



University of Guam FY 2017 Financial Highlights

May 14, 2018

The University of Guam (UOG) is commended for qualifying as a low-risk auditee for the third consecutive year. Independent auditors, Deloitte & Touche, LLP, issued unmodified (clean) opinions on UOG's fiscal year (FY) 2017 financial statements and report on compliance for major federal programs. However, the auditors identified one significant deficiency on internal control over major federal programs, and five deficiencies on internal control over financial reporting.

UOG closed FY 2017 with a \$3.4 million (M) decrease in net position (net loss). Certain accounts from the prior year were restated due to the implementation of the Governmental Accounting Standards Board (GASB) Statement No. 73, resulting in a net loss of \$6.8M in FY 2016 compared to the previously reported net loss of \$4.0M. Though FY 2017's \$3.4M loss is UOG's third loss in 15 years, it was a significant improvement from FY 2016's restated net loss of \$6.8M.

Investments

UOG has been a good steward by investing prior year surpluses into certificates of deposit, money market funds, fixed income securities, common stock, and mutual funds. Total investments amounted to \$42.0M as of FY 2017, which may be made available for operations. In FY 2017, UOG's investments earned \$2.4M in investment income, an increase from the \$1.5M earned in FY 2016.

Decrease in Revenues

UOG's total revenues decreased by only 1% from FY 2016's restated \$90.4M to \$89.0M in FY 2017. FY 2017's revenues consisted mainly of: (1) Government of Guam (GovGuam) appropriations of \$32.7M or 37%, (2) federal grants and contracts of \$30.4M or 34%, and (3) net student tuition and fees of \$13.1M or 15%. GovGuam appropriations declined by \$2.0M, from \$34.7M. Federal grants and contracts declined by \$82 thousand (K) due to \$400K of grant awards that expired as of FY 2017. Despite the increase in tuition, there was a \$337K decrease in net student tuition and fees. This was because of increases in Merit award recipients, and discounts/scholarship recipients of faculty, staff, and dependent tuition.

Expenditures of Federal Awards

UOG's Schedule of Expenditures of Federal Awards showed 84 grant activities totaling \$28.4M in FY 2017. The largest federal expenditure was \$7.8M for the Pell Grant Program, followed by \$6.3M for Direct Student Loans. Meanwhile, 45% or 38 of the grant activities were below \$50K.

Decrease in Operating Expenses

In FY 2017, operating expenses totaled \$90.1M, which is a \$4.8M decrease, from FY 2016's restated operating expenses. This was attributed primarily to decreases in: (1) plant operation and maintenance by \$2.5M or 32%, (2) institutional support by \$1.5M or 14%, and (3) scholarships and fellowships by \$1.1M or 10%. Unlike other autonomous agencies, the General Fund pays for UOG's retiree healthcare costs, which was \$3.2M in FY 2017.

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 relating to the

Small Business Development Centers' need to ensure target goals are met and renegotiate attainable goals with their federal grantor agency. This is a repeat finding.

FY 2016 Financial Statements Restatement and Other Post-Employment Benefits (OPEB)

In FY 2017, UOG implemented GASB Statement No. 73, which aligns the reporting requirements for pensions, ad hoc Cost-of-Living Adjustments (COLA), and supplemental annuity payments. The implementation of this Statement had a material effect on UOG, resulting in the restatement of its FY 2016 financial statements. The restatement of UOG's FY 2016 financials increased operating expenses by \$4.0M and reduced beginning net position by \$11.1M. This resulted in a \$13.9M decrease in the ending net position from \$39.4M to \$25.6M, as well as a \$16.3M increase in net pension liability to \$93.5M as of FY 2016.

In addition, GASB Statement No. 75 (Post-Employment Benefits Other Than Pensions) is effective and will be recorded in UOG's FY 2018 financial statements. Upon implementation, UOG anticipates recording an additional \$66.7M liability as of FY 2017 for OPEB.

Management Letter

In a separate management letter, the auditors identified five deficiencies concerning UOG's need to (1) strengthen procedures to obtain required documentation, monitor accounts for delinquency, and consider writing-off long outstanding notes receivable; (2) periodically assess nonmoving and inactive accounts; (3) timely coordinate construction in progress capitalization; (4) maintain vendor selection documentation; and (5) strengthen monitoring of dorm collections.

Audit Adjustments and Uncorrected Misstatements

For FY 2017, nine audit adjustments were made relative to retiree healthcare costs, appropriations revenue, GASB 68/73 pension adjustments, pension liability, deferred inflow/outflows, and other pension benefits. However, there were three uncorrected misstatements that would have cumulatively decreased UOG's net position by \$153K.

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) 2016, the Foundation's financial statements again received a qualified opinion from the independent auditors because it was still unable to evaluate the carrying value of donated land recorded at \$5.2M.

In CY 2016, the Foundation had an increase in net assets (net income) of \$1.1M, as opposed to a \$659K decrease (net loss) in CY 2015. The Foundation received more contributions and earned \$860K on its investments in CY 2016, as opposed to the \$319K investment loss in CY 2015. Investments in Bank of Guam (BOG) increased by \$1.0M, from CY 2015's \$228K to \$1.3M due to the purchase of 1,000 BOG preferred shares for \$1.0M in CY 2016.

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, which will expire in 2056, the Foundation entered into \$21.7M promissory notes with the U.S. Department of Agriculture in December 2016.

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