analysis
Year Ended September 30, 2002

Summary Statement of Revenues, Expenses and Changes in Net Assets

	<u>(In thousands)</u>
Operating revenues	\$ 29,820
Operating expenses	<u>59,195</u>
Operating loss	(29,375)
Nonoperating revenues	<u>28,115</u>
Decrease in net assets	(1,260)
Net assets – beginning of year	<u>74,917</u>
Net assets – end of year	\$ <u>73,657</u>

The Statement of Revenues, Expenses and Changes in Net Assets reflects a decrease in net assets of \$1.26 million. The operating loss appears because local government appropriations are reported as nonoperating revenues rather than operating revenues. Therefore, as long as the single largest source of the University's revenues is from local government appropriations, there will be an operating loss at the current level of tuition, fees, grants and contracts. Highlights of the information presented on the Statement of Revenues, Expenses and Changes in Net Assets include the following:

- 1) Student tuition and fees remained relatively stable, increasing by \$0.2 million. This was the result of a planned increase of student tuition and fee rates, combined with a slight decrease in enrollment. Comparison of annual enrollment figures shows this year's decrease was the smallest in recent years.
- 2) Federal, local and private grants and contracts increased by \$1.2 million, a 7% increase over the prior year. The University continues its efforts towards becoming a competitive research and service University. The number of grants received continues to increase.
- 3) Salaries and wages decreased by about \$2.3 million. Normally, employees who choose to separate from the University will do so at the end of the fiscal year. One reason is to maximize their annual leave lump sum payouts. At September 30, 2001 approximately 16 employees resigned or retired and received their lump sum payouts. This is the primary reason for the decrease, as only essential vacant positions were filled and overtime was reduced. The University continues the search to fill essential positions in order to raise our level of instruction, research and services.
- 4) Although salaries and wages decreased significantly, operational expenses increased overall by \$0.6 million. Increased grants and contracts required additional spending for the University to meet commitments. Costs of services and products in the market likewise increased. Also, depreciation expense of \$2.3 million was recognized for the first time for certain capital assets in accordance with a newly adopted accounting principle. In general, the University supported the continuation and enhancement of the services which are central to its mission.
- 5) Local government appropriations for the University decreased by \$0.6 million. As a result of the downturn in the Asian and United States economies, Government of Guam revenues have decreased significantly over the past few years.
- 6) Reflecting financial market conditions, net investment expense decreased by \$1.5 million, from a loss of \$2.5 million in 2001 to a loss of \$1 million in 2002.

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Management Discussion and Analysis
Year Ended September 30, 2002

Statement of Cash Flows

The final statement presented is the Statement of Cash Flows. This statement presents detailed information about the cash activity of the University during the year. The statement is divided into five parts. The first part shows operating cash flows and the net cash used by operating activities. The second section reflects cash flows from noncapital financing activities. This section reflects cash received and spent for nonoperating, noninvesting and noncapital financing purposes. The third section shows cash flows from capital and related financing activities. This section deals with the cash used for the acquisition and construction of capital and related items. The fourth section reflects the cash flows from investing activities and shows the purchases, proceeds and interest received from investing activities. The fifth section reconciles the net cash used in operating activities to operating income or loss reflected on the Statement of Revenues, Expenses and Changes in Net Assets.

Summary Statement of Cash Flows

	<u>(In thousands)</u>
Cash provided by (used in):	
Operating activities	\$ (23,203)
Nonoperating financing activities	26,622
Capital financing activities	(3,609)
Investing activities	<u>12</u>
Net change in cash and cash equivalents	(178)
Cash and equivalents – beginning of year	<u>3,446</u>
Cash and equivalents – end of year	\$ <u>3,268</u>

Economic Outlook

Guam's economic outlook is uncertain as of this date. Continued predictions of increasing tourist arrivals and rising property values have been slow to materialize. Tourist arrivals continue to lag prior years as a result of economic conditions in Guam's major tourist markets.

In addition, as a result of major typhoons, the Government of Guam continued to weaken financially in the months following 2002. This has had a direct effect on local government appropriations to the University. The Government of Guam is responding to changing conditions through government reorganization, increased tourism marketing, and new industry development. On February 28, 2003, the Governor signed Public Law 27-05, which reapportioned the FY2003 budgets for government agencies and public corporations, including a reduction of about \$0.7 million for the University. On July 31, 2003, the Governor's office further announced a \$1.2 million permanent reserve (holdback) of the University's reapportioned amount.

The University also underwent reshaping in 2003 to better take advantage of enrollment possibilities and external partnerships in light of the difficult economic situation of Guam and the limited resources currently available. In short, efforts continue which better align the University with its mission. Doing so will ensure not only our status as the only U.S. regionally and nationally accredited university in the Western Pacific, but will also allow for the University's expansion and participation in the global arena of higher education.

For further news and up to date information concerning the University of Guam, please visit our website at www.uog.edu.

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Statement of Net Assets

September 30, 2002

ASSETS

Current assets:	
Cash and cash equivalents	\$ 3,267,770
Short-term investments	60,569
Due from Government of Guam	5,031,902
Tuition receivable, less allowance for doubtful accounts of \$1,690,883	1,478,246
Accounts receivable - U.S. Government	1,321,636
Other receivables	1,543,692
Inventories	599,638
Other current assets	965,714
Total current assets	<u>14,269,167</u>
Noncurrent assets:	
Investments	9,190,824
Property, plant and equipment, net (note 7)	66,257,268
Total noncurrent assets	<u>75,448,092</u>
Total assets	<u>\$ 89,717,259</u>

LIABILITIES

Current liabilities:	
Current portion of long-term debt (note 4)	\$ 253,530
Accounts payable and accrued liabilities	6,159,998
Deferred revenue	3,538,404
Total current liabilities	<u>9,951,932</u>
Noncurrent liabilities:	
Deposits held on behalf of others	2,852,012
Accounts payable and accrued liabilities	2,173,042
Long-term debt (note 4)	1,083,751
Total noncurrent liabilities	<u>6,108,805</u>
Total liabilities	<u>16,060,737</u>
Net assets:	
Invested in capital assets, net of related debt	65,115,924
Restricted:	
Nonexpendable	3,155,000
Expendable	2,572,504
Unrestricted	2,813,094
Total net assets	<u>73,656,522</u>
Total liabilities and net assets	<u>\$ 89,717,259</u>

See accompanying notes to financial statements.

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Statement of Revenues, Expenses and Changes in Net Assets Year Ended September 30, 2002

Revenues:	
Operating revenues:	
Student tuition and fees	\$ 9,684,595
Less: Scholarship discounts and allowances	<u>(3,761,572)</u>
	5,923,023
Federal grants and contracts	16,412,124
Government of Guam grants and contracts	1,610,722
Private grants and contracts	1,311,336
Sales and services of education department	312,699
Auxiliary enterprises	1,894,782
Other revenues	<u>2,355,289</u>
Total operating revenues	<u>29,819,975</u>
Operating expenses:	
Education and general:	
Instruction	14,727,022
Research	6,842,985
Public service	6,174,181
Academic support	6,064,892
Student services	4,261,773
Institutional support	4,829,973
Operations and maintenance, plant	4,757,607
Depreciation	2,250,731
Scholarships and fellowships	7,118,621
Auxiliary enterprises	<u>2,167,308</u>
Total operating expenses	<u>59,195,093</u>
Operating loss	<u>(29,375,118)</u>
Nonoperating revenues (expenses):	
Government of Guam appropriations:	
Operations	28,771,408
Student financial aid program	2,519,575
Net investment expense (note 6)	(973,044)
Interest on capital assets - debt related	(75,143)
Additions to permanent endowments	190
Debt service - DOA bond (note 9)	(2,027,797)
Transfers to various agency funds, net	<u>(99,999)</u>
Net nonoperating revenues	<u>28,115,190</u>
Decrease in net assets	(1,259,928)
Net assets:	
Net assets at beginning of year (note 3)	<u>74,916,450</u>
Net assets at end of year	<u>\$ 73,656,522</u>

See accompanying notes to financial statements.

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Statement of Cash Flows
Year Ended September 30, 2002

Cash flows from operating activities:	
Student tuition and fees	\$ 6,996,368
Federal grants/contracts	21,179,149
Sales and services of education department	312,699
Auxiliary services	(118,338)
Other receipts/payments	1,731,908
Payments to educational and general expenses	(46,185,986)
Scholarship/fellowships	(7,118,621)
Net cash used in operating activities	<u>(23,202,821)</u>
Cash flows from noncapital financing activities:	
Government of Guam appropriations	26,509,081
Federal reimbursements	112,500
Net cash provided by noncapital financing activities	<u>26,621,581</u>
Cash flows from capital financing activities:	
Interest, capital debt related	(75,143)
Expended on plant facility and capital assets	(1,188,783)
Payment of capital debt	(2,223,734)
Construction in progress	(120,965)
Net cash used in capital financing activities	<u>(3,608,625)</u>
Cash flows from investing activities:	
Investment income (expense)	(973,044)
Donation to Endowment Fund	190
Purchases/sales - long/short-term investment	984,396
Net cash provided by investing activities	<u>11,542</u>
Net decrease in cash	(178,323)
Cash at beginning of year	3,446,093
Cash at end of year	<u>\$ 3,267,770</u>
<u>Reconciliation of net operating revenues (expenses) to net cash used in operating activities:</u>	
Operating loss	\$ (29,375,118)
Depreciation	2,250,731
Accounts receivable, net	1,831,797
Inventory	(4,980)
Other assets	131,124
Annual leave	(28,306)
Accounts payable	2,111,548
Deferred revenue	(126,407)
Deposits held on behalf of others	6,790
Net cash used in operating activities	<u>\$ (23,202,821)</u>

See accompanying notes to financial statements.

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Notes to Financial Statements September 30, 2002

1. Organization

Administrative autonomy was granted to the University of Guam (the University) with the enactment of Public Law No. 13-194, "The Higher Education Act of 1976," which became effective on November 3, 1976. The Act, with subsequent amendments, established the University as a non-membership, not-for-profit corporation of the Government of Guam, under the control and operation of a nine-member Board of Regents appointed by the Governor with the advice and consent of the Legislature. The University is a component unit of the Government of Guam.

2. Summary of Significant Accounting Policies

A. Financial Statement Presentation. In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. This was followed in November 1999 by GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. The financial statement presentation required by GASB No. 34 and No. 35 provides a comprehensive, entity-wide perspective of the University's assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows, and replaces the fund-group perspective previously required.

Other GASB Statements are required to be implemented in conjunction with GASB Statements No. 34 and No. 35. Therefore, the Government of Guam and Guam public colleges and universities have also implemented Statement No. 36, *Recipient Reporting for Certain Shared Nonexchange Revenues*, Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus* and Statement No. 38, *Certain Financial Statement Note Disclosures*.

The University of Guam has elected to not disclose restated 2001 financial statements to conform with the new financial statement presentation. Since the University has historically recorded depreciation, with the exception of library books, the only significant accounting changes made in order to comply with the new requirements include (1) reporting fall semester revenues and expenses between fiscal years rather than in one fiscal year; (2) recording scholarship discounts and allowances netted against tuition and fee revenues; (3) the elimination of fund group presentation; and (4) the presentation of a cash flow statement.

B. Basis of Accounting. For financial statement purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the University's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated.

The University has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The University has elected to not apply FASB pronouncements issued after the applicable date.

C. Cash and Cash Equivalents. Cash and cash equivalents include cash on hand, cash in banks, money market accounts and time certificates of deposit with original maturities of less than ninety days.

UNIVERSITY OF GUAM

Notes to Financial Statements September 30, 2002

2. Summary of Significant Accounting Policies, Continued

At September 30, 2002, the University has cash balances of \$4,224,611 of which \$118,493 and \$4,013,829 is insured by the Federal Deposit Insurance Corporation, or collateralized by securities held by a trustee in the name of the financial institution, respectively. The remaining balance is uninsured and uncollateralized.

- D. Short-term Investments. Short-term investments include bank time certificates of deposit with original maturities of ninety days or more.
- E. Investments. The University accounts for its investments at fair value in accordance with GASB Statement No. 31, *Accounting for Financial Reporting for Certain Investments and for External Investment Pools*. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of the change in fair value of investments in the Statement of Revenues, Expenses and Changes in Net Assets.
- F. Due from Government of Guam. Due from Government of Guam consists of the remaining balance of legislative annual appropriation and scholarships, which have not been received at September 30, 2002.
- G. Accounts Receivable – U.S. Government. Accounts receivable from the U.S. Government consists of amounts due from the federal government in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts.
- H. Other Receivables. Other receivables consists primarily of auxiliary enterprise services provided to students, faculty and staff, and other departments within the University to the public. Other receivables also include amounts due from local government or private sources in relation with the performance of grants and contracts.
- I. Inventory Method. Inventory is stated at the lower of cost or market with cost being determined using the first-in, first-out method of valuation.
- J. Restricted Cash and Cash Equivalents Investments. Cash and cash equivalents that carry external third party restrictions are classified as noncurrent assets in the Statement of Net Assets.
- K. Property, Plant and Equipment. Property, plant and equipment is calculated using the straight-line method over estimated useful lives of 5 - 50 years for buildings and improvements and 5 - 15 years for equipment and land improvements. The University of Guam capitalization policy requires acquisitions greater than \$5,000 to be capitalized and depreciated over the assets' useful lives. The assets are carried at cost, except for land and buildings transferred to the University which were recorded at management's estimate of fair market value at the date of acquisition. These additions have since been adjusted to fair market value as determined by independent appraisals completed during fiscal year 1988.
- L. Deferred Revenues. Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.

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Notes to Financial Statements
September 30, 2002

2. Summary of Significant Accounting Policies, Continued

- M. Compensated Absences. Employee vacation is accrued at year end for financial statement purposes. Included in the accounts payable and accrued liabilities at September 30, 2002 is \$2,173,042 related to compensated absences earned but unused. This amount is also included as a component of operating expense in the Statement of Revenues, Expenses, and Changes in Net Assets.
- N. Grants-in-Aid. Tuition and fees revenue include grants-in-aid for senior citizens, faculty, staff and their dependents charged to scholarships and fellowships expenditure. The total of these waivers for 2002 was \$75,837.
- O. Noncurrent Liabilities. Noncurrent liabilities include (1) principal amounts of revenue bonds payable, notes payable, and capital lease obligations with contractual maturities greater than one year; and (2) estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year.
- P. Net Assets. The University's net assets are classified as follows:

Invested in Capital Assets, Net of Related Debt – This represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included in this section.

Restricted Net Assets – Expendable – Restricted expendable net assets include resources in which the University is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

Restricted Net Assets – Nonexpendable – Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

Unrestricted Net Assets – Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the University, and may be used at the discretion of the governing board to meet current expenses for any purpose. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for student, faculty and staff.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the University's policy is to first apply the expense towards unrestricted resources, and then toward restricted resources.

- Q. Classification of Revenues. The University has classified its revenues as either operating or nonoperating according to the following criteria:

Operating Revenues – Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, (3) most federal, state and local grants and contracts and federal appropriations, and (4) interest on institutional student loans.

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Notes to Financial Statements
September 30, 2002

2. Summary of Significant Accounting Policies, Continued

Nonoperating Revenues – Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting*, and GASB Statement No. 34, such as state appropriations and investment income.

- R. Scholarship Discounts and Allowances. Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses and Changes in Net Assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as either operating or nonoperating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance.
- S. Segment Reporting. The University issues revenue bonds to finance certain activities. The University has deemed it not necessary to report segments on these bond issues, based upon the criteria provided in GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* and GASB No. 38, *Certain Financial Statement Note Disclosures*.
- T. New Accounting Standard. GASB has issued Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. Statement No. 39 amends GASB Statement No. 14, *The Financial Reporting Entity*. This Statement requires reporting, as a component unit, an organization that raises and holds economic resources for the direct benefit of a government unit. The University has not completed the process of evaluating the impact that will result from adopting this Statement. The University is therefore unable to disclose the impact that adopting this Statement will have on its net assets, revenues, expenditures, and changes in net assets. The requirements of this statement are effective for the University's fiscal year ending September 30, 2004.
- U. Employees' Retirement Plan. Employees of the University hired before October 1, 1995, are under the Government of Guam Employees' Retirement System (a defined benefit, contributory pension plan). Employees hired after September 30, 1995, are members of the Defined Contribution Retirement System (DCRS). Until December 31, 1999, those employees who were members of the Defined Benefit Plan with less than 20 years of service at September 30, 1995, had the option to switch to the Defined Contribution Retirement System.

The Defined Benefit Plan and the DCRS are administered by the Government of Guam Retirement Fund, to which the University contributes based upon a fixed percentage of the payroll for those employees who are members of the Plan.

UNIVERSITY OF GUAM

Notes to Financial Statements
September 30, 2002

2. Summary of Significant Accounting Policies, Continued

- U. Employees' Retirement Plan, Continued. As a result of the most recent actuarial valuation performed as of September 30, 2001, it has been determined that for the year ended September 30, 2002, a minimum combined employer and employee contribution rate of 41.55% of covered Defined Benefit Plan payroll is required to appropriately fund the current cost, amortize prior service costs and provide for interest on the unfunded accrued liability. Statutory contribution rates for employee and employer contributions were 9.5% and 19.802%, respectively, for the year ended September 30, 2002. The effect of the University's prior year accruals for its share of pension underfunding reduces the actuarially determined employer contribution rate from 32.05% to an effective rate of 26.0% for the year ended September 30, 2002. In recognition of the above, an accrual increase of 6.195% of covered payroll is necessary to increase the unfunded liability based on the difference between the effective rate of 26.0% and the employer's statutory rate of 19.802%.

The Defined Benefit Plan utilized the actuarial cost method termed "entry age normal" with an assumed rate of return of 8% and an assumed salary scale increase of 5.5% per annum. The most recent actuarial valuation performed as of September 30, 2001, did not provide a breakdown of actuarial present value of vested and non-vested accumulated plan benefits by sponsor or net assets available for benefits by sponsor.

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

Employer contributions into the DCRS are based on a statutory amount of 19.802% of the member's regular base pay. Of the amount contributed by the employer, only 5% of the member's regular base pay is deposited into the member's individual annuity account. The remaining 14.802% is contributed towards the unfunded liability of the defined benefit plan.

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

Contributions to the Defined Benefit Plan and DCRS for the year ended September 30, 2002, are \$3,329,214 and \$1,322,658, respectively.

The University historically accounted for all unfunded retirement fund liabilities entirely within the Current Unrestricted Funds. However, as a result of Public Law No. 21-03, the University has no further responsibility to pay for its share of the unfunded retirement costs. This responsibility now rests with the General Fund of the Government of Guam. Rather, the University's responsibility is to pay the statutorily imposed retirement rate. As of September 30, 2002, the General Fund has accrued approximately \$1,918,997 for the University's cumulative unfunded retirement liability as a result of the adoption of GASB 27.

- V. Financial Assistance Revenue. Government of Guam appropriations designated for student financial assistance programs are made annually for the period from October 1 to September 30. As certain restrictions are placed on these funds, revenue is realized only to the extent that such funds are expended for current purposes.

UNIVERSITY OF GUAM

Notes to Financial Statements
September 30, 2002

2. Summary of Significant Accounting Policies, Continued

W. Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

X. Risk Management. The University purchases insurance to cover its risk of losses due to typhoons, liability and other risks normal to operating an institution of higher learning. No uninsured losses were experienced by the University during fiscal year 2002.

3. Restatement of Beginning Net Assets

As described in note 2, as a result of the adoption of GASB Statement No. 34 and No. 35, the University was required to make certain changes in accounting principles. Net assets at September 30, 2001 (as disclosed below) were increased by \$62,460 for the cumulative effect of these changes on years prior to fiscal year 2002.

The effect of these items in the revised statements was as follows:

Net assets reported as of September 30, 2001	\$ 74,853,990
Adjustments:	
Fall semester adjusted to accrual basis	1,263,130
Accumulated depreciation	<u>(1,200,670)</u>
	<u>62,460</u>
Restated September 30, 2001 net assets	\$ <u>74,916,450</u>

4. Long-Term Debt

Financing for the construction of a dormitory complex and a student union building was obtained from the issuance of "University of Guam Dormitory and Student Union Revenue Bonds of 1968," in the amount of \$2,140,000. Interest is payable semi-annually on April 1 and October 1 of each year at a rate of 6% per annum. The bonds mature in varying amounts from \$30,000 to \$90,000 on October 1 of each year through 2008. Principal and interest are payable from, and are categorized by, a first charge and lien on the net revenues derived by the University Dormitory Revenue Fund, as defined in the bond resolution. The bonds are not an obligation of the Government of Guam, but are solely that of the University Dormitory Revenue Fund.

As a requirement of the bond resolution, the University Dormitory Revenue Fund is to transfer semi-annually on March 15, and September 15, to the University Dormitory Interest and Redemption Fund, a sum equal to sixty-two and one-half percent (62 1/2%) of the aggregate amount of principal and interest becoming due on the bonds during the next succeeding twelve months until such time as the funds in the Interest Redemption Fund are sufficient to pay the interest and one-half of the principal next coming due, and to provide a reserve in an amount equal to the average annual debt service which approximates \$94,000.

UNIVERSITY OF GUAM

Notes to Financial Statements
September 30, 2002

4. Long-Term Debt, Continued

The bond resolution also requires that when the annual debt service reserve has been satisfied, the Fund is to deposit into an account, to the extent available, up to \$14,000 per year to the credit of the repair and replacement reserve account. These deposits are to continue until a balance of \$280,000 is reached. Bond principal payments for the succeeding five fiscal years and thereafter are shown below:

<u>Year Ending September 30,</u>	<u>Amount</u>
2003	\$ 80,000
2004	80,000
2005	85,000
2006	85,000
2007	85,000
2008	<u>90,000</u>
	\$ <u>505,000</u>

In November 1997, the University entered into a ten-year capital lease agreement to obtain equipment for an energy conservation project. Obligations under the capital lease consist of the following at September 30, 2002.

<u>Year Ending September 30,</u>	<u>Capital Lease</u>
2003	\$ 173,530
2004	173,530
2005	173,530
2006	173,530
2007	173,530
2008	<u>130,151</u>
Total payments	997,801
Less amounts representing interest	<u>(165,520)</u>
Total obligation under capital lease	\$ <u>832,281</u>

Approximately \$1 million of construction in progress related to the energy conservation project was subsequently written off.

5. Student Loans

The Guam Legislature appropriates funds for the student loan program available to residents of Guam who attend institutions of higher education. The University is responsible for awarding the loans and monitoring compliance with respect to repayment. Due to the uncertainty of collection and due to recipient ability to repay the loans through work credits, student loan receivables are fully reserved in the year granted, and payments are reflected as recoveries in the year received. At September 30, 2002, loan receivables are reserved in the amount of \$1,506,359.

UNIVERSITY OF GUAM

Notes to Financial Statements September 30, 2002

6. Investments

Investments exclusive of physical plant are recorded at market value; investments received by gift are recorded at market value at the date of acquisition. Realized gains and losses are recognized in the statement of revenues and expenditures upon disposition, and unrealized gains and losses are recorded as net appreciation (depreciation) of fair value in investments. Approximately \$9,108,438 of these investments and cash at September 30, 2002, are accounted for on a pooled basis. The University employs the share method of accounting for pooled investments and for proportionate distribution of income and fees to each fund which participates in the pool.

Investments held by the University consist of money market funds, U.S. Treasury and agency obligations, and common stock. These investments are held in the name of the University.

Investments held by the University consist of money market funds, U.S. Treasury and agency obligations, and common stock. These investments are held in the name of the University.

These investments are carried at market in the accompanying financial statements. Credit risk associated with investments is categorized into three levels generally described as follows:

Category 1 - Insured or registered, or securities held by the University or its agent in the University's name.

Category 2 - Uninsured and unregistered, or securities held by a party other than the University or its agent, but in the University's name.

Category 3 - Uninsured and unregistered, with securities held by a party other than the University and not in the University's name.

All investments held by the University have been classified as Category 2 investments in accordance with Governmental Accounting Standards Board (GASB) Statement No. 3.

The University's demand and time deposits are non-categorized investments in accordance with GASB No. 3. Demand and time deposits are collateralized under agreements with the respective financial institutions. Commercial paper and mortgages pledged by the financial institutions as collateral are not in the University's name; therefore, these investments, though collateralized, are categorized solely for purposes of GASB No. 3 as being uncollateralized.

The composition of investment loss for the year ended September 30, 2002, is as follows:

Interest and dividends from investments	\$ (518,521)
Investment fees	80,198
Realized loss	238,694
Loss on sale of investments, net	604,137
Depreciation of fair value of investments, net	<u>568,536</u>
	\$ <u>973,044</u>

Investments are classified as long-term as no liquidation for current purposes is expected in fiscal year 2003.

UNIVERSITY OF GUAM

Notes to Financial Statements
September 30, 2002

7. Property, Plant and Equipment

Property, plant and equipment at September 30, 2002 consisted of the following:

	Balance September 30, <u>2001</u>	<u>Additions</u>	<u>Retirements</u>	Balance September 30, <u>2002</u>
Land	\$ 2,589,112	\$ -	\$ -	\$ 2,589,112
Land improvements	320,754	-	-	320,754
Building	70,965,468	404,754	-	71,370,222
Building improvements	1,241,760	-	-	1,241,760
Equipment	6,612,864	588,294	54,051	7,147,107
Library books	<u>3,313,030</u>	<u>700,941</u>	<u>-</u>	<u>4,013,971</u>
	<u>85,042,988</u>	<u>1,693,989</u>	<u>54,051</u>	<u>86,682,926</u>
	Balance September 30, <u>2001</u>	<u>Additions</u>	<u>Retirements</u>	Balance September 30, <u>2002</u>
Accumulated depreciation:				
Land improvements	66,928	21,383	-	88,311
Building	14,259,744	1,478,397	-	15,738,141
Building improvements	994,415	49,469	-	1,043,884
Equipment	3,240,095	372,080	45,343	3,566,832
Library books	<u>1,200,670</u>	<u>331,303</u>	<u>-</u>	<u>1,531,973</u>
	<u>19,761,852</u>	<u>2,252,632</u>	<u>45,343</u>	<u>21,969,141</u>
Construction in progress	<u>1,422,517</u>	<u>120,966</u>	<u>-</u>	<u>1,543,483</u>
Net	\$ <u>66,703,653</u>	\$ <u>(437,677)</u>	\$ <u>8,708</u>	\$ <u>66,257,268</u>

8. Encumbrances

The accrual basis of accounting provides that expenses include only amounts associated with goods and services received and liabilities include only the unpaid amounts associated with such expenses. Accordingly, \$3,201,352 of outstanding purchase orders and purchase commitments are not reported in the financial statements.

9. Contingencies

Litigation

The University is a defendant in several legal actions. The ultimate outcome is presently undeterminable; however, University management is of the opinion that resolution of these matters will not have a material effect on the accompanying financial statements.

UNIVERSITY OF GUAM

Notes to Financial Statements
September 30, 2002

9. Contingencies, Continued

General Obligation Bonds

In October 1993, the Government of Guam issued \$175 million general obligation bonds to fund the construction of certain educational facilities with \$28 million being earmarked for certain construction projects at the University of Guam. The University is mandated by Public Law No. 22-19 (as amended by Public Law 23-14) to establish a bond fund and deposit all tuition revenues in the bond fund. Monthly remittances are transferred by the University of Guam to the Government of Guam's General Fund to cover the University's proportionate share of principal and interest payments of the bond. At the end of each fiscal year, the balance remaining in the bond fund established by the University shall be retained by the University. Once the University's proportionate share of the principal and interest obligation is satisfied on or about November 2018, the University shall retain control of all future revenues thereafter. For the year ended September 30, 2002, monthly payments remitted to the Government of Guam's General Fund of \$2,027,797 are recorded as debt service - DOA bond.

Medicare

The Government of Guam and its component units, including the University, began withholding and remitting funds to the U.S. Social Security System for the health insurance component of its salaries and wages effective October 1998. Prior to that date, the Government of Guam did not withhold or remit Medicare payments to the U.S. Social Security System. If the Government is found to be liable for Medicare payments on salaries and wages prior to October 1998, an indeterminate liability could result. It has been the practice of the University and all other component units of the Government of Guam that payment of this health insurance component is optional prior to October 1998. Therefore, no liability for any amount which may ultimately arise from this matter has been recorded in the accompanying financial statements.

10. Subsequent Event

On December 8, 2002, Supertyphoon Pongsona struck Guam with destructive winds of approximately 180 miles per hour. The damage to the University's buildings and equipment, as a direct result of the typhoon, has been estimated at \$2.6 million. However, the final damages may be materially different from this estimate.

UNIVERSITY OF GUAM

Schedule 1
Schedule of Salaries and Wages
Year Ended September 30, 2002
(With Comparative Balances for the Year Ended September 30, 2001)

	<u>2002</u>	<u>2001</u>
Salaries and wages:		
Regular, differential and hazardous pay	\$ 24,372,284	\$ 26,587,103
Overtime pay	<u>111,640</u>	<u>209,964</u>
Total salaries and wages	<u>\$ 24,483,924</u>	<u>\$ 26,797,067</u>
Employees at end of year	651	667

See accompanying independent auditors' report.

UNIVERSITY OF GUAM

Schedule 2

Schedule of Expenditures by Object Category

Year Ended September 30, 2002

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

	<u>2002</u>		<u>2001</u>	
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Unrestricted</u>	<u>Restricted</u>
Instruction:				
Salary	\$ 10,036,119	\$ 489,798	\$ 10,109,650	\$ 541,249
Benefits	2,137,007	86,833	2,166,043	96,898
Travel	140,128	148,762	233,595	156,539
Contractual	589,619	264,978	860,112	249,536
Supplies	117,612	162,563	148,789	140,630
Equipment	87,907	138,547	110,347	102,192
Utilities	77,449	8,515	81,653	7,214
Capital outlay	250	18,000	596	25,184
Miscellaneous	145,285	77,650	184,766	136,119
	<u>\$ 13,331,376</u>	<u>\$ 1,395,646</u>	<u>\$ 13,895,551</u>	<u>\$ 1,455,561</u>
Research:				
Salary	\$ 790,004	\$ 2,601,073	\$ 995,722	\$ 2,204,952
Benefits	188,791	538,807	229,353	458,520
Travel	79,318	340,260	59,711	290,884
Contractual	326,063	557,375	350,889	505,211
Supplies	85,842	292,710	84,544	215,170
Equipment	45,817	269,012	94,043	85,614
Utilities	235	1,152	839	3,541
Capital outlay	32,375	234,256	54,586	89,636
Miscellaneous	24,658	435,237	30,733	309,631
	<u>\$ 1,573,103</u>	<u>\$ 5,269,882</u>	<u>\$ 1,900,420</u>	<u>\$ 4,163,159</u>
Institutional Support:				
Salary	\$ 2,504,604	\$ -	\$ 2,427,720	\$ -
Benefits	624,012	-	612,104	-
Travel	98,052	-	115,850	-
Contractual	1,304,446	-	987,530	1,064
Supplies	63,763	-	84,273	-
Equipment	46,717	-	81,397	-
Utilities	-	-	-	-
Capital outlay	-	-	33,598	-
Miscellaneous	139,406	48,973	624,952	-
	<u>\$ 4,781,000</u>	<u>\$ 48,973</u>	<u>\$ 4,967,424</u>	<u>\$ 1,064</u>

See accompanying independent auditors' report.

UNIVERSITY OF GUAM

Schedule 2

Schedule of Expenditures by Object Category, Continued
Year Ended September 30, 2002

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

	2002		2001	
	Unrestricted	Restricted	Unrestricted	Restricted
Public Service:				
Salary	\$ 162,363	\$ 2,993,742	\$ 69,685	\$ 2,885,815
Benefits	34,408	606,393	13,806	599,131
Travel	-	415,584	-	424,301
Contractual	13,215	1,091,249	172,327	483,763
Supplies	15,323	191,577	13,420	181,034
Equipment	10,045	141,919	6,700	237,301
Utilities	-	21,515	-	16,531
Capital outlay	-	160,357	-	193,849
Miscellaneous	64,139	252,352	67,141	194,642
	\$ 299,493	\$ 5,874,688	\$ 343,079	\$ 5,216,367
Academic Support:				
Salary	\$ 3,468,336	\$ -	\$ 3,404,204	\$ -
Benefits	838,949	-	795,024	-
Travel	79,856	-	64,166	-
Contractual	951,570	-	539,892	-
Supplies	178,109	-	183,374	-
Equipment	476,508	-	393,484	-
Utilities	459	-	-	-
Capital outlay	24,967	-	656,270	-
Miscellaneous	46,138	-	64,717	-
	\$ 6,064,892	\$ -	\$ 6,101,131	\$ -
Student Services:				
Salary	\$ 1,670,782	\$ 424,855	\$ 1,906,315	\$ 389,542
Benefits	441,871	-	482,713	-
Travel	34,625	-	51,526	-
Contractual	181,179	-	356,110	-
Supplies	58,031	-	83,409	-
Equipment	61,843	-	84,424	-
Utilities	58,031	-	38,318	-
Capital outlay	-	-	6,461	-
Miscellaneous	1,309,325	21,231	130,627	20,625
	\$ 3,815,687	\$ 446,086	\$ 3,139,903	\$ 410,167

See accompanying independent auditors' report.

UNIVERSITY OF GUAM

Schedule 2

Schedule of Expenditures by Object Category, Continued

Year Ended September 30, 2002

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

	<u>2002</u>		<u>2001</u>	
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Unrestricted</u>	<u>Restricted</u>
Operations and Maintenance of Plant:				
Salary	\$ 1,130,138	\$ -	\$ 1,222,515	\$ -
Benefits	314,619	-	328,087	-
Travel	-	-	289	-
Contractual	510,148	-	163,215	-
Supplies	200,571	-	260,460	-
Equipment	-	-	102,032	-
Utilities	2,602,131	-	2,642,231	-
Capital outlay	-	-	27,157	-
Miscellaneous	-	-	16,094	-
	<u>\$ 4,757,607</u>	<u>\$ -</u>	<u>\$ 4,762,080</u>	<u>\$ -</u>
Scholarships and Fellowships:				
Salary	\$ -	\$ -	\$ -	\$ -
Benefits	-	-	-	-
Travel	-	-	-	-
Contractual	-	-	-	-
Supplies	-	-	-	-
Equipment	-	-	-	-
Utilities	-	-	-	-
Capital outlay	-	-	-	-
Miscellaneous	75,837	7,042,784	103,644	5,894,719
	<u>\$ 75,837</u>	<u>\$ 7,042,784</u>	<u>\$ 103,644</u>	<u>\$ 5,894,719</u>
Auxiliary Enterprises:				
Salary	\$ 831,874	\$ -	\$ 634,070	\$ -
Benefits	217,074	-	154,208	-
Travel	5,333	-	25,353	-
Contractual	116,196	-	170,283	-
Supplies	51,311	-	65,734	-
Equipment	15,957	-	29,200	-
Utilities	165,953	-	185,871	-
Capital outlay	-	-	15,590	-
Miscellaneous	763,610	-	900,019	-
	<u>\$ 2,167,308</u>	<u>\$ -</u>	<u>\$ 2,180,328</u>	<u>\$ -</u>

See accompanying independent auditors' report.