



**UNIVERSITY OF GUAM
UNIBETSEDÁT GUÅHAN
Board of Regents**

Resolution No. 19-22

**RELATIVE TO ACCEPTING THE RESULTS OF THE DELOITTE AND TOUCHE LLP
FINANCIAL STATEMENTS AUDIT AND COMPLIANCE AUDIT
FOR THE FISCAL YEAR ENDED 30 SEPTEMBER 2018**

WHEREAS, the University of Guam (UOG) is the primary U.S. Land Grant institution accredited by the Western Association of Schools and Colleges (WASC) Senior College and University Commission (WSCUC) serving the post-secondary needs of the people of Guam and the region;

WHEREAS, the governance and well-being of UOG is vested in the Board of Regents (BOR);

WHEREAS, UOG's financial statements have received an unqualified audit opinion from Deloitte and Touche LLP for the fiscal year ended 30 September 2018 and the results of the audits are currently under review with the Guam Office of the Public Accountability (OPA);

WHEREAS, the auditor's Reports on Internal Control and on Federal Compliance have qualified UOG as a low-risk auditee with no material weaknesses and no reported significant deficiency;

WHEREAS, the auditor's Management Letter recommended six (6) improvements, for which UOG has taken corrective action;

WHEREAS, UOG's overall financial condition showed a \$6.9 million decrease in net position, which is substantially driven by the cash flow problems of the government of Guam;

WHEREAS, continuance of being a low-risk auditee and the maintenance of the net position are also a direct result of the efforts of faculty, staff and administrators throughout the UOG community;

WHEREAS, UOG estimates the Audit will be issued as soon as practical, after the review by the Guam OPA is completed; and

WHEREAS, the President and the BOR's Budget, Finance and Audit (BFA) Committee have reviewed and recommend that the BOR accept the audit report.

NOW, THEREFORE, BE IT RESOLVED, that the BOR hereby accepts the results of the Deloitte and Touche LLP audit reports for the fiscal year ended 30 September 2018 and authorizes the President to finalize the audit reports and ensure they are issued in a timely manner.

Adopted this 18th day of April, 2019.



Christopher K. Felix, Chairperson

ATTESTED:



Thomas W. Krise, Ph.D., Executive Secretary

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

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

**YEARS ENDED SEPTEMBER 30, 2018 AND 2017
(AS RESTATED)**

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

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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, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as set forth in Section III 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.

Basis for Qualified Opinion

The University of Guam Endowment Foundation (the Foundation), the discretely presented component unit, was unable to evaluate the carrying value of its donated land recorded at \$4,638,352 and \$5,207,735 as of December 31, 2016 and 2015, respectively.

Opinions

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the University as of September 30, 2018 and 2017, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Further, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the discretely presented component unit's financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 2 to the financial statements in 2018, the University adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. As a result of adopting this standard, the University has elected to restate its 2017 financial statements to reflect the adoption of this standard. Our opinion is not modified with respect to this matter.

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 13 as well as the Schedule of Proportional Share of the Net Pension Liability on pages 53 through 55, the Schedule of Pension Contributions on page 56, the Schedule of Changes in the Proportionate Share of the Total OPEB Liability and Related Ratios on page 57, the Schedule of Proportionate Share of the Total OPEB Liability on page 58, and the Schedule of OPEB Contributions on page 59 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by GASB 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 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 60 through 63 and the schedules of total revenue information on page 65 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, the schedules of expenses by object category, and the schedules of total revenue information 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 audits 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 schedules of salaries, wages and benefits, of expenses by object category, and 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 64 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 _____, 2019, 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.

_____, 2018

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

Management's Discussion and Analysis
Years Ended September 30, 2018 and 2017

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, 2018. Management has prepared this overview as 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 Senior College and University Commission (WSCUC). Our 3,679 students (Fanuchanan '18 (Fall)) are multicultural, multilingual and 45% Pacific Islander, 45% Asian, 10% other. We offer 14 master's and 26 bachelor's degree programs. Continuing education, professional development and English language training are available. Our 967 employees, include 181 full-time faculty, 41 administrators and 329 full time staff and 416 part-time staff and faculty adjuncts.

The Leadership. A nine-member Board of Regents governs the University. Christopher K. Felix is the Board Chairperson; Jillette Leon Guerrero is Vice Chairperson; Elvin Y. Chiang is Treasurer and audit committee chair; Thomas W. Krise, Ph.D., is the University's 11th President; Anita Borja Enriquez, DBA, is Senior Vice President for Academic and Student Affairs; Randall V. Wiegand is Vice President for Administration and Finance; Zeny Asuncion Nace is Comptroller. There is an elected Faculty Senate.

Our University community is focused on our mission of *Ina, Diskubre, Setbe (to Enlighten, to Discover, to Serve)* and on our 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 Krise, the University is embarking on a new five year strategic plan based on five big issues: Student Experience, Revenue Diversification, Process Improvement, Outreach Engagement Communication, and Facilities. An overview of the new strategic plan will be presented to the Board of Regents in April 2019 with the finalization of the plan taking place later in the year.

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. We also report the financial statements of our component unit, the UOG Endowment Foundation, Inc. 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.

**UNIVERSITY OF GUAM
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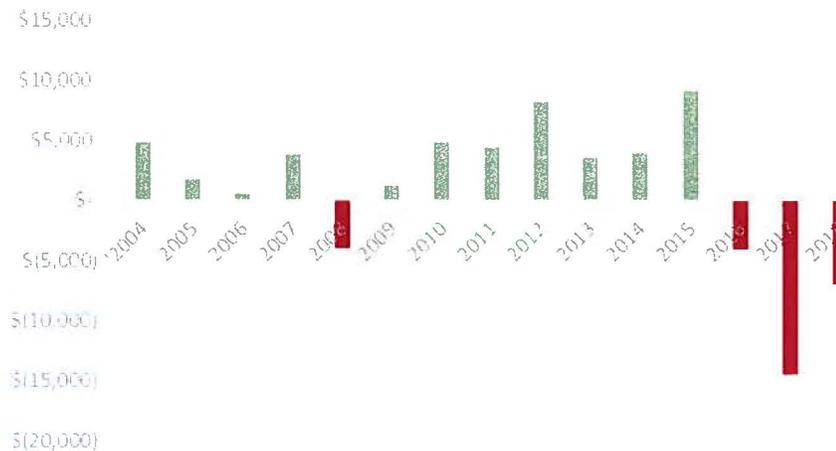
Management's Discussion and Analysis
Years Ended September 30, 2018 and 2017

FY2018 FINANCIAL HIGHLIGHTS AND STRATEGIC INSTITUTIONAL OUTCOMES

During Fiscal Year 2018 the University implemented GASB 75 which had a significant impact on the University's financial statements. For the year ended September 30, 2017, the University's net position decreased from a loss of \$3.4 million to a loss of \$14.4 million. As a result of the change, the University incurred a loss of \$6.4 million for the period ending September 30, 2018. Other factors contributing to the losses are as follows:

- The Government of Guam reduced the University's appropriation mid-year in response to the passage of the Tax Cuts and Jobs Act of 2017. Because Guam's tax code mirrors that of the U.S. Federal Government, the impact of the Act reduced projected revenues for the government. The original appropriation of 30,740,431 was reduced to \$27,877,201 by the mid-year action.
- The general operations appropriation for the two year period ending September 30, 2018 was \$61.481 million. The total appropriation after the mid-year reduction was \$58,618. The actual amount of cash received for the two year period was \$50.422 million – a nearly \$8.2 million reduction for the past two years.
- The University benefitted from a nearly \$1.7 million investment gain due to unrealized investment changes. The gain results from marking the investment portfolio to market and does not impact the cash position of the University.

Change in Net Position in '000's



Important financial data include:

- The presentation of expenses changed as a result of the implementation of GASB No. 75. The result was an approximately \$10 million increase in expenses.
- There has been a financial loss for three consecutive years due to inconsistency of amounts collected.
- Enrollment for the Fanuchanan semester (Fall) 2018 was 3,679. The University generates 63% of revenues; GovGuam provides 37%.
- Federal grants and contracts grew by nearly \$1 million during the year.

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Management's Discussion and Analysis
Years Ended September 30, 2018 and 2017

- Expenses have remained relatively flat as a result of budget constraints.

Significant institutional outcomes that affect financial statements and resources include:

- Enrollment for the Fanuchanan (Fall) semester was 3,679 students. The 44,594 credit hour production is the fifth highest in recent history.
- [REDACTED] undergraduate and graduate degrees were conferred in Academic Year'17-18. Alumni now number [REDACTED]. They are the professional backbone and leadership of our island and region.
- GOREX – the Guam Open Research and Education Exchange was initiated during the period. This provides up to 100 Gbps networking speed through the University of Hawaii. This also positions the University in a stronger position to be recognized as a Research and Education hub for the Pacific Rim region.
- Academic quality, student success and institutional sustainability are evidenced by primary accreditation for eight (8) years from the Western Association of Schools and Colleges Senior College and University Commission (WSCUC) and by secondary accreditation for the professional schools. During 2016, the University received a favorable review from WSCUC (formerly WASC).
- 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. In 2016, the University has completed many of the initiatives and is focusing on the remaining projects.
- In 2015 the University was awarded a \$6 million grant from the National Science Foundation's Experimental Program to Stimulate Competitive Research (EPSCoR) which includes the development of a database of marine life whose habitat is near and around the island. The grant period runs from October 1, 2015 to September 30, 2020. This grant has opened up new doors of opportunity for the University and has lifted us into a new league of research capabilities.

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>2018</u>	<u>2017</u> <u>As Restated</u>	<u>2016</u> <u>As Restated</u>
Noncapital assets	\$ 69,480	\$ 68,269	\$ 68,768
Capital assets	66,242	67,437	68,491
Deferred outflows of resources	<u>18,850</u>	<u>24,200</u>	<u>16,469</u>
Total assets and deferred outflows of resources	\$ <u>154,572</u>	\$ <u>159,906</u>	\$ <u>153,728</u>
Current liabilities	\$ 16,074	\$ 14,379	\$ 14,780
Noncurrent liabilities	225,133	239,098	219,017
Deferred inflows of resources	<u>14,425</u>	<u>1,062</u>	<u>185</u>
Total liabilities and deferred inflows of resources	<u>255,632</u>	<u>254,539</u>	<u>233,982</u>

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Years Ended September 30, 2018 and 2017

Net investment in capital assets	55,175	56,122	56,943
Restricted, nonexpendable	5,127	5,127	5,127
Restricted, expendable	7,232	5,816	4,827
Unrestricted	<u>(168,594)</u>	<u>(161,698)</u>	<u>(147,151)</u>
 Total net position	 <u>(101,060)</u>	 <u>(94,633)</u>	 <u>(80,254)</u>
 Total liabilities, deferred inflow of resources and net position	 <u>\$ 154,572</u>	 <u>\$ 159,906</u>	 <u>\$ 153,728</u>

For the last two years the overall financial position of the University has been stable to slightly negative. The cash pressures from reduced allotments from the government have put pressure on expenditures. The area with the most significant changes have been in the deferred outflow and inflow accounts as a result of the implementation of GASB No. 68, GASB No. 73, and GASB No. 75. Because the University has been under spending constraints for the last two years, there have not been any significant assets added. The change in capital assets is mostly explained by the depreciation of University assets.

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>2018</u>	<u>2017 As Restated</u>	<u>2016 As Restated</u>
Operating Revenues, Net	\$ 57,035	\$ 54,009	\$ 54,210
Operating Expenses	<u>99,617</u>	<u>101,063</u>	<u>94,948</u>
Operating Revenues Net of Operating Expenses ¹	(42,582)	(47,054)	(40,738)
Non-Operating and Other Revenues and Expenses	35,553	32,674	33,902
Capital Contribution	<u>602</u>	<u>-</u>	<u>-</u>
Increase (Decrease) in Net Position	(6,427)	(14,380)	(6,836)
Net Position – Beginning of Year	<u>(94,633)</u>	<u>(80,254)</u>	<u>(73,418)</u>
Net Position – End of Year	\$ <u>(101,060)</u>	\$ <u>(94,633)</u>	\$ <u>(80,254)</u>

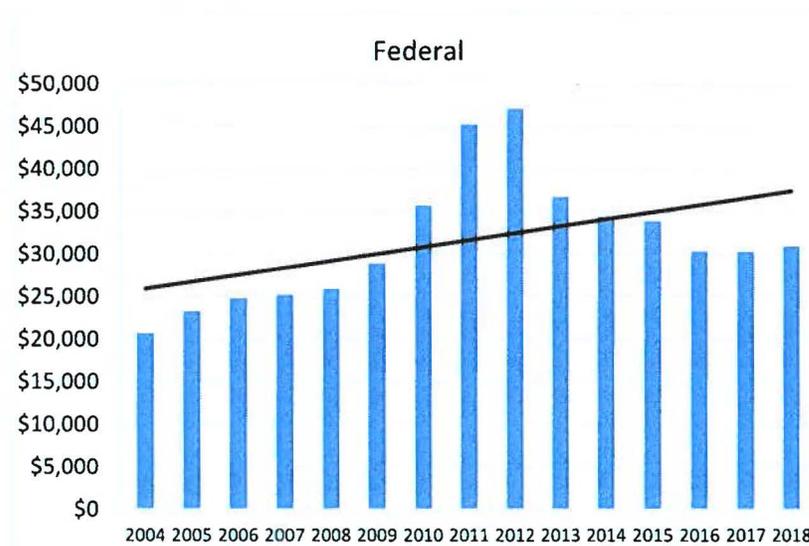
Net operating revenues grew as a result of increased revenues from the Professional and International Programs unit, an increase in federal grant revenue and some contract revenue earning in some of the schools. Most expenses decreased as a result of the cash pressure the University has been under. Non-operating revenues were mixed: The University had investment increases over the last two years which were offset by reduced appropriations collected and the increased revenue required for retiree healthcare costs. There were no grant funded capital projects during the period. The statements reflect the impacts of the increased liabilities as a result of the implementation of GASB No. 75.

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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Management's Discussion and Analysis
Years Ended September 30, 2018 and 2017

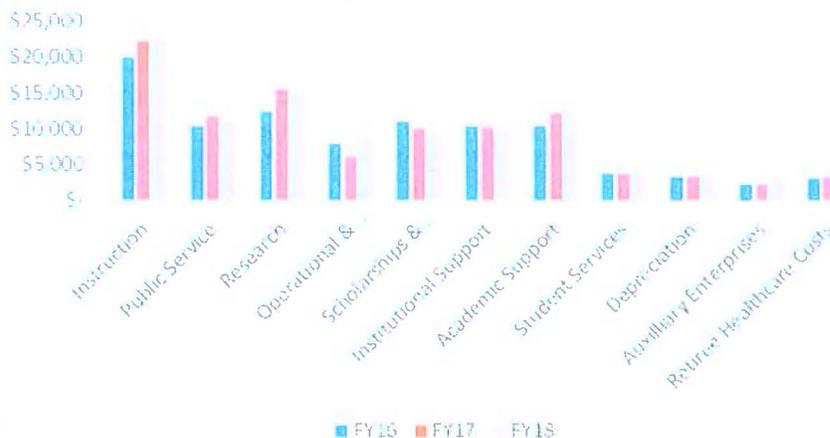
The following graph reflects grant activity for the last decade:



Federal grant revenues increased for the first time since the final ARRA projects were completed. It is the ARRA funds that account for the sharp increase in grant revenue from 2010 to 2015. Increasing revenues from federal grants has been a major focus of the University in recent years and has resulted in a \$6 million five-year (EPSCoR) grant. UOG is pursuing an increase in this grant from the National Science Foundation (NSF) when the initial term runs out in 2020. This NSF grant has opened doors to other funding opportunities for the University.

FY17 and FY18 operating expenses increased as a result of the implementation of GASB No. 75. The University spent \$47.8 million directly on its core mission. Of that, 47% went to instruction, 22% to public service and 31% to research.

Operating Expense Trends (in 000's)



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Years Ended September 30, 2018 and 2017

STATEMENT OF CASH FLOWS

This statement provides information about the ability to generate the 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>2018</u>	<u>2017</u> <u>As Restated</u>	<u>2016</u> <u>As Restated</u>
Cash provided by (used in):			
Operating activities	\$ (29,932)	\$ (28,236)	\$ (31,912)
Non-capital financing activities	30,879	34,879	29,971
Capital and financing activities	(3,331)	(343)	(2,569)
Investing activities	<u>986</u>	<u>(2,386)</u>	<u>2,182</u>
Net Change in Cash and Cash Equivalents	(1,398)	3,914	(2,328)
Cash and Equivalents – Beginning of Year	<u>9,648</u>	<u>5,734</u>	<u>8,062</u>
Cash and Equivalents – End of Year	\$ <u>8,250</u>	\$ <u>9,648</u>	\$ <u>5,734</u>

Cash flow reflects the pressure as a result of reduced, uncertain, and inconsistent allotment payments.

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 received in August and September of each fall semester whereas the related costs are spread out through the semester. 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 which are weighted toward the beginning of the academic year. Board policy requires cash reserves for financial stability and long-term viability. A reserve fund and sub-accounts were established and funded starting in FY09 and had been continuously funded since then until fall 2016 when the funds were depleted due to non-payment of appropriations.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets: At the end of FY18, the University had \$121.2 million invested in depreciable capital assets. This represents an increase in net capital assets (including additions and deletions) of \$2.1 million or 1.8% over the previous year. The University completed a project to harden two classrooms with 75% funding received from the Federal Emergency Management Agency. The University did not complete any other significant projects as a result of the cash shortfall. The University had accrued \$59.9 million in accumulated depreciation against the assets. Net capital assets were \$66.2 million, a decrease from the prior year's \$67.4 million.

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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 purposes of constructing certain facilities on campus. On December 6, 2016, the University entered into a lease/lease back arrangement with the UOG Endowment Foundation. The University leased property to the Foundation in order to construct a Student Success Center and an Engineering Annex. The University signed agreements to lease the buildings back from the Foundation. The leases are expected to expire in 2056. Related to the leases, the Foundation entered into promissory notes with the United States Department of Agriculture on December 5, 2016 in the amount of \$21.7 million. Interest accrues on the debt as amounts are drawn down on the note. As of March 15, 2018, there have been no amounts drawn down on the note. As of September 30, 2018 and 2017, the University had a long-term debt of \$11.1 million and \$11.3 million, respectively. See Note 6 to the financial statements for additional information.

ECONOMIC AND OTHER FACTORS EXPECTED TO AFFECT THE UNIVERSITY ²

2017: Modest Growth Trend Continues

In 2018 the U.S. economy continued to expand albeit at a lower rate than widely forecast. For the year, the economy grew 2.3%. Slowing world economies and the fear of trade wars appear to be hampering growth. The Federal Reserve increased its discount rate by 100 basis points in three moves during 2018 – the most increases in a year since 2006. This and the implementation of a quantitative tightening program represent an indication of a baseline level of confidence in the economy. After an initial forecast of two rate increases for 2019, the FED has also said future rate changes will be data dependent. Interest rates have continued their upward trend. The S&P 500 encountered a pullback during a volatile year and ended the year down 6.2% during the year. The unemployment rate dropped to 4.4% in March 2018 which is near the low of recent history. The U-6 unemployment figure dropped from 8.2% to 7.3% from January 2018 to January 2019 – an indicator that the economy is nearing full employment. Inflation remains very low at a rate of less than 2%.

The Guam economy continued its slow growth track. Visitor arrivals set another new record in 2017. This is the third year in a row a new record was set. Arrivals were up .6% over the prior year. Occupancy rates and room rates continued to increase over the year. Japan arrivals declined by 16.9% during the year. The escalating rhetoric between North Korea and the United States and the specific threats made to Guam were a significant factor in the declines. Another significant factor was the reduction in the number of flights from Japan to Guam. Arrivals from Korea continued to increase overtook Japan arrivals for the first time. The Guam Visitor's Bureau is continuing to pursue visitors from mainland China as there have now been more than two million visas issued to Chinese citizens.

Civilian and military construction continued to decline during the year. The chief reason has been the lack of availability of H-2 workers. The Department of Defense has received a temporary waiver of the visa rules which means H-2 labor will be available for buildup and related projects. Additional limited waivers were received during 2018.

With thanks for their input, perspectives and forecasts to: i) Gary Hiles, Chief Economist, Guam Department of Labor, "Economic Outlook FY 2017"

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Some major civilian projects are as follows:

Tsubaki Hotel – a 26-story, 340 room five-star hotel being constructed by Ken Corp. adjacent to the Nikko Hotel. Estimated cost is \$180 million. Completion is expected in 2019.

Low-income housing. Summer Town Estates with 66 low-income units is expected to be completed in early 2019. Villa Del Mar LLC – a 50-unit project off Kanada-Toto Loop in Mongmong has broken ground and will likely be completed in 2019. The cost of these two projects is \$50 million.

Summer Towers – a \$100 million four-tower development with 260 luxury condominium units next to Guam Memorial Hospital. The first tower is completed. The remaining towers are expected to be completed in 2018.

Tumon Bay Mall – a 200,000 square foot, two-level mall. Phase I construction is completed. Phase II interior construction is ongoing.

The Landmark – a 21,000 square foot two story structure for retail, healthcare, and office space near the ITC intersection is scheduled to be completed in May 2017.

Sea wall – a \$6 million project by the Fisherman's Co-op to build a 220-foot sea wall. Groundbreaking took place in 2017.

Northgate MarketPlace – a shopping and restaurant complex near the Guam Regional Medical City is in the planning phase. The estimated project cost is \$12 million.

Citta di Mare Hotel – a 500-room structure is in the planning phase and is expected to begin construction by 2020. The cost of the project is estimated at \$133 million.

University of Guam: Implementing Good-to-Great

The UOG Capital Campaign has continued its hiatus as many donors have been wearied by the ongoing campaign. The UOG Endowment Foundation is seeking smaller scale, targeted opportunities to interact with potential donors. President Krise has brought some fresh ideas for improving the capabilities of the Foundation.

President Krise has fully engaged the institution in a program to develop a five year strategic plan. The plan will lay out how the University will meet the challenges of improving student experience, increasing innovation in and out of the classroom, diversifying revenue sources, improving outreach and engagement communication, and improving campus facilities.

It is clear the government will not be able to continue to fund 50% of the cost of education. UOG is developing a plan to enable the University to meet the higher education demands of the region. A bill has recently been sent to the Guam Legislature appealing for the removal of restrictions hindering the University's ability to move nimbly and take advantage of opportunities for partnering with outside parties in order to develop new revenue streams.

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Years Ended September 30, 2018 and 2017

Below are initiatives that have been completed in recent years:

- 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 have been evaluated and ranked based on data and reports submitted. Executive management and the President are implementing decisions on program priorities, sustainability and resource allocations. The President's plan was well received by the Board of Regents during their review in May 2014.
- The Governor and Guam Legislature provided \$30.7 million in allotments for FY17. The University implemented 5% tuition increases in Fall 2015 and 2016. Higher education on Guam remains a good value with the University's tuition at ~60% of the public university average.
- PL31-237 enabled University control of locally funded student financial aid. The Board of Regents approved awards to policy areas of access, affordability, performance, retention and degree completion.
- PL32-114 established the Research Corporation of the University of Guam (RCUOG), which is now being implemented. RCUOG is modeled after similar corporations at colleges and universities in the U.S. It will allow UOG to be more nimble in its pursuit and execution of federal grants and contracts and developing businesses from intellectual property and patents.

PL 33-92 provided the authorizations necessary to move forward with the construction of the new Student Success Center and the Engineering Annex.
- The University has been awarded a five-year \$6 million grant from the U.S. National Science Foundation Experimental Program to Stimulate Competitive Research grant (EPSCoR) to develop research capacity. The University also was awarded a cancer grant from the National Institute of Health in partnership with the University of Hawaii.
- The University received its second consecutive 8-year accreditation renewal for the first time in the school's history.
- GOREX – The Guam Open Research Exchange was initiated in January 2018. UOG is connected to the University of Hawaii (UH) through a 100 Gigabyte line. UH is connected through Internet2 to hundreds of other research universities in the mainland. This also opens the door for UOG to take advantage of its location and serve as a regional hub for Internet2 connectivity.
- Students 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 pursuing their education on-line. It is the plan that will be funded through the University's Capital Campaign, which has generated ~\$13 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 has approved financing a Student Success Center and Engineering Annex. The \$21.7 million of USDA low-cost financing through the Rural Development Community Facilities Program will enable a one-stop student services center and set the stage for a School of Engineering. Funding will be from the Territorial Education Facilities Fund or similar sources. We are moving forward on finalizing the USDA loan and constructing these facilities in partnership with the UOG Endowment Foundation. Groundbreaking is targeted for summer 2016.

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

Management's Discussion and Analysis
Years Ended September 30, 2018 and 2017

- U.S. Department of Interior funded construction is changing the look of several major buildings. New space for Nursing at the Health Sciences Building has been added. Roof repair has been completed and interior renovations are completed at the newly named Calvo Fieldhouse. The University is seeking to bolster its financial reserves to help ensure the facilities are maintained.
- UOG has a target of being capable of handling 5,000 students and 5,000 online students by 2025.

In summary, the Good to Great strategic plan of the University of Guam is nearing completion. The University is embarking on a new five year strategic planning process call Para Hulo (Ever Upward). The top priority for the University is the pursuit of additional revenue sources to diversify our revenue streams and reduce dependency on the government of Guam. We will be responsive to the challenges our island societies face to develop an innovative and sustainable University that protects our environment and provides the high quality training and education needed to enable our students to drive economic growth on the island for many years to come.

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, 2018 and 2017

	<u>2018</u>	<u>2017 As restated</u>
<u>Assets and Deferred Outflows of Resources</u>		
Current assets:		
Cash and cash equivalents	\$ 8,250,391	\$ 9,647,880
Short-term investments	11,289,916	13,222,197
Due from Government of Guam	1,102,349	231,760
Tuition receivable, net of an allowance for doubtful accounts of \$3,882,164 in 2018 and \$3,694,967 in 2017	7,803,872	7,506,300
Due from the US Federal government	4,202,298	3,806,702
Due from University of Guam Endowment Foundation, Inc.	525,000	325,000
Other receivables, net of an allowance for doubtful accounts of \$1,066,333 in 2018 and \$600,159 in 2017	1,627,873	1,431,737
Inventories	674,936	782,002
Other current assets	290,823	438,440
Total current assets	<u>35,767,458</u>	<u>37,392,018</u>
Noncurrent assets:		
Restricted cash and cash equivalents	2,247,252	2,089,301
Restricted investments	5,877,554	5,198,982
Investments	11,290,549	10,274,478
Endowment investments	14,297,678	13,314,339
Capital assets:		
Depreciable capital assets, net of accumulated depreciation	61,314,906	62,683,762
Nondepreciable capital assets	4,927,532	4,753,256
Total noncurrent assets	<u>99,955,471</u>	<u>98,314,118</u>
Deferred outflows of resources:		
Deferred outflows from OPEB	11,072,936	13,613,303
Deferred outflows from pension	7,776,753	10,586,756
Total deferred outflows of resources	<u>18,849,689</u>	<u>24,200,059</u>
	<u>\$ 154,572,618</u>	<u>\$ 159,906,195</u>
<u>Liabilities, Deferred Inflows of Resources and Net Position</u>		
Current liabilities:		
Current portion of long-term debt	\$ 264,171	\$ 241,226
Accounts payable and accrued liabilities	5,469,808	4,988,393
Unearned revenues	9,464,117	8,307,407
Current portion of accrued annual leave	875,483	842,121
Total current liabilities	<u>16,073,579</u>	<u>14,379,147</u>
Noncurrent liabilities:		
Long-term debt, net of current portion	10,803,390	11,072,359
Deposits held on behalf of others	171,712	74,453
Accrued annual leave, net of current portion	1,011,574	1,045,482
DCRS sick leave liability	2,941,422	3,517,295
Net OPEB liability	125,480,519	130,132,437
Net pension liability	84,724,402	93,255,503
Total noncurrent liabilities	<u>225,133,019</u>	<u>239,097,529</u>
Deferred inflows of resources:		
Deferred inflows from OPEB	10,884,237	227,732
Deferred inflows from pension	3,541,353	834,982
Total deferred inflows of resources	<u>14,425,590</u>	<u>1,062,714</u>
Total liabilities and deferred inflows of resources	<u>255,632,188</u>	<u>254,539,390</u>
Commitments and contingencies		
Net position:		
Net investment in capital assets	55,174,877	56,123,433
Restricted, nonexpendable	5,126,907	5,126,907
Restricted, expendable	7,232,011	5,815,639
Unrestricted	(168,593,365)	(161,699,174)
Total net position	<u>(101,059,570)</u>	<u>(94,633,195)</u>
	<u>\$ 154,572,618</u>	<u>\$ 159,906,195</u>

See accompanying notes to financial statements.

UNIVERSITY OF GUAM ENDOWMENT FOUNDATION, INC.

Statements of Financial Position
December 31, 2017 and 2016

<u>ASSETS</u>	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 1,247,244	\$ 1,072,197
Pledges and other receivables, net of an allowance for doubtful accounts of \$114,748 and \$134,839 at December 31, 2017 and 2016, respectively	1,967,679	2,130,748
Investment in Bank of Guam stock	1,733,482	1,258,447
Investments in securities at fair value	11,130,153	9,364,199
Land held for investment	4,638,352	5,207,735
Equipment, net	8,714	15,245
	<u>\$ 20,725,624</u>	<u>\$ 19,048,571</u>
 <u>LIABILITIES AND NET ASSETS</u> 		
Liabilities:		
Accounts payable and accrued expenses	\$ 179,123	\$ 254,654
Total liabilities	<u>179,123</u>	<u>254,654</u>
Net assets:		
Unrestricted	7,591,870	6,384,336
Temporarily restricted	12,454,631	11,909,581
Permanently restricted	500,000	500,000
Total net assets	<u>20,546,501</u>	<u>18,793,917</u>
	<u>\$ 20,725,624</u>	<u>\$ 19,048,571</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, 2018 and 2017

	2018	2017 As restated
Operating revenues:		
Student tuition and fees	\$ 24,727,549	\$ 24,653,185
Less scholarship discounts and allowances	<u>(11,147,587)</u>	<u>(11,567,149)</u>
	13,579,962	13,086,036
Federal grants and contracts	31,077,851	30,378,823
Government of Guam grants and contracts	1,342,998	1,172,958
Private grants and contracts	1,039,469	1,153,310
Sales and services of education department	542,865	542,289
Auxiliary enterprises	1,732,692	1,782,675
Other revenues	<u>8,734,507</u>	<u>6,342,764</u>
Total operating revenues	<u>58,050,344</u>	<u>54,458,855</u>
Bad debts provision	<u>(1,015,086)</u>	<u>(449,519)</u>
Net operating revenues	<u>57,035,258</u>	<u>54,009,336</u>
Operating expenses:		
Instruction	22,487,205	22,279,981
Public service	10,710,287	11,715,173
Research	14,646,465	15,541,391
Operational and maintenance, plant	8,441,706	6,180,810
Scholarships and fellowships	9,153,335	10,035,229
Institutional support	9,515,942	10,219,433
Academic support	11,316,928	12,274,015
Student services	3,745,744	3,727,755
Depreciation	3,617,402	3,492,472
Auxiliary enterprises	3,004,132	2,351,331
Retiree healthcare costs and other pension benefits	<u>2,978,001</u>	<u>3,245,607</u>
Total operating expenses	<u>99,617,147</u>	<u>101,063,197</u>
Operating loss	<u>(42,581,889)</u>	<u>(47,053,861)</u>
Nonoperating revenues (expenses):		
Government of Guam appropriations:		
Operations	26,684,719	23,134,489
Student financial aid program	3,204,052	2,999,465
Guam Cancer Trust Fund	2,786,270	2,781,109
Capital expenditure loan repayment	500,000	500,000
Retiree healthcare costs and other pension benefits	2,978,001	3,245,607
Government of Guam capital contribution - lease repayment	602,349	-
Contributions from Endowment Foundation	200,000	200,000
Net investment income	1,736,947	2,355,658
Interest on capital assets - debt related	(504,036)	(514,841)
Debt service - DOA bond	(2,027,788)	(2,027,283)
Transfer to Agency Fund	<u>(5,000)</u>	<u>-</u>
Total nonoperating revenues, net	<u>36,155,514</u>	<u>32,674,204</u>
Change in net position	<u>(6,426,375)</u>	<u>(14,379,657)</u>
Net position at beginning of year	<u>(94,633,195)</u>	<u>(80,253,538)</u>
Net position at end of year	<u>\$ (101,059,570)</u>	<u>\$ (94,633,195)</u>

See accompanying notes to financial statements.

UNIVERSITY OF GUAM ENDOWMENT FOUNDATION, INC.

Statement of Activities
Year Ended December 31, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other income:				
Net investment income	\$ 1,265,164	\$ 287,482	\$ -	\$ 1,552,646
Contributions	43,888	587,010	-	630,898
In-kind contributions	5,000	-	-	5,000
Fundraising activities	28,685	76,986	-	105,671
Others	34,310	-	-	34,310
Net assets released from restrictions:				
Satisfaction of program restrictions	406,428	(406,428)	-	-
Total revenues	<u>1,783,475</u>	<u>545,050</u>	<u>-</u>	<u>2,328,525</u>
Expenses and losses:				
Program services:				
Scholarships	23,500	-	-	23,500
Total program services	<u>23,500</u>	<u>-</u>	<u>-</u>	<u>23,500</u>
Support services:				
Management and general	547,441	-	-	547,441
In-kind expenses	5,000	-	-	5,000
Total support services	<u>552,441</u>	<u>-</u>	<u>-</u>	<u>552,441</u>
Total expenses	<u>575,941</u>	<u>-</u>	<u>-</u>	<u>575,941</u>
Change in net assets	1,207,534	545,050	-	1,752,584
Net assets at beginning of year	<u>6,384,336</u>	<u>11,909,581</u>	<u>500,000</u>	<u>18,793,917</u>
Net assets at end of year	<u>\$ 7,591,870</u>	<u>\$ 12,454,631</u>	<u>\$ 500,000</u>	<u>\$ 20,546,501</u>

See accompanying notes to financial statements.

UNIVERSITY OF GUAM ENDOWMENT FOUNDATION, INC.

Statement of Activities
Year Ended December 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues, gains and other income:				
Net investment income	\$ 511,668	\$ 348,522	\$ -	\$ 860,190
Contributions	200,586	208,473	-	409,059
In-kind contributions	75,208	-	-	75,208
Fundraising activities	159,084	187,606	-	346,690
Others	205,500	-	-	205,500
Net assets released from restrictions:				
Satisfaction of program restrictions	350,652	(350,652)	-	-
Total revenues	<u>1,502,698</u>	<u>393,949</u>	<u>-</u>	<u>1,896,647</u>
Expenses and losses:				
Program services:				
Donations for debt service - UOG	200,000	-	-	200,000
Scholarships	-	-	-	-
Total program services	<u>200,000</u>	<u>-</u>	<u>-</u>	<u>200,000</u>
Support services:				
Management and general	407,838	-	2,253	410,091
In-kind expenses	75,208	-	-	75,208
Fundraising activities	128,423	-	-	128,423
Impairment of land held for sale	15,500	-	-	15,500
Total support services	<u>626,969</u>	<u>-</u>	<u>2,253</u>	<u>629,222</u>
Total expenses	<u>826,969</u>	<u>-</u>	<u>2,253</u>	<u>829,222</u>
Change in net assets	675,729	393,949	(2,253)	1,067,425
Net assets at beginning of year	<u>5,708,607</u>	<u>11,515,632</u>	<u>502,253</u>	<u>17,726,492</u>
Net assets at end of year	<u>\$ 6,384,336</u>	<u>\$ 11,909,581</u>	<u>\$ 500,000</u>	<u>\$ 18,793,917</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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Student tuition and fees, net	\$ 13,424,014	\$ 11,497,301
Grants, contracts and appropriations	33,064,722	32,343,728
Sales and services of education department	542,865	542,289
Auxiliary services	1,732,692	1,782,675
Other receipts	8,783,247	6,471,110
Payments to suppliers and employees for education and general expenses	(78,326,122)	(70,837,961)
Payments to students for financial aid	<u>(9,153,334)</u>	<u>(10,035,229)</u>
Net cash used for operating activities	<u>(29,931,916)</u>	<u>(28,236,087)</u>
Cash flows from non-capital related financing activities:		
Government of Guam appropriations collected	<u>30,879,014</u>	<u>34,878,554</u>
Cash flows from capital and related financing activities:		
Contributions from Endowment Foundation	-	25,000
Changes in restricted cash	(157,951)	2,820,570
Interest paid on capital debt	(504,036)	(514,841)
Principal paid on capital debt	(246,024)	(235,219)
Purchases of capital assets	<u>(2,422,822)</u>	<u>(2,438,126)</u>
Net cash used for capital and related financing activities	<u>(3,330,833)</u>	<u>(342,616)</u>
Cash flows from investing activities:		
Investment income	653,286	579,673
(Purchases) sale of investments	<u>332,960</u>	<u>(2,965,313)</u>
Net cash provided by (used for) investing activities	<u>986,246</u>	<u>(2,385,640)</u>
Net change in cash and cash equivalents	(1,397,489)	3,914,211
Cash and cash equivalents, beginning of year	<u>9,647,880</u>	<u>5,733,669</u>
Cash and cash equivalents, end of year	<u>\$ 8,250,391</u>	<u>\$ 9,647,880</u>

Supplemental information on noncash activities:

During the years ended September 30, 2018 and 2017, the University recorded appropriations of \$2,978,001 and \$3,245,607, respectively, for retiree healthcare costs and other pension benefits paid by the Government of Guam on behalf of the University.

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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	\$ (42,581,889)	\$ (47,053,861)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	3,617,402	3,492,472
Bad debts expense	1,015,086	449,519
Retiree healthcare costs	2,978,001	3,245,607
Noncash pension cost	5,530,227	13,295,371
Changes in assets and liabilities:		
Receivables, net	(1,904,389)	(1,357,571)
Inventories	107,066	503
Other current assets	147,617	(74,220)
Accounts payable, accrued liabilities and deposits held for others	578,673	(67,897)
Accrued annual leave	(546)	37,164
DCRS sick leave liability	(575,873)	192,027
Unearned revenues	<u>1,156,709</u>	<u>(395,201)</u>
Net cash used for operating activities	<u>\$ (29,931,916)</u>	<u>\$ (28,236,087)</u>

See accompanying notes to financial statements.

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

Notes to Financial Statements
September 30, 2018 and 2017

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 (GovGuam).

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, Inc. (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 Financial Position and Statements of Activities are separately presented in the University's financial statements. In addition, the Foundation's significant notes are summarized in Note 2.Z 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, 2018 and 2017

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, but less than one year.
- E. Investments. Investments and related investment earnings are reported at fair value using quoted market prices. Fair value is the price that would be received to sell an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the date as of which the fair value of an asset or liability is determined.
- 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 collectability of these accounts and prior collection experience. The allowance is established through a provision for bad debts charged to expense. Bad debts are written off against the allowance using the specific identification method.
- 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, 2018 and 2017.
- 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, 2018 and 2017

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. Deferred Outflows of Resources. In addition to assets, the statements of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. The University has determined the differences between expected and actual experience with regard to economic or demographic factors in the measurement of the total pension liability and pension contributions made subsequent to the measurement date qualify for reporting in this category.
- N. Deferred Inflows of Resources. In addition to liabilities, the statements of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (additions to net position) until then. The University has determined the differences between projected and actual earnings on pension plan investments and changes in proportion and differences between the University pension contributions and proportionate share of contributions qualify for reporting in this category.
- O. Compensated Absences. Vesting annual leave is accrued and reported as an expense and a liability in the period earned. No liability is accrued for non-vesting sick leave benefits. Annual leave expected to be paid out within the next fiscal year is accrued and is included in current liabilities. The maximum accumulation of annual leave convertible to pay upon termination of employment is limited to 320 hours. Pursuant to Public Law 27-106, employees who have accumulated annual leave in excess of three hundred twenty (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 (DCRS) to receive a lump sum payment of one-half of their accumulated sick leave upon retirement. A liability is accrued for estimated sick leave to be paid out to DCRS members upon retirement.

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

Notes to Financial Statements
September 30, 2018 and 2017

2. Summary of Significant Accounting Policies, Continued

- P. Pensions and Other Postemployment Benefits (OPEB). Pensions are required to be recognized and disclosed using the accrual basis of accounting. The University recognizes a net pension liability for the defined benefit pension plan in which it participates, which represents the University's proportional share of excess total pension liability over the pension plan assets - actuarially calculated - of a single employer defined benefit plan, measured one year prior to fiscal year-end and rolled forward. The total pension liability also includes the University's proportionate share of the liability for ad hoc cost-of-living adjustments (COLA) and supplemental annuity (SA) payments that are anticipated to be made to defined benefit plan members and for anticipated future COLA to DCRS members. Changes in the net pension liability during the period are recorded as pension expense, or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change, in the period incurred. Those changes in net pension liability that are recorded as deferred inflows of resources or deferred outflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the qualified pension plan and recorded as a component of pension expense beginning with the period in which they are incurred. Projected earnings on qualified pension plan investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and are amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred.

OPEB is required to be recognized and disclosed using the accrual basis of accounting. The University recognizes a net OPEB liability for the defined benefit OPEB plan in which it participates, which represents the University's proportional share of total OPEB liability - actuarially calculated - of an agent multiple employer defined benefit plan, measured one year prior to fiscal year-end and rolled forward. An OPEB trust has not been established thus the OPEB plan does not presently report OPEB plan fiduciary net position. Instead, the OPEB plan is financed on a substantially "pay-as-you-go" basis.

Changes in the net OPEB liability during the period are recorded as OPEB expense, or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change, in the period incurred. Those changes in net OPEB liability that are recorded as deferred inflows of resources or deferred outflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the qualified OPEB plan and recorded as a component of OPEB expense beginning with the period in which they are incurred.

- Q. 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 2018 and 2017 was \$221,360 and \$264,622, respectively.
- R. 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, pension and other liabilities that will not be paid within the next fiscal year.
- S. 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.

**UNIVERSITY OF GUAM
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Notes to Financial Statements
September 30, 2018 and 2017

2. Summary of Significant Accounting Policies, Continued

S. Net Position, Continued

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.

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.

T. 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.

U. 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 used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance.

V. 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.

**UNIVERSITY OF GUAM
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Notes to Financial Statements
September 30, 2018 and 2017

2. Summary of Significant Accounting Policies, Continued

- W. 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, deferred outflows of resources, liabilities, deferred inflows of resources, 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.
- X. 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.
- Y. Economic Dependency. The University is dependent on ongoing appropriations from the Government of Guam.

Z. UOG Endowment Foundation Pledges Receivable, Investments and Land Held for Sale

UOG Endowment Foundation Pledges Receivable:

Pledges receivable consist of donations pledged to the Foundation, but not yet received as of December 31, 2017 and 2016. These pledges are payable in installments over periods ranging from one to seven years. 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 and other receivables are the following unconditional promises to give:

	<u>2017</u>	<u>2016</u>
SBPA (School of Business and Public Administration) Building	\$ 128,108	\$ 175,407
60 th Anniversary Capital Campaign	<u>1,847,503</u>	<u>1,704,830</u>
Total pledges receivable	1,975,611	1,880,237
Other	<u>106,816</u>	<u>120,446</u>
	2,082,427	2,000,683
Less: allowance for doubtful accounts	<u>(114,748)</u>	<u>(134,839)</u>
	\$ <u>1,967,679</u>	\$ <u>1,865,844</u>

Pledges receivable at December 31, 2017 are scheduled to be paid as follows:

Less than one year	\$ 331,239
One to five years	812,000
More than five years	<u>2,125,000</u>
	3,268,239
Less unamortized discount	<u>(1,292,628)</u>
	\$ <u>1,975,611</u>

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

Z. UOG Endowment Foundation Pledges Receivable, Investments and Land Held for Sale, Continued

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.

Investments are carried at fair market values based on quoted market prices. Gains and losses on investments are reported in the statements of activities as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law. The composition of investments in securities as of December 31, 2017 and 2016, is as follows:

	<u>2017</u>	<u>2016</u>
Cash	\$ 190,755	\$ 577,790
Equities	8,417,398	5,857,939
Fixed income	2,260,493	2,778,154
Mutual funds	<u>261,507</u>	<u>150,316</u>
	\$ <u>11,130,153</u>	\$ <u>9,364,199</u>

The composition of net gains on investments in securities as of December 31, 2017 and 2016, is as follows:

	<u>2017</u>	<u>2016</u>
Net unrealized gains	\$ 344,213	\$ 703,637
Net realized gains (losses)	971,528	(816)
Interest income	269,146	235,874
Dividends	55,373	9,846
Fees and other expenses, net	<u>(87,614)</u>	<u>(88,351)</u>
	\$ <u>1,552,646</u>	\$ <u>860,190</u>

Investments at December 31, 2017 and 2016, respectively, include 65,431 and 24,614, of common stock in Bank of Guam (BOG). It also includes 1,000 shares of preferred stock in Bank of Guam (BOG) at December 31, 2017 and 2016. Dividends received from these shares are planned to be used for scholarship purposes and/or purchase of additional Bank of Guam stock as it is available for sale. The BOG shares contain no restrictions and are classified as unrestricted net assets.

UOG Endowment Foundation Land Held for Sale:

In 2014, the Foundation received a donation of land comprising approximately 1.24 million square meters, which was recorded at appraised value of \$5,616,469 at the time of receipt. On December 31, 2017 and 2016, the Foundation recorded an impairment loss of \$0 and \$15,500, respectively, for parcels of land that were revalued based on the current market selling price and appraisals, but was unable to obtain updated appraisals of other land parcels. The land is held for sale.

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Notes to Financial Statements
September 30, 2018 and 2017

2. Summary of Significant Accounting Policies, Continued

AA. New Accounting Standards. During the year ended September 30, 2018, the University implemented the following pronouncements:

- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The implementation of this statement had a material effect on the accompanying financial statements resulting in the restatement of the University's fiscal year 2017 financial statements to reflect the reporting of net OPEB obligation, deferred inflows of resources and deferred outflows of resources for its OPEB program and the recognition of OPEB expense in accordance with the provisions of GASB Statement No. 75. The implementation of GASB Statement No. 75 results in UOG reporting deferred outflows of resources of \$3,916,219 and a net OPEB obligation of \$109,724,874 as of October 1, 2016. UOG's net position as of October 1, 2016 and UOG's statement of revenues, expenses, and changes in net position for the year ended September 30, 2017 have been restated to reflect the required adjustments as follows:

	As Previously Reported	Adjustment	As Restated
As of October 1, 2016:			
Net position	\$ 25,555,117	\$ (105,808,655)	\$ (80,253,538)
For the year ended September 30, 2017:			
Change in net position	\$ (3,441,446)	\$ (10,938,211)	\$ (14,379,657)
As of September 30, 2017:			
Deferred outflows from OPEB	\$ _____ -	\$ 13,613,303	\$ 13,613,303
Net OPEB liability	\$ _____ -	\$ (130,132,437)	\$ (130,132,437)
Deferred inflows from OPEB	\$ _____ -	\$ (227,732)	\$ (227,732)
Net position	\$ 22,113,671	\$ (116,746,866)	\$ (94,633,195)

- GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.
- GASB Statement No. 85, *Omnibus 2017*, which address practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits).
- GASB Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt.

Except for GASB Statement No. 75, the implementation of these statements did not have a material effect on the University's financial statements.

**UNIVERSITY OF GUAM
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Notes to Financial Statements
September 30, 2018 and 2017

2. Summary of Significant Accounting Policies, Continued

AA. New Accounting Standards, Continued

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset. The provisions in Statement No. 83 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in Statement No. 84 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. The provisions in Statement No. 88 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The provisions in Statement No. 89 are effective for fiscal years beginning after December 15, 2019. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In August 2018, GASB issued Statement No. 90, *Majority Equity Interests – an Amendment of GASB Statements No. 14 and No. 61*, which improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and the relevance of financial statement information for certain component units. The provisions in Statement No. 90 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

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Notes to Financial Statements
September 30, 2018 and 2017

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.
- 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".

**UNIVERSITY OF GUAM
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Notes to Financial Statements
September 30, 2018 and 2017

3. Deposits and Investments, Continued

- 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.

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.

**UNIVERSITY OF GUAM
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Notes to Financial Statements
September 30, 2018 and 2017

3. Deposits and Investments, Continued

A. Deposits, Continued

At September 30, 2018 and 2017, the carrying amount of the University's cash and cash equivalents and time certificates of deposit were \$21,787,559 and \$24,959,378, respectively, and the corresponding bank balances were \$28,334,573 and \$29,833,248, respectively. Of the bank balance amounts, \$1,050,605 and \$1,050,555, 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, 2018 and 2017, the University recorded \$2,191,566 and \$2,179,249, 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, \$1,702,277 and \$1,718,982 at September 30, 2018 and 2017, respectively, is invested in a Federated Short-Intermediate Duration Municipal Trust Service Shares mutual fund, presented as restricted investments in the statements of net position.

As of September 30, 2018 and 2017, the University recorded \$4,992,546 and \$4,425,142, respectively, 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. Of the amount recorded, \$4,175,277 and \$3,480,000 at September 30, 2018 and 2017, respectively, is invested time certificates of deposits presented as restricted investments in the statements of net position.

Restricted cash and cash equivalents also include \$750,134 and \$625,199 as of September 30, 2018 and 2017, 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 \$62,686 and \$58,692, respectively, represents funds with various externally imposed restrictions.

B. Investments

Investments held by the University consist of certificates of deposit, 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.

Investments at September 30, 2018 consist of the following:

	<u>Short-term</u>	<u>Restricted</u>	<u>Long-term</u>	<u>Endowment</u>	<u>Total</u>
Certificates of deposit	\$ 11,289,916	\$ 4,175,277	\$ -	\$ -	\$ 15,465,193
Money market funds	-	-	151,245	191,527	342,772
Fixed income securities	-	-	2,781,570	3,522,415	6,303,985
Common stock	-	-	6,428,764	8,141,004	14,569,768
Mutual funds	-	1,702,277	491,234	622,069	2,815,580
Exchange-traded funds	-	-	1,437,736	1,820,663	3,258,399
	<u>\$ 11,289,916</u>	<u>\$ 5,877,554</u>	<u>\$ 11,290,549</u>	<u>\$ 14,297,678</u>	<u>\$ 42,755,697</u>

UNIVERSITY OF GUAM
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Notes to Financial Statements
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3. Deposits and Investments, Continued

B. Investments, Continued

Investments at September 30, 2017 consist of the following:

	<u>Short-term</u>	<u>Restricted</u>	<u>Long-term</u>	<u>Endowment</u>	<u>Total</u>
Certificates of deposit	\$ 13,222,197	\$ 3,480,000	\$ -	\$ -	\$ 16,702,197
Money market funds	-	-	237,109	307,261	544,370
Fixed income securities	-	-	2,720,110	3,524,896	6,245,006
Common stock	-	-	5,405,263	7,004,493	12,409,756
Mutual funds	-	1,718,982	743,513	963,493	3,425,988
Exchange-traded funds	-	-	<u>1,168,483</u>	<u>1,514,196</u>	<u>2,682,679</u>
	\$ <u>13,222,197</u>	\$ <u>5,198,982</u>	\$ <u>10,274,478</u>	\$ <u>13,314,339</u>	\$ <u>42,009,996</u>

The University's exposure to credit risk at September 30, 2018 and 2017 follows:

<u>Moody's Rating</u>	<u>2018</u>
AAA	\$ 2,927,698
A1/A	707,793
A2/A	197,340
A3/A	299,721
A3/BBB	227,378
BAA2/BBB	-
BAA3/BBB-	10,578
BA1/BB+	185,558
BA2/BB	123,263
BA3/BB-	198,240
B1/BB+	243,861
B2/B	244,987
B3/B	106,750
CAA1	40,979
Not rated	<u>789,839</u>
Total credit risk debt securities	\$ <u>6,303,985</u>

<u>Moody's Rating</u>	<u>2017</u>
AAA	\$ 3,074,223
A1/A	581,967
A2/A	426,538
A3/A	396,623
A3/BBB	-
BAA2/BBB	26,618
BAA3/BBB-	22,395
BA1/BB+	217,432
BA2/BB	200,525
BA3/BB-	267,179
B1/BB+	162,679
B2/B	134,912
B3/B	90,372
CAA1	20,326
Not rated	<u>623,217</u>
Total credit risk debt securities	\$ <u>6,245,006</u>

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Notes to Financial Statements
September 30, 2018 and 2017

3. Deposits and Investments, Continued

B. Investments, Continued

As of September 30, 2018, the University's fixed income securities had the following maturities:

<u>Investment Type</u>	<u>Fair value</u>	Less than <u>1 year</u>	1 to 5 <u>years</u>	5 to 10 <u>years</u>	More than <u>10 years</u>
Corporate bonds	\$ 3,142,710	\$ -	\$ 2,215,538	\$ 927,172	\$ -
U.S. Government Agency Bonds	824,937	-	435,098	247,963	141,876
U.S. Treasury Notes	<u>2,336,338</u>	<u>-</u>	<u>303,729</u>	<u>1,091,084</u>	<u>941,525</u>
	\$ <u>6,303,985</u>	\$ <u>-</u>	\$ <u>2,954,365</u>	\$ <u>2,266,219</u>	\$ <u>1,083,401</u>

As of September 30, 2017, the University's fixed income securities had the following maturities:

<u>Investment Type</u>	<u>Fair value</u>	Less than <u>1 year</u>	1 to 5 <u>years</u>	5 to 10 <u>years</u>	More than <u>10 years</u>
Corporate bonds	\$ 2,547,566	\$ -	\$ 1,487,815	\$ 1,037,551	\$ 22,200
U.S. Government Agency Bonds	2,538,887	885,913	1,029,757	378,137	245,080
U.S. Treasury Notes	<u>1,158,553</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,158,553</u>
	\$ <u>6,245,006</u>	\$ <u>885,913</u>	\$ <u>2,517,572</u>	\$ <u>1,415,688</u>	\$ <u>1,425,833</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, 2018 and 2017.

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, 2018 and 2017, 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.

The composition of net investment income (loss) for the years ended September 30, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Interest and dividends from investments	\$ 653,286	\$ 579,663
Investment fees expense	(194,214)	(170,908)
Appreciation of fair value of investments, net	<u>1,277,875</u>	<u>1,946,903</u>
	\$ <u>1,736,947</u>	\$ <u>2,355,658</u>

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3. Deposits and Investments, Continued

B. Investments, Continued

The University categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The University has the following recurring fair value measurements as of September 30, 2018 and 2017:

	Fair Value Measurements Using			
	September 30, 2018	Level 1	Level 2	Level 3
Investments by fair value level:				
Fixed income securities	\$ 6,303,985	\$ -	\$ 6,303,985	\$ -
Equity securities	14,569,768	14,569,768	-	-
Mutual funds	2,815,580	2,815,580	-	-
Exchange-traded funds	<u>3,258,399</u>	<u>3,258,399</u>	-	-
Total investments by fair value level	<u>26,947,732</u>	<u>20,643,747</u>	<u>6,303,985</u>	<u>-</u>
Investments measured at cost:				
Certificates of deposit	15,465,193	-	-	-
Money market funds	<u>342,772</u>	-	-	-
Total investments at cost	<u>15,807,965</u>	-	-	-
	<u>\$ 42,755,697</u>	<u>\$20,643,747</u>	<u>\$ 6,303,985</u>	<u>\$ -</u>

	Fair Value Measurements Using			
	September 30, 2017	Level 1	Level 2	Level 3
Investments by fair value level:				
Fixed income securities	\$ 6,245,006	\$ -	\$ 6,245,006	\$ -
Equity securities	12,409,756	12,409,756	-	-
Mutual funds	3,425,989	3,425,989	-	-
Exchange-traded funds	<u>2,682,678</u>	<u>2,682,678</u>	-	-
Total investments by fair value level	<u>24,763,429</u>	<u>18,518,423</u>	<u>6,245,006</u>	<u>-</u>
Investments measured at cost:				
Certificates of deposit	16,702,197	-	-	-
Money market funds	<u>544,370</u>	-	-	-
Total investments at cost	<u>17,246,567</u>	-	-	-
	<u>\$ 42,009,996</u>	<u>\$18,518,423</u>	<u>\$ 6,245,006</u>	<u>\$ -</u>

Equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Fixed income securities classified in Level 2 of the fair value hierarchy are valued using a matrix-based or model-based pricing techniques. These pricing techniques, which are obtained from various sources, assume normal market conditions and are based on large volume transactions.

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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, 2018 and 2017, loans receivable are reserved in the amount of \$17,999,479 and \$16,529,559, respectively, and recoveries collected are \$509,363 and \$744,236 for the years then ended, respectively.

5. Capital Assets

Activity and balances for capital assets for the years ended September 30, 2018 and 2017 consisted of the following:

	Balance <u>October 1, 2017</u>	Additions/ <u>Transfers</u>	Retirements/ <u>Transfers</u>	Balance <u>September 30, 2018</u>
2018:				
<u>Depreciable:</u>				
Land improvements	\$ 320,754	\$ -	\$ -	\$ 320,754
Building	87,025,199	-	-	87,025,199
Building improvements	5,462,719	1,053,016	-	6,515,735
Equipment	18,502,973	953,486	(123,022)	19,333,437
Library books	<u>7,778,157</u>	<u>254,224</u>	<u>-</u>	<u>8,032,381</u>
	119,089,802	2,260,726	(123,022)	121,227,506
Less accumulated depreciation	<u>(56,406,040)</u>	<u>(3,617,402)</u>	<u>110,842</u>	<u>(59,912,600)</u>
	<u>62,683,762</u>	<u>(1,356,676)</u>	<u>(12,180)</u>	<u>61,314,906</u>
<u>Nondepreciable:</u>				
Land	2,823,212	-	-	2,823,212
Construction in progress	<u>1,930,044</u>	<u>1,227,293</u>	<u>(1,053,017)</u>	<u>2,104,320</u>
	<u>4,753,256</u>	<u>1,227,293</u>	<u>(1,053,017)</u>	<u>4,927,532</u>
Total capital assets, net	\$ <u>67,437,018</u>	\$ <u>(129,383)</u>	\$ <u>(1,065,197)</u>	\$ <u>66,242,438</u>
2017:				
<u>Depreciable:</u>				
Land improvements	\$ 320,754	\$ -	\$ -	\$ 320,754
Building	86,855,665	169,534	-	87,025,199
Building improvements	4,056,914	1,405,805	-	5,462,719
Equipment	18,811,282	486,626	(794,935)	18,502,973
Library books	<u>7,596,790</u>	<u>181,367</u>	<u>-</u>	<u>7,778,157</u>
	117,641,405	2,243,332	(794,935)	119,089,802
Less accumulated depreciation	<u>(53,708,503)</u>	<u>(3,492,472)</u>	<u>794,935</u>	<u>(56,406,040)</u>
	<u>63,932,902</u>	<u>(1,249,140)</u>	<u>-</u>	<u>62,683,762</u>
<u>Nondepreciable:</u>				
Land	2,823,212	-	-	2,823,212
Construction in progress	<u>1,735,250</u>	<u>205,794</u>	<u>(11,000)</u>	<u>1,930,044</u>
	<u>4,558,462</u>	<u>-</u>	<u>(11,000)</u>	<u>4,753,256</u>
Total capital assets, net	\$ <u>68,491,364</u>	\$ <u>1,043,346</u>	\$ <u>(11,000)</u>	\$ <u>67,437,018</u>

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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 per 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>
2019	\$ 264,171	\$ 485,889	\$ 750,060
2020	276,137	473,923	750,060
2021	288,646	461,414	750,060
2022	301,721	448,339	750,060
2023	315,388	434,672	750,060
2024-2028	1,804,627	1,945,673	3,750,300
2029-2033	2,252,101	1,498,199	3,750,300
2034-2038	2,810,529	939,771	3,750,300
2039-2043	<u>2,754,241</u>	<u>257,832</u>	<u>3,012,073</u>
	\$ <u>11,067,561</u>	\$ <u>6,945,712</u>	\$ <u>18,013,273</u>

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, 2018 and 2017, the University received \$0, and \$500,000, respectively 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 \$0 and \$25,000 for the years ended September 30, 2018 and 2017, respectively.

7. Changes in Long-Term Liabilities

Changes in long-term liabilities in 2018 and 2017 are presented as follows:

	<u>Outstanding October 1, 2017 As restated</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding September 30, 2018</u>	<u>Amount due within one year</u>
Long-term debt	\$ 11,313,585	\$ -	\$ 246,024	\$ 11,067,561	\$ 264,171
Other liabilities:					
Deposits held on behalf of others	74,453	1,318,861	1,221,602	171,712	-
Accrued annual leave	1,887,603	1,632,640	1,633,186	1,887,057	875,483
DCRS sick leave liability	3,517,295	785,595	1,361,468	2,941,422	-
Net OPEB liability	130,132,437	-	4,651,918	125,480,519	-
Net pension liability	<u>93,255,503</u>	<u>603,842</u>	<u>9,134,943</u>	<u>84,724,402</u>	<u>-</u>
	\$ <u>240,180,876</u>	\$ <u>4,340,938</u>	\$ <u>18,249,141</u>	\$ <u>226,272,673</u>	\$ <u>1,039,654</u>

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7. Changes in Long-Term Liabilities, Continued

	Outstanding October 1, 2016 <u>As restated</u>	Additions <u>As restated</u>	Reductions <u>As restated</u>	Outstanding September 30, 2017 <u>As restated</u>	Amount due within <u>one year</u>
Long-term debt	\$ 11,548,805	\$ -	\$ 235,220	\$ 11,313,585	\$ 241,226
Other liabilities:					
Deposits held on behalf of others	69,214	1,105,896	1,100,657	74,453	-
Accrued annual leave	1,850,439	1,557,601	1,520,437	1,887,603	842,121
DCRS sick leave liability	3,325,268	1,002,713	810,686	3,517,295	-
Net pension liability	<u>93,512,860</u>	<u>8,501,249</u>	<u>8,758,606</u>	<u>93,255,503</u>	-
	<u>\$ 110,306,586</u>	<u>\$ 12,167,459</u>	<u>\$ 12,425,606</u>	<u>\$ 110,048,439</u>	<u>\$ 1,083,347</u>

8. Pensions

UOG is statutorily responsible for providing pension benefits for UOG employees through the GovGuam Retirement Fund (GGRF).

A. General Information About the Pension Plans:

Plan Description: GGRF administers the GovGuam Defined Benefit (DB) Plan, a single-employer defined benefit pension plan, and the Defined Contribution Retirement System (DCRS). The DB Plan provides retirement, disability, and survivor benefits to plan members who enrolled in the plan prior to October 1, 1995. Article 1 of 4 GCA 8, Section 8105, requires that all employees of GovGuam, regardless of age or length of service, become members of the DB Plan prior to the operative date. Employees of a public corporation of GovGuam, which includes the University, have the option of becoming members of the DB Plan prior to the operative date. All employees of GovGuam, including employees of GovGuam public corporations, whose employment commences on or after October 1, 1995, are required to participate in the Defined Contribution Retirement System (DCRS). Hence, the DB Plan became a closed group.

Members of the DB Plan who retired prior to October 1, 1995, or their survivors, are eligible to receive annual supplemental annuity payments. In addition, members of the DB Plan and the DCRS Plan who retired prior to September 30, 2017 are eligible to receive an annual ad hoc cost of living allowance (COLA).

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 Government of Guam Retirement Fund, 424 A Route 8, Maite, Guam 96910, or by visiting GGRF's website - www.ggrf.com.

Plan Membership: As of September 30, 2017 (the measurement date), plan membership consisted of the following:

DB members:	
Inactive employees or beneficiaries currently receiving benefits	7,279
Inactive employees entitled to but not yet receiving benefits	4,289
Active employees	<u>2,058</u>
	13,626
DCRS members:	
Active employees	<u>9,027</u>
	<u>22,653</u>

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8. Pensions, Continued

A. General Information About the Pension Plans, Continued:

Benefits Provided: The DB Plan provides pension benefits to retired employees generally based on age and/or years of credited service and an average of the three highest annual salaries received by a member during years of credited service, or \$6,000, whichever is greater. Members who joined the DB Plan prior to October 1, 1981 may retire with 10 years of service at age 60 (age 55 for uniformed personnel); or with 20 to 24 years of service regardless of age with a reduced benefit if the member is under age 60; or upon completion of 25 years of service at any age. Members who joined the DB Plan on or after October 1, 1981 and prior to August 22, 1984 may retire with 15 years of service at age 60 (age 55 for uniformed personnel); or with 25 to 29 years of service regardless of age with a reduced benefit if the member is under age 60; or upon completion of 30 years of service at any age.

Members who joined the DB Plan after August 22, 1984 and prior to October 1, 1995 may retire with 15 years of service at age 65 (age 60 for uniformed personnel); or with 25 to 29 years of service regardless of age with a reduced benefit if the member is under age 65; or upon completion of 30 years of service at any age. Upon termination of employment before attaining at least 25 years of total service, a member is entitled to receive a refund of total contributions including interest. A member who terminates after completing at least 5 years of service has the option of leaving contributions in the GGRF and receiving a service retirement benefit upon attainment of the age of 60 years. In the event of disability during employment, members under the age of 65 with six or more years of credited service who are not entitled to receive disability payments from the United States Government are eligible to receive sixty six and two-thirds of the average of their three highest annual salaries received during years of credited service. The DB Plan also provides death benefits.

Supplemental annuity benefit payments are provided to DB retiree members in the amount of \$4,238 per year, but not to exceed \$40,000 per year when combined with their regular annual retirement annuity. Annual COLA payments are provided to DB retiree and DCRS members in a lump sum amount of \$2,000. Both supplemental annuity benefit payments and COLA payments are made at the discretion of the Guam Legislature, but are funded on a "pay-as-you-go" basis so there is no plan trust. It is anticipated that ad hoc COLA and supplemental annuity payments will continue to be made for future years at the same level currently being paid.

On September 20, 2016, the Guam Legislature enacted Public Law 33-186, which created two new government retirement plans; the DB 1.75 Plan and the GRSP. Commencing April 1, 2017 through September 30, 2018, eligible employees may elect, during the "election window", to participate in the DB 1.75 Plan or the GRSP with an effective date of January 1, 2018. Beginning January 1, 2018, all new employees shall be automatically enrolled in the GRSP. New employees have sixty (60) days from the date of hire to elect to participate in the DCRS.

The DB 1.75 Plan is open for participation by certain existing employees, new employees, and reemployed employees who would otherwise participate in the DC Plan or the new GRSP and who make election on a voluntary basis to participate in the DB 1.75 Plan by December 31, 2017. Employee contributions are made by mandatory pre-tax payroll deduction at the rate of 9.5% of the employee's base salary while employer contributions are actuarially determined. Members of the DB 1.75 Plan automatically participate in the GovGuam deferred compensation plan, pursuant to which employees are required to contribute 1% of base salary as a pre-tax mandatory contribution.

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8. Pensions, Continued

A. General Information About the Pension Plans, Continued:

Contributions and Funding Policy: Contribution requirements of participating employers and active members to the DB Plan are determined in accordance with Guam law. Employer contributions are actuarially determined under the One-Year Lag Methodology. Under this methodology, the actuarial valuation date is used for calculating the employer contributions for the second following fiscal year. For example the September 30, 2016 actuarial valuation was used for determining the year ended September 30, 2018 statutory contributions. Member contributions are required at 9.55% of base pay.

As a result of actuarial valuations performed as of September 30, 2016, 2015 and 2014, contribution rates required to fully fund the Retirement Fund liability, as required by Guam law, for the years ended September 30, 2018, 2017 and 2016, respectively, have been determined as follows:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Normal costs (% of DB Plan payroll)	15.97%	16.27%	15.86%
Employee contributions (DB Plan employees)	<u>9.55%</u>	<u>9.55%</u>	<u>9.54%</u>
Employer portion of normal costs (% of DB Plan payroll)	<u>6.42%</u>	<u>6.72%</u>	<u>6.32%</u>
Employer portion of normal costs (% of total payroll)	1.60%	1.87%	1.94%
Unfunded liability cost (% of total payroll)	<u>22.12%</u>	<u>21.60%</u>	<u>22.42%</u>
Government contribution as a % of total payroll	<u>23.72%</u>	<u>23.47%</u>	<u>24.36%</u>
Statutory contribution rates as a % of DB Plan payroll:			
Employer	<u>27.83%</u>	<u>27.41%</u>	<u>28.16%</u>
Employee	<u>9.55%</u>	<u>9.55%</u>	<u>9.54%</u>

The University's contributions to the DB Plan for the years ending September 30, 2018, 2017 and 2016 were \$2,349,323, \$2,753,736 and \$2,538,205, respectively, which were equal to the required contributions for the respective years then ended.

For the years ended September 30, 2018, 2017 and 2016, the University recognized ad hoc COLA and supplemental annuity payments as transfers from GovGuam, totaling \$1,135,265, \$1,138,186 and \$1,147,164, respectively, that GovGuam's general fund paid directly for the DB Plan retirees on behalf of the University, which were equal to the statutorily required contributions.

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

Contributions into the DCRS plan 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 for the DCRS plan for the years ended September 30, 2018 and 2017 are determined using the same rates as the DB Plan. Of the amount contributed by the employer, only 5% of the member's regular pay is deposited into the DCRS. The remaining amount is contributed towards the unfunded liability of the defined benefit plan.

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8. Pensions, Continued

A. General Information About the Pension Plans, Continued:

The University's contributions to the DCRS Plan for the years ended September 30, 2018, 2017 and 2016 were \$4,330,724, \$6,239,241 and \$6,021,163, respectively, which were equal to the required contributions for the respective years then ended. Of these amounts, \$3,448,947, \$5,151,021 and \$4,997,237 were contributed toward the unfunded liability of the DB Plan for the years ended September 30, 2018, 2017 and 2016, respectively.

B. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:

Pension Liability: At September 30, 2018 and 2017, UOG reported a net pension liability for its proportionate share of the net pension liabilities measured as of September 30, 2017 and 2016, respectively, which is comprised of the following:

	<u>2018</u>	<u>2017</u>
Defined benefit plan	\$ 67,534,997	\$ 80,510,523
Ad hoc COLA/supplemental annuity plan for DB retirees	13,699,135	10,844,857
Ad hoc COLA plan for DCRS retirees	<u>3,490,270</u>	<u>3,298,131</u>
Subtotal	84,724,402	94,653,511
Discount rate variance	<u>(-)</u>	<u>(1,398,008)</u>
	<u>\$ 84,724,402</u>	<u>\$ 93,255,503</u>

The University's proportion of the GovGuam net pension liabilities was based on the University's expected plan contributions relative to the total expected contributions received by the respective pension plans for GovGuam and GovGuam's component units. At September 30, 2018 and 2017, UOG's proportionate shares of the GovGuam net pension liabilities were as follows:

	<u>2018</u>	<u>2017</u>
Defined benefit plan	5.91%	5.88%
Ad hoc COLA/supplemental annuity plan for DB retirees	4.75%	4.73%
Ad hoc COLA plan for DCRS retirees	5.59%	5.35%

Pension Expense (Benefit): For the years ended September 30, 2018 and 2017, the University recognized pension expense (benefit) for its proportionate share of plan pension expense from the above pension plans as follows:

	<u>2018</u>	<u>2017</u>
Defined benefit plan	\$ 2,055,732	\$ 10,023,280
Ad hoc COLA/supplemental annuity plan for DB retirees	(3,982,136)	957,871
Ad hoc COLA plan for DCRS retirees	<u>(309,421)</u>	<u>280,588</u>
	<u>\$ (2,235,825)</u>	<u>\$ 11,261,739</u>

Deferred Outflows and Inflows of Resources: At September 30, 2018 and 2017, the University reported total deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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8. Pensions, Continued

B. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, Continued:

	2018					
	Defined Benefit Plan		Ad Hoc COLA/SA Plan for DB		Ad Hoc COLA Plan for DCRS	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ -	\$ -	\$ -	\$ 158,582	\$ 27,112
Net difference between projected and actual earnings on pension plan investments	-	3,282,113	-	-	-	-
Changes of assumptions	-	-	-	-	352,506	232,128
Contributions subsequent to the measurement date	5,798,269	-	1,135,265	-	100,000	-
Changes in proportion and difference between UOG contributions and proportionate share of contributions	<u>95,243</u>	<u>-</u>	<u>15,083</u>	<u>-</u>	<u>121,805</u>	<u>-</u>
	<u>\$ 5,893,512</u>	<u>\$ 3,282,113</u>	<u>\$ 1,150,348</u>	<u>\$ -</u>	<u>\$ 732,893</u>	<u>\$ 259,240</u>
	2017					
	Defined Benefit Plan		Ad Hoc COLA/SA Plan for DB		Ad Hoc COLA Plan for DCRS	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 265,229	\$ 848	\$ -	\$ 63,663	\$ 27,761
Net difference between projected and actual earnings on pension plan investments	-	421,109	-	-	-	-
Changes of assumptions	229,235	-	11,187	-	360,187	-
Contributions subsequent to the measurement date	7,904,757	-	1,138,186	-	92,000	-
Changes in proportion and difference between UOG contributions and proportionate share of contributions	<u>782,843</u>	<u>-</u>	<u>3,850</u>	<u>-</u>	<u>-</u>	<u>120,883</u>
	<u>\$ 8,916,835</u>	<u>\$ 686,338</u>	<u>\$ 1,154,071</u>	<u>\$ -</u>	<u>\$ 515,850</u>	<u>\$ 148,644</u>

Deferred outflows resulting from contributions subsequent to measurement date will be recognized as reduction of the net pension liability in the following year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at September 30, 2018 will be recognized in pension expense as follows:

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8. Pensions, Continued

B. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, Continued:

<u>Year Ending September 30</u>	<u>Defined Benefit Plan</u>	<u>Ad Hoc COLA/SA Plan for DB Retirees</u>	<u>Ad Hoc COLA Plan for DCRS Retirees</u>
2019	\$ (638,791)	\$ 15,083	\$ 24,713
2020	(195,419)	-	24,713
2021	(1,403,899)	-	24,713
2022	(948,759)	-	24,713
2023	-	-	24,713
Thereafter	-	-	<u>250,086</u>
	<u>\$ (3,186,868)</u>	<u>\$ 15,083</u>	<u>\$ 373,651</u>

Actuarial Assumptions: Actuarially determined contribution rates for the DB Plan are calculated as of September 30, two years prior to the end of the fiscal year in which contributions are reported. The methods and assumptions used to determine contribution rates are as follows:

Valuation Date:	September 30, 2016
Actuarial Cost Method:	Entry age normal
Amortization Method:	Level percentage of payroll, closed
Remaining Amortization Period:	May 1, 2031 (14.58 years remaining as of September 30, 2016)
Asset Valuation Method:	3-year smoothed market value (effective September 30, 2009)
Inflation:	2.75% per year
Total payroll growth:	2.75% per year
Salary Increases:	4.00% to 7.50%
Retirement age:	50% are assumed to retire upon first eligibility for unreduced retirement. Thereafter, the probabilities of retirement are 20% until age 75, and 100% at age 75.
Mortality:	RP-2000 healthy mortality table set forward by 3 years for males and 2 years for females. Mortality for disabled lives is the RP 2000 disability mortality table set forward by 6 years for males and 4 years for females.
Other information:	Actuarial assumptions are based upon periodic experience studies. The last experience study reviewed experience from 2011-2015.

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8. Pensions, Continued

B. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, Continued:

The investment rate assumption as of September 30, 2016 was 7%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and the assumed rate of inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of the expected nominal return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Nominal Return</u>
U.S. Equities (large cap)	29%	8.78%
U.S. Equities (small cap)	7%	9.45%
Non-U.S. Equities	13%	9.15%
Non-U.S. Equities (small cap)	4%	9.15%
Non-U.S. Equities (emerging markets)	1%	10.75%
U.S. Fixed Income (aggregate)	25%	4.85%
Risk parity	8%	8.36%
High yield bonds	8%	7.35%
Global Real Estate (REITs)	5%	8.71%

Changes in Actuarial Assumptions: The following changes in actuarial assumptions occurred from the September 30, 2015 valuation to the September 30, 2016 valuation:

Mortality: The mortality table used as of September 30, 2016, is the RP-2000 combined mortality table, set forward by 3 years for males and 2 years for females. The mortality table used for disabled lives is the RP-2000 disability mortality table, set forward by 6 years for males and 4 years for females. Mortality improvement is assumed to be 30% of Scale BB, projected generationally from 2016. For the prior valuation, the mortality table used was the RP-2000 combined mortality table, set forward by 4 years for males and 1 year for females. The mortality table used for disabled lives was the RP-2000 disability mortality table for males and females. No provision was made for future mortality improvement in the prior valuation.

Salary Increases: Salaries are assumed to increase 7.5% per year for employees in their first 5 years of service, 6.0% for service between 6 and 10 years, 5.0% for service between 11 and 15 years, and 4.0% for service after 15 years. For the prior valuation, salaries were assumed to increase 7.5% per year for employees in their first 5 years of service, 6.0% for service between 6 and 10 years, 5.0% for service between 11 and 15 years, and 4.5% for service after 15 years.

Total Payroll Growth: Total payroll for defined benefit and defined contribution members is assumed to increase 2.75% per year. For the prior valuation, total payroll for defined benefit and defined contribution members was assumed to increase 3.0% per year.

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

Notes to Financial Statements
September 30, 2018 and 2017

8. Pensions, Continued

B. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, Continued:

Retirement Age: 50% of employees are assumed to retire when first eligible for unreduced retirement. Thereafter, 20% of employees will retire at each year until age 75, at which time all remaining employees are assumed to retire. For the prior valuation, 40% of employees are assumed to retire when first eligible for unreduced retirement. Thereafter, 15% of employees would retire at each year until age 65, and 20% of employees would retire from age 65 until age 70, at which time all remaining employees were assumed to retire.

Rates of Disability: The assumed rates of disability are based on the 1974-78 Society of Actuaries Long Term Disability Non-Jumbo table, with rates reduced by 50% for males and 75% for females. For the prior valuation, these rates were based on the 1974-78 Society of Actuaries Long Term Disability Non-Jumbo, with rates reduced by 50% for both males and females.

Leave Adjustments: Unused leave is assumed to increase a member's service by 1.5 years and increases average earnings by 5% at retirement. For the prior valuation, unused leave is assumed to increase service by 1.5 years and increased average earnings by 10% at retirement.

Survivor Benefit - Minor Children: An average of 0.2 eligible child survivors is assumed at the time of a retiree's death, with payments to the child survivor continuing for 6 years. For the prior valuation, this survivor benefit was assumed to increase the value of retirement benefits by 0.67% and survivor benefits by 20% for active members.

Discount Rate: The discount rate used to measure the total pension liability for the DB Plan as of September 30, 2017 was 7.0% (6.7% as of September 30, 2016), which is equal to the expected investment rate of return. The expected investment rate of return applies to benefit payments that are funded by plan assets (including future contributions), which includes all plan benefits except supplemental annuity payments to DB retirees and ad hoc COLA to both DB and DCRS retirees. The discount rate used to measure the total pension liability for the supplemental annuity and ad hoc COLA payments as of September 30, 2017 was 3.64% (3.058% as of September 30, 2016), which is equal to the rate of return of a high quality bond index.

Discount Rate Sensitivity Analysis: The following presents the sensitivity of the net pension liability to changes in the discount rate. The sensitivity analysis shows the impact to the University's proportionate share of the net pension liability if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

Defined Benefit Plan:

	1% Decrease in Discount Rate <u>6.0%</u>	Current Discount Rate <u>7.0%</u>	1% Increase in Discount Rate <u>8.0%</u>
Net Pension Liability	<u>\$ 93,818,806</u>	<u>\$ 67,534,997</u>	<u>\$ 53,509,917</u>

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

Notes to Financial Statements
September 30, 2018 and 2017

8. Pensions, Continued

B. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, Continued:

Ad Hoc COLA/Supplemental Annuity Plan for DB Retirees:

	1% Decrease in Discount Rate <u>2.64%</u>	Current Discount Rate <u>3.64%</u>	1% Increase in Discount Rate <u>4.64%</u>
Net Pension Liability	<u>\$ 14,947,076</u>	<u>\$ 13,699,135</u>	<u>\$ 12,613,931</u>

Ad Hoc COLA Plan for DCRS Retirees:

	1% Decrease in Discount Rate <u>2.64%</u>	Current Discount Rate <u>3.64%</u>	1% Increase in Discount Rate <u>4.64%</u>
Net Pension Liability	<u>\$ 3,968,806</u>	<u>\$ 3,490,270</u>	<u>\$ 3,082,561</u>

C. Payables to the Pension Plans:

As of September 30, 2018 and 2017, UOG recorded payables to GGRF of \$381,947 and \$345,715, respectively, representing statutorially required contributions unremitted as of the respective year-ends.

9. Other Post Employment Benefits (OPEB)

The University participates in the retiree health care benefits program. GovGuam's Department of Administration is responsible for administering the GovGuam Group Health Insurance Program, which provides medical, dental, and life insurance benefits to retirees, spouses, children and survivors. Active employees and retirees who waive medical and dental coverage are considered eligible for the life insurance benefit only. The program covers retirees and is considered an other postemployment benefits plan.

A. General Information About the OPEB Plan:

Plan Description: The other postemployment benefits plan is an agent multiple-employer defined benefit plan that provides healthcare benefits to eligible employees and retirees who are members of the GovGuam Retirement Fund. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75. The Governor's recommended budget and the annual General Appropriations Act enacted by the Guam Legislature provide for a premium level necessary for funding the program each year on a "pay-as-you-go" basis. Because the OPEB Plan consists solely of GovGuam'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.

Plan Membership: As of September 30, 2016, the date of the most recent valuation (the actuarial valuation date), plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits	7,342
Active plan members	<u>10,282</u>
	<u>17,624</u>

**UNIVERSITY OF GUAM
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Notes to Financial Statements
September 30, 2018 and 2017

9. Other Post Employment Benefits (OPEB), Continued

A. General Information About the OPEB Plan, Continued:

Benefits Provided: OPEB Plan provides post employment medical, dental and life insurance benefits to the University's retirees, spouses, children and survivors, which are the same benefits as provided to active employees. Active employees and retirees who waive medical and dental coverage are considered eligible for the life insurance benefit only. The University contributes a portion of the medical and dental premiums, based on a schedule of semi-monthly rates, and reimburses certain Medicare premiums to eligible retirees. Retirees are also required to pay a portion of the medical and dental insurance premiums. Three types of health plans are offered to eligible participants:

- Standard islandwide Preferred Provider Organization (PPO) Plan
- High Deductible (Health Savings Account - HSA) PPO Plan
- Retiree Supplement Plan (RSP)

The PPO and HSA Plans apply to both active employees and retirees and work with set deductible amounts whereas the RSP Plan is an added option for retirees only.

Contributions: No employer contributions are assumed to be made since an OPEB trust has not been established. Instead, the OPEB Plan is financed on a substantially "pay-as-you-go" basis whereby contributions to the plan are generally made at about the same time and in about the same amount as benefit payments and expenses becoming due.

B. Total OPEB Liability:

As of September 30, 2018 and 2017, UOG reported a total OPEB liability of \$125,480,519 and \$130,132,437, respectively, for its proportionate share of the GovGuam total OPEB liability measured as of September 30, 2017 and 2016. The following presents the University's proportion change in proportion since the prior measurement date:

Proportion at prior measurement date, September 30, 2016	<u>5.16%</u>
Proportion at measurement date, September 30, 2017	<u>5.14%</u>
Increase/(decrease) in proportion	<u>0.02%</u>

The total OPEB liability for the OPEB Plan was determined by an actuarial valuation as of September 30, 2016 rolled forward to September 30, 2017 (the measurement date) using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation:	3.00%
Amortization Method:	Level dollar amount over 30 years on an open amortization period for pay-as-you-go funding.
Salary Increases:	7.5% per year for the first 5 years of service, 6% for 5-10 years, 5% for 11-15 years and 4.5% for service over 15 years.

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

Notes to Financial Statements
September 30, 2018 and 2017

9. Other Post Employment Benefits (OPEB), Continued

B. Total OPEB Liability, Continued:

Healthcare cost trend rates:	8% for 2016, decreasing 0.25% per year to an ultimate rate of 4.5% for 2030 and later years. Health care trend assumptions begin at current levels and grade down over a period of years to a lower level equal to some real rate plus inflation. The principal components of health trend are medical inflation, deductible erosion, cost shifting, utilization, technology and catastrophic claims. The overall effect of these components are expected to decline year by year.
Dental trend rates:	4% per year.
Participation rates:	Medical - 100% of eligible retired employees will elect to participate. Dental - 100% of eligible retirees will elect to participate. Life - 100% of eligible retirees will elect to participate.
Medicare enrollment:	15% of current and future retirees are assumed to enroll in Medicare and will enroll in a Retiree Supplemental Plan upon attainment of age 65. All employees retired prior to September 30, 2008 are assumed ineligible for Medicare upon attainment of age 65 and therefore will not enroll in a Medicare Supplemental Plan.
Dependent status:	Male spouses are assumed to be three years older and female spouses are assumed to be three years younger than the retired employee. 60% of employees are assumed to retire with a covered spouse. For current retired employees, the actual census information is used.
Actuarial cost method:	Entry Age Normal. The costs of each employee's post-employment benefits are allocated as a level basis over the earnings of the employee between the employee's date of hire and the assumed exit ages.
Healthy retiree mortality rate:	RP-2000 Combined Healthy Mortality Table, set forward 4 years and 1 year for males and females, respectively.
Disabled Retiree mortality rates:	RP-2000 Disabled Mortality Table for males and females.
Withdrawal rates:	15% for less than 1 year of service, decreasing 1% for each additional year of service up to 10 years, further decreasing 0.5% for each additional year of service up to 15 years, and 2% for service over 15 years.

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

Notes to Financial Statements
September 30, 2018 and 2017

9. Employees' Retirement Plans, Continued

B. Total OPEB Liability, Continued:

Disability rates: 0.05% for beneficiaries aged 20-39 years, 0.1% - 0.53% for beneficiaries aged 40-59 years, and 0.76% for beneficiaries aged 60-64 years.

OPEB plan fiduciary net position: As of September 30, 2018 and 2017, an OPEB trust has not been established thus the OPEB Plan does not presently report OPEB plan fiduciary net position.

Discount Rate: The discount rate used to measure the total OPEB liability was 3.63% as of September 30, 2017 (3.058% as of September 30, 2016). The projection of cash flows used to determine the discount rate assumed that contributions from the University will be made in accordance with the plan's funding policy. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be insufficient to make all projected benefit payments of current plan members. Therefore, the 3.63% municipal bond rate as of September 30, 2017 (3.058% as of September 30, 2016) was applied to all periods of projected benefit payments to determine the total OPEB liability.

C. Changes in the Total OPEB Liability:

Changes in the University's proportionate share of the total OPEB liability for the years ended September 30, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Balance at beginning of the year	\$ <u>130,132,437</u>	\$ <u>109,724,874</u>
Changes for the year:		
Service cost	5,635,446	4,539,172
Interest	4,122,719	4,203,936
Change of assumptions	(12,509,283)	13,565,255
Benefit payments	<u>(1,900,800)</u>	<u>(1,900,800)</u>
Net change	<u>(4,651,918)</u>	<u>20,407,563</u>
Balance at end of the year	\$ <u>125,480,519</u>	\$ <u>130,132,437</u>

Sensitivity of the total OPEB liability to changes in the discount rate: The following presents the sensitivity of the total OPEB liability to changes in the discount rate. The sensitivity analysis shows the impact to the University's proportionate share of the total OPEB liability if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

	1% Decrease in Discount Rate <u>2.63%</u>	Current Discount Rate <u>3.63%</u>	1% Increase in Discount Rate <u>4.63%</u>
Net OPEB Liability	\$ <u>149,163,200</u>	\$ <u>125,480,519</u>	\$ <u>106,484,878</u>

**UNIVERSITY OF GUAM
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Notes to Financial Statements
September 30, 2018 and 2017

9. Employees' Retirement Plans, Continued

C. Changes in the Total OPEB Liability:

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates: The following presents the sensitivity of the total OPEB liability to changes in the healthcare cost trend rate. The sensitivity analysis shows the impact to the University's proportionate share of the total OPEB liability if it were calculated using a healthcare cost trend rate that is 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rate:

	1% Decrease 7% Year 1 Decreasing to <u>3.50%</u>	Healthcare Cost Trend Rates 8% Year 1 Decreasing to <u>4.50%</u>	1% Increase 9% Year 1 Decreasing to <u>5.50%</u>
Net OPEB Liability	\$ <u>103,019,482</u>	\$ <u>125,480,519</u>	\$ <u>154,798,538</u>

D. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB:

For the years ended September 30, 2018 and 2017, the University reported total OPEB expense of \$8,544,954 and \$10,938,213, respectively, for its proportionate share of the GovGuam total OPEB expense measured for the years ended September 30, 2017 and 2016. At September 30, 2018 and 2017, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>2018</u>		<u>2017</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes of assumptions	\$ 9,330,200	\$ 10,752,696	\$ 11,597,882	\$ -
Contributions subsequent to the measurement date	1,742,736	-	2,015,421	-
Changes in proportion and difference between GCC contributions and proportionate share of contributions	-	<u>131,541</u>	-	<u>227,732</u>
	\$ <u>11,072,936</u>	\$ <u>10,884,237</u>	\$ <u>13,613,303</u>	\$ <u>227,732</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources (excluding employer specific amounts) related to OPEBs that will be subsequently recognized in OPEB expense are shown in the following table:

<u>Year Ended September 30</u>	
2019	\$ 183,855
2020	183,855
2021	183,855
2022	183,855
2023	(2,064,871)
Thereafter	<u>(42,219)</u>
	\$ <u>(1,371,670)</u>

**UNIVERSITY OF GUAM
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Notes to Financial Statements
September 30, 2018 and 2017

10. 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, 2018 and 2017, \$4,191,424 and \$4,362,522, respectively, of outstanding purchase orders and purchase commitments are not reported in the financial statements.

11. 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.

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 each of the years ended September 30, 2018 and 2017, total payments remitted to the Government of Guam's General Fund of \$2,027,787 and \$2,027,283, respectively, are recorded as debt service - DOA bond.

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 performance 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 \$0 as of September 30, 2018 and 2017.

Medicare

The Government of Guam and its component units, including the University, began withholding and remitting funds to the U.S. Social Security System for the health insurance component of its salaries and wages effective October 1998. Prior to that date, the Government of Guam did not withhold or remit Medicare payments to the U.S. Social Security System. If the Government is found to be liable for Medicare payments on salaries and wages prior to October 1998, an indeterminate liability could result. It has been the practice of the University and all other component units of the Government of Guam that payment of this health insurance component is optional prior to October 1998. Therefore, no liability for any amount which may ultimately arise from this matter has been recorded in the accompanying financial statements.

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

Notes to Financial Statements
September 30, 2018 and 2017

11. Commitments and Contingencies, Continued

Lease Agreement with UOG Endowment Foundation (the Foundation)

On October 6, 2016, the University signed a facilities lease agreement with the Foundation for the lease of UOG Student Success Center College of Natural and Applied Sciences – Engineering Anex (the Facilities), for a period of forty-years up to August 25, 2056. The construction of the Facilities are to be financed by the Foundation from a loan with the U.S. Department of Agriculture (USDA).

Future minimum lease payments as of September 30, 2018 are as follows:

<u>Year Ending September 30</u>	<u>Amount</u>
2019	\$ 869,736
2020	869,736
2021	869,736
2022	869,736
2023	869,736
Thereafter	<u>28,701,288</u>
Total	\$ <u>33,049,968</u>

12. Related Party

The University has assessed related party transactions and has concluded that none are material to the accompanying financial statements.

13. Due from Government of Guam

Due from Government of Guam consists of receivables from the GovGuam General Fund. During the year ended September 30, 2018, the University believed that it would collect the total amount appropriated from the General Fund. As of January 2019, \$5,536,627 of appropriations have not been collected and would not necessarily be funded and as a result, the University reduced its aggregate Government of Guam appropriations as follows:

Appropriations per law	\$ 39,416,366
Less amount that may not be collected	(4,536,627)
Less amount collected in FY 2019 against FY 2018 continuing appropriation	<u>(1,102,349)</u>
Net appropriations	\$ <u>33,777,390</u>

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

Schedules of Required Supplemental Information (Unaudited)
Schedule of Proportional Share of the Net Pension Liability
Last 10 Fiscal Years*

Defined Benefit Plan

	2018	2017	2016	2015	2014
Total net pension liability	\$ 1,142,249,393	\$ 1,368,645,126	\$ 1,436,814,230	\$ 1,246,306,754	\$ 1,303,304,636
UOG's proportionate share of the net pension liability	\$ 67,534,997	\$ 80,510,523	\$ 81,001,196	\$ 68,326,815	\$ 78,004,153
UOG's proportion of the net pension liability	5.91%	5.88%	5.64%	5.48%	5.99%
UOG's covered-employee payroll**	\$ 30,053,044	\$ 29,784,398	\$ 28,828,564	\$ 27,682,709	\$ 27,552,299
UOG's proportionate share of the net pension liability as percentage of its covered employee payroll	224.72%	270.31%	280.98%	246.82%	283.11%
Plan fiduciary net position as a percentage of the total pension liability	60.63%	54.62%	52.32%	56.60%	53.94%

* This data is presented for those years for which information is available.

** Covered-employee payroll data from the actuarial valuation date with one-year lag.

See Accompanying Independent Auditors' Report.

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

Schedules of Required Supplemental Information (Unaudited)
Schedule of Proportional Share of the Net Pension Liability
Last 10 Fiscal Years*

Ad Hoc COLA/Supplemental Annuity Plan for DB Retirees

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Total net pension liability***	\$ 288,147,121	\$ 229,486,687	\$ 235,799,709
UOG's proportionate share of the net pension liability	\$ 13,699,135	\$ 10,844,857	\$ 11,126,455
UOG's proportion of the net pension liability	4.75%	4.73%	4.72%
UOG's covered-employee payroll**	\$ 24,165,700	\$ 23,927,282	\$ 24,129,357
UOG's proportionate share of the net pension liability as percentage of its covered employee payroll	56.69%	45.32%	46.11%

* This data is presented for those years for which information is available.

** Covered-employee payroll data from the actuarial valuation date with one-year lag.

*** No assets accumulated in a trust to pay benefits.

See Accompanying Independent Auditors' Report.

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

Schedules of Required Supplemental Information (Unaudited)
Schedule of Proportional Share of the Net Pension Liability
Last 10 Fiscal Years*

Ad Hoc COLA Plan for DCRS Retirees

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Total net pension liability***	\$ 62,445,490	\$ 61,688,067	\$ 52,115,736
UOG's proportionate share of the net pension liability	\$ 3,490,270	\$ 3,298,131	\$ 2,783,217
UOG's proportion of the net pension liability	5.59%	5.35%	5.34%
UOG's covered-employee payroll**	\$ 21,059,724	\$ 19,518,316	\$ 19,006,437
UOG's proportionate share of the net pension liability as percentage of its covered employee payroll	16.57%	16.90%	14.64%

* This data is presented for those years for which information is available.

** Covered-employee payroll data from the actuarial valuation date with one-year lag.

*** No assets accumulated in a trust to pay benefits.

See Accompanying Independent Auditors' Report.

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**UNIVERSITY OF GUAM
(A Component Unit of the Government of Guam)**
Schedules of Required Supplemental Information (Unaudited)
Schedule of Pension Contributions
Last 10 Fiscal Years*

	2018	2017	2016	2015	2014
Statutorily required contribution	\$ 7,406,814	\$ 7,318,972	\$ 7,582,871	\$ 7,352,199	\$ 7,404,564
Contribution in relation to the statutorily determined contribution	<u>7,904,757</u>	<u>7,535,442</u>	<u>7,796,236</u>	<u>7,611,247</u>	<u>7,307,020</u>
Contribution deficiency (excess)	<u>\$ (497,943)</u>	<u>\$ (216,470)</u>	<u>\$ (213,365)</u>	<u>\$ (259,048)</u>	<u>\$ 97,544</u>
UOG's covered-employee payroll **	<u>\$ 30,053,044</u>	<u>\$ 29,784,398</u>	<u>\$ 28,828,564</u>	<u>\$ 27,682,709</u>	<u>\$ 27,552,299</u>
Contribution as a percentage of covered-employee payroll	26.30%	25.30%	27.04%	27.49%	26.52%

* This data is presented for those years for which information is available.

** Covered-employee payroll data from the actuarial valuation date with one-year lag.

See Accompanying Independent Auditors' Report.

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

Schedules of Required Supplemental Information
Schedule of Changes in the Proportionate Share of the Total OPEB Liability and Related Ratios
Last 10 Fiscal Years*

	2018	2017	2016
Total OPEB Liability:			
Service cost	\$ 5,635,446	\$ 4,539,172	
Interest	4,122,719	4,203,936	
Changes of benefit terms	-	-	
Differences between expected and actual experience	-	-	
Changes of assumptions	(12,509,283)	13,565,255	
Benefit payments	(1,900,800)	(1,900,800)	
Net change in total OPEB liability	\$ (4,651,918)	\$ 20,407,563	
Net OPEB liability - beginning	130,132,437	109,724,874	
Net OPEB liability - ending	125,480,519	130,132,437	\$ 109,724,874
Covered-employee payroll	28,740,742	28,740,742	
UOG's total OPEB liability as a percentage of covered-employee payroll	436.59%	452.78%	
Notes to schedule			
<i>Discount rate</i>	3.63%	3.058%	3.71%

Changes of benefit terms:
None.

Changes of assumptions:
Discount rate has changed from respective measurement dates.

* Information for 2009-2015 is not available

** No assets accumulated in a trust to pay the benefits.

See Accompanying Independent Auditors' Report.

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

Schedules of Required Supplemental Information (Unaudited)
Schedule of Proportionate Share of the Total OPEB Liability
Last 10 Fiscal Years*

	<u>2018</u>	<u>2017</u>
Total OPEB liability **	\$ 2,431,048,672	\$ 2,532,753,040
UOG's proportionate share of the total OPEB liability	\$ 125,480,519	130,132,437
UOG's proportionate of the total OPEB liability	5.16%	5.14%
UOG's covered-employee payroll	28,740,742	\$ 28,740,742
UOG's proportionate share of the total OPEB liability as percentage of its covered-employee payroll	436.59%	452.78%

* This data is presented for those years for which information is available.

** No assets accumulated in a trust to pay the benefits.

See Accompanying Independent Auditors' Report.

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

Schedules of Required Supplemental Information
Schedule of OPEB Contributions
Last 10 Fiscal Years*

	<u>2018</u>	<u>2017</u>
Actuarially determined contribution	\$ 12,496,650	\$ 10,832,208
Contribution in relation to the actuarially determined contribution	<u>1,900,800</u>	<u>1,900,800</u>
Contribution deficiency	<u>\$ 10,595,850</u>	<u>\$ 8,931,408</u>
UOG's covered-employee payroll **	<u>\$ 28,740,742</u>	<u>\$ 28,740,742</u>
Contribution as a percentage of covered-employee payroll	6.61%	6.61%

Notes to Schedule

Valuation date:

Actuarially determined contributions rates are calculated as of September 30, 2016.

Method and assumptions used to determine contributions rates:

Actuarial cost method:	Entry age normal.
Amortization method:	Level dollar amount on an open amortization period for pay-as-you-go fund
Amortization period:	30 years
Inflation:	3%
Healthcare cost trend rates:	8% initial, decreasing 0.25% per year to an ultimate rate of 4.5%
Salary increase:	4.5% to 7.5%
Mortality (Healthy Retiree):	RP-2000 Combined Healthy Mortality Table, set forward 4 years and 1 year males and females, respectively.
Mortality (Disabled Retiree):	RP-2000 Disabled Mortality Table for males and females.

* Information for 2009 - 2016 is not available

See Accompanying Independent Auditors' Report.

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

Schedules of Salaries, Wages and Benefits
Years Ended September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Salaries and wages:		
Funded by local funds	\$ 23,861,867	\$ 23,010,168
Federal funds	5,708,319	5,485,085
General operations and federal funds	3,726,297	3,632,457
Other funding sources	<u>6,347,855</u>	<u>5,431,726</u>
Total salaries and wages	<u>39,644,338</u>	<u>37,559,436</u>
Benefits:		
Funded by local funds	13,042,062	21,314,292
Federal funds	937,347	899,808
General operations and federal funds	1,253,868	1,177,031
Other funding sources	<u>1,052,623</u>	<u>903,288</u>
Total benefits	<u>16,285,900</u>	<u>24,294,419</u>
Total salaries, wages and benefits	<u>\$ 55,930,238</u>	<u>\$ 61,853,855</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, 2018 and 2017

	2018		2017	
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Unrestricted</u>	<u>Restricted</u>
Instruction:				
Salaries and wages	\$ 14,177,024	\$ 154,835	\$ 12,956,782	\$ 201,665
Benefits	5,351,541	54,161	7,326,332	65,240
Travel	93,786	72,118	82,462	119,816
Contracts	908,427	415,053	487,247	393,160
Supplies	129,800	52,163	138,892	28,434
Equipment	30,924	16,234	35,146	8,952
Capital outlay	22,970	-	39,740	-
Utilities	23,366	-	13,280	-
Miscellaneous	918,122	66,681	324,341	58,492
	<u>\$ 21,655,960</u>	<u>\$ 831,245</u>	<u>\$ 21,404,222</u>	<u>\$ 875,759</u>
Public service:				
Salaries and wages	\$ 220,973	\$ 3,970,282	\$ 200,982	\$ 3,832,476
Benefits	788,857	1,188,542	1,851,439	1,098,869
Travel	1,409	526,387	31,779	467,042
Contracts	2,007,409	852,583	2,178,004	801,245
Supplies	24,511	400,620	18,211	301,739
Equipment	10,734	134,525	15,476	108,386
Capital outlay	-	99,550	3,531	8,902
Utilities	3,669	8,759	-	-
Miscellaneous	30,319	441,158	343,510	453,582
	<u>\$ 3,087,881</u>	<u>\$ 7,622,406</u>	<u>\$ 4,642,932</u>	<u>\$ 7,072,241</u>
Research:				
Salaries and wages	\$ 1,733,025	\$ 4,838,837	\$ 1,668,305	\$ 4,698,625
Benefits	1,531,078	984,696	2,869,039	947,517
Travel	25,881	1,026,011	21,726	944,336
Contracts	256,274	1,231,617	254,228	1,046,231
Supplies	90,859	759,103	90,425	680,557
Equipment	69,863	264,230	33,310	317,926
Capital outlay	62,531	423,485	1,937	-
Utilities	644	374	8,666	260,753
Miscellaneous	68,426	1,279,531	102,249	1,595,561
	<u>\$ 3,838,581</u>	<u>\$ 10,807,884</u>	<u>\$ 5,049,885</u>	<u>\$ 10,491,506</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, 2018 and 2017

	2018		2017	
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Unrestricted</u>	<u>Restricted</u>
Operational and maintenance, plant:				
Salaries and wages	\$ 1,654,288	\$ -	\$ 1,747,158	\$ -
Benefits	1,178,448	-	1,549,686	-
Travel	-	-	-	-
Contracts	634,890	476,093	575,067	-
Supplies	319,059	-	482,816	-
Equipment	71,988	-	192,373	-
Capital outlay	327,154	149,032	1,661,002	-
Utilities	3,627,579	-	(23,606)	-
Miscellaneous	<u>3,175</u>	<u>-</u>	<u>(3,686)</u>	<u>-</u>
	\$ <u>7,816,581</u>	\$ <u>625,125</u>	\$ <u>6,180,810</u>	\$ <u>-</u>
Scholarships and fellowships:				
Miscellaneous	\$ <u>221,360</u>	\$ <u>8,931,975</u>	\$ <u>264,622</u>	\$ <u>9,770,607</u>
Institutional support:				
Salaries and wages	\$ 3,752,167	\$ 272,281	\$ 3,577,132	\$ 206,906
Benefits	1,331,925	51,376	3,056,528	58,432
Travel	333,899	50,534	203,475	22,670
Contracts	2,553,454	136,839	2,365,550	88,005
Supplies	77,508	-	79,626	725
Equipment	68,905	25,000	51,292	3,582
Capital outlay	444,806	-	646	-
Utilities	373	-	92,040	-
Miscellaneous	<u>411,190</u>	<u>5,685</u>	<u>403,499</u>	<u>9,325</u>
	\$ <u>8,974,227</u>	\$ <u>541,715</u>	\$ <u>9,829,788</u>	\$ <u>389,645</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, 2018 and 2017

	2018		2017	
	Unrestricted	Restricted	Unrestricted	Restricted
Academic support:				
Salaries and wages	\$ 5,924,236	\$ -	\$ 5,761,189	\$ -
Benefits	2,550,483	-	3,735,703	-
Travel	567,044	-	262,058	-
Contracts	920,838	-	1,511,410	-
Supplies	374,141	-	226,283	7,000
Equipment	382,733	-	314,503	-
Capital outlay	263,658	-	3,925	-
Utilities	4,662	-	221,210	-
Miscellaneous	329,133	-	230,734	-
	<u>\$ 11,316,928</u>	<u>\$ -</u>	<u>\$ 12,267,015</u>	<u>\$ 7,000</u>
Student services:				
Salaries and wages	\$ 1,834,728	\$ 497,790	\$ 1,621,862	\$ 479,472
Benefits	866,752	15,459	1,180,395	4,208
Travel	61,865	81	43,618	-
Contracts	140,214	11,012	68,242	-
Supplies	33,982	1,429	50,119	390
Equipment	16,541	-	23,871	4,011
Capital outlay	-	-	52,820	-
Utilities	54,361	-	-	-
Miscellaneous	209,047	2,483	198,469	278
	<u>\$ 3,217,490</u>	<u>\$ 528,254</u>	<u>\$ 3,239,396</u>	<u>\$ 488,359</u>
Auxiliary enterprises:				
Salaries and wages	\$ 613,872	\$ -	\$ 606,882	\$ -
Benefits	392,582	-	551,031	-
Travel	7,936	-	5,055	-
Contracts	132,786	-	126,484	-
Supplies	69,538	-	72,019	-
Equipment	4,307	-	18,066	-
Capital outlay	-	-	760,124	-
Utilities	261,287	-	-	-
Miscellaneous	1,521,824	-	211,670	-
	<u>\$ 3,004,132</u>	<u>\$ -</u>	<u>\$ 2,351,331</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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Funded by:		
Local funds	426	437
Federal funds	237	168
General operations and federal funds	113	124
Other funding sources	426	346
	<u>1,202</u>	<u>1,075</u>

See Accompanying Independent Auditors' Report.

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

Schedules of Total Revenue Information
Years Ended September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
University-generated revenues:		
Tuition and fees (gross)	\$ 24,727,549	\$ 24,653,185
Scholarship and tuition discounts	(11,147,587)	(11,567,149)
Grants and contracts, net	33,460,318	32,705,091
Auxiliary enterprises and other revenues	<u>11,010,064</u>	<u>8,667,728</u>
Total University-generated revenues	58,050,344	54,458,855
Government of Guam appropriations (excluding retiree healthcare costs and other pension benefits appropriations)	<u>33,175,041</u>	<u>29,415,063</u>
Total revenues (excluding investment income, bad debts provision and retiree healthcare and other pension benefits appropriations)	\$ <u>91,225,385</u>	\$ <u>83,873,918</u>
Supplemental information:		
Net investment income (loss)	\$ <u>1,736,947</u>	\$ <u>2,355,658</u>
Provision for bad debts	\$ <u>(1,015,086)</u>	\$ <u>(449,519)</u>
Retiree healthcare costs and other pension benefits appropriations	\$ <u>2,978,001</u>	\$ <u>3,245,607</u>

See Accompanying Independent Auditors' Report.

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

**INDEPENDENT AUDITORS' REPORTS ON
INTERNAL CONTROL AND ON COMPLIANCE**

YEAR ENDED SEPTEMBER 30, 2018

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

The Board of Regents
University of Guam:

We have audited, in accordance with the 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 University of Guam (the University) and its discretely presented component unit as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated _____, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

_____, 2019

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

The Board of Regents
University of Guam:

Report on Compliance for Each Major Federal Program

We have audited the University of Guam's (the University's) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the University's major federal programs for the year ended September 30, 2018. The University's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the University's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the University's compliance.

Opinion on Each Major Federal Program

In our opinion, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2018.

Report on Internal Control Over Compliance

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the University of Guam and its discretely presented component unit as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the University's basic financial statements. We issued our report thereon dated _____, 2019, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

_____, 2019

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

Summary Schedule of Expenditures of Federal Awards, by Grantor
Year Ended September 30, 2017

<u>Federal Grantor Agency</u>	<u>Expenditures</u>
U.S. Department of Agriculture	\$ 4,558,589
U.S. Department of Commerce	841,929
U.S. Department of Defense	1,527,277
U.S. Department of the Interior	492,514
U.S. Department of Justice	68,333
National Archives and Records Administration	326,403
Institute of Museum and Library	16,833
National Science Foundation	1,317,612
U.S. Small Business Administration	555,104
U.S. Environmental Protection Agency	76,414
U.S. Department of Education	15,550,968
U.S. Department of Health and Human Services	3,522,534
Corporation for National and Community Service	67,367
U.S. Department of Homeland Security	433,025
Grand Total	\$ <u><u>29,354,902</u></u>

Reconciliation to the basic financial statements:

Operating revenues - Federal grants and contracts	\$ 30,902,851
Indirect cost allocation in operating expenses	(1,392,571)
Program income in operating expenses	(6,500)
Miscellaneous cost in operating expenses	<u>(148,878)</u>
	\$ <u><u>29,354,902</u></u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

**FOR DISCUSSION PURPOSES
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**UNIVERSITY OF GUAM
(A Component Unit of the Government of Guam)**

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2018

Federal CFDA #	Federal Grantor/Pass-Through Grantor/Program or Cluster Total	Pass-Through Entity ID Number	Expenditures	Amount Passed Through to Subrecipients	Research and Development Cluster
Direct from U.S. Department of Agriculture:					
10.025	Plant and Animal Disease, Pest Control, and Animal Care		\$ 412,771	\$	\$ 412,771
10.202	Cooperative Forestry Research		152,814		152,814
10.203	Payments to Agricultural Experiment Stations Under the Hatch Act		1,529,709		1,529,709
10.304	Homeland Security Agricultural		13,241		13,241
10.308	Resident Instruction Grants for Insular Area Activities		168,536		168,536
10.322	Distance Education Grants for Institutions of Higher Education in Insular Areas		50,589		-
10.328	National Food Safety Training, Education, Extension, Outreach, and Technical Assistance Competitive Grants Program		2,818		-
10.329	Crop Protection and Pest Management Competitive Grants Program		25,241		-
10.500	Cooperative Extension Service		1,245,811		-
10.652	Forestry Research		233,308		233,308
10.664	Cooperative Forestry Assistance		42,075		42,075
10.675	Urban and Community Forestry Program		66,491		66,491
10.680	Forest Health Protection		107,100		103,512
10.868	Rural Energy for America Program		10,069		10,069
	Subtotal Direct Programs		4,060,573	-	2,732,526
Pass-through from Government of Guam Department of Agriculture:					
10.170	Specialty Crop Block Grant Program - Farm Bill	none identified	179,490		179,490
Pass-through from Government of Guam Department of Public Health and Social Services:					
SNAP Cluster:					
10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	14-1700-009	183,871		-
	SNAP Cluster Subtotal		183,871	-	-
Pass-through from Utah State University:					
10.215	Sustainable Agriculture Research and Education	07-298-3455	36,448		36,448
Pass-through from Utah State University:					
10.215	Sustainable Agriculture Research and Education	87-474-9364	24,524		-
Pass-through from Kansas State University:					
10.500	Cooperative Extension Service	S17076	22,500		-
Pass-through from University of Hawaii:					
10.912	Environmental Quality Incentives Program	69-3A75-17-54	51,183		51,183
	Subtotal Pass-Through Programs		498,016	-	267,121
	U.S. Department of Agriculture Total		\$ 4,558,589	\$	\$ 2,999,647

See accompanying notes to Schedule of Expenditures of Federal Awards.

**FOR DISCUSSION PURPOSES
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**UNIVERSITY OF GUAM
(A Component Unit of the Government of Guam)
Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2018**

Federal CFDA #	Federal Grantor/Pass-Through Grantor/Program or Cluster Total	Pass-Through Entity ID Number	Expenditures	Amount Passed Through to Subrecipients	Research and Development Cluster
Direct from U.S. Department of Commerce:					
11.008	NOAA Mission-Related Education Awards		\$ 24,901	\$ -	\$ -
11.417	Sea Grant Support		339,439	-	339,439
11.427	Fisheries Development and Utilization Research and Development		50,460	-	50,460
11.482	Coral Reef Conservation Program		77,435	-	77,435
	Subtotal Direct Programs		<u>492,235</u>	<u>-</u>	<u>467,334</u>
Pass-through from the Research Corporation of the University of Hawaii:					
11.012	Integrated Ocean Observing System	Z10129876	6,646	-	6,646
11.432	Special Oceanic and Atmospheric Projects		26,649	-	26,649
Pass-through from Government of Guam Bureau of Statistics and Planning:					
11.419	Coastal Zone Management Administration Awards	C150601450	13,919	-	13,919
11.482	Coral Reef Conservation Program	W14090003	10,029	-	10,029
Pass-through from The Micronesia Conservation Trust:					
11.482	Coral Reef Conservation Program	MCT/NOAAAC2/Y2/2015/01	52,645	-	52,645
Pass-through from Government of Guam Bureau of Statistics and Planning:					
11.482	Coral Reef Conservation Program	NA13NOS4820012	235,030	-	235,030
Pass-through from University of Hawaii:					
11.482	Coral Reef Conservation Program	MCT-NOAACA2X/2015/01	4,776	-	4,776
	Subtotal Pass-Through Programs		<u>349,694</u>	<u>-</u>	<u>349,694</u>
	U.S. Department of Commerce Total		<u>\$ 841,929</u>	<u>\$ -</u>	<u>\$ 817,028</u>
Direct from the U.S. Department of Defense:					
12.002	Procurement Technical Assistance For Business Firms		\$ 301,889	\$ -	\$ -
12.300	Basic and Applied Scientific Research		1,139,358	-	1,139,358
12.600	Community Investment		86,030	-	-
	U.S. Department of Defense Total		<u>\$ 1,527,277</u>	<u>\$ -</u>	<u>\$ 1,139,358</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

**FOR DISCUSSION PURPOSES
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**UNIVERSITY OF GUAM
(A Component Unit of the Government of Guam)
Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2018**

Federal CFDA #	Federal Grantor/Pass-Through Grantor/Program or Cluster Total	Pass-Through Entity ID Number	Expenditures	Amount Passed Through to Subrecipients	Research and Development Cluster
Direct from U.S. Department of the Interior:					
15.605	Sport Fish Restoration		\$ (77,932)		\$ (77,932)
15.650	Research Grants (Generic)		6,410		6,410
15.657	Endangered Species Conservation Recovery Implementation Funds		93,501		93,501
15.805	Assistance to State Water Resources Research Institutes		223,524		223,524
15.875	Economic, Social, and Political Development of the Territories		80,653		-
15.945	Cooperative Research and Training Programs Resources of the National Park System		47,052		47,052
15.946	Cultural Resources Management		-		-
	Subtotal Direct Programs		<u>373,208</u>	-	<u>292,555</u>
Pass-through from the Research Corporation of the University of Hawaii:					
15.820	National Climate Change and Wildlife Science Center	Various	60,732		60,732
Pass-through from Government of Guam Bureau of Statistics and Planning:					
15.875	Economic, Social, and Political Development of the Territories	W16-0900-008	58,574		26,876
	Subtotal Pass-Through Programs		<u>119,306</u>	-	<u>87,608</u>
	U.S. Department of the Interior Total		<u>\$ 492,514</u>	<u>\$ -</u>	<u>\$ 380,163</u>
Direct from the U.S. Department of Justice:					
16.525	Grants to Reduce Domestic Violence, Dating Violence, Sexual Assault, and Stalking on Campus		\$ 68,333		\$ -
	U.S. Department of Justice Total		<u>\$ 68,333</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

**FOR DISCUSSION PURPOSES
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**UNIVERSITY OF GUAM
(A Component Unit of the Government of Guam)
Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2018**

Federal CFDA #	Federal Grantor/Pass-Through Grantor/Program or Cluster Total	Pass-Through Entity ID Number	Expenditures	Amount Passed Through to Subrecipients	Research and Development Cluster
	Direct from National Aeronautics and Space Administration:				
43.008	Education		\$ 324,312	\$ -	\$ 324,312
	Pass-through from University of Hawaii:	80NSSC17M0028			
43.008	Education		\$ 2,091	-	2,091
	Subtotal Pass-Through Programs		2,091	-	2,091
	National Archives and Records Administration Total		\$ 326,403	\$ -	\$ 326,403
	Direct from Institute of Museum and Library Services:				
45.301	Museums for America		\$ 16,833	\$ -	\$ -
	Institute of Museum and Library Services Total		\$ 16,833	\$ -	\$ -
	Direct from National Science Foundation:				
47.050	Geosciences		\$ 6,743	\$ -	\$ 6,743
47.070	Computer and Information Science and Engineering		62,549	-	-
47.074	Biological Sciences		27,210	-	27,210
47.076	Education and Human Resources		110,968	-	110,968
47.083	Office of Integrative Activities		1,058,499	-	1,058,499
	Subtotal Direct Programs		1,265,969	-	1,203,420
	Pass-through from University of Hawaii:	HI 120009			
47.074	Biological Sciences		5,413	-	5,413
47.076	Education and Human Resources		46,230	-	46,230
	Subtotal Pass-Through Programs		51,643	-	51,643
	National Science Foundation Total		\$ 1,317,612	\$ -	\$ 1,255,063
	Direct from Small Business Administration:				
59.037	Small Business Development Centers		\$ 555,104	\$ 108,009	\$ -
	U.S. Small Business Administration Total		\$ 555,104	\$ 108,009	\$ -
	Pass-through from Government of Guam Guam Environmental Protection Agency:	85-503-2046			
66.600	Environmental Protection Consolidated Grants for the Insular Areas - Program Support		\$ 76,414	\$ -	\$ -
	Subtotal Pass-Through Programs		76,414	-	-
	U.S. Environmental Protection Agency Total		\$ 76,414	\$ -	\$ -

See accompanying notes to Schedule of Expenditures of Federal Awards.

**FOR DISCUSSION PURPOSES
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**UNIVERSITY OF GUAM
(A Component Unit of the Government of Guam)
Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2018**

Federal CFDA #	Federal Grantor/Pass-Through Grantor/Program or Cluster Total	Pass-Through Entity ID Number	Expenditures	Amount Passed Through to Subrecipients	Research and Development Cluster
Direct from U.S. Department of Education:					
84.032	Federal Family Education Loans (Agency Loans)		\$ 93,467	\$ -	\$ -
	Student Financial Assistance Cluster:				
84.007	Federal Supplemental Educational Opportunity Grants (FSEOG)		133,275	-	-
84.033	Federal Work-Study Program		392,552	-	-
84.063	Federal Pell Grant Program		7,681,928	-	-
84.268	Federal Direct Student Loans		6,062,195	-	-
84.379	Teacher Education Assistance for College and Higher Education Grants		94,334	-	-
	Student Financial Assistance Cluster Subtotal		<u>14,364,284</u>	-	-
	TRIO Cluster:				
84.042	TRIO Student Support Services		298,179	-	-
84.044	TRIO Talent Search		350,552	-	-
84.047	TRIO Upward Bound		424,243	-	-
	TRIO Cluster Subtotal		<u>1,072,974</u>	-	-
84.325	Special Education - Personnel Development to Improve Services and Results for Children with Disabilities		20,243	-	-
84.326	Special Education Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities		-	-	-
	Subtotal Direct Programs		<u>20,243</u>	-	-
	U.S. Department of Education Total		<u>\$ 15,550,968</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

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**UNIVERSITY OF GUAM
(A Component Unit of the Government of Guam)
Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2018**

Federal CFDA #	Federal Grantor/Pass-Through Grantor/Program or Cluster Total	Pass-Through Entity ID Number	Expenditures	Amount Passed Through to Subrecipients	Research and Development Cluster
Direct from U.S. Department of Health and Human Services:					
93.107	Area Health Education Centers Point of Service Maintenance and Enhancement Awards		\$ 302,332	\$ 232,991	\$ -
93.251	Universal Newborn Hearing Screening		326,759	12,737	-
93.307	Minority Health and Health Disparities Research		543,965		543,965
93.314	Early Hearing Detection and Intervention Information System (EHD-IS) Surveillance Program		157,916		157,916
93.397	Cancer Centers Support Grants		926,264		926,264
93.424	NON-ACA/PPHF Building Capacity of the Public Health System to Improve Population Health through National X		4,000		-
93.464	ACL Assistive Technology		78,053		-
93.632	University Centers for Excellence in Developmental Disabilities Education, Research, and Service		552,120		-
	Subtotal Direct Programs		2,891,409	245,728	1,628,145
Pass-through from Government of Guam Department of Public Health and Social Services:					
93.043	Special Programs for the Aging-Title III, Part D-Disease Prevention and Health Promotion Services	various	36,960		-
93.104	Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances		-		-
93.110	Maternal and Child Health Federal Consolidated Programs		10,000		-
93.243	Substance Abuse and Mental Health Services-Projects of Regional and National Significance		162,407		-
93.424	NON-ACA/PPHF Building Capacity of the Public Health System to Improve Population Health through National X		15,379		-
93.505	Maternal, Infant, and Early Childhood Home Visiting Cluster: Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program		121,956		-
	Subtotal		346,702	-	-
Pass-through from Pennsylvania State University:					
93.310	Trans-NIH Research Support	various	173,979		173,979
Pass-through from University of Hawaii:					
93.397	Maternal and Child Health Federal Consolidated Programs	2U54CA143728-06A1	26,249		26,249
Pass-through from the Research Corps of the University of Hawaii:					
93.898	Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations	NUS8DP006312-01-00	84,195		84,195
	Subtotal Pass-Through Programs		631,125	-	284,423
	U.S. Department of Health and Human Services Total		\$ 3,522,534	\$ 245,728	\$ 1,912,568
Corporation for National and Community Service:					
94.006	Pass-through from Government of Guam Department of Labor: AmeriCorps	17AFHGU001001	\$ 67,367	\$ -	\$ -
	Corporation for National and Community Service Total		\$ 67,367	\$ -	\$ -
Pass-through from Government of Guam Department of Homeland Security:					
97.047	Pre-Disaster Mitigation	W170280-002	\$ 433,025	\$ -	\$ -
	Subtotal Pass-Through Programs		433,025	-	-
	U.S. Department of Homeland Security Total		\$ 433,025	\$ -	\$ -
	Grand Total		\$ 29,354,902	\$ 353,737	\$ 8,830,230

See accompanying notes to Schedule of Expenditures of Federal Awards.

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

Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 2018

(1) Scope of Audit

The University of Guam (the University) is a component unit of the Government of Guam created by Public Law 13-194, "The Higher Education Act," which became effective on November 3, 1976, as an autonomous agency of the Government of Guam. Only the financial statements of the University are included within the scope of the Single Audit.

(2) Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the University under programs of the Federal government for the year ended September 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the University, it is not intended to and does not present the financial position, changes in net assets or cash flows of the University.

(3) Summary of Significant Accounting Policies

Basis of Accounting

Expenditures reported on the Schedule are reported on the accrual basis of accounting, consistent with the manner in which the University maintains its accounting records. All expenses and capital outlays are reported as expenditures. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available. The University has not elected to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

The University recognizes contributions from the federal government when qualifying expenditures are incurred.

The University participates in the Federal Direct Student Loan program. The value of loans presented in the Schedule of Expenditures of Federal Awards is equivalent to the amount of new loans during the year.

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

Schedule of Findings and Questioned Costs
Year Ended September 30, 2018

Section I - Summary of Auditors' Results

Financial Statements

- | | |
|---|---------------|
| 1. Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: | Unmodified |
| Internal control over financial reporting: | |
| 2. Material weakness(es) identified? | No |
| 3. Significant deficiency(ies) identified? | None reported |
| 4. Noncompliance material to financial statements noted? | No |

Federal Awards

- | | |
|---|---|
| Internal control over major federal programs: | |
| 5. Material weakness(es) identified? | No |
| 6. Significant deficiency(ies) identified? | None reported |
| 7. Type of auditors' report issued on compliance for major federal programs: | Unmodified |
| 8. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | No |
| 9. Identification of major federal programs: | |
| <u>CFDA Numbers</u> | <u>Name of Federal Program or Cluster</u> |
| Various | Research and Development Cluster |
| Various | Student Financial Assistance Cluster |
| 93.251 | Universal Newborn Hearing Screening |
| 10. Dollar threshold used to distinguish between type A and type B programs: | \$ 880,647 |
| 11. Auditee qualified as low-risk auditee? | Yes |

Section II – Financial Statement Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

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

Schedule of Prior Year Findings and Questioned Costs
Year Ended September 30, 2018

Please see pages 16 and 17 for the Schedule of Prior Year Findings and Questioned Costs.



DT: February 27, 2019

TO: Zeny Asuncion-Nace, Comptroller
Administration & Finance
University of Guam

FR: Denise M. Mendiola, Acting Network Director
Pacific Islands SBDC Network/ Guam SBDC

RE: Summary Schedule of Prior Year Audit Findings

Hafa Adai Ms. Asuncion-Nace,

Please see the Pacific Islands SBDC Network/Guam SBDC's response to findings from the 2017 audit conducted by Deloitte.

Corrective Action Plan:

In response to the 2017 Audit findings from Deloitte, the Pacific Islands SBDC Network negotiated with SBA to lower our CY2018 goals to 128 Long Term Clients (LTCs), 30 New Business Start-ups/Bought a Business and \$2,515,000 Capital Infusion. Our CY2018 milestones report submitted to our host, advisory board and service centers indicates we exceeded our LTC goals by 104.69%, and Capital Infusion by 259.27%. However, we only achieved 63.33% of our New Business Start-ups/Bought a Business goal. Several external challenges contributed to the inability of our Network to achieve the New Business Start-ups/Bought a Business goal: The elimination of DOI Compact Impact funds to private sector development operations, including the funding of the Yap, Chuuk and Kosrae SBDCs; Typhoon Manghut and Yutu that caused catastrophic disasters in CNMI (Saipan, Tinian and Rota); and the increased restrictions to the funding of new small businesses lacking collateral and equity by lending institutions in the FSM and Republic of Palau. However, the high capital infusion indicates that existing businesses still have the ability to access funding opportunities. In September 2018, SBA changed our CY2019 goals to 125 Clients Served, 8 New Business Starts, \$2,929,468 Capital Infusion, and 453 Jobs Supported. Consequently, we adjusted our CY2019 strategy to focus on the growth and sustainability of existing businesses and their employees. In addition, we updated our Standard Operating Procedures to further strengthen our relationship with our service centers and stakeholders. Considering our above-average performance, we believe these new goals are realistic, achievable and should avert further potential findings.

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Name of Contact Person: Denise M. Mendiola, Acting Network Director, Pacific Islands SBDC Network/Guam SBDC

Proposed Completion Date: Ongoing

Please feel free to contact me with any questions or concerns regarding the information provided.

Si Yu'us Ma'ase',



Acting Network Director

Pacific Islands SBDC Network

University of Guam

P.O. Box 5014

Mangilao, Guam 96923

Ph: 671-735-2594

Mobile: 671-483-7325

Fax: 671-734-2002

E-mail: denise@pacificsbdc.com

Website: www.pacificsbdc.com

Facebook: <http://www.facebook.com/pacificsbdc>

_____, 2019

Dr. Thomas W. Krise
President
University of Guam
UOG Station
Mangilao, Guam 96923

Dear Dr. Krise:

In planning and performing our audit of the financial statements of the University of Guam (the University) as of and for the year ended September 30, 2018 (on which we have issued our report dated _____, 2019), 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, we considered the University's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, in connection with our audit, we have identified, and included in the attached Appendix I, deficiencies related to the University's internal control over financial reporting and other matters as of September 30, 2018 that we wish to bring to your attention.

We have also issued a separate report to the Board of Regents, also dated _____, 2019, on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

The definition of a deficiency is also set forth in the attached Appendix I.

Although we have included management's written response to our comments in the attached Appendix I, such responses have not been subjected to the auditing procedures applied to our audit and, accordingly, we do not express an opinion or provide any form of assurance on the appropriateness of the responses or the effectiveness of any corrective actions described therein.

A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with this report.

This report is intended solely for the information and use of management, the Board of Regents, others within the organization, the Office of Public Accountability - Guam and the Federal cognizant agency and is not intended to be and should not be used by anyone other than these specified parties.

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We will be pleased to discuss the attached comments with you and, if desired, to assist you in implementing any of the suggestions.

We wish to thank the staff and management of the University for their cooperation and assistance during the course of this engagement.

Very truly yours,

**FOR DISCUSSION PURPOSES
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SECTION I –DEFICIENCIES

We identified the following deficiencies involving the University’s internal control over financial reporting for the year ended September 30, 2018 that we wish to bring to your attention at this time:

1. Notes Receivable

Condition: Tests of notes receivable noted the following:

- Five of thirteen notes had no movement for more than twenty years and have been provided with a 100% allowance for doubtful accounts.

Recommendation: We recommend that accounts be monitored for balance fulfillment and that the University consider writing-off long outstanding receivables with no movement.

Auditee Response: The University does not concur considering a 100% write off. The status report of the five inactive items with a total balance of \$194,877 shows the following:

- a) SID #xxxx70 for \$7,164 is currently being pursued for her Verification of Employment to clear her account;
- b) SID #xxxx40 for \$36,259 is currently being pursued for payment. Student was contacted on March 7, 2019 and advised that student will continue monthly payment from last payment period;
- c) SID #xxxx06 for \$80,000 was sent to the Collection Agency which is actively pursuing collections;
- d) SID #xxxxx96 for \$ 55,327 was sent to the Collection Agency which is actively pursuing collections;
- e) SID #xxxx68 for \$16,127 was sent to the Collection Agency which is actively pursuing collections.

2. Nonmoving and Inactive Accounts

Comment: Tests of due from (to) accounts noted the following:

- Due from grantor agencies included outstanding accounts that had no movement since the prior year. Details follow:

<u>Project Title</u>	<u>Amount</u>
SEOG10-2011	\$ 11,792
AVP-UAP DPHSS Project Karinu TA & T	(50,748)
Direct Loan 09-14	239,405
PELL GRANT 09-16	233,459

- Other receivables at September 30, 2018 included the following inactive items:

A/R Returned Checks (Account #110600910)	\$ 50,225
A/R Faculty and Administrative Advances (Account #110601510)	25,333
A/R Faculty and Staff Advances (Account #110601810)	18,440
A/R Others (Account #110606672)	51,124
A/R Default Interest (Account #110606010)	97,876

The above inactive accounts include funds advanced for program expenditures which may no longer be reimbursable.

Recommendation: We recommend that the University perform timely and periodic analysis of general ledger accounts and assess long outstanding inactive accounts and document required corrective action.

SECTION I –DEFICIENCIES, CONTINUED

2. Nonmoving and Inactive Accounts, Continued

Auditee Response: The University concurs on Item 2- Project Karinu grant. The receivable will be closed out in Fiscal Year 2019 which should allow the application of the University's cost sharing as depicted in the grant.

The University concurs on Items 1, 3 and 4. These are Title IV grants. The Financial Aid Office will be requesting the U.S. Department of Education to re-open previous award years. If unsuccessful, the University will recommend to the Board of Regents to write-off the amounts. The Financial Aid Office and the Business Office agreed on a plan to reconcile accounts twice each semester at the beginning and at the end as follows: 1) Fanomnakan (Spring) Semesters in March and May and 2) Fanuchanan (Fall) Semesters in October and December. Reconciling the student's accounts at these intervals will ensure that underpayments or overpayments in the Title IV aid is prevented. Business Office will take the lead in ensuring this reconciliation occurs.

The University concurs to have periodic analysis of these accounts. Based on our research and analysis, the Business Office may request for write-off from the Board of Regents. Note that Items 6, 7 and 9, have collection transactions in Fiscal Year 2019.

3. Construction in Progress Monitoring

Comment: The following current year fixed asset additions were not timely capitalized:

- BC170001, Invoice #3 dated March 15, 2017 amounting to \$26,009 and Invoice #4 dated April 13, 2017 amounting to \$47,196 were incurred in FY2017 but were not capitalized that year.
- BC180144, Invoice #BC-1808-097 dated August 13, 2018 amounting to \$14,000 was incurred in FY2018 but was not capitalized in FY2018.

Recommendation: We recommend that timely coordination between the Business and the CIP Office occur to timely capitalize projects.

Auditee response: The University concurs. The Business Office will perform monthly Construction in Progress monitoring with the appropriate General Ledger object codes to identify CIP amounts and will then verify and confirm with the CIP Office.

4. Procurement

Comment: The following expenditures were not supported with sufficient procurement documents including the basis of vendor selection:

<u>Reference Number</u>	<u>Amount</u>
619535	\$ 14,660
622155	20,225
628559	40,500

Recommendation: We recommend that the University strengthen monitoring procedures over procurements documentation. Specifically, the Procurement Office should maintain documentation supporting vendor selection.

SECTION I – DEFICIENCIES, CONTINUED

4. Procurement, Continued

Auditee Response: The University concurs with the finding and will work on streamlining its processes to ensure that it maintains documentation supporting vendor selection.

- #619535 for \$14,660 is a payable for a bookstore procurement. The University concurs and the Procurement Office will work with the Bookstore to ensure compliance with the University's Procurement Policy as advocated by the 5GCA of the Procurement Law.
- #622155 for \$20,225 is a payable to a service vendor. The University concurs and the procurement office will work with respective unit to ensure compliance with the University's Procurement Policy as advocated by the 5GCA of the Procurement Law.
- #628559 for \$40,500 is a payable for professional services. The University concurs and the Procurement Office will work with the respective unit to ensure compliance with the University's Procurement Policy as advocated by the 5GCA of the Procurement Law.

5. Cash Handling

Comment: It appears that certain petty cash discrepancies and unaccounted for cash collections from different departments have not been resolved.

Recommendation: We recommend that management establish a documented process for resolving such discrepancies and unreconciled petty cash funds. We understand that the University is considering the addition of an internal auditor and if the position is filled, we reviewed quarterly audits of related processes occur.

Auditee Response: The University concurs. The University Executive Office is currently developing a revised version of the University Procedures Manual and will include required monitoring of cash management to ensure cash is safeguarded.

SECTION II – OTHER MATTERS

Other matters related to our observations concerning operations, compliance with laws and regulations, and best practices involving internal control over financial reporting that we wish to bring to your attention at this time are as follows:

1. Payroll

Comment: Tests of payroll expenditures noted the following:

- Five of twenty-three employee timesheets did not reflect employee signatures but supervisors approved the hours.
- One of twenty-three employee timesheets did not evidence supervisory approval, but the payroll was processed.

Recommendation: We recommend that management revisit its policies and procedures on timesheet preparation and approval as UOG changes from manual to online process through its Web Time Entry (WTE).

Auditee Response: The University concurs. The following will be implemented:

- a. WTE procedures will be updated and shared with all employees.
- b. Unapproved WTEs will not be paid.
- c. The WTE timesheet will be changed to reflect zero hours so that employees will be required to complete and sign their WTE.

SECTION III – DEFINITION

The definition of a deficiency is as follows:

A *deficiency* in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or competence to perform the control effectively.

MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING

The following comments concerning management's responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are adapted from auditing standards generally accepted in the United States of America.

Management's Responsibility

The University's management is responsible for the overall accuracy of the financial statements and their conformity with generally accepted accounting principles. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

Objectives of Internal Control over Financial Reporting

Internal control over financial reporting is a process affected by those charged with governance, management, and other personnel and designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity's objective of reliable financial reporting (i.e., the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles).

Inherent Limitations of Internal Control over Financial Reporting

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.