

UNIVERSITY OF GUAM

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

YEARS ENDED SEPTEMBER 30, 2004 AND 2003

UNIVERSITY OF GUAM
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INDEPENDENT AUDITORS' REPORT

Board of Regents
University of Guam:

We have audited the accompanying financial statements of the University of Guam (a component unit of the Government of Guam) and its discretely presented component unit as of and for the years ended September 30, 2004 and 2003. 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.

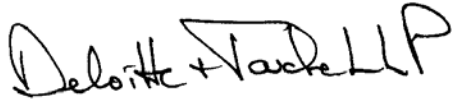
In our opinion, such financial statements present fairly, in all material respects, the respective financial position of the University of Guam and its discretely presented component unit as of September 30, 2004 and 2003, and the respective changes in its net assets and its cash flows, where applicable, 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 10 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 29 through 32 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.

As described in note 2, the University changed its reporting entity by including the University of Guam Endowment Foundation as a discretely presented component unit, as required by the provisions of GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, as of October 1, 2002.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 13, 2005, 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 read in conjunction with this report in considering the results of our audit.

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

June 13, 2005

UNIVERSITY OF GUAM

Management's Discussion and Analysis Year Ended September 30, 2004

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 Asians and Pacific Islander ancestry. As a regional, comprehensive, open admissions institution, the University awards baccalaureate and master's degrees through its three colleges. The University is in the third year of its enhancement plan, designed to strategically focus the University and position it for growth.

In 2002, the University implemented Government Accounting Standards Board Standard 35 (GASB 35), *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. With the new standard the University's funds are now presented in consolidated financial statements, just as in a business concern. This contrasts with the accounting by funds presentation from previous years.

For 2004, the University presents two years of financial statements in accordance with GASB 35, allowing comparisons of year-to-year performance. The following is management's discussion and analysis of the University's financial performance during the fiscal year ended September 30, 2004, as compared to 2003. The discussion has been prepared by University management and should be read in conjunction with the financial statements and related notes that follow.

Additionally, for 2004, the University presents the University of Guam Endowment Foundation financials statements as a component unit, in compliance with GASB 39.

OVERVIEW OF FISCAL YEAR 2004

In FY2004 the University's financial condition continued to strengthen, as the island's economy began to rebound and the University received benefits from implementation of its financial management plan.

In 2003 and continuing through the present, the government leadership has managed the island's economic downturn and related financial problems. The economic cycle appears to have stabilized and even turned upward in 2004 with new military investment and a rebound in tourism. Nevertheless, cash is tight and there are several new threats to the government's financial and cash position on the horizon (e.g., high general fund deficit, continuation of federal income tax cuts, unpaid Earned Income Tax Credit obligations, unfreezing of salary increments for Government of Guam employees, significant unmet needs in high priority government services such as education and health, and new supplemental benefits for Government of Guam retirees). The University expects to receive its full government appropriation, as it is only waiting to receive the second \$0.5 million from the FY2004 Capital Improvement Fund for the Leon Guerrero Building.

As in prior years the University's financial management plan is to collaboratively link its budgets to institutional priorities to weather economic instability facing the island and region, while maintaining commitment to its core mission and strategic initiatives. The strategic blueprint includes four interrelated initiatives: Enhancement of Academic Quality; Enhancement of Student Success, Enrollment Growth, and Institutional Visibility; Promotion of the Land-Grant Mission; and Strengthening Institutional Efficiency and Effectiveness. These initiatives guide the University in reorganizing and reshaping functions to become more responsive to island and student needs. Budgets and resource allocations are linked to these institutional priorities.

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Management's Discussion and Analysis Year Ended September 30, 2004

Through the continued implementation of its financial management plan and improved financial and budgeting processes, the University again showed a surplus in its FY2004 financial accounts (Exhibit A). Net assets increased by \$4.9 million to \$80.4 million. Of the \$4.9 million increase, \$2.2 million is attributed to the recognition in FY2004 of the cash received from the Government of Guam Tobacco Settlement Bond Fund for the UOG Higher Education Endowment Fund (these funds were previously recognized in the government's General Purpose Financial Statements), \$0.8 million is attributed to increase in the current fund balance (increasing the cumulative fund balance to \$1.2 million), \$1.3 million attributed to investment earnings, and the remaining \$0.6 million in various cost saving measures and improved financial and budgeting oversight.

OVERVIEW OF THE FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS

There are many factors used to evaluate the health of a university. These include its strategic direction, financial status, student enrollment, and institutional capacity. In evaluating financial status, 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 2004, the University significantly improved its overall financial position, as evidenced by the increase in restated net assets from \$75.5 million in the prior year to \$80.4 million (N.B.: 2003 net assets were restated Government of Guam-wide to account for accrued sick leave liabilities under the Government of Guam's Defined Contribution Retirement System, DCRS). Additionally, the University's key financial ratios, as defined by its accrediting body, either increased or remained stable.

STATEMENT OF NET ASSETS

The Statement of Net Assets presents the overall financial condition of the University at year-end. For the year ended September 30, 2004, the net asset position of the University was \$80.4 million. This represents an increase of \$4.9 million or 6.5% over the prior year.

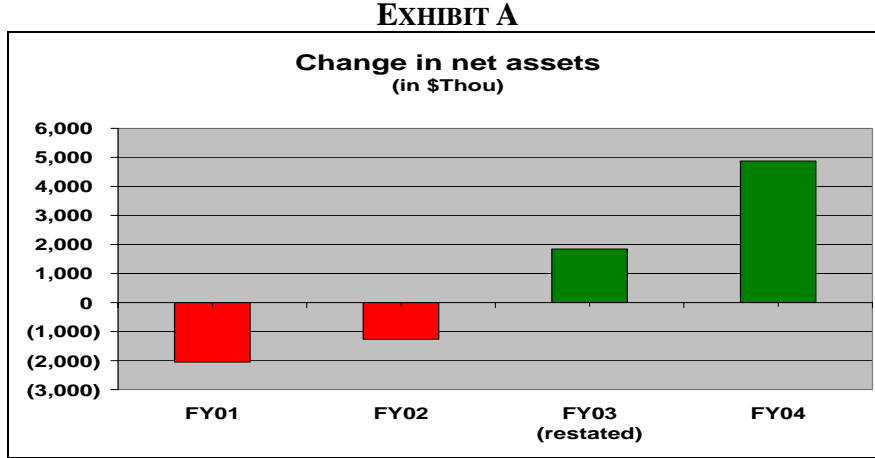
Summary Statement of Net Assets

	<u>2004</u> (000's)	<u>2003</u> (000's) As Restated
Assets		
Current assets	\$ 14,862	\$ 16,565
Investments	11,880	10,397
Non-current assets	3,238	500
Capital assets, net	<u>63,645</u>	<u>64,447</u>
Total assets	\$ <u>93,625</u>	\$ <u>91,909</u>
Liabilities		
Current liabilities	\$ 8,424	\$ 10,575
Non-current liabilities	<u>4,820</u>	<u>5,830</u>
	<u>13,244</u>	<u>16,405</u>
Net assets		
Invested in capital assets, net of related debt	61,437	62,225
Restricted – nonexpendable	4,968	3,155
Restricted – expendable	5,790	3,969
Unrestricted	<u>8,186</u>	<u>6,155</u>
	<u>80,381</u>	<u>75,504</u>
Total liabilities and net assets	\$ <u>93,625</u>	\$ <u>91,909</u>

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Management's Discussion and Analysis Year Ended September 30, 2004

Exhibit A shows changes in net assets for the last four years.



Of total assets, 68% are in property, plant and equipment, 16% in current assets, 14% in investments, and 3% in non-current assets. Receivables make up 41% of current assets; about 40% of the total receivables are local government appropriations, another 38% in tuition receivables, and the remaining 22% in Federal Grants receivables and others. Of total liabilities, 64% are current and 36% are non-current. At year-end, the University had very little long-term debt, about 5% of total liabilities.

The total assets of the University increased by \$1.7 million, while total liabilities decreased by \$3.2 million, resulting in an increase in net assets of \$4.9 million.

The 2% increase in total assets is the net result of a stronger investment portfolio and recognition of the cash received from the Government of Guam Tobacco Settlement Bond Fund for the UOG Higher Education Endowment Fund offset by decrease in amounts due from the Government of Guam. Total account receivable decreased by \$3.4 million (36%) due to improved cash management and working with federal and local governments. Net capital assets decreased due to depreciation expense. The decrease in total liabilities of \$3.2 million (or 19.3%) is primarily the result of a decrease in accounts payable and accrued liabilities offset by an additional recognition of sick leave liability to participants of the Defined Contribution Retirement System (DCRS). Strict, prioritized spending controls and better cash management allowed the University to improve the age and level of its accounts payable.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

The Statement of Revenues, Expenses and Changes in Net Assets provides the detail of operating and non-operating revenues and expenditures that resulted in a \$4.9 million increase in net assets, as compared to a \$1.8 million increase in the prior year. Except for government appropriations, revenues increased substantially across the board, while cost control measures kept expenditures in line.

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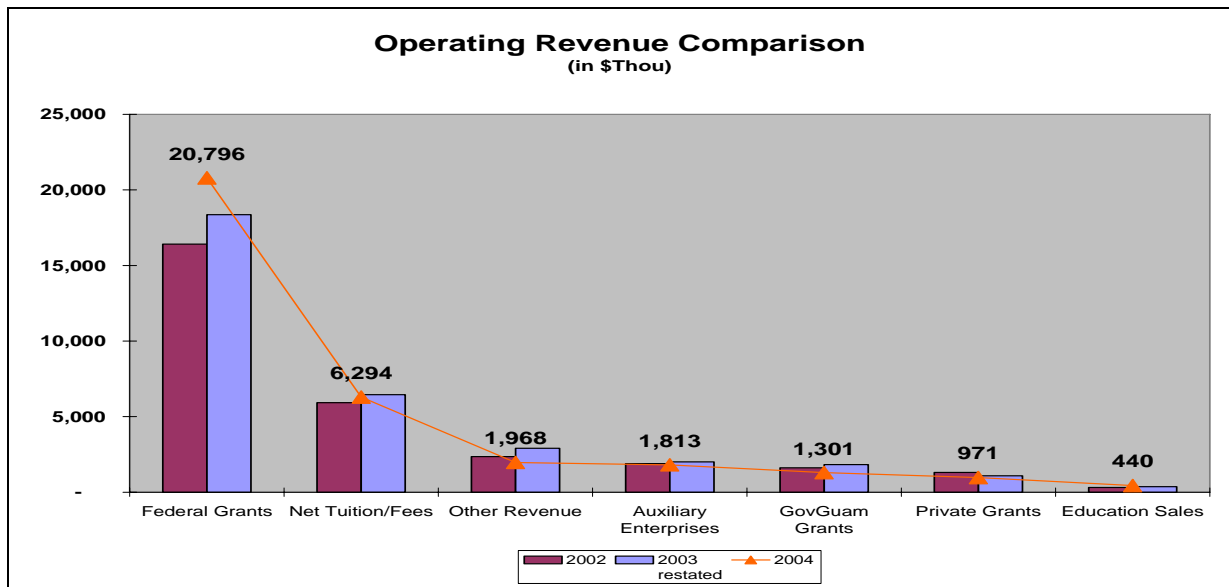
Management's Discussion and Analysis Year Ended September 30, 2004

Summary Statement of Revenues, Expenses and Changes in Net Assets

	<u>2004</u> (000's)	<u>2003</u> (000's) As Restated
Operating revenues	\$ 33,583	\$ 32,999
Operating expenses	<u>58,850</u>	<u>59,463</u>
Operating revenues net of operating expenses	(25,267)	(26,464)
Non-operating revenues	<u>30,144</u>	<u>28,311</u>
Increase (decrease) in net assets	4,877	1,847
Net assets – beginning of year	<u>75,504</u>	<u>73,657</u>
Net assets – end of year	\$ <u>80,381</u>	\$ <u>75,504</u>

Looking at revenues, the University brought in \$34 million from operations, an increase of \$ 0.54 million or 2% over the prior year. Tuition and fees, grants and contracts, auxiliary and other revenues increased. (See Exhibit B.)

EXHIBIT B

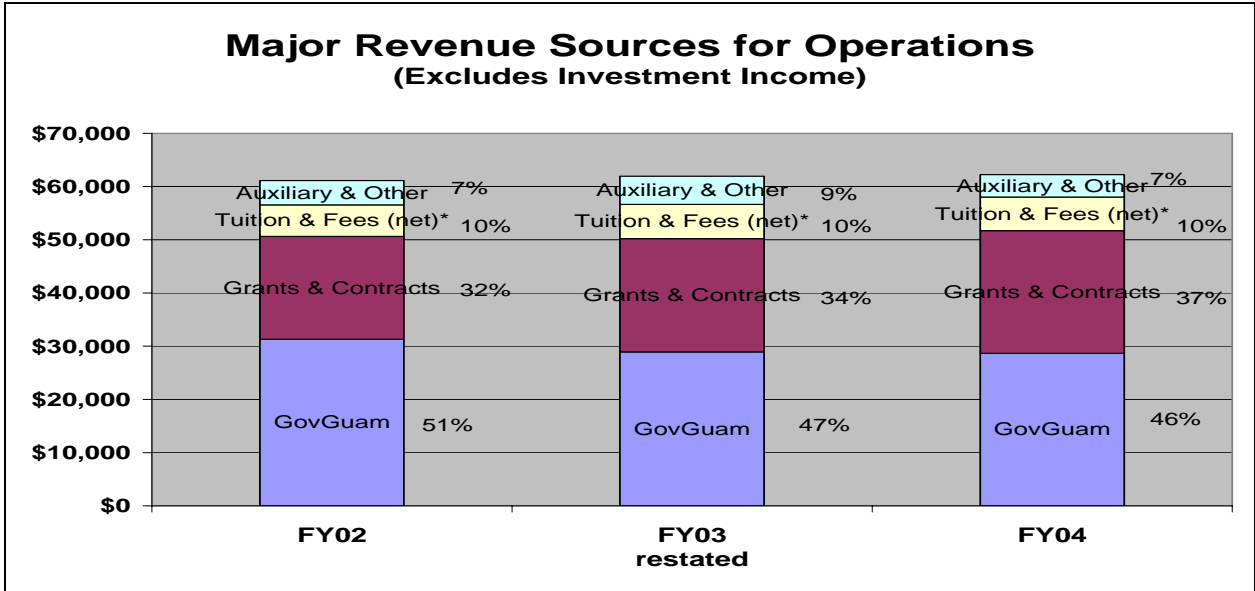


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Management's Discussion and Analysis Year Ended September 30, 2004

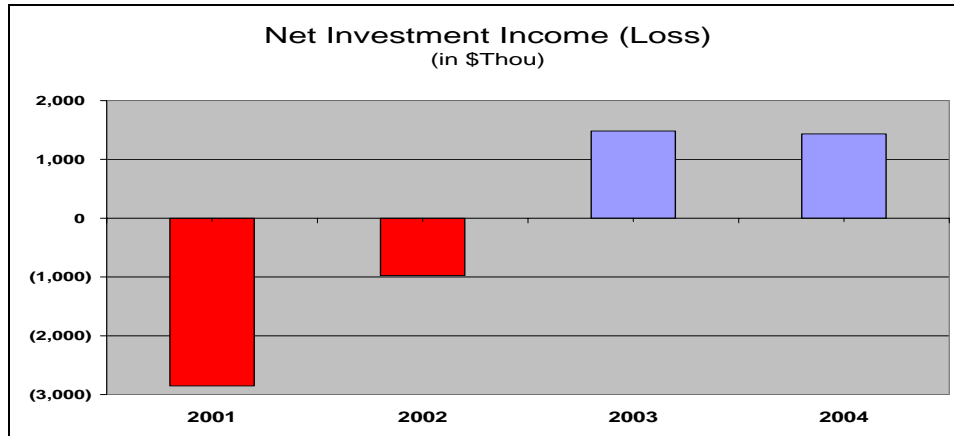
Operating revenues (\$33.6 million) were higher than government appropriations of \$28.7 million, reflecting continued diversification of revenue stream. Operating revenues from auxiliary funds, tuition, and grant sources comprised 57% of total revenues for operations compared to 54% in 2003. FY2003 was the first year that internally generated revenues exceeded 50% of total revenues; this continued on to FY2004. (See Exhibit C.)

Exhibit C



In addition, net investment income for FY2004 and FY2003 was \$1.4 million for both years. This reflects a rebound in the equity and bond markets from a loss of \$1 million in 2002 to an average gain of \$1.4 million in 2003 and 2004 as well as continued discipline to reinvest investment earnings. (See Exhibit D.)

EXHIBIT D

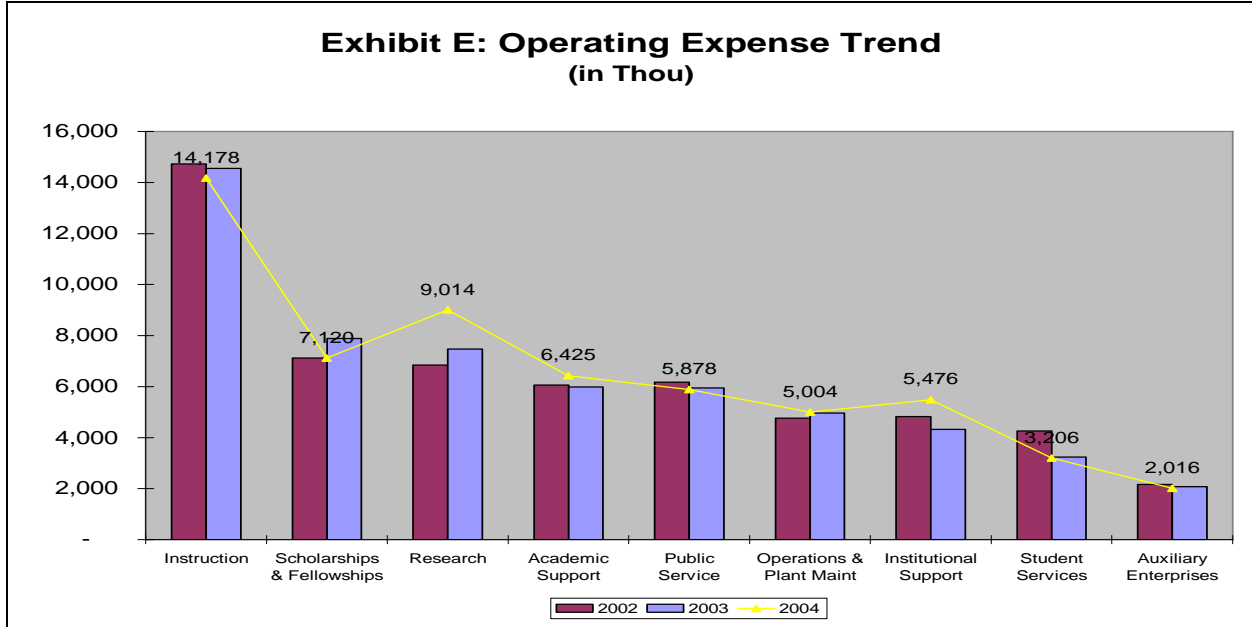


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Management's Discussion and Analysis Year Ended September 30, 2004

Operating expenses decreased by \$0.6 million as a result of cost saving measures, but were offset by higher Research expenses (attributed to increase in federal grant expenditures) and Academic Support expenses. The University spent \$29.0 million on its core mission. Of that total, 49% went to instruction, 31% to research, and 20% to public service. In addition, the University spent \$10.6 million on student aid, \$5.0 million to maintain the campus, and \$15.1 million on libraries, technology, and student, academic and administrative support. (See Exhibit E.)

EXHIBIT E



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 GASB35. 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. It should be noted that the 2004 operating net improved by \$1.2 million over that of the prior year. Since 2002, the operating net has improved by \$4.1 million (14%).

Highlights of the information presented include the following:

- 1) Gross student tuition and fee revenues increased by \$54K with the University’s strategic focus on enrollment management. After a period of decline associated with accreditation concerns, student headcount remained relatively stable and undergraduate credit hour production increased slightly. Encouraging signs are apparent in the increase of new first-time freshman, up 9% in Fall 2003 and 8% in Fall 2004 as a result of marketing initiatives targeted at local high school graduates. Tuition and fees were higher due to annual 10% rate increases that are scheduled to end with Academic Year 2004-05. Even with the tuition rate increases, the University remains affordable and competitive with students paying 45% less than those attending U.S. public universities.
- 2) Federal, local and private grant and contract revenues increased \$1.8 million in 2004. Grant and contract revenues increased \$3.7 million (18%) over the last two years. The University has become a competitive research and service institution in the region.

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Management's Discussion and Analysis Year Ended September 30, 2004

- 3) Overall operating expenses decreased by \$0.6 million. Increased spending for the higher level of grants and contracts offset cost savings of \$1.2 million in other areas. Resource priorities were student learning, academic quality and the core mission. While expenditures for instruction, academic support and student services decreased on an absolute basis, per student expenditures nevertheless increased.
- 4) Government appropriations for operations decreased by \$0.3 million to \$28.6 million. This is primarily due to the reduction in the Student Financial Aid Program (SFAP) appropriation of \$1 million, which was covered by an authorized transfer from the Yamashita Educator Corps (YEC) fund surplus. After this is taken into account, the Government of Guam demonstrated its commitment to higher education by maintaining the University's share of General Fund revenues.

Statement of Cash Flows

The increase in the University's cash position at the end of the fiscal year was due to an increase in revenue, improved collections and cash management, and the cost-saving measures instituted. Typically, the University's cash position at the end of fiscal year is higher than its normal cash position. This is because fall semester tuition payments are booked at the end of the fiscal year. 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, such as insurance premiums, which are normally due at the beginning of the following fiscal year. Planning required that there be an adequate amount of cash on hand at the start of the new fiscal year to pay for insurance premiums, continuing infrastructure restoration, and other needs.

Restricted cash total comprises the following:

1. \$1.1M for two grant under CEDDERS (GOAL-AT Account and Telework Account), funded by the U.S. Department of Education, were designed to provide additional resources to individuals with disabilities on Guam through the offering of low interest loans that would enable the individual to either purchase assistive technology equipment and/or services or to become gainfully employed through the use of technology (computer).
2. \$1M for the Agricultural Experiment Station and Cooperative Extension Service, land grant institution grant funds.

Summary Statement of Cash Flows

	<u>2004</u> (000's)	<u>2003</u> (000's) As Restated
Cash provided by (used in):		
Operating activities	\$ (24,284)	\$ (23,961)
Noncapital financing activities	33,004	29,451
Capital financing activities	(6,582)	(3,372)
Investing activities	<u>(1,700)</u>	<u>270</u>
Net change in cash and cash equivalents	438	2,388
Cash and equivalents – beginning of year	<u>5,656</u>	<u>3,268</u>
Cash and equivalents – end of year	\$ <u>6,094</u>	\$ <u>5,656</u>

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Management's Discussion and Analysis
Year Ended September 30, 2004

Economic Outlook

Guam's economic outlook is improving as of this date. Increased tourist arrivals, a heightened military presence and construction associated with the military and infrastructure restoration are evidence of a more stable economy and are indicative of a rebound.

The Government of Guam appears to be serious about improving governmental operations through cost containment and stimulating 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.

At the federal level, the Administration proposed redirecting appropriations for certain federal programs. The proposals may significantly affect funding for programs such as GEAR-UP and TRIO (Upward Bound, Student Support Services, Educational Talent Search) as early as FY2006. With regards to the formula funds affecting the Agricultural Experiment Station, U.S. Congress did not support the President's proposed change from formula funding to competitive funding.

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, 2004 and 2003

<u>ASSETS</u>	<u>2004</u>	<u>2003</u> (As Restated)
Current assets:		
Cash and cash equivalents	\$ 6,093,914	\$ 5,656,371
Short-term investments	1,615,998	65,219
Due from Government of Guam	2,390,754	4,502,701
Tuition receivable (net of allowance for doubtful accounts of \$2,360,180 in 2004 and \$2,191,214 in 2003)	2,308,064	1,828,673
Accounts receivable - U.S. Government	599,222	1,964,565
Other receivables	752,782	1,188,850
Inventories	682,794	569,593
Other current assets	418,491	788,472
Total current assets	14,862,019	16,564,444
Noncurrent assets:		
Restricted cash and cash equivalents	3,238,384	500,000
Investments	5,103,394	4,433,894
Endowment investments	6,776,537	5,963,163
Capital assets, net of accumulated depreciation	63,644,880	64,447,049
Total noncurrent assets	78,763,195	75,344,106
Total assets	\$ 93,625,214	\$ 91,908,550
<u>LIABILITIES</u>		
Current liabilities:		
Current portion of long-term debt	\$ 258,530	\$ 253,530
Accounts payable and accrued liabilities	4,028,362	5,647,035
Deferred revenue	4,137,521	4,674,046
Total current liabilities	8,424,413	10,574,611
Noncurrent liabilities:		
Deposits held on behalf of others	2,423,833	3,171,577
Accrued annual leave	1,011,090	1,111,206
DCRS sick leave liability	721,671	666,842
Long-term debt	663,333	880,135
Total noncurrent liabilities	4,819,927	5,829,760
Total liabilities	13,244,340	16,404,371
Commitments and contingencies		
Net assets:		
Invested in capital assets, net of related debt	61,437,000	62,224,662
Restricted:		
Nonexpendable	4,967,657	3,155,000
Expendable	5,790,042	3,968,863
Unrestricted	8,186,175	6,155,654
Total net assets	80,380,874	75,504,179
Total liabilities and net assets	\$ 93,625,214	\$ 91,908,550

See accompanying notes to financial statements.

UNIVERSITY OF GUAM ENDOWMENT FOUNDATION, INC.

Statements of Financial Position
December 31, 2003 and 2002

<u>ASSETS</u>	<u>2003</u>	<u>2002</u>
Cash	\$ 115,350	\$ 265,946
Pledges receivable, net of an allowance for doubtful accounts of \$103,980 at December 31, 2003 and 2002	987,655	14,500
Prepaid expenses	13,100	11,400
Equipment, net	7,112	3,405
Investment in Bank of Guam stock	106,800	104,156
Investment in Citizens Security Bank stock	203,545	203,545
Investment in securities	<u>5,871,860</u>	<u>4,642,117</u>
	<u>\$ 7,305,422</u>	<u>\$ 5,245,069</u>
<u>LIABILITIES AND NET ASSETS</u>		
Liabilities:		
Accounts payable	\$ 16,569	\$ 51,761
Due to University of Guam	<u>5,935</u>	<u>106,774</u>
Total liabilities	<u>22,504</u>	<u>158,535</u>
Net assets:		
Unrestricted	575,434	(240,221)
Temporarily restricted	6,469,519	5,077,484
Permanently restricted	<u>247,865</u>	<u>249,271</u>
Total net assets	<u>7,292,818</u>	<u>5,086,534</u>
	<u>\$ 7,315,322</u>	<u>\$ 5,245,069</u>

See accompanying notes to financial statements.

UNIVERSITY OF GUAM

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2004 and 2003

	<u>2004</u>	<u>2003</u> (As Restated)
Operating revenues:		
Student tuition and fees	\$ 10,390,779	\$ 10,336,923
Less: Scholarship discounts and allowances	(4,096,735)	(3,885,619)
	<u>6,294,044</u>	<u>6,451,304</u>
Federal grants and contracts	20,795,779	18,363,806
Government of Guam grants and contracts	1,301,059	1,826,387
Private grants and contracts	970,361	1,085,472
Sales and services of education department	440,344	365,313
Auxiliary enterprises	1,812,857	2,002,852
Other revenues	1,968,378	2,903,588
	<u>33,582,822</u>	<u>32,998,722</u>
Total operating revenues		
Operating expenses:		
Instruction	14,209,968	14,923,011
Research	9,019,181	7,525,590
Public service	5,857,256	6,000,695
Academic support	6,453,022	6,019,170
Student services	3,209,144	3,277,685
Institutional support	4,222,198	4,397,141
Operations and maintenance, plant	5,045,149	4,995,017
Depreciation	2,351,954	2,344,233
Scholarships and fellowships	6,466,199	7,884,285
Auxiliary enterprises	2,015,662	2,095,751
	<u>58,849,733</u>	<u>59,462,578</u>
Total operating expenses		
Operating revenues net of operating expenses	<u>(25,266,911)</u>	<u>(26,463,856)</u>
Nonoperating revenues (expenses):		
Government of Guam appropriations:		
Operations	26,129,510	26,395,195
Student financial aid program	1,523,990	2,527,128
Transfer from Yamashita Education Corporation	1,000,000	-
Tobacco settlement (A funds)	425,727	-
Net investment income (expense)	1,333,456	1,481,624
Interest on capital assets - debt related	(54,478)	(65,065)
Debt service - DOA bond	(2,027,256)	(2,027,439)
	<u>28,330,949</u>	<u>28,311,443</u>
Net nonoperating revenues		
Income before other revenues	3,064,038	1,847,587
Addition to permanent endowment, Tobacco settlement (B funds)	<u>1,812,657</u>	<u>70</u>
Net increase in net assets	4,876,695	1,847,657
Net assets:		
Net assets at beginning of year	<u>75,504,179</u>	<u>73,656,522</u>
Net assets at end of year	<u>\$ 80,380,874</u>	<u>\$ 75,504,179</u>

See accompanying notes to financial statements.

UNIVERSITY OF GUAM ENDOWMENT FOUNDATION, INC.

Statements of Activities and Changes in Net Assets
Years Ended December 31, 2003 and 2002

	Year Ended June 30,							
	2003				2002			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other income:								
Net investment earnings	\$ 1,128,881	\$ -	\$ -	\$ 1,128,881	\$ (645,086)	\$ -	\$ -	\$ (645,086)
Contributions	24,228	1,522,120	-	1,546,348	61,716	19,759	203,544	285,019
Other	163,177	25,089	-	188,266	27,912	3,500	-	31,412
Net assets released from restrictions:								
Satisfaction of program restrictions	155,174	(155,174)	-	-	100,682	(100,682)	-	-
Total revenues	<u>1,471,460</u>	<u>1,392,035</u>	<u>-</u>	<u>2,863,495</u>	<u>(454,776)</u>	<u>(77,423)</u>	<u>203,544</u>	<u>(328,655)</u>
Program services:								
Contributions to University of Guam programs	142,074	-	-	142,074	38,055	-	-	38,055
Equipment and capital contributions to University of Guam	-	-	-	-	38,127	-	-	38,127
Scholarships	13,100	-	-	13,100	24,500	-	-	24,500
Total program services	<u>155,174</u>	<u>-</u>	<u>-</u>	<u>155,174</u>	<u>100,682</u>	<u>-</u>	<u>-</u>	<u>100,682</u>
Support services:								
Management and general	510,531	-	1,406	511,937	421,795	-	-	421,795
Total support services	<u>510,531</u>	<u>-</u>	<u>1,406</u>	<u>511,937</u>	<u>421,795</u>	<u>-</u>	<u>-</u>	<u>421,795</u>
Total expenses	<u>665,705</u>	<u>-</u>	<u>1,406</u>	<u>667,111</u>	<u>522,477</u>	<u>-</u>	<u>-</u>	<u>522,477</u>
Change in net assets	805,755	1,392,035	(1,406)	2,196,384	(977,253)	(77,423)	203,544	(851,132)
Net assets at beginning of year	\$ (240,221)	\$ 5,077,484	\$ 249,271	5,086,534	737,032	5,154,907	45,727	5,937,666
Net assets at end of year	<u>\$ 565,534</u>	<u>\$ 6,469,519</u>	<u>\$ 247,865</u>	<u>\$ 7,282,918</u>	<u>\$ (240,221)</u>	<u>\$ 5,077,484</u>	<u>\$ 249,271</u>	<u>\$ 5,086,534</u>

See accompanying notes to financial statements.

UNIVERSITY OF GUAM

Statements of Cash Flows
Years Ended September 30, 2004 and 2003

	2004	2003 (As Restated)
Cash flows from operating activities:		
Student tuition and fees, net	\$ 5,742,431	\$ 6,315,903
Grants and contracts	23,968,239	21,983,407
Sales and services of education department	876,412	720,155
Auxiliary services	(202,805)	(77,762)
Other receipts	1,968,378	2,903,588
Payments to employees for salaries and benefits	(31,063,629)	(31,510,788)
Payments to suppliers and others	(19,107,214)	(16,411,566)
Payments to students for financial aid	(6,466,199)	(7,884,285)
Net cash used in operating activities	(24,284,387)	(23,961,348)
Cash flows from noncapital financing activities:		
Government of Guam appropriations	30,765,447	29,451,524
Addition to permanent endowment	1,812,657	-
Tobacco funds	425,727	-
Net cash provided by noncapital financing activities	33,003,831	29,451,524
Cash flows from capital and related financing activities:		
Interest paid on capital debt	(54,478)	(65,065)
Purchases of capital assets	(1,549,783)	(576,266)
Principal paid on capital debt	(2,239,058)	(2,231,055)
Changes in restricted cash	(2,738,384)	(500,000)
Net cash used in capital and related financing activities	(6,581,703)	(3,372,386)
Cash flows from investing activities:		
Investment income	1,333,454	1,481,624
Donation to Endowment Fund	-	70
Purchases/sales of investments	(3,033,652)	(1,210,883)
Net cash provided by investing activities	(1,700,198)	270,811
Net increase in cash and cash equivalents	437,543	2,388,601
Cash and cash equivalents at beginning of year	5,656,371	3,267,770
Cash and cash equivalents at end of year	\$ 6,093,914	\$ 5,656,371
Reconciliation of operating loss to net cash used in operating activities:		
Operating revenues net of operating expenses	\$ (25,266,911)	\$ (26,463,856)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	2,351,954	2,344,233
Change in assets and liabilities:		
Accounts receivable, net	1,322,019	(638,517)
Inventory	(113,201)	30,045
Other assets	369,981	177,242
Accounts payable and accrued liabilities	(1,718,789)	(1,532,544)
Deferred revenue	(536,525)	1,135,642
DCRS sick leave	54,829	666,842
Deposits held on behalf of others	(747,744)	319,565
Net cash used in operating activities	\$ (24,284,387)	\$ (23,961,348)

See accompanying notes to financial statements.

UNIVERSITY OF GUAM

Notes to Financial Statements
September 30, 2004 and 2003

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, 2004 and 2003

2. Basis of Presentation, 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 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 less than ninety days.

At September 30, 2004 and 2003, the University has bank balances of \$7,893,476 and \$6,711,814, respectively, of which \$7,767,947 and \$6,667,914, 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.

- 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.

The University recorded \$2,238,384 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 year ended September 30, 2004, the fund earned interest of \$11,461.

- C. Short-term Investments. Short-term investments include time certificates of deposit with original maturities of ninety days or more.
- 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 component of the change in fair value of investments 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, 2004 and 2003.
- 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.

UNIVERSITY OF GUAM

Notes to Financial Statements
September 30, 2004 and 2003

3. Summary of Significant Accounting Policies, Continued

- 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 the accounts payable and accrued liabilities at September 30, 2004 and 2003 is \$1,420,889 and \$1,783,269, 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 2004 and 2003 was \$142,106 and \$80,547, 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 in which the University is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

UNIVERSITY OF GUAM

Notes to Financial Statements
September 30, 2004 and 2003

3. Summary of Significant Accounting Policies, Continued

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

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

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

- 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. For fiscal year 2005, the University will be implementing GASB Statement No. 40, *Deposit and Investment Risk Disclosures* (an amendment of GASB Statement No. 3) and GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. The University has not evaluated the financial statement impact of GASB Statement Nos. 40 and 42.

UNIVERSITY OF GUAM

Notes to Financial Statements
September 30, 2004 and 2003

3. Summary of Significant Accounting Policies, Continued

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.

As a result of an actuarial valuations performed as of September 30, 2002, 2001 and 2000, contribution rates for the years ended September 30, 2004, 2003 and 2002, respectively, have been determined as follows:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Normal costs (% of DB Plan payroll)	17.66%	16.42%	15.15%
Unfunded liability costs (% of total payroll)	<u>16.23%</u>	<u>22.94%</u>	<u>18.58%</u>
	33.89%	39.36%	33.73%
Employee contributions (DB Plan employees)	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>
	24.39%	29.86%	24.23%
Agency specific adjustments	<u>- %</u>	<u>2.19%</u>	<u>.91%</u>
Government contribution as a % of DB Plan payroll	<u>24.39%</u>	<u>32.05%</u>	<u>25.14%</u>
Government contribution as a % of total payroll	<u>20.81%</u>	<u>29.25%</u>	<u>N/A</u>

The plan utilized the actuarial cost method termed "entry age normal" with an assumed rate of return of 7.5% and an assumed scale increase of 4.5% per annum. The actuarial valuation performed as of September 30, 2002, 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, for the year ended September 30, 2004. For the year ended September 30, 2003, statutory contribution rates for employer and employee contributions were initially set at 26% and 9.5%, respectively, by the Guam Legislature. The employer contribution rate was reduced to 18% by legislative action effective March 1, 2003.

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, 2004 and 2003 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.

UNIVERSITY OF GUAM

Notes to Financial Statements
September 30, 2004 and 2003

3. Summary of Significant Accounting Policies, Continued

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

Contributions to the Defined Benefit Plan and the DCRS for the year ended September 30, 2004 are \$2,766,263 and \$1,525,940, respectively.

The University historically accounted for all unfunded retirement fund liabilities entirely within the Current Unrestricted Funds. However, as a result of Public Law No. 21-03, the University has no further responsibility to pay for its share of the unfunded retirement costs. This responsibility now rests with the General Fund of the Government of Guam. Rather, the University's responsibility is to pay the statutorily imposed retirement rate. As of September 30, 2004 and 2003, the General Fund has accrued approximately \$3,724,396 and \$2,757,052, respectively, for the University's cumulative unfunded retirement liability as a result of the adoption of GASB 27.

- 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. The only losses during the past three years as a result of this policy are as reflected in note 11.
- V. Reclassifications. Certain account balances in 2003 have been reclassified to conform to the 2004 financial statement presentation. Additionally, refer to Note 13 for the restatement of the 2003 financial statements.

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, 2003 and 2002. These pledges are payable in installments over periods ranging from one to forty-three years. Unconditional promises to give that are expected to 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.

UNIVERSITY OF GUAM

Notes to Financial Statements
September 30, 2004 and 2003

3. Summary of Significant Accounting Policies, Continued

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

	<u>2003</u>	<u>2002</u>
SBPA (School of Business and Public Administration) Building	\$ 1,000,000	\$ -
Student Center	500,000	-
Other	<u>110,109</u>	<u>118,480</u>
	1,610,109	118,480
Less: Unamortized discount	<u>(518,474)</u>	<u>-</u>
	1,091,635	118,480
Less: Allowance for uncollectibles	<u>(103,980)</u>	<u>(103,980)</u>
	<u>\$ 987,655</u>	<u>\$ 14,500</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, 2003 and 2002, follows:

	<u>2003</u>	<u>2002</u>
Cash	\$ 522,236	\$ 212,442
Equities	3,962,563	4,241,782
Fixed income	<u>1,387,061</u>	<u>187,893</u>
	<u>\$ 5,871,860</u>	<u>\$ 4,642,117</u>

The composition of net gains (loss) on investments in securities as of December 31, 2003 and 2002, is as follows:

	<u>2003</u>	<u>2002</u>
Increase (decrease) in fair value	\$ 972,439	\$ (774,002)
Loss on sale of investments	-	(55,219)
Interest income	97,054	120,018
Dividends	<u>59,388</u>	<u>64,117</u>
	<u>\$ 1,128,881</u>	<u>\$ (645,086)</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, 2003 and 2002. 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.

UNIVERSITY OF GUAM

Notes to Financial Statements
September 30, 2004 and 2003

4. Long-Term Debt

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

As a requirement of the bond resolution, the University Dormitory Revenue Fund is to transfer semi-annually on March 15, and September 15, to the University Dormitory Interest and Redemption Fund, a sum equal to sixty-two and one-half percent (62 1/2%) of the aggregate amount of principal and interest becoming due on the bonds during the next succeeding twelve months until such time as the funds in the Interest Redemption Fund are sufficient to pay the interest and one-half of the principal next coming due, and to provide a reserve in an amount equal to the average annual debt service which approximates \$92,770.

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>
2005	\$ 10,350	\$ 85,000	\$ 95,350
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>26,100</u>	\$ <u>345,000</u>	\$ <u>371,100</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, 2004.

<u>Year Ending September 30,</u>	<u>Capital Lease</u>
2005	\$ 173,530
2006	173,530
2007	173,530
2008	<u>130,151</u>
Total payments	650,741
Less amounts representing interest	<u>(73,878)</u>
Total obligation under capital lease	\$ <u>576,863</u>

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

UNIVERSITY OF GUAM

Notes to Financial Statements September 30, 2004 and 2003

5. Noncurrent Liabilities

Noncurrent liability activity was as follows:

	Beginning Balance September 30, 2003	<u>Additions</u>	<u>Reductions</u>	Ending Balance September 30, 2004	Amount due within one year
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>
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>
	Beginning Balance September 30, 2002	<u>Additions</u>	<u>Reductions</u>	Ending Balance September 30, 2003	Amount due within one year
Bonds and capital lease obligations:					
Revenue bond payable	\$ 505,000	\$ -	\$ 80,000	\$ 425,000	\$ 80,000
Capital lease payable	<u>832,281</u>	<u>49,914</u>	<u>173,530</u>	<u>708,665</u>	<u>173,530</u>
Total bonds and capital lease	<u>1,337,281</u>	<u>49,914</u>	<u>253,530</u>	<u>1,133,665</u>	<u>253,530</u>
Other liabilities:					
Deposit held on behalf of others	2,852,012	2,905,436	2,585,871	3,171,577	-
Accrued annual leave	2,173,042	30,774	420,547	1,783,269	672,063
DCRS sick leave liability	<u>-</u>	<u>666,842</u>	<u>-</u>	<u>666,842</u>	<u>-</u>
Total other liabilities	<u>5,025,054</u>	<u>3,603,052</u>	<u>3,006,418</u>	<u>5,621,688</u>	<u>672,063</u>
Total noncurrent liabilities	<u>\$ 6,362,335</u>	<u>\$ 3,652,966</u>	<u>\$ 3,259,948</u>	<u>\$ 6,755,353</u>	<u>\$ 925,593</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, 2004 and 2003, loan receivables are reserved in the amount of \$11,656,686 and \$11,805,540, respectively, and recoveries collected are \$231,698 and \$229,616 for the years then ended, respectively.

UNIVERSITY OF GUAM

Notes to Financial Statements
September 30, 2004 and 2003

7. 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 \$11,752,310 of these investments and cash at September 30, 2004, are accounted for on a pooled basis. The University employs the share method of accounting for pooled investments and for proportionate distribution of income and fees to each fund which participates in the pool.

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

	<u>2004</u>	<u>2003</u>
Investments:		
Money market funds	\$ 211,943	\$ 543,461
U.S. Treasury and agency obligations	-	52,768
Common stocks	<u>4,891,451</u>	<u>3,837,664</u>
	<u>\$ 5,103,394</u>	<u>\$ 4,433,893</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, 2004 and 2003, the accumulated net earnings and appreciation on investments is \$3,776,536 and \$2,963,163, 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>2004</u>	<u>2003</u>
Endowment investments:		
Money market funds	\$ 281,428	\$ 730,903
U.S. Treasury and agency obligations	-	70,969
Common stock	<u>6,495,109</u>	<u>5,161,291</u>
	<u>\$ 6,776,537</u>	<u>\$ 5,963,163</u>

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

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

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

UNIVERSITY OF GUAM

Notes to Financial Statements
September 30, 2004 and 2003

7. Investments, Continued

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

All investments held by the University have been classified as Category 2 investments in accordance with GASB Statement No. 3.

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

The composition of investment gain (loss) for the years ended September 30, 2004 and 2003, is as follows:

	<u>2004</u>	<u>2003</u>
Interest and dividends from investments	\$ 596,936	\$ 532,603
Investment fees	(128,594)	(86,561)
Realized gain (loss)	31,014	(325,623)
Appreciation (depreciation) of fair value of investments, net	<u>834,100</u>	<u>1,361,205</u>
	<u>\$ 1,333,456</u>	<u>\$ 1,481,624</u>

Investments are classified as long-term as no liquidation for current purposes is expected in fiscal year 2004.

8. Capital Assets

Capital assets at September 30, 2004 and 2003 consisted of the following:

	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>
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>-</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>

UNIVERSITY OF GUAM

Notes to Financial Statements
September 30, 2004 and 2003

8. Capital Assets, Continued

	Balance September 30, <u>2002</u>	<u>Additions</u>	<u>Retirements</u>	Balance September 30, <u>2003</u>
Capital assets not being depreciated:				
Land	\$ 2,589,112	\$ -	\$ -	\$ 2,589,112
Construction in progress	<u>1,543,483</u>	<u>16,399</u>	<u>267,543</u>	<u>1,292,339</u>
Total capital assets not being depreciated	<u>4,132,595</u>	<u>16,399</u>	<u>267,543</u>	<u>3,881,451</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	7,147,107	775,489	260,968	7,661,628
Library books	<u>4,013,971</u>	<u>68,320</u>	<u>-</u>	<u>4,082,291</u>
Total other capital assets	84,093,814	843,809	260,968	84,676,655
Less accumulated depreciation	<u>(21,969,141)</u>	<u>(2,344,233)</u>	<u>202,317</u>	<u>(24,111,057)</u>
Other capital assets, net	<u>62,124,673</u>	<u>(1,500,424)</u>	<u>58,651</u>	<u>60,565,598</u>
Total capital assets, net	<u>\$ 66,257,268</u>	<u>\$ (1,484,025)</u>	<u>\$ 326,194</u>	<u>\$ 64,447,049</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, 2004 and 2003, \$3,605,254 and \$2,785,753, 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 year ended September 30, 2004 and 2003, monthly payments remitted to the Government of Guam's General Fund of \$2,027,256 and \$2,027,439, respectively, are recorded as debt service - DOA bond.

UNIVERSITY OF GUAM

Notes to Financial Statements
September 30, 2004 and 2003

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. Typhoon Loss

On December 8, 2002, Supertyphoon Pongsona struck Guam with destructive winds of approximately 180 miles per hour. The related repairs to the University's buildings and equipment, as a direct result of the typhoon, of \$1,335,175 has been recorded at September 30, 2003.

12. Commitments

On June 12, 2003, the University signed a \$13.5 million promissory note with the United States Department of Agriculture for the purpose of funding certain construction. Construction began in March 2005. Guam Public Law 26-48 provided annual supplemental funding of \$500,000 to pay for the loan. As of September 30, 2004 and 2003, \$1,000,000 and \$500,000, respectively, so received is included in restricted expendable net assets.

13. Prior Year Restatements

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. During the year ended September 30, 2004, the University has estimated that a liability of \$666,842 existed as of September 30, 2003.

The accompanying 2003 financial statements have been restated for the foregoing as follows:

	<u>As Originally Stated</u>	<u>As Restated</u>
Institutional support	\$ 4,326,683	\$ 4,397,141
Instructional	14,556,351	14,923,011
Public service	5,950,344	6,000,695
Academic support	5,982,220	6,019,170
Plant maintenance	4,964,417	4,995,017
Auxiliary services	2,080,614	2,095,751
Research	7,464,930	7,525,590
Student services	3,241,659	3,277,685
DCRS sick leave liability	-	666,842

UNIVERSITY OF GUAM

Schedule of Salaries and Wages Years Ended September 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Salaries and wages:		
Regular, differential and hazardous pay	\$ 22,331,912	\$ 23,239,950
Overtime pay	<u>107,852</u>	<u>14,193</u>
Total salaries and wages	<u>\$ 22,439,764</u>	<u>\$ 23,254,143</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.	390 *	388 *
Overall employees at end of year	668	646

*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, 2004 and 2003

	2004		2003 (1)	
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Unrestricted</u>	<u>Restricted</u>
Instruction:				
Salary	\$ 9,332,768	\$ 640,590	\$ 9,451,407	\$ 576,321
Benefits	2,126,436	105,943	2,255,855	96,906
Travel	38,911	350,865	77,498	138,940
Contractual	582,095	346,532	997,994	215,164
Supplies	46,928	109,219	83,258	142,472
Equipment	31,036	137,099	34,806	116,544
Utilities	74,366	26,623	75,054	21,151
Capital outlay	-	10,052	-	-
Miscellaneous	70,647	179,858	432,483	207,158
	<u>\$ 12,303,187</u>	<u>\$ 1,906,781</u>	<u>\$ 13,408,355</u>	<u>\$ 1,514,656</u>
Research:				
Salary	\$ 673,719	\$ 3,267,740	\$ 654,061	\$ 2,574,858
Benefits	165,879	689,089	157,056	610,182
Travel	73,389	570,077	42,368	467,778
Contractual	336,604	1,290,347	252,001	993,923
Supplies	78,575	440,484	62,818	407,856
Equipment	76,464	356,924	26,574	245,381
Utilities	214	2,620	489	2,198
Capital outlay	38,967	393,327	53,261	297,595
Miscellaneous	25,546	539,216	72,196	604,995
	<u>\$ 1,469,357</u>	<u>\$ 7,549,824</u>	<u>\$ 1,320,824</u>	<u>\$ 6,204,766</u>
Institutional Support:				
Salary	\$ 1,987,042	\$ (162,584)	\$ 1,852,941	\$ -
Benefits	591,960	-	615,114	-
Travel	173,344	-	79,782	-
Contractual	1,139,129	-	1,526,107	-
Supplies	85,604	-	60,518	-
Equipment	32,472	-	27,547	-
Utilities	297	-	1,439	-
Capital outlay	190,249	-	-	-
Miscellaneous	184,685	-	233,693	-
	<u>\$ 4,384,782</u>	<u>\$ (162,584)</u>	<u>\$ 4,397,141</u>	<u>\$ -</u>

(1) - 2003 balances are restated to reflect accumulated sick leave liability mandated by PL 26-86.

See accompanying independent auditors' report.

UNIVERSITY OF GUAM

Schedule of Expenses by Object Category, Continued
Years Ended September 30, 2004 and 2003

	2004		2003 (1)	
	Unrestricted	Restricted	Unrestricted	Restricted
Public Service:				
Salary	\$ 216,176	\$ 2,675,119	\$ 172,390	\$ 2,872,200
Benefits	53,714	550,374	39,224	634,188
Travel	2,558	381,701	424	458,609
Contractual	16,702	1,187,271	11,894	983,496
Supplies	15,476	220,295	5,735	206,406
Equipment	1,049	208,833	173	183,028
Utilities	9,786	15,504	-	19,461
Capital outlay	-	35,406	-	97,654
Miscellaneous	6,798	260,494	51,257	264,556
	<u>\$ 322,259</u>	<u>\$ 5,534,997</u>	<u>\$ 281,097</u>	<u>\$ 5,719,598</u>
Academic Support:				
Salary	\$ 3,240,719	\$ -	\$ 3,265,250	\$ -
Benefits	681,187	-	1,018,114	-
Travel	189,357	-	100,434	-
Contractual	917,709	83,882	999,484	-
Supplies	204,524	1,241	170,795	-
Equipment	343,202	-	219,948	9,285
Utilities	1,709	-	376	-
Capital outlay	227,682	503,519	107,248	40,896
Miscellaneous	58,291	-	87,340	-
	<u>\$ 5,864,380</u>	<u>\$ 588,642</u>	<u>\$ 5,968,989</u>	<u>\$ 50,181</u>
Student Services:				
Salary	\$ 1,339,446	\$ 400,252	\$ 1,476,658	\$ 400,205
Benefits	373,176	-	487,805	-
Travel	39,683	-	12,876	-
Contractual	143,773	2,116	119,324	-
Supplies	56,596	133	44,293	-
Equipment	27,117	9,183	37,495	-
Utilities	40,747	-	21,257	-
Capital outlay	5,362	-	-	-
Miscellaneous	752,225	19,335	650,367	27,405
	<u>\$ 2,778,125</u>	<u>\$ 431,019</u>	<u>\$ 2,850,075</u>	<u>\$ 427,610</u>

(1) - 2003 balances are restated to reflect accumulated sick leave liability mandated by PL 26-86.

See accompanying independent auditors' report.

UNIVERSITY OF GUAM

Schedule of Expenses by Object Category, Continued
Years Ended September 30, 2004 and 2003

	2004		2003 (1)	
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Unrestricted</u>	<u>Restricted</u>
Operations and Maintenance of Plant:				
Salary	\$ 1,099,666	\$ -	\$ 1,158,692	\$ -
Benefits	307,295	-	334,737	-
Travel	-	-	-	-
Contractual	769,836	-	993,787	-
Supplies	256,485	-	272,018	-
Equipment	134,973	-	263,493	-
Utilities	2,264,336	-	1,926,550	-
Capital outlay	170,045	-	14,508	-
Miscellaneous	42,513	-	31,232	-
	<u>\$ 5,045,149</u>	<u>\$ -</u>	<u>\$ 4,995,017</u>	<u>\$ -</u>
Scholarships and Fellowships:				
Salary	\$ -	\$ -	\$ -	\$ -
Benefits	-	-	-	-
Travel	-	-	-	-
Contractual	-	-	-	-
Supplies	-	-	-	-
Equipment	-	-	-	-
Utilities	-	-	-	-
Capital outlay	-	-	-	-
Miscellaneous	141,672	6,324,527	80,547	7,803,738
	<u>\$ 141,672</u>	<u>\$ 6,324,527</u>	<u>\$ 80,547</u>	<u>\$ 7,803,738</u>
Auxiliary Enterprises:				
Salary	\$ 569,746	\$ -	\$ 627,907	\$ -
Benefits	139,422	-	178,717	-
Travel	-	-	-	-
Contractual	100,969	-	90,514	-
Supplies	37,602	-	36,714	-
Equipment	12,696	-	6,153	-
Utilities	144,979	-	153,448	-
Capital outlay	-	-	-	-
Miscellaneous	1,010,248	-	1,002,298	-
	<u>\$ 2,015,662</u>	<u>\$ -</u>	<u>\$ 2,095,751</u>	<u>\$ -</u>

(1) - 2003 balances are restated to reflect accumulated sick leave liability mandated by PL 26-86.

See accompanying independent auditors' report.