

UNIVERSITY OF GUAM

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

YEAR ENDED SEPTEMBER 30, 2001

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**Deloitte
Touche
Tohmatsu**

INDEPENDENT AUDITORS' REPORT

Board of Regents
University of Guam:

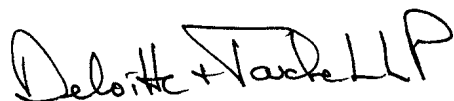
We have audited the accompanying balance sheets of the University of Guam, a component unit of the Government of Guam, as of September 30, 2001, and the related statements of changes in fund balances (deficits), and current funds revenues, expenditures and other changes for the year then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the University of Guam as of September 30, 2001, and the changes in its fund balances (deficits) and its current funds revenues, expenditures and other changes for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit of the financial statements for the year ended September 30, 2001, was made for the purpose of expressing our opinion on the basic financial statements taken as a whole. The accompanying schedules on pages 15 through 19 are presented for purposes of additional analysis and are not a required part of the basic financial statements. These schedules are the responsibility of the University of Guam's management. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 24, 2002, on our consideration of the University of Guam's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



May 24, 2002

UNIVERSITY OF GUAM

Balance Sheets

September 30, 2001

(With Comparative Balances At September 30, 2000)

CURRENT FUNDS:	2001	2000
<u>ASSETS</u>		
Unrestricted:		
Cash	\$ 2,668,536	\$ 169,616
Short-term investments	60,000	38,920
Investments (note 5)	652,165	717,177
Due from Government of Guam	250,000	189,486
Due from other University funds	2,424,192	1,034,231
Tuition receivables (net of an allowance of \$485,417 in 2001 and \$2,098,919 in 2000) (note 10)	2,261,106	1,170,371
Other receivables	1,031,509	2,809,233
Inventories	594,656	582,750
Prepaid expenses	879,574	712,642
Total unrestricted	10,821,738	7,424,426
Restricted:		
Cash	353,531	405,238
Accounts receivable - U.S. Government	1,823,439	1,776,227
Other receivables	858,931	244,196
Prepaid expenses	203,382	86,490
Total restricted	3,239,283	2,512,151
Total assets	\$ 14,061,021	\$ 9,936,577
<u>LIABILITIES AND FUND BALANCE (DEFICIT)</u>		
Unrestricted:		
Bank overdraft	\$ -	\$ 196,148
Accounts payable	5,778,506	5,479,026
Accrued liabilities	2,284,114	2,290,707
Deferred revenue	4,395,685	3,331,498
Fund deficit	(1,636,567)	(3,872,953)
Total unrestricted	10,821,738	7,424,426
Restricted:		
Accounts payable	2,362	6,878
Accrued liabilities	546,434	563,939
Due to other University funds	2,504,906	1,863,724
Fund balance	185,581	77,610
Total restricted	3,239,283	2,512,151
Total liabilities and fund balance (deficit)	\$ 14,061,021	\$ 9,936,577

See accompanying notes to financial statements.

UNIVERSITY OF GUAM

Balance Sheets, Continued
September 30, 2001

(With Comparative Balances At September 30, 2000)

LOAN FUNDS:	<u>2001</u>	<u>2000</u>
<u>ASSETS</u>		
Due from other University funds	\$ -	\$ 392,241
Accounts receivable - U.S. Government	418,017	366,391
Notes receivable (net of an allowance of \$12,047,475 in 2001 and \$11,562,509 in 2000) (note 4)	24,031	34,599
Other receivables	<u>56,295</u>	<u>82,145</u>
Total assets	<u>\$ 498,343</u>	<u>\$ 875,376</u>
<u>LIABILITIES AND FUND BALANCE</u>		
Due to other University funds	\$ 405,949	\$ -
Fund balance	<u>92,394</u>	<u>875,376</u>
Total liabilities and fund balance	<u>\$ 498,343</u>	<u>\$ 875,376</u>
 ENDOWMENT FUNDS (note 7):		
<u>ASSETS</u>		
Cash	\$ 369,538	\$ 559,632
Short-term investments	78,983	63,983
Investments (note 5)	9,095,817	11,680,198
Accrued interest receivable	<u>2,732</u>	<u>2,353</u>
Total assets	<u>\$ 9,547,070</u>	<u>\$ 12,306,166</u>
<u>LIABILITIES AND FUND BALANCE</u>		
Due to other University funds	\$ 53,081	\$ 76,091
Fund balance	<u>9,493,989</u>	<u>12,230,075</u>
Total liabilities and fund balance	<u>\$ 9,547,070</u>	<u>\$ 12,306,166</u>

See accompanying notes to financial statements.

UNIVERSITY OF GUAM

Balance Sheets, Continued

September 30, 2001

(With Comparative Balances At September 30, 2000)

PLANT FUNDS:	2001	2000
<u>ASSETS</u>		
Unexpended:		
Due from other University funds	\$ 234,221	\$ 450,166
Interest receivable	-	1,464
Total unexpended plant funds	234,221	451,630
Renewals and replacements:		
Cash	54,488	159,575
Other receivables	-	43,680
Total renewals and replacements	54,488	203,255
Retirement of indebtedness:		
Due from other University funds	132,346	130,000
Total retirement of indebtedness	132,346	130,000
Investment in plant:		
Due from other University funds	173,177	243,177
Construction work-in-progress	1,422,517	2,238,263
Equipment	6,612,864	6,997,594
Buildings	72,207,228	71,433,496
Land	2,589,112	2,589,112
Land improvement	320,754	70,754
Library books	3,313,030	2,729,534
	86,638,682	86,301,930
Accumulated depreciation	(18,561,181)	(17,260,975)
Total investment in plant, net	68,077,501	69,040,955
Total assets	\$ 68,498,556	\$ 69,825,840

See accompanying notes to financial statements.

UNIVERSITY OF GUAM

Balance Sheets, Continued

September 30, 2001

(With Comparative Balances At September 30, 2000)

PLANT FUNDS, CONTINUED:	<u>2001</u>	<u>2000</u>
<u>LIABILITIES AND FUND BALANCE</u>		
Unexpended:		
Accounts payable	\$ 1,716	\$ 50,023
Fund balance	<u>232,505</u>	<u>401,607</u>
Total unexpended plant funds	<u>234,221</u>	<u>451,630</u>
Renewals and replacements:		
Accounts payable	5,027	51,334
Deferred revenue	-	43,680
Fund balance	<u>49,461</u>	<u>108,241</u>
Total renewals and replacements	<u>54,488</u>	<u>203,255</u>
Retirement of indebtedness:		
Fund balance	<u>132,346</u>	<u>130,000</u>
Total retirement of indebtedness	<u>132,346</u>	<u>130,000</u>
Investment in plant:		
Accounts payable	240,000	310,000
Bonds payable (note 3)	585,000	660,000
Obligation under capital lease (note 8)	948,218	1,056,954
Investment in plant	<u>66,304,283</u>	<u>67,014,001</u>
Total investment in plant	<u>68,077,501</u>	<u>69,040,955</u>
Total liabilities and fund balance	<u>\$ 68,498,556</u>	<u>\$ 69,825,840</u>

See accompanying notes to financial statements.

UNIVERSITY OF GUAM

Statement of Current Funds Revenues, Expenditures and Other Changes
Year Ended September 30, 2001

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Current revenues:			
Tuition	\$ 7,274,315	\$ -	\$ 7,274,315
Fees	2,163,660	-	2,163,660
Government of Guam appropriations	29,207,952	2,676,015	31,883,967
Federal grants and contracts	1,104,334	9,942,407	11,046,741
Government of Guam grants and contracts	1,300	724,600	725,900
Private gifts, grants and contracts	285,883	1,162,030	1,447,913
Sales and services of auxiliary enterprises	2,014,676	-	2,014,676
Other sources (note 11)	1,698,652	692,192	2,390,844
	<u>43,750,772</u>	<u>15,197,244</u>	<u>58,948,016</u>
Expenditures and mandatory transfers:			
Education and general:			
Instruction	13,895,551	1,455,561	15,351,112
Research	1,900,420	4,163,159	6,063,579
Public service	343,079	5,216,367	5,559,446
Academic support	6,101,131	-	6,101,131
Student services	3,139,903	410,167	3,550,070
Institutional support	4,967,424	1,064	4,968,488
Operation and maintenance of plant	4,762,080	-	4,762,080
Scholarships and fellowships	103,644	5,894,719	5,998,363
Investment loss (note 5)	2,518,392	-	2,518,392
	<u>37,731,624</u>	<u>17,141,037</u>	<u>54,872,661</u>
Educational and general expenditures			
Mandatory transfers for:			
Restricted fund matching grants	1,943,793	(1,943,793)	-
	<u>39,675,417</u>	<u>15,197,244</u>	<u>54,872,661</u>
Total educational and general			
Auxiliary enterprises:			
Expenditures	2,180,330	-	2,180,330
Mandatory transfers for:			
Principal and interest	270,676	-	270,676
Renewals and replacements	167,891	-	167,891
Government of Guam bonds (note 9)	2,027,436	-	2,027,436
	<u>44,321,750</u>	<u>15,197,244</u>	<u>59,518,994</u>
Total expenditures and mandatory transfers			
Other transfers and additions/(deductions):			
Excess of restricted receipts over transfers to revenue	-	166,866	166,866
Non-mandatory transfers, net	2,807,364	(58,895)	2,748,469
	<u>2,807,364</u>	<u>107,971</u>	<u>2,915,335</u>
Total other transfers and additions/(deductions)			
Net increase in fund balances for the year	<u>\$ 2,236,386</u>	<u>\$ 107,971</u>	<u>\$ 2,344,357</u>

See accompanying notes to financial statements.

UNIVERSITY OF GUAM

Statement of Changes in Fund Balances (Deficit)
Year Ended September 30, 2001

	Current Funds			Endowment Funds	Plant Funds		
	Unrestricted Funds	Restricted Funds	Loan Funds		Unexpended	Renewals and Replacements	Retirement of Indebtedness
Revenues and other additions:							
Unrestricted current funds revenues	\$ 43,750,772	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Government of Guam appropriations-restricted	-	2,676,015	-	-	-	-	-
Government of Guam contracts-restricted	-	891,466	-	-	-	-	-
Federal grants and contracts-restricted	-	9,942,407	4,720,705	-	-	-	-
Private gifts, grants and contracts-restricted	-	1,162,030	-	-	-	-	-
Other restricted receipts	-	692,192	2,669	-	-	-	-
Endowment income	-	-	-	260	-	-	-
Recovery on student loans and miscellaneous receipts	-	-	267,381	-	-	-	-
Expended for plant facilities (charged to current funds expenditure)	-	-	-	-	-	-	1,035,786
Retirement of indebtedness	-	-	-	-	-	-	183,736
	<u>43,750,772</u>	<u>15,364,110</u>	<u>4,990,755</u>	<u>260</u>	<u>-</u>	<u>-</u>	<u>1,219,522</u>
Total revenues and other additions							
Expenditures and other deductions:							
Educational and general expenditures	37,731,624	17,141,037	-	-	-	-	-
Auxiliary enterprise expenditures	2,180,330	-	-	-	-	-	-
Loans and scholarships awarded	-	-	5,678,737	-	-	-	-
Plant repairs and maintenance	-	-	-	-	171,102	17,609	-
Depreciation of plant facilities	-	-	-	-	-	-	1,900,353
Investment fees	-	-	-	159,326	-	-	-
Retirement of indebtedness	-	-	-	-	-	-	183,736
Interest on indebtedness	-	-	-	-	-	-	84,594
Disposal of plant facilities	-	-	-	-	-	-	409,500
	<u>39,911,954</u>	<u>17,141,037</u>	<u>5,678,737</u>	<u>159,326</u>	<u>171,102</u>	<u>17,609</u>	<u>2,309,853</u>
Total expenditures and other deductions							
Transfers among funds-additions/(deductions):							
Mandatory:							
Principal and interest	(270,676)	-	-	-	-	-	270,676
Renewals and replacements	(167,891)	-	-	-	-	167,891	-
Government of Guam bonds (note 9)	(2,027,436)	-	-	-	-	-	-
Contribution received	-	-	-	-	-	-	250,000
Restricted fund matching grants	(1,943,793)	1,943,793	-	-	-	-	-
Non-mandatory transfers, net	2,807,364	(58,895)	(95,000)	(2,577,020)	2,000	(209,062)	130,613
	<u>(1,602,432)</u>	<u>1,884,898</u>	<u>(95,000)</u>	<u>(2,577,020)</u>	<u>2,000</u>	<u>(41,171)</u>	<u>380,613</u>
Total transfers							
Net increase (decrease) for the year	2,236,386	107,971	(782,982)	(2,736,086)	(169,102)	(58,780)	(709,718)
Beginning fund balances (deficit)	(3,872,953)	77,610	875,376	12,230,075	401,607	108,241	67,014,001
Ending fund balances (deficit)	<u>\$ (1,636,567)</u>	<u>\$ 185,581</u>	<u>\$ 92,394</u>	<u>\$ 9,493,989</u>	<u>\$ 232,505</u>	<u>\$ 49,461</u>	<u>\$ 66,304,283</u>

See accompanying notes to financial statements.

UNIVERSITY OF GUAM

Notes to Financial Statements September 30, 2001

1. Organization

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

2. Summary of Significant Accounting Policies

A. Accrual Basis. The financial statements of the University of Guam have been prepared on the accrual basis. The statement of current funds revenues, expenditures and other changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present results of operations or the net income or loss for the period as would a statement of income or a statement of revenues and expenses.

B. Investments. Investments are reported at fair value.

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

At September 30, 2001, the University has cash balances of \$4,395,659, of which \$143,054 and \$4,138,918 is insured by the Federal Deposit Insurance Corporation, or collateralized by securities held by a trustee in the name of the financial institution, respectively. The remaining balance is uninsured and uncollateralized.

D. Short-term Investments. Short-term investments include bank time certificates of deposit with original maturities of ninety days or more.

E. Additions to Plant Assets. To the extent that current funds are used to finance plant assets, the amounts so provided are accounted for as (1) expenditures, in the case of normal replacement of movable equipment; (2) mandatory transfers, in the case of required provisions for debt amortization and interest and equipment renewal and replacement; and (3) transfers of a non-mandatory nature for all other cases.

F. Depreciation. 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 of Guam capitalization policy requires acquisitions greater than \$5,000 to be capitalized and depreciated over the assets' useful lives. The assets are carried at cost, except for land and buildings transferred to the University which were recorded at management's estimate of fair market value at the date of acquisition. These additions have since been adjusted to fair market value as determined by independent appraisals completed during fiscal year 1988.

G. 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.

UNIVERSITY OF GUAM

Notes to Financial Statements
September 30, 2001

2. Summary of Significant Accounting Policies, Continued

H. Employees' Retirement Plan. Employees of the University hired before October 1, 1995, are under the Government of Guam Employees' Retirement System (a defined benefit, contributory pension plan). Employees hired after September 30, 1995, are members of the Defined Contribution Retirement System (DCRS). Until December 31, 1999, those employees who were members of the Defined Benefit Plan with less than 20 years of service at September 30, 1995, had the option to switch to the Defined Contribution Retirement System.

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

As a result of the most recent actuarial valuation performed as of September 30, 2000, it has been determined that for the year ended September 30, 2001, a minimum combined employer and employee contribution rate of 34.64% of covered Defined Benefit Plan payroll is required to appropriately fund the current cost, amortize prior service costs and provide for interest on the unfunded accrued liability. Statutory contribution rates for employee and employer contributions were 9.5% and 19.675%, respectively, for the year ended September 30, 2001. The effect of the University's prior year accruals for its share of pension underfunding reduces the actuarially determined employer contribution rate from 25.14% to an effective rate of 18.98% for the year ended September 30, 2001. In recognition of the above, an accrual decrease of .695% of covered payroll is necessary to decrease the unfunded liability based on the difference between the effective rate of 18.98% and the employer's statutory rate of 19.675%.

The Defined Benefit Plan utilized the actuarial cost method termed "entry age normal" with an assumed rate of return of 8% and an assumed salary scale increase of 5.5% per annum. The most recent actuarial valuation performed as of September 30, 2000, did not provide a breakdown of actuarial present value of vested and non-vested accumulated plan benefits by sponsor or net assets available for benefits by sponsor.

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

Employer contributions into the DCRS are based on a statutory amount of 19.675% of the member's regular base pay. Of the amount contributed by the employer, only 5% of the member's regular base pay is deposited into the member's individual annuity account. The remaining 14.675% is contributed towards the unfunded liability of the defined benefit plan.

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

Contributions to the Defined Benefit Plan and DCRS for the year ended September 30, 2001, are \$3,281,676 and \$1,125,768, respectively.

UNIVERSITY OF GUAM

Notes to Financial Statements
September 30, 2001

2. Summary of Significant Accounting Policies, Continued

H. Employees' Retirement Plan, Continued

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, 2001, the General Fund has accrued approximately \$12,295,144 for the University's cumulative unfunded retirement liability.

- I. Fund Accounting. In order to ensure observance of limitations and restrictions placed on the use of the resources available to the University, accounts of the University are maintained in accordance with the principles of "fund accounting." This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with activities or objectives specified. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds allocated to specific purposes by action of the Board of Regents. Externally restricted funds may only be utilized in accordance with the purposes established by the source of such funds and are in contrast with unrestricted funds over which the Board of Regents retains full control to use in achieving any of its purposes.

Endowment funds are subject to restrictions of gift instruments requiring in perpetuity that the principal be invested and only the income be utilized.

All gains and losses arising from the sale, collection or other distribution of investments and other non-cash assets are accounted for in the fund which owned such assets. Generally, ordinary income derived from investments, receivables and the like is accounted for in the fund owning such assets. However, income derived from investment of endowment and similar funds is accounted for in the fund to which it is restricted or, if unrestricted, as revenues in unrestricted current funds. All other unrestricted revenue is accounted for in the unrestricted current fund.

Restricted gifts, grants, appropriations, endowment income and other restricted resources are accounted for in the appropriate restricted funds. Restricted current funds are reported as revenues and expenditures when expended for current operating purposes.

- J. 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. Funds designated for scholarships that do not require repayment by the recipient are accounted for within the Current Restricted Funds. Those which may require repayment remain within the Loan Funds. As certain restrictions are placed on these funds, revenue is realized only to the extent that such funds are expended for current purposes.

UNIVERSITY OF GUAM

Notes to Financial Statements
September 30, 2001

2. Summary of Significant Accounting Policies, Continued

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

L. Comparative Balances. The comparative data for the prior year has been presented in certain of the statements to provide an understanding of changes in the University's financial position. However, comparative data was not presented for each of the statements since it would make the financial statements unduly complex and difficult to read.

3. Bonds Payable

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

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

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

<u>Year Ending September 30,</u>	<u>Amount</u>
2002	\$ 80,000
2003	80,000
2004	80,000
2005	85,000
2006	85,000
2007 and thereafter	<u>175,000</u>
	\$ <u>585,000</u>

UNIVERSITY OF GUAM

Notes to Financial Statements September 30, 2001

4. Student Loans

The Loan Funds grant loans to residents of Guam who attend institutions of higher education. The Guam Legislature appropriates funds for the program, and 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, 2001, loan receivables are reserved in the amount of \$12,047,475.

5. Investments

Investments exclusive of physical plant are recorded at market value; investments received by gift are recorded at market value at the date of acquisition. Realized gains and losses are recognized in the statement of revenues and expenditures upon disposition, and unrealized gains and losses are recorded as net appreciation (depreciation) of fair value in investments in fund balances. Approximately \$10,093,402 of these investments and cash at September 30, 2001, 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.

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

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

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

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

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

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

The composition of investment loss for the year ended September 30, 2001, is as follows:

Interest and dividends from investments	\$ (365,193)
Loss on sale of investments, net	592,931
Depreciation of fair value of investments, net	<u>2,290,654</u>
	\$ <u>2,518,392</u>

UNIVERSITY OF GUAM

Notes to Financial Statements
September 30, 2001

6. Encumbrances

Encumbrances representing outstanding purchase orders and other commitments for materials and services not received as of September 30, 2001, are presented below:

Unrestricted Current Funds	\$ 2,354,273
Restricted Current Funds	943,816
Unexpended Plant Fund	1,086,655
Renewals and Replacements Plant Fund	<u>5,510</u>
	<u>\$ 4,390,254</u>

7. Composition of Endowment Funds

The composition of the endowment funds as of September 30, 2001, and the changes in fund balances for the year then ended are as follows:

	Fund 71-UOG Pure Endowment <u>(LGRE)</u>	Fund 73-UOG Pure Endowment <u>(GOVGUAM)</u>	Fund 79-UOG Quasi- Endowment <u>(Others)</u>	Fund 72-UOG Quasi- Endowment	<u>Totals</u>
Cash	\$ 222,455	\$ 11,238	\$ 24,788	\$ 111,057	\$ 369,538
Time certificates of deposit	-	-	78,983	-	78,983
Investments	5,475,523	276,615	610,114	2,733,565	9,095,817
Accrued interest receivable	<u>-</u>	<u>-</u>	<u>2,732</u>	<u>-</u>	<u>2,732</u>
	<u>\$ 5,697,978</u>	<u>\$ 287,853</u>	<u>\$ 716,617</u>	<u>\$ 2,844,622</u>	<u>\$ 9,547,070</u>
Due to other University funds	-	6,479	3,601	43,001	53,081
Fund balance, September 30, 2001	<u>5,697,978</u>	<u>281,374</u>	<u>713,016</u>	<u>2,801,621</u>	<u>9,493,989</u>
	<u>\$ 5,697,978</u>	<u>\$ 287,853</u>	<u>\$ 716,617</u>	<u>\$ 2,844,622</u>	<u>\$ 9,547,070</u>
Fund balance, September 30, 2000	\$ 7,290,473	\$ 375,507	\$ 899,595	\$ 3,664,500	\$ 12,230,075
Other additions (deductions):					
Endowment income	-	-	260	-	260
Investment fees	(93,044)	(5,160)	(11,125)	(49,997)	(159,326)
Net transfers to other University funds	<u>(1,499,451)</u>	<u>(88,973)</u>	<u>(175,714)</u>	<u>(812,882)</u>	<u>(2,577,020)</u>
Fund balance, September 30, 2001	<u>\$ 5,697,978</u>	<u>\$ 281,374</u>	<u>\$ 713,016</u>	<u>\$ 2,801,621</u>	<u>\$ 9,493,989</u>

UNIVERSITY OF GUAM

Notes to Financial Statements
September 30, 2001

8. Capital Lease Commitment

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, 2001.

<u>Year Ending September 30,</u>	<u>Capital Lease</u>
2002	\$ 173,530
2003	173,530
2004	173,530
2005	173,530
2006	173,530
2007 and thereafter	<u>303,681</u>
Total payments	1,171,331
Less amounts representing interest	<u>(223,113)</u>
Total obligation under capital lease	\$ <u>948,218</u>

9. Contingencies

Litigation

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

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, 2001, monthly payments remitted to the Government of Guam's General Fund of \$2,027,436 are recorded as mandatory transfers out.

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.

UNIVERSITY OF GUAM

Notes to Financial Statements
September 30, 2001

10. Tuition Receivables and Allowance for Uncollectible Tuition Receivable

Assets (Unrestricted)

<u>Tuition Receivables</u>	<u>2001</u>	<u>2000</u>
Gross tuition receivables	\$ 2,746,523	\$ 3,269,290
Allowance for doubtful accounts	<u>(485,417)</u>	<u>(2,098,919)</u>
Net tuition receivables	\$ <u>2,261,106</u>	\$ <u>1,170,371</u>

Allowance for Uncollectible Tuition Receivable

Balance at September 30, 2000	\$ 2,098,919
Bad debt provision for fiscal year 2001	365,852
Write-off of accumulated prior year receivables and other adjustments	<u>(1,979,354)</u>
Balance at September 30, 2001	\$ <u>485,417</u>

During fiscal year 2001, the University of Guam wrote off several years of accumulated student receivables older than four academic years. However, management continues to pursue collection efforts against such write-offs.

11. Restricted Funds Accrued for Annual Leave

Accrued annual leave in the amount of \$413,729 has been recognized as expenditures of the restricted funds in the accompanying financial statements. Other sources of revenue includes the corresponding amount of the accrued annual leave. The respective grantor agencies will not be billed until the leave is actually paid.

UNIVERSITY OF GUAM

Schedule 1

Schedule of Salaries and Wages

Year Ended September 30, 2001

(With Comparative Balances for the Year Ended September 30, 2000)

	<u>2001</u>	<u>2000</u>
Salaries and wages:		
Regular, differential and hazardous pay	\$ 26,587,103	\$ 27,980,957
Overtime pay	<u>209,964</u>	<u>183,938</u>
Total salaries and wages	<u>\$ 26,797,067</u>	<u>\$ 28,164,895</u>
Employees at end of year	667	538

See accompanying independent auditors' report.

UNIVERSITY OF GUAM

Schedule 2

Schedule of Expenditures by Object Category

Year Ended September 30, 2001

(With Comparative Balances for the Year Ended September 30, 2000)

	<u>2001</u>		<u>2000</u>	
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Unrestricted</u>	<u>Restricted</u>
Instruction:				
Salary	\$ 10,109,650	\$ 541,249	\$ 11,120,617	\$ 606,860
Benefits	2,166,043	96,898	2,176,624	47,896
Travel	233,595	156,539	101,412	144,779
Contractual	860,112	249,536	782,690	381,368
Supplies	148,789	140,630	159,975	160,140
Equipment	110,347	102,192	66,714	60,158
Utilities	81,653	7,214	77,960	3,273
Capital outlay	596	25,184	12,540	103,138
Miscellaneous	184,766	136,119	73,066	350,001
	<u>\$ 13,895,551</u>	<u>\$ 1,455,561</u>	<u>\$ 14,571,598</u>	<u>\$ 1,857,613</u>
Research:				
Salary	\$ 995,722	\$ 2,204,952	\$ 798,527	\$ 2,213,648
Benefits	229,353	458,520	177,218	441,190
Travel	59,711	290,884	35,278	225,540
Contractual	350,889	505,211	498,497	601,518
Supplies	84,544	215,170	123,174	124,623
Equipment	94,043	85,614	62,937	146,956
Utilities	839	3,541	-	3,445
Capital outlay	54,586	89,636	10,675	116,648
Miscellaneous	30,733	309,631	29,884	421,628
	<u>\$ 1,900,420</u>	<u>\$ 4,163,159</u>	<u>\$ 1,736,190</u>	<u>\$ 4,295,196</u>
Institutional Support:				
Salary	\$ 2,427,720	\$ -	\$ 2,655,053	\$ -
Benefits	612,104	-	626,530	-
Travel	115,850	-	116,889	-
Contractual	987,530	1,064	972,072	-
Supplies	84,273	-	71,243	-
Equipment	81,397	-	36,578	-
Utilities	-	-	-	-
Capital outlay	33,598	-	-	-
Miscellaneous	624,952	-	249,495	65,472
	<u>\$ 4,967,424</u>	<u>\$ 1,064</u>	<u>\$ 4,727,860</u>	<u>\$ 65,472</u>

See accompanying independent auditors' report.

UNIVERSITY OF GUAM

Schedule 2

Schedule of Expenditures by Object Category, Continued
Year Ended September 30, 2001

(With Comparative Balances for the Year Ended September 30, 2000)

	2001		2000	
	Unrestricted	Restricted	Unrestricted	Restricted
Public Service:				
Salary	\$ 69,685	\$ 2,885,815	\$ 64,257	\$ 2,819,434
Benefits	13,806	599,131	13,667	576,395
Travel	-	424,301	-	340,078
Contractual	172,327	483,763	23,789	456,846
Supplies	13,420	181,034	11,350	223,666
Equipment	6,700	237,301	5,744	103,153
Utilities	-	16,531	-	21,647
Capital outlay	-	193,849	-	112,303
Miscellaneous	67,141	194,642	312	202,399
	\$ 343,079	\$ 5,216,367	\$ 119,119	\$ 4,855,921
Academic Support:				
Salary	\$ 3,404,204	\$ -	\$ 3,360,332	\$ -
Benefits	795,024	-	735,596	-
Travel	64,166	-	33,423	-
Contractual	539,892	-	504,701	-
Supplies	183,374	-	568,166	-
Equipment	393,484	-	301,638	-
Utilities	-	-	-	-
Capital outlay	656,270	-	940,621	-
Miscellaneous	64,717	-	66,886	-
	\$ 6,101,131	\$ -	\$ 6,511,363	\$ -
Student Services:				
Salary	\$ 1,906,315	\$ 389,542	\$ 1,808,483	\$ 418,753
Benefits	482,713	-	419,412	-
Travel	51,526	-	19,489	-
Contractual	356,110	-	252,663	-
Supplies	83,409	-	71,100	-
Equipment	84,424	-	68,406	-
Utilities	38,318	-	24,055	-
Capital outlay	6,461	-	-	-
Miscellaneous	130,627	20,625	129,086	20,828
	\$ 3,139,903	\$ 410,167	\$ 2,792,694	\$ 439,581

See accompanying independent auditors' report.

UNIVERSITY OF GUAM

Schedule 2

Schedule of Expenditures by Object Category, Continued

Year Ended September 30, 2001

(With Comparative Balances for the Year Ended September 30, 2000)

	2001		2000	
	Unrestricted	Restricted	Unrestricted	Restricted
Operations and Maintenance of Plant:				
Salary	\$ 1,222,515	\$ -	\$ 1,393,182	\$ -
Benefits	328,087	-	342,866	-
Travel	289	-	367	-
Contractual	163,215	-	1,072,102	-
Supplies	260,460	-	211,979	-
Equipment	102,032	-	39,524	-
Utilities	2,642,231	-	2,848,697	-
Capital outlay	27,157	-	14,999	-
Miscellaneous	16,094	-	7,033	-
	\$ 4,762,080	\$ -	\$ 5,930,749	\$ -
Scholarships and Fellowships:				
Salary	\$ -	\$ -	\$ -	\$ -
Benefits	-	-	-	-
Travel	-	-	-	-
Contractual	-	-	-	-
Supplies	-	-	-	-
Equipment	-	-	-	-
Utilities	-	-	-	-
Capital outlay	-	-	-	-
Miscellaneous	103,644	5,894,719	87,101	5,299,806
	\$ 103,644	\$ 5,894,719	\$ 87,101	\$ 5,299,806

See accompanying independent auditors' report.

UNIVERSITY OF GUAM

Schedule of Current Funds Revenues, Expenditures and Other Changes
Year Ended September 30, 2001
(With Comparative Balances for the Year Ended September 30, 2000)

	Unrestricted		Restricted	
	2001	2000	2001	2000
Current revenues:				
Tuition	\$ 7,274,315	\$ 8,321,538	\$ -	\$ -
Fees	2,163,660	1,874,731	-	-
Government of Guam appropriations	29,207,952	26,425,262	2,676,015	2,738,015
Federal grants and contracts	1,104,334	1,081,392	9,942,407	8,687,052
Government of Guam grants and contracts	1,300	7,900	724,600	1,494,865
Private gifts, grants and contracts	285,883	235,658	1,162,030	1,646,992
Endowment income	-	3,436,929	-	-
Sales and services of auxiliary enterprises	2,014,676	2,066,934	-	-
Other sources	1,698,652	2,022,324	692,192	335,798
Total current revenues	<u>43,750,772</u>	<u>45,472,668</u>	<u>15,197,244</u>	<u>14,902,722</u>
Expenditures and mandatory transfers:				
Education and general:				
Instruction	13,895,551	14,571,598	1,455,561	1,857,613
Research	1,900,420	1,736,190	4,163,159	4,295,196
Public service	343,079	119,119	5,216,367	4,855,921
Academic support	6,101,131	6,511,363	-	-
Student services	3,139,903	2,792,694	410,167	439,581
Institutional support	4,967,424	4,727,860	1,064	65,472
Operation and maintenance of plant	4,762,080	5,930,749	-	-
Scholarships and fellowships	103,644	87,101	5,894,719	5,299,806
Investment loss	2,518,392	-	-	-
Educational and general expenditures	<u>37,731,624</u>	<u>36,476,674</u>	<u>17,141,037</u>	<u>16,813,589</u>
Mandatory transfers for:				
Restricted fund matching grants	1,943,793	1,910,867	(1,943,793)	(1,910,867)
Total educational and general	<u>39,675,417</u>	<u>38,387,541</u>	<u>15,197,244</u>	<u>14,902,722</u>
Auxiliary enterprises:				
Expenditures	2,180,330	2,430,983	-	-
Mandatory transfers for:				
Principal and interest	270,676	270,580	-	-
Renewals and replacements	167,891	185,920	-	-
Government of Guam bonds	2,027,436	2,027,619	-	-
Total expenditures and mandatory transfers	<u>44,321,750</u>	<u>43,302,643</u>	<u>15,197,244</u>	<u>14,902,722</u>
Other transfers and additions/(deductions):				
(Deficiency) excess of restricted receipts over transfers to revenue	-	-	166,866	62,481
Non-mandatory transfers, net	2,807,364	(2,418,794)	(58,895)	(137,400)
	<u>2,807,364</u>	<u>(2,418,794)</u>	<u>107,971</u>	<u>(74,919)</u>
Net increase (decrease) in fund balances for the year	<u>\$ 2,236,386</u>	<u>\$ (248,769)</u>	<u>\$ 107,971</u>	<u>\$ (74,919)</u>

See accompanying independent auditors' report.