

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

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

**YEARS ENDED SEPTEMBER 30, 2015 AND 2014
(AS RESTATED)**

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

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Deloitte & Touche LLP
361 South Marine Corps Drive
Tamuning, GU 96913-3911
USA

Tel: (671)646-3884
Fax: (671)649-4932
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

The Board of Regents
University of Guam:

Report on the Financial Statements

We have audited the accompanying financial statements of the University of Guam (the University) and its discretely presented component unit, collectively a component unit of the Government of Guam, as of and for the years ended September 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as set forth in Section II of the forgoing table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the University and its discretely presented component unit as of September 30, 2015 and 2014, and the respective changes in financial position and cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 2 to the financial statements, in 2015, the University adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. As a result of adopting these standards, the University has elected to restate its 2014 financial statements to reflect the adoption of these standards. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 14 as well as the Schedule of Funding Progress and Actuarial Accrued Liability-Post Employment Benefits Other than Pension on page 47, the Schedule of Proportional Share of the Net Pension Liability on page 48, and the Schedule of Pension Contributions on page 49, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by GASB who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Financial Information

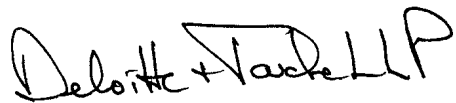
Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. The schedules of salaries, wages and benefits and the schedules of expenses by object category on pages 50 through 53 and the schedules of total revenue information on page 55 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules of salaries, wages and benefits, the schedules of expenses by object category, and the schedules of total revenue information are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the comparative schedules of salaries, wages and benefits, of expenses by object category, and of total revenue information are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The schedule of employee information on page 54 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2016, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

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

March 15, 2016

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

Management's Discussion and Analysis
Years Ended September 30, 2015 and 2014

INTRODUCTION

Management's discussion and analysis (MD&A) provides an overview and better understanding of the University's financial position and the results of activities for the fiscal year ended September 30, 2015. Management has prepared this overview as required supplemental information to the financial statements and the footnotes that follow. This MD&A should be read in conjunction with the financial statements and accompanying footnotes.

The University. Public Law 13-194, The Higher Education Act of 1976, established the University as a non-membership, non-profit, public corporation under a Board of Regents appointed by the Governor with the advice and consent of the Guam Legislature. We are a public, open-admissions, four-year, land-grant institution on Guam in the Marianas Islands and have been continuously accredited by the Western Association of Schools and Colleges (WASC). Our 3,991 students (Fall'15) are multicultural, multilingual and 49% Pacific Islander, 44% Asian, 2% White/ Non-Hispanic, 5% other. We offer 15 master's, 34 bachelor's and one nursing associates degree programs. Continuing education, professional development and English language training are available. Our 899 employees, include 172 full-time faculty, 36 administrators and 130 full-and-part-time staff and faculty adjuncts.

The Leadership. A nine-member Board of Regents governs the University. Antoinette D. Sanford is the Board Chairperson; Elizabeth C. Gayle is Vice Chairperson; Elvin Y. Chiang is Treasurer and audit committee chair; Robert A. Underwood, Ed.D., is the University's 10th President; Anita Borja Enriquez, DBA, is Senior Vice President for Academic and Student Affairs; Randall V. Wiegand is Vice President for Administration and Finance; John Peterson, Ph.D., is Assistant Vice President for Graduate Studies, Sponsored Programs and Research; Zeny Asuncion Nace is Comptroller. There is an elected Faculty Senate.

Our University community is focused on our mission of *Ina, Diskubre, Setbe (to Enlighten, to Discover, to Serve)* and on our core commitments: i) academic quality; ii) student success, enrollment growth, retention, and institutional visibility; iii) community engagement; and iv) institutional effectiveness and efficiency. Under the leadership of President Underwood, we have embarked on a Good to Great (G2G) process as an expansion of the Leading Change initiative, and have three other identified initiatives: the Natural Choice, UOG Green and Leading Change.

THE FINANCIAL STATEMENTS

The report includes three financial statements: i) the Statement of Net Position; ii) the Statement of Revenues, Expenses and Changes in Net Position; and iii) the Statement of Cash Flows. They are prepared in accordance with Governmental Accounting Standards Board (GASB) principles, which establish standards for external financial reporting for colleges and universities. The fiscal year ends September 30.

The University is reported as a component unit of the Government of Guam. We also report the financial statements of our component unit, the UOG Endowment Foundation, Inc. The Foundation is a legally separate, tax-exempt, private corporation, whose fiscal year ends December 31. While the University does not control the Foundation, the resources and income of the Foundation can only be used for the University's benefit.

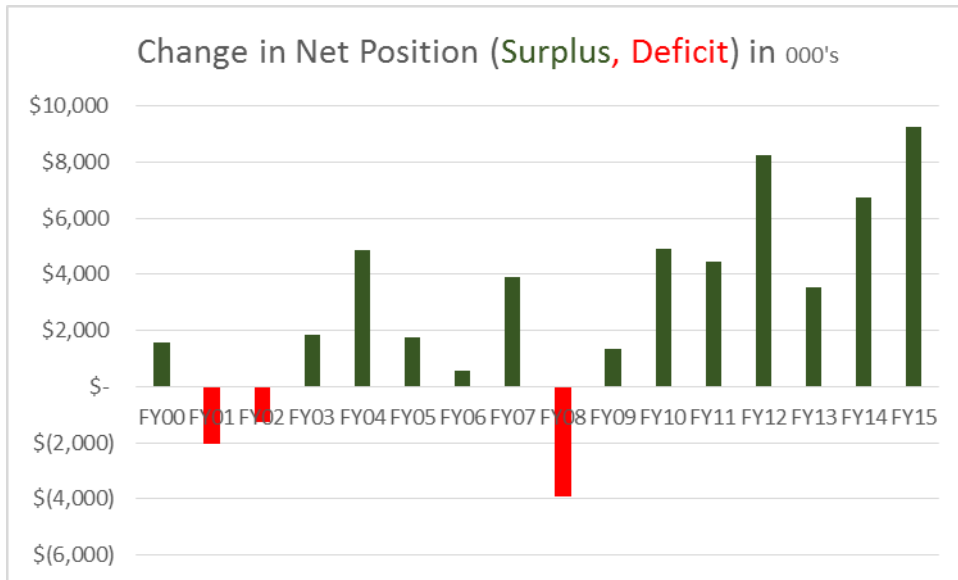
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FY2015 FINANCIAL HIGHLIGHTS AND STRATEGIC INSTITUTIONAL OUTCOMES

During Fiscal Year 2015, the University implemented GASB 68 and 71, which have had a significant impact on the University's financial statements. Because of this, the University has elected to restate the prior year financial statements to facilitate comparison with Fiscal Year 2015. Refer to note 2 for the cumulative change as a result of implementation. One of the most important questions in evaluating the financial health of an institution is whether the financial position has improved or deteriorated as a result of the year's operations. For the year ended September 30, 2015, the University's net position increased by \$9.2 million. The primary factors for the FY15 increase are the following:

- An increase in the annual appropriation from the Government of Guam from \$35.3 million to \$38 million.
- The implementation of GASB No. 68 had the impact of reducing retirement expenses and placing some of the required payments into a deferred outflow account.
- A \$1.4 million loss due to unrealized investment changes. The losses result from marking the investment portfolio to market and do not generate current cash outflows flows.
- The reinstatement of a \$2 million loan payment to the Government of Guam to repay a borrowing that had been issued by the government on behalf of the University. This payment is an expense to the University.
- A reduction in utility costs as a result of reduced electrical billings and the implementation of some energy efficiency measures.



Important financial trends include:

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

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- Over the past thirteen years, revenues have grown an average of 4.0% per annum. Revenues totaled \$90 million for FY15. This is down 2.2% from FY14 primarily related to decreased grant revenues. The University generates 62% of revenues; GovGuam provides 38%.
- Grants and contracts were \$35.5 million, down \$1.2 million (-3.3%) from FY14 due to the expiration of some federal grants.
- Expenses have been held in check, even with increased enrollment, explosive growth in grant spending, stepped-up facility maintenance, merit-based salary increments, and water and wastewater and retirement rate hikes.

Significant institutional outcomes that affect financial statements and resources include:

- The implementation of the first tuition increase in six years. The increase was received with little opposition as interested parties have recognized UOG ranks among the lowest cost public universities and no other university in the country had gone through the last several years without an increase.
- Fall'15 FTE enrollment was a record 3,991 students – the highest on record. The 46,971 credit hours production is also the highest on record.
- 550 undergraduate and graduate degrees were conferred in Academic Year'14-15. Alumni now number 16,081. They are the professional backbone and leadership of our island and region.
- Academic quality, student success and institutional sustainability are evidenced by primary accreditation for eight (8) years from the Western Association of Schools and Colleges (WASC) and by secondary accreditation for the professional schools. In the preliminary findings of the 2015/2016 WASC Review, the University was praised for the financial improvements that have taken place in recent years. WASC also praised the University's response to the 2013 Interim Report issued by WASC, the Good to Great Initiative, enrollment growth and outreach and recruitment efforts, the regional focus of the University, and progress towards attaining first year retention goals.
- In 2013, the University embarked on a Good-to-Great initiative. A process of program prioritization and resource allocation is well underway to realize our potential to be a great university with great programs. We are focused on our mission, our purpose and our dynamic role in the social, economic and political development of our region. In 2015, the University is well on its way in implementing the Good-to-Great initiative.
- In 2015, the University was awarded a \$6 million grant from the National Science Foundation's Experimental Program to Stimulate Competitive Research (EPSCoR), which includes the development of a database of marine life whose habitat is near and around the island. The grant period runs from October 1, 2015 to September 30, 2020. This grant has opened up new doors of opportunity for the University and has lifted us into a new league of research capabilities.

STATEMENT OF NET POSITION

The statement of net position is similar to a balance sheet. It presents information on assets, deferred outflows of resources, liabilities and deferred inflows of resources and the resources remaining after such are satisfied. The statement is an indicator of overall financial condition, and whether financial health has improved or deteriorated during the fiscal year.

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Management's Discussion and Analysis
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SUMMARY STATEMENTS OF NET POSITION (IN \$000'S)

	<u>2015</u>	2014 (Restated)	2013 (Restated)
Noncapital assets	\$ 72,045	\$ 69,185	\$ 63,070
Capital assets	70,183	70,288	71,994
Deferred outflows of resources	<u>8,044</u>	<u>7,611</u>	<u>7,307</u>
Total assets and deferred outflows of resources	\$ <u>150,272</u>	\$ <u>147,084</u>	\$ <u>142,371</u>
Current liabilities	\$ 15,414	\$ 15,144	\$ 14,909
Noncurrent liabilities	84,015	93,017	99,963
Deferred inflows of resources	<u>7,385</u>	<u>4,662</u>	<u>-</u>
Total liabilities and deferred inflows of resources	<u>106,814</u>	<u>112,823</u>	<u>114,872</u>
Net investment in capital assets	58,284	58,247	60,710
Restricted, nonexpendable	5,127	5,127	5,127
Restricted, expendable	4,146	4,258	3,073
Unrestricted	<u>(24,099)</u>	<u>(33,371)</u>	<u>(41,412)</u>
Total net position	<u>43,458</u>	<u>34,261</u>	<u>27,499</u>
Total liabilities, deferred inflows of resources & net position	\$ <u>150,272</u>	\$ <u>147,084</u>	\$ <u>142,371</u>

For the last two years, the overall financial condition of the University has continued to strengthen. Total net position, which are the residual interest in assets and deferred outflows of resources, net of liabilities and deferred inflows of resources, grew to \$43.5 million from \$34.3 million in FY14 on a restated basis. This change is mostly related to the reporting changes from GASB No. 68.

Receivables increased \$5.5 million due to the increase in lag for GovGuam and federal grant receivables. Liabilities remained relatively stable over the three year period. Current assets (including unearned revenue) covered current liabilities 2.86 times, an indicator that has increased over the period.

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STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

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

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

	<u>2015</u>	2014 (Restated)	2013 (Restated)
Operating revenues, net	\$ 54,190	\$ 54,833	\$ 56,728
Operating expenses	<u>81,853</u>	<u>85,600</u>	<u>88,585</u>
Operating revenues net of operating expenses ¹	(27,663)	(30,767)	(31,857)
Non-operating and other revenues and expenses	34,310	36,810	34,013
Capital contribution	<u>2,550</u>	<u>719</u>	<u>1,392</u>
Increase in net position	9,197	6,762	3,548
Net position – beginning of year	<u>34,261</u>	<u>27,499</u>	<u>23,951</u>
Net position – end of year	\$ <u>43,458</u>	\$ <u>34,261</u>	\$ <u>27,499</u>

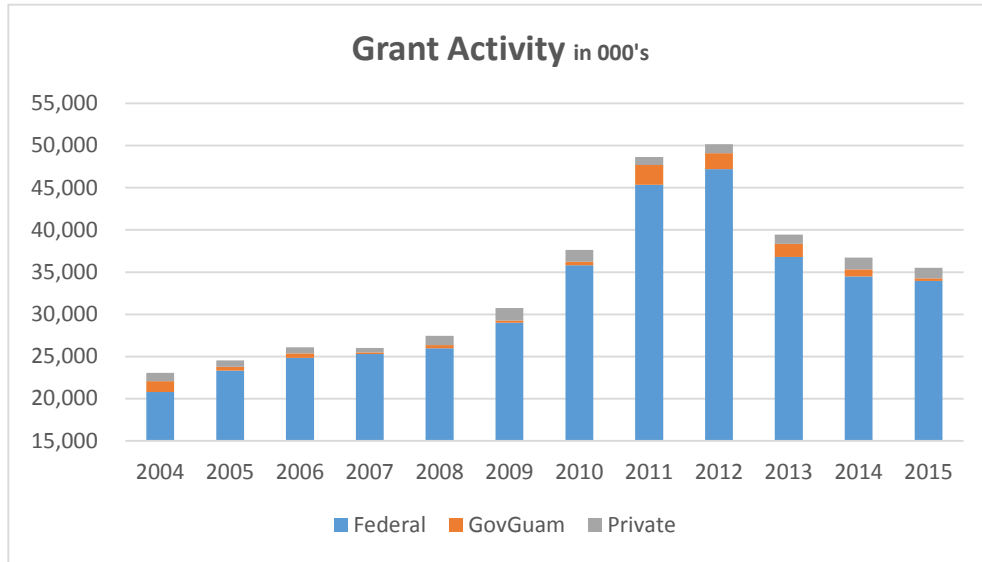
Net operating revenues were \$54.2 million, a \$0.6 million decrease from FY14 and a \$2.5 million decrease from FY13. Most of the decrease is explained by an aggressive scholarship and discount program and reduced contracts from the Government of Guam. Non-operating revenues were impacted by a one-time waiver in 2014 of a \$2 million debt service payment resulting from a 1993 borrowing conducted by the Government of Guam on behalf of the University. An unrealized investment loss of \$1.4 million nearly negated the increase in the Government of Guam appropriation of \$2.1 million. University-generated revenues are now 62% of consolidated revenues (excluding investments and retiree health care); GovGuam appropriations are 38%.

The following graph reflects grant activity for the last decade:

¹ *Operating Revenues Net of Operating Expense* is negative, because local government appropriations are reported as non-operating revenues rather than operating revenues under GASB 35 reporting requirements

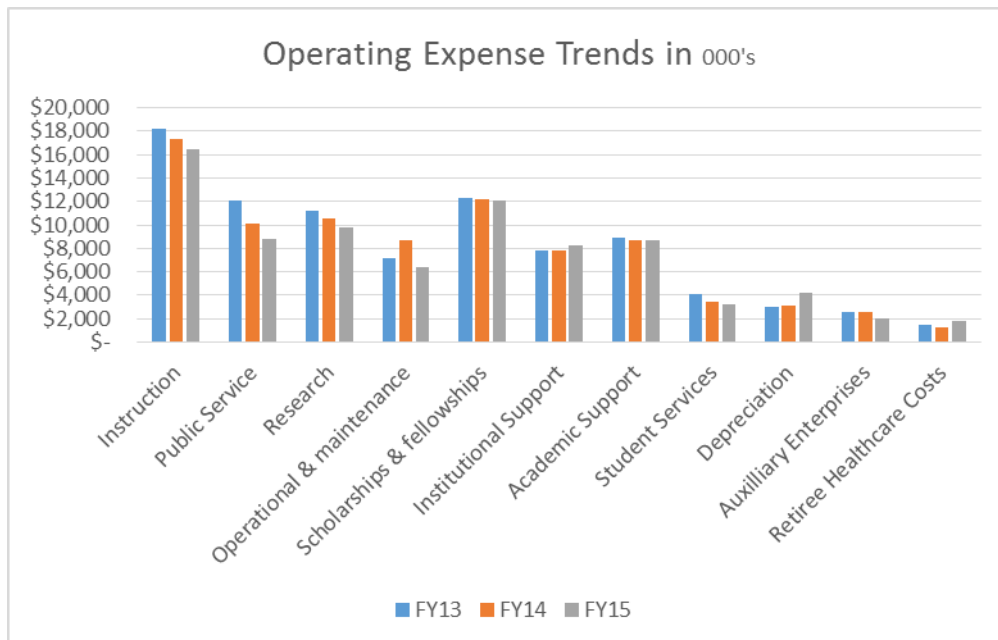
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While federal grant revenues have decreased since FY12, the funds received as a result of ARRA grants have masked an underlying growth trend in federal grants. This has been a major focus of the University in recent years and has resulted in a \$6 million five year (EPSCoR) grant. The grant activity is consistent with some of the initiatives to come out of the Good to Great methodology with the goal of decreasing dependence of the University on the local government.

FY15 operating expenses decreased \$3.7 million mostly as a result of the new reporting requirements of GASB No. 68. The University spent \$35.2 million directly on its core mission. Of that, 47% went to instruction, 25% to public service and 28% to research.



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STATEMENT OF CASH FLOWS

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

STATEMENTS OF CASH FLOW (IN \$000'S)

	<u>2015</u>	<u>2014</u> <u>(Restated)</u>	<u>2013</u> <u>(Restated)</u>
Cash provided by (used in):			
Operating activities	\$ (29,457)	\$ (28,349)	\$ (26,181)
Non-capital financing activities	30,024	30,840	36,024
Capital and financing activities	(1,823)	(2,096)	(3,356)
Investing activities	<u>(8,920)</u>	<u>2,498</u>	<u>(1,358)</u>
Net change in cash and cash equivalents	(10,176)	2,893	5,129
Cash and equivalents – beginning of year	<u>18,238</u>	<u>15,345</u>	<u>10,216</u>
Cash and equivalents – end of year	\$ <u>8,062</u>	\$ <u>18,238</u>	\$ <u>15,345</u>

In FY15, cash flow decreased by \$10.2 million from FY14 after an increase of \$2.9 million from FY13. Most of the change is explained by the increase in receivables from the Government of Guam and the federal government. The GovGuam allotments lag has been growing. The appropriations receivable ranged from \$0.7 million in FY13 to \$3.9 million in FY14 and \$8.1 million in FY15. The University continues to work with the government to streamline this process.

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

Management's Discussion and Analysis for the year ended September 30, 2014 is set forth in the report on the audit of financial statements, which is dated March 19, 2015. That Discussion and Analysis explains in more detail major factors impacting the 2014 financial statements. A copy of that report can be obtained via the contact below.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets: At the end of FY15, the University had \$121.2 million invested in capital assets. This represents an increase in net capital assets (including additions and deletions) of \$4 million or 3.5% over the previous year. The University completed significant renovations at the Calvo Fieldhouse during the year which was the significant driver behind the increase. The University had accrued \$51 million in accumulated depreciation against the capital assets. Net capital assets were \$70.2 million, a decrease from the prior year's \$70.3 million. See Note 5 to the financial statements for additional information on capital assets.

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Long-Term Debt: The University has a note payable that is outstanding with the United States Department of Agriculture (USDA). The note payable was created in October 2001 through Public Law 26-48 for an amount not to exceed \$13.5 million for the purpose of constructing certain facilities on campus. As of September 30, 2015 and 2014, the University had a long-term debt of \$11.9 million and \$12.0 million, respectively. See Note 6 to the financial statements for additional information on long-term debt.

ECONOMIC AND OTHER FACTORS EXPECTED TO AFFECT THE UNIVERSITY ²

2015: Modest Growth Continues

In 2015, the U.S. economy continued its tepid recovery. In the first quarter of the year, the economy grew .6%. The lack of growth was mostly attributed to the severe weather encountered during the quarter. Growth picked up during the second and third quarters (3.9% and 2%, respectively) and then slowed to .7% in the fourth quarter. For the year, the economy grew at just over 1.8%, which was slightly slower than 2014. As a result of the growth, the Federal Reserve felt comfortable ending their quantitative easing program and increased interest rates for the first time since the 2008 recession. Despite the withdrawal of support from the bond market, interest rates have remained low and the S&P 500 lost .73% for the year. The unemployment rate improved to 4.9% in January 2016 – decline of 0.8% from the previous year. Inflation remains very low at under 2%.

The Guam economy continued its modest growth. Visitor arrivals reached record levels in 2015. December 2015 also set records as the top December in history with 132,418 visitors – a 10.5% increase over December 2014. Although visitors from Japan continue to decline, the loss is being made up by other major markets including Korea and China. Korea arrivals increased by 39% and arrivals from China increased 46%. The military build-up is remaining on track for a 2020 completion, however, the size of the build-up has been greatly reduced. Guam is being negatively impacted by the continued weakening of the Japanese yen and the choice of tourists choosing domestic travel over international. Employment increased, but unemployment remains high. Between June 2014 and June 2015, 930 jobs were added to the Guam economy. Private sector employment grew by 1,270 and public sector employment declined by 340. GovGuam bond issues continue to be favorably received by financial markets and rating agencies, reflecting positive changes in the economy and fiscal management. This occurred despite continued deterioration of economic conditions in Puerto Rico, which had the potential to impact bond issuances from all territories. The administration continued to pay overdue and current tax refunds and overtime payments, injecting substantial sums into the economy.

The Guam Regional Medical Facility opened in 2015 as well as the Dusit Thani hotel – a 400 room development - which is expected to create between 150-200 new jobs for the island. Additionally, during 2015 an International House of Pancake (ihop) restaurant opened. The first of two L&L Hawaiian Barbecue restaurants also opened in 2014.

2016: Continued Expansion at a Moderate to Increased Pace

Many of the same factors that led to U.S. economic recovery in 2014 continue into 2015 - low interest rates associated with the Fed stimulus, impacting numerous sectors; consumer spending; steady improvement in employment/ unemployment; and increased sales and prices in more housing markets.

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

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

The recent drop in oil prices has left more money in the pockets of island residents as 2016 begins. Oil prices are expected to grow slowly over the next two years but to remain significantly below 2014/2015 levels.

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

Eastar Jet Co. Ltd is planning to start regular scheduled flights on the Seoul-Guam route in the summer of 2016. Air Busan will be offering four flights per week from Busan to Guam. This brings to total number of carriers from Korea to Guam to five. 2500 visitors per month are expected from Korea. A 500 room Citta di Mare Hotel is planned in Tumon. P.H.R. Micronesia is constructing a 340 room hotel adjacent to the Hotel Nikko. LGI – Polaris is converting the Ladera Towers Condominium to Ladera Towers Hotel. All three projects are set to start in 2016. The Guam Visitor's Bureau is projecting increases in tourism of 2% per year for 2016 and 2017. The weighted average of hotel rates increased 7% in 2015 following two years of higher increases. Hotel occupancy rates were 76% for the year.

Macy's is also planning to add a two story 45,000 square foot expansion in late 2016. The Tumon Bay Mall is currently under construction and will offer 200,000 square feet of additional space.

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

University of Guam: Implementing Good-to-Great

In 2015, the University community celebrated our 62nd Anniversary and conferred our 16,081st degree. The Capital Campaign slowed down after receiving several substantial donations, including a land donation in the approximate amount of \$4 million from the Look family in 2015.

President Underwood has fully engaged the institution in a Good-to-Great process (G2G). We are a good university with good programs. A data-driven process of program prioritization and resource allocation is well underway to realize our potential to be a great university with great programs by focusing on our mission, our purpose and our dynamic role in the social, economic and political

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Management's Discussion and Analysis
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development of our region. Looking forward through the Good to Great (G2G) lens, the University recognizes the importance of limited resources for sustainability, greatness and strategic balance. The past financial instability and cash shortages are lessons learned about the realities of overdependence on government funding, program proliferation and the strategic importance of shared institutional priorities. For the University, the G2G challenge is to bring these forces into a new kind of equilibrium through a vision for a Great UOG, program prioritization and an analysis of the drivers of its resource engine. The G2G recommendations will lead to a more effective sustainable change in pursuit of the Great UOG. They will require resource reallocations, aligned priorities and new allocations and investments, as they become available. There will be more detailed planning and consultation. Most importantly, the Plan depends upon the commitment and support of University citizens.

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

- Faculty, staff and administrators have assessed all academic and administrative programs based on their relationship to the core mission, financial performance, market demand and quality. The programs have been evaluated and ranked based on data and reports submitted. Executive management and the President are implementing decisions on program priorities, sustainability and resource allocations. The President's plan was well received by the Board of Regents during their review in May 2014.
- The Governor and Guam Legislature provided \$30.6 million in allotments for FY16. The University implemented a 5% tuition increase in Fall 2015 and is planning on a second increase of 5% in the Fall 2016. Higher education on Guam remains a good value with the University's tuition at ~60% of the public university average.
- PL31-237 enabled University control of locally funded student financial aid. The Board of Regents approved awards to policy areas of access, affordability, performance, retention and degree completion.
- PL32-114 established the Research Corporation of the University of Guam, which is now being implemented. RCUOG is modeled after similar corporations at colleges and universities in the U.S. It will allow UOG to be more nimble in its pursuit and execution of federal grants and contracts and developing businesses from intellectual property and patents.
- PL 32-68 and PL 32-269 removed University appropriations from GovGuam allotment control in FY14 and FY15. The University, Governor's Office, Department of Administration, and Bureau of Budget and Management Research have a positive record of working closely together and planning ahead in managing our appropriation payments.
- PL 33-92 provided the authorizations necessary to move forward with the construction of the new Student Success Center and the Engineering Annex.
- The University has been awarded a five year \$6 million grant from the U.S. National Science Foundation Experimental Program to Stimulate Competitive Research grant (EPSCoR) to develop research capacity. The University also was awarded a cancer grant from the National Institute of Health in partnership with the University of Hawaii.
- Work on the 2015 Institutional Report for renewal of WASC accreditation has begun. Preliminary lines of inquiry were received in November 2015. The WASC team will visit the University in April 2016.

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- Students take advantage of opportunities such as courses at California's Scripps Institute and Japan's Meio University through agreements that partner the University with the world's premiere ocean and earth science institute and with several regional universities.
- UOG Vision 2025 lays out the 21st century Physical Master Plan to accommodate 5,000 Tritons on-campus and another 5,000 pursuing their education on-line. It is the plan that will be funded through the University's Capital Campaign, which has generated ~\$13 million. The Governor and Speaker of the Legislature are the campaign's honorary chairs and are working with the President and UOG Endowment Foundation.
- U.S. Department of Agriculture has approved financing a Student Success Center and Engineering Annex. The \$21.7 million of USDA low-cost financing through the Rural Development Community Facilities Program will enable a one-stop student services center and set the stage for a School of Engineering. Funding will be from the Territorial Education Facilities Fund or similar sources. We are moving forward on finalizing the USDA loan and constructing these facilities in partnership with the UOG Endowment Foundation. Groundbreaking is targeted for summer 2016.
- U.S. Department of the Interior funded construction is changing the look of several major buildings. New space for Nursing at the Health Sciences Building has been added. Roof repair has been completed and interior renovations are underway at the newly named Calvo Fieldhouse. The University is seeking to bolster its financial reserves to help ensure the facilities are maintained.
- UOG has a target of being capable of handling 5,000 students and 5,000 online students by 2025.

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

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

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Statements of Net Position - University Only
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	2015	2014 (As Restated)
<u>Assets and Deferred Outflows of Resources</u>		
Current assets:		
Cash and cash equivalents	\$ 8,061,896	\$ 18,238,145
Short-term investments	14,491,656	7,557,936
Due from Government of Guam	8,109,054	3,890,851
Tuition receivable, net of an allowance for doubtful accounts of \$2,586,726, in 2015 and \$2,997,031 in 2014	6,279,912	6,223,314
Due from the US Federal government	3,835,937	2,952,007
Due from University of Guam Endowment Foundation, Inc.	200,000	200,000
Other receivables, net of an allowance for doubtful accounts \$589,657 in 2015 and \$590,191 in 2014	1,908,275	1,577,955
Inventories	844,171	640,513
Other current assets	311,245	342,855
Total current assets	44,042,146	41,623,576
Noncurrent assets:		
Restricted cash and cash equivalents	4,519,675	4,700,843
Restricted investments	1,725,664	1,739,029
Investments	10,399,165	9,870,315
Endowment investments	11,358,419	11,250,828
Capital assets:		
Depreciable capital assets, net of accumulated depreciation	65,624,769	65,331,610
Nondepreciable capital assets	4,558,462	4,956,614
Total noncurrent assets	98,186,154	97,849,239
Deferred outflows of resources:		
Deferred outflows from pension	8,044,122	7,611,247
	\$ 150,272,422	\$ 147,084,062
<u>Liabilities, Deferred Inflows of Resources and Net Position</u>		
Current liabilities:		
Current portion of long-term debt	\$ 220,501	\$ 210,817
Accounts payable and accrued liabilities	5,592,904	5,066,934
Unearned revenues	8,815,100	8,641,086
Current portion of accrued annual leave	785,539	1,224,741
Total current liabilities	15,414,044	15,143,578
Noncurrent liabilities:		
Long-term debt, net of current portion	11,678,609	11,830,853
Deposits held on behalf of others	90,328	45,169
Accrued annual leave, net of current portion	923,670	487,706
DCRS sick leave liability	2,996,140	2,649,240
Net pension liability	68,326,815	78,004,153
Total noncurrent liabilities	84,015,562	93,017,121
Deferred inflows of resources:		
Deferred inflows from pension	7,384,599	4,662,366
Total liabilities and deferred inflows of resources	106,814,205	112,823,065
Commitments and contingencies		
Net position:		
Net investment in capital assets	58,284,120	58,246,554
Restricted, nonexpendable	5,126,907	5,126,907
Restricted, expendable	4,145,822	4,258,315
Unrestricted	(24,098,632)	(33,370,779)
Total net position	43,458,217	34,260,997
	\$ 150,272,422	\$ 147,084,062

See accompanying notes to financial statements.

UNIVERSITY OF GUAM ENDOWMENT FOUNDATION, INC.

Statements of Financial Position
December 31, 2014 and 2013

<u>ASSETS</u>	<u>2014</u>	<u>2013</u>
Cash and cash equivalents	\$ 1,492,903	\$ 486,983
Pledges and other receivables, net of an allowance for doubtful accounts of \$115,354 and \$133,421 at December 31, 2014 and 2013, respectively	2,762,233	2,864,953
Prepaid expenses	3,333	11,414
Investment in Bank of Guam stock	233,322	191,053
Investments in securities at fair value	8,441,535	7,420,648
Land	5,616,469	-
Equipment, net	<u>16,265</u>	<u>10,949</u>
	<u>\$ 18,566,060</u>	<u>\$ 10,986,000</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Liabilities:		
Accounts payable and accrued expenses	\$ <u>180,604</u>	\$ <u>55,690</u>
Total liabilities	<u>180,604</u>	<u>55,690</u>
Commitment		
Net assets:		
Unrestricted	6,176,948	305,176
Temporarily restricted	11,701,907	10,114,185
Permanently restricted	<u>506,601</u>	<u>510,949</u>
Total net assets	<u>18,385,456</u>	<u>10,930,310</u>
	<u>\$ 18,566,060</u>	<u>\$ 10,986,000</u>

See accompanying notes to financial statements.

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Statements of Revenues, Expenses and Changes in Net Position - University Only
Years Ended September 30, 2015 and 2014

	2015	2014 (As Restated)
Operating revenues:		
Student tuition and fees	\$ 22,880,714	\$ 22,652,699
Less scholarship discounts and allowances	<u>(12,281,819)</u>	<u>(11,142,762)</u>
	10,598,895	11,509,937
Federal grants and contracts	33,944,417	33,777,318
Government of Guam grants and contracts	330,098	841,091
Private grants and contracts	1,234,930	1,377,091
Sales and services of education department	555,202	555,877
Auxiliary enterprises	2,083,264	2,193,366
Other revenues	<u>5,061,597</u>	<u>4,947,922</u>
Total operating revenues	<u>53,808,403</u>	<u>55,202,602</u>
Bad debts recovery (provision)	<u>381,604</u>	<u>(369,223)</u>
Net operating revenues	<u>54,190,007</u>	<u>54,833,379</u>
Operating expenses:		
Instruction	16,488,649	17,281,307
Public service	8,850,688	10,114,432
Research	9,819,449	10,553,862
Operational and maintenance, plant	6,410,220	8,658,655
Scholarships and fellowships	12,122,423	12,167,808
Institutional support	8,255,828	7,821,453
Academic support	8,686,814	8,556,889
Student services	3,237,715	3,467,807
Depreciation	4,174,358	3,122,808
Auxiliary enterprises	2,033,382	2,546,008
Retiree healthcare costs	<u>1,773,432</u>	<u>1,308,893</u>
Total operating expenses	<u>81,852,958</u>	<u>85,599,922</u>
Operating loss	<u>(27,662,951)</u>	<u>(30,766,543)</u>
Nonoperating revenues (expenses):		
Government of Guam appropriations:		
Operations	30,600,616	28,531,633
Student financial aid program	3,599,358	3,599,358
Guam Cancer Trust Fund	1,570,009	1,375,354
Capital expenditure loan repayment	500,000	500,000
Retiree healthcare costs	1,773,432	1,308,893
Contributions from Endowment Foundation	200,000	200,000
Net investment (loss) income	(1,363,410)	1,833,290
Interest on capital assets - debt related	(542,179)	(538,267)
Debt service - DOA bond	<u>(2,028,046)</u>	<u>-</u>
Total nonoperating revenues, net	<u>34,309,780</u>	<u>36,810,261</u>
Capital contributions - Federal grants	<u>2,550,391</u>	<u>718,910</u>
Change in net position	9,197,220	6,762,628
Net position at beginning of year	<u>34,260,997</u>	<u>27,498,369</u>
Net position at end of year	<u>\$ 43,458,217</u>	<u>\$ 34,260,997</u>

See accompanying notes to financial statements.

UNIVERSITY OF GUAM ENDOWMENT FOUNDATION, INC.

Statement of Activities
Year Ended December 31, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues, gains and other income:				
Net investment income	\$ 532,395	\$ -	\$ -	\$ 532,395
Contributions	5,628,027	1,156,753	-	6,784,780
Fundraising activities	130,154	796,743	-	926,897
Others	348	-	-	348
Net assets released from restrictions:				
Satisfaction of program restrictions	<u>365,774</u>	<u>(365,774)</u>	-	-
Total revenues	<u>6,656,698</u>	<u>1,587,722</u>	-	<u>8,244,420</u>
Expenses and losses:				
Program services:				
Donations for debt service - UOG	200,000	-	-	200,000
Scholarships	<u>500</u>	-	-	<u>500</u>
Total program services	<u>200,500</u>	-	-	<u>200,500</u>
Support services:				
Management and general	465,149	-	4,348	469,497
Fundraising activities	<u>119,277</u>	-	-	<u>119,277</u>
Total support services	<u>584,426</u>	-	<u>4,348</u>	<u>588,774</u>
Total expenses	<u>784,926</u>	-	<u>4,348</u>	<u>789,274</u>
Change in net assets	5,871,772	1,587,722	(4,348)	7,455,146
Net assets at beginning of year	<u>305,176</u>	<u>10,114,185</u>	<u>510,949</u>	<u>10,930,310</u>
Net assets at end of year	<u>\$ 6,176,948</u>	<u>\$ 11,701,907</u>	<u>\$ 506,601</u>	<u>\$ 18,385,456</u>

See accompanying notes to financial statements.

UNIVERSITY OF GUAM ENDOWMENT FOUNDATION, INC.

Statement of Activities
Year Ended December 31, 2013

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

See accompanying notes to financial statements.

UNIVERSITY OF GUAM
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Statements of Cash Flows - University Only
Years Ended September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u> (As Restated)
Cash flows from operating activities:		
Student tuition and fees, net	\$ 11,097,915	\$ 12,395,212
Grants, contracts and appropriations	34,625,515	36,598,613
Sales and services of education department	555,202	555,877
Auxiliary services	2,083,264	2,193,366
Other receipts	4,808,046	4,565,866
Payments to suppliers and employees for education and general expenses	(70,504,752)	(72,490,396)
Payments to students for financial aid	<u>(12,122,423)</u>	<u>(12,167,808)</u>
Net cash used for operating activities	<u>(29,457,233)</u>	<u>(28,349,270)</u>
Cash flows from non-capital related financing activities:		
Government of Guam appropriations collected	<u>30,023,734</u>	<u>30,840,486</u>
Cash flows from capital and related financing activities:		
Capital contributions received	2,550,391	718,910
Contributions from Endowment Foundation	200,000	200,000
Changes in restricted cash	181,168	(734,365)
Interest paid on capital debt	(542,179)	(538,267)
Principal paid on capital debt	(142,560)	(211,793)
Purchases of capital assets	<u>(4,069,365)</u>	<u>(1,530,080)</u>
Net cash used for capital and related financing activities	<u>(1,822,545)</u>	<u>(2,095,595)</u>
Cash flows from investing activities:		
Proceeds from sale and maturities of investments	-	10,213,845
Investment income	641,390	463,536
Purchases of investments	<u>(9,561,595)</u>	<u>(8,179,657)</u>
Net cash (used for) provided by investing activities	<u>(8,920,205)</u>	<u>2,497,724</u>
Net change in cash and cash equivalents	(10,176,249)	2,893,345
Cash and cash equivalents, beginning of year	<u>18,238,145</u>	<u>15,344,800</u>
Cash and cash equivalents, end of year	<u>\$ 8,061,896</u>	<u>\$ 18,238,145</u>

Supplemental information on noncash activities:

During the years ended September 30, 2015 and 2014, the University recorded appropriations of \$1,773,432 and \$1,308,893, respectively, for retiree healthcare costs paid by the Government of Guam on behalf of the University.

See accompanying notes to financial statements.

UNIVERSITY OF GUAM
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Statements of Cash Flows - University Only, Continued
Years Ended September 30, 2015 and 2014

	2015	2014 (As Restated)
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	\$ (27,662,951)	\$ (30,766,543)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	4,174,358	3,122,808
Bad debts (recovery) provision	(381,604)	369,223
Loss on fixed assets disposal	-	112,747
Retiree healthcare costs	1,773,432	1,308,893
Noncash pension cost	(7,387,980)	(2,624,863)
Changes in assets and liabilities:		
Receivables, net	(889,244)	(181,834)
Inventories	(203,658)	(5,509)
Other current assets	31,610	(167,594)
Accounts payable, accrued liabilities and deposits held for others	571,128	(1,199,436)
Accrued annual leave	(3,238)	(54,774)
DCRS sick leave liability	346,900	299,923
Unearned revenues	174,014	1,437,689
Net cash used for operating activities	\$ (29,457,233)	\$ (28,349,270)

See accompanying notes to financial statements.

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1. Organization and Basis of Presentation

Organization

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

Financial Statement Presentation

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

Basis of Accounting

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

Reporting Entity

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

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

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Notes to Financial Statements
September 30, 2015 and 2014

1. Organization and Basis of Presentation, Continued

Reporting Entity, Continued

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

2. Summary of Significant Accounting Policies

- A. Cash and Cash Equivalents. Cash and cash equivalents include cash on hand, cash in banks, money market accounts and time certificates of deposit with original maturities of three months or less.
- B. Restricted Cash and Cash Equivalents. Cash and cash equivalents that are restricted to make debt service payments and purchases or enhance learning resources materials and technology are classified as noncurrent assets in the Statement of Net Position.
- C. Use of Restricted/Unrestricted Net Position. When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the University's policy is to apply restricted net position first.
- D. Short-term Investments. Short-term investments include time certificates of deposit with original maturities of more than three months.
- E. Investments. The University accounts for its investments at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Realized gains and losses are recognized upon disposition, while unrealized gains and losses on the carrying value of investments are reported as a part of net investment income in the Statement of Revenues, Expenses and Changes in Net Position.
- F. Accounts Receivable. Accounts receivable consist of tuition and fee charges to students and charges for auxiliary enterprise services provided to students, faculty and staff. Accounts receivable also includes amounts due from U.S. Federal agencies for various federal grant awards as well as amounts due from GovGuam for local appropriations. Accounts receivable are recorded net of an estimated allowance for doubtful accounts, an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectibility of these accounts and prior collection experience. The allowance is established through a provision for bad debts charged to expense. Bad debts are written off against the allowance using the specific identification method.
- G. Due from Government of Guam. Due from Government of Guam consists of the remaining balance of legislative annual appropriations and student financial aid funding that have not been received at September 30, 2015 and 2014.
- H. Accounts Receivable - U.S. Federal Government. Accounts receivable from the U.S. Government consist of amounts due from the federal government in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts.
- I. Other Receivables. Other receivables consist primarily of auxiliary enterprise services provided to students, faculty, staff, other departments within the University, and to the public. Other receivables also include amounts due from the local government or private sources in relation to the performance of grants and contracts.

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Notes to Financial Statements
September 30, 2015 and 2014

2. Summary of Significant Accounting Policies, Continued

- J. Inventory. Inventory is stated at the lower of cost, determined using the first-in, first-out method, or market.
- K. Capital Assets. Depreciation is calculated using the straight-line method over estimated useful lives of 5 - 50 years for buildings and improvements and 5 - 15 years for equipment and land improvements. The University's capitalization policy requires acquisitions greater than \$5,000 to be capitalized and depreciated over their estimated useful lives. The assets are carried at cost, except for land and buildings transferred to the University, which were recorded at management's estimate of fair market value at the date of acquisition.
- L. Unearned Revenues. Unearned revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent fiscal year. Unearned revenues also include amounts received from grant and contract sponsors that have not yet been earned.
- M. Deferred Outflows of Resources. In addition to assets, the statements of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. The University has determined the differences between expected and actual experience with regard to economic or demographic factors in the measurement of the total pension liability and pension contributions made subsequent to the measurement date qualify for reporting in this category.
- N. Deferred Inflows of Resources. In addition to liabilities, the statements of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (additions to net position) until then. The University has determined the differences between projected and actual earnings on pension plan investments and changes in proportion and differences between the University pension contributions and proportionate share of contributions qualify for reporting in this category.
- O. Compensated Absences. Compensated absences are accrued and reported as a liability in the period earned. Annual leave expected to be paid out within the next fiscal year is accrued and included in current liabilities. All annual leave credit is convertible to pay upon termination of employment. The maximum accumulation amount of annual leave is limited to 320 hours. Pursuant to Public Law 27-106, employees who have accumulated annual leave in excess of 320 hours as of February 28, 2003, may carry over their excess and shall use the excess amount of leave prior to retirement or termination from service. Any unused leave over 320 hours shall be lost upon retirement. Public Law 26-86 allows members of the Defined Contribution Retirement System to receive a lump sum payment of one-half of their accumulated sick leave upon retirement.

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2. Summary of Significant Accounting Policies, Continued

P. Pensions. Pensions are required to be recognized and disclosed using the accrual basis of accounting. The University recognizes a net pension liability for the pension plan in which it participates, which represents the University's proportional share of excess total pension liability over the pension plan assets – actuarially calculated – of a single employer plan, measured as of the fiscal year-end. Changes in the net pension liability during the period are recorded as pension expense, or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change, in the period incurred. Those changes in net pension liability that are recorded as deferred inflows of resources or deferred outflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the qualified pension plan and recorded as a component of pension expense beginning with the period in which they are incurred. Projected earnings on qualified pension plan investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred.

Q. Grants-in-Aid. Tuition and fees revenue includes grants-in-aid charged to scholarship and fellowship expense for senior citizens, faculty, staff and their dependents. The total of these grants for 2015 and 2014 was \$253,969 and \$464,366, respectively.

R. Noncurrent Liabilities. Noncurrent liabilities include (1) long-term debt with contractual maturities greater than one year, and (2) estimated amounts for accrued compensated absences, sick leave, pension and other liabilities that will not be paid within the next fiscal year.

S. Net Position. The University's net position is classified as follows:

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

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

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

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2. Summary of Significant Accounting Policies, Continued

S. Net Position, Continued

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

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

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

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

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

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

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

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2. Summary of Significant Accounting Policies, Continued

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

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

Z. UOG Endowment Foundation Pledges Receivable, Investments and Land

UOG Endowment Foundation Pledges Receivable:

Pledges receivable consist of donations pledged to the Foundation, but not yet received as of December 31, 2014 and 2013. These pledges are payable in installments over periods ranging from one to seven years. Amortization of discount will be included in contribution revenue. Management of the Foundation is of the opinion that the net outstanding balance is collectible in subsequent fiscal years and has reserved for all other long-term receivables.

Included in pledges and other receivables are the following unconditional promises to give:

	<u>2014</u>	<u>2013</u>
SBPA (School of Business and Public Administration) Building	\$ 260,407	\$ 83,394
60 th Anniversary Capital Campaign	<u>2,485,974</u>	<u>2,747,157</u>
Total pledges receivable	2,746,381	2,830,551
Other	<u>131,206</u>	<u>167,823</u>
	2,877,587	2,998,374
Less: allowance for doubtful accounts	<u>(115,354)</u>	<u>(133,421)</u>
	\$ <u>2,762,233</u>	\$ <u>2,864,953</u>

Pledges receivable at December 31, 2014 are scheduled to be paid as follows

Less than one year	\$ 520,817
One to five years	1,340,917
More than five years	<u>2,400,000</u>
	4,261,734
Less unamortized discount	<u>(1,515,353)</u>
	\$ <u>2,746,381</u>

UOG Endowment Foundation Investments:

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

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2. Summary of Significant Accounting Policies, Continued

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

Investments are carried at fair market values based on quoted market prices. Gains and losses on investments are reported in the statements of activities as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law. The composition of investments in securities as of December 31, 2014 and 2013, is as follows:

	<u>2014</u>	<u>2013</u>
Cash	\$ 549,403	\$ 70,697
Equities	4,505,554	3,379,157
Fixed income	2,929,896	2,442,469
Mutual funds	<u>456,682</u>	<u>1,528,325</u>
	<u>\$ 8,441,535</u>	<u>\$ 7,420,648</u>

The composition of net gains (losses) on investments in securities for the years ended December 31, 2014 and 2013, is as follows:

	<u>2014</u>	<u>2013</u>
Net unrealized gains (losses)	\$ 490,934	\$ (167,050)
Net realized losses	(70,358)	(129,954)
Interest income	168,333	168,455
Dividends	11,076	12,308
Fees and other expenses, net	<u>(67,590)</u>	<u>(61,808)</u>
	<u>\$ 532,395</u>	<u>\$ (178,049)</u>

Investments also include 24,614 shares of stock in Bank of Guam (BOG). Dividends received from these shares are planned to be used for scholarship purposes and/or repurchase of additional Bank of Guam stock as it is available for sale. The BOG shares contain no restrictions and are classified as unrestricted net assets.

UOG Endowment Foundation Land:

In 2014, the Foundation received a donation of land comprising approximately 1.24 million square meters, which was recorded at appraised value of \$5,616,469 at the time of receipt.

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Notes to Financial Statements
September 30, 2015 and 2014

2. Summary of Significant Accounting Policies, Continued

AA. New Accounting Standards. During the year ended September 30, 2015, the University implemented the following pronouncements:

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No.71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, which revise and establish new financial reporting requirements for most governments that provide their employees with pension benefits. The implementation of these statements did have a material effect on the accompanying financial statements resulting in the restatement of the University's fiscal year 2014 financial statements to reflect the reporting of net pension liabilities and deferred inflows of resources and deferred outflows of resources for its qualified pension plan and the recognition of pension expense in accordance with the provisions of GASB Statement No. 68. The implementation of GASB Statement No. 68 results in the University reporting deferred outflows of resources of \$7,307,020 and a net pension liability of \$84,987,155 as of October 1, 2013. The University's net position as of October 1, 2013 and the University's statement of revenues, expenses and changes in net position for the year ended September 30, 2014 have been restated to reflect the required adjustments as follows:

	<u>As Previously Reported</u>	<u>Adjustment</u>	<u>As Restated</u>
As of October 1, 2013:			
Net position	\$ <u>105,178,504</u>	\$ <u>(77,680,135)</u>	\$ <u>27,498,369</u>
For the year ended September 30:			
Instruction	\$ 18,230,623	\$ (949,316)	\$ 17,281,307
Research	10,892,423	(338,561)	10,553,862
Institutional support	8,108,220	(286,767)	7,821,453
Public service	10,434,266	(319,834)	10,114,432
Academic support	8,934,161	(377,272)	8,556,889
Student services	3,634,369	(166,562)	3,467,807
Operational and maintenance, plant	8,797,400	(138,745)	8,658,655
Auxiliary enterprises	<u>2,593,814</u>	<u>(47,806)</u>	<u>2,546,008</u>
	\$ <u>71,625,276</u>	\$ <u>(2,624,863)</u>	\$ <u>69,000,413</u>
Change in net position	\$ <u>4,137,765</u>	\$ <u>2,624,863</u>	\$ <u>6,762,628</u>
As of September 30:			
Deferred outflows from pensions	\$ -	\$ 7,611,247	\$ 7,611,247
Net pension liability	\$ -	\$ (78,004,153)	\$ (78,004,153)
Deferred inflows from pensions	\$ -	\$ (4,662,366)	\$ (4,662,366)
Net position	\$ <u>109,316,269</u>	\$ <u>(75,055,272)</u>	\$ <u>34,260,997</u>

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Notes to Financial Statements
September 30, 2015 and 2014

2 Summary of Significant Accounting Policies, Continued

AA. New Accounting Standards, Continued

- GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The implementation of this statement did not have a material effect on the accompanying financial statements.

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment. The provisions in Statement 72 are effective for fiscal years beginning after June 15, 2015. Management believes that the implementation of this statement only requires additional disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques and will not have a material effect on the financial statements.

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements 67 and 68 with the reporting requirements in Statement 68. The provisions in Statement No. 73 are effective for fiscal years beginning after June 15, 2015, with the exception of the provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016. Management has not evaluated the impact that the implementation of this statement will have on the financial statements.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB). The provisions in Statement No. 74 are effective for fiscal years beginning after June 15, 2016. Management has not evaluated the impact that the implementation of this statement will have on the financial statements.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Management has not evaluated the impact that the implementation of this statement will have on the financial statements.

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Notes to Financial Statements
September 30, 2015 and 2014

2. Summary of Significant Accounting Policies, Continued

AA. New Accounting Standards, Continued

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by Statement 55. The two categories that will remain under the new standard are (1) GASB Statements and (2) GASB technical bulletins and implementation guides in addition to AICPA guidance that the GASB clears. The provisions in Statement No. 76 are effective for fiscal years beginning after June 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The provisions in Statement No. 77 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

3. Deposits and Investments

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

Legally authorized investments are as follows:

(i) General Guidelines

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

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Notes to Financial Statements
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3. Deposits and Investments, Continued

(ii) U.S. Fixed Income

- a. All fixed income securities held in the portfolio shall have Moody's, Standard & Poor's and/or Fitch's credit quality rating of no less than "BBB".
- b. U.S. Treasury and U.S. Government agencies, which are unrated securities, are qualified for inclusion in the portfolio and will be considered to be of the highest rating.
- c. No more than 20% of the market value of the portfolio shall be rated less than single "A" quality, unless the manager has specific prior written authorization from the University.
- d. Total portfolio quality (capitalization weighted) shall maintain an "A" minimum weighting.

(iii) Equities

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

(iv) Cash and Cash Equivalents

- a. Cash equivalent reserves shall consist of cash instruments having a quality rating of A-1, P-1 or their equivalent. U.S. Treasury and Agency securities, Bankers Acceptances, Certificates of Deposit and Collateralized Repurchase Agreements are also acceptable investment vehicles. Custodial Sweep Accounts must be, in the judgment of the investment managers, of credit quality equal or superior to the standards described above.
- b. In the case of Certificates of Deposit, they must be issued by FDIC insured institutions. Deposits in institutions with less than \$10,000,000 in assets may not be made in excess of \$250,000 unless the deposit is fully collateralized by U.S. Treasury Securities.
- c. No single issue shall have a maturity of greater than two years.
- d. Custodial Sweep Account portfolios must have an average maturity of less than one year.

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Notes to Financial Statements
September 30, 2015 and 2014

3. Deposits and Investments, Continued

A. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized, or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the University's name.

At September 30, 2015 and 2014, the carrying amount of the University's cash and cash equivalents and time certificates of deposit were \$27,073,227 and \$30,496,924, respectively, and the corresponding bank balances were \$31,780,539 and \$30,861,378, respectively. Of the bank balance amounts, \$1,661,778 and \$1,660,897, respectively, are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance, National Credit Union Administration (NCUA) insurance, or collateralized by securities held by a trustee in the name of the financial institution. The University does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC or NCUA insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

Restricted cash and cash equivalents:

As of September 30, 2015 and 2014, the University recorded \$2,110,155 and \$2,090,456, respectively, from a tobacco settlement agreement entered into by the Government of Guam to be expended by the University for enhancement of learning resources and technology. The funds may only be expended in accordance with purposes set forth by the Guam Economic Development Authority, a component unit of the Government of Guam. Of the amount recorded, \$1,725,664 and \$1,739,029, respectively, is invested in a municipal bond issued by the Gwinnett County Development Authority in Georgia, presented as restricted investments in the statements of net position. This bond carried a Fitch's credit rating of AAA.

As of September 30, 2015 and 2014, restricted cash and cash equivalents include \$3,028,209 and \$2,884,344, respectively, received from the Government of Guam Healthy Futures Fund as appropriations for the Guam Cancer Trust Fund. These funds are allocated to provide financial assistance to organizations that provide patient directed services for the prevention and treatment of cancer.

Restricted cash and cash equivalents also include \$682,183 and \$1,260,062 as of September 30, 2015 and 2014, respectively, designated for debt service, operation and maintenance of a certain facility in compliance with a loan security agreement (see note 6). The remainder of restricted cash and cash equivalents of \$424,792 and \$205,010, respectively, represents funds with various externally imposed restrictions.

B. Investments

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

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Notes to Financial Statements
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3. Deposits and Investments, Continued

B. Investments, Continued

Investments at September 30, 2015 consist of the following:

	<u>Short-term</u>	<u>Restricted</u>	<u>Long-term</u>	<u>Endowment</u>	<u>Total</u>
Certificates of deposit	\$ 14,491,656	\$ -	\$ -	\$ -	\$ 14,491,656
Money market funds	-	-	212,210	231,786	443,996
Fixed income securities	-	-	3,424,978	3,740,909	7,165,887
Common stock	-	-	5,931,295	6,478,417	12,409,712
Mutual funds	-	-	830,682	907,307	1,737,989
Municipal bonds	<u>-</u>	<u>1,725,664</u>	<u>-</u>	<u>-</u>	<u>1,725,664</u>
	<u>\$ 14,491,656</u>	<u>\$ 1,725,664</u>	<u>\$ 10,399,165</u>	<u>\$ 11,358,419</u>	<u>\$ 37,974,904</u>

Investments at September 30, 2014 consist of the following:

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

The University's exposure to credit risk at September 30, 2015 was as follows:

Moody's Rating

AAA	\$ 1,579,772
AA	1,380,468
A	670,083
BBB	1,040,793
Not rated	<u>2,494,771</u>
Total credit risk debt securities	<u>\$ 7,165,887</u>

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

Moody's Rating

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

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3. Deposits and Investments, Continued

B. Investments, Continued

As of September 30, 2015, the University's fixed income securities had the following maturities:

<u>Investment Type</u>	<u>Fair value</u>	Less than <u>1 year</u>	1 to 5 <u>years</u>	5 to 10 <u>years</u>	More than <u>10 years</u>
Corporate bonds	\$ 3,589,192	\$ 2,021,045	\$ 411,294	\$ 1,154,257	\$ 2,596
U.S. Government Agency Bonds	1,998,604	363,040	1,141,050	391,931	102,583
U.S. Treasury Notes	<u>1,578,091</u>	-	<u>491,992</u>	-	<u>1,086,099</u>
	<u>\$ 7,165,887</u>	<u>\$ 2,384,085</u>	<u>\$ 2,044,336</u>	<u>\$ 1,546,188</u>	<u>\$ 1,191,278</u>

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

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

Custodial risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the University will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The University's investments are held and administered by investment managers. Accordingly, these investments are exposed to custodial credit risk. Based on negotiated trust and custody contracts, all of these investments were held in the University's name at September 30, 2015 and 2014.

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. As of September 30, 2015 and 2014, 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.

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3. Deposits and Investments, Continued

B. Investments, Continued

The composition of net investment income for the years ended September 30, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Interest and dividends from investments	\$ 641,390	\$ 463,536
Investment fees expense	(130,244)	(150,362)
Realized gains (losses)	56,056	(757,752)
(Depreciation) appreciation of fair value of investments, net	<u>(1,930,612)</u>	<u>2,277,868</u>
	<u>\$ (1,363,410)</u>	<u>\$ 1,833,290</u>

4. Student Loans

The Guam Legislature appropriates funds for the student loan program available to residents of Guam who attend institutions of higher education. The University is responsible for awarding the loans and monitoring compliance with respect to repayment. Due to the uncertainty of collection and due to recipient ability to repay the loans through work credits, student loan receivables are fully reserved in the year granted, and payments are reflected as recoveries in the year received. At September 30, 2015 and 2014, loans receivable are reserved in the amount of \$18,999,711 and \$19,748,236, respectively, and recoveries collected are \$428,040 and \$296,844 for the years then ended, respectively.

5. Capital Assets

Activity and balances for capital assets for the years ended September 30, 2015 and 2014 consisted of the following:

<u>2015:</u>	<u>Balance</u> <u>October 1, 2014</u>	<u>Additions/</u> <u>Transfers</u>	<u>Retirements</u> <u>Transfers</u>	<u>Balance</u> <u>September 30, 2015</u>
<u>Depreciable:</u>				
Land improvements	\$ 320,754	\$ -	\$ -	\$ 320,754
Building	86,307,665	548,000	-	86,855,665
Building improvements	3,911,050	145,864	-	4,056,914
Equipment	14,543,164	3,507,456	(100,452)	17,950,168
Library books	<u>7,127,198</u>	<u>286,287</u>	<u>-</u>	<u>7,413,485</u>
	112,209,831	4,487,607	(100,452)	116,596,986
Less accumulated depreciation	<u>(46,878,221)</u>	<u>(4,174,358)</u>	<u>80,362</u>	<u>(50,972,217)</u>
	<u>65,331,610</u>	<u>313,249</u>	<u>(20,090)</u>	<u>65,624,769</u>
<u>Nondepreciable:</u>				
Land	2,823,212	-	-	2,823,212
Construction in progress	<u>2,133,402</u>	<u>149,848</u>	<u>(548,000)</u>	<u>1,735,250</u>
	<u>4,956,614</u>	<u>149,848</u>	<u>(548,000)</u>	<u>4,558,462</u>
Total capital assets, net	<u>\$ 70,288,224</u>	<u>\$ 463,097</u>	<u>\$ (568,090)</u>	<u>\$ 70,183,231</u>

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Notes to Financial Statements
September 30, 2015 and 2014

5. Capital Assets, Continued

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

6. Long-Term Debt

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

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

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

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 220,501	\$ 529,559	\$ 750,060
2017	230,631	519,429	750,060
2018	241,226	508,834	750,060
2019	252,308	497,752	750,060
2020	263,899	486,161	750,060
2021-2025	1,512,879	2,237,421	3,750,300
2026-2030	1,893,815	1,856,485	3,750,300
2031-2035	2,370,670	1,379,630	3,750,300
2036-2040	2,967,595	782,705	3,750,300
2041-2043	<u>1,945,586</u>	<u>123,032</u>	<u>2,068,618</u>
	\$ <u>11,899,110</u>	\$ <u>8,921,008</u>	\$ <u>20,820,118</u>

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

Public Law 26-48 also provided supplemental annual funding of \$500,000 from the Government of Guam Territorial Highway Fund to pay for the loan. During the years ended September 30, 2015 and 2014, \$500,000 has been received for this purpose.

The Foundation annually committed a donation of \$200,000 to the University as a contribution for repayment of the loan through 2043. The Foundation donated \$200,000 for the years ended September 30, 2015 and 2014.

7. Changes in Long-Term Liabilities

Changes in long-term liabilities in 2015 and 2014 are presented as follows:

	Outstanding October 1, 2014	Additions	Reductions	Outstanding September 30, 2015	Amount due within one year
<u>2015</u>					
Long-term debt	\$ 12,041,670	\$ -	\$ 142,560	\$ 11,899,110	\$ 220,501
Other liabilities:					
Deposits held on behalf of others	45,169	824,343	779,184	90,328	-
Accrued annual leave	1,712,447	1,450,365	1,453,603	1,709,209	785,539
DCRS sick leave liability	2,649,240	933,282	586,382	2,996,140	-
Net pension liability	<u>78,004,153</u>	<u>788,761</u>	<u>10,466,099</u>	<u>68,326,815</u>	<u>-</u>
	<u>\$ 94,452,679</u>	<u>\$ 3,996,751</u>	<u>\$ 13,427,828</u>	<u>\$ 85,021,602</u>	<u>\$ 1,006,040</u>
	Outstanding October 1, 2013	Additions	Reductions	Outstanding September 30, 2014	Amount due within one year
<u>2014</u>					
Long-term debt	\$ 12,253,463	\$ -	\$ 211,793	\$ 12,041,670	\$ 210,817
Other liabilities:					
Deposits held on behalf of others	27,098	82,318	64,247	45,169	-
Accrued annual leave	1,767,221	1,448,515	1,503,289	1,712,447	1,224,741
DCRS sick leave liability	2,349,317	873,605	573,682	2,649,240	-
Net pension liability	<u>84,987,155</u>	<u>4,977,657</u>	<u>11,960,659</u>	<u>78,004,153</u>	<u>-</u>
	<u>\$ 101,384,254</u>	<u>\$ 7,382,095</u>	<u>\$ 14,313,670</u>	<u>\$ 94,452,679</u>	<u>\$ 1,435,558</u>

8. Employees' Retirement Plan

Defined Benefit Plan

A. General Information About the Pension Plan:

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

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Notes to Financial Statements
September 30, 2015 and 2014

8. Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued

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

Plan Membership: As of September 30, 2014, the date of the most recent valuation, plan membership consisted of the following:

Retirees and beneficiaries currently receiving benefits	7,226
Terminated employees entitled to benefits but not yet receiving them	4,941
Current members	<u>2,692</u>
	<u>14,859</u>

Benefits Provided: The DB Plan provides pension benefits to retired employees generally based on age and/or years of credited service and an average of the three highest annual salaries received by a member during years of credited service, or \$6,000, whichever is greater. Cost-of-living adjustments and other supplemental annuity benefits are provided to members and beneficiaries at the discretion of the Guam Legislature.

Members who joined the DB Plan prior to October 1, 1981 may retire with 10 years of service at age 60 (age 55 for uniformed personnel); or 20 to 24 years of service regardless of age with a reduced benefit if the member is under age 60; or completion of 25 years of service at any age.

Members who joined the DB Plan on or after October 1, 1981 and prior to August 22, 1984 may retire with 15 years of service at age 60 (age 55 for uniformed personnel); or 25 to 29 years of service regardless of age with a reduced benefit if the member is under age 60; or completion of 30 years of service at any age.

Members who joined the DB Plan after August 22, 1984 and prior to October 1, 1995 may retire with 15 years of service at age 65 (age 60 for uniformed personnel); or 25 to 29 years of service regardless of age with a reduced benefit if the member is under age 65; or completion of 30 years of service at any age.

Upon termination of employment before attaining at least 25 years of total service, a member is entitled to receive a refund of total contributions including interest. A member who terminates after completing at least 5 years of service has the option of leaving contributions in the GGRF and receiving a service retirement benefit upon attainment of the age of 60 years. In the event of disability during employment, members under the age of 65 with six or more years of credited service who are not entitled to receive disability payments from the United States Government are eligible to receive sixty six and two-thirds of the average of their three highest annual salaries received during years of credited service. The DB Plan also provides death benefits.

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Notes to Financial Statements
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8. Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued

Contributions and Funding Policy: Contribution requirements of participating employers and active members are determined in accordance with Guam law. Employer contributions are actuarially determined under the One-Year Lag Methodology. Under this methodology, the actuarial valuation date is used for calculating the employer contributions for the second following fiscal year. For example the September 30, 2013 actuarial valuation was used for determining the year ended September 30, 2015 statutory contributions. Member contributions are required at 9.5% of base pay.

As a result of actuarial valuations performed as of September 30, 2013, 2012, and 2011, contribution rates required to fully fund the Retirement Fund liability, as required by Guam law, for the years ended September 30, 2015, 2014 and 2013, respectively, have been determined as follows:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Normal costs (% of DB Plan payroll)	15.92%	16.61%	17.52%
Employee contributions (DB Plan employees)	<u>9.55%</u>	<u>9.50%</u>	<u>9.50%</u>
Employer portion of normal costs (% of DB Plan payroll)	<u>6.37%</u>	<u>7.11%</u>	<u>8.02%</u>
Employer portion of normal costs (% of total payroll)	2.05%	2.39%	3.00%
Unfunded liability cost (% of total payroll)	<u>24.09%</u>	<u>24.01%</u>	<u>24.33%</u>
Government contribution as a % of total payroll	<u>26.14%</u>	<u>26.40%</u>	<u>27.33%</u>
Statutory contribution rates as a % of DB Plan payroll:			
Employer	<u>29.85%</u>	<u>30.03%</u>	<u>30.09%</u>
Employee	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>

The University's contributions to the DB Plan for the years ending September 30, 2015, 2014 and 2013 were \$2,550,904, \$2,953,610 and \$3,214,890, respectively, which were equal to the required contributions for the respective years then ended.

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Notes to Financial Statements
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8. Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued

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

Valuation Date:	September 30, 2014
Actuarial Cost Method:	Entry age normal
Amortization Method:	Level percentage of payroll, closed
Remaining Amortization Period:	16.58 years
Asset Valuation Method:	3-year smoothed market value
Inflation:	2.75%
Total payroll growth:	3.00% per year
Salary Increases:	4.50% to 7.50%
Expected Rate of Return:	7.00%
Discount Rate:	7.00%
Retirement age:	40% are assumed to retire upon first eligibility for unreduced retirement. Thereafter, the probabilities of retirement are 15% until age 65, 20% from 65-69, and 100% at age 70.
Mortality:	RP-2000 healthy mortality table set forward by 4 years for males and 1 year for females. Mortality for disabled lives is the RP 2000 disability mortality table with no set forwards.
Other information:	Actuarial assumptions are based upon periodic experience studies. The last experience study reviewed experience from 2007-2011, and was first reflected in the actuarial valuation as of September 30, 2012.

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Notes to Financial Statements
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8. Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued

Discount Rate: The total pension liability is calculated using a discount rate of 7.0% that is a blend of the expected investment rate of return and a high quality bond index rate. There was no change in the discount rate since the previous year. The expected investment rate of return applies for as long as the plan assets (including future contributions) are projected to be sufficient to make the projected benefit payments. If plan assets are projected to be depleted at some point in the future, the rate of return of a high quality bond index is used for the period after the depletion date.

Discount Rate Sensitivity Analysis: The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (7%) in measuring the 2014 Net Pension Liability.

	1% Decrease in Discount Rate <u>6.0%</u>	Current Discount Rate <u>7.0%</u>	1% Increase in Discount Rate <u>8.0%</u>
Net Pension Liability	\$ <u>87,572,013</u>	\$ <u>68,326,815</u>	\$ <u>53,794,159</u>

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

Pension Liability: At September 30, 2015 and 2014, the University reported a liability of \$68,326,815 and \$78,004,153, respectively, for its proportionate share of the net pension liability. The University's proportion of the net pension liability was based on projection of the University's long-term share of contributions to the pension plan relative to the projected contributions of GovGuam and GovGuam's component units, actuarially determined. At September 30, 2015 and 2014, the University's proportion was 5.4823% and 5.9851%, respectively.

Pension Expense: For the years ended September 30, 2015 and 2014, the University recognized pension expense of \$281,885 and \$4,977,657, respectively.

Deferred Outflows and Inflows of Resources: At September 30, 2015 and 2014, the University reported total deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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Notes to Financial Statements
September 30, 2015 and 2014

8. Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

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

	2015		2014	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 506,916	\$ -	\$ -	\$ -
Net difference between projected and actual earnings on pension plan investments	-	5,203,445	-	4,662,366
Contributions subsequent to the measurement date	7,537,206	-	7,611,247	-
Changes in proportion and difference between UOG contributions and proportionate share of contributions	-	2,181,154	-	-
	<u>\$ 8,044,122</u>	<u>\$ 7,384,599</u>	<u>\$ 7,611,247</u>	<u>\$ 4,662,366</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at September 30, 2015 will be recognized in pension expense as follows:

Year Ended
September 30

2016	\$ (2,975,100)
2017	\$ (1,300,861)
2018	\$ (1,300,861)
2019	\$ (1,300,861)

Defined Contribution Plan

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

Statutory employer contributions into the DCRS plan for the years ended September 30, 2015 and 2014 are determined using the same rates as the DB Plan. Of the amount contributed by the employer, only 5% of the member's regular pay is deposited into the member's individual investment account. The remaining amount is contributed towards the unfunded liability of the defined benefit plan.

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

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September 30, 2015 and 2014

8. Employees' Retirement Plan, Continued

Defined Contribution Plan, Continued

The University's contributions to the DCRS Plan for the years ended September 30, 2015, 2014 and 2013 were \$5,947,375, \$5,514,869 and \$4,925,785, respectively, which were equal to the required contributions for the respective years then ended. Of these amounts, \$4,986,302, \$4,657,637 and \$4,092,130 were contributed toward the unfunded liability of the DB Plan for the years ended September 30, 2015, 2014 and 2013, respectively.

Public Law 26-86 allows members of the DCRS to receive a lump sum payment of one-half of their accumulated sick leave upon retirement. The University has accrued an estimated liability of \$2,996,140 and \$2,649,240 at September 30, 2015 and 2014, 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.

Other Post-Employment Benefits

The Government of Guam, through its substantive commitment to provide other post-employment benefits (OPEB), maintains a cost-sharing multiple employer defined benefit plan to provide certain postretirement healthcare benefits to retirees who are members of the Government of Guam Retirement Fund. Under the Plan, known as the Government of Guam Group Health Insurance Program, the Government of Guam provides medical, dental, and life insurance coverage. The retiree medical and dental plans are fully-insured products provided through insurance companies. The Government of Guam shares in the cost of these plans, with the Government of Guam's contribution amount set each year at renewal. Current statutes prohibit active and retired employees from contributing different amounts for the same coverage. As such, the Government of Guam contributes substantially more to the cost of retiree healthcare than to active healthcare. For the life insurance plan, the Government of Guam provides retirees with \$10,000 of life insurance coverage through an insurance company. Retirees do not share in the cost of this coverage. During the years ended September 30, 2015 and 2014, the University recognized certain on-behalf payments as transfers from GovGuam, totaling \$1,773,432 and \$1,308,893, respectively, representing certain healthcare benefits that GovGuam's general fund paid directly on behalf of the University. Because the Plan consists solely of the Government of Guam's firm commitment to provide OPEB through the payment of premiums to insurance companies on behalf of its eligible retirees, no stand-alone financial report is either available or generated.

9. Encumbrances

The accrual basis of accounting provides that expenses include only amounts associated with goods and services received and liabilities include only the unpaid amounts associated with such expenses. Accordingly, at September 30, 2015 and 2014, \$3,804,278 and \$6,139,762, respectively, of outstanding purchase orders and purchase commitments are not reported in the financial statements.

10. Commitments and Contingencies

Litigation

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

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10. Commitments and Contingencies, Continued

General Obligation Bonds

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

At the end of each fiscal year, the balance remaining in the bond fund established by the University shall be retained by the University. Once the University's proportionate share of the principal and interest obligation is satisfied on or about November 2018, the University shall retain control of all future revenues thereafter. For the years ended September 30, 2015 and 2014, total payments remitted to the Government of Guam's General Fund of \$2,028,046 and \$0, respectively, are recorded as debt service - DOA bond.

Medicare

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

Government of Guam Merit System

In 1991, Public Law 21-59 was enacted to establish a bonus system for employees of the Government of Guam, autonomous and semi-autonomous agencies, public corporations and other public instrumentalities of the Government of Guam who earn a superior performances grade. The bonus is calculated at 3.5% of the employee's base salary beginning in 1991. The University recorded liabilities for merit bonuses of \$0 as of September 30, 2015 and 2014.

11. Related Party

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

OTHER INFORMATION

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

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

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

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

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

See Accompanying Independent Auditors' Report.

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

	2015	2014
Total net pension liability	\$ 1,246,306,754	\$ 1,303,304,636
UOG's proportionate share of the net pension liability	\$ 68,326,815	\$ 78,004,153
UOG's proportion of the net pension liability	5.48%	5.99%
UOG's covered-employee payroll**	\$ 26,958,960	\$ 28,575,895
UOG's proportionate share of the net pension liability as percentage of its covered employee payroll	253.45%	272.97%
Plan fiduciary net position as a percentage of the total pension liability	56.60%	53.45%

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

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

See Accompanying Independent Auditors' Report.

UNIVERSITY OF GUAM
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Required Supplemental Information (Unaudited)
Schedule of Pension Contributions
Last 10 Fiscal Years*

	2015	2014
Actuarially determined contribution	\$ 7,394,584	\$ 7,404,564
Contribution in relation to the actuarially determined contribution	7,611,247	7,307,020
Contribution deficiency (excess)	\$ (216,663)	\$ 97,544
UOG's covered-employee payroll **	\$ 26,958,960	\$ 28,575,895
Contribution as a percentage of covered-employee payroll	28.23%	25.57%

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

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

See Accompanying Independent Auditors' Report.

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

Schedules of Salaries, Wages and Benefits
Years Ended September 30, 2015 and 2014

	2015	2014
Salaries and wages:		
Funded by local funds	\$ 21,686,328	\$ 20,779,127
Federal funds	3,809,794	4,458,037
General operations and federal funds	3,984,591	4,183,553
Other funding sources	5,347,330	4,638,350
Total salaries and wages	34,828,043	34,059,067
Benefits:		
Funded by local funds	479,711	5,275,943
Federal funds	925,126	1,019,799
General operations and federal funds	1,398,457	1,220,944
Other funding sources	968,488	989,195
Total benefits	3,771,782	8,505,881
Total Salaries, wages and benefits	\$ 38,599,825	\$ 42,564,948

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

Schedules of Expenses by Object Category
Years Ended September 30, 2015 and 2014

	2015		2014	
	Unrestricted	Restricted	Unrestricted	Restricted
Instruction:				
Salaries and wages	\$ 12,256,912	\$ 297,779	\$ 11,652,780	\$ 377,158
Benefits	1,162,063	70,863	2,743,174	101,207
Travel	131,104	149,897	110,594	239,355
Contracts	853,489	870,965	1,004,400	523,912
Supplies	144,284	50,748	57,639	31,301
Equipment	49,836	65,673	75,073	14,612
Utilities	12,164	-	15,446	-
Capital outlay	2,752	23,011	-	-
Miscellaneous	185,083	162,026	177,351	157,304
	<u>\$ 14,797,687</u>	<u>\$ 1,690,962</u>	<u>\$ 15,836,458</u>	<u>\$ 1,444,849</u>
Public service:				
Salaries and wages	\$ 211,244	\$ 3,964,740	\$ 198,351	\$ 4,349,312
Benefits	(804,857)	1,272,062	(254,809)	1,305,426
Travel	22,456	440,763	31,440	515,113
Contracts	1,425,509	785,020	957,665	1,595,247
Supplies	27,903	337,582	22,014	346,706
Equipment	6,654	161,627	7,786	179,006
Utilities	3,086	12,552	3,784	14,772
Capital outlay	-	78,175	-	-
Miscellaneous	183,967	722,205	95,730	746,889
	<u>\$ 1,075,962</u>	<u>\$ 7,774,726</u>	<u>\$ 1,061,961</u>	<u>\$ 9,052,471</u>
Research:				
Salaries and wages	\$ 1,670,528	\$ 3,375,197	\$ 1,570,619	\$ 3,599,978
Benefits	(419,952)	963,548	186,677	941,763
Travel	92,233	640,143	78,998	653,262
Contracts	279,042	1,214,736	294,624	1,247,751
Supplies	144,494	482,162	103,860	486,585
Equipment	110,320	180,990	54,127	276,083
Utilities	31	61	3,648	729
Capital outlay	49,011	219,600	49,800	240,796
Miscellaneous	103,890	713,415	92,911	671,651
	<u>\$ 2,029,597</u>	<u>\$ 7,789,852</u>	<u>\$ 2,435,264</u>	<u>\$ 8,118,598</u>

See Accompanying Independent Auditors' Report.

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

Schedules of Expenses by Object Category, Continued
Years Ended September 30, 2015 and 2014

	2015		2014	
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Unrestricted</u>	<u>Restricted</u>
Operational and maintenance, plant:				
Salaries and wages	\$ 1,622,035	\$ -	\$ 1,563,893	\$ -
Benefits	216,437	-	450,340	-
Contracts	929,385	-	2,275,417	-
Supplies	225,069	-	257,549	-
Equipment	90,027	-	140,629	-
Utilities	3,271,673	-	3,891,860	-
Capital outlay	54,060	-	78,873	-
Miscellaneous	<u>1,534</u>	<u>-</u>	<u>95</u>	<u>-</u>
	<u>\$ 6,410,220</u>	<u>\$ -</u>	<u>\$ 8,658,656</u>	<u>\$ -</u>
Scholarships and fellowships:				
Miscellaneous	\$ <u>253,969</u>	\$ <u>11,868,454</u>	\$ <u>464,366</u>	\$ <u>11,703,442</u>
Institutional support:				
Salaries and wages	\$ 3,547,369	\$ -	\$ 3,048,166	\$ -
Benefits	446,224	12,515	1,180,609	-
Travel	340,107	-	288,909	-
Contracts	2,597,986	-	2,635,460	-
Supplies	119,244	-	120,769	-
Equipment	165,282	-	24,143	-
Utilities	367	-	521	-
Capital outlay	83,006	-	433,638	(5,805)
Miscellaneous	<u>942,517</u>	<u>1,211</u>	<u>95,043</u>	<u>-</u>
	<u>\$ 8,242,102</u>	<u>\$ 13,726</u>	<u>\$ 7,827,258</u>	<u>\$ (5,805)</u>

See Accompanying Independent Auditors' Report.

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

Schedules of Expenses by Object Category, Continued
Years Ended September 30, 2015 and 2014

	2015		2014	
	Unrestricted	Restricted	Unrestricted	Restricted
Academic support:				
Salaries and wages	\$ 4,924,210	\$ -	\$ 4,568,823	\$ -
Benefits	529,701	-	1,158,310	-
Travel	301,309	-	220,620	-
Contracts	1,436,193	5,300	1,327,188	1,500
Supplies	431,934	11,062	383,961	2,923
Equipment	547,846	-	423,374	-
Utilities	2,564	-	954	-
Capital outlay	316,723	-	277,591	-
Miscellaneous	179,897	75	183,140	8,505
	<u>\$ 8,670,377</u>	<u>\$ 16,437</u>	<u>\$ 8,543,961</u>	<u>\$ 12,928</u>
Student services:				
Salaries and wages	\$ 1,694,081	\$ 696,452	\$ 1,714,203	\$ 790,641
Benefits	195,667	44,149	488,154	39,949
Travel	47,938	63,321	71,343	16,048
Contracts	99,982	85	93,564	1,187
Supplies	57,207	11,187	64,199	6,360
Equipment	45,441	1,687	41,629	9,523
Utilities	54,560	-	54,710	-
Miscellaneous	203,463	22,495	65,271	11,027
	<u>\$ 2,398,339</u>	<u>\$ 839,376</u>	<u>\$ 2,593,072</u>	<u>\$ 874,735</u>
Auxiliary enterprises:				
Salaries and wages	\$ 567,497	\$ -	\$ 625,143	\$ -
Benefits	83,363	-	165,082	-
Travel	8,407	-	7,518	-
Contracts	77,154	-	187,479	-
Supplies	78,819	-	68,087	-
Equipment	44,257	-	41,768	-
Utilities	229,656	-	265,515	-
Capital outlay	708	-	-	-
Miscellaneous	943,522	-	1,185,416	-
	<u>\$ 2,033,382</u>	<u>\$ -</u>	<u>\$ 2,546,008</u>	<u>\$ -</u>

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

Schedules of Employee Information
Years Ended September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Funded by:		
Local funds	371	383
Federal funds	181	152
General operations and federal funds	94	151
Other funding sources	253	190
	<u>899</u>	<u>876</u>

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

Schedules of Total Revenue Information
Years Ended September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
University-generated revenues:		
Tuition and fees (gross)	\$ 22,880,714	\$ 22,652,699
Scholarship and tuition discounts	(12,281,819)	(11,142,762)
Grants and contracts, net	38,059,836	36,714,410
Auxiliary enterprises and other revenues	<u>7,700,063</u>	<u>7,697,165</u>
Total University-generated revenues	56,358,794	55,921,512
Government of Guam appropriations (excluding retiree healthcare costs appropriations)	<u>36,269,983</u>	<u>34,006,345</u>
Total revenues (excluding investment income, bad debts recovery/provision and retiree healthcare appropriations)	\$ <u>92,628,777</u>	\$ <u>89,927,857</u>
Supplemental information:		
Net investment income (loss)	\$ <u>(1,363,410)</u>	\$ <u>1,833,290</u>
Recovery from (provision for) bad debts	\$ <u>381,604</u>	\$ <u>(369,223)</u>
Retiree healthcare costs appropriation	\$ <u>1,773,432</u>	\$ <u>1,308,893</u>

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