

**UNIVERSITY OF GUAM
(A COMPONENT UNIT OF THE
GOVERNMENT OF GUAM)**

**FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2013 AND 2012

UNIVERSITY OF GUAM
(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)

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Years Ended September 30, 2013 and 2012

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INDEPENDENT AUDITORS' REPORT

The Board of Regents
University of Guam:

Report on the Financial Statements

We have audited the accompanying financial statements of the University of Guam (the University) and its discretely presented component unit, collectively a component unit of the Government of Guam, as of and for the years ended September 30, 2013 and 2012, and which collectively comprise the University's basic financial statements as set forth in Section II of the forgoing table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions 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. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the University and its discretely presented component unit as of September 30, 2013 and 2012, and the respective changes in financial position and cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 12 as well as the Schedule of Funding Progress and Actuarial Accrued Liability-Post Employment Benefits Other than Pension on page 38 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Financial Information

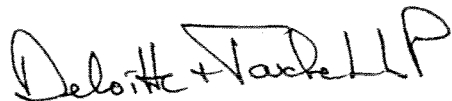
Our audits were conducted for the basic purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. The schedules of salaries, wages and benefits and the schedules of expenses by object category on pages 40 through 43 and the schedules of total revenue information on page 45 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules of salaries, wages and benefits and the schedules of expenses by object category are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the comparative schedule of salaries, wages and benefits, schedule of expenses by object category, and schedule of total revenue information are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The schedule of employee information on page 44 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 24, 2014, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.



Tamuning, Guam

February 24, 2014

UNIVERSITY OF GUAM
(A Component Unit of the Government of Guam)

Management's Discussion and Analysis
Years Ended September 30, 2013 and 2012

INTRODUCTION

Management's discussion and analysis (MD&A) provides an overview and better understanding of the University's financial position and the results of activities for the fiscal year ended September 30, 2013. Management has prepared this overview as a required supplemental information to the financial statements and the footnotes that follow. This MD&A should be read in conjunction with the financial statements and accompanying footnotes.

The University. Public Law 13-194, The Higher Education Act of 1976, established the University as a non-membership, non-profit, public corporation under a Board of Regents appointed by the Governor with the advice and consent of the Guam Legislature. We are a public, open-admissions, four-year, land-grant institution on Guam in the Marianas Islands and have been continuously accredited by the Western Association of Schools and Colleges (WASC). Our 3,836 students (Fall'13) are multicultural, multilingual and 51% Pacific Islander, 41% Asian, 4% White/Non-Hispanic, and 4% other. We offer 15 master's, 34 bachelor's and one nursing associates degree programs. Continuing education, professional development and English language training are available. Our 840 employees include 176 full-time faculty, 33 administrators and 628 full-and-part-time staff and faculty adjuncts.

The Leadership. The University is governed by a nine-member Board of Regents (the Board). W. Chris Perez MD is the Board Chairperson; William Leon Guerrero is Vice Chairperson; Marcos Fong is Treasurer and audit committee chair; Robert A. Underwood, Ed.D., is the University's 10th President; Anita Borja Enriquez, DBA, is Interim Senior Vice President for Academic and Student Affairs; David M. O'Brien is Vice President for Administration and Finance; John Peterson, Ph.D., is Assistant Vice President for Graduate Studies, Sponsored Programs and Research; and Zeny Asuncion Nace is Comptroller. There is an elected Faculty Senate.

The University is focused on its mission of *Ina, Diskubre, Setbe (to Enlighten, to Discover, to Serve)* and on its core commitments: i) academic quality; ii) student success, enrollment growth, retention, and institutional visibility; iii) community engagement; and iv) institutional effectiveness and efficiency. Under the leadership of President Underwood, we have embarked on a Good to Great (G2G) process as an expansion of the Leading Change initiative and have two other identified initiatives: the Natural Choice and UOG Green.

THE FINANCIAL STATEMENTS

The report includes three financial statements: i) the Statement of Net Position; ii) the Statement of Revenues, Expenses and Changes in Net Position; and iii) the Statement of Cash Flows. They are prepared in accordance with Governmental Accounting Standards Board (GASB) principles, which establish standards for external financial reporting for colleges and universities. The fiscal year ends September 30.

The University is reported as a component unit of the Government of Guam (GovGuam). We also report the financial statements of our component unit, the UOG Endowment Foundation, Inc. (the Foundation). The Foundation is a legally separate, tax-exempt, private corporation, whose fiscal year ends December 31. While the University does not control the Foundation, the resources and income of the Foundation can only be used for the University's benefit.

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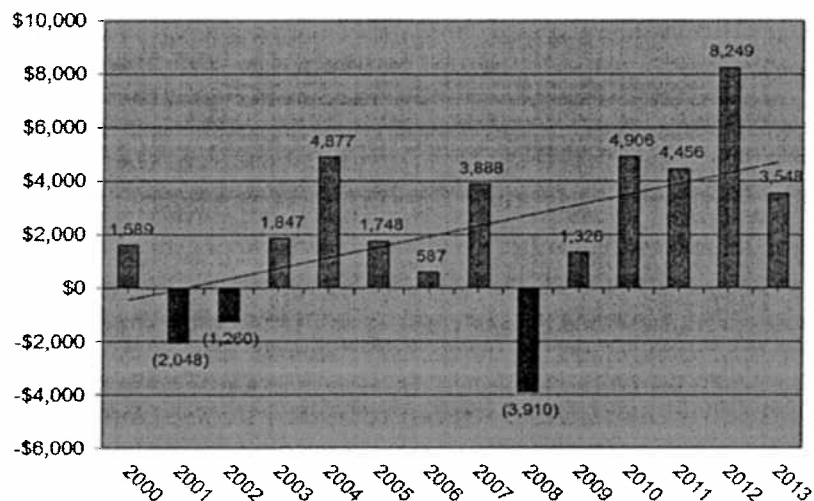
Management's Discussion and Analysis
 Years Ended September 30, 2013 and 2012

FY2013 FINANCIAL HIGHLIGHTS AND STRATEGIC INSTITUTIONAL OUTCOMES

One of the most important questions in evaluating the financial health of an institution is whether the financial position has improved or deteriorated as a result of the year's operations. For FY13, the University's net position increased by \$3.5 million, which is 3.7% of consolidated revenues. The increase in net position is \$4.7 million less than last year's \$8.2 million increase, which included \$6.5 million of one-time ARRA capital projects. The primary factors for the FY13 increase are the following:

- \$2.7 million is due to investment gains, most of which are unrealized, result from marking the investment portfolio to market, and do not generate current cash flows.
- After accounting for investment gains, there was an \$0.8 million surplus from ongoing operations. This is due to tight expense management within the revenues appropriated and generated.

CHANGE IN NET POSITION (SURPLUS, DEFICIT IN \$000'S)



Important financial trends include:

- There has been a financial surplus in ten of the last eleven years, averaging \$3 million and 3.5% of revenues. This has bolstered financial reserves, established by Board policy as a best practice for stability and long-term viability. Adequate reserves are increasingly important in a period marked by institutional growth, economic challenges, and a changing higher education environment.
- Over the past eleven years, revenues have grown an average of 4.5% per annum. We are now a \$95 million revenue organization. This is down from FY12, which was inflated by one-time revenues from the ARRA grant. The University generates 64% of revenues; while GovGuam provides 36%.
- Grants and contracts were \$39 million.
- Expenses have been held in check, even with increased enrollment, explosive growth in grant spending, stepped-up facility maintenance, merit-based salary increments, and utility and retirement rate hikes.

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Management's Discussion and Analysis
Years Ended September 30, 2013 and 2012

Significant institutional outcomes that affect financial statements and resources include:

- With support of the Guam Legislature and the Governor, the University has held tuition rates the same for five years. This shows the community's commitment to higher education access and affordability.
- Fall'13 student enrollment (headcount) of 3,836 is the second highest ever. Fall'13 FTE enrollment was a record 3,853 students, reflecting the increase in student credit hours.
- 503 undergraduate and graduate degrees were conferred in Academic Year'12-13. Alumni now number 14,300. They are the professional backbone and leadership of our island and the region.
- Academic quality is evidenced by primary accreditation for eight (8) years from the Western Association of Schools and Colleges (WASC) and by secondary accreditation for the professional schools. After reviewing the 2013 Interim Report, WASC praised the University for our financial improvements, collaborative campus culture, presidential leadership, open communications and efforts in enrollment management, program review, and assessment.
- In 2013, the University embarked on a Good-to-Great initiative. A process of program prioritization and resource allocation is well underway to realize our potential to be a great university with great programs. We are focused on our mission, our purpose and our dynamic role in the social, economic and political development of our region.

STATEMENT OF NET POSITION

The statement of net position is similar to a balance sheet. It presents information on assets, liabilities and the resources remaining after liabilities are satisfied. The statement is an indicator of overall financial condition, and whether financial health has improved or deteriorated during the fiscal year.

SUMMARY STATEMENTS OF NET POSITION (IN \$000's)

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Current and Other Assets	\$ 63,070	\$ 60,759	\$ 52,910
Capital Assets	<u>71,993</u>	<u>71,103</u>	<u>68,528</u>
Total Assets	\$ <u>135,063</u>	\$ <u>131,862</u>	\$ <u>121,438</u>
Other Liabilities	\$ 17,631	\$ 17,835	\$ 15,440
Long-term Debt Outstanding	<u>12,253</u>	<u>12,396</u>	<u>12,616</u>
Total Liabilities	<u>29,884</u>	<u>30,231</u>	<u>28,056</u>
Net Investment in Capital Assets	60,710	58,707	55,913
Restricted	8,201	7,296	6,270
Unrestricted	<u>36,268</u>	<u>35,628</u>	<u>31,199</u>
Total Net Position	<u>105,179</u>	<u>101,631</u>	<u>93,382</u>
Total Liabilities & Net Position	\$ <u>135,063</u>	\$ <u>131,862</u>	\$ <u>121,438</u>

Since FY11, the overall financial condition has strengthened each year. Total net position, which is the residual interest in assets net of liabilities, grew to \$105.2 million, a \$3.5 million increase (3.5%) over FY12 and an \$11.8 million increase (12.6%) over FY11.

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In FY13, net position grew over the prior two years due to increases in assets, particularly cash, investments and capital assets. Receivables decreased substantially with an improved collections system. Liabilities remained the same compared to FY12, but increased over FY11. Current assets covered current liabilities (including unearned revenue) 2.55 times, a positive liquidity indicator.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

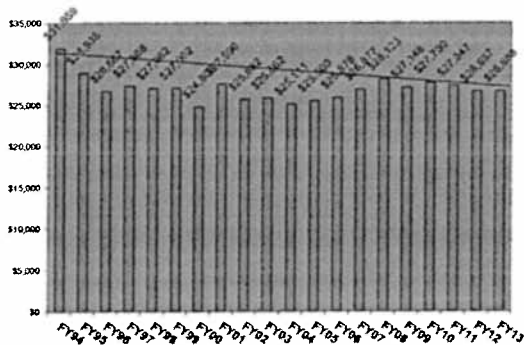
The statement of revenues, expenses and changes in net position provides details of operating and non-operating revenues and expenditures, similar to an income statement.

SUMMARY STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (IN \$000'S)

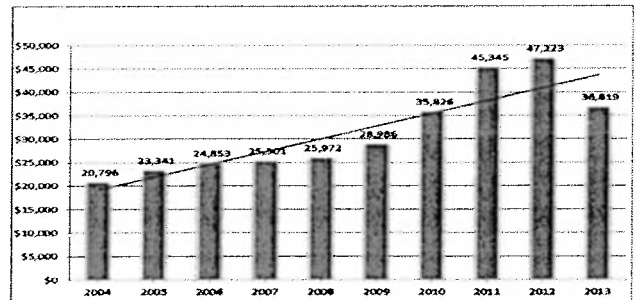
	<u>2013</u>	<u>2012</u>	<u>2011</u>
Net Operating Revenues	\$ 56,728	\$ 62,365	\$ 65,773
Total Operating Expenses	<u>88,585</u>	<u>95,629</u>	<u>93,049</u>
Operating Revenues Net of Operating Expenses ¹	(31,857)	(33,264)	(27,276)
Non-Operating and Other Revenues and Expenses	34,013	34,985	30,621
Capital Contribution	<u>1,392</u>	<u>6,528</u>	<u>1,112</u>
Increase in Net Position	3,548	8,249	4,457
Net Position – Beginning of Year	<u>101,631</u>	<u>93,382</u>	<u>88,925</u>
Net Position – End of Year	\$ <u>105,179</u>	\$ <u>101,631</u>	\$ <u>93,382</u>

Net operating revenues were \$57 million, a \$5.4 million decrease (-9%) from FY12 and a \$8.8 million decrease (-13%) from FY11. This is primarily due to completion of the ARRA grant and changes in bad debt recoveries/provisions. Grants and contracts fell compared to both years, offset in part to increases in other income related to programs and fees. There was a \$2 million (-8%) GovGuam allotment holdback in FY13. Investment income was \$2.7 million (primarily unrealized), reflecting a second year of substantial equity gains. University-generated revenues are now 64% of consolidated revenues (excluding investments, debt provisions, healthcare); while GovGuam appropriations are 36%.

**GENERAL OPERATIONS APPROPRIATION -
 GOVGUAM PUBLIC LAW (IN \$000'S)
 (EXCLUDES ALLOTMENT HOLDBACKS)**



**FEDERAL GRANTS AND CONTRACTS REVENUE
 (IN \$000'S)**



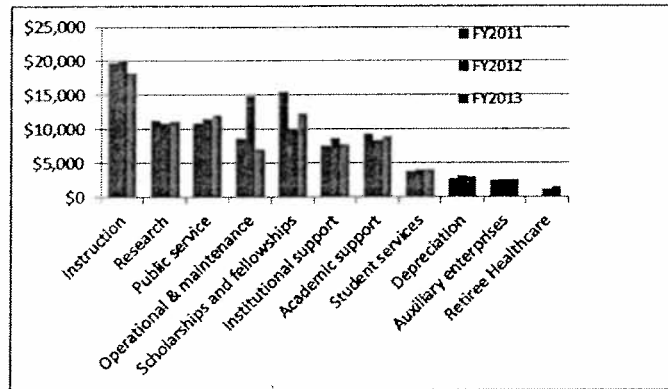
¹ Operating Revenues Net of Operating Expense is negative, because local government appropriations are reported as non-operating revenues rather than operating revenues under GASB 35 reporting requirements

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Operating expenses decreased \$6.8 million (-7%) from FY12 and \$4.2 million (-4.5%) from FY11, primarily due to the completion of expensed ARRA renovations. The University spent \$41.5 million directly on its core mission. Of that, 44% went to instruction, 29% to public service and 27% to research. Fall Semester'12 federal student financial aid awards were delayed, resulting in higher scholarship discounts/allowances and scholarship expense in FY13. Encumbrances (recorded obligations) were \$5.4 million, comparable to FY12 and substantially less than FY11.

OPERATIONS EXPENSE (IN \$000'S)



STATEMENT OF CASH FLOWS

This statement provides information about the ability to generate cash flows needed to meet financial obligations and the extent to which external financing is being used to fund operations.

STATEMENTS OF CASH FLOW (IN \$000'S)

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Cash Provided by (Used in):			
Operating Activities	\$ (26,004)	\$ (26,822)	\$ (25,252)
Non-capital Financing Activities	38,052	34,802	29,147
Capital and Financing Activities	(5,561)	(3,168)	(4,879)
Investing Activities	<u>(1,358)</u>	<u>(831)</u>	<u>1,873</u>
Net Change in Cash and Cash Equivalents	5,129	3,981	889
Cash and Equivalents – Beginning of Year	<u>10,216</u>	<u>6,235</u>	<u>5,346</u>
Cash and Equivalents – End of Year	\$ <u>15,345</u>	\$ <u>10,216</u>	\$ <u>6,235</u>

In FY13, cash increased by \$5.1 million from FY12 and by \$9.1 million from FY11. GovGuam allotments were paid in a more timely fashion and the appropriations receivable fell over \$5 million, when compared to each of the two prior years. However, GovGuam held a permanent reserve of \$2 million (-8%) in FY13 compared to the prior average of \$1.2 million.

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The cash position at fiscal year-end is normally higher than the cash position during the year. This is because Fall semester tuition payments are booked at fiscal year-end, and the government makes catch-up allotment payments close to fiscal year-end. Tuition revenues are subsequently allocated for academic expenses during the remainder of the academic year, which overlaps the fiscal year. Financial planning requires that there be an adequate amount of cash on hand at the start of the new fiscal year to pay for prior year encumbrances, insurance premiums, infrastructure and operating needs. Board policy requires cash reserves for financial stability and long-term viability. A reserve fund and sub-accounts were established and funded in FY09-12 and further funding from FY13 will be assessed.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets: At the end of FY13, the University had invested \$121 million in capital assets. This represents an increase in net capital assets (including additions and deletions) of \$5.0 million or 5% over the previous year. The University had accrued \$48 million in accumulated depreciation against the assets. Net capital assets were \$73 million, a increase from the prior year's \$71.1 million. Capital asset additions in FY13 amounted to \$3.9 million, which included \$1.2 million in costs associated with the construction of a new Student Services Center and \$1.3 million in acquisition of air conditioning equipment. See Note 5 to the financial statements for additional information.

Long-Term Debt: The University has a note payable that is outstanding with the United States Department of Agriculture (USDA). The note payable was created in October 2001 through Public Law 26-48 for an amount not to exceed \$13.5 million for the purpose of constructing certain facilities on campus. As of September 30, 2013 and 2012, the University had a long-term debt of \$12.3 million and \$12.4 million, respectively, decreases are associated with principal retirement. See Note 6 to the financial statements for additional information.

ECONOMIC AND OTHER FACTORS EXPECTED TO AFFECT THE UNIVERSITY ²

2013: Stability with Positive Prospects

In 2013, the U.S. economy showed increasing strength, ramping up in the third and fourth quarters and offsetting a weak start to the year. The excitement was in the equity markets, which soared broadly and fed on the Federal Reserve's accommodative monetary policy. The S&P 500 delivered a banner year of 30% returns. Even with the stimulus, inflation remained tame and below Federal targets. Employment increased, as did home prices, sales and construction. Consumers spent at pre-recession levels. Corporate profits and stocks hit records. The U.S. dollar strengthened and the country became less dependent on foreign oil. Still, labor markets lagged behind the overall recovery with official unemployment at 6.7%. This official rate does not reflect the substantial underemployment and the many long-term unemployed, who have stopped job-seeking. After several strong years, U.S. fixed income returns were flat to negative and the yield curve was positive and steep, reflecting higher interest rate expectations and the Fed's announcement of easing its bond purchases.

2. With thanks for their input, perspectives and forecasts to; i) Gary Hiles, Chief Economist, Guam Department of Labor, "Economic Outlook FY15" as well as "The Unemployment Situation on Guam: September 2012"; ii) Dr. Maria Claret Ruane, Professor of Economics at the School of Business and Public Administration and Resident Development Economist, Pacific Center for Economic Initiatives, University of Guam, "Economic Forecast, 2012-2013 Guam-CNMI Edition," copyrighted by First Hawaiian Bank, and "Guam Economic Forecast 2013", prepared for Standard & Poor's; iii) John Rios, Director of Bureau of Budget and Management Research, Government of Guam; and iv) Boak, Josh, <http://www.businessweek.com/ap/2014-01-28/state-of-the-us-economy-strongest-since-recession>, January 2014; vi) Moore, Brendan, <http://www.gallup.com/poll/166784/economic-indicators-improve-2013.aspx>, January 2014.

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The Guam economy stabilized. Tourism increased substantially, rebounding in the key Japanese market after the 2011 earthquake and tsunami. As a result, hotel occupancy and room rates are higher. The military build-up has been resuscitated after many delays and uncertainties. Employment increased, but unemployment remains high. Construction looks promising with high building permit levels and the return of the military build-up. Private construction is carrying the day with a private hospital, two hotels, a convention center and a shopping mall underway. GovGuam bond issues were favorably received by markets and rating agencies, reflecting positive changes in the economy and fiscal management. The administration paid overdue and current tax refunds and overtime payments, injecting substantial sums into the economy. For FY13 GovGuam expects a second straight General Fund operational surplus following FY12's \$30 million surplus. These results are significant improvements over at least eight years of prior deficits, including FY11's \$303 million deficit (audited).

2014: Cautious Optimism

Many factors point to a continued U.S. economic recovery in 2014 - the Federal stimulus, even if at a slower pace; renewed consumer spending; steady improvement in employment/unemployment; and increased sales and prices in more housing markets. Nevertheless, headwinds remain with volatility in global equity markets; weakening emerging markets, especially China; the U.S. debt ceiling and budget disagreements; the cost and buy-in on health care and immigration reform; income and job opportunity inequalities; and strongly partisan political maneuvering. Consumer spending and confidence, which are key economic drivers, are expected to benefit from wealth effects associated with the record stock market, increased home prices and still low mortgage interest rates, and very low inflation. Presidential action on a higher minimum wage and income inequalities will tell. The U.S. economy will likely be affected by stronger growth in Western Europe and by negative investor and monetary authority concerns over the impact of U.S. stimulus tapering on the emerging economies.

The rate of economic growth is forecast to lessen for regional economies important to Guam. While still strong, the growth in China and South Korea is cooling. Taiwan's economy has cooled even more.

The Japanese economy, coming off a strong 2013, has benefitted from commitments to re-inflate the yen and from bold-for-Japan monetary stimulus efforts. Exports will benefit from a falling yen. North Korea and the Chinese-Japanese-Philippine land disputes are still wild cards for the region.

Guam's economy shows promise - Guam Visitor Bureau's tourism forecasts are favorable, the government is attending to fiscal discipline and deficit reduction, and long strides have been taken with the U.S. and Japan in regards to the military build-up. Japanese tourism, which underpins the island's tourism economy, is likely to be affected by a much stronger U.S. dollar impacting tourism growth and spending. While not at the level once expected with the military build-up, a solid level of military construction projects and federal appropriations is forecast. GovGuam has committed to working with the U.S. and Japan in regards to the military buildup, which now looks to be funded with the actions of the Japanese government and with the U.S. 2014 National Defense Authorization Act. The Calvo-Tenorio administration has implemented tough 10% allotment controls for FY14, less than last year's 15%, but substantially higher than the 3% average in prior years. General Fund revenues are trending up. Significant financial challenges and policy issues remain: the implementation and funding of the General Pay Plan salary increases for government employees (based on recent Hay Study); pension plans and funding; substantial government debt and debt service obligations; and questions about the sufficiency of appropriation and allotment payments related to Guam Memorial Hospital and Guam Department of Education.

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University of Guam: Good-to-Great Underway

In 2013 the University community celebrated its 61st Anniversary and conferred its 14,296th degree. The Capital Campaign received several substantial donations, including \$3 million from the Calvo Foundation, our largest donation.

President Underwood has fully engaged the institution in a Good-to-Great process (G2G). We are a good university with good programs. A data-driven process of program prioritization and resource allocation is well underway to realize our potential to be a great university with great programs by focusing on our mission, our purpose and our dynamic role in the social, economic and political development of our region. At a time of financial challenges in the U.S. and Guam, this means making difficult program decisions, reviewing resource allocation priorities, and aligning all activities with our mission and core purpose in a sustainable way. To lead change and drive economic growth, the University will educate the region's professional class, build new capacity through community outreach, seek innovation through research, and develop initiatives that empower the economy.

The process is already well underway in building the Great UOG.

- Faculty, staff and administrators have assessed all academic and administrative programs based on their relationship to the core mission, financial performance, market demand and quality. The programs will be evaluated and ranked based on data and reports submitted. Executive management and the President will then make decisions on program priorities, sustainability and resource allocations. The President will review the final G2G plan with the Board of Regents in May 2014.
- The Governor and Guam Legislature provided \$2.8 million of tuition support in FY13 and FY14 under PL31-276, enabling a five-year run without increases. Further appropriations support will be sought in lieu of a 10% tuition increase for AY14-15. Higher education on Guam remains a good value with the University's tuition at ~60% of the public university average.
- PL31-237 gave control of locally funded student financial aid to the University. The President will take proposals to the Board of Regents in 2014 that tailor awards to policy areas of access, affordability, performance, retention and degree completion.
- PL32-114 established the Research Corporation of the University of Guam. RCUOG will be a more flexible vehicle for driving the island's economy by growing federal grants and contracts and developing businesses from intellectual property and patents.
- PL32-68 has removed University appropriations from GovGuam allotment control, which has been set at 10% for FY14. The University, Governor's Office, Department of Administration, and Bureau of Budget and Management Research have a positive record of working closely together and planning ahead in managing our appropriation payments.
- The University has applied for a U.S. National Science Foundation Experimental Program to Stimulate Competitive Research grant (EPSCoR) to develop research capacity. We also are seeking renewal of the National Institute of Health cancer grant in partnership with the University of Hawaii.
- The 2013 Interim Accreditation Report was submitted to WASC, who noted, "There is much to praise including: significant improvements in the financial situation; a campus culture of collaboration and shared governance; strong presidential leadership; open, transparent and ongoing communication to constituents; and success in enrollment management, program review, and assessment efforts. The University of Guam is to be commended for these accomplishments."

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Years Ended September 30, 2013 and 2012

- Students continue to take advantage of opportunities such as courses at California's Scripps Institute and Japan's Meio University through agreements that partner the University with the world's premiere ocean and earth science institute and with several regional universities.
- UOG Vision 2025 lays out the 21st century Physical Master Plan to accommodate 5,000 Tritons on-campus and another 5,000 on-line. It is the plan that will be funded through the University's Capital Campaign, which has generated ~\$7 million. The Governor and Speaker of the Legislature are the campaign's honorary chairs and are working with the President and UOG Endowment Foundation.
- U.S. Department of Agriculture's approval is expected in early 2014 for financing a Student Services Center and Engineering Sciences Annex. The \$21.7 million of USDA low-cost financing through the Rural Development Community Facilities Program will enable an one-stop student services center and set the stage for a School of Engineering. PL32-120 committed the funding. We are moving forward on these facilities in partnership with the UOG Endowment Foundation. Groundbreaking is targeted before year-end.
- The \$18 million of projects, which were funded under the federal ARRA grant, now provide new technologies, new equipment, new IT systems and a renovated physical infrastructure. Additionally, U.S. Department of Interior has awarded \$7 million for energy sustainability and for renovation and expansion of the Fieldhouse and School of Nursing and Health Sciences building. The University is bolstering its financial reserves, which will be another funding source to maintain facilities.

In summary, change is underway – there's optimism and opportunity tempered by fiscal reality. We will be responsive to the challenges our island societies face to develop a great and sustainable University that protects our environment and enhances the quality of our lives.

For further news and up-to-date information concerning the University of Guam, please visit the website at www.uog.edu for our annual report, financial statements, WASC reports and other publications.

UNIVERSITY OF GUAM
(A Component Unit of the Government of Guam)

Statements of Net Position - University Only
September 30, 2013 and 2012

	2013	2012
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 15,344,800	\$ 10,215,789
Short-term investments	10,025,720	8,561,733
Due from Government of Guam	724,992	6,115,359
Tuition receivable, net of an allowance for doubtful accounts of \$2,463,415 in 2013 and \$3,416,847 in 2012	6,040,123	4,846,466
Due from the US Federal government	3,555,120	6,287,675
Due from University of Guam Endowment Foundation, Inc.	50,000	-
Other receivables, net of an allowance for doubtful accounts of \$435,640 in 2013 and \$417,420 in 2012	1,495,423	1,581,096
Inventories	635,004	488,335
Other current assets	175,260	301,915
Total current assets	38,046,442	38,398,368
Noncurrent assets:		
Restricted cash and cash equivalents	3,966,478	3,851,756
Investments	9,901,032	8,865,948
Endowment investments	11,155,790	9,643,037
Depreciable capital assets, net of accumulated depreciation	67,539,924	68,170,723
Nondepreciable capital assets	4,453,775	2,932,362
Total noncurrent assets	97,016,999	93,463,826
	\$ 135,063,441	\$ 131,862,194
<u>Liabilities and Net Position</u>		
Current liabilities:		
Current portion of long-term debt	\$ 201,557	\$ 192,704
Accounts payable and accrued liabilities	6,284,441	7,199,982
Unearned revenues	7,203,397	6,638,847
Current portion of accrued annual leave	1,219,805	1,118,564
Total current liabilities	14,909,200	15,150,097
Noncurrent liabilities:		
Long-term debt, net of current portion	12,051,906	12,203,319
Deposits held on behalf of others	27,098	63,791
Accrued annual leave, net of current portion	547,416	726,234
DCRS sick leave liability	2,349,317	2,088,199
Total noncurrent liabilities	14,975,737	15,081,543
Total liabilities	29,884,937	30,231,640
Net position:		
Net investment in capital assets	60,709,624	58,707,062
Restricted, nonexpendable	5,126,907	5,126,907
Restricted, expendable	3,073,586	2,168,394
Unrestricted	36,268,387	35,628,191
Total net position	105,178,504	101,630,554
	\$ 135,063,441	\$ 131,862,194

See accompanying notes to financial statements.

UNIVERSITY OF GUAM ENDOWMENT FOUNDATION, INC.
(A Component Unit of the University of Guam)

Statements of Financial Position
December 31, 2012 and 2011

<u>ASSETS</u>	<u>2012</u>	<u>2011</u>
Cash and cash equivalents	\$ 438,639	\$ 510,200
Pledges receivable, net of an allowance for doubtful accounts of \$43,784 and \$26,325 at December 31, 2012 and 2011, respectively	683,000	348,309
Equipment, net	14,773	11,755
Investment in Bank of Guam stock	191,053	191,053
Investments in securities	<u>7,291,005</u>	<u>7,099,019</u>
	<u>\$ 8,618,470</u>	<u>\$ 8,160,336</u>
<u>LIABILITIES AND NET ASSETS</u>		
Liabilities:		
Accounts payable and accrued expense	\$ 48,411	\$ 42,231
Due to University of Guam	<u>-</u>	<u>304,316</u>
Total liabilities	<u>48,411</u>	<u>346,547</u>
Net assets:		
Unrestricted	935,113	535,057
Temporarily restricted	7,120,173	6,766,977
Permanently restricted	<u>514,773</u>	<u>511,755</u>
Total net assets	<u>8,570,059</u>	<u>7,813,789</u>
	<u>\$ 8,618,470</u>	<u>\$ 8,160,336</u>

See accompanying notes to financial statements.

UNIVERSITY OF GUAM
(A Component Unit of the Government of Guam)

Statements of Revenues, Expenses and Changes in Net Position - University Only
Years Ended September 30, 2013 and 2012

	2013	2012
Operating revenues:		
Student tuition and fees	\$ 21,016,827	\$ 21,860,683
Less scholarship discounts and allowances	(11,027,395)	(9,138,640)
	9,989,432	12,722,043
Federal grants and contracts	35,395,513	40,694,251
Government of Guam grants and contracts	1,537,817	1,864,290
Private grants and contracts	1,075,066	1,054,053
Sales and services of education department	569,157	578,030
Auxiliary enterprises	2,286,103	2,216,440
Other revenues	4,941,196	4,397,496
	55,794,284	63,526,603
Total operating revenues		
Bad debts recovery (provision)	933,494	(1,161,036)
Net operating revenues	56,727,778	62,365,567
Operating expenses:		
Instruction	18,224,257	20,098,681
Public service	12,061,816	11,579,437
Research	11,173,773	10,948,816
Operational and maintenance, plant	7,107,205	14,862,076
Scholarships and fellowships	12,275,318	10,067,221
Institutional support	7,780,564	8,667,247
Academic support	8,864,964	8,439,982
Student services	4,048,494	4,082,511
Depreciation	3,027,205	3,116,418
Auxiliary enterprises	2,545,790	2,617,231
Retiree healthcare costs	1,475,808	1,149,539
	88,585,194	95,629,159
Total operating expenses		
Operating loss	(31,857,416)	(33,263,592)
Nonoperating revenues (expenses):		
Government of Guam appropriations:		
Operations	27,013,374	27,788,915
Student financial aid program	3,599,358	3,599,358
Guam Cancer Trust Fund	1,548,741	2,308,635
Capital expenditure loan repayment	500,000	500,000
Retiree healthcare costs	1,475,808	1,149,539
Net investment income	2,653,848	2,647,660
Loss on abandoned capital projects	-	(232,049)
Interest on capital assets - debt related	(573,081)	(530,281)
Debt service - DOA bond	(2,204,682)	(2,247,590)
	34,013,366	34,984,187
Total nonoperating revenues, net		
Capital contributions	1,392,000	6,528,416
Increase in net position	3,547,950	8,249,011
Net position at beginning of year	101,630,554	93,381,543
Net position at end of year	\$ 105,178,504	\$ 101,630,554

See accompanying notes to financial statements.

UNIVERSITY OF GUAM ENDOWMENT FOUNDATION, INC.
(A Component Unit of the University of Guam)

Statement of Activities
Year Ended December 31, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other income (losses):				
Net investment income	\$ 442,760	\$ -	\$ -	\$ 442,760
Contributions	65,408	64,463	-	129,871
In-kind donations	110,875	-	-	110,875
Fundraising activities	231,980	850,976	-	1,082,956
Grants	-	10,000	-	10,000
Others	3,740	(6,862)	6,862	3,740
Net assets released from restrictions:				
Satisfaction of program restrictions	565,381	(565,381)	-	-
Total revenues, gain and other income (losses)	1,420,144	353,196	6,862	1,780,202
Expenses and losses:				
Program services:				
Donations for debt service - UOG	200,000	-	-	200,000
Scholarships	44,185	-	-	44,185
Total program services	244,185	-	-	244,185
Support services:				
Management and general	345,834	-	3,844	349,678
In-kind expenses	110,875	-	-	110,875
Fundraising activities	319,194	-	-	319,194
Total support services	775,903	-	3,844	779,747
Total expenses and losses	1,020,088	-	3,844	1,023,932
Increase in net assets	400,056	353,196	3,018	756,270
Net assets at beginning of year	535,057	6,766,977	511,755	7,813,789
Net assets at end of year	\$ 935,113	\$ 7,120,173	\$ 514,773	\$ 8,570,059

See accompanying notes to financial statements.

UNIVERSITY OF GUAM ENDOWMENT FOUNDATION, INC.
(A Component Unit of the University of Guam)

Statement of Activities
Year Ended December 31, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other income (losses):				
Net investment losses	\$ (55,035)	\$ (14,572)	\$ -	\$ (69,607)
Contributions	5,880	211,240	-	217,120
In-kind donations	139,672	4,395	-	144,067
Fundraising activities	373,442	94,207	-	467,649
Grants	-	75,672	-	75,672
Others	6,453	(11,653)	11,653	6,453
Net assets released from restrictions:				
Satisfaction of program restrictions	635,394	(635,394)	-	-
Total revenues, gain and other income (losses)	<u>1,105,806</u>	<u>(276,105)</u>	<u>11,653</u>	<u>841,354</u>
Expenses and losses:				
Program services:				
Donations for debt service - UOG	200,000	-	-	200,000
Scholarships	15,238	-	-	15,238
Total program services	<u>215,238</u>	<u>-</u>	<u>-</u>	<u>215,238</u>
Support services:				
Management and general	319,740	-	1,297	321,037
In-kind expenses	144,067	-	-	144,067
Fundraising activities	302,961	-	-	302,961
Total support services	<u>766,768</u>	<u>-</u>	<u>1,297</u>	<u>768,065</u>
Total expenses and losses	<u>982,006</u>	<u>-</u>	<u>1,297</u>	<u>983,303</u>
Increase (decrease) in net assets	123,800	(276,105)	10,356	(141,949)
Net assets at beginning of year	<u>411,257</u>	<u>7,043,082</u>	<u>501,399</u>	<u>7,955,738</u>
Net assets at end of year	<u>\$ 535,057</u>	<u>\$ 6,766,977</u>	<u>\$ 511,755</u>	<u>\$ 7,813,789</u>

See accompanying notes to financial statements.

UNIVERSITY OF GUAM
(A Component Unit of the Government of Guam)

Statements of Cash Flows - University Only
Years Ended September 30, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Student tuition and fees, net	\$ 10,293,819	\$ 10,829,616
Grants, contracts and appropriations	40,740,952	43,539,972
Sales and services of education department	569,157	578,030
Auxiliary services	2,286,102	2,216,440
Other receipts	5,066,831	5,212,146
Payments to suppliers and employee for education and general expenses	(72,685,533)	(79,131,320)
Payments to students for financial aid	(12,275,318)	(10,067,221)
Net cash used for operating activities	(26,003,990)	(26,822,337)
Cash flows from non-capital related financing activities:		
Government of Guam appropriations collected	38,051,840	34,802,013
Cash flows from capital and related financing activities:		
Capital contributions received	1,392,000	6,528,416
Changes in restricted cash	(114,722)	(775,116)
Interest paid on capital debt	(573,081)	(530,281)
Principal paid on capital debt	(2,347,242)	(2,467,369)
Purchases of capital assets	(3,917,818)	(5,923,188)
Net cash used for capital and related financing activities	(5,560,863)	(3,167,538)
Cash flows from investing activities:		
Proceeds from sale and maturities of investments	8,939,836	3,126,006
Investment income	613,842	741,812
Purchases of investments	(10,911,654)	(4,698,927)
Net cash used for investing activities	(1,357,976)	(831,109)
Net change in cash and cash equivalents	5,129,011	3,981,029
Cash and cash equivalents, beginning of year	10,215,789	6,234,760
Cash and cash equivalents, end of year	\$ 15,344,800	\$ 10,215,789

Supplemental information on noncash activities:

During the years ended September 30, 2013 and 2012, the University recorded appropriations of \$1,475,808 and \$1,149,539, respectively, for retiree healthcare costs paid by the Government of Guam on behalf of the University.

In 2012, the University incurred a \$232,049 loss from abandoned CIP projects recorded in previous years.

See accompanying notes to financial statements.

UNIVERSITY OF GUAM
(A Component Unit of the Government of Guam)

Statements of Cash Flows - University Only, Continued
Years Ended September 30, 2013 and 2012

	2013	2012
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	\$ (31,857,416)	\$ (33,263,592)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	3,027,205	3,116,418
Bad debts (recovery) provision	(933,494)	1,161,036
Retiree healthcare costs	1,475,808	1,149,539
Changes in assets and liabilities:		
Receivables, net	2,508,064	(1,462,385)
Inventories	(146,669)	67,293
Other current assets	126,655	14,285
Accounts payable, accrued liabilities and deposits held for others	(952,234)	1,670,599
Accrued annual leave	(77,577)	7,174
DCRS sick leave liability	261,118	368,198
Unearned revenues	564,550	349,098
Net cash used for operating activities	\$ (26,003,990)	\$ (26,822,337)

See accompanying notes to financial statements.

UNIVERSITY OF GUAM
(A Component Unit of the Government of Guam)

Notes to Financial Statements
September 30, 2013 and 2012

1. Organization and Basis of Presentation

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.

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 35, as amended by GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, provides a comprehensive, entity-wide perspective of the University's assets, liabilities, net position, revenues, expenses, changes in net position, and cash flows, and replaces the fund-group perspective previously required.

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.

Reporting Entity

The University of Guam Endowment Foundation (the Foundation) is a legally separate, tax-exempt entity which meets the criteria set forth for component units under GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. The Foundation provides financial support for the objectives, purposes and programs of the University. Although the University does not control the timing, purpose, or amount of receipts from the Foundation, the resources (and income thereon) that the Foundation holds and invests are restricted to the activities of the University. Because the resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and its Statements of Net Position and Statements of Activities and Statements of Cash Flows are separately presented in the University's financial statements. In addition, the Foundation's significant notes are summarized in Note 2.W below.

The Foundation is a private organization that reports under Financial Accounting Standards Board (FASB) standards, including FASB Accounting Standards Codification Topic ASC 958 ("ASC 958"). As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the University's financial reporting entity for these differences.

UNIVERSITY OF GUAM
(A Component Unit of the Government of Guam)

Notes to Financial Statements
September 30, 2013 and 2012

1. Organization and Basis of Presentation, Continued

Reporting Entity, Continued

The Foundation's fiscal year end is December 31. Copies of the Foundation's report can be obtained by contacting the Foundation or visit its website at www.uogendowment.org.

2. Summary of Significant Accounting Policies

- A. Cash and Cash Equivalents. Cash and cash equivalents include cash on hand, cash in banks, money market accounts and time certificates of deposit with original maturities of three months or less.
- B. Restricted Cash and Cash Equivalents. Cash and cash equivalents that are restricted to make debt service payments and purchases or enhance learning resources materials and technology are classified as noncurrent assets in the Statement of Net Position.
- C. Use of Restricted/Unrestricted Net Position. When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the University's policy is to apply restricted net position first.
- D. Short-term Investments. Short-term investments include time certificates of deposit with original maturities of more than three months.
- E. Investments. The University accounts for its investments at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Realized gains and losses are recognized upon disposition, while unrealized gains and losses on the carrying value of investments are reported as a part of net investment income in the Statement of Revenues, Expenses and Changes in Net Position.
- F. Accounts Receivable. Accounts receivable consist of tuition and fee charges to students and charges for auxiliary enterprise services provided to students, faculty and staff. Accounts receivable also includes amounts due from U.S. Federal agencies for various federal grant awards as well as amounts due from GovGuam for local appropriations. Accounts receivable are recorded net of an estimated allowance for doubtful accounts, an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectibility of these accounts and prior collection experience. The allowance is established through a provision for bad debts charged to expense.
- G. Due from Government of Guam. Due from Government of Guam consists of the remaining balance of legislative annual appropriations and student financial aid funding that have not been received at September 30, 2013 and 2012.
- H. Accounts Receivable - U.S. Federal 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.
- I. Other Receivables. Other receivables consist primarily of auxiliary enterprise services provided to students, faculty, staff, other departments within the University, and to the public. Other receivables also include amounts due from the local government or private sources in relation to the performance of grants and contracts.

UNIVERSITY OF GUAM
(A Component Unit of the Government of Guam)

Notes to Financial Statements
September 30, 2013 and 2012

2. Summary of Significant Accounting Policies, Continued

- J. Inventory. Inventory is stated at the lower of cost, determined using the first-in, first-out method, or market.
- K. 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 their 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.
- L. Unearned Revenues. Unearned revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent fiscal year. Unearned revenues also include amounts received from grant and contract sponsors that have not yet been earned.
- M. Compensated Absences. Compensated absences are accrued and reported as liability in the period earned. Annual leave expected to be paid out within the next fiscal year is accrued and included in current liabilities. All annual leave credit is convertible to pay upon termination of employment. The maximum accumulation amount of annual leave is limited to 320 hours. Pursuant to Public Law 27-106, employees who have accumulated annual leave in excess of 320 hours as of February 28, 2003, may carry over their excess and shall use the excess amount of leave prior to retirement or termination from service. Any unused leave over 320 hours shall be lost upon retirement. Public Law 26-86 allows members of the Defined Contribution Retirement System to receive a lump sum payment of one-half of their accumulated sick leave upon retirement.
- N. Grants-in-Aid. Tuition and fees revenue includes grants-in-aid charged to scholarship and fellowship expense for senior citizens, faculty, staff and their dependents. The total of these grants for 2013 and 2012 was \$276,868 and \$290,137, respectively.
- O. Noncurrent Liabilities. Noncurrent liabilities include (1) long-term debt with contractual maturities greater than one year, and (2) estimated amounts for accrued compensated absences, sick leave and other liabilities that will not be paid within the next fiscal year.
- P. Net Position. The University's net position is classified as follows:

Net Investment in Capital Assets - 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 - Expendable - Restricted expendable net position includes resources that the University is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Restricted - Nonexpendable - Nonexpendable restricted net position consisting 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.

UNIVERSITY OF GUAM
(A Component Unit of the Government of Guam)

Notes to Financial Statements
September 30, 2013 and 2012

2. Summary of Significant Accounting Policies, Continued

P. Net Position., Continued

Unrestricted Net Position - Unrestricted net position represents resources derived from student tuition and fees, state appropriations, sales and services of educational departments and auxiliary enterprises, and indirect revenue on federal grants. 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 students, faculty and staff.

Q. Classification of Revenues. The University has classified its revenues as either operating or nonoperating according to the following criteria:

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 - 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 local government appropriations and investment income.

R. 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 Position. 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 useful to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance.

S. Financial Assistance Revenue. Government of Guam appropriations designated for student financial assistance programs are made annually for the period from October 1 to September 30. As certain restrictions are placed on these funds, revenue is realized only to the extent that such funds are expended for current purposes.

T. Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the statement of net position and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

UNIVERSITY OF GUAM
(A Component Unit of the Government of Guam)

Notes to Financial Statements
September 30, 2013 and 2012

2. Summary of Significant Accounting Policies, Continued

U. Risk Management. The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The University has elected to purchase commercial insurance from independent third parties for the risks of loss to which it is exposed. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three years.

V. Economic Dependency. The University is dependent on ongoing appropriations from the Government of Guam.

W. UOG Endowment Foundation Pledges Receivable and Investments

UOG Endowment Foundation Pledges Receivable:

Pledges receivable consist of donations pledged to the Foundation, but not yet received as of December 31, 2012 and 2011. These pledges are payable in installments over periods ranging from one to forty-three years. Unconditional promises to give that are expected be collected for future years are recorded at the present value of the estimated future cash flows. Amortization of discount will be included in contribution revenue. Management of the Foundation is of the opinion that the net outstanding balance is collectible in subsequent fiscal years and has reserved for all other long-term receivables.

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

	<u>2012</u>	<u>2011</u>
SBPA (School of Business and Public Administration) Building	\$ 210,438	\$ 317,548
60 th Anniversary Capital Campaign	474,228	-
Other	<u>42,118</u>	<u>57,086</u>
	726,784	374,634
Less: allowance for doubtful accounts	<u>(43,784)</u>	<u>(26,325)</u>
	<u>\$ 683,000</u>	<u>\$ 348,309</u>

UOG Endowment Foundation Investments:

The investment portfolio shall be diversified incorporating fixed income and equity holdings. The purpose of diversification is to provide reasonable assurance that no single security (investment) or class of securities (investments) will have a disproportionate or significant impact in the portfolio. The Foundation has selected investment managers who are given authority to buy and sell securities. No investment shall be made in investments that are less than investment grade which is defined as rated BBB or better. Fixed income investments primarily consist of US Treasury Notes, US Government Bonds and Corporate Bonds.

UNIVERSITY OF GUAM
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Notes to Financial Statements
September 30, 2013 and 2012

2. Summary of Significant Accounting Policies, Continued

W. UOG Endowment Foundation Pledges Receivable and Investments, Continued

Investments are carried at fair market values. Gains and losses on investments are reported in the statements of activities as increases or decreases in unrestricted net position unless their use is temporarily or permanently restricted by explicit donor stipulations or by law. The composition of investments in securities as of December 31, 2012 and 2011, is as follows:

	<u>2012</u>	<u>2011</u>
Cash	\$ 134,497	\$ 188,265
Equities	500,668	4,465,292
Fixed income	70,611	2,333,182
Mutual funds	<u>6,585,229</u>	<u>112,280</u>
	<u>\$ 7,291,005</u>	<u>\$ 7,099,019</u>

The composition of net gains (losses) on investments in securities for the years ended December 31, 2012 and 2011, is as follows:

	<u>2012</u>	<u>2011</u>
Net unrealized losses	\$ (215,975)	\$ (514,065)
Net realized gains	469,468	312,830
Interest income	251,930	210,234
Dividends	12,307	12,307
Other expenses, net	<u>(74,970)</u>	<u>(90,913)</u>
	<u>\$ 442,760</u>	<u>\$ (69,607)</u>

Investments also include 23,392 shares of stock in Bank of Guam (BOG) of which 19,892 shares were recorded at published market values as of December 31, 2004, before the shares were removed from the public market. The remaining 3,500 BOG shares were recorded at cost. Dividends received from these shares will be used for scholarship purposes and/or repurchase of additional Bank of Guam stock as it is available for sale within weighted average/market price. The BOG shares contain no restrictions and are classified as unrestricted net assets.

X. New Accounting Standards. During the year ended September 30, 2013, the University implemented the following pronouncements:

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addressed how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, which improved financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The implementation of this statement did not have a material effect on the accompanying financial statements.

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Notes to Financial Statements
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2. Summary of Significant Accounting Policies, Continued

X. New Accounting Standards, Continued

- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which enhanced the usefulness of its Codification by incorporating guidance that previously could only be found in certain FASB and American Institute of Certified Public Accountants (AICPA) pronouncements issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements. GASB Statement No. 62 superseded GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which established guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. These Statements amend the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. With the implementation of GASB Statement No. 63 and Statement No. 65, the Statement of Net Assets was renamed the Statement of Net Position. In addition, the Statement of Net Position includes two new classifications separate from assets and liabilities. Amounts reported as deferred outflows of resources are reported in a separate section following assets. Likewise, amounts reported as deferred inflows of resources are reported in a separate section following liabilities.

In April 2012, GASB issued Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of the University.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans, and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements on the financial statements of the University.

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Notes to Financial Statements
September 30, 2013 and 2012

2. Summary of Significant Accounting Policies, Continued

X. New Accounting Standards, Continued

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of these statements on the financial statements of the University.

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The provisions in Statement 70 are effective for fiscal years beginning after June 15, 2013. Management has not yet determined the effect of implementation of these statements on the financial statements of the University.

3. Deposits and Investments

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

Legally authorized investments are as follows:

(i) General Guidelines

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

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Notes to Financial Statements
September 30, 2013 and 2012

3. Deposits and Investments, Continued

f. The following securities and transactions are not authorized without prior written approval from the University: letter stock and other unregistered securities; non-negotiable securities; commodities or other commodity contracts; options; futures; short sales; and margin transactions.

(ii) U.S. Fixed Income

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

(iii) Equities

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

(iv) Cash and Cash Equivalents

- a. Cash equivalent reserves shall consist of cash instruments having a quality rating of A-1, P-1 or their equivalent. U.S. Treasury and Agency securities, Bankers Acceptances, Certificates of Deposit and Collateralized Repurchase Agreements are also acceptable investment vehicles. Custodial Sweep Accounts must be, in the judgment of the investment managers, of credit quality equal or superior to the standards described above.
- b. In the case of Certificates of Deposit, they must be issued by FDIC insured institutions. Deposits in institutions with less than \$10,000,000 in assets may not be made in excess of \$250,000 unless the deposit is fully collateralized by U.S. Treasury Securities.
- c. No single issue shall have a maturity of greater than two years.
- d. Custodial Sweep Account portfolios must have an average maturity of less than one year.

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Notes to Financial Statements
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3. Deposits and Investments, Continued

A. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized, or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the University's name.

At September 30, 2013 and 2012, the carrying amount of the University's cash and cash equivalents and time certificates of deposit were \$29,336,998 and \$22,629,278 and the corresponding bank balances were \$29,173,613 and \$23,861,368, respectively. Of the bank balance amounts, \$2,730,335 and \$2,488,606, respectively, are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance, National Credit Union Administration (NCUA) insurance, or collateralized by securities held by a trustee in the name of the financial institution. The University does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC or NCUA insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

Restricted cash and cash equivalents:

As of September 30, 2013 and 2012, the University recorded \$2,069,585 and \$2,046,305, respectively, from a tobacco settlement agreement entered into by the Government of Guam to be expended by the University for enhancement of learning resources and technology. The funds may only be expended in accordance with purposes set forth by the Guam Economic Development Authority, a component unit of the Government of Guam. Of the amount recorded, \$1,690,007 and \$1,747,381, respectively, is invested in a municipal bond issued by the Gwinnett County Development Authority in Georgia. This bond carried a Fitch's credit rating of AAA.

As of September 30, 2013 and 2012, restricted cash and cash equivalents include \$2,015,419 and \$1,271,127, respectively, received from the Government of Guam Healthy Futures Fund as appropriations for the Guam Cancer Trust Fund. These funds are allocated to provide financial assistance to organizations that provide patient directed services for the prevention and treatment of cancer.

Restricted cash and cash equivalents also include \$1,422,888 and \$2,084,030 as of September 30, 2013 and 2012, respectively, designated for debt service, operation and maintenance of a certain facility in compliance with a loan security agreement (see note 6). The remainder of restricted cash and cash equivalents of \$148,593 and \$197,675, respectively, represents funds with various externally imposed restrictions.

B. Investments

Investments held by the University consist of certificates of deposits, money market funds, fixed income securities, mutual funds, and common stock. These investments are held in the name of the University and 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.

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Notes to Financial Statements
September 30, 2013 and 2012

3. Deposits and Investments, Continued

B. Investments, Continued

Investments at September 30, 2013 consist of the following:

	<u>Short-term</u>	<u>Long-term</u>	<u>Endowment</u>	<u>Total</u>
Certificates of deposit	\$ 10,025,720	\$ 37,138	\$ 41,845	\$ 10,104,703
Money market funds	-	275,205	310,081	585,286
Fixed income securities	-	2,103,725	2,370,329	4,474,054
Common stock	-	6,280,771	7,076,734	13,357,505
Mutual funds	-	409,543	461,444	870,987
Municipal bonds	-	794,650	895,357	1,690,007
	<u>\$ 10,025,720</u>	<u>\$ 9,901,032</u>	<u>\$ 11,155,790</u>	<u>\$ 31,082,542</u>

Investments at September 30, 2012 consist of the following:

	<u>Short-term</u>	<u>Long-term</u>	<u>Endowment</u>	<u>Total</u>
Certificates of deposit	\$ 8,561,733	\$ 61,131	\$ 66,489	\$ 8,689,353
Money market funds	-	273,110	297,047	570,157
Fixed income securities	-	2,086,364	2,269,231	4,355,595
Common stock	-	5,203,159	5,659,209	10,862,368
Mutual funds	-	405,175	440,689	845,864
Municipal bonds	-	837,009	910,372	1,747,381
	<u>\$ 8,561,733</u>	<u>\$ 8,865,948</u>	<u>\$ 9,643,037</u>	<u>\$ 27,070,718</u>

The University's exposure to credit risk at September 30, 2013 was as follows:

<u>Moody's Rating</u>	<u>Domestic</u>
AAA	\$ 989,621
AA	524,010
A	1,663,155
BAA	208,813
Not rated	1,088,455
Total credit risk debt securities	<u>\$ 4,474,054</u>

The University's exposure to credit risk at September 30, 2012 was as follows:

<u>Moody's Rating</u>	<u>Domestic</u>
AAA	\$ 1,948,221
A	1,850,176
BAA	550,911
CAA	6,287
Total credit risk debt securities	<u>\$ 4,355,595</u>

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Notes to Financial Statements
September 30, 2013 and 2012

3. Deposits and Investments, Continued

B. Investments, Continued

As of September 30, 2013, the University's fixed income securities had the following maturities:

<u>Investment Type</u>	<u>Fair value</u>	<u>Less than 1 year</u>	<u>1 to 5 years</u>	<u>5 to 10 years</u>	<u>More than 10 years</u>
Corporate bonds	\$ 2,104,304	\$ -	\$ -	\$ 2,100,929	\$ 3,375
Federal Home Loan Mortgage Corp.	712,473	-	521,941	67,561	122,971
Federal National Mortgage Assn.	1,199,486	-	339,018	383,120	477,348
U.S. Treasury Notes	<u>457,791</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>457,791</u>
	<u>\$ 4,474,054</u>	<u>\$ -</u>	<u>\$ 860,959</u>	<u>\$ 2,551,610</u>	<u>\$ 1,061,485</u>

As of September 30, 2012, the University's fixed income securities had the following maturities:

<u>Investment Type</u>	<u>Fair value</u>	<u>Less than 1 year</u>	<u>1 to 5 years</u>	<u>5 to 10 years</u>	<u>More than 10 years</u>
Corporate bonds	\$ 2,277,302	\$ -	\$ -	\$ 2,277,302	\$ -
Mortgage and asset backed securities	208,132	-	-	-	208,132
Federal Home Loan Mortgage Corp.	474,600	-	239,709	151,218	83,673
Federal National Mortgage Assn.	1,280,999	-	63,023	300,061	917,915
U.S. Treasury Notes	<u>114,562</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>114,562</u>
	<u>\$ 4,355,595</u>	<u>\$ -</u>	<u>\$ 302,732</u>	<u>\$ 2,728,581</u>	<u>\$ 1,324,282</u>

Custodial risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the University will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The University's investments are held and administered by investment managers. Accordingly, these investments are exposed to custodial credit risk. Based on negotiated trust and custody contracts, all of these investments were held in the University's name at September 30, 2013 and 2012.

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. As of September 30, 2013 and 2012, the University did not hold any investment in any one issuer that represented 5% or more of total investments of the University.

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

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Notes to Financial Statements
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3. Deposits and Investments, Continued

B. Investments, Continued

The composition of net investment income for the years ended September 30, 2013 and 2012 is as follows:

	<u>2013</u>	<u>2012</u>	
Interest and dividends from investments	\$ 663,505	\$ 235,471	
Investment fees expense	(211,234)	(127,993)	
Realized gains	161,571	634,334	
Appreciation of fair value of investments, net	<u>2,040,006</u>	<u>1,905,848</u>	
	<u>\$ 2,653,848</u>	<u>\$ 2,647,660</u>	

4. 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, 2013 and 2012, loans receivable are reserved in the amount of \$18,482,194 and \$17,513,726, respectively, and recoveries collected are \$431,693 and \$616,024 for the years then ended, respectively.

5. Capital Assets

Activity and balances for capital assets for the years ended September 30, 2013 and 2012 consisted of the following:

	<u>Balance</u> <u>October 1, 2012</u>	<u>Additions/</u> <u>Transfers</u>	<u>Retirements</u> <u>Transfers</u>	<u>Balance</u> <u>September 30, 2013</u>
<u>2013:</u>				
<u>Depreciable:</u>				
Land improvements	\$ 320,754	\$ -	\$ -	\$ 320,754
Building	86,171,515	136,150	-	86,307,665
Building improvements	3,658,673	252,377	-	3,911,050
Equipment	16,671,011	1,769,449	(290,837)	18,149,623
Library books	<u>6,692,199</u>	<u>238,430</u>	<u>-</u>	<u>6,930,629</u>
	113,514,152	2,396,406	(290,837)	115,619,721
Less accumulated depreciation	<u>(45,343,429)</u>	<u>(3,027,205)</u>	<u>290,837</u>	<u>(48,079,797)</u>
	<u>68,170,723</u>	<u>(630,799)</u>	<u>-</u>	<u>67,539,924</u>
<u>Nondepreciable:</u>				
Land	2,589,112	-	-	2,589,112
Construction in progress	<u>343,250</u>	<u>1,521,413</u>	<u>-</u>	<u>1,864,663</u>
	<u>2,932,362</u>	<u>1,521,413</u>	<u>-</u>	<u>4,453,775</u>
Total capital assets, net	<u>\$ 71,103,085</u>	<u>\$ 890,614</u>	<u>\$ -</u>	<u>\$ 71,993,699</u>

UNIVERSITY OF GUAM
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Notes to Financial Statements
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5. Capital Assets, Continued

2012:	Balance October 1, 2011	Additions/ Transfers	Retirements Transfers	Balance September 30, 2012
<u>Depreciable:</u>				
Land improvements	\$ 320,754	\$ -	\$ -	\$ 320,754
Building	86,171,515	-	-	86,171,515
Building improvements	1,279,760	2,378,913	-	3,658,673
Equipment	12,623,174	4,149,503	(101,666)	16,671,011
Library books	<u>6,569,309</u>	<u>122,890</u>	<u>-</u>	<u>6,692,199</u>
	106,964,512	6,651,306	(101,666)	113,514,152
Less accumulated depreciation	<u>(42,328,677)</u>	<u>(3,116,418)</u>	<u>101,666</u>	<u>(45,343,429)</u>
	<u>64,635,835</u>	<u>3,534,888</u>	<u>-</u>	<u>68,170,723</u>
<u>Nondepreciable:</u>				
Land	2,589,112	-	-	2,589,112
Construction in progress	<u>1,303,417</u>	<u>-</u>	<u>(960,167)</u>	<u>343,250</u>
	<u>3,892,529</u>	<u>-</u>	<u>(960,167)</u>	<u>2,932,362</u>
Total capital assets, net	<u>\$ 68,528,364</u>	<u>\$ 3,534,888</u>	<u>\$ (960,167)</u>	<u>\$ 71,103,085</u>

6. Long-Term Debt

In October 2001, Public Law 26-48 authorized the University to enter into a loan with the United States Department of Agriculture (USDA) for an amount not to exceed \$13.5 million for the purpose of funding construction of certain facilities. The loan with USDA was signed on June 12, 2003 and construction began in March 2005. The interest rate is fixed at 4.50% per annum.

As of September 30, 2007, the entire amount was drawn down. Monthly payments of \$62,505 began in July 2006. A final installment is due on June 12, 2043. The loan security agreement requires revenues derived from the operation of the facility to be transferred to an account designated for debt service, operation and maintenance of the facility. After the payment of principal and interest, \$6,251 a month is required to be transferred to a reserve account until a sum of \$750,060 is accumulated. In addition, the University assigned and granted to the creditor its security interest in all equipment, furniture and fixtures located at the Business and Public Administration Building.

Annual debt service requirements to maturity for principal and interest are as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 201,557	\$ 548,503	\$ 750,060
2015	210,817	539,243	750,060
2016	220,501	529,559	750,060
2017	230,631	519,429	750,060
2018	241,226	508,834	750,060
2019-2023	1,382,900	2,367,400	3,750,300
2024-2028	1,731,108	2,019,192	3,750,300
2029-2033	2,166,994	1,583,306	3,750,300
2034-2038	2,712,634	1,037,666	3,750,300
2039-2043	<u>3,155,095</u>	<u>355,621</u>	<u>3,510,716</u>
	<u>\$ 12,253,463</u>	<u>\$ 10,008,753</u>	<u>\$ 22,262,216</u>

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Notes to Financial Statements
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6. Long-Term Debt, Continued

Public Law 26-48 also provided supplemental annual funding of \$500,000 from the Government of Guam Territorial Highway Fund to pay for the loan. During the years ended September 30, 2013 and 2012, \$500,000 has been received for this purpose.

The Foundation annually committed a donation of \$200,000 to the University as a contribution for repayment of the loan through 2043. The Foundation donated \$150,000 and \$200,000 for the years ended September 30, 2013 and 2012, respectively.

7. Noncurrent Liabilities

Changes in long-term liabilities in 2013 and 2012 are presented as follows:

	Outstanding October <u>1, 2012</u>	<u>Additions</u>	<u>Reductions</u>	Outstanding September <u>30, 2013</u>	Amount due within <u>one year</u>
Long-term debt	\$ 12,396,023	\$ -	\$ 142,560	\$ 12,253,463	\$ 201,557
Other liabilities:					
Deposits held on behalf of others	63,791	2,084,049	2,120,742	27,098	-
Accrued annual leave	1,844,798	1,423,871	1,501,448	1,767,221	1,219,805
DCRS sick leave liability	<u>2,088,199</u>	<u>828,194</u>	<u>567,076</u>	<u>2,349,317</u>	-
	\$ <u>16,392,811</u>	\$ <u>4,336,114</u>	\$ <u>4,331,826</u>	\$ <u>16,397,099</u>	\$ <u>1,421,362</u>
	Outstanding October <u>1, 2011</u>	<u>Additions</u>	<u>Reductions</u>	Outstanding September <u>30, 2012</u>	Amount due within <u>one year</u>
Long-term debt	\$ 12,615,802	\$ -	\$ 219,779	\$ 12,396,023	\$ 192,704
Other liabilities:					
Deposits held on behalf of others	115,188	931,912	983,309	63,791	-
Accrued annual leave	1,837,624	1,444,283	1,437,109	1,844,798	1,118,564
DCRS sick leave liability	<u>1,720,001</u>	<u>368,198</u>	<u>-</u>	<u>2,088,199</u>	-
	\$ <u>16,288,615</u>	\$ <u>2,744,393</u>	\$ <u>2,640,197</u>	\$ <u>16,392,811</u>	\$ <u>1,311,268</u>

8. Employees' Retirement Plan

Employees of the University hired before October 1, 1995, are entitled to participate in 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 (DB) Plan with less than 20 years of service at September 30, 1995, had the option to switch to the Defined Contribution Retirement System.

The DB 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.

A single actuarial valuation is performed annually covering all plan members and the same contribution rate applies to each employer. GGRF issues a publicly available financial report that includes financial statements and required supplementary information for the DB Plan. That report may be obtained by writing to the GGRF, 424 A Route 8, Maite, Guam 96910, or by visiting its website - www.ggrf.com.

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8. Employees' Retirement Plan, Continued

As a result of actuarial valuations performed as of September 30, 2011, 2010 and 2009, contribution rates for the years ended September 30, 2013 and 2012, and 2011, respectively, have been determined as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Normal costs (% of DB Plan payroll)	17.52%	17.07%	17.00%
Employee contributions (DB Plan employees)	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>
Employer portion of normal costs (% of DB Plan payroll)	<u>8.02%</u>	<u>7.57%</u>	<u>7.50%</u>
Employer portion of normal costs (% of total payroll)	3.00%	3.03%	3.03%
Unfunded liability cost (% of total payroll)	<u>24.33%</u>	<u>23.75%</u>	<u>21.75%</u>
Government contribution as a % of total payroll	<u>27.33%</u>	<u>26.78%</u>	<u>24.78%</u>
Statutory contribution rates as a % of DB Plan payroll:			
Employer	<u>30.09%</u>	<u>28.30%</u>	<u>27.46%</u>
Employee	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>

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, 2013 and 2012 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 DB 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.

Retirement contributions for the years ended September 30, 2013 and 2012 and 2011 are as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
DB plan	\$ 3,214,890	\$ 3,228,094	\$ 3,116,722
DCRS	<u>4,925,785</u>	<u>4,531,900</u>	<u>4,214,253</u>
	<u>\$ 8,140,675</u>	<u>\$ 7,759,994</u>	<u>\$ 7,330,975</u>

Public Law 26-86 allows members of the DCRS to receive a lump sum payment of one-half of their accumulated sick leave upon retirement. The University has accrued an estimated liability of \$2,349,317 and \$2,088,199 at September 30, 2013 and 2012, respectively, for potential future sick leave payments as a result of this law. However, this amount is an estimate and actual payout may be materially different than estimated.

UNIVERSITY OF GUAM
(A Component Unit of the Government of Guam)

Notes to Financial Statements
September 30, 2013 and 2012

8. Employees' Retirement Plan, Continued

Other Post-Employment Benefits

The Government of Guam, through its substantive commitment to provide other post-employment benefits (OPEB), maintains a cost-sharing multiple employer defined benefit plan to provide certain postretirement healthcare benefits to retirees who are members of the Government of Guam Retirement Fund. Under the Plan, known as the Government of Guam Group Health Insurance Program, the Government of Guam provides medical, dental, and life insurance coverage. The retiree medical and dental plans are fully-insured products provided through insurance companies. The Government of Guam shares in the cost of these plans, with the Government of Guam's contribution amount set each year at renewal. Current statutes prohibit active and retired employees from contributing different amounts for the same coverage. As such, the Government of Guam contributes substantially more to the cost of retiree healthcare than to active healthcare. For the life insurance plan, the Government of Guam provides retirees with \$10,000 of life insurance coverage through an insurance company. Retirees do not share in the cost of this coverage. During the years ended September 30, 2013 and 2012, the University recognized certain on-behalf payments as transfers from GovGuam, totaling \$1,475,808 and \$1,149,539, respectively, representing certain healthcare benefits that GovGuam's general fund paid directly on behalf of the University. Because the Plan consists solely of the Government of Guam's firm commitment to provide OPEB through the payment of premiums to insurance companies on behalf of its eligible retirees, no stand-alone financial report is either available or generated.

9. Encumbrances

The accrual basis of accounting provides that expenses include only amounts associated with goods and services received and liabilities include only the unpaid amounts associated with such expenses. Accordingly, at September 30, 2013 and 2012, \$5,420,301 and \$5,529,025, respectively, of outstanding purchase orders and purchase commitments are not reported in the financial statements.

10. Commitments and 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 to the Government of Guam's General Fund to cover the University's proportionate share of principal and interest payments of the bond.

UNIVERSITY OF GUAM
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Notes to Financial Statements
September 30, 2013 and 2012

10. Commitments and Contingencies, Continued

General Obligation Bonds, Continued

At the end of each fiscal year, the balance remaining in the bond fund established by the University shall be retained by the University. Once the University's proportionate share of the principal and interest obligation is satisfied on or about November 2018, the University shall retain control of all future revenues thereafter. For the years ended September 30, 2013 and 2012, total payments remitted to the Government of Guam's General Fund of \$2,204,682 and \$2,247,590, respectively, are recorded as debt service - DOA bond.

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.

Government of Guam Merit System

In 1991, Public Law 21-59 was enacted to establish a bonus system for employees of the Government of Guam, autonomous and semi-autonomous agencies, public corporations and other public instrumentalities of the Government of Guam who earn a superior performances grade. The bonus is calculated at 3.5% of the employee's base salary beginning in 1991. The University recorded liabilities for merit bonuses of \$409,620 and \$1,110,345 as of September 30, 2013 and 2012, respectively.

11. Related Party

In the ordinary course of business, the University maintains accounts with a Bank. A member of the Board of Regents is an officer of that Bank. The University has assessed other related party transactions and has concluded that none are material to the accompanying financial statements.

UNIVERSITY OF GUAM
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Schedule of Funding Progress and Actuarial Accrued Liability - Post
Employment Benefits Other than Pension (Unaudited)

The Schedule of Funding Progress presents GASB 45 results of Other Post Employment Benefits (OPEB) valuations as of fiscal year ends September 30, 2011, 2009, and 2007 for the University of Guam's share of the Government of Guam Post Employment Benefits other than Pensions. The schedule provides an information trend about whether the actuarial values of Plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
October 1, 2007	\$ -	\$ 43,606,000	\$ 43,606,000	0.0%	\$ 31,217,000	139.7%
October 1, 2009	\$ -	\$ 59,084,000 *	\$ 59,084,000 *	0.0%	\$ 33,333,000	177.3%
October 1, 2011	\$ -	\$ 66,605,000	\$ 66,605,000	0.0%	\$ 35,773,000	186.2%

* No formal valuation was performed. The liabilities as of October 1, 2009 represent discounted October 1, 2011 liabilities.

The actuarial accrued liability presented above is for the University's active employees only. It does not include the actuarial accrued liability for the University's retirees, which was not separately presented in the OPEB valuation.

See accompanying independent auditors' report.

OTHER INFORMATION

UNIVERSITY OF GUAM
(A Component Unit of the Government of Guam)

Schedules of Salaries, Wages and Benefits
Years Ended September 30, 2013 and 2012

	<u>2013</u>		<u>2012</u>
Salaries and wages:			
Funded by local funds	\$ 20,644,914	\$	21,668,154
Federal funds	4,510,252		5,127,172
General operations and federal funds	4,453,195		4,483,861
Other funding sources	<u>4,500,106</u>		<u>4,494,179</u>
Total salaries and wages	<u>34,108,467</u>		<u>35,773,366</u>
Benefits:			
Funded by local funds	7,547,141		7,111,406
Federal funds	988,046		1,034,866
General Operations and Federal funds	1,275,099		1,292,788
Other funding sources	<u>921,715</u>		<u>906,851</u>
Total benefits	<u>10,732,001</u>		<u>10,345,911</u>
Total Salaries, wages and benefits	<u>\$ 44,840,468</u>	\$	<u>46,119,277</u>

See accompanying independent auditors' report.

UNIVERSITY OF GUAM
(A Component Unit of the Government of Guam)

Schedules of Expenses by Object Category
Years Ended September 30, 2013 and 2012

	2013		2012	
	Unrestricted	Restricted	Unrestricted	Restricted
Instruction:				
Salaries and wages	\$ 11,751,837	\$ 232,603	\$ 12,061,159	\$ 345,729
Benefits	3,701,269	63,706	3,569,238	102,623
Travel	83,093	183,060	88,852	200,401
Contracts	886,448	788,194	884,296	1,669,467
Supplies	111,289	32,851	90,370	35,934
Equipment	23,809	22,343	64,155	90,079
Utilities	-	-	20,307	-
Capital outlay	14,552	-	-	72,565
Miscellaneous	227,369	101,834	617,546	185,960
	<u>\$ 16,799,666</u>	<u>\$ 1,424,591</u>	<u>\$ 17,395,923</u>	<u>\$ 2,702,758</u>
Public service:				
Salaries and wages	\$ 218,477	\$ 4,618,185	\$ 183,513	\$ 4,825,247
Benefits	71,475	1,239,707	56,412	1,293,296
Travel	5,995	545,099	1,408	648,507
Contracts	1,051,746	1,790,321	600,573	2,006,264
Supplies	43,987	569,279	20,678	783,568
Equipment	1,353	259,539	9,513	249,587
Utilities	7,795	135,781	7,959	20,153
Capital outlay	-	14,923	-	33,230
Miscellaneous	95,717	1,392,437	85,579	753,950
	<u>\$ 1,496,545</u>	<u>\$ 10,565,271</u>	<u>\$ 965,635</u>	<u>\$ 10,613,802</u>
Research:				
Salaries and wages	\$ 1,436,163	\$ 3,736,950	\$ 1,137,502	\$ 3,790,948
Benefits	496,368	944,222	341,917	909,936
Travel	79,727	644,744	134,602	576,541
Contracts	311,217	1,737,176	269,915	1,489,136
Supplies	113,453	413,145	123,578	519,645
Equipment	48,761	210,104	46,790	282,674
Utilities	3,515	181,030	3,255	1,091
Capital outlay	9,012	894	59,961	269,782
Miscellaneous	97,389	709,903	243,941	747,602
	<u>\$ 2,595,605</u>	<u>\$ 8,578,168</u>	<u>\$ 2,361,461</u>	<u>\$ 8,587,355</u>

See accompanying independent auditors' report.

UNIVERSITY OF GUAM
(A Component Unit of the Government of Guam)

Schedules of Expenses by Object Category, Continued
Years Ended September 30, 2013 and 2012

	2013		2012	
	Unrestricted	Restricted	Unrestricted	Restricted
Operational and maintenance, plant:				
Salaries and wages	\$ 1,415,187	\$ -	\$ 1,546,601	\$ -
Benefits	558,058	-	597,340	-
Contracts	546,440	-	394,841	4,475,092
Supplies	220,864	-	233,004	168,468
Equipment	32,244	-	71,508	483,468
Utilities	4,260,418	-	4,103,505	834
Capital outlay	42,800	-	-	2,786,743
Miscellaneous	31,194	-	672	-
	<u>\$ 7,107,205</u>	<u>\$ -</u>	<u>\$ 6,947,471</u>	<u>\$ 7,914,605</u>
Scholarships and fellowships:				
Miscellaneous	\$ 232,673	\$ 12,042,645	\$ 290,137	\$ 9,777,084
Institutional support:				
Salaries and wages	\$ 3,173,355	\$ -	\$ 4,047,155	\$ (7,283)
Benefits	1,222,734	(16,331)	1,072,093	-
Travel	213,376	-	269,859	-
Contracts	1,282,898	-	1,800,085	-
Supplies	138,667	-	119,803	-
Equipment	105,386	-	92,873	-
Utilities	429	-	423	-
Capital outlay	1,501,920	-	104,555	-
Miscellaneous	158,130	-	1,167,684	-
	<u>\$ 7,796,895</u>	<u>\$ (16,331)</u>	<u>\$ 8,674,530</u>	<u>\$ (7,283)</u>

See accompanying independent auditors' report.

UNIVERSITY OF GUAM
(A Component Unit of the Government of Guam)

Schedules of Expenses by Object Category, Continued
Years Ended September 30, 2013 and 2012

	2013		2012	
	Unrestricted	Restricted	Unrestricted	Restricted
Academic support:				
Salaries and wages	\$ 4,550,738	\$ 5,208	\$ 4,667,151	\$ -
Benefits	1,538,313	324	1,531,831	-
Travel	222,096	74	198,700	-
Contracts	1,136,145	4,308	938,738	-
Supplies	623,336	12,001	565,365	2,763
Equipment	325,549	-	251,138	-
Utilities	1,039	-	1,248	-
Capital outlay	280,245	-	184,477	-
Miscellaneous	165,588	-	94,489	4,082
	<u>\$ 8,843,049</u>	<u>\$ 21,915</u>	<u>\$ 8,433,137</u>	<u>\$ 6,845</u>
Student services:				
Salaries and wages	\$ 1,651,959	\$ 941,821	\$ 1,617,297	\$ 909,128
Benefits	635,933	63,744	596,613	61,171
Travel	73,245	60,560	45,312	37,620
Contracts	58,258	5,502	82,186	13,044
Supplies	43,147	17,766	48,252	32,151
Equipment	14,744	7,782	47,300	1,021
Utilities	50,210	-	53,740	-
Capital outlay	-	150,150	-	-
Miscellaneous	238,868	34,805	511,627	26,049
	<u>\$ 2,766,364</u>	<u>\$ 1,282,130</u>	<u>\$ 3,002,327</u>	<u>\$ 1,080,184</u>
Auxiliary enterprises:				
Salaries and wages	\$ 375,984	\$ -	\$ 649,220	\$ -
Benefits	212,479	-	213,441	-
Travel	3,287	-	6,574	-
Contracts	156,782	-	113,100	-
Supplies	59,694	-	59,863	-
Equipment	12,116	-	53,883	-
Utilities	322,523	-	281,838	-
Capital outlay	-	-	12,230	-
Miscellaneous	1,402,925	-	1,227,082	-
	<u>\$ 2,545,790</u>	<u>\$ -</u>	<u>\$ 2,617,231</u>	<u>\$ -</u>

See accompanying independent auditors' report.

UNIVERSITY OF GUAM
(A Component Unit of the Government of Guam)

Schedules of Employee Information
Years Ended September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Funded by:		
Local funds	389	368
Federal funds	157	201
General operations and federal funds	118	116
Other funding sources	176	139
	<u>840</u>	<u>824</u>

See accompanying independent auditors' report.

UNIVERSITY OF GUAM
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Schedules of Total Revenue Information
Years Ended September 30, 2013 and 2012

	2013	2012
University-generated revenues:		
Tuition and fees (gross)	\$ 21,016,827	\$ 21,860,683
Scholarship and tuition discounts	(11,027,395)	(9,138,640)
Grants and contracts, net	39,400,396	50,141,010
Auxiliary enterprises and other revenues	7,796,456	7,191,966
Total University-generated revenues	57,186,284	70,055,019
Government of Guam appropriations (excluding retiree healthcare costs appropriations)	32,661,473	34,196,908
Total revenues (excluding investment income, bad debts recovery/provision and retiree healthcare appropriations)	\$ 89,847,757	\$ 104,251,927
Supplemental information:		
Net investment income	\$ 2,653,848	\$ 2,647,660
Recovery from (provision for) bad debts	\$ 933,494	\$ (1,161,036)
Retiree healthcare costs appropriation	\$ 1,475,808	\$ 1,149,539

See accompanying independent auditors' report.