



OFFICE OF THE PUBLIC AUDITOR

**University of Guam
FY 2006 Financial Highlights**

June 22, 2007

The University of Guam's (UOG) FY 2006 financial statements, prepared by Burger & Comer, P.C., show an increase in net assets of \$587,000, \$1.2 million (M) less than the \$1.7M increase in the prior year. UOG has been consistently posting an increase in net assets for the past four years accumulating over \$9M since a loss of \$1.3M in FY 2002. The increase is primarily attributed to UOG recognizing \$3.4M, which is unpaid but due from the government of Guam as part of its FY 2006 appropriation of \$27.5M. Had it not been for this recognition, UOG would have had a decrease in net assets of \$2.8M.

Overall Revenues, Grants, and Enrollment Increase

The FY 2006 increase is a result of \$1.7M increase in revenues, going from \$64.4M to \$66M. The major sources of revenue for UOG come from government of Guam appropriations, federal grants and contracts, student tuition and fees, and auxiliary enterprises. For FY 2006, government of Guam appropriations totaled \$26.5M or 40% of total revenues, of which \$23.7M was for operations and \$2.8M was for local student financial aid. Federal grants and contracts comprised of \$24.8M or 38% of total revenues, and student tuition and fees and auxiliary enterprises of \$15.2M or 23%. UOG experienced \$2M less in government of Guam appropriations, but a \$1.4M increase in student tuition and fees and \$2.5M increase in federal grants and contracts. Student enrollment also increased 5% to 3,176 students in fall semester 2006 as compared to 3,034 in fall semester 2005.

Operating Expenses Increase by \$2.8M

Operating expenses increased by \$2.8M, going from \$62.7M to \$65.5M. Contributing to the increase in expenses was the \$2M increase in instruction (16.8M versus \$14.8M in 2005) and \$687,000 increase in public service (\$6.3M versus \$5.6M in 2005). Student services also went up \$609,000 from \$3.1M to \$3.7M. At the end of FY 2006, there were 832 employees, compared to 814 in FY 2005. Salary increments and the additional 18 employees led to an increase of salaries and wages of \$1.4M. Expenditures for the Board of Regents amounted to \$19,811 in 2006 and \$15,030 in 2005. Expenses include travel, postage, contractual services, advertisements, subscriptions, supplies and materials, and miscellaneous expenses.

Government of Guam's Liquidity Crisis Affects University of Guam's Appropriations

In March 2007, Standard & Poor's placed the government of Guam on a CreditWatch with negative implications. "The action is based on the government's disclosure of the need to borrow up to \$6M from local banks to meet its current payroll obligation for public school system employees. The liquidity crisis is directly attributed to Guam's long-term structural financial imbalance, with recurring deficits, a large and growing negative general fund balance, and massive long-term liabilities."

Due to the liquidity crisis of the General Fund, the University of Guam did not receive its entire appropriation of \$27.5M. The Department of Administration and UOG entered into an agreement in March 2007 to recognize an appropriation receivable of \$3.4M, after UOG agreed to forgo \$2.7M for FY 2006. DOA, however, has yet to pay the FY 2006 appropriation balance of \$3.4M as of the issuance of this report. UOG has \$4.6M in cash and equivalents, \$6.2M in investments, and

\$8.2M in endowment investments at year-end. Law, donor agreements, and board-policy restrict the use of these investments.

UOG Occupies SBPA Building, Gain New Grants

In July 2006, UOG occupied the new Jesus and Eugenia Leon Guerrero School of Business and Public Administration Building, a 57,000 square foot, \$14.5M project. This project was financed through a USDA Rural Development Loan for 40 years at 4.5% for \$13.5M. The remaining \$1M was paid by UOG. The project was certified complete in December 2006. UOG receives a separate appropriation of \$500,000 from the Territorial Highway Fund for annual debt services. UOG has received \$1.75M thus far from the Territorial Highway Fund, but has \$750,000 of unpaid appropriations from FY 2005 and FY 2006.

UOG continues to be successful in attracting federal grants. In FY 2006, there were 82 different federal grants with \$24.9M in expenditures, compared to the 75 grants with \$23.3M in expenditures in 2005.

Audit Findings-UOG Employee Uses Position for Personal Gain

The independent auditor's report on compliance with laws and regulations noted two findings relating to the internal controls for the financial aid office and the business office. In the first finding, one student, also an employee in the UOG Financial Aid office, was awarded a Pell Grant without meeting the eligibility requirements. Although ineligible, the student/employee was able to contact the Business Office and was added to the listing for award processing. After the student/employee was added and a check was prepared and issued, the student/employee gained access to the listing of Pell Grant recipients and deleted the record.

In the second finding, the same student/employee obtained a Stafford loan. As part of the application process, a certification form required by the financial institution appeared to be forged as the person listed as the UOG financial aid office counselor was fictitious. The employee obtained a loan, which she was eligible for, however it was higher than what she was entitled to as an undergraduate student. Since this loan was processed by a separate financial institution and the employee took the loan on her behalf, no money is owed to UOG. The employee was subsequently terminated.

In a separate management letter, there were three findings relating to auxiliary revenues and transfers, reconciliation of federal expenditures, and depreciation expense. The reconciliation of the schedule of federal expenditures has led to a delay in the issuance of this FY 2006 audit, which was originally scheduled to be released April 30, 2007.

UOG Endowment Foundation

The UOG Endowment Foundation (UOG Foundation), audited by Deloitte & Touche, LLP, is in its third year of reporting as part of the University of Guam's financial statements. While the UOG Foundation is a separate corporation from the University, its financial statements are presented in the University's financial statements in compliance with GASB 39. In FY 2006, the UOG Foundation recorded a decrease in investment in securities, going from \$6.8M to \$6.5M, a \$273,000 decrease. Management and general expenses were \$712,000, a decrease of \$527,000 from prior year of \$1.2M. The UOG Foundation had \$7.4M in total net assets, a decrease of \$272,000 from the previous year.

For a more detailed commentary of UOG's operations, refer to the Management Discussion and Analysis in the audit report.