

**FINANCIAL STATEMENTS
SEPTEMBER 30, 2009 AND 2008**



UNIVERSITY OF GUAM

UNIVERSITY OF GUAM

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INDEPENDENT AUDITORS' REPORT

To the Board of Regents
University of Guam
Mangilao, Guam

We have audited the accompanying financial statements of the University of Guam as of and for the year ended September 30, 2009, as listed in the table of contents. These financial statements are the responsibility of the University of Guam's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the University of Guam as of September 30, 2008, were audited by other auditors whose report dated March 12, 2009, expressed an unqualified opinion on those statements. We did not audit the financial statements of University of Guam Endowment Foundation, Inc., a component unit of the University, which statements reflect total assets of \$7,062,426 as of December 31, 2008, and total revenues of (\$1,828,180) for the year then ended. Those statements were audited by other auditors whose report has been furnished to us, and in our opinion, insofar as it relates to the amounts included for University of Guam Endowment Foundation, Inc., is based solely on the report of the other auditors.

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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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 opinion.

In our opinion, based on our audit and the report of other auditors the financial statements referred to above present fairly, in all material respects, the financial position of the University of Guam as of September 30, 2009, and the changes in financial position and cash flows 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 February 18, 2010, on our consideration of the University of Guam'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 the 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.

The management's discussion and analysis on pages 3 through 17, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The other supplementary information listed in the table of contents is presented for purposes for additional analysis and is not a required part of the basic financial statements of the University of Guam. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Boise, Idaho
February 18, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

The objective of management's discussion and analysis (MD&A) is to provide readers of the University of Guam's (University or UOG) financial statements an overview and better understanding of its financial position and results of activities for the fiscal year ended September 30, 2009. 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.

As a critical island resource for economic growth and social development, the University is focused on its mission of instruction, research and service. This audit and the accompanying MD&A address the University's financial stewardship, capacity to deliver its mission, and progress towards achieving the institution's strategic initiatives of academic quality, student success, community engagement, and institutional effectiveness and efficiency in the eighth year of its strategic plan.

The University. Public Law 13-194, The Higher Education Act of 1976, established the University of Guam as a non-membership, non-profit, public corporation under the control of a Board of Regents appointed by the Governor of Guam with the advice and consent of the Guam Legislature. The University is the premier institution of higher education in the Western Pacific. It is a U.S. land-grant institution, offering associate, baccalaureate and master's degrees, and has been continuously accredited by the Western Association of Schools and Colleges (WASC). The University is reported as a component unit of the government of Guam.

The University is a public, open-admissions, four-year land grant institution located on the island of Guam, an unincorporated U.S. Territory in the Marianas Islands. The student enrollment of 3,550 (Fall 2009 headcount, 3,541 full-time equivalent) is multicultural, multilingual and 91% Asian-Pacific Islander. There are 15 master's degree programs, 34 undergraduate programs, and one (1) associate degree program in nursing. In addition, continuing education, professional development and English language training are offered. 182 full-time and 76 part-time faculty, 30 administrators and 555 full- and part-time staff support the mission: *Ina, Diskubre, Setbe* (to Enlighten, to Discover, to Serve). Four strategic initiatives guide the University in being responsive to student and community needs: Enhancement of Academic Quality; Enhancement of Student Success, Enrollment Growth, and Institutional Visibility; Promotion of the Land-Grant Mission; and Strengthening Institutional Effectiveness and Efficiency.

The Leadership. The University is governed by a nine-member Board of Regents. Peter "Sonny" Ada is the Chair, W. Chris Perez, MD is Vice-Chair, and Cynthia Henson is Board Treasurer and Chair of the Budget, Finance, Investment, and Audit. 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. Zeny Asuncion-Nace is Comptroller.

The President has continued progress on the strategic initiatives, while guiding the University toward a common set of three overarching themes: UOG Green, the Natural Choice and Leading Change. UOG Green is a theme based on the traditional Chamorro respect for the earth and its ecosystems. Natural Choice positions the University as the choice for high school seniors, residents turning to higher education to improve quality of life, and the large influx of population expected from the island's planned military buildup. Leading Change recognizes the University's pivotal role in spearheading the economic, societal, technological and political changes that are inevitable as the island undergoes its most dramatic transformation since World War II due to the U.S. military buildup.

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THE FINANCIAL STATEMENTS

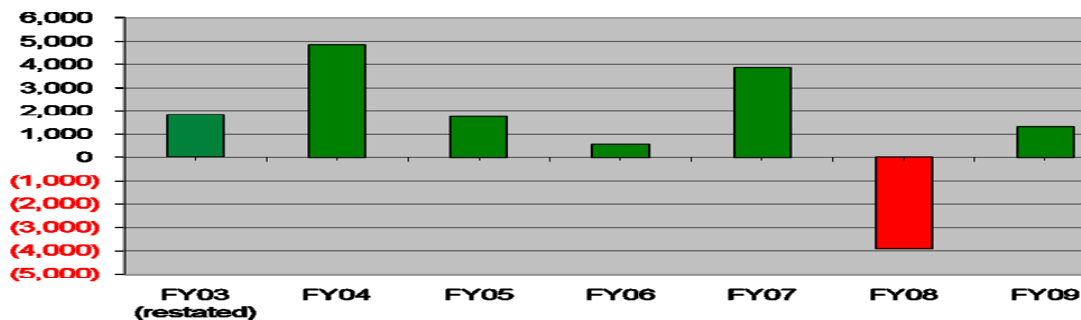
The report includes three financial statements for FY2009: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) principles, which establish standards for external financial reporting for colleges and universities.

Having adopted GASB Statement 39, *Determining Whether Certain Organizations are Component Units*, the University also reports the financial statements of the UOG Endowment Foundation. The Foundation is a legally separate, tax-exempt, private corporation that meets the criteria for component units. While the University does not control the Foundation, the resources and income of the Foundation can only be used by or for the benefit of the University. As such, the Foundation's Statements of Financial Position and Statements of Activities and Changes in Net Assets are separately presented without modification.

FY2009 FINANCIAL HIGHLIGHTS AND STRATEGIC INSTITUTIONAL OUTCOMES

One of the most important questions in evaluating the financial health of an institution is whether it is financially better off at the beginning of the year or at the end of the year. In FY2009 the University's finances showed a \$1.3 million increase in net assets. This is a \$5.2 million improvement over the prior year's deficit, mainly due to the University's strict implementation of financial management controls, substantial operating revenue growth that adequately covered expense increases, and the recovery in global equity markets affecting investment performance.

CHANGE IN NET ASSETS FY03-09 (IN \$000'S)



Fifth Year as Low Risk Auditee. The University has maintained low-risk audit status for federal grants and contracts for five consecutive years, effectively managing an increasing number of awards. No instances of noncompliance or material deficiencies in internal control were identified during this audit. The number of federal grants (i.e., by Catalog of Federal Domestic Assistance number) rose to 110 from 82, just three years ago.

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Improved Financial Position in Six of the Last Seven Years. The University's overall financial position has improved in six (6) of seven (7) years. Revenues have increased. Revenue sources are more diversified. The University is competitive in bringing federal grants to bear on community needs. Expenses are managed closely. To find financial balance and to protect financial stability and long-term viability in difficult economic times, the University also operates within its means by reordering and restructuring priorities, implementing financial controls, partnering with others to obtain grant awards, and developing a budget base that sustains educational effectiveness.

Adherence to Financial Management Plan: Given economic uncertainty and the volatility of equity markets, the University again adhered to a conservative financial plan¹. The plan tightened operational spending and kept expenditures within an 80% budget limit, deferred hiring and procuring of services, and limited all non-personnel expenditures to 80% of the Board-approved budget.

Trends In Key Financial Indicators: The trends, compiled below, measure strengths and weaknesses:

KEY FINANCIAL INDICATORS FY04-09 (IN \$'S OR WHOLE UNITS)

	FY04	FY05	FY06	FY07	FY08	FY09
Return on Net Assets						
Change in Net Assets/ Total Net Assets (SOY)	6%	2%	1%	5%	-5%	2%
Net Income Ratio						
Change in Unrest. Net Assets/Total Unrest. Revenue	5%	4%	-2%	13%	-4%	11%
Operating Income Ratio						
Operating Income/ Total Expenses	57%	57%	61%	60%	57%	62%
Viability Ratio						
Expendable Net Assets/ Long Term Debt	5.05	1.42	.59	.69	.21	.57
Tuition and Fees per FTE Student	\$ 3,544	\$ 4,081	\$ 4,366	\$ 4,897	\$ 4,996	\$ 5,566
Instructional Expense per FTE Student	\$ 4,847	\$ 5,214	\$ 5,672	\$ 5,419	\$ 5,535	\$ 5,458
Academic Support Expense per FTE Student	\$ 2,201	\$ 2,392	\$ 2,290	\$ 2,218	\$ 2,703	\$ 2,655
Student Services Expense per FTE Student	\$ 1,095	\$ 1,084	\$ 1,243	\$ 1,652	\$ 1,112	\$ 1,635
Unrest. Fund Balance	\$	\$	\$	\$	\$	\$

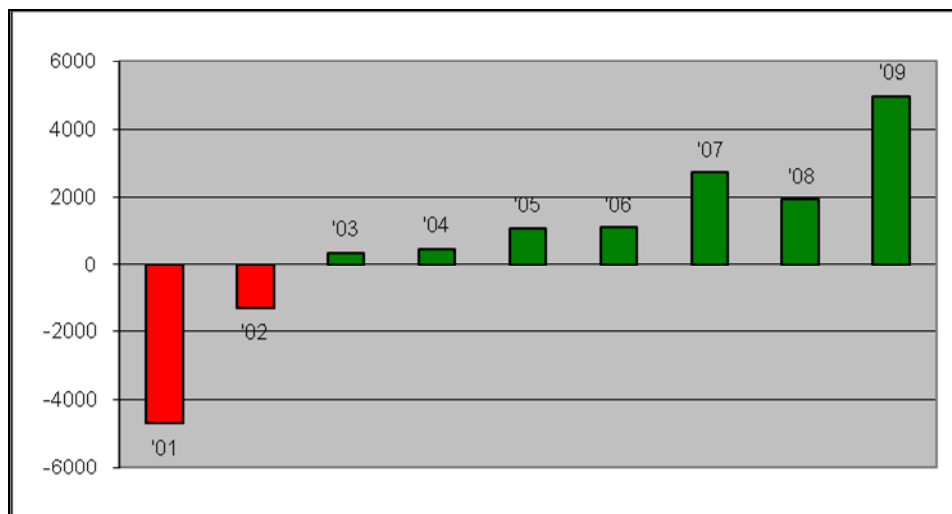
¹ The University's financial management plan has been in place since 2003 and is updated as needed. It links budgets, expenditures and resource allocations to institutional priorities, while maintaining commitment to the core mission and strategic initiatives. The plan addresses tuition increases, enrollment targets, revenue generation, cost containment, strategic investments and working capital management.

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	442,909	1,058,558	1,072,925	2,706,015	1,911,000	4,951,445
Student Enrolment Fall FTE	2,932	2,842	2,968	3,077	3,218	3,309

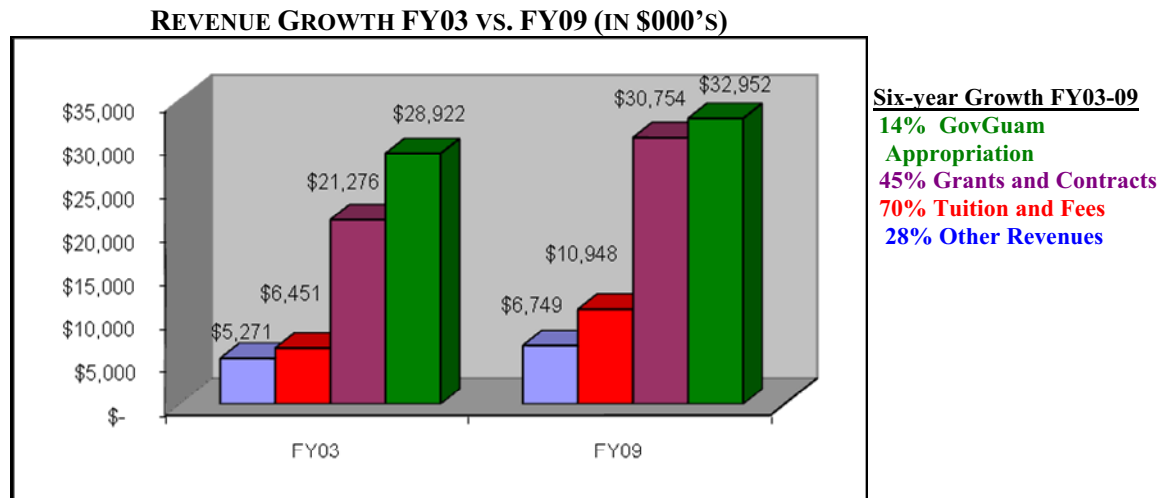
There have been improvements in the balance of the unrestricted fund balance, which is the main operational account; University-generated revenues; and the establishment of reserves (see below). Balances in the current fund have been built up from prior years' deficits to help weather difficult times.

CURRENT FUND UNRESTRICTED FY01-09 (IN \$000'S)



Revenue Growth. Revenues have increased and diversified with increases in enrollment, tuition, grants and contracts as well as improvements in auxiliary fund performance and new revenues from entrepreneurial efforts. Government of Guam appropriations remain the single largest revenue source. The University has leveraged these appropriations to generate additional revenues. Over 86 new or continuing major awards of about \$3.5 million were received (several multi-year), evidencing the University's competitiveness in research and commitment to community service, including three (3) ARRA grant awards. Grants and contracts brought in over \$30.7 million of outside monies, an increase of over \$3 million from prior year, leveraging the government of Guam appropriation by 1.47 times and propelling the island's economic, environmental and social development. The U.S. Departments of Education (\$14.7 million), Agriculture (\$4.2 million), and Health and Human Services (\$3.2 million) are the largest Federal grantors, ranked by FY09 expenditures. Outcomes from this effort can be seen in the following: i) In FY03 appropriations were 47% of consolidated revenues and University-generated sources represented 53%, while by FY09 appropriations decreased to 41% of the total and University-generated sources increased to 59%; and ii) For every \$1 appropriated, the University generates \$1.47.

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Establishment of Reserves: The University's Board of Regents approved the creation and implementation of four reserve accounts to sustain financial stability and long term viability, deliver the University's mission, and provide funding for investments in infrastructure capacity and educational effectiveness in line with WASC standard 3.5². The reserves include: 1) University Stability Reserve, a contingency fund for times of financial crisis; 2) Capital Equipment Reserve, to fund future capital equipment acquisition and replacement; 3) Capital Facilities Reserve, to fund capital facilities renovation and refurbishment; and 4) Insurance Deductible Reserve, to fund insurance policy deductibles that go beyond the University's ability to fund the deductible from current working capital.

Academic Quality: Academic programs have been strengthened and academic quality goals are being achieved. In 2009 WASC reaffirmed the University's primary accreditation for eight (8) years following the educational effectiveness review. This is the longest period of unrestricted accreditation in the institution's history. Specialized accrediting bodies have granted or affirmed accreditation for the professional schools (i.e., School of Business and Public Administration, School of Education, School of Nursing and Health Sciences) and the undergraduate Social Work program, which speaks to program quality and improvement. Learning objectives are documented in course outlines, syllabi and catalogs. Budgets, administrative structures and faculty development activities support and enhance academic quality. The above are based on evidence, including external reviews. Faculty and administrators have undertaken a data-based analysis of undergraduate academic programs with the goal of "right sizing" them in an environment of scarce resources. A review of graduate programs is underway. Administrative resources have been realigned to better support graduate programs, assessment and institutional research.

Student Success and Enrollment Growth: In Academic Year 2008-09 the University produced 23 nurses, 137 educators, 79 business men and women, 26 scientists, 8 commissioned military officers, 44 criminal justice and public administrators, and 80 others prepared to enter the island's professional workforce. Yet, enrollment in nursing has been capped and other high-demand programs may follow without funding for additional faculty, particularly for those in hard-to-hire professional disciplines such as nursing, business, math and sciences.

² Fiscal and physical resources are effectively aligned with institutional purposes and educational objectives, and are sufficiently developed to support and maintain the level and kind of educational programs offered both now and for the foreseeable future.

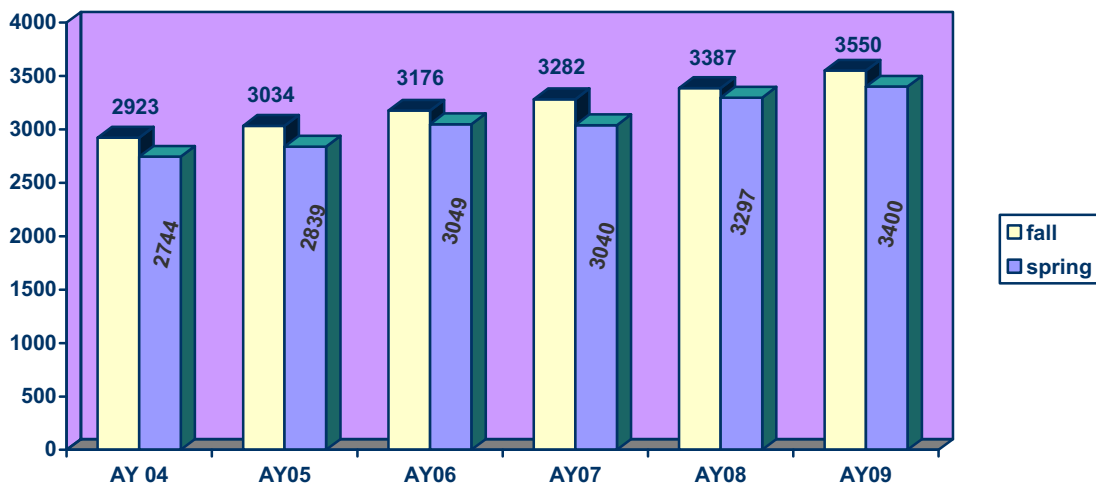
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The elements of student success are in place. Recruiting efforts are more extensive, including regular visits to high schools on Guam and throughout the region, informational promotions, and centers for mentoring and cultivating potential applicants. There are new academic programs and expanded course offerings. These efforts have been accompanied by increases in student enrollment, including the region's most promising high school graduates.

The University has responded to recommendations from its accrediting bodies, to data from prospective students, to data on enrollments and students' academic status, and to priorities identified by current students, academic programs and the community. Student retention and persistence to degree are being addressed. Academic advising has been strengthened. Student opportunities for research, creative production, service learning and internships have been enhanced. Students are engaged. Programs are building relationships with their alumni.

Student enrollment in Academic Year 2009-2010 has reached record levels. The University is the natural choice for 3,550 students registered for Fall Semester '09 (4.8% growth over the prior year, the highest in ten years). Over the last six years, fall semester student enrollment has grown by 21% and spring semester by 24%.

TRENDS IN STUDENT ENROLLMENT AY04-09 (HEADCOUNT)



The University is accessible with tuition rates less than the average at other U.S. public universities. This allows our students, who otherwise may not have access to higher education, to receive their education on Guam and become the educated professionals that the island and region need to grow and prosper. However, in order to cover for declining or static appropriations (in real terms), tuition rates have increased by 10% per year since 1998 in order to maintain academic quality. These increases have stretched the ability to pay for most students, 78% of whom are either on financial aid or come from families with income below the national average.

Community Engagement: The 1999 Kellogg Commission report states that it is not enough for a university to produce graduates who will serve their communities. A university must also provide direct service to these communities, through teaching, research and service that address immediate and long-term challenges. The University's research, outreach and academic programs touch the lives of almost every person in Guam's community. From farmers, to individuals caring for elderly relatives, to speech and language pathologists, the University is connected to its communities and provides the framework for quality of life improvements.

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The capacity to serve regional needs is enabled by the University's leveraging its government of Guam appropriation for operations with additional Federal monies to fund programs such as Pell Grants and other student financial assistance; Cooperative and Agricultural Extension; Cancer Research Center; TRIO; Center for Excellence in Developmental Disabilities Education, Research and Service; coral reef studies; economic and business development; and partnerships for improvements in public schools. The University has requested appropriations to fund growth initiatives directed at public policy priorities. These can be leveraged into new grants and contracts for social, economic and environmental development.

Looking toward the future, the Governor of Guam has appointed the University to lead the Education Sub-Committee, and participate in many other sub-committees, of the Civilian Military Task Force in projecting longer-term educational needs at all levels in advance of the announced military buildup on the island.

Institutional Effectiveness and Efficiency: The University effectively and efficiently allocates its academic, research and service resources in support of student learning, demonstrating its resilience and ability to accomplish its mission. Financial resources have increased and become more diversified. The University is competitive in bringing grant funding to bear on community needs. Auxiliary funds are net revenue generators. High-potential, collaborative entrepreneurial ventures associated with the military buildup, University-advantaged niches and partnering opportunities are underway at institutional and academic unit levels. Non-performing ventures have been closed.

However, important, unmet needs remain in the academic and support units. The University has budgeted for greater administrative and infrastructure support. While IT and maintenance expenditures are higher, they are below what is projected to keep pace with rapidly changing technology and infrastructure needs. Support units such as the Business Office, Human Resources Office, and Plant and Facilities have shown continuous improvement in their processes, in training sessions with academic units, and in their use of automation. They require additional skilled staff and workflow automation to become timelier and more efficient. The University is poised for growth, but requires more capacity and investment to do so. The University's financial reserves, the announced American Recovery and Reinvestment Act (ARRA) stimulus package for UOG, and monies identified by the Governor's Office for U.S. Department of Interior Capital Improvement Projects will fund substantial progress in addressing the needs.

The University can demonstrate autonomy and shared governance. The Board is active and involved in policy and oversight. Academic and curricular processes are collaborative. Using a consultative process, in which administrators and faculty compare outcomes with resources, the Faculty Senate and academic administrators are making optimal use of data and discussion to effect the right-sizing of academic programs. Improved policies and processes assure that transitions in leadership proceeded smoothly, and as the outcomes of merit-based searches. Councils and committees have been broadly representative, active and effective.

Outcome assessments and decisions based on data analysis evidence student learning, academic quality and faculty commitment. Program reviews are qualitatively and quantitatively reflective and are shared at all academic levels. Institutional planning, budgeting and resource allocations reflect program priorities. Indicators of institutional effectiveness are in place, widely disseminated and utilized. The University community is committed to strengthening institutional efficiency, sustaining educational effectiveness and addressing WASC recommendations. They enact this commitment in their policies, practices, priorities and decisions.

The University has achieved positive outcomes in challenging financial times. These are due to collaboration and teamwork; recognition of student learning and academic priorities implemented through a consensus-based strategic plan; ability to make difficult decisions based on evidence; and commitment of faculty, staff and administrators, who are consultatively developing recommendations to strengthen educational effectiveness.

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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>2009</u>	<u>2008</u>	<u>2007</u>
Current assets	\$ 22,570	\$ 7,777	\$ 20,073
Non-current assets	88,834	89,672	92,354
Total assets	<u>\$ 111,404</u>	<u>\$ 107,449</u>	<u>\$ 112,427</u>
Current liabilities	\$ 11,411	\$ 8,935	\$ 9,694
Non-current liabilities	15,973	15,819	16,129
Total liabilities	<u>27,384</u>	<u>24,754</u>	<u>25,823</u>
Invested in capital assets, net of related debt	57,262	58,929	58,886
Restricted	10,691	10,980	12,563
Unrestricted	16,067	12,786	15,155
Total net assets	<u>84,020</u>	<u>82,695</u>	<u>86,604</u>
Total liabilities and net assets	<u>\$ 111,404</u>	<u>\$ 107,449</u>	<u>\$ 112,427</u>

Assets. Current assets consist primarily of cash and investments (41%), local government appropriations (20%), receivables for tuition (19%), U.S. government grants and contracts (11%), and others (9%). Current assets cover current liabilities 2.06 times, an indicator of liquidity. Noncurrent assets include restricted cash (6%), investments (15%), and capital assets (79%).

Liabilities. These are accounts payable, deferred tuition revenue, accrued employee annual and sick leave, deposits for others and long-term debt. The increase of \$2.6 million (11%) is mostly due to payables to vendors averaging 60 days past due, and the accrual of additional reserves for liability claims.

Net Assets. Net assets represent the residual interest in assets net of liabilities. The University's overall financial condition strengthened during FY2009, a direct result of adherence to the financial management plan and unrealized gains in equity investments. Net assets increased to \$1.3 million from a deficit of \$3.9 million, an increase of 134%.

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STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

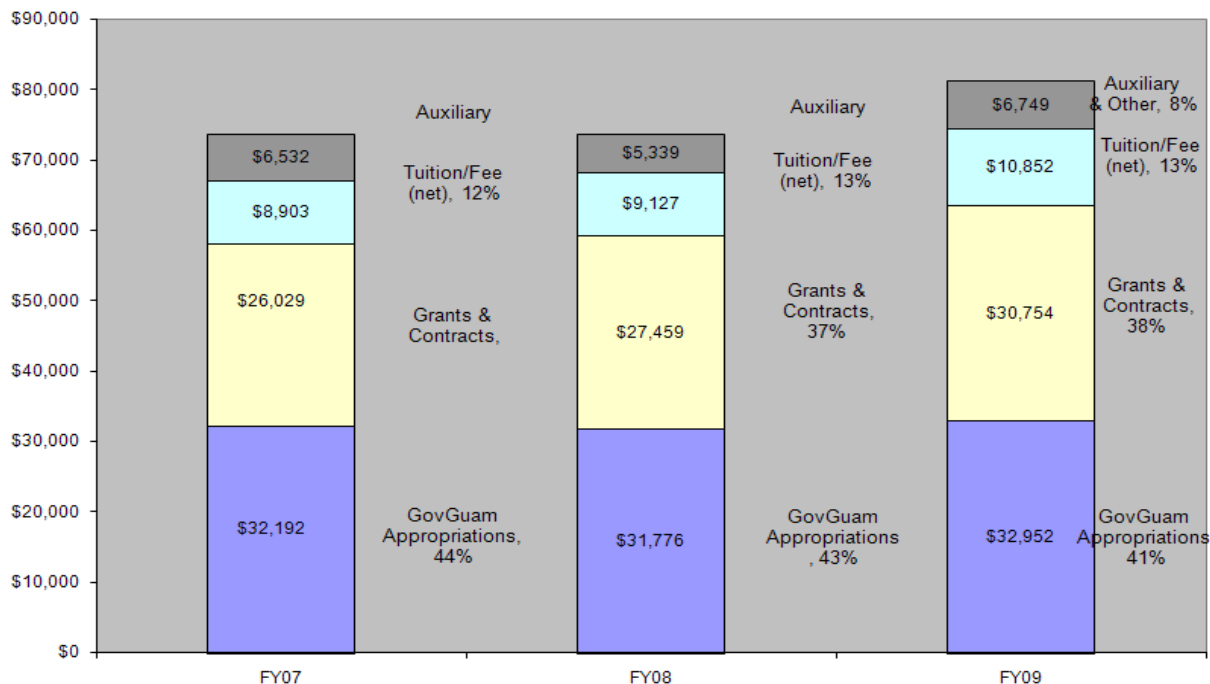
The statement of revenues, expenses and changes in net assets provides details of operating and non-operating revenues and expenditures, similar to an income statement.

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

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Operating revenues	\$ 48,355	\$ 41,926	\$ 41,463
Operating expenses	<u>77,395</u>	<u>72,411</u>	<u>69,166</u>
Operating revenues net of operating expenses	(29,039) ³	(30,485)	(27,703)
Non-operating revenues	<u>30,363</u>	<u>26,577</u>	<u>31,591</u>
Increase (Decrease) in net assets	1,324	(3,908)	3,888 ⁴
Net assets – beginning of year	<u>82,696</u>	<u>86,604</u>	<u>82,716</u>
Net assets – end of year	\$ <u>84,020</u>	\$ <u>82,696</u>	\$ <u>86,604</u>

Revenues. The University brought in \$48.3 million from operations (excluding government appropriations and investments), an increase of 15% over FY2008. Tuition and fees, grants and contracts, contributed to a \$5.6 million increase (or 14%) over prior year. There were no allotment holdbacks in FY2009, a welcome change.

**Major Revenue Sources FY06-08 (in \$000's)
Excludes Investment Income**



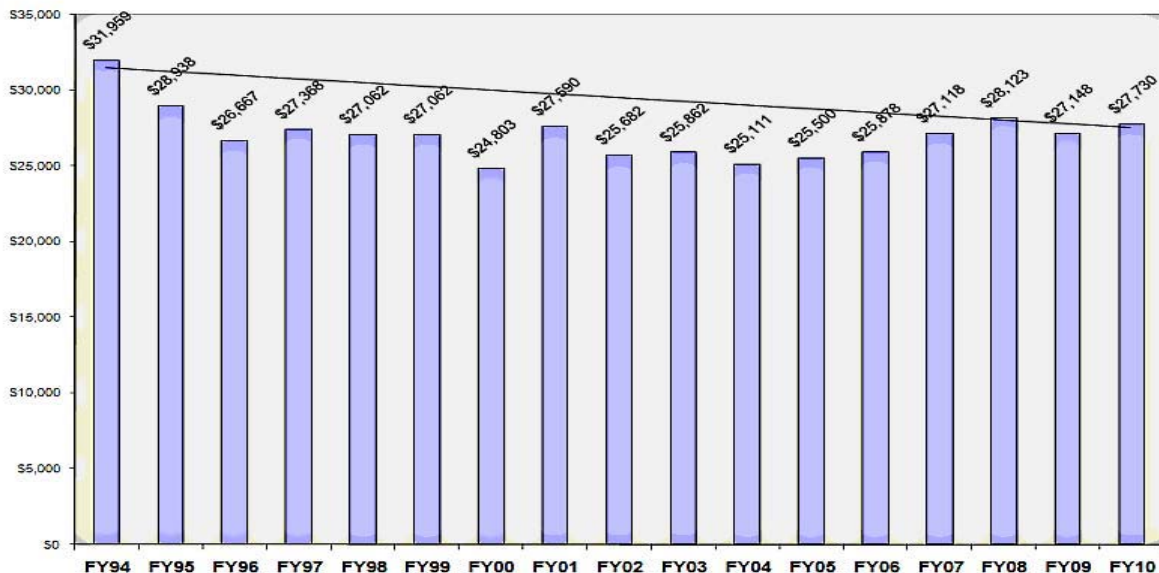
³The total of operating revenues net of operating expense is negative because local government appropriations are reported as non-operating revenues rather than operating revenues under GASB 35 reporting requirements.

⁴ In prior years, Yamashita Educator Corps (YEC) was an agency organizationally separate from the University. During FY2007, PL28-150 transferred YEC operations to the University's School of Education. This resulted in a \$1.8 million transfer in net assets.

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Government of Guam Appropriations. FY09 appropriations totaled \$33 million, of which \$27.1 million is for general operations, \$3 million for student financial aid programs, \$2.4 million for special appropriations (WERI studies, soil and water conservation, hatchery, nursing) and \$500 thousand for loan repayment for the Jesus and Eugenia Leon Guerrero School of Business and Public Administration Building. FY10 general appropriations totaled \$27.7 million.

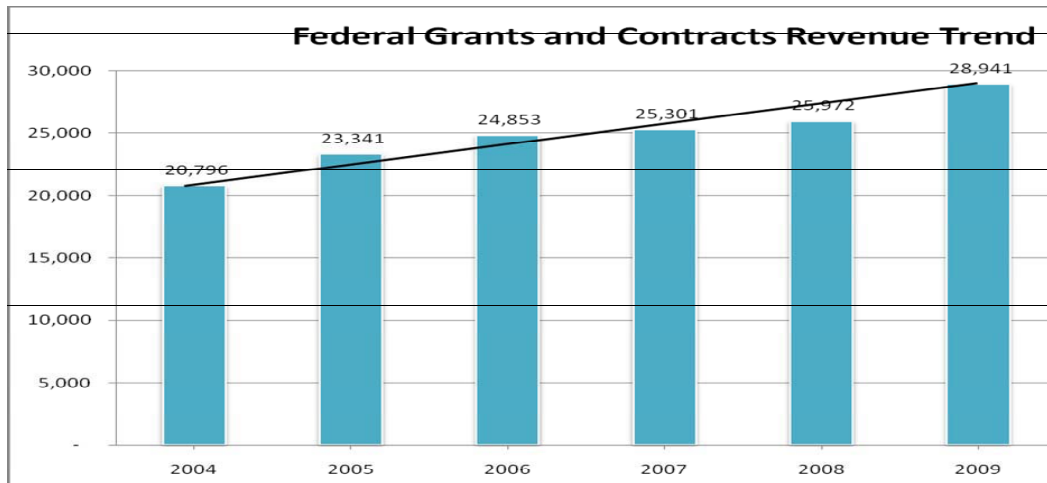
GENERAL OPERATIONS APPROPRIATION FROM GOVERNMENT OF GUAM (IN \$000'S)



Government of Guam appropriations remain the primary revenue source. Budget constraints, allotment payment shortfalls, and prior year allotment holdbacks have meant that some hiring, student services, maintenance and infrastructure support have been deferred or cancelled in order to allocate sufficient funds to higher priorities.

Grants and Contracts. Consolidated (Federal, local and private) grant and contract revenues increased by \$3.3 million (12%) compared to the prior year's increase of 5%, with a 39% increase over the last six years. The trend of increased federal grant revenues is evidence that the University has become a competitive and productive research and service institution in the region. \$28.9 million in Federal financial grant and contract awards were received during the year compared to \$20.8 million six years ago. During FY2009, the following major grant awards were received: NIH-NCI Cancer Health Disparities five-year grant for \$8.2 million, Green grant for \$919 thousand, AHEC three-year grant for \$867 thousand, Graduate Support Grant for \$401 thousand, three-year Sea Grant for \$370 thousand, five-year Coral Reef Grant for \$341 thousand, and other smaller grants.

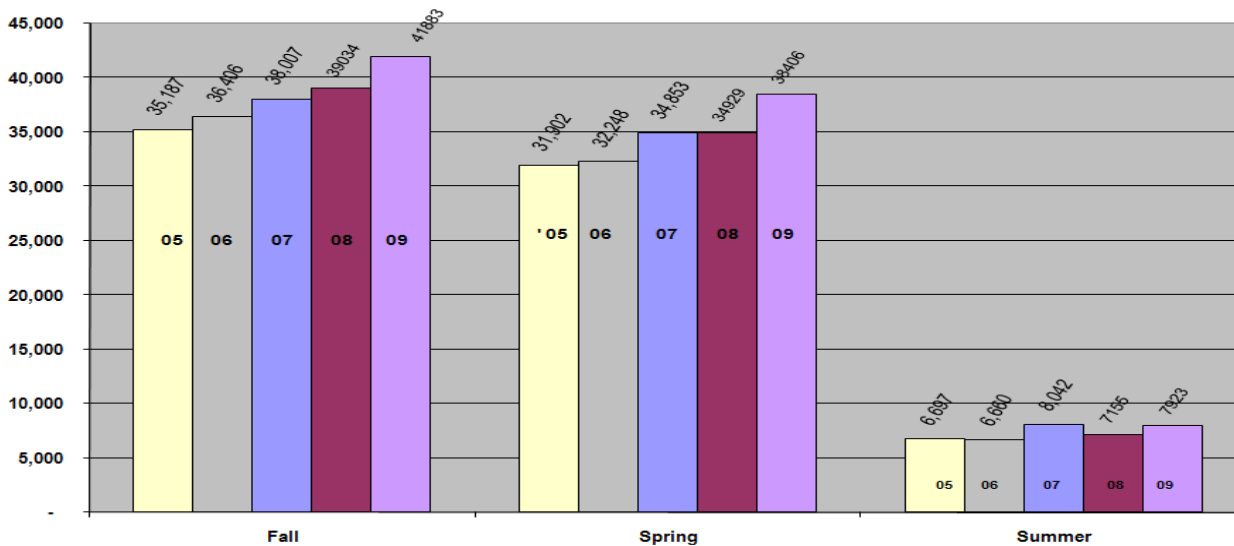
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Tuition and Fees. Gross student tuition and fee revenues increased by \$2.3 million or 14.6% from prior year due to increased enrollment and a 10% annual increase in tuition rates that started in Fall 2005. Even with the tuition rate increases, the University remains affordable and competitive.

The University has focused on student recruitment and retention. There were a total of 3,550 students (or 41,883 credit hours) in the Fall 2009 semester. This is a 4.8% increase in headcount enrollment and 7.3% increase in credit hour production over the prior year Fall Semester.

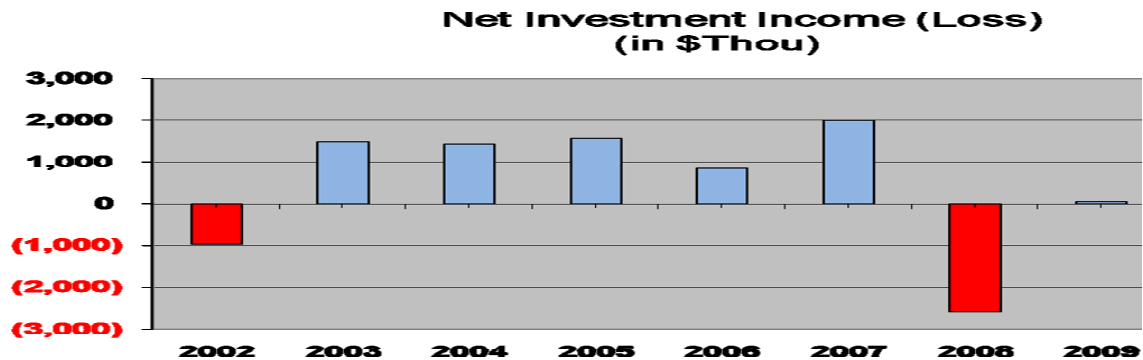
Enrollment Information - Credit Hour Production



Investment Income and Other Revenues.

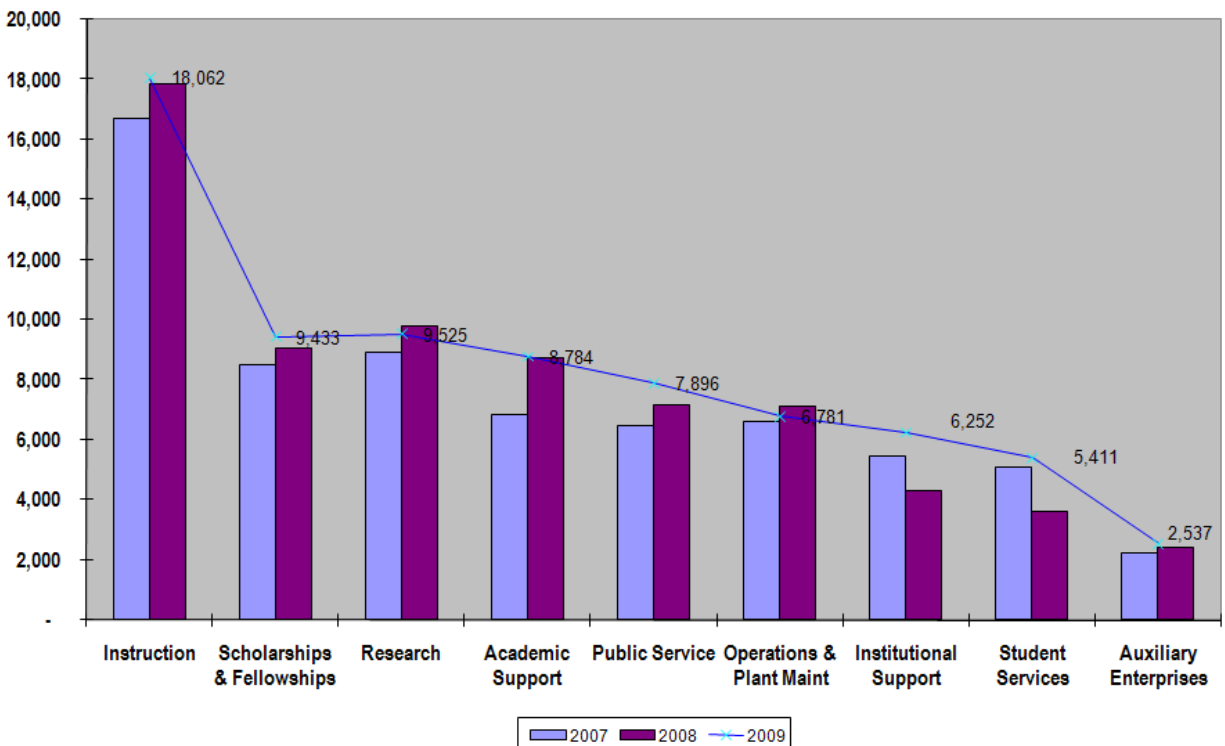
After the recent sharp correction and turbulence in the global equity markets associated with the mortgage and credit crises that continued into much of 2009, the markets rallied late in the fiscal year. As a result, the University's investment portfolio broke even for the year.

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Expenses. FY2009 total operating expenses were \$77 million, an increase of \$4.9 million (6.7%). Revenue growth adequately covered additional expenditures for increased enrollment, new grants and contracts, campus facility upgrades, merit-based salary increases, and retirement fund contribution rate increases. The University spent \$35.5 million on its core mission. Of that, 51% went to instruction, 27% to research, and 22% to public service. In addition, the University spent \$23.1 million on libraries, technology and student, academic and administrative support; \$9 million on student aid (net of \$7.6 million of student tuition discount); and \$6.8 million on campus maintenance. Other expenses incurred were \$2.6 million in depreciation and \$2 million in debt service payments for dormitories and various academic buildings. Total encumbrances (recorded obligations) were \$4.4 million, an increase of \$932 thousand from prior year.

Operating Expenses Trend (in 000's)



**UNIVERSITY OF GUAM
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2009 AND 2008**

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets. At the end of fiscal year 2009, the University had invested \$107M in capital assets and had accrued \$37M in accumulated depreciation against the assets. This represents a decrease (including additions and deletions) of \$1.9M or 2.6% from the prior year. See Note 8.

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 \$13.5M for the purposes of constructing certain facilities on campus. As of September 20, 2009, the University had a long-term debt balance of \$12.9M. See Note 6.

ECONOMIC FACTORS EXPECTED TO AFFECT THE FUTURE ⁵

The sharp and rapid downturns in the U.S and global economies began to ease in late 2009. Nevertheless, the global economic recession continues with unemployment causing particular concern. Global equity markets rebounded, not to former highs, but still providing relief and (unrealized) gains to investment portfolios.

The government of Guam's General Fund revenues decreased slightly in FY2009 to \$500 million and fell below the \$520 million budget law projection. This has negatively impacted the early trends in FY2010 revenues, which the budget law projects to reach \$540 million.

Tourism has declined 14% in the past two years as the recession, fuel prices and the H1N1 virus affected Asian markets. Tourism from the major Japanese market has fallen. While there are recent signs of stability and even increases, there is concern about the potential impact of Japan Air Lines' financial problems on its Guam flights and routes. Hotel employment is down. While sales of hotel properties have tapered off, some properties remain closed.

Property prices have remained flat or are decreasing with housing sales flat in real terms. Private development projects associated with the military buildup are just ramping up. Large developments underway include Harmon warehousing and worker housing. A few new hotel and condo developments have started.

The positive signs in Guam's economic outlook reflect tourism stability, recoveries in global financial markets and economies, and the continuing military buildup. The Draft Environmental Impact Statement (DEIS), published by the Joint Guam Program Office at www.guambuildupeis.us, lays out the unprecedented environmental, social, economic, infrastructure and population changes to the island over the next several years. Growth in the island's economy will be driven by U.S. Department of Defense construction projects. Private and government of Guam construction projects are expected to remain steady or increase. If the current buildup schedule is followed, the DEIS forecasts growth in the government of Guam's General Fund starting in the summer of 2010 and increasing 25% (\$100 million) in 2011. The DEIS projects that the University will require additional faculty and other new capacity to train teachers and other professionals, who will lead change and be the workforce that will deliver economic growth. There is some uncertainty associated with the politics of the military buildup, which may affect the timing of some related investments and revenue increases associated with the anticipated growth.

The U.S. ARRA economic stimulus package will bring employment, investments and substantial cash infusions in 2010. \$17 million from the American Recovery and Reinvestment Act (ARRA) is announced for the University, which will fund overdue improvements in the physical and technology infrastructure.

⁵ With thanks to Gary Hiles, Chief Economist, Guam Department of Labor, and Dr. Roseann Jones, Professor of Economics, University of Guam, for their input

**UNIVERSITY OF GUAM
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2009 AND 2008**

The net result of these factors is overall economic optimism and opportunity tempered by other impacts to the government's financial projections and cash position. In 2010 these include a potential pay scale increase for government of Guam employees based on the Hay classification and compensation study as well as interest payments related to the Cost of Living Allowance court judgment.

The University is expected to continue its growth under the leadership of President Underwood.

- Academic Year 2009-10 started off strongly with the highest student enrollment in ten (10) years. This trend is expected to continue, given the economic conditions and much higher university costs in the mainland U.S. The enrollment trends, coupled with preparations for the military buildup, put increased pressure on the University and the community to invest additional resources for more faculty and more support for academic operations and institutional infrastructure.
- In 2009 WASC reaffirmed the University's accreditation for eight years, the longest in its history. In challenging financial times the University demonstrated student learning outcomes and educational effectiveness. The Commission charged the University to continue moving forward and develop its long term assessments, identify factors that will increase student retention and graduation rates, collaborate with regional community colleges, improve distance education (including an online Masters in Education in Reading), improve its infrastructure and fund its critical role in the military buildup.
- The University community is focused on its mission, accepts the WASC challenges and is eager to lead the changes facing the island. As Guam prepares for the changes associated with the military buildup, public policy makers have acknowledged the University's potential as a key agent and driver of change. Teams are addressing the President's initiatives related to UOG Green, Natural Choice and Leading Change. The University is building partnering relationships with other government agencies, U.S. and Asian universities, and private sector firms. For example, the University has received a sub-grant from Guam EPA related to energy audits and alternative energy research. The University has partnered with Okayama University to enhance research and to exchange students. The University seeks to develop a School of Engineering, partnering initially with other institutions. The University has understandings with several private sector firms related to seeking grants and contracts associated with the military buildup.
- The University is financially stronger within the variability of the island economy and looking to invest in the infrastructure underlying student learning and academic quality. In FY2009 the University increased its financial surplus after experiencing its first deficit in six years associated with FY2008's economic downturn and equity market turbulence. The FY2010 appropriation is below what was requested, but more than FY2009's. It includes some funding for growth. Through its financial management plan and supported by Board policy, the University has built reserves for financial sustainability and capital investments. Bringing together the reserves, ARRA stimulus funding and U.S. Department of Interior funding through the Governor's Office, the University will undertake strategic efforts related to building information technology capacity, renovating facilities, and hiring staff for growth and change. The University must manage its sizeable government appropriations receivable, which impacts its operations and which may delay its investment and capacity building for the economic buildup.

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. The University of Guam Endowment Foundation, Inc. (Foundation) has issued its own set of financial statements and a copy can be requested from the Foundation or visit its website at www.uogfoudnation.org.

**UNIVERSITY OF GUAM
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2009 AND 2008**



The University of Guam at a Glance:

Established under the Higher Education Act of 1976, the University of Guam is located in the Western Pacific on the island of Guam, an unincorporated U.S. Territory in the Marianas Islands. The student enrollment of 3,550 is multicultural, multilingual and 91% Asian-Pacific Islander. The campus' 110 acres overlook scenic Pago Bay, east of the island.

UNIVERSITY OF GUAM
STATEMENTS OF NET ASSETS
SEPTEMBER 30, 2009 AND 2008

ASSETS	2009	2008
CURRENT ASSETS		
Cash and cash equivalents	\$ 4,159,262	\$ 5,067,617
Short-term investments	5,118,413	118,414
Due from Government of Guam	4,525,716	4,703,296
Tuition receivable, net of allowance of \$6,510,990 (\$5,705,818: 2008)	4,298,838	3,749,252
Due from the US Federal government	2,386,354	1,598,336
Due from University of Guam Endowment Foundation, Inc.	400,000	285,493
Other receivables	690,922	1,126,690
Inventories	697,029	570,940
Other current assets	292,899	557,121
Total current assets	<u>22,569,433</u>	<u>17,777,159</u>
NONCURRENT ASSETS		
Restricted cash and cash equivalents	4,953,889	3,981,112
Investments	5,800,824	5,807,749
Endowment investments	7,887,062	7,835,356
Capital assets, net of accumulated depreciation	70,192,395	72,048,385
Total noncurrent assets	<u>88,834,170</u>	<u>89,672,602</u>
	<u>\$ 111,403,603</u>	<u>\$ 107,449,761</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 5,260,224	\$ 3,482,270
Current portion of long-term debt	171,717	163,000
Deferred revenue	5,979,021	5,290,130
Total current liabilities	<u>11,410,962</u>	<u>8,935,400</u>
NONCURRENT LIABILITIES		
Deposits held on behalf of others	121,459	133,958
Accrued annual leave	1,719,757	1,644,109
DCRS sick leave liability	1,373,388	1,083,747
Long-term debt, net of current portion	12,758,406	12,956,885
Total noncurrent liabilities	<u>15,973,010</u>	<u>15,818,699</u>
	<u>27,383,972</u>	<u>24,754,099</u>
NET ASSETS		
Invested in capital assets, net of related debt	57,262,272	58,928,500
Restricted:Nonexpendable	5,126,907	5,298,905
Restricted:Expendable	5,563,262	5,681,560
Unrestricted	16,067,190	12,786,697
Total net assets	<u>84,019,631</u>	<u>82,695,662</u>
	<u>\$ 111,403,603</u>	<u>\$ 107,449,761</u>

UNIVERSITY OF GUAM ENDOWMENT FOUNDATION, INC.
STATEMENTS OF NET ASSETS
DECEMBER 31, 2008 AND 2007

ASSETS	<u>2008</u>	<u>2007</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 141,333	\$ 83,442
Pledges receivable, net of an allowance for doubtful accounts of \$3,000 and \$26,000 at December 31, 2008 and 2007, respectively	703,978	1,202,437
Accounts receivable	2,925	9,600
Construction in progress	-	5,900
Equipment, net	5,000	6,470
Investment in Bank of Guam stock	191,053	191,052
Investment in securities	6,018,137	8,862,732
	<u>\$ 7,062,426</u>	<u>\$ 10,361,633</u>
 LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 10,472	\$ 30,161
Accrued expenses	40,712	2,668
Due to University of Guam	200,574	21,672
	<u>251,758</u>	<u>54,501</u>
 NET ASSETS		
Unrestricted	(1,325,587)	1,654,825
Temporarily restricted	7,581,720	8,095,263
Permanently restricted	554,535	557,044
Total net assets	<u>6,810,668</u>	<u>10,307,132</u>
	<u>\$ 7,062,426</u>	<u>\$ 10,361,633</u>

UNIVERSITY OF GUAM
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2008

	<u>2009</u>	<u>2008</u>
OPERATING REVENUES		
Student tuition and fees	\$ 18,513,987	\$ 16,075,810
Less: scholarship discounts and allowances	<u>(7,566,293)</u>	<u>(6,948,610)</u>
	10,947,694	9,127,200
Federal grants and contracts	28,986,271	25,971,884
FEMA disaster recoveries	-	78,252
Government of Guam grants and contracts	297,109	376,800
Private grants and contracts	1,471,088	1,110,620
Sales and services of education department	725,264	678,813
Auxiliary enterprises	2,214,193	2,265,520
Other revenue	3,713,977	2,316,552
Total operation revenues	<u>48,355,596</u>	<u>41,925,641</u>
OPERATING EXPENSES		
Instruction	18,061,828	17,813,195
Research	9,525,064	9,760,042
Public service	7,896,442	7,157,088
Academic support	8,783,924	8,698,882
Student services	4,924,423	3,579,733
Institutional support	5,882,507	4,283,552
Operational and maintenance, plant	6,780,891	7,096,628
Depreciation	2,600,567	2,569,330
Scholarships and fellowships	10,402,201	9,045,486
Auxiliary enterprises	2,537,236	2,407,276
Total operating expenses	<u>77,395,083</u>	<u>72,411,212</u>
OPERATING REVENUES NET OF OPERATING EXPENSES	(29,039,487)	(30,485,571)
NONOPERATING REVENUES (EXPENSES)		
Government of Guam appropriations		
Operations	27,798,016	27,426,081
Student financial aid program	4,653,737	3,850,366
Capital expenditure loan repayment	500,000	500,000
Net investment income (loss)	46,693	(2,603,236)
Interest on capital assets - debt related	(607,500)	(568,619)
Debt services - DOA bond	(2,027,490)	(2,027,443)
Net nonoperating revenues	<u>30,363,456</u>	<u>26,577,149</u>
NET INCREASE (DECREASE) IN NET ASSETS	<u>1,323,969</u>	<u>(3,908,422)</u>
NET ASSETS		
Net assets, beginning of year	82,695,662	86,604,084
Net assets, end of year	<u>\$ 84,019,631</u>	<u>\$ 82,695,662</u>

UNIVERSITY OF GUAM ENDOWMENT FOUNDATION, INC.
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other income:				
Net investment losses	\$ (2,637,597)	\$ -	\$ -	\$ (2,637,597)
Contributions	78,304	217,519	-	295,823
In-kind donations	308,467	-	-	308,467
Fundraising activities	197,395	-	-	197,395
Other	7,732	-	-	7,732
Net assets released from restriction:				
Satisfaction of program restrictions	731,062	(731,062)	-	-
Total operation revenues	<u>(1,314,637)</u>	<u>(513,543)</u>	<u>-</u>	<u>(1,828,180)</u>
Expenses and losses:				
Program services:				
University of Guam programs	38,000	-	-	38,000
Donations for debt service - UOG	600,000	-	-	600,000
Scholarships	45,049	-	-	45,049
Total program services	<u>683,049</u>	<u>-</u>	<u>-</u>	<u>683,049</u>
Support services:				
Management and general	457,812	-	2,509	460,321
In-kind expenses	308,467	-	-	308,467
Fundraising activities	216,447	-	-	216,447
Total support services	<u>982,726</u>	<u>-</u>	<u>2,509</u>	<u>985,235</u>
Total expenses	<u>1,665,775</u>	<u>-</u>	<u>2,509</u>	<u>1,668,284</u>
CHANGE IN NET ASSETS	(2,980,412)	(513,543)	(2,509)	(3,496,464)
NET ASSETS AT BEGINNING OF YEAR	<u>1,654,825</u>	<u>8,095,263</u>	<u>557,044</u>	<u>10,307,132</u>
NET ASSETS AT END OF YEAR	<u>\$ (1,325,587)</u>	<u>\$ 7,581,720</u>	<u>\$ 554,535</u>	<u>\$ 6,810,668</u>

UNIVERSITY OF GUAM ENDOWMENT FOUNDATION, INC.
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2007

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other income:				
Net investment losses	\$ 691,732	\$ -	\$ 318,606	\$ 1,010,338
Contributions	75,386	1,484,796	-	1,560,182
In-kind donations	43,075	-	-	43,075
Fundraising activities	112,341	-	-	112,341
Other	3,811	-	-	3,811
Net assets released from restriction:				
Satisfaction of program restrictions	151,682	(151,682)	-	-
Total operation revenues	<u>1,078,027</u>	<u>1,333,114</u>	<u>318,606</u>	<u>2,729,747</u>
Expenses and losses:				
Program services:				
University of Guam programs	22,498	-	-	22,498
Donations for debt service - UOG	18,350	-	-	18,350
Scholarships	110,834	-	-	110,834
Total program services	<u>151,682</u>	<u>-</u>	<u>-</u>	<u>151,682</u>
Support services:				
Management and general	582,179	-	2,548	584,727
In-kind expenses	43,075	-	-	43,075
Fundraising activities	98,445	-	-	98,445
Total support services	<u>723,699</u>	<u>-</u>	<u>2,548</u>	<u>726,247</u>
Total expenses	<u>875,381</u>	<u>-</u>	<u>2,548</u>	<u>877,929</u>
CHANGE IN NET ASSETS	202,646	1,333,114	316,058	1,851,818
NET ASSETS AT BEGINNING OF YEAR	<u>1,452,179</u>	<u>6,762,149</u>	<u>240,986</u>	<u>8,455,314</u>
NET ASSETS AT END OF YEAR	<u>\$ 1,654,825</u>	<u>\$ 8,095,263</u>	<u>\$ 557,044</u>	<u>\$ 10,307,132</u>

UNIVERSITY OF GUAM
STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Student tuition and fees, net	\$ 10,302,750	\$ 8,651,548
Grants, contracts and appropriations	30,251,943	31,856,745
Sales and services of education department	725,264	1,144,595
Auxiliary services	2,352,326	(141,756)
Other receipts	3,845,103	2,316,552
Payments to education and general expenses	(61,572,680)	(63,155,042)
Payments to students for financial aid	(10,402,201)	(9,045,486)
NET CASH USED IN OPERATING ACTIVITIES	<u>(24,497,495)</u>	<u>(28,372,844)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Government of Guam appropriations collected	33,129,333	36,377,905
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Interest paid on capital debt	(607,500)	(568,619)
Purchases of capital assets	(705,712)	(1,946,443)
Principal paid on capital debt	(2,217,252)	(2,431,732)
Changes in restricted cash	(972,776)	(737,634)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(4,503,240)</u>	<u>(5,684,428)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment income (loss)	46,693	(56,484)
Net (purchases) sales of investments	(5,083,646)	246,279
NET CASH USED BY INVESTING ACTIVITIES	<u>(5,036,953)</u>	<u>189,795</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(908,355)	2,510,428
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>5,067,617</u>	<u>2,557,189</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 4,159,262</u></u>	<u><u>\$ 5,067,617</u></u>

UNIVERSITY OF GUAM
STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2009 AND 2008

RECONCILIATION OF OPERATING REVENUES NET OF
OPERATING ACTIVITIES TO NET CASH USED IN
OPERATING ACTIVITIES:

to net cash used in operating activities:

Operating revenues net of operating expenses	(29,039,487)	(30,485,571)
Adjustments to reconcile operating revenues net of operating expenses to net cash used in operating activities:		
Depreciation	2,600,567	2,569,330
Changes in assets and liabilities:		
Accounts receivable, net	(1,016,343)	(213,887)
Inventory	(126,089)	(49,474)
Other assets	264,222	471,511
Accounts payable and accrued liabilities	1,777,954	(414,121)
Annual leave	352,790	(44,611)
Deferred revenue	688,891	(206,021)
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (24,497,495)</u>	<u>\$ (28,372,844)</u>

UNIVERSITY OF GUAM ENDOWMENT FOUNDATION, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	(3,496,464)	1,851,818
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	2,509	2,548
Bad debt expense	-	5,300
Interest and dividend income reinvested	(272,801)	(341,090)
Net realized and unrealized investment losses (gains)	2,394,313	(669,248)
Unrealized investment gains	498,459	(542,844)
(Increase) decrease in receivables	6,675	5,288
Increase (decrease) in accounts payable and accrued expenses	(19,689)	6,235
Increase in due to University of Guam	178,902	8,594
NET CASH USED IN OPERATING ACTIVITIES	(670,052)	299,447
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net purchases (proceeds from sale) of investments	728,982	(251,496)
Acquisition of fixed assets	(1,039)	(12,974)
NET CASH FROM INVESTING ACTIVITIES	727,943	(264,470)
NET CHANGE IN CASH AND CASH EQUIVALENTS	57,891	34,977
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	83,442	48,465
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 141,333	\$ 83,442

UNIVERSITY OF GUAM
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2009 AND 2008

1. 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.

2. Basis of Presentation

- A. 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.

Other GASB Statements are required to be implemented in conjunction with GASB Statements No. 34 and 35. Therefore, the government of Guam and Guam public colleges and universities have also implemented Statement No. 36, *Recipient Reporting for Certain Shared Nonexchange Revenues*, Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus* and Statement No. 38, *Certain Financial Statement Note Disclosures*.

- B. 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.

The University has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The University has elected to not apply FASB pronouncements issued after the applicable date.

- C. Reporting Entity. Effective October 1, 2003, the University adopted GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. 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. 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

NOTES TO FINANCIAL STATEMENTS

2. Basis of Presentation, continued

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 Changes in Net Assets are separately presented in the University's financial statements. In addition, the Foundation's significant notes are summarized in Note 3Y below.

The Foundation is a private organization that reports under FASB standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. 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.

3. 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.

At September 30, 2009 and 2008 the University has cash balances of \$9,113,151 and \$9,048,729, respectively, with corresponding bank balances of \$9,765,807 and \$10,244,095, respectively, of which \$7,506,122 and \$9,994,055, respectively, are insured by the Federal Deposit Insurance Corporation, or collateralized by securities held by a trustee in the name of the financial institution. The remaining balances are uninsured and uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

- 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.

At September 30, 2009 and 2008, the University recorded \$1,975,721 and \$2,143,905, 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 fund may only be expended in accordance with purposes set forth by the Guam Economic Development and Commerce Authority, a component unit of the government of Guam.

The principal or corpus amount of \$1,971,907 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. The remainder, representing interest income, is invested in money market mutual funds. Such money market funds are subject to the U.S. Treasury Department's money market guarantee program. During the years ended September 30, 2009 and 2008, the fund earned interest of \$15,540 and \$86,905, respectively.

- 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.

NOTES TO FINANCIAL STATEMENTS

3. Summary of Significant Accounting Policies, continued

- 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*. 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.
- F. 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, 2009 and 2008.
- G. Accounts Receivable – U.S. 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.
- H. 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.
- I. 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.
- J. 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. These additions have since been adjusted to fair market value as determined by independent appraisals completed during fiscal year 1988.
- K. 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.
- L. Compensated Absences. Employee vacation leave is accrued at year end for financial statement purposes. Included in accounts payable and accrued liabilities at September 30, 2009 and 2008 is \$1,719,757 and \$1,644,109, respectively, related to compensated absences earned but unused. The change in accrued employee leave is also included as a component of operating expense in the Statement of Revenues, Expenses, and Changes in Net Assets.
- M. 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 2009 and 2008 was \$283,471 and \$236,333, respectively.

NOTES TO FINANCIAL STATEMENTS

3. Summary of Significant Accounting Policies, continued

N. Noncurrent Liabilities. Noncurrent liabilities include (1) principal amounts of revenue bonds payable, notes payable, and capital lease obligations with contractual maturities greater than one year, and (2) estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year.

O. 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, and sales and services of educational departments and auxiliary enterprises. 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.

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

Operating Revenues – 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 – 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 appropriations and investment income.

NOTES TO FINANCIAL STATEMENTS

3. Summary of Significant Accounting Policies, continued

- Q. 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.
- R. New Accounting Standards. In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB Statement No. 45 establishes standards for the measurement, recognition, and display of other postemployment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The provisions of this Statement are effective for periods beginning after December 15, 2008. The University does not believe the implementation of this Statement will have a material effect on its financial statements.

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. GASB Statement No. 51 requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This Statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009. The provisions of this Statement generally are required to be applied retroactively. The University does not believe the implementation of this Statement will have a material effect on its financial statements.

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. GASB Statement No. 53 addresses the recognition, measurement and disclosure of information related to derivative instruments entered into by state and local governments. The Statement requires governments to report derivative instruments at fair value. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009. The University does not believe the implementation of this Statement will have a material effect on its financial statements.

In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The requirements of this Statement are effective for financial statements for period beginning after June 15, 2010. The University does not believe the implementation of this Statement will have a material effect on its financial effect on its financial statements.

NOTES TO FINANCIAL STATEMENTS

4. Summary of Significant Accounting Policies, continued

S. 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 of the Plan.

As a result of actuarial valuations performed as of September 30, 2008, 2007 and 2006, contribution rates for the years ended September 30, 2009, 2008 and 2007, respectively, have been determined as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Normal costs (% of DB Plan payroll)	18.34%	17.36%	18.21%
Unfunded liability costs (% of total payroll)	<u>22.69%</u>	<u>19.68%</u>	<u>20.66%</u>
	41.03%	37.04%	38.87%
Employee contributions (DB Plan employees)	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>
	31.53%	27.54%	29.37%
Agency specific adjustments -	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
Government contribution as a % of DB Plan payroll	31.53%	27.54%	29.37%
Government contributions as a % of total payroll	29.31%	27.48%	27.48%

The plan utilized the actuarial cost method termed "entry age normal". Significant actuarial assumptions are as follows:

	<u>2008</u>	<u>2007</u>
	<u>Actuarial Valuation</u>	<u>Actuarial Valuation</u>
Interest rate and rate of return	7.00%	7.00%
Payroll increases	3.50%	3.50%
Salary increases	4.0 - 8.5%	4.0 - 8.5%

NOTES TO FINANCIAL STATEMENTS

3. Summary of Significant Accounting Policies, continued

The actuarial valuation performed as of September 30, 2008, did not provide a breakdown of actuarial present value of vested and non-vested accumulated plan benefits by sponsor or net assets available for benefits by sponsor.

Statutory contribution rates for employer and employee contributions were 26.04% and 25.20%, respectively, of qualifying payroll for both of the years ended September 30, 2009 and 2008.

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, 2009 and 2008 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 \$1,373,388 and \$1,083,747 at September 30, 2009 and 2008, 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, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
Defined benefit plan	\$ 3,162,221	\$ 3,155,834
DCRS	3,206,272	2,860,965

As a result of Public Law No. 21-03, the University has no further responsibility to pay for its share of unfunded retirement costs. This responsibility is now with the General Fund of the government of Guam. The University's responsibility is to pay the statutory contribution rate. As of September 30, 2009 and 2008, the General Fund has accrued approximately \$9,188,780 and \$8,978,000, respectively, for the University's cumulative unfunded retirement liability.

T. 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.

U. 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

NOTES TO FINANCIAL STATEMENTS

3. Summary of Significant Accounting Policies, continued

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.

- V. Risk Management. The University purchases insurance to cover its risk of losses due to typhoons, liability and other risks normal to operating an institution of higher learning. For fiscal year 2009, the Board has approved policies with various deductible amounts for each insured risk. Additionally, the University has a two percent (2%) deductible (with a minimum of \$150,000) for each and every loss from windstorm, typhoon, flood, tidal wave and earthquake.
- W. Reclassifications. Certain account balances in 2008 have been reclassified to conform to the 2009 financial statement presentation.
- X. Economic Dependency. The University is depending upon the ongoing appropriations from the Government of Guam.
- Y. UOG Endowment Foundation Pledges Receivable and Investments

UOG Endowment Foundation Pledges Receivable

Pledges receivable consist of donations pledged to the UOG Endowment Foundation but not yet received as of December 31, 2008 and 2007. 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.

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

	<u>2008</u>	<u>2007</u>
SBPA (School of Business and Public Administration Building)	\$ 704,228	\$ 1,202,500
Library	-	500,000
Other	2,750	36,250
	<u>706,978</u>	<u>1,738,750</u>
Less: Unamortized discount	-	(510,313)
	<u>706,978</u>	<u>1,228,437</u>
Less: Allowance for doubtful accounts	(3,000)	(26,000)
	<u>\$ 703,978</u>	<u>\$ 1,202,437</u>

NOTES TO FINANCIAL STATEMENTS

3. Summary of Significant Accounting Policies, continued

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, 2008 and 2007 follows:

	<u>2008</u>	<u>2007</u>
Cash	\$ 732,676	\$ 1,188,113
Equities	3,198,299	5,611,142
Fixed income	<u>2,087,162</u>	<u>2,063,477</u>
	<u>\$ 6,018,137</u>	<u>\$ 8,862,732</u>

The composition of net investment earnings for the years ended December 31, 2008 and 2007 is as follows:

	<u>2008</u>	<u>2007</u>
Increase (decrease) in fair value	\$ (2,394,313)	\$ 669,248
Net realized losses	(516,085)	-
Interest income	163,963	182,649
Dividends	115,248	156,924
Other income (expense)	<u>(6,410)</u>	<u>1,517</u>
	<u>\$ (2,637,597)</u>	<u>\$ 1,010,338</u>

Investments also include 23,392 shares of stock in Bank of Guam (BOG). 19,892 of 23,392 BOG 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. The BOG shares contain no restrictions and are classified as unrestricted net assets.

NOTES TO FINANCIAL STATEMENTS

5. Long-Term Debt

Financing for the construction of the dormitory complex and a student union building was obtained from the issuance of "University of Guam Dormitory and Student Union Revenue Bonds of 1968," in the amount of \$2,140,000. Interest is payable semi-annually on April 1 and October 1 of each year at a rate of 6% per annum. The bonds mature in varying amounts from \$30,000 to \$90,000 on October 1 of each year through 2008. Principal and interest are payable from, and are collateralized by, a first charge and lien on the net revenues derived by the University Dormitory Revenue Fund, as defined in the bond resolution. The bonds are not an obligation of the government of Guam, but are solely that of the University Dormitory Revenue Fund.

As a requirement of the bond resolution, the University Dormitory Revenue Fund is to transfer semi-annually on March 15 and September 15 to the University Dormitory Interest and Redemption Fund, a sum equal to sixty-two and one-half percent (62½%) of the aggregate amount of principal and interest becoming due on the bonds during the next succeeding twelve months until such time as the funds in the Interest Redemption Fund are sufficient to pay the interest and one-half of the principal next coming due, and to provide a reserve in an amount equal to the average annual debt service, which approximates \$91,917.

The bond resolution also requires that when the annual debt service reserve has been satisfied, the Fund is to deposit into an account, to the extent available, up to \$14,000 per year to the credit of the repair and replacement reserve account. These deposits are to continue until a balance of \$280,000 is reached. This bond was fully repaid during the year ended September 30, 2008.

In November 1997, the University entered into a ten-year capital lease agreement to obtain equipment for an energy conservation project. This bond was fully repaid during the year ended September 30, 2008. Approximately One Million Dollars (\$1,000,000) of construction in progress related to the energy conservation project was subsequently written off.

In October 2001, Public Law 26-48 authorized the Board of Regents of the University of Guam 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.

As of September 30, 2007, the entire amount was drawn down. Monthly payments of \$62,505 began in July 2006. 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.

NOTES TO FINANCIAL STATEMENTS

4. Long-Term Debt, continued

Debt service to maturity is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 171,717	\$ 578,343	\$ 750,060
2011	179,606	570,454	750,060
2012	187,857	562,203	750,060
2013	196,487	553,573	750,060
2014	205,514	544,546	750,060
2015-2019	1,178,167	2,572,133	3,750,300
2020-2024	1,474,825	2,275,475	3,750,300
2025-2029	1,846,180	1,904,120	3,750,300
2030-2034	2,311,040	1,439,260	3,750,300
2035-2039	2,892,951	857,349	3,750,300
2040-2043	2,285,779	177,351	2,463,130
	<u>\$ 12,930,123</u>	<u>\$ 12,034,807</u>	<u>\$ 24,964,930</u>

Public Law 26-48 also provided supplemental annual funding of \$500,000 from the Territorial Highway Fund to pay for the loan. At September 30, 2009 and 2008, \$500,000 and \$3.0 million, respectively, have been accrued. The funds received are classified as restricted expendable net assets.

5. 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, 2009 and 2008, loan receivables are reserved in the amount of \$11,701,370 and \$11,951,382, respectively, and recoveries collected are \$497,465 and \$548,578 for the years then ended, respectively.

NOTES TO FINANCIAL STATEMENTS

6. Noncurrent Liabilities

| Noncurrent liability activity was as follows:

	Beginning balance September 30, 2008	Additions	Reductions	Ending balance September 30, 2009	Amount due within one year
Bonds, notes and capital lease obligations:					
Notes payable	\$ 13,119,885	\$ -	\$ 189,762	\$ 12,930,123	\$ 171,717
Total bonds, notes and capital leases	13,119,885	-	189,762	12,930,123	171,717
Other liabilities:					
Deposits held on behalf of others	133,958	-	12,499	121,459	-
Accrued annual leave	1,644,106	1,418,025	1,342,374	1,719,757	920,750
DCRS sick leave liability	1,083,747	369,217	79,576	1,373,388	-
Total other non current liability	2,861,811	1,787,242	1,434,449	3,214,604	920,750
Total noncurrent liabilities	<u>\$ 15,981,696</u>	<u>\$ 1,787,242</u>	<u>\$ 1,624,211</u>	<u>\$ 16,144,727</u>	<u>\$ 1,092,467</u>

	Beginning balance September 30, 2007	Additions	Reductions	Ending balance September 30, 2008	Amount due within one year
Bonds, notes and capital lease obligations:					
Revenue bond payable	\$ 90,000	\$ -	\$ 90,000	\$ -	\$ -
Capital lease payable	126,729	-	126,729	-	-
Notes payable	13,307,445	-	187,560	13,119,885	187,560
Total bonds, notes and capital leases	13,524,174	-	404,289	13,119,885	187,560
Other liabilities:					
Deposits held on behalf of others	172,213	-	38,255	133,958	-
Accrued annual leave	1,736,286	1,367,008	1,459,188	1,644,106	920,750
DCRS sick leave liability	1,090,103	-	6,356	1,083,747	-
Total other non current liability	2,998,602	1,367,008	1,503,799	2,861,811	920,750
Total noncurrent liabilities	<u>\$ 16,522,776</u>	<u>\$ 1,367,008</u>	<u>\$ 1,908,088</u>	<u>\$ 15,981,696</u>	<u>\$ 1,108,310</u>

(continued on next page)

NOTES TO FINANCIAL STATEMENTS

7. Deposits and Investments

GASB Statement No. 40 addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. As an element of interest rate risk, disclosure is required of investments that have fair values that are highly sensitive to changes in interest rates. GASB Statement No. 40 also requires disclosure of formal policies related to deposits and investment risks.

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

Legally authorized investments are as follows:

(i) General Guidelines

- a. U.S. and Non-U.S. Equities include American Depository Receipts, convertible bonds, preferred stock, fixed-income securities, mutual funds and short-term securities.
- b. No individual security of any issuer, other than that of the U.S. Government, shall constitute more than 5% (at cost) of the total fund or 10% (at cost) of any manager's portfolio.
- c. No investment may be made in the securities of a single corporate entity in excess of 15% (at market) of any individual investment manager's portfolio, without prior approval from the University.
- d. Holdings of any issuer shall constitute no more than 5% of the outstanding securities of such issuer.
- e. Investments in a registered mutual fund managed by the investment manager are subject to prior approval of the University.
- f. The following securities and transactions are not authorized without prior written approval from the University: letter stock and other unregistered securities; non-negotiable securities; commodities or other commodity contracts; options; futures; short sales; and margin transactions.
- g. No investment manager's portfolio shall be excessively over-weighted in any one industry (as compared to respective benchmark index) without prior approval by the University.

(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.

(iii) Equities

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

NOTES TO FINANCIAL STATEMENTS

7. Deposits and Investments, continued

(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 \$100,000 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:

GASB Statement No.3 previously required the University to present deposits in three categories of custodial credit risk generally described as follows:

- Category 1 Insured or registered, or securities held by the University or its agent in the University's name.
- Category 2 Uninsured and unregistered, or securities held by a party other than the University or its agent, but in the University's name.
- Category 3 Uninsured and unregistered, with securities held by a party other than the University and not in the University's name.

GASB Statement No. 40 amended GASB Statement No.3 to effectively eliminate disclosure for deposits falling into categories 1 and 2 but retained disclosures for deposits falling under category 3. Category 3 deposits are those deposits that have exposure to custodial credit risk. 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. See note 3A for detail of cash related to Category 3.

B. Investments:

Investments exclusive of physical plant are recorded at market value; investments received by gift are recorded at market value at the date of acquisition. Realized gains and losses are recognized in the Statement of Revenues, Expenses and Changes in Net Assets upon disposition, and unrealized gains and losses are recorded as net appreciation (depreciation) of fair value in investments. Approximately \$13,687,885 and \$13,643,105 of these investments and cash at September 30, 2009 and 2008, respectively, 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 held by the University consist of money market funds, fixed income securities, and common stock. These investments are held in the name of the University.

NOTES TO FINANCIAL STATEMENTS

7. Deposits and Investments, continued

	<u>2009</u>	<u>2008</u>
Investments:		
Money market funds	\$ 287,772	\$ 842,510
Fixed income securities	1,677,988	1,815,663
Common stock	<u>3,835,064</u>	<u>3,149,576</u>
	<u>\$ 5,800,824</u>	<u>\$ 5,807,749</u>

Endowment investments consist primarily of the land grant endowment trust fund established pursuant to federal land grant legislation. Public Law 19-40 requires that the principal amount be held in trust in perpetuity. At September 30, 2009 and 2008, the accumulated net earnings and appreciation on investments is \$4,887,062 and \$4,835,356, respectively. These amounts, which are recorded in the restricted expendable net assets category, are available for expenditure in accordance with spending policies established by the Board of Regents in its capacity as trustee. The Board of Regents is authorized by the above public law to manage investments consistent with the University's investment policy.

	<u>2009</u>	<u>2008</u>
Land grant endowment investments:		
Money market funds	\$ 222,650	\$ 346,009
Fixed income securities	2,332,789	2,484,817
Common stock	<u>5,331,623</u>	<u>5,004,530</u>
	<u>\$ 7,887,062</u>	<u>\$ 7,835,356</u>

The composition of investment income (expense) for the years ended September 30, 2009 and 2008 is as follows:

	<u>2009</u>	<u>2008</u>
Interest and dividends from investments	\$ 477,797	\$ 510,433
Investment fees	(318,754)	(279,385)
Realized (loss) gain	(1,774,936)	(287,532)
Depreciation/Appreciation of fair value of investments, net	<u>1,550,256</u>	<u>(2,546,752)</u>
	<u>\$ (65,637)</u>	<u>\$ (2,603,236)</u>

NOTES TO FINANCIAL STATEMENTS

7. Deposits and Investments, continued

The University's exposure to credit risk at September 30, 2009 was as follows:

Moody's Rating	Total	Domestic	International
AAA	\$ 1,641,040	\$ 1,641,040	\$ -
AA	497,351	497,351	-
A	1,339,138	1,339,138	-
BAA	494,288	465,538	28,750
Unrated	38,960	38,960	-
Total credit risk debt securities	<u>\$ 4,010,777</u>	<u>\$ 3,982,027</u>	<u>\$ 28,750</u>

The University's exposure to credit risk at September 30, 2008 was as follows:

Moody's Rating	Total	Domestic	International
AAA	\$ 3,637,030	\$ 3,637,030	\$ -
AA	174,629	174,629	-
A	268,296	268,296	-
BAA	220,525	205,666	14,859
Total credit risk debt securities	<u>\$ 4,300,480</u>	<u>\$ 4,285,621</u>	<u>\$ 14,859</u>

NOTES TO FINANCIAL STATEMENTS

7. Deposits and Investments, continued

As of September 30, 2009, the University's fixed income securities had the following maturities and credit risk exposure.

Investment type	Fair value	Less than 1 year	1 to 5 years	5 to 10 years	More than 10 years
Corporate bonds	\$ 2,369,737	\$ -	\$ 471,457	\$ 1,854,999	\$ 43,281
Mortgage and asset backed securities	267,421	-	-	79,313	188,108
Government bonds:					
Federal Home Loan Mortgage Corp.	468,499	-	-	9,269	459,230
Federal National Mortgage Association	843,170	-	388,565	86,431	368,174
U.S. Treasuries	61,950	61,950	-	-	-
	<u>\$ 4,010,777</u>	<u>\$ 61,950</u>	<u>\$ 860,022</u>	<u>\$ 2,030,012</u>	<u>\$ 1,058,793</u>

As of September 30, 2008, the University's fixed income securities had the following maturities and credit risk exposure.

Investment type	Fair value	Less than 1 year	1 to 5 years	5 to 10 years	More than 10 years
Corporate bonds	\$ 735,109	\$ -	\$ 423,017	\$ 214,373	\$ 97,719
Mortgage and asset backed securities	690,675	-	-	196,338	494,337
Government bonds:					
Federal Home Loan Mortgage Corp.	869,920	-	864,827	5,093	-
Federal National Mortgage Association	718,111	-	620,370	97,741	-
U.S. Treasuries	1,286,665	245,683	488,633	296,072	256,277
	<u>\$ 4,300,480</u>	<u>\$ 245,683</u>	<u>\$ 2,396,847</u>	<u>\$ 809,617</u>	<u>\$ 848,333</u>

NOTES TO FINANCIAL STATEMENTS

7. Deposits and 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, 2009 and 2008.

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments of the University. As of September 30, 2009 and 2008 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.

Foreign currency risk is the risk that changes in currency exchange rates will adversely impact the fair value of an investment. The University's currency risk exposures, or exchange rate risk, primarily reside within the international equity investment holdings. The University expects the managers of these holdings to maintain adequately diversified portfolios to limit foreign currency risk. Currency gains and losses will result from exchange rate fluctuations. The University's exposure to foreign currency risk expressed in U.S. dollars as of September 30, 2009 \$1,703,000. The University does not have a formal policy regarding foreign currency risk.

NOTES TO FINANCIAL STATEMENTS

8. Capital Assets

Activity and balances for capital assets for fiscal years 2009 and 2008 consisted of the following:

	Balance as of September 30, 2008	Additions	Retirements	Transfers	Balance as of September 30, 2009
Capital assets not being depreciated:					
Land	\$ 2,589,112	\$ -	\$ -	\$ -	\$ 2,589,112
Construction in progress	728,397	414,348	-	(301,176)	841,569
Total capital assets not being depreciated	3,317,509	414,348	-	(301,176)	3,430,681
Other capital assets:					
Land improvements	320,754	-	-	-	320,754
Building	85,458,166	-	-	301,176	85,759,342
Building improvements	1,241,760	38,000	-	-	1,279,760
Equipment	10,257,799	214,874	(14,526)	-	10,458,147
Library books	6,132,378	77,355	-	-	6,209,733
Total other capital assets	103,410,857	330,229	(14,526)	301,176	104,027,736
Less accumulated depreciation	(34,679,981)	(2,600,567)	14,526	-	(37,266,022)
Other capital assets, net	68,730,876	(2,270,338)	-	301,176	66,761,714
Total capital assets, net	\$ 72,048,385	\$ (1,855,990)	\$ -	\$ -	\$ 70,192,395
	Balance as of September 30, 2007	Additions	Retirements	Transfers	Balance as of September 30, 2008
Capital assets not being depreciated:					
Land	\$ 2,589,112	\$ -	\$ -	\$ -	\$ 2,589,112
Construction in progress	232,049	496,348	-	-	728,397
Total capital assets not being depreciated	2,821,161	496,348	-	-	3,317,509
Other capital assets:					
Land improvements	320,754	-	-	-	320,754
Building	85,458,166	-	-	-	85,458,166
Building improvements	1,241,760	-	-	-	1,241,760
Equipment	9,655,772	602,027	-	-	10,257,799
Library books	5,284,310	848,068	-	-	6,132,378
Total other capital assets	101,960,762	1,450,095	-	-	103,410,857
Less accumulated depreciation	(32,110,651)	(2,569,330)	-	-	(34,679,981)
Other capital assets, net	69,850,111	(1,119,235)	-	-	68,730,876
Total capital assets, net	\$ 72,671,272	\$ (622,887)	\$ -	\$ -	\$ 72,048,385

(continued on next page)

NOTES TO FINANCIAL STATEMENTS

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, 2009 and 2008, \$2,966,654 and \$3,574,089, respectively, of outstanding purchase orders and purchase commitments are not reported in the financial statements.

10. Contingencies

Litigation

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

General Obligation Bonds

In October 1993, the government of Guam issued \$175 million general obligation bonds to fund the construction of certain educational facilities with \$28 million being earmarked for certain construction projects at the University of Guam. The University is mandated by Public Law No. 22-19 (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 of Guam 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, 2009 and 2008, monthly payments remitted to the government of Guam's General Fund of \$2,027,490 and \$2,027,443, 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.

11. Receivable from the Government of Guam

The University reflects a receivable from the government of Guam of \$4,525,716 and \$4,703,296 at September 30, 2009 and 2008, respectively.

Management expects the balance at September 30, 2009 to be collected on or before September 30, 2010.

NOTES TO FINANCIAL STATEMENTS

11. Receivable from the Government of Guam, continued

The government of Guam is experiencing serious financial difficulty. University management is working closely with the appropriate government of Guam and Legislature officials to ensure that it maintains financial viability and does not jeopardize its accreditation status.

UNIVERSITY OF GUAM

OTHER INFORMATION

UNIVERSITY OF GUAM

Schedule of Salaries and Wages

Years ended September 30, 2009 and 2008

	2009		2008	
	Amount	No. of Personnel	Amount	No. of Personnel
SALARIES AND WAGES:				
Funded by local funds	\$ 20,427,985	408	\$ 20,089,037	379
Federal funds	4,614,492	120	4,800,686	116
General Operations and Federal funds	3,975,470	100	2,775,883	62
Other funding sources	3,295,572	138	3,551,435	157
Total salaries and wages	32,313,519	766	31,217,041	714
 BENEFITS:				
Funded by local funds	6,058,422		5,661,452	
Federal funds	681,452		1,063,425	
General Operations and Federal funds	958,782		427,837	
Other funding sources	581,140		584,971	
Total Benefits	8,279,796		7,737,685	
 TOTAL SALARIES, WAGES AND BENEFITS:	 \$ 40,593,315		 \$ 38,954,726	

UNIVERSITY OF GUAM

Schedule of Expenses by Object Category

Years ended September 30, 2009 and 2008

	2009		2008	
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Unrestricted</u>	<u>Restricted</u>
Instruction:				
Salaries	\$ 10,984,053	\$ 611,681	\$ 10,848,477	\$ 808,285
Benefits	2,869,190	123,666	2,687,743	130,100
Travel	66,296	602,553	61,948	649,821
Contracts	688,974	743,606	790,730	555,630
Supplies	88,930	142,546	80,301	113,912
Equipment	36,386	123,992	44,812	402,489
Utilities	31,341	23,444	25,598	32,519
Capital outlay	-	-	-	17,756
Miscellaneous	496,047	429,123	37,229	525,847
	<u>\$ 15,261,217</u>	<u>\$ 2,800,611</u>	<u>\$ 14,576,838</u>	<u>\$ 3,236,359</u>
Research:				
Salaries	\$ 1,026,453	\$ 3,451,043	\$ 907,279	\$ 3,393,878
Benefits	288,449	715,673	242,304	750,360
Travel	56,277	617,518	79,828	719,347
Contracts	345,052	1,363,878	466,989	1,675,566
Supplies	87,786	497,332	54,623	456,386
Equipment	38,492	242,457	37,212	276,243
Utilities	3,232	4,759	2,976	2,644
Capital outlay	61,582	187,376	21,770	308,034
Miscellaneous	118,964	418,741	39,202	325,401
	<u>\$ 2,026,287</u>	<u>\$ 7,498,777</u>	<u>\$ 1,852,183</u>	<u>\$ 7,907,859</u>
Institutional Support:				
Salaries	\$ 2,588,946	\$ -	\$ 2,704,263	\$ -
Benefits	794,912	-	751,166	-
Travel	132,337	-	211,942	-
Contracts	1,560,455	-	486,138	-
Supplies	94,690	-	98,229	-
Equipment	48,059	-	31,169	-
Utilities	496	-	645	-
Capital outlay	55,485	-	-	-
Miscellaneous	607,127	-	-	-
	<u>\$ 5,882,507</u>	<u>\$ -</u>	<u>\$ 4,283,552</u>	<u>\$ -</u>

UNIVERSITY OF GUAM

Schedule of Expenses by Object Category

Years ended September 30, 2009 and 2008

	2009		2008	
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Unrestricted</u>	<u>Restricted</u>
Public Service:				
Salaries	\$ 356,878	\$ 3,872,980	\$ 538,670	\$ 3,409,994
Benefits	94,743	789,027	113,199	710,321
Travel	2,840	495,070	4,342	499,976
Contracts	63,891	906,862	128,209	529,332
Supplies	29,848	414,302	24,238	404,000
Equipment	21,232	239,446	8,268	218,208
Utilities	12,252	21,893	12,482	12,969
Capital outlay	-	41,967	-	76,233
Miscellaneous	76,012	457,199	44,650	421,998
	<u>\$ 657,696</u>	<u>\$ 7,238,746</u>	<u>\$ 874,058</u>	<u>\$ 6,283,031</u>
Academic Support:				
Salaries	\$ 4,756,703	\$ -	\$ 4,546,347	\$ -
Benefits	1,349,002	-	1,244,739	-
Travel	195,443	-	163,255	-
Contracts	1,339,048	31,548	1,063,701	20,618
Supplies	284,571	2,143	291,146	7,103
Equipment	291,926	1,306	399,427	1,464
Utilities	2,560	-	4,012	-
Capital outlay	264,443	4,820	865,889	61,909
Miscellaneous	260,161	250	26,440	2,832
	<u>\$ 8,743,857</u>	<u>\$ 40,067</u>	<u>\$ 8,604,956</u>	<u>\$ 93,926</u>
Student Services:				
Salaries	\$ 1,765,353	\$ 666,707	\$ 1,790,555	\$ 489,425
Benefits	548,828	11,868	551,014	8,542
Travel	28,601	47,170	44,401	32,604
Contracts	116,195	31,248	159,539	18,673
Supplies	69,991	5,832	91,163	6,085
Equipment	23,773	16,171	42,428	29,220
Utilities	56,921	-	38,801	-
Capital outlay	-	-	-	-
Miscellaneous	310,110	1,225,655	34,014	243,269
	<u>\$ 2,919,772</u>	<u>\$ 2,004,651</u>	<u>\$ 2,751,915</u>	<u>\$ 827,818</u>

UNIVERSITY OF GUAM

Schedule of Expenses by Object Category

Years ended September 30, 2009 and 2008

	2009		2008	
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Unrestricted</u>	<u>Restricted</u>
Operational and Maintenance, Plant:				
Salaries	\$ 1,601,855	\$ -	\$ 1,485,056	\$ -
Benefits	501,372	-	458,411	-
Travel	-	-	-	-
Contracts	212,575	-	217,296	-
Supplies	187,114	-	165,477	-
Equipment	56,235	-	28,672	-
Utilities	3,744,375	-	4,113,591	-
Capital outlay	477,365	-	390,099	-
Miscellaneous	-	-	238,026	-
	<u>\$ 6,780,891</u>	<u>\$ -</u>	<u>\$ 7,096,628</u>	<u>\$ -</u>
Scholarships and Fellowships:				
Salaries/Benefits	\$ -	\$ -	\$ -	\$ -
Travel	-	-	-	-
Contracts	-	-	-	-
Supplies	-	-	-	-
Equipment	-	-	-	-
Utilities	-	-	-	-
Capital outlay	-	-	-	-
Miscellaneous	525,794	9,876,407	230,319	8,815,167
	<u>\$ 525,794</u>	<u>\$ 9,876,407</u>	<u>\$ 230,319</u>	<u>\$ 8,815,167</u>
Auxiliary Enterprises:				
Salaries	\$ 634,253	\$ -	\$ 654,240	\$ -
Benefits	189,680	-	183,527	-
Travel	-	-	7,524	-
Contracts	88,597	-	76,565	-
Supplies	43,726	-	69,511	-
Equipment	38,390	-	15,326	-
Utilities	287,220	-	277,233	-
Capital outlay	-	-	-	-
Miscellaneous	1,255,370	-	1,123,350	-
	<u>\$ 2,537,236</u>	<u>\$ -</u>	<u>\$ 2,407,276</u>	<u>\$ -</u>