



Financial Highlights
University of Guam Financial Audit
Fiscal Year 2023

June 9, 2024

The University of Guam (UOG) received unmodified (clean) opinions on its fiscal year (FY) ended September 30, 2023, financial statements and report on compliance for major federal programs from independent auditors Ernst & Young LLP (EY). EY also opined that the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole. Although EY did not identify any material weakness or questioned costs related to UOG's federal awards, the auditors identified two significant deficiencies in UOG's internal control over compliance with major federal programs. A separate management letter noting any other deficiencies in internal control and other matters will be issued at a later date.

UOG closed FY 2023 with a negative change in net position of \$8.1 million (M), marking a substantial decline from FY 2022's positive change of \$4.1M. UOG's net position at the end of FY 2023 amounted to a negative \$101.5M compared to a negative \$93.4M in FY 2022. Despite its overall financial position remaining stable with a slight negative trend over the past two years, UOG faces continued pressure due to various factors, including a decline in government funding for general operations, a decrease in enrollment, and a hold on tuition increases since the pandemic.

Challenges with Declining Revenues and Rising Expenses

Revenues Decreased by \$5.4M

UOG's total revenues experienced a decrease of \$5.4M, dropping from \$118.3M in FY 2022 to \$112.9M in FY 2023. University-generated revenues in FY 2023 amounted to \$71.8M, marking an \$11.4M decrease from the \$83.2M revenues in FY 2022, accounting for 64% of total revenues. The largest source of University-generated revenues was from Grants and Contracts at \$53.5M, followed by \$10.3M in Tuition and Fees, net, and \$8.1M in Auxiliary and Other Revenues.

Despite the decrease in Grants and Contracts by \$11.4M from \$64.8M in FY 2022 to \$53.5M in FY 2023, UOG continues to experience remarkable levels of grant activity. UOG was awarded a five-year \$20M National Science Foundation Experimental Program to Stimulate Competitive Research grant in FY 2020 and a \$10M grant from the United States Department of Agriculture (USDA) National Institute of Food and Agriculture in FY 2023. These grant activities offset the completion of the pandemic relief grants in FY 2023 and the reduction in federal capital grants associated with the completed construction of the Guam Cultural Repository building in FY 2022.

The decrease in tuition and fees, net by \$2.4M from \$12.7M in FY 2022 to \$10.3M in FY 2023 is primarily due to the increase in scholarship discounts and allowances by \$2.4M due to the rise in Federal Pell Grants. Additionally, UOG saw a decline in enrollment by 66 students from 2,962 in Fanuchanan (Fall) semester 2022 to 2,896 in Fall semester 2023. The Board of Regents had adopted a plan of approving a 5% tuition increase for each of the next six semesters in an effort to reverse the declining cash balances. However, due to the impact of the pandemic on the island economy and other external factors, UOG deferred the planned tuition increases for as long as possible.

Auxiliary and other revenues increased by \$2.4M from \$5.7M in FY 2022 to \$8.1M in FY 2023 due to insurance proceeds for Typhoon Mawar and funds returned under the First Generational Trust Fund (FGTF) Initiative by the Guam Department of Education (GDOE). The FGTF Initiative was established through Public Law 33-07 in February 2015 and was part of UOG's appropriation that ended in FY 2023, which involved funds that would go directly to GDOE once received by UOG. Based on the sunset law, any funds that were not distributed goes back to UOG.

The remaining 36% of total revenues are derived from non-operating revenue sources from Government of Guam (GovGuam) appropriations of \$38.1M, net investment income of \$2.7M, and bad debts recovery of \$289 thousand (K). GovGuam appropriations increased by \$3M due to an additional appropriation for the 22% pay adjustment under the adjusted General Pay Plan, which UOG adopted for all eligible employees in the latter part of FY 2023. UOG generated a net investment income of \$2.7M in FY 2023 compared to a net investment loss of \$5.1M in FY 2022, resulting from the change in the market value of its investment.

Expenses Increased by \$6.8M

UOG has been facing a challenge with rising expenses and declining revenues. In FY 2023, UOG incurred total expenses of \$121M, a \$6.8M increase from \$114.2M in FY 2022. The increase in expenses is primarily attributed to operational and maintenance costs associated with utilities, repairs, and supplies, as well as expenses related to UOG's Core Mission.

UOG spent \$61.5M directly on its Core Mission, with 34% allocated to Instruction, 29% to Public Service, and 37% to Research, collectively constituting 51% of total expenses. Core Mission-related expenses increased by \$8.2M primarily due to higher expenses incurred for Public Service and Research, which rose by \$4.4M and \$2.9M, respectively. These increases can be attributed to several factors, including increases in salaries and benefits resulting from the 22% pay adjustment, contracted services, miscellaneous expenses, other post-employment benefits-related adjustments, non-capitalized equipment, and audit adjustments related to disposed assets.

Operational and maintenance costs increased by \$4.7M from \$7.1M in FY 2022 to \$11.8M in FY 2023, primarily due to increases resulting from the reversal of expenses related to capitalized assets in FY 2022, loss on disposal of assets, and utilities, and offset by the decrease in contracted services. In addition, UOG has an ongoing energy-efficient project with the Guam Power Authority and incurred costs of \$2.9M, contributing to the increase in operational and maintenance in FY 2023. Although a significant portion of the cost was incurred in FY 2023, UOG expects the project to realize savings in the long run.

The increases mentioned above were partially offset by the significant decrease of \$4.6M in expenses for Student Services, which went from \$9M in FY 2022 to \$4.4M in FY 2023. This decrease is mainly attributed to miscellaneous expenses related to lost tuition revenues claimed on the student portion of the CARES Act and Higher Education Emergency Relief Fund (HEERF).

UOG is working with its insurance company and the Federal Emergency Management Agency (FEMA) to claim damages and additional expenses resulting from Typhoon Mawar. While UOG has not received any payment from FEMA, UOG recorded a receivable of about \$1.2M from its insurance company in FY 2023. Subsequently, UOG received \$2.5M in insurance payments based on its damage assessment. UOG has indicated that most expenses will be incurred in FY 2024 and possibly FY 2025 for the significant items. UOG is continuously addressing the damages sustained

and has reported \$332K in typhoon-related expenditures in FY 2023, excluding payroll for typhoon-related work.

UOG Secures Funding and Breaks Ground for Major Construction Projects

UOG has secured funding for its major construction projects. UOG and the UOG Endowment Foundation, Inc. (the Foundation) secured a \$21.7M low-interest loan from the USDA to finance the construction of the School of Engineering (SENG) building and the Dr. Lucio Chua Tan Student Service Center (SSC). The Office of the Governor also committed \$7.1M in funding to support the project. The expanded SSC will serve as a one-stop-shop for students, catering to the needs of both current and future generations of students. The SENG aims to produce graduates who will be well-equipped to enter the local workforce and alleviate the growing demand for engineering expertise in the region. Construction for both buildings began in the latter part of FY 2023, with UOG breaking ground in December 2023 for the SENG building and in January 2024 for the Dr. Lucio Chua Tan SSC.

Additionally, UOG received an \$8.5M federal grant from the U.S. Economic Development Administration to construct the new Water & Environmental Research Institute (WERI) and the Margaret Perez Hattori-Uchima School of Health Nursing annex. The new WERI facility will include a laboratory capable of providing expanded testing services to the Guam Waterworks Authority and other businesses on the island. Both buildings are expected to provide a lasting impact on the economy and serve as a source of skilled and experienced workforce. Construction for both buildings is currently underway, with groundbreaking ceremonies held in November 2023.

Report on Compliance and Internal Control

EY rendered an unmodified opinion in the auditor's report issued on compliance for major federal programs. However, the auditors identified two significant deficiencies in internal control over compliance with major federal programs as follows:

1. ***Allowable Costs/Cost Principles - Indirect Costs:*** UOG used inappropriate cost bases in calculating indirect costs charged to the HEERF Minority Serving Institutions Program and was in noncompliance with applicable requirement. No questioned costs were reported as the costs were subsequently recharacterized from indirect costs to lost revenues.
2. ***Suspension and Debarment:*** UOG represented that it performs regular verification from System for Award Management (SAM) Exclusions. However, it did not properly document that verification was performed to identify whether the selected person or entity in the covered transaction was not suspended or debarred prior to transacting with them. As such, no formal documentation was kept on procurement files as evidence of procedures performed, and UOG was in noncompliance with the applicable requirement.

UOG Endowment Foundation

UOG reports the financial statements of its discretely presented component unit, the UOG Endowment Foundation, Inc., a legally separate, tax-exempt, private corporation. While UOG does not control the Foundation, the resources and income of the Foundation can only be used for the benefit of UOG.

The Foundation ended calendar year (CY) 2022 with total net assets of \$23.2M, experiencing a negative change in net assets of \$2.8M in CY 2022, and marking a substantial decrease from a positive change in net assets of \$3.5M in CY 2021. The decrease in net assets was mainly due to a net investment loss of \$2.9M in CY 2022, in contrast to a net investment income of \$2.3M in

CY 2021. The decrease was also attributed to a significant reduction in contributions by \$1.2M from \$1.8M in CY 2021 to \$644K in CY 2022.

In 2016, UOG signed a facilities lease agreement with the Foundation for the lease of the Dr. Lucio Chua Tan SSC and SENG building (the Facilities) for 40 years up to August 25, 2056. In 2022, UOG and the Foundation amended the lease agreement, extending the agreement until September 30, 2064, and changing the monthly lease payment to \$90K. The construction of the Facilities is financed by the Foundation through a loan from the USDA, which was signed in October 2023.

For more details, refer to UOG's FY 2023 Financial Statements, Report on Internal Control Over Financial Reporting and On Compliance, Report on Compliance for Each Major Federal Program and Internal Control Over Compliance, and Auditor's Communication With Those Charged With Governance at www.opaguam.org and www.uog.edu.