

UNIVERSITY OF GUAM

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

YEAR ENDED SEPTEMBER 30, 1998



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, 1998, and the related statements of changes in fund balances (deficit), 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 generally accepted auditing standards 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, 1998, and the changes in its fund balances (deficit) and its current funds revenues, expenditures and other changes for the year then ended, in conformity with generally accepted accounting principles.

During the year ended September 30, 1998, the University of Guam changed its method of accounting for investments due to adoption of GASB No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

The year 2000 supplementary information on page 14 is not a required part of the basic financial statements, but is supplementary information required by the Government Accounting Standards Board, and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because of the unprecedented nature of the year 2000 issue and its effects, and the fact that authoritative measurement criteria regarding the status of remediation efforts have not been established. In addition, we do not provide assurance that the University of Guam is or will become year 2000 compliant, that the University of Guam's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the University of Guam does business are or will become year 2000 compliant.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 20, 1999, 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.

January 20, 1999

UNIVERSITY OF GUAM

Balance Sheets
September 30, 1998
(With Comparative Balances At September 30, 1997)

CURRENT FUNDS:	<u>1998</u>	<u>1997</u>
<u>Assets</u>		
Unrestricted:		
Cash	\$ 315,500	\$ 1,139,658
Short-term investments	18,876	10,222
Investments (note 5)	280,466	138,457
Due from Government of Guam	1,218,200	309,938
Accounts receivable – U.S. Government	196,581	-
Due from other University funds	1,776,022	970,941
Tuition receivables (net of an allowance of \$1,272,930 in 1998 and \$1,103,857 in 1997)	640,502	355,097
Other receivables	826,084	519,247
Inventories	549,272	424,039
Prepaid expenses	<u>212,031</u>	<u>140,285</u>
Total unrestricted	<u>6,033,534</u>	<u>4,007,884</u>
Restricted:		
Cash	184,288	107,478
Due from Government of Guam	141,943	269,661
Accounts receivable - U.S. Government	1,710,496	1,150,168
Other receivables	98,201	104,275
Prepaid expenses	<u>93,223</u>	<u>124,590</u>
Total restricted	<u>2,228,151</u>	<u>1,756,172</u>
Total assets	<u>\$ 8,261,685</u>	<u>\$ 5,764,056</u>
<u>Liabilities and fund balance (deficit)</u>		
Unrestricted:		
Accounts payable	\$ 1,664,374	\$ 1,768,811
Accrued liabilities	3,119,263	2,542,443
Deferred revenue	5,225,091	3,745,148
Fund deficit	<u>(3,975,194)</u>	<u>(4,048,518)</u>
Total unrestricted	<u>6,033,534</u>	<u>4,007,884</u>
Restricted:		
Accounts payable	3,208	3,775
Accrued liabilities	476,848	544,885
Due to other University funds	1,965,414	1,008,204
Fund balance (deficit)	<u>(217,319)</u>	<u>199,308</u>
Total restricted	<u>2,228,151</u>	<u>1,756,172</u>
Total liabilities and fund balance (deficit)	<u>\$ 8,261,685</u>	<u>\$ 5,764,056</u>

Commitments and contingencies (notes 6, 9 and 10)

See accompanying notes to financial statements.

UNIVERSITY OF GUAM

Balance Sheets, Continued September 30, 1998 (With Comparative Balances At September 30, 1997)

	<u>1998</u>	<u>1997</u>
LOAN FUNDS:		
<u>Assets</u>		
Due from other University funds	\$ 466,392	\$ 636,111
Accounts receivable - U.S. Government	65,762	106,871
Notes receivable (net of an allowance of \$12,803,434 in 1998 and \$14,004,949 in 1997) (note 4)	48,206	55,109
Other receivables	<u>108,470</u>	<u>-</u>
Total assets	\$ <u>688,830</u>	\$ <u>798,091</u>
<u>Liabilities and fund balance</u>		
Fund balance	\$ <u>688,830</u>	\$ <u>798,091</u>
Total liabilities and fund balance	\$ <u>688,830</u>	\$ <u>798,091</u>
 ENDOWMENT FUNDS (note 7):		
<u>Assets</u>		
Cash	\$ 876,473	\$ 506,118
Short-term investments	63,983	63,983
Investments (note 5)	10,780,728	8,875,148
Due from other University funds	9,857	-
Accrued interest receivable	<u>2,088</u>	<u>7,102</u>
Total assets	\$ <u>11,733,129</u>	\$ <u>9,452,351</u>
<u>Liabilities and fund balance</u>		
Due to other University funds	\$ -	\$ 33,550
Fund balance	<u>11,733,129</u>	<u>9,418,801</u>
Total liabilities and fund balance	\$ <u>11,733,129</u>	\$ <u>9,452,351</u>

See accompanying notes to financial statements.

UNIVERSITY OF GUAM

Balance Sheets, Continued September 30, 1998 (With Comparative Balances At September 30, 1997)

PLANT FUNDS:	<u>1998</u>	<u>1997</u>
<u>Assets</u>		
Unexpended:		
Cash	\$ 1,041	\$ 1,017
Due from other University funds	555,212	320,154
Accounts receivable - U.S. Government	59	890
Interest receivable	<u>1,464</u>	<u>1,464</u>
Total unexpended plant funds	<u>557,776</u>	<u>323,525</u>
Renewals and replacements:		
Cash	<u>864,821</u>	<u>396,783</u>
Total renewals and replacements	<u>864,821</u>	<u>396,783</u>
Retirement of indebtedness:		
Cash	<u>53,618</u>	<u>509,316</u>
Total retirement of indebtedness	<u>53,618</u>	<u>509,316</u>
Investment in plant:		
Escrow deposit (note 9)	1,146,880	-
Construction work-in-progress	549,972	419,301
Equipment	6,408,780	5,610,319
Buildings	70,993,972	68,274,953
Land	2,589,112	2,589,112
Land improvement	70,754	70,754
Library books	<u>1,826,250</u>	<u>1,738,327</u>
	83,585,720	78,702,766
Accumulated depreciation	<u>13,743,519</u>	<u>11,913,952</u>
Total investment in plant, net	<u>69,842,201</u>	<u>66,788,814</u>
Total assets	\$ <u>71,318,416</u>	\$ <u>68,018,438</u>

See accompanying notes to financial statements.

UNIVERSITY OF GUAM

Balance Sheets, Continued September 30, 1998 (With Comparative Balances At September 30, 1997)

PLANT FUNDS, CONTINUED:	<u>1998</u>	<u>1997</u>
<u>Liabilities and fund balance</u>		
Unexpended:		
Accounts payable	\$ 206,762	\$ 192,400
Fund balance	<u>351,014</u>	<u>131,125</u>
Total unexpended plant funds	<u>557,776</u>	<u>323,525</u>
Renewals and replacements:		
Accounts payable	17,704	7,762
Fund balance	<u>847,117</u>	<u>389,021</u>
Total renewals and replacements	<u>864,821</u>	<u>396,783</u>
Retirement of indebtedness:		
Fund balance	<u>53,618</u>	<u>509,316</u>
Total retirement of indebtedness	<u>53,618</u>	<u>509,316</u>
Investment in plant:		
Due to other University funds	842,069	885,452
Bonds payable (note 3)	805,000	875,000
Obligations under capital lease (note 9)	1,254,583	-
Investment in plant	<u>66,940,549</u>	<u>65,028,362</u>
Total investment in plant	<u>69,842,201</u>	<u>66,788,814</u>
Total liabilities and fund balance	\$ <u>71,318,416</u>	\$ <u>68,018,438</u>

See accompanying notes to financial statements.

UNIVERSITY OF GUAM

Statement of Current Funds Revenues, Expenditures and Other Changes Year Ended September 30, 1998

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Revenues:			
Tuition and fees	\$ 6,859,095	\$ -	\$ 6,859,095
Government of Guam appropriations	29,529,211	2,702,827	32,232,038
Federal grants and contracts	543,672	8,097,012	8,640,684
Government of Guam grants and contracts	-	1,324,605	1,324,605
Private gifts, grants and contracts	854,858	1,339,385	2,194,243
Endowment income	1,072,573	-	1,072,573
Sales and services of auxiliary enterprises	2,226,588	-	2,226,588
Other sources	<u>1,717,715</u>	<u>294,184</u>	<u>2,011,899</u>
Total current revenues	<u>42,803,712</u>	<u>13,758,013</u>	<u>56,561,725</u>
Expenditures and mandatory transfers:			
Education and general:			
Instruction	14,576,934	1,361,078	15,938,012
Research	1,586,079	4,213,203	5,799,282
Public service	120,032	5,155,851	5,275,883
Academic support	5,872,973	982	5,873,955
Student services	2,645,592	409,131	3,054,723
Institutional support	7,042,366	-	7,042,366
Operation and maintenance of plant	4,751,896	-	4,751,896
Scholarships and fellowships	<u>44,137</u>	<u>4,494,564</u>	<u>4,538,701</u>
Educational and general expenditures	<u>36,640,009</u>	<u>15,634,809</u>	<u>52,274,818</u>
Mandatory transfers for:			
Restricted fund matching grants	<u>1,876,796</u>	<u>(1,876,796)</u>	<u>-</u>
Total educational and general	38,516,805	13,758,013	52,274,818
Auxiliary enterprises:			
Expenditures	2,255,838	-	2,255,838
Mandatory transfers for:			
Principal and interest	96,250	-	96,250
Renewals and replacements	144,191	-	144,191
Government of Guam bonds (note 8)	<u>2,027,613</u>	<u>-</u>	<u>2,027,613</u>
Total expenditures and mandatory transfers	<u>43,040,697</u>	<u>13,758,013</u>	<u>56,798,710</u>
Other transfers and additions/(deductions):			
Excess of restricted receipts over transfers to revenue	-	274,213	274,213
Net appreciation in fair value of investments	37,753	-	37,753
Non-mandatory transfers, net	<u>272,556</u>	<u>(690,840)</u>	<u>(418,284)</u>
	<u>310,309</u>	<u>(416,627)</u>	<u>(106,318)</u>
Net increase (decrease) in fund balances for the year	\$ <u>73,324</u>	\$ <u>(416,627)</u>	\$ <u>(343,303)</u>

See accompanying notes to financial statements.

UNIVERSITY OF GUAM

Statement of Changes In Fund Balances (Deficit) Year Ended September 30, 1998

	Current Funds			Endowment Funds	Plant Funds			
	Unrestricted Funds	Restricted Funds	Loan Funds		Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment In Plant
Revenues and other additions:								
Unrestricted current funds revenues	\$ 41,731,139	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Government of Guam appropriations-restricted	-	2,977,040	482,960	-	-	-	-	-
Government of Guam contracts-restricted	-	1,324,605	-	-	-	-	-	-
Federal grants and contracts-restricted	-	8,097,012	1,512,809	-	88,752	-	-	-
Private gifts, grants and contracts-restricted	-	1,339,385	-	-	-	-	-	-
Other restricted receipts	-	294,184	4,545	-	24	1,001	-	-
Endowment income	1,072,573	-	-	-	-	-	-	-
Recovery on student loans and miscellaneous receipts	-	-	539,026	-	-	-	-	-
Expended for plant facilities (charged to current funds expenditure)	-	-	-	-	-	-	-	897,434
Retirement of indebtedness	-	-	-	-	-	-	-	92,969
Total revenues and other additions	<u>42,803,712</u>	<u>14,032,226</u>	<u>2,539,340</u>	<u>-</u>	<u>88,776</u>	<u>1,001</u>	<u>-</u>	<u>990,403</u>
Expenditures and other deductions:								
Educational and general expenditures	36,640,009	15,634,809	-	-	-	-	-	-
Auxiliary enterprise expenditures	2,255,838	-	-	-	-	-	-	-
Loans and scholarships awarded	-	-	1,995,770	-	-	-	-	-
Plant repairs and maintenance	-	-	-	-	139,957	99,411	-	-
Depreciation of plant facilities	-	-	-	-	-	-	-	1,840,617
Investment fees	-	-	-	164,565	-	-	-	-
Retirement of indebtedness	-	-	-	-	-	-	92,969	-
Interest on indebtedness	-	-	-	-	-	-	46,664	-
Disposal of plant facilities	-	-	-	-	-	-	-	-
Total expenditures and other deductions	<u>38,895,847</u>	<u>15,634,809</u>	<u>1,995,770</u>	<u>164,565</u>	<u>139,957</u>	<u>99,411</u>	<u>139,633</u>	<u>1,840,617</u>
Transfers among funds-additions/(deductions):								
Mandatory:								
Principal and interest	(96,250)	-	-	-	-	-	96,250	-
Renewals and replacements	(144,191)	-	-	-	-	144,191	-	-
Government of Guam bonds (note 8)	(2,027,613)	-	-	-	-	-	-	-
Contributed capital (note 8)	-	-	-	-	-	-	-	2,990,089
Restricted fund matching grants	(1,876,796)	1,876,796	-	-	-	-	-	-
Net appreciation (depreciation) of fair value of investments (note 5)	37,753	-	-	(1,108,692)	-	-	-	-
Non-mandatory transfers, net	<u>272,556</u>	<u>(690,840)</u>	<u>(652,831)</u>	<u>1,027,733</u>	<u>271,070</u>	<u>412,315</u>	<u>(412,315)</u>	<u>(227,688)</u>
Total transfers	<u>(3,834,541)</u>	<u>1,185,956</u>	<u>(652,831)</u>	<u>(80,959)</u>	<u>271,070</u>	<u>556,506</u>	<u>(316,065)</u>	<u>2,762,401</u>
Net increase (decrease) for the year	73,324	(416,627)	(109,261)	(245,524)	219,889	458,096	(455,698)	1,912,187
Cumulative effect of a change in accounting principles (note 2)	-	-	-	2,559,852	-	-	-	-
Beginning fund balance (deficit)	<u>(4,048,518)</u>	<u>199,308</u>	<u>798,091</u>	<u>9,418,801</u>	<u>131,125</u>	<u>389,021</u>	<u>509,316</u>	<u>65,028,362</u>
Ending fund balance (deficit)	\$ <u>(3,975,194)</u>	\$ <u>(217,319)</u>	\$ <u>688,830</u>	\$ <u>11,733,129</u>	\$ <u>351,014</u>	\$ <u>847,117</u>	\$ <u>53,618</u>	\$ <u>66,940,549</u>

See accompanying notes to financial statements..

UNIVERSITY OF GUAM

Notes to Financial Statements September 30, 1998

1. Organization

Administrative autonomy was granted to the University of Guam (the University) with the enactment of Public Law 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, non-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. Change in Accounting Principles. The University adopted Statement No. 31 of the Governmental Accounting Standards Board (GASB No. 31), *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, effective for the year ended September 30, 1998, which among other provisions, resulted in a change from reporting investments at cost to reporting investments at fair value. This adoption resulted in a cumulative effect of a change in accounting principles of \$2,559,852 reflected in the Endowment Funds.
- C. Cash. Cash includes cash on hand, cash in banks and money market accounts and time certificates of deposit with original maturities of less than ninety days.

At September 30, 1998, the University has cash balances in banks of \$1,332,649 of which \$201,040 and \$661,764 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.
- 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.

UNIVERSITY OF GUAM

Notes to Financial Statements
September 30, 1998

2. Summary of Significant Accounting Policies, Continued

- 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.
- H. Employees' Retirement Plan. Employees of the University hired before September 30, 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 new Defined Contribution Retirement System (DCRS). Until 1998, those employees who are members of the Defined Benefit Plan with less than 20 years of service at September 30, 1995, have the option to switch to the Defined Contribution Retirement System. Otherwise, they remain under the old plan.

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, 1995, it has been determined that for the year ended September 30, 1998, a minimum combined employer and employee contribution rate of 28.1% 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 18.6%, respectively, for the year ended September 30, 1998. The effect of the University's prior year accruals for its share of pension underfunding reduces the actuarially determined employer contribution rate from 18.6% to an effective rate of 15.345% for the year ended September 30, 1998. In recognition of the above, an accrual reduction of 3.255% of covered payroll is necessary to reduce the unfunded liability based on the difference between the effective rate of 15.345% and the employer's statutory rate of 18.6%.

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 6.5% per annum. The most recent actuarial valuation performed as of September 30, 1995, 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 18.6% 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 13.6% is contributed towards the unfunded liability of the defined benefit plan.

Members of the DCRS who have completed five years of government service, and have attained the age of 55 years at termination, have a vested balance of 100% of both member and employer contributions plus any earnings thereon. Members who have completed five years of service, but have not attained the age of 55, are eligible only for the amount of member contributions plus any earnings thereon.

UNIVERSITY OF GUAM

Notes to Financial Statements
September 30, 1998

2. Summary of Significant Accounting Policies, Continued

H. Employees' Retirement Plan, Continued

Contributions for the year ended September 30, 1998 are \$4,812,014.

The University historically accounted for all unfunded retirement fund liabilities entirely within the Current Unrestricted Funds. However, as a result of Public Law #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. As of September 30, 1998, the General Fund has accrued approximately \$13,735,734 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 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, 1998

2. Summary of Significant Accounting Policies, Continued

- K. Estimates. The preparation of financial statements in conformity with generally accepted accounting principles 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 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 next succeeding five fiscal years and thereafter are shown below:

<u>Fiscal Year</u>	<u>Amount</u>
1999	\$ 70,000
2000	75,000
2001	75,000
2002	80,000
2003	80,000
2004 and thereafter	<u>425,000</u>
	\$ <u>805,000</u>

UNIVERSITY OF GUAM

Notes to Financial Statements September 30, 1998

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, 1998, loan receivables are reserved in the amount of \$12,803,434.

5. Investments

Investments exclusive of physical plant are recorded at market; 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 \$11,960,500 of these investments and cash are accounted for on a pooled basis. The University employs the share method of accounting for pooled investments and for proportionate distribution of income 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 #3.

The University's demand and time deposits are non-categorized investments in accordance with GASB #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 #3 as being uncollateralized.

UNIVERSITY OF GUAM

Notes to Financial Statements September 30, 1998

6. Encumbrances

Encumbrances representing outstanding purchase orders and other commitments for materials and services not received as of September 30, 1998, are presented below:

Unrestricted Current Funds	\$ 997,777
Restricted Current Funds	785,576
Unexpended Plant Fund	<u>1,543,558</u>
	<u>\$ 3,326,911</u>

7. Composition of Endowment Funds

The composition of the endowment funds as of September 30, 1998, and the changes in fund balances for the year then ended are as follows:

	Fund 71-UOG Pure Endowment (LGRE)	Fund 73-UOG Pure Endowment (GOVGUAM)	Fund 79-UOG Quasi- Endowment (Others)	Fund 72-UOG Quasi- Endowment	Totals
Cash	\$ 584,880	\$ 20,454	\$ 40,549	\$ 230,590	\$ 876,473
Time certificates of deposit	-	-	63,983	-	63,983
Investments	7,194,103	251,581	498,753	2,836,291	10,780,728
Due from (to) other University funds	-	(70)	9,927	-	9,857
Accrued interest receivable	<u>-</u>	<u>-</u>	<u>2,088</u>	<u>-</u>	<u>2,088</u>
Fund balance	<u>7,778,983</u>	<u>271,965</u>	<u>615,300</u>	<u>3,066,881</u>	<u>11,733,129</u>
Fund balance, September 30, 1997	6,206,914	217,028	506,953	2,487,906	9,418,801
Other additions (deductions):					
Investment fees	(109,539)	(3,836)	(7,616)	(43,574)	(164,565)
Net appreciation in fair value of investments	968,376	33,865	67,135	381,784	1,451,160
Net transfers from other University funds	<u>713,232</u>	<u>24,908</u>	<u>48,828</u>	<u>240,765</u>	<u>1,027,733</u>
	<u>1,572,069</u>	<u>54,937</u>	<u>108,347</u>	<u>578,975</u>	<u>2,314,328</u>
Fund balance, September 30, 1998	<u>\$ 7,778,983</u>	<u>\$ 271,965</u>	<u>\$ 615,300</u>	<u>\$ 3,066,881</u>	<u>\$ 11,733,129</u>

8. Contributed Capital

Billings for construction projects funded by the proceeds of a Government of Guam general obligation bond are recorded as contributed capital by the University of Guam (see note 11). Monthly payments remitted to the Government of Guam's General Fund are recorded as mandatory transfers out. During the year ended September 30, 1998, the University's construction billings from and payments to the General Fund are \$2,990,089 and \$2,027,613, respectively.

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Notes to Financial Statements September 30, 1998

9. Capital Lease Commitments

In November 1997, the University entered into a ten year capital lease agreement to obtain equipment for the energy conservation project. The lessor originally deposited \$1,227,551 in an escrow account to fund the acquisition of the equipment (carried at \$1,146,880 at September 30, 1998). Obligations under the capital lease consist of the following at September 30, 1998.

<u>Year Ending September 30,</u>	<u>Capital Lease</u>
1999	\$ 173,530
2000	173,530
2001	173,530
2002	173,530
2003	173,530
2004 and thereafter	<u>824,273</u>
Total payments	1,691,923
Less amounts representing interest	<u>(437,340)</u>
Total obligation under capital lease	\$ <u>1,254,583</u>

10. Contingencies

Litigation

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

General Obligation Bonds

In October 1993, the Government of Guam issued \$175 million general obligation bonds to fund the construction of certain educational facilities with \$28 million being earmarked for certain construction projects at the University of Guam. The University is mandated by Public Law No. 22-19 to establish a bond fund and deposit all tuition revenues in the bond fund. Monthly remittances are transferred by the bond fund to the Government of Guam's General Fund to cover the University's proportionate share of principal and interest payments of the bond (See note 8).

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.

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Supplementary Year 2000 Issue Information September 30, 1998

The year 2000 issue is the result of shortcomings in many electronic data processing systems and other electronic equipment that may adversely affect the University's operations as early as fiscal year 1999. The University has identified computer systems and other electronic equipment, which may be affected by the year 2000 issue and has not yet determined the cost to upgrade such systems. The University is currently in the remediation stage of addressing the Y2K issues.

Because of the unprecedented nature of the year 2000 issue, its effects and success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the University is or will be year 2000 ready, that the University's remediation efforts will be successful in whole or in part, or that parties with whom the University does business will be year 2000 ready.

See Accompanying Independent Auditors' Report.