

OFFICE OF PUBLIC ACCOUNTABILITY
Doris Flores Brooks, CPA, CGFM
Public Auditor

March 5, 2014

Honorable Judith T. Won Pat, Ed.D.
Speaker
I Mina' Trentai Dos Na Liheslaturan Guåhan
155 Hesler Place
Hagatna, Guam 96910

2014 MAR 13
32-14-140
Office of the Speaker
Judith T. Won Pat, Ed.D.
MAR 9:09
Date: 3.13.14
Time: 8:10 AM
Signature: [Handwritten Signature]

Dear Speaker Won Pat:

Hafa Adai! Transmitted herewith is the University of Guam's (UOG) Fiscal Year (FY) 2013 audited Financial Statements, Reports on Internal Control and on Compliance, Management Letter, and Letter to Those Charged with Governance. Attached are our highlights of the audit report.

For your convenience, you may also view and download the reports in their entirety at www.guamopa.org.

Senseramente,

Doris Flores Brooks, CPA, CGFM
Public Auditor

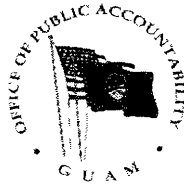
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University of Guam FY 2013 Financial Highlights

February 26, 2014

The University of Guam (UOG) closed Fiscal Year (FY) 2013 with a \$3.5 million (M) increase in net position (net income). This is a 57% or \$4.7M decrease from FY 2012, which had the benefit of receiving a one-time \$6.5M in American Recovery and Reinvestment Act (ARRA) capital projects. Independent Auditors, Deloitte & Touche, LLP, rendered an unmodified (clean) opinion on UOG's financial statements, internal control over financial reporting, and compliance for each major federal program. However, five significant deficiencies were identified, pertaining to the United States (U.S.) Department of Education (DOE) and the U.S. Department of Agriculture. Questioned costs identified increased from \$0 in FY 2012 to \$23,756 in FY 2013.

Decreased Revenues and Expenses

Total revenues decreased by 11% or \$12M from \$106.9M in FY 2012 to \$94.9M in FY 2013. The revenue decrease was primarily due to decreases in the ARRA federal grants and the timing of federal financial aid awards. Federal grants and contracts decreased by \$5.3M from \$40.7M to \$35.4M. Although UOG's Fall 2013 enrollment was a record 3,853 students, net student tuition and fees decreased by \$2.7M from \$12.7M in FY 2012 to \$10M in FY 2013, due to the timing of receipts of federal financial aid awards.

Capital contributions to UOG also decreased by 78.7% or \$5.1M from \$6.5M in FY 2012 to \$1.4M in FY 2013. All of the \$6.5M in capital contributions received in FY 2012 was for the benefit of one-time ARRA capital projects.

Expense levels were largely unchanged year to year. The largest decreases in expenses were for plant operations and maintenance (\$7.8M ARRA from \$14.9M to \$7.1M), instruction (\$1.9M from \$20.1M to \$18.2M), and institutional support (\$887K from \$8.7M to \$7.8M).

Despite the increase in the number of personnel from 824 in FY 2012 to 840 in FY 2013, total salaries, wages and benefits decreased from \$46.1M in FY 2012 to \$44.8M in FY 2013.

Government of Guam Appropriations

Government of Guam (GovGuam) appropriations for UOG decreased by 3.4% or \$1.2M from \$35.3M to \$34.1M. As appropriations for retiree healthcare costs increased by \$326 thousand (K), appropriations for the Guam Cancer Trust Fund and operations both decreased by \$760K and \$776K, respectively. Appropriations for both the student financial aid program and capital expenditure loan repayment remained unchanged from the prior year. In all, GovGuam appropriations made up 36% of UOG's total revenues in FY 2013.

Tuition Rates

While revenues from student tuition and fees decreased by \$844K, scholarship discounts and allowances increased by \$1.9M in FY 2013. Since 2009, tuition rates have remained unchanged.

Investments

UOG investments and Endowment investments have more than doubled since FY 2002. UOG investments have increased by 115% or \$10.7M from \$9.3M in FY 2002 to \$20M in FY 2013. Similarly, Endowment investments, which are restricted, grew by 134% or \$6.4M from \$4.8M in FY 2002 to \$11.2M in FY 2013. With the U.S. economy showing increasing strength, the nation's top 500 delivered a banner year of 30% returns on investments in 2013. UOG's return of investments amounted to 16% in FY 2013.

UOG Endowment Foundation

Although the UOG Endowment Foundation (Foundation) is a component unit of UOG, it is a legally separate, tax-exempt entity, whose fiscal year ends on December 31. As of December 31, 2012, the Foundation possessed a total net worth of \$8.6M, which is an increase from \$7.8M in calendar year (CY) 2011. The Foundation's investments in securities increased by \$192K from \$7.1M in CY 2011 to \$7.3M in CY 2012.

For Statement of Activities (income statement), the Foundation increased its net assets by \$756K in CY 2012, in comparison to a loss of \$142K in CY 2011. This increase in net assets can be attributed to the increase in the Foundation's total revenues earned from \$841K in CY 2011 to \$1.8M in CY 2012. Fundraising activities significantly increased from \$468K to \$1.08M in CY 2012. Though nominal, expenses of support services increased by \$12K from \$768K to \$780K.

Government of Guam Merit System

In 1991, Public Law 21-59 was enacted to establish a bonus system for employees of the Government of Guam, autonomous and semi-autonomous agencies, public corporations, and other public instrumentalities of GovGuam who earn a superior performance grade. The bonus is calculated at 3.5% of the employee's base salary beginning in 1991. UOG recorded liabilities of \$1.1M and \$410K as of September 30, 2012 and 2013, respectively. As of November 2013, UOG paid out \$711K in retroactive merit bonuses.

Compliance and Internal Controls

Although the independent auditors issued an unmodified opinion on compliance and internal control, five significant deficiencies were identified: (1) \$4,774 or 50% of a direct loan was not returned to the U.S. DOE, (2) time and effort payroll documentation did not have allocation of actual hours worked, (3) a complete inventory reconciliation has not been finalized for the past two years, (4) no documentation was available to support federal matching, and (5) lack of supporting procurement documentation. A total of \$23K was identified in questioned costs, which is 0.07% of UOG's total federal grant expenditures of \$36.3M.

Management Letter

In a separate management letter issued, the auditors identified three deficiencies concerning UOG's (1) fixed assets that were untagged and missing, as well asset register which did not reflect the theft of an asset (reported in 2011) and the replacement of another, (2) lack of proper, certified time and effort documentation, and (3) nonmoving and inactive accounts.

For a more detailed discussion on UOG's operations, see the Management's Discussion and Analysis in the audit report at www.guamopa.org and www.uog.edu.

Deloitte.

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

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

YEARS ENDED SEPTEMBER 30, 2013 AND 2012

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

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Years Ended September 30, 2013 and 2012

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INDEPENDENT AUDITORS' REPORT

The Board of Regents
University of Guam:

Report on the Financial Statements

We have audited the accompanying financial statements of the University of Guam (the University) and its discretely presented component unit, collectively a component unit of the Government of Guam, as of and for the years ended September 30, 2013 and 2012, and which collectively comprise the University's basic financial statements as set forth in Section II of the forgoing table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the University and its discretely presented component unit as of September 30, 2013 and 2012, and the respective changes in financial position and cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 12 as well as the Schedule of Funding Progress and Actuarial Accrued Liability-Post Employment Benefits Other than Pension on page 38 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Financial Information

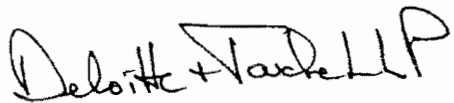
Our audits were conducted for the basic purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. The schedules of salaries, wages and benefits and the schedules of expenses by object category on pages 40 through 43 and the schedules of total revenue information on page 45 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

The schedule of employee information on page 44 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 24, 2014, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

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

Tamuning, Guam

February 24, 2014

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

Management's Discussion and Analysis
Years Ended September 30, 2013 and 2012

INTRODUCTION

Management's discussion and analysis (MD&A) provides an overview and better understanding of the University's financial position and the results of activities for the fiscal year ended September 30, 2013. Management has prepared this overview as a required supplemental information to the financial statements and the footnotes that follow. This MD&A should be read in conjunction with the financial statements and accompanying footnotes.

The University. Public Law 13-194, The Higher Education Act of 1976, established the University as a non-membership, non-profit, public corporation under a Board of Regents appointed by the Governor with the advice and consent of the Guam Legislature. We are a public, open-admissions, four-year, land-grant institution on Guam in the Marianas Islands and have been continuously accredited by the Western Association of Schools and Colleges (WASC). Our 3,836 students (Fall'13) are multicultural, multilingual and 51% Pacific Islander, 41% Asian, 4% White/Non-Hispanic, and 4% other. We offer 15 master's, 34 bachelor's and one nursing associates degree programs. Continuing education, professional development and English language training are available. Our 840 employees include 176 full-time faculty, 33 administrators and 628 full-and-part-time staff and faculty adjuncts.

The Leadership. The University is governed by a nine-member Board of Regents (the Board). W. Chris Perez MD is the Board Chairperson; William Leon Guerrero is Vice Chairperson; Marcos Fong is Treasurer and audit committee chair; Robert A. Underwood, Ed.D., is the University's 10th President; Anita Borja Enriquez, DBA, is Interim Senior Vice President for Academic and Student Affairs; David M. O'Brien is Vice President for Administration and Finance; John Peterson, Ph.D., is Assistant Vice President for Graduate Studies, Sponsored Programs and Research; and Zeny Asuncion Nace is Comptroller. There is an elected Faculty Senate.

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

THE FINANCIAL STATEMENTS

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

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

UNIVERSITY OF GUAM
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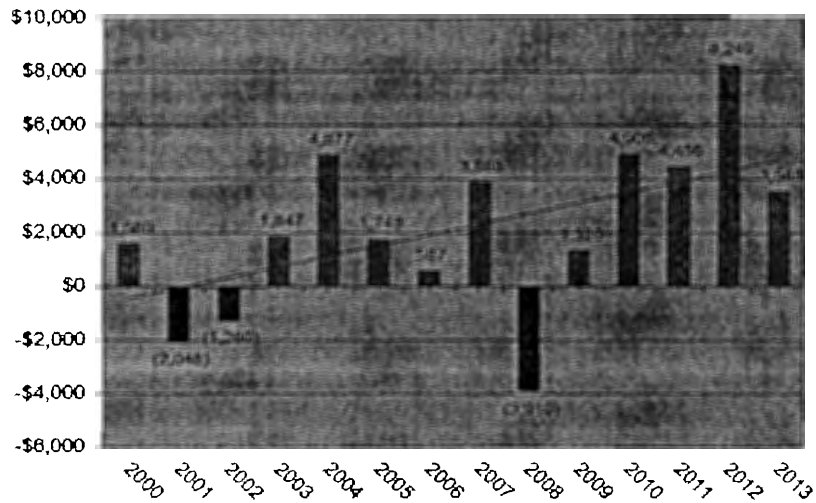
Management's Discussion and Analysis
 Years Ended September 30, 2013 and 2012

FY2013 FINANCIAL HIGHLIGHTS AND STRATEGIC INSTITUTIONAL OUTCOMES

One of the most important questions in evaluating the financial health of an institution is whether the financial position has improved or deteriorated as a result of the year's operations. For FY13, the University's net position increased by \$3.5 million, which is 3.7% of consolidated revenues. The increase in net position is \$4.7 million less than last year's \$8.2 million increase, which included \$6.5 million of one-time ARRA capital projects. The primary factors for the FY13 increase are the following:

- \$2.7 million is due to investment gains, most of which are unrealized, result from marking the investment portfolio to market, and do not generate current cash flows.
- After accounting for investment gains, there was an \$0.8 million surplus from ongoing operations. This is due to tight expense management within the revenues appropriated and generated.

CHANGE IN NET POSITION (SURPLUS, DEFICIT IN \$000'S)



Important financial trends include:

- There has been a financial surplus in ten of the last eleven years, averaging \$3 million and 3.5% of revenues. This has bolstered financial reserves, established by Board policy as a best practice for stability and long-term viability. Adequate reserves are increasingly important in a period marked by institutional growth, economic challenges, and a changing higher education environment.
- Over the past eleven years, revenues have grown an average of 4.5% per annum. We are now a \$95 million revenue organization. This is down from FY12, which was inflated by one-time revenues from the ARRA grant. The University generates 64% of revenues; while GovGuam provides 36%.
- Grants and contracts were \$39 million.
- Expenses have been held in check, even with increased enrollment, explosive growth in grant spending, stepped-up facility maintenance, merit-based salary increments, and utility and retirement rate hikes.

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

Management's Discussion and Analysis
Years Ended September 30, 2013 and 2012

Significant institutional outcomes that affect financial statements and resources include:

- With support of the Guam Legislature and the Governor, the University has held tuition rates the same for five years. This shows the community's commitment to higher education access and affordability.
- Fall'13 student enrollment (headcount) of 3,836 is the second highest ever. Fall'13 FTE enrollment was a record 3,853 students, reflecting the increase in student credit hours.
- 503 undergraduate and graduate degrees were conferred in Academic Year'12-13. Alumni now number 14,300. They are the professional backbone and leadership of our island and the region.
- Academic quality is evidenced by primary accreditation for eight (8) years from the Western Association of Schools and Colleges (WASC) and by secondary accreditation for the professional schools. After reviewing the 2013 Interim Report, WASC praised the University for our financial improvements, collaborative campus culture, presidential leadership, open communications and efforts in enrollment management, program review, and assessment.
- In 2013, the University embarked on a Good-to-Great initiative. A process of program prioritization and resource allocation is well underway to realize our potential to be a great university with great programs. We are focused on our mission, our purpose and our dynamic role in the social, economic and political development of our region.

STATEMENT OF NET POSITION

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

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

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Current and Other Assets	\$ 63,070	\$ 60,759	\$ 52,910
Capital Assets	<u>71,993</u>	<u>71,103</u>	<u>68,528</u>
Total Assets	<u>\$ 135,063</u>	<u>\$ 131,862</u>	<u>\$ 121,438</u>
Other Liabilities	\$ 17,631	\$ 17,835	\$ 15,440
Long-term Debt Outstanding	<u>12,253</u>	<u>12,396</u>	<u>12,616</u>
Total Liabilities	<u>29,884</u>	<u>30,231</u>	<u>28,056</u>
Net Investment in Capital Assets	60,710	58,707	55,913
Restricted	8,201	7,296	6,270
Unrestricted	<u>36,268</u>	<u>35,628</u>	<u>31,199</u>
Total Net Position	<u>105,179</u>	<u>101,631</u>	<u>93,382</u>
Total Liabilities & Net Position	<u>\$ 135,063</u>	<u>\$ 131,862</u>	<u>\$ 121,438</u>

Since FY11, the overall financial condition has strengthened each year. Total net position, which is the residual interest in assets net of liabilities, grew to \$105.2 million, a \$3.5 million increase (3.5%) over FY12 and an \$11.8 million increase (12.6%) over FY11.

UNIVERSITY OF GUAM
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Management's Discussion and Analysis
 Years Ended September 30, 2013 and 2012

In FY13, net position grew over the prior two years due to increases in assets, particularly cash, investments and capital assets. Receivables decreased substantially with an improved collections system. Liabilities remained the same compared to FY12, but increased over FY11. Current assets covered current liabilities (including unearned revenue) 2.55 times, a positive liquidity indicator.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

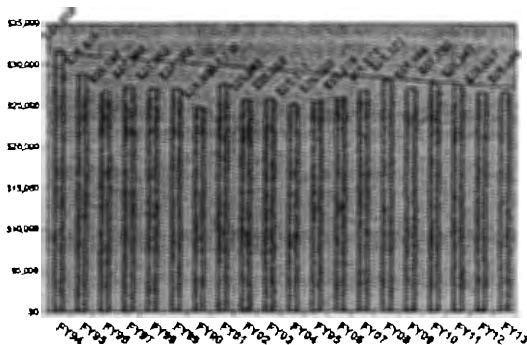
The statement of revenues, expenses and changes in net position provides details of operating and non-operating revenues and expenditures, similar to an income statement.

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

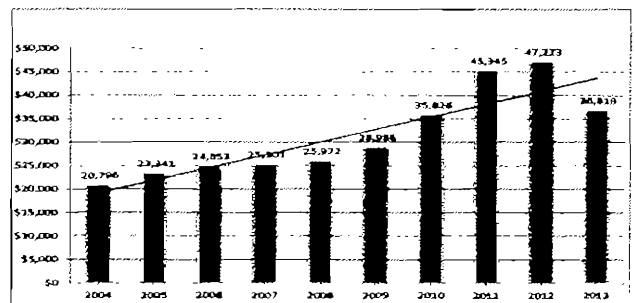
	<u>2013</u>	<u>2012</u>	<u>2011</u>
Net Operating Revenues	\$ 56,728	\$ 62,365	\$ 65,773
Total Operating Expenses	<u>88,585</u>	<u>95,629</u>	<u>93,049</u>
Operating Revenues Net of Operating Expenses ¹	(31,857)	(33,264)	(27,276)
Non-Operating and Other Revenues and Expenses	34,013	34,985	30,621
Capital Contribution	<u>1,392</u>	<u>6,528</u>	<u>1,112</u>
Increase in Net Position	3,548	8,249	4,457
Net Position – Beginning of Year	<u>101,631</u>	<u>93,382</u>	<u>88,925</u>
Net Position – End of Year	\$ <u>105,179</u>	\$ <u>101,631</u>	\$ <u>93,382</u>

Net operating revenues were \$57 million, a \$5.4 million decrease (-9%) from FY12 and a \$8.8 million decrease (-13%) from FY11. This is primarily due to completion of the ARRA grant and changes in bad debt recoveries/provisions. Grants and contracts fell compared to both years, offset in part to increases in other income related to programs and fees. There was a \$2 million (-8%) GovGuam allotment holdback in FY13. Investment income was \$2.7 million (primarily unrealized), reflecting a second year of substantial equity gains. University-generated revenues are now 64% of consolidated revenues (excluding investments, debt provisions, healthcare); while GovGuam appropriations are 36%.

**GENERAL OPERATIONS APPROPRIATION -
 GOVGUAM PUBLIC LAW (IN \$000'S)
 (EXCLUDES ALLOTMENT HOLDBACKS)**



**FEDERAL GRANTS AND CONTRACTS REVENUE
 (IN \$000'S)**



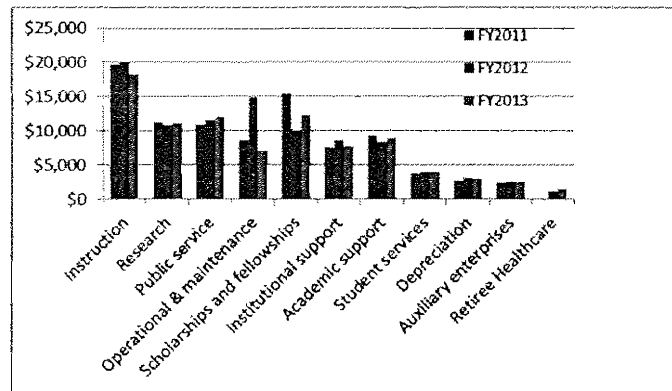
¹ Operating Revenues Net of Operating Expense is negative, because local government appropriations are reported as non-operating revenues rather than operating revenues under GASB 35 reporting requirements

UNIVERSITY OF GUAM
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Management's Discussion and Analysis
 Years Ended September 30, 2013 and 2012

Operating expenses decreased \$6.8 million (-7%) from FY12 and \$4.2 million (-4.5%) from FY11, primarily due to the completion of expensed ARRA renovations. The University spent \$41.5 million directly on its core mission. Of that, 44% went to instruction, 29% to public service and 27% to research. Fall Semester'12 federal student financial aid awards were delayed, resulting in higher scholarship discounts/allowances and scholarship expense in FY13. Encumbrances (recorded obligations) were \$5.4 million, comparable to FY12 and substantially less than FY11.

OPERATIONS EXPENSE (IN \$000's)



STATEMENT OF CASH FLOWS

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

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

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Cash Provided by (Used in):			
Operating Activities	\$ (26,004)	\$ (26,822)	\$ (25,252)
Non-capital Financing Activities	38,052	34,802	29,147
Capital and Financing Activities	(5,561)	(3,168)	(4,879)
Investing Activities	<u>(1,358)</u>	<u>(831)</u>	<u>1,873</u>
Net Change in Cash and Cash Equivalents	5,129	3,981	889
Cash and Equivalents – Beginning of Year	<u>10,216</u>	<u>6,235</u>	<u>5,346</u>
Cash and Equivalents – End of Year	<u>\$ 15,345</u>	<u>\$ 10,216</u>	<u>\$ 6,235</u>

In FY13, cash increased by \$5.1 million from FY12 and by \$9.1 million from FY11. GovGuam allotments were paid in a more timely fashion and the appropriations receivable fell over \$5 million, when compared to each of the two prior years. However, GovGuam held a permanent reserve of \$2 million (-8%) in FY13 compared to the prior average of \$1.2 million.

UNIVERSITY OF GUAM
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Management's Discussion and Analysis
Years Ended September 30, 2013 and 2012

The cash position at fiscal year-end is normally higher than the cash position during the year. This is because Fall semester tuition payments are booked at fiscal year-end, and the government makes catch-up allotment payments close to fiscal year-end. Tuition revenues are subsequently allocated for academic expenses during the remainder of the academic year, which overlaps the fiscal year. Financial planning requires that there be an adequate amount of cash on hand at the start of the new fiscal year to pay for prior year encumbrances, insurance premiums, infrastructure and operating needs. Board policy requires cash reserves for financial stability and long-term viability. A reserve fund and sub-accounts were established and funded in FY09-12 and further funding from FY13 will be assessed.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets: At the end of FY13, the University had invested \$121 million in capital assets. This represents an increase in net capital assets (including additions and deletions) of \$5.0 million or 5% over the previous year. The University had accrued \$48 million in accumulated depreciation against the assets. Net capital assets were \$73 million, a increase from the prior year's \$71.1 million. Capital asset additions in FY13 amounted to \$3.9 million, which included \$1.2 million in costs associated with the construction of a new Student Services Center and \$1.3 million in acquisition of air conditioning equipment. See Note 5 to the financial statements for additional information.

Long-Term Debt: The University has a note payable that is outstanding with the United States Department of Agriculture (USDA). The note payable was created in October 2001 through Public Law 26-48 for an amount not to exceed \$13.5 million for the purpose of constructing certain facilities on campus. As of September 30, 2013 and 2012, the University had a long-term debt of \$12.3 million and \$12.4 million, respectively, decreases are associated with principal retirement. See Note 6 to the financial statements for additional information.

ECONOMIC AND OTHER FACTORS EXPECTED TO AFFECT THE UNIVERSITY ²

2013: Stability with Positive Prospects

In 2013, the U.S. economy showed increasing strength, ramping up in the third and fourth quarters and offsetting a weak start to the year. The excitement was in the equity markets, which soared broadly and fed on the Federal Reserve's accommodative monetary policy. The S&P 500 delivered a banner year of 30% returns. Even with the stimulus, inflation remained tame and below Federal targets. Employment increased, as did home prices, sales and construction. Consumers spent at pre-recession levels. Corporate profits and stocks hit records. The U.S. dollar strengthened and the country became less dependent on foreign oil. Still, labor markets lagged behind the overall recovery with official unemployment at 6.7%. This official rate does not reflect the substantial underemployment and the many long-term unemployed, who have stopped job-seeking. After several strong years, U.S. fixed income returns were flat to negative and the yield curve was positive and steep, reflecting higher interest rate expectations and the Fed's announcement of easing its bond purchases.

2. With thanks for their input, perspectives and forecasts to: i) Gary Hiles, Chief Economist, Guam Department of Labor, "Economic Outlook FY15" as well as "The Unemployment Situation on Guam: September 2012"; ii) Dr. Maria Claret Ruane, Professor of Economics at the School of Business and Public Administration and Resident Development Economist, Pacific Center for Economic Initiatives, University of Guam, "Economic Forecast, 2012-2013 Guam-CNMI Edition," copyrighted by First Hawaiian Bank, and "Guam Economic Forecast 2013", prepared for Standard & Poor's; iii) John Rios, Director of Bureau of Budget and Management Research, Government of Guam; and iv) Boak, Josh, <http://www.businessweek.com/ap/2014-01-28/state-of-the-us-economy-strongest-since-recession>, January 2014; vi) Moore, Brendan, <http://www.gallup.com/poll/166784/economic-indicators-improve-2013.aspx>, January 2014.

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

Management's Discussion and Analysis
Years Ended September 30, 2013 and 2012

The Guam economy stabilized. Tourism increased substantially, rebounding in the key Japanese market after the 2011 earthquake and tsunami. As a result, hotel occupancy and room rates are higher. The military build-up has been resuscitated after many delays and uncertainties. Employment increased, but unemployment remains high. Construction looks promising with high building permit levels and the return of the military build-up. Private construction is carrying the day with a private hospital, two hotels, a convention center and a shopping mall underway. GovGuam bond issues were favorably received by markets and rating agencies, reflecting positive changes in the economy and fiscal management. The administration paid overdue and current tax refunds and overtime payments, injecting substantial sums into the economy. For FY13 GovGuam expects a second straight General Fund operational surplus following FY12's \$30 million surplus. These results are significant improvements over at least eight years of prior deficits, including FY11's \$303 million deficit (audited).

2014: Cautious Optimism

Many factors point to a continued U.S. economic recovery in 2014 - the Federal stimulus, even if at a slower pace; renewed consumer spending; steady improvement in employment/unemployment; and increased sales and prices in more housing markets. Nevertheless, headwinds remain with volatility in global equity markets; weakening emerging markets, especially China; the U.S. debt ceiling and budget disagreements; the cost and buy-in on health care and immigration reform; income and job opportunity inequalities; and strongly partisan political maneuvering. Consumer spending and confidence, which are key economic drivers, are expected to benefit from wealth effects associated with the record stock market, increased home prices and still low mortgage interest rates, and very low inflation. Presidential action on a higher minimum wage and income inequalities will tell. The U.S. economy will likely be affected by stronger growth in Western Europe and by negative investor and monetary authority concerns over the impact of U.S. stimulus tapering on the emerging economies.

The rate of economic growth is forecast to lessen for regional economies important to Guam. While still strong, the growth in China and South Korea is cooling. Taiwan's economy has cooled even more.

The Japanese economy, coming off a strong 2013, has benefitted from commitments to re-inflate the yen and from bold-for-Japan monetary stimulus efforts. Exports will benefit from a falling yen. North Korea and the Chinese-Japanese-Philippine land disputes are still wild cards for the region.

Guam's economy shows promise - Guam Visitor Bureau's tourism forecasts are favorable, the government is attending to fiscal discipline and deficit reduction, and long strides have been taken with the U.S. and Japan in regards to the military build-up. Japanese tourism, which underpins the island's tourism economy, is likely to be affected by a much stronger U.S. dollar impacting tourism growth and spending. While not at the level once expected with the military build-up, a solid level of military construction projects and federal appropriations is forecast. GovGuam has committed to working with the U.S. and Japan in regards to the military buildup, which now looks to be funded with the actions of the Japanese government and with the U.S. 2014 National Defense Authorization Act. The Calvo-Tenorio administration has implemented tough 10% allotment controls for FY14, less than last year's 15%, but substantially higher than the 3% average in prior years. General Fund revenues are trending up. Significant financial challenges and policy issues remain: the implementation and funding of the General Pay Plan salary increases for government employees (based on recent Hay Study); pension plans and funding; substantial government debt and debt service obligations; and questions about the sufficiency of appropriation and allotment payments related to Guam Memorial Hospital and Guam Department of Education.

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

Management's Discussion and Analysis
Years Ended September 30, 2013 and 2012

University of Guam: Good-to-Great Underway

In 2013 the University community celebrated its 61st Anniversary and conferred its 14,296th degree. The Capital Campaign received several substantial donations, including \$3 million from the Calvo Foundation, our largest donation.

President Underwood has fully engaged the institution in a Good-to-Great process (G2G). We are a good university with good programs. A data-driven process of program prioritization and resource allocation is well underway to realize our potential to be a great university with great programs by focusing on our mission, our purpose and our dynamic role in the social, economic and political development of our region. At a time of financial challenges in the U.S. and Guam, this means making difficult program decisions, reviewing resource allocation priorities, and aligning all activities with our mission and core purpose in a sustainable way. To lead change and drive economic growth, the University will educate the region's professional class, build new capacity through community outreach, seek innovation through research, and develop initiatives that empower the economy.

The process is already well underway in building the Great UOG.

- Faculty, staff and administrators have assessed all academic and administrative programs based on their relationship to the core mission, financial performance, market demand and quality. The programs will be evaluated and ranked based on data and reports submitted. Executive management and the President will then make decisions on program priorities, sustainability and resource allocations. The President will review the final G2G plan with the Board of Regents in May 2014.
- The Governor and Guam Legislature provided \$2.8 million of tuition support in FY13 and FY14 under PL31-276, enabling a five-year run without increases. Further appropriations support will be sought in lieu of a 10% tuition increase for AY14-15. Higher education on Guam remains a good value with the University's tuition at ~60% of the public university average.
- PL31-237 gave control of locally funded student financial aid to the University. The President will take proposals to the Board of Regents in 2014 that tailor awards to policy areas of access, affordability, performance, retention and degree completion.
- PL32-114 established the Research Corporation of the University of Guam. RCUOG will be a more flexible vehicle for driving the island's economy by growing federal grants and contracts and developing businesses from intellectual property and patents.
- PL32-68 has removed University appropriations from GovGuam allotment control, which has been set at 10% for FY14. The University, Governor's Office, Department of Administration, and Bureau of Budget and Management Research have a positive record of working closely together and planning ahead in managing our appropriation payments.
- The University has applied for a U.S. National Science Foundation Experimental Program to Stimulate Competitive Research grant (EPSCoR) to develop research capacity. We also are seeking renewal of the National Institute of Health cancer grant in partnership with the University of Hawaii.
- The 2013 Interim Accreditation Report was submitted to WASC, who noted, "There is much to praise including: significant improvements in the financial situation; a campus culture of collaboration and shared governance; strong presidential leadership; open, transparent and ongoing communication to constituents; and success in enrollment management, program review, and assessment efforts. The University of Guam is to be commended for these accomplishments."

UNIVERSITY OF GUAM
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Management's Discussion and Analysis
Years Ended September 30, 2013 and 2012

- Students continue to take advantage of opportunities such as courses at California's Scripps Institute and Japan's Meio University through agreements that partner the University with the world's premiere ocean and earth science institute and with several regional universities.
- UOG Vision 2025 lays out the 21st century Physical Master Plan to accommodate 5,000 Tritons on-campus and another 5,000 on-line. It is the plan that will be funded through the University's Capital Campaign, which has generated ~\$7 million. The Governor and Speaker of the Legislature are the campaign's honorary chairs and are working with the President and UOG Endowment Foundation.
- U.S. Department of Agriculture's approval is expected in early 2014 for financing a Student Services Center and Engineering Sciences Annex. The \$21.7 million of USDA low-cost financing through the Rural Development Community Facilities Program will enable an one-stop student services center and set the stage for a School of Engineering. PL32-120 committed the funding. We are moving forward on these facilities in partnership with the UOG Endowment Foundation. Groundbreaking is targeted before year-end.
- The \$18 million of projects, which were funded under the federal ARRA grant, now provide new technologies, new equipment, new IT systems and a renovated physical infrastructure. Additionally, U.S. Department of Interior has awarded \$7 million for energy sustainability and for renovation and expansion of the Fieldhouse and School of Nursing and Health Sciences building. The University is bolstering its financial reserves, which will be another funding source to maintain facilities.

In summary, change is underway – there's optimism and opportunity tempered by fiscal reality. We will be responsive to the challenges our island societies face to develop a great and sustainable University that protects our environment and enhances the quality of our lives.

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

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

Statements of Net Position - University Only
September 30, 2013 and 2012

	2013	2012
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 15,344,800	\$ 10,215,789
Short-term investments	10,025,720	8,561,733
Due from Government of Guam	724,992	6,115,359
Tuition receivable, net of an allowance for doubtful accounts of \$2,463,415 in 2013 and \$3,416,847 in 2012	6,040,123	4,846,466
Due from the US Federal government	3,555,120	6,287,675
Due from University of Guam Endowment Foundation, Inc.	50,000	-
Other receivables, net of an allowance for doubtful accounts of \$435,640 in 2013 and \$417,420 in 2012	1,495,423	1,581,096
Inventories	635,004	488,335
Other current assets	175,260	301,915
Total current assets	38,046,442	38,398,368
Noncurrent assets:		
Restricted cash and cash equivalents	3,966,478	3,851,756
Investments	9,901,032	8,865,948
Endowment investments	11,155,790	9,643,037
Depreciable capital assets, net of accumulated depreciation	67,539,924	68,170,723
Nondepreciable capital assets	4,453,775	2,932,362
Total noncurrent assets	97,016,999	93,463,826
	\$ 135,063,441	\$ 131,862,194
<u>Liabilities and Net Position</u>		
Current liabilities:		
Current portion of long-term debt	\$ 201,557	\$ 192,704
Accounts payable and accrued liabilities	6,284,441	7,199,982
Unearned revenues	7,203,397	6,638,847
Current portion of accrued annual leave	1,219,805	1,118,564
Total current liabilities	14,909,200	15,150,097
Noncurrent liabilities:		
Long-term debt, net of current portion	12,051,906	12,203,319
Deposits held on behalf of others	27,098	63,791
Accrued annual leave, net of current portion	547,416	726,234
DCRS sick leave liability	2,349,317	2,088,199
Total noncurrent liabilities	14,975,737	15,081,543
Total liabilities	29,884,937	30,231,640
Net position:		
Net investment in capital assets	60,709,624	58,707,062
Restricted, nonexpendable	5,126,907	5,126,907
Restricted, expendable	3,073,586	2,168,394
Unrestricted	36,268,387	35,628,191
Total net position	105,178,504	101,630,554
	\$ 135,063,441	\$ 131,862,194

See accompanying notes to financial statements.

UNIVERSITY OF GUAM ENDOWMENT FOUNDATION, INC.
(A Component Unit of the University of Guam)

Statements of Financial Position
December 31, 2012 and 2011

<u>ASSETS</u>	<u>2012</u>	<u>2011</u>
Cash and cash equivalents	\$ 438,639	\$ 510,200
Pledges receivable, net of an allowance for doubtful accounts of \$43,784 and \$26,325 at December 31, 2012 and 2011, respectively	683,000	348,309
Equipment, net	14,773	11,755
Investment in Bank of Guam stock	191,053	191,053
Investments in securities	<u>7,291,005</u>	<u>7,099,019</u>
	<u>\$ 8,618,470</u>	<u>\$ 8,160,336</u>
 <u>LIABILITIES AND NET ASSETS</u> 		
Liabilities:		
Accounts payable and accrued expense	\$ 48,411	\$ 42,231
Due to University of Guam	<u>-</u>	<u>304,316</u>
Total liabilities	<u>48,411</u>	<u>346,547</u>
Net assets:		
Unrestricted	935,113	535,057
Temporarily restricted	7,120,173	6,766,977
Permanently restricted	<u>514,773</u>	<u>511,755</u>
Total net assets	<u>8,570,059</u>	<u>7,813,789</u>
	<u>\$ 8,618,470</u>	<u>\$ 8,160,336</u>

See accompanying notes to financial statements.

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

Statements of Revenues, Expenses and Changes in Net Position - University Only
Years Ended September 30, 2013 and 2012

	2013	2012
Operating revenues:		
Student tuition and fees	\$ 21,016,827	\$ 21,860,683
Less scholarship discounts and allowances	(11,027,395)	(9,138,640)
	9,989,432	12,722,043
Federal grants and contracts	35,395,513	40,694,251
Government of Guam grants and contracts	1,537,817	1,864,290
Private grants and contracts	1,075,066	1,054,053
Sales and services of education department	569,157	578,030
Auxiliary enterprises	2,286,103	2,216,440
Other revenues	4,941,196	4,397,496
Total operating revenues	55,794,284	63,526,603
Bad debts recovery (provision)	933,494	(1,161,036)
Net operating revenues	56,727,778	62,365,567
Operating expenses:		
Instruction	18,224,257	20,098,681
Public service	12,061,816	11,579,437
Research	11,173,773	10,948,816
Operational and maintenance, plant	7,107,205	14,862,076
Scholarships and fellowships	12,275,318	10,067,221
Institutional support	7,780,564	8,667,247
Academic support	8,864,964	8,439,982
Student services	4,048,494	4,082,511
Depreciation	3,027,205	3,116,418
Auxiliary enterprises	2,545,790	2,617,231
Retiree healthcare costs	1,475,808	1,149,539
Total operating expenses	88,585,194	95,629,159
Operating loss	(31,857,416)	(33,263,592)
Nonoperating revenues (expenses):		
Government of Guam appropriations:		
Operations	27,013,374	27,788,915
Student financial aid program	3,599,358	3,599,358
Guam Cancer Trust Fund	1,548,741	2,308,635
Capital expenditure loan repayment	500,000	500,000
Retiree healthcare costs	1,475,808	1,149,539
Net investment income	2,653,848	2,647,660
Loss on abandoned capital projects	-	(232,049)
Interest on capital assets - debt related	(573,081)	(530,281)
Debt service - DOA bond	(2,204,682)	(2,247,590)
Total nonoperating revenues, net	34,013,366	34,984,187
Capital contributions	1,392,000	6,528,416
Increase in net position	3,547,950	8,249,011
Net position at beginning of year	101,630,554	93,381,543
Net position at end of year	\$ 105,178,504	\$ 101,630,554

See accompanying notes to financial statements.

UNIVERSITY OF GUAM ENDOWMENT FOUNDATION, INC.
(A Component Unit of the University of Guam)

Statement of Activities
Year Ended December 31, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other income (losses):				
Net investment income	\$ 442,760	\$ -	\$ -	\$ 442,760
Contributions	65,408	64,463	-	129,871
In-kind donations	110,875	-	-	110,875
Fundraising activities	231,980	850,976	-	1,082,956
Grants	-	10,000	-	10,000
Others	3,740	(6,862)	6,862	3,740
Net assets released from restrictions:				
Satisfaction of program restrictions	565,381	(565,381)	-	-
Total revenues, gain and other income (losses)	<u>1,420,144</u>	<u>353,196</u>	<u>6,862</u>	<u>1,780,202</u>
Expenses and losses:				
Program services:				
Donations for debt service - UOG	200,000	-	-	200,000
Scholarships	44,185	-	-	44,185
Total program services	<u>244,185</u>	<u>-</u>	<u>-</u>	<u>244,185</u>
Support services:				
Management and general	345,834	-	3,844	349,678
In-kind expenses	110,875	-	-	110,875
Fundraising activities	319,194	-	-	319,194
Total support services	<u>775,903</u>	<u>-</u>	<u>3,844</u>	<u>779,747</u>
Total expenses and losses	<u>1,020,088</u>	<u>-</u>	<u>3,844</u>	<u>1,023,932</u>
Increase in net assets	400,056	353,196	3,018	756,270
Net assets at beginning of year	<u>535,057</u>	<u>6,766,977</u>	<u>511,755</u>	<u>7,813,789</u>
Net assets at end of year	<u>\$ 935,113</u>	<u>\$ 7,120,173</u>	<u>\$ 514,773</u>	<u>\$ 8,570,059</u>

See accompanying notes to financial statements.

UNIVERSITY OF GUAM ENDOWMENT FOUNDATION, INC.
(A Component Unit of the University of Guam)

Statement of Activities
Year Ended December 31, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other income (losses):				
Net investment losses	\$ (55,035)	\$ (14,572)	\$ -	\$ (69,607)
Contributions	5,880	211,240	-	217,120
In-kind donations	139,672	4,395	-	144,067
Fundraising activities	373,442	94,207	-	467,649
Grants	-	75,672	-	75,672
Others	6,453	(11,653)	11,653	6,453
Net assets released from restrictions:				
Satisfaction of program restrictions	635,394	(635,394)	-	-
Total revenues, gain and other income (losses)	<u>1,105,806</u>	<u>(276,105)</u>	<u>11,653</u>	<u>841,354</u>
Expenses and losses:				
Program services:				
Donations for debt service - UOG	200,000	-	-	200,000
Scholarships	15,238	-	-	15,238
Total program services	<u>215,238</u>	<u>-</u>	<u>-</u>	<u>215,238</u>
Support services:				
Management and general	319,740	-	1,297	321,037
In-kind expenses	144,067	-	-	144,067
Fundraising activities	302,961	-	-	302,961
Total support services	<u>766,768</u>	<u>-</u>	<u>1,297</u>	<u>768,065</u>
Total expenses and losses	<u>982,006</u>	<u>-</u>	<u>1,297</u>	<u>983,303</u>
Increase (decrease) in net assets	123,800	(276,105)	10,356	(141,949)
Net assets at beginning of year	<u>411,257</u>	<u>7,043,082</u>	<u>501,399</u>	<u>7,955,738</u>
Net assets at end of year	<u>\$ 535,057</u>	<u>\$ 6,766,977</u>	<u>\$ 511,755</u>	<u>\$ 7,813,789</u>

See accompanying notes to financial statements.

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

Statements of Cash Flows - University Only
Years Ended September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Student tuition and fees, net	\$ 10,293,819	\$ 10,829,616
Grants, contracts and appropriations	40,740,952	43,539,972
Sales and services of education department	569,157	578,030
Auxiliary services	2,286,102	2,216,440
Other receipts	5,066,831	5,212,146
Payments to suppliers and employee for education and general expenses	(72,685,533)	(79,131,320)
Payments to students for financial aid	(12,275,318)	(10,067,221)
Net cash used for operating activities	<u>(26,003,990)</u>	<u>(26,822,337)</u>
Cash flows from non-capital related financing activities:		
Government of Guam appropriations collected	<u>38,051,840</u>	<u>34,802,013</u>
Cash flows from capital and related financing activities:		
Capital contributions received	1,392,000	6,528,416
Changes in restricted cash	(114,722)	(775,116)
Interest paid on capital debt	(573,081)	(530,281)
Principal paid on capital debt	(2,347,242)	(2,467,369)
Purchases of capital assets	(3,917,818)	(5,923,188)
Net cash used for capital and related financing activities	<u>(5,560,863)</u>	<u>(3,167,538)</u>
Cash flows from investing activities:		
Proceeds from sale and maturities of investments	8,939,836	3,126,006
Investment income	613,842	741,812
Purchases of investments	(10,911,654)	(4,698,927)
Net cash used for investing activities	<u>(1,357,976)</u>	<u>(831,109)</u>
Net change in cash and cash equivalents	5,129,011	3,981,029
Cash and cash equivalents, beginning of year	<u>10,215,789</u>	<u>6,234,760</u>
Cash and cash equivalents, end of year	<u>\$ 15,344,800</u>	<u>\$ 10,215,789</u>

Supplemental information on noncash activities:

During the years ended September 30, 2013 and 2012, the University recorded appropriations of \$1,475,808 and \$1,149,539, respectively, for retiree healthcare costs paid by the Government of Guam on behalf of the University.

In 2012, the University incurred a \$232,049 loss from abandoned CIP projects recorded in previous years.

See accompanying notes to financial statements.

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

Statements of Cash Flows - University Only, Continued
Years Ended September 30, 2013 and 2012

	2013	2012
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	\$ (31,857,416)	\$ (33,263,592)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	3,027,205	3,116,418
Bad debts (recovery) provision	(933,494)	1,161,036
Retiree healthcare costs	1,475,808	1,149,539
Changes in assets and liabilities:		
Receivables, net	2,508,064	(1,462,385)
Inventories	(146,669)	67,293
Other current assets	126,655	14,285
Accounts payable, accrued liabilities and deposits held for others	(952,234)	1,670,599
Accrued annual leave	(77,577)	7,174
DCRS sick leave liability	261,118	368,198
Unearned revenues	564,550	349,098
Net cash used for operating activities	\$ (26,003,990)	\$ (26,822,337)

See accompanying notes to financial statements.

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

Notes to Financial Statements
September 30, 2013 and 2012

1. Organization and Basis of Presentation

Organization

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

Financial Statement Presentation

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

Basis of Accounting

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

Reporting Entity

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

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

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

Notes to Financial Statements
September 30, 2013 and 2012

1. Organization and Basis of Presentation, Continued

Reporting Entity, Continued

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

2. Summary of Significant Accounting Policies

- A. Cash and Cash Equivalents. Cash and cash equivalents include cash on hand, cash in banks, money market accounts and time certificates of deposit with original maturities of three months or less.
- B. Restricted Cash and Cash Equivalents. Cash and cash equivalents that are restricted to make debt service payments and purchases or enhance learning resources materials and technology are classified as noncurrent assets in the Statement of Net Position.
- C. Use of Restricted/Unrestricted Net Position. When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the University's policy is to apply restricted net position first.
- D. Short-term Investments. Short-term investments include time certificates of deposit with original maturities of more than three months.
- E. Investments. The University accounts for its investments at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Realized gains and losses are recognized upon disposition, while unrealized gains and losses on the carrying value of investments are reported as a part of net investment income in the Statement of Revenues, Expenses and Changes in Net Position.
- F. Accounts Receivable. Accounts receivable consist of tuition and fee charges to students and charges for auxiliary enterprise services provided to students, faculty and staff. Accounts receivable also includes amounts due from U.S. Federal agencies for various federal grant awards as well as amounts due from GovGuam for local appropriations. Accounts receivable are recorded net of an estimated allowance for doubtful accounts, an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectibility of these accounts and prior collection experience. The allowance is established through a provision for bad debts charged to expense.
- G. Due from Government of Guam. Due from Government of Guam consists of the remaining balance of legislative annual appropriations and student financial aid funding that have not been received at September 30, 2013 and 2012.
- H. Accounts Receivable - U.S. Federal Government. Accounts receivable from the U.S. Government consist of amounts due from the federal government in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts.
- I. Other Receivables. Other receivables consist primarily of auxiliary enterprise services provided to students, faculty, staff, other departments within the University, and to the public. Other receivables also include amounts due from the local government or private sources in relation to the performance of grants and contracts.

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Notes to Financial Statements
September 30, 2013 and 2012

2. Summary of Significant Accounting Policies, Continued

- J. Inventory. Inventory is stated at the lower of cost, determined using the first-in, first-out method, or market.
- K. Capital Assets. Depreciation is calculated using the straight-line method over estimated useful lives of 5 - 50 years for buildings and improvements and 5 - 15 years for equipment and land improvements. The University's capitalization policy requires acquisitions greater than \$5,000 to be capitalized and depreciated over their estimated useful lives. The assets are carried at cost, except for land and buildings transferred to the University, which were recorded at management's estimate of fair market value at the date of acquisition.
- L. Unearned Revenues. Unearned revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent fiscal year. Unearned revenues also include amounts received from grant and contract sponsors that have not yet been earned.
- M. Compensated Absences. Compensated absences are accrued and reported as liability in the period earned. Annual leave expected to be paid out within the next fiscal year is accrued and included in current liabilities. All annual leave credit is convertible to pay upon termination of employment. The maximum accumulation amount of annual leave is limited to 320 hours. Pursuant to Public Law 27-106, employees who have accumulated annual leave in excess of 320 hours as of February 28, 2003, may carry over their excess and shall use the excess amount of leave prior to retirement or termination from service. Any unused leave over 320 hours shall be lost upon retirement. Public Law 26-86 allows members of the Defined Contribution Retirement System to receive a lump sum payment of one-half of their accumulated sick leave upon retirement.
- N. 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 2013 and 2012 was \$276,868 and \$290,137, respectively.
- O. Noncurrent Liabilities. Noncurrent liabilities include (1) long-term debt with contractual maturities greater than one year, and (2) estimated amounts for accrued compensated absences, sick leave and other liabilities that will not be paid within the next fiscal year.
- P. Net Position. The University's net position is classified as follows:

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

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

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

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Notes to Financial Statements
September 30, 2013 and 2012

2. Summary of Significant Accounting Policies, Continued

P. Net Position, Continued

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

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

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

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

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

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 position and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

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Notes to Financial Statements
September 30, 2013 and 2012

2. Summary of Significant Accounting Policies, Continued

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

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

W. UOG Endowment Foundation Pledges Receivable and Investments

UOG Endowment Foundation Pledges Receivable:

Pledges receivable consist of donations pledged to the Foundation, but not yet received as of December 31, 2012 and 2011. 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 future cash flows. Amortization of discount will be included in contribution revenue. Management of the Foundation is of the opinion that the net outstanding balance is collectible in subsequent fiscal years and has reserved for all other long-term receivables.

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

	<u>2012</u>	<u>2011</u>
SBPA (School of Business and Public Administration) Building	\$ 210,438	\$ 317,548
60 th Anniversary Capital Campaign	474,228	-
Other	<u>42,118</u>	<u>57,086</u>
	726,784	374,634
Less: allowance for doubtful accounts	<u>(43,784)</u>	<u>(26,325)</u>
	<u>\$ 683,000</u>	<u>\$ 348,309</u>

UOG Endowment Foundation Investments:

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

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Notes to Financial Statements
September 30, 2013 and 2012

2. Summary of Significant Accounting Policies, Continued

W. UOG Endowment Foundation Pledges Receivable and Investments, Continued

Investments are carried at fair market values. Gains and losses on investments are reported in the statements of activities as increases or decreases in unrestricted net position unless their use is temporarily or permanently restricted by explicit donor stipulations or by law. The composition of investments in securities as of December 31, 2012 and 2011, is as follows:

	<u>2012</u>	<u>2011</u>
Cash	\$ 134,497	\$ 188,265
Equities	500,668	4,465,292
Fixed income	70,611	2,333,182
Mutual funds	<u>6,585,229</u>	<u>112,280</u>
	<u>\$ 7,291,005</u>	<u>\$ 7,099,019</u>

The composition of net gains (losses) on investments in securities for the years ended December 31, 2012 and 2011, is as follows:

	<u>2012</u>	<u>2011</u>
Net unrealized losses	\$ (215,975)	\$ (514,065)
Net realized gains	469,468	312,830
Interest income	251,930	210,234
Dividends	12,307	12,307
Other expenses, net	<u>(74,970)</u>	<u>(90,913)</u>
	<u>\$ 442,760</u>	<u>\$ (69,607)</u>

Investments also include 23,392 shares of stock in Bank of Guam (BOG) of which 19,892 shares were recorded at published market values as of December 31, 2004, before the shares were removed from the public market. The remaining 3,500 BOG shares were recorded at cost. Dividends received from these shares will be used for scholarship purposes and/or repurchase of additional Bank of Guam stock as it is available for sale within weighted average/market price. The BOG shares contain no restrictions and are classified as unrestricted net assets.

X. New Accounting Standards. During the year ended September 30, 2013, the University implemented the following pronouncements:

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addressed how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, which improved financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The implementation of this statement did not have a material effect on the accompanying financial statements.

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September 30, 2013 and 2012

2. Summary of Significant Accounting Policies, Continued

X. New Accounting Standards, Continued

- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which enhanced the usefulness of its Codification by incorporating guidance that previously could only be found in certain FASB and American Institute of Certified Public Accountants (AICPA) pronouncements issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements. GASB Statement No. 62 superseded GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which established guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. These Statements amend the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. With the implementation of GASB Statement No. 63 and Statement No. 65, the Statement of Net Assets was renamed the Statement of Net Position. In addition, the Statement of Net Position includes two new classifications separate from assets and liabilities. Amounts reported as deferred outflows of resources are reported in a separate section following assets. Likewise, amounts reported as deferred inflows of resources are reported in a separate section following liabilities.

In April 2012, GASB issued Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of the University.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans, and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements on the financial statements of the University.

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Notes to Financial Statements
September 30, 2013 and 2012

2. Summary of Significant Accounting Policies, Continued

X. New Accounting Standards, Continued

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of these statements on the financial statements of the University.

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The provisions in Statement 70 are effective for fiscal years beginning after June 15, 2013. Management has not yet determined the effect of implementation of these statements on the financial statements of the University.

3. Deposits and Investments

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

Legally authorized investments are as follows:

(i) General Guidelines

- a. U.S. and Non-U.S. Equities include American Depository Receipts, convertible bonds, preferred stock, fixed-income securities, mutual funds and short-term securities.
- b. No individual security of any issuer, other than that of the U.S. Government, shall constitute more than 5% (at cost) of the total fund or 10% (at cost) of any manager's portfolio.
- c. No investment may be made in the securities of a single corporate entity in excess of 15% (at market) of any individual investment manager's portfolio, without prior approval from the University.
- d. Holdings of any issuer shall constitute no more than 5% of the outstanding securities of such issuer.
- e. Investments in a registered mutual fund managed by the investment manager are subject to prior approval of the University.

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Notes to Financial Statements
September 30, 2013 and 2012

3. Deposits and Investments, Continued

f. The following securities and transactions are not authorized without prior written approval from the University: letter stock and other unregistered securities; non-negotiable securities; commodities or other commodity contracts; options; futures; short sales; and margin transactions.

(ii) U.S. Fixed Income

a. All fixed income securities held in the portfolio shall have Moody's, Standard & Poor's and/or Fitch's credit quality rating of no less than "BBB".

b. U.S. Treasury and U.S. Government agencies, which are unrated securities, are qualified for inclusion in the portfolio and will be considered to be of the highest rating.

c. No more than 20% of the market value of the portfolio shall be rated less than single "A" quality, unless the manager has specific prior written authorization from the University.

d. Total portfolio quality (capitalization weighted) shall maintain an "A" minimum weighting.

(iii) Equities

a. Consistent with the desire to maintain broad diversification, allocation to any economic or industry sector should not be excessive.

b. Equity holdings shall be restricted to readily marketable securities of corporations that are actively traded on the major exchanges and over the counter.

c. The managers shall have the discretion to invest a portion of the assets in cash reserves when they deem appropriate.

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

(iv) Cash and Cash Equivalents

a. Cash equivalent reserves shall consist of cash instruments having a quality rating of A-1, P-1 or their equivalent. U.S. Treasury and Agency securities, Bankers Acceptances, Certificates of Deposit and Collateralized Repurchase Agreements are also acceptable investment vehicles. Custodial Sweep Accounts must be, in the judgment of the investment managers, of credit quality equal or superior to the standards described above.

b. In the case of Certificates of Deposit, they must be issued by FDIC insured institutions. Deposits in institutions with less than \$10,000,000 in assets may not be made in excess of \$250,000 unless the deposit is fully collateralized by U.S. Treasury Securities.

c. No single issue shall have a maturity of greater than two years.

d. Custodial Sweep Account portfolios must have an average maturity of less than one year.

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Notes to Financial Statements
September 30, 2013 and 2012

3. Deposits and Investments, Continued

A. Deposits

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

At September 30, 2013 and 2012, the carrying amount of the University's cash and cash equivalents and time certificates of deposit were \$29,336,998 and \$22,629,278 and the corresponding bank balances were \$29,173,613 and \$23,861,368, respectively. Of the bank balance amounts, \$2,730,335 and \$2,488,606, respectively, are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance, National Credit Union Administration (NCUA) insurance, or collateralized by securities held by a trustee in the name of the financial institution. The University does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC or NCUA insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

Restricted cash and cash equivalents:

As of September 30, 2013 and 2012, the University recorded \$2,069,585 and \$2,046,305, respectively, from a tobacco settlement agreement entered into by the Government of Guam to be expended by the University for enhancement of learning resources and technology. The funds may only be expended in accordance with purposes set forth by the Guam Economic Development Authority, a component unit of the Government of Guam. Of the amount recorded, \$1,690,007 and \$1,747,381, respectively, is invested in a municipal bond issued by the Gwinnett County Development Authority in Georgia. This bond carried a Fitch's credit rating of AAA.

As of September 30, 2013 and 2012, restricted cash and cash equivalents include \$2,015,419 and \$1,271,127, respectively, received from the Government of Guam Healthy Futures Fund as appropriations for the Guam Cancer Trust Fund. These funds are allocated to provide financial assistance to organizations that provide patient directed services for the prevention and treatment of cancer.

Restricted cash and cash equivalents also include \$1,422,888 and \$2,084,030 as of September 30, 2013 and 2012, respectively, designated for debt service, operation and maintenance of a certain facility in compliance with a loan security agreement (see note 6). The remainder of restricted cash and cash equivalents of \$148,593 and \$197,675, respectively, represents funds with various externally imposed restrictions.

B. Investments

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

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Notes to Financial Statements
September 30, 2013 and 2012

3. Deposits and Investments, Continued

B. Investments, Continued

Investments at September 30, 2013 consist of the following:

	<u>Short-term</u>	<u>Long-term</u>	<u>Endowment</u>	<u>Total</u>
Certificates of deposit	\$ 10,025,720	\$ 37,138	\$ 41,845	\$ 10,104,703
Money market funds	-	275,205	310,081	585,286
Fixed income securities	-	2,103,725	2,370,329	4,474,054
Common stock	-	6,280,771	7,076,734	13,357,505
Mutual funds	-	409,543	461,444	870,987
Municipal bonds	-	794,650	895,357	1,690,007
	<u>\$ 10,025,720</u>	<u>\$ 9,901,032</u>	<u>\$ 11,155,790</u>	<u>\$ 31,082,542</u>

Investments at September 30, 2012 consist of the following:

	<u>Short-term</u>	<u>Long-term</u>	<u>Endowment</u>	<u>Total</u>
Certificates of deposit	\$ 8,561,733	\$ 61,131	\$ 66,489	\$ 8,689,353
Money market funds	-	273,110	297,047	570,157
Fixed income securities	-	2,086,364	2,269,231	4,355,595
Common stock	-	5,203,159	5,659,209	10,862,368
Mutual funds	-	405,175	440,689	845,864
Municipal bonds	-	837,009	910,372	1,747,381
	<u>\$ 8,561,733</u>	<u>\$ 8,865,948</u>	<u>\$ 9,643,037</u>	<u>\$ 27,070,718</u>

The University's exposure to credit risk at September 30, 2013 was as follows:

<u>Moody's Rating</u>	<u>Domestic</u>
AAA	\$ 989,621
AA	524,010
A	1,663,155
BAA	208,813
Not rated	<u>1,088,455</u>
Total credit risk debt securities	<u>\$ 4,474,054</u>

The University's exposure to credit risk at September 30, 2012 was as follows:

<u>Moody's Rating</u>	<u>Domestic</u>
AAA	\$ 1,948,221
A	1,850,176
BAA	550,911
CAA	<u>6,287</u>
Total credit risk debt securities	<u>\$ 4,355,595</u>

UNIVERSITY OF GUAM
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Notes to Financial Statements
September 30, 2013 and 2012

3. Deposits and Investments, Continued

B. Investments, Continued

As of September 30, 2013, the University's fixed income securities had the following maturities:

<u>Investment Type</u>	<u>Fair value</u>	<u>Less than 1 year</u>	<u>1 to 5 years</u>	<u>5 to 10 years</u>	<u>More than 10 years</u>
Corporate bonds	\$ 2,104,304	\$ -	\$ -	\$ 2,100,929	\$ 3,375
Federal Home Loan Mortgage Corp.	712,473	-	521,941	67,561	122,971
Federal National Mortgage Assn.	1,199,486	-	339,018	383,120	477,348
U.S. Treasury Notes	<u>457,791</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>457,791</u>
	<u>\$ 4,474,054</u>	<u>\$ -</u>	<u>\$ 860,959</u>	<u>\$ 2,551,610</u>	<u>\$ 1,061,485</u>

As of September 30, 2012, the University's fixed income securities had the following maturities:

<u>Investment Type</u>	<u>Fair value</u>	<u>Less than 1 year</u>	<u>1 to 5 years</u>	<u>5 to 10 years</u>	<u>More than 10 years</u>
Corporate bonds	\$ 2,277,302	\$ -	\$ -	\$ 2,277,302	\$ -
Mortgage and asset backed securities	208,132	-	-	-	208,132
Federal Home Loan Mortgage Corp.	474,600	-	239,709	151,218	83,673
Federal National Mortgage Assn.	1,280,999	-	63,023	300,061	917,915
U.S. Treasury Notes	<u>114,562</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>114,562</u>
	<u>\$ 4,355,595</u>	<u>\$ -</u>	<u>\$ 302,732</u>	<u>\$ 2,728,581</u>	<u>\$ 1,324,282</u>

Custodial risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the University will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The University's investments are held and administered by investment managers. Accordingly, these investments are exposed to custodial credit risk. Based on negotiated trust and custody contracts, all of these investments were held in the University's name at September 30, 2013 and 2012.

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. As of September 30, 2013 and 2012, the University did not hold any investment in any one issuer that represented 5% or more of total investments of the University.

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

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Notes to Financial Statements
September 30, 2013 and 2012

3. Deposits and Investments, Continued

B. Investments, Continued

The composition of net investment income for the years ended September 30, 2013 and 2012 is as follows:

	<u>2013</u>	<u>2012</u>
Interest and dividends from investments	\$ 663,505	\$ 235,471
Investment fees expense	(211,234)	(127,993)
Realized gains	161,571	634,334
Appreciation of fair value of investments, net	<u>2,040,006</u>	<u>1,905,848</u>
	<u>\$ 2,653,848</u>	<u>\$ 2,647,660</u>

4. Student Loans

The Guam Legislature appropriates funds for the student loan program available to residents of Guam who attend institutions of higher education. The University is responsible for awarding the loans and monitoring compliance with respect to repayment. Due to the uncertainty of collection and due to recipient ability to repay the loans through work credits, student loan receivables are fully reserved in the year granted, and payments are reflected as recoveries in the year received. At September 30, 2013 and 2012, loans receivable are reserved in the amount of \$18,482,194 and \$17,513,726, respectively, and recoveries collected are \$431,693 and \$616,024 for the years then ended, respectively.

5. Capital Assets

Activity and balances for capital assets for the years ended September 30, 2013 and 2012 consisted of the following:

	<u>Balance</u> <u>October 1, 2012</u>	<u>Additions/</u> <u>Transfers</u>	<u>Retirements</u> <u>Transfers</u>	<u>Balance</u> <u>September 30, 2013</u>
<u>2013:</u>				
<u>Depreciable:</u>				
Land improvements	\$ 320,754	\$ -	\$ -	\$ 320,754
Building	86,171,515	136,150	-	86,307,665
Building improvements	3,658,673	252,377	-	3,911,050
Equipment	16,671,011	1,769,449	(290,837)	18,149,623
Library books	<u>6,692,199</u>	<u>238,430</u>	<u>-</u>	<u>6,930,629</u>
	113,514,152	2,396,406	(290,837)	115,619,721
Less accumulated depreciation	<u>(45,343,429)</u>	<u>(3,027,205)</u>	<u>290,837</u>	<u>(48,079,797)</u>
	<u>68,170,723</u>	<u>(630,799)</u>	<u>-</u>	<u>67,539,924</u>
<u>Nondepreciable:</u>				
Land	2,589,112	-	-	2,589,112
Construction in progress	<u>343,250</u>	<u>1,521,413</u>	<u>-</u>	<u>1,864,663</u>
	<u>2,932,362</u>	<u>1,521,413</u>	<u>-</u>	<u>4,453,775</u>
Total capital assets, net	<u>\$ 71,103,085</u>	<u>\$ 890,614</u>	<u>\$ -</u>	<u>\$ 71,993,699</u>

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

Notes to Financial Statements
September 30, 2013 and 2012

5. Capital Assets, Continued

<u>2012:</u>	<u>Balance</u> <u>October 1, 2011</u>	<u>Additions/</u> <u>Transfers</u>	<u>Retirements</u> <u>Transfers</u>	<u>Balance</u> <u>September 30, 2012</u>
<u>Depreciable:</u>				
Land improvements	\$ 320,754	\$ -	\$ -	\$ 320,754
Building	86,171,515	-	-	86,171,515
Building improvements	1,279,760	2,378,913	-	3,658,673
Equipment	12,623,174	4,149,503	(101,666)	16,671,011
Library books	6,569,309	122,890	-	6,692,199
	<u>106,964,512</u>	<u>6,651,306</u>	<u>(101,666)</u>	<u>113,514,152</u>
Less accumulated depreciation	<u>(42,328,677)</u>	<u>(3,116,418)</u>	<u>101,666</u>	<u>(45,343,429)</u>
	<u>64,635,835</u>	<u>3,534,888</u>	<u>-</u>	<u>68,170,723</u>
<u>Nondepreciable:</u>				
Land	2,589,112	-	-	2,589,112
Construction in progress	1,303,417	-	(960,167)	343,250
	<u>3,892,529</u>	<u>-</u>	<u>(960,167)</u>	<u>2,932,362</u>
Total capital assets, net	<u>\$ 68,528,364</u>	<u>\$ 3,534,888</u>	<u>\$ (960,167)</u>	<u>\$ 71,103,085</u>

6. Long-Term Debt

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

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

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

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 201,557	\$ 548,503	\$ 750,060
2015	210,817	539,243	750,060
2016	220,501	529,559	750,060
2017	230,631	519,429	750,060
2018	241,226	508,834	750,060
2019-2023	1,382,900	2,367,400	3,750,300
2024-2028	1,731,108	2,019,192	3,750,300
2029-2033	2,166,994	1,583,306	3,750,300
2034-2038	2,712,634	1,037,666	3,750,300
2039-2043	<u>3,155,095</u>	<u>355,621</u>	<u>3,510,716</u>
	<u>\$ 12,253,463</u>	<u>\$ 10,008,753</u>	<u>\$ 22,262,216</u>

UNIVERSITY OF GUAM
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Notes to Financial Statements
September 30, 2013 and 2012

6. Long-Term Debt, Continued

Public Law 26-48 also provided supplemental annual funding of \$500,000 from the Government of Guam Territorial Highway Fund to pay for the loan. During the years ended September 30, 2013 and 2012, \$500,000 has been received for this purpose.

The Foundation annually committed a donation of \$200,000 to the University as a contribution for repayment of the loan through 2043. The Foundation donated \$150,000 and \$200,000 for the years ended September 30, 2013 and 2012, respectively.

7. Noncurrent Liabilities

Changes in long-term liabilities in 2013 and 2012 are presented as follows:

	Outstanding October <u>1, 2012</u>	<u>Additions</u>	<u>Reductions</u>	Outstanding September <u>30, 2013</u>	Amount due within <u>one year</u>
Long-term debt	\$ 12,396,023	\$ -	\$ 142,560	\$ 12,253,463	\$ 201,557
Other liabilities:					
Deposits held on behalf of others	63,791	2,084,049	2,120,742	27,098	-
Accrued annual leave	1,844,798	1,423,871	1,501,448	1,767,221	1,219,805
DCRS sick leave liability	<u>2,088,199</u>	<u>828,194</u>	<u>567,076</u>	<u>2,349,317</u>	-
	<u>\$ 16,392,811</u>	<u>\$ 4,336,114</u>	<u>\$ 4,331,826</u>	<u>\$ 16,397,099</u>	<u>\$ 1,421,362</u>
	Outstanding October <u>1, 2011</u>	<u>Additions</u>	<u>Reductions</u>	Outstanding September <u>30, 2012</u>	Amount due within <u>one year</u>
Long-term debt	\$ 12,615,802	\$ -	\$ 219,779	\$ 12,396,023	\$ 192,704
Other liabilities:					
Deposits held on behalf of others	115,188	931,912	983,309	63,791	-
Accrued annual leave	1,837,624	1,444,283	1,437,109	1,844,798	1,118,564
DCRS sick leave liability	<u>1,720,001</u>	<u>368,198</u>	-	<u>2,088,199</u>	-
	<u>\$ 16,288,615</u>	<u>\$ 2,744,393</u>	<u>\$ 2,640,197</u>	<u>\$ 16,392,811</u>	<u>\$ 1,311,268</u>

8. 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 (DB) Plan with less than 20 years of service at September 30, 1995, had the option to switch to the Defined Contribution Retirement System.

The DB 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.

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

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

Notes to Financial Statements
September 30, 2013 and 2012

8. Employees' Retirement Plan, Continued

As a result of actuarial valuations performed as of September 30, 2011, 2010 and 2009, contribution rates for the years ended September 30, 2013 and 2012, and 2011, respectively, have been determined as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Normal costs (% of DB Plan payroll)	17.52%	17.07%	17.00%
Employee contributions (DB Plan employees)	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>
Employer portion of normal costs (% of DB Plan payroll)	<u>8.02%</u>	<u>7.57%</u>	<u>7.50%</u>
Employer portion of normal costs (% of total payroll)	3.00%	3.03%	3.03%
Unfunded liability cost (% of total payroll)	<u>24.33%</u>	<u>23.75%</u>	<u>21.75%</u>
Government contribution as a % of total payroll	<u>27.33%</u>	<u>26.78%</u>	<u>24.78%</u>
Statutory contribution rates as a % of DB Plan payroll:			
Employer	<u>30.09%</u>	<u>28.30%</u>	<u>27.46%</u>
Employee	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>

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, 2013 and 2012 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 DB 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.

Retirement contributions for the years ended September 30, 2013 and 2012 and 2011 are as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
DB plan	\$ 3,214,890	\$ 3,228,094	\$ 3,116,722
DCRS	<u>4,925,785</u>	<u>4,531,900</u>	<u>4,214,253</u>
	<u>\$ 8,140,675</u>	<u>\$ 7,759,994</u>	<u>\$ 7,330,975</u>

Public Law 26-86 allows members of the DCRS to receive a lump sum payment of one-half of their accumulated sick leave upon retirement. The University has accrued an estimated liability of \$2,349,317 and \$2,088,199 at September 30, 2013 and 2012, respectively, for potential future sick leave payments as a result of this law. However, this amount is an estimate and actual payout may be materially different than estimated.

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

Notes to Financial Statements
September 30, 2013 and 2012

8. Employees' Retirement Plan, Continued

Other Post-Employment Benefits

The Government of Guam, through its substantive commitment to provide other post-employment benefits (OPEB), maintains a cost-sharing multiple employer defined benefit plan to provide certain postretirement healthcare benefits to retirees who are members of the Government of Guam Retirement Fund. Under the Plan, known as the Government of Guam Group Health Insurance Program, the Government of Guam provides medical, dental, and life insurance coverage. The retiree medical and dental plans are fully-insured products provided through insurance companies. The Government of Guam shares in the cost of these plans, with the Government of Guam's contribution amount set each year at renewal. Current statutes prohibit active and retired employees from contributing different amounts for the same coverage. As such, the Government of Guam contributes substantially more to the cost of retiree healthcare than to active healthcare. For the life insurance plan, the Government of Guam provides retirees with \$10,000 of life insurance coverage through an insurance company. Retirees do not share in the cost of this coverage. During the years ended September 30, 2013 and 2012, the University recognized certain on-behalf payments as transfers from GovGuam, totaling \$1,475,808 and \$1,149,539, respectively, representing certain healthcare benefits that GovGuam's general fund paid directly on behalf of the University. Because the Plan consists solely of the Government of Guam's firm commitment to provide OPEB through the payment of premiums to insurance companies on behalf of its eligible retirees, no stand-alone financial report is either available or generated.

9. Encumbrances

The accrual basis of accounting provides that expenses include only amounts associated with goods and services received and liabilities include only the unpaid amounts associated with such expenses. Accordingly, at September 30, 2013 and 2012, \$5,420,301 and \$5,529,025, respectively, of outstanding purchase orders and purchase commitments are not reported in the financial statements.

10. Commitments and Contingencies

Litigation

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

General Obligation Bonds

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

UNIVERSITY OF GUAM
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Notes to Financial Statements
September 30, 2013 and 2012

10. Commitments and Contingencies, Continued

General Obligation Bonds, 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, 2013 and 2012, total payments remitted to the Government of Guam's General Fund of \$2,204,682 and \$2,247,590, respectively, are recorded as debt service - DOA bond.

Medicare

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

Government of Guam Merit System

In 1991, Public Law 21-59 was enacted to establish a bonus system for employees of the Government of Guam, autonomous and semi-autonomous agencies, public corporations and other public instrumentalities of the Government of Guam who earn a superior performances grade. The bonus is calculated at 3.5% of the employee's base salary beginning in 1991. The University recorded liabilities for merit bonuses of \$409,620 and \$1,110,345 as of September 30, 2013 and 2012, respectively.

11. Related Party

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

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

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

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

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

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

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

See accompanying independent auditors' report.

OTHER INFORMATION

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

Schedules of Salaries, Wages and Benefits
Years Ended September 30, 2013 and 2012

	2013	2012
Salaries and wages:		
Funded by local funds	\$ 20,644,914	\$ 21,668,154
Federal funds	4,510,252	5,127,172
General operations and federal funds	4,453,195	4,483,861
Other funding sources	4,500,106	4,494,179
Total salaries and wages	34,108,467	35,773,366
Benefits:		
Funded by local funds	7,547,141	7,111,406
Federal funds	988,046	1,034,866
General Operations and Federal funds	1,275,099	1,292,788
Other funding sources	921,715	906,851
Total benefits	10,732,001	10,345,911
Total Salaries, wages and benefits	\$ 44,840,468	\$ 46,119,277

See accompanying independent auditors' report.

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

Schedules of Expenses by Object Category
Years Ended September 30, 2013 and 2012

	2013		2012	
	Unrestricted	Restricted	Unrestricted	Restricted
Instruction:				
Salaries and wages	\$ 11,751,837	\$ 232,603	\$ 12,061,159	\$ 345,729
Benefits	3,701,269	63,706	3,569,238	102,623
Travel	83,093	183,060	88,852	200,401
Contracts	886,448	788,194	884,296	1,669,467
Supplies	111,289	32,851	90,370	35,934
Equipment	23,809	22,343	64,155	90,079
Utilities	-	-	20,307	-
Capital outlay	14,552	-	-	72,565
Miscellaneous	227,369	101,834	617,546	185,960
	<u>\$ 16,799,666</u>	<u>\$ 1,424,591</u>	<u>\$ 17,395,923</u>	<u>\$ 2,702,758</u>
Public service:				
Salaries and wages	\$ 218,477	\$ 4,618,185	\$ 183,513	\$ 4,825,247
Benefits	71,475	1,239,707	56,412	1,293,296
Travel	5,995	545,099	1,408	648,507
Contracts	1,051,746	1,790,321	600,573	2,006,264
Supplies	43,987	569,279	20,678	783,568
Equipment	1,353	259,539	9,513	249,587
Utilities	7,795	135,781	7,959	20,153
Capital outlay	-	14,923	-	33,230
Miscellaneous	95,717	1,392,437	85,579	753,950
	<u>\$ 1,496,545</u>	<u>\$ 10,565,271</u>	<u>\$ 965,635</u>	<u>\$ 10,613,802</u>
Research:				
Salaries and wages	\$ 1,436,163	\$ 3,736,950	\$ 1,137,502	\$ 3,790,948
Benefits	496,368	944,222	341,917	909,936
Travel	79,727	644,744	134,602	576,541
Contracts	311,217	1,737,176	269,915	1,489,136
Supplies	113,453	413,145	123,578	519,645
Equipment	48,761	210,104	46,790	282,674
Utilities	3,515	181,030	3,255	1,091
Capital outlay	9,012	894	59,961	269,782
Miscellaneous	97,389	709,903	243,941	747,602
	<u>\$ 2,595,605</u>	<u>\$ 8,578,168</u>	<u>\$ 2,361,461</u>	<u>\$ 8,587,355</u>

See accompanying independent auditors' report.

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

Schedules of Expenses by Object Category, Continued
Years Ended September 30, 2013 and 2012

	2013		2012	
	Unrestricted	Restricted	Unrestricted	Restricted
Operational and maintenance, plant:				
Salaries and wages	\$ 1,415,187	\$ -	\$ 1,546,601	\$ -
Benefits	558,058	-	597,340	-
Contracts	546,440	-	394,841	4,475,092
Supplies	220,864	-	233,004	168,468
Equipment	32,244	-	71,508	483,468
Utilities	4,260,418	-	4,103,505	834
Capital outlay	42,800	-	-	2,786,743
Miscellaneous	31,194	-	672	-
	<u>\$ 7,107,205</u>	<u>\$ -</u>	<u>\$ 6,947,471</u>	<u>\$ 7,914,605</u>
Scholarships and fellowships:				
Miscellaneous	\$ 232,673	\$ 12,042,645	\$ 290,137	\$ 9,777,084
Institutional support:				
Salaries and wages	\$ 3,173,355	\$ -	\$ 4,047,155	\$ (7,283)
Benefits	1,222,734	(16,331)	1,072,093	-
Travel	213,376	-	269,859	-
Contracts	1,282,898	-	1,800,085	-
Supplies	138,667	-	119,803	-
Equipment	105,386	-	92,873	-
Utilities	429	-	423	-
Capital outlay	1,501,920	-	104,555	-
Miscellaneous	158,130	-	1,167,684	-
	<u>\$ 7,796,895</u>	<u>\$ (16,331)</u>	<u>\$ 8,674,530</u>	<u>\$ (7,283)</u>

See accompanying independent auditors' report.

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

Schedules of Expenses by Object Category, Continued
Years Ended September 30, 2013 and 2012

	2013		2012	
	Unrestricted	Restricted	Unrestricted	Restricted
Academic support:				
Salaries and wages	\$ 4,550,738	\$ 5,208	\$ 4,667,151	\$ -
Benefits	1,538,313	324	1,531,831	-
Travel	222,096	74	198,700	-
Contracts	1,136,145	4,308	938,738	-
Supplies	623,336	12,001	565,365	2,763
Equipment	325,549	-	251,138	-
Utilities	1,039	-	1,248	-
Capital outlay	280,245	-	184,477	-
Miscellaneous	165,588	-	94,489	4,082
	<u>\$ 8,843,049</u>	<u>\$ 21,915</u>	<u>\$ 8,433,137</u>	<u>\$ 6,845</u>
Student services:				
Salaries and wages	\$ 1,651,959	\$ 941,821	\$ 1,617,297	\$ 909,128
Benefits	635,933	63,744	596,613	61,171
Travel	73,245	60,560	45,312	37,620
Contracts	58,258	5,502	82,186	13,044
Supplies	43,147	17,766	48,252	32,151
Equipment	14,744	7,782	47,300	1,021
Utilities	50,210	-	53,740	-
Capital outlay	-	150,150	-	-
Miscellaneous	238,868	34,805	511,627	26,049
	<u>\$ 2,766,364</u>	<u>\$ 1,282,130</u>	<u>\$ 3,002,327</u>	<u>\$ 1,080,184</u>
Auxiliary enterprises:				
Salaries and wages	\$ 375,984	\$ -	\$ 649,220	\$ -
Benefits	212,479	-	213,441	-
Travel	3,287	-	6,574	-
Contracts	156,782	-	113,100	-
Supplies	59,694	-	59,863	-
Equipment	12,116	-	53,883	-
Utilities	322,523	-	281,838	-
Capital outlay	-	-	12,230	-
Miscellaneous	1,402,925	-	1,227,082	-
	<u>\$ 2,545,790</u>	<u>\$ -</u>	<u>\$ 2,617,231</u>	<u>\$ -</u>

See accompanying independent auditors' report.

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

Schedules of Employee Information
Years Ended September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Funded by:		
Local funds	389	368
Federal funds	157	201
General operations and federal funds	118	116
Other funding sources	176	139
	<u>840</u>	<u>824</u>

See accompanying independent auditors' report.

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

Schedules of Total Revenue Information
Years Ended September 30, 2013 and 2012

	2013	2012
University-generated revenues:		
Tuition and fees (gross)	\$ 21,016,827	\$ 21,860,683
Scholarship and tuition discounts	(11,027,395)	(9,138,640)
Grants and contracts, net	39,400,396	50,141,010
Auxiliary enterprises and other revenues	7,796,456	7,191,966
Total University-generated revenues	57,186,284	70,055,019
Government of Guam appropriations (excluding retiree healthcare costs appropriations)	32,661,473	34,196,908
Total revenues (excluding investment income, bad debts recovery/provision and retiree healthcare appropriations)	\$ 89,847,757	\$ 104,251,927
Supplemental information:		
Net investment income	\$ 2,653,848	\$ 2,647,660
Recovery from (provision for) bad debts	\$ 933,494	\$ (1,161,036)
Retiree healthcare costs appropriation	\$ 1,475,808	\$ 1,149,539

See accompanying independent auditors' report.

Deloitte.

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

**INDEPENDENT AUDITORS' REPORTS ON
INTERNAL CONTROL AND ON COMPLIANCE**

YEAR ENDED SEPTEMBER 30, 2013

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

The Board of Regents
University of Guam:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the University of Guam (the University), which comprise the statement of net position as of September 30, 2013, and the related statements of revenues, expenses and changes in net position, and of cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated February 24, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

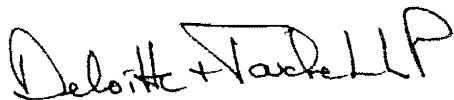
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Tamuning, Guam

February 24, 2014



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

Tel: 1-671-646-3884
Fax: 1-671-649-4932
www.deloitte.com

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

The Board of Regents
University of Guam:

Report on Compliance for Each Major Federal Program

We have audited the University of Guam's (the University's) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the University's major federal programs for the year ended September 30, 2013. The University's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the University's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the University's compliance.

Opinion on Each Major Federal Program

In our opinion, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2013.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2013-001 through 2013-005. Our opinion on each major federal program is not modified with respect to these matters.

The University's response to the noncompliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The University's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

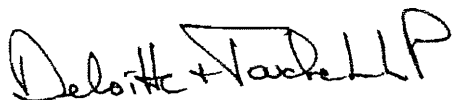
Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as items 2013-001 through 2013-005 that we consider to be significant deficiencies.

The University's response to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The University's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the University of Guam as of and for the year ended September 30, 2013, and have issued our report thereon dated February 24, 2014, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.



Tamuning, Guam

February 24, 2014

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

Summary Schedule of Expenditures of Federal Awards, by Grantor
Year Ended September 30, 2013

<u>Federal Grantor Agency</u>	<u>Expenditures</u>
U.S. Department of Agriculture	\$ 4,761,666
U.S. Department of Commerce	692,121
U.S. Department of Defense	1,378,113
U.S. Department of the Interior	2,047,470
U.S. Department of Justice	104,854
U.S. Department of Labor	131,381
National Endowment for the Humanities	101,931
National Science Foundation	353,486
Small Business Administration	888,808
U.S. Environmental Protection Agency	40
U.S. Department of Energy	685,673
U.S. Department of Education	20,723,024
U.S. Department of Health and Human Services	4,037,424
Corporation for National and Community Service	<u>406,445</u>
Grand Total	<u>\$ 36,312,436</u>
Reconciliation to the basic financial statements:	
Operating expenses	\$ 35,395,513
Capital asset additions	1,392,000
Indirect cost allocation	(371,792)
Program income	<u>(103,285)</u>
	<u>\$ 36,312,436</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

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

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2013

Federal CFDA #	Federal Grantor/Program Title	Expenditures	Research and Development Cluster
Direct from U.S. Department of Agriculture:			
10.025	Plant and Animal Disease, Pest Control, and Animal Care	\$ 503,606	\$ 503,606
10.200	Grants for Agricultural Research, Special Research Grants	149,795	149,795
10.202	Cooperative Forestry Research	44,393	44,393
10.203	Payments to Agricultural Experiment Stations Under the Hatch Act	1,028,589	1,028,589
10.206	Grants for Agricultural Research: Competitive Research Grants	2,451	2,451
10.308	Resident Instruction Grants for Insular Area Activities	771,483	-
10.500	Cooperative Extension Service	962,797	-
10.652	Forestry Research	13,961	13,961
10.680	Forest Health Protection	29,121	-
10.783	Rural Business Enterprise Grants - ARRA	8,818	-
10.912	Environmental Quality Incentives Program	13,335	13,335
10.912	Environmental Quality Incentives Program	62,760	-
	Subtotal Direct Programs	3,591,109	1,756,130
Pass-through from Government of Guam Department of Agriculture:			
10.025	Plant and Animal Disease, Pest Control, and Animal Care	100,349	100,349
10.170	Specialty Crop Block Grant Program - Farm Bill	189,040	189,040
Pass-through from Center for Tropical and Subtropical Agriculture:			
10.200	Grants for Agricultural Research, Special Research Grants	45,696	45,696
Pass-through from University of Hawaii:			
10.200	Grants for Agricultural Research, Special Research Grants	13,472	13,472
10.200	Grants for Agricultural Research, Special Research Grants	227	-
10.310	Agriculture and Food Research Initiative (AFRI)	685,462	-
Pass-through from University of Wyoming:			
10.500	Cooperative Extension Service	18,289	-
Pass-through from Utah State University:			
10.215	Sustainable Agriculture Research and Education	26,987	-
Pass-through from University of Arizona:			
10.303	Integrated Programs	5,137	-
Pass-through from University of California Davis:			
10.303	Integrated Programs	4,995	-
10.304	Homeland Security_Agricultural	6,440	6,440
Pass-through from University of Puerto Rico:			
10.309	Specialty Crop Research Initiative	46,686	-
Pass-through from University of Virgin Islands:			
10.322	Distance Education Grants for Institutions of Higher Education in Insular Areas	5,801	-
Pass-through from Kansas State University:			
10.500	Cooperative Extension Service	21,976	-
	Subtotal Pass-Through Programs	1,170,557	354,997
	U.S. Department of Agriculture Total	\$ 4,761,666	\$ 2,111,127

See accompanying notes to Schedule of Expenditures of Federal Awards.

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

Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2013

Federal CFDA #	Federal Grantor/Program Title	Expenditures	Research and Development Cluster
Direct from U.S. Department of Commerce:			
11.307	Economic Adjustment Assistance	\$ 32,158	\$ -
11.417	Sea Grant Support	159,784	159,784
11.417	Sea Grant Support	149,766	-
11.426	Financial Assistance for National Centers for Coastal Ocean Science	100,345	100,345
11.452	Unallied Industry Projects	30,569	30,569
11.452	Unallied Industry Projects	18,393	-
11.463	Habitat Conservation	60,399	60,399
11.482	Coral Reef Conservation Program	3,233	3,233
	Subtotal Direct Programs	<u>554,647</u>	<u>354,330</u>
Pass-through from Government of Guam Bureau of Statistics and Planning:			
11.419	Coastal Zone Management Administration Awards	29,939	29,939
11.426	Financial Assistance for National Centers for Coastal Ocean Science	18,235	18,235
11.482	Coral Reef Conservation Program	53,009	53,009
Pass-through from University of Hawaii at Manoa:			
11.432	NOAA Cooperative Institutes	24,872	24,872
Pass-through from National Oceanic & Atmospheric Administration:			
11.482	Coral Reef Conservation Program	11,419	11,419
	Subtotal Pass-Through Programs	<u>137,474</u>	<u>137,474</u>
	U.S. Department of Commerce Total	<u>\$ 692,121</u>	<u>\$ 491,804</u>
Direct from the U.S. Department of Defense:			
12.002	Procurement Technical Assistance for Business Firms	\$ 274,516	\$ -
12.116	Department of Defense Appropriation Act of 2003	96,248	96,248
12.300	Natural Disasters Warning, Survival and Rehabilitation	232,734	232,734
12.335	Navy Command, Control, Communications, Computers, Intelligence Surveillance, and Reconnaissance	442,688	442,688
	Subtotal Direct Programs	<u>1,046,186</u>	<u>771,670</u>
Pass-through from Department of Navy:			
12.300	Natural Disasters Warning, Survival and Rehabilitation	232,886	-
Pass-through from National Marine Fisheries Service :			
12.300	Natural Disasters Warning, Survival and Rehabilitation	31,154	-
Pass-through from Naval Facilities:			
12.300	Natural Disasters Warning, Survival and Rehabilitation	23,414	-
Pass-through from Department of Defense Office of Economic Adjustment:			
12.607	Community Economic Adjustment Assistance for Establishment, Expansion, Realignment, or Closure of a Military Installation	44,473	-
	Subtotal Pass-Through Programs	<u>331,927</u>	<u>-</u>
	U.S. Department of Defense Total	<u>\$ 1,378,113</u>	<u>\$ 771,670</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

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

Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2013

Federal CFDA #	Federal Grantor/Program Title	Expenditures	Research and Development Cluster
Direct from U.S. Department of the Interior:			
15.649	Service Training and Technical Assistance	\$ 821	\$ 821
15.805	Assistance to State Water Resources Research Institutes	238,267	238,267
15.875	Economic, Social and Political Development of the Territories	248,170	-
15.945	Cooperative Research and Training Programs Resources of the National Park System	38,018	38,018
15.DAV	Cooperative Ecosystem System Studies Unit Awards	23,918	23,918
	Subtotal Direct Programs	<u>549,194</u>	<u>301,024</u>
Pass-through from Government of Guam Department of Agriculture:			
15.605	Sport Fish Restoration Program	16,729	16,729
15.634	State Wildlife Grants	34	34
Pass-through from the Research Corporation of the University of Hawaii:			
15.820	National Climate Change and Wildlife Science Center	1,640	-
Pass-through from Government of Guam Bureau of Statistics and Planning:			
15.808	U.S. Geological Survey - Research and Data Acquisition	14,272	14,272
15.875	Economic, Social and Political Development of the Territories	44,597	44,597
15.875	Economic, Social and Political Development of the Territories	1,415,105	-
15.975	Research Information	5,899	5,899
	Subtotal Pass-Through Programs	<u>1,498,276</u>	<u>81,531</u>
	U.S. Department of the Interior Total	<u>\$ 2,047,470</u>	<u>\$ 382,555</u>
Direct from the U.S. Department of Justice:			
16.525	Grants to Reduce Domestic Violence, Dating Violence, Sexual Assault, and Stalking on Campus	\$ 104,854	-
	U.S. Department of Justice Total	<u>\$ 104,854</u>	<u>-</u>
U.S. Department of Labor:			
Pass-through from Government of Guam Department of Labor:			
17.260	WIA Dislocated Workers	\$ 131,381	-
	U.S. Department of Labor Total	<u>\$ 131,381</u>	<u>-</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

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

Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2013

Federal CFDA #	Federal Grantor/Program Title	Expenditures	Research and Development Cluster
Direct from National Endowment for the Humanities:			
45.312	National Leadership Grants	\$ 101,931	\$ -
	National Endowment for the Humanities Total	<u>\$ 101,931</u>	<u>\$ -</u>
Direct from National Science Foundation:			
47.050	Astronomical, Atmospheric, Earth and Ocean Sciences	\$ 51,824	\$ 51,824
47.074	Biological Sciences	120,023	120,023
47.080	Office of Cyberinfrastructure	164,762	164,762
	Subtotal Direct Programs	<u>336,609</u>	<u>336,609</u>
Pass-through from University of Hawaii:			
47.076	Education and Human Resources	16,877	16,877
	Subtotal Pass-Through Programs	<u>16,877</u>	<u>16,877</u>
	National Science Foundation Total	<u>\$ 353,486</u>	<u>\$ 353,486</u>
Direct from Small Business Administration:			
59.037	Small Business Development Centers	\$ 708,139	\$ -
59.XXX	Center Registration for Economic Development	22,383	-
59.044	Veterans Business Development	158,286	-
	Small Business Administration Total	<u>\$ 888,808</u>	<u>\$ -</u>
Pass-through from Guam Economic Protection Agency:			
66.600	Environmental Protection Consolidated Grants for the Insular Areas - Program Support	\$ 40	\$ -
	U.S. Environmental Protection Agency Total	<u>\$ 40</u>	<u>\$ -</u>
U.S. Department of Energy:			
Pass-through from Guam Energy Office:			
81.041	81.041A State Energy Program - ARRA ARRA State Energy Program	\$ 685,673	\$ -
	U.S. Department of Energy Total	<u>\$ 685,673</u>	<u>\$ -</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

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

Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2013

Federal CFDA #	Federal Grantor/Program Title	Expenditures	Research and Development Cluster
Direct from U.S. Department of Education:			
Student Financial Aid Cluster:			
84.007	Federal Supplemental Educational Opportunity Grant	\$ 108,350	\$ -
84.033	Federal Work-Study Program	356,403	-
84.063	Federal Pell Grant Program	7,924,514	-
84.268	Federal Direct Student Loans	9,402,667	-
84.375	Academic Competitiveness Grants	68,500	-
	Student Financial Aid Cluster Subtotal	<u>17,860,434</u>	<u>-</u>
TRIO Cluster:			
84.042	TRIO-Student Support Service	292,609	-
84.044	TRIO-Talent Search	358,237	-
84.047	TRIO-Upward Bound	400,606	-
	TRIO Cluster Subtotal	<u>1,051,452</u>	<u>-</u>
84.031	Higher Education Institution Aid	414,427	-
84.116	Fund for the Improvement of Postsecondary Education	13,911	13,911
84.195	Bilingual Education: Professional Development	4,646	-
84.224	Assistive Technology	148,569	-
84.325	Special Education - Personnel Development to Improve Services and Results for Children with Disabilities	322,894	-
84.373	Special Education-Technical Assistance on State Data Collection	139,524	-
	Subtotal Direct Programs	<u>19,955,857</u>	<u>13,911</u>
Pass-through from Guam Department of Education and Federated States of Micronesia:			
84.027	Special Education Grants to States	9,569	-
84.181	Special Education-Grants for Infants and Families	13,730	-
84.215	GPSS Project Menhalom	50,354	50,354
84.264	Rehabilitation Training Continuing Education	(372)	-
84.336	Teacher Quality Partnership Grants	479,353	-
84.402	Consolidated Grants to the Outlying Areas, Recovery Act	55,534	-
84.403	Consolidating Grant to the Outside Area	158,999	-
	Subtotal Pass-Through Programs	<u>767,167</u>	<u>50,354</u>
	U.S. Department of Education Total	<u>\$ 20,723,024</u>	<u>\$ 64,265</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

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

Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2013

Federal CFDA #	Federal Grantor/Program Title	Expenditures	Research and Development Cluster
Direct from U.S. Department of Health and Human Services:			
93.110	Maternal and Child Health Federal Consolidated Programs	\$ 45,701	\$ 45,701
93.110	Maternal and Child Health Federal Consolidated Programs	102,730	-
93.251	Universal Newborn Hearing Screening	209,929	-
93.283	The Affordable Care Act: Centers for Disease Control and Prevention - Investigations and Technical Assistance	107,801	107,801
93.283	The Affordable Care Act: Centers for Disease Control and Prevention - Investigations and Technical Assistance	32,804	-
93.397	Cancer Centers Support	1,140,737	1,140,737
93.631	Developmental Disabilities Projects of National Significance	33,969	-
93.632	University Centers for Excellence in Developmental Disabilities Education, Research and Service	549,521	-
93.708	ARRA - Head Start	263,319	-
93.824	Area Health Education Centers Infrastructure Development Awards	684,002	-
	Subtotal Direct Programs	3,170,513	1,294,239
Pass-through from Government of Guam Department of Public Health and Social Services:			
93.043	Special Programs for the Aging Title III, Part D Disease Prevention and Health Promotion Services	84,412	-
93.104	Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances	284,485	-
93.243	Substance Abuse and Mental Health Services Projects of Regional and National Significance	14,247	-
93.505	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	318,213	-
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund and Development Fund	12,052	-
Pass-through from Hawaii MCH Lend Program:			
93.110	Maternal and Child Health Federal Consolidated Programs	45,701	-
Pass-through from the Research Corps of the University of Hawaii:			
93.283	The Affordable Care Act: Centers for Disease Control and Prevention - Investigations and Technical Assistance	107,801	-
	Subtotal Pass-Through Programs	866,911	-
	U.S. Department of Health and Human Services Total	\$ 4,037,424	\$ 1,294,239

See accompanying notes to Schedule of Expenditures of Federal Awards.

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

Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2013

Federal CFDA #	Federal Grantor/Program Title	Expenditures	Research and Development Cluster
	Corporation for National and Community Service:		
94.006	Pass-through from Government of Guam Department of Labor: Americorps	\$ 406,445	\$ -
	Corporation for National and Community Service Total	<u>\$ 406,445</u>	<u>\$ -</u>
	Grand Total	<u>\$ 36,312,436</u>	<u>\$ 5,469,146</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

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

Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 2013

(1) Scope of Audit

The University of Guam (the University) is a component unit of the Government of Guam created by Public Law 13-194, "The Higher Education Act," which became effective on November 3, 1976, as an autonomous agency of the Government of Guam. Only the financial statements of the University are included within the scope of the OMB Circular A-133 audit (the "Single Audit").

Programs Subject to Single Audit

The Schedule of Expenditures of Federal Awards presents each Federal program related to the following agencies:

- U.S. Department of Agriculture
- U.S. Department of Commerce
- U.S. Department of Defense
- U.S. Department of the Interior
- U.S. Department of Justice
- U.S. Department of Labor
- National Endowment for the Humanities
- National Science Foundation
- Small Business Administration
- U.S. Environmental Protection Agency
- U.S. Department of Energy
- U.S. Department of Education
- U.S. Department of Health and Human Services
- Corporation for National and Community Service

(2) Summary of Significant Accounting Policies

Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the University and is presented on the accrual basis of accounting, consistent with the manner in which the University maintains its accounting records. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133. All expenses and capital outlays are reported as expenditures.

The University recognizes contributions from the federal government when qualifying expenditures are incurred, and expenditures are recognized on the accrual basis of accounting.

(3) American Recovery and Reinvestment Act of 2009 (ARRA)

In February 2009, the Federal Government enacted the American Recovery and Reinvestment Act of 2009 (ARRA). As of September 30, 2013, the University's grant award notification and expenditures are as follows:

<u>CFDA Program</u>	<u>Grant Amount</u>	<u>FY 2013 Expenditures</u>
10.688 Recovery Act of 2009: Wildland Fire Management	\$ 38,000	\$ -
10.783 Rural Business Enterprise Grants - ARRA	50,000	8,818
81.041 ARRA – State Energy Program	1,500,000	685,673
93.708 ARRA - Head Start	664,277	263,319

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

Schedule of Findings and Questioned Costs
Year Ended September 30, 2013

Part I - Summary of Auditors' Results Section

Financial Statements

- | | |
|--|---------------|
| 1. Type of auditors' report issued: | Unmodified |
| Internal control over financial reporting: | |
| 2. Material weakness(es) identified? | No |
| 3. Significant deficiency(ies) identified? | None reported |
| 4. Noncompliance material to financial statements noted? | No |

Federal Awards

- | | |
|---|------------|
| Internal control over major programs: | |
| 5. Material weakness(es) identified? | No |
| 6. Significant deficiency(ies) identified? | Yes |
| 7. Type of auditors' report issued on compliance for major programs: | Unmodified |
| 8. Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? | Yes |
| 9. Identification of major programs: | |

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
15.875	Research and Development Cluster Economic, Social and Political Development of the Territories Student Financial Assistance Cluster

- | | |
|--|-------------|
| 10. Dollar threshold used to distinguish between type A and type B programs: | \$1,089,373 |
| 11. Auditee qualified as low-risk auditee? | No |

Part II – Financial Statement Findings Section

No matters were reported.

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

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Part III – Federal Award Findings and Questioned Costs Section

<u>Finding Number</u>	<u>CFDA Number</u>	<u>Finding</u>	<u>Questioned Cost</u>
2013-001	SFA Cluster	Special Tests and Provisions	\$ 4,774
2013-002	R&D Cluster	Allowable Costs/Cost Principles	\$ -
2013-003	R&D Cluster	Equipment and Real Property Management	\$ -
2013-004	R&D Cluster	Matching, Level of Effort, Earmarking	\$ -
2013-005	R&D Cluster	Procurement and Suspension and Debarment	\$ 18,982

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

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-001
Federal Agency: U.S. Department of Education
CFDA Program: Student Financial Assistance (SFA) Cluster
Grant Number: OPE ID Number: 00393500
Area: Special Tests and Provisions
Questioned Costs: \$4,774

Criteria: The SFA Handbook Volume 5 School Year 2012-2013 (SFA Handbook) states that Title IV funds are awarded to a student under the assumption that the student will attend school for the entire period for which the assistance is awarded. When a student withdraws, the student may no longer be eligible for the full amount of Title IV funds that the student was originally scheduled to receive.

If a recipient of Title IV grant or loan funds withdraws from a school after beginning attendance, the amount of Title IV grant or loan assistance earned by the student must be determined. If the amount disbursed to the student is greater than the amount the student earned, the unearned funds must be returned. Pursuant to the SFA Handbook, some schools can opt to use the 50% point as the withdrawal date for a student who unofficially withdraws in determining earned Title IV aid.

Condition: For one (or 1%) of seventy-five students tested aggregating disbursements of \$434,718, the Final Grade Report for student I.D. #28604 indicated an unofficial withdrawal (UW) for all six credits attempted during Fall 2012. The student obtained an unsubsidized \$9,547 direct loan for Fall 2012. In accordance with the criteria above, a return to Title IV is required; however, funds have not been returned as of 11/18/13. The University uses the 50% point as the withdrawal date for students who unofficially withdraw from their attempted courses, thus, 50% (or \$4,774) of the disbursement resulted in a questioned cost since the disbursed amount is greater than the amount earned.

Cause: The cause of the above condition is the lack of monitoring student academic progresses and the lack of coordination between the Financial Aid Office and the Office of Admissions and Records.

Effect: The effect of the above condition is noncompliance with special tests and provision requirements related to the return to Title IV. Questioned costs of \$4,774 result since the projected amount of potential noncompliance exceeds \$10,000.

Recommendation: We recommend that the University review current processes for monitoring student academic progresses and unearned funds have been assess whether applicable.

Auditee Response and Corrective Action Plan:

Name and job title of responsible personnel: Mark Duarte, Financial Aid Office (FAO) Director

Specific corrective procedures to be performed and date of performance: At the end of each semester the Admissions and Records Office will provide the Financial Aid Office (FAO) with a list of students who have officially and unofficially withdrawn. FAO will match this list to students awarded Title IV financial aid. For any matches FAO will process a return to Title IV (RTTIV) calculation. FAO will work through the Bursars Office to collect. This procedure shall be implemented beginning with a review of Fall 2014 awards.

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

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-002
Federal Agency: U.S. Department of Agriculture
Federal Agency: U.S. Department of Defense
CFDA Program: Research and Development (R&D) Cluster
Grant Number: 2012-31100-06057 and N00014-10-1-0160
Area: Allowable Costs/Cost Principles
Questioned Costs: \$0

Criteria: Payroll expenditures must be supported by activity reports signed by the employee, principal investigator, or responsible official(s) to verify that work was performed. Further, if an employee spends less than 100% of his or her time on one federal program, the University is required to implement and maintain a method that must recognize the principle of after the fact confirmation or determination so that costs distributed represent actual costs, unless a mutually agreed satisfactory alternative is reached. The following methods are available to the University:

- Plan Confirmation: At least annually a statement will be signed by the employee, principal investigator, or responsible official(s) using suitable means of verification that the work was performed, stating that salaries and wages charged to sponsored agreements as direct charges, and to residual, F&A cost or other categories are reasonable in relation to work performed;
- After-the-fact Activity Records: For professorial and professional staff, the reports will be prepared each academic term, but no less frequently than every six months. For other employees, unless alternate arrangements are agreed to, the reports will be prepared no less frequently than monthly and will coincide with one or more pay periods; or
- Multiple-Confirmation Records: The reports will be prepared each academic term, but no less frequently than every six months.

Condition: Of twenty-five payroll expenditures tested, aggregating \$85,561, we noted the that for one employee (or 4%), the time and effort documentation does not clearly support that 50% of the employee's hours worked was spent on one federal program (reference no. 11190, charged to grant no. 2012-31100-06057). Time and effort documentation showed the employee worked to support academic, research and extension activities; however, no allocation of actual hours worked on each program/project to support 50% charged to the Hatch program is available. The estimated excess salaries charged to the Hatch program is \$10,956. No questioned costs result since the University subsequently corrected this amount through an adjustment dated December 29, 2013.

Cause: The cause of the above conditions is lack of oversight and of standard time and effort report documentation.

Effect: The effect of the above condition is noncompliance with applicable allowable costs/cost principles requirements.

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

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-002, Continued
Federal Agency: U.S. Department of Agriculture
Federal Agency: U.S. Department of Defense
CFDA Program: Research and Development (R&D) Cluster
Grant Number: 2012-31100-06057 and N00014-10-1-0160
Area: Allowable Costs/Cost Principles
Questioned Costs: \$0

Recommendation: We recommend that the University take reasonable steps to establish standard time and effort reporting documentation and improve monitoring procedures of compliance.

Auditee Response and Corrective Action Plan:

Name and job title of responsible personnel: John Peterson, AVP, Office of Sponsored Programs, working with Unit Administrators/Directors, Principal Investigators, designated Timekeepers

Specific corrective procedures to be performed and date of performance: A Time and Effort (T&E) guideline will be approved and distributed in Spring 2014 under the leadership of the Office of Sponsored Programs (OSP). A standard form of reporting is already in place that can efficiently capture the necessary elements of the T&E Federal compliance requirements. Principal Investigators and Deans/Directors will be responsible for accuracy and compliance of submitted T&E forms. T&E records will be kept by the unit and by Payroll. OSP will be responsible for training and periodic compliance reviews.

UNIVERSITY OF GUAM
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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-003
Federal Agency: U.S. Department of Agriculture
Federal Agency: U.S. Department of Defense
CFDA Program: Research and Development (R&D) Cluster
Area: Equipment and Real Property Management
Questioned Costs: \$0

Criteria: In accordance with applicable equipment management requirements, procedures for managing equipment, whether acquired in whole or in part with grant funds, until disposition takes place will, at a minimum, meet the following requirements:

- A physical inventory of equipment must be taken and the results reconciled with the equipment records at least once every two years.
- A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated.
- Adequate maintenance procedures must be developed to keep the property in good condition.

Condition: Inventory counts have been ongoing during fiscal year 2013 for current year purchases; however, a complete reconciliation with Procurement and Supply Management has not been finalized over the last two fiscal years.

Cause: The cause of the above condition is the University is in the process of establishing required guidelines and is conducting required inventories and the process is ongoing.

Effect: The effect of the above condition is noncompliance with the applicable equipment management requirements. See below for cumulative dollar amount of property and equipment acquired with program grant funds.

<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>Grand Total</u>
\$ 152,193	\$ 264,453	\$ 206,875	\$ 623,521

Recommendation: We recommend that the University continue its extensive efforts to reconcile results of inventory counts with property and equipment records.

Auditee Response and Corrective Action Plan:

Name and job title of responsible personnel: Sonny Perez, Chief Plant and Facilities Officer

Specific corrective procedures to be performed and date of performance: A property control officer (PCO) will be hired in 2014, reporting to Plant and Facilities. The PCO will work with the operational units, Business Office and Procurement to manage fixed assets at the University, including establish and maintain records with needed data; survey damaged, obsolete and stolen property; conduct and reconcile inventory counts. A full inventory will be conducted in 2014.

UNIVERSITY OF GUAM
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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-004
Federal Agency: U.S. Department of Agriculture
Federal Agency: U.S. Department of Commerce
CFDA Program: Research and Development (R&D) Cluster
Grant Number: 11-8510-1466-CA, 12-8515-1200-CA and 0301.12.034503
Area: Matching, Level of Effort, Earmarking
Questioned Costs: \$0

Criteria: Pursuant to grant terms and conditions, the grantee is required to maintain a level of local matching support for the grant, as follows:

<u>CFDA</u>	<u>Account No.</u>	<u>Required Local Match</u>
10.025	61-1F-243019-R-5	\$ 30,500
10.025	61-2F-243032-R-5	15,000
11.463	61-1F-243035-R-5	<u>23,000</u>
		\$ <u>68,500</u>

Condition: For three (or 38%) of eight R&D grants tested, a final determination that matching requirements have been met is not available. A memo identifying local matching prepared at the start of the grant was provided; however, no documentation was available to support actual matching details.

Cause: The cause of the above condition is the lack of established policies and procedures to document compliance with matching requirements.

Effect: The effect of the above condition is potential noncompliance with matching requirements. No questioned costs reported since the final matching documentation was subsequently provided.

Recommendation: We recommend that existing procedures be evaluated to assess compliance with matching requirements.

Auditee Response and Corrective Action Plan:

Name and job title of responsible personnel: Dr. Lee Yudin, Dean/Director, College of Natural and Applied Sciences

Specific corrective procedures to be performed and date of performance: We concur with the finding. CNAS will implement monitoring steps to ensure that proper matching to these grants occur in a timely manner in FY2014.

UNIVERSITY OF GUAM
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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-005
Federal Agency: U.S. Department of Agriculture
Federal Agency: U.S. Department of Defense
CFDA Program: Research and Development (R&D) Cluster
Grant Number: 12-25-B-0918 and N00014-10-1-0160
Area: Procurement and Suspension and Debarment
Questioned Costs: \$18,982

Criteria: Applicable regulations state that all procurement transactions will be conducted in a manner providing full and open competition. Grantees and subgrantees will use their own procurement procedures, which reflect applicable state and local laws and regulations provided that the procurements conform to applicable federal law. Small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies, or other property that do not cost more than the simplified acquisition threshold fixed currently at \$100,000. If small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources.

Specifically, the UOG procurement regulations state the following:

- All sole source procurements require written explanation as to why no other bidder will be suitable or acceptable to meet the need for supplies or services. This method is allowed only in five (5) situations:
 - Compatibility of equipment, accessories, or replacement part is of paramount consideration;
 - Sole supplier's item is needed for trial use or testing;
 - Sole supplier's item is to be procured for resale;
 - Public utility services are to be procured; or
 - Supplies are offered thru bankruptcy or receivership sales, or other disposition at lower than prevailing market prices.
- Price quotations, solicitations or qualifications should be obtained from at least three potential vendors for contracts above \$1,500 and below \$15,000.

Condition: Of thirty-three nonpayroll expenditures tested aggregating \$379,503, the following was noted:

1. A \$11,482 purchase charged to grant no. 12-25-B-0918 under PO #P1130170 qualified under the small purchase method and was procured through sole source with justification indicating that only the selected vendor was willing to deliver or that no other vendors were available. However, documentation that the program contacted other vendors, whether written or oral, was not evident or was not timely documented. Further, the items or services purchased do not appear to qualify under the five conditions allowed for sole source.
2. For one \$7,500 independent contract payment (reference no. BC120071 charged to N00014-10-1-0160), documentation of contractor evaluation and selection was not provided.

Cause: The cause of the above condition is that applicable procurement regulations and procurement files were not adequately maintained.

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

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-005, Continued
Federal Agency: U.S. Department of Agriculture
Federal Agency: U.S. Department of Defense
CFDA Program: Research and Development (R&D) Cluster
Grant Number: 12-25-B-0918 and N00014-10-1-0160
Area: Procurement and Suspension and Debarment
Questioned Costs: \$18,982

Effect: The effect of the above condition is potential noncompliance with procurement regulations and questioned costs of \$18,982 exist.

Recommendation: We recommend that the University comply with procurement regulations to provide full and open competition and that compliance with the entries be documented on file.

Auditee Response and Corrective Action Plan:

Specific corrective procedures to be performed and date of performance:

Condition 1.

Name and job title of responsible personnel: David O'Brien, Vice President for Administration and Finance (VPAF) and Comptroller Zeny Nace working with Vicente Borja, Supply Management Administrator, Centralized Procurement Office; Legal Counsel Victorina Renacia; and the operational units

The Vice President for Administration and Finance (VPAF) has re-issued the sole source procurement guidelines, first distributed in Q3 FY2013. Based on the guidelines and UOG Procurement Regulations, the Supply Management Administrator (SMA) will be responsible to ensure that purchase orders (Legal Counsel will do this for contracts) that call for sole sourcing are justified on the proper form and routed to VPAF or Comptroller for approval (or not) prior to any purchase or approval of contract.

Condition 2.

Name and job title of responsible personnel: John Peterson, AVP, Office of Sponsored Programs, working with Unit Administrators/Directors, Principal Investigators

The award of grant called for person selected to be the George Washington High School "environmental sustainability (sic) coordinator." The contractor was the only person in the designated position and was selected by Guam Department of Education (GDOE) following the GDOE procedures. Prospectively, we will ensure that proper support to document contractor selection and evaluation shall be filed appropriately in the University's records.

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

Schedule of Prior Year Findings and Questioned Costs
Year Ended September 30, 2013

Summary Schedule of Prior Audit Findings

Findings relating to the financial statements, which are required to be reported in accordance with GAGAS:

Finding No. 2012 – 1, Coordination between Finance Office and Plant Facilities Office in Monitoring of Construction in Progress – Corrected.

Findings and questioned costs – Major Federal Award Programs Audit

Finding No. 2012 – 2, State Fiscal Stabilization Fund: Government Services – Not Corrected. Refer to Finding No. 2013-003.

Finding No. 2012 – 3, Area Health Education Centers Infrastructure Development Awards – Corrected.

No prior year questioned costs were reported.



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

Tel: 1-671-646-3884
Fax: 1-671-649-4932
www.deloitte.com

February 24, 2014

Dr. Robert Underwood
President
University of Guam
UOG Station
Mangilao, Guam 96923

Dear Dr. Underwood:

In planning and performing our audit of the financial statements of the University of Guam (the University) as of and for the year ended September 30, 2013 (on which we have issued our report dated February 24, 2014), 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, we considered the University's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, in connection with our audit, we have identified, and included in the attached Appendix I, deficiencies related to the University's internal control over financial reporting and other matters as of September 30, 2013 that we wish to bring to your attention.

We have also issued a separate report to the Board of Regents, also dated February 24, 2014, on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

The definition of a deficiency is also set forth in the attached Appendix I.

A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with this report.

This report is intended solely for the information and use of management, the Board of Regents, others within the organization, the Office of Public Accountability - Guam and the Federal cognizant agency and is not intended to be and should not be used by anyone other than these specified parties.

We will be pleased to discuss the attached comments with you and, if desired, to assist you in implementing any of the suggestions.

We wish to thank the staff and management of the University for their cooperation and assistance during the course of this engagement.

Very truly yours,

SECTION I – DEFICIENCIES

We identified the following deficiencies involving the University's internal control over financial reporting for the year ended September 30, 2013 that we wish to bring to your attention at this time:

1. Fixed Assets

Comment: Tests of fixed assets noted the following:

- a. Two assets (tag number per asset register #s 22049 and 22294) were sighted but a tag number was not attached.
- b. Five assets (tag number per asset register #s 21836, 20583, 21634, 21961, and 22106) could not be located. Further, no survey documents were available to corroborate disposal.
- c. One asset (tag number per asset register #162546) was reported stolen in 2011 but was not removed from the asset register.
- d. One asset (tag number per asset register #21643) was sighted, replaced and not in use; however, survey documentation to support the disposal has not been prepared.

Recommendation: We recommend that the University continue its efforts to conduct a complete reconciliation of property and equipment records. The University attempted to conduct an inventory count during fiscal year 2013 for current year purchases.

2. Time and Effort Documentation

Comment: Tests of payroll items noted the following:

- a. Daily time and effort documentation for one employee (reference no. 10414) for the payroll period ended 9/22/2012 was not signed by the employee's immediate supervisor/manager.
- b. For one employee (reference no. 100266), an adjustment of 78 hours related to a prior payroll period was paid in the payroll period ended 1/12/2013. However, hours worked were not included in the summary timesheet approved by the department head/administrator.
- c. The semi-annual certification for the period 1/1/13 to 6/30/13 was approved and certified on 5/1/13, which is prior to the end of the period covered.
- d. For seven (reference nos. 2252, 22820, 2036, 15104, 22820, 15104 and 975) of twenty-five employees tested, supporting semi-annual certifications were not signed by either the employee or the employee's immediate supervisor/manager or both.

Recommendation: We recommend that the University strengthen control and monitoring procedures over time and effort documentation. We further recommend that the University improve time and effort documentation by developing one standard format that includes all relevant information.

SECTION II – OTHER MATTERS

Other matters related to our observations concerning operations, compliance with laws and regulations, and best practices involving internal control over financial reporting that we wish to bring to your attention at this time are as follows:

1. Nonmoving and Inactive Accounts

Comment: Tests of deferred revenue accounts noted total debit balances of \$79,933 and total credit balances of \$79,855 that represent nonmoving or inactive accounts. Further, tests of due from (to) grantor agency accounts noted eight credit balances aggregating \$415,230 which did not move from the prior year.

Recommendation: We recommend that the University perform periodic analysis of the above accounts to determine whether these accounts should be adjusted.

SECTION III – DEFINITIONS

The definition of a deficiency is as follows:

A *deficiency* in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or competence to perform the control effectively.

MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING

The following comments concerning management's responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are adapted from auditing standards generally accepted in the United States of America.

Management's Responsibility

The University's management is responsible for the overall accuracy of the financial statements and their conformity with generally accepted accounting principles. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

Objectives of Internal Control over Financial Reporting

Internal control over financial reporting is a process affected by those charged with governance, management, and other personnel and designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity's objective of reliable financial reporting (i.e., the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles).

Inherent Limitations of Internal Control over Financial Reporting

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

February 24, 2014

Board of Regents
University of Guam:

Dear Members of the Board of Regents:

We have performed an audit of the financial statements of the University of Guam (the "University") and its discretely presented component unit as of and for the year ended September 30, 2013, in accordance with auditing standards generally accepted in the United States of America ("generally accepted auditing standards") and have issued our report thereon dated February 24, 2014.

We have prepared the following comments to assist you in fulfilling your obligation to oversee the financial reporting and disclosure process for which management of the University is responsible.

OUR RESPONSIBILITY UNDER GENERALLY ACCEPTED AUDITING STANDARDS AND GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS

Our responsibility under generally accepted auditing standards and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, have been described in our engagement letter dated August 22, 2013. As described in that letter, the objectives of a financial statement audit conducted in accordance with the aforementioned standards are:

- To express an opinion on the fairness of each opinion unit in the University's basic financial statements and the accompanying supplementary information and to disclaim an opinion on the required supplementary information for the year ending September 30, 2013 in conformity with accounting principles generally accepted in the United States of America, ("generally accepted accounting principles"), in all material respects;
- To express an opinion on whether the supplementary information that accompanies the basic financial statements is presented fairly, in all material respects, in relation to the basic financial statements as a whole;
- To report on the University's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended September 30, 2013 based on an audit of financial statements performed in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*; and
- To report on the University's compliance with requirements applicable to each major program and on internal control over compliance in accordance with the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* (OMB Circular A-133).

Our responsibilities under generally accepted auditing standards include forming and expressing an opinion about whether the financial statements that have been prepared with the oversight of management and the Board of Regents are presented fairly, in all material respects, in conformity with generally accepted accounting principles. The audit of the financial statements does not relieve management or the Board of Regents of their responsibilities.

We considered the University's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

We also considered the University's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133. Our audit does not, however, provide a legal determination of the University's compliance with those requirements.

ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and on assumptions about future events. Significant accounting estimates reflected in the University's 2013 financial statements include management's estimate of the allowance for doubtful accounts, which is determined based upon past collection experience and aging of the accounts, and management's estimate of depreciation expense, which is based on estimated useful lives of the respective capital assets. During the year ended September 30, 2013, there were no significant changes in accounting estimates or in management's judgments relating to such estimates.

UNCORRECTED MISSTATEMENTS

Our audit of the financial statements was designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. We have attached to this letter, as Appendix A to Attachment I, a summary of uncorrected misstatements and a summary of disclosure items passed aggregated by us during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

MATERIAL CORRECTED MISSTATEMENTS

Material misstatements were brought to the attention of management as a result of our audit procedures and were corrected by management during the current period. These corrected misstatements are listed in Attachment II and are reflected in the 2013 financial statements.

SIGNIFICANT ACCOUNTING POLICIES

The University's significant accounting policies are set forth in Note 2 to the University's 2013 financial statements. During the year ended September 30, 2013, there were no significant changes in previously adopted accounting policies or their application, except for the following pronouncements adopted by the University:

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addressed how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The implementation of this statement did not have a material effect on the financial statements of the University.
- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, which improved financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The implementation of this statement did not have a material effect on the financial statements of the University.
- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which enhanced the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements issued on or before November 30, 1989, which do not conflict or contradict GASB pronouncements. GASB Statement No. 62 superseded GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. The implementation of this statement did not have a material effect on the financial statements of the University.
- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which established guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. These Statements amend the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. With the implementation of GASB Statement No. 63 and Statement No. 65, the Statement of Net Assets was renamed the Statement of Net Position.

In April 2012, GASB issued Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of the University.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans, and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements but is of the opinion that Statement 68 will materially impact the University's financial statements.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of this statement on the financial statements of the University.

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The provisions in Statement 70 are effective for fiscal years beginning after June 15, 2013. Management has not yet determined the effect of implementation of this statement on the financial statements of the University.

OTHER INFORMATION IN THE ANNUAL REPORTS OF THE UNIVERSITY

When audited financial statements are included in documents containing other information, such as Annual Reports, we will read such other information and consider whether it, or the manner of its presentation, is materially inconsistent with the information, or the manner of its presentation, in the financial statements audited by us. In the event that the University issues an Annual Report or other documentation that includes the audited financial statements, we will be required to read the other information in the University's 2013 Annual Report and will inquire as to the methods of measurement and presentation of such information. If we note a material inconsistency or if we obtain any knowledge of a material misstatement of fact in the other information, we will discuss this matter with management and, if appropriate, with the Board of Regents.

DISAGREEMENTS WITH MANAGEMENT

We have not had any disagreements with management related to matters that are material to the University's 2013 financial statements.

OUR VIEWS ABOUT SIGNIFICANT MATTERS THAT WERE THE SUBJECT OF CONSULTATION WITH OTHER ACCOUNTANTS

We are not aware of any consultations that management may have had with other accountants about auditing and accounting matters during 2013.

SIGNIFICANT ISSUES DISCUSSED, OR SUBJECT OF CORRESPONDENCE, WITH MANAGEMENT PRIOR TO OUR RETENTION

Throughout the year, routine discussions were held, or were the subject of correspondence, with management regarding the application of accounting principles or auditing standards in connection with transactions that have occurred, transactions that are contemplated, or reassessment of current circumstances. In our judgment, such discussions or correspondence were not held in connection with our retention as auditors.

SIGNIFICANT DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

In our judgment, we received the full cooperation of the University's management and staff and had unrestricted access to the University's senior management in the performance of our audit.

MANAGEMENT'S REPRESENTATIONS

We have made specific inquiries of the University's management about the representations embodied in the financial statements. Additionally, we have requested that management provide to us the written representations the University is required to provide to its independent auditors under generally accepted auditing standards. We have attached to this letter, as Attachment I, a copy of the representation letter we obtained from management.

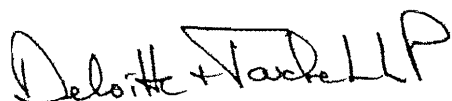
CONTROL-RELATED MATTERS

We have issued a separate report to you, dated February 24, 2014, on the University's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, which was based upon the audit performed in accordance with *Government Auditing Standards*. We have also issued a separate report to you, also dated February 24, 2014, concerning certain matters involving the University's compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133. Although we have included management's written responses to our comments contained in those reports, such responses have not been subjected to the auditing procedures applied in our audit of the basic financial statements and, accordingly, we do not express an opinion or provide any form of assurance on the appropriateness of the responses or the effectiveness of any corrective actions described therein.

We also noted certain matters that we reported to management of the University in a separate letter dated February 24, 2014.

This report is intended solely for the information and use of the Board of Regents, the management and the Office of Public Accountability - Guam and is not intended to be and should not be used by anyone other than these specified parties. However, this report is also a matter of public record.

Very truly yours,





February 24, 2014

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

We are providing this letter in connection with your audit of the financial statements of the University of Guam (the University) and its discretely presented component unit, collectively a component unit of the Government of Guam, as of and for the years ended September 30, 2013 and 2012, and which collectively comprise the University's basic financial statements for the purpose of expressing an opinion as to whether the basic financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of the University in conformity with accounting principles generally accepted in the United States of America (GAAP).

We confirm that we are responsible for the following:

- a. The fair presentation in the basic financial statements of financial position of the University and its discretely presented component unit in conformity with GAAP
- b. The design, implementation, and maintenance of programs and controls to prevent and detect fraud, including fraud related to federal awards
- c. Establishing and maintaining effective internal control over financial reporting.
- d. The review and approval of the financial statements and related notes and acknowledge your role in the preparation of this information. Specifically, we acknowledge that your role in the preparation of the financial statements was a matter of convenience rather than one of necessity. We have reviewed the financial statement preparation assistance provided by you and acknowledge that the financial statements are prepared in accordance with GAAP. Our review was based on the use of the financial statement disclosure checklist for a general-purpose government obtained from the Government Finance Officers Association.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.



We confirm, to the best of our knowledge and belief, the following representations made to you during your audits.

1. The basic financial statements referred to above are fairly presented in conformity with GAAP. In addition:
 - a. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
 - b. Net position components (net investment in capital assets; restricted; and unrestricted) are properly classified and, if applicable, approved.
 - c. Deposits and investment securities are properly classified in the category of custodial credit risk.
 - d. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.
 - e. Required supplementary information is measured and presented within prescribed guidelines.
 - f. Applicable laws and regulations are followed in adopting, approving, and amending budgets.
 - g. Federal awards expenditures have been charged in accordance with applicable cost principles.
 - h. The financial statements properly classify all funds and activities, including special and extraordinary items.
 - i. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
2. The University has provided to you all relevant information and access as agreed in the terms of the audit engagement letter.
3. The University has provided you:
 - a. Minutes of the meetings of the Board of Regents or summaries of actions of recent meetings for which minutes have not yet been prepared.
 - b. Financial records and related data for all financial transactions of the University and for all funds administered by the University. The records, books, and accounts, as provided to you, record the financial and fiscal operations of all funds administered by the University and provide the audit trail to be used in a review of accountability. Information presented in financial reports is supported by the books and records from which the financial statements have been prepared.
 - c. Contracts and grant agreements (including amendments, if any) and any other correspondence that has taken place with federal agencies.



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4. There has been no:
 - a. Action taken by University management that contravenes the provisions of federal laws and Guam laws and regulations, or of contracts and grants applicable to the University except as discussed in the Schedule of Findings and Questioned Costs section of your Independent Auditors' Reports on Internal Control and on Compliance
 - b. Communication from other regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices or other matters that could have a material effect on the financial statements.
 5. We believe the effects of any uncorrected financial statement misstatements aggregated by you during the current audit engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix A.
 6. The University has not performed a formal risk assessment, including the assessment of the risk that the financial statements may be materially misstated as a result of fraud. However, management has made available to you their understanding about the risks of fraud in the University and do not believe that the financial statements are materially misstated as a result of fraud.
 7. We have no knowledge of any fraud or suspected fraud affecting the University involving:
 - a. Management.
 - b. Employees who have significant roles in internal control over financial reporting.
 - c. Others if the fraud could have a material effect on the financial statements.
 8. We have no knowledge of any allegations of fraud or suspected fraud affecting the University received in communications from employees, former employees, analysts, regulators, or others.
 9. There are no unasserted claims or assessments that legal counsel has advised us are probable of assertion and must be disclosed in accordance with GASB Codification of Governmental Accounting and Financial Reporting Standards ("GASB Codification") Section C50, *Claims and Judgments*, except as disclosed in Note 10 to the financial statements.
 10. Significant assumptions used by us in making accounting estimates are reasonable.
 11. The Schedule of Expenditures of Federal Awards was prepared in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. We have identified in that schedule all awards provided by federal agencies in the form of grants, contracts, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, or direct appropriations. We have also properly identified subrecipient expenditures. In addition, we have accurately completed the appropriate sections of the data collection form.



12. We are responsible for compliance with local, state, and federal laws, rules, and regulations, including compliance with the requirements of OMB Circular A-133, and provisions of grants and contracts relating to the University's operations. We are responsible for establishing and maintaining the components of internal control relating to our activities in order to achieve the objectives of providing reliable financial reports, effective and efficient operations, and compliance with laws and regulations. The University is responsible for maintaining accounting and administrative control over revenues, obligations, expenditures, assets, and liabilities.
13. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance for federal programs that provides reasonable assurance that we are managing federal awards in compliance with laws, regulations, and provisions of contracts or grant agreements that could have a material effect on its federal programs.
14. The University has obligated, expended, received, and used public funds in accordance with the purpose for which such funds have been appropriated or otherwise authorized by local, state, or federal law. Such obligation, expenditure, receipt, or use of public funds was in accordance with any limitations, conditions, or mandatory directions imposed by local, state, or federal law.
15. Money or similar assets handled by the University on behalf of the Federal Government have been properly and legally administered, and the accounting and record keeping related thereto is proper, accurate, and in accordance with law.
16. We have disclosed to you all deficiencies in the design or operation of internal control over financial reporting identified as part of our evaluation, including separately disclosing to you all such deficiencies that are significant deficiencies or material weaknesses in internal control over financial reporting.
17. We have:
 - a. Identified the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each federal program as identified in Part 3 of the Compliance Supplement dated March 2013 related to period under audit.
 - b. Complied, in all material respects, with the requirements identified above in connection with federal awards except as disclosed in the Schedule of Findings and Questioned Costs section of your Independent Auditors' Reports on Internal Control and on Compliance.
 - c. Identified and disclosed interpretations of any compliance requirements that have varying interpretations.
 - d. Made available all information related to federal financial reports and claims for advances and reimbursements. Federal financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared and are prepared on a basis consistent with that presented in the Schedule of Expenditures of Federal Awards. The copies of federal program financial reports provided are true copies of the reports submitted, or electronically transmitted, to the federal agency or pass-through entity, as applicable.



- e. Identified and disclosed all amounts questioned and any known noncompliance with the requirements of federal awards, including the results of other audits or program reviews related to the objectives of the audit.
 - f. Identified previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of the audit and the corrective actions taken to address significant findings and recommendations, including the status of follow-up on prior audit findings (and information about all management decisions) by federal awarding agencies and pass-through entities.
 - g. Provided to you our views on the reported findings, conclusions, and recommendations for your report.
 - h. Monitored subrecipients to determine that they have expended pass-through assistance in accordance with applicable laws and regulations and have met the requirements of Circular A-133.
 - i. Taken appropriate corrective action on a timely basis after receipt of a subrecipient's auditor's report that identifies noncompliance with laws, regulations, or the provisions of contracts or grant agreements.
 - j. Considered the results of the subrecipient's audits and made any necessary adjustments to the auditee's own books and records.
18. We are responsible for follow-up on all prior-year(s) findings. We have prepared a summary schedule of prior-year findings reporting the status of our efforts in implementation of the prior-year's corrective action plan.
 19. We have included in the corrective action plan for current-year findings, the name of the person in our organization responsible for implementation of the actions, the best actions to be taken, and the estimate of a completion date. We have taken timely and appropriate steps to remedy fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse that you report.
 20. Management has identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts.
 21. We have adopted the provisions of GASB Codification Section 2100, *Defining the Financial Reporting University*. We believe that we have properly identified and reported as a component unit of the University each organization that meets the criteria established in GASB Codification Section 2100, *Defining the Financial Reporting University*.

Except where otherwise stated below, matters less than \$186,000 collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to, or disclosure in, the basic financial statements.

22. Except as listed in Appendix A, there are no transactions that have not been properly recorded in the accounting records underlying the financial statements.



23. The University has no plans or intentions that may affect the carrying value or classification of assets and liabilities.
24. The following, to the extent applicable, have been appropriately identified, properly recorded, and disclosed in the financial statements:
 - a. Related-party transactions and associated amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements, and guarantees (written or oral)
 - b. Guarantees, whether written or oral, under which the University is contingently liable.
25. In preparing the financial statements in conformity with GAAP, management uses estimates. All estimates have been disclosed in the financial statements for which known information available prior to the issuance of the financial statements indicates that both of the following criteria are met:
 - a. It is at least reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events
 - b. The effect of the change would be material to the financial statements.
26. Risks associated with concentrations, based on information known to management, that meet all of the following criteria have been disclosed in the financial statements:
 - a. The concentration exists at the date of the financial statements
 - b. The concentration makes the enterprise vulnerable to the risk of a near-term severe impact
 - c. It is at least reasonably possible that the events that could cause the severe impact will occur in the near term.
27. There are no:
 - a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
 - b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB Codification Section C50, *Claims and Judgments*, except as disclosed in Note 10 to the financial statements.
 - c. Guarantees of component unit debt.
28. The University has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral except as disclosed in Note 6 to the financial statements.



29. The University has complied with all aspects of contractual agreements that may have an effect on the financial statements in the event of noncompliance.
30. No department or agency of the University has reported a material instance of noncompliance to us.
31. The University has identified all derivative instruments as defined by GASB Codification Section D40, *Derivative Instruments*, and appropriately recorded and disclosed such derivatives in accordance with GASB Codification Section D40.
32. We do not plan to make frequent amendments to our pension or other postretirement benefit plans.
33. We have no intention of terminating any of our pension plans or taking any other action that could result in an effective termination or reportable event for any of the plans.
34. The University has disclosed whether, subsequent to September 30, 2013, any changes in internal control or other factors that might significantly affect internal control, including any corrective action taken by management with regard to significant deficiencies and material weaknesses, have occurred.
35. No evidence of fraud, possible irregularities, or dishonesty in fiscal operations of programs administered by the University has been discovered.
36. No events have occurred after September 30, 2013, but before February 24, 2014, the date the financial statements were available to be issued that require consideration as adjustments to or disclosures in the financial statements.
37. No events have occurred subsequent to September 30, 2013 that require consideration as adjustments to or disclosures in the schedule of federal awards and related notes.
38. Regarding required supplementary information:
 - a. We confirm that we are responsible for the required supplementary information
 - b. The required supplementary information is measured and presented in accordance with GASB Codification Section 2200, *Comprehensive Annual Financial Report*
 - c. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period
39. Regarding supplementary information:
 - a. We are responsible for the fair presentation of the supplementary information in accordance with GAAP
 - b. We believe the supplementary information, including its form and content, is fairly presented in accordance with GAAP
 - c. The method of measurement and presentation of the supplementary information has not changed from those used in the prior period.



40. Receivables recorded in the financial statements represent valid claims against debtors for sales or other charges arising on or before the balance-sheet date and have been appropriately reduced to their estimated net realizable value.
41. During the year ended September 30, 2013, the University implemented the following pronouncements:
- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addressed how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The implementation of this statement did not have a material effect on the financial statements of the University
 - GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, which improved financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The implementation of this statement did not have a material effect on the financial statements of the University
 - GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which enhanced the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements. GASB Statement no. 62 superceded GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. The implementation of this statement did not have a material effect on the financial statements of the University
 - GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which established guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. These Statements amend the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. With the implementation of GASB Statement No. 63 and Statement No. 65, the Statement of Net Assets was renamed the Statement of Net Position. In addition, the Statement of Net Position includes two new classifications separate from assets and liabilities. Amounts reported as deferred outflows of resources are reported in a separate section following assets. Likewise, amounts reported as deferred inflows of resources are reported in a separate section following liabilities



42. In April 2012, GASB issued Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of the University.
43. In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans, and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements on the financial statements of the University.
44. In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of these statements on the financial statements of the University.
45. In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The provisions in Statement 69 are effective for fiscal years beginning after June 15, 2013. Management has not yet determined the effect of implementation of these statements on the financial statements of the University.

Very truly yours,

Dr. Robert Underwood
President

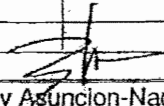
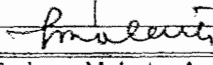
David O'Brien
Vice President
Administration and Finance

Zeny Asuncion-Nace
Comptroller
Administration and Finance



APPENDIX A

	Assets		Liabilities		Equity		Income	
	Dr.	(Cr.)	Dr.	(Cr.)	Dr.	(Cr.)	Dr.	(Cr.)
To adjust cash clearing account	74,627			(74,627)				
To correct overstatement of investment balances		(305,672)					305,672	
To reclassify CIP to building improvements	129,413	(129,413)						
	204,040	(435,085)	-	(74,627)	-	-	305,672	-

University of Guam			
Summary of Current Year Audit Adjustments			
September 30, 2013 Audit			
#	Name	Debit	Credit
Unrestricted Fund:			
1 AJE To record retiree healthcare costs.			
	Retiree healthcare costs	1,475,808.04	
	Retiree healthcare - GovGuam appropriations		1,475,808.04
	To record estimated retiree healthcare costs paid by GovGuam on behalf of the University.		
		1,475,808.04	1,475,808.04
2 AJE To reverse capital lease.			
190005410	DUE TO/FR PF INVESTMENT PLANT	-	969,388.00
200003610	A/P - Capital Lease	969,388.00	-
	To reverse obligations on capital lease.	969,388.00	969,388.00
Plant Fund:			
3 AJE To reverse capital lease			
180005054	EQUIPMENT	-	1,240,571.00
180105054	ACCUM DEPRECIATION EQUIPMENT	271,183.00	-
190001054	DUE TO/FR CFU GENERAL	969,388.00	-
490	Other Sources	271,183.00	-
M	Plant Maintenance	-	271,183.00
	To reverse capital lease.	1,511,754.00	1,511,754.00
I have reviewed the adjustments above and authorized that they be recorded in the general ledger as of September 30, 2013. The adjustments are results of errors and not results of fraud or illegal acts.			
		2/24/2014	
Ms. Zeny Asuncion-Nace, Comptroller		Date	
		2/24/14	
Ms. Barbara Molarte, Associate Comptroller/Bursar		Date	