

UNIVERSITY OF GUAM

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

YEARS ENDED SEPTEMBER 30, 2007 AND 2006

UNIVERSITY OF GUAM

TABLE OF CONTENTS YEARS ENDED SEPTEMBER 30, 2007 AND 2006

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

INDEPENDENT AUDITORS' REPORT

The Board of Regents
University of Guam

We have audited the accompanying financial statements of the University of Guam (the University) (a component unit of the Government of Guam) and its discretely presented component unit as of and for the years ended September 30, 2007 and 2006 as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, such financial statements present fairly, in all material respects, the respective financial position of the University of Guam and its discretely presented component unit as of September 30, 2007 and 2006, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated May 16, 2008, on our consideration of the University of Guam's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and important for assessing the results of our audit.

The management's discussion and analysis on pages 3 through 14 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedules on pages 42 through 45 are presented for purposes of additional analysis and are not a required part of the basic financial statements. These schedules are the responsibility of the University of Guam's management. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Bryant & Comer, P.C.

Tamuning, Guam
May 16, 2008



UNIVERSITY OF GUAM

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

The objective of management's discussion and analysis (MD&A) is to provide readers of the University of Guam's (University) financial statements an overview and better understanding of its financial position and results of activities for the fiscal year ended September 30, 2007. 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.

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

The University is an open-admission, four-year institution whose mission is *Ina, Diskubre, Setbe*: to Enlighten, to Discover, to Serve. Four strategic initiatives guide the University in being responsive to student and community needs: Enhancement of Academic Quality; Enhancement of Student Success, Enrollment Growth, and Institutional Visibility; Promotion of the Land-Grant Mission; and Strengthening Institutional Effectiveness and Efficiency.

THE FINANCIAL STATEMENTS

The University's financial report includes three financial statements: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. The University prepared these financial statements in accordance with Governmental Accounting Standards Board (GASB) principles.

Having adopted GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, the University also reports the financial statements of the UOG Endowment Foundation. The Foundation is a legally separate, tax-exempt, private corporation that meets the criteria for component units under GASB 39. While the University does not control the Foundation, the resources and income of the Foundation can only be used by or for the benefit of the University. As such, the Foundation's Statements of Financial Position and Statements of Activities and Changes in Net Assets are separately presented without modification.

FY2007 FINANCIAL HIGHLIGHTS AND STRATEGIC INSTITUTIONAL OUTCOMES

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

In evaluating the University's financial health, one of the most important questions is whether the institution is financially better off at the beginning of the year or at the end of the year. In FY2007 the University improved its overall financial position, as evidenced by the \$3.9 million increase in net assets from \$82.7 million in the prior year to \$86.6 million, focused on its strategic plan and working collaboratively with the government of Guam.

Nevertheless, FY2007 finances were problematic government-wide and for the University. The government of Guam struggled to fund its \$500+ million cumulative deficit without financing, to allocate revenues that fell short of the underfunded needs of critical government entities and programs, and to address court mandates costing several hundred million dollars. The government deficit affected the University's financial situation and cash position through permanent allotment holdbacks and payment delays¹. For University operations this meant a \$1.5 million (9.2%) allotment holdback in FY2007 (allotment holdbacks were \$2.7 million in FY2006 and \$0.6 million in FY2005). As of fiscal year end, the University's appropriation receivable from the government was \$9.3 million, which has been recognized in government financial statements and substantially reduced by allotment payments subsequent to fiscal year closing.

Financial stability has been an ongoing concern. While the University has multiple revenue sources, its general operations are dependent on government of Guam appropriations as the primary funding source. Following its 2007 Capacity and Preparatory Review, the WASC Senior Commission stressed the impact of the government's financial crisis on the University, "In spite of the University's outstanding efforts, it is difficult to envision how it will be able to sustain present operations or respond effectively to current and projected levels of student demand in the face of continuing cutbacks and the absence of predictable, stable funding from the government of Guam." While noting significant improvements in the areas of governance, furthering the land-grant mission, regional program offerings, program review, assessing student learning, and strong administrative leadership, the Commission also identified issues to be addressed. Included were assessment challenges, the need for certain core staff and, particularly, financial stability.

In response to this financial situation, the University adhered to a conservative financial plan² and built its contingency reserves. Further action was taken to improve financial planning and communication with the government to stabilize the institution's financial position. As a result,

¹ The Guam Legislature appropriates funds to the University in annual budget laws signed by the Governor. The Governor's Bureau of Budget and Management Research (BBMR) releases allotments to the University as revenues are realized. The Governor's Department of Administration (DOA) makes allotment payments as cash balances allow.

² In place since 2003 the University's current financial management plan collaboratively links budgets, expenditures and resource allocations to institutional priorities to weather economic instability facing the island and region, while maintaining commitment to its core mission and strategic initiatives. The plan addresses tuition increases, enrollment targets, revenue generation, cost containment, strategic investments and working capital management.

the trends in key financial indicators, shown on the following page, remained reasonably strong.

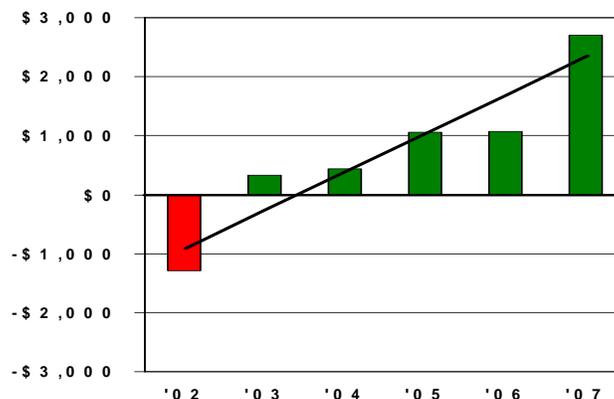
KEY FINANCIAL INDICATORS

	FY2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Return on Net Assets						
Change in Net Assets / Total Net Assets (SOY)	-2%	3%	6%	2%	1%	5%
Net Income Ratio						
Change in Unrest. Net Assets / Total Unrest. Revenue	0%	8%	5%	4%	-2%	13%
Operating Income Ratio						
Operating Income / Total Expenses	50%	55%	57%	57%	61%	60%
Viability Ratio						
Expendable Net Assets / Long Term Debt	-0.72	2.21	5.05	1.42	0.59	0.69
Tuition and Fees per FTE Student	\$ 3,180	\$ 3,470	\$ 3,544	\$ 4,080	\$ 4,366	\$ 4,897
Instructional Expense per FTE Student	\$ 4,836	\$ 5,009	\$ 4,847	\$ 5,212	\$ 5,672	\$ 5,419
Academic Support Expense per FTE Student	\$ 1,992	\$ 2,021	\$ 2,201	\$ 2,391	\$ 2,290	\$ 2,218
Student Services Expense per Student	\$ 970	\$ 1,100	\$ 1,095	\$ 1,084	\$ 1,243	\$ 1,652
Current Fund Unrest. Balance	\$ (1,286,558)	\$ 335,268	\$ 442,909	\$ 1,058,558	\$ 1,072,925	\$ 2,706,015
Student Enrollment Fall FTE	3,045	2,979	2,932	2,843	2,968	3,078

Of particular financial note are the six-year trends in the current fund unrestricted, which is the main operational account, and in University-generated revenues, where ongoing improvements are evident. These trends are the result of prudent management in accordance with financial and strategic plans.

The Current Fund Unrestricted has been strengthened by \$4 million and turned around from a \$1.3 million deficit balance in FY2002. The University collaboratively worked with government leaders to maintain financial stability, build its reserves and sustain operations in response to the allotment holdbacks and delays in the payment of government appropriations.

CURRENT FUND UNRESTRICTED (IN \$000'S)

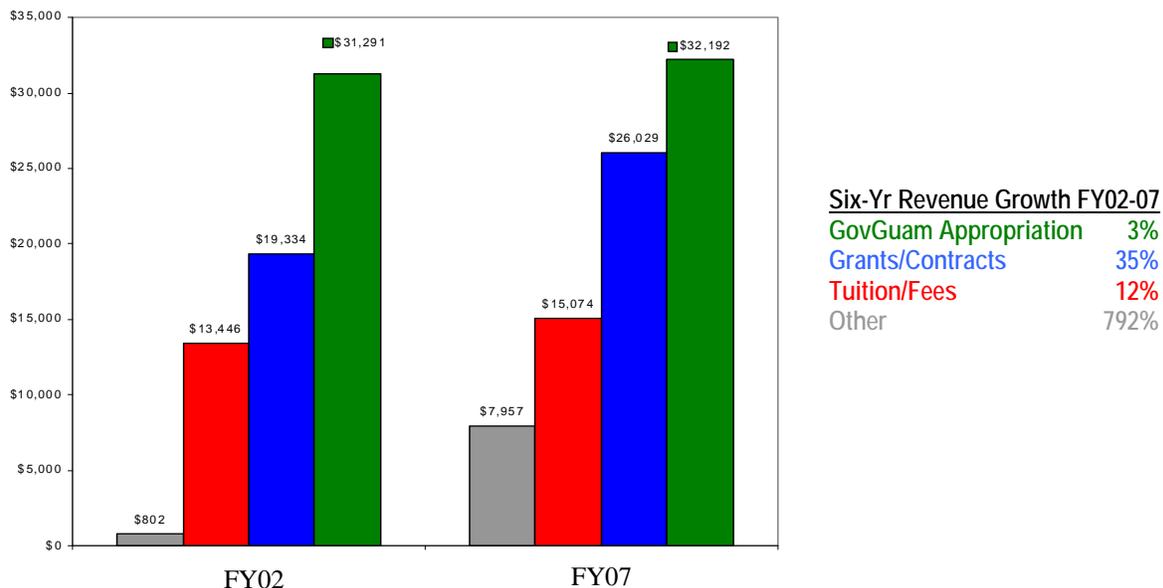


The University has also increased and diversified its revenues. Operating revenues have

increased substantially due to enrollment and tuition increases, an increase in federal grants and contracts, and improvements in auxiliary fund performance. The growth in revenues has been accompanied by diversification in the sources of revenue.

This can be seen in a comparison of government appropriations with internally generated, non-appropriated, operating revenues. In FY2002 the government of Guam appropriation represented 48% of consolidated revenues and University-generated sources represented 52%. In FY2007 appropriations decreased to 39% of the total, while University-generated sources increased to 61%.

REVENUE GROWTH & DIVERSIFICATION, FY02 vs FY07 (IN \$000'S)



Strategic institutional outcomes

Student enrollment is on the upswing. The University remains accessible and affordable, as tuition rates are 32% less than the average at other U.S. public universities. Four new degree programs and one new certificate program were recently launched at the University, including an Associate Degree in Nursing, a Bachelor of Arts in Sociology, a Master of Arts in English, a Master of Social Work and a Graduate Certificate in Micronesian Studies. These programs respond to community demand and the need for new academic programming in strategic areas. In addition to maintaining its primary accreditation from WASC, the University has specialized accreditation for its professional schools that speaks to their program quality and improvement. The International Assembly for Collegiate Schools of Business (IACBE) accredits the business program at the School of Business and Public Administration. The National Council for the Accreditation of Teacher Education (NCATE) accredits School of Education programs. The National League for Nursing (NLN) accredits the Nursing program in the School of Nursing and Health Sciences. The Council on Social Work Education (CSWE) recently reaffirmed accreditation for the Social Work program. The National Association for Sport and Physical Education accredits the Physical Education teacher preparation program within the School of Education. In FY2007 the number of federal grants (i.e., by Catalog of Federal Domestic Assistance #) rose to 105 from 82, while the University was granted low-risk status for federal grants and contracts for the third consecutive year. Nine new or continuing grant awards of

between \$0.3-3.3 million were received during the fiscal year (several were multi-year awards), evidencing the University's competitiveness in research and its commitment to community service.

The University's research, outreach, and academic programs touch the lives of almost every person in Guam's community. The Governor of Guam has appointed the University to lead the Education Sub-Committee of the Civilian Military Task Force in projecting longer-term educational needs at all levels in advance of the announced major military buildup on the island. From farmers, to individuals caring for elderly relatives, to speech and language pathologists, the University is connected to its communities and provides the framework for quality of life improvements. The capacity to serve the needs of the region is enabled by the University's leveraging its \$26.7 million government of Guam appropriation for operations with additional federal monies totaling \$25.5 million to fund programs such as Pell Grants and other student financial assistance; Cancer Research Center; Center for Excellence in Developmental Disabilities Education, Research and Service (CEDDERS); coral reef studies; and partnerships for educational improvements in our public schools. The University has requested additional local government appropriations to further leverage such programs.

The University has achieved positive outcomes in challenging financial times. These are due to collaboration and teamwork, recognition of student learning and academic priorities implemented through a consensus-based strategic plan, ability to make difficult decisions based on evidence, and commitment of faculty, staff and administrators, who are consultatively developing recommendations to strengthen educational effectiveness. A focus on strategic priorities, best practices, and accessible and affordable higher education positions the University for educational effectiveness in FY2007 and beyond.

STATEMENT OF NET ASSETS

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

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Current assets	\$ 19,390	\$ 14,316	\$14,856
Non-current assets	<u>92,354</u>	<u>91,689</u>	<u>85,932</u>
Total assets	<u>\$ 111,744</u>	<u>\$ 106,005</u>	<u>\$100,788</u>
Current liabilities	\$ 9,011	\$ 9,194	\$9,871
Non-current liabilities	<u>16,129</u>	<u>14,095</u>	<u>8,788</u>
Total Liabilities	<u>\$ 25,140</u>	<u>\$ 23,289</u>	<u>\$ 18,669</u>
Invested in capital assets, net of related debt	\$ 58,886	\$ 62,390	\$ 60,297
Restricted	12,563	12,752	11,934
Unrestricted	<u>15,155</u>	<u>7,574</u>	<u>9,898</u>
Total Net assets	<u>\$ 86,604</u>	<u>\$ 82,716</u>	<u>\$ 82,129</u>
Total liabilities and net assets	<u>\$ 111,744</u>	<u>\$ 106,005</u>	<u>\$ 100,788</u>

The University's overall financial condition improved during FY2007. Net assets increased by \$3.9 million (5%) to \$86.6 million, after adjusting for the government's \$1.5 million allotment holdback. This is compared to the FY2006 increase of \$0.6 million, also adjusted for an allotment holdback of \$2.7 million.

Assets. Current assets consist primarily of cash and cash equivalents (13%) and receivables, which include tuition (17%), local government appropriations (48%), U.S. government grants and contracts (5%) and others (17%). Current assets cover current liabilities 2.15 times, an indicator of liquidity. Noncurrent assets consist primarily of restricted cash (3%, Tobacco Settlement Funds, Federal grants and CIP debt service funds), investments (18%, endowment funds, private grants and scholarship, board restricted funds) and capital assets (79%).

Liabilities. These are composed primarily of accounts payable, deferred tuition revenue, accrued employee annual and sick leave, deposits for others, and long-term debt. The net increase in liabilities by \$1.9 million (8%) is primarily due to full recognition of the U.S. Department of Agriculture Rural Development Community Facilities loan that financed the construction of the Jesus and Eugenia Leon Guerrero School of Business and Public Administration Building.

Net Assets. Net assets represent the University's residual interest in its assets net of liabilities. The unrestricted component of net assets increased by \$7.6 million, offset by a \$3.5 million decrease in the investment in capital assets for the financial recognition of the final phase of the Leon Guerrero Building. At the end of FY2007, net assets increased by \$3.9 million primarily due the increase in GovGuam appropriations by \$4.6 million and increase in investment income by \$1.1 million, offset by increase in student services expense by \$1.4 million and operations and maintenance expense by \$1.2 million.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

The statement of revenues, expenses and changes in net assets presents similar information to an income statement. It provides details of operating and non-operating revenues and expenditures that resulted in the \$3.9 million increase in net assets. FY2007 marked the fifth year of a positive return on net assets.

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

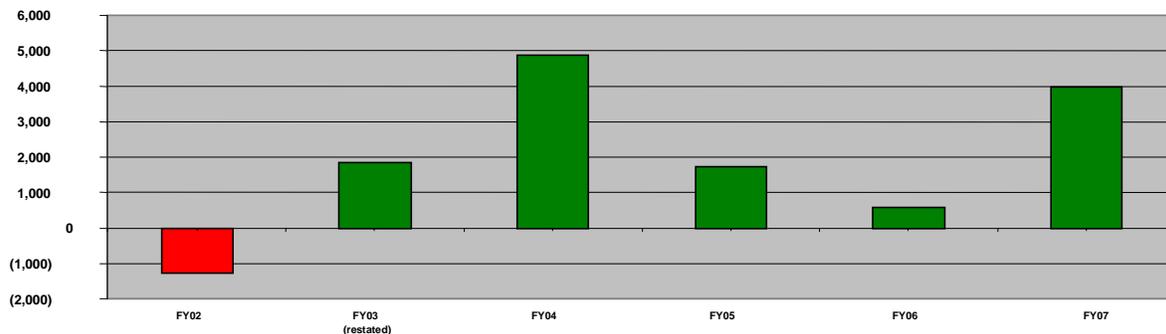
	<u>2007</u>	<u>2006</u>	<u>2005</u>
Operating revenues	\$ 41,463	\$ 39,891	\$35,932
Operating expenses	<u>69,166</u>	<u>65,538</u>	<u>62,697</u>
Operating revenues net of operating expenses	(27,703) ³	(25,647)	(26,765)
Non-operating revenues	<u>31,591</u>	<u>26,234</u>	<u>28,513</u>
Increase in net assets	3,888 ⁴	587	1,748
Net assets – beginning of year	<u>82,716</u>	<u>82,129</u>	<u>80,381</u>
Net assets – end of year	<u>\$ 86,604</u>	<u>\$ 82,716</u>	<u>\$ 82,129</u>

³ Although there has been an increase in net assets, the total of operating revenues net of operating expense is negative because local government appropriations are reported as non-operating revenues rather than operating revenues under GASB 35 reporting requirements.

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

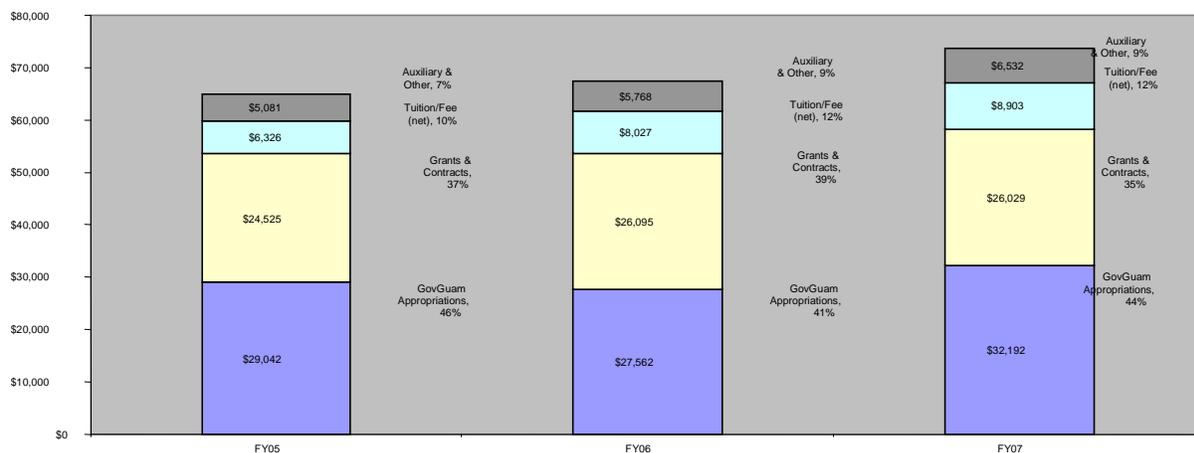
As noted previously, this increase in the change in net assets is the result of prudent management and the implementation of control measures in accordance with the financial management plan, planning ahead with government leaders to maintain financial stability and sustain operations; the transfer of Yamashita Educator Corps scholarship program to the University; and investment portfolio gains. Revenues increased while cost control measures kept expenditures within approved limits.

Change in Net Assets (in \$000's)



Revenues. The University brought in approximately \$41.5 million from operations (excluding government appropriations and investments). Tuition and fees, grants and contracts, auxiliary and other revenues contributed to the \$1.5 million (4%) increase over the prior year operating revenues. These University-generated revenues are \$9.3 million higher than total government appropriations of \$32.2 million, reflecting continued diversification of revenue streams.

Major Revenue Sources (in \$000's) Excludes Investment Income



Government of Guam Appropriations. FY2007 appropriations totaled \$32.2 million for general operations, student financial aid programs and special appropriations (WERI studies, soil and water conservation, hatchery). However, due to economic circumstances and the underfunded needs of critical government agencies and programs, the government reduced payments on

appropriations to the University by \$1.5 million in the form of allotment control.

Government of Guam appropriations to the University peaked in the early 1990's. Recently, the Legislature has provided some welcome growth in their appropriations to the University as scarce government General Fund resources and other competing needs have allowed. Although other revenue sources have increased, the University still depends on the government appropriations for over 76% of its general operating revenues (excludes federal grants, auxiliary funds, and other non-appropriated funds). Budget constraints, cash shortages, and allotment holdbacks on the funds that were appropriated have meant that some hiring, student services, plant maintenance and infrastructure support have been deferred or cancelled in order to allocate sufficient funds to higher priority and more immediate academic quality needs, student learning needs and legally mandated increases in operational expenditures.

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

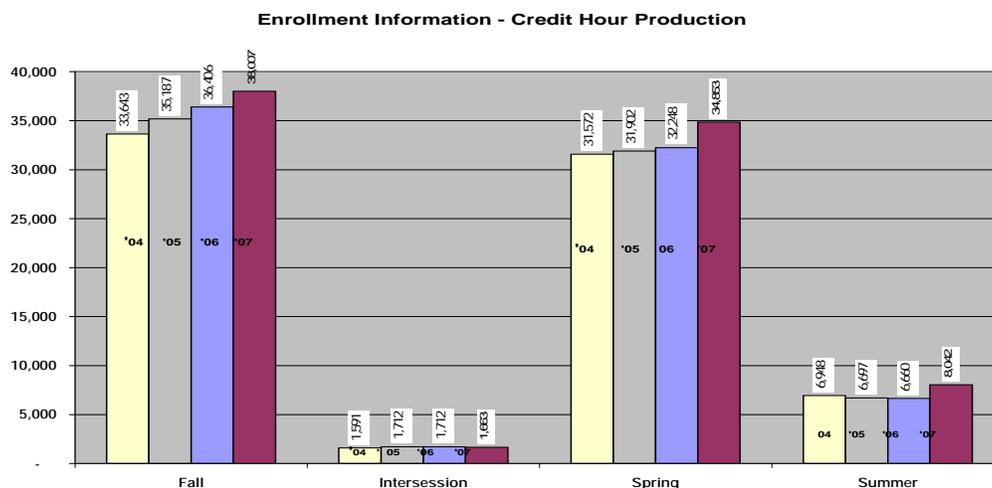


Grants and Contracts. The total of consolidated (Federal, local and private) grant and contract revenues was unchanged. Compared to the prior year, FY2007 federal grants and contract revenues increased by \$0.5 million (2%), and an average of 9% over the last six years (see graph following page). The trend of increased federal grant revenues is evidence that the University has become a competitive research and service institution in the region. \$16.5 million in Federal financial grant and contract awards were received during the year. CEDDERS was awarded \$3.3 million by the U.S. Department of Education, Office of Special Education Programs to support full implementation of high quality alternate assessments based on alternate achievement standards for students with significant cognitive disabilities in six Pacific Basin entities. The Research Initiative for Scientific Enhancement (RISE) Program received funding of \$320 thousand for academic year 2007-2008 from the National Institute of General Medical Sciences of the National Institutes of Health. The program, which began in 2001, is in its second four-year cycle of funding. The Micronesian Language Institute was awarded another five-year, \$1.5 million Title III National and Professional Development Grant funded by the U.S. Department of

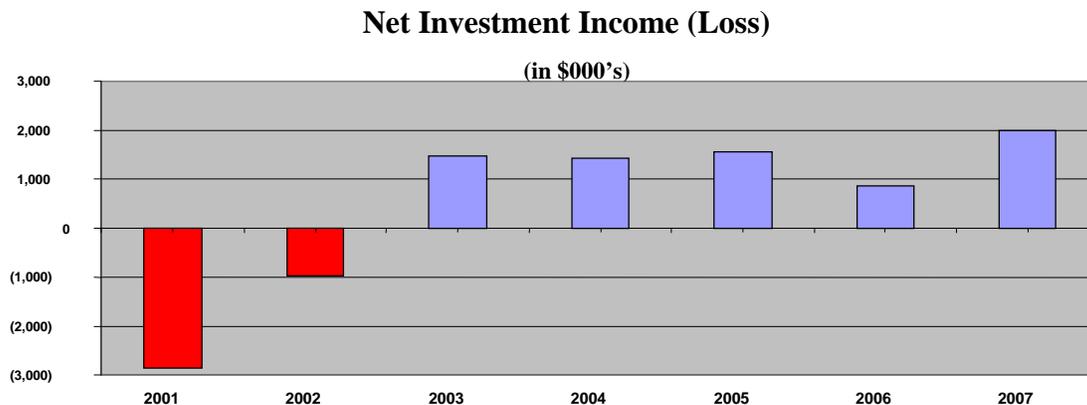
Education's Office of English Language Acquisition. The University is in consortia with the Guam Public School System in this project. The University's AmeriCorps Program received a \$527 thousand grant to support tutor and mentorship positions in the AmeriCorps Student Success Center and outreach AmeriCorps programs in the public high schools. Marking the 18th year of the program, Upward Bound (UB) received a new grant to serve a total of 80 public high school students from George Washington, John F. Kennedy, Simon Sanchez, and Southern High Schools. The program will receive \$1.65 million over four years beginning September 2007. The College of Liberal Arts and Social Sciences received a \$300 thousand grant from the Department of Justice, Office on Violence Against Women. Funds will be used to create a Campus Violence Prevention Program. The Marine Lab was awarded a three-year grant of \$312 thousand from U.S. Fish and Wildlife Service to assess the population structure of *Siganus* spp. for managing these heavily fished species as well as a four-year grant of \$410 thousand from the National Institutes of Health to develop new techniques for isolating and investigating new compounds of potential pharmacological significance from microbes living on sponges. The College of Natural and Applied Sciences received \$1.5 million for five years for a 4-H and Aquatic and Natural Resources collaborative grant from the U.S. Department of Agriculture to develop a teen entrepreneurship program for Children Youth and Families At Risk.

Tuition and Fees. Gross student tuition and fee revenues increased by \$2.1 million due to increased enrollment and a 10% annual increase in tuition rates that started in Fall 2005. Even with the tuition rate increases, the University remains affordable and competitive. Students pay 32% less than those attending other U.S. public universities.

The University has focused on student recruitment and retention efforts. After a period of decline associated with accreditation concerns, student headcount and credit hour production have increased since Fall Semester 2005. There were a total of 3,282 students (or 38,007 credit hours) in the Fall 2007 semester. This is a 3.3% increase in headcount enrollment (a 5% increase in student FTE) and 4% increase in credit hour production over the prior year Fall Semester. The Nursing Program at the University has posted record enrollment numbers for the second straight year. Approximately 460 students enrolled in the pre-nursing and nursing tracks compared to 450 students the prior year.



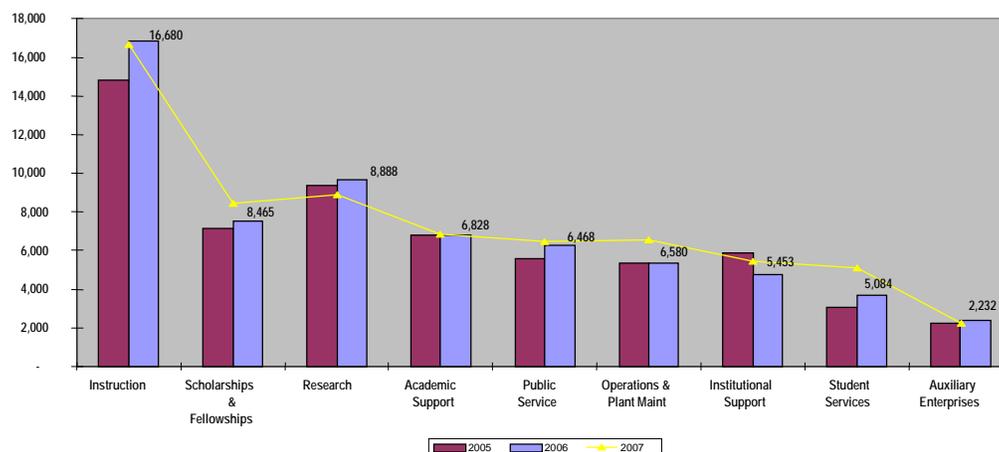
Other Revenues. Net investment income in FY2007 was \$2 million from the University's restricted long-term endowment and quasi-endowment investments. This is primarily the result of an increase in the portfolio's market value, marking the fifth year of investment gains that bettered market benchmarks. This result reflects a rebound in the equity and bond markets from losses in 2001 and 2002, as well as continued discipline to reinvest investment earnings in accordance with the University's Investment Policy.



Expenses. FY2007 total operating expenses were \$69.2 million, an increase of \$3.6 million (5%) primarily in Student Services, Plant Operations and Maintenance, and Scholarship expenses. Increases were associated with increased enrollment, overall campus facility upgrades, higher utility rates, merit-based salary increases, and the second phase of faculty salary adjustments for competitiveness in recruiting and retaining faculty. The University spent \$32 million on its core mission. Of that total, 52% went to instruction, 28% to research, and 20% to public service. In addition, the University spent \$17.4 million on libraries and technology, and student, academic and administrative support; \$14.6 million on student aid; and \$6.6 million on campus maintenance. Other expenses incurred by the University are \$2.4 million in depreciation and \$2 million in debt service payments for dormitories and various academic buildings.

As of fiscal year end, total encumbrances (recorded obligations) were recorded at \$3.4 million, a decrease of \$1.4 from prior year amount of \$4.8 million. This decrease is a result of control measures implemented in response to government allotment shortfalls.

Operating Expenses Trend (in \$000's)



STATEMENT OF CASH FLOWS

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

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Cash provided by (used in):			
Operating activities	\$ (26,799)	\$ (25,470)	\$ (23,980)
Non-capital financing activities	26,237	29,157	26,487
Capital and financing activities	(1,532)	(3,186)	(5,819)
Investing activities	<u>50</u>	<u>(72)</u>	<u>(1,390)</u>
Net change in cash and cash equivalents	(2,044)	429	(1,922)
Cash and equivalents – beginning of year	<u>4,601</u>	<u>4,172</u>	<u>6,094</u>
Cash and equivalents – end of year	<u>\$ 2,557</u>	<u>\$ 4,601</u>	<u>\$ 4,172</u>

The University's cash position decreased by \$2 million at the end of FY2007, primarily due to \$2.9 million in GovGuam appropriation received after the end of the fiscal year and increase of \$2.1 million in salaries and benefits, offset by an increase in tuition and fees revenue of \$0.7 million and a decrease of \$1.7 million in capital activities related to the Leon Guerrero Building. Typically, the University's cash position at the end of fiscal year is higher than its normal cash position during the balance of the year. This is because fall semester tuition payments are booked at the end of the fiscal year, and the government makes catch-up allotment payments close to fiscal year-end. The tuition payments are subsequently allocated for academic expenses during the remainder of the academic year, which overlaps the fiscal year, and for operational expenses, which are normally due at the beginning of the following fiscal year. Financial planning requires that there be an adequate amount of cash on hand at the start of the new fiscal year to pay for prior year encumbrances, insurance premiums, continuing infrastructure restoration and institutional needs. As in prior years, cash flows were negatively influenced by the government deficit, which led to allotment holdbacks and delays in payments.

ECONOMIC OUTLOOK AND OVERALL CONCLUSION

Guam's economic outlook continues to show signs of recovery and reflects the growing optimism with the announced military buildup, which will bring unprecedented economic and population growth to the island. General Fund revenues and property values have begun to increase. Still, the threats to the government's financial condition and cash position remain as they have for several years: the structural nature and size of the cumulative government of Guam General Fund deficit; continuation of federal income tax cuts; unfunded court mandates; significant unmet needs in high priority government services such as education, health and public safety; and supplemental cost of living benefits for government of Guam retirees. The government has proposed a longer-term deficit elimination and economic recovery plan, which the Legislature has addressed but not accepted, disagreeing with certain elements of the plan.

The University's financial position remains a significant challenge, as the government's carry-forward deficit and current structural deficit have resulted in the continuing threat of allotment holdbacks, slow or missed allotment payments, and the likelihood of steady-state or minimal growth in appropriations for the next few years.

As the University prepares for the WASC Educational Effectiveness Review scheduled for March-April 2009, the University has made significant progress in responding to the financial issues raised by WASC in cooperation with the government of Guam. The University has received 100% of its General Fund appropriations receivable from FY2006 and FY2007, stable bi-weekly allotment payments, and a 4% higher FY2008 appropriation. University-generated revenues and enrollment have increased. Daily cash balances have increased. University leaders are meeting regularly with the Governor and Legislature. Administrators, faculty and staff have responded collaboratively in developing and implementing financial management controls and processes that protect academic quality and student learning. The University community has begun to re-assess its needs and plans based on priorities; developed a "no-growth base budget" that maintains capacity to demonstrate educational effectiveness within the resources available; and put forward initiatives for future growth and investment tied to public policy priorities.

The University welcomed Dr. Robert A. Underwood, its tenth president, in May 2008. The new President will lead a University community experienced in assessment, committed to its mission, and strong enough to flourish within the vagaries of the island economy.

Despite the challenging financial conditions, the University remains focused on demonstrating student learning outcomes and educational effectiveness, and on working in a collaborative environment to build and sustain support for the University's core mission.

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

UNIVERSITY OF GUAM
 Statements of Net Assets
 September 30, 2007 and 2006

<u>ASSETS</u>	<u>2007</u>	<u>2006</u>
Current assets:		
Cash and cash equivalents	\$ 2,557,189	4,600,872
Short-term investments	115,332	111,643
Due from Government of Guam	9,304,754	3,350,000
Tuition receivable, net of allowance of \$4,986,848 (2006: \$4,215,818)	3,273,600	2,759,869
Due from U.S. Federal government	996,732	1,131,511
Other receivables	1,592,472	1,187,500
Inventories	521,466	614,431
Other current assets	<u>1,028,632</u>	<u>559,718</u>
Total current assets	<u>19,390,177</u>	<u>14,315,544</u>
Noncurrent assets:		
Restricted cash and cash equivalents	3,243,478	3,795,261
Investments	6,984,018	6,241,437
Endowment investments	9,455,200	8,248,097
Capital assets, net of accumulated depreciation	<u>72,671,272</u>	<u>73,404,534</u>
Total non current assets	<u>92,353,968</u>	<u>91,689,329</u>
Total assets	<u>\$ 111,744,145</u>	<u>106,004,873</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable and accrued liabilities:	3,827,090	4,507,367
Current portion of long-term debt	370,671	385,000
Deferred revenue	<u>4,813,071</u>	<u>4,301,124</u>
Total current liabilities	<u>9,010,832</u>	<u>9,193,491</u>
Noncurrent liabilities:		
Deposits held on behalf of others	172,213	1,583,892
Accrued annual leave	1,713,410	729,310
DCRS sick leave liability	1,090,103	917,552
Long-term debt, net of current portion	<u>13,153,503</u>	<u>10,864,519</u>
Total noncurrent liabilities	<u>16,129,229</u>	<u>14,095,273</u>
Total liabilities	<u>25,140,061</u>	<u>23,288,764</u>
Net assets:		
Invested in capital assets, net of related debt	58,885,680	62,389,854
Restricted:		
Nonexpendable	5,248,224	5,015,944
Expendable	7,314,454	7,736,139
Unrestricted	<u>15,155,726</u>	<u>7,574,172</u>
Total net assets	<u>86,604,084</u>	<u>82,716,109</u>
Total liabilities and net assets	<u>\$ 111,744,145</u>	<u>106,004,873</u>

See accompanying notes to financial statements.

UNIVERSITY OF GUAM ENDOWMENT FOUNDATION, INC.

Statements of Financial Position

December 31, 2006 and 2005

	<u>ASSETS</u>	<u>2006</u>	<u>2005</u>
Cash and cash equivalents		\$ 48,465	21,574
Pledges receivable, net of an allowance for doubtful accounts of \$100,000 at December 31, 2006 and 2005		664,893	548,982
Accounts receivable		14,888	23,538
Equipment, net		1,944	8,822
Investment in Bank of Guam stock		163,053	157,942
Investment in Citizens Security Bank stock		203,544	203,544
Investment in securities		7,425,353	6,487,977
Other		<u>-</u>	<u>3,010</u>
		\$ <u>8,522,140</u>	<u>7,455,389</u>

LIABILITIES AND NET ASSETS

Liabilities:			
Accounts payable		23,926	35,193
Accrued expenses		29,822	21,353
Due to University of Guam		<u>13,078</u>	<u>6,457</u>
Total liabilities		<u>66,826</u>	<u>63,003</u>
Net assets:			
Unrestricted		1,452,179	815,686
Temporarily restricted		6,762,149	6,328,835
Permanently restricted		<u>240,986</u>	<u>247,865</u>
Total net assets		<u>8,455,314</u>	<u>7,392,386</u>
		\$ <u>8,522,140</u>	<u>7,455,389</u>

See accompanying notes to financial statements.

UNIVERSITY OF GUAM
Statements of Revenues, Expenses and Changes in Net Assets
Years ended September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Operating revenues:		
Student tuition and fees	\$ 15,073,752	12,958,734
Less: Scholarship discounts and allowances	<u>(6,170,365)</u>	<u>(4,931,545)</u>
	8,903,387	8,027,189
Federal grants and contracts	25,301,423	24,834,075
FEMA disaster recoveries	-	18,727
Other transfers	2,599	-
Government of Guam grants and contracts	169,016	525,087
Private grants and contracts	558,452	717,454
Sales and services of education department	531,940	501,237
Auxiliary enterprises	2,417,747	2,225,286
Other revenues	<u>3,578,801</u>	<u>3,042,424</u>
Total operating revenues	41,463,365	39,891,479
Operating expenses:		
Instruction	16,679,874	16,834,230
Research	8,888,369	9,673,858
Public service	6,468,006	6,278,184
Academic support	6,828,079	6,796,839
Student services	5,084,277	3,689,970
Institutional support	5,453,314	4,760,240
Operations and maintenance, plant	6,580,418	5,359,090
Depreciation	2,487,685	2,241,174
Scholarships and fellowships	8,464,819	7,531,803
Auxiliary enterprises	<u>2,231,955</u>	<u>2,373,044</u>
Total operating expenses	<u>69,166,796</u>	<u>65,538,432</u>
Operating revenues net of operating expenses	(27,703,431)	(25,646,953)
Nonoperating revenues (expenses):		
Government of Guam appropriations:		
Operations	25,963,136	23,698,666
Student financial aid program	3,839,349	2,762,672
Capital expenditure loan repayment	500,000	500,000
Transfer from Yamashita Educator Corps	1,889,591	600,000
Net investment income	2,003,550	857,761
Interest on capital assets - debt related	(576,523)	(157,390)
Debt service - DOA bond	<u>(2,027,697)</u>	<u>(2,027,302)</u>
Net nonoperating revenues	<u>31,591,406</u>	<u>26,234,407</u>
Net increase in net assets	3,887,975	587,454
Net assets:		
Net assets at beginning of year	<u>82,716,109</u>	<u>82,128,655</u>
Net assets at end of year	<u>\$ 86,604,084</u>	<u>82,716,109</u>

See accompanying notes to financial statements.

UNIVERSITY OF GUAM ENDOWMENT FOUNDATION, INC.

Statement of Activities and Changes in Net Assets

Year Ended December 31, 2006

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues, gains and other income:				
Net investment earnings	\$ 998,281	-	-	998,281
Contributions	98,770	504,511	-	603,281
In kind donations	63,729	-	-	63,729
Fundraising activities	85,934	-	-	85,934
Net assets released from restrictions:				
Satisfaction of program restrictions	<u>71,197</u>	<u>(71,197)</u>	<u>-</u>	<u>-</u>
Total revenues	<u>1,317,911</u>	<u>433,314</u>	<u>-</u>	<u>1,751,225</u>
Program services:				
Contributions to University of Guam programs	43,985	-	-	43,985
Scholarships	21,600	-	-	21,600
Fundraising – Guam Medical Society	<u>5,612</u>	<u>-</u>	<u>-</u>	<u>5,612</u>
Total program services	<u>71,197</u>	<u>-</u>	<u>-</u>	<u>71,197</u>
Support services:				
Management and general	522,430	-	6,879	529,309
Fundraising activities	<u>87,791</u>	<u>-</u>	<u>-</u>	<u>87,791</u>
Total support services	<u>610,221</u>	<u>-</u>	<u>6,879</u>	<u>617,100</u>
Total expenses	<u>681,418</u>	<u>-</u>	<u>6,879</u>	<u>688,297</u>
Change in net assets	636,493	433,314	(6,879)	1,062,928
Net assets at beginning of year	<u>815,686</u>	<u>6,328,835</u>	<u>247,865</u>	<u>7,392,386</u>
Net assets at end of year	\$ <u>1,452,179</u>	<u>6,762,149</u>	<u>240,986</u>	<u>8,455,314</u>

See accompanying notes to financial statements.

UNIVERSITY OF GUAM
Statements of Cash Flows
Years ended September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Student tuition and fees, net	\$ 8,389,656	7,665,809
Grants, contracts and appropriations	20,208,916	27,749,170
Sales and services of education department	126,968	299,889
Auxiliary services	185,792	(147,758)
Other receipts	3,578,801	3,042,424
Payments to employees for salaries and benefits	(37,717,729)	(35,568,438)
Payments to suppliers and others	(13,106,562)	(20,979,455)
Payments to students for financial aid	<u>(8,464,819)</u>	<u>(7,531,803)</u>
Net cash used in operating activities	<u>(26,798,977)</u>	<u>(25,470,162)</u>
Cash flows from noncapital financing activities:		
Government of Guam appropriations	<u>26,237,322</u>	<u>29,157,061</u>
Cash flows from capital and related financing activities:		
Interest paid on capital debt	(576,523)	(157,390)
Purchases of capital assets	(1,754,423)	(8,136,002)
Principal paid on capital debt	(2,465,014)	(2,262,142)
Proceeds from issuance of debt	2,711,972	6,302,906
Changes in restricted cash	<u>551,783</u>	<u>1,067,031</u>
Net cash used in capital and related financing activities	<u>(1,532,205)</u>	<u>(3,185,597)</u>
Cash flows from investing activities:		
Investment income	2,003,550	857,761
Net (purchases) sales of investments	<u>(1,953,373)</u>	<u>(930,201)</u>
Net cash provided by (used in) investing activities	<u>50,177</u>	<u>(72,440)</u>
Net change in cash and cash equivalents	(2,043,683)	428,862
Cash and cash equivalents at beginning of year	<u>4,600,872</u>	<u>4,172,010</u>
Cash and cash equivalents at end of year	<u>\$ 2,557,189</u>	<u>4,600,872</u>
Reconciliation of operating revenues net of operating expenses to net cash used in operating activities:		
Operating revenues net of operating expenses	(27,703,431)	(25,646,953)
Adjustments to reconcile operating revenues net of operating expenses to net cash used in operating activities:		
Depreciation	2,487,685	2,241,174
Changes in assets and liabilities:		
Accounts receivable, net	(783,924)	(485,897)
Inventory	92,965	(121,426)
Other assets	(468,914)	(18,125)
Accounts payable and accrued liabilities	303,823	(2,588)
Deferred revenue	511,947	(684,946)
DCRS sick leave	172,551	54,397
Deposits held on behalf of others	<u>(1,411,679)</u>	<u>(805,798)</u>
Net cash used in operating activities	<u>\$ (26,798,977)</u>	<u>(25,470,162)</u>

See accompanying notes to financial statements.

UNIVERSITY OF GUAM ENDOWMENT FOUNDATION, INC.

Statements of Cash Flows

Years Ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Change in net assets	\$ 1,062,928	(271,580)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Interest and dividend income reinvested	(186,429)	(180,429)
Unrealized investment gains	(811,909)	(268,252)
(Increase) decrease in receivables	(107,261)	(69,600)
Decrease in prepaid expenses	-	13,100
Increase (decrease) in accounts payable and accrued expenses	(2,798)	47,623
Increase in due to University of Guam	<u>6,621</u>	<u>522</u>
Net cash used in operating activities	<u>(31,969)</u>	<u>(728,616)</u>
Cash flows from investing activities:		
(Purchase) sale of investments	(31,839)	644,546
Investment fees	90,699	76,674
Purchase of equipment	<u>-</u>	<u>(1,624)</u>
Net cash provided by investing activities	<u>58,860</u>	<u>719,596</u>
Decrease in cash and cash equivalents	26,891	(9,020)
Cash and cash equivalents at beginning of year	<u>21,574</u>	<u>30,594</u>
Cash and cash equivalents at end of year	\$ <u>48,465</u>	<u>21,574</u>

See accompanying notes to financial statements.

UNIVERSITY OF GUAM

Notes to Financial Statements

September 30, 2007 and 2006

1. Organization

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

2. Basis of Presentation

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

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

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

UNIVERSITY OF GUAM

Notes to Financial Statements, continued

September 30, 2007 and 2006

2. Basis of Presentation, continued

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

- C. Reporting Entity. Effective October 1, 2003, the University adopted GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. The University of Guam Endowment Foundation (the Foundation) is a legally separate, tax-exempt entity which meets the criteria set forth for component units under GASB Statement No. 39. The Foundation provides financial support for the objectives, purposes and programs of the University. Although the University does not control the timing, purpose, or amount of receipts from the Foundation, the resources (and income thereon) that the Foundation holds and invests are restricted to the activities of the University. Because the resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and its Statements of Financial Position and Statements of Activities and Changes in Net Assets are separately presented in the University's financial statements. In addition, the Foundation's significant notes are summarized in Note 3W below.

The Foundation is a private organization that reports under FASB standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the University's financial reporting entity for these differences.

The Foundation's fiscal year end is as of December 31.

3. Summary of Significant Accounting Policies

- A. Cash and Cash Equivalents. Cash and cash equivalents include cash on hand, cash in banks, money market accounts and time certificates of deposit with original maturities of three months or less.

At September 30, 2007 and 2006 the University has cash balances of \$5,796,317 and \$8,396,133, respectively, with corresponding bank balances of \$5,973,450 and \$6,291,242, respectively, of which \$5,773,450 and \$6,147,758, respectively, are insured by the Federal Deposit Insurance Corporation, or collateralized by securities held by a trustee in the name of the financial institution. The remaining balances are uninsured and uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

UNIVERSITY OF GUAM

Notes to Financial Statements, continued

September 30, 2007 and 2006

3. Summary of Significant Accounting Policies, continued

- B. Restricted Cash and Cash Equivalents. Cash and cash equivalents that are restricted to make debt service payments and purchases or enhance learning resources materials and technology are classified as noncurrent assets in the Statement of Net Assets.

At September 30, 2007 and 2006, the University recorded \$2,006,286 and \$1,934,492, respectively, from a tobacco settlement agreement entered into by the government of Guam to be expended by the University for enhancement of learning resources and technology. The fund may only be expended in accordance with purposes set forth by the Guam Economic Development and Commerce Authority, a component unit of the government of Guam. During the years ended September 30, 2007 and 2006, the fund earned interest of \$71,810 and \$73,548, respectively.

- C. Short-term Investments. Short-term investments include time certificates of deposit with original maturities of more than three months.
- D. Investments. The University accounts for its investments at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Unrealized gains and losses on the carrying value of investments are reported as a part of net investment income in the Statement Revenues, Expenses and Changes in Net Assets.
- E. Due from Government of Guam. Due from government of Guam consists of the remaining balance of legislative annual appropriations and student financial aid funding that have not been received at September 30, 2007 and 2006.
- F. Accounts Receivable – U.S. Government. Accounts receivable from the U.S. Government consist of amounts due from the federal government in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts.
- G. Other Receivables. Other receivables consist primarily of auxiliary enterprise services provided to students, faculty, staff, other departments within the University, and to the public. Other receivables also include amounts due from the local government or private sources in relation to the performance of grants and contracts.
- H. Inventory Method. Inventory is stated at the lower of cost or market with cost being determined using the first-in, first-out method of valuation.

UNIVERSITY OF GUAM

Notes to Financial Statements, continued

September 30, 2007 and 2006

3. Summary of Significant Accounting Policies, continued

- I. Capital Assets. Depreciation is calculated using the straight-line method over estimated useful lives of 5 – 50 years for buildings and improvements and 5 – 15 years for equipment and land improvements. The University's capitalization policy requires acquisitions greater than \$5,000 to be capitalized and depreciated over their estimated useful lives. The assets are carried at cost, except for land and buildings transferred to the University, which were recorded at management's estimate of fair market value at the date of acquisition. These additions have since been adjusted to fair market value as determined by independent appraisals completed during fiscal year 1988.
- J. Deferred Revenues. Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.
- K. Compensated Absences. Employee vacation leave is accrued at year end for financial statement purposes. Included in accounts payable and accrued liabilities at September 30, 2007 and 2006 is \$1,713,497 and \$1,660,137, respectively, related to compensated absences earned but unused. The change in accrued employee leave is also included as a component of operating expense in the Statement of Revenues, Expenses, and Changes in Net Assets.
- L. Grants-in-Aid. Tuition and fees revenue includes grants-in-aid charged to scholarship and fellowship expense for senior citizens, faculty, staff and their dependents. The total of these grants for 2007 and 2006 was \$150,707 and \$146,330, respectively.
- M. Noncurrent Liabilities. Noncurrent liabilities include (1) principal amounts of revenue bonds payable, notes payable, and capital lease obligations with contractual maturities greater than one year, and (2) estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year.
- N. Net Assets. The University's net assets are classified as follows:

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

UNIVERSITY OF GUAM

Notes to Financial Statements, continued

September 30, 2007 and 2006

3. Summary of Significant Accounting Policies, continued

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

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

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

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

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

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

P. Scholarship Discounts and Allowances. Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses and Changes in Net Assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the students' behalf.

UNIVERSITY OF GUAM

Notes to Financial Statements, continued

September 30, 2007 and 2006

3. Summary of Significant Accounting Policies, continued

Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as either operating or nonoperating revenues in the University's financial statements. To the extent that revenues from such programs are useful to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance.

- Q. New Accounting Standards. In fiscal year 2005, the University implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures* (an amendment of GASB Statement No. 3), which addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest rate risk, GASB Statement No. 40 requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates.

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

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

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

UNIVERSITY OF GUAM

Notes to Financial Statements, continued

September 30, 2007 and 2006

3. Summary of Significant Accounting Policies, continued

In May 2007, GASB issued Statement No. 50, *Pension Disclosures – an amendment of GASB Statements No. 25 and 27*. GASB Statement No. 50 amends Statement 25 to require defined benefit pension plans and defined contribution plans to disclose in the notes to financial statements the methods and assumptions used to determine the fair value of investments, if the fair value is based on other than quoted market prices. This Statement also amends Statement No. 27 for cost-sharing employer plans. The provisions of this Statement are effective for periods beginning after June 15, 2007. The University does not believe the implementation of this Statement will have a material effect on its financial statements.

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

In November 2007, GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. GASB Statement No. 52 establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2008. The University does not believe the implementation of this Statement will have a material effect on its financial statements.

UNIVERSITY OF GUAM

Notes to Financial Statements, continued

September 30, 2007 and 2006

3. Summary of Significant Accounting Policies, continued

R. Employees' Retirement Plan. Employees of the University hired before October 1, 1995, are entitled to participate in the government of Guam Employees' Retirement System (a defined benefit, contributory pension plan). Employees hired after September 30, 1995, are members of the Defined Contribution Retirement System (DCRS). Until December 31, 1999 and periodically thereafter, those employees who were members of the Defined Benefit Plan with less than 20 years of service at September 30, 1995, had the option to switch to the Defined Contribution Retirement System.

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

As a result of actuarial valuations performed as of September 30, 2006, 2005 and 2004, contribution rates for the years ended September 30, 2007, 2006 and 2005, respectively, have been determined as follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Normal costs (% of DB Plan payroll)	18.21%	17.83%	18.30%
Unfunded liability costs (% of total payroll)	<u>20.66%</u>	<u>21.36%</u>	<u>19.93%</u>
	38.87%	39.19%	38.23%
Employee contributions (DB Plan employees)	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>
	29.37%	29.69%	28.73%
Agency specific adjustments-	<u>- %</u>	<u>- %</u>	<u>- %</u>
Government contribution as a % of DB Plan Payroll	29.37%	29.69%	28.73%
Government contributions as a % of total payroll	27.48%	28.21%	24.89%

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

	<u>2006</u>	<u>2005</u>
	<u>Actuarial Valuation</u>	<u>Actuarial Valuation</u>
Interest rate and rate of return	7.0%	7.0%
Payroll increases	3.5%	3.5%
Salary increases	4.0 – 8.5%	4.0 – 8.5%

The actuarial valuation performed as of September 30, 2006, did not provide a breakdown of actuarial present value of vested and non-vested accumulated plan benefits by sponsor or net assets available for benefits by sponsor.

UNIVERSITY OF GUAM

Notes to Financial Statements, continued

September 30, 2007 and 2006

3. Summary of Significant Accounting Policies, continued

Statutory contribution rates for employer and employee contributions were 20.81% and 9.5%, respectively, of qualifying payroll for both of the years ended September 30, 2007 and 2006.

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

Statutory employer contributions into the DCRS for the years ended September 30, 2007 and 2006 are determined using the same rates as the DB plan. Of the amount contributed by the employer, only 5% of the member's regular base pay is deposited into the member's individual annuity account. The remaining amount is contributed towards the unfunded liability of the defined benefit plan. Members of the DCRS who have completed five years of government service have a vested balance of 100% of both member and employer contributions plus any earnings thereon.

Public Law 26-86 allows members of the DCRS to receive a lump sum payment of one-half of their accumulated sick leave upon retirement. The University has accrued an estimated liability of \$1,090,103 and \$917,552 at September 30, 2007 and 2006, respectively, for potential future sick leave payments as a result of this law. However, this amount is an estimate and actual payout may be materially different than estimated.

Retirement contributions for the years ended September 30, 2007 and 2006 are as follows:

	<u>2007</u>	<u>2006</u>
Defined benefit plan	\$ 3,047,650	2,822,239
DCRS	2,480,339	2,156,566

As a result of Public Law No. 21-03, the University has no further responsibility to pay for its share of unfunded retirement costs. This responsibility is now with the General Fund of the government of Guam. The University's responsibility is to pay the statutory contribution rate. As of September 30, 2007 and 2006, the General Fund has accrued approximately \$7,688,000 and \$6,540,000, respectively, for the University's cumulative unfunded retirement liability.

UNIVERSITY OF GUAM

Notes to Financial Statements, continued

September 30, 2007 and 2006

3. Summary of Significant Accounting Policies, continued

- S. Financial Assistance Revenue. Government of Guam appropriations designated for student financial assistance programs are made annually for the period from October 1 to September 30. As certain restrictions are placed on these funds, revenue is realized only to the extent that such funds are expended for current purposes.
- T. Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the statement of net assets and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.
- U. Risk Management. The University purchases insurance to cover its risk of losses due to typhoons, liability and other risks normal to operating an institution of higher learning. For fiscal year 2007, the Board has approved policies with various deductible amounts for each insured risk. Additionally, the University has a two percent (2%) deductible (with a minimum of \$150,000) for each and every loss from windstorm, typhoon, flood, tidal wave and earthquake.
- V. Reclassifications. Certain account balances in 2006 have been reclassified to conform to the 2007 financial statement presentation.
- W. UOG Endowment Foundation Pledges Receivable and Investments

UOG Endowment Foundation Pledges Receivable

Pledges receivable consist of donations pledged to the UOG Endowment Foundation but not yet received as of December 31, 2006 and 2005. These pledges are payable in installments over periods ranging from one to forty-three years. Unconditional promises to give that are expected be collected for future years are recorded at the present value of the estimated cash flows. Amortization of discount will be included in contribution revenue. Management of the Foundation is of the opinion that the net outstanding balance is collectible in subsequent fiscal years and has reserved for all other long-term receivables.

UNIVERSITY OF GUAM

Notes to Financial Statements, continued

September 30, 2007 and 2006

3. Summary of Significant Accounting Policies, continued

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

	<u>2006</u>	<u>2005</u>
SBPA (School of Business and Public Administration) Building	\$ 1,067,000	1,070,000
Other	<u>150,000</u>	<u>96,000</u>
	1,217,000	1,166,000
Less: Unamortized discount	<u>(517,107)</u>	<u>(517,018)</u>
	699,893	648,982
Less: Allowance for uncollectibles	<u>(35,000)</u>	<u>(100,000)</u>
	\$ <u>664,893</u>	<u>548,982</u>

UOG Endowment Foundation Investments

Investments are carried at fair market value. Gains and losses on investments are reported in the statements of activities as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by laws. The composition of investments in securities as of December 31, 2006 and 2005, follows:

	<u>2006</u>	<u>2005</u>
Cash	\$ 697,829	1,182,368
Equities	5,297,416	3,977,984
Fixed income	<u>1,430,109</u>	<u>1,327,625</u>
	\$ <u>7,425,354</u>	<u>6,487,977</u>

The composition of net investment earnings for the years ended December 31, 2006 and 2005, is as follows:

	<u>2006</u>	<u>2005</u>
Increase in fair value	\$ 811,909	268,252
Interest income	79,388	71,558
Dividends	<u>106,984</u>	<u>108,871</u>
	\$ <u>998,281</u>	<u>448,681</u>

Investments also include shares of stock in Bank of Guam (BOG) and Citizens Security Bank (CSB) that are recorded at their fair market values at December 31, 2006 and 2005. The CSB shares are permanently restricted, as the shares cannot be sold. Dividends received from these shares will be used for scholarship purposes. The BOG shares contain no restrictions and are classified as unrestricted net assets.

UNIVERSITY OF GUAM

Notes to Financial Statements, continued

September 30, 2007 and 2006

4. Long-Term Debt

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

As a requirement of the bond resolution, the University Dormitory Revenue Fund is to transfer semi-annually on March 15 and September 15 to the University Dormitory Interest and Redemption Fund, a sum equal to sixty-two and one-half percent (62 ½%) of the aggregate amount of principal and interest becoming due on the bonds during the next succeeding twelve months until such time as the funds in the Interest Redemption Fund are sufficient to pay the interest and one-half of the principal next coming due, and to provide a reserve in an amount equal to the average annual debt service which approximates \$91,917.

The bond resolution also requires that when the annual debt service reserve has been satisfied, the Fund is to deposit into an account, to the extent available, up to \$14,000 per year to the credit of the repair and replacement reserve account. These deposits are to continue until a balance of \$280,000 is reached. Bond principal payments for the succeeding years are shown below:

<u>Year Ending September 30,</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2008	\$ <u>2,700</u>	<u>90,000</u>	<u>92,700</u>

In November 1997, the University entered into a ten-year capital lease agreement to obtain equipment for an energy conservation project. Obligations under the capital lease consist of the following at September 30, 2007:

<u>Year Ending September 30,</u>	<u>Capital Lease</u>
2008	\$ 130,151
Less amounts representing interest	<u>(3,422)</u>
Total obligation under capital lease	\$ <u>126,729</u>

Approximately One Million Dollars (\$1,000,000) of construction in progress related to the energy conservation project was subsequently written off.

UNIVERSITY OF GUAM

Notes to Financial Statements, continued

September 30, 2007 and 2006

4. Long-Term Debt, continued

In October 2001, Public Law 26-48 authorized the Board of Regents of the University of Guam to enter into a loan agreement with the United States Department of Agriculture (USDA) for an amount not to exceed \$13.5 million for the purpose of funding construction of certain facilities. The loan agreement with USDA was signed on June 12, 2003 and construction began in March 2005. As of September 30, 2007, the entire amount has been drawn down. Monthly payments of \$62,505 began in July 2006. The loan security agreement requires revenues derived from the operation of the facility to be transferred to an account designated for debt service, operation and maintenance of the facility. After the payment of principal and interest, \$6,251 a month is required to be transferred to a reserve account until a sum of \$760,060 is accumulated. In addition, the University assigned and granted to the creditor its security interest in all equipment, furniture and fixtures located at the Business and Public Administration Building.

Debt service to maturity is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 153,942	596,118	750,060
2009	161,014	589,046	750,060
2010	168,411	581,649	750,060
2011 – 2015	965,466	2,784,834	3,750,300
2016 – 2020	1,208,567	2,541,733	3,730,300
2021 – 2025	1,512,879	2,237,421	3,750,300
2026 – 2030	1,893,815	1,856,485	3,750,300
2031 – 2035	2,370,670	1,379,630	3,750,300
2036 – 2040	2,967,595	782,705	3,750,300
2041 – 2043	<u>1,914,686</u>	<u>123,032</u>	<u>2,037,718</u>
	\$ <u>13,317,045</u>	<u>13,472,653</u>	<u>26,789,698</u>

Public Law 26-48 also provided supplemental annual funding of \$500,000 from the Territorial Highway Fund to pay for the loan. At September 30, 2007 and 2006, \$2.5 million and \$2.0 million, respectively, have been accrued. The funds received are classified as restricted expendable net assets.

UNIVERSITY OF GUAM

Notes to Financial Statements, continued

September 30, 2007 and 2006

5. Noncurrent Liabilities

Noncurrent liability activity was as follows:

	Beginning Balance September <u>30, 2006</u>	<u>Additions</u>	<u>Reductions</u>	Ending Balance September <u>30, 2007</u>	Amount due within <u>one year</u>
Bonds, notes and capital lease obligations:					
Revenue bond payable	\$ 175,000	-	85,000	90,000	90,000
Capital lease payable	286,491	-	159,763	126,729	126,729
Notes payable	<u>10,788,028</u>	<u>2,711,972</u>	<u>192,555</u>	<u>13,307,445</u>	<u>153,942</u>
 Total bonds, notes and capital leases	 <u>11,249,519</u>	 <u>2,711,972</u>	 <u>437,318</u>	 <u>13,524,174</u>	 <u>370,671</u>
Other liabilities:					
Deposit held on behalf of others	1,583,892	24,999	1,411,679	172,213	-
Accrued annual leave	1,660,137	1,310,993	1,234,844	1,736,286	973,523
DCRS sick leave liability	<u>917,552</u>	<u>514,443</u>	<u>341,892</u>	<u>1,090,103</u>	<u>-</u>
Total other noncurrent liabilities	<u>4,161,581</u>	<u>1,850,435</u>	<u>2,988,415</u>	<u>2,998,602</u>	<u>973,523</u>
Total noncurrent liabilities	\$ <u>15,411,100</u>	<u>4,562,407</u>	<u>3,425,733</u>	<u>16,522,776</u>	<u>1,344,194</u>

6. 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, 2007 and 2006, loan receivables are reserved in the amount of \$11,919,171 and \$12,168,050, respectively, and recoveries collected are \$401,813 and \$314,366 for the years then ended, respectively.

7. Deposits and Investments

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

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

UNIVERSITY OF GUAM

Notes to Financial Statements, continued

September 30, 2007 and 2006

7. Deposits and Investments, continued

Legally authorized investments are as follows:

(i) General Guidelines

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

(ii) U.S. Fixed Income

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

(iii) Equities

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

UNIVERSITY OF GUAM

Notes to Financial Statements, continued

September 30, 2007 and 2006

7. Deposits and Investments, continued

(iv) Cash and Cash Equivalents

- a. Cash equivalent reserves shall consist of cash instruments having a quality rating of A-1, P-1 or their equivalent. U.S. Treasury and Agency securities, Bankers Acceptances, Certificates of Deposit and Collateralized Repurchase Agreements are also acceptable investment vehicles. Custodial Sweep Accounts must be, in the judgment of the investment managers, of credit quality equal or superior to the standards described above.
- b. In the case of Certificates of Deposit, they must be issued by FDIC insured institutions. Deposits in institutions with less than \$10,000,000 in assets may not be made in excess of \$100,000 unless the deposit is fully collateralized by U.S. Treasury Securities.
- c. No single issue shall have a maturity of greater than two years.
- d. Custodial Sweep Account portfolios must have an average maturity of less than one year.

A. Deposits:

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

Category 1 Insured or registered, or securities held by the University or its agent in the University's name.

Category 2 Uninsured and unregistered, or securities held by a party other than the University or its agent, but in the University's name.

Category 3 Uninsured and unregistered, with securities held by a party other than the University and not in the University's name.

GASB Statement No. 40 amended GASB Statement No.3 to in effect eliminate disclosure for deposits falling into categories 1 and 2 but retained disclosures for deposits falling under category 3. Category 3 deposits are those deposits that have exposure to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized, or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the University's name.

UNIVERSITY OF GUAM

Notes to Financial Statements, continued

September 30, 2007 and 2006

7. Deposits and Investments, continued

B. Investments:

Investments exclusive of physical plant are recorded at market value; investments received by gift are recorded at market value at the date of acquisition. Realized gains and losses are recognized in the Statement of Revenues, Expenses and Changes in Net Assets upon disposition, and unrealized gains and losses are recorded as net appreciation (depreciation) of fair value in investments. Approximately \$16,439,219 of these investments and cash at September 30, 2007, are accounted for on a pooled basis. The University employs the share method of accounting for pooled investments and for proportionate distribution of income and fees to each fund which participates in the pool. Investments held by the University consist of money market funds, fixed income securities, and common stock. These investments are held in the name of the University.

	<u>2007</u>	<u>2006</u>
Investments:		
Money market funds	\$ 302,476	304,921
Fixed income securities	1,781,276	1,455,088
Common stock	<u>4,900,267</u>	<u>4,481,428</u>
	<u>\$ 6,984,019</u>	<u>6,241,437</u>

Endowment investments consist primarily of the land grant endowment trust fund established pursuant to federal land grant legislation. Public Law 19-40 requires that the principal amount be held in trust in perpetuity. At September 30, 2007 and 2006, the accumulated net earnings and appreciation on investments is \$6,455,200 and \$5,248,097, respectively. These amounts, which are recorded in the restricted expendable net assets category, are available for expenditure in accordance with spending policies established by the Board of Regents in its capacity as trustee. The Board of Regents is authorized by the above public law to manage investments consistent with the University's investment policy.

	<u>2007</u>	<u>2006</u>
Endowment investments:		
Money market funds	\$ 241,169	239,195
Fixed income securities	2,455,324	1,963,047
Common stock	<u>6,758,707</u>	<u>6,045,885</u>
	<u>\$ 9,455,200</u>	<u>8,248,097</u>

UNIVERSITY OF GUAM

Notes to Financial Statements, continued

September 30, 2007 and 2006

7. Deposits and Investments, continued

The composition of investment income (expense) for the years ended September 30, 2007 and 2006 is as follows:

	<u>2007</u>	<u>2006</u>
Interest and dividends from investments	\$ 453,390	550,278
Investment fees	(117,495)	(131,202)
Realized (loss) gain	1,358,728	(366,436)
Appreciation of fair value of investments, net	<u>255,061</u>	<u>805,121</u>
	<u>\$ 1,949,684</u>	<u>857,761</u>

GASB Statement No. 40 amended GASB Statement No.3 to in effect eliminate disclosure for investments falling into categories 1 and 2, and provided for disclosure requirements addressing other common risks of investments such as credit risk, interest rate risk, concentration of credit risk, and foreign currency risk. GASB Statement No. 40 did retain and expand the element of custodial credit risk in GASB Statement No.3.

As of September 30, 2007, the University's fixed income securities had the following maturities and credit risk exposure.

<u>Investment type</u>	<u>Fair value</u>	<u>Less than 1</u>	<u>1 to 5</u>	<u>5 to 10</u>	<u>More than 10</u>
Corporate bonds	\$ 545,820	-	117,475	94,509	333,836
Mortgage and asset backed securities	456,162	31,878	-	-	424,284
Government bonds:					
Federal Home Loan Mortgage Corp.	197,558	-	180,031	5,030	12,497
Federal National Mortgage Association	650,191	-	-	185,092	465,099
U.S. Treasuries	<u>2,386,869</u>	<u>99,883</u>	<u>1,452,116</u>	<u>188,262</u>	<u>646,607</u>
	<u>\$ 4,236,600</u>	<u>131,761</u>	<u>1,749,622</u>	<u>472,893</u>	<u>1,882,323</u>

The University's exposure to credit risk at September 30, 2007 was as follows:

<u>Moody's Rating</u>	<u>Total</u>	<u>Domestic</u>	<u>International</u>
AAA	\$ 3,757,511	3,757,511	-
AA	89,953	89,953	-
A	197,707	185,465	12,242
BAA	<u>191,429</u>	<u>191,429</u>	<u>-</u>
Total credit risk debt securities	<u>\$ 4,236,600</u>	<u>4,224,358</u>	<u>12,242</u>

UNIVERSITY OF GUAM

Notes to Financial Statements, continued

September 30, 2007 and 2006

7. Deposits and Investments, continued

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the University will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The University's investments are held and administered by investment managers. Accordingly, these investments are exposed to custodial credit risk. Based on negotiated trust and custody contracts, all of these investments were held in the University's name at September 30, 2007 and 2006.

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments of the University. As of September 30, 2007 and 2006 the University's investment in agency obligations of the Federal National Mortgage Association constituted 3.95% and 6.7%, respectively, of its total investments.

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

8. Capital Assets

Activity and balances for capital assets for fiscal years 2007 and 2006 consisted of the following:

	Balance September 30, <u>2006</u>	<u>Additions</u>	<u>Retirements</u>	Balance September 30, <u>2007</u>
Capital assets not being depreciated:				
Land	\$ 2,589,112	-	-	2,589,112
Construction in progress	<u>232,447</u>	<u>-</u>	<u>398</u>	<u>232,049</u>
Total capital assets not being depreciated	<u>2,821,559</u>	<u>-</u>	<u>398</u>	<u>2,821,161</u>
Other capital assets:				
Land improvements	320,754	-	-	320,754
Building	84,112,484	1,345,682	-	85,458,166
Building improvements	1,241,760	-	-	1,241,760
Equipment	9,462,161	443,103	249,493	9,655,272
Library books	<u>5,237,765</u>	<u>46,544</u>	<u>-</u>	<u>5,284,310</u>
Total other capital assets	100,374,924	1,835,329	249,493	101,960,762
Less accumulated depreciation	<u>(29,791,949)</u>	<u>(2,487,685)</u>	<u>168,984</u>	<u>(32,110,650)</u>
Other capital assets, net	<u>70,582,975</u>	<u>(652,356)</u>	<u>80,509</u>	<u>69,850,110</u>
Total capital assets, net	\$ <u>73,404,534</u>	<u>(652,356)</u>	<u>80,907</u>	<u>72,671,271</u>

UNIVERSITY OF GUAM

Notes to Financial Statements, continued

September 30, 2007 and 2006

8. Capital Assets, continued

	Balance September 30, <u>2005</u>	<u>Additions</u>	<u>Retirements</u>	Balance September 30, <u>2006</u>
Capital assets not being depreciated:				
Land	\$ 2,589,112	-	-	2,589,112
Construction in progress	<u>7,213,149</u>	<u>1,747,095</u>	<u>8,727,797</u>	<u>232,447</u>
Total capital assets not being depreciated	<u>9,802,261</u>	<u>1,747,095</u>	<u>8,727,797</u>	<u>2,821,559</u>
Other capital assets:				
Land improvements	320,754	-	-	320,754
Building	70,374,222	13,738,262	-	84,112,484
Building improvements	1,241,760	-	-	1,241,760
Equipment	8,417,530	1,057,596	12,965	9,462,161
Library books	<u>4,916,919</u>	<u>320,846</u>	<u>-</u>	<u>5,237,765</u>
Total other capital assets	85,271,185	15,116,704	12,965	100,374,924
Less accumulated depreciation	<u>(27,563,740)</u>	<u>2,241,174</u>	<u>12,965</u>	<u>(29,791,949)</u>
Other capital assets, net	<u>57,707,445</u>	<u>12,875,530</u>	<u>-</u>	<u>70,582,975</u>
Total capital assets, net	\$ <u>67,509,706</u>	<u>14,622,625</u>	<u>8,727,797</u>	<u>73,404,534</u>

9. Encumbrances

The accrual basis of accounting provides that expenses include only amounts associated with goods and services received and liabilities include only the unpaid amounts associated with such expenses. Accordingly, at September 30, 2007 and 2006, \$3,434,930 and \$4,756,299, respectively, of outstanding purchase orders and purchase commitments are not reported in the financial statements.

10. Contingencies

Litigation

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

General Obligation Bonds

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

UNIVERSITY OF GUAM

Notes to Financial Statements, continued

September 30, 2007 and 2006

10. Contingencies, continued

At the end of each fiscal year, the balance remaining in the bond fund established by the University shall be retained by the University. Once the University's proportionate share of the principal and interest obligation is satisfied on or about November 2018, the University shall retain control of all future revenues thereafter. For the years ended September 30, 2007 and 2006, monthly payments remitted to the government of Guam's General Fund of \$2,027,697 and \$2,027,302, respectively, are recorded as debt service - DOA bond.

Medicare

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

11. Receivable from the Government of Guam

The University reflects a receivable from the government of Guam of \$9,304,754 and \$3,350,000 at September 30, 2007 and 2006, respectively. This is after reducing the receivable by about \$2.7 million based on an agreed-upon reduction in the total appropriation for fiscal year 2006. In November 2006 the University received \$109,558 for the Yamashita Educator Corps, a Student Financial Assistance Program which was consolidated into the School of Education beginning in fiscal year 2007. Management does expect the balance at September 30, 2007 to be collected on or before September 30, 2008.

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

UNIVERSITY OF GUAM

Schedule of Salaries and Wages

Years ended September 30, 2007 and 2006

	2007		2006	
	Amount	No. of Personnel	Amount	No. of Personnel
SALARIES AND WAGES:				
General Operations	\$ 19,011,544	392	\$ 17,967,027	381
Federal Funds	4,550,782	170	4,852,099	223
General Operations and Federal Funds	2,548,326	56	2,315,590	47
Other funding sources	3,483,496	141	3,368,291	165
Total salaries and wages	29,594,148	759	28,503,007	816
BENEFITS:				
General Operations	5,417,540		4,856,457	
Federal Funds	1,192,811		1,114,767	
General Operations and Federal Funds	321,117		307,820	
Other funding sources	624,301		608,052	
Total benefits	7,555,769		6,887,096	
TOTAL SALARIES, WAGES AND BENEFITS	\$ 37,149,917		\$ 35,390,103	

See accompanying independent auditors' report.

UNIVERSITY OF GUAM

Schedule of Expenses by Object Category

Years ended September 30, 2007 and 2006

	<u>2007</u>		<u>2006</u>	
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Unrestricted</u>	<u>Restricted</u>
Instruction:				
Salary	\$ 10,602,741	690,117	10,302,148	842,798
Benefits	2,668,575	116,322	2,477,565	121,869
Travel	88,010	334,668	151,754	175,969
Contractual	702,816	624,822	691,310	1,131,627
Supplies	138,080	90,633	98,844	139,569
Equipment	21,017	113,588	22,119	66,415
Utilities	26,943	31,191	23,095	31,472
Capital outlay	-	-	4,967	75,146
Miscellaneous	55,161	375,184	123,946	353,616
	<u>14,303,343</u>	<u>2,376,525</u>	<u>13,895,748</u>	<u>2,938,481</u>
Research:				
Salary	1,027,926	3,468,672	941,639	3,417,756
Benefits	277,052	760,022	232,953	728,407
Travel	37,878	718,530	94,504	729,369
Contractual	349,467	984,523	343,844	1,402,935
Supplies	52,862	470,389	94,084	434,167
Equipment	21,616	176,851	88,063	242,424
Utilities	345	2,343	307	4,902
Capital outlay	23,585	33,549	88,118	101,097
Miscellaneous	24,074	458,675	22,704	706,587
	<u>1,814,805</u>	<u>7,073,554</u>	<u>1,906,216</u>	<u>7,767,644</u>
Institutional Support:				
Salary	2,524,805	-	2,495,859	-
Benefits	746,949	-	740,869	-
Travel	185,748	-	207,572	-
Contractual	1,864,107	-	2,066,609	-
Supplies	67,106	-	94,609	-
Equipment	9,872	-	28,880	-
Utilities	558	-	768	-
Capital outlay	-	-	11,490	-
Miscellaneous	54,169	-	477,907	-
	<u>5,453,314</u>	<u>-</u>	<u>6,124,563</u>	<u>-</u>

See accompanying independent auditors' report.

UNIVERSITY OF GUAM

Schedule of Expenses by Object Category

Years ended September 30, 2007 and 2006

	<u>2007</u>		<u>2006</u>	
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Unrestricted</u>	<u>Restricted</u>
Public Service:				
Salary	312,381	3,245,322	292,779	2,867,504
Benefits	78,950	699,758	74,856	569,404
Travel	9,272	420,732	4,218	394,883
Contractual	37,321	599,244	23,503	981,688
Supplies	17,177	291,447	23,021	295,970
Equipment	3,118	205,078	1,997	214,225
Utilities	499	15,781	10,518	18,056
Capital outlay	-	-	-	44,757
Miscellaneous	<u>26,918</u>	<u>505,008</u>	<u>29,719</u>	<u>431,086</u>
	<u>485,636</u>	<u>5,982,370</u>	<u>460,611</u>	<u>5,817,573</u>
Academic Support:				
Salary	4,029,452	-	3,587,737	-
Benefits	1,090,834	-	924,962	-
Travel	142,230	1,839	213,575	1,220
Contractual	967,203	40,504	972,831	20,101
Supplies	194,621	3,007	241,321	1,852
Equipment	186,416	688	184,904	-
Utilities	3,458	-	2,756	-
Capital outlay	82,824	17,258	68,889	339,591
Miscellaneous	<u>67,745</u>	<u>-</u>	<u>62,100</u>	<u>-</u>
	<u>6,764,783</u>	<u>63,296</u>	<u>6,259,075</u>	<u>362,764</u>
Student Services:				
Salary	1,862,393	471,407	1,598,027	455,128
Benefits	563,578	4,543	435,032	2,907
Travel	15,247	15,287	38,210	12,441
Contractual	174,137	20,391	156,302	13,335
Supplies	50,540	14,852	56,205	3,215
Equipment	4,695	14,058	38,361	9,135
Utilities	32,409	-	35,839	-
Capital outlay	-	-	-	-
Miscellaneous	<u>970,359</u>	<u>870,381</u>	<u>129,283</u>	<u>706,587</u>
	<u>3,673,358</u>	<u>1,410,919</u>	<u>2,487,259</u>	<u>1,202,748</u>

See accompanying independent auditors' report.

UNIVERSITY OF GUAM

Schedule of Expenses by Object Category

Years ended September 30, 2007 and 2006

	<u>2007</u>		<u>2006</u>	
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Unrestricted</u>	<u>Restricted</u>
Operations and Maintenance:				
Salary	1,362,532	-	1,325,043	-
Benefits	429,187	-	389,531	-
Travel	-	-	-	-
Contractual	158,781	-	182,201	-
Supplies	148,065	-	186,603	-
Equipment	11,993	-	29,132	-
Utilities	3,237,751	-	2,996,246	-
Capital outlay	6,320	-	114,791	-
Miscellaneous	<u>1,225,789</u>	<u>-</u>	<u>969</u>	<u>-</u>
	<u>6,580,418</u>	<u>-</u>	<u>5,224,516</u>	<u>-</u>
Scholarships and Fellowships:				
Salary	-	-	-	-
Benefits	-	-	-	-
Travel	-	-	-	-
Contractual	-	-	-	-
Supplies	-	-	-	-
Equipment	-	-	-	-
Utilities	-	-	-	-
Capital outlay	-	-	-	-
Miscellaneous	<u>167,906</u>	<u>8,296,913</u>	<u>7,546,054</u>	<u>-</u>
	<u>167,906</u>	<u>8,296,913</u>	<u>7,546,054</u>	<u>-</u>
Auxiliary Enterprises:				
Salary	535,532	-	592,644	-
Benefits	148,679	-	151,021	-
Travel	-	-	7,258	-
Contractual	122,266	-	118,729	-
Supplies	35,823	-	52,251	-
Equipment	11,495	-	14,760	-
Utilities	229,352	-	221,081	-
Capital outlay	-	-	-	-
Miscellaneous	<u>1,148,808</u>	<u>-</u>	<u>1,215,129</u>	<u>-</u>
	<u>2,231,955</u>	<u>-</u>	<u>2,372,873</u>	<u>-</u>

See accompanying independent auditors' report.