



USJ FINANCIAL REPRORT 2019/20

It has been our main goal to provide to our society the best educational system and offer to our students an excellent quality of service. However, it also results in high costs. The big challenge of the University is to archive our goal of managing operating expenditure to a level equal or lower than the revenue. We have been making efforts to obtain more external subsidies to cover our operational costs, allied to extra funding for University research projects and academic activities, to support our mission in teaching, learning and research.

ANALYSIS OF USJ'S FINANCIAL CONDITION IN 2019/2020

Tuition fees alone are not enough to cover the costs of higher education in the mission of its provision to a wide spectrum of the population. Therefore, the funding granted by the Macao Government has been essential for the University to balance its accounts.

Our major source of income is tuition fees, which with the inclusion of the government subsidy for local students, represent in total almost 44% of our total operational income in 2019/2020. On the other hand, on top of our operational expenses is the personnel cost, which accounts for almost 63% of the total annual cost.

The University has never reached a level of internally sustainable financial equilibrium – relying throughout most of the last ten years on a mixture of subsidy from the Macao Government, insurance recoveries (following Typhoon Hato in 2017) and *ad hoc* support from the Diocese of Macao to fund cashflows. In the financial year to 31st July 2020, the University ran an annual profit and loss account deficit of MOP\$8.2M

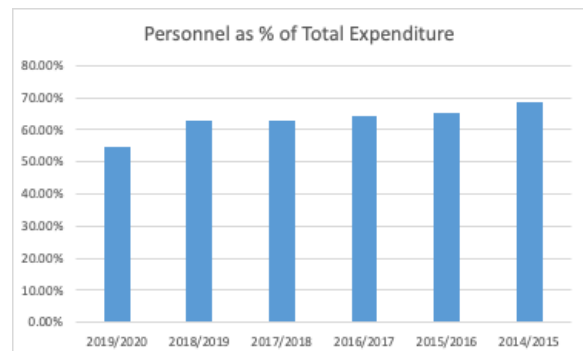
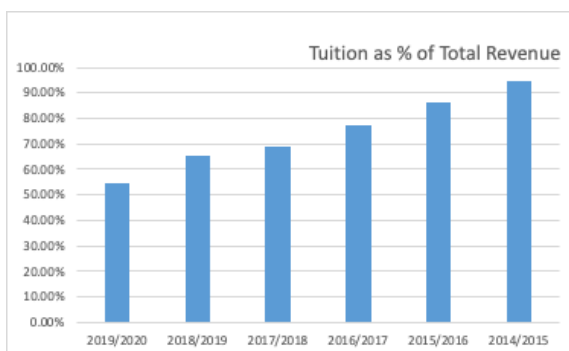
Revenue	2019/2020	2018/2019	2017/2018	2016/2017	2015/2016	2014/2015	2013/2014	2012/2013
Tuition Income	64,734,563.00	64,313,553.37	61,422,878.00	59,877,781.00	62,037,690.00	66,629,065.00	65,562,901.00	65,158,042.00
Subsidies and Donation Income	32,147,386.00	36,416,700.00	45,989,838.00	28,664,227.00	25,006,143.00	17,150,507.00	9,220,521.00	2,816,623.00
Project Income	748,511.00	642,900.00	1,041,038.00	951,375.00	982,925.00	1,014,500.00	917,087.00	824,046.00
Rental Income	3,286,356.00	3,672,109.00	2,614,290.00	639,015.00	678,060.00	509,741.00	475,490.00	262,805.00
Financial Income	94,032.00	201,668.00	119,550.00	11,509.00	11,419.00	110,374.00	305.00	2,970.00
Miscellaneous Income	1,145,771.00	2,950,055.00	1,178,663.00	1,160,679.00	1,355,816.00	861,624.00	75,445.00	0.00
Total Revenue	102,156,619.00	108,196,985.37	112,366,257.00	91,304,586.00	90,072,053.00	86,275,811.00	76,251,749.00	69,064,486.00
	2019/2020	2018/2019	2017/2018	2016/2017	2015/2016	2014/2015	2013/2014	2012/2013
Tuition as % of Total Revenue	63.37%	59.44%	54.66%	65.58%	68.88%	77.23%	85.98%	94.34%

Expenditure	2019/2020	2018/2019	2017/2018	2016/2017	2015/2016	2014/2015	2013/2014	2012/2013
Administrative and Operating Expenditure	26,597,950.00	29,199,280.00	27,486,719.00	22,718,086.00	22,307,723.00	21,494,153.00	18,224,797.00	19,847,669.00
Personnel Expenditure	73,946,271.00	65,958,715.00	58,794,145.00	55,092,992.00	55,044,908.00	52,057,483.00	56,049,746.00	53,985,660.00
Financial Costs	511,470.00	561,574.00	587,449.00	567,170.00	637,184.00	453,788.00	556,312.00	414,993.00
Project Expenditure	256,277.00	2,607,144.00	1,710,042.00	2,064,257.00	2,219,739.00	2,195,296.00	930,397.00	459,820.00
Miscellaneous Expenditure	930,975.00	319,090.00	7,996,811.00	361,825.00	258,963.00	414,427.00	7,330,625.00	1,834,715.00
Depreciation	8,188,063.00	9,069,825.00	10,842,292.00	6,903,254.00	7,316,136.00	4,320,851.00	3,078,171.00	2,240,241.00
Total Expenditure	110,431,006.00	107,715,628.00	107,417,458.00	87,707,584.00	87,784,653.00	80,935,998.00	86,170,048.00	78,783,098.00
Surplus for the Year	-8,274,387.00	481,357.37	4,948,799.00	3,597,002.00	2,287,400.00	5,339,813.00	-9,918,299.00	-9,718,612.00
	2019/2020	2018/2019	2017/2018	2016/2017	2015/2016	2014/2015	2013/2014	2012/2013
Personnel as % of Total Expenditure	66.96%	61.23%	54.73%	62.81%	62.70%	64.32%	65.05%	68.52%



The effect of the COVID-19 pandemic upon USJ's future is extremely serious, representing a severe existential threat to the continuing operation of the University. Whilst the University managed to move all of its teaching to an online delivery mode very quickly and without a significant deterioration in either student experience or performance, the pandemic protection measures had several negative consequences. In addition to frustrating the plans to recruit international students, the effect on the finances of Macao SAR Government and the Macao Foundation has been such that, combined with the explicit statement of the new Chief Executive, Mr Ho Iat Seng, that universities in Macao should become financially self-sufficient, means that the annual subsidy that USJ receives – amounting to MOP\$38M in 2019/20 – is very much under threat. Although MOP\$16.5M of that subsidy is by way of support for the fees of local students and may well be maintained, the balance goes to fund various projects and operating expenses, without which the University would require additional financial support. Finally, the effect of the pandemic on the local, regional and global economy is such that it must be doubted whether the external fundraising climate will improve before the beginning of University's 2021/22 financial year.

We are forecasting deficit of MOP\$6.4M for the forthcoming 2020/21 year, and had already spent MOP\$11M of the anticipated income of the 2020/21 financial year.



Cost control has improved markedly in recent years, although certain significant ratios deteriorated in 2019/20 and are difficult to reverse immediately. The Personnel Expenses in 2019/20 compare to 2018/19 has increased almost MOP\$8M, due to the restructuring of the Administrative Offices and salaries upgrades to aim to retain the experience staff and to minimize the turnover rate.

We are fully conscience the underlying financial problem is that, given the irreducible operating costs, USJ operates at below a sustainable critical mass of students and that total student numbers need to rise by 50% to secure its long-term future.

In 2019, USJ produced a Strategic Plan as part of its commitment to seeking institutional accreditation under the new Macao Higher Education Law of 2017. Although a very thorough and well-regarded plan, it was not designed to, nor did it, contain any financial objectives.

The combined effects of these factors, taken together with the historic utilisation of anticipated income, a dependence on using capital grants and recoveries to support operating income, means that the real net current asset position is unsustainable and that



current cashflows and bank facilities are inadequate. There is a very significant risk that, without additional liquidity (by way of an injection of cash or additional banking facilities), USJ would cease to be able to meet its operating obligations within the next two years.

INTERNAL AUDIT MECHANISM FOR USING SPONSORSHIP/SUBSIDIES/FUNDING FROM MACAO GOVERNMENT

The Project Monitoring Team (PMT), under Finance and Human Resources Office (FHRO), is responsible to monitor the management of different projects, run by project leaders, in which external funds are involved, in order to ensure that both external and internal rules are fully complied of. In addition, a Procurement Policy has been created and through the efforts of the Procurement Units, it can be guaranteed that the purchase of equipment and services is well conducted.

PMT keeps records of each project approved by USJ's Executive Council (EC) and checks that expenditure is in line with the budget submitted. The office has to approve all purchases and payments related to projects, in accordance to their respective budgets and available funds, and reminds project leaders to report periodically on the progress of their project and to provide their final report on time.

Procedures for executing the funds available:

1. Project Leader or the Person In-charge (PL) will contact the Procurement Units requesting the quotation of the good or service.
2. PL endorses the quotations for items as approved, on the *Procurement Request form or Payment Request Form*.
3. The endorsed quotation (with the endorsed *Payment Request Form*) is submitted to PMT.
4. The PMT checks and marks the quotation as in accordance with the approved proposal.
5. If the quotation is within the approved typology and budget for each item, the PMT sends the marked quotation to the Head of FHRO for further approval.
6. After approval the Procurement Units will follow up with the purchase or acquisition of the service. Treasury Section of the Finance and Human Resources Office will prepare the payment accordingly with the payment condition and method proposed.
7. When the activity is completed, the Project Leader must submit to the PMT, within two weeks, a report with all the relevant documents, including photos and printed materials, to be included in the consolidated report to the sponsors.



MEASURES HAVE BEEN TAKEN FOR THE PROFIT & LOSS

For many years, USJ faces consequences of poor financial performance, inadequate cost control and management information, under-capitalisation and a dependence on unpredictable and opaque public-funding sources. Without a radical investment of time, effort and financial resources to make good on the university's singular opportunity, USJ will not succeed.

The Rector and Executive Council recommend the adoption of the Strategic Management Plan with the goal of securing the future of USJ as a privately funded international Catholic University as a financially self-sustaining entity, in the first instance through to 2030. The above can be achieved by meeting the following objectives:

- I. Recruit sufficient students to ensure that overall numbers rise to 1,800 as soon as sustainably deliverable.
- II. Ensure a return to an operating surplus on the profit and loss account by 2024/25, and thereafter operate at a net positive cashflow position.
- III. Replace entirely dependence on Macao SAR Government sources of funding for operational purposes by 2024/25.

The Strategic Management Plan sets out eight strategies with supporting plans and actions that targets a sustainable operating surplus by 2023/24, positive operating cashflows by 2024/25, positive net assets by 2026/27 and the elimination of its accumulated deficit by 2027/28.

To attain these targets, USJ will need cMOP\$100M of additional investment over the next five years, including MOP\$30M of capital funding to complete the renovation and reorganization of the Green Campus.

USJ is now at a point where a number of significant decisions need to be made concerning the future of the University, its long-term strategic direction, and the associated financial implications.

Whilst these financial decisions are entirely a matter for the Catholic Foundation, and the strategic direction is a matter for the University General Council, it is the recommendation of the Rector and the Executive Council that those bodies should take those actions necessary to allow USJ to reach self-sustainability by the end of the 2024/25 financial year, with the goal of eliminating the accumulated deficit on the balance sheet by 2029/2030, and that they should adopt a strategic plan required to deliver on these objectives.

CALCULATION ON DEPRECIATION

USJ follows the straight-line depreciation guidelines throughout the respective asset's useful life. Therefore, the depreciation and amortization rates vary according to the number of years of the respective assets' useful life, following in the applicable cases the minimum rates of depreciation and amortization in *Decree-Law 4/90/M*.