

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

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

YEARS ENDED SEPTEMBER 30, 2014 AND 2013

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, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as set forth in Section II of the forgoing table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the University and its discretely presented component unit as of September 30, 2014 and 2013, and the respective changes in financial position and cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 13 as well as the Schedule of Funding Progress and Actuarial Accrued Liability-Post Employment Benefits Other than Pension on page 39 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Financial Information

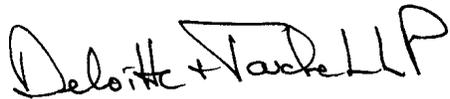
Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. The schedules of salaries, wages and benefits and the schedules of expenses by object category on pages 41 through 44 and the schedules of total revenue information on page 46 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 45 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 March 19, 2015, 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.

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is written in a cursive, flowing style.

March 19, 2015

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

Management's Discussion and Analysis
Years Ended September 30, 2014 and 2013

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, 2014. 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 (WASC). Our 3,958 students (Fall'14) are multicultural, multilingual and 51% Pacific Islander, 41% Asian, 4% White/ Non-Hispanic, 4% other. We offer 15 master's, 34 bachelor's and one nursing associates degree programs. Continuing education, professional development and English language training are available. Our 876 employees, include 172 full-time faculty, 36 administrators and 130 full-and-part-time staff and faculty adjuncts.

The Leadership. A nine-member Board of Regents governs the University. William Leon Guerrero is the Board Chairperson; Marcos W.K. Fong is Vice Chairperson; Antoinette D. Sanford is Treasurer and audit committee chair; Robert A. Underwood, Ed.D., is the University's 10th President; Anita Borja Enriquez, DBA, is Senior Vice President for Academic and Student Affairs; Randall V. Wiegand is Vice President for Administration and Finance; John Peterson, Ph.D., is Assistant Vice President for Graduate Studies, Sponsored Programs and Research; 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 Underwood, we have embarked on a Good to Great (G2G) process as an expansion of the Leading Change initiative, and have three other identified initiatives: the Natural Choice, UOG Green and Leading Change.

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.

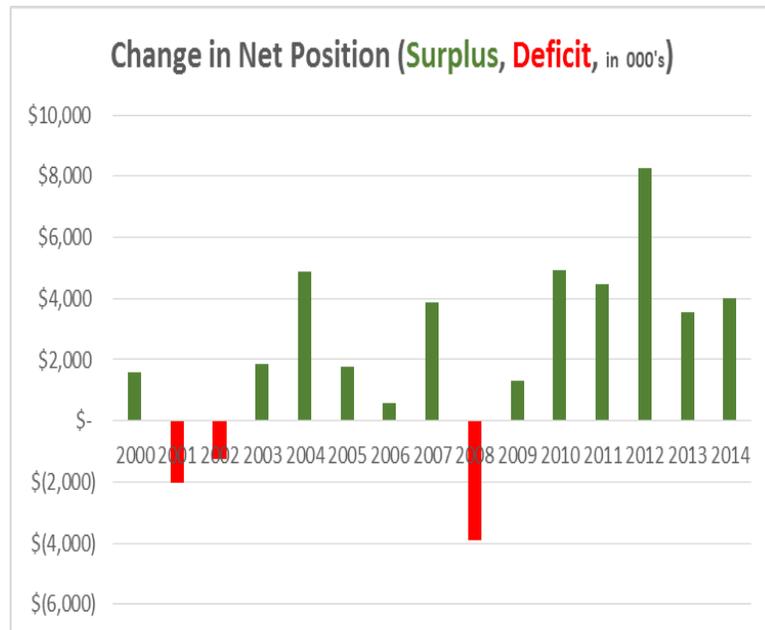
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Management's Discussion and Analysis
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FY2014 FINANCIAL HIGHLIGHTS AND STRATEGIC INSTITUTIONAL OUTCOMES

One of the most important questions in evaluating the financial health of an institution is whether the financial position has improved or deteriorated as a result of the year's operations. For the year ended September 30, 2014, the University's net position increased by \$4.1 million, which is 4.2% of consolidated revenues. The primary factors for the FY14 increase are the following:

- \$1.8 million is due to investment gains, most of which are unrealized. The gains result from marking the investment portfolio to market and do not generate current cash flows.
- After accounting for investment gains, there was a \$2.3 million surplus from ongoing operations. This is due to tight expense management within the revenues appropriated and generated.
- The University was the beneficiary of a one-time waiver of a \$2.2 million debt payment requirement related to a since-refinanced 1993 bond issuance undertaken by the general government, which included funding on behalf of the University for construction of educational facilities. Except for this one-time waiver, the University would have been at a break-even point for the year.



Important financial trends include:

- There has been a financial surplus in eleven of the last twelve years, averaging ~\$3 million (3.6% of revenues). This has bolstered financial reserves, established by Board policy as a best practice for stability and long-term viability. Adequate reserves are increasingly important in a period marked by institutional growth, economic challenges, and a changing higher education environment.

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Over the past twelve years, revenues have grown an average of 4.0% per annum. We are now a \$93 million revenue organization. This is down 2% from FY13 primarily related to decreased grant revenues. The University generates 62% of revenues; GovGuam provides 38%.

- Grants and contracts were \$37 million, down \$2.8 million (-7%) from FY13 due to the completion of several large federal grants.
- Expenses have been held in check, even with increased enrollment, explosive growth in grant spending, stepped-up facility maintenance, merit-based salary increments, and utility and retirement rate hikes.

Significant institutional outcomes that affect the financial statements and resources include:

- With support of the Guam Legislature and Governor, the University has held tuition rates the same for five years. This shows the community's commitment to higher education access and affordability.
- Fall'14 FTE enrollment was a record 3,958 students – the highest on record. The 46,917 credit hours production is also the highest on record.
- 508 undergraduate and graduate degrees were conferred in Academic Year'13-14. Alumni now number 14,804. They are the professional backbone and leadership of our island and 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 (WASC) and by secondary accreditation for the professional schools. After reviewing the 2013 Interim Report, WASC praised the University for our financial improvements, collaborative campus culture, presidential leadership, open communications and efforts in enrollment management, program review, and assessment.
- In 2013, the University embarked on a Good-to-Great initiative. A process of program prioritization and resource allocation is well underway to realize our potential to be a great university with great programs. We are focused on our mission, our purpose and our dynamic role in the social, economic and political development of our region. In 2014, the University is well on its way in implementing the Good-to-Great initiative.

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>2014</u>	<u>2013</u>	<u>2012</u>
Non-Capital Assets	\$ 69,185	\$ 63,070	\$ 60,759
Capital Assets	<u>70,288</u>	<u>71,993</u>	<u>71,103</u>
Total Assets	\$ <u>139,473</u>	\$ <u>135,063</u>	\$ <u>131,862</u>
Current Liabilities	\$ 15,144	\$ 14,909	\$ 15,150
Non-Current Liabilities	<u>15,013</u>	<u>14,975</u>	<u>15,081</u>
Total Liabilities	<u>30,157</u>	<u>29,884</u>	<u>30,231</u>

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Net Investment in Capital Assets	58,247	60,710	58,707
Restricted	9,385	8,201	7,296
Unrestricted	<u>41,684</u>	<u>36,268</u>	<u>35,628</u>
Total Net Position	<u>109,316</u>	<u>105,179</u>	<u>101,631</u>
Total Liabilities, Deferred Inflow & Net Position	\$ <u>139,473</u>	\$ <u>135,063</u>	\$ <u>131,862</u>

For the last two years, the overall financial condition of the University has continued to strengthen. Total net position, which is the residual interest in assets net of liabilities, grew to \$109.3 million. This represents a \$4.1 million increase (3.9%) over FY13 and an \$7.7 million increase (7.6%) over FY12.

In FY14, net position grew over the prior two years due to increases in assets, particularly cash and investments. Receivables decreased substantially with improved collections systems. Liabilities remained relatively stable over the three year period. Current assets (including unearned revenue) covered current liabilities 2.63 times, an indicator that has increased over the period.

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 expenses, similar to an income statement.

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Operating Revenues, Net	\$ 55,033	\$ 56,551	\$ 62,365
Operating Expenses	<u>88,225</u>	<u>88,585</u>	<u>95,629</u>
Operating Revenues Net of Operating Expenses ¹	(33,192)	(32,034)	(33,264)
Non-Operating and Other Revenues and Expenses	36,610	34,190	34,985
Capital Contributions	<u>719</u>	<u>1,392</u>	<u>6,528</u>
Increase in Net Position	4,137	3,548	8,249
Net Position – Beginning of Year	<u>105,179</u>	<u>101,631</u>	<u>93,382</u>
Net Position – End of Year	\$ <u>109,316</u>	\$ <u>105,179</u>	\$ <u>101,631</u>

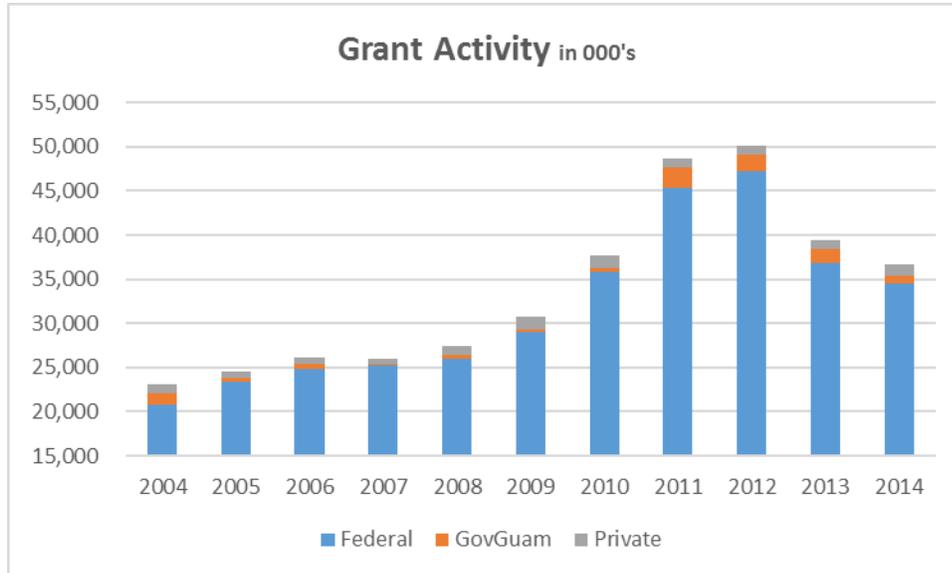
Net operating revenues were \$55.2 million, a \$1.5 million decrease from FY13 and \$7.1 million decrease from FY12. Most of the decrease from FY12 is explained by the completion of the ARRA projects and the elimination of ARRA grant revenue. Non-operating revenues were higher in 2014. This is the result of the one-time waiver by the Guam Legislature of a requirement to make an annual payment of approximately \$2.2 million resulting from a 1993 borrowing conducted by the Government of Guam on behalf of the University. The requirement to make this payment was only waived for FY14. Investment income was \$1.8 million (primarily unrealized), reflecting another year of solid stock market returns. University-generated revenues are now 62% of consolidated revenues (excluding investments and retiree health care); GovGuam appropriations are 38%.

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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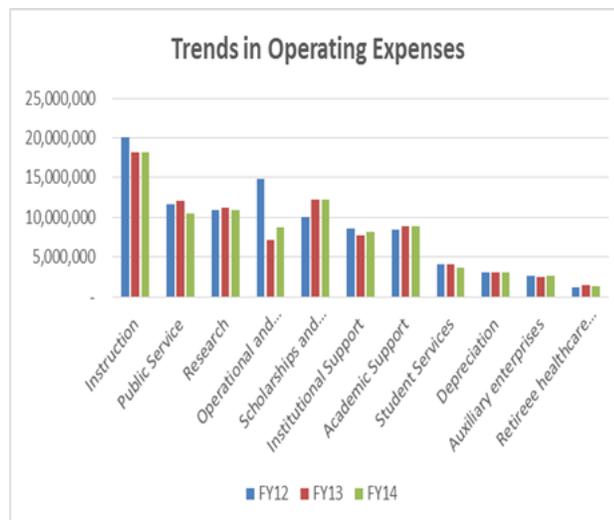
Management's Discussion and Analysis
 Years Ended September 30, 2014 and 2013

The following graph reflects grant activity for the last decade:



While federal grant revenues decreased in FY14 due to the completion of several large grants, the graph reflects the aggressiveness with which the University has been pursuing federal grants in recent years. Fiscal Years 2010-12 are not characteristic as they included ARRA grants that provided a unique opportunity for the University to perform some much needed improvements to the University's infrastructure. This is consistent with some of the initiatives to come out of the Good to Great methodology with the goal of decreasing dependence of the University on the local government.

FY14 operating expenses decreased \$0.36 million (-0.4%) from FY13 and \$7.4 million (-8.0%) from FY12, a direct result of the University's strict implementation of its Financial Management Plan. The University spent \$39.5 million directly on its core mission. Of that, 46% went to instruction, 26% to public service and 28% to research.



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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>2014</u>	<u>2013</u>	<u>2012</u>
Cash Provided by (Used in):			
Operating Activities	\$ (28,149)	\$ (26,181)	\$ (26,822)
Non-capital Financing Activities	30,840	36,024	32,554
Capital and Financing Activities	(2,296)	(3,356)	(920)
Investing Activities	<u>2,498</u>	<u>(1,358)</u>	<u>(831)</u>
Net Change in Cash and Cash Equivalents	2,893	5,129	3,981
Cash and Equivalents – Beginning of Year	<u>15,345</u>	<u>10,216</u>	<u>6,235</u>
Cash and Equivalents – End of Year	\$ <u>18,238</u>	\$ <u>15,345</u>	\$ <u>10,216</u>

In FY14, cash flow increased by \$2.9 million from FY13 and by \$8.0 million from FY12. Much of this is explained by the University's efforts to control costs. GovGuam allotments were paid in a somewhat inconsistent manner. The appropriations receivable ranged from \$6.1 million in FY12 to \$0.7 million in FY13 to \$3.9 million in FY14. The University continues to work with the government to streamline this process. As cash reserves, revenues and capital formation have increased, more resources have become available to deliver the Good to Great implementation plan and invest in future capacity.

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

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets: At the end of FY14, the University had \$117.2 million invested in capital assets. This represents a decrease in net capital assets (including additions and deletions) of \$2.9 million or 2.4% over the previous year. The University hired an independent professional to perform a full accounting of fixed assets. This led to a substantial retirement of assets – most of which were very old and fully depreciated. The University had accrued \$46.9 million in accumulated depreciation against the assets. Net capital assets were \$70.3 million, a decrease from the prior year's \$72.0 million. See Note 5 to the financial statements for additional information.

Long-Term Debt: The University has a note payable that is outstanding with the United States Department of Agriculture (USDA). The 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. As of September 30, 2014 and 2013, the University had long-term debt of \$12.0 million and \$12.3 million, respectively. See Note 6 to the financial statements for additional information.

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Management's Discussion and Analysis
Years Ended September 30, 2014 and 2013

Management's Discussion and Analysis for the year ended September 30, 2013 is set forth in the report on the audit of financial statements which is dated February 24, 2014. That Discussion and Analysis explains in more detail major factors impacting the 2013 financial statements. A copy of that report can be obtained via the contact below.

ECONOMIC AND OTHER FACTORS EXPECTED TO AFFECT THE UNIVERSITY ²

2014: Modest Growth

In 2014, the U.S. economy continued its recovery, but at a moderate pace. In the first quarter of the year, the economy declined. The decline was mostly attributed to the severe weather encountered during the quarter. Growth picked up during the second and third quarters and then slowed in the fourth quarter. For the year, the economy grew at just over 2.5%, which was slightly slower than 2013. As a result of the growth, the Federal Reserve felt comfortable continuing their tapering of the quantitative easing program. Despite the withdrawal of support from the bond market, interest rates have remained low and the S&P 500 gained 11.5% for the year. The unemployment rate improved to 5.7% in January 2015 – a decline of 0.9% from the previous year. Inflation remains very low at under 2%. The housing market continues below historic averages.

The Guam economy stabilized. Visitor arrival growth continued at a rate .6% faster than 2013. Arrivals achieved the second highest total ever – only 1997 was higher. Although visitors from Japan continue to decline, the loss is being made up by other major markets including Korea, Taiwan, Philippines, and China. The military build-up is remaining on track for a 2020 completion, however, the size of the build-up has been greatly reduced. Guam is being negatively impacted by the continued weakening of the Japanese yen. The price of the dollar has increased by 50% over the last three years. Employment increased, but unemployment remains high. GovGuam bond issues continue to be favorably received by financial markets and rating agencies, reflecting positive changes in the economy and fiscal management. This occurred despite financial troubles in Puerto Rico, which had the potential to impact bond issuances from all territories. The administration continued to pay overdue and current tax refunds and overtime payments, injecting substantial sums into the economy.

Construction on the Guam Regional Medical Facility continued throughout the year. The island is also looking forward to the opening of the new Dusit Thani hotel – a 400 room development - which is expected to create between 150-200 new jobs for the island. Additionally, during 2014 a Jack-in-the-Box restaurant opened, as did the first of two Applebee's Neighborhood Bar & Grill restaurants. The first of two L&L Hawaiian Barbecue restaurants also opened in 2014. In 2015, a Burger King restaurant is expected to open in Hagåtña. A Boston Pizza Co. and a Dolce Frutti are under construction in Tamuning. The first of three International House of Pancake (ihop) restaurants is scheduled to open in mid-2015. A Japanese hotel group announced plans to develop a new 348 room hotel in Guam in 2018.

² With thanks for their input, perspectives and forecasts to: i) Gary Hiles, Chief Economist, Guam Department of Labor, "Economic Outlook FY 2016"; ii) Dr. Maria Claret Ruane, Professor of Economics at the School of Business and Public Administration and Resident Development Economist, Pacific Center for Economic Initiatives, University of Guam, various materials provided; iii) David O'Brien, Professor of Business at the School of Business and Public Administration; and iv) Yahoo Finance website.

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2015: Continued Modest Expansion

Many of the same factors that led to U.S. economic recovery in 2014 continue into 2015 - low interest rates associated with the Fed stimulus, impacting numerous sectors; consumer spending; steady improvement in employment/ unemployment; and increased sales and prices in more housing markets. Nevertheless, there are similar headwinds and a few new issues to monitor, particularly associated with energy market disruptions, which are reflected in over 50% reductions in oil prices; the very strong U.S. dollar affecting exports and imports; the unexpectedly long tail to the equity bull market; and better but still problematic under-employment and lackluster wage growth. Consumer spending and confidence, which are key economic drivers, continue to benefit from increasing employment, wealth effects associated with the record stock market, increased home prices and still low mortgage interest rates, and very low inflation. The U.S. economy will also likely be affected by quantitative easing associated with slowing growth and deflationary pressures in Western Europe, which have plagued Japan; the Greek debt crisis; and uncertainty over how much and when the Fed will act to influence interest rates, associated with very low inflation, slow housing market recovery.

The recent drop in oil prices has left more money in the pockets of island residents as 2015 begins. Oil prices are expected to grow slowly over the next two years but to remain significantly below 2014 levels.

The Japanese yen is expected to continue to weaken against the dollar and this will likely continue to hinder growth in visitor arrivals from Japan. Exports from Japan will benefit from a falling yen. The visitor arrivals from Russia had been one of the fastest growing markets for Guam. However, it is expected that the falling oil prices, which are having a significant impact on the Russian economy, and the growing tensions between Russia and the U.S. will constrain growth in that market.

Guam's economy shows promise - the government is attending to fiscal discipline and deficit reduction, U.S. investment in the island will continue as we get closer to the date of the build-up, and private investment appears to be strong. Employment should continue to grow, however, unemployment will likely remain high compared to U.S. standards. The growth should occur over the next decade. UOG is positioning itself to ensure that the workforce on Guam will have the knowledge and skills required to feed the economic growth.

University of Guam: Implementing Good-to-Great

In 2014, the University community celebrated our 62nd Anniversary and conferred our 14,804th degree. The Capital Campaign received several substantial donations, including a land donation in the approximate amount of \$4 million from the Look family. Other large donations were received from Mobil Oil Guam and Moylan's First Net.

President Underwood has fully engaged the institution in a Good-to-Great process (G2G). We are a good university with good programs. A data-driven process of program prioritization and resource allocation is well underway to realize our potential to be a great university with great programs by focusing on our mission, our purpose and our dynamic role in the social, economic and political development of our region. Looking forward through the Good to Great (G2G) lens, the University recognizes the importance of limited resources for sustainability, greatness and strategic balance. The past financial instability and cash shortages are lessons learned about the realities of overdependence on government funding, program proliferation and the strategic importance of shared institutional priorities. For the University, the G2G challenge is to bring these forces into a new kind of equilibrium through a vision for a Great UOG, program prioritization and an analysis of the drivers of its resource engine. The G2G recommendations will lead to a more effective sustainable change in pursuit of the

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Great UOG. They will require resource reallocations, aligned priorities and new allocations and investments, as they become available. There will be more detailed planning and consultation. Most importantly, the Plan depends upon the commitment and support of University citizens.

The process is already well underway in building the Great UOG. The University's capacity to deliver the Great UOG and successfully provide the student learning experience and socially impactful research in the future will depend not only upon financial stability and sustainability. Investments, initiatives, new structures and ideas related to faculty and staff resources, relationships and partnering, infrastructure and technology also underpin future growth:

- 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 \$29.6 million in allotments for FY15 enabling a six-year run without increases. The University is planning on a 5% tuition increase in Fall 2015. 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, 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 32-68 and PL 32-269 removed University appropriations from GovGuam allotment control in FY14 and FY15. The University, Governor's Office, Department of Administration, and Bureau of Budget and Management Research have a positive record of working closely together and planning ahead in managing our appropriation payments.
- The University has applied for a U.S. National Science Foundation Experimental Program to Stimulate Competitive Research grant (EPSCoR) to develop research capacity. We also are seeking renewal of the National Institute of Health cancer grant in partnership with the University of Hawaii.
- Work on the 2015 Institutional Report for renewal of WASC accreditation has begun. The WASC team will visit the University in 2016.
- 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.

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

Management's Discussion and Analysis
Years Ended September 30, 2014 and 2013

- 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 ~ \$7 million. The Governor and Speaker of the Legislature are the campaign's honorary chairs and are working with the President and UOG Endowment Foundation.
- U.S. Department of Agriculture has approved financing a Student Services 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 before year-end 2015.
- 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 underway 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

In summary, the Good to Great University of Guam is being implemented – there's optimism and opportunity tempered by fiscal reality. We will be responsive to the challenges our island societies face to develop a great and sustainable University that protects our environment and provides the training and education to enable our students to drive economic growth on the island.

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, 2014 and 2013

	2014	2013
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 18,238,145	\$ 15,344,800
Short-term investments	7,557,936	10,025,720
Due from Government of Guam	3,890,851	724,992
Tuition receivable, net of an allowance for doubtful accounts of \$2,997,031 in 2014 and \$2,463,415 in 2013	6,223,314	6,040,123
Due from the US Federal government	2,952,007	3,555,120
Due from University of Guam Endowment Foundation, Inc.	200,000	50,000
Other receivables, net of an allowance for doubtful accounts \$590,191 in 2014 and \$435,640 in 2013	1,577,955	1,495,423
Inventories	640,513	635,004
Other current assets	342,855	175,260
Total current assets	41,623,576	38,046,442
Noncurrent assets:		
Restricted cash and cash equivalents	4,700,843	3,966,478
Restricted investments	1,739,029	1,690,007
Investments	9,870,315	9,106,382
Endowment investments	11,250,828	10,260,433
Capital assets:		
Depreciable capital assets, net of accumulated depreciation	65,331,610	67,539,924
Nondepreciable capital assets	4,956,614	4,453,775
Total noncurrent assets	97,849,239	97,016,999
	\$ 139,472,815	\$ 135,063,441
<u>Liabilities and Net Position</u>		
Current liabilities:		
Current portion of long-term debt	\$ 210,817	\$ 201,557
Accounts payable and accrued liabilities	5,066,934	6,284,441
Unearned revenues	8,641,086	7,203,397
Current portion of accrued annual leave	1,224,741	1,219,805
Total current liabilities	15,143,578	14,909,200
Noncurrent liabilities:		
Long-term debt, net of current portion	11,830,853	12,051,906
Deposits held on behalf of others	45,169	27,098
Accrued annual leave, net of current portion	487,706	547,416
DCRS sick leave liability	2,649,240	2,349,317
Total noncurrent liabilities	15,012,968	14,975,737
Total liabilities	30,156,546	29,884,937
Commitments and contingencies		
Net position:		
Net investment in capital assets	58,246,554	60,709,624
Restricted, nonexpendable	5,126,907	5,126,907
Restricted, expendable	4,258,315	3,073,586
Unrestricted	41,684,493	36,268,387
Total net position	109,316,269	105,178,504
	\$ 139,472,815	\$ 135,063,441

See accompanying notes to financial statements.

UNIVERSITY OF GUAM ENDOWMENT FOUNDATION, INC.

Statements of Financial Position
December 31, 2013 and 2012

<u>ASSETS</u>	<u>2013</u>	<u>2012</u>
Cash and cash equivalents	\$ 486,983	\$ 438,639
Pledges and other receivables, net of an allowance for doubtful accounts of \$133,421 and \$43,784 at December 31, 2013 and 2012, respectively	2,864,953	683,000
Prepaid expenses	11,414	-
Investment in Bank of Guam stock, at cost	191,053	191,053
Investments in securities at fair value	7,420,648	7,291,005
Equipment, net	<u>10,949</u>	<u>14,773</u>
	<u>\$ 10,986,000</u>	<u>\$ 8,618,470</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Liabilities:		
Accounts payable and accrued expense	\$ <u>55,690</u>	\$ <u>48,411</u>
Total liabilities	<u>55,690</u>	<u>48,411</u>
Net assets:		
Unrestricted	305,176	571,851
Temporarily restricted	10,114,185	7,483,435
Permanently restricted	<u>510,949</u>	<u>514,773</u>
Total net assets	<u>10,930,310</u>	<u>8,570,059</u>
	<u>\$ 10,986,000</u>	<u>\$ 8,618,470</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, 2014 and 2013

	2014	2013
Operating revenues:		
Student tuition and fees	\$ 22,652,699	\$ 21,016,827
Less scholarship discounts and allowances	<u>(11,142,762)</u>	<u>(11,027,395)</u>
	<u>11,509,937</u>	<u>9,989,432</u>
Federal grants and contracts	33,777,318	35,395,513
Government of Guam grants and contracts	841,091	1,537,817
Private grants and contracts	1,377,091	1,075,066
Sales and services of education department	555,877	569,157
Auxiliary enterprises	2,193,366	2,286,103
Other revenues	<u>5,147,922</u>	<u>4,764,217</u>
Total operating revenues	<u>55,402,602</u>	<u>55,617,305</u>
Bad debts recovery (provision)	<u>(369,223)</u>	<u>933,494</u>
Net operating revenues	<u>55,033,379</u>	<u>56,550,799</u>
Operating expenses:		
Instruction	18,230,623	18,224,257
Public service	10,434,266	12,061,816
Research	10,892,423	11,173,773
Operational and maintenance, plant	8,797,400	7,107,205
Scholarships and fellowships	12,167,808	12,275,318
Institutional support	8,108,220	7,780,564
Academic support	8,934,161	8,864,964
Student services	3,634,369	4,048,494
Depreciation	3,122,808	3,027,205
Auxiliary enterprises	2,593,814	2,545,790
Retiree healthcare costs	<u>1,308,893</u>	<u>1,475,808</u>
Total operating expenses	<u>88,224,785</u>	<u>88,585,194</u>
Operating loss	<u>(33,191,406)</u>	<u>(32,034,395)</u>
Nonoperating revenues (expenses):		
Government of Guam appropriations:		
Operations	28,531,633	27,013,374
Student financial aid program	3,599,358	3,599,358
Guam Cancer Trust Fund	1,375,354	1,548,741
Capital expenditure loan repayment	500,000	500,000
Retiree healthcare costs	1,308,893	1,475,808
Net investment income	1,833,290	2,653,848
Interest on capital assets - debt related	(538,267)	(573,081)
Debt service - DOA bond	<u>-</u>	<u>(2,027,703)</u>
Total nonoperating revenues, net	<u>36,610,261</u>	<u>34,190,345</u>
Capital contributions - Federal grants	<u>718,910</u>	<u>1,392,000</u>
Increase in net position	4,137,765	3,547,950
Net position at beginning of year	<u>105,178,504</u>	<u>101,630,554</u>
Net position at end of year	<u>\$ 109,316,269</u>	<u>\$ 105,178,504</u>

See accompanying notes to financial statements.

UNIVERSITY OF GUAM ENDOWMENT FOUNDATION, INC.

Statement of Activities
Year Ended December 31, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues, gains and other income (losses):				
Net investment loss	\$ (181,248)	\$ 3,199	\$ -	\$ (178,049)
Contributions	51,708	49,016	-	100,724
In-kind donations	81,441	-	-	81,441
Fundraising activities	244,765	3,124,529	-	3,369,294
Others	552	-	-	552
Net assets released from restrictions:				
Satisfaction of program restrictions	<u>545,994</u>	<u>(545,994)</u>	<u>-</u>	<u>-</u>
Total revenues	<u>743,212</u>	<u>2,630,750</u>	<u>-</u>	<u>3,373,962</u>
Expenses and losses:				
Program services:				
Donations for debt service - UOG	200,000	-	-	200,000
Scholarships	<u>21,188</u>	<u>-</u>	<u>-</u>	<u>21,188</u>
Total program services	<u>221,188</u>	<u>-</u>	<u>-</u>	<u>221,188</u>
Support services:				
Management and general	511,128	-	3,824	514,952
In-kind expenses	81,441	-	-	81,441
Fundraising activities	<u>196,130</u>	<u>-</u>	<u>-</u>	<u>196,130</u>
Total support services	<u>788,699</u>	<u>-</u>	<u>3,824</u>	<u>792,523</u>
Total expenses	<u>1,009,887</u>	<u>-</u>	<u>3,824</u>	<u>1,013,711</u>
Change in net assets	(266,675)	2,630,750	(3,824)	2,360,251
Net assets at beginning of year	<u>571,851</u>	<u>7,483,435</u>	<u>514,773</u>	<u>8,570,059</u>
Net assets at end of year	\$ <u><u>305,176</u></u>	\$ <u><u>10,114,185</u></u>	\$ <u><u>510,949</u></u>	\$ <u><u>10,930,310</u></u>

See accompanying notes to financial statements.

UNIVERSITY OF GUAM ENDOWMENT FOUNDATION, INC.

Statement of Activities
Year Ended December 31, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues, gains and other income (losses):				
Net investment earnings	\$ 276,341	\$ 166,419	\$ -	\$ 442,760
Contributions	65,408	64,463	-	129,871
In-kind donations	110,875	-	-	110,875
Fundraising activities	231,980	850,976	-	1,082,956
Grants	-	10,000	-	10,000
Others	(3,122)	-	6,862	3,740
Net assets released from restrictions:				
Satisfaction of program restrictions	<u>375,400</u>	<u>(375,400)</u>	<u>-</u>	<u>-</u>
Total revenues	<u>1,056,882</u>	<u>716,458</u>	<u>6,862</u>	<u>1,780,202</u>
Expenses and losses:				
Program services:				
Donations for debt service - UOG	200,000	-	-	200,000
Scholarships	<u>44,185</u>	<u>-</u>	<u>-</u>	<u>44,185</u>
Total program services	<u>244,185</u>	<u>-</u>	<u>-</u>	<u>244,185</u>
Support services:				
Management and general	345,834	-	3,844	349,678
In-kind expenses	110,875	-	-	110,875
Fundraising activities	<u>319,194</u>	<u>-</u>	<u>-</u>	<u>319,194</u>
Total support services	<u>775,903</u>	<u>-</u>	<u>3,844</u>	<u>779,747</u>
Total expenses	<u>1,020,088</u>	<u>-</u>	<u>3,844</u>	<u>1,023,932</u>
Change in net assets	36,794	716,458	3,018	756,270
Net assets at beginning of year	<u>535,057</u>	<u>6,766,977</u>	<u>511,755</u>	<u>7,813,789</u>
Net assets at end of year	<u>\$ 571,851</u>	<u>\$ 7,483,435</u>	<u>\$ 514,773</u>	<u>\$ 8,570,059</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, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Student tuition and fees, net	\$ 12,395,212	\$ 10,293,819
Grants, contracts and appropriations	36,598,613	40,740,952
Sales and services of education department	555,877	569,157
Auxiliary services	2,193,366	2,286,102
Other receipts	4,765,866	4,889,852
Payments to suppliers and employees for education and general expenses	(72,490,396)	(72,685,533)
Payments to students for financial aid	(12,167,808)	(12,275,318)
Net cash used for operating activities	(28,149,270)	(26,180,969)
Cash flows from non-capital related financing activities:		
Government of Guam appropriations collected	30,840,486	36,024,137
Cash flows from capital and related financing activities:		
Capital contributions received	718,910	1,392,000
Changes in restricted cash	(734,365)	(114,722)
Interest paid on capital debt	(538,267)	(573,081)
Principal paid on capital debt	(211,793)	(142,560)
Purchases of capital assets	(1,530,080)	(3,917,818)
Net cash used for capital and related financing activities	(2,295,595)	(3,356,181)
Cash flows from investing activities:		
Proceeds from sale and maturities of investments	10,213,845	8,939,836
Investment income	463,536	613,842
Purchases of investments	(8,179,657)	(10,911,654)
Net cash provided by (used for) investing activities	2,497,724	(1,357,976)
Net change in cash and cash equivalents	2,893,345	5,129,011
Cash and cash equivalents, beginning of year	15,344,800	10,215,789
Cash and cash equivalents, end of year	\$ 18,238,145	\$ 15,344,800

Supplemental information on noncash activities:

During the years ended September 30, 2014 and 2013, the University recorded appropriations of \$1,308,893 and \$1,475,808, respectively, for retiree healthcare costs 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, 2014 and 2013

	2014	2013
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	\$ (33,191,406)	\$ (32,034,395)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	3,122,808	3,027,205
Bad debts (recovery) provision	369,223	(933,494)
Loss on fixed assets disposal	112,747	-
Retiree healthcare costs	1,308,893	1,475,808
Changes in assets and liabilities:		
Receivables, net	(181,834)	2,508,064
Inventories	(5,509)	(146,669)
Other current assets	(167,594)	126,655
Accounts payable, accrued liabilities and deposits held for others	(1,199,436)	(952,234)
Accrued annual leave	(54,774)	(77,577)
DCRS sick leave liability	299,923	261,118
Unearned revenues	1,437,689	564,550
Net cash used for operating activities	\$ (28,149,270)	\$ (26,180,969)

See accompanying notes to financial statements.

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

Notes to Financial Statements
September 30, 2014 and 2013

1. Organization and Basis of Presentation

Organization

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

Financial Statement Presentation

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*. This was followed in November 1999 by GASB Statement No. 35, *Basic Financial Statements-and Management's Discussion and Analysis-for Public Colleges and Universities*. The financial statement presentation required by GASB No. 34 and 35, as amended by GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, provides a comprehensive, entity-wide perspective of the University's assets, liabilities, net position, revenues, expenses, changes in net position, and cash flows, and replaces the fund-group perspective previously required.

Basis of Accounting

For financial statement purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the University's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-university transactions have been eliminated. The University reports as a business-type activity, as defined by GASB Statement No. 35. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services.

Reporting Entity

The University of Guam Endowment Foundation, 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.W below.

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

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

Notes to Financial Statements
September 30, 2014 and 2013

1. Organization and Basis of Presentation, Continued

Reporting Entity, Continued

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

2. Summary of Significant Accounting Policies

- A. Cash and Cash Equivalents. Cash and cash equivalents include cash on hand, cash in banks, money market accounts and time certificates of deposit with original maturities of three months or less.
- B. Restricted Cash and Cash Equivalents. Cash and cash equivalents that are restricted to make debt service payments and purchases or enhance learning resources materials and technology are classified as noncurrent assets in the Statement of Net Position.
- C. Use of Restricted/Unrestricted Net Position. When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the University's policy is to apply restricted net position first.
- D. Short-term Investments. Short-term investments include time certificates of deposit with original maturities of more than three months.
- E. Investments. The University accounts for its investments at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Realized gains and losses are recognized upon disposition, while unrealized gains and losses on the carrying value of investments are reported as a part of net investment income in the Statement of Revenues, Expenses and Changes in Net Position.
- F. Accounts Receivable. Accounts receivable consist of tuition and fee charges to students and charges for auxiliary enterprise services provided to students, faculty and staff. Accounts receivable also includes amounts due from U.S. Federal agencies for various federal grant awards as well as amounts due from GovGuam for local appropriations. Accounts receivable are recorded net of an estimated allowance for doubtful accounts, an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectibility of these accounts and prior collection experience. The allowance is established through a provision for bad debts charged to expense. 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, 2014 and 2013.
- 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, 2014 and 2013

2. Summary of Significant Accounting Policies, Continued

- J. Inventory. Inventory is stated at the lower of cost, determined using the first-in, first-out method, or market.
- K. Capital Assets. Depreciation is calculated using the straight-line method over estimated useful lives of 5 - 50 years for buildings and improvements and 5 - 15 years for equipment and land improvements. The University's capitalization policy requires acquisitions greater than \$5,000 to be capitalized and depreciated over their estimated useful lives. The assets are carried at cost, except for land and buildings transferred to the University, which were recorded at management's estimate of fair market value at the date of acquisition.
- L. Unearned Revenues. Unearned revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent fiscal year. Unearned revenues also include amounts received from grant and contract sponsors that have not yet been earned.
- M. Compensated Absences. Compensated absences are accrued and reported as a liability in the period earned. Annual leave expected to be paid out within the next fiscal year is accrued and included in current liabilities. All annual leave credit is convertible to pay upon termination of employment. The maximum accumulation amount of annual leave is limited to 320 hours. Pursuant to Public Law 27-106, employees who have accumulated annual leave in excess of 320 hours as of February 28, 2003, may carry over their excess and shall use the excess amount of leave prior to retirement or termination from service. Any unused leave over 320 hours shall be lost upon retirement. Public Law 26-86 allows members of the Defined Contribution Retirement System to receive a lump sum payment of one-half of their accumulated sick leave upon retirement.
- N. Grants-in-Aid. Tuition and fees revenue includes grants-in-aid charged to scholarship and fellowship expense for senior citizens, faculty, staff and their dependents. The total of these grants for 2014 and 2013 was \$464,366 and \$276,868, respectively.
- O. Noncurrent Liabilities. Noncurrent liabilities include (1) long-term debt with contractual maturities greater than one year, and (2) estimated amounts for accrued compensated absences, sick leave and other liabilities that will not be paid within the next fiscal year.
- P. Net Position. The University's net position is classified as follows:

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

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

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

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

Notes to Financial Statements
September 30, 2014 and 2013

2. Summary of Significant Accounting Policies, Continued

P. Net Position, Continued

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

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

Operating Revenues - include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, (3) most federal, state and local grants and contracts and federal appropriations, and (4) interest on institutional student loans.

Nonoperating Revenues - include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting*, and GASB Statement No. 34, such as local government appropriations and investment income.

R. Scholarship Discounts and Allowances. Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses and Changes in Net Position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as either operating or nonoperating revenues in the University's financial statements. To the extent that revenues from such programs are useful to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance.

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

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

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Notes to Financial Statements
September 30, 2014 and 2013

2. Summary of Significant Accounting Policies, Continued

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

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

W. UOG Endowment Foundation Pledges Receivable and Investments

UOG Endowment Foundation Pledges Receivable:

Pledges receivable consist of donations pledged to the Foundation, but not yet received as of December 31, 2013 and 2012. 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>2013</u>	<u>2012</u>
SBPA (School of Business and Public Administration) Building	\$ 83,394	\$ 210,438
60 th Anniversary Capital Campaign	<u>2,747,157</u>	<u>474,228</u>
Total pledges receivable	2,830,551	684,666
Other	<u>167,823</u>	<u>42,118</u>
	2,998,374	726,784
Less: allowance for doubtful accounts	<u>(133,421)</u>	<u>(43,784)</u>
	\$ <u>2,864,953</u>	\$ <u>683,000</u>

Pledges receivable at December 31, 2013 are scheduled to be paid as follows

Less than one year	\$ 667,823
One to five years	983,329
More than five years	<u>2,500,000</u>
	4,151,152
Less unamortized discount	<u>(1,320,601)</u>
	\$ <u>2,830,551</u>

UOG Endowment Foundation Investments:

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

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Notes to Financial Statements
September 30, 2014 and 2013

2. Summary of Significant Accounting Policies, Continued

W. UOG Endowment Foundation Pledges Receivable and Investments, Continued

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, 2013 and 2012, is as follows:

	<u>2013</u>	<u>2012</u>
Cash	\$ 70,697	\$ 134,497
Equities	3,379,157	500,668
Fixed income	2,442,469	70,611
Mutual funds	<u>1,528,325</u>	<u>6,585,229</u>
	<u>\$ 7,420,648</u>	<u>\$ 7,291,005</u>

The composition of net gains (losses) on investments in securities for the years ended December 31, 2013 and 2012, is as follows:

	<u>2013</u>	<u>2012</u>
Net unrealized losses	\$ (167,050)	\$ (215,975)
Net realized (losses) gains	(129,954)	469,468
Interest income	168,455	251,930
Dividends	12,308	12,307
Fees and other expenses, net	<u>(61,808)</u>	<u>(74,970)</u>
	<u>\$ (178,049)</u>	<u>\$ 442,760</u>

Investments also include 24,612 shares of stock in Bank of Guam (BOG). 19,892 of 24,612 BOG shares are recorded at published market values as of December 31, 2004. The remaining 4,720 BOG shares are recorded at cost. Dividends received from these shares will be used for scholarship purposes and/or repurchase of additional Bank of Guam stock as it is available for sale within weighted average/market price. The BOG shares contain no restrictions and are classified as unrestricted net assets.

X. New Accounting Standards. During the year ended September 30, 2014, the University implemented the following pronouncements:

- GASB Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans. The implementation of this statement did not have a material effect on the accompanying financial statements.

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Notes to Financial Statements
September 30, 2014 and 2013

2. Summary of Significant Accounting Policies, Continued

X. New Accounting Standards, Continued

- GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The implementation of this statement did not have a material effect on the accompanying financial statements.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. The implementation of this statement will have a material effect on the financial statements of the University and will require a restatement disclosure upon implementation. As of September 30, 2014, the net pension liability that the University will record upon implementation of Statement 68 is \$79,555,751.

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

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which addresses an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions in Statement 71 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of this statement on the financial statements of the University.

3. Deposits and Investments

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

UNIVERSITY OF GUAM
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Notes to Financial Statements
September 30, 2014 and 2013

3. Deposits and Investments, Continued

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".
- 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.

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Notes to Financial Statements
September 30, 2014 and 2013

3. Deposits and Investments, Continued

(iii) Equities, Continued

- 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.

At September 30, 2014 and 2013, the carrying amount of the University's cash and cash equivalents and time certificates of deposit were \$30,496,924 and \$29,336,998 and the corresponding bank balances were \$30,861,378 and \$29,173,613, respectively. Of the bank balance amounts, \$1,660,897 and \$2,730,335, 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.

UNIVERSITY OF GUAM
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Notes to Financial Statements
September 30, 2014 and 2013

3. Deposits and Investments, Continued

A. Deposits, Continued

Restricted cash and cash equivalents:

As of September 30, 2014 and 2013, the University recorded \$2,090,456 and \$2,069,585, 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, \$1,739,029 and \$1,690,007, respectively, is invested in a municipal bond issued by the Gwinnett County Development Authority in Georgia, presented as restricted investments in the statements of net position. This bond carried a Fitch's credit rating of AAA.

As of September 30, 2014 and 2013, restricted cash and cash equivalents include \$2,884,344 and \$2,015,419, respectively, received from the Government of Guam Healthy Futures Fund as appropriations for the Guam Cancer Trust Fund. These funds are allocated to provide financial assistance to organizations that provide patient directed services for the prevention and treatment of cancer.

Restricted cash and cash equivalents also include \$1,260,062 and \$1,422,888 as of September 30, 2014 and 2013, 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 \$205,010 and \$148,593, respectively, represents funds with various externally imposed restrictions.

B. Investments

Investments held by the University consist of certificates of deposits, money market funds, fixed income securities, mutual funds, and common stock. These investments are held in the name of the University and are accounted for on a pooled basis. The University employs the share method of accounting for pooled investments and for proportionate distribution of income and fees to each fund which participates in the pool.

UNIVERSITY OF GUAM
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Notes to Financial Statements
September 30, 2014 and 2013

3. Deposits and Investments, Continued

B. Investments, Continued

Investments at September 30, 2014 consist of the following:

	<u>Short-term</u>	<u>Restricted</u>	<u>Long-term</u>	<u>Endowment</u>	<u>Total</u>
Certificates of deposit	\$ 7,557,936	\$ -	\$ -	\$ -	\$ 7,557,936
Money market funds	-	-	259,133	295,378	554,511
Fixed income securities	-	-	2,207,498	2,516,249	4,723,747
Common stock	-	-	6,965,480	7,939,707	14,905,187
Mutual funds	-	-	438,204	499,494	937,698
Municipal bonds	<u>-</u>	<u>1,739,029</u>	<u>-</u>	<u>-</u>	<u>1,739,029</u>
	<u>\$ 7,557,936</u>	<u>\$ 1,739,029</u>	<u>\$ 9,870,315</u>	<u>\$ 11,250,828</u>	<u>\$ 30,418,108</u>

Investments at September 30, 2013 consist of the following:

	<u>Short-term</u>	<u>Restricted</u>	<u>Long-term</u>	<u>Endowment</u>	<u>Total</u>
Certificates of deposit	\$ 10,025,720	\$ -	\$ 37,138	\$ 41,845	\$ 10,104,703
Money market funds	-	-	275,205	310,081	585,286
Fixed income securities	-	-	2,103,725	2,370,329	4,474,054
Common stock	-	-	6,280,771	7,076,734	13,357,505
Mutual funds	-	-	409,543	461,444	870,987
Municipal bonds	<u>-</u>	<u>1,690,007</u>	<u>-</u>	<u>-</u>	<u>1,690,007</u>
	<u>\$ 10,025,720</u>	<u>\$ 1,690,007</u>	<u>\$ 9,106,382</u>	<u>\$ 10,260,433</u>	<u>\$ 31,082,542</u>

The University's exposure to credit risk at September 30, 2014 was as follows:

Moody's Rating

AAA	\$ 1,707,700
AA	1,556,395
A	633,728
BBB	124,665
Not rated	<u>701,259</u>
Total credit risk debt securities	<u>\$ 4,723,747</u>

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

Moody's Rating

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

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Notes to Financial Statements
September 30, 2014 and 2013

3. Deposits and Investments, Continued

B. Investments, Continued

As of September 30, 2014, the University's fixed income securities had the following maturities:

<u>Investment Type</u>	<u>Fair value</u>	<u>Less than 1 year</u>	<u>1 to 5 years</u>	<u>5 to 10 years</u>	<u>More than 10 years</u>
Corporate bonds	\$ 997,203	\$ -	\$ 92,657	\$ 901,477	\$ 3,069
Federal Home Loan Mortgage Corp.	1,335,709	-	1,203,468	46,593	85,648
Federal National Mortgage Assn.	744,726	-	127,550	464,429	152,747
U.S. Treasury Notes	<u>1,646,109</u>	<u>-</u>	<u>113,433</u>	<u>850,775</u>	<u>681,901</u>
	<u>\$ 4,723,747</u>	<u>\$ -</u>	<u>\$ 1,537,108</u>	<u>\$ 2,263,274</u>	<u>\$ 923,365</u>

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

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

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, 2014 and 2013.

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, 2014 and 2013, 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.

UNIVERSITY OF GUAM
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Notes to Financial Statements
September 30, 2014 and 2013

3. Deposits and Investments, Continued

B. Investments, Continued

The composition of net investment income for the years ended September 30, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Interest and dividends from investments	\$ 463,536	\$ 663,505
Investment fees expense	(150,362)	(211,234)
Realized (losses) gains	(757,752)	161,571
Appreciation of fair value of investments, net	<u>2,077,868</u>	<u>2,040,006</u>
	<u>\$ 1,833,290</u>	<u>\$ 2,653,848</u>

4. Student Loans

The Guam Legislature appropriates funds for the student loan program available to residents of Guam who attend institutions of higher education. The University is responsible for awarding the loans and monitoring compliance with respect to repayment. Due to the uncertainty of collection and due to recipient ability to repay the loans through work credits, student loan receivables are fully reserved in the year granted, and payments are reflected as recoveries in the year received. At September 30, 2014 and 2013, loans receivable are reserved in the amount of \$19,748,236 and \$18,482,194, respectively, and recoveries collected are \$296,844 and \$431,693 for the years then ended, respectively.

5. Capital Assets

Activity and balances for capital assets for the years ended September 30, 2014 and 2013 consisted of the following:

	<u>Balance</u> <u>October 1, 2013</u>	<u>Additions/</u> <u>Transfers</u>	<u>Retirements</u> <u>Transfers</u>	<u>Balance</u> <u>September 30, 2014</u>
<u>2014:</u>				
<u>Depreciable:</u>				
Land improvements	\$ 320,754	\$ -	\$ -	\$ 320,754
Building	86,307,665	-	-	86,307,665
Building improvements	3,911,050	-	-	3,911,050
Equipment	18,149,623	830,672	(4,437,131)	14,543,164
Library books	<u>6,930,629</u>	<u>196,569</u>	<u>-</u>	<u>7,127,198</u>
	115,619,721	1,027,241	(4,437,131)	112,209,831
Less accumulated depreciation	<u>(48,079,797)</u>	<u>(3,122,808)</u>	<u>4,324,384</u>	<u>(46,878,221)</u>
	<u>67,539,924</u>	<u>(2,095,567)</u>	<u>(112,747)</u>	<u>65,331,610</u>
<u>Nondepreciable:</u>				
Land	2,589,112	234,100	-	2,823,212
Construction in progress	<u>1,864,663</u>	<u>398,152</u>	<u>(129,413)</u>	<u>2,133,402</u>
	<u>4,453,775</u>	<u>632,252</u>	<u>(129,413)</u>	<u>4,956,614</u>
Total capital assets, net	<u>\$ 71,993,699</u>	<u>\$ (1,463,315)</u>	<u>\$ (242,160)</u>	<u>\$ 70,288,224</u>

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Notes to Financial Statements
September 30, 2014 and 2013

5. Capital Assets, Continued

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

6. Long-Term Debt

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

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

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

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 210,817	\$ 539,243	\$ 750,060
2016	220,501	529,559	750,060
2017	230,631	519,429	750,060
2018	241,226	508,834	750,060
2019	252,308	497,752	750,060
2020-2024	1,446,430	2,303,870	3,750,300
2025-2029	1,810,635	1,939,665	3,750,300
2030-2034	2,266,546	1,483,754	3,750,300
2035-2039	2,837,252	913,048	3,750,300
2040-2043	<u>2,525,323</u>	<u>225,096</u>	<u>2,750,419</u>
	<u>\$ 12,041,670</u>	<u>\$ 9,460,249</u>	<u>\$ 21,501,919</u>

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Notes to Financial Statements
September 30, 2014 and 2013

6. Long-Term Debt, Continued

Public Law 26-48 also provided supplemental annual funding of \$500,000 from the Government of Guam Territorial Highway Fund to pay for the loan. During the years ended September 30, 2014 and 2013, \$500,000 has been received for this purpose.

The Foundation annually committed a donation of \$200,000 to the University as a contribution for repayment of the loan through 2043. The Foundation donated \$0 and \$150,000 for the years ended September 30, 2014 and 2013, respectively.

7. Noncurrent Liabilities

Changes in long-term liabilities in 2014 and 2013 are presented as follows:

	Outstanding October <u>1, 2013</u>	<u>Additions</u>	<u>Reductions</u>	Outstanding September <u>30, 2014</u>	Amount due within <u>one year</u>
<u>2014</u>					
Long-term debt	\$ 12,253,463	\$ -	\$ 211,793	\$ 12,041,670	\$ 210,817
Other liabilities:					
Deposits held on behalf of others	27,098	82,318	64,247	45,169	-
Accrued annual leave	1,767,221	1,448,515	1,503,289	1,712,447	1,224,741
DCRS sick leave liability	<u>2,349,317</u>	<u>873,605</u>	<u>573,682</u>	<u>2,649,240</u>	<u>-</u>
	<u>\$ 16,397,099</u>	<u>\$ 2,404,438</u>	<u>\$ 2,353,011</u>	<u>\$ 16,448,526</u>	<u>\$ 1,435,558</u>
	Outstanding October <u>1, 2012</u>	<u>Additions</u>	<u>Reductions</u>	Outstanding September <u>30, 2013</u>	Amount due within <u>one year</u>
<u>2013</u>					
Long-term debt	\$ 12,396,023	\$ -	\$ 142,560	\$ 12,253,463	\$ 201,557
Other liabilities:					
Deposits held on behalf of others	63,791	2,084,049	2,120,742	27,098	-
Accrued annual leave	1,844,798	1,423,871	1,501,448	1,767,221	1,219,805
DCRS sick leave liability	<u>2,088,199</u>	<u>828,194</u>	<u>567,076</u>	<u>2,349,317</u>	<u>-</u>
	<u>\$ 16,392,811</u>	<u>\$ 4,336,114</u>	<u>\$ 4,331,826</u>	<u>\$ 16,397,099</u>	<u>\$ 1,421,362</u>

8. Employees' Retirement Plan

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

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

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

UNIVERSITY OF GUAM
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Notes to Financial Statements
September 30, 2014 and 2013

8. Employees' Retirement Plan, Continued

As a result of actuarial valuations performed as of September 30, 2012, 2011 and 2010, contribution rates for the years ended September 30, 2014 and 2013, and 2012, respectively, have been determined as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Normal costs (% of DB Plan payroll)	16.61%	17.52%	17.07%
Employee contributions (DB Plan employees)	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>
Employer portion of normal costs (% of DB Plan payroll)	<u>7.11%</u>	<u>8.02%</u>	<u>7.57%</u>
Employer portion of normal costs (% of total payroll)	2.39%	3.00%	3.03%
Unfunded liability cost (% of total payroll)	<u>24.01%</u>	<u>24.33%</u>	<u>23.75%</u>
Government contribution as a % of total payroll	<u>26.40%</u>	<u>27.33%</u>	<u>26.78%</u>
Statutory contribution rates as a % of DB Plan payroll:			
Employer	<u>30.03%</u>	<u>30.09%</u>	<u>28.30%</u>
Employee	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>

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

Statutory employer contributions into the DCRS for the years ended September 30, 2014 and 2013 are determined using the same rates as the DB plan. Of the amount contributed by the employer, only 5% of the member's regular base pay is deposited into the member's individual annuity account. The remaining amount is contributed towards the unfunded liability of the DB plan. Members of the DCRS who have completed five years of government service have a vested balance of 100% of both member and employer contributions plus any earnings thereon.

Retirement contributions for the years ended September 30, 2014 and 2013 and 2012 are as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
DB plan	\$ 2,953,610	\$ 3,214,890	\$ 3,228,094
DCRS	<u>5,514,869</u>	<u>4,925,785</u>	<u>4,531,900</u>
	<u>\$ 8,468,479</u>	<u>\$ 8,140,675</u>	<u>\$ 7,759,994</u>

Public Law 26-86 allows members of the DCRS to receive a lump sum payment of one-half of their accumulated sick leave upon retirement. The University has accrued an estimated liability of \$2,649,240 and \$2,349,317 at September 30, 2014 and 2013, respectively, for potential future sick leave payments as a result of this law. However, this amount is an estimate and actual payout may be materially different than estimated.

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September 30, 2014 and 2013

8. Employees' Retirement Plan, Continued

Other Post-Employment Benefits

The Government of Guam, through its substantive commitment to provide other post-employment benefits (OPEB), maintains a cost-sharing multiple employer defined benefit plan to provide certain postretirement healthcare benefits to retirees who are members of the Government of Guam Retirement Fund. Under the Plan, known as the Government of Guam Group Health Insurance Program, the Government of Guam provides medical, dental, and life insurance coverage. The retiree medical and dental plans are fully-insured products provided through insurance companies. The Government of Guam shares in the cost of these plans, with the Government of Guam's contribution amount set each year at renewal. Current statutes prohibit active and retired employees from contributing different amounts for the same coverage. As such, the Government of Guam contributes substantially more to the cost of retiree healthcare than to active healthcare. For the life insurance plan, the Government of Guam provides retirees with \$10,000 of life insurance coverage through an insurance company. Retirees do not share in the cost of this coverage. During the years ended September 30, 2014 and 2013, the University recognized certain on-behalf payments as transfers from GovGuam, totaling \$1,308,893 and \$1,475,808, respectively, representing certain healthcare benefits that GovGuam's general fund paid directly on behalf of the University. Because the Plan consists solely of the Government of Guam's firm commitment to provide OPEB through the payment of premiums to insurance companies on behalf of its eligible retirees, no stand-alone financial report is either available or generated.

9. Encumbrances

The accrual basis of accounting provides that expenses include only amounts associated with goods and services received and liabilities include only the unpaid amounts associated with such expenses. Accordingly, at September 30, 2014 and 2013, \$6,139,762 and \$5,420,301, respectively, of outstanding purchase orders and purchase commitments are not reported in the financial statements.

10. Commitments and Contingencies

Litigation

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

General Obligation Bonds

In October 1993, the Government of Guam issued \$175 million general obligation bonds to fund the construction of certain educational facilities with \$28 million being earmarked for certain construction projects at the University of Guam. The University is mandated by Public Law No. 22-19 (as amended by Public Law 23-14) to establish a bond fund and deposit all tuition revenues in the bond fund. Monthly remittances are transferred by the University to the Government of Guam's General Fund to cover the University's proportionate share of principal and interest payments of the bond.

UNIVERSITY OF GUAM
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Notes to Financial Statements
September 30, 2014 and 2013

10. Commitments and Contingencies, Continued

General Obligation Bonds, Continued

At the end of each fiscal year, the balance remaining in the bond fund established by the University shall be retained by the University. Once the University's proportionate share of the principal and interest obligation is satisfied on or about November 2018, the University shall retain control of all future revenues thereafter. For the years ended September 30, 2014 and 2013, total payments remitted to the Government of Guam's General Fund of \$176,979 and \$2,204,682, respectively, are recorded as debt service - DOA bond.

Medicare

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

Government of Guam Merit System

In 1991, Public Law 21-59 was enacted to establish a bonus system for employees of the Government of Guam, autonomous and semi-autonomous agencies, public corporations and other public instrumentalities of the Government of Guam who earn a superior performances grade. The bonus is calculated at 3.5% of the employee's base salary beginning in 1991. The University recorded liabilities for merit bonuses of \$0 and \$409,620 as of September 30, 2014 and 2013, respectively.

11. Related Party

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

12. Subsequent Event

In April 2014, the Foundation received a donation of land comprising approximately 1.24 million square meters.

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

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

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

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

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

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

See accompanying independent auditors' report.

OTHER INFORMATION

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

Schedules of Salaries, Wages and Benefits
Years Ended September 30, 2014 and 2013

	2014	2013
Salaries and wages:		
Funded by local funds	\$ 20,779,127	\$ 20,644,914
Federal funds	4,458,037	4,510,252
General operations and federal funds	4,183,553	4,453,195
Other funding sources	4,638,350	4,500,106
Total salaries and wages	34,059,067	34,108,467
Benefits:		
Funded by local funds	7,900,807	7,547,141
Federal funds	1,019,799	988,046
General operations and federal funds	1,220,944	1,275,099
Other funding sources	989,195	921,715
Total benefits	11,130,745	10,732,001
Total Salaries, wages and benefits	\$ 45,189,812	\$ 44,840,468

See accompanying independent auditors' report.

UNIVERSITY OF GUAM
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Schedules of Expenses by Object Category
Years Ended September 30, 2014 and 2013

	2014		2013	
	Unrestricted	Restricted	Unrestricted	Restricted
Instruction:				
Salaries and wages	\$ 11,652,780	\$ 377,158	\$ 11,751,837	\$ 232,603
Benefits	3,692,491	101,207	3,701,269	63,706
Travel	110,594	239,355	83,093	183,060
Contracts	1,004,400	523,912	886,448	788,194
Supplies	57,639	31,301	111,289	32,851
Equipment	75,073	14,612	23,809	22,343
Utilities	15,446	-	-	-
Capital outlay	-	-	14,552	-
Miscellaneous	177,351	157,304	227,369	101,834
	<u>\$ 16,785,774</u>	<u>\$ 1,444,849</u>	<u>\$ 16,799,666</u>	<u>\$ 1,424,591</u>
Public service:				
Salaries and wages	\$ 198,351	\$ 4,349,312	\$ 218,477	\$ 4,618,185
Benefits	65,025	1,305,426	71,475	1,239,707
Travel	31,440	515,113	5,995	545,099
Contracts	957,665	1,595,247	1,051,746	1,790,321
Supplies	22,014	346,706	43,987	569,279
Equipment	7,786	179,006	1,353	259,539
Utilities	3,784	14,772	7,795	135,781
Capital outlay	-	-	-	14,923
Miscellaneous	95,730	746,889	95,717	1,392,437
	<u>\$ 1,381,795</u>	<u>\$ 9,052,471</u>	<u>\$ 1,496,545</u>	<u>\$ 10,565,271</u>
Research:				
Salaries and wages	\$ 1,570,619	\$ 3,599,978	\$ 1,436,163	\$ 3,736,950
Benefits	525,238	941,763	496,368	944,222
Travel	78,998	653,262	79,727	644,744
Contracts	294,624	1,247,751	311,217	1,737,176
Supplies	103,860	486,585	113,453	413,145
Equipment	54,127	276,083	48,761	210,104
Utilities	3,648	729	3,515	181,030
Capital outlay	49,800	240,796	9,012	894
Miscellaneous	92,911	671,651	97,389	709,903
	<u>\$ 2,773,825</u>	<u>\$ 8,118,598</u>	<u>\$ 2,595,605</u>	<u>\$ 8,578,168</u>

See accompanying independent auditors' report.

UNIVERSITY OF GUAM
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Schedules of Expenses by Object Category, Continued
Years Ended September 30, 2014 and 2013

	2014		2013	
	Unrestricted	Restricted	Unrestricted	Restricted
Operational and maintenance, plant:				
Salaries and wages	\$ 1,563,893	\$ -	\$ 1,415,187	\$ -
Benefits	589,085	-	558,058	-
Contracts	2,275,417	-	546,440	-
Supplies	257,549	-	220,864	-
Equipment	140,629	-	32,244	-
Utilities	3,891,860	-	4,260,418	-
Capital outlay	78,873	-	42,800	-
Miscellaneous	95	-	31,194	-
	<u>\$ 8,797,400</u>	<u>\$ -</u>	<u>\$ 7,107,205</u>	<u>\$ -</u>
Scholarships and fellowships:				
Miscellaneous	\$ <u>464,366</u>	\$ <u>11,703,442</u>	\$ <u>232,673</u>	\$ <u>12,042,645</u>
Institutional support:				
Salaries and wages	\$ 3,048,166	\$ -	\$ 3,173,355	\$ -
Benefits	1,467,376	-	1,222,734	(16,331)
Travel	288,909	-	213,376	-
Contracts	2,635,460	-	1,282,898	-
Supplies	120,769	-	138,667	-
Equipment	24,143	-	105,386	-
Utilities	521	-	429	-
Capital outlay	433,638	(5,805)	1,501,920	-
Miscellaneous	95,043	-	158,130	-
	<u>\$ 8,114,025</u>	<u>\$ (5,805)</u>	<u>\$ 7,796,895</u>	<u>\$ (16,331)</u>

See accompanying independent auditors' report.

UNIVERSITY OF GUAM
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Schedules of Expenses by Object Category, Continued
Years Ended September 30, 2014 and 2013

	2014		2013	
	Unrestricted	Restricted	Unrestricted	Restricted
Academic support:				
Salaries and wages	\$ 4,568,823	\$ -	\$ 4,550,738	\$ 5,208
Benefits	1,535,582	-	1,538,313	324
Travel	220,620	-	222,096	74
Contracts	1,327,188	1,500	1,136,145	4,308
Supplies	383,961	2,923	623,336	12,001
Equipment	423,374	-	325,549	-
Utilities	954	-	1,039	-
Capital outlay	277,591	-	280,245	-
Miscellaneous	183,140	8,505	165,588	-
	<u>\$ 8,921,233</u>	<u>\$ 12,928</u>	<u>\$ 8,843,049</u>	<u>\$ 21,915</u>
Student services:				
Salaries and wages	\$ 1,714,203	\$ 790,641	\$ 1,651,959	\$ 941,821
Benefits	654,715	39,949	635,933	63,744
Travel	71,343	16,048	73,245	60,560
Contracts	93,564	1,187	58,258	5,502
Supplies	64,199	6,360	43,147	17,766
Equipment	41,629	9,523	14,744	7,782
Utilities	54,710	-	50,210	-
Capital outlay	-	-	-	150,150
Miscellaneous	65,271	11,027	238,868	34,805
	<u>\$ 2,759,634</u>	<u>\$ 874,735</u>	<u>\$ 2,766,364</u>	<u>\$ 1,282,130</u>
Auxiliary enterprises:				
Salaries and wages	\$ 625,143	\$ -	\$ 375,984	\$ -
Benefits	212,888	-	212,479	-
Travel	7,518	-	3,287	-
Contracts	187,479	-	156,782	-
Supplies	68,087	-	59,694	-
Equipment	41,768	-	12,116	-
Utilities	265,515	-	322,523	-
Miscellaneous	1,185,416	-	1,402,925	-
	<u>\$ 2,593,814</u>	<u>\$ -</u>	<u>\$ 2,545,790</u>	<u>\$ -</u>

See accompanying independent auditors' report.

UNIVERSITY OF GUAM
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Schedules of Employee Information
Years Ended September 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Funded by:		
Local funds	383	389
Federal funds	152	157
General operations and federal funds	151	118
Other funding sources	190	176
	<u>876</u>	<u>840</u>

See accompanying independent auditors' report.

UNIVERSITY OF GUAM
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Schedules of Total Revenue Information
Years Ended September 30, 2014 and 2013

	2014	2013
University-generated revenues:		
Tuition and fees (gross)	\$ 22,652,699	\$ 21,016,827
Scholarship and tuition discounts	(11,142,762)	(11,027,395)
Grants and contracts, net	36,714,410	39,400,396
Auxiliary enterprises and other revenues	7,897,165	7,619,477
Total University-generated revenues	56,121,512	57,009,305
Government of Guam appropriations (excluding retiree healthcare costs appropriations)	34,006,345	32,661,473
Total revenues (excluding investment income, bad debts recovery/provision and retiree healthcare appropriations)	\$ 90,127,857	\$ 89,670,778
Supplemental information:		
Net investment income	\$ 1,833,290	\$ 2,653,848
Recovery from (provision for) bad debts	\$ (369,223)	\$ 933,494
Retiree healthcare costs appropriation	\$ 1,308,893	\$ 1,475,808

See accompanying independent auditors' report.