

UNIVERSITY OF GUAM

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

YEARS ENDED SEPTEMBER 30, 2003 AND 2002

UNIVERSITY OF GUAM
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INDEPENDENT AUDITORS' REPORT

Board of Regents
University of Guam:

We have audited the accompanying statements of net assets of the University of Guam, a component unit of the Government of Guam, as of September 30, 2003 and 2002, and the related statements of revenues, expenses and changes in net assets, and of cash flows for the years 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 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. 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 audits provide 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, 2003 and 2002, and the changes in its net assets and its cash flows 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 2 through 9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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 24 through 27 are presented for purposes of additional analysis and are not a required part of the basic financial statements. These schedules are the responsibility of the University of Guam's management. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 18, 2004, 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 audits.

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is stylized and appears to be written in a cursive or semi-cursive script.

May 18, 2004

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Management's Discussion and Analysis Year Ended September 30, 2003

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. Approximately 3,000 students attend, the majority of whom are of Asian or Pacific Islander ancestry. The University provides a diverse and multicultural atmosphere. 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 Governmental 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 2003, 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 30 September 2003, as compared to 2002. The discussion has been prepared by University management and should be read in conjunction with the financial statements and related notes that follow.

OVERVIEW OF FISCAL YEAR 2003

In 2003, the University faced numerous financial challenges, as the island's economy and the Government of Guam's financial problems worsened under the weight of the continued downturn in the Asian and United States economies, the SARS epidemic and the aftermath of several natural disasters.

The government's financial crisis had its severest impact on appropriations and available cash. The government decreased fiscal year appropriations to the University, as it did with all government services. The impact on the University was a reduction of \$1.6 million or 6% in its authorized operating appropriations as compared to the prior year. When the economy did not rebound before year-end, the Governor of Guam created a permanent reserve on remaining appropriations, including the University's, resulting in a further holdback of \$1.2 million. Also, cash allotments were delayed due to the general fund's revenue shortfalls. While doing its best to manage cash in a precarious situation, the government was \$9 million in arrears to the University at one point. Cash balances were often just sufficient to sustain operations.

The University initiated a financial management plan of action in response to the financial situation and to better prepare for continuing economic uncertainty and future natural disasters. Its objectives were to protect academic quality and student learning, while providing sufficient financial resources for core mission delivery. This was accomplished. The University acted cautiously, but deliberately, to increase and diversify revenues, reduce costs and better manage its working capital. By fiscal year-end, net assets had increased, cash reserves had been replenished, and there was a surplus in the current fund unrestricted following over seven years of accumulated deficit.

By collaboratively linking its finances to institutional priorities, the University developed the capacity to weather economic instability facing the island and region, while maintaining a commitment to its core mission and strategic initiatives. As background, in 2001, following broadly based consultation, the University community adopted a strategic plan with initiatives that strengthen academic quality and

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Management's Discussion and Analysis Year Ended September 30, 2003

support student learning while positioning the institution for enrollment growth. The resultant shared vision is that of a critical educational resource responsive to student, community, and regional needs.

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.

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 2003, the University significantly improved its overall financial position, as evidenced by the increase in nets assets from \$73.7 million in the prior year to \$76.2 million. 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. As of September 30, 2003, the net asset position of the University was \$76.2 million. This represents an increase of \$2.5 million or 3.4% over the prior year.

Summary Statement of Net Assets

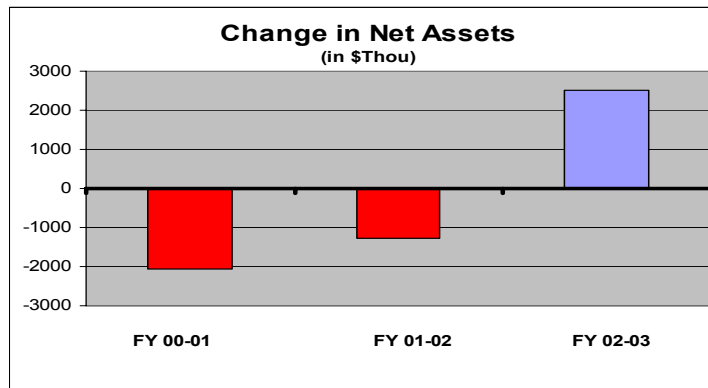
	<u>2003</u> (000's)	<u>2002</u> (000's)
Assets		
Current assets	\$ 17,065	\$ 14,269
Investments	10,397	9,191
Other non-current and capital assets, net	<u>64,447</u>	<u>66,257</u>
Total assets	\$ <u>91,909</u>	\$ <u>89,717</u>
Liabilities		
Current liabilities	\$ 10,575	\$ 10,341
Non-current liabilities	<u>5,163</u>	<u>5,719</u>
	<u>15,738</u>	<u>16,060</u>
Net assets		
Invested in capital assets, net of related debt	62,225	65,116
Restricted – nonexpendable	3,155	3,155
Restricted – expendable	3,469	2,573
Unrestricted	<u>7,322</u>	<u>2,813</u>
	<u>76,171</u>	<u>73,657</u>
Total liabilities and net assets	\$ <u>91,909</u>	\$ <u>89,717</u>

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

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Management's Discussion and Analysis Year Ended September 30, 2003

EXHIBIT A



Of total assets, 70% are in property, plant and equipment, 19% in current assets, and 11% in investments. Receivables make up 56% of current assets; about half of the total receivables are local government appropriations. Of total liabilities, 63% are current and 37% are non-current. At year-end, the University had very little long-term debt, about 6% of total liabilities.

The total assets of the University increased by \$2.2 million, while total liabilities decreased by \$0.3 million, resulting in an increase in net assets of \$2.5 million.

The 2% increase in total assets is the net result of improved working capital management and a stronger investment portfolio. Net capital assets decreased due to depreciation expense. However, significant new capital projects were funded, particularly construction of the Leon Guerrero School of Business and Public Administration Building that will commence in 2004. To rebuild its infrastructure following the recent typhoons and earthquake, the University received approximately \$1 million in insurance claims proceeds and should receive FEMA assistance in the restoration of damages.

The decrease in total liabilities of \$0.3 million is primarily the result of a decrease in accounts payable and accrued liabilities offset by an increase in deferred grant revenue. 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 expenses that resulted in a \$2.5 million increase in net assets, as compared to a \$1.3 million decrease in the prior year. Except for government appropriations, revenues increased substantially across the board, while cost control measures kept expenses in line.

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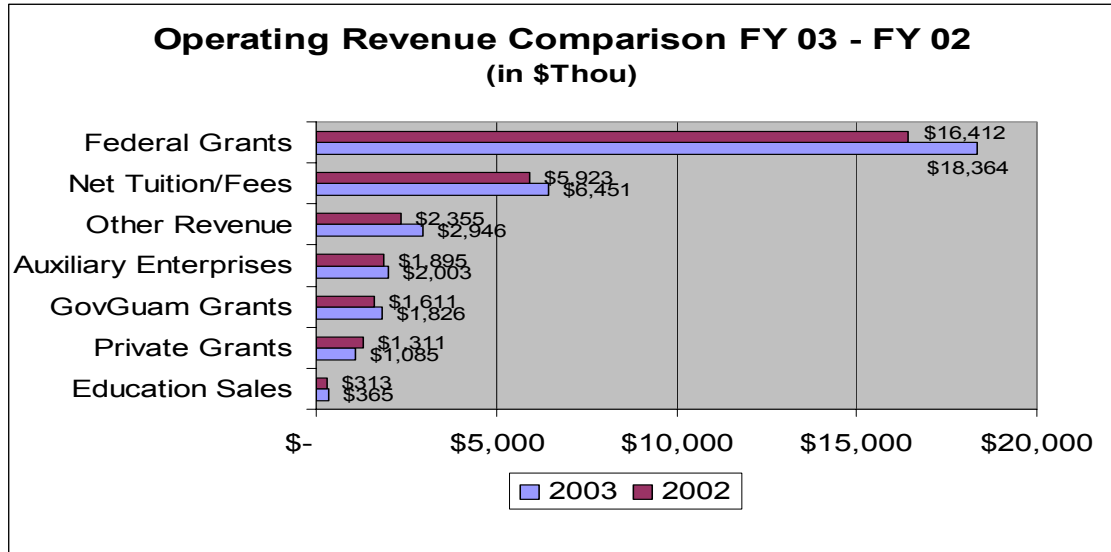
Management's Discussion and Analysis
Year Ended September 30, 2003

Summary Statement of Revenues, Expenses and Changes in Net Assets

	<u>2003</u> (000's)	<u>2002</u> (000's)
Operating revenues	\$ 32,999	\$ 29,820
Operating expenses	<u>58,796</u>	<u>59,195</u>
Operating loss	(25,797)	(29,375)
Non-operating revenues (expenses):	<u>28,311</u>	<u>28,115</u>
Increase (decrease) in net assets	2,514	(1,260)
Net assets – beginning of year	<u>73,657</u>	<u>74,917</u>
Net assets – end of year	\$ <u>76,171</u>	\$ <u>73,657</u>

Looking at revenues, the University brought in \$33.0 million from operations, an increase of \$3.2 million or 11% over the prior year. Tuition and fees, grants and contracts, auxiliary and other revenues increased. (See Exhibit B.)

EXHIBIT B

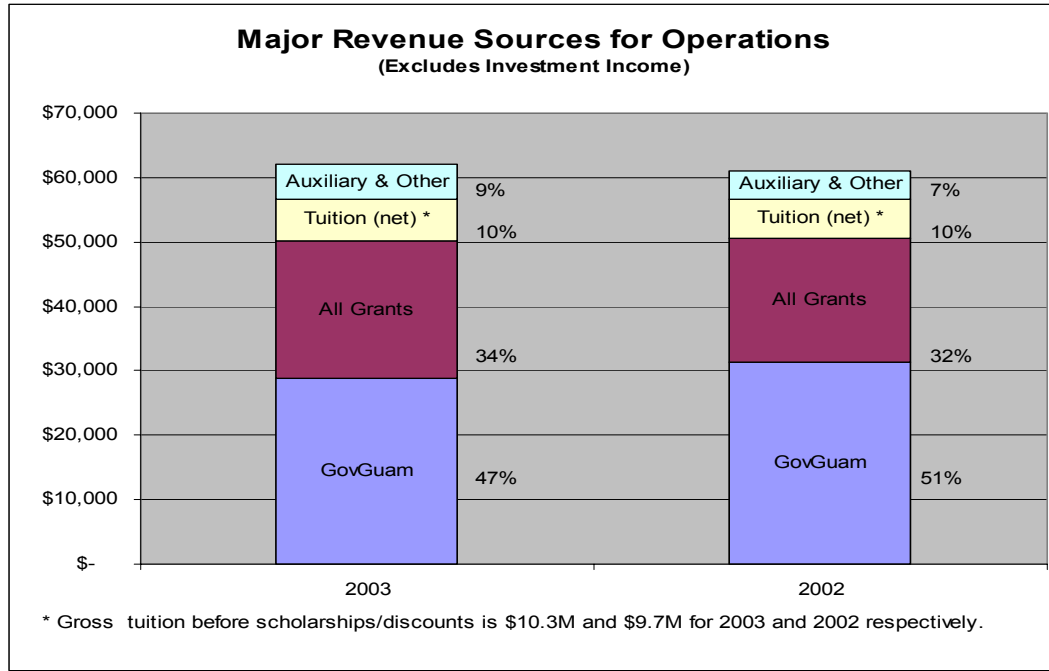


Operating revenues were higher than government appropriations of \$28.9 million, reflecting continued diversification of revenue streams beyond government appropriations. Operating revenues from auxiliary funds, tuition, and grant sources comprised 53% of total revenues for operations compared to 49% in 2002. This is the first time that internally generated revenues have exceeded 50% of total revenues in the University's history. (See Exhibit C.)

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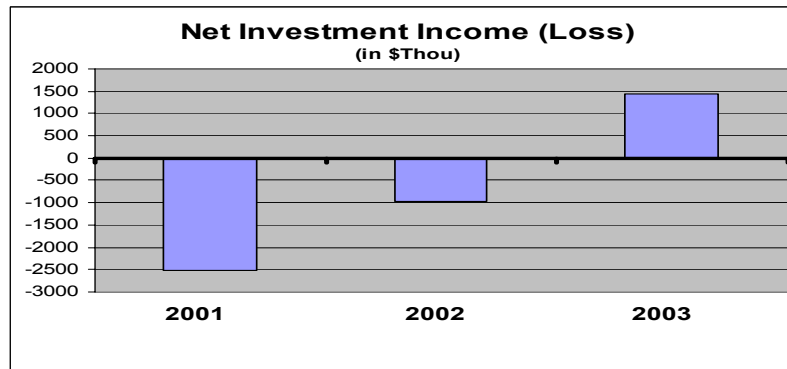
Management's Discussion and Analysis Year Ended September 30, 2003

Exhibit C



In addition, net investment income increased to \$1.4 million. This reflects a rebound in the equity and bond markets. Net investment income increased by \$2.4 million, from a loss of \$1 million in 2002 to a gain of \$1.4 million in 2003. (See Exhibit D.)

EXHIBIT D

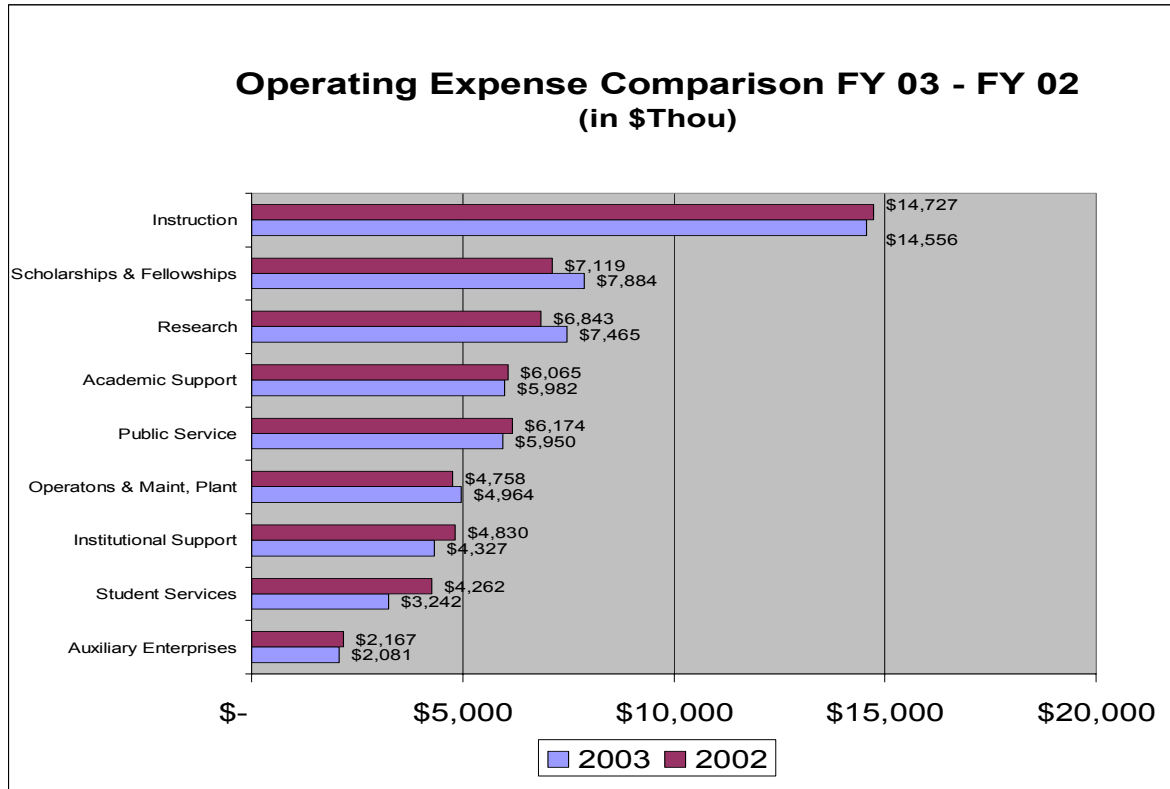


Operating expenses fell slightly as a result of cost savings measures, but were offset somewhat by the higher level of federal grant expenditures. The University spent \$28.0 million on its core mission. Of that total, 52% went to instruction, 27% to research, and 21% to public service. In addition, the University spent \$11.8 million on student aid, \$5.0 million to maintain the campus, and \$13.6 million on libraries, technology, and student, academic and administrative support. (See Exhibit E.)

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Management's Discussion and Analysis Year Ended September 30, 2003

EXHIBIT E



Although there is an increase in net assets, an operating loss appears because local government appropriations are reported as non-operating revenues rather than operating revenues. Therefore, as long as the single largest source of the University's revenues is from local government appropriations, there will be an operating loss at the current level of tuition, fees, grants and contracts. It should be noted that the operating loss is \$3.6 million less (or 12% less) than the prior year.

Highlights of the information presented include the following:

- 1) Gross student tuition and fee revenues increased by \$0.7 million with the University's strategic focus on enrollment management. After a period of decline associated with accreditation concerns, student headcount stabilized and undergraduate credit hour production increased slightly. Tuition and fees were higher due to annual 10% rate increases that are scheduled to end with AY2004-05. Even with the tuition rate increases, the University remains affordable and competitive with students' paying 45% less than those attending U.S. public universities. Encouraging signs are apparent in the increase of new full-time, first-time freshman, up 9% from Fall 2002 as a result of marketing initiatives targeted at local high school graduates.
- 2) Federal, local and private grant and contract revenues increased by \$2.0 million - a 10% increase. The University is becoming a competitive research and service institution.
- 3) Auxiliary fund balances improved over prior years. Fiscal year 2003 had a marginal loss of \$0.1 million, while fiscal year 2002 had a loss of \$0.3 million. This improvement was due to increased focus on opportunities and better financial management. The subsidy from the University's current fund was reduced.

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Management's Discussion and Analysis Year Ended September 30, 2003

- 4) Salaries and wages from local appropriations decreased by \$1.2 million or 5%. The government's financial crisis led to temporary furloughs and salary reductions and a third year without salary increments for employees on local appropriations. These were necessary, but unfortunate, actions. Despite the personal hardships, University employees sustained operations, protected student learning and preserved the University's mission during these difficult times. While the University seeks to fill essential positions in order to strengthen academic quality and institutional effectiveness, it has become increasingly difficult to recruit and retain employees under these circumstances.
- 5) Overall operating expenses decreased by \$0.4 million. Increased spending for the higher level of grants and contracts offset cost savings. Resource priorities were student learning, academic quality and the core mission. While expenses for instruction, academic support and student services decreased on an absolute basis, per student expenses nevertheless increased.
- 6) Government appropriations for operations decreased by \$2.4 million to \$28.9 million. While appropriations fell for all government services, 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. 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 post-typhoon infrastructure restoration, and other needs.

Summary Statement of Cash Flows

	<u>2003</u> (000's)	<u>2002</u> (000's)
Cash provided by (used in):		
Operating activities	\$ (23,961)	\$ (22,819)
Noncapital financing activities	29,451	26,622
Capital financing activities	(2,872)	(3,993)
Investing activities	<u>270</u>	<u>12</u>
Net change in cash and cash equivalents	2,888	(178)
Cash and equivalents – beginning of year	<u>3,268</u>	<u>3,446</u>
Cash and equivalents – end of year	\$ <u>6,156</u>	\$ <u>3,268</u>

Economic Outlook

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

The Government of Guam appears to be serious about improving governmental operations through cutting costs and reorganization 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.

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Management's Discussion and Analysis Year Ended September 30, 2003

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. However, it remains mindful of the difficult economic conditions and the limited resources currently 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.

In short, efforts continue which better align the University with its mission. Doing so will not only ensure the University's status as the only U.S. regionally and nationally accredited university in the Western Pacific, but will also allow for the University's expansion and participation in the global arena of higher education.

For further news and up-to-date information concerning the University of Guam, please visit 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, 2003 and 2002

<u>ASSETS</u>	<u>2003</u>	<u>2002</u>
Current assets:		
Cash and cash equivalents	\$ 6,156,371	\$ 3,267,770
Short-term investments	65,219	60,569
Due from Government of Guam	4,502,701	5,031,902
Tuition receivable (net of allowance for doubtful accounts of \$2,191,214 in 2003 and \$1,690,883 in 2002)	1,828,673	1,478,246
Accounts receivable - U.S. Government	1,964,565	1,321,636
Other receivables	1,188,850	1,543,692
Inventories	569,593	599,638
Other current assets	788,472	965,714
Total current assets	17,064,444	14,269,167
Noncurrent assets:		
Investments	4,433,894	4,420,618
Endowment investments	5,963,163	4,770,206
Capital assets, net of accumulated depreciation	64,447,049	66,257,268
Total noncurrent assets	74,844,106	75,448,092
Total assets	\$ 91,908,550	\$ 89,717,259
<u>LIABILITIES</u>		
Current liabilities:		
Current portion of long-term debt	\$ 253,530	\$ 253,530
Accounts payable and accrued liabilities	5,647,035	6,549,771
Deferred revenue	4,674,046	3,538,404
Total current liabilities	10,574,611	10,341,705
Noncurrent liabilities:		
Deposits held on behalf of others	3,171,577	2,852,012
Accounts payable and accrued liabilities	1,111,206	1,783,269
Long-term debt	880,135	1,083,751
Total noncurrent liabilities	5,162,918	5,719,032
Total liabilities	15,737,529	16,060,737
Commitments and contingencies		
Net assets:		
Invested in capital assets, net of related debt	62,224,662	65,115,924
Restricted:		
Nonexpendable	3,155,000	3,155,000
Expendable	3,468,863	2,572,504
Unrestricted	7,322,496	2,813,094
Total net assets	76,171,021	73,656,522
Total liabilities and net assets	\$ 91,908,550	\$ 89,717,259

See accompanying notes to financial statements.

UNIVERSITY OF GUAM

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Operating revenues:		
Student tuition and fees	\$ 10,336,923	\$ 9,684,595
Less: Scholarship discounts and allowances	<u>(3,885,619)</u>	<u>(3,761,572)</u>
	6,451,304	5,923,023
Federal grants and contracts	18,363,806	16,412,124
Government of Guam grants and contracts	1,826,387	1,610,722
Private grants and contracts	1,085,472	1,311,336
Sales and services of education department	365,313	312,699
Auxiliary enterprises	2,002,852	1,894,782
Other revenues	<u>2,903,588</u>	<u>2,355,289</u>
Total operating revenues	<u>32,998,722</u>	<u>29,819,975</u>
Operating expenses:		
Instruction	14,556,351	14,727,022
Research	7,464,930	6,842,985
Public service	5,950,344	6,174,181
Academic support	5,982,220	6,064,892
Student services	3,241,659	4,261,773
Institutional support	4,326,683	4,829,973
Operations and maintenance, plant	4,964,417	4,755,706
Depreciation	2,344,233	2,252,632
Scholarships and fellowships	7,884,285	7,118,621
Auxiliary enterprises	<u>2,080,614</u>	<u>2,167,308</u>
Total operating expenses	<u>58,795,736</u>	<u>59,195,093</u>
Operating loss	<u>(25,797,014)</u>	<u>(29,375,118)</u>
Nonoperating revenues (expenses):		
Government of Guam appropriations:		
Operations	26,395,195	28,771,408
Student financial aid program	2,527,128	2,519,575
Net investment income (expense)	1,481,624	(973,044)
Interest on capital assets - debt related	(65,065)	(75,143)
Additions to permanent endowments	70	190
Debt service - DOA bond	(2,027,439)	(2,027,797)
Transfers to various agency funds, net	<u>-</u>	<u>(99,999)</u>
Net nonoperating revenues	<u>28,311,513</u>	<u>28,115,190</u>
Net increase (decrease) in net assets	2,514,499	(1,259,928)
Net assets:		
Net assets at beginning of year	<u>73,656,522</u>	<u>74,916,450</u>
Net assets at end of year	<u>\$ 76,171,021</u>	<u>\$ 73,656,522</u>

See accompanying notes to financial statements.

UNIVERSITY OF GUAM
Statements of Cash Flows
Years Ended September 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Cash flows from operating activities:		
Student tuition and fees, net	\$ 6,315,903	\$ 6,996,368
Grants and contracts	21,983,407	21,179,149
Sales and services of education department	720,155	312,699
Auxiliary services	(77,762)	(118,338)
Other receipts	2,903,588	1,731,908
Payments to employees for salaries and benefits	(31,510,788)	(33,132,452)
Payments to suppliers and others	(16,411,566)	(12,669,293)
Payments to students for financial aid	(7,884,285)	(7,118,621)
Net cash used in operating activities	<u>(23,961,348)</u>	<u>(22,818,580)</u>
Cash flows from noncapital financing activities:		
Government of Guam appropriations	29,451,524	26,509,081
Federal reimbursements	-	112,500
Net cash provided by noncapital financing activities	<u>29,451,524</u>	<u>26,621,581</u>
Cash flows from capital and related financing activities:		
Interest paid on capital debt	(65,065)	(75,143)
Purchases of capital assets	(576,266)	(1,693,989)
Principal paid on capital debt	(2,231,055)	(2,223,734)
Net cash used in capital financing activities	<u>(2,872,386)</u>	<u>(3,992,866)</u>
Cash flows from investing activities:		
Investment income (expense)	1,481,624	(973,044)
Donation to Endowment Fund	70	190
Purchases/sales of investments	(1,210,883)	984,396
Net cash provided by investing activities	<u>270,811</u>	<u>11,542</u>
Net increase (decrease) in cash and cash equivalents	2,888,601	(178,323)
Cash and cash equivalents at beginning of year	<u>3,267,770</u>	<u>3,446,093</u>
Cash and cash equivalents at end of year	<u>\$ 6,156,371</u>	<u>\$ 3,267,770</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (25,797,014)	\$ (29,375,118)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	2,344,233	2,250,731
Change in assets and liabilities:		
Accounts receivable, net	(638,517)	1,831,797
Inventory	30,045	(4,980)
Other assets	177,242	131,124
Accounts payable and accrued liabilities	(1,532,544)	2,467,483
Deferred revenue	1,135,642	(126,407)
Deposits held on behalf of others	319,565	6,790
Net cash used in operating activities	<u>\$ (23,961,348)</u>	<u>\$ (22,818,580)</u>

See accompanying notes to financial statements.

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Notes to Financial Statements
September 30, 2003 and 2002

1. Organization

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

2. Summary of Significant Accounting Policies

A. Financial Statement Presentation. In June 1999, the 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. 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, 2003 and 2002, the University has bank balances of \$6,711,814 and \$4,224,611, respectively, of which \$6,667,914 and \$4,132,323, 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.

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

UNIVERSITY OF GUAM

Notes to Financial Statements
September 30, 2003 and 2002

2. Summary of Significant Accounting Policies, Continued

- E. Investments. The University accounts for its investments at fair value in accordance with GASB Statement No. 31, *Accounting for Financial Reporting for Certain Investments and for External Investment Pools*. 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.
- F. 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, 2003 and 2002.
- G. 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.
- H. Other Receivables. Other receivables consists primarily of auxiliary enterprise services provided to students, faculty and staff, and other departments within the University to the public. Other receivables also include amounts due from local government or private sources in relation with the performance of grants and contracts.
- I. Inventory Method. Inventory is stated at the lower of cost or market with cost being determined using the first-in, first-out method of valuation.
- J. 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.
- K. 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.
- L. 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, 2003 and 2002 is \$1,783,269 and \$2,173,042, 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.
- M. 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 waivers for 2003 and 2002 was \$80,547 and \$75,837, respectively.

UNIVERSITY OF GUAM

Notes to Financial Statements
September 30, 2003 and 2002

2. Summary of Significant Accounting Policies, Continued

N. 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.

O. Net Assets. The University's net assets are classified as follows:

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

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

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

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

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

P. 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.

UNIVERSITY OF GUAM

Notes to Financial Statements
September 30, 2003 and 2002

2. Summary of Significant Accounting Policies, Continued

- Q. 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.
- R. New Accounting Standards. For fiscal year 2004, the University will be implementing GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, and GASB Statement No. 40, *Deposit and Investment Risk Disclosures* (an amendment of GASB Statement No. 3). For fiscal year 2005, the University will be implementing GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. As of the date of the opinion, the University has not evaluated the financial statement impact of GASB Statement Nos. 39, 40 and 42.
- S. 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 the most recent actuarial valuation performed as of September 30, 2001, it has been determined that for the year ended September 30, 2003, a minimum combined employer and employee contribution rate of 41.55% (9.5% for employees and 32.05% for employer) 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 employer and employee contributions were initially set at 26% and 9.5%, respectively, by the Guam Legislature for the year ended September 30, 2003. The employer contribution rate was reduced to 18% by legislative action effective March 1, 2003. The statutory employer and employee contribution rates for the year ended September 30, 2002 were 19.8016% and 9.5%, respectively.

The plan utilized the actuarial cost method termed "entry age normal" with an assumed rate of return of 7.5% and assumed scale increase of 5.5% per annum. The actuarial valuation performed as of September 30, 2001, did not provide a breakdown of actuarial present value of vested and non-vested accumulated plan benefits by sponsor or net assets available for benefits by sponsor.

UNIVERSITY OF GUAM

Notes to Financial Statements
September 30, 2003 and 2002

2. Summary of Significant Accounting Policies, Continued

- S. Employees' Retirement Plan, Continued. 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, 2003 and 2002 are determined using the same rates as the DB plan. Of the amount contributed by the employer, only 5% of the member's regular base pay is deposited into the member's individual annuity account. The remaining amount is contributed towards the unfunded liability of the defined benefit plan.

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

Contributions to the Defined Benefit Plan and DCRS for the years ended September 30, 2003 are \$2,988,962 and \$1,431,472, 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, 2003 and 2002, the General Fund has accrued approximately \$2,757,052 and \$1,918,997, respectively, for the University's cumulative unfunded retirement liability as a result of the adoption of GASB 27.

- T. 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.
- U. 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.
- V. 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.
- W. Reclassifications. Certain account balances in 2002 have been reclassified to conform to the 2003 financial statement presentation.

UNIVERSITY OF GUAM

Notes to Financial Statements
September 30, 2003 and 2002

3. 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 five fiscal years and thereafter are shown below:

<u>Year Ending September 30,</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2004	\$ 12,750	\$ 80,000	\$ 92,750
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>38,850</u>	\$ <u>425,000</u>	\$ <u>463,850</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, 2003.

<u>Year Ending September 30,</u>	<u>Capital Lease</u>
2004	\$ 173,530
2005	173,530
2006	173,530
2007	173,530
2008	<u>130,151</u>
Total payments	824,271
Less amounts representing interest	<u>(115,606)</u>
Total obligation under capital lease	\$ <u>708,665</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, 2003 and 2002

4. Noncurrent Liabilities

Noncurrent liability activity was as follows:

	Beginning Balance September 30, 2002	Additions	Reductions	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	-
Accounts payable and accrued liabilities	<u>2,173,042</u>	<u>30,774</u>	<u>420,547</u>	<u>1,783,269</u>	<u>672,063</u>
Total other liabilities	<u>5,025,054</u>	<u>2,936,210</u>	<u>3,006,418</u>	<u>4,954,846</u>	<u>679,063</u>
Total noncurrent liabilities	<u>\$ 6,362,335</u>	<u>\$ 2,986,124</u>	<u>\$ 3,259,948</u>	<u>\$ 6,088,511</u>	<u>\$ 925,593</u>
	Beginning Balance September 30, 2001	Additions	Reductions	Ending Balance September 30, 2002	Amount due within one year
Bonds and capital lease obligations:					
Revenue bond payable	\$ 585,000	\$ -	\$ 80,000	\$ 505,000	\$ 80,000
Capital lease payable	<u>948,218</u>	<u>57,593</u>	<u>173,530</u>	<u>832,281</u>	<u>173,530</u>
Total bonds and capital lease	<u>1,533,218</u>	<u>57,593</u>	<u>253,530</u>	<u>1,337,281</u>	<u>253,530</u>
Other liabilities:					
Deposit held on behalf of others	2,427,005	2,504,537	2,079,530	2,852,012	-
Accounts payable and accrued liabilities	<u>2,201,348</u>	<u>164,164</u>	<u>192,470</u>	<u>2,173,042</u>	<u>389,773</u>
Total other liabilities	<u>4,628,353</u>	<u>2,668,701</u>	<u>2,272,000</u>	<u>5,025,054</u>	<u>389,773</u>
Total noncurrent liabilities	<u>\$ 6,161,571</u>	<u>\$ 2,726,294</u>	<u>\$ 2,525,530</u>	<u>\$ 6,362,335</u>	<u>\$ 643,303</u>

5. Student Loans

The Guam Legislature appropriates funds for the student loan program available to residents of Guam who attend institutions of higher education. The University is responsible for awarding the loans and monitoring compliance with respect to repayment. Due to the uncertainty of collection and due to recipient ability to repay the loans through work credits, student loan receivables are fully reserved in the year granted, and payments are reflected as recoveries in the year received. At September 30, 2003 and 2002, loan receivables are reserved in the amount of \$11,805,540 and \$12,028,575, respectively.

UNIVERSITY OF GUAM

Notes to Financial Statements
September 30, 2003 and 2002

6. Investments

Investments exclusive of physical plant are recorded at market value; investments received by gift are recorded at market value at the date of acquisition. Realized gains and losses are recognized in the Statement of Revenues, 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 \$9,108,438 of these investments and cash at September 30, 2003, 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>2003</u>	<u>2002</u>
Investments:		
Money market funds	\$ 543,461	\$ 380,164
U.S. Treasury and agency obligations	52,768	974,383
Common stocks	<u>3,837,664</u>	<u>3,066,071</u>
	<u>\$ 4,433,893</u>	<u>\$ 4,420,618</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, 2003 and 2002, the accumulated net earnings and appreciation on investments is \$2,963,163 and \$1,770,206, 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>2003</u>	<u>2002</u>
Endowment investments:		
Money market funds	\$ 730,903	\$ 410,228
U.S. Treasury and agency obligations	70,969	1,051,439
Common stock	<u>5,161,291</u>	<u>3,308,539</u>
	<u>\$ 5,963,163</u>	<u>\$ 4,770,206</u>

Per Guam Public Law 25-187, the UOG Higher Education Endowment Fund (Fund) was established under the custody of the Guam Economic Development and Commerce Authority (GEDCA). The source of this Fund is Tobacco Settlement Asset Backed Bonds. The Fund investments are not recorded in the accompanying financial statements as the fiduciary responsibility for these investments remains with GEDCA. GEDCA authorizes the drawdown of these funds to be used for specific University purposes. During the years ended September 30, 2003 and 2002, \$650,000 and \$455,000, respectively, was drawn down to be used for appropriate projects.

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.

UNIVERSITY OF GUAM

Notes to Financial Statements
September 30, 2003 and 2002

6. Investments, Continued

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 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, 2003 and 2002, is as follows:

	<u>2003</u>	<u>2002</u>
Interest and dividends from investments	\$ 532,603	\$ 518,521
Investment fees	(86,561)	(80,198)
Realized loss	(325,623)	(842,831)
Appreciation (depreciation) of fair value of investments, net	<u>1,361,205</u>	<u>(568,536)</u>
	<u>\$ 1,481,624</u>	<u>\$ (973,044)</u>

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

7. Capital Assets

Capital assets at September 30, 2003 and 2002 consisted of the following:

	<u>Balance September 30, 2002</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance September 30, 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>

UNIVERSITY OF GUAM

Notes to Financial Statements
September 30, 2003 and 2002

7. Capital Assets, Continued

	<u>Balance</u> <u>September 30,</u> <u>2001</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>September 30,</u> <u>2002</u>
Capital assets not being depreciated:				
Land	\$ 2,589,112	\$ -	\$ -	\$ 2,589,112
Construction in progress	<u>1,422,517</u>	<u>120,966</u>	<u>-</u>	<u>1,543,483</u>
Total capital assets not being depreciated	<u>4,011,629</u>	<u>120,966</u>	<u>-</u>	<u>4,132,595</u>
Other capital assets:				
Land improvements	320,754	-	-	320,754
Building	70,965,468	404,754	-	71,370,222
Building improvements	1,241,760	-	-	1,241,760
Equipment	6,612,864	588,294	54,051	7,147,107
Library books	<u>3,313,030</u>	<u>700,941</u>	<u>-</u>	<u>4,013,971</u>
Total other capital assets	82,453,876	1,693,989	54,051	84,093,814
Less accumulated depreciation	<u>(19,761,852)</u>	<u>(2,252,632)</u>	<u>45,343</u>	<u>(21,969,141)</u>
Other capital assets, net	<u>62,692,024</u>	<u>(558,643)</u>	<u>8,708</u>	<u>62,124,673</u>
Total capital assets, net	<u>\$ 66,703,653</u>	<u>\$ (437,677)</u>	<u>\$ 8,708</u>	<u>\$ 66,257,268</u>

8. Encumbrances

The accrual basis of accounting provides that expenses include only amounts associated with goods and services received and liabilities include only the unpaid amounts associated with such expenses. Accordingly, at September 30, 2003 and 2002, \$2,785,753 and \$3,201,352, respectively, of outstanding purchase orders and purchase commitments are not reported in the financial statements.

9. Contingencies

Litigation

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

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, 2003 and 2002, monthly payments remitted to the Government of Guam's General Fund of \$2,027,439 and \$2,027,797, respectively, are recorded as debt service - DOA bond.

UNIVERSITY OF GUAM

Notes to Financial Statements
September 30, 2003 and 2002

9. 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.

10. 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.

UNIVERSITY OF GUAM

Schedule of Salaries and Wages
Years Ended September 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Salaries and wages:		
Regular, differential and hazardous pay	\$ 23,239,950	\$ 24,372,284
Overtime pay	<u>14,193</u>	<u>111,640</u>
Total salaries and wages	<u>\$ 23,254,143</u>	<u>\$ 24,483,924</u>
 Employees paid under Government of Guam appropriations and federal matching funds.	 388 *	 419 *
 Overall employees at end of year	 646	 691

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

*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, 2003 and 2002

	<u>2003</u>		<u>2002</u>	
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Unrestricted</u>	<u>Restricted</u>
Instruction:				
Salary	\$ 9,451,407	\$ 576,321	\$ 10,036,119	\$ 489,798
Benefits	2,255,855	96,906	2,137,007	86,833
Travel	77,498	138,940	140,128	148,762
Contractual	997,994	215,164	589,619	264,978
Supplies	83,258	142,472	117,612	162,563
Equipment	34,806	116,544	87,907	138,547
Utilities	75,054	21,151	77,449	8,515
Capital outlay	-	-	250	18,000
Miscellaneous	65,823	207,158	145,285	77,650
	<u>\$ 13,041,695</u>	<u>\$ 1,514,656</u>	<u>\$ 13,331,376</u>	<u>\$ 1,395,646</u>
Research:				
Salary	\$ 654,061	\$ 2,574,858	\$ 790,004	\$ 2,601,073
Benefits	157,056	610,182	188,791	538,807
Travel	42,368	467,778	79,318	340,260
Contractual	252,001	993,923	326,063	557,375
Supplies	62,818	407,856	85,842	292,710
Equipment	26,574	245,381	45,817	269,012
Utilities	489	2,198	235	1,152
Capital outlay	53,261	297,595	32,375	234,256
Miscellaneous	11,536	604,995	24,658	435,237
	<u>\$ 1,260,164</u>	<u>\$ 6,204,766</u>	<u>\$ 1,573,103</u>	<u>\$ 5,269,882</u>
Institutional Support:				
Salary	\$ 1,852,941	\$ -	\$ 2,504,604	\$ -
Benefits	615,114	-	624,012	-
Travel	79,782	-	98,052	-
Contractual	1,526,107	-	1,304,446	-
Supplies	60,518	-	63,763	-
Equipment	27,547	-	46,717	-
Utilities	1,439	-	-	-
Capital outlay	-	-	-	-
Miscellaneous	163,235	-	139,406	48,973
	<u>\$ 4,326,683</u>	<u>\$ -</u>	<u>\$ 4,781,000</u>	<u>\$ 48,973</u>

See accompanying independent auditors' report.

UNIVERSITY OF GUAM

Schedule of Expenses by Object Category, Continued
Years Ended September 30, 2003 and 2002

	2003		2002	
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Unrestricted</u>	<u>Restricted</u>
Public Service:				
Salary	\$ 172,390	\$ 2,872,200	\$ 162,363	\$ 2,993,742
Benefits	39,224	634,188	34,408	606,393
Travel	424	458,609	-	415,584
Contractual	11,894	983,496	13,215	1,091,249
Supplies	5,735	206,406	15,323	191,577
Equipment	173	183,028	10,045	141,919
Utilities	-	19,461	-	21,515
Capital outlay	-	97,654	-	160,357
Miscellaneous	906	264,556	64,139	252,352
	<u>\$ 230,746</u>	<u>\$ 5,719,598</u>	<u>\$ 299,493</u>	<u>\$ 5,874,688</u>
Academic Support:				
Salary	\$ 3,265,250	\$ -	\$ 3,468,336	\$ -
Benefits	1,018,114	-	838,949	-
Travel	100,434	-	79,856	-
Contractual	999,484	-	951,570	-
Supplies	170,795	-	178,109	-
Equipment	219,948	9,285	476,508	-
Utilities	376	-	459	-
Capital outlay	107,248	40,896	24,967	-
Miscellaneous	50,390	-	46,138	-
	<u>\$ 5,932,039</u>	<u>\$ 50,181</u>	<u>\$ 6,064,892</u>	<u>\$ -</u>
Student Services:				
Salary	\$ 1,476,658	\$ 400,205	\$ 1,670,782	\$ 424,855
Benefits	487,805	-	441,871	-
Travel	12,876	-	34,625	-
Contractual	119,324	-	181,179	-
Supplies	44,293	-	58,031	-
Equipment	37,495	-	61,843	-
Utilities	21,257	-	58,031	-
Capital outlay	-	-	-	-
Miscellaneous	614,341	27,405	1,309,325	21,231
	<u>\$ 2,814,049</u>	<u>\$ 427,610</u>	<u>\$ 3,815,687</u>	<u>\$ 446,086</u>

See accompanying independent auditors' report.

UNIVERSITY OF GUAM

Schedule of Expenses by Object Category, Continued
Years Ended September 30, 2003 and 2002

	<u>2003</u>		<u>2002</u>	
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Unrestricted</u>	<u>Restricted</u>
Operations and Maintenance of Plant:				
Salary	\$ 1,158,692	\$ -	\$ 1,130,138	\$ -
Benefits	334,737	-	314,619	-
Travel	-	-	-	-
Contractual	993,787	-	510,148	-
Supplies	272,018	-	198,670	-
Equipment	263,493	-	-	-
Utilities	1,926,550	-	2,602,131	-
Capital outlay	14,508	-	-	-
Miscellaneous	632	-	-	-
	<u>\$ 4,964,417</u>	<u>\$ -</u>	<u>\$ 4,755,706</u>	<u>\$ -</u>
Scholarships and Fellowships:				
Salary	\$ -	\$ -	\$ -	\$ -
Benefits	-	-	-	-
Travel	-	-	-	-
Contractual	-	-	-	-
Supplies	-	-	-	-
Equipment	-	-	-	-
Utilities	-	-	-	-
Capital outlay	-	-	-	-
Miscellaneous	80,547	7,803,738	75,837	7,042,784
	<u>\$ 80,547</u>	<u>\$ 7,803,738</u>	<u>\$ 75,837</u>	<u>\$ 7,042,784</u>
Auxiliary Enterprises:				
Salary	\$ 627,907	\$ -	\$ 831,874	\$ -
Benefits	178,717	-	217,074	-
Travel	-	-	5,333	-
Contractual	90,514	-	116,196	-
Supplies	36,714	-	51,311	-
Equipment	6,153	-	15,957	-
Utilities	153,448	-	165,953	-
Capital outlay	-	-	-	-
Miscellaneous	987,161	-	763,610	-
	<u>\$ 2,080,614</u>	<u>\$ -</u>	<u>\$ 2,167,308</u>	<u>\$ -</u>

See accompanying independent auditors' report.