

**MORGAN STATE UNIVERSITY**

**Financial Statements Together with  
Report of Independent Public Accountants**

**Years Ended June 30, 2014 and 2013**



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**JUNE 30, 2014 AND 2013**

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## **REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS**

Board of Regents  
Morgan State University

### **Report on the Financial Statements**

We have audited the accompanying financial statements and the aggregate discretely presented component unit of Morgan State University (the University), a component unit of the State of Maryland, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the component unit financial statements of the Morgan State University Foundation, Inc. (the Foundation) as of and for the years ended June 30, 2014 and 2013. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based solely on the reports of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.



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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University and Foundation, as of June 30, 2014 and 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Hunt Valley, Maryland  
December 1, 2014

*SB & Company, LLC*

# **MORGAN STATE UNIVERSITY**

## **Management's Discussion and Analysis June 30, 2014 and 2013**

### **INTRODUCTION**

The following discussion presents an overview of the financial position and financial performance of the University during the fiscal year ended June 30, 2014, with comparative information for 2013. This discussion and analysis has been prepared by management along with the financial statements and related footnote disclosures. This discussion should be read in conjunction with, and is qualified in its entirety by, the financial statements and footnotes. The discussion and analysis is designed to focus on current activities, resulting change and currently known facts. The financial statements, footnotes and this discussion are the responsibility of management.

The basic financial statements consist of a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board Statement No. 35, *Basic Financial Statements-and Management's Discussion and Analysis-for Public Colleges and Universities*. These financial statements focus on the financial position, results of operations, and cash flows of the University as a whole.

Additionally, the University has adopted Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Universities Are Component Units*, an amendment of GASB Statement No. 14, and included the discrete financial information of the Morgan State University Foundation, Inc. (the Foundation) in its basic financial statements, this management's discussion and analysis focuses on the financial information of the University. The Foundation is a private nonprofit whose purpose includes, but are not restricted to, receiving and administering funds to enhance, improve, develop, and promote the University and to benefit the University, its students, and faculty. Complete financial statements for the Foundation can be obtained from Morgan State University Foundation, Truth Hall, Room 201, 1700 East Cold Spring Lane, Baltimore, MD 21251. There are three financial statements presented for each fiscal year: the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows.

### **INSTITUTION FINANCIAL HIGHLIGHTS**

These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most institutions. As of June 30, 2014 and 2013, the University had total assets of \$463.1 million and \$449.4 million, respectively. This increase in total assets was driven by increases in current assets and net capital assets. Total liabilities as of June 30, 2014 and 2013 were \$90.6 million and \$96.8 million, respectively. This improvement in the liability position is primarily due to a reduction in current liabilities and lower non-current liabilities resulting from the continued pay down of the University's debt. The higher total assets for the period coupled with lower total liabilities improved the University's net asset position by \$19.9 million.

# MORGAN STATE UNIVERSITY

## Management's Discussion and Analysis June 30, 2014 and 2013

### ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATION

As of June 30, 2014, the University's net position was \$372.5 million, compared to \$352.6 million for the same period last year. This represents an increase of \$19.9 million or 5.62% from the previous year's net position. This favorable performance is attributable to a sizable increase in the fiscal year 2014 revenues along with no change in the fiscal year 2014 total expenses from the prior year. The University's net assets increase is primarily the result of an increase of operating state appropriations of \$3.4 million, additional capital appropriations of \$15.2 million and lower interest expense of \$1.1 million. These increases were slightly offset by a small increase in operating expenses. For the year the University's net position increase was comprised of the following:

#### FY 2014 Net Position Changes

Investment in Capital Assets	\$ 10.0 million
Restricted net assets	1.2 million
Unrestricted net assets	<u>8.7 million</u>
Total increase in Net position	\$ 19.9 million

Investment in capital assets represents the University's capital assets ownership, while the \$10.2 million in restricted net position consists of investments given to the University for Scholarships and a lecture series, the Federal Perkins loan program, and funds invested for capital debt service and disbursements. The University's unrestricted net asset position is \$46.5 million representing an \$8.7 million or 23.0 % increase over the prior year.

The University's net position amount (the difference between assets and liabilities) is one way to measure the University's financial health. Over time, increases or decreases in the University's net position are one indicator of whether the University's financial health is improving. Over the last three years the University's net asset position has been favorable, increasing \$51.9 million or 16.2% to the fiscal year 2014 level of \$372.4 million. This combined growth of unrestricted and expendable financial resources demonstrates the University's continued strengthen of its financial position.

# MORGAN STATE UNIVERSITY

## Management's Discussion and Analysis June 30, 2014 and 2013

### STATEMENTS OF NET POSITION SUMMARY

	<u>2014</u>	<u>2013</u>	<u>2012</u>
<b>ASSETS</b>			
Current assets	\$ 86.8	\$ 80.9	\$ 77.9
Noncurrent assets:			
Capital assets, net	367.9	361.1	368.2
Other noncurrent assets	8.4	7.4	8.0
Total noncurrent assets	<u>376.3</u>	<u>368.5</u>	<u>376.2</u>
<b>Total Assets</b>	<b>463.1</b>	449.4	454.1
<b>LIABILITIES</b>			
Current liabilities	33.1	36.2	36.8
Noncurrent liabilities	57.5	60.6	63.0
<b>Total Liabilities</b>	<u>90.6</u>	<u>96.8</u>	<u>99.8</u>
<b>Net position</b>			
Net investment in capital assets	315.8	305.8	308.8
Restricted	10.2	9.0	9.4
Unrestricted	46.5	37.8	36.1
<b>Total Net Position</b>	<u>\$ 372.5</u>	<u>\$ 352.6</u>	<u>\$ 354.3</u>

Assets included in the statement of financial position are classified as current and noncurrent. Current assets consist of cash and cash equivalents, investments and accounts receivable. Noncurrent assets consist primarily of plant and equipment known as capital assets. Current assets of \$86.8 million represented an increase of \$5.9 million, or 7.3%. This increase was mainly due to accounts receivable, net of an increase in the allowance for doubtful accounts. Noncurrent assets of \$376.3 million increased \$7.8 million, or 2.1% primarily due to the addition of capital assets during the period. As previously mentioned, total liabilities of \$90.6 million declined by \$6.2 million, mainly due to the reduction of the bonds payable and lower deferred revenue.

# MORGAN STATE UNIVERSITY

## Management's Discussion and Analysis June 30, 2014 and 2013

### SUMMARY OF REVENUE (in millions)

	Years Ended June 30,		
	2014	2013	2012
<b>Operating Revenues</b>			
Tuition and fees, net	\$ 39.1	\$ 38.4	\$ 38.0
Other	61.1	60.7	64.7
<b>Total Operating Revenues</b>	<b>100.2</b>	<b>99.1</b>	<b>102.7</b>
<b>Non-Operating Revenues</b>			
State appropriations	79.1	73.7	73.0
Pell grants	16.3	16.7	17.7
Other non-operating revenues	1.2	1.1	0.9
<b>Total Non-Operating Revenues</b>	<b>96.6</b>	<b>91.5</b>	<b>91.6</b>
<b>Other Revenues</b>			
Capital appropriations	28.3	11.1	33.7
<b>Total Other Revenues</b>	<b>28.3</b>	<b>11.1</b>	<b>33.7</b>
<b>Total Revenues</b>	<b>\$ 225.1</b>	<b>\$ 201.6</b>	<b>\$ 228.0</b>

All of the current year's revenues and expenses are recorded on the accrual basis of accounting. University revenues are comprised of three major categories, operating revenue, non-operating and other revenue. As of June 30, 2014, the University's total revenues were \$225.1 million, an increase of \$23.5 million, or 11.7%. For the period, operating revenues of \$100.2 million, increased by \$1.1 million, primarily due to an increase in student tuition rates and international student initiatives. Student tuition and fee rates were increased on average by 3.0%. Federal, state, private gifts, grants and contracts were \$1.0 million higher than the prior year due primarily to the University's initiatives to diversify revenue through an increased research agenda and improved fund raising. These increases were slightly offset by a small decline in auxiliary revenue.

Non-operating revenues of \$96.6 million, increased \$5.1 million due to the higher State appropriation for the period. The state of Maryland continues to show strong support for the University resulting from the positive return on investment that Morgan State University provides. Other revenues of \$28.3 million consist of capital appropriations from the State of Maryland. The capital appropriations were \$17.2 million higher in 2014 compared to 2013 primarily due to funds received for the construction of the new School of Business (SOB) building and the deconstruction of Soper Library building. The SOB is scheduled to open in the fall of 2015. The University continues to receive capital appropriations to enhance its physical plant and to support the University's long term capital plan.

# MORGAN STATE UNIVERSITY

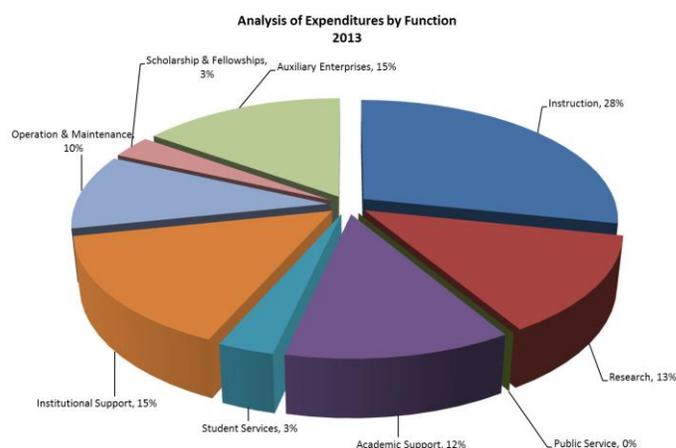
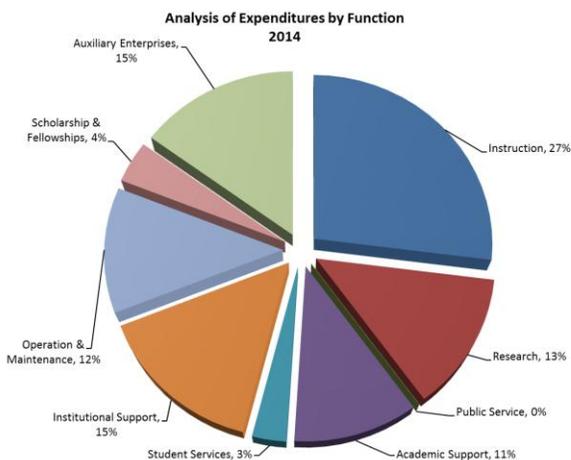
## Management's Discussion and Analysis June 30, 2014 and 2013

Total operating and non-operating expenses for the period ended June 30, 2014 were \$203.3 million, virtually no change from the prior year. However, interest expense was lower by \$1.0 million due to the refinancing that was completed in 2012. Offsetting the lower interest expense was a small increase in operating expenses.

Total operating expenses of \$200.9 million were slightly higher by \$1.7 million or 0.9%. The increase was largely due to higher operation and maintenance of plant expenses resulting from higher utilities and an increase in scholarships and fellowships for students.

### SUMMARY OF OPERATING AND NON-OPERATING EXPENSES (in millions)

	Years Ended June 30,		
	2014	2013	2012
<b>Operating Expenses</b>			
Instruction	\$ 54.3	\$ 56.6	\$ 51.5
Research	25.9	26.5	31.8
Public service	0.4	0.3	0.3
Academic support	21.4	23.5	20.8
Student services	6.6	6.3	6.5
Institutional support	30.9	30.3	29.0
Operation and maintenance of plant	23.6	19.9	18.9
Scholarships and fellowships	7.5	5.8	3.0
Auxiliary enterprises	30.3	30.0	29.2
<b>Total Operating Expenses</b>	<b>200.9</b>	199.2	191.0
<b>Non-operating Expenses</b>			
Interest on Indebtedness	2.3	3.3	2.9
Other expenses	0.1	0.9	0.2
<b>Total Non-Operating Expenses</b>	<b>2.4</b>	4.2	3.1
<b>Total Operating and Non-Operating Expenses</b>	<b>203.3</b>	203.4	194.1



# MORGAN STATE UNIVERSITY

## Management's Discussion and Analysis June 30, 2014 and 2013

### SUMMARY OF OPERATING RESULTS

(in millions)

	Years Ended June 30,		
	2014	2013	2012
<b>Net Position, Beginning of Year</b>	\$ 352.6	\$ 354.4	\$ 320.5
Total revenues	225.1	201.6	228.0
Total expenses	(203.1)	(203.4)	(194.1)
(Decrease) Increase in net position	22.0	(1.8)	33.9
<b>Net Position, End of Year</b>	<u>\$ 374.6</u>	<u>\$ 352.6</u>	<u>\$ 354.4</u>

### STATEMENTS OF CASH FLOWS

Another way to assess the financial health of an institution is to examine the statement of cash flows. Its primary purpose is to provide relevant information about the cash receipts and cash payments of an entity during a period. The statement of cash flows also assesses:

- An entity's ability to generate future net cash flows.
- Its ability to meet its obligations as they come due.
- Its needs for external financing.

### SUMMARY OF CASH FLOWS

(in millions)

	Years Ended June 30,		
	2014	2013	2012
<b>Cash (used) provided by:</b>			
Operating activities	\$ (93.0)	\$ (81.8)	\$ (72.3)
Noncapital financing activities	93.1	90.1	90.5
Capital and related financing activities	(0.4)	(7.1)	(9.9)
Investing activities	0.3	1.7	2.2
<b>Net Increase in</b>			
<b>Cash and Cash Equivalents</b>	(0.0)	2.9	10.5
Cash and cash equivalents, beginning of year	69.3	66.4	55.9
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 69.3</u>	<u>\$ 69.3</u>	<u>\$ 66.4</u>

# MORGAN STATE UNIVERSITY

## Management's Discussion and Analysis June 30, 2014 and 2013

The primary cash receipts from operating activities consist of tuition and fees, and auxiliary enterprises. Cash disbursements from operations include salaries and wages, benefits, supplies, utilities, maintenance, and scholarships. The overall increase in net cash used by operations reflects the increase in tuition and fees together with the timing of payments to suppliers and employees from year to year. State appropriations are the primary source of non-capital financing. Non-capital state appropriation receipts were \$77.1 million in 2014 and \$73.7 million in 2013.

### CAPITAL ASSETS

The University long term capital plan includes capital expenditures of approximately \$87.7 million. These include the continuing Campus Wide Utility Upgrades, complete with the following projects:

- 1) construction of the new School of Business Complex
- 2) demolition of the Soper Library Building
- 3) demolition of the E-Wing, power plant and morgue of the Montebello Complex
- 4) pay the residual vendor payments on the recently completed facilities

In addition, several projects are in the planning stages including the renovation/ replacement of the Jenkins Behavioral and social science building and construction of the new Student Services building. Finally, campus-wide site improvements and ADA accessibility projects continue to be phased in over the entire campus. More detailed information about the University's capital assets and capital commitments are presented in Note 4 and Note 7 of the financial statements footnotes.

### DEBT

As of June 30, 2014, the University had \$52.1 million in outstanding long term debt versus \$55.3 million in the previous year, a decrease of 5.8%. The table below summarizes these amounts by type of debt instrument.

	Years Ended June 30,		
	2014	2013	2012
Revenue bonds	\$ 50.8	\$ 53.5	\$ 56.6
Capital lease obligations	1.3	1.8	2.5
<b>Total</b>	<b>\$ 52.1</b>	<b>\$ 55.3</b>	<b>\$ 59.1</b>

# **MORGAN STATE UNIVERSITY**

## **Management's Discussion and Analysis June 30, 2014 and 2013**

### **SUMMARY**

The University's overall financial position continues to strengthen, despite a nation trend of declining high school graduates. The University is committed to building strong academic programs including but not limited to engineering and the STEM field along with increased production in graduate degrees specifically PHD's. The University is guided by its strategic plan, "Growing the future, leading the world, 2011-2012". The goals of the plan are the pillars for a strong academic institution which are supported by the University's financial resources. The University is committed to enhancing its overall financial strength to meet the educational needs of the state of Maryland and the global world.

# MORGAN STATE UNIVERSITY

## Statements of Net Position As of June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 69,317,273	\$ 69,330,048
Accounts receivable (net of allowance for doubtful accounts of \$2,030,525 and \$1,406,064, respectively)	16,166,478	10,719,009
Notes receivable	99,835	111,109
Inventories	632,616	672,486
Prepaid expenses	569,811	62,036
<b>Total Current Assets</b>	<u>86,786,013</u>	<u>80,894,688</u>
<b>Non-Current Assets</b>		
Endowment investments	2,379,216	2,196,821
Restricted investments	4,624,330	3,763,767
Notes receivable (net of allowance for doubtful notes of \$366,413 and \$330,441, respectively)	1,436,305	1,426,362
Capital assets, net	367,937,761	361,085,636
<b>Total Non-Current Assets</b>	<u>376,377,612</u>	<u>368,472,586</u>
<b>Total Assets</b>	<u>463,163,625</u>	<u>449,367,274</u>

The accompanying notes are an integral part of these financial statements.

**MORGAN STATE UNIVERSITY****Statements of Net Position (continued)  
As of June 30, 2014 and 2013****LIABILITIES AND NET ASSETS**

	<b>2014</b>	<b>2013</b>
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	\$ 20,978,606	\$ 20,858,151
Accrued workers' compensation, current portion	496,155	465,620
Accrued vacation costs, current portion	2,196,297	3,116,611
Revenue bonds payable, current portion	3,440,000	2,515,000
Obligations under capital lease agreements, current portion	275,678	613,840
Unearned revenue	5,372,557	7,114,492
Funds held for other organizations	411,501	1,466,670
<b>Total Current Liabilities</b>	<b>33,170,794</b>	<b>36,150,384</b>
<b>Non-Current Liabilities</b>		
Accrued workers' compensation, net of current portion	2,704,845	2,538,380
Accrued vacation costs, net of current portion	6,434,772	5,878,825
Revenue bonds payable, net of current portion	47,403,527	51,019,818
Obligations under capital lease agreements, net of current portion	964,759	1,177,310
<b>Total Non-Current Liabilities</b>	<b>57,507,903</b>	<b>60,614,333</b>
<b>Total Liabilities</b>	<b>90,678,697</b>	<b>96,764,717</b>
<b>Net Position</b>		
Net investment in capital assets	315,717,583	305,759,668
Restricted		
Expendable:		
Scholarships and fellowships	3,664,415	3,339,740
Loans	1,945,960	1,897,685
Debt service	4,624,330	3,763,767
<b>Total expendable net position</b>	<b>10,234,705</b>	<b>9,001,192</b>
Unrestricted Net Position	46,532,640	37,841,697
<b>Total Net Position</b>	<b>\$ 372,484,928</b>	<b>\$ 352,602,557</b>

The accompanying notes are an integral part of these financial statements.

# MORGAN STATE UNIVERSITY

## Statements of Revenues, Expenses, and Changes in Net Position For the Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>Operating Revenues</b>		
Tuition and fees	\$ 55,516,843	\$ 55,237,080
Less: Scholarship allowances	<u>(16,371,324)</u>	<u>(16,872,787)</u>
	39,145,519	38,364,293
Federal grants and contracts	25,594,246	24,325,617
State and local grants and contracts	3,068,690	2,586,687
Private gifts, grants and contracts	1,793,064	2,729,878
Sales and services educational	1,933,672	1,859,484
Residential facilities	18,580,302	18,236,048
Less: Scholarship allowances	<u>(5,563,496)</u>	<u>(5,499,177)</u>
	13,016,806	12,736,871
Parking facilities	902,712	962,945
Less: Scholarship allowances	<u>(187,526)</u>	<u>(206,140)</u>
	715,186	756,805
Intercollegiate athletics	9,097,421	9,193,732
Less: Scholarship allowances	<u>(2,394,501)</u>	<u>(2,446,439)</u>
	6,702,920	6,747,293
Bookstore	2,783,757	3,209,763
Less: Scholarship allowances	<u>(298,683)</u>	<u>(396,849)</u>
	2,485,074	2,812,914
Student center	3,116,880	3,176,485
Less: Scholarship allowances	<u>(872,906)</u>	<u>(890,793)</u>
	2,243,974	2,285,692
Other auxiliary enterprises revenues	3,476,155	3,895,124
<b>Total Operating Revenues</b>	<u>100,175,306</u>	<u>99,100,658</u>

The accompanying notes are an integral part of these financial statements.

**MORGAN STATE UNIVERSITY**

**Statements of Revenues, Expenses, and Changes in Net Position (continued)  
For the Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b>Operating Expenses</b>		
Instruction	\$ 54,325,193	\$ 56,555,699
Research	25,854,274	26,495,136
Public service	399,965	317,297
Academic support	21,374,379	23,473,347
Student services	6,593,715	6,298,524
Institutional support	30,929,292	30,265,430
Operation and maintenance of plant	23,626,834	19,933,865
Scholarships and fellowships	7,515,550	5,848,650
Auxiliary enterprises	30,294,721	29,983,980
<b>Total Operating Expenses</b>	<u>200,913,923</u>	<u>199,171,928</u>
<b>Operating Loss</b>	<u>(100,738,617)</u>	<u>(100,071,270)</u>
<b>Non-Operating Revenue (Expenses)</b>		
State appropriations	79,144,664	73,748,316
Pell Grants	16,315,885	16,648,113
Investment income	1,181,915	1,124,627
Interest on indebtedness	(2,254,438)	(3,274,807)
Other non-operating expenses	(1,045)	(879,149)
<b>Total Non-Operating Revenues, Net</b>	<u>94,386,981</u>	<u>87,367,100</u>
<b>Loss Before Other Revenues, Expenses, Gains and Losses</b>	<u>(6,351,636)</u>	<u>(12,704,170)</u>
<b>Other Revenues, Expenses, Gains and Losses</b>		
Capital appropriations	28,283,417	11,055,668
Other losses	(49,410)	(77,920)
<b>Total Other Revenues, Expenses, Gains and Losses</b>	<u>28,234,007</u>	<u>10,977,748</u>
Other Financing Uses Transferred to State	(2,000,000)	-
<b>Increase (Decrease) in Net Position</b>	<u>19,882,371</u>	<u>(1,726,422)</u>
Net Position, beginning of year	352,602,557	354,328,979
<b>Net Position, End of Year</b>	<u>\$ 372,484,928</u>	<u>\$ 352,602,557</u>

The accompanying notes are an integral part of these financial statements.

# MORGAN STATE UNIVERSITY

## Statements of Cash Flows For the Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>Cash Flows From Operating Activities</b>		
Tuition and fees	\$ 35,382,807	\$ 37,478,207
Contracts and grants	28,086,247	31,821,053
Payments to employees	(126,367,329)	(123,722,206)
Payments to suppliers and contractors	(57,598,524)	(57,682,413)
Loans issued to students	(109,619)	(71,932)
Collections of loans to students	115,870	124,678
Auxiliary enterprises charges:		
Residence halls and dining facilities	13,016,806	12,736,872
Bookstores	2,485,074	2,812,915
Other	10,040,550	13,684,913
Other receipts	1,944,439	1,045,700
<b>Net Cash Used by Operating Activities</b>	<u>(93,003,679)</u>	<u>(81,772,213)</u>
<b>Cash Flows From Non-Capital Financing Activities</b>		
State appropriations	77,144,664	73,748,316
Pell grants	16,315,885	16,648,113
Other non-operating losses	(408,094)	(246,486)
<b>Net Cash Provided by Non-Capital Financing Activities</b>	<u>93,052,455</u>	<u>90,149,943</u>
<b>Cash Flows From Capital and Related Financing Activities</b>		
Capital appropriations	28,283,417	11,055,668
Purchases of capital assets	(23,345,122)	(10,942,838)
Payments on debt and capital leases	(3,065,713)	(3,964,336)
Interest paid on debt and capital leases	(2,254,438)	(3,274,807)
<b>Net Cash Used by Capital and Related Financing Activities</b>	<u>(381,856)</u>	<u>(7,126,313)</u>
<b>Cash Flows From Investing Activities</b>		
Proceeds from sales and maturities of investments	3,763,767	4,661,005
Interest on investments	1,181,913	1,124,627
Investment expense	(1,045)	(323,955)
Purchases of investments	(4,624,330)	(3,763,767)
<b>Net Cash Provided by Investing Activities</b>	<u>320,305</u>	<u>1,697,910</u>
Net (decrease) increase in cash and cash equivalents	(12,775)	2,949,327
Cash and cash equivalents, beginning of year	<u>69,330,048</u>	<u>66,380,721</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 69,317,273</u>	<u>\$ 69,330,048</u>

The accompanying notes are an integral part of these financial statements.

**MORGAN STATE UNIVERSITY**

**Statements of Cash Flows (continued)  
For the Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b>Reconciliation of Operating Loss to Net Cash Used by Operating Activities</b>		
Operating loss	\$ (100,738,617)	\$ (100,071,270)
<b>Adjustments to Reconcile Operating Loss to Net Cash from Operating Activities</b>		
Depreciation expense	16,492,998	18,040,657
<b>Effect of Changes in Non-Cash Operating Assets and Liabilities</b>		
Accounts receivable, net	(5,447,465)	(828,936)
Notes receivable, net	1,331	51,105
Inventories	39,869	237,432
Prepaid expenses	(507,775)	14,084
Funds held for other organizations	(1,055,173)	595,785
Accounts payable and accrued liabilities	120,455	(1,417,702)
Unearned revenue	(1,741,935)	1,084,055
Accrued workers' compensation	197,000	122,000
Accrued vacation	(364,367)	400,577
<b>Net Cash from Operating Activities</b>	<b>\$ (93,003,679)</b>	<b>\$ (81,772,213)</b>

The accompanying notes are an integral part of these financial statements.

**MORGAN STATE UNIVERSITY FOUNDATION, INC.**

**Statements of Financial Position  
As of June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 2,532,368	\$ 2,085,418
Investments	24,867,138	21,475,149
Pledges receivable (net of allowance and discount of \$214,600 and \$258,475, respectively)	1,569,014	1,843,656
Other assets and deposits	19,954	59,486
<b>Total Assets</b>	<b><u>\$ 28,988,474</u></b>	<b><u>\$ 25,463,709</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
Accounts payable and accruals	<u>\$ 118,187</u>	<u>\$ 144,882</u>
<b>Net Assets</b>		
Unrestricted	168,198	179,573
Temporarily restricted	8,461,686	5,990,951
Permanently restricted	20,240,403	19,148,303
<b>Total Net Assets</b>	<b><u>28,870,287</u></b>	<b><u>25,318,827</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 28,988,474</u></b>	<b><u>\$ 25,463,709</u></b>

The accompanying notes are an integral part of these financial statements.

**MORGAN STATE UNIVERSITY FOUNDATION, INC.**

**Statements of Activities and Changes in Net Assets  
For the Year Ended June 30, 2014**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Revenues and Support</b>				
Contributions and fund raising	\$ 723,963	\$ 2,982,883	\$ 1,092,100	\$ 4,798,946
Interest and dividend income	-	171,719	-	171,719
Unrealized gain on investments	-	1,955,674	-	1,955,674
Realized gain on investments	-	1,269,098	-	1,269,098
<b>Total Revenues and Support</b>	<u>723,963</u>	<u>6,379,374</u>	<u>1,092,100</u>	<u>8,195,437</u>
Net assets released from restrictions:				
Satisfaction of program restrictions	<u>3,908,639</u>	<u>(3,908,639)</u>	-	-
<b>Total Revenues, Support and Net Assets Released from Restrictions</b>	<u>4,632,602</u>	<u>2,470,735</u>	<u>1,092,100</u>	<u>8,195,437</u>
<b>Expenses</b>				
Grants and Scholarships	1,354,175	-	-	1,354,175
Program support expenses	2,598,934	-	-	2,598,934
University support	24,055	-	-	24,055
General and administrative	549,828	-	-	549,828
Fund raising	116,985	-	-	116,985
<b>Total Expenses</b>	<u>4,643,977</u>	<u>-</u>	<u>-</u>	<u>4,643,977</u>
(Decrease) increase in net assets	(11,375)	2,470,735	1,092,100	3,551,460
Net Assets, beginning of year	<u>179,573</u>	<u>5,990,951</u>	<u>19,148,303</u>	<u>25,318,827</u>
<b>Net Assets, End of Year</b>	<u>\$ 168,198</u>	<u>\$ 8,461,686</u>	<u>\$ 20,240,403</u>	<u>\$ 28,870,287</u>

The accompanying notes are an integral part of these financial statements.

**MORGAN STATE UNIVERSITY FOUNDATION, INC.**

**Statements of Activities and Changes in Net Assets  
For the Year Ended June 30, 2013**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Revenues and Support</b>				
Contributions and fund raising	\$ 858,501	\$ 3,182,763	\$ 1,154,887	\$ 5,196,151
Interest and dividend income	-	172,642	-	172,642
Unrealized gain (loss) on investments	-	1,120,066	-	1,120,066
Realized gain on investments	-	908,221	-	908,221
<b>Total Revenues and Support</b>	<u>858,501</u>	<u>5,383,692</u>	<u>1,154,887</u>	<u>7,397,080</u>
Net asset reclassifications				
Satisfaction of program restrictions	<u>3,639,823</u>	<u>(3,639,823)</u>	<u>-</u>	<u>-</u>
<b>Total Revenue, Support and Net Assets Released from Restrictions</b>	<u>4,498,324</u>	<u>1,743,869</u>	<u>1,154,887</u>	<u>7,397,080</u>
<b>Expenses</b>				
Grants and scholarships	1,054,991	-	-	1,054,991
Program support expenses	2,645,117	-	-	2,645,117
University support	35,699	-	-	35,699
General and administrative	799,568	-	-	799,568
Fund raising	126,691	-	-	126,691
<b>Total Expenses</b>	<u>4,662,066</u>	<u>-</u>	<u>-</u>	<u>4,662,066</u>
<b>Non-Operating</b>				
Realized gain on donated assets	<u>53,808</u>	<u>-</u>	<u>-</u>	<u>53,808</u>
(Decrease) increase in net assets	<u>(109,934)</u>	<u>1,743,869</u>	<u>1,154,887</u>	<u>2,788,822</u>
Net assets, beginning of year	<u>289,507</u>	<u>4,247,082</u>	<u>17,993,416</u>	<u>22,530,005</u>
<b>Net Assets, End of Year</b>	<u><u>\$ 179,573</u></u>	<u><u>\$ 5,990,951</u></u>	<u><u>\$ 19,148,303</u></u>	<u><u>\$ 25,318,827</u></u>

The accompanying notes are an integral part of these financial statements.

# MORGAN STATE UNIVERSITY

## Notes to Financial Statements June 30, 2014 and 2013

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Nature of Operations

Morgan State University (the University) is a modern comprehensive university that serves the state, national and international communities by providing its students with academic instruction, by conducting research and other activities that advance fundamental knowledge, and by disseminating knowledge to the people of Maryland and throughout the world. The University awards bachelors, master, and doctoral degrees. The University has been designated the urban university of the State by the state legislature.

#### B. Reporting Entity

- (1) The University is a component unit of the State of Maryland and is included in the general-purpose financial statements of the State of Maryland.
- (2) In 1971, the Morgan State University Foundation, Inc, (the Foundation) was organized exclusively for charitable, religious, educational, and scientific purposes. The Foundation's purposes further include, but are not restricted to, receiving and administering funds to enhance, improve, develop, and promote and to benefit the University, its students, and its faculty. The Foundation meets the criteria established by the Government Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, and qualifies as a component unit of the University; therefore, the activities of the Foundation are shown in these financial statements as a discretely presented component unit.
- (3) During the years ended June 30, 2014 and 2013, the Foundation distributed \$24,055 and \$35,699 to the University for unrestricted purposes. Complete financial statements for the Foundation can be obtained from Morgan State University Foundation, Truth Hall, Room 201, 1700 East Cold Spring Lane, Baltimore, MD 21251.

#### C. Measurement Focus and Basis of Accounting

- (1) For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the University's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

# MORGAN STATE UNIVERSITY

## Notes to Financial Statements June 30, 2014 and 2013

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### C. Measurement Focus and Basis of Accounting (continued)

- (2) The Foundation is a private nonprofit that reports under the standards of the Financial Accounting Standards Board (FASB), including FASB Statement No 117, *Financial Reporting of Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features differ from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the University's financial reporting entity for these differences.
- (3) Cash Equivalents For purposes of the statements of cash flows, the University considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.
- (4) Investments The University accounts for its investments at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the statements of revenues, expenses, and changes in net position.
- (5) Accounts Receivable Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff, the majority of each residing in the State of Maryland. Accounts receivable also include amounts due from the Federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts.
- (6) Notes Receivable Notes consist of notes initiated through the Federal Perkins loan program. Based on the criteria of the Perkins loan program, individuals are not required to initiate their repayments until leaving the University.

**MORGAN STATE UNIVERSITY**

**Notes to Financial Statements  
June 30, 2014 and 2013**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**D. Basis of Accounting**

- (1) Promises to Give – Foundation Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises to give are received. Amortization of the discounts is included in contribution revenue. For the years ended June 30, 2014 and 2013, the discount rate was 2.2% and 1.2%, respectively and the amount amortized was \$27,620 and \$35,605, respectively.

Allowances for uncollectible promises to give are estimated based on the date of the promise, the term, and the payment history.

Included in promises to give are the following restricted promises:

	<u>2014</u>	<u>2013</u>
Promises to give before unamortized discount and allowance for uncollectibles	\$ 1,783,614	\$ 2,102,131
Less: unamortized discount	<u>27,620</u>	<u>35,605</u>
	1,755,994	2,066,526
Less: allowance for uncollectibles	<u>186,980</u>	<u>222,870</u>
<b>Net promises to give</b>	<u><u>\$ 1,569,014</u></u>	<u><u>\$ 1,843,656</u></u>

The Foundation wrote off \$75,891 and \$163,663 in uncollectible pledges during the years ended June 30, 2014 and 2013, respectively.

As of June 30, the restricted promises to give are expected to be collected as follows:

<b>Amounts due in:</b>	<u>2014</u>	<u>2013</u>
One year	\$ 1,063,910	\$ 1,105,517
Two years	329,971	450,304
Three years	214,358	254,800
Four years	132,798	174,038
Five years	42,577	95,846
Thereafter	-	21,626
<b>Total</b>	<u><u>\$ 1,783,614</u></u>	<u><u>\$ 2,102,131</u></u>

# MORGAN STATE UNIVERSITY

## Notes to Financial Statements June 30, 2014 and 2013

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### D. Basis of Accounting (continued)

- (2) Inventories - Inventories are carried at cost, determined under the first-in, first-out (FIFO) basis, which is not in excess of realizable value.
- (3) Capital Assets - Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation in the case of gifts. For equipment, the University's capitalization policy includes all items including library books in bulk with a unit cost of \$5,000 or more, and an estimated useful life of greater than one year. The University records capital projects such as roads, bridges, tunnels and sidewalks with a minimum cost of \$100,000 as infrastructure. Building and building improvements with a minimum cost of \$250,000, which significantly increase the value or extend the useful life of the structure, are capitalized. Land improvements with a minimum cost of \$100,000 are also capitalized since they increase the value of related structures. Routine repairs, maintenance and items less than the minimum capitalization thresholds are charged to operating expense in the year in which the expense was incurred. All costs relating to the construction of capital assets owned by the University are capitalized. The University's museum collections, consisting primarily of donated African American art, are not capitalized as allowed by criteria of paragraph 118 of GASB Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments". Depreciation of capitalized assets is computed using the straight-line method over the estimated useful lives of the assets, generally 40 years for buildings and infrastructure, 20 years for significant building renovations, 15 years for land improvements, 50 years for library books, and 5 years for furniture and equipment.
- (4) Unearned Revenues - Unearned revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Unearned revenues also include amounts received from grant and contract sponsors that have not yet been earned.
- (5) Accrued Vacation Costs - Employee vacation pay is accrued at year-end for financial statement purposes. The liability and expense incurred are recorded at year-end as accrued vacation payable in the statements of net positions, and as a component of expenses in the statement of revenues, expenses, and changes in net positions.

# MORGAN STATE UNIVERSITY

## Notes to Financial Statements June 30, 2014 and 2013

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### D. Basis of Accounting (continued)

- (6) Non-current Liabilities - Non-current liabilities include principal amounts of revenue bonds payable, notes payable, and capital lease obligations with contractual maturities greater than one year; and estimated amounts for accrued vacation costs and other liabilities such as accrued workers' compensation that will not be paid within the next fiscal year.
- (7) Net Positions - The University's net positions are classified as follows:
- (a) *Net investment in capital assets*: This represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.
  - (b) *Restricted net assets - expendable*: Restricted expendable net assets include resources in which the University is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.
  - (c) *Restricted net assets - nonexpendable*: Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift investment, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.
  - (d) *Unrestricted net assets*: Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the University, and may be used at the discretion of the governing board to meet current expenses for any purpose. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty and staff.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the University's policy is to first apply the expense toward restricted resources and then toward unrestricted resources.

# MORGAN STATE UNIVERSITY

## Notes to Financial Statements June 30, 2014 and 2013

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### D. Basis of Accounting (continued)

- (8) Income Taxes - University: The University, as a political subdivision of the State of Maryland, is exempt from Federal income taxes under Section 1 of the Internal Revenue Code, as amended.
- (9) Income Taxes – Foundation: the Foundation is exempt from income taxes under the Internal Revenue code Section 501 (c) (3).
- (10) Classification of Revenues: The University has classified its revenues as either operating or non-operating revenues according to the following criteria:
  - (a) *Operating revenues*: Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, and (3) interest on institutional student loans.
  - (b) *Non-operating revenues*: Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenue sources that are defined as non-operating revenues by GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB No. 34, such as state appropriations and investment income. This category includes most Federal, state and local grants and contracts because they are considered non-exchange transactions.
- (11) Scholarship Discounts and Allowances: Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statements of revenues, expenses, and changes in net position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other Federal, state or non-governmental programs are recorded as either operating or non-operating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance.

# MORGAN STATE UNIVERSITY

## Notes to Financial Statements June 30, 2014 and 2013

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### E. New Accounting Pronouncements

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, and Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*, effective for periods beginning after December 15, 2012. In June 2012, the GASB issued Statement No. 67, *Financial Reporting for Pension Plans- an amendment of GASB No. 27*, effective for periods beginning after June 15, 2013, and 2014 respectively. In January 2013, GASB issued Statement No. 69, *Government Combination and Disposals of Government Operations*, effective for periods beginning after December 15, 2013. In April 2013 GASB issued Statement No. 70, *Accounting and Financial Reporting for Non-exchange Guarantees*, effective for periods beginning after June 15 2013. The University will implement these statements as of their effective dates. As of the year ended June 30, 2014, GASB issued Statement No. 68, entitled *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. As part of GASB 68 the University will be required to record its share of the Maryland State Retirement and Pension System's (SRPS) net funded pension liability. The University's share of the unfunded liability will be calculated by dividing the University's contribution to SRPS by the total contributions to SRPS multiplied by SRPS' unfunded liability. Currently SRPS' total unfunded liability and total contributions are not known. The University is analyzing the effects of these pronouncements, which is expected to be material, and plans to adopt them as applicable by their effective date.

#### F. Reclassification

Certain amounts have been reclassified from the prior period to conform to current year presentation.

### 2. DEPOSITS AND INVESTMENTS

#### A. Deposits in State of Maryland Cash Pool

As of June 30, 2014 and 2013, the University had cash on deposit in an internal pooled cash account with the Maryland State Treasurer (Treasurer) in the amount of \$69,204,581 and \$69,246,096, respectively. The Treasurer has statutory responsibility for the State's cash management activities. The Treasurer maintains these and other State agency funds on a pooled basis in accordance with State statutes. The carrying amount of the University's demand and time deposits was \$112,692 and \$83,952, as compared to bank balances of \$135,354 and \$221,857, as of June 30, 2014 and 2013, respectively.

**MORGAN STATE UNIVERSITY**

**Notes to Financial Statements  
June 30, 2014 and 2013**

**2. DEPOSITS AND INVESTMENTS (continued)**

**B. Endowment Investments and Restricted Investments**

- (1) With respect to Endowment Funds, statutes authorize the University to invest its funds in most types of debt and equity securities, subject to any specific limitations set forth in the applicable gift instruments or any applicable law, provided the University exercises ordinary business care and prudence and considers long and short-term needs for carrying out its stated purposes.
- (2) As of June 30, 2014 and 2013, all investments of the Endowment pool consist of common stocks with a market value of \$2,379,216 and \$2,196,821, respectively. These funds are held by a third-party custodial financial institution designated by the State.
- (3) The University's restricted investments of \$4,624,330 and \$3,763,767, respectively, as of June 30, 2014 and 2013, are invested by and accounted by the Bond Trustee, the Bank of New York Mellon. As required by GASB Statement No. 40, *Deposits and Investment Risk Disclosures* we have classified the investments as follows:

	<b>2014</b>		<b>2013</b>	
	<b>Market Value</b>	<b>Rating</b>	<b>Market Value</b>	<b>Rating</b>
Federated Auto Gov't Money Tranche # 44	\$ 2,587,048	AAA	\$ 2,525,732	AAA
Fidelity Treasury M Mkt #695 Class 1	2,037,282	AAA	1,238,035	AAA
<b>Total Investments</b>	<b>\$ 4,624,330</b>		<b>\$ 3,763,767</b>	

**C. Investments and Investment Income**

Investments are recorded at fair value as of June 30, 2014 and 2013, and consisted of the following:

	<b>2014</b>	<b>2013</b>
<b>Quasi Endowment Funds</b>		
Stocks	\$ 1,439,605	\$ 1,320,267
<b>Unrestricted</b>		
Stocks	939,611	876,554
Total Market Value	2,379,216	2,196,821
Prior Year Market Value	2,196,821	1,885,434
<b>Total Unrealized Gain</b>	<b>\$ 182,395</b>	<b>\$ 311,387</b>

**MORGAN STATE UNIVERSITY**

**Notes to Financial Statements  
June 30, 2014 and 2013**

**2. DEPOSITS AND INVESTMENTS (continued)**

**C. Investments and Investment Income (continued)**

Foundation investments are recorded at fair value as of June 30, 2014 and 2013, and consisted of the following:

	<u>2014</u>	<u>2013</u>
<b>Restricted and Endowment Funds</b>		
Money market	\$ 1,745,692	\$ 1,460,809
Mutual funds	1,996,918	2,210,489
Certificates of deposit	412,538	460,894
Common Stock	-	2,876,702
Treasury obligations	1,305,460	1,396,397
Government securities	197,215	562,470
Equity funds	17,114,885	11,099,338
Corporate and foreign bonds	2,094,430	1,408,050
<b>Total Restricted and Endowment Fair Value</b>	<u>\$ 24,867,138</u>	<u>\$ 21,475,149</u>

**3. ACCOUNTS RECEIVABLE, ACCOUNTS PAYABLE, AND ACCRUED LIABILITIES**

Accounts receivable, accounts payable, and accrued liabilities consisted of the following as of June 30, 2014:

	<u>Accounts Receivable</u>	<u>Accounts Payable and Accrued Liabilities</u>
Student	\$ 6,751,118	\$ 1,483,156
Federal grants	6,035,393	-
Other grants (primarily state grants)	1,473,382	-
Vendor	-	9,754,726
Employee	-	17,058,154
Other	3,937,110	1,313,639
<b>Total</b>	<u>18,197,003</u>	<u>29,609,675</u>
Less allowance for doubtful accounts	2,030,525	-
<b>Total</b>	<u>\$ 16,166,478</u>	<u>\$ 29,609,675</u>

# MORGAN STATE UNIVERSITY

## Notes to Financial Statements June 30, 2014 and 2013

### 3. ACCOUNTS RECEIVABLE, ACCOUNTS PAYABLE, AND ACCRUED LIABILITIES (continued)

Accounts receivable, accounts payable, and accrued liabilities consisted of the following as of June 30, 2013:

	<u>Accounts Receivable</u>	<u>Accounts Payable and Accrued Liabilities</u>
Student	\$ 4,510,212	\$ 2,971,854
Federal grants	4,500,621	-
Other grants (primarily state grants)	1,848,919	-
Vendor	-	8,932,729
Employee	-	17,404,173
Other	1,265,321	544,831
<b>Total</b>	<u>12,125,073</u>	<u>29,853,587</u>
Less: allowance for doubtful accounts	1,406,064	-
<b>Total</b>	<u>\$ 10,719,009</u>	<u>\$ 29,853,587</u>

**MORGAN STATE UNIVERSITY**

**Notes to Financial Statements  
June 30, 2014 and 2013**

**4. CAPITAL ASSETS**

The following were the changes in capital assets for the year ended June 30, 2014:

	<u>June 30, 2013</u>	<u>Additions</u>	<u>Disposals</u>	<u>June 30, 2014</u>
<b>Capital Assets not Being Depreciated</b>				
Land	\$ 10,551,343	\$ -	\$ -	\$ 10,551,343
Construction in-progress	15,904,579	25,798,270	(4,508,981)	37,193,868
<b>Total Capital Assets not Being Depreciated</b>	26,455,922	25,798,270	(4,508,981)	47,745,211
Other capital assets:				
Infrastructure networks	38,218,997	-	-	38,218,997
Land improvements	17,602,479	-	-	17,602,479
Buildings	448,429,734	-	-	448,429,734
Furniture, fixtures, and equipment	45,359,522	1,992,291	(1,103,158)	46,248,655
Library materials	2,211,847	63,543	-	2,275,390
<b>Total Other Capital Assets</b>	551,822,579	2,055,834	(1,103,158)	552,775,255
Less accumulated depreciation for:				
Infrastructure networks	(9,422,709)	(1,251,163)	-	(10,673,872)
Land improvements	(9,442,481)	(1,016,321)	-	(10,458,802)
Buildings	(157,563,120)	(11,674,948)	-	(169,238,068)
Furniture, fixtures, and equipment	(39,484,091)	(2,505,058)	1,103,158	(40,885,991)
Library materials	(1,280,464)	(45,508)	-	(1,325,972)
<b>Total Accumulated Depreciation</b>	(217,192,865)	(16,492,998)	1,103,158	(232,582,705)
Other capital assets, net	334,629,714	(14,437,164)	-	320,192,550
<b>Capital asset summary</b>				
Capital assets not being depreciated	26,455,922	25,798,270	(4,508,981)	47,745,211
Other capital assets, at cost	551,822,579	2,055,834	(1,103,158)	552,775,255
Total cost of capital assets	578,278,501	27,854,104	(5,612,139)	600,520,466
Less accumulated depreciation	(217,192,865)	(16,492,998)	1,103,158	(232,582,705)
<b>Capital Assets, Net</b>	<u>\$ 361,085,636</u>	<u>\$ 11,361,106</u>	<u>\$ (4,508,981)</u>	<u>\$ 367,937,761</u>

**MORGAN STATE UNIVERSITY**

**Notes to Financial Statements  
June 30, 2014 and 2013**

**4. CAPITAL ASSETS (continued)**

The following were the changes in capital assets for the ended June 30, 2013:

	<b>Balance at June 30, 2012</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	<b>Balance at June 30, 2013</b>
<b>Capital Assets not being Depreciated</b>					
Land	\$ 10,551,343	\$ -	\$ -	\$ -	\$ 10,551,343
Construction in-progress	14,801,511	8,203,068	-	(7,100,000)	15,904,579
<b>Total Capital Assets not Being Depreciated depreciated</b>	<u>25,352,854</u>	<u>8,203,068</u>	<u>-</u>	<u>(7,100,000)</u>	<u>26,455,922</u>
<b>Other capital assets:</b>					
Infrastructure networks	38,218,997	-	-	-	38,218,997
Land improvements	17,602,479	-	-	-	17,602,479
Buildings	441,329,734	7,100,000	-	-	448,429,734
Furniture, fixtures, and equipment	42,755,739	2,739,770	(135,987)	-	45,359,522
Library materials	2,211,847	-	-	-	2,211,847
Total other capital assets	<u>542,118,796</u>	<u>9,839,770</u>	<u>(135,987)</u>	<u>-</u>	<u>551,822,579</u>
<b>Less accumulated depreciation for:</b>					
Infrastructure networks	(7,827,317)	(1,595,392)	-	-	(9,422,709)
Land improvements	(8,306,171)	(1,136,310)	-	-	(9,442,481)
Buildings	(144,918,791)	(12,644,329)	-	-	(157,563,120)
Furniture, fixtures, and equipment	(36,999,689)	(2,620,389)	135,987	-	(39,484,091)
Library materials	(1,236,227)	(44,237)	-	-	(1,280,464)
<b>Total accumulated depreciation</b>	<u>(199,288,195)</u>	<u>(18,040,657)</u>	<u>135,987</u>	<u>-</u>	<u>(217,192,865)</u>
Other capital assets, net	<u>342,830,601</u>	<u>(8,200,887)</u>	<u>-</u>	<u>-</u>	<u>334,629,714</u>
<b>Capital asset summary:</b>					
Capital assets not being depreciated	25,352,854	8,203,068	-	(7,100,000)	26,455,922
Other capital assets, at cost	542,118,796	9,839,770	(135,987)	-	551,822,579
Total cost of capital assets	<u>567,471,650</u>	<u>18,042,838</u>	<u>(135,987)</u>	<u>(7,100,000)</u>	<u>578,278,501</u>
Less accumulated depreciation	<u>(199,288,195)</u>	<u>(18,040,657)</u>	<u>135,987</u>	<u>-</u>	<u>(217,192,865)</u>
Capital Assets, Net	<u>\$ 368,183,455</u>	<u>\$ 2,181</u>	<u>\$ -</u>	<u>\$ (7,100,000)</u>	<u>\$ 361,085,636</u>

# MORGAN STATE UNIVERSITY

## Notes to Financial Statements June 30, 2014 and 2013

### 5. LONG-TERM LIABILITIES

Long-term liability activity for the years ended June 30, 2014 and 2013, were as follows:

	<u>June 30, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2014</u>	<u>Amounts Due Within One Year</u>
Bonds and capital lease obligations:					
Revenue bonds payable	\$ 48,485,000	\$ -	\$ (2,515,000)	\$ 45,970,000	\$ 3,440,000
Unamortized bond premium	5,049,818	-	(176,291)	4,873,527	-
Total revenue bonds payable	53,534,818	-	(2,691,291)	50,843,527	3,440,000
Capital lease obligations	1,791,150	-	(550,713)	1,240,437	275,678
Total bonds and capital lease obligations	55,325,968	-	(3,242,004)	52,083,964	3,715,678
Accrued workers' compensation	3,004,000	949,146	(752,146)	3,201,000	496,155
Accrued vacation	8,995,436	3,089,323	(3,453,690)	8,631,069	2,196,297
<b>Total Long-term Liabilities</b>	<b>\$ 67,325,404</b>	<b>\$ 4,038,469</b>	<b>\$ (7,447,840)</b>	<b>\$ 63,916,033</b>	<b>\$ 6,408,130</b>

	<u>June 30, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2013</u>	<u>Amounts Due Within One Year</u>
Bonds and capital lease obligations:					
Revenue bonds payable	\$ 55,800,000	\$ 29,230,000	\$ (36,545,000)	\$ 48,485,000	\$ 2,515,000
Unamortized bond premium	786,998	4,745,224	(482,404)	5,049,818	-
Total revenue bonds payable	56,586,998	33,975,224	(37,027,404)	53,534,818	2,515,000
Capital lease obligations	2,560,486	-	(769,336)	1,791,150	613,840
Total bonds and capital lease obligations	59,147,484	33,975,224	(37,796,740)	55,325,968	3,128,840
Accrued workers' compensation	2,882,000	861,776	(739,776)	3,004,000	465,620
Accrued vacation	8,594,859	3,469,827	(3,069,250)	8,995,436	3,116,611
<b>Total Long-term Liabilities</b>	<b>\$ 70,624,343</b>	<b>\$ 38,306,827</b>	<b>\$ (41,605,766)</b>	<b>\$ 67,325,404</b>	<b>\$ 6,711,071</b>

Additional information regarding Revenue Bonds Payable is included at Note 6. Additional information regarding capital lease obligations is included at Note 7.

# MORGAN STATE UNIVERSITY

## Notes to Financial Statements June 30, 2014 and 2013

### 6. REVENUE BONDS PAYABLE

#### A. Revenue Bonds Payable

On July 15, 1993, the University issued Academic Fees and Auxiliary Facilities Fees Revenue Refunding Bonds 1993 Series (1993 Revenue Bonds), pursuant to Title 19 of the Education Article of the Annotated Code of Maryland, as amended.

On December 20, 2001, the University issued \$7,035,000 in Academic Fees and Auxiliary Facilities Fees Revenue Bonds 2001 Series (2001 Revenue Bonds), pursuant to Title 19 of the Education Article of the Annotated Code of Maryland, as amended, to provide funding toward Murphy Fine Arts Center (\$4,002,597) (retired) and Hughes Stadium (\$2,765,000) (retired). On January 9, 2003, the University issued Academic Fees and Auxiliary Facilities Fees Refunding Bonds 2003 Series (2003 Series A Bonds and 2003 Series B Bonds) (defeased), pursuant to Title 19 of the Education Article of the Annotated Code of Maryland, as amended to provide funding toward New Student Center (\$33,050,000) (defeased) and University Boiler Plant (\$4,395,000) (defeased).

On September 11, 2012, the University issued \$29,230,000 in Academic Fees and Auxiliary Facilities Fees Revenue Refunding Bonds 2012 Series (2012 Revenue Bonds), pursuant to Title 19 of the Education Article of the Annotated Code of Maryland, as amended.

The 1993 and 2012 Revenue Bonds are limited obligations of the University, payable solely from and secured by tuition, academic fees, and auxiliary facilities fees of the University. Debt issued by the University for this purpose is not debt of the State.

The 1993 and 2012 Revenue Bonds consist of the following as of June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
<b>1993 Revenue Bonds</b>		
Current interest term bonds, maturing July 1, 2015, bearing interest of 6.05% which is paid semiannually on January 1 and July 1	\$ 4,240,000	\$ 6,180,000
Current interest term bonds, maturing July 1, 2020, bearing interest of 6.10%, which is paid semiannually on January 1 and July 1	13,075,000	13,075,000
Unamortized bond premium	221,649	304,594
<b>Total 1993 bonds payable</b>	<u>17,536,649</u>	<u>19,559,594</u>
<b>2012 Revenue Bonds</b>		
Current interest term bonds, maturing July 1, 2032, bearing interest of 2.1%-5.0% which is paid semiannually on January 1 and July 1	28,655,000	29,230,000
Unamortized bond premium	4,651,878	4,745,224
<b>Total 2012 bond payable</b>	<u>33,306,878</u>	<u>33,975,224</u>
<b>Total Revenue Bonds Payable</b>	<u>\$ 50,843,527</u>	<u>\$ 53,534,818</u>

# MORGAN STATE UNIVERSITY

## Notes to Financial Statements June 30, 2014 and 2013

### 6. REVENUE BONDS PAYABLE (continued)

#### B. Principal and Interest Maturities

- (1) Future principal and interest payments of long-term revenue bonds (excluding the unamortized bond premium on the current interest term bonds) for the years ending June 30 were as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payments</u>
2015	\$ 3,440,000	\$ 2,285,630	\$ 5,725,630
2016	3,600,000	2,115,370	5,715,370
2017	3,775,000	1,928,318	5,703,318
2018	3,970,000	1,723,333	5,693,333
2019	4,200,000	1,506,750	5,706,750
2020-2024	13,435,000	4,635,653	18,070,653
2025-2029	6,790,000	2,571,750	9,361,750
2030-2033	6,760,000	696,500	7,456,500
<b>Total</b>	<u>\$ 45,970,000</u>	<u>\$ 17,463,304</u>	<u>\$ 63,433,304</u>

- (2) Pursuant to Article V of the 1993 Revenue Bond trust agreement, dated July 1, 1993, the University has covenanted to perform certain actions related to the collection of fees, timely payment of debt service, maintenance of adequate insurance coverage and performance of independent audits. The University was in compliance with these covenants at June 30, 2014.
- (3) The University is subject to Federal arbitrage laws governing the use of these proceeds of tax-exempt debt.
- (4) As of June 30, 2014 and 2013, the trustee held restricted investments in mutual funds in the amount of \$4,624,330, and \$3,763,767, respectively. The funds in the restricted investments will be used to cover the \$4,624,323, revenue bonds debt service payments due July 1, 2014. The July 1, 2014 debt service payment will pay \$2,037,275 for the 2012 Revenue Bond Debt service and \$2,587,048 for the 1993 Revenue Bond Debt Service.

# MORGAN STATE UNIVERSITY

## Notes to Financial Statements June 30, 2014 and 2013

### 6. REVENUE BONDS PAYABLE (continued)

#### C. Defeased Revenue Bonds

- (1) In connection with the issuance of the 1993 Revenue Bonds, the Academic Fees and Auxiliary Facilities Fees Revenue Bonds, 1990 Series A (1990 Revenue Bonds) were legally defeased. Assets were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the defeased bonds. Accordingly, neither the indebtedness nor the assets of the irrevocable trust are included in the University's financial statements. As of June 30, 2014 and 2013, the outstanding balance of the defeased 1985 loan and 1990 Revenue Bonds was \$91,373, and \$270,090, respectively. The Revenue Bond 1990 Series is paid in full as of June 30, 2014.
- (2) In connection with the issuance of the 2012 Revenue Bonds, the Academic Fees and Auxiliary Facilities Fees Revenue Bonds, (a) 2001 Series Bonds were refunded and retired September 11, 2012, (b) the 2003A Revenue Bonds Series and (c) the 2003B Revenue Bonds Series maturing on and after July 1, 2013 were legally defeased and retired July 1, 2013. Assets were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the defeased bonds. The 2003 Series A Bonds and 2003 Series Bonds were fully retired on July 1, 2013.
- (3) Accordingly, neither the indebtedness nor the irrevocable trust is included in the University's financial statements. As of June 30, 2014, the outstanding balance of defeased 2003A Revenue Series Bonds and 2003B Revenue Series Bonds was \$0.00, and was paid off on July 1, 2013. The 2001 Revenue Series Bonds outstanding bond principal balance of \$3,930,000 as of June 30, 2012, was paid off on September 11, 2012.

### 7. COMMITMENTS AND CONTINGENCIES

#### A. Contingencies

- (1) In the normal course of operations, certain claims have been brought against the University, which are in various stages of resolution. In the opinion of management, based on the advice of the State's Attorney General, the claims asserted are not expected to have a material effect on the University's financial position as of June 30, 2014.
- (2) The University receives funds from various Federal and State Agencies to fund specific programs. Final determination of various amounts is subject to audit under the Federal Single Audit Act Amendments of 1996 and by the responsible agencies. University officials believe that any audit adjustments resulting from final settlements will be immaterial in relation to the University's financial resources.

**MORGAN STATE UNIVERSITY**

**Notes to Financial Statements  
June 30, 2014 and 2013**

**7. COMMITMENTS AND CONTINGENCIES (continued)**

**B. Leases**

- (1) The University maintains capital leases primarily for equipment. As of June 30, 2014, the net value of the underlying assets relating to the capital lease liability is \$1,322,108.

Interest rates and administrative fees for the capital leases area as follows:

	<u>Range</u>
Interest Rates	1.0110 - 4.07%
Administrative Fees	.050 - .1120%

- (2) Future minimum lease payments under capital leases for the years ending June 30 are as follows:

<u>For the Years Ending June 30,</u>	<u>Amount</u>
2015	\$ 275,678
2016	209,819
2017	209,735
2018	209,647
2019	209,555
2020-2021	<u>314,150</u>
Total future minimum payments	1,428,584
Less: interest	185,966
administrative fees	2,181
<b>Net Minimum Lease Payments</b>	<b><u><u>\$ 1,240,437</u></u></b>

- (3) Amortization expense for the assets held under capital lease was \$72,601, and \$544,165 for the years ended June 30, 2014 and 2013, respectively.
- (4) The University leases certain property under noncancelable operating leases. Future minimum lease payments under the operating leases for the years ending June 30, are as follows:

<u>For the Years Ending June 30,</u>	<u>Amounts</u>
2015	\$ 2,385,010
2016	578,962
2017	416,996
2018	416,996
2019	138,999
<b>Total</b>	<b><u><u>\$ 3,936,963</u></u></b>

# MORGAN STATE UNIVERSITY

## Notes to Financial Statements June 30, 2014 and 2013

### 7. COMMITMENTS AND CONTINGENCIES (continued)

#### B. Leases (continued)

- (5) Lease expenses for the years ended June 30, 2014 and 2013 were \$2,785,544 and \$2,633,783, respectively.

#### C. Construction Commitments

As of June 30, 2014, the University had commitments of \$87,697,550, for various capital improvement projects. These include:

- a. Continuing Campus Wide Utility Upgrades,
- b. construction of the new School of Business building,
- c. residual vendor payments on recently completed facilities (Banneker Hall renovation, Center for Built Environmental Infrastructure Studies (CBEIS) building, Lillie Carroll Jackson Museum, etc.),
- d. demolition of the Soper Library Building
- e. demolition of the E-wing, power plant and morgue of the Montebello Complex.

In addition, several projects are in the planning stages including:

- a. Renovation or replacement of the Jenkins Behavioral Center,
- b. Construction of a new Student Services building,
- c. Campus-wide site improvements and ADA accessibility projects continue to be phased in over the entire campus.

#### D. Contingent Construction Liabilities

For the completed construction projects, the University has accrued as of June 30, 2014 \$535,983 for the Center for Built Environment and Infrastructure Studies/ North Campus Garage and \$779,595 for the Lillie Carol Jackson Museum to cover the estimated residual vendor payments for these facilities.

# MORGAN STATE UNIVERSITY

## Notes to Financial Statements June 30, 2014 and 2013

### 8. RETIREMENT PLANS

The University contributes to the Retirement and Pension System of Maryland (the System), established by the State to provide pension benefits for State employees and employees of certain other participating entities within the State.

While the System is an agent multiple employer public employee retirement system, the University accounts for the plan as a cost-sharing multiple employer public employees retirement system as a separate valuation is not performed for the University and the University's only obligation to the plan is its required annual contributions.

The System is considered part of the State's financial reporting entity and is not considered a part of the University's reporting entity. The System prepares a separate Comprehensive Annual Financial Report, which can be obtained, from the State Retirement and Pension System of Maryland at 120 East Baltimore Street, Baltimore, Maryland 21202.

#### *Plan Description*

The System, which is administered in accordance with Article 73B of the Annotated Code of Maryland, consists of the several plans that are managed by the Board of Trustees for the System. All State employees and employees of the participating entities are eligible for coverage by the plans. The System provides retirement, death, and disability benefits in accordance with State statutes.

#### *Funding Policy*

The University's required contributions are based upon actuarial valuations. Effective July 1, 1980, in accordance with the law governing the System, all benefits of the System are funded in advance. The entry age normal cost method is the actuarial cost method used. Both the University and covered employees are required by State statute to contribute to the System. The employees contribute from 2% to 5% of compensation, as defined, depending on the participant's plan. The University made its required contributions during the fiscal years ended June 30, 2014 and 2013, and 2012, of \$6,542,284, \$6,024,025, and \$5,250,718, respectively.

#### *Optional Retirement Plans*

In addition to retirement and pension plans, the University offers optional retirement programs for certain faculty and professional staff. The University contributes 4% to 7% of the annual salary to these plans. The amount contributed by the University for these Plans for the fiscal years ended June 30, 2014 and 2013 and 2012, were \$2,329,560, \$2,173,044 and \$2,087,477, respectively.

# MORGAN STATE UNIVERSITY

## Notes to Financial Statements June 30, 2014 and 2013

### 8. RETIREMENT PLANS (continued)

#### *Other Post-Employment Benefits*

The University provides, in accordance with State Merit System Laws, post-employment health care benefits to retired employees and their dependents. The University participates in the State Employee and Retiree Health and Welfare Benefits Program (Plan).

#### *Plan Description*

The State Employee and Retiree Health and Welfare Benefits Program (Plan) is a single-employer defined benefit healthcare plan established by the State Personnel and Pensions Article, Sections 2-501-2-516, of the Annotated Code of Maryland. The Plan is self-insured to provide medical, hospitalization, prescription drug and dental insurance benefits to eligible state employees, retirees and their dependents.

State law grants authority to establish and amend benefit provisions to the Secretary of the Department of Budget and Management (DBM). In addition, the Secretary shall specify by regulation the types or categories of State employees who are eligible to enroll, with or without state subsidies, or who are not eligible to enroll.

Effective June 1, 2004, the State established the Postretirement Health Benefits Trust Fund (OPEB Trust) as a separate entity to receive appropriated funds and contributions, which will be used to assist the Plan in financing the State's postretirement health insurance subsidy. The OPEB trust is established in accordance with the State Personnel and Pensions Article, Section 34-101 of the Annotated Code of Maryland and is administered by a Board of Trustees for the State Retirement and Pension System. Financial statements of the Trust may be obtained from the Office of the Comptroller, Treasury Building, Annapolis, MD 21401.

Members of the University's OPEB plan are generally employees who retired before July 1, 1984, employees who retired on or after July 1, 1984 with at least 5 years of creditable services, and employees who receive disability retirement allowances or special death benefits. The University subsidizes approximately 50% to 90% of covered medical and hospitalization costs, depending on the type of insurance plan. The University assesses a surcharge for post-employment health care benefits, which is based on health care insurance charges for current employees. During fiscal years 2014, 2013 and 2012, these benefits, which are financed on a pay-as-you-go basis, amounted to \$2,865,362, \$3,989,789, and \$3,397,077, respectively.

# MORGAN STATE UNIVERSITY

## Notes to Financial Statements June 30, 2014 and 2013

### 9. RISK MANAGEMENT

- A. The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to and illnesses of employees; and natural disasters. The University participates in the State's various self-insurance programs. The State is self-insured for general liability, property and casualty, workers compensation, environmental and anti-trust liabilities and certain employee health benefits.
- B. The State allocates the cost of providing claims servicing and claims payment by charging a "premium" to the University based on a percentage of the University's estimated current-year payroll or based on the average loss experienced by the University. This charge considers recent trends in actual claims experience of the State as a whole and makes provisions for catastrophic losses.
- C. The University records a liability when it is probable that a loss has been incurred and the amount of that loss can be reasonably estimated. Liabilities recorded include a provision for claims incurred but not reported. Because actual claims liabilities depend on complex factors such as inflation, changes in legal doctrines, and damage awards, actual claims could differ from estimates. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims and other economic and social factors. Liabilities for incurred workers' compensation losses to be settled by fixed or reasonably determinable payments over a long period of time are reported at their present value using a 4% discount rate. The provision for workers' compensation is based upon a separately determined actuarial valuation for the fiscal year ended June 30, 2011. Settlement amounts have not exceeded insurance coverage levels for the years ended June 30, 2014, 2013, or 2012.
- D. As of June 30, 2014 and 2013, the University has recorded \$3,201,000, and \$3,004,000 respectively in accrued expense liabilities associated with self-insurance. The recorded amounts represent the actuary's allocation of the University's share of the State's overall liability under the various state self-insurance programs to the University.

# MORGAN STATE UNIVERSITY

## Notes to Financial Statements June 30, 2014 and 2013

### 10. RELATED PARTY TRANSACTIONS

Morgan State University entered into a Lease Agreement with the Maryland Economic Development Corporation, (MEDCO) a public instrumentality of the State of Maryland and a development company on March 27, 2002, for the construction of a privatized apartment complex less than one-quarter mile from the center of campus. The \$38 million of tax-exempt bonds issued by MEDCO on May 1, 2002 that will mature by 2034, will provide apartment-style living for approximately 694 students on a 10-acre parcel of property to address the shortage of student housing. MEDCO, subject to certain review and approval rights of the University, has constructed and is managing this property through contractual arrangements. The University receives the net revenues of the project after the developer is repaid for \$1.3 million of subordinated bonds and after permitted expenses are paid each year as outlined by the associated Bond Indenture. Once the Bonds are paid in full by the project revenue, the buildings and land improvements shall become the property of Morgan State University. The University is not liable for the repayment of the bonds or any costs related to the operation and maintenance of this project.

### 11. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The University's operating expenses by functional classification were as follows for the years ended June 30, 2014 and 2013:

Functional Classification	2014			
	Natural Classification			Total
	Payments to Employees	Payments to Suppliers and Contractors	Depreciation	
Instruction	\$ 46,241,410	\$ 2,404,685	\$ 5,679,098	\$ 54,325,193
Research	17,165,429	7,355,806	1,333,039	25,854,274
Public service	230,525	19,290	150,150	399,965
Academic support	15,397,544	1,773,314	4,203,521	21,374,379
Student services	3,920,836	2,672,879	-	6,593,715
Institutional support	27,103,566	3,446,263	379,463	30,929,292
Operation and maintenance of plant	5,882,205	16,372,761	1,371,868	23,626,834
Scholarships and fellowships	723,315	6,792,235	-	7,515,550
Auxiliary enterprises	9,553,480	17,365,382	3,375,859	30,294,721
<b>Total Expenses</b>	<b>\$ 126,218,310</b>	<b>\$ 58,202,615</b>	<b>\$ 16,492,998</b>	<b>\$ 200,913,923</b>

**MORGAN STATE UNIVERSITY**

**Notes to Financial Statements  
June 30, 2014 and 2013**

**11. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS**  
(continued)

<b>Functional Classification</b>	<b>2013 Natural Classification</b>			<b>Total</b>
	<b>Payments to Employees</b>	<b>Payments to Suppliers and Contractors</b>	<b>Depreciation</b>	
Instruction	\$ 47,642,644	\$ 2,302,664	\$ 6,610,391	\$ 56,555,699
Research	17,428,907	8,056,140	1,010,089	26,495,136
Public service	126,374	40,773	150,150	317,297
Academic support	13,731,792	4,899,623	4,841,932	23,473,347
Student services	4,978,077	1,320,266	181	6,298,524
Institutional support	23,760,392	6,335,168	169,870	30,265,430
Operation and maintenance of plant	8,103,698	9,887,165	1,943,002	19,933,865
Scholarships and fellowships	564,061	5,284,589	-	5,848,650
Auxiliary enterprises	8,897,623	17,771,315	3,315,042	29,983,980
<b>Total Expenses</b>	<b>\$ 125,233,568</b>	<b>\$ 55,897,703</b>	<b>\$ 18,040,657</b>	<b>\$ 199,171,928</b>

Depreciation is allocated to the functional classifications based on the composition of the University's equipment purchases. For example, if a piece of equipment was purchased using instructional funds on a budgetary basis, the depreciation for that piece of equipment is allocated to the functional classification "Instruction".