

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

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

YEARS ENDED SEPTEMBER 30, 2016 AND 2015

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

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Years Ended September 30, 2016 and 2015

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INDEPENDENT AUDITORS' REPORT

The Board of Regents
University of Guam:

Report on the Financial Statements

We have audited the accompanying financial statements of the University of Guam (the University) and its discretely presented component unit, collectively a component unit of the Government of Guam, as of and for the years ended September 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as set forth in Section III 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.

Basis for Qualified Opinion

The University of Guam Endowment Foundation (the Foundation), the discretely presented component unit, is unable to determine updated carrying values of donated land of \$5,530,535 as of December 31, 2015.

Opinions

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the University as of September 30, 2016 and 2015, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Further, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the discretely presented component unit's financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of December 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 14 as well as 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.

Management has omitted the Schedule of Funding Progress and Actuarial Accrued Liability-Post Employment Benefits Other than Pension that GASB requires to be presented to supplement the basic financial statements. Such missing information, although not part of the basic financial statements, is required by GASB which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

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 April 12, 2017, 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 + Stach LLP". The signature is written in a cursive, stylized font.

April 12, 2017

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

Management's Discussion and Analysis
Years Ended September 30, 2016 and 2015

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, 2016. 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 Senior College and University Commission (WSCUC). Our 3,875 students (Fall'16) are multicultural, multilingual and 47% Pacific Islander, 46% Asian, 2% White/ Non-Hispanic, 5% other. We offer 14 master's and 26 bachelor's degree program. Continuing education, professional development and English language training are available. Our 844 employees, include 182 full-time faculty, 44 administrators and 296 full time staff and 322 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.

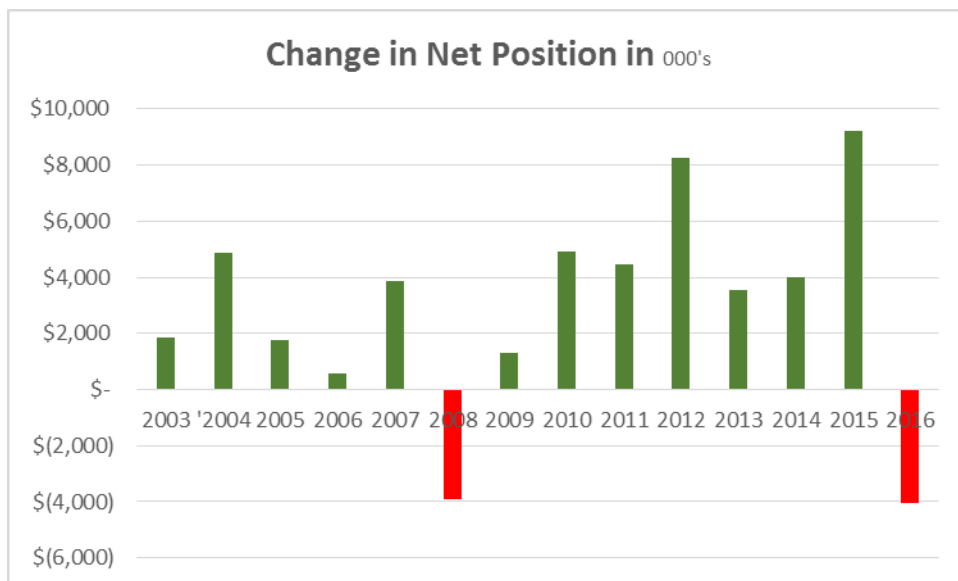
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Management's Discussion and Analysis
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FY2016 FINANCIAL HIGHLIGHTS AND STRATEGIC INSTITUTIONAL OUTCOMES

During Fiscal Year 2015 the University implemented GASB 68 and 71 which have had a significant impact on the University's financial statements. For the year ended September 30, 2016, the University's net position decreased by \$4 million. The primary factors for the FY16 increase are the following:

- The inability of the University to collect its entire appropriation due to cash flow shortages within the government. The University received 83.5% of its general operations appropriation in addition to shortages in other appropriation categories. On April 11, 2017, the University received an additional \$1.991 million which was designated for FY16 appropriations, however, due to the late receipt of the funds, the amount was recorded in our financial records as FY17 revenue. UOG believes it would have had an increase in net position if its allotments had been received in a timely manner.
- UOG was notified at the end of the year that its appropriations were in jeopardy so there was no opportunity to attempt to adjust expenditures for the year. The payment of the \$1.991 million should be considered when analyzing FY16 financial ratios.
- 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. The impact was less significant in FY16 than it was in FY15.
- The reduction was offset by a \$1.48 million gain due to unrealized investment changes. The gain results from marking the investment portfolio to market and do not impact the cash position of the University.
- The decrease in net position is only the second decrease in 14 years as depicted in the graph below. The first was related to the economic crisis in the mainland U.S. The second was due to the government of Guam cash shortfall of which the University learned late in the year when spending control options were not available. We believe the overall record is one improving financial stewardship and financial management.



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Important financial trends include:

- There has been a financial surplus in twelve of the last fourteen 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.
- Over the past twelve years, revenues have grown an average of 4.0% per annum. Revenues totaled \$86 million for FY16. This is down 6.6% from FY15 primarily related to decreased grant revenues. The University generates 63% of revenues; GovGuam provides 37%.
- Grants and contracts were \$32.1 million, down \$3.4 million (-9.6%) from FY15 due to the expiration of some federal grants. The decrease has been offset by some new grants which are currently ramping up to full activity.
- Expenses have increased by 11% resulting from increased enrollment, explosive growth in grant activity, stepped-up facility maintenance, merit-based salary increments, and water and wastewater and retirement cost increases.

Significant institutional outcomes that affect financial statements and resources include:

- The implementation of the first tuition increases in six years. The increases were received with little opposition as interested parties have recognized UOG ranks among the lowest cost public universities and no other public university in the country had gone through the last several years without an increase.
- Fall'16 FTE enrollment was a near record 3,875 students. The 46,241 credit hours production was also slightly under the highest on record.
- 587 undergraduate and graduate degrees were conferred in Academic Year'15-16. Alumni now number 16,900. 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 Senior College and University Commission (WSCUC) (formerly WASC) and by secondary accreditation for the professional schools. During 2016, the University received a favorable review from WSCUC.
- 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 2016, the University has completed many of the initiatives and is focusing on the remaining projects.
- 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.

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Management's Discussion and Analysis
Years Ended September 30, 2016 and 2015

STATEMENT OF NET POSITION

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

SUMMARY STATEMENTS OF NET POSITION (IN \$000's)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Noncapital assets	\$ 68,768	\$ 72,045	\$ 69,185
Capital assets	68,491	70,183	70,288
Deferred outflows of resources	<u>9,968</u>	<u>8,044</u>	<u>7,611</u>
Total assets and deferred outflows of resources	\$ <u>147,227</u>	\$ <u>150,272</u>	\$ <u>147,084</u>
Current liabilities	\$ 14,780	\$ 15,414	\$ 15,144
Noncurrent liabilities	93,023	84,015	93,017
Deferred inflows of resources	<u>-</u>	<u>7,385</u>	<u>4,662</u>
Total liabilities and deferred inflows of resources	<u>107,802</u>	<u>106,814</u>	<u>112,823</u>
Net investment in capital assets	56,943	58,284	58,247
Restricted, nonexpendable	5,127	5,127	5,127
Restricted, expendable	4,827	4,146	4,258
Unrestricted	<u>(27,472)</u>	<u>(24,099)</u>	<u>(33,371)</u>
Total net position	<u>39,425</u>	<u>43,458</u>	<u>34,261</u>
Total liabilities, deferred inflows of resources and net position	\$ <u>147,227</u>	\$ <u>150,272</u>	\$ <u>147,084</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 net of liabilities, grew to \$43.5 million from \$34.2 million in FY14 on a restated basis. This change is mostly related to the reporting changes from GASB No. 68.

Receivables decreased nearly \$300,000 due to an improvement in the payment lag for GovGuam and Federal receivables. This was offset by an increase in tuition receivables partially due to the increased tuition implementation in the Fall of 2015 and 2016. Liabilities decreased by 4% due to the decrease in Accounts Payable and Accrued Liabilities and Unearned Revenues. Current assets (including unearned revenue) covered current liabilities 2.74 times, an indicator that has increased over the period.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

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

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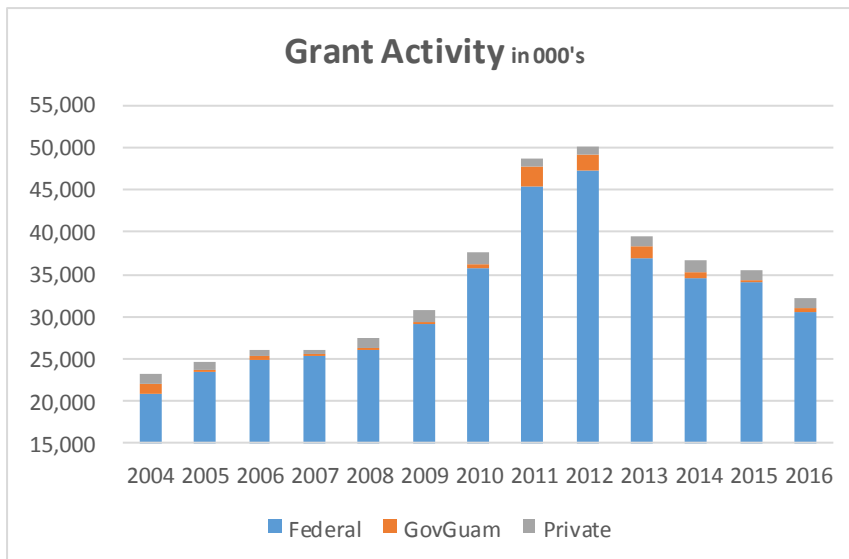
Management's Discussion and Analysis
 Years Ended September 30, 2016 and 2015

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Operating Revenues, Net	\$ 54,210	\$ 54,190	\$ 54,833
Operating Expenses	<u>90,922</u>	<u>81,853</u>	<u>85,600</u>
Operating Revenues Net of Operating Expenses ¹	(36,712)	(27,663)	(30,767)
Non-Operating and Other Revenues and Expenses	32,679	34,310	36,810
Capital Contribution	<u>-</u>	<u>2,550</u>	<u>719</u>
Increase (Decrease) in Net Position	(4,033)	9,197	6,762
Net Position – Beginning of Year	<u>43,458</u>	<u>34,261</u>	<u>27,499</u>
Net Position – End of Year	\$ <u>39,425</u>	\$ <u>43,458</u>	\$ <u>34,261</u>

Net operating revenues were \$54.0 million which is consistent with prior years. A decrease in federal grants was offset by increases in tuition and other revenue classes. The decrease in federal grant activity is expected to be temporary. Some grants ended at the end of FY15, however two significant grants were ramping up in FY16. The increase in operating costs was largely driven by research activity. Instruction costs increased by \$2.5 million and was related to faculty cost increases and filling some vacant positions. Non-operating revenues and expenses have been fairly stable with investment gains and losses being responsible for the most significant fluctuations. University-generated revenues were \$54.2 million of the total revenue of \$86.5 million and represents now 63% of revenues (excluding investments and retiree health care costs); GovGuam appropriations represent 37% of total University revenues.

The following graph reflects grant activity for the last decade:



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

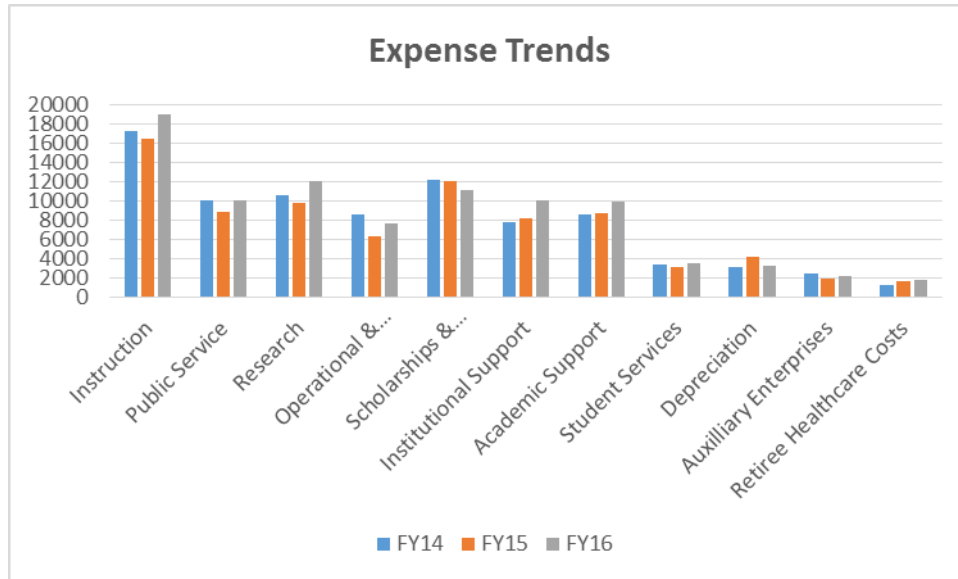
¹ Operating Revenues Net of Operating Expense is negative, because local government appropriations are reported as non-operating revenues rather than operating revenues under GASB 35 reporting requirements

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the University in recent years and has resulted in a \$6 million five year (EPSCoR) grant. UOG is pursuing an increase in this grant from the National Science Foundation when the initial term runs out in 2020. 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.

FY16 operating expenses increased by \$9 million mostly as a result of research and education expenditures. The University spent \$41 million directly on its core mission. Of that, 46% went to instruction, 24% to public service and 30% to research.



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>2016</u>	<u>2015</u>	<u>2014</u>
Cash provided by (used in):			
Operating activities	\$ (31,912)	\$ (29,457)	\$ (28,349)
Non-capital financing activities	29,971	30,024	30,840
Capital and financing activities	(2,569)	(1,823)	(2,096)
Investing activities	<u>2,182</u>	<u>(8,920)</u>	<u>2,498</u>
Net Change in Cash and Cash Equivalents	(2,328)	(10,176)	2,893
Cash and Equivalents – Beginning of Year	<u>8,062</u>	<u>18,238</u>	<u>15,345</u>
Cash and Equivalents – End of Year	\$ <u>5,734</u>	\$ <u>8,062</u>	\$ <u>18,238</u>

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In FY16 cash flow decreased by \$2.3 million from FY15 after a decrease of \$10.2 million from FY14. Most of the change is explained by the use of the Capital Equipment Reserve/Capital Fund Reserve account for operations in lieu of receiving appropriated amounts for FY16.

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 received in August and September of each fall semester whereas the related costs are spread out through the semester. 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 had been continuously funded since then until Fall 2016 when the funds were depleted due to non-payment of appropriations.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets: At the end of FY16, the University had \$122.2 million invested in capital assets. This represents an increase in net capital assets (including additions and deletions) of \$1.0 million or .9% over the previous year. The University completed a generator housing for the Marine Lab to facilitate the EPSCoR project but did not complete any other significant projects as a result of the cash shortfall. The University had accrued \$53.7 million in accumulated depreciation against the assets. Net capital assets were \$68.5 million, a decrease from the prior year's \$70.1 million. See Note 5 to the financial statements for additional information.

Long-Term Debt: The University has a note payable that is outstanding with the United States Department of Agriculture (USDA). The note payable was created in October 2001 through Public Law 26-48 for an amount not to exceed \$13.5 million for the purposes of constructing certain facilities on campus. On December 6, 2016, the University entered into a lease/lease back arrangement with the UOG Endowment Foundation. The University leased property to the Foundation in order to construct a Student Success Center and an Engineering Annex. The University signed agreements to lease the buildings back from the Foundation. The leases are expected to expire in 2056. Related to the leases, the Foundation entered into promissory notes with the United States Department of Agriculture on December 5, 2016 in the amount of \$21.7 million. Interest accrues on the debt as amounts are drawn down on the note. As of March 15, 2017, there have been no amounts drawn down on the note. As of September 30, 2016 and 2015, the University had a long-term debt of \$11.5 million and \$11.9 million, respectively. See Note 6 to the financial statements for additional information.

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ECONOMIC AND OTHER FACTORS EXPECTED TO AFFECT THE UNIVERSITY ²

2016: Modest Growth Trend Continues

In 2016, the U.S. economy continued its tepid recovery. For the year, the economy grew 1.9%. This growth rate is in line with the two prior years. Explanations for the lack of growth vary. The stock market, which is a leading economic indicator, has increased substantially since the election of Donald Trump as the President of the United States. Clearly a level of optimism has returned to the markets. It usually takes several months for an action to work its way through to the economy. It remains to be seen if this optimism will actually result in real impact on the economy. The Federal Reserve increased its discount rate by 25 basis points in December 2016 – the second such increase in the last 12 months. This is an indication of a baseline level of confidence in the economy. They have indicated an expectation of continued rate increases in the future. 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 have adopted a posture of interest rate hikes. Despite the withdrawal of support from the bond market, interest rates have remained low and the S&P 500 gained 9.573% for the year. The unemployment rate improved to 4.9% in January 2016 – decline of 0.8% from the previous year. This rate is nearing full employment although elevated U-6 unemployment levels indicate there is still room for persons who have left the workforce to return. Inflation remains very low at under 2%.

The Guam economy continued its modest growth. Visitor arrivals set a new record in 2016 after setting a record in 2015. Arrivals were up 9% over the prior year. The increase was accompanied by an increase in visitor expenditures. Two markets with impressive performances were Korea and the Philippines. The 500,000th visitor from Korea arrived during the year. The growth markets helped to offset the continued decline in the Japanese market. The Guam Visitor's Bureau is continuing to pursue visitors from mainland China as there have now been more than two million visas issued to Chinese citizens.

Civilian and military construction has been fairly stable at approximately \$500,000 per year for the last seven years. Building permit activity indicates this growth will continue. Construction employment has decreased from about 7,000 in 2015 to about 6,000 in 2016. Several factors contribute to this decline: non-renewal of H-2 visas, contracting delays, and a decline in military construction appropriations. There are some significant projects that are expected in 2017 as a result of procurement protest settlements. The sentiments expressed by President Trump in favor of American jobs make it unclear how the H-2 construction worker shortage will impact construction on Guam.

Some major civilian projects are as follows:

Tsubaki Hotel – a 26-story, 340 room five star hotel being constructed by Ken Corp. Completion is scheduled for October 2018.

Emerald Oceanview Park – a \$100 million four tower development with 260 luxury condominium units next to Guam Memorial Hospital.

Tumon Bay Mall – a 200,000 square foot, two level mall. Construction is ongoing.

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) and Yahoo Finance website.

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The Landmark – a 21,000 square foot two story structure for retail, healthcare, and office space near the ITC intersection is scheduled to be completed in May 2017.

Sea wall – a \$6 million project by the Fisherman's Co-op to build a 220 foot sea wall.

There are also a number of projects in the planning phase.

University of Guam: Implementing Good-to-Great

The UOG Capital Campaign has continued its hiatus as many donors have been wearied by the ongoing campaign. The UOG Endowment Foundation is seeking smaller scale, targeted opportunities to interact with potential donors. UOG held a "Coding Camp" during the summer. The Foundation is in the process of re-vamping the capital campaign to be a comprehensive campaign to help meet the changing needs of the community and the University. They continue to ramp up efforts to effectively award endowed and private scholarships as well as program support for UOG units. This will hopefully, be a spring board toward addressing unmet educational needs in the community for persons desiring increased technical skills but less than a four year degree.

President Underwood has fully engaged the institution in a Good-to-Great process (G2G). The majority of the initiatives have been achieved. The University is focused on completing the vision and continuing the march toward greatness. FY16 was a difficult year due to the cash flow issues and some planned initiatives were not able to be initiated. The University has significantly increased its appropriation request to include capital projects which were previously funded through a capital reserve fund.

In summary, G2G is a data-driven process of program prioritization and resource allocation is well underway to realize our potential to be a great university with great programs by focusing on our mission, our purpose and our dynamic role in the social, economic and political development of our region. Looking forward through the Good to Great (G2G) lens, the University recognizes the importance of limited resources for sustainability, greatness and strategic balance. The year's cash flow issues have strengthened the resolve to diversify our revenue base and make the University increasingly less dependent on the government of Guam for appropriations. 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. 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.

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

Management's Discussion and Analysis
Years Ended September 30, 2016 and 2015

- 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 (RCUOG), 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.
- 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 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.

UNIVERSITY OF GUAM
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Years Ended September 30, 2016 and 2015

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

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

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

Statements of Net Position - University Only
September 30, 2016 and 2015

	2016	2015
<u>Assets and Deferred Outflows of Resources</u>		
Current assets:		
Cash and cash equivalents	\$ 5,733,669	\$ 8,061,896
Short-term investments	14,313,093	14,491,656
Due from Government of Guam	7,722,534	8,109,054
Tuition receivable, net of an allowance for doubtful accounts of \$3,238,796 in 2016 and \$2,586,726 in 2015	6,762,285	6,279,912
Due from the US Federal government	3,445,338	3,835,937
Due from University of Guam Endowment Foundation, Inc.	150,000	200,000
Other receivables, net of an allowance for doubtful accounts of \$606,811 in 2016 and \$589,657 in 2015	1,629,064	1,908,275
Inventories	782,505	844,171
Other current assets	364,220	311,245
Total current assets	40,902,708	44,042,146
Noncurrent assets:		
Restricted cash and cash equivalents	4,909,871	4,519,675
Restricted investments	1,722,323	1,725,664
Investments	9,248,547	10,399,165
Endowment investments	11,984,735	11,358,419
Capital assets:		
Depreciable capital assets, net of accumulated depreciation	63,932,902	65,624,769
Nondepreciable capital assets	4,558,462	4,558,462
Total noncurrent assets	96,356,840	98,186,154
Deferred outflows of resources:		
Deferred outflows from pension	9,967,741	8,044,122
	\$ 147,227,289	\$ 150,272,422
<u>Liabilities, Deferred Inflows of Resources and Net Position</u>		
Current liabilities:		
Current portion of long-term debt	\$ 230,631	\$ 220,501
Accounts payable and accrued liabilities	5,061,528	5,592,904
Unearned revenues	8,702,608	8,815,100
Current portion of accrued annual leave	784,756	785,539
Total current liabilities	14,779,523	15,414,044
Noncurrent liabilities:		
Long-term debt, net of current portion	11,318,174	11,678,609
Deposits held on behalf of others	69,214	90,328
Accrued annual leave, net of current portion	1,065,683	923,670
DCRS sick leave liability	3,325,268	2,996,140
Net pension liability	77,244,313	68,326,815
Total noncurrent liabilities	93,022,652	84,015,562
Deferred inflows of resources:		
Deferred inflows from pension	-	7,384,599
Total liabilities and deferred inflows of resources	107,802,175	106,814,205
Commitments and contingencies		
Net position:		
Net investment in capital assets	56,942,559	58,284,120
Restricted, nonexpendable	5,126,907	5,126,907
Restricted, expendable	4,827,272	4,145,822
Unrestricted	(27,471,624)	(24,098,632)
Total net position	39,425,114	43,458,217
	\$ 147,227,289	\$ 150,272,422

See accompanying notes to financial statements.

UNIVERSITY OF GUAM ENDOWMENT FOUNDATION, INC.Statements of Financial Position
December 31, 2015 and 2014

<u>ASSETS</u>	<u>2015</u>	<u>2014</u>
Cash and cash equivalents	\$ 515,911	\$ 1,492,903
Pledges and other receivables, net of an allowance for doubtful accounts of \$109,654 and \$115,354 at December 31, 2015 and 2014, respectively	2,400,244	2,762,233
Prepaid expenses	20,000	3,333
Investment in Bank of Guam stock	228,172	233,322
Investments in securities at fair value	9,100,719	8,441,535
Land held for investment	5,530,535	5,616,469
Equipment, net	21,073	16,265
	<u>\$ 17,816,654</u>	<u>\$ 18,566,060</u>
 <u>LIABILITIES AND NET ASSETS</u> 		
Liabilities:		
Accounts payable and accrued expenses	\$ 90,162	\$ 180,604
Total liabilities	<u>90,162</u>	<u>180,604</u>
Net assets:		
Unrestricted	5,708,607	6,176,948
Temporarily restricted	11,515,632	11,701,907
Permanently restricted	502,253	506,601
Total net assets	<u>17,726,492</u>	<u>18,385,456</u>
	<u>\$ 17,816,654</u>	<u>\$ 18,566,060</u>

See accompanying notes to financial statements.

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

Statements of Revenues, Expenses and Changes in Net Position - University Only
Years Ended September 30, 2016 and 2015

	2016	2015
Operating revenues:		
Student tuition and fees	\$ 23,950,897	\$ 22,880,714
Less scholarship discounts and allowances	<u>(10,527,935)</u>	<u>(12,281,819)</u>
	<u>13,422,962</u>	<u>10,598,895</u>
Federal grants and contracts	30,461,032	33,944,417
Government of Guam grants and contracts	473,221	330,098
Private grants and contracts	1,193,453	1,234,930
Sales and services of education department	395,547	555,202
Auxiliary enterprises	1,749,033	2,083,264
Other revenues	<u>7,184,210</u>	<u>5,061,597</u>
Total operating revenues	<u>54,879,458</u>	<u>53,808,403</u>
Bad debts (provision) recovery	<u>(669,224)</u>	<u>381,604</u>
Net operating revenues	<u>54,210,234</u>	<u>54,190,007</u>
Operating expenses:		
Instruction	18,923,520	16,488,649
Public service	10,029,119	8,850,688
Research	12,115,664	9,819,449
Operational and maintenance, plant	7,738,361	6,410,220
Scholarships and fellowships	11,128,990	12,122,423
Institutional support	10,051,970	8,255,828
Academic support	10,002,486	8,686,814
Student services	3,575,134	3,237,715
Depreciation	3,284,524	4,174,358
Auxiliary enterprises	2,226,944	2,033,382
Retiree healthcare costs	<u>1,845,779</u>	<u>1,773,432</u>
Total operating expenses	<u>90,922,491</u>	<u>81,852,958</u>
Operating loss	<u>(36,712,257)</u>	<u>(27,662,951)</u>
Nonoperating revenues (expenses):		
Government of Guam appropriations:		
Operations	26,079,307	30,600,616
Student financial aid program	3,599,358	3,599,358
Guam Cancer Trust Fund	1,433,627	1,570,009
Capital expenditure loan repayment	500,000	500,000
Retiree healthcare costs	1,845,779	1,773,432
Contributions from Endowment Foundation	200,000	200,000
Net investment income (loss)	1,475,579	(1,363,410)
Interest on capital assets - debt related	(426,450)	(542,179)
Debt service - DOA bond	<u>(2,028,046)</u>	<u>(2,028,046)</u>
Total nonoperating revenues, net	<u>32,679,154</u>	<u>34,309,780</u>
Capital contributions - Federal grants	<u>-</u>	<u>2,550,391</u>
Change in net position	(4,033,103)	9,197,220
Net position at beginning of year	<u>43,458,217</u>	<u>34,260,997</u>
Net position at end of year	<u>\$ 39,425,114</u>	<u>\$ 43,458,217</u>

See accompanying notes to financial statements.

UNIVERSITY OF GUAM ENDOWMENT FOUNDATION, INC.

Statement of Activities
Year Ended December 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues, gains and other income:				
Net investment loss	\$ (225,884)	\$ (92,837)	\$ -	\$ (318,721)
Contributions	6,670	52,887	-	59,557
In-kind contributions	112,740	-	-	112,740
Fundraising activities	311,559	193,668	-	505,227
Others	293	-	-	293
Net assets released from restrictions:				
Satisfaction of program restrictions	<u>339,993</u>	<u>(339,993)</u>	<u>-</u>	<u>-</u>
Total revenues	<u>545,371</u>	<u>(186,275)</u>	<u>-</u>	<u>359,096</u>
Expenses and losses:				
Program services:				
Donations for debt service - UOG	200,000	-	-	200,000
Scholarships	<u>3,275</u>	<u>-</u>	<u>-</u>	<u>3,275</u>
Total program services	<u>203,275</u>	<u>-</u>	<u>-</u>	<u>203,275</u>
Support services:				
Management and general	446,555	-	4,348	450,903
In-kind expenses	112,740	-	-	112,740
Fundraising activities	165,208	-	-	165,208
Impairment of property held for sale	<u>85,934</u>	<u>-</u>	<u>-</u>	<u>85,934</u>
Total support services	<u>810,437</u>	<u>-</u>	<u>4,348</u>	<u>814,785</u>
Total expenses	<u>1,013,712</u>	<u>-</u>	<u>4,348</u>	<u>1,018,060</u>
Change in net assets	(468,341)	(186,275)	(4,348)	(658,964)
Net assets at beginning of year	<u>6,176,948</u>	<u>11,701,907</u>	<u>506,601</u>	<u>18,385,456</u>
Net assets at end of year	<u>\$ 5,708,607</u>	<u>\$ 11,515,632</u>	<u>\$ 502,253</u>	<u>\$ 17,726,492</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>	<u>-</u>	<u>-</u>
Total revenues	<u>6,656,698</u>	<u>1,587,722</u>	<u>-</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>-</u>	<u>-</u>	<u>500</u>
Total program services	<u>200,500</u>	<u>-</u>	<u>-</u>	<u>200,500</u>
Support services:				
Management and general	465,149	-	4,348	469,497
Fundraising activities	<u>119,277</u>	<u>-</u>	<u>-</u>	<u>119,277</u>
Total support services	<u>584,426</u>	<u>-</u>	<u>4,348</u>	<u>588,774</u>
Total expenses	<u>784,926</u>	<u>-</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
(A Component Unit of the Government of Guam)

Statements of Cash Flows - University Only
Years Ended September 30, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Student tuition and fees, net	\$ 12,158,873	\$ 11,097,915
Grants, contracts and appropriations	32,518,306	34,625,515
Sales and services of education department	395,547	555,202
Auxiliary services	1,749,033	2,083,264
Other receipts	7,439,329	4,808,046
Payments to suppliers and employees for education and general expenses	(75,044,172)	(70,504,752)
Payments to students for financial aid	(11,128,990)	(12,122,423)
Net cash used for operating activities	(31,912,074)	(29,457,233)
Cash flows from non-capital related financing activities:		
Government of Guam appropriations collected	29,970,766	30,023,734
Cash flows from capital and related financing activities:		
Capital contributions received	-	2,550,391
Contributions from Endowment Foundation	200,000	200,000
Changes in restricted cash	(390,196)	181,168
Interest paid on capital debt	(426,450)	(542,179)
Principal paid on capital debt	(350,305)	(142,560)
Purchases of capital assets	(1,601,754)	(4,069,365)
Net cash used for capital and related financing activities	(2,568,705)	(1,822,545)
Cash flows from investing activities:		
Investment income	567,484	641,390
Sale (purchases) of investments	1,614,302	(9,561,595)
Net cash provided by (used for) investing activities	2,181,786	(8,920,205)
Net change in cash and cash equivalents	(2,328,227)	(10,176,249)
Cash and cash equivalents, beginning of year	8,061,896	18,238,145
Cash and cash equivalents, end of year	\$ 5,733,669	\$ 8,061,896

Supplemental information on noncash activities:

During the years ended September 30, 2016 and 2015, the University recorded appropriations of \$1,845,779 and \$1,773,432, respectively, for retiree healthcare costs paid by the Government of Guam on behalf of the University.

See accompanying notes to financial statements.

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

Statements of Cash Flows - University Only, Continued
Years Ended September 30, 2016 and 2015

	2016	2015
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	\$ (36,712,257)	\$ (27,662,951)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	3,284,524	4,174,358
Bad debts expense (recovery)	669,224	(381,604)
Loss on fixed assets disposal	9,097	-
Retiree healthcare costs	1,845,779	1,773,432
Noncash pension cost	(390,720)	(7,387,980)
Changes in assets and liabilities:		
Receivables, net	(431,788)	(889,244)
Inventories	61,666	(203,658)
Other current assets	(52,975)	31,610
Accounts payable, accrued liabilities and deposits held for others	(552,491)	571,128
Accrued annual leave	141,231	(3,238)
DCRS sick leave liability	329,128	346,900
Unearned revenues	(112,492)	174,014
Net cash used for operating activities	\$ (31,912,074)	\$ (29,457,233)

See accompanying notes to financial statements.

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

Notes to Financial Statements
September 30, 2016 and 2015

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.

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

Notes to Financial Statements
September 30, 2016 and 2015

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, but less than one year.
- E. Investments. Investments and related investment earnings are reported at fair value using quoted market prices. Fair value is the price that would be received to sell an asset or paid to transfer a liability (ie, the exit price) in an orderly transaction between market participants at the date as of which the fair value of an asset or liability is determined.
- 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, 2016 and 2015.
- H. Accounts Receivable - U.S. Federal Government. Accounts receivable from the U.S. Government consist of amounts due from the federal government in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts.
- I. Other Receivables. Other receivables consist primarily of auxiliary enterprise services provided to students, faculty, staff, other departments within the University, and to the public. Other receivables also include amounts due from the local government or private sources in relation to the performance of grants and contracts.

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

Notes to Financial Statements
September 30, 2016 and 2015

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.

UNIVERSITY OF GUAM
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Notes to Financial Statements
September 30, 2016 and 2015

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 defined benefit plan, measured as of 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 2016 and 2015 was \$268,570 and \$253,969, 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.

UNIVERSITY OF GUAM
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Notes to Financial Statements
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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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Notes to Financial Statements
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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, 2015 and 2014. 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>2015</u>	<u>2014</u>
SBPA (School of Business and Public Administration) Building	\$ 130,407	\$ 260,407
60 th Anniversary Capital Campaign	<u>2,282,227</u>	<u>2,485,974</u>
Total pledges receivable	2,412,634	2,746,381
Other	<u>97,264</u>	<u>131,206</u>
	2,509,898	2,877,587
Less: allowance for doubtful accounts	<u>(109,654)</u>	<u>(115,354)</u>
	\$ <u>2,400,244</u>	\$ <u>2,762,233</u>

Pledges receivable at December 31, 2015 are scheduled to be paid as follows:

Less than one year	\$ 538,425
One to five years	1,114,250
More than five years	<u>2,300,000</u>
	3,952,675
Less unamortized discount	<u>(1,540,041)</u>
	\$ <u>2,412,634</u>

UOG Endowment Foundation Investments:

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

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Notes to Financial Statements
September 30, 2016 and 2015

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, 2015 and 2014, is as follows:

	<u>2015</u>	<u>2014</u>
Cash	\$ 212,277	\$ 549,403
Equities	5,683,250	4,505,554
Fixed income	2,751,465	2,929,896
Mutual funds	<u>453,727</u>	<u>456,682</u>
	<u>\$ 9,100,719</u>	<u>\$ 8,441,535</u>

The composition of net gains (losses) on investments in securities for the years ended December 31, 2015 and 2014, is as follows:

	<u>2015</u>	<u>2014</u>
Net unrealized (losses) gains	\$ (440,348)	\$ 490,934
Net realized losses	(29,378)	(70,358)
Interest income	219,705	168,333
Dividends	9,845	11,076
Fees and other expenses, net	<u>(78,545)</u>	<u>(67,590)</u>
	<u>\$ (318,721)</u>	<u>\$ 532,395</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:

The Foundation received a donation of land comprising approximately 1.24 million square meters, which was recorded at estimated fair market value at the date of donation.

AA. New Accounting Standards. During the year ended September 30, 2016, the University implemented the following pronouncements:

- GASB 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 implementation of this statement required additional disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques.

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Notes to Financial Statements
September 30, 2016 and 2015

2. Summary of Significant Accounting Policies, Continued

AA. New Accounting Standards

- GASB 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 No. 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 implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, which addresses for certain external investment pools and their participants the accounting and financial reporting implications that result from changes in the regulatory provisions referenced by previous accounting and financial reporting standards. Those provisions were based on the Investment Company Act of 1940, Rule 2a7. Rule 2a7 contains the Securities and Exchange Commission's regulations that apply to money market funds and were significantly amended in 2014. The implementation of this statement did not have a material effect on the accompanying 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 No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements No. 67 and No. 68 with the reporting requirements in Statement No. 68. The provisions in Statement No. 73 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect 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 does not believe that the implementation of this statement will have a material effect on the financial statements.

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Notes to Financial Statements
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2 Summary of Significant Accounting Policies, Continued

AA. New Accounting Standards, Continued

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.

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.

In December 2015, GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The provisions in Statement No. 78 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.

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, which improves financial reporting by clarifying the financial statement presentation requirements for certain component units. The provisions in Statement No. 80 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions in Statement No. 81 are effective for fiscal years beginning after December 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2016, GASB issued Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The provisions in Statement No. 82 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

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Notes to Financial Statements
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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.

(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.

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Notes to Financial Statements
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3. Deposits and Investments, Continued

- 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.

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, 2016 and 2015, the carrying amount of the University's cash and cash equivalents and time certificates of deposit were \$24,956,633 and \$27,073,227, respectively, and the corresponding bank balances were \$27,629,664 and \$31,780,539, respectively. Of the bank balance amounts, \$1,164,154 and \$1,661,778, 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.

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Notes to Financial Statements
September 30, 2016 and 2015

3. Deposits and Investments, Continued

A. Deposits, Continued

Restricted cash and cash equivalents:

As of September 30, 2016 and 2015, the University recorded \$2,161,615 and \$2,110,155, 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, \$1,722,323 and \$1,725,664 at September 30, 2016 and 2015, respectively, is invested in a Federated Short-Intermediate Duration Municipal Trust Service Shares mutual fund, presented as restricted investments in the statements of net position.

As of September 30, 2016 and 2015, restricted cash and cash equivalents include \$3,503,665 and \$3,028,209, 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 \$858,112 and \$682,183 as of September 30, 2016 and 2015, 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 \$108,802 and \$424,792, respectively, represents funds with various externally imposed restrictions.

B. Investments

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

Investments at September 30, 2016 consist of the following:

	<u>Short-term</u>	<u>Restricted</u>	<u>Long-term</u>	<u>Endowment</u>	<u>Total</u>
Certificates of deposit	\$ 14,313,093	\$ -	\$ -	\$ -	\$ 14,313,093
Money market funds	-	-	246,453	319,367	565,820
Fixed income securities	-	-	2,677,765	3,469,983	6,147,748
Common stock	-	-	4,691,707	6,079,750	10,771,457
Mutual funds	-	1,722,323	639,763	829,038	3,191,124
Exchange-traded funds	-	-	<u>992,859</u>	<u>1,286,597</u>	<u>2,279,456</u>
	<u>\$ 14,313,093</u>	<u>\$ 1,722,323</u>	<u>\$ 9,248,547</u>	<u>\$ 11,984,735</u>	<u>\$ 37,268,698</u>

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Notes to Financial Statements
September 30, 2016 and 2015

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	-	<u>1,725,664</u>	<u>830,682</u>	<u>907,307</u>	<u>3,463,653</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>

The University's exposure to credit risk at September 30, 2016 was as follows:

Moody's Rating

AAA	\$ 2,649,023
AA+	875,208
A	464,394
BBB+	165,892
BBB	158,818
BB-	19,700
B+	444,190
B	608,108
CCC+	17,562
Not rated	<u>744,853</u>
Total credit risk debt securities	\$ <u>6,147,748</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>

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Notes to Financial Statements
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3. Deposits and Investments, Continued

B. Investments, Continued

As of September 30, 2016, 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	\$ 1,878,664	\$ 61,800	\$ 801,919	\$ 1,012,544	\$ 2,401
U.S. Government Agency Bonds	3,261,121	165,267	2,351,044	397,411	347,399
U.S. Treasury Notes	<u>1,007,963</u>	-	-	-	<u>1,007,963</u>
	<u>\$ 6,147,748</u>	<u>\$ 227,067</u>	<u>\$ 3,152,963</u>	<u>\$ 1,409,955</u>	<u>\$ 1,357,763</u>

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>

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, 2016 and 2015.

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, 2016 and 2015, the University did not hold any investment in any one issuer that represented 5% or more of total investments of the University.

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

The composition of net investment income (loss) for the years ended September 30, 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Interest and dividends from investments	\$ 567,484	\$ 641,390
Investment fees expense	(88,634)	(130,244)
Realized gains	20,951	56,056
Appreciation (depreciation) of fair value of investments, net	<u>975,778</u>	<u>(1,930,612)</u>
	<u>\$ 1,475,579</u>	<u>\$ (1,363,410)</u>

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3. Deposits and Investments, Continued

B. Investments, Continued

The University categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The University has the following recurring fair value measurements as of September 30, 2016 and 2015:

	<u>Fair Value Measurements Using</u>			
	September 30, 2016	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobserva ble Inputs (Level 3)
Investments by fair value level:				
Fixed income securities	\$ 6,147,748	\$ -	\$ 6,147,748	\$ -
Equity securities	10,771,457	10,771,457	-	-
Mutual funds	3,191,124	3,191,124	-	-
Exchange-traded funds	<u>2,279,456</u>	<u>2,279,456</u>	-	-
Total investments by fair value level	<u>22,389,785</u>	<u>16,242,037</u>	<u>6,147,748</u>	<u>-</u>
Investments measured at cost:				
Certificates of deposit	14,313,093	-	-	-
Money market funds	<u>565,820</u>	-	-	-
Total investments at cost	<u>14,878,913</u>	-	-	-
	<u>\$ 37,268,698</u>	<u>\$ 16,242,037</u>	<u>\$ 6,147,748</u>	<u>\$ -</u>

	<u>Fair Value Measurements Using</u>			
	September 30, 2015	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobserva ble Inputs (Level 3)
Investments by fair value level:				
Fixed income securities	\$ 7,165,887	\$ -	\$ 7,165,887	\$ -
Equity securities	12,409,712	12,409,712	-	-
Mutual funds	<u>3,463,653</u>	<u>3,463,653</u>	-	-
Total investments by fair value level	<u>23,039,252</u>	<u>15,873,365</u>	<u>7,165,887</u>	<u>-</u>
Investments measured at cost:				
Certificates of deposit	14,491,656	-	-	-
Money market funds	<u>443,996</u>	-	-	-
Total investments at cost	<u>14,935,652</u>	-	-	-
	<u>\$ 37,974,904</u>	<u>\$ 15,873,365</u>	<u>\$ 7,165,887</u>	<u>\$ -</u>

Equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Fixed income securities classified in Level 2 of the fair value hierarchy are valued using a matrix-based or model-based pricing techniques. These pricing techniques, which are obtained from various sources, assume normal market conditions and are based on large volume transactions.

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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, 2016 and 2015, loans receivable are reserved in the amount of \$20,190,625 and \$18,999,711, respectively, and recoveries collected are \$298,804 and \$428,040 for the years then ended, respectively.

5. Capital Assets

Activity and balances for capital assets for the years ended September 30, 2016 and 2015 consisted of the following:

<u>2016:</u>	<u>Balance</u> <u>October 1, 2015</u>	<u>Additions/</u> <u>Transfers</u>	<u>Retirements/</u> <u>Transfers</u>	<u>Balance</u> <u>September 30, 2016</u>
<u>Depreciable:</u>				
Land improvements	\$ 320,754	\$ -	\$ -	\$ 320,754
Building	86,855,665	-	-	86,855,665
Building improvements	4,056,914	-	-	4,056,914
Equipment	17,950,168	1,418,449	(557,335)	18,811,282
Library books	<u>7,413,485</u>	<u>183,305</u>	<u>-</u>	<u>7,596,790</u>
	116,596,986	1,601,754	(557,335)	117,641,405
Less accumulated depreciation	<u>(50,972,217)</u>	<u>(3,284,524)</u>	<u>548,238</u>	<u>(53,708,503)</u>
	<u>65,624,769</u>	<u>(1,682,770)</u>	<u>(9,097)</u>	<u>63,932,902</u>
<u>Nondepreciable:</u>				
Land	2,823,212	-	-	2,823,212
Construction in progress	<u>1,735,250</u>	<u>-</u>	<u>-</u>	<u>1,735,250</u>
	<u>4,558,462</u>	<u>-</u>	<u>-</u>	<u>4,558,462</u>
Total capital assets, net	\$ <u>70,183,231</u>	\$ <u>(1,682,770)</u>	\$ <u>(9,097)</u>	\$ <u>68,491,364</u>

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5. Capital Assets, Continued

<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>

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 per 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>
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	276,023	474,037	750,060
2022-2026	1,582,380	2,167,920	3,750,300
2027-2031	1,980,817	1,769,483	3,750,300
2032-2036	2,479,578	1,270,722	3,750,300
2037-2041	3,103,926	646,374	3,750,300
2042-2043	<u>1,138,017</u>	<u>50,736</u>	<u>1,188,753</u>
	\$ <u>11,548,805</u>	\$ <u>8,391,448</u>	\$ <u>19,940,253</u>

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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, 2016 and 2015, \$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, 2016 and 2015.

7. Changes in Long-Term Liabilities

Changes in long-term liabilities in 2016 and 2015 are presented as follows:

	Outstanding October <u>1, 2015</u>	<u>Additions</u>	<u>Reductions</u>	Outstanding September <u>30, 2016</u>	Amount due within <u>one year</u>
<u>2016</u>					
Long-term debt	\$ 11,899,110	\$ -	\$ 350,305	\$ 11,548,805	\$ 230,631
Other liabilities:					
Deposits held on behalf of others	90,328	1,163,673	1,184,787	69,214	-
Accrued annual leave	1,709,209	1,503,871	1,362,641	1,850,439	784,756
DCRS sick leave liability	2,996,140	984,835	655,707	3,325,268	-
Net pension liability	<u>68,326,815</u>	<u>16,759,458</u>	<u>7,841,960</u>	<u>77,244,313</u>	<u>-</u>
	<u>\$ 85,021,602</u>	<u>\$ 20,411,837</u>	<u>\$ 11,395,400</u>	<u>\$ 94,038,039</u>	<u>\$ 1,015,837</u>
	Outstanding October <u>1, 2014</u>	<u>Additions</u>	<u>Reductions</u>	Outstanding September <u>30, 2015</u>	Amount due within <u>one year</u>
<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>

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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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, 2015, the date of the most recent valuation, plan membership consisted of the following:

Retirees and beneficiaries currently receiving benefits	7,197
Terminated employees entitled to benefits but not yet receiving them	4,701
Current members	<u>2,460</u>
	<u>14,358</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 upon 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 upon 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 upon 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, 2014 actuarial valuation was used for determining the year ended September 30, 2016 statutory contributions. Member contributions are required at 9.54% of base pay (9.55% in 2015).

As a result of actuarial valuations performed as of September 30, 2014, 2013, and 2012, contribution rates required to fully fund the Retirement Fund liability, as required by Guam law, for the years ended September 30, 2016, 2015 and 2014, respectively, have been determined as follows:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Normal costs (% of DB Plan payroll)	15.86%	15.92%	16.61%
Employee contributions (DB Plan employees)	<u>9.54%</u>	<u>9.55%</u>	<u>9.50%</u>
Employer portion of normal costs (% of DB Plan payroll)	<u>6.32%</u>	<u>6.37%</u>	<u>7.11%</u>
Employer portion of normal costs (% of total payroll)	1.94%	2.05%	3.00%
Unfunded liability cost (% of total payroll)	<u>22.42%</u>	<u>24.09%</u>	<u>24.01%</u>
Government contribution as a % of total payroll	<u>24.36%</u>	<u>26.14%</u>	<u>26.40%</u>
Statutory contribution rates as a % of DB Plan payroll:			
Employer	<u>28.16%</u>	<u>29.85%</u>	<u>30.03%</u>
Employee	<u>9.54%</u>	<u>9.55%</u>	<u>9.50%</u>

The University's contributions to the DB Plan for the years ending September 30, 2016, 2015 and 2014 were \$2,538,205, \$2,550,904 and \$2,953,610, respectively, which were equal to the required contributions for the respective years then ended.

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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:	15.58 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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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>93,856,845</u>	\$ <u>77,244,313</u>	\$ <u>62,954,295</u>

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

Pension Liability: At September 30, 2016 and 2015, the University reported a liability of \$77,244,313 and \$68,326,815, 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, 2016 and 2015, the University's proportion was 5.6376% and 5.4823%, respectively.

Pension Expense: For the years ended September 30, 2016 and 2015, the University recognized pension expense of \$7,190,446 and \$281,885, respectively.

Deferred Outflows and Inflows of Resources: At September 30, 2016 and 2015, 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
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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

	2016		2015	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 968,738	\$ -	\$ 506,916	\$ -
Net difference between projected and actual earnings on pension plan investments	872,888	-	-	5,203,445
Contributions subsequent to the measurement date	7,535,442	-	7,537,206	-
Changes in proportion and difference between UOG contributions and proportionate share of contributions	590,673	-	-	2,181,154
	\$ 9,967,741	\$ -	\$ 8,044,122	\$ 7,384,599

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at September 30, 2016 will be recognized in pension expense as follows:

<u>Year Ended</u> <u>September 30</u>	
2017	\$ 1,100,304
2018	(459,102)
2019	638,805
2020	1,152,292

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, 2016 and 2015 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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Notes to Financial Statements
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8. Employees' Retirement Plan, Continued

Defined Contribution Plan, Continued

The University's contributions to the DCRS Plan for the years ended September 30, 2016, 2015 and 2014 were \$6,021,163, \$5,947,375 and \$5,514,869, respectively, which were equal to the required contributions for the respective years then ended. Of these amounts, \$4,997,237, \$4,986,302 and \$4,657,637 were contributed toward the unfunded liability of the DB Plan for the years ended September 30, 2016, 2015 and 2014, 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 \$3,352,268 and \$2,996,140 at September 30, 2016 and 2015, 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, 2016 and 2015, the University recognized certain on-behalf payments as transfers from GovGuam, totaling \$1,845,779 and \$1,773,432, 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, 2016 and 2015, \$4,243,968 and \$3,804,278, respectively, of outstanding purchase orders and purchase commitments are not reported in the financial statements.

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Notes to Financial Statements
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10. Commitments and Contingencies

Litigation

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

General Obligation Bonds

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

At the end of each fiscal year, the balance remaining in the bond fund established by the University shall be retained by the University. Once the University's proportionate share of the principal and interest obligation is satisfied on or about November 2018, the University shall retain control of all future revenues thereafter. For each of the years ended September 30, 2016 and 2015, total payments remitted to the Government of Guam's General Fund of \$2,028,046 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 performance 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, 2016 and 2015.

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.

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12. Due from Government of Guam

Due from Government of Guam consists of receivables from GovGuam General Fund. During the year ended September 30, 2016, the University believed that it would collect the total amount appropriated from the General Fund. In January 2017, management learned that \$3,063,054 of appropriations would not necessarily be funded and as a result reduced its aggregate Government of Guam appropriations as follows:

Appropriations per law	\$ 30,630,545
Less amount that may not be collected	(3,063,054)
Less amount collected in FY 2017 against FY 2016 continuing appropriation	<u>(1,991,758)</u>
Net appropriations	\$ <u>25,575,733</u>

The \$1,991,758 was received against the 2016 appropriations but given the time frame in which it was received, the amount is recognized in the University's appropriation revenue in fiscal year 2017.

13 Subsequent Event

On October 6, 2016, the University signed a facilities lease agreement with the University of Guam Endowment Foundation, Inc. (the Foundation) for the lease of UOG Student Success Center College of Natural and Applied Sciences – Engineering Annex. On December 5, 2016, the Foundation entered into a \$21.7 million loan from the U.S. Department of Agriculture (USDA) for the renovation and expansion of a Student Services Center and the construction of an Engineering Annex.

In October 2016, Bill 2-33 was passed, enacting two new government retirement plans; the DB Lite Plan and the Guam Retirement Security Plan. Beginning 2018, the Security Plan and the Defined Contribution Plan are to become the primary retirement systems for all new hires.

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

	2016	2015
Total net pension liability	\$ 1,370,173,934	\$ 1,246,306,754
UOG's proportionate share of the net pension liability	\$ 77,244,313	\$ 68,326,815
UOG's proportion of the net pension liability	5.64%	5.48%
UOG's covered-employee payroll**	\$ 28,828,564	\$ 26,958,960
UOG's proportionate share of the net pension liability as percentage of its covered employee payroll	267.94%	253.45%
Plan fiduciary net position as a percentage of the total pension liability	53.50%	56.60%

* 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.

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

	2016	2015
Actuarially determined contribution	\$ 7,602,136	\$ 7,394,584
Contribution in relation to the actuarially determined contribution	<u>7,535,442</u>	<u>7,611,247</u>
Contribution deficiency (excess)	<u>\$ 66,694</u>	<u>\$ (216,663)</u>
UOG's covered-employee payroll **	<u>\$ 28,828,564</u>	<u>\$ 26,958,960</u>
Contribution as a percentage of covered-employee payroll	26.14%	28.23%

* 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, 2016 and 2015

	2016	2015
Salaries and wages:		
Funded by local funds	\$ 22,991,375	\$ 21,686,328
Federal funds	4,727,695	3,809,794
General operations and federal funds	4,154,393	3,984,591
Other funding sources	4,682,153	5,347,330
Total salaries and wages	36,555,616	34,828,043
Benefits:		
Funded by local funds	8,003,523	479,711
Federal funds	870,639	925,126
General operations and federal funds	1,405,051	1,398,457
Other funding sources	817,136	968,488
Total benefits	11,096,349	3,771,782
Total salaries, wages and benefits	\$ 47,651,965	\$ 38,599,825

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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, 2016 and 2015

	2016		2015	
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Unrestricted</u>	<u>Restricted</u>
Instruction:				
Salaries and wages	\$ 12,875,245	\$ 217,761	\$ 12,256,912	\$ 297,779
Benefits	3,606,408	50,621	1,162,063	70,863
Travel	60,484	105,968	131,104	149,897
Contracts	815,495	499,172	853,489	870,965
Supplies	115,923	43,938	144,284	50,748
Equipment	16,448	11,380	49,836	65,673
Utilities	11,738	-	12,164	-
Capital outlay	-	-	2,752	23,011
Miscellaneous	379,044	113,895	185,083	162,026
	<u>\$ 17,880,785</u>	<u>\$ 1,042,735</u>	<u>\$ 14,797,687</u>	<u>\$ 1,690,962</u>
Public service:				
Salaries and wages	\$ 189,763	\$ 4,097,030	\$ 211,244	\$ 3,964,740
Benefits	30,365	1,203,254	(804,857)	1,272,062
Travel	29,156	507,814	22,456	440,763
Contracts	1,780,743	888,012	1,425,509	785,020
Supplies	13,933	275,262	27,903	337,582
Equipment	4,368	164,762	6,654	161,627
Utilities	3,775	11,317	3,086	12,552
Capital outlay	-	74,616	-	78,175
Miscellaneous	234,945	520,004	183,967	722,205
	<u>\$ 2,287,048</u>	<u>\$ 7,742,071</u>	<u>\$ 1,075,962</u>	<u>\$ 7,774,726</u>
Research:				
Salaries and wages	\$ 1,745,759	\$ 3,884,318	\$ 1,670,528	\$ 3,375,197
Benefits	521,467	922,170	(419,952)	963,548
Travel	110,444	661,264	92,233	640,143
Contracts	267,802	1,116,227	279,042	1,214,736
Supplies	107,290	458,278	144,494	482,162
Equipment	74,782	405,557	110,320	180,990
Utilities	3,564	243	31	61
Capital outlay	72,808	763,058	49,011	219,600
Miscellaneous	87,171	913,462	103,890	713,415
	<u>\$ 2,991,087</u>	<u>\$ 9,124,577</u>	<u>\$ 2,029,597</u>	<u>\$ 7,789,852</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, 2016 and 2015

	2016		2015	
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Unrestricted</u>	<u>Restricted</u>
Operational and maintenance, plant:				
Salaries and wages	\$ 1,708,062	\$ -	\$ 1,622,035	\$ -
Benefits	615,051	-	216,437	-
Contracts	1,009,324	-	929,385	-
Supplies	469,172	-	225,069	-
Equipment	92,903	-	90,027	-
Utilities	3,114,723	-	3,271,673	-
Capital outlay	104,215	-	54,060	-
Miscellaneous	<u>624,911</u>	<u>-</u>	<u>1,534</u>	<u>-</u>
	\$ <u>7,738,361</u>	\$ <u>-</u>	\$ <u>6,410,220</u>	\$ <u>-</u>
Scholarships and fellowships:				
Miscellaneous	\$ <u>268,570</u>	\$ <u>10,860,420</u>	\$ <u>253,969</u>	\$ <u>11,868,454</u>
Institutional support:				
Salaries and wages	\$ 3,602,868	\$ -	\$ 3,547,369	\$ -
Benefits	1,628,148	48,296	446,224	12,515
Travel	372,699	-	340,107	-
Contracts	2,932,210	-	2,597,986	-
Supplies	191,440	-	119,244	-
Equipment	208,589	-	165,282	-
Utilities	372	-	367	-
Capital outlay	700,734	-	83,006	-
Miscellaneous	<u>366,614</u>	<u>-</u>	<u>942,517</u>	<u>1,211</u>
	\$ <u>10,003,674</u>	\$ <u>48,296</u>	\$ <u>8,242,102</u>	\$ <u>13,726</u>

See Accompanying Independent Auditors' Report.

UNIVERSITY OF GUAM
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Schedules of Expenses by Object Category, Continued
Years Ended September 30, 2016 and 2015

	2016		2015	
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Unrestricted</u>	<u>Restricted</u>
Academic support:				
Salaries and wages	\$ 5,257,003	\$ -	\$ 4,924,210	\$ -
Benefits	1,610,541	-	529,701	-
Travel	295,251	-	301,309	-
Contracts	1,484,090	4,000	1,436,193	5,300
Supplies	407,846	11,577	431,934	11,062
Equipment	384,813	-	547,846	-
Utilities	2,758	-	2,564	-
Capital outlay	275,890	-	316,723	-
Miscellaneous	268,717	-	179,897	75
	<u>\$ 9,986,909</u>	<u>\$ 15,577</u>	<u>\$ 8,670,377</u>	<u>\$ 16,437</u>
Student services:				
Salaries and wages	\$ 1,773,129	\$ 600,891	\$ 1,694,081	\$ 696,452
Benefits	627,067	29,724	195,667	44,149
Travel	91,444	15,143	47,938	63,321
Contracts	88,866	58	99,982	85
Supplies	55,478	3,633	57,207	11,187
Equipment	15,391	2,096	45,441	1,687
Utilities	59,975	-	54,560	-
Capital outlay	6,223	-	-	-
Miscellaneous	193,289	12,727	203,463	22,495
	<u>\$ 2,910,862</u>	<u>\$ 664,272</u>	<u>\$ 2,398,339</u>	<u>\$ 839,376</u>
Auxiliary enterprises:				
Salaries and wages	\$ 603,787	\$ -	\$ 567,497	\$ -
Benefits	203,237	-	83,363	-
Travel	3,728	-	8,407	-
Contracts	54,696	-	77,154	-
Supplies	76,354	-	78,819	-
Equipment	17,910	-	44,256	-
Utilities	236,010	-	229,656	-
Capital outlay	-	-	708	-
Miscellaneous	1,031,222	-	943,522	-
	<u>\$ 2,226,944</u>	<u>\$ -</u>	<u>\$ 2,033,382</u>	<u>\$ -</u>

See Accompanying Independent Auditors' Report.

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

Schedules of Employee Information
Years Ended September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Funded by:		
Local funds	398	371
Federal funds	130	181
General operations and federal funds	91	94
Other funding sources	278	253
	<u>897</u>	<u>899</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, 2016 and 2015

	2016	2015
University-generated revenues:		
Tuition and fees (gross)	\$ 23,950,897	\$ 22,880,714
Scholarship and tuition discounts	(10,527,935)	(12,281,819)
Grants and contracts, net	32,127,706	38,059,836
Auxiliary enterprises and other revenues	9,328,790	7,700,063
Total University-generated revenues	54,879,458	56,358,794
Government of Guam appropriations (excluding retiree healthcare costs appropriations)	31,612,292	36,269,983
Total revenues (excluding investment income, bad debts recovery/provision and retiree healthcare appropriations)	\$ <u>86,491,750</u>	\$ <u>92,628,777</u>
Supplemental information:		
Net investment income (loss)	\$ <u>1,475,579</u>	\$ <u>(1,363,410)</u>
(Provision for) recovery from bad debts	\$ <u>(669,224)</u>	\$ <u>381,604</u>
Retiree healthcare costs appropriation	\$ <u>1,845,779</u>	\$ <u>1,773,432</u>

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