

**UNIVERSITY OF GUAM**

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**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT  
AND REPORT ON  
SUPPLEMENTARY INFORMATION**

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**YEARS ENDED SEPTEMBER 30, 2008 AND 2007**

# UNIVERSITY OF GUAM

## TABLE OF CONTENTS YEARS ENDED SEPTEMBER 30, 2008 AND 2007

	<u>Page No.</u>
INDEPENDENT AUDITORS' REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-15
FINANCIAL STATEMENTS:	
Statement of Net Assets	16-17
Statement of Revenues, Expenses and Changes in Net Assets	18-19
Statement of Cash Flows	20-21
Notes to Financial Statements	22-42
ADDITIONAL INFORMATION:	
Schedule of Salaries and Wages	43
Schedule of Expenses by Object Category	44-46

INDEPENDENT AUDITORS' REPORT

The Board of Regents  
University of Guam

We have audited the accompanying financial statements of the University of Guam (the University) (a component unit of the Government of Guam) and its discretely presented component unit as of and for the years ended September 30, 2008 and 2007 as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the UOG Endowment Foundation, Inc. as of and for the years ended December 31, 2007 and 2006 were audited by other auditors, whose report thereon dated August 26, 2008 expressed an unqualified opinion.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 audits provide a reasonable basis for our opinions.

In our opinion, such financial statements present fairly, in all material respects, the respective financial position of the University of Guam and its discretely presented component unit as of September 30, 2008 and 2007, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 12, 2009, 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 important for assessing the results of our audit.

The management's discussion and analysis on pages 3 through 15 is not a required part of the basic financial statements but is 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 audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedules on pages 43 through 46 are presented for purposes of additional analysis and are not a required part of the basic financial statements. These schedules are the responsibility of the University of Guam's management. Such information has been subjected to the auditing procedures applied in the audits 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.

*Bryant & Comer, P.C.*

Tamuning, Guam  
March 12, 2009



UNIVERSITY OF GUAM

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## 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, 2008. 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 seventh 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 nine-member Board of Regents appointed by the Governor, with the advice and consent of the 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 3,387 is multicultural, multilingual and 91% Asian-Pacific Islander. There are 15 master's degree programs and 35 undergraduate. A full-time faculty of about 180 supports 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.* In May 2008, the University chose its tenth president, Robert A. Underwood, Ed.D. 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.

### THE FINANCIAL STATEMENTS

The report includes three financial statements: 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.

#### FY2008 FINANCIAL HIGHLIGHTS AND STRATEGIC INSTITUTIONAL OUTCOMES

In evaluating financial health, one of the most important questions is whether the institution is financially better off at the beginning of the year or at the end of the year. In FY08 the University's finances were weaker, showing a decrease in net assets of \$3.9 million. This is the University's first deficit in the last six years.

CHANGE IN NET ASSETS FY00-08 (IN \$000'S)



Fourth Year as Low Risk Auditee. The University has maintained low-risk audit status for federal grants and contracts for four consecutive fiscal 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 109 from 82, just two years ago. 27 new or continuing awards of \$2.5 million were received (several multi-year), evidencing the University's competitiveness in research and commitment to community service. Grants and contracts brought in over \$27.5 million of outside monies, leveraging the government of Guam appropriation by 1.54 times and propelling the island's economic, environmental and social development. The U.S. Departments of Education (\$14.7 million), Agriculture (\$4.4 million), and Health and Human Services (\$3.6 million) are the largest Federal grantors, ranked by FY08 expenditures.

Improved Financial Position in Five of the Last Six Years, but Deficit in FY08. The University's overall financial position has improved in five of the last six years. With the exception of government appropriations, revenues have increased, and revenue sources are more diversified. The University is competitive in bringing grant funding to bear on community needs. While securing stable and sustainable resources remains a challenge, the University and the government work closely and collaboratively to plan ahead and do what is possible. The University has demonstrated the resilience to accomplish its mission by delivering programs of high academic quality during persistently turbulent times and in an era of scarce resources. To find financial balance and to protect financial stability and long-term viability, the University has endeavored to operate within its means by reordering and restructuring priorities, implementing financial controls, increasing and diversifying revenues, partnering with other institutions to obtain grant awards, and developing a budget base that sustains educational effectiveness. New policies and processes have been developed, focused on best practice and benchmarks.

Nevertheless, the University incurred a \$3.9 million deficit in FY08. The University's best efforts to achieve financial balance were overcome by a \$2.6 million investment loss, which is substantially unrealized, resulting from the impact of the global economic recession and financial crisis on equity markets; \$1.4 million government of Guam allotment holdbacks; and higher expenses associated with increases in student enrollment, grants and contracts, utility rates and retirement fund contributions partially offset by higher tuition and grant revenues.

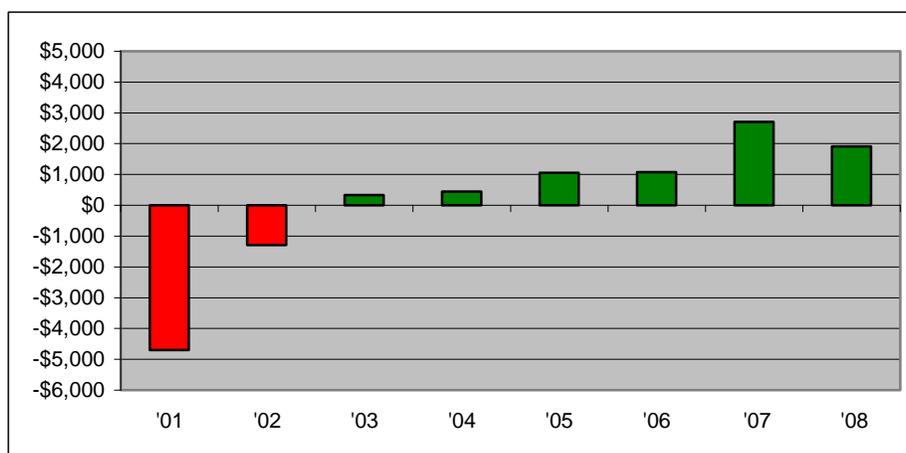
**Trends In Key Financial Indicators:** In response to the financial situation, the University adheres to a conservative financial plan<sup>1</sup>. The trends in key financial indicators, compiled below, measure strengths and weaknesses:

**KEY FINANCIAL INDICATORS FY03-08 (IN \$'S OR WHOLE UNITS)**

	FY03	FY04	FY05	FY06	FY07	FY08
<b>Return on Net Assets</b>						
Change in Net Assets/ Total Net Assets (SOY)	3%	6%	2%	1%	5%	-5%
<b>Net Income Ratio</b>						
Change in Unrest. Net Assets/Total Unrest. Revenue	8%	5%	4%	-2%	13%	-4%
<b>Operating Income Ratio</b>						
Operating Income/ Total Expenses	55%	57%	57%	61%	60%	57%
<b>Viability Ratio</b>						
Expendable Net Assets/ Long Term Debt	2.21	5.05	1.42	.59	.69	.21
<b>Tuition and Fees per FTE Student</b>	\$ 3,470	\$ 3,544	\$ 4,080	\$ 4,366	\$ 4,897	\$ 4,975
<b>Instructional Expense per FTE Student</b>	\$ 5,009	\$ 4,847	\$ 5,212	\$ 5,672	\$ 5,419	\$ 5,535
<b>Academic Support Expense per FTE Student</b>	\$ 2,021	\$ 2,201	\$ 2,391	\$ 2,290	\$ 2,218	\$ 2,725
<b>Student Services Expense per FTE Student</b>	\$ 1,100	\$ 1,095	\$ 1,084	\$ 1,243	\$ 1,652	\$ 1,396
<b>Current Fund Unrest. Balance</b>	\$ 335,268	\$ 442,909	\$ 1,058,558	\$ 1,072,925	\$ 2,706,015	\$ 1,911,000
<b>Student Enrolment Fall FTE</b>	2,979	2,932	2,843	2,968	3,077	3,218

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

**CURRENT FUND UNRESTRICTED FY01-08 (IN \$000's)**

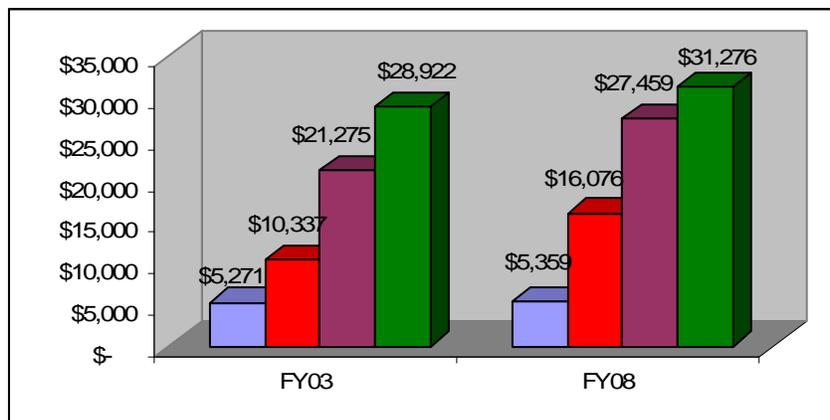


Revenues have increased and diversified with increases in enrollment, tuition, grants and contracts as well as improvements in auxiliary fund performance and new revenues from entrepreneurial efforts. Government of Guam appropriations remain the single largest revenue source. The University has leveraged these appropriations to generate additional revenues. Outcomes from this effort can be seen in the following: i) in FY03 appropriations were

<sup>1</sup> 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.

44% of consolidated revenues and University-generated sources represented 56%, while by FY08 appropriations decreased to 39% of the total and University-generated sources increased to 61%; ii) in FY09 the general operations appropriation decreased to 70% of the budget, as compared to 80% in FY03; and iii) for every \$1 appropriated, the University generates \$1.54.

REVENUE GROWTH FY03 VS FY08 (IN \$000'S)



Six-year Growth FY03-08  
 8% GovGuam Appropriation  
 29% Grants and Contracts  
 56% Tuition and Fees  
 2% Other Revenues

Academic Quality: Academic programs have been strengthened and academic quality goals are being achieved. The University has maintained its primary accreditation from WASC and has specialized accreditation in the professional schools (i.e., School of Business and Public Administration, School of Education, School of Nursing and Health Sciences), 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.

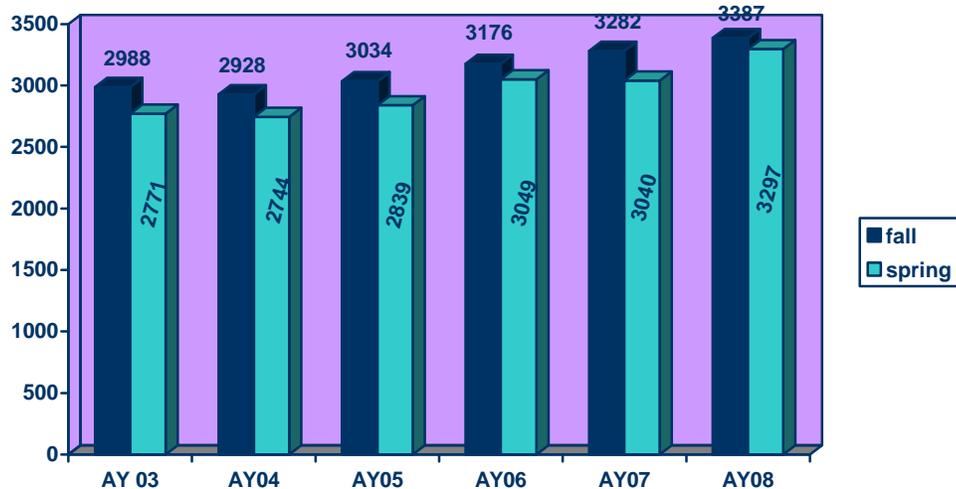
Student Success and Enrollment Growth: Students are graduating. In the past year alone the University produced 40 nurses, 85 educators, 64 business men and women, 13 commissioned officers, 35 scientists and 119 others prepared to enter the island's professional workforce. Yet, enrollment in nursing has 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.

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 have been 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 2008-2009 has reached record levels. The University is the natural choice for 3,387 students registered for Fall Semester '08 (3% growth over the prior year). Over the last six years, fall semester student enrollment has grown by 13% and spring semester by 19%. Enrollment for new students grew by 20%.

TRENDS IN STUDENT ENROLLMENT AY03-08 (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 appropriations, tuition rates have increased by 10% per year since 1998, stretching the ability to pay for most students. 67% 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.

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 four growth initiatives directed at public policy priorities. These can be leveraged into new grants and contracts for social, economic and environmental development. However, the growth initiatives have not been funded.

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 to do so.

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.

#### STATEMENT OF NET ASSETS

The statement of net assets presents similar information to a balance sheet. It shows 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.

The University's overall financial condition weakened during FY08. Net assets decreased by \$3.9 million (5%) to \$82.7 million, after adjusting for the government's \$1.4 million allotment holdback. This is compared to the FY07 increase of \$3.9 million, adjusted for an allotment holdback of \$1.1 million; and the FY06 increase of \$0.6 million, adjusted for an allotment holdback of \$2.7 million.

#### SUMMARY STATEMENTS OF NET ASSETS (IN \$000'S)

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Current assets	\$ 17,777	\$ 19,390	\$ 14,316
Non-current assets	<u>89,672</u>	<u>92,354</u>	<u>91,689</u>
Total assets	<u>\$ 107,449</u>	<u>\$ 111,744</u>	<u>\$ 106,005</u>
Current liabilities	\$ 8,935	\$ 9,011	\$ 9,194
Non-current liabilities	<u>15,819</u>	<u>16,129</u>	<u>14,095</u>
Total Liabilities	<u>\$ 24,754</u>	<u>\$ 25,140</u>	<u>\$ 23,289</u>
Invested in capital assets, net of related debt	\$ 58,929	\$ 58,886	\$ 62,390
Restricted	10,980	12,563	12,752
Unrestricted	<u>12,786</u>	<u>15,155</u>	<u>7,574</u>
Total Net assets	<u>\$ 82,695</u>	<u>\$ 86,604</u>	<u>\$ 82,716</u>
Total liabilities and net assets	<u>\$ 107,449</u>	<u>\$ 111,744</u>	<u>\$ 106,005</u>

Assets. Current assets consist primarily of cash and cash equivalents (29%) and receivables for tuition (21%), local government appropriations (26%), U.S. government grants and contracts (11%), and others (13%). Current assets cover current liabilities 2 times, an indicator of liquidity. Noncurrent assets include restricted cash and Tobacco Settlement Fund (4%), investments (15%), and capital assets (81%).

**Liabilities.** These are accounts payable, deferred tuition revenue, accrued employee annual and sick leave, deposits for others and long-term debt. They decreased by \$386 thousand (2%) due to full payment of the 1968 Dormitory and Student Union Revenue Bonds, the final payment being October 2008.

**Net Assets.** Net assets represent the residual interest in assets net of liabilities. At the end of FY08, net assets decreased by \$3.9 million due to the factors discussed previously. The unrestricted component of net assets decreased by \$2.4 million, a result of the \$2.6 million substantially unrealized investment loss partially offset by a \$400 thousand decrease in the bond liability.

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

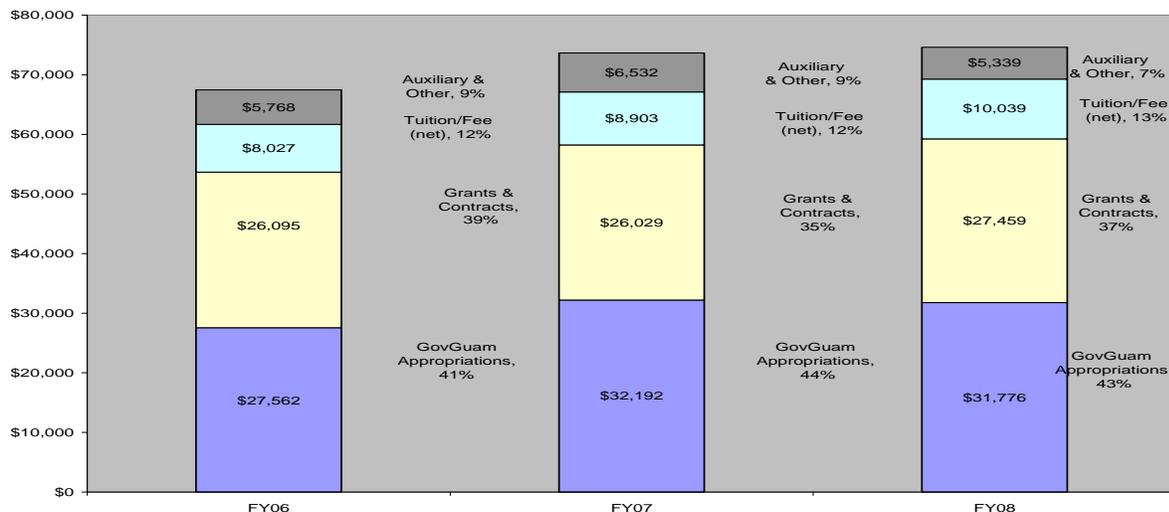
The statement of revenues, expenses and changes in net assets presents similar information to an income statement. It provides details of operating and non-operating revenues and expenditures. The operating revenue growth and diversification have continuously sustained the University notwithstanding allotment holdbacks in five of the last 6 years, which have averaged \$1.4 million per annum in the years administered.

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

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Operating revenues	\$ 42,838	\$ 41,463	\$ 39,891
Operating expenses	<u>73,323</u>	<u>69,166</u>	<u>65,538</u>
Operating revenues net of operating expenses	(30,485) <sup>2</sup>	(27,703)	(25,647)
Non-operating revenues	<u>26,577</u>	<u>31,591</u>	<u>26,234</u>
(Decrease)Increase in net assets	( 3,908)	3,888 <sup>3</sup>	587
Net assets – beginning of year	<u>86,604</u>	<u>82,716</u>	<u>82,129</u>
Net assets – end of year	\$ <u>82,696</u>	\$ <u>86,604</u>	\$ <u>82,716</u>

**Revenues.** The University brought in \$42.8 million from operations (excluding government appropriations and investments). Tuition and fees, grants and contracts, contributed to the \$1.4 million (3%) increase over prior year.

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

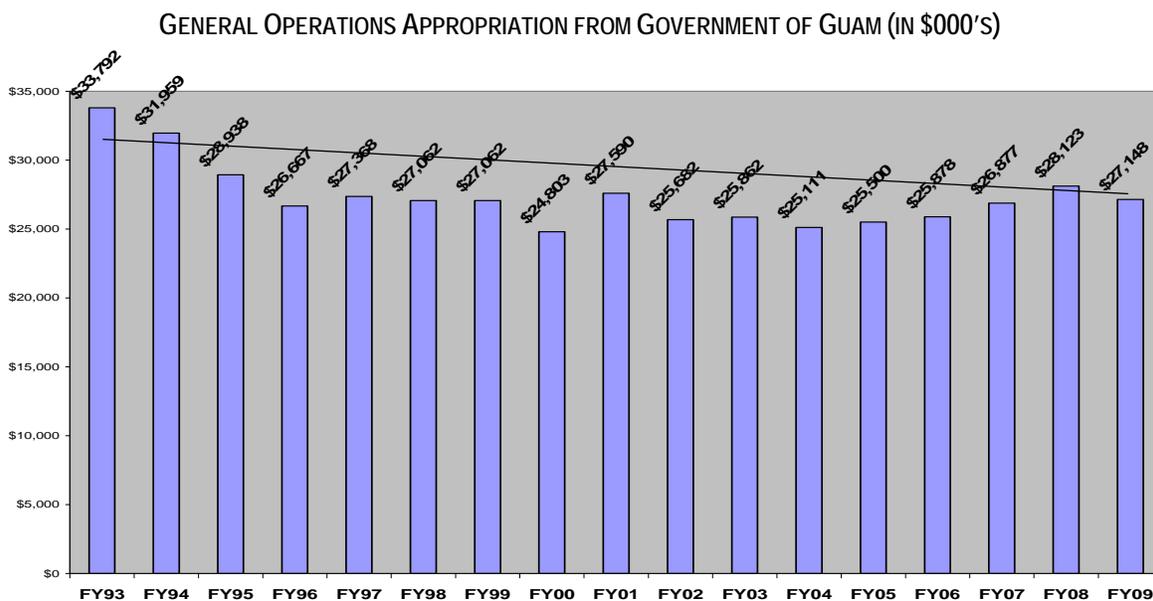


<sup>2</sup> The total of operating revenues net of operating expense is negative because local government appropriations are reported as non-operating revenues rather than operating revenues under GASB 35 reporting requirements.

<sup>3</sup> 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.

Government of Guam Appropriations. FY08 appropriations totaled \$31.8 million for general operations, student financial aid programs, special appropriations (WERI studies, soil and water conservation, hatchery) and loan repayment for the Jesus and Eugenia Leon Guerrero School of Business and Public Administration Building. However, due to economic circumstances and under funded needs of critical government agencies and programs, the government reduced its payments on University appropriations by \$1.4 million in the form of allotment control.

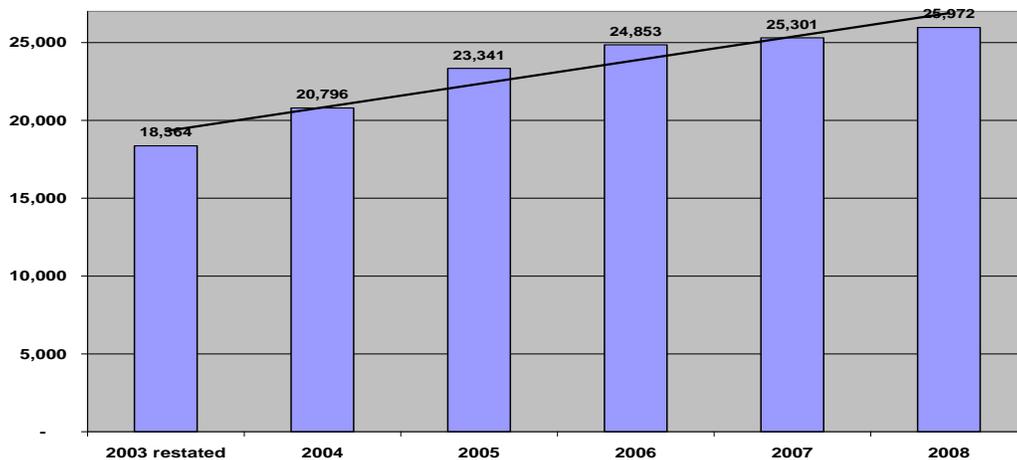
Although other revenue sources have increased, the University still depends on government appropriations for over 70% of its general operating revenues (excludes student financial aid, special appropriations, federal grants, auxiliary funds, and other non-appropriated funds). Budget constraints, cash shortages, and allotment holdbacks on the funds that were appropriated have meant that some hiring, student services, maintenance and infrastructure support have been deferred or cancelled in order to allocate sufficient funds to higher priority and more immediate academic quality needs, student learning and legally mandated increases in operational expenditures.



Grants and Contracts. Consolidated (Federal, local and private) grant and contract revenues increased by \$1.4 million (5%) compared to prior year, and an average of 6% over the last six years (see graph below). 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. \$26 million in Federal financial grant and contract awards were received during the year compared to \$18 million six years ago. CEDDERS was awarded \$3.8 million by the U.S. Department of Education, Office of Special Education Programs to support full implementation of high quality alternate assessments based on alternate achievement standards for students with significant cognitive disabilities in six Pacific Basin entities. The Research Initiative for Scientific Enhancement (RISE) Program received funding of \$172 thousand for academic year 2008-2009 from the National Institute of General Medical Sciences of the National Institutes of Health. The program, which began in 2001, is in its second four-year cycle of funding. The Micronesian Language Institute was awarded another five-year, \$1.5 million Title III National and Professional Development Grant funded by the U.S. Department of Education's Office of English Language Acquisition, of which \$600 thousand was awarded during the fiscal year. The University is in consortia with the Guam Public School System for this project. The AmeriCorps Program received a \$527 thousand grant to support tutor and mentorship positions in the AmeriCorps Student Success Center and outreach AmeriCorps programs in the public high schools. Marking the 19th year of the program, Upward Bound received a new grant to serve a total of 80 public high school students. This four-year program began in September 2008 and has been awarded \$1.4 million. The College of Liberal Arts and Social Sciences received a \$300 thousand grant from the U.S. Department of Justice, Office on Violence Against Women. Funds will be used to create a Campus Violence Prevention Program. The Marine Lab was awarded a three-year

grant of \$312 thousand from U.S. Fish and Wildlife Service to assess the population structure of *Siganus* spp. for managing these heavily fished species as well as a four-year grant of \$292 thousand from the National Institutes of Health to develop new techniques for isolating and investigating new compounds of potential pharmacological significance from microbes living on sponges. The College of Natural and Applied Sciences received \$1.5 million for five years for a 4-H and Aquatic and Natural Resources collaborative grant from the U.S. Department of Agriculture to develop a teen entrepreneurship program for Children, Youth and Families At Risk. The School of Business received a \$289 thousand grant from the US Department of Defense under a Procurement Technical Assistance Cooperative Agreement.

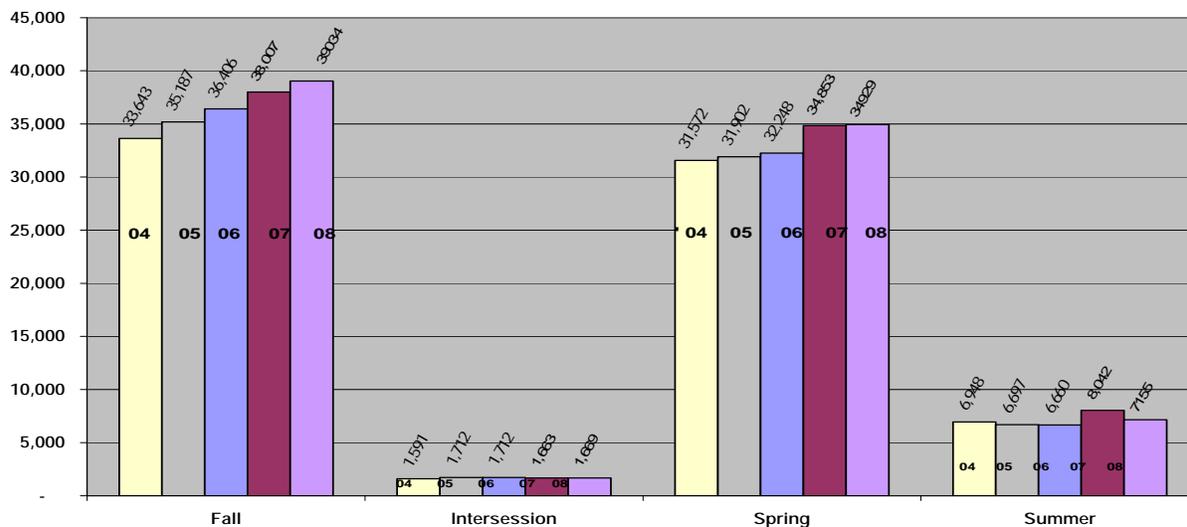
Federal Grants and Contracts Revenue Trend



Tuition and Fees. Gross student tuition and fee revenues increased by \$1 million 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 efforts. After a period of decline associated with accreditation concerns, student headcount and credit hour production have increased since Fall Semester 2007. There were a total of 3,387 students (or 39,034 credit hours) in the Fall 2008 semester. This is a 3% increase in headcount enrollment and 3% increase in credit hour production over the prior year Fall Semester.

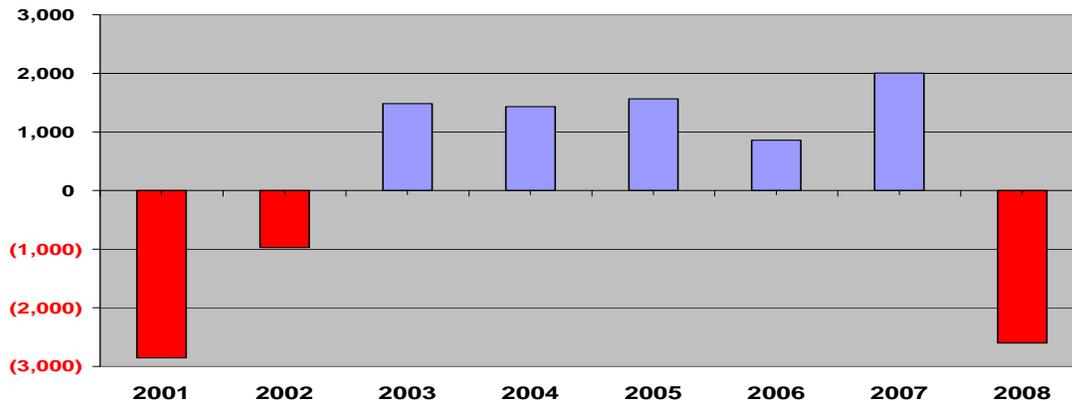
Enrollment Information - Credit Hour Production



Investment Income and Other Revenues.

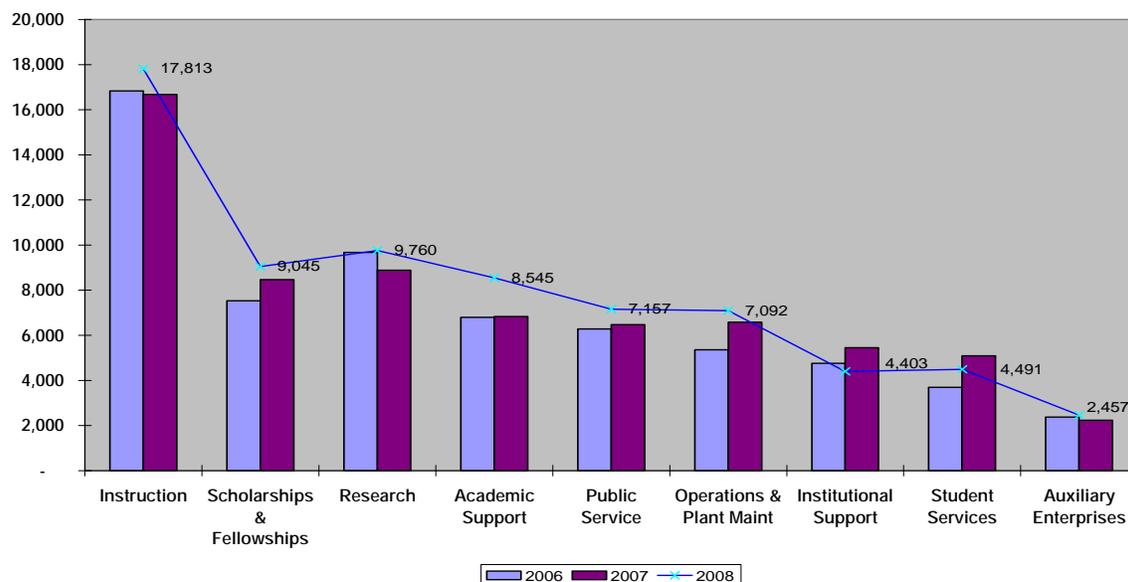
The sharp and rapid downturns in the U.S and global economies had a major impact on other revenues. The turbulence in the global equity markets, associated with the mortgage and credit crises, has led to \$2.6 million of losses in the investment portfolio after five years of gains. These losses are substantially unrealized. The University does not rely on its endowment or other investment assets for operational needs.

**Net Investment Income (Loss)**  
(in \$Thou)



**Expenses.** FY2008 total operating expenses were \$73.3 million, an increase of \$4.1 million (6%). Increases were associated with increased enrollment, new grants and contracts, overall campus facility upgrades, higher utility rates, merit-based salary increases, retirement fund contribution increases, and the second phase of faculty salary adjustments for competitiveness in recruiting and retaining faculty. The University spent \$35.5 million on its core mission. Of that, 51% went to instruction, 28% to research, and 21% to public service. In addition, the University spent \$17.5 million on libraries and technology, and student, academic and administrative support; \$15 million on student aid; and \$7 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. As of fiscal year end, total encumbrances (recorded obligations) were \$3.4 million, a decrease of \$345 thousand from prior year amount of \$3.8 million. This decrease is a result of control measures implemented in response to government allotment shortfalls.

**Operating Expenses Trend (in 000's)**



**STATEMENT OF CASH FLOWS**

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

**STATEMENTS OF CASH FLOWS (IN \$000'S)**

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Cash provided by (used in):			
Operating activities	\$ (28,373)	\$ (26,799)	\$ (25,470)
Non-capital financing activities	36,378	26,237	29,157
Capital and financing activities	(5,684)	(1,532)	(3,186)
Investing activities	189	<u>50</u>	<u>(72)</u>
Net change in cash and cash equivalents	2,510	(2,044)	429
Cash and equivalents – beginning of year	<u>2,557</u>	<u>4,601</u>	<u>4,172</u>
Cash and equivalents – end of year	<u>\$ 5,067</u>	<u>\$ 2,557</u>	<u>\$ 4,601</u>

The University's cash position increased by \$2.5 million at the end of FY2008, primarily due to \$1.3 million in appropriation payments received just before the end of the fiscal year and a \$1 million increase in tuition and fees revenue associated with higher Fall Semester 2008 enrollment. Typically, the University's cash position at the end of fiscal year is higher than its normal cash position during the balance of the year. This is because fall semester tuition payments are booked at the end of the fiscal year, and the government makes catch-up allotment payments close to fiscal year-end. Tuition revenues are subsequently allocated for academic expenses during the remainder of the academic year, which overlaps the fiscal year, and for operational expenses, a large amount of which are due at the beginning of the following fiscal year. Financial planning requires that there be an adequate amount of cash on hand at the start of the new fiscal year to pay for prior year encumbrances, insurance premiums, continuing infrastructure restoration and institutional needs. As in prior years, cash flows were negatively influenced by the government deficit, which led to allotment holdbacks and delays in payments.

**ECONOMIC FACTORS EXPECTED TO AFFECT THE FUTURE**

The sharp and rapid downturns in the U.S and global economies are having an impact. Turbulence in the global equity markets, associated with the mortgage and credit crises and economic recession, has led to losses in the Government of Guam Retirement Fund and University's endowment portfolio. The University's market losses are substantially unrealized and the University does not rely on its endowment or other investment assets for funding operational liabilities. Economic uncertainty is the hallmark of the near future.

Guam's economic outlook continues to show positive signs and relative stability, reflecting the continuing military buildup, which will bring unprecedented economic and population growth to the island over the next several years. Although the housing, financial and credit market problems in the United States and globally have resulted in economic recession and growing unemployment, Guam's economy and general fund revenues remain buoyed by the planned investment associated with the buildup, albeit most projects are Department of Defense with many private projects held in abeyance. There are concerns about the impact of the global recession on tourism and the buildup's timing and funding. Tourism from the major Japanese market has fallen over 10%, yet it seems to be holding steady at that new lower level. Property prices have remained flat or are decreasing. Housing sales activity has fallen and there is a surfeit of high end development.

General Fund revenues have increased over several years. FY08 resulted in an improved overall financial performance for the government of Guam. FY09 revenues are projected to increase. Nevertheless, the threats to the government's financial condition and cash position remain much as before: the structural nature and size of the cumulative government's General Fund deficit; continuation of Federal income tax cuts; unfunded court mandates, particularly related to the closure and rebuilding of the landfill and retiree COLA liabilities; unfunded retirement fund liabilities; and significant unmet expenditure needs in high priority government services such as education, health and public safety. The government has proposed a longer-term deficit elimination and economic recovery plan. Still, cash remains the problem. The U.S. economic stimulus package will bring some cash infusion, but implementation is

still in its early days. Municipal bond markets are problematic, affecting the financing of the landfill and other court ordered obligations. The government has stated it may be faced with staff furloughs or cuts to meet court ordered obligations. The University and others have sizeable government appropriation receivables that impact operations.

The University welcomed Dr. Robert A. Underwood, its tenth president, in May 2008. The new President leads a University community experienced in assessment, committed to its mission, and strong within the variability of the island economy. The President has already established teams to address initiatives related to UOG Green, Natural Choice and Leading Change. He is reinvigorating fundraising, grant and revenue-generation efforts. He makes the case that current funding for the University is insufficient to educate and establish the professional middle class that will be needed for the island's military buildup.

Student enrollment in Academic Year 2008-09 has reached record levels. Students are taking more credit hours, with Spring '09 showing a 10% increase over prior year. This marks the highest enrollment in the past seven years. These trends are expected to continue, given the economic conditions and much higher university costs in the mainland U.S. This growth puts increased pressure to seek additional resources for more faculty and more support for academic operations and infrastructure. Over the last several years the University's appropriation has been flat or cut in real terms, during which time student enrollment grew significantly. Faculty numbers have remained constant for four years. The University is increasingly relying on adjuncts, as it has been difficult to recruit and retain doctoral-level faculty, particularly those with high cost professional degrees, at the non-competitive salaries that can be offered. The information technology infrastructure, the core of teaching and operations, is old and needs upgrading to enable technology-enhanced learning and distance education in order to keep graduates current in today's world.

The University's financial position remains a significant challenge, as the government's carry-forward deficit and previous structural deficits have resulted in the continuing threat of allotment holdbacks, slow or missed allotment payments, and the likelihood of steady-state or minimal growth in appropriations for the next few years. The FY09 appropriation is \$2.1 million (7%) below what the University requested for continued baseline operations, and 3.4% less than the FY08 appropriation. The FY09 appropriation did not include funding for growth. As a result of the cutbacks, the University community reapportioned the FY09 budget to live within the legislative appropriation and reallocate the base to support consensus-based priorities. The resultant changes will affect program capacity in several high demand areas, availability of course offerings, the time it takes students to graduate, and capacity for growth and additional outreach.

As the University prepares for the WASC Educational Effectiveness Review scheduled for March-April 2009, the University has made significant progress in responding to the financial issues raised by WASC in cooperation with the government of Guam.

- The cash position has improved. Balances increased from two days in FY06 to 20+ days in FY08, and now stand at eight days. The government has met its commitments on prior year obligations. FY05-07 receivables have been paid. At the end of FY08 allotment releases were at 87% of requests: the second best payment performance in the last six years. As happened last year, the government recognized the remaining FY08 allotment payables in its financial statements and communicated a payment plan. Nevertheless, cash management remains difficult, as the government's financial position is particularly affected by the pressures to fund a new landfill from current revenues, given court-ordered mandates and the problems in the U.S. municipal bond market.
- University-generated revenues and enrollment have increased as noted previously.
- University leaders are meeting regularly with the Governor and Legislature. Administrators, faculty and staff have responded collaboratively in developing and implementing financial management controls and processes that protect academic quality and student learning. The University community has re-assessed its needs and plans based on priorities; developed a "no-growth base budget" that maintains capacity to demonstrate educational effectiveness within the resources available; and put forward initiatives for future growth and investment tied to public policy priorities.

In these challenging times the University can demonstrate student learning outcomes and educational effectiveness. Board, administrators, faculty, staff and students work in a collaborative environment that builds and sustains support

for the core mission. The focus is on strategic priorities, best practices, and accessible and affordable higher education to position the University for the future. As Guam prepares for the social and economic changes associated with the military buildup, public policy makers have acknowledged the University's potential as a key agent and driver of change, but the appropriations are not yet there to deliver this.

For further news and up-to-date information concerning the University of Guam, please visit the website at [www.uog.edu](http://www.uog.edu). The University's annual report, President Underwood's investiture remarks, interim financial statements, WASC reports and other publications are available there.



**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 3,387 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, 2008 and 2007

<u>ASSETS</u>	<u>2008</u>	<u>2007</u>
Current assets:		
Cash and cash equivalents	\$ 5,067,617	2,557,189
Short-term investments	118,414	115,332
Due from Government of Guam	4,703,296	9,304,754
Tuition receivable, net of allowance of \$5,705,818 (2007: \$4,986,848)	3,749,252	3,273,600
Due from U.S. Federal government	1,883,829	1,679,812
Other receivables	1,126,690	1,592,472
Inventories	570,940	521,466
Other current assets	<u>557,121</u>	<u>1,028,632</u>
Total current assets	<u>17,777,159</u>	<u>20,073,257</u>
Noncurrent assets:		
Restricted cash and cash equivalents	2,391,112	1,653,478
Tobacco settlement fund principal	1,590,000	1,590,000
Investments	5,807,749	6,984,018
Land grant endowment investments	7,835,356	9,455,200
Capital assets, net of accumulated depreciation	<u>72,048,385</u>	<u>72,671,272</u>
Total non current assets	<u>89,672,602</u>	<u>92,353,968</u>
Total assets	<u>\$ 107,449,761</u>	<u>112,427,225</u>
 <u>LIABILITIES AND NET ASSETS</u> 		
Current liabilities:		
Accounts payable and accrued liabilities	3,482,270	3,827,090
Current portion of long-term debt	163,000	370,671
Deferred revenue	<u>5,290,130</u>	<u>5,496,151</u>
Total current liabilities	<u>8,935,400</u>	<u>9,693,912</u>
Noncurrent liabilities:		
Deposits held on behalf of others	133,958	172,213
Accrued annual leave	1,644,109	1,713,410
DCRS sick leave liability	1,083,747	1,090,103
Long-term debt, net of current portion	<u>12,956,885</u>	<u>13,153,503</u>
Total noncurrent liabilities	<u>15,818,699</u>	<u>16,129,229</u>
Total liabilities	<u>24,754,099</u>	<u>25,823,141</u>
Net assets:		
Invested in capital assets, net of related debt	58,928,500	58,885,680
Restricted:		
Nonexpendable	5,298,905	5,248,224
Expendable	5,681,560	7,314,454
Unrestricted	<u>12,786,697</u>	<u>15,155,726</u>
Total net assets	<u>82,695,662</u>	<u>86,604,084</u>
Total liabilities and net assets	<u>\$ 107,449,761</u>	<u>112,427,225</u>

See accompanying notes to financial statements.

**UNIVERSITY OF GUAM ENDOWMENT FOUNDATION, INC.**

Statements of Net Assets

December 31, 2007 and 2006

<u>ASSETS</u>	<u>2007</u>	<u>2006</u>
Cash and cash equivalents	\$ 83,442	48,465
Pledges receivable, net of an allowance for doubtful accounts of \$26,000 and \$35,000 at December 31, 2007 and 2006, respectively	1,202,437	664,893
Accounts receivable	9,600	14,888
Construction in progress	5,900	-
Equipment, net	6,470	1,944
Investment in Bank of Guam stock	191,052	163,053
Investment in Citizens Security Bank stock	-	203,544
Investment in securities	<u>8,862,732</u>	<u>7,425,353</u>
	\$ <u>10,361,633</u>	<u>8,522,140</u>

LIABILITIES AND NET ASSETS

Liabilities:

Accounts payable	30,161	23,926
Accrued expenses	2,668	29,822
Due to University of Guam	<u>21,672</u>	<u>13,078</u>

Total liabilities	<u>54,501</u>	<u>66,826</u>
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Net assets:

Invested in capital assets, net of related debt	12,370	1,944
Restricted:		
Nonexpendable	557,044	240,986
Expendable	8,095,263	6,762,149
Unrestricted	<u>1,642,455</u>	<u>1,450,235</u>

Total net assets	<u>10,307,132</u>	<u>8,455,314</u>
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Total liabilities and net assets	\$ <u>10,361,633</u>	<u>8,522,140</u>
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See accompanying notes to financial statements.

**UNIVERSITY OF GUAM**  
**Statements of Revenues, Expenses and Changes in Net Assets**  
**Years ended September 30, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
Operating revenues:		
Student tuition and fees	\$ 16,075,810	15,073,752
Less: Scholarship discounts and allowances	<u>(6,948,610)</u>	<u>(6,170,365)</u>
	9,127,200	8,903,387
Federal grants and contracts	25,971,884	25,301,423
FEMA disaster recoveries	78,252	-
Other transfers	-	2,599
Government of Guam grants and contracts	376,800	169,016
Private grants and contracts	1,110,620	558,452
Sales and services of education department	678,813	531,940
Auxiliary enterprises	2,265,520	2,417,747
Other revenues	<u>2,316,552</u>	<u>3,578,801</u>
Total operating revenues	41,925,641	41,463,365
Operating expenses:		
Instruction	17,813,195	16,679,874
Research	9,760,042	8,888,369
Public service	7,157,088	6,468,006
Academic support	8,698,882	6,828,079
Student services	3,579,733	5,084,277
Institutional support	4,283,552	5,453,314
Operations and maintenance, plant	7,096,628	6,580,418
Depreciation	2,569,330	2,487,685
Scholarships and fellowships	9,045,486	8,464,819
Auxiliary enterprises	<u>2,407,276</u>	<u>2,231,955</u>
Total operating expenses	<u>72,411,212</u>	<u>69,166,796</u>
Operating revenues net of operating expenses	(30,485,571)	(27,703,431)
Nonoperating revenues (expenses):		
Government of Guam appropriations:		
Operations	27,426,081	25,963,136
Student financial aid program	3,850,366	3,839,349
Capital expenditure loan repayment	500,000	500,000
Transfer from Yamashita Educator Corps	-	1,889,591
Net investment income (loss)	(2,603,236)	2,003,550
Interest on capital assets - debt related	(568,619)	(576,523)
Debt service - DOA bond	<u>(2,027,443)</u>	<u>(2,027,697)</u>
Net nonoperating revenues	<u>26,577,149</u>	<u>31,591,406</u>
Net increase (decrease) in net assets	(3,908,422)	3,887,975
Net assets:		
Net assets at beginning of year	<u>86,604,084</u>	<u>82,716,109</u>
Net assets at end of year	<u>\$ 82,695,662</u>	<u>86,604,084</u>

See accompanying notes to financial statements.

**UNIVERSITY OF GUAM ENDOWMENT FOUNDATION, INC.**

Statements of Revenues, Expenses, and Changes in Net Assets

Years Ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Operating revenues:		
Private grants and contracts	\$ 1,427,612	603,281
Sales and services	<u>248,722</u>	<u>85,934</u>
Total operating revenues	1,676,334	689,215
Operating expenses:		
Institutional support	683,172	553,371
Public service	110,834	5,612
Academic support	22,498	43,985
Scholarships	<u>18,350</u>	<u>21,600</u>
Total operating expenses	<u>834,854</u>	<u>624,568</u>
Operating revenues net of operating expenses	841,480	64,647
Nonoperating revenues (expenses):		
Net investment income	<u>1,010,338</u>	<u>998,281</u>
Change in net assets	1,851,818	1,062,928
Net assets at beginning of year	<u>8,455,314</u>	<u>7,392,386</u>
Net assets at end of year	\$ <u>10,307,132</u>	<u>8,455,314</u>

See accompanying notes to financial statements.

**UNIVERSITY OF GUAM**  
**Statements of Cash Flows**  
**Years ended September 30, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Student tuition and fees, net	\$ 8,651,548	8,389,656
Grants, contracts and appropriations	31,856,745	20,208,916
Sales and services of education department	1,144,595	126,968
Auxiliary services	(141,756)	185,792
Other receipts	2,316,552	3,578,801
Payments to employees for salaries and benefits	(39,030,383)	(37,717,729)
Payments to suppliers and others	(24,124,659)	(13,106,562)
Payments to students for financial aid	(9,045,486)	(8,464,819)
Net cash used in operating activities	<u>(28,372,844)</u>	<u>(26,798,977)</u>
Cash flows from noncapital financing activities:		
Government of Guam appropriations collected	<u>36,377,905</u>	<u>26,237,322</u>
Cash flows from capital and related financing activities:		
Interest paid on capital debt	(568,619)	(576,523)
Purchases of capital assets	(1,946,443)	(1,754,423)
Principal paid on capital debt	(2,431,732)	(2,465,014)
Proceeds from issuance of debt	-	2,711,972
Changes in restricted cash	(737,634)	551,783
Net cash used in capital and related financing activities	<u>(5,684,428)</u>	<u>(1,532,205)</u>
Cash flows from investing activities:		
Investment income (loss)	(56,484)	1,748,489
Net (purchases) sales of investments	246,279	(1,698,312)
Net cash provided by investing activities	<u>189,795</u>	<u>50,177</u>
Net change in cash and cash equivalents	2,510,428	(2,043,683)
Cash and cash equivalents at beginning of year	<u>2,557,189</u>	<u>4,600,872</u>
Cash and cash equivalents at end of year	<u>\$ 5,067,617</u>	<u>2,557,189</u>
Reconciliation of operating revenues net of operating expenses to net cash used in operating activities:		
Operating revenues net of operating expenses	(30,485,571)	(27,703,431)
Adjustments to reconcile operating revenues net of operating expenses to net cash used in operating activities:		
Depreciation	2,569,330	2,487,685
Changes in assets and liabilities:		
Accounts receivable, net	(213,887)	(783,924)
Inventory	(49,474)	92,965
Other assets	471,511	(468,914)
Accounts payable and accrued liabilities	(414,121)	303,823
Deferred revenue	(206,021)	511,947
DCRS sick leave	(6,356)	172,551
Deposits held on behalf of others	(38,255)	(1,411,679)
Net cash used in operating activities	<u>\$ (28,372,844)</u>	<u>(26,798,977)</u>

See accompanying notes to financial statements.

**UNIVERSITY OF GUAM ENDOWMENT FOUNDATION, INC.**

Statements of Cash Flows

Years Ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Change in net assets	\$ 1,851,818	1,062,928
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	2,548	6,879
Bad debt expense	5,300	1,550
Interest and dividend income reinvested	(341,090)	(186,429)
Unrealized investment gains	(669,248)	(811,909)
(Increase) decrease in receivables	(537,556)	(108,811)
Increase (decrease) in accounts payable and accrued expenses	(20,919)	(2,798)
Increase in due to University of Guam	<u>8,594</u>	<u>6,621</u>
Net cash provided by (used in) operating activities	<u>299,447</u>	<u>(31,969)</u>
Cash flows from capital and related financing activities:		
Construction in progress	(5,900)	-
Purchase of equipment	<u>(7,074)</u>	<u>-</u>
Net cash used in capital and related financing activities	<u>(12,974)</u>	<u>-</u>
Cash flows from investing activities:		
Purchase of investments	(290,425)	(31,839)
Investment fees	<u>38,929</u>	<u>90,699</u>
Net cash (used in) provided by investing activities	<u>(251,496)</u>	<u>58,860</u>
Increase in cash and cash equivalents	34,977	26,891
Cash and cash equivalents at beginning of year	<u>48,465</u>	<u>21,574</u>
Cash and cash equivalents at end of year	\$ <u>83,442</u>	<u>48,465</u>

See accompanying notes to financial statements.

# UNIVERSITY OF GUAM

## Notes to Financial Statements

September 30, 2008 and 2007

### 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.

# UNIVERSITY OF GUAM

## Notes to Financial Statements, continued

September 30, 2008 and 2007

### 2. Basis of Presentation, continued

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 the University. Because the resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and its Statements of Net Assets and Statements of Revenues, Expenses and Changes in Net Assets and Statements of Cash Flows are separately presented in the University's financial statements. In addition, the Foundation's significant notes are summarized in Note 3W 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. Modifications have been made to the Foundation's financial information for inclusion in the accompanying financial statements.

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, 2008 and 2007 the University has cash balances of \$7,458,731 and \$4,210,667, respectively, with corresponding bank balances of \$8,654,095 and \$4,843,450, respectively, of which \$8,287,133 and \$4,183,450, respectively, are either 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.

# UNIVERSITY OF GUAM

## Notes to Financial Statements, continued

September 30, 2008 and 2007

### 3. Summary of Significant Accounting Policies, continued

- B. Restricted Cash and Cash Equivalents and Tobacco Settlement Funds. 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, 2008 and 2007, the University recorded \$2,143,905 and \$2,006,286, 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 \$1,590,000 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, 2008 and 2007, the fund earned interest of \$86,905 and \$71,810, respectively.

- C. Short-term Investments. Short-term investments include time certificates of deposit with original maturities of more than three months.
- D. 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.
- E. 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, 2008 and 2007.
- F. 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.

# UNIVERSITY OF GUAM

## Notes to Financial Statements, continued

September 30, 2008 and 2007

### 3. Summary of Significant Accounting Policies, continued

- G. 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.
- H. 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.
- I. 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.
- J. 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.
- K. Compensated Absences. Employee vacation leave is accrued at year end for financial statement purposes. Included in accounts payable and accrued liabilities at September 30, 2008 and 2007 is \$1,644,109 and \$1,713,497, 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.
- L. 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 2008 and 2007 was \$236,333 and \$150,707, respectively.
- M. 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.

# UNIVERSITY OF GUAM

## Notes to Financial Statements, continued

September 30, 2008 and 2007

### 3. Summary of Significant Accounting Policies, continued

#### N. 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.

#### O. 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.

# UNIVERSITY OF GUAM

## Notes to Financial Statements, continued

September 30, 2008 and 2007

### 3. Summary of Significant Accounting Policies, continued

- P. 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.

- Q. New Accounting Standards. In fiscal year 2005, the University implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures* (an amendment of GASB Statement No. 3), which 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, GASB Statement No. 40 requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates.

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefits Plans Other than Pension Plans*. GASB Statement No. 43 establishes uniform financial reporting for other postemployment benefit plans by state and local governments. The provisions of this Statement are effective for periods beginning after December 15, 2007. The University does not believe that the implementation of this Statement will have a material effect on the financial statements.

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.

# UNIVERSITY OF GUAM

## Notes to Financial Statements, continued

September 30, 2008 and 2007

### 3. Summary of Significant Accounting Policies, continued

In November 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. GASB Statement No. 49 establishes accounting and financial reporting standards for pollution remediation obligations involving site assessments and cleanups. The Statement excludes pollution prevention or control obligations with respect to current operations. The provisions of this Statement are effective for periods beginning after December 15, 2007. The University does not believe the implementation of this Statement will have a material effect on its financial statements.

In May 2007, GASB issued Statement No. 50, *Pension Disclosures – an amendment of GASB Statements No. 25 and 27*. GASB Statement No. 50 amends Statement 25 to require defined benefit pension plans and defined contribution plans to disclose in the notes to financial statements the methods and assumptions used to determine the fair value of investments, if the fair value is based on other than quoted market prices. This Statement also amends Statement No. 27 for cost-sharing multi-employer plans. The provisions of this Statement are effective for periods beginning after June 15, 2007. 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 November 2007, GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. GASB Statement No. 52 establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value.

# UNIVERSITY OF GUAM

## Notes to Financial Statements, continued

September 30, 2008 and 2007

### 3. Summary of Significant Accounting Policies, continued

Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2008. 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.

- R. 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, 2007, 2006 and 2005, contribution rates for the years ended September 30, 2008, 2007 and 2006, respectively, have been determined as follows:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Normal costs (% of DB Plan payroll)	17.36%	18.21%	17.83%
Unfunded liability costs (% of total payroll)	<u>19.68%</u>	<u>20.66%</u>	<u>21.36%</u>
	37.04%	38.87%	39.19%
Employee contributions (DB Plan employees)	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>
	27.54%	29.37%	29.69%
Agency specific adjustments-	<u>- %</u>	<u>- %</u>	<u>- %</u>
Government contribution as a % of DB Plan Payroll	27.54%	29.37%	29.69%
Government contributions as a % of total payroll	27.48%	27.48%	28.21%

**UNIVERSITY OF GUAM**

Notes to Financial Statements, continued

September 30, 2008 and 2007

3. Summary of Significant Accounting Policies, continued

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

	2007	2006
	<u>Actuarial Valuation</u>	<u>Actuarial Valuation</u>
Interest rate and rate of return	7.0%	7.0%
Payroll increases	3.5%	3.5%
Salary increases	4.0 – 8.5%	4.0 – 8.5%

The actuarial valuation performed as of September 30, 2007 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 20.81% and 9.5%, respectively, of qualifying payroll for both of the years ended September 30, 2008 and 2007.

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, 2008 and 2007 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 \$1,083,747 and \$1,090,103 at September 30, 2008 and 2007, respectively, for potential future sick leave payments as a result of this law. However, this amount is an estimate and actual payout may be materially different than estimated.

# UNIVERSITY OF GUAM

## Notes to Financial Statements, continued

September 30, 2008 and 2007

### 3. Summary of Significant Accounting Policies, continued

Retirement contributions for the years ended September 30, 2008 and 2007 are as follows:

	<u>2008</u>	<u>2007</u>
Defined benefit plan	\$ 3,155,834	3,047,650
DCRS	2,860,965	2,480,339

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, 2008 and 2007, the General Fund has accrued approximately \$8,978,000 and \$7,688,000, respectively, for the University's cumulative unfunded retirement liability.

- S. Financial Assistance Revenue. Government of Guam appropriations designated for student financial assistance programs are made annually for the period from October 1 to September 30. As certain restrictions are placed on these funds, revenue is realized only to the extent that such funds are expended for current purposes.
- T. Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the statement of net assets and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.
- U. Risk Management. The University 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 2008, 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.
- V. Reclassifications. Certain account balances in 2007 have been reclassified to conform to the 2008 financial statement presentation.

# UNIVERSITY OF GUAM

## Notes to Financial Statements, continued

September 30, 2008 and 2007

### 3. Summary of Significant Accounting Policies, continued

#### W. 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, 2007 and 2006. 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>2007</u>	<u>2006</u>
SBPA (School of Business and Public Administration) Building	\$ 1,202,500	1,067,000
Library	500,000	-
Other	<u>36,250</u>	<u>150,000</u>
	1,738,750	1,217,000
Less: Unamortized discount	<u>(510,313)</u>	<u>(517,107)</u>
	1,228,437	699,893
Less: Allowance for doubtful accounts	<u>(26,000)</u>	<u>(35,000)</u>
	<u>\$ 1,202,437</u>	<u>664,893</u>

##### UOG Endowment Foundation Investments

Investments are carried at fair market value. Gains and losses on investments are reported in the statements of revenues, expenses and changes in net assets as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by laws. The composition of investments in securities as of December 31, 2007 and 2006 follows:

	<u>2007</u>	<u>2006</u>
Cash	\$ 1,188,113	697,829
Equities	5,611,142	5,297,416
Fixed income	<u>2,063,477</u>	<u>1,430,108</u>
	<u>\$ 8,862,732</u>	<u>7,425,353</u>

# UNIVERSITY OF GUAM

## Notes to Financial Statements, continued

September 30, 2008 and 2007

### 3. Summary of Significant Accounting Policies, continued

The composition of net investment earnings for the years ended December 31, 2007 and 2006 is as follows:

	<u>2007</u>	<u>2006</u>
Increase in fair value	\$ 669,248	811,909
Interest income	182,649	79,388
Dividends	156,924	106,984
Other income	<u>1,517</u>	<u>-</u>
	<u>\$ 1,010,338</u>	<u>998,281</u>

Investments also include shares of stock in Bank of Guam (BOG) and Citizens Security Bank (CSB) that are recorded at their fair market values at December 31, 2007 and 2006. The CSB shares are permanently restricted, as the shares cannot be sold. Dividends received from these shares will be used for scholarship purposes. The BOG shares contain no restrictions and are classified as unrestricted net assets.

### 4. 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.

# UNIVERSITY OF GUAM

## Notes to Financial Statements, continued

September 30, 2008 and 2007

### 4. Long-Term Debt, continued

In November 1997, the University entered into a ten-year capital lease agreement to obtain equipment for an energy conservation project. This debt 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 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 \$760,060 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.

Debt service to maturity is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 163,000	587,060	750,060
2010	170,488	579,572	750,060
2011	178,320	571,740	750,060
2012 – 2016	1,022,272	2,728,028	3,750,300
2017 – 2021	1,279,675	2,470,625	3,750,300
2022 – 2026	1,601,892	2,148,408	3,750,300
2027 – 2031	2,005,242	1,745,058	3,750,300
2032 – 2036	2,510,154	1,240,146	3,750,300
2037 – 2041	3,142,200	608,100	3,750,300
2042 – 2043	<u>1,046,642</u>	<u>36,280</u>	<u>1,082,922</u>
	\$ <u>13,119,885</u>	<u>12,715,017</u>	<u>25,834,902</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, 2008 and 2007, \$3.0 million and \$2.5 million, respectively, have been accrued, and \$3.0 million has been collected as of September 30, 2008. The funds received are classified as restricted expendable net assets.

# UNIVERSITY OF GUAM

## Notes to Financial Statements, continued

September 30, 2008 and 2007

### 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, 2008 and 2007, loan receivables are reserved in the amount of \$11,951,382 and \$11,919,171, respectively, and recoveries collected are \$548,578 and \$401,813 for the years then ended, respectively.

### 6. Noncurrent Liabilities

Noncurrent liability activity was as follows:

	Beginning Balance September <u>30, 2007</u>	<u>Additions</u>	<u>Reductions</u>	Ending Balance September <u>30, 2008</u>	Amount due within <u>one year</u>
Bonds, notes and capital lease obligations:					
Revenue bond payable	\$ 90,000	-	90,000	-	-
Capital lease payable	126,729	-	126,729	-	-
Notes payable	<u>13,307,445</u>	<u>-</u>	<u>187,560</u>	<u>13,119,885</u>	<u>187,560</u>
Total bonds, notes and capital leases	<u>13,524,174</u>	<u>-</u>	<u>404,289</u>	<u>13,119,885</u>	<u>187,560</u>
Other liabilities:					
Deposit held on behalf of others	172,213	-	38,255	133,958	-
Accrued annual leave	1,736,286	1,367,008	1,459,098	1,644,196	920,750
DCRS sick leave liability	<u>1,090,103</u>	<u>-</u>	<u>6,356</u>	<u>1,083,747</u>	<u>-</u>
Total other noncurrent liabilities	<u>2,998,602</u>	<u>1,367,008</u>	<u>1,503,709</u>	<u>2,861,901</u>	<u>920,750</u>
Total noncurrent liabilities	\$ <u>16,522,776</u>	<u>1,367,008</u>	<u>1,907,998</u>	<u>15,981,786</u>	<u>1,108,310</u>

### 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.

# UNIVERSITY OF GUAM

## Notes to Financial Statements, continued

September 30, 2008 and 2007

### 7. Deposits and Investments, continued

Legally authorized investments are as follows:

#### (i) General Guidelines

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

# UNIVERSITY OF GUAM

## Notes to Financial Statements, continued

September 30, 2008 and 2007

### 7. Deposits and Investments, continued

- d. Common stock and preferred stock of any institution or entity created or existing under the laws of the United States or any other country are permissible investments.

#### (iv) Cash and Cash Equivalents

- a. Cash equivalent reserves shall consist of cash instruments having a quality rating of A-1, P-1 or their equivalent. U.S. Treasury and Agency securities, Bankers Acceptances, Certificates of Deposit and Collateralized Repurchase Agreements are also acceptable investment vehicles. Custodial Sweep Accounts must be, in the judgment of the investment managers, of credit quality equal or superior to the standards described above.
- b. In the case of Certificates of Deposit, they must be issued by FDIC insured institutions. Deposits in institutions with less than \$10,000,000 in assets may not be made in excess of \$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.

# UNIVERSITY OF GUAM

## Notes to Financial Statements, continued

September 30, 2008 and 2007

### 7. Deposits and Investments, continued

#### 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 \$13,643,105 of these investments and cash at September 30, 2008, 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.

	<u>2008</u>	<u>2007</u>
Investments:		
Money market funds	\$ 842,510	302,476
Fixed income securities	1,815,663	1,781,276
Common stock	<u>3,149,576</u>	<u>4,900,266</u>
	<u>\$ 5,807,749</u>	<u>6,984,018</u>

Land grant 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, 2008 and 2007, the accumulated net earnings and appreciation on investments is \$4,835,356 and \$6,455,200, 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>2008</u>	<u>2007</u>
Land grant endowment investments:		
Money market funds	\$ 346,009	241,169
Fixed income securities	2,484,817	2,455,324
Common stock	<u>5,004,530</u>	<u>6,758,707</u>
	<u>\$ 7,835,356</u>	<u>9,455,200</u>

# UNIVERSITY OF GUAM

## Notes to Financial Statements, continued

September 30, 2008 and 2007

### 7. Deposits and Investments, continued

The composition of net investment income (loss) for the years ended September 30, 2008 and 2007 is as follows:

	<u>2008</u>	<u>2007</u>
Interest and dividends from investments	\$ 510,433	507,206
Investment fees	(279,385)	(117,495)
Realized (loss) gain	(287,532)	1,358,728
Appreciation of fair value of investments, net	<u>(2,546,752)</u>	<u>255,061</u>
	<u>\$ (2,603,236)</u>	<u>2,003,500</u>

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

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

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

<u>Investment type</u>	<u>Fair value</u>	<u>Less than 1</u>	<u>1 to 5</u>	<u>5 to 10</u>	<u>More than 10</u>
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	<u>1,286,664</u>	<u>245,683</u>	<u>488,633</u>	<u>296,072</u>	<u>256,276</u>
	<u>\$ 4,300,480</u>	<u>245,683</u>	<u>2,396,847</u>	<u>809,617</u>	<u>848,332</u>

Custodial credit 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, 2008 and 2007.

# UNIVERSITY OF GUAM

## Notes to Financial Statements, continued

September 30, 2008 and 2007

### 7. Deposits and Investments, continued

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, 2008 and 2007 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.

### 8. Capital Assets

Activity and balances for capital assets for fiscal years 2008 and 2007 consisted of the following:

	Balance September 30, <u>2007</u>	<u>Additions</u>	<u>Retirements</u>	Balance September 30, <u>2008</u>
Capital assets not being depreciated:				
Land	\$ 2,589,112	-	-	2,589,112
Construction in progress	<u>232,049</u>	<u>496,348</u>	<u>-</u>	<u>728,397</u>
Total capital assets not being depreciated	<u>2,821,161</u>	<u>496,348</u>	<u>-</u>	<u>3,317,509</u>
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	<u>5,284,310</u>	<u>848,068</u>	<u>-</u>	<u>6,132,378</u>
Total other capital assets	101,960,762	1,450,095	-	103,410,857
Less accumulated depreciation	<u>(32,110,651)</u>	<u>(2,569,330)</u>	<u>-</u>	<u>(34,679,941)</u>
Other capital assets, net	<u>69,850,111</u>	<u>(1,119,235)</u>	<u>-</u>	<u>68,730,916</u>
Total capital assets, net	\$ <u>72,671,272</u>	<u>(622,887)</u>	<u>-</u>	<u>72,048,385</u>

# UNIVERSITY OF GUAM

## Notes to Financial Statements, continued

September 30, 2008 and 2007

### 8. Capital Assets, continued

	Balance September 30, <u>2006</u>	<u>Additions</u>	<u>Retirements</u>	Balance September 30, <u>2007</u>
Capital assets not being depreciated:				
Land	\$ 2,589,112	-	-	2,589,112
Construction in progress	<u>232,447</u>	<u>-</u>	<u>398</u>	<u>232,049</u>
Total capital assets not being depreciated	<u>2,821,559</u>	<u>-</u>	<u>398</u>	<u>2,821,161</u>
Other capital assets:				
Land improvements	320,754	-	-	320,754
Building	84,112,484	1,345,682	-	85,458,166
Building improvements	1,241,760	-	-	1,241,760
Equipment	9,462,161	443,103	249,493	9,655,772
Library books	<u>5,237,765</u>	<u>46,544</u>	<u>-</u>	<u>5,284,310</u>
Total other capital assets	100,374,924	1,835,329	249,493	101,960,762
Less accumulated depreciation	<u>(29,791,949)</u>	<u>(2,487,685)</u>	<u>168,984</u>	<u>(32,110,651)</u>
Other capital assets, net	<u>70,582,975</u>	<u>(652,356)</u>	<u>80,509</u>	<u>69,850,111</u>
Total capital assets, net	\$ <u>73,404,534</u>	<u>(652,356)</u>	<u>80,907</u>	<u>72,671,272</u>

### 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, 2008 and 2007, \$3,574,089 and \$3,434,930, 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.

# UNIVERSITY OF GUAM

## Notes to Financial Statements, continued

September 30, 2008 and 2007

### 10. Contingencies, continued

At the end of each fiscal year, the balance remaining in the bond fund established by the University shall be retained by the University. Once the University's proportionate share of the principal and interest obligation is satisfied on or about November 2018, the University shall retain control of all future revenues thereafter. For the years ended September 30, 2008 and 2007, monthly payments remitted to the government of Guam's General Fund of \$2,027,443 and \$2,027,697, 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 \$4,703,296 and \$9,304,754 at September 30, 2008 and 2007, respectively. In November 2006 the University received \$109,558 for the Yamashita Educator Corps, a Student Financial Assistance Program which was consolidated into the School of Education beginning in fiscal year 2007.

Management expects the balance at September 30, 2008 to be collected on or before September 30, 2009.

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. Effective March 1, 2009 the U.S. Federal Court ordered the Government of Guam to pay \$1 million per week from the General Fund to pay towards closure of the Ordot landfill and construction of a new landfill. This will further aggravate UOG's ability to collect appropriations from the General Fund.

**UNIVERSITY OF GUAM**

Schedule of Salaries and Wages

Years ended September 30, 2008 and 2007

	<u>2008</u>		<u>2007</u>	
	<u>Amount</u>	<u>No. of Personnel</u>	<u>Amount</u>	<u>No. of Personnel</u>
<b>SALARIES AND WAGES:</b>				
General Operations	\$ 20,089,037	379	\$ 19,011,544	392
Federal Funds	4,800,686	116	4,550,782	170
General Operations and Federal Funds	2,775,883	62	2,548,326	56
Other funding sources	<u>3,551,435</u>	<u>157</u>	<u>3,483,496</u>	<u>141</u>
Total salaries and wages	<u>31,217,041</u>	<u>714</u>	<u>29,594,148</u>	<u>759</u>
<b>BENEFITS:</b>				
General Operations	5,661,452		5,417,540	
Federal Funds	1,063,425		1,192,811	
General Operations and Federal Funds	427,837		321,117	
Other funding sources	<u>584,971</u>		<u>624,301</u>	
Total benefits	<u>7,737,685</u>		<u>7,555,769</u>	
<b>TOTAL SALARIES, WAGES AND BENEFITS</b>	<u>\$ 38,954,726</u>		<u>\$ 37,149,917</u>	

See accompanying independent auditors' report.

**UNIVERSITY OF GUAM**

Schedule of Expenses by Object Category

Years ended September 30, 2008 and 2007

	<u>2008</u>		<u>2007</u>	
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Unrestricted</u>	<u>Restricted</u>
<b>Instruction:</b>				
Salary	\$ 10,848,477	808,285	10,602,741	690,117
Benefits	2,687,743	130,100	2,668,575	116,322
Travel	61,948	649,821	88,010	334,668
Contractual	790,730	555,630	702,816	624,822
Supplies	80,301	113,912	138,080	90,633
Equipment	44,812	402,489	21,017	113,588
Utilities	25,598	32,519	26,943	31,191
Capital outlay	-	17,756	-	-
Miscellaneous	<u>37,229</u>	<u>525,847</u>	<u>55,161</u>	<u>375,184</u>
	<u>14,576,838</u>	<u>3,236,359</u>	<u>14,303,343</u>	<u>2,376,525</u>
<b>Research:</b>				
Salary	907,279	3,393,878	1,027,926	3,468,672
Benefits	242,304	750,360	277,052	760,022
Travel	79,828	719,347	37,878	718,530
Contractual	466,989	1,675,566	349,467	984,523
Supplies	54,623	456,386	52,862	470,389
Equipment	37,212	276,243	21,616	176,851
Utilities	2,976	2,644	345	2,343
Capital outlay	21,770	308,034	23,585	33,549
Miscellaneous	<u>39,200</u>	<u>325,401</u>	<u>24,074</u>	<u>458,675</u>
	<u>1,852,181</u>	<u>7,907,859</u>	<u>1,814,805</u>	<u>7,073,554</u>
<b>Institutional Support:</b>				
Salary	2,704,263	-	2,524,805	-
Benefits	751,166	-	746,949	-
Travel	211,942	-	185,748	-
Contractual	486,138	-	1,864,107	-
Supplies	98,229	-	67,106	-
Equipment	31,169	-	9,872	-
Utilities	645	-	558	-
Capital outlay	-	-	-	-
Miscellaneous	<u>-</u>	<u>-</u>	<u>54,169</u>	<u>-</u>
	<u>4,283,552</u>	<u>-</u>	<u>5,453,314</u>	<u>-</u>

See accompanying independent auditors' report.

**UNIVERSITY OF GUAM**

Schedule of Expenses by Object Category

Years ended September 30, 2008 and 2007

	<u>2008</u>		<u>2007</u>	
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Unrestricted</u>	<u>Restricted</u>
<b>Public Service:</b>				
Salary	538,670	3,409,994	312,381	3,245,322
Benefits	113,199	710,321	78,950	699,758
Travel	4,342	499,976	9,272	420,732
Contractual	128,209	529,332	37,321	599,244
Supplies	24,238	404,000	17,177	291,447
Equipment	8,268	218,208	3,118	205,078
Utilities	12,482	12,969	499	15,781
Capital outlay	-	76,233	-	-
Miscellaneous	44,650	421,998	26,918	505,008
	<u>874,058</u>	<u>6,283,031</u>	<u>485,636</u>	<u>5,982,370</u>
<b>Academic Support:</b>				
Salary	4,546,347	-	4,029,452	-
Benefits	1,244,739	-	1,090,834	-
Travel	163,255	-	142,230	1,839
Contractual	1,063,701	20,618	967,203	40,504
Supplies	291,146	7,103	194,621	3,007
Equipment	399,427	1,464	186,416	688
Utilities	4,012	-	3,458	-
Capital outlay	865,889	61,909	82,824	17,258
Miscellaneous	26,440	2,832	67,745	-
	<u>8,604,956</u>	<u>93,926</u>	<u>6,764,783</u>	<u>63,296</u>
<b>Student Services:</b>				
Salary	1,790,555	489,425	1,862,393	471,407
Benefits	551,014	8,542	563,578	4,543
Travel	44,401	32,604	15,247	15,287
Contractual	159,539	18,673	174,137	20,391
Supplies	91,163	6,085	50,540	14,852
Equipment	42,428	29,220	4,695	14,058
Utilities	38,801	-	32,409	-
Capital outlay	-	-	-	-
Miscellaneous	34,013	243,269	970,259	870,381
	<u>2,751,914</u>	<u>827,818</u>	<u>3,673,258</u>	<u>1,410,919</u>

See accompanying independent auditors' report.

**UNIVERSITY OF GUAM**

Schedule of Expenses by Object Category

Years ended September 30, 2007 and 2006

	<u>2008</u>		<u>2007</u>	
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Unrestricted</u>	<u>Restricted</u>
Operations and Maintenance:				
Salary	1,485,056	-	1,362,532	-
Benefits	458,411	-	429,187	-
Travel	-	-	-	-
Contractual	217,296	-	158,781	-
Supplies	165,477	-	148,065	-
Equipment	28,672	-	11,993	-
Utilities	4,113,591	-	3,237,751	-
Capital outlay	390,099	-	6,320	-
Miscellaneous	238,026	-	1,225,789	-
	<u>7,096,628</u>	<u>-</u>	<u>6,580,418</u>	<u>-</u>
Scholarships and Fellowships:				
Salary	-	-	-	-
Benefits	-	-	-	-
Travel	-	-	-	-
Contractual	-	-	-	-
Supplies	-	-	-	-
Equipment	-	-	-	-
Utilities	-	-	-	-
Capital outlay	-	-	-	-
Miscellaneous	230,319	8,815,167	167,906	8,296,913
	<u>230,319</u>	<u>8,815,167</u>	<u>167,906</u>	<u>8,296,913</u>
Auxiliary Enterprises:				
Salary	654,240	-	532,532	-
Benefits	183,527	-	148,679	-
Travel	7,524	-	-	-
Contractual	76,565	-	122,266	-
Supplies	69,511	-	35,823	-
Equipment	15,326	-	11,495	-
Utilities	277,233	-	229,352	-
Capital outlay	-	-	-	-
Miscellaneous	1,123,348	-	1,148,808	-
	<u>2,407,274</u>	<u>-</u>	<u>2,228,955</u>	<u>-</u>

See accompanying independent auditors' report.