

UNIVERSITY OF GUAM

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

YEARS ENDED SEPTEMBER 30, 2005 AND 2004

UNIVERSITY OF GUAM
TABLE OF CONTENTS
YEARS ENDED SEPTEMBER 30, 2005 AND 2004

	<u>Page No.</u>
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
FINANCIAL STATEMENTS:	
Statements of Net Assets	12
Statements of Revenues, Expenses and Changes in Net Assets	14
Statements of Cash Flows	16
Notes to Financial Statements	17
ADDITIONAL INFORMATION:	
Schedule of Salaries and Wages	35
Schedule of Expenses by Object Category	36

INDEPENDENT AUDITORS' REPORT

Board of Regents
University of Guam:

We have audited the accompanying financial statements of the University of Guam (the University) (a component unit of the Government of Guam) and its discretely presented component unit as of and for the years ended September 30, 2005 and 2004. 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 audits.

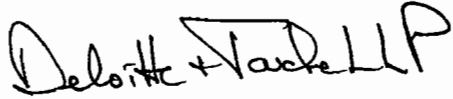
We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the University of Guam Endowment Foundation were not audited in accordance with *Government Auditing Standards*. 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 the University of Guam's internal control over financial reporting. Accordingly, we express no such opinion. An audit 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 audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the respective financial position of the University of Guam and its discretely presented component unit as of September 30, 2005 and 2004, and the respective changes in their net assets and cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 11 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board (GASB). This supplementary 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 measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedules on pages 35 through 38 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 audits 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 June 9, 2006, 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 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 + Tatchell LLP". The signature is written in a cursive, stylized font.

June 9, 2006

UNIVERSITY OF GUAM

Management's Discussion and Analysis
Year Ended September 30, 2005

INTRODUCTION

The University of Guam is the premier institution of higher education in the Western Pacific. It operates under a University Charter and is governed by a Board of Regents. It is a public, U.S. land-grant institution accredited by the Western Association of Schools and Colleges Senior Commission (WASC). Through its mission of instruction, research and service, the University serves the communities of Guam, Micronesia, and the neighboring regions of the Pacific and Asia. The University provides a diverse and multicultural atmosphere, serving approximately 3,000 students, primarily of Asian and Pacific Islander ancestry. As a regional, comprehensive, open admissions institution, the University awards baccalaureate and master's degrees through its three colleges, i.e. Liberal Arts and Social Sciences, Natural and Applied Sciences, and Professional Studies.

The University has four interrelated, strategic initiatives: Enhancement of Academic Quality; Enhancement of Student Success, Enrollment Growth, and Institutional Visibility; Promotion of the Land-Grant Mission; and Strengthening Institutional Effectiveness and Efficiency. These strategic initiatives guide the University in being responsive to island and student needs.

The following is management's discussion and analysis (MD&A) of the University's financial performance during the fiscal year (FY) ended September 30, 2005, as compared to FY2004. It was prepared by University management and should be read in conjunction with the financial statements and related notes that follow.

THE FINANCIAL STATEMENTS

The University's financial report includes three financial statements: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. The referenced financial statements were prepared in accordance with Governmental Accounting Standards Board (GASB) principles.

In FY2002, the University adopted GASB 35 with presentation of the MD&A and the consolidated financial statements; this is in contrast with fund accounting presentation in previous years. In FY2004, the University presented the University of Guam Endowment Foundation financial statements as a component unit, in compliance with GASB 39.

This fiscal year the University implemented GASB 40, disclosing fair value of investments with high sensitivity to changes in interest rates. Additionally, the University presents two years of financial statements in accordance with GASB 35, allowing comparisons of year-to-year performance.

OVERVIEW OF FY2005 AND FINANCIAL CONDITION

As a critical island resource for economic growth and social development, the University of Guam is focused on its instruction, research and service mission. This audit and the accompanying MD&A address the University's financial stewardship, capacity to deliver its mission, and progress, in the fourth year of its strategic plan, towards achieving the institution's strategic initiatives of academic quality, student success, community engagement, and institutional effectiveness and efficiency.

In evaluating the University's financial health, one of the most important questions is whether the institution is financially better off at the beginning of the year or at the end of the year. In FY2005 the University once again improved its overall financial position, as evidenced by the \$1.7 million increase in net assets from \$80.4 million in the prior year to \$82.1 million. This a result of prudent financial management and implementation of the University's financial management plan.

UNIVERSITY OF GUAM

Management's Discussion and Analysis Year Ended September 30, 2005

The University's key financial ratios, as defined by its accrediting body, remained strong. Of particular note are the three-year positive trends in the returns on total net assets and unrestricted net assets.

Total revenues increased for the third consecutive year. This was the result of enrollment and tuition increases, an increase in federal grants and contracts reflecting five consecutive years of 13% average growth and the University's growing competitiveness for research funding, and substantial returns from the investment portfolio for the third consecutive year.

University enrollment is on the upswing. The University remains accessible and affordable, as tuition rates remain approximately 40% less than the average at other U.S. public universities. There were a total of 3,034 students (or 35,187 credit hours) in the Fall 2005 semester. This is a 4% increase in headcount enrollment and 5% increase in credit hour production over the prior year Fall semester. The more than 30% increase in new student enrollment since 2001, and a 21% increase in pre-nursing and nursing enrollment from Fall 2005 to Spring 2006 are particularly encouraging.

Academically, the University continues to meet accreditation standards. A special visit by the Western Association of Schools and Colleges (WASC) found that the University had taken significant steps in addressing prior accreditation issues related to educational effectiveness, building organizational structures, off-site programs, and the sufficiency and alignment of financial resources. While cautioning that the University must remain focused on stabilizing its financial resource base and guarding against a loss in institutional autonomy, WASC has accepted the University's Reaccreditation Proposal. This document establishes strategic goals and milestones that will be the subject of reviews in January 2007 and Fall 2008.

The professional schools at the University have received specialized accreditation that speaks to the quality and improvement in their programs. The International Assembly for Collegiate Schools of Business (IACBE) accredits the business program at the School of Business and Public Administration, which is also an accreditation candidate at the prestigious Association to Advance Collegiate Schools of Business (AACSB International). The National League for Nursing (NLN), Council on Social Work Education (CSWE) accredit programs in the School of Nursing Social Work and Health Sciences; and the National Association for Sport and Physical Education accredits programs within the School of Education. The School of Education is also well underway in obtaining accreditation by the National Council for the Accreditation of Teacher Education (NCATE).

The University's research, outreach, and academic programs touch the lives of almost every person in Guam's community. From farmers, to individuals caring for elderly relatives, to speech and language pathologists, the University of Guam is connected to its communities and provides the framework for quality of life improvements. The ability to serve the needs of the region results from the University's leveraging its \$26 million Government of Guam appropriation for operations with additional federal monies totaling \$23.3 million to fund programs such as the Cancer Research Center; the Center for Excellence in Developmental Disabilities Education, Research and Service (CEDDERS); Micronesian Health and Aging; coral reef studies; and partnerships for educational improvements in our public schools. The University has requested additional local government appropriations as further leverage for such programs.

The University has made a significant institutional investment in the new 57,000 square foot Jesus and Eugenia Leon Guerrero School of Business and Public Administration Building. Progress on the \$14.5 million building project, funded primarily through a \$13.5 million USDA Rural Development Community Facilities Loan, is well underway with completion expected in July 2006.

UNIVERSITY OF GUAM

Management's Discussion and Analysis Year Ended September 30, 2005

While there has been significant progress in meeting strategic goals, several areas require further improvement. Foremost among these is financial stability, a key accreditation concern. While diversifying and fortifying its overall revenues through tuition and enrollment increases, additional federal funding and investment gains, the University remains dependent on Government of Guam appropriations for 72% of its general operations budget, which is the primary funding source for its teaching and service missions. Student learning and academic quality at the University have, therefore, been particularly susceptible to external influences of the budget constraints, cash shortages and allotment holdbacks that have been experienced.

The Government of Guam leadership continues to manage the island's economic downturn and related financial problems and to work closely with the University in financial planning and monitoring its net asset position. The Office of the Governor has also, for the first time, recently identified \$1.1 million of Federal Compact Impact funds for critical infrastructure renovation projects at the University. Nevertheless, even with a rebound in tourism and a relative increase in government tax collections, the carry-over deficits from prior years have made Government of Guam General Fund cash tight for overall governmental needs. This is evidenced by the Government's withholding a portion of its cash allotment to its agencies. For the University, this meant a 2.5% allotment reserve or \$637,000 in FY2005, improved from an even higher holdback of \$1.1 million in FY2003. As of fiscal year end, the University's receivable from the Government was \$ 4.9 million.

Overall, the University has achieved positive outcomes in challenging financial times. These are due to teamwork, the ability to make difficult decisions based on evidence and the dedication of faculty, staff and administrators. The University continues to focus on strategic priorities, best practices, and accessible and affordable higher education for students in the delivery of its educational mission. The University's strategic focus and measurable progress position it for further growth in FY2006 and beyond.

SUMMARY STATEMENT OF NET ASSETS (IN 000'S)

	<u>2005</u>	<u>2004</u>
Current assets	\$ 14,856	\$ 14,862
Non-current assets	<u>85,932</u>	<u>78,763</u>
Total assets	<u>\$ 100,788</u>	<u>\$ 93,625</u>
Current liabilities	\$ 9,872	\$ 8,424
Non-current liabilities	<u>8,788</u>	<u>4,820</u>
Total liabilities	<u>\$ 18,660</u>	<u>\$ 13,244</u>
Net assets	<u>\$ 82,129</u>	<u>\$ 80,381</u>
Total liabilities and net assets	<u>\$ 100,788</u>	<u>\$ 93,625</u>

This section presents the overall financial condition of the University at year-end. Net assets increased by \$1.7 million (or 2.2% over the prior year) to \$82.1 million by end of FY2005. This is compared to the prior year increase of \$4.9 million. However, the results are similar when FY2004 is adjusted for \$2.2 million transfer to the University in accounting for the Tobacco Settlement Funds and if FY2005 is adjusted for the allotment holdback of \$637,000.

UNIVERSITY OF GUAM

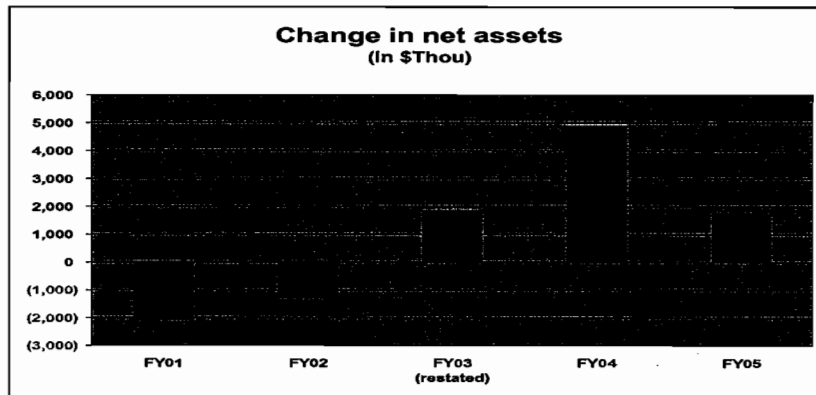
Management's Discussion and Analysis Year Ended September 30, 2005

Assets. Current assets consist primarily of cash and equivalents (28%) and receivables (tuition 16%, local government appropriations 33%, U.S. government grants and contracts 8%, others 7%). Total current assets cover current liabilities 1.5 times, an indicator of good liquidity. Noncurrent assets consist primarily of restricted cash 6% (Tobacco Settlement Funds, Federal grants, and CIP debt service funds), investments 16% (Endowment Funds, private grants and scholarship, board restricted funds), and capital assets 78%.

Total assets increased by 8% due to an increase in noncurrent assets, primarily capital assets for the construction of the Leon Guerrero building and the strong investment returns. The building is funded primarily through a \$13.5 million, 40-year, 4.5% USDA Rural Development Community Facilities Loan. Construction will be completed in July 2006.

Liabilities. These are composed primarily of accounts payable, deferred tuition revenue, accrued employee annual and sick leave, deposits for others, and long-term debt. The increase in total liabilities by \$5.4 million (or 41%) is primarily due to the long-term USDA loan.

Net Assets. Net assets represent the residual interest in the University's assets after liabilities are deducted. FY2005 marks the third year that the University returned a positive increase in net assets. As discussed, this is a result of prudent financial management and implementing the University's financial management plan.



SUMMARY STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS (IN 000'S)

	<u>2005</u>	<u>2004</u>
Operating revenues	\$ 35,932	\$ 33,583
Operating expenses	<u>62,697</u>	<u>58,850</u>
Operating revenues net of operating expenses	(26,765)	(25,267)
Non-operating revenues	<u>28,513</u>	<u>30,144</u>
Increase in net assets	1,748	4,877
Net assets – beginning of year	<u>80,381</u>	<u>75,504</u>
Net assets – end of year	<u>\$ 82,129</u>	<u>\$ 80,381</u>

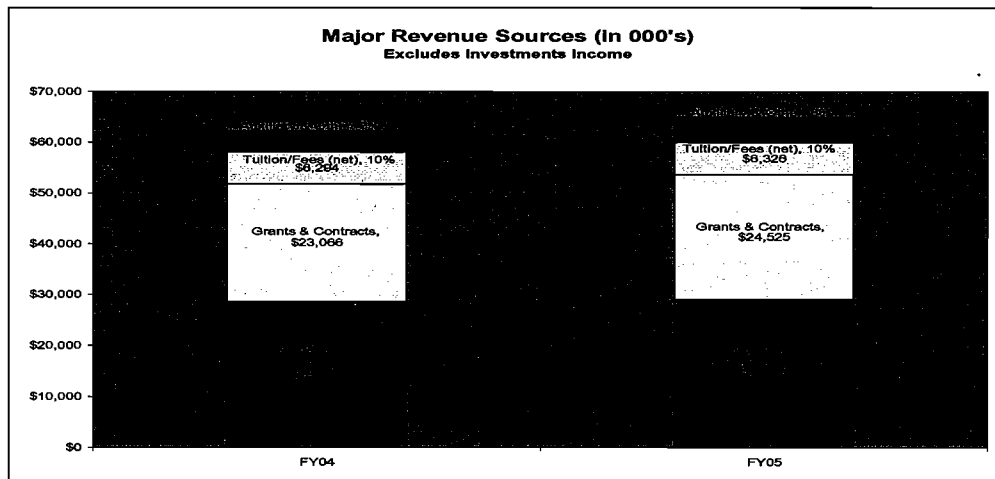
UNIVERSITY OF GUAM

Management's Discussion and Analysis Year Ended September 30, 2005

This section provides details of operating and non-operating revenues and expenditures that resulted in the \$1.7 million increase in net assets. Revenues generally increased while cost control measures kept expenditures within approved limits.

Revenues. The University brought in \$36 million from operations (excluding government appropriations and investments). This is \$6 million higher than total government appropriations of \$29 million, reflecting continued diversification of revenue streams. Tuition and fees, grants and contracts, auxiliary and other revenues contributed to the \$2.3 million (7%) increase over the prior year operating revenues.

Consolidated revenues from auxiliary funds, tuition, and grant sources comprised 55% of total revenues for operations compared to 54% in FY2004. FY2005 marks the third year that internally generated revenues exceeded 50% of total revenues.



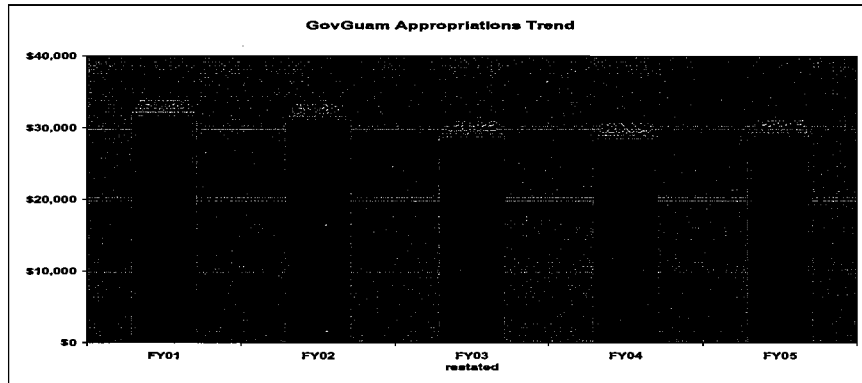
Highlights of Major Revenue Sources.

1. Government of Guam Appropriations. Total Government appropriations increased by \$0.4 million to \$29 million over the prior year (net effect of a \$0.1 million decrease in the appropriation for general operations, \$1.0 million increase in the appropriation for the Student Financial Aid Program, and \$0.5 million decrease in the authorized transfer from the Yamashita Educator Corps fund surplus).

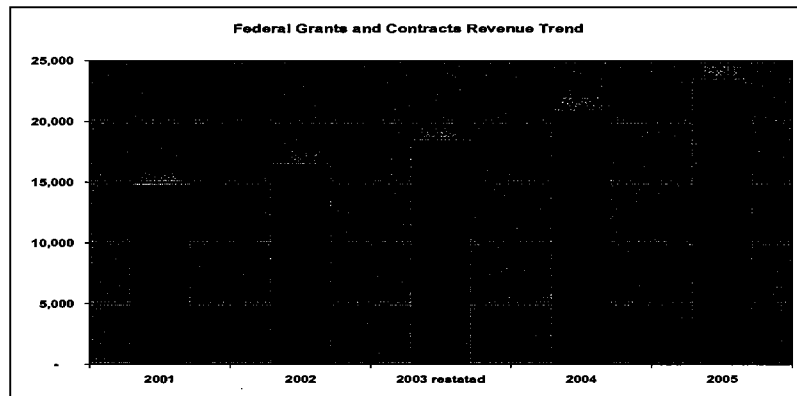
The Government of Guam appropriations to the University have declined over the last three years from 51% of consolidated revenues to 45%, while other revenue sources have increased. Nevertheless, the University still depends on this funding source for 72% of its general operating revenues (excluding federal grants, auxiliary funds, etc.). Compared to FY2001, the University's appropriation during the last three fiscal years is lower by approximately \$3 million, as the Government has not been able to fund the University's budget requests due to economic circumstances and the needs of the school system and public health. During that period the University's appropriations for general operations have been nominally stable, but have declined in real terms. Appropriations have not been sufficient to absorb the increased costs, particularly legally mandated salary increments and retirement fund contributions, utility rate increases, and typhoon insurance coverage. Budget constraints, cash shortages, and allotment reserves on the funds that were appropriated have meant that needed faculty hiring for undermanned programs, student services, plant maintenance and infrastructure support for learning must be deferred or cancelled in order to allocate sufficient funds to higher priority and more immediate academic quality needs, student learning needs and legally mandated increases in operational expenditures.

UNIVERSITY OF GUAM

Management's Discussion and Analysis Year Ended September 30, 2005



2. Grants and Contracts. Consolidated (Federal, local and private) grant and contract revenues increased by \$1.5 million in 2005, net of a \$2.5 million increase from Federal sources and a \$1 million decrease from local and private sources. Compared to the prior year, federal grants/contract revenues increased by \$2.5 million (12%). The trend of increased federal grant revenues is evidence that the University has become a competitive research and service institution in the region.

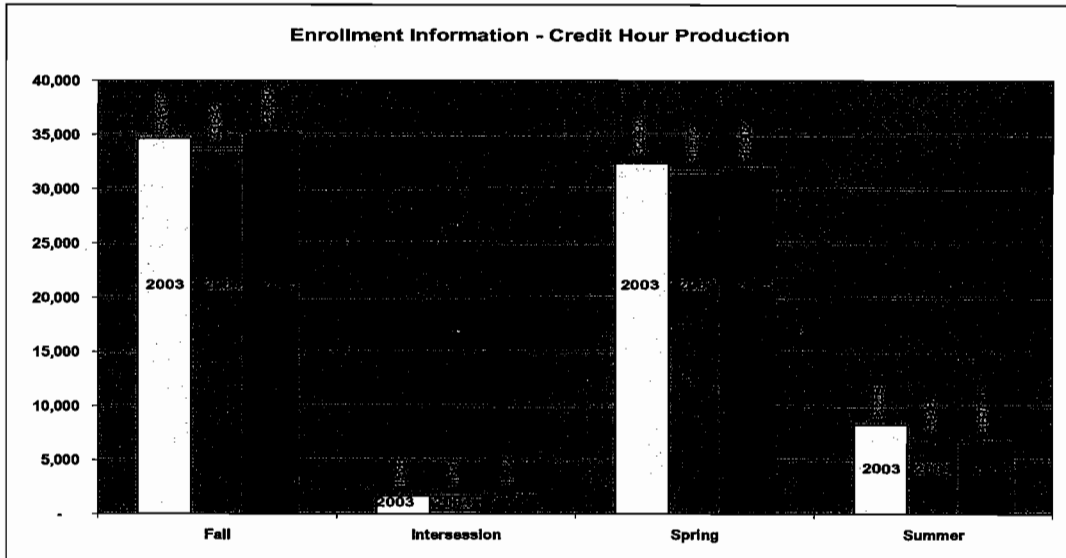


3. Tuition and Fees. Gross student tuition and fee revenues increased by \$1.2 million primarily due to the 10% increase in tuition rates starting Fall 2005 and to increased enrollment. Even with tuition rate increases, the University remains affordable and competitive with students' paying approximately 40% less than those attending other U.S. public universities.

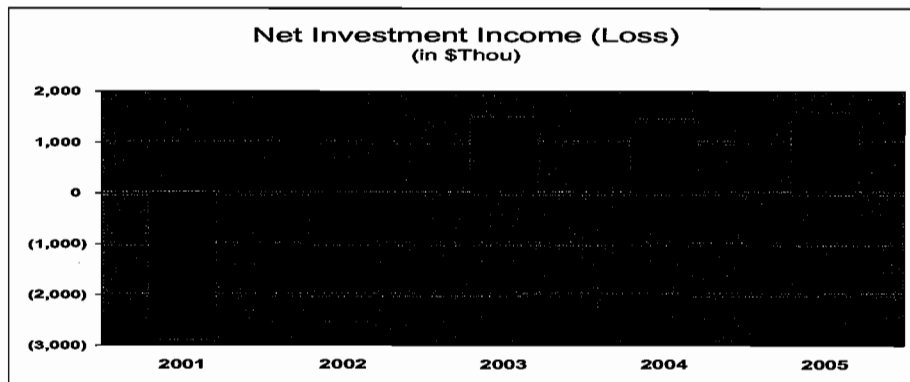
The University has implemented student recruitment efforts. After a period of decline associated with accreditation concerns, student headcount and credit hour production are now beginning to increase. Encouraging signs are apparent in the increase of new undergraduate student enrollment. In Fall 2005, new student registration was 679, compared to 508 in Fall 2001, a 34% increase. Several high-demand programs are also experiencing enrollment growth. Nursing, in particular, has seen an explosive increase in enrollment, from 330 in Fall 2005 to 401 in Spring 2006. Fall 2004 nursing program enrollment numbered approximately 275.

UNIVERSITY OF GUAM

Management's Discussion and Analysis Year Ended September 30, 2005



Other Revenues. Net investment income in FY2005 was \$1.6 million on the University's restricted long-term endowment and quasi-endowment investments. This is primarily the result of a 15% increase in market value of the investments portfolio, marking the third year of investment gains. This result reflects a rebound in the equity and bond markets from losses in 2001 and 2002, as well as continued discipline to reinvest investment earnings.

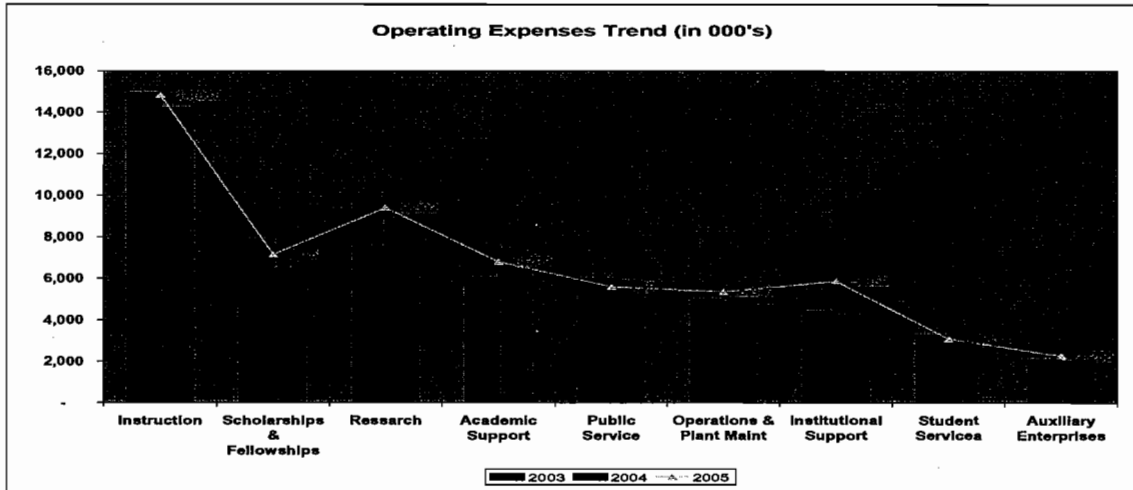


Expenses. FY2005 total operating expenses were \$62.7 million, an increase of \$3.8 million. The University spent \$29.8 million on its core mission. Of that total, 50% went to instruction, 32% to research, and 19% to public service. In addition, the University spent \$15.7 million on libraries and technology, and student, academic and administrative support; \$12.4 million on student aid; and \$5.3 million on campus maintenance. Other expenses incurred by the University are \$2.4 million in depreciation and \$2.1 million in debt service payments for Dorm and various buildings.

With the exception of Institutional Support and Scholarship/Fellowship, operational expenses were relatively comparable with prior year. The primary cause of the increase in Institutional Support was the legislative mandate to release salary increments for all government personnel, which had been withheld since 2002. The impact of this mandate is \$1.2 million in FY2005 (\$2.4 million in FY2006). Increase in Scholarship/Fellowship expense is due to more financial awards to students during the year.

UNIVERSITY OF GUAM

Management's Discussion and Analysis Year Ended September 30, 2005



Net Assets. As discussed earlier, FY2005 marked the third year of a positive return on net assets. (Note: Although there was an increase in net assets, the total of operating revenues net of operating expense (“operating net”) was negative because local government appropriations are reported as non-operating revenues rather than operating revenues under GASB 35. As long as the University’s single largest revenue source is local government appropriations, this will be the case at the current level of tuition, fees, grants and contracts.)

STATEMENT OF CASH FLOWS (IN 000'S)

	<u>2005</u>	<u>2004</u>
Cash provided by (used in):		
Operating activities	\$ (23,980)	\$ (24,240)
Noncapital financing activities	26,487	33,003
Capital and financing activities	(5,819)	(6,625)
Investing activities	<u>1,390</u>	<u>(1,700)</u>
Net change in cash and cash equivalents	(1,922)	438
Cash and equivalents – beginning of year	<u>6,094</u>	<u>5,656</u>
Cash and equivalents – end of year	<u>\$ 4,172</u>	<u>\$ 6,094</u>

This statement provides information about the University’s ability to generate the cash flows needed to meet financial obligations and the extent to which external financing is being used to fund University operations. The University’s cash position decreased by \$1.9 million at the end of FY2005, primarily as a result of delays in the release of GovGuam appropriations. Typically, the University’s cash position at the end of fiscal year is higher than its normal cash position during the balance of the year. This is because fall semester tuition payments are booked at the end of the fiscal year and the Government makes catch up allotment payment close to fiscal year-end. These tuition payments are subsequently allocated for academic expenses during the remainder of the academic year (which overlap the fiscal year) and for operational expenses, which are normally due at the beginning of the following fiscal year. Financial planning requires that there be an adequate amount of cash on hand at the start of the new fiscal year to pay for prior year encumbrances, insurance premiums, continuing infrastructure restoration and institutional needs.

UNIVERSITY OF GUAM

Management's Discussion and Analysis
Year Ended September 30, 2005

ECONOMIC OUTLOOK AND OVERALL CONCLUSION

Guam's economic outlook continues to show signs of recovery. Increased tourist arrivals and the announced buildup in the U.S. military presence are indicative of a rebound. However, there are continuing threats to the government's financial and cash position on the horizon, such as the carry-forward Government of Guam General Fund deficit; continuation of federal income tax cuts; unpaid Earned Income Tax Credit obligations; significant unmet needs in high priority government services such as education and health; and supplemental benefits for Government of Guam retirees.

The Government of Guam has undertaken to improve governmental operations through cost containment and to stimulate the economy through increased tourism marketing and new industry development. Marketing efforts have been undertaken in the major Asian markets and Washington DC by officials, business representatives and community spokespersons. The initial results show a positive impact in the two largest economic sectors of tourism and federal government spending. The military appears to have placed a renewed strategic priority on Guam given the global and regional tensions, having increased its naval and air assets substantially. Further actions, when taken, will improve the state of the Guam economy, although several economic threats remain from global terrorism, tax issues and lingering local government deficits.

The University remains focused on its strategic initiatives and continual improvement, while mindful of the difficult economic conditions and limited resources available. Academic quality and student learning remain the highest priorities. In addition to more sophisticated financial, cash and risk management procedures, there are efforts underway to increase resources through enrollment management, to secure new federal grants such as that from the National Institute of Health for the development of a Cancer Research Center for Guam and Micronesia, to expand outreach opportunities associated with the University's mission, and to improve institutional efficiency through business process redesign and the application of technology.

The University has made progress towards meeting strategic plan priorities within the funds available. However, absent full funding the University has had to focus almost exclusively on goals that support student learning and success. With adequate funding, the University would be better positioned to respond to academic capacity needs particularly related to additional faculty hiring, information technology (IT) and infrastructure.

For further news and up-to-date information concerning the University of Guam, please visit the website at www.uog.edu. The University's annual report and other publications are also available.

UNIVERSITY OF GUAM

Statements of Net Assets
September 30, 2005 and 2004

<u>ASSETS</u>	<u>2005</u>	<u>2004</u>
Current assets:		
Cash and cash equivalents	\$ 4,172,010	\$ 6,093,914
Short-term investments	110,251	1,615,998
Due from Government of Guam	4,945,723	2,390,754
Tuition receivable (net of allowance for doubtful accounts of \$2,324,142 in 2005 and \$2,360,180 in 2004)	2,398,489	2,308,064
Accounts receivable - U.S. Government	1,208,342	599,222
Other receivables	986,152	752,782
Inventories	493,005	682,794
Other current assets	541,593	418,491
Total current assets	14,855,565	14,862,019
Noncurrent assets:		
Restricted cash and cash equivalents	4,862,292	3,238,384
Investments	5,824,248	5,103,394
Endowment investments	7,736,477	6,776,537
Capital assets, net of accumulated depreciation	67,509,706	63,644,880
Total noncurrent assets	85,932,723	78,763,195
Total assets	\$ 100,788,288	\$ 93,625,214
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Current portion of long-term debt	\$ 294,304	\$ 258,530
Accounts payable and accrued liabilities	4,591,274	4,028,362
Deferred revenue	4,986,070	4,137,521
Total current liabilities	9,871,648	8,424,413
Noncurrent liabilities:		
Deposits held on behalf of others	2,389,690	2,423,833
Accrued annual leave	647,991	1,011,090
DCRS sick leave liability	863,155	721,671
Long-term debt	4,887,149	663,333
Total noncurrent liabilities	8,787,985	4,819,927
Total liabilities	18,659,633	13,244,340
Commitments and contingencies		
Net assets:		
Invested in capital assets, net of related debt	60,296,558	61,437,000
Restricted:		
Nonexpendable	5,013,399	4,967,657
Expendable	6,920,471	5,790,042
Unrestricted	9,898,227	8,186,175
Total net assets	82,128,655	80,380,874
Total liabilities and net assets	\$ 100,788,288	\$ 93,625,214

See accompanying notes to financial statements.

UNIVERSITY OF GUAM ENDOWMENT FOUNDATION, INC.

Statements of Financial Position
December 31, 2004 and 2003

<u>ASSETS</u>	<u>2004</u>	<u>2003</u>
Cash and cash equivalents	\$ 30,594	\$ 115,350
Pledges receivable, net of an allowance for doubtful accounts of \$103,980 at December 31, 2004 and 2003	482,526	987,655
Accounts receivable	14,403	-
Advances	13,100	13,100
Equipment, net	7,198	7,112
Investment in Bank of Guam stock	157,942	116,700
Investment in Citizens Security Bank stock	203,544	203,545
Investment in securities	6,760,516	5,871,860
Other	9,001	-
	<u>\$ 7,678,824</u>	<u>\$ 7,315,322</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Liabilities:		
Accounts payable	\$ 222	\$ 16,569
Accrued expenses	8,701	-
Due to University of Guam	5,935	5,935
Total liabilities	<u>14,858</u>	<u>22,504</u>
Net assets:		
Unrestricted	1,135,790	575,434
Temporarily restricted	6,280,311	6,469,519
Permanently restricted	247,865	247,865
Total net assets	<u>7,663,966</u>	<u>7,292,818</u>
	<u>\$ 7,678,824</u>	<u>\$ 7,315,322</u>

See accompanying notes to financial statements.

UNIVERSITY OF GUAM

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2005 and 2004

	2005	2004
Operating revenues:		
Student tuition and fees	\$ 11,598,490	\$ 10,390,779
Less: Scholarship discounts and allowances	(5,272,668)	(4,096,735)
	6,325,822	6,294,044
Federal grants and contracts	23,340,789	20,795,779
Government of Guam grants and contracts	425,828	1,301,059
Private grants and contracts	758,454	970,361
Sales and services of education department	396,381	440,344
Auxiliary enterprises	2,080,035	1,812,857
Other revenues	2,604,749	1,968,378
	35,932,058	33,582,822
Total operating revenues		
Operating expenses:		
Instruction	14,817,636	14,209,968
Research	9,391,835	9,019,181
Public service	5,590,951	5,857,256
Academic support	6,798,532	6,453,022
Student services	3,081,109	3,209,144
Institutional support	5,857,633	4,222,198
Operations and maintenance, plant	5,347,390	5,045,149
Depreciation	2,405,825	2,351,954
Scholarships and fellowships	7,150,948	6,466,199
Auxiliary enterprises	2,255,383	2,015,662
	62,697,242	58,849,733
Total operating expenses		
Operating revenues net of operating expenses	(26,765,184)	(25,266,911)
Nonoperating revenues (expenses):		
Government of Guam appropriations:		
Operations	26,030,648	26,129,510
Student financial aid program	2,511,000	1,523,990
Transfer from Yamashita Education Corporation	500,000	1,000,000
Tobacco settlement (A funds)	-	425,727
Net investment income (expense)	1,565,514	1,333,456
Interest on capital assets - debt related	(66,906)	(54,478)
Debt service - DOA bond	(2,027,291)	(2,027,256)
	28,512,965	28,330,949
Net nonoperating revenues		
Income before other revenues	1,747,781	3,064,038
Addition to permanent endowment, Tobacco settlement (B funds)	-	1,812,657
Net increase in net assets	1,747,781	4,876,695
Net assets:		
Net assets at beginning of year	80,380,874	75,504,179
Net assets at end of year	\$ 82,128,655	\$ 80,380,874

See accompanying notes to financial statements.

UNIVERSITY OF GUAM ENDOWMENT FOUNDATION, INC.

Statements of Activities and Changes in Net Assets
Years Ended December 31, 2004 and 2003

	Year Ended December 31,							
	2004			2003				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other income:								
Net investment earnings	\$ 973,640	\$ -	\$ -	\$ 973,640	\$ 1,138,781	\$ -	\$ -	\$ 1,138,781
Contributions	-	4,558	-	4,558	24,228	1,522,120	-	1,546,348
In kind donations	179,238	5,722	-	184,960	73,490	-	-	73,490
Other	646,627	46,261	-	692,888	163,177	25,089	-	188,266
Net assets released from restrictions:								
Satisfaction of program restrictions	245,749	(245,749)	-	-	155,174	(155,174)	-	-
Total revenues	2,045,254	(189,208)	-	1,856,046	1,554,850	1,392,035	-	2,946,885
Expenses:								
Program services:								
Contributions to University of Guam programs	245,749	-	-	245,749	142,074	-	-	142,074
Scholarships	-	-	-	-	13,100	-	-	13,100
Total program services	245,749	-	-	245,749	155,174	-	-	155,174
Support services:								
Management and general	1,239,149	-	-	1,239,149	584,021	-	1,406	585,427
Total support services	1,239,149	-	-	1,239,149	584,021	-	1,406	585,427
Total expenses	1,484,898	-	-	1,484,898	739,195	-	1,406	740,601
Change in net assets	560,356	(189,208)	-	371,148	815,655	1,392,035	(1,406)	2,206,284
Net assets at beginning of year	\$ 575,434	\$ 6,469,519	\$ 247,865	\$ 7,292,818	(240,221)	\$ 5,077,484	\$ 249,271	\$ 5,086,534
Net assets at end of year	\$ 1,135,790	\$ 6,280,311	\$ 247,865	\$ 7,663,966	\$ 575,434	\$ 6,469,519	\$ 247,865	\$ 7,292,818

See accompanying notes to financial statements.

UNIVERSITY OF GUAM
 Statements of Cash Flows
 Years Ended September 30, 2005 and 2004

	2005	2004
Cash flows from operating activities:		
Student tuition and fees, net	\$ 6,930,509	\$ 5,742,431
Grants and contracts	24,069,388	23,968,239
Sales and services of education department	163,011	876,412
Auxiliary services	(175,348)	(202,805)
Other receipts	2,604,749	1,968,378
Payments to employees for salaries and benefits	(33,467,700)	(31,063,629)
Payments to suppliers and others	(16,953,953)	(19,063,705)
Payments to students for financial aid	(7,150,948)	(6,466,199)
Net cash used in operating activities	(23,980,292)	(24,240,878)
Cash flows from noncapital financing activities:		
Government of Guam appropriations	26,486,679	30,765,447
Addition to permanent endowment	-	1,812,657
Tobacco funds	-	425,727
Net cash provided by noncapital financing activities	26,486,679	33,003,831
Cash flows from capital and related financing activities:		
Interest paid on capital debt	(66,906)	(54,478)
Purchases of capital assets	(6,360,243)	(1,593,292)
Principal paid on capital debt	(2,252,823)	(2,239,058)
Proceeds from issuance of debt	4,485,122	-
Changes in restricted cash	(1,623,908)	(2,738,384)
Net cash used in capital and related financing activities	(5,818,758)	(6,625,212)
Cash flows from investing activities:		
Investment income	1,565,514	1,333,454
Purchases/sales of investments, net	(175,047)	(3,033,652)
Net cash provided by (used in) investing activities	1,390,467	(1,700,198)
Net change in cash and cash equivalents	(1,921,904)	437,543
Cash and cash equivalents at beginning of year	6,093,914	5,656,371
Cash and cash equivalents at end of year	\$ 4,172,010	\$ 6,093,914
Reconciliation of operating loss to net cash used in operating activities:		
Operating revenues net of operating expenses	\$ (26,765,184)	\$ (25,266,911)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	2,405,825	2,351,954
Loss on disposal of fixed assets	89,592	43,509
Change in assets and liabilities:		
Accounts receivable, net	(932,915)	1,322,019
Inventory	189,789	(113,201)
Other assets	(123,102)	369,981
Accounts payable and accrued liabilities	199,813	(1,718,789)
Deferred revenue	848,549	(536,525)
DCRS sick leave	141,484	54,829
Deposits held on behalf of others	(34,143)	(747,744)
Net cash used in operating activities	\$ (23,980,292)	\$ (24,240,878)

See accompanying notes to financial statements.

UNIVERSITY OF GUAM

Notes to Financial Statements
September 30, 2005 and 2004

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. Basis of Presentation

A. Financial Statement Presentation. In June 1999, the Governmental Accounting Standards Board (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*.

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-university transactions have been eliminated. The University reports as a business-type activity, as defined by GASB Statement No. 35. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services.

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. Reporting Entity. Effective October 1, 2003, the University adopted GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. The University of Guam Endowment Foundation (the Foundation) is a legally separate, tax-exempt entity which meets the criteria set forth for component units under GASB Statement No. 39. The Foundation provides financial support for the objectives, purposes and programs of the University. Although the University does not control the timing, purpose, or amount of receipts from the Foundation, the resources (and income thereon) which the Foundation holds and invests are restricted to the activities of the University. Because the resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and its Statements of Financial Position and Statements of Activities and Changes in Net Assets are separately presented in the University's financial statements. In addition, the Foundation's significant notes are summarized in Note W.

UNIVERSITY OF GUAM

Notes to Financial Statements
September 30, 2005 and 2004

2. Basis of Presentation, Continued

C. Reporting Entity, Continued:

The Foundation is a private organization that reports under FASB standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the University's financial reporting entity for these differences.

The Foundation's fiscal year end is as of December 31.

3. Summary of Significant Accounting Policies

- A. 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 three months or less.

At September 30, 2005 and 2004, the University has cash balances of \$9,034,302 and \$9,332,298, respectively, with corresponding bank balances of \$9,794,882 and \$10,131,859, respectively, of which \$6,272,046 and \$7,767,947, respectively, are insured by the Federal Deposit Insurance Corporation, or collateralized by securities held by a trustee in the name of the financial institution. The remaining balances are uninsured and uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

- B. Restricted Cash and Cash Equivalents. Cash and cash equivalents that are restricted to make debt service payments and purchases or enhance learning resources materials and technology are classified as noncurrent assets in the Statement of Net Assets.

At September 30, 2005 and 2004, the University recorded \$1,860,944 and \$2,238,384, respectively, from a tobacco settlement agreement entered into by the Government of Guam to be expended by the University for enhancement of learning resources and technology. The fund may only be expended in accordance with purposes set forth by the Guam Economic Development and Commerce Authority, a component unit of the Government of Guam. During the years ended September 30, 2005 and 2004, the fund earned interest of \$40,560 and \$11,461, respectively.

- C. Short-term Investments. Short-term investments include time certificates of deposit with original maturities of more than three months.

- D. 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*. Unrealized gains and losses on the carrying value of investments are reported as a part of net investment income in the Statement of Revenues, Expenses and Changes in Net Assets.

- E. Due from Government of Guam. Due from Government of Guam consists of the remaining balance of legislative annual appropriations and scholarships, which have not been received at September 30, 2005 and 2004.

UNIVERSITY OF GUAM

Notes to Financial Statements
September 30, 2005 and 2004

3. Summary of Significant Accounting Policies, Continued

- F. Accounts Receivable – U.S. Government. Accounts receivable from the U.S. Government consist of amounts due from the federal government in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts.
- G. 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.
- H. 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.
- I. Capital Assets. Depreciation 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's capitalization policy requires acquisitions greater than \$5,000 to be capitalized and depreciated over the assets estimated 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.
- J. Deferred Revenues. Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but relate to the subsequent accounting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.
- K. Compensated Absences. Employee vacation leave is accrued at year end for financial statement purposes. Included in accounts payable and accrued liabilities at September 30, 2005 and 2004 is \$1,504,785 and \$1,420,889, respectively, related to compensated absences earned but unused. The change in accrued employee leave is also included as a component of operating expense in the Statement of Revenues, Expenses, and Changes in Net Assets.
- L. Grants-in-Aid. Tuition and fees revenue include grants-in-aid for senior citizens, faculty, staff and their dependents charged to scholarships and fellowships expense. The total of these grants for 2005 and 2004 was \$161,910 and \$142,106, respectively.
- M. 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.
- N. 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 that the University is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

UNIVERSITY OF GUAM

Notes to Financial Statements
September 30, 2005 and 2004

3. Summary of Significant Accounting Policies, Continued

Restricted Net Assets – Nonexpendable – Nonexpendible 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.

- O. 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.

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.

- P. 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.
- Q. New Accounting Standards. In fiscal year 2005, the University implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures* (an amendment of GASB Statement No. 3), which addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest risk, GASB Statement No. 40 requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates.

UNIVERSITY OF GUAM

Notes to Financial Statements
September 30, 2005 and 2004

3. Summary of Significant Accounting Policies, Continued

In November 2003, GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. The provisions of the Statement are effective for periods beginning after December 15, 2004. The University does not believe that the implementation of this Statement will have a material effect on its financial statements.

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. GASB Statement No. 43 establishes uniform financial reporting for other postemployment benefit plans by state and local governments. The provisions of this Statement are effective for periods beginning after December 15, 2007. The University does not believe that the implementation of this Statement will have a material effect on its financial statements.

In May 2004, GASB issued Statement No. 44, *Economic Condition Reporting: The Statistical Section*, an amendment to NCGA Statement 1. GASB Statement No. 44 improves the understandability and usefulness of statistical section information and adds information from the new financial reporting model for state and local governments required by GASB Statement No. 34. The provisions of this Statement are effective for periods beginning after June 15, 2005. The University does not believe the implementation of this Statement will have a material effect on its financial statements.

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB Statement No. 45 establishes standards for the measurement, recognition, and display of other postemployment 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 provisions of this Statement are effective for periods beginning after December 15, 2008. The University does not believe the implementation of this Statement will have a material effect on its financial statements.

In June 2005, GASB issued Statement No. 47, *Accounting for Termination Benefits*. GASB Statement No. 47 establishes guidance for state and local governmental employers on accounting and financial reporting for termination benefits. These benefits include incentives for voluntary terminations (e.g., early retirement window programs) and severance payments with respect to involuntary terminations. The provisions of this Statement are effective for periods beginning after June 15, 2005. The University does not believe that the implementation of this Statement will have a material effect on its financial statements.

- R. 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 and periodically thereafter, 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, 2005 and 2004

3. Summary of Significant Accounting Policies, Continued

As a result of an actuarial valuations performed as of September 30, 2003, 2002 and 2001, contribution rates for the years ended September 30, 2005, 2004 and 2003, respectively, have been determined as follows:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Normal costs (% of DB Plan payroll)	18.30%	17.66%	16.42%
Unfunded liability costs (% of total payroll)	<u>19.93%</u>	<u>16.23%</u>	<u>22.94%</u>
Employee contributions (DB Plan employees)	38.23%	33.89%	39.36%
	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>
Agency specific adjustments	28.73%	24.39%	29.86%
	<u>- %</u>	<u>- %</u>	<u>2.19%</u>
Government contribution as a % of DB Plan payroll	<u>28.73%</u>	<u>24.39%</u>	<u>32.05%</u>
Government contribution as a % of total payroll	<u>24.89%</u>	<u>20.81%</u>	<u>29.25%</u>

The plan utilized the actuarial cost method termed "entry age normal". Significant actuarial assumptions are as follows:

	<u>2003</u> <u>Actuarial Valuation</u>	<u>2002</u> <u>Actuarial Valuation</u>
Interest rate and rate of return	7.0%	7.5%
Payroll increases	3.5%	4.5%
Salary increases	4.0% - 8.5%	4.0% - 8.5%

The actuarial valuation performed as of September 30, 2003, 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.

Statutory contribution rates for employer and employee contributions were 20.81% and 9.5%, respectively, of qualifying payroll for both of the years ended September 30, 2005 and 2004.

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

Statutory employer contributions into the DCRS for the years ended September 30, 2005 and 2004 are determined using the same rates as the DB plan. 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 amount 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.

Public Law 26-86 allows members of the DCRS to receive a lump sum payment of one-half of their accumulated sick leave upon retirement. The University has accrued an estimated liability of \$863,155 and \$721,671 at September 30, 2005 and 2004, respectively, for potential future sick leave payments as a result of this law. However, this amount is an estimate and actual payout may be materially different than estimated.

UNIVERSITY OF GUAM

Notes to Financial Statements
September 30, 2005 and 2004

3. Summary of Significant Accounting Policies, Continued

Retirement contributions for the years ended September 30, 2005 and 2004 are as follows:

	<u>2005</u>	<u>2004</u>
Defined benefit plan	\$ 2,588,424	\$ 2,766,263
DCRS	1,899,579	1,525,940

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, 2005 and 2004, the General Fund has accrued approximately \$5,361,724 and \$3,724,396, respectively, for the University's cumulative unfunded retirement liability.

- S. 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.
- T. 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 disclosure of contingent assets and liabilities at the date of the statement of net assets and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
- U. 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. The University has a \$1 million deductible for typhoon loss.
- V. Reclassifications. Certain account balances in 2004 have been reclassified to conform to the 2005 financial statement presentation.
- W. Foundation Pledges Receivable and Investments

Pledges Receivable

Pledges receivable consist of donations pledged to the Foundation, but not yet received as of December 31, 2004 and 2003. These pledges are payable in installments over periods ranging from one to forty-three years. Unconditional promises to give that are expected be collected for future years are recorded at the present value of the estimated future cash flows. Amortization of discount will be included in contribution revenue. Management of the Foundation is of the opinion that the net outstanding balance is collectible in subsequent fiscal years and has reserved for all other long-term receivables.

Included in pledges receivable are the following unconditional promises to give:

	<u>2004</u>	<u>2003</u>
SBPA (School of Business and Public Administration) Building	\$ 1,000,000	\$ 1,000,000
Student Center	-	500,000
Other	<u>101,000</u>	<u>110,109</u>
	1,101,000	1,610,109

UNIVERSITY OF GUAM

Notes to Financial Statements
September 30, 2005 and 2004

3. Summary of Significant Accounting Policies, Continued

W. Foundation Pledges Receivable and Investments, Continued

Pledges Receivable, Continued

Less: Unamortized discount	(518,474)	(518,474)
	582,526	1,091,635
Less: Allowance for uncollectibles	(100,000)	(103,980)
	<u>\$ 482,526</u>	<u>\$ 987,655</u>

Investments

Investments are carried at fair market values. Gains and losses on investments are reported in the statements of activities as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by laws. The composition of investments in securities as of December 31, 2004 and 2003, follows:

	<u>2004</u>	<u>2003</u>
Cash	\$ 308,845	\$ 522,236
Equities	5,086,116	3,962,563
Fixed income	<u>1,365,556</u>	<u>1,387,061</u>
	<u>\$ 6,760,517</u>	<u>\$ 5,871,860</u>

The composition of net investment earnings for the years ended December 31, 2004 and 2003, is as follows:

	<u>2004</u>	<u>2003</u>
Increase in fair value	\$ 819,017	\$ 982,339
Interest income	66,913	97,054
Dividends	<u>87,710</u>	<u>59,388</u>
	<u>\$ 973,640</u>	<u>\$ 1,138,781</u>

Investments also include shares of stock in Bank of Guam (BOG) and Citizens Security Bank (CSB), that are recorded at their fair market values at December 31, 2004 and 2003. The CSB shares are permanently restricted, as the shares cannot be sold. Dividends received from these shares will be used for scholarship purposes. The BOG shares contain no restrictions and are classified as unrestricted net assets.

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.

UNIVERSITY OF GUAM

Notes to Financial Statements
September 30, 2005 and 2004

4. Long-Term Debt, Continued

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 \$91,917.

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 years are shown below:

<u>Year Ending September 30,</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2006	\$ 7,800	\$ 85,000	\$ 92,800
2007	5,250	85,000	90,250
2008	<u>2,700</u>	<u>90,000</u>	<u>92,700</u>
	<u>\$ 15,750</u>	<u>\$ 260,000</u>	<u>\$ 275,750</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, 2005.

<u>Year Ending September 30,</u>	<u>Capital Lease</u>
2006	\$ 173,530
2007	173,530
2008	<u>130,151</u>
Total payments	477,211
Less amounts representing interest	<u>(40,880)</u>
Total obligation under capital lease	<u>\$ 436,331</u>

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

In October 2001, Public Law 26-48 authorized the Board of Regent of the University of Guam to enter into a loan agreement with the United States Department of Agriculture (USDA) of an amount not to exceed \$13.5 million for the purpose of funding construction of certain facilities. The loan agreement with USDA for \$13.5 million was signed on June 12, 2003 and construction began in March 2005. As of September 30, 2005, \$4,485,122 has been drawn down. Monthly payments of \$62,505 begin in July 2006. The loan security agreement pledges revenues derived from the operation of the facility be transferred to an account designated for debt service, operation and maintenance of the facility. After the payment of principal and interest, \$6,251 a month is required to be transferred to a reserved account until a sum of \$760,060 is accumulated. In addition, the University assigned and granted to the debtor its security interest in all equipment, furniture and fixtures located at the Business and Public Administration Building.

UNIVERSITY OF GUAM

Notes to Financial Statements
September 30, 2005 and 2004

4. Long-Term Debt, Continued

Debt service to maturity is not disclosable for the amount drawn to September 30, 2005. However, the debt service to maturity for the entire debt, once drawdown, will be as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 35,774	\$ 151,741	\$ 187,515
2007	147,181	602,879	750,060
2008	153,942	596,118	750,060
2009	161,014	589,046	750,060
2010	168,411	581,649	750,060
2011-2015	965,466	2,784,834	3,750,300
2016-2020	1,208,567	2,541,733	3,750,300
2021-2025	1,512,879	2,237,421	3,750,300
2026-2030	1,893,815	1,856,485	3,750,300
2031-2035	2,370,670	1,379,630	3,750,300
2036-2040	2,967,595	782,705	3,750,300
2041-2043	<u>1,914,686</u>	<u>123,032</u>	<u>2,037,718</u>
	<u>\$ 13,500,000</u>	<u>\$ 14,227,273</u>	<u>\$ 27,727,273</u>

Public Law 26-48 also provided supplemental annual funding of \$500,000 to pay for the loan. At September 30, 2005 and 2004, \$1.5 million and \$1 million, respectively, have been received. The funds received are classified as restricted expendable net assets.

5. Noncurrent Liabilities

Noncurrent liability activity was as follows:

	<u>Beginning Balance September 30, 2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance September 30, 2005</u>	<u>Amount due within one year</u>
Bonds, notes and capital lease obligations:					
Revenue bond payable	\$ 345,000	\$ -	\$ 85,000	\$ 260,000	\$ 85,000
Capital lease payable	576,863	32,998	173,530	436,331	173,530
Notes payable	<u>-</u>	<u>4,485,122</u>	<u>-</u>	<u>4,485,122</u>	<u>35,774</u>
Total bonds, notes and capital lease	<u>921,863</u>	<u>4,518,120</u>	<u>258,530</u>	<u>5,181,453</u>	<u>294,304</u>
Other liabilities:					
Deposit held on behalf of others	2,423,833	2,542,935	2,577,078	2,389,690	-
Accrued annual leave	1,420,889	1,116,200	1,032,304	1,504,785	856,794
DCRS sick leave liability	<u>721,671</u>	<u>141,484</u>	<u>-</u>	<u>863,155</u>	<u>-</u>
Total other liabilities	<u>4,566,393</u>	<u>3,800,619</u>	<u>3,609,382</u>	<u>4,757,630</u>	<u>856,794</u>
Total noncurrent liabilities	<u>\$ 5,488,256</u>	<u>\$ 8,318,739</u>	<u>\$ 3,867,912</u>	<u>\$ 9,939,083</u>	<u>\$ 1,151,098</u>
	<u>Beginning Balance September 30, 2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance September 30, 2004</u>	<u>Amount due within one year</u>
Bonds and capital lease obligations:					
Revenue bond payable	\$ 425,000	\$ -	\$ 80,000	\$ 345,000	\$ 85,000
Capital lease payable	<u>708,665</u>	<u>41,728</u>	<u>173,530</u>	<u>576,863</u>	<u>173,530</u>
Total bonds and capital lease	<u>1,133,665</u>	<u>41,728</u>	<u>253,530</u>	<u>921,863</u>	<u>258,530</u>

UNIVERSITY OF GUAM

Notes to Financial Statements
September 30, 2005 and 2004

5. Noncurrent Liabilities, Continued

	<u>Beginning Balance September 30, 2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance September 30, 2004</u>	<u>Amount due within one year</u>
Other liabilities:					
Deposit held on behalf of others	3,171,577	1,975,093	2,722,837	2,423,833	-
Accrued annual leave	1,783,269	914,918	1,277,298	1,420,889	409,799
DCRS sick leave liability	<u>666,842</u>	<u>54,829</u>	<u>-</u>	<u>721,671</u>	<u>-</u>
Total other liabilities	<u>5,621,688</u>	<u>2,944,840</u>	<u>4,000,135</u>	<u>4,566,393</u>	<u>409,799</u>
Total noncurrent liabilities	<u>\$ 6,755,353</u>	<u>\$ 2,986,568</u>	<u>\$ 4,253,665</u>	<u>\$ 5,488,256</u>	<u>\$ 668,329</u>

6. 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, 2005 and 2004, loan receivables are reserved in the amount of \$11,594,238 and \$11,656,686, respectively, and recoveries collected are \$357,100 and \$231,698 for the years then ended, respectively.

7. Deposits and Investments

GASB Statement No. 40 addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. As an element of interest rate risk, disclosure is required of investments that have fair values that are highly sensitive to changes in interest rates. GASB Statement No. 40 also requires disclosure of formal policies related to deposits and investment risks.

The deposit and investment policies of the University are governed by pertinent restrictions existing under the laws of Guam with respect to investments (fund). The Board of Regents, with the assistance of a consultant, is required to engage investment managers to manage the fund assets. Legally authorized investments are as follows:

(i) General Guidelines

- a. U.S. and Non-U.S. Equities include American Depository Receipts, convertible bonds, preferred stock, fixed-income securities, mutual funds and short-term securities.
- b. No individual security of any issuer, other than that of the United States Government, shall constitute more than 5% (at cost) of the total fund or 10% (at cost) of any investment manager's portfolio.
- c. No investment may be made in the securities of a single corporate entity in excess of 15% (at market) of any individual investments manager's portfolio, without prior approval from the University.
- d. Holdings of any issuer shall constitute no more than 5% of the outstanding securities of such issuer.
- e. Investments in a registered mutual fund managed by the investment manager are subject to prior approval of the University.

UNIVERSITY OF GUAM

Notes to Financial Statements
September 30, 2005 and 2004

7. Deposits and Investments, Continued

- f. The following securities and transactions are not authorized without prior written approval from the University: letter stock and other unregistered securities; non-negotiable securities; commodities or other commodity contracts; options; futures; short sales; and, margin transactions.
- g. No investment manager's portfolio shall be excessively over weighted in any one industry (as compared to respective benchmark index) without prior approval by the University.

(ii) U.S. Fixed Income

- a. All fixed income securities held in the portfolio shall have Moody's, Standard & Poor's and/or Fitch's credit quality rating of no less than "BBB".
- b. U.S. Treasury and U.S. Government agencies, which are unrated securities, are qualified for inclusion in the portfolio and will be considered to be of the highest rating.
- c. No more than 20% of the market value of the portfolio shall be rated less than single "A" quality, unless the manager has specific prior written authorization from the University.

(iii) Equities

- a. Consistent with the desire to maintain broad diversification, allocation to any economic or industry sector should not be excessive.
- b. Equity holdings shall be restricted to readily marketable securities of corporations that actively traded on the major exchanges and over the counter.
- c. The managers shall have the discretion to invest a portion of the assets in cash reserves when they deem appropriate.
- d. Common stock and preferred stock of any institution or entity created or existing under the laws of the United States or any other country are permissible investments.

(iv) Cash and Cash Equivalents

- a. Cash equivalent reserves shall consist of cash instruments having a quality rating of A-1, P-1 or their equivalent. U.S. Treasury and Agency securities, Bankers Acceptances, Certificates of Deposit and Collateralized Repurchase Agreements are also acceptable investment vehicles. Custodial Sweep Accounts must be, in the judgment of the investment managers, of credit quality equal or superior to the standards described above.
- b. In the case of Certificates of Deposit, they must be issued by FDIC insured institutions. Deposits in institutions with less than \$10,000,000 in assets may not be made in excess of \$100,000, unless the deposit is fully collateralized by U.S. Treasury Securities.
- c. No single issue shall have a maturity of greater than two years.
- d. Custodial Sweep Account portfolios must have an average maturity of less than one year.

A. Deposits:

GASB Statement No. 3 previously required the University to present deposits into three categories of custodial credit risk 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.

UNIVERSITY OF GUAM

Notes to Financial Statements
September 30, 2005 and 2004

7. Deposits and Investments, Continued

A. Deposits, Continued:

GASB Statement No. 40 amended GASB Statement No. 3 to in effect 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, the University'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 financial institution but not in the University's name.

B. 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, Expenses and Changes in Net Assets upon disposition, and unrealized gains and losses are recorded as net appreciation (depreciation) of fair value in investments. Approximately \$13,433,107 of these investments and cash at September 30, 2005, 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, fixed income securities, and common stock. These investments are held in the name of the University.

	<u>2005</u>	<u>2004</u>
Investments:		
Money market funds	\$ 309,026	\$ 211,943
Fixed income securities	1,370,828	1,407,080
Common stock	<u>4,144,394</u>	<u>3,484,371</u>
	<u>\$ 5,824,248</u>	<u>\$ 5,103,394</u>

Endowment investments consist primarily of the land grant endowment trust fund established pursuant to federal land grant legislation. Public Law 19-40 requires that the principal amount be held in trust in perpetuity. At September 30, 2005 and 2004, the accumulated net earnings and appreciation on investments is \$4,736,479 and \$3,776,536, respectively. These amounts, which are recorded in the restricted expendable net assets category, are available for expenditure in accordance with spending policies established by the Board of Regents in its capacity as trustee. The Board of Regents is authorized by the above public law to manage investments consistent with the University's investment policy.

	<u>2005</u>	<u>2004</u>
Endowment investments:		
Money market funds	\$ 410,486	\$ 281,428
Fixed income securities	1,820,901	1,868,390
Common stock	<u>5,505,090</u>	<u>4,626,719</u>
	<u>\$ 7,736,477</u>	<u>\$ 6,776,537</u>

UNIVERSITY OF GUAM

Notes to Financial Statements
September 30, 2005 and 2004

7. Deposits and Investments, Continued

B. Investments, Continued

The composition of investment income (expense) for the years ended September 30, 2005 and 2004, is as follows:

	<u>2005</u>	<u>2004</u>
Interest and dividends from investments	\$ 740,183	\$ 596,936
Investment fees	(169,655)	(128,594)
Realized (loss) gain	(157,222)	31,014
Appreciation of fair value of investments, net	<u>1,152,208</u>	<u>834,100</u>
	<u>\$ 1,565,514</u>	<u>\$ 1,333,456</u>

GASB Statement No. 3 previously required government entities to present investment risks in terms of whether the investments fell into the following categories:

- 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.

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for investments falling into categories 1 and 2, and provided for disclosure requirements addressing other common risks of investments such as credit risk, interest rate risk, concentration of credit risk, and foreign currency risk. GASB Statement No. 40 did retain and expand the element of custodial credit risk in GASB Statement No. 3.

As of September 30, 2005, the University's fixed income securities had the following maturities and credit risk exposure.

<u>Investment Type</u>	<u>Fair value</u>	<u>Less than 1</u>	<u>1 to 5</u>	<u>5 to 10</u>	<u>More than 10</u>
Corporate Bonds	\$ 196,071	\$ -	\$ 38,206	\$ 132,384	\$ 25,481
Mortgage & assets backed securities	1,084,809	-	75,847	16,653	992,309
Government bonds:					
Federal Home Loan Mortgage Corp	145,264	\$ -	21,981	105,367	17,916
Federal National Mortgage Association	44,294	-	9,753	34,541	-
U.S. Treasury Bonds/Notes	<u>1,721,291</u>	<u>857,333</u>	<u>69,191</u>	<u>192,254</u>	<u>602,513</u>
	<u>\$ 3,191,729</u>	<u>\$ 857,333</u>	<u>\$ 214,978</u>	<u>\$ 481,199</u>	<u>\$ 1,638,219</u>

UNIVERSITY OF GUAM

Notes to Financial Statements
September 30, 2005 and 2004

7. Deposits and Investments, Continued

B. Investments, Continued

The University's exposure to credit risk at September 30, 2005, was as follows:

<u>Moody's Rating</u>	<u>Total</u>	<u>Domestic</u>	<u>International</u>
AAA/AAA	\$ 2,923,694	\$ 2,923,694	\$ -
AAA	92,976	92,976	-
A1/A	37,070	37,070	-
A2/A	9,909	9,909	-
AA3/A+	54,390	54,390	-
A3/A-	21,799	21,799	-
A3/BBB	10,281	10,281	-
BAA1/BBB	20,808	20,808	-
BAA2/BBB+	<u>20,802</u>	<u>20,802</u>	<u>-</u>
Total credit risk debt securities	\$ <u>3,191,729</u>	\$ <u>3,191,729</u>	\$ <u>-</u>

As of September 30, 2004, the University's fixed income securities had the following maturities and credit risk exposure.

<u>Investment Type</u>	<u>Fair value</u>	<u>Less than 1</u>	<u>1 to 5</u>	<u>5 to 10</u>	<u>More than 10</u>
Corporate Bonds	\$ 455,969	\$ 20,012	\$ 30,985	\$ 298,327	\$ 106,645
Mortgage and assets backed securities	1,448,010	24,138	67,001	16,591	1,340,280
International bonds	59,521	-	-	49,564	9,957
Federal National					
Mortgage Association	971,125	-	170,644	800,481	-
U.S. Treasury Bonds/Notes	<u>340,845</u>	<u>-</u>	<u>-</u>	<u>124,843</u>	<u>216,002</u>
	\$ <u>3,275,470</u>	\$ <u>44,150</u>	\$ <u>268,630</u>	\$ <u>1,289,806</u>	\$ <u>1,672,884</u>

The University's exposure to credit risk at September 30, 2004, was as follows:

<u>Moody's Rating</u>	<u>Total</u>	<u>Domestic</u>	<u>International</u>
AAA/AAA	\$ 2,701,952	\$ 2,701,952	\$ -
AAA	50,615	50,615	-
A1/A+	11,291	11,291	-
A1/A	65,815	65,815	-
A2/A+	9,226	9,226	-
A2/A	9,009	9,009	-
AA3/A+	7,558	7,558	-
AA3/A	35,576	35,576	-
A3/A-	17,418	17,418	-
A3/A	15,380	15,380	-
A3/BBB	29,644	29,644	-
BAA1/A	15,512	15,512	-
BAA1/A-	22,902	-	22,902
BAA1/BBB	12,680	12,680	-
BAA1/BBB-	17,429	-	17,429
BAA2/BBB+	43,328	24,138	19,190
BAA2/BBB	150,521	150,521	-
BAA3/BBB	29,024	29,024	-
BAA3/BBB-	<u>30,590</u>	<u>30,590</u>	<u>-</u>
Total credit risk debt securities	\$ <u>3,275,470</u>	\$ <u>3,215,949</u>	\$ <u>59,521</u>

UNIVERSITY OF GUAM

Notes to Financial Statements
September 30, 2005 and 2004

7. Deposits and Investments, Continued

B. Investments, Continued

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the University will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The University's investments are held and administered by investment managers. Accordingly, these investments are exposed to custodial credit risk. Based on negotiated trust and custody contracts, all of these investments were held in the University's name at September 30, 2005 and 2004.

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments of the University. As of September 30, 2005 and 2004 the University's investment in agency obligations of Federal National Mortgage Association constituted 5% and 15%, respectively, of its total investments.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. The University has a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

8. Capital Assets

Capital assets at September 30, 2005 and 2004 consisted of the following:

	Balance September 30, <u>2004</u>	<u>Additions</u>	<u>Retirements</u>	Balance September 30, <u>2005</u>
Capital assets not being depreciated:				
Land	\$ 2,589,112	\$ -	\$ -	\$ 2,589,112
Construction in progress	<u>1,497,821</u>	<u>5,715,328</u>	<u>-</u>	<u>7,213,149</u>
Total capital assets not being depreciated	<u>4,086,933</u>	<u>5,715,328</u>	<u>-</u>	<u>9,802,261</u>
Other capital assets:				
Land improvements	320,754	-	-	320,754
Building	71,370,222	-	996,000	70,374,222
Building improvements	1,241,760	-	-	1,241,760
Equipment	8,284,837	437,110	304,417	8,417,530
Library books	<u>4,709,114</u>	<u>207,805</u>	<u>-</u>	<u>4,916,919</u>
Total other capital assets	85,926,687	644,915	1,300,417	85,271,185
Less accumulated depreciation	<u>(26,368,740)</u>	<u>(2,405,825)</u>	<u>(1,210,825)</u>	<u>(27,563,740)</u>
Other capital assets, net	<u>59,557,947</u>	<u>(1,760,910)</u>	<u>89,592</u>	<u>57,707,445</u>
Total capital assets, net	<u>\$ 63,644,880</u>	<u>\$ 3,954,418</u>	<u>\$ 89,592</u>	<u>\$ 67,509,706</u>
	Balance September 30, <u>2003</u>	<u>Additions</u>	<u>Retirements</u>	Balance September 30, <u>2004</u>
Capital assets not being depreciated:				
Land	\$ 2,589,112	\$ -	\$ -	\$ 2,589,112
Construction in progress	<u>1,292,339</u>	<u>205,482</u>	<u>-</u>	<u>1,497,821</u>
Total capital assets not being depreciated	<u>3,881,451</u>	<u>205,482</u>	<u>-</u>	<u>4,086,933</u>

UNIVERSITY OF GUAM

Notes to Financial Statements September 30, 2005 and 2004

8. Capital Assets, Continued

	Balance September 30, <u>2003</u>	<u>Additions</u>	<u>Retirements</u>	Balance September 30, <u>2004</u>
Other capital assets:				
Land improvements	320,754	-	-	320,754
Building	71,370,222	-	-	71,370,222
Building improvements	1,241,760	-	-	1,241,760
Equipment	7,661,628	760,987	137,778	8,284,837
Library books	<u>4,082,291</u>	<u>626,823</u>	-	<u>4,709,114</u>
Total other capital assets	84,676,655	1,387,810	137,778	85,926,687
Less accumulated depreciation	<u>(24,111,057)</u>	<u>(2,351,954)</u>	<u>(94,271)</u>	<u>(26,368,740)</u>
Other capital assets, net	<u>60,565,598</u>	<u>(964,144)</u>	<u>43,507</u>	<u>59,557,947</u>
Total capital assets, net	\$ <u>64,447,049</u>	\$ <u>(758,662)</u>	\$ <u>43,507</u>	\$ <u>63,644,880</u>

9. 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, at September 30, 2005 and 2004, \$9,174,541 and \$3,605,254, respectively, of outstanding purchase orders and purchase commitments are not reported in the financial statements.

10. 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.

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 years ended September 30, 2005 and 2004, monthly payments remitted to the Government of Guam's General Fund of \$2,027,291 and \$2,027,256, respectively, are recorded as debt service - DOA bond.

UNIVERSITY OF GUAM

Notes to Financial Statements
September 30, 2005 and 2004

10. Contingencies, Continued

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.

11. Commitments

Unbilled construction contracts at September 30, 2005 approximate \$6.5 million, which will be paid in subsequent years.

UNIVERSITY OF GUAM

Schedule of Salaries and Wages
Years Ended September 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Salaries and wages:		
Regular, differential and hazardous pay	\$ 24,322,647	\$ 22,331,912
Overtime pay	<u>116,855</u>	<u>107,852</u>
Total salaries and wages	<u>\$ 24,439,502</u>	<u>\$ 22,439,764</u>

Above salaries and wages are funded by Government of Guam appropriations and federal matching funds.

Employees paid under Government of Guam appropriations and federal matching funds.	420 *	390 *
Overall employees at end of year	726	668

*A small portion of these employees have a 50% share of their salaries and wages paid under federal Hatch Act and Smith Lever Act funding.

See accompanying independent auditors' report.

UNIVERSITY OF GUAM

Schedule of Expenses by Object Category
Years Ended September 30, 2005 and 2004

	2005		2004	
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Unrestricted</u>	<u>Restricted</u>
Instruction:				
Salary	\$ 9,550,891	\$ 556,220	\$ 9,332,768	\$ 640,590
Benefits	2,173,813	88,760	2,126,436	105,943
Travel	55,583	295,673	38,911	350,865
Contractual	572,061	512,551	582,095	346,532
Supplies	80,577	166,114	46,928	109,219
Equipment	50,844	217,870	31,036	137,099
Utilities	24,904	24,115	74,366	26,623
Capital outlay	-	-	-	10,052
Miscellaneous	96,787	350,873	70,647	179,858
	<u>\$ 12,605,460</u>	<u>\$ 2,212,176</u>	<u>\$ 12,303,187</u>	<u>\$ 1,906,781</u>
Research:				
Salary	\$ 735,278	\$ 3,525,431	\$ 673,719	\$ 3,267,740
Benefits	184,001	712,879	165,879	689,089
Travel	90,991	692,274	73,389	570,077
Contractual	289,122	1,229,462	336,604	1,290,347
Supplies	106,963	478,924	78,575	440,484
Equipment	54,427	370,346	76,464	356,924
Utilities	297	2,670	214	2,620
Capital outlay	79,753	162,698	38,967	393,327
Miscellaneous	39,872	636,447	25,546	539,216
	<u>\$ 1,580,704</u>	<u>\$ 7,811,131</u>	<u>\$ 1,469,357</u>	<u>\$ 7,549,824</u>
Institutional Support:				
Salary	\$ 2,515,585	\$ -	\$ 1,987,042	\$ (162,584)
Benefits	687,762	-	591,960	-
Travel	182,966	-	173,344	-
Contractual	2,348,417	-	1,139,129	-
Supplies	75,103	-	85,604	-
Equipment	35,520	-	32,472	-
Utilities	301	-	297	-
Capital outlay	126,043	(566,341)	190,249	-
Miscellaneous	452,277	-	184,685	-
	<u>\$ 6,423,974</u>	<u>\$ (566,341)</u>	<u>\$ 4,384,782</u>	<u>\$ (162,584)</u>

See accompanying independent auditors' report.

UNIVERSITY OF GUAM

Schedule of Expenses by Object Category, Continued
Years Ended September 30, 2005 and 2004

	2005		2004	
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Unrestricted</u>	<u>Restricted</u>
Public Service:				
Salary	\$ 284,373	\$ 2,750,417	\$ 216,176	\$ 2,675,119
Benefits	70,199	529,125	53,714	550,374
Travel	5,419	402,354	2,558	381,701
Contractual	36,156	592,184	16,702	1,187,271
Supplies	31,132	215,994	15,476	220,295
Equipment	9,539	217,799	1,049	208,833
Utilities	8,701	18,764	9,786	15,504
Capital outlay	-	82,684	-	35,406
Miscellaneous	46,078	290,033	6,798	260,494
	<u>\$ 491,597</u>	<u>\$ 5,099,354</u>	<u>\$ 322,259</u>	<u>\$ 5,534,997</u>
Academic Support:				
Salary	\$ 3,563,956	\$ -	\$ 3,240,719	\$ -
Benefits	893,115	-	681,187	-
Travel	186,286	-	189,357	-
Contractual	1,010,803	77,789	917,709	83,882
Supplies	346,656	4,696	204,524	1,241
Equipment	405,331	28,194	343,202	-
Utilities	2,525	-	1,709	-
Capital outlay	72,525	153,881	227,682	503,519
Miscellaneous	52,775	-	58,291	-
	<u>\$ 6,533,972</u>	<u>\$ 264,560</u>	<u>\$ 5,864,380</u>	<u>\$ 588,642</u>
Student Services:				
Salary	\$ 1,497,480	\$ 421,709	\$ 1,339,446	\$ 400,252
Benefits	390,630	-	373,176	-
Travel	35,509	-	39,683	-
Contractual	141,757	3,373	143,773	2,116
Supplies	91,054	2,473	56,596	133
Equipment	92,657	5,297	27,117	9,183
Utilities	40,727	-	40,747	-
Capital outlay	390	-	5,362	-
Miscellaneous	358,053	-	752,225	19,335
	<u>\$ 2,648,257</u>	<u>\$ 432,852</u>	<u>\$ 2,778,125</u>	<u>\$ 431,019</u>

See accompanying independent auditors' report.

UNIVERSITY OF GUAM

Schedule of Expenses by Object Category, Continued
Years Ended September 30, 2005 and 2004

	2005		2004	
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Unrestricted</u>	<u>Restricted</u>
Operations and Maintenance of Plant:				
Salary	\$ 1,243,037	\$ -	\$ 1,099,666	\$ -
Benefits	346,591	-	307,295	-
Travel	-	-	-	-
Contractual	419,250	-	769,836	-
Supplies	187,318	-	256,485	-
Equipment	86,979	-	134,973	-
Utilities	2,533,224	-	2,264,336	-
Capital outlay	464,644	-	170,045	-
Miscellaneous	1,433	64,914	42,513	-
	<u>\$ 5,282,476</u>	<u>\$ 64,914</u>	<u>\$ 5,045,149</u>	<u>\$ -</u>
Scholarships and Fellowships:				
Salary	\$ -	\$ -	\$ -	\$ -
Benefits	-	-	-	-
Travel	-	-	-	-
Contractual	-	-	-	-
Supplies	-	-	-	-
Equipment	-	-	-	-
Utilities	-	-	-	-
Capital outlay	-	-	-	-
Miscellaneous	161,911	6,989,037	141,672	6,324,527
	<u>\$ 161,911</u>	<u>\$ 6,989,037</u>	<u>\$ 141,672</u>	<u>\$ 6,324,527</u>
Auxiliary Enterprises:				
Salary	\$ 602,662	\$ -	\$ 569,746	\$ -
Benefits	143,785	-	139,422	-
Travel	3,121	-	-	-
Contractual	116,266	-	100,969	-
Supplies	44,322	-	37,602	-
Equipment	22,073	-	12,696	-
Utilities	175,106	-	144,979	-
Capital outlay	-	-	-	-
Miscellaneous	1,148,048	-	1,010,248	-
	<u>\$ 2,255,383</u>	<u>\$ -</u>	<u>\$ 2,015,662</u>	<u>\$ -</u>

See accompanying independent auditors' report.