

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

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

YEARS ENDED SEPTEMBER 30, 2012 AND 2011

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

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Years Ended September 30, 2012 and 2011

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INDEPENDENT AUDITORS' REPORT

Board of Regents
University of Guam:

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 year ended September 30, 2012, and which collectively comprise the University's basic financial statements as set forth in Section II of the forgoing table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on the respective financial statements based on our audit. The basic financial statements of the University as of and for the year ended September 30, 2011 were audited by other auditors whose report, dated February 27, 2012, expressed an unqualified opinion.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

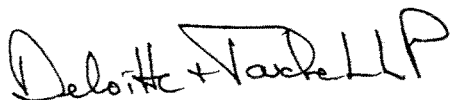
In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the University and its discretely presented component unit as of September 30, 2012, and the respective changes in financial position and cash flows, where applicable,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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 7, 2013, 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 11 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's financial statements. The schedules of salaries, wages and benefits and the schedules of expenses by object category on pages 39 through 42 and the schedules of total revenue information on page 44 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The 2012 information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2012 financial statements or to the 2012 financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2012 schedule of salaries, wages and benefits, schedule of expenses by object category, and schedule of total revenue information are fairly stated in all material respects in relation to the 2012 financial statements as a whole. The 2011 schedule of salaries, wages and benefits, schedule of expenses by object category, schedule of total revenue information, and schedule of employee information were subjected to auditing procedures applied by the other auditors whose report, dated February 27, 2012, referred to above, stated that such schedules are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's financial statements. The 2012 schedule of employee information on page 43 is presented for the purpose of additional analysis and is not a required part of the 2012 basic financial statements. Such 2012 information 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.

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

March 7, 2013

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

Management's Discussion and Analysis
Years Ended September 30, 2012 and 2011

INTRODUCTION

Management's discussion and analysis (MD&A) provides an overview and better understanding of the University's financial position and results of activities for the fiscal year ended September 30, 2012. 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. The University is a public, open-admissions, four-year, land-grant institution on Guam in the Marianas Islands. It has been continuously accredited by the Western Association of Schools and Colleges (WASC). The 3,702 students (Fall'12) are multicultural, multilingual and 51% Pacific Islander, 41% Asian, 4% White/ Non-Hispanic, 4% other. There are 15 master's degree programs, 34 bachelor's degree programs and 1 nursing associates degree program. Continuing education, professional development and English language training are offered. There are 824 employees, including 186 full-time faculty, 31 administrators and 607 full-and-part-time staff and faculty adjuncts.

The Leadership. The University is governed by a nine-member Board of Regents. W. Chris Perez MD is the Chair; Kathy Sgro is Vice Chair; John Arroyo is Treasurer and audit committee chair; Robert A. Underwood, Ed.D., is the University's tenth President; Helen J.D. Whippy, Ph.D., is Senior Vice President of Academic and Student Affairs; David M. O'Brien is Vice President of Administration and Finance; John Peterson, Ph.D., is Assistant Vice President for Sponsored Programs, Graduate Studies and Research; and Zeny Asuncion-Nace is Comptroller.

The University is focused on its mission of *Ina, Deskubre, Setbe (to Enlighten, to Discover, to Serve)* and on its core commitments: i) academic quality; ii) student success, enrollment growth, retention, and institutional visibility; iii) community engagement; and iv) institutional effectiveness and efficiency. Under the leadership of President Underwood, the University has embarked on a Good-to-Great initiative and has identified three overarching themes: the Natural Choice, UOG Green (Center for Island Sustainability), and Leading Change.

THE FINANCIAL STATEMENTS

The report includes three financial statements: i) the Statement of Net Assets; ii) the Statement of Revenues, Expenses and Changes in Net Assets; 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 University's fiscal year ends September 30.

The University is reported as a component unit of the Government of Guam. The University also reports 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 by or for the University's benefit.

UNIVERSITY OF GUAM

Management's Discussion and Analysis
Years Ended September 30, 2012 and 2011

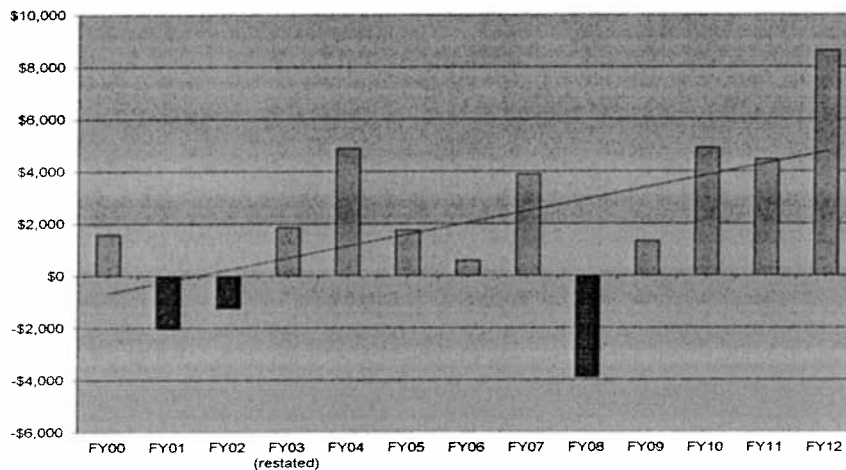
FY2012 FINANCIAL HIGHLIGHTS AND STRATEGIC INSTITUTIONAL OUTCOMES

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 FY12, the University's net assets increased \$8.2 million, which is 8% of consolidated revenues. However, after adjusting for the \$6.5 million capitalization of one-time ARRA projects, the net asset increase is a more representative \$1.7 million or 2% of consolidated revenues.

The \$8.2 million net asset increase is \$3.8 million more than last year's \$4.4M increase. The primary factors for the FY12 increase are the following:

- \$6.5 million is due to ARRA capital contributions' being recognized on the income statement, while project costs are capitalized on the balance sheet (and depreciated over the asset life). This required treatment inflates this year's net asset increase. ARRA cash has been fully expended on the approved projects.
- After accounting for ARRA, the University had a net \$1.7 million surplus for ongoing operations. This is due to University-generated revenue growth and investment gains coupled with strict adherence to a cash-based financial management plan in response to government allotment holdbacks and payment delays.

CHANGE IN NET ASSETS (SURPLUS, DEFICIT IN \$000's)



Important financial trends include:

- There has been a financial surplus in nine of the last ten years, averaging \$2.8 million and 3% of revenues. This has bolstered the University's reserves, established by Board policy as a best practice for financial stability and long-term viability. Adequate reserves are increasingly important in a period marked by institutional growth, economic challenges, and a changing higher education environment.
- Over the last decade, the University has grown an average of 9% per annum into an \$104 million revenue organization, up from 2002's \$56 million. The University generates 67% of these revenues.
- Over the last decade, grants and contracts have grown to \$50 million, an over 200% increase.
- 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.

UNIVERSITY OF GUAM

Management's Discussion and Analysis Years Ended September 30, 2012 and 2011

Significant institutional outcomes that affected the financial statements include:

- The University has held tuition rates the same since 2009.
- Fall'11 and Fall'12 student enrollment are the two highest since Fall'99. Enrollment has grown an annual average of 2.6% over the last five years, reaching 3,702 students in Fall 2012.
- The University conferred 489 undergraduate and graduate degrees, and graduated its 14,000th student. University alumni are the professional workforce of our island and region.
- The University's academic quality is evidenced by primary accreditation for eight (8) years from the Western Association of Schools and Colleges (WASC) and by secondary accreditation for the professional schools.

STATEMENT OF NET ASSETS

The statement of net assets 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 ASSETS (IN \$000'S)

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Non-Capital Assets	\$ 60,759	\$ 52,910	\$ 48,352
Capital Assets	<u>71,103</u>	<u>68,528</u>	<u>68,793</u>
Total Assets	\$ <u>131,862</u>	\$ <u>121,438</u>	\$ <u>117,145</u>
Current Liabilities	\$ 15,150	\$ 12,746	\$ 13,091
Non-Current Liabilities	<u>15,081</u>	<u>15,310</u>	<u>15,129</u>
Total Liabilities	<u>30,231</u>	<u>28,056</u>	<u>28,220</u>
Invested in Capital Assets, Net of Related Debt	58,707	55,913	56,006
Restricted Assets	7,296	6,270	6,386
Unrestricted Assets	<u>35,628</u>	<u>31,199</u>	<u>26,533</u>
Total Net Assets	<u>101,631</u>	<u>93,382</u>	<u>88,925</u>
Total Liabilities and Net Assets	\$ <u>131,862</u>	\$ <u>121,438</u>	\$ <u>117,145</u>

Since FY10, the University's overall financial condition has strengthened each year. Total net assets, the residual interest in assets net of liabilities, grew to \$102 million, an \$8.2 million increase (9%) over FY11 and a \$12.7 million increase (14%) over FY10.

Net assets grew due to investment in ARRA-funded capital assets, net revenue growth including appreciation in investment values, and adherence to a cash-based financial management plan. Tuition receivables increased over the prior year due to a lower provision for bad debt associated with improved collections systems and analysis.

After falling slightly in FY11, liabilities increased in FY12 by \$2.2 million (8%) due to additional payables for capital investment and grant award growth. Current assets covered current liabilities 2.5 times, a positive liquidity indicator.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

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

UNIVERSITY OF GUAM

Management's Discussion and Analysis Years Ended September 30, 2012 and 2011

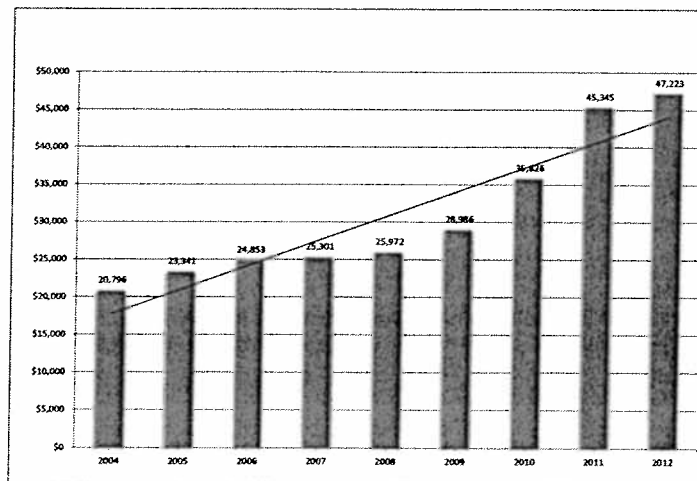
SUMMARY STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS (IN \$000's)

	<u>2012</u>	<u>2011</u>	<u>2010¹</u>
Operating Revenues	\$ 62,365	\$ 65,773	\$ 57,216
Operating Expenses	<u>95,629</u>	<u>93,049</u>	<u>85,634</u>
Operating Revenues Net of Operating Expenses ²	(33,264)	(27,276)	(28,418)
Non-Operating and Other Revenues and Expenses	34,985	30,621	33,324
ARRA Capital Contribution	<u>6,528</u>	<u>1,112</u>	<u>-</u>
Increase (Decrease) in Net Assets	8,249	4,457	4,906
Net Assets – Beginning of Year	<u>93,382</u>	<u>88,925</u>	<u>84,019</u>
Net Assets – End of Year	\$ <u>101,631</u>	\$ <u>93,382</u>	\$ <u>88,925</u>

FY12 consolidated revenues (operating, non-operating and ARRA capital contributions, net of investments, bad debt provision/recovery and retiree healthcare allocations) grew to \$104.3 million, an \$6.7 million increase (7%) over FY11 and a \$14 million increase (16%) over FY10. University-generated revenues have increased across the board. They are now 67% of total revenues. Government of Guam appropriations are 33% of the total. Expenses were held in check at a 3% increase associated with expensed ARRA renovations, new technology and equipment purchases.

- Since FY10, student enrollment growth has led to \$21.8 million of tuition and fee revenues, a \$1.1 million (5%) increase. Tuition rates have remained the same since 2009.
- Over the same three years, grants and contracts revenues have increased \$12.5 million (33%) to \$50 million and have also increased year-over-year. In FY12, there were over 100 unique federal awards totaling over \$47 million. Large, multi-year, federal awards include student financial aid, ARRA stimulus, cancer research and CEDDERS.

GRANTS AND CONTRACTS REVENUE (IN \$000's)



¹ - FY10 operating expenses and non-operating revenues do not include allocations for retiree healthcare cost expenses and appropriations respectively, while FY11 and FY12 do. As a result, these category comparisons cannot be made for FY10. Nevertheless, since retiree healthcare expenses and appropriations exactly offset each other, other FY10 categories and results are comparable. Refer to Footnote 8: Other Post-Employment Benefits

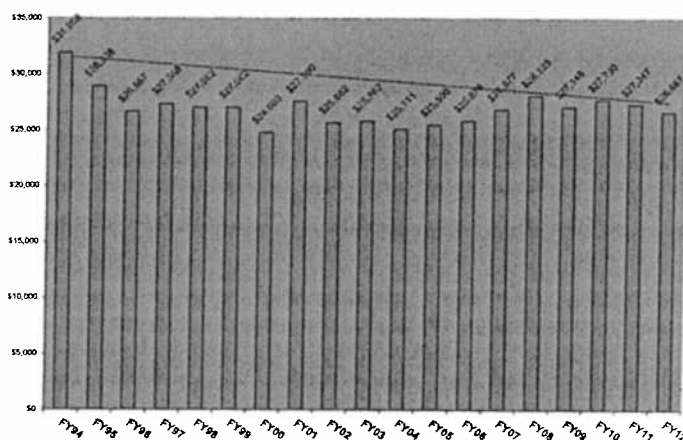
² - Operating Revenues Net of Operating Expense is negative because local government appropriations are reported as non-operating revenues rather than operating revenues under GASB 35 reporting requirements

UNIVERSITY OF GUAM

Management's Discussion and Analysis Years Ended September 30, 2012 and 2011

- In FY12, the University's appropriation for general operations decreased 3% from FY11 and 4% from FY10. The fall-off in support would be even more noticeable should the appropriations be adjusted for inflation. However, overall appropriations (excluding retiree healthcare allocations) increased by \$2.1 million (6%) over FY11 primarily due to the assignment of oversight responsibility for the Guam Cancer Trust Fund. The government held back an average of \$1.2 million per annum from appropriations over the three year period.

GENERAL OPERATIONS APPROPRIATION FROM GOVERNMENT OF GUAM (IN \$000'S) (FIGURES DO NOT INCLUDE ALLOTMENT HOLDBACKS)

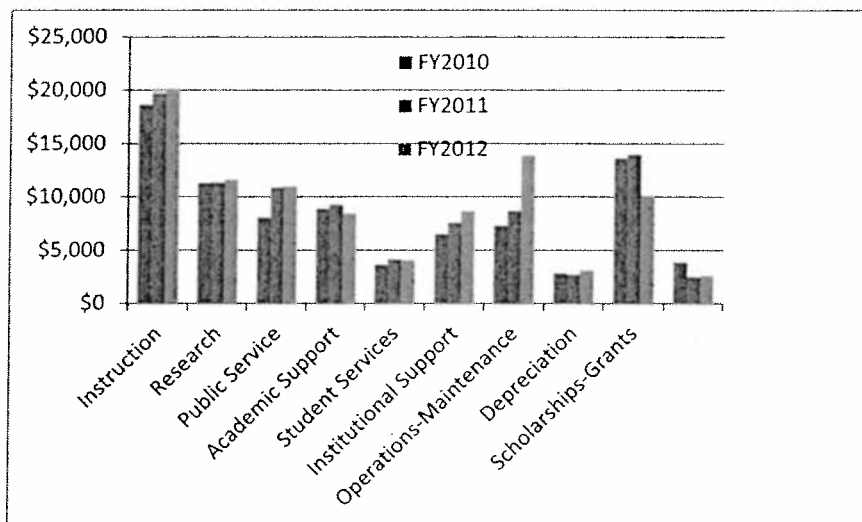


- In FY12, investment income was \$2.6 million (primarily unrealized), reflecting an equity markets rebound.
- In FY12, expenses (excluding retiree healthcare costs) increased \$2.6 million (3%) over FY11 driven primarily by ARRA operational renovation expenditures and new technologies. Revenue growth adequately covered added expenditures associated with increased enrollment, growth in grant spending, stepped-up facility maintenance, merit-based salary increments, and utility and retirement contribution rate hikes. The University spent \$42.6 million directly on its core mission. Of that, 47% went to instruction, 27% to public service and 26% to research. \$6.5 million of ARRA projects and equipment was expensed on the income statement; another \$6.5 million was capitalized to the balance sheet. Fall Semester'12 federal student financial aid awards were delayed, resulting in lower scholarship discounts/allowances and scholarship expense. There was a lower provision for bad debt associated with improved collections systems and analysis. The University recorded a provision for merit bonus expenses, as established under PL21-59. Encumbrances (recorded obligations) were \$5.5 million. Encumbrances decreased \$14.1 million from FY11, as most ARRA projects were completed and paid in FY12.

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Management's Discussion and Analysis
Years Ended September 30, 2012 and 2011

OPERATIONS EXPENSE (IN \$000'S)



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>2012</u>	<u>2011</u>	<u>2010</u>
Cash Provided by (Used in):			
Operating Activities	\$ (26,822)	\$ (25,252)	\$ (26,197)
Non-capital Financing Activities	34,802	29,147	33,666
Capital and Financing Activities	(3,168)	(4,879)	(3,397)
Investing Activities	<u>(831)</u>	<u>1,873</u>	<u>(2,885)</u>
Net Change in Cash and Cash Equivalents	3,981	889	1,187
Cash and Equivalents – Beginning of Year	<u>6,235</u>	<u>5,346</u>	<u>4,159</u>
Cash and Equivalents – End of Year	<u>\$ 10,216</u>	<u>\$ 6,235</u>	<u>\$ 5,346</u>

In FY12, the University's cash at fiscal year-end increased by \$4.0 million. Most of this can be attributed to increases in ARRA grant funding and collections of government appropriations, particularly associated with the Guam Cancer Trust Fund. Typically, the University's cash position at fiscal year end is higher than its normal 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, continuing infrastructure restoration and operating needs. University policy requires cash reserves for financial stability and long-term viability. A reserve fund and sub-accounts were established and funded in FY09-11 and further funding from FY12 will be assessed. As in prior years, cash flows during the fiscal year were negatively influenced by the Government of Guam deficit, which led to delays and shortfalls in allotment payments.

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Management's Discussion and Analysis
Years Ended September 30, 2012 and 2011

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets: At the end of fiscal year 2012, the University had invested \$116.4 million in capital assets. This represents an increase in net capital assets (including additions and deletions) of \$5.5 million or 5% from the previous year. The University had accrued \$45.3 million in accumulated depreciation against the assets. Net capital assets were \$71.1 million, a increase from the prior year's \$68.5 million. At the end of fiscal year 2010, the University had invested \$110.9 million in capital assets and had accrued \$42.3 million in accumulated depreciation against the assets. This represents a slight decrease (including additions and deletions) from the previous year of \$68.8 million. See Note 5.

Long-Term Debt: The University has a note payable that is outstanding with the United States Department of Agriculture (USDA). The note payable was created in October 2001 through Public Law 26-48 for an amount not to exceed \$13.5 million for the purposes of constructing certain facilities on campus. As of September 30, 2012 and 2011, the University had a long-term debt of \$12.4 million and \$12.6 million, respectively, decreases associated with principal retirement. See Note 6.

ECONOMIC AND OTHER FACTORS EXPECTED TO AFFECT THE UNIVERSITY³

2012: Sluggish Recovery, but Economic Momentum

In 2012, the U.S economy recovery was sluggish, showing modest growth. Positive economic factors included tame inflation, strong corporate productivity and profitability, and the Federal Reserve's continued commitment to stimulus and employment growth through accommodative, low interest rates. Equity markets soared broadly on U.S. economic recovery expectations, the Fed's monetary policy, the European Union's commitment to addressing its debt crisis, and the extension of the Bush tax cuts, except for those with income over \$400,000. U.S. fixed income returns were more moderate, but were strong in riskier high yield debt and corporate debt.

In 2012, the Guam economy began the year strongly with positive signs in tourism and the military build-up. However, by year end there were delays and uncertainties about the buildup. Tourism increased substantially, rebounding in the key Japanese market after the 2011 earthquake and tsunami, resulting in higher hotel occupancy and room rates. The September 2012 unemployment fell to 10.9%, but still remains high compared to 7.8% in the U.S. Job growth, underemployment and discouraged workers remain challenges. Economic bright spots included low inflation and increasing tourism from Korea, Taiwan, China and Russia. Construction of a new, private hospital began and there were other construction projects. The Government of Guam issued or prepped several bonds that were favorably received by markets and investors, reflecting positive changes in the economy and fiscal management. A large portion of long overdue tax refunds was paid. FY12 General Fund revenues were the highest in 20 years. The Government of Guam expects a \$10 million operational surplus in its General Fund (unaudited), the first surplus in quite a while and a significant improvement over FY11's \$303 million deficit.

³With thanks for their input, perspectives and forecasts to: i) Gary Hiles, Chief Economist, Guam Department of Labor, "Economic Outlook for Guam" for FY13 and FY14 as well as "The Unemployment Situation on Guam: September 2012"; ii) Dr. Maria Claret Ruane, Professor of Economics at the School of Business and Public Administration and Resident Development Economist, Pacific Center for Economic Initiatives, University of Guam, "Economic Forecast, 2012-2013 Guam-CNMI Edition," copyrighted by First Hawaiian Bank, and "Guam Economic Forecast 2013", prepared for Standard & Poor's; iii) John Rios, Director of Bureau of Budget and Management Research, Government of Guam; and iv) Director Benita Manglona and Comptroller Kathy Kakigi, Department of Administration, Government of Guam.

UNIVERSITY OF GUAM

Management's Discussion and Analysis
Years Ended September 30, 2012 and 2011

2013: Economic Growth and Optimism

The 2013 U.S. economic outlook appears to range from sluggish to moderate recovery. There has been renewed consumer spending, steady improvement in employment/ unemployment, and promising news in more housing markets. Optimism is held in check by politically contentious issues related to the fiscal cliff sequestration, budget deficits, debt ceiling and the related political posturing. Consumer spending, a key economic driver, benefits from wealth effects associated with the new stock market highs, increasing home prices combined with still historically low mortgage interest rates, and low inflation.

Economic forecasts are favorable for regional economies important to Guam. Strong growth is forecasted for Korea, Taiwan and particularly China. The Japanese economy, which remains mired yet resilient, is expected to battle again with yet-another-change in political leadership, renewed government stimulus efforts, and export growth. The Korean economy faces military threats from its northern neighbor. The increasingly important Chinese economy, now an international powerhouse, benefitted from a stable political leadership transition and a soft landing from the heights of economic growth to a still-robust 8% growth forecast.

Guam's economy is expected to tread water. Japanese tourism and new tourism markets underpin the economy. While not at the level once expected with the military buildup, a solid level of construction projects and investments fuel the economy and add jobs. The first quarter's General Fund revenues are up over last year, and are tracking at or above forecasts. The government is attending to fiscal discipline and deficit reduction and has committed to working with the U.S. and Japan in regards to the military buildup, which is now expected to be three to five years away. The Calvo-Tenorio administration has implemented tough 15% allotment controls for FY13, substantially higher than the 3% in prior years. Significant challenges and economic policy issues remain, related to the government debt, unbudgeted expenditures, cash shortfalls, and several court cases with economic consequences.

University of Guam: Good-to-Great Initiative

In 2012, the University community celebrated our 60th Anniversary with events, research conferences, and business partnerships. The University graduated its 14,000th alumni, and completed over \$16 million of ARRA projects. These federally funded projects are an extraordinary infrastructure investment in technology, equipment and building renovations. The Capital Campaign received several substantial donations.

In 2013, President Underwood has engaged the institution in a Good-to-Great initiative. We are a good university with good programs. We have the 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. In a time of financial challenges in the U.S. and Guam and of falling government appropriations, this means making program decisions, reviewing resource allocation priorities, and aligning all activities with our mission and core purpose in a sustainable way. To lead change and drive economic growth, the University will educate the region's professional class, build new capacity through community outreach, seek innovation through research, and develop initiatives that empower the economy.

The University community and its stakeholders have already begun building the Great UOG.

- The Governor and Guam Legislature passed two public laws that support affordable, accessible higher education. PL31-237 gives the University control of student financial aid, enabling the tailoring of awards to policy areas, performance, student retention and degree completion. PL31-276 provides \$1.5 million per annum of tuition support in FY13 and FY14, and enables a five-year run without tuition rate increases.

UNIVERSITY OF GUAM

Management's Discussion and Analysis Years Ended September 30, 2012 and 2011

- Students have taken 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.
- Faculty, staff and administrators have been called upon to assess academic and administrative programs based on their relationship to the core mission, financial performance, market demand and quality.
- The U.S. National Science Foundation awarded an Experimental Program to Stimulate Competitive Research planning grant (EPSCoR) to develop the University's research capacity.
- The federal ARRA grant has funded the purchase of new technologies and renovation of the physical infrastructure. Post-ARRA, the University is seeking new funding sources to maintain facilities on its own.
- UOG Vision 2025 lays out the 21st century Physical Master Plan to accommodate 5,000 Tritons on-campus and another 5,000 on-line. It will be the plan for the University's Capital Campaign.
- The Governor and Guam Legislature passed PL31-229, appropriating up to \$1 million per annum for 40 years to construct a Student Services Center and Engineering Sciences Annex. The University is moving forward on these facilities in partnership with the UOG Endowment Foundation, which is applying for low-cost financing through the U.S. Department of Agriculture's Rural Development Community Facilities Program.
- The University is pursuing the establishment of the Research Corporation of the University of Guam. Closely tied to the University's Office of Sponsored Programs and Research, RCUOG will be a more flexible vehicle for driving the island's economy by growing federal grants and contracts and developing businesses from intellectual property and patents.
- Resources, budgets and plans are being aligned with priorities, fiscal realities and new opportunities.
- The Governor's Office, Guam Department of Administration, and Bureau of Budget and Management Research work closely and plan ahead with the University in managing our allotment payments and cash.

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

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

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

Statements of Net Assets
September 30, 2012 and 2011

	2012	2011
<u>Assets</u>		
Current Assets:		
Cash and cash equivalents	10,215,789	\$ 6,234,760
Time certificates of deposit	8,561,733	7,787,898
Due from Government of Guam	6,115,359	6,720,464
Tuition receivable, net of an allowance for doubtful accounts of \$3,807,796 in 2012 and \$4,870,538 in 2011	4,846,466	3,765,977
Due from the US Federal government	6,287,675	6,215,053
Due from University of Guam Endowment Foundation, Inc.	-	300,000
Other receivables, net of an allowance for doubtful accounts of \$26,471 in 2012 and \$805,491 in 2011)	1,581,096	2,132,858
Inventories	488,335	555,628
Other current assets	301,915	316,200
Total current assets	38,398,368	34,028,838
Noncurrent Assets:		
Restricted cash and cash equivalents	3,851,756	3,076,640
Investments	8,865,948	7,695,923
Endowment investments	9,643,037	8,108,128
Depreciable capital assets, net of accumulated depreciation	68,170,723	64,635,835
Nondepreciable capital assets	2,932,362	3,892,529
Total noncurrent assets	93,463,826	87,409,055
	\$ 131,862,194	\$ 121,437,893
<u>Liabilities and Net Assets</u>		
Current Liabilities:		
Current portion of long-term debt	\$ 192,704	\$ 187,857
Accounts payable and accrued liabilities	7,199,982	5,477,986
Deferred revenue	6,638,847	6,289,749
Current portion of accrued annual leave	1,118,564	790,178
Total current liabilities	15,150,097	12,745,770
Noncurrent Liabilities:		
Long-term debt, net of current portion	12,203,319	12,427,945
Deposits held on behalf of others	63,791	115,188
Accrued annual leave	726,234	1,047,446
DCRS sick leave liability	2,088,199	1,720,001
Total noncurrent liabilities	15,081,543	15,310,580
	30,231,640	28,056,350
Net Assets:		
Invested in capital assets, net of related debt	58,707,062	55,912,562
Restricted, nonexpendable	5,126,907	5,126,907
Restricted, expendable	2,168,394	1,142,853
Unrestricted	35,628,191	31,199,221
Total net assets	101,630,554	93,381,543
	\$ 131,862,194	\$ 121,437,893

See accompanying notes to financial statements.

UNIVERSITY OF GUAM ENDOWMENT FOUNDATION, INC.

Statements of Financial Position
December 31, 2011 and 2010

<u>ASSETS</u>	<u>2011</u>	<u>2010</u>
Cash and cash equivalents	\$ 510,200	\$ 248,728
Pledges receivable, net of an allowance for doubtful accounts of \$26,325 and \$18,000 at December 31, 2011 and 2010, respectively	348,309	433,609
Equipment, net	11,755	1,399
Investment in Bank of Guam stock	191,053	191,053
Investments in securities	<u>6,966,453</u>	<u>7,339,746</u>
	<u>\$ 8,027,770</u>	<u>\$ 8,214,535</u>
<u>LIABILITIES AND NET ASSETS</u>		
Liabilities:		
Accounts payable and accrued expense	\$ 42,231	\$ 28,602
Due to University of Guam	<u>304,316</u>	<u>230,195</u>
Total liabilities	<u>346,547</u>	<u>258,797</u>
Net assets:		
Unrestricted	402,491	411,257
Temporarily restricted	6,766,977	7,043,082
Permanently restricted	<u>511,755</u>	<u>501,399</u>
Total net assets	<u>7,681,223</u>	<u>7,955,738</u>
	<u>\$ 8,027,770</u>	<u>\$ 8,214,535</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 Assets
Years Ended September 30, 2012 and 2011

	2012	2011
Operating Revenues:		
Student tuition and fees	\$ 21,860,683	\$ 21,629,754
Less scholarship discounts and allowances	(9,138,640)	(12,090,988)
	12,722,043	9,538,766
Federal grants and contracts	40,694,251	44,233,770
Government of Guam grants and contracts	1,864,290	2,366,475
Private grants and contracts	1,054,053	927,977
Sales and services of education department	578,030	747,776
Auxiliary enterprises	2,216,440	2,364,324
Other revenue	4,397,496	4,355,310
	63,526,603	64,534,398
Total operating revenues		
Recovery from (provision for) bad debts	(1,161,036)	1,238,378
	62,365,567	65,772,776
Net operating revenues		
Operating Expenses:		
Instruction	20,098,681	19,681,460
Public service	11,579,437	10,858,966
Research	10,948,816	11,327,217
Operational and maintenance, plant	14,862,076	8,655,578
Scholarships and fellowships	10,067,221	15,509,117
Institutional support	8,667,247	7,539,321
Academic support	8,439,982	9,277,889
Student services	4,082,511	3,793,670
Depreciation	3,116,418	2,663,474
Auxiliary enterprises	2,617,231	2,477,894
Healthcare costs to retirees	1,149,539	1,264,621
	95,629,159	93,049,207
Total operating expenses		
Operating loss	(33,263,592)	(27,276,431)
Nonoperating Revenues (Expenses):		
Government of Guam appropriations:		
Operations	27,788,915	27,284,023
Student financial aid program	3,599,358	3,788,797
Guam Cancer Trust Fund	2,308,635	363,089
Capital expenditure loan repayment	500,000	500,000
Retiree healthcare costs	1,149,539	1,264,621
Net investment income	2,647,660	198,332
Loss on abandoned capital projects	(232,049)	-
Interest on capital assets - debt related	(530,281)	(578,299)
Debt service - DOA bond	(2,247,590)	(2,199,249)
	34,984,187	30,621,314
Net nonoperating revenues		
Capital contributions	6,528,416	1,111,482
	8,249,011	4,456,365
Net increase in net assets		
Net assets at beginning of year	93,381,543	88,925,178
Net assets at end of year	\$ 101,630,554	\$ 93,381,543

See accompanying notes to financial statements.

UNIVERSITY OF GUAM ENDOWMENT FOUNDATION, INC.

Statement of Activities
Year Ended December 31, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues, gains and other income (losses):				
Net investment losses	\$ (187,601)	\$ (14,572)	\$ -	\$ (202,173)
Contributions	5,880	211,240	-	217,120
In-kind donations	139,672	4,395	-	144,067
Fundraising activities	373,442	94,207	-	467,649
Grants	-	75,672	-	75,672
Others	6,453	(11,653)	11,653	6,453
Net assets released from restrictions:				
Satisfaction of program restrictions	<u>635,394</u>	<u>(635,394)</u>	-	-
Total revenues	<u>973,240</u>	<u>(276,105)</u>	<u>11,653</u>	<u>708,788</u>
Expenses and losses:				
Program services:				
Donations for debt service - UOG	200,000	-	-	200,000
Scholarships	<u>15,238</u>	-	-	<u>15,238</u>
Total program services	<u>215,238</u>	-	-	<u>215,238</u>
Support services:				
Management and general	319,740	-	1,297	321,037
In-kind expenses	144,067	-	-	144,067
Fundraising activities	<u>302,961</u>	-	-	<u>302,961</u>
Total support services	<u>766,768</u>	-	<u>1,297</u>	<u>768,065</u>
Total expenses	<u>982,006</u>	-	<u>1,297</u>	<u>983,303</u>
Change in net assets	(8,766)	(276,105)	10,356	(274,515)
Net assets at beginning of year	<u>411,257</u>	<u>7,043,082</u>	<u>501,399</u>	<u>7,955,738</u>
Net assets at end of year	<u>\$ 402,491</u>	<u>\$ 6,766,977</u>	<u>\$ 511,755</u>	<u>\$ 7,681,223</u>

See accompanying notes to financial statements.

UNIVERSITY OF GUAM ENDOWMENT FOUNDATION, INC.

Statement of Activities
Year Ended December 31, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other income:				
Net investment earnings	\$ 514,467	\$ 57,908	\$ 24,212	\$ 596,587
Contributions	147,891	138,993	-	286,884
In-kind donations	57,589	-	-	57,589
Fundraising activities	102,077	41,275	-	143,352
Net assets released from restrictions:				
Satisfaction of program restrictions	790,275	(716,528)	(73,747)	-
Total revenues	1,612,299	(478,352)	(49,535)	1,084,412
Expenses and losses:				
Program services:				
Donations for debt service - UOG	200,000	-	-	200,000
Scholarships	60,587	-	-	60,587
Total program services	260,587	-	-	260,587
Support services:				
Management and general	280,749	-	1,186	281,935
In-kind expenses	57,589	-	-	57,589
Fundraising activities	161,857	-	-	161,857
Total support services	500,195	-	1,186	501,381
Total expenses	760,782	-	1,186	761,968
Change in net assets	851,517	(478,352)	(50,721)	322,444
Net assets at beginning of year	(440,260)	7,521,434	552,120	7,633,294
Net assets at end of year	\$ 411,257	\$ 7,043,082	\$ 501,399	\$ 7,955,738

See accompanying notes to financial statements.

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

Statements of Cash Flows
Years Ended September 30, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Student tuition and fees, net	\$ 10,829,616	\$ 11,241,442
Grants, contracts and appropriations	43,539,972	46,716,070
Sales and services of education department	578,030	747,776
Auxiliary services	2,216,440	2,270,010
Other receipts	5,212,146	3,011,456
Payments to education and general expenses	(79,131,320)	(75,266,017)
Payments to students for financial aid	(10,067,221)	(13,972,752)
Net cash used for operating activities	(26,822,337)	(25,252,015)
Cash flows from noncapital financing activities		
Government of Guam appropriations collected	34,802,013	29,146,736
Cash flows from capital and related financing activities:		
Interest paid on capital debt	(530,281)	(578,299)
Purchases of capital assets	(5,923,188)	(2,398,564)
Capital contributions received	6,528,416	1,111,482
Principal paid on capital debt	(2,467,369)	(2,370,920)
Changes in restricted cash	(775,116)	(642,389)
Net cash used for capital and related financing activities	(3,167,538)	(4,878,690)
Cash flows from investing activities:		
Investment income	741,812	198,332
Purchases of investments	(4,698,927)	-
Proceeds from sale and maturities of investments	3,126,006	1,674,208
Net cash (used for) provided by investing activities	(831,109)	1,872,540
Net change in cash and cash equivalents	3,981,029	888,571
Cash and cash equivalents, beginning of year	6,234,760	5,346,189
Cash and cash equivalents, end of year	\$ 10,215,789	\$ 6,234,760

Supplemental information on noncash activities:

During the years ended September 30, 2012 and 2011, the University recorded appropriations of \$1,149,539 and \$1,264,421, respectively, for retirees' healthcare costs paid by Government of Guam on behalf of the University.

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

See accompanying notes to financial statements.

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

Statements of Cash Flows, Continued
Years Ended September 30, 2012 and 2011

	2012	2011
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	\$ (33,263,592)	\$ (27,276,431)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	3,116,418	2,663,474
Provision for (recovery from) bad debts	1,161,036	(1,238,378)
On-behalf payments for retiree healthcare costs	1,149,539	1,264,621
Changes in assets and liabilities:		
Accounts receivable, net	(1,462,385)	(579,568)
Inventory	67,293	(12,017)
Other assets	14,285	(82,296)
Accounts payable and accrued liabilities	1,670,599	(335,987)
Annual leave	7,174	21,644
Sick leave	368,198	196,684
Deferred revenue	349,098	126,239
Net cash used for operating activities	\$ (26,822,337)	\$ (25,252,015)

See accompanying notes to financial statements.

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

Notes to Financial Statements
September 30, 2012 and 2011

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 provides a comprehensive, entity-wide perspective of the University's assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows, and replaces the fund-group perspective previously required.

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.

GASB Statement No. 20, *Accounting and Financing Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989, except those that conflict with a GASB pronouncement. The University has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

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

Notes to Financial Statements
September 30, 2012 and 2011

1. Organization and Basis of Presentation, Continued

Reporting Entity

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

The Foundation is a private organization that reports under 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.

The Foundation's fiscal year-end is as of 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 Assets.
- C. Use of Restricted/Unrestricted Net Assets. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the University's policy is to apply restricted net assets 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 Assets.

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

Notes to Financial Statements
September 30, 2012 and 2011

2. Summary of Significant Accounting Policies, Continued

- F. Accounts Receivable. Accounts receivable consist of tuition and fee charges to students and charges for auxiliary enterprise services provided to students, faculty and staff. Accounts receivable also includes amounts due from U.S. Federal agencies for various federal grant awards as well as amounts due from GovGuam for local appropriations. Accounts receivable are recorded net of an estimated allowance for doubtful accounts, an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectibility of these accounts and prior collection experience. The allowance is established through a provision for bad debts charged to expense.
- G. Due from Government of Guam. Due from Government of Guam consists of the remaining balance of legislative annual appropriations and student financial aid funding that have not been received at September 30, 2012 and 2011.
- 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.
- J. Inventory Method. Inventory is stated at the lower of cost or market with cost being determined using the first-in, first-out method of valuation.
- 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. Deferred Revenues. Deferred 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. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.
- M. Compensated Absences. Compensated absences are accrued and reported as liability in the period earned. Annual leave expected to be paid out within the next fiscal year is accrued and included in current liabilities. All annual leave credit is convertible to pay upon termination of employment. The maximum accumulation amount of annual leave is limited to 320 hours. Pursuant to Public Law 27-106, employees who have accumulated annual leave in excess of 320 hours as of February 28, 2003, may carry over their excess and shall use the excess amount of leave prior to retirement or termination from service. Any unused leave over 320 hours shall be lost upon retirement. Public Law 26-86 allows members of the Defined Contribution Retirement System to receive a lump sum payment of one-half of their accumulated sick leave upon retirement.

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

Notes to Financial Statements
September 30, 2012 and 2011

2. Summary of Significant Accounting Policies, Continued

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 2012 and 2011 was \$290,137 and \$315,531, 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 Assets. The University's net assets are classified as follows:

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

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

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

Unrestricted Net Assets - Unrestricted net assets represent 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.

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

Notes to Financial Statements
September 30, 2012 and 2011

2. Summary of Significant Accounting Policies, Continued

- 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 Assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as either operating or nonoperating revenues in the University's financial statements. To the extent that revenues from such programs are 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 assets and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.
- 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, 2011 and 2010. These pledges are payable in installments over periods ranging from one to forty-three years. Unconditional promises to give that are expected to be collected for future years are recorded at the present value of the estimated cash flows. Amortization of discount will be included in contribution revenue. Management of the Foundation is of the opinion that the net outstanding balance is collectible in subsequent fiscal years and has reserved for all other long-term receivables.

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

Notes to Financial Statements
September 30, 2012 and 2011

2. Summary of Significant Accounting Policies, Continued

W. UOG Endowment Foundation Pledges Receivable and Investments, Continued

UOG Endowment Foundation Pledges Receivable, Continued:

Included in pledges receivable as of December 31, 2011 and 2010 are the following unconditional promises to give:

	<u>2011</u>	<u>2010</u>
SBPA (School of Business and Public Administration Building)	\$ 317,548	\$ 423,467
Other	<u>57,086</u>	<u>28,142</u>
	374,634	451,609
Less allowance for doubtful accounts	<u>(26,325)</u>	<u>(18,000)</u>
	\$ <u>348,309</u>	\$ <u>433,609</u>

UOG Endowment Foundation Investments:

Investments are carried at fair market value. 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, 2011 and 2010 follows:

	<u>2011</u>	<u>2010</u>
Cash	\$ 167,979	\$ 206,571
Equities	4,465,292	5,787,842
Fixed income	<u>2,333,182</u>	<u>1,345,333</u>
	\$ <u>6,966,453</u>	\$ <u>7,339,746</u>

The composition of net investment (losses) earnings for the years ended December 31, 2011 and 2010 is as follows:

	<u>2011</u>	<u>2010</u>
Net unrealized (losses) gains	\$ (646,631)	\$ 26,186
Net realized gains	312,830	328,801
Interest income	210,234	199,681
Dividends	12,307	114,822
Other expense, net	<u>(90,913)</u>	<u>(72,903)</u>
	\$ <u>(202,173)</u>	\$ <u>596,587</u>

Investments also include 23,392 shares of stock in Bank of Guam (BOG) of which 19,892 shares are recorded at published market values as of December 31, 2004, before the shares were removed from the public market. The remaining 3,500 BOG shares are recorded at cost. Dividends received from these shares will be used for scholarship purposes and/or repurchase of additional BOG 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.

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

Notes to Financial Statements
September 30, 2012 and 2011

2. Summary of Significant Accounting Policies, Continued

X. New Accounting Standards. During the year ended September 30, 2012, the University implemented the following pronouncements:

- GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to the frequency and timing of measurements for actuarial valuations first used to report funded status information in OPEB plan financial statements. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* (an amendment of GASB Statement No. 53), which will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.

In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the University.

In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*, which is designed to improve financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The provisions of this statement are effective for periods beginning after June 15, 2012. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the University.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the University.

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

X. New Accounting Standards, Continued

In July 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The provisions of this statement are effective for periods beginning after December 15, 2011. Management has not yet determined the effect of implementation of this statement on the financial statements of the University.

In April 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of the University.

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

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

Y. Reclassifications. Certain account balances in 2011 have been reclassified to conform to the 2012 financial statement presentation.

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.

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Notes to Financial Statements
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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.
- c. The managers shall have the discretion to invest a portion of the assets in cash reserves when they deem appropriate.

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Notes to Financial Statements
September 30, 2012 and 2011

3. Deposits and Investments, Continued

- 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, 2012 and 2011, the carrying amount of the University's cash and cash equivalents and time certificates of deposit were \$22,629,278 and \$17,099,298 and the corresponding bank balances were \$23,861,368 and \$18,606,005, respectively. Of the bank balance amounts, \$2,488,606 and \$14,449,511, respectively, are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC), 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 insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

Restricted cash and cash equivalents:

As of September 30, 2012 and 2011, the University recorded \$2,046,305 and \$2,019,423, 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, \$1,747,381 and \$1,690,008, respectively, is invested in a municipal bond issued by the Gwinnett County Development Authority in Georgia. This bond carried a Fitch's credit rating of AAA.

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Notes to Financial Statements
September 30, 2012 and 2011

3. Deposits and Investments, Continued

A. Deposits, Continued

As of September 30, 2012 and 2011, restricted cash and cash equivalents include \$1,271,127 and \$363,089, 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 \$2,084,030 and \$2,243,480 as of September 30, 2012 and 2011, 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 \$197,675 and \$140,656, 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.

Investments at September 30, 2012 consist of the following:

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

Investments at September 30, 2011 consist of the following:

	<u>Short-term</u>	<u>Long-term</u>	<u>Endowment</u>	<u>Total</u>
Certificates of deposit	\$ 7,787,898	\$ 38,462	\$ 40,525	\$ 7,866,885
Money market funds	-	172,410	181,644	354,054
Fixed income securities	-	2,334,572	2,459,611	4,794,183
Common stock	-	4,327,515	4,559,304	8,886,819
Municipal bonds	-	<u>822,964</u>	<u>867,044</u>	<u>1,690,008</u>
	<u>\$ 7,787,898</u>	<u>\$ 7,695,923</u>	<u>\$ 8,108,128</u>	<u>\$ 23,591,949</u>

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Notes to Financial Statements
September 30, 2012 and 2011

3. Deposits and Investments, Continued

B. Investments, Continued

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

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

The University's exposure to credit risk at September 30, 2011 was as follows:

<u>Moody's Rating</u>	<u>Total</u>	<u>Domestic</u>	<u>International</u>
AAA	\$ 1,787,074	\$ 1,787,074	\$ -
AA	319,048	319,048	-
A	1,737,888	1,737,888	-
BAA	200,864	200,864	-
Unrated	<u>749,309</u>	<u>-</u>	<u>749,309</u>
Total credit risk debt securities	\$ <u>4,794,183</u>	\$ <u>4,044,874</u>	\$ <u>749,309</u>

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

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

As of September 30, 2011, 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>	<u>N/A</u>
Corporate bonds	\$2,250,687	\$ -	\$ -	\$2,250,687	\$ -	\$ -
Mortgage and asset backed securities	181,868	-	-	93,060	88,808	-
Federal Home Loan Mortgage Corp.	368,768	-	-	6,041	362,727	-
Federal National Mortgage Assn.	982,501	-	-	18,812	963,689	-
U.S. Treasuries	261,050	-	-	-	261,050	-
International bonds	<u>749,309</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>749,309</u>
	\$ <u>4,794,183</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>2,368,600</u>	\$ <u>1,676,274</u>	\$ <u>749,309</u>

UNIVERSITY OF GUAM
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Notes to Financial Statements
September 30, 2012 and 2011

3. Deposits and Investments, Continued

B. Investments, Continued

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, 2012 and 2011.

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, 2012 and 2011, the University did not hold any investment in any one issuer that represented 5% or more of total investments of the University.

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

The composition of investment income (expense) for the years ended September 30, 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>
Interest and dividends from investments	\$ 235,471	\$ 467,193
Investment fees	(127,993)	(135,244)
Realized gains	634,334	947,664
(Depreciation) appreciation of fair value of investments, net	<u>1,905,848</u>	<u>(1,081,281)</u>
	<u>\$ 2,647,660</u>	<u>\$ 198,332</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, 2012 and 2011, loans receivable are reserved in the amount of \$17,513,726 and \$10,430,560, respectively, and recoveries collected are \$616,024 and \$643,498 for the years then ended, respectively.

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5. Capital Assets

Activity and balances for capital assets for the years ended September 30, 2012 and 2011 consisted of the following:

<u>2012:</u>	<u>Balance</u> <u>October 1, 2011</u>	<u>Additions/</u> <u>Transfers</u>	<u>Retirements</u> <u>Transfers</u>	<u>Balance</u> <u>September 30, 2012</u>
<u>Depreciable:</u>				
Land improvements	\$ 320,754	\$ -	\$ -	\$ 320,754
Building	86,171,515	-	-	86,171,515
Building improvements	1,279,760	2,378,913	-	3,658,673
Equipment	12,623,174	4,149,503	(101,666)	16,671,011
Library books	6,569,309	122,890	-	6,692,199
	<u>106,964,512</u>	<u>6,651,306</u>	<u>(101,666)</u>	<u>113,514,152</u>
Less accumulated depreciation	<u>(42,328,677)</u>	<u>(3,116,418)</u>	<u>101,666</u>	<u>(45,343,429)</u>
	<u>64,635,835</u>	<u>3,534,888</u>	<u>-</u>	<u>68,170,723</u>
<u>Nondepreciable:</u>				
Land	2,589,112	-	-	2,589,112
Construction in progress	1,303,417	-	(960,167)	343,250
	<u>3,892,529</u>	<u>-</u>	<u>(960,167)</u>	<u>2,932,362</u>
Total capital assets, net	<u>\$ 68,528,364</u>	<u>\$ 3,534,888</u>	<u>\$ (960,167)</u>	<u>\$ 71,103,085</u>
<u>2011:</u>	<u>Balance</u> <u>October 1, 2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>September 30, 2011</u>
<u>Depreciable:</u>				
Land improvements	\$ 320,754	\$ -	\$ -	\$ 320,754
Building	86,171,515	-	-	86,171,515
Building improvements	1,279,760	-	-	1,279,760
Equipment	11,189,289	1,505,430	(71,545)	12,623,174
Library books	6,404,293	165,016	-	6,569,309
	<u>105,365,611</u>	<u>1,670,446</u>	<u>(71,545)</u>	<u>106,964,512</u>
Less accumulated depreciation	<u>(39,736,748)</u>	<u>(2,663,474)</u>	<u>71,545</u>	<u>(42,328,677)</u>
	<u>65,628,863</u>	<u>(993,028)</u>	<u>-</u>	<u>64,635,835</u>
<u>Nondepreciable:</u>				
Land	2,589,112	-	-	2,589,112
Construction in progress	575,299	728,118	-	1,303,417
	<u>3,164,411</u>	<u>728,118</u>	<u>-</u>	<u>3,892,529</u>
Total capital assets, net	<u>\$ 68,793,274</u>	<u>\$ (264,910)</u>	<u>\$ -</u>	<u>\$ 68,528,364</u>

6. Long-Term Debt

In October 2001, Public Law 26-48 authorized the University to enter into a loan agreement 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 agreement with USDA was signed on June 12, 2003 and construction began in March 2005. The interest rate is fixed at 4.50% per annum.

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

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>
2013	\$ 192,704	\$ 557,356	\$ 750,060
2014	201,557	548,503	750,060
2015	210,817	539,243	750,060
2016	220,501	529,559	750,060
2017	230,631	519,429	750,060
2018-2022	1,322,160	2,428,140	3,750,300
2023-2027	1,655,075	2,095,225	3,750,300
2028-2032	2,071,815	1,678,485	3,750,300
2033-2037	2,593,490	1,156,810	3,750,300
2038-2042	3,246,520	503,780	3,750,300
2043	<u>450,753</u>	<u>9,577</u>	<u>460,330</u>
	\$ <u>12,396,023</u>	\$ <u>10,566,107</u>	\$ <u>22,962,130</u>

Public Law 26-48 also provided supplemental annual funding of \$500,000 from the Government of Guam Territorial Highway Fund to pay for the loan. During the years ended September 30, 2012 and 2011, \$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 \$200,000 in each of the years ended September 30, 2012 and 2011, respectively.

7. Noncurrent Liabilities

Changes in long-term liabilities in 2012 and 2011 are presented as follows:

	<u>Outstanding October 1, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding September 30, 2012</u>	<u>Amount due within one year</u>
Loan payable	\$ 12,615,802	\$ -	\$ 219,779	\$ 12,396,023	\$ 192,704
Other liabilities:					
Deposits held on behalf of others	115,188	931,912	983,309	63,791	-
Accrued annual leave	1,837,624	1,444,283	1,437,109	1,844,798	1,118,564
DCRS sick leave liability	<u>1,720,001</u>	<u>368,198</u>	<u>-</u>	<u>2,088,199</u>	<u>-</u>
	\$ <u>16,288,615</u>	\$ <u>2,744,393</u>	\$ <u>2,640,197</u>	\$ <u>16,392,811</u>	\$ <u>1,311,268</u>

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7. Noncurrent Liabilities, Continued

	Beginning Balance September 30, 2010	<u>Additions</u>	<u>Reductions</u>	Ending Balance September 30, 2011	Amount due within one year
Loan payable	\$12,787,473	\$ -	\$ 171,671	\$12,615,802	\$187,857
Other liabilities:					
Deposits held on behalf of others	101,783	13,405	-	115,188	-
Accrued annual leave	1,815,980	1,126,853	1,105,209	1,837,624	790,178
DCRS sick leave liability	<u>1,523,317</u>	<u>196,684</u>	<u>-</u>	<u>1,720,001</u>	<u>-</u>
	<u>\$16,228,553</u>	<u>\$1,336,942</u>	<u>\$1,276,880</u>	<u>\$16,288,615</u>	<u>\$978,035</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 Plan with less than 20 years of service at September 30, 1995, had the option to switch to the Defined Contribution Retirement System.

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

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.

As a result of actuarial valuations performed as of September 30, 2010, 2009 and 2008, contribution rates for the years ended September 30, 2012 and 2011, and 2010, respectively, have been determined as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Normal costs (% of DB Plan payroll)	17.07%	17.00%	18.34%
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>7.57%</u>	<u>7.50%</u>	<u>8.84%</u>
Employer portion of normal costs (% of total payroll)	3.03%	3.03%	3.73%
Unfunded liability cost (% of total payroll)	<u>23.75%</u>	<u>21.75%</u>	<u>22.69%</u>
Government contribution as a % of total payroll	<u>26.78%</u>	<u>24.78%</u>	<u>26.42%</u>
Statutory contribution rates as a % of DB Plan payroll:			
Employer	<u>28.30%</u>	<u>27.46%</u>	<u>26.04%</u>
Employee	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>

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8. Employees' Retirement Plan, Continued

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

Statutory employer contributions into the DCRS for the years ended September 30, 2012 and 2011 are determined using the same rates as the DB plan. Of the amount contributed by the employer, only 5% of the member's regular base pay is deposited into the member's individual annuity account. The remaining amount is contributed towards the unfunded liability of the defined benefit plan. Members of the DCRS who have completed five years of government service have a vested balance of 100% of both member and employer contributions plus any earnings thereon.

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 \$2,088,199 and \$1,720,001 at September 30, 2012 and 2011, 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.

Retirement contributions for the years ended September 30, 2012 and 2011 and 2010 are as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Defined benefit plan	\$ 3,228,094	\$ 3,116,722	\$ 3,184,863
DCRS	4,531,900	4,214,253	3,680,595
	<u>\$ 7,759,994</u>	<u>\$ 7,330,975</u>	<u>\$ 6,865,458</u>

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, 2012 and 2011, the University recognized certain on-behalf payments as transfers from GovGuam, totaling \$1,149,539 and \$1,264,621, 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.

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

Notes to Financial Statements
September 30, 2012 and 2011

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, 2012 and 2011, \$5,529,025 and \$19,668,868, 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.

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, 2012 and 2011, total payments remitted to the Government of Guam's General Fund of \$2,247,590 and \$2,199,249, 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.

UNIVERSITY OF GUAM
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Notes to Financial Statements
September 30, 2012 and 2011

10. Commitments and Contingencies, Continued

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 estimated merit bonuses of \$1,110,345 as of September 30, 2012.

OTHER INFORMATION

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

Schedules of Salaries, Wages and Benefits
Years Ended September 30, 2012 and 2011

	2012	2011
Salaries and Wages:		
Funded by local funds	\$ 21,668,154	\$ 21,541,641
Federal funds	5,127,172	5,769,685
General Operations and Federal funds	4,483,861	3,951,281
Other funding sources	4,494,179	4,158,643
Total salaries and wages	35,773,366	35,421,250
Benefits:		
Funded by local funds	7,111,406	6,896,777
Federal funds	1,034,866	1,279,971
General Operations and Federal funds	1,292,788	1,104,027
Other funding sources	906,851	772,850
Total benefits	10,345,911	10,053,625
Total Salaries, wages and benefits	\$ 46,119,277	\$ 45,474,875

See Accompanying Independent Auditors' Report.

UNIVERSITY OF GUAM
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Schedules of Expenses by Object Category
Years Ended September 30, 2012 and 2011

	2012		2011	
	Unrestricted	Restricted	Unrestricted	Restricted
Instruction:				
Salaries	12,061,159	345,729	\$ 11,887,007	\$ 882,648
Benefits	3,569,238	102,623	3,382,375	268,249
Travel	88,852	200,401	57,067	266,252
Contracts	884,296	1,669,467	1,002,015	766,676
Supplies	90,370	35,934	116,582	97,491
Equipment	64,155	90,079	50,134	108,682
Utilities	20,307	-	21,018	-
Capital outlay	-	72,565	14,000	85,383
Miscellaneous	617,546	185,960	396,966	278,915
	<u>\$ 17,395,923</u>	<u>\$ 2,702,758</u>	<u>\$ 16,927,164</u>	<u>\$ 2,754,296</u>
Research:				
Salaries	\$ 1,137,502	\$ 3,790,948	\$ 1,465,505	\$ 3,782,436
Benefits	341,917	909,936	351,943	936,208
Travel	134,602	576,541	85,744	606,707
Contracts	269,915	1,489,136	403,468	1,523,941
Supplies	123,578	519,645	106,380	576,919
Equipment	46,790	282,674	43,905	186,437
Utilities	3,255	1,091	3,244	3,757
Capital outlay	59,961	269,782	-	236,460
Miscellaneous	243,941	747,602	171,320	842,843
	<u>\$ 2,361,461</u>	<u>\$ 8,587,355</u>	<u>\$ 2,631,509</u>	<u>\$ 8,695,708</u>
Institutional Support:				
Salaries	\$ 4,047,155	\$ (7,283)	\$ 2,963,599	\$ 222,214
Benefits	1,072,093	-	971,131	79,157
Travel	269,859	-	249,468	-
Contracts	1,800,085	-	1,945,515	-
Supplies	119,803	-	168,701	-
Equipment	92,873	-	128,672	-
Utilities	423	-	631	-
Capital outlay	104,555	-	146,893	-
Miscellaneous	1,167,684	-	654,362	8,978
	<u>\$ 8,674,530</u>	<u>\$ (7,283)</u>	<u>\$ 7,228,972</u>	<u>\$ 310,349</u>

See Accompanying Independent Auditors' Report.

UNIVERSITY OF GUAM
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Schedules of Expenses by Object Category, Continued
Years Ended September 30, 2012 and 2011

	2012		2011	
	Unrestricted	Restricted	Unrestricted	Restricted
Public Service:				
Salaries	\$ 183,513	\$ 4,825,247	\$ 121,229	\$ 4,401,450
Benefits	56,412	1,293,296	34,987	1,128,057
Travel	1,408	648,507	-	678,259
Contracts	600,573	2,006,264	52,097	2,165,037
Supplies	20,678	783,568	24,546	470,565
Equipment	9,513	249,587	4,896	331,311
Utilities	7,959	20,153	7,174	12,168
Capital outlay	-	33,230	-	75,576
Miscellaneous	85,579	753,950	53,058	1,298,556
	<u>\$ 965,635</u>	<u>\$ 10,613,802</u>	<u>\$ 297,987</u>	<u>\$ 10,560,979</u>
Academic Support:				
Salaries	\$ 4,667,151	\$ -	\$ 4,965,987	\$ -
Benefits	1,531,831	-	1,505,790	-
Travel	198,700	-	267,757	-
Contracts	938,738	-	1,000,073	517
Supplies	565,365	2,763	655,277	2,097
Equipment	251,138	-	360,830	-
Utilities	1,248	-	2,572	-
Capital outlay	184,477	-	211,491	-
Miscellaneous	94,489	4,082	304,480	1,018
	<u>\$ 8,433,137</u>	<u>\$ 6,845</u>	<u>\$ 9,274,257</u>	<u>\$ 3,632</u>
Student Services:				
Salaries	\$ 1,617,297	\$ 909,128	\$ 1,590,402	\$ 824,029
Benefits	596,613	61,171	539,736	56,387
Travel	45,312	37,620	48,161	57,088
Contracts	82,186	13,044	115,581	25,621
Supplies	48,252	32,151	66,858	14,909
Equipment	47,300	1,021	44,338	22,635
Utilities	53,740	-	60,272	-
Miscellaneous	511,627	26,049	214,687	112,966
	<u>\$ 3,002,327</u>	<u>\$ 1,080,184</u>	<u>\$ 2,680,035</u>	<u>\$ 1,113,635</u>

See Accompanying Independent Auditors' Report.

UNIVERSITY OF GUAM
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Schedules of Expenses by Object Category, Continued
Years Ended September 30, 2012 and 2011

	2012		2011	
	Unrestricted	Restricted	Unrestricted	Restricted
Operational and Maintenance, Plant:				
Salaries	\$ 1,546,601	\$ -	\$ 1,638,445	\$ -
Benefits	597,340	-	582,913	-
Contracts	394,841	4,475,092	352,084	1,023,064
Supplies	233,004	168,468	182,162	60,377
Equipment	71,508	483,468	30,635	213,467
Utilities	4,103,505	834	3,997,686	2,677
Capital outlay	-	2,786,743	100,485	465,734
Miscellaneous	672	-	2,450	3,399
	<u>\$ 6,947,471</u>	<u>\$ 7,914,605</u>	<u>\$ 6,886,860</u>	<u>\$ 1,768,718</u>
Scholarships and Fellowships:				
Miscellaneous	<u>\$ 290,137</u>	<u>\$ 9,777,084</u>	<u>\$ 315,531</u>	<u>\$ 15,193,586</u>
Auxiliary Enterprises:				
Salaries	\$ 649,220	\$ -	\$ 676,301	\$ -
Benefits	213,441	-	216,695	-
Travel	6,574	-	7,009	-
Contracts	113,100	-	84,469	-
Supplies	59,863	-	38,555	-
Equipment	53,883	-	9,835	-
Utilities	281,838	-	267,799	-
Capital outlay	12,230	-	14,491	-
Miscellaneous	1,227,082	-	1,162,740	-
	<u>\$ 2,617,231</u>	<u>\$ -</u>	<u>\$ 2,477,894</u>	<u>\$ -</u>

See Accompanying Independent Auditors' Report.

UNIVERSITY OF GUAM
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Schedules of Employee Information
Years Ended September 30, 2012 and 2011

Funded by:	<u>2012</u>	<u>2011</u>
Local funds	368	388
Federal funds	201	228
General Operations and Federal funds	116	57
Other funding sources	139	146
	<u>824</u>	<u>819</u>

See Accompanying Independent Auditors' Report.

UNIVERSITY OF GUAM
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Schedules of Total Revenue Information
Years Ended September 30, 2012 and 2011

	2012	2011
University-generated revenues:		
Tuition and fees (gross)	\$ 21,860,683	\$ 21,629,754
Scholarship and tuition discounts	(9,138,640)	(12,090,988)
Grants and contracts, net	50,141,010	48,639,704
Auxiliary enterprises and other revenues	7,191,966	7,467,410
Total University-generated revenues	70,055,019	65,645,880
Government of Guam appropriations (excluding retiree healthcare appropriations)	34,196,908	31,935,909
Total revenues (excluding investment income, bad debts recovery/provision and retiree healthcare appropriations)	\$ 104,251,927	\$ 97,581,789
Supplemental information:		
Net investment income	\$ 2,647,660	\$ 198,332
Recovery from (provision for) bad debts	\$ (1,161,036)	\$ 1,238,378
Retiree healthcare cost appropriation	\$ 1,149,539	\$ 1,264,621

See Accompanying Independent Auditors' Report.