



University of Guam FY 2016 Financial Highlights

April 19, 2017

The University of Guam (UOG) is commended for being a low-risk auditee for the second year. Independent auditors, Deloitte & Touche, LLP, issued unmodified (clean) opinions on UOG's fiscal year (FY) 2016 financial statements and report on compliance for major federal programs. However, the auditors identified one significant deficiency in internal control over major federal programs, and six internal control weaknesses in a separate management letter.

UOG closed FY 2016 with a \$4.0 million (M) decrease in net position (net loss), whereas FY 2015 closed with a \$9.2M increase in net position (net income). This is the second loss in 14 years. This was a significant decline of \$13.2M which was primarily due to: (1) UOG's \$6.9M proportionate share of the Government of Guam's (GovGuam) pension expense relative to the implementation of Governmental Accounting Standards Board (GASB) Statement No. 68 and 71, and (2) \$4.6M uncollected GovGuam allotments.

Decrease in Revenues

UOG's total revenues of \$86.9M in FY 2016 was 5% lower than FY 2015 of \$91.1M. FY 2016 revenues consisted of: (1) GovGuam appropriations of \$33.5M or 39%, (2) federal grants of \$30.5M or 35%, (3) student tuition and fees \$13.4M or 15%, and (4) other revenues of \$9.5M (11%). There was a \$2.8M net increase in tuition fees arising from 5% tuition rates increase in Fall 2016 and less discounts and allowances, as well as \$1.1M increase in other revenues mainly from investment gain. These increases were offset in greater number by decrease in GovGuam allotments of \$4.6M due to cash shortfalls and a decrease in federal grants of \$3.5M due to expiration of some grants.

As of FY 2016, total uncollected GovGuam appropriations amounted to \$7.7M. On the other hand, decrease in federal grants is expected to be temporary as certain federal grants were ramping up to full activity.

Expenditures of Federal Awards

In FY 2016, the Schedule of Expenditures of Federal Awards showed 94 grants with expenditures totaling to \$29.1M. The largest expenditure was \$7.8M from the Pell Grant Program, followed by \$6.6M from the Direct Student Loans. Meanwhile, 45% of the 94, or 42 grant expenditures were below \$50,000.

Increase in Operating Expenses

Operating expenses pertain to instruction, research, scholarships, public service, institutional support, academic support, and other expenses. These totaled \$90.9M in FY 2016, an increase of \$9.1M or 11% from FY 2015 primarily attributed to salaries and wages and benefits. Specifically, \$6.9M was recorded as additional pension expense, and \$2.5M for faculty cost increases and filling of vacant positions. The increases in other operating expenses such as the increase of \$1.7M in capital outlay and \$530 thousand (K) in contracts were offset by decreases in other expenses such as depreciation, supplies, and others.

Investments and Restricted Cash and Cash Equivalents

For 12 of the last 14 years, UOG was averaging a surplus of \$3M. UOG has been a good steward by investing these surpluses in certificate of deposits, money market funds, fixed income securities, common stock, mutual funds, and exchange traded funds. Total investments amounted to \$42.1M as of FY 2016, of which \$6.6M has externally imposed restrictions. The remainder of \$35.5M consisted of \$14.3M in unrestricted short-term investments and \$21.2M of internally restricted investments by the UOG Board of Regents only and may be made available for operations. In FY 2016, UOG's investments had a \$1.5M unrealized gain compared to \$1.4M unrealized loss in FY 2015.

Compliance and Internal Controls

The independent auditors issued a clean opinion on compliance for major federal programs. However, one significant deficiency in internal control over major federal programs was noted. Target goals were not met for the Small Business Development Centers federal award which could lead to potential noncompliance with the award's special terms and conditions.

Management Letter

In a separate management letter issued, the auditors identified four deficiencies concerning UOG's need for (1) timely recording of bank reconciling items, (2) timely employment verifications for notes receivable and update of student subledger, (3) periodic assessment of nonmoving and inactive accounts, and (4) maintenance of vendor selection documentation. Other matters highlighted refer to UOG's need for (1) timely travel clearances and (2) periodic assessment of capital assets.

Audit Adjustments and Uncorrected Misstatements

In FY 2016, two audit adjustments were made relative to GASB No. 68 and 71 pension adjustment and recording of retiree healthcare costs. However, there were four uncorrected misstatements that cumulatively would have decreased UOG's net position by \$490K.

UOG Endowment Foundation

The UOG Endowment Foundation (Foundation) is a legally separate, tax-exempt entity that is a discretely presented component unit of UOG. As of calendar year (CY) 2015, the Foundation's financial statements received a qualified opinion from the independent auditors because it was unable to determine the updated carrying values of donated land of \$5.5M.

In CY 2015, the Foundation had a decrease in net assets (net loss) of \$659K, compared to \$7.5M increase (net income) in CY 2014. The prior year had significant contributions of \$6.8M primarily from 1.24M square meters of donated land. In CY 2014, fundraising activities were higher by \$422K, and investment income was \$532K. For the current year, there were minimal contributions, less fundraising activities, and a \$319K investment loss.

In December 2016, UOG entered into a leaseback arrangement with the Foundation wherein UOG will lease the Student Success Center and the Engineering Annex buildings that are to be constructed by the Foundation. Related to the leases, the Foundation entered into \$21.7M promissory notes with the U.S. Department of Agriculture on December 5, 2016. The leases are expected to expire in 2056.

For more details, refer to the Management's Discussion and Analysis in the audit report at www.opaguam.org and www.uog.edu.