

MORGAN STATE UNIVERSITY

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

Year Ended June 30, 2015



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JUNE 30, 2015

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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 of Morgan State University (the University), a component unit of the State of Maryland, as of and for the year ended June 30, 2015, 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 an opinion on these financial statements based on our audit. We did not audit the component unit financial statements of the Morgan State University Foundation, Inc. (the Foundation) as of and for the year ended June 30, 2015. Those financial statements were audited by other auditors whose reports thereon has 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 audit 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.

Opinions

In our opinion, based on our audit 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, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

As discussed in Note 1 to the financial statements, in 2015, the University adopted the new accounting guidance from GASB Statement No. 68, “Accounting and Financial Reporting for Pensions”. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis and schedules of proportionate share of net pension liability and contributions 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 23, 2015

SB & Company, LLC

MORGAN STATE UNIVERSITY

Management's Discussion and Analysis June 30, 2015

INTRODUCTION

The following discussion presents an overview of the financial position and financial performance of the University during the fiscal year ended June 30, 2015, with comparative information for 2014. 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.

This annual financial report includes three financial statements: the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flow. These three financial statements are prepared in accordance with applicable generally accepted accounting principles (GAAP) as established by the Governmental Accounting Standards Board (GASB), which establishes financial reporting standards for public colleges and universities. A summary of significant accounting policies followed by the University are included in Note 1 to the financial statements.

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. However, this management's discussion and analysis focuses on the financial information of the University. The Foundation is a private nonprofit whose purposes 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 Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows.

MORGAN STATE UNIVERSITY

Management's Discussion and Analysis June 30, 2015

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. These statements also include implementation of GASB No. 68, Accounting and Financial Reporting for Pensions. This accounting standard modifies existing financial reporting requirements as well as establishes new ones for governmental entities—including public colleges and universities—that participate in defined benefit pension plans. GASB 68 dramatically changes the way that public colleges and universities account for their defined benefit pension plans. The primary consequence is that most institutions will have to report a much larger pension liability on their financial statements than in the past. The net pension liability as of June 30, 2015 was \$49.8 million. As of June 30, 2015, the University had \$496.0 million in assets plus \$7.6 million in Deferred financing outflows that totals \$503.6 million. This compares to the June 30, 2014 total of \$463.1 million that was reported before the pension liability accounting change. This increase in total assets was driven by increases in current assets and net capital assets. As of June 30, 2015, the University had \$137.1 million in liabilities plus \$5.5 million in Deferred financing inflows that totals \$142.6 million. This compares to the June 30, 2014 total of \$145.6 million that was reported after the pension liability accounting change. This change 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.

ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATION

As of June 30, 2015, the University's net asset position was \$ 361.0 million, compared to the restated \$324.1 million for the same period last year. This represents an increase of \$36.9 million or 11.4% from the previous year's restated net position. The University's net assets increase from the restated June 30, 2014 net assets is primarily the result of an increase of operating state appropriations of \$5.1 million, additional capital appropriations of \$11.6 million and lower interest expense of \$.2 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 2015 Net Position Changes (*in millions*)

Net investment in capital assets	\$	28.5
Restricted		0.3
Unrestricted		8.1
Total Increase in Net Position	\$	<u>36.9</u>

Net investment in capital assets represents the University's net capital assets ownership, while the \$10.5 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 \$ 6.2 million representing a \$ 8.1 million increase over the restated prior year.

MORGAN STATE UNIVERSITY

Management's Discussion and Analysis June 30, 2015

ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATION (continued)

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 year, the University's net asset position has been favorable, increasing \$ 36.9 million or 11.4 % to the fiscal year 2015 level of \$ 361.0 million net of the restatement for the pension liability. This combined growth of unrestricted and expendable financial resources demonstrates the University's continued strengthening of its financial position.

MORGAN STATE UNIVERSITY

Management's Discussion and Analysis June 30, 2015

STATEMENT OF FINANCIAL POSITION SUMMARY (in millions)

	<u>2015</u>	<u>2014*</u>
ASSETS AND DEFERRED OUTFLOWS		
Current assets	\$ 95.0	\$ 86.8
Noncurrent assets:		
Capital assets, net	392.6	367.9
Other noncurrent assets	8.4	8.4
Total noncurrent assets	<u>401.0</u>	<u>376.3</u>
Total Assets	496.0	463.1
Deferred financing outflows	<u>7.6</u>	<u>6.5</u>
Total Assets and Deferred Outflows	<u>503.6</u>	<u>469.6</u>
 LIABILITIES, DEFERRED INFLOWS AND NET POSITION		
Current liabilities	34.7	33.1
Noncurrent liabilities	102.4	112.4
Total Liabilities	<u>137.1</u>	<u>145.5</u>
Deferred financing inflows	<u>5.5</u>	-
Total Liabilities and Deferred Inflows	<u>142.6</u>	<u>145.5</u>
 Net position		
Net investment in capital assets	344.3	315.8
Restricted	10.5	10.2
Unrestricted	6.2	(1.9)
Total Net Position, as restated	<u>\$ 361.0</u>	<u>\$ 324.1</u>

* Restated for implementation of GASB No. 68

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 \$ 95.0 million represented an increase of \$ 8.2 million, or 9.4%. This increase was mainly due to an increase in the net accounts receivables. Noncurrent assets of \$401.0 million increased \$ 24.7 million, or 6.56% primarily due to the addition of capital assets during the period. Noncurrent liabilities of \$ 137.1 million and \$ 145.5 include the net pension liability and other long term debt.

MORGAN STATE UNIVERSITY

Management's Discussion and Analysis June 30, 2015

SUMMARY OF REVENUE *(in millions)*

	Years Ended June 30,	
	2015	2014
Operating Revenues		
Tuition and fees, net	\$ 40.0	\$ 39.1
Other	60.1	61.1
Total Operating Revenues	100.1	100.2
Non-Operating Revenues		
State appropriations	84.2	79.1
Pell grants	16.7	16.3
Other non-operating revenues	1.0	1.2
Total Non-Operating Revenues	101.9	96.6
Other Revenues		
Capital appropriations	39.9	28.3
Total Other Revenues	39.9	28.3
Total Revenues	\$ 241.9	\$ 225.2

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. For the Year ended June 30, 2015, the University's total revenues were \$241.9 million, an increase of \$16.7 million, or 7.5 %. For the year, operating revenues of \$100.2 million remained stable.

Non-operating revenues of \$101.9 million, increased \$5.3 million due to the higher State appropriation for the year. The state of Maryland continues to show strong support for the University resulting from the positive return on investment that Morgan State University represents. Other revenues of \$39.9 million consist of capital appropriations from the State of Maryland. The capital appropriations were \$11.6 million higher in 2015 compared to 2014 primarily due to funds received for the construction of the new School of Business (SOB) building and the Hillen Road Bridge, and the deconstruction of Soper Library building. The new School of Business building opened in 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.

Total operating and non-operating expenses for the year ended June 30, 2015, were \$205.0 million, an increase of \$1.7 million or .8%. Interest expense was lower by \$.3 million due to the 2012 debt refinancing. Offsetting the lower interest expense was a small increase in operating expenses.

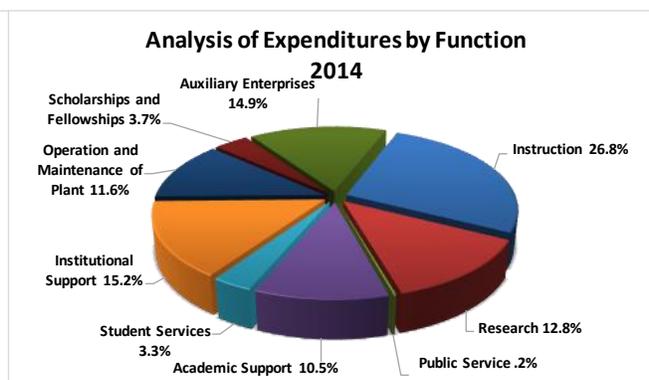
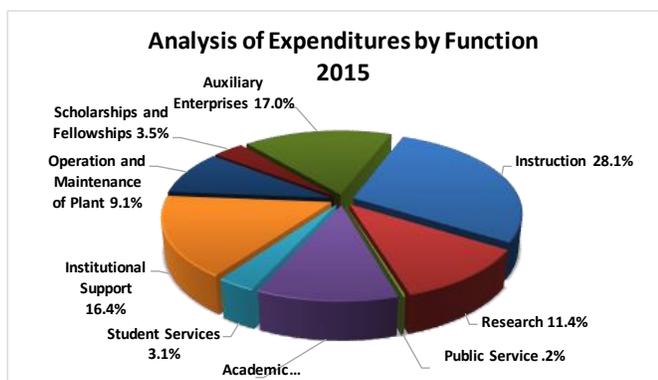
Total operating expenses of \$202.9 million were slightly higher by \$2 million or 1.0 percent.

MORGAN STATE UNIVERSITY

Management's Discussion and Analysis June 30, 2015

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

	Years Ended June 30,	
	2015	2014
Operating Expenses		
Instruction	\$ 57.0	\$ 54.3
Research	23.1	25.9
Public service	0.4	0.4
Academic support	23.0	21.4
Student services	6.3	6.6
Institutional support	33.2	30.9
Operation and maintenance of plant	18.4	23.6
Scholarships and fellowships	7.1	7.5
Auxiliary enterprises	34.4	30.3
Total Operating Expenses	202.9	200.9
Non-Operating Expenses		
Interest on indebtedness	2.0	2.2
Other expenses	-	0.1
Total Non-Operating Expenses	2.0	2.3
Total Expenses	\$ 204.9	\$ 203.2



The increase in operating expenses was primarily due to higher instruction expenses, mostly new faculty and salary increases, institutional support due to staff salary increases and higher auxiliary enterprises. These increases were partially offset by lower expenses for research activity and improved energy management.

MORGAN STATE UNIVERSITY

Management's Discussion and Analysis June 30, 2015

SUMMARY OF OPERATING RESULTS *(in millions)*

	Years Ended June 30,	
	2015	2014
Net Position, Beginning of Year	\$ 324.1	\$ 352.6
Total revenues	241.9	225.2
Total expenses	(205.0)	(203.3)
Other financing sources	-	(2.0)
Increase in net position	36.9	19.9
Adjustment for GASB No. 68	-	(48.4)
Net Position, End of Year, as restated	\$ 361.0	\$ 324.1

STATEMENT OF CASH FLOWS SUMMARY

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,	
	2015	2014
Cash (used) provided by:		
Operating activities	\$ (87.0)	\$ (93.0)
Noncapital financing activities	100.6	93.1
Capital and related financing activities	(7.4)	(0.4)
Investing activities	1.0	0.3
Net Increase in		
Cash and Cash Equivalents	7.2	(0.0)
Cash and cash equivalents, beginning of year	69.3	69.3
Cash and Cash Equivalents, End of Year	\$ 76.5	\$ 69.3

MORGAN STATE UNIVERSITY

Management's Discussion and Analysis June 30, 2015

SUMMARY OF CASH FLOWS (continued)

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 \$84.2 million in 2015 and \$79.1 million in 2014.

CAPITAL INVESTMENT ACTIVITIES

The University continues to invest in capital assets to support the mission of the institution. With strong support from the State of Maryland, the following capital projects totaling approximately \$114 million were completed and or recently started. These capital investments include 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) Construction of a new Behavioral Social Sciences Center
- 5) The residual vendor payments on the recently completed facilities
- 6) Campus-wide utility upgrades

In addition, several projects are in the planning stages including the construction of a 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, 2015, the University had \$48.2 million in outstanding long term debt versus \$52.1 million in the previous year, a decrease of 7.5%. The table below summarizes these amounts by type of debt instrument.

	Years Ended June 30,	
	2015	2014
Revenue bonds	\$ 47.1	\$ 50.8
Capital lease obligations	1.1	1.3
Total	\$ 48.2	\$ 52.1

MORGAN STATE UNIVERSITY

Management's Discussion and Analysis June 30, 2015

SUMMARY

The University's overall financial position continues to strengthen, despite a national trend of declining high school graduates. The University is committed to building strong academic programs including, but not limited to, engineering and the STEM fields 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

Statement of Net Position As of June 30, 2015

ASSETS AND DEFERRED OUTFLOWS

Current Assets

Cash and cash equivalents	\$ 76,459,652
Accounts receivable (net of allowance for doubtful accounts of \$1,967,042)	17,284,278
Notes receivable	181,932
Inventories	573,939
Prepaid expenses	524,615
Total Current Assets	<u>95,024,416</u>

Non-Current Assets

Endowment investments	2,342,635
Restricted investments	4,701,379
Notes receivable (net of allowance for doubtful notes of \$384,728)	1,350,198
Capital assets, net	392,571,321
Total Non-Current Assets	<u>400,965,533</u>

Total Assets	495,989,949
Deferred Financing Outflows	<u>7,597,725</u>
Total Assets and Deferred Outflows	<u>503,587,674</u>

The accompanying notes are an integral part of this financial statement.

MORGAN STATE UNIVERSITY

Statement of Net Position (continued) As of June 30, 2015

LIABILITIES, DEFERRED INFLOWS AND NET POSITION

Current Liabilities

Accounts payable and accrued liabilities	\$ 20,519,087
Accrued workers' compensation, current portion	557,225
Accrued vacation costs, current portion	3,848,658
Revenue bonds payable, current portion	3,600,000
Obligations under capital lease agreements, current portion	210,845
Unearned revenue	4,649,580
Funds held for other organizations	1,303,894
Total Current Liabilities	34,689,289

Non-Current Liabilities

Accrued workers' compensation, net of current portion	3,037,775
Accrued vacation costs, net of current portion	5,113,382
Revenue bonds payable, net of current portion	43,508,405
Net Pension Liability	49,822,391
Obligations under capital lease agreements, net of current portion	928,909
Total Non-Current Liabilities	102,410,862
Total Liabilities	137,100,151
Deferred Financing Inflows	5,453,386
Total Liabilities and Deferred Inflows	142,553,537

Net Position

Net investment in capital assets	344,323,162
Restricted	
Expendable:	
Scholarships and fellowships	3,719,359
Loans	2,040,936
Debt service	4,701,379
Total expendable net position	10,461,674
Unrestricted Net Position	6,249,301
Total Net Position	361,034,137
Total Net Position, Liabilities and Deferred Inflows	\$ 503,587,674

The accompanying notes are an integral part of this financial statement.

MORGAN STATE UNIVERSITY

Statement of Revenues, Expenses, and Changes in Net Position For the Year Ended June 30, 2015

Operating Revenues

Tuition and fees	\$ 57,474,323
Less: Scholarship allowances	(17,484,633)
	<u>39,989,690</u>
Federal grants and contracts	24,583,560
State and local grants and contracts	2,718,543
Private gifts, grants and contracts	812,198
Sales and services educational	1,601,912
Residential facilities	19,905,271
Less: Scholarship allowances	(6,026,091)
	<u>13,879,180</u>
Parking facilities	929,992
Less: Scholarship allowances	(188,992)
	<u>741,000</u>
Intercollegiate athletics	9,283,330
Less: Scholarship allowances	(2,463,068)
	<u>6,820,262</u>
Bookstore	2,467,511
Less: Scholarship allowances	(185,245)
	<u>2,282,266</u>
Student center	3,299,006
Less: Scholarship allowances	(938,914)
	<u>2,360,092</u>
Other revenues	4,337,669
Total Operating Revenues	<u><u>100,126,372</u></u>

The accompanying notes are an integral part of this financial statement.

MORGAN STATE UNIVERSITY

Statement of Revenues, Expenses, and Changes in Net Position (continued) For the Year Ended June 30, 2015

Operating Expenses

Instruction	\$ 56,958,064
Research	23,048,623
Public service	415,177
Academic support	22,994,650
Student services	6,321,824
Institutional support	33,196,240
Operation and maintenance of plant	18,390,018
Scholarships and fellowships	7,105,731
Auxiliary enterprises	34,415,979
Total Operating Expenses	<u>202,846,306</u>

Operating Loss (102,719,934)

Non-Operating Revenue (Expenses)

State appropriations	84,207,261
Pell Grants	16,696,563
Investment income	958,621
Interest on indebtedness	(2,019,585)
Other non-operating expenses	(605)

Total Non-Operating Revenues, Net 99,842,255

**Loss Before Other Revenues,
Expenses, Gains and Losses** (2,877,679)

Other Revenues, Expenses, Gains and Losses

Capital appropriations	39,864,456
Other losses	(50,428)
Total Other Revenues, Expenses, Gains and Losses	<u>39,814,028</u>

Increase in Net Position 36,936,349

Net Position, beginning of year, as restated 324,097,788

Net Position, End of Year \$ 361,034,137

The accompanying notes are an integral part of this financial statement.

MORGAN STATE UNIVERSITY

Statement of Cash Flows For the Year Ended June 30, 2015

Cash Flows From Operating Activities

Tuition and fees	\$ 40,661,880
Contracts and grants	25,087,374
Payments to employees	(129,011,206)
Payments to suppliers and contractors	(56,880,560)
Loans issued to students	(165,362)
Collections of loans from students	192,376
Auxiliary enterprises charges:	
Residence halls and dining facilities	13,879,180
Bookstores	2,282,266
Other	13,382,879
Other receipts	3,613,241
Net Cash Used by Operating Activities	(86,957,932)

Cash Flows From Non-Capital Financing Activities

State appropriations	84,207,261
Pell grants	16,696,563
Other non-operating losses	(308,968)
Net Cash Provided by Non-Capital Financing Activities	100,594,856

Cash Flows From Capital and Related Financing Activities

Capital appropriations	39,864,456
Purchases of capital assets	(41,679,699)
Proceeds on capital debt	124,614
Payments on debt and capital leases	(3,665,297)
Interest paid on debt and capital leases	(2,019,585)
Net Cash Used by Capital and Related Financing Activities	(7,375,511)

Cash Flows From Investing Activities

Proceeds from sales and maturities of investments	4,624,330
Interest on investments	958,621
Investment expense	(605)
Purchases of investments	(4,701,380)
Net Cash Provided by Investing Activities	880,966

Net increase in cash and cash equivalents 7,142,379

Cash and cash equivalents, beginning of year 69,317,273

Cash and Cash Equivalents, End of Year \$ 76,459,652

The accompanying notes are an integral part of this financial statement.

MORGAN STATE UNIVERSITY

**Statement of Cash Flows (continued)
For the Year Ended June 30, 2015**

**Reconciliation of Operating Loss to Net Cash Used by
Operating Activities**

Operating loss \$ (102,719,934)

**Adjustments to Reconcile Operating Loss to Net Cash from
Operating Activities**

Depreciation expense 17,046,139

**Effect of Changes in Non-Cash Operating Assets
and Liabilities**

Accounts receivable, net (1,117,800)

Notes receivable, net 58,677

Inventories 4,010

Prepaid expenses 45,196

Funds held for other organizations 892,393

Accounts payable and accrued liabilities (459,520)

Unearned revenue (722,975)

Pension costs, net (709,089)

Accrued workers' compensation 394,000

Accrued vacation 330,971

Net Cash from Operating Activities \$ (86,957,932)

The accompanying notes are an integral part of this financial statement.

MORGAN STATE UNIVERSITY FOUNDATION, INC.

**Statement of Financial Position
As of June 30, 2015**

ASSETS	
Cash and cash equivalents	\$ 4,315,531
Investments	25,707,354
Pledges receivable (net of allowance and discount of \$231,814)	1,591,944
Other assets and deposits	454,806
Total Assets	<u>\$ 32,069,635</u>
 LIABILITIES AND NET ASSETS	
Accounts payable and accruals	<u>\$ 712,671</u>
 Net Assets	
Unrestricted	294,821
Temporarily restricted	9,577,427
Permanently restricted	21,484,716
Total Net Assets	<u>31,356,964</u>
 Total Liabilities and Net Assets	 <u>\$ 32,069,635</u>

The accompanying notes are an integral part of this financial statement.

MORGAN STATE UNIVERSITY FOUNDATION, INC.

**Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2015**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues and Support				
Contributions and fund raising	\$ 813,098	\$ 4,027,839	\$ 1,244,313	\$ 6,085,250
Interest and dividend income	-	169,620	-	169,620
Unrealized loss on investments	-	(1,310,864)	-	(1,310,864)
Realized gain on investments	-	1,907,510	-	1,907,510
Total Revenues and Support	<u>813,098</u>	<u>4,794,105</u>	<u>1,244,313</u>	<u>6,851,516</u>
Net assets released from restrictions:				
Satisfaction of program restrictions	<u>3,678,364</u>	<u>(3,678,364)</u>	-	-
Total Revenues, Support and Net Assets Released from Restrictions	<u>4,491,462</u>	<u>1,115,741</u>	<u>1,244,313</u>	<u>6,851,516</u>
Expenses				
Grants and Scholarships	1,357,023	-	-	1,357,023
Program support expenses	2,357,495	-	-	2,357,495
University support	24,336	-	-	24,336
General and administrative	501,210	-	-	501,210
Fund raising	124,775	-	-	124,775
Total Expenses	<u>4,364,839</u>	<u>-</u>	<u>-</u>	<u>4,364,839</u>
Increase in net assets	126,623	1,115,741	1,244,313	2,486,677
Net Assets, beginning of year	<u>168,198</u>	<u>8,461,686</u>	<u>20,240,403</u>	<u>28,870,287</u>
Net Assets, End of Year	<u>\$ 294,821</u>	<u>\$ 9,577,427</u>	<u>\$ 21,484,716</u>	<u>\$ 31,356,964</u>

The accompanying notes are an integral part of this financial statement.

MORGAN STATE UNIVERSITY

Notes to the Financial Statements

June 30, 2015

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 year ended June 30, 2015, the Foundation distributed \$24,336 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 the Financial Statements

June 30, 2015

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 assets.
- (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 the Financial Statements June 30, 2015

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 year ended June 30, 2015, the discount rate was 2.2% and the amount amortized was \$26,488.

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 as of June 30, 2015:

	<u>Amount</u>
Promises to give before unamortized discount and allowance for uncollectibles	\$ 1,823,758
Less: unamortized discount	26,488
	<u>1,797,270</u>
Less: allowance for uncollectibles	205,326
Net promises to give	<u><u>\$ 1,591,944</u></u>

The Foundation wrote off \$71,654 in uncollectible pledges during the year ended June 30, 2015.

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

Amounts due in:	<u>Amount</u>
One year	\$ 950,998
Two years	408,858
Three years	273,698
Four years	181,332
Five years	8,872
Total	<u><u>\$ 1,823,758</u></u>

MORGAN STATE UNIVERSITY

Notes to the Financial Statements

June 30, 2015

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 for significant building renovations, 15 years for land improvements, 50 years for library books, and 5 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 assets, and as a component of expenses in the statement of revenues, expenses, and changes in net assets.

MORGAN STATE UNIVERSITY

Notes to the Financial Statements

June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting (continued)

- (6) Pensions - Most employees of the University are members of the Maryland State Retirement and Pension System. Employees are members of either the Teacher's Pension System of the State of Maryland (TPS) or the Employees Retirement System of the State of Maryland (ERS). TPS and ERS are part of the State of Maryland Retirement and Pension System which is considered a single multiple employer cost sharing plan.

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of TPS and ERS and additions to/deductions from TPS and ERS' fiduciary net position have been determined on the same basis as they are reported by TPS and ERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

- (7) Non-current Liabilities - Non-current liabilities include principal amounts of revenue bonds payable, notes payable, net pension liability, 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.
- (8) Net Position

The University's net assets 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 position - expendable*: Restricted expendable net position 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 position - nonexpendable*: Nonexpendable restricted net position 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.

MORGAN STATE UNIVERSITY

Notes to the Financial Statements June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting (continued)

(8) Net Position (continued)

(d) *Unrestricted net position*: Unrestricted net position 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.

(9) 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.

(10) Income Taxes – Foundation

The Foundation is exempt from income taxes under the Internal Revenue code Section 501 (c) (3).

(11) 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.

MORGAN STATE UNIVERSITY

Notes to the Financial Statements June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting (continued)

(11) Classification of Revenues (continued)

- (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.
- (12) 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 assets. 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.

E. New Accounting Pronouncements

The University adopted Governmental Accounting Standard Board (GASB) Statement No. 68, entitled Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27, Statement No. 69, entitled Government Combinations and Disposals of Government Operations, and Statement No. 71, entitled Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68.

Net position has been restated by negative a \$48,387,141, due to the implementation of GASB Statement No. 68 in recording the beginning net pension liability and the beginning deferred outflow of resources, contribution subsequent to the measurement date for all the defined benefit pension plans.

MORGAN STATE UNIVERSITY

Notes to the Financial Statements June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. New Accounting Pronouncements (continued)

As of the year ended June 30, 2015, GASB issued Statement No. 72, entitled *Fair Value Measurement and Application*; Statement No. 73, entitled *Accounting and Financial Reporting for Pensions and Related Assets That are Not within the Scope of GASB Statement 68*, and *Amendments to certain Provisions of GASB Statements 67 and 68*; GASB Statement No. 74 entitled, *Financial Reporting For Postemployment Benefit Plans Other Than Pension Plans*; GASB Statement No. 75 entitled, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*; GASB Statement No. 76 entitled, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. These statements may have a material effect on the University's financial statements once implemented. The University will be analyzing the effects of these pronouncements 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, 2015, the University had cash on deposit in an internal pooled cash account with the Maryland State Treasurer (Treasurer) in the amount of \$76,369,044. 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 \$90,608, as compared to bank balances of \$107,280, as of June 30, 2015.

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, 2015, all investments of the Endowment pool consist of common stocks with a market value of \$2,342,636. These funds are held by a third-party custodial financial institution designated by the State.

MORGAN STATE UNIVERSITY

**Notes to the Financial Statements
June 30, 2015**

2. DEPOSITS AND INVESTMENTS (continued)

B. Endowment Investments and Restricted Investments (continued)

(3) The University's restricted investments of \$4,701,379 as of June 30, 2015, 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:

	<u>Amount</u>	
	<u>Market Value</u>	<u>Rating</u>
Fidelity Treasury Oblig Fd 115	\$ 2,644,792	AAA
Fidelity Treasury Oblig Fd 115	2,056,587	AAA
Total Investments	\$ 4,701,379	

C. Investments and Investment Income

Investments are recorded at fair value as of June 30, 2015 and consisted of the following:

	<u>Amount</u>
Quasi Endowment Funds	
Stocks	\$ 1,543,890
Unrestricted	
Stocks	798,745
Total Market Value	2,342,635
Prior Year Market Value	2,379,216
Total Unrealized Loss	\$ (36,581)

Foundation investments are recorded at fair value as of June 30, 2015, consisted of the following:

	<u>Amount</u>
Restricted and Endowment Funds	
Money market	\$ 661,600
Mutual funds	3,207,133
Certificates of deposit	411,676
Common Stock	2,259
Treasury obligations	1,604,539
Government securities	152,647
Equity funds	17,889,751
Corporate and foreign bonds	1,777,749
Total Restricted and Endowment Fair Value	\$ 25,707,354

MORGAN STATE UNIVERSITY

Notes to the Financial Statements June 30, 2015

2. DEPOSITS AND INVESTMENTS (continued)

C. Investments and Investment Income (continued)

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University adheres to the State Treasurer's policy for managing its exposure to fair value loss arising from increasing interest rates.

The State Treasurer's investment policy states that to the extent possible, it will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the State Treasurer will not directly invest in securities maturing more than five years from the date of purchase.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The University's policy for reducing its exposure to credit risk is to comply with the State Treasurer's policy, which requires that the State Treasurer's investments in repurchase agreement be collateralized by U.S. Treasury and agency obligations. In addition, investments may be made directly in U.S. Treasuries or agency obligations.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The University's policy for reducing this risk of loss is to comply with the State Treasurer's policy, which limits the amount of repurchase agreements to be invested with a particular institution to 30% of the portfolio. Otherwise, there is no limit on the amount that may be invested in any one issuer.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the University's deposits may not be returned to it. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are (a) uncollateralized, (b) collateralized with securities held by the pledging financial institution, or (c) collateralized with securities held by the pledging financial institutions' trust department or agent but not in the University's name. The University does not have a formal deposit policy for custodial credit risk, but follow the State Treasurer's policy which states that the State Treasurer may deposit in a financial institution in the State, any unexpended or surplus money in which the State Treasurer has custody. As of June 30, 2015, 99% of the University's cash was deposited with the State Treasury and this was not subject to custodial risk.

MORGAN STATE UNIVERSITY

Notes to the Financial Statements June 30, 2015

3. ACCOUNTS RECEIVABLE, ACCOUNTS PAYABLE, AND ACCRUED LIABILITIES

Accounts receivable, accounts payable, and accrued liabilities consisted of the following as of June 30, 2015:

	<u>Accounts Receivable</u>	<u>Accounts Payable and Accrued Liabilities</u>
Student	\$ 6,549,573	\$ 1,251,801
Federal grants	8,377,279	-
Other grants (primarily state grants)	667,671	-
Vendor	-	8,101,307
Employee	-	67,218,190
Other	3,656,797	1,296,827
Total	<u>19,251,320</u>	<u>77,868,125</u>
Less allowance for doubtful accounts	1,967,042	-
Total	<u>\$ 17,284,278</u>	<u>\$ 77,868,125</u>

MORGAN STATE UNIVERSITY

Notes to the Financial Statements June 30, 2015

4. CAPITAL ASSETS

The following were the changes in capital assets for the year ended June 30, 2015:

	June 30, 2014	Additions/ Transfers	Reductions	June 30, 2015
Capital Assets not Being Depreciated				
Land	\$ 10,551,343	\$ -	\$ -	\$ 10,551,343
Construction in-progress	37,193,868	41,847,777	(5,670,460)	73,371,185
Total Capital Assets not Being Depreciated	47,745,211	41,847,777	(5,670,460)	83,922,528
Other capital assets:				
Infrastructure networks	38,218,997	3,277,555	-	41,496,552
Land improvements	17,602,479	-	(18)	17,602,461
Buildings	448,429,734	1,044,542	-	449,474,276
Furniture, fixtures, and equipment	46,248,655	1,172,871	(267,439)	47,154,087
Library materials	2,275,390	37,564	-	2,312,954
Total Other Capital Assets	552,775,255	5,532,532	(267,457)	558,040,330
Less accumulated depreciation for:				
Infrastructure networks	(10,673,872)	(57,237)	-	(10,731,109)
Land improvements	(10,458,802)	(895,656)	-	(11,354,458)
Buildings	(169,238,068)	(14,173,821)	-	(183,411,889)
Furniture, fixtures, and equipment	(40,885,991)	(1,873,854)	237,307	(42,522,538)
Library materials	(1,325,972)	(45,571)	-	(1,371,543)
Total Accumulated Depreciation	(232,582,705)	(17,046,139)	237,307	(249,391,537)
Other capital assets, net	320,192,550	(11,513,607)	(30,150)	308,648,793
Capital asset summary				
Capital assets not being depreciated	47,745,211	41,847,777	(5,670,460)	83,922,528
Other capital assets, at cost	552,775,255	5,532,532	(267,457)	558,040,330
Total cost of capital assets	600,520,466	47,380,309	(5,937,917)	641,962,858
Less accumulated depreciation	(232,582,705)	(17,046,139)	237,307	(249,391,537)
Capital Assets, Net	\$ 367,937,761	\$ 30,334,170	\$ (5,700,610)	\$ 392,571,321

MORGAN STATE UNIVERSITY

Notes to the Financial Statements June 30, 2015

5. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2015, were as follows:

	June 30, 2014	Additions	Reductions	June 30, 2015	Amounts Due Within One Year
Bonds and capital lease obligations:					
Revenue bonds payable	\$ 45,970,000	\$ -	\$ (3,440,000)	\$ 42,530,000	\$ 3,600,000
Unamortized bond premium	4,873,527	-	(295,122)	4,578,405	-
Total revenue bonds payable	50,843,527	-	(3,735,122)	47,108,405	3,600,000
Capital lease obligations	1,240,437	-	(100,683)	1,139,754	210,845
Net pension liability	54,929,425	-	(5,107,034)	49,822,391	-
Total bonds and capital lease obligations	107,013,389	-	(8,942,839)	98,070,550	3,810,845
Accrued workers' compensation	3,201,000	1,278,176	(884,176)	3,595,000	557,225
Accrued vacation	8,631,069	4,181,520	(3,850,549)	8,962,040	3,848,658
Total Long-term Liabilities	\$ 118,845,458	\$ 5,459,696	\$ (13,677,564)	\$ 110,627,590	\$ 8,216,728

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

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.

MORGAN STATE UNIVERSITY

**Notes to the Financial Statements
June 30, 2015**

6. REVENUE BONDS PAYABLE (continued)

A. Revenue Bonds Payable

The 1993 and 2012 Revenue Bonds consist of the following as of June 30, 2015:

	<u>Amount</u>
1993 Revenue Bonds	
Current interest term bonds, maturing July 1, 2015, bearing interest of 6.05% which is paid semiannually on January 1 and July 1	\$ 2,180,000
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
Unamortized bond premium	150,557
Total 1993 bonds payable	<u>15,405,557</u>
2012 Revenue Bonds	
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	27,275,000
Unamortized bond premium	4,427,848
Total 2012 bond payable	<u>31,702,848</u>
Total Revenue Bonds Payable	<u>\$ 47,108,405</u>

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>Years Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payments</u>
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	4,420,000	1,277,913	5,697,913
2021-2025	10,245,000	4,004,490	14,249,490
2026-2030	7,130,000	2,223,750	9,353,750
2031-2033	5,190,000	397,750	5,587,750
Total	<u>\$ 42,530,000</u>	<u>\$ 15,177,674</u>	<u>\$ 57,707,674</u>

MORGAN STATE UNIVERSITY

Notes to the Financial Statements June 30, 2015

6. REVENUE BONDS PAYABLE (continued)

B. Principal and Interest Maturities (continued)

- (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, 2015.
- (3) The University is subject to Federal arbitrage laws governing the use of these proceeds of tax-exempt debt.
- (4) As of June 30, 2015, the trustee held restricted investments in mutual funds in the amount of \$4,701,379. The funds in the restricted investments will be used to cover the \$4,701,307, revenue bonds debt service payments due July 1, 2015. The July 1, 2015 debt service payment will pay \$2,056,275 for the 2012 Revenue Bond Debt service and \$2,644,732 for the 1993 Revenue Bond Debt Service.

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, 2015, the outstanding balance of the defeased 1985 loan and 1990 Revenue Bonds was \$0, and \$91,373, respectively (the loan was paid in full as of Nov 1, 2014). The Revenue Bond 1990 Series was paid in full as of June 30, 2014.

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, 2015.
- (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 guidelines 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 the Financial Statements June 30, 2015

7. COMMITMENTS AND CONTINGENCIES (continued)

B. Leases

- (1) The University maintains capital leases primarily for equipment. As of June 30, 2015, the net gross value of the underlying assets relating to the capital lease liability is \$ 1,441,216.

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

<u>For the Years Ending June 30,</u>	<u>Amount</u>
2016	\$ 210,845
2017	238,601
2018	238,482
2019	238,359
2020	238,232
2021	119,067
Total future minimum payments	1,283,586
Less: interest	141,831
administrative fees	2,001
Net Minimum Lease Payments	\$ 1,139,754

- (3) Amortization expense for the assets held under capital lease was \$5,510 for the year ended June 30, 2015.
- (4) The University leases certain property under non-cancelable 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>
2016	\$ 2,490,025
2017	2,470,781
2018	2,470,781
2019	300,964
Total	\$ 7,732,551

MORGAN STATE UNIVERSITY

Notes to the Financial Statements June 30, 2015

7. COMMITMENTS AND CONTINGENCIES (continued)

B. Leases (continued)

(5) Lease expenses for the year ended June 30, 2015 were \$2,492,915.

C. Construction Commitments

As of June 30, 2015, the University had commitments of \$114,896,880 for various capital improvement projects. These include:

- a. Continuation of Campus Wide Utility Upgrades,
- b. Complete the construction of the Earl G. Graves School of Business and Management building,
- c. The residual vendor payments on facilities (Lillie Carroll Jackson Museum, etc.).
- d. Construction of a new Behavioral Social Sciences Center.
- e. Facilities maintenance

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

- a. Construction of a new Student Services building,
- b. 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, 2015 \$420,961 for the Lillie Carol Jackson Museum renovation to cover the estimated residual vendor payments for this facility.

E. Network Upgrade in fiscal year 2016

At its November 2, 2015 meeting, the University's Board of Regents approved a Capital Investment of a Next Generation Information Technology Network upgrade with annual lease payments of \$2.1M per year for ten years. This project is subject to final approval by the State of Maryland.

MORGAN STATE UNIVERSITY

Notes to the Financial Statements June 30, 2015

8. PENSION PLANS

General Information about the Pension Plan

Plan description. Teachers employed by the University are provided with pensions through the Teacher's Pension System of the State of Maryland (TPS)—a cost-sharing multiple-employer defined benefit pension plan administered by the Maryland State Retirement and Pension System (MSRPS). Certain employees of the University are provided with pensions through the Employees Retirement System of the State of Maryland (ERS)—a cost-sharing multiple-employer defined benefit pension plan administered by the Maryland State Retirement and Pension System (MSRPS). The State Personnel and Pensions Article of the Annotated Code of Maryland (the Article) grants the authority to establish and amend the benefit terms of TPS and ERS to the MSRPS Board of Trustees. MSRPS issues a publicly available financial report that can be obtained at www.sra.state.md.us/Agency/Downloads/CAFR/.

Benefits provided. A member of either the Teachers' or Employees' Retirement System is generally eligible for full retirement benefits upon the earlier of attaining age 60 or accumulating 30 years of creditable service regardless of age. The annual retirement allowance equals 1/55 (1.81%) of the member's AFC multiplied by the number of years of accumulated creditable service.

An individual who is a member of either the Teachers' or Employees' Pension System on or before June 30, 2011, is eligible for full retirement benefits upon the earlier of attaining age 62, with specified years of eligibility service, or accumulating 30 years of eligibility service regardless of age. An individual who becomes a member of either the Teachers' or Employees' Pension System on or after July 1, 2011, is eligible for full retirement benefits if the member's combined age and eligibility service equals at least 90 years or if the member is at least age 65 and has accrued at least 10 years of eligibility service.

For most individuals who retired from either the Teachers' or Employees' Pension System on or before June 30, 2006, the annual pension allowance equals 1.2% of the member's AFC, multiplied by the number of years of creditable service accumulated prior to July 1, 1998, plus 1.4% of the member's AFC, multiplied by the number of years of creditable service accumulated subsequent to June 30, 1998. With certain exceptions, for individuals who are members of the Teachers' or Employees' Pension System on or after July 1, 2006, the annual pension allowance equals 1.2% of the member's AFC, multiplied by the number of years of creditable service accumulated prior to July 1, 1998, plus 1.8% of the member's AFC, multiplied by the number of years of creditable service accumulated subsequent to June 30, 1998. Beginning July 1, 2011, any new member of the Teachers' or Employees' Pension System shall earn an annual pension allowance equal to 1.5% of the member's AFC multiplied by the number of years of creditable service accumulated as a member of the Teachers' or Employees' Pension System.

MORGAN STATE UNIVERSITY

Notes to the Financial Statements June 30, 2015

8. PENSION PLANS (continued)

General Information about the Pension Plan (continued)

Exceptions to these benefit formulas apply to members of the Employees' Pension System who are employed by a participating governmental unit that does not provide the 1998 or 2006 enhanced pension benefits or the 2011 reformed pension benefits. The pension allowance for these members equals 0.8% of the member's AFC up to the social security integration level (SSIL), plus 1.5% of the member's AFC in excess of the SSIL, multiplied by the number of years of accumulated creditable service. For the purpose of computing pension allowances, the SSIL is the average of the social security wage bases for the past 35 calendar years ending with the year the retiree separated from service.

Early Service Retirement

A member of either the Teachers' or Employees' Retirement System may retire with reduced benefits after completing 25 years of eligibility service. Benefits are reduced by 0.5% per month for each month remaining until the retiree either attains age 60 or would have accumulated 30 years of creditable service, whichever is less. The maximum reduction for a Teachers' or Employees' Retirement System member is 30%.

An individual who is a member of either the Teachers' or Employees' Pension System on or before June 30, 2011, may retire with reduced benefits upon attaining age 55 with at least 15 years of eligibility service. Benefits are reduced by 0.5% per month for each month remaining until the retiree attains age 62. The maximum reduction for these members of the Teachers' or Employees' Pension System is 42%. An individual who becomes a member of either the Teachers' or Employees' Pension System on or after July 1, 2011, may retire with reduced benefits upon attaining age 60 with at least 15 years of eligibility service. Benefits are reduced by 0.5% per month for each month remaining until the retiree attains age 65. The maximum reduction for these members of the Teachers' or Employees' Pension System is 30%.

Disability and Death Benefits

Generally, a member covered under retirement plan provisions who is permanently disabled after 5 years of service receives a service allowance based on a minimum percentage (usually 25%) of the member's AFC. A member covered under pension plan provisions who is permanently disabled after accumulating 5 years of eligibility service receives a service allowance computed as if service had continued with no change in salary until the retiree attained age 62. Death benefits are equal to a member's annual salary as of the date of death plus all member contributions and interest.

Contributions. (ERS) The Article sets contribution requirements of the active employees and the participating governmental units are established and may be amended by the MSRPS Board. Employees are required to contribute 6% of their annual pay.

MORGAN STATE UNIVERSITY

Notes to the Financial Statements June 30, 2015

8. PENSION PLANS (continued)

Contributions. (TPS) The Article sets contribution requirements of the active employees and the participating governmental units are established and may be amended by the MSRPS Board. Employees are required to contribute 7% of their annual pay. The State of Maryland is responsible for the net pension liability of TPS. The University's required contribution is for the normal cost and does not include any contribution for past service cost. As such, the State of Maryland is responsible for 100% of the net pension liability related to TPS and qualifies for as a special funding situation. The State of Maryland did not make contributions on behalf of the University for the year ended June 30, 2015.

The University's contractually required contribution rate for the year ended June 30, 2015, was \$6,877,006, actuarially determined as an amount that, when combined with the State of Maryland and employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability (State only).

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

As of June 30, 2015, the University reported a liability of \$49,822,391 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The University's proportion of the net pension liability was based on a projection of the University's long-term share of contributions to the pension plan relative to the projected contributions of all participating government units, actuarially determined. As of June 30, 2015, the University's proportion for the net pension liability was .300 percent, which was substantially the same from its proportion measured as of June 30, 2014.

For the year ended June 30, 2015, the University recognized pension provision of \$6,167,917. As of June 30, 2015, the University reported deferred outflows of resources and deferred inflows of resources related to the net pension liability of the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes of actuarial assumptions	\$ 720,719	\$ -
Net Difference between projected and actual earnings on pension plan investments	-	5,453,386
Contributions made subsequent to the measurement date	6,877,006	-
Total	<u>\$ 7,597,725</u>	<u>\$ 5,453,386</u>

MORGAN STATE UNIVERSITY

Notes to the Financial Statements June 30, 2015

8. PENSION PLANS (continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

The University reported \$7,597,725, as deferred outflows of resources related to the pension resulting from the University's contributions subsequent to the measurement date that will be recognized as a reduction of the pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the pension will be recognized in pension expense as follows: Changes in assumptions: Fiscal years 2016-2019, \$180,180 per year; Difference between projected and actual earnings on pension plan investments: Fiscal years 2016-2019, \$1,363,347 per year.

Information included in the MSRPS financial statements

Actuarial assumptions, long-term expected rate of return on pension plan investments, discount rate, and pension plan fiduciary net position are available at www.sra.state.md.us/Agency/Downloads/CAFR/.

Sensitivity of the University's proportionate share of the net pension liability to changes in the discount rate.

The University's proportionate share of the net pension liability calculated using the discount rate of 7.65 percent is \$49,822,391. Additionally, the University's proportionate share of the net pension liability if it were calculated using a discount rate that is 1-percentage-point lower (6.65 percent) is \$75,922,973 or 1-percentage-point higher (8.65 percent) is \$33,216,764.

Optional Retirement Programs

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 year ended June 30, 2015 was \$2,517,248.

Other Postemployment Benefits

Members of the State Retirement and Pension System of Maryland (the State System) and their dependents are provided postemployment health care benefits through the State Employee and Retiree Health and Welfare Benefits Program (the Plan). The Plan is a cost sharing defined benefit healthcare plan established by the State Personnel and Pensions Article, Section 2-501 through 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. The State does not distinguish employees by employer/State agency. Instead, the State allocates the postemployment health care costs to all participating employers.

MORGAN STATE UNIVERSITY

Notes to the Financial Statements June 30, 2015

8. PENSION PLANS (continued)

Financial information for the Plan is included in the State of Maryland Comprehensive Annual Financial Report, which can be obtained from the Comptroller of Maryland, Louis L. Goldstein Treasury Building, Annapolis, MD 21404.

A separate actuarial valuation is not performed by the University. The University's only obligation to the Plan is its required annual contribution, which it has fully funded during the year ended June 30, 2015. The amount contributed for the year ended June 30, 2015 was \$3,187,568.

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, 2015, 2014, or 2013.
- D. As of June 30, 2015, the University has recorded \$3,595,000 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 the Financial Statements June 30, 2015

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, will construct and subsequently manage this property through contractual arrangements. The University will receive 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 year ended June 30, 2015:

Functional Classification	Natural Classification			
	Payments to Employees	Payments to Suppliers and Contractors	Depreciation	Total
Instruction	\$ 48,749,210	\$ 2,482,790	\$ 5,726,063	\$ 56,958,063
Research	15,550,584	6,429,101	1,068,938	23,048,623
Public service	230,568	34,459	150,150	415,177
Academic support	16,295,475	1,953,847	4,745,327	22,994,649
Student services	3,902,495	2,419,199	130	6,321,824
Institutional support	29,112,832	3,562,064	521,345	33,196,241
Operation and maintenance of plant	5,952,318	11,539,812	897,887	18,390,017
Scholarships and fellowships	751,335	6,354,396	-	7,105,731
Auxiliary enterprises	9,924,335	20,555,347	3,936,299	34,415,981
Total Expenses	\$ 130,469,152	\$ 55,331,015	\$ 17,046,139	\$ 202,846,306

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".

MORGAN STATE UNIVERSITY

**Notes to the Financial Statements
June 30, 2015**

12. SUBSEQUENT EVENTS

See note 7E in reference to a network upgrade and debt issuance in fiscal year 2016.

REQUIRED SUPPLEMENTAL INFORMATION

MORGAN STATE UNIVERSITY

Schedule of Proportionate Share of Net Pension Liability June 30, 2015

	<u>2015</u>
The University's proportion of the net pension liability	0.0030%
The University's proportionate share of the ERS net pension liability	\$ 49,822,391
State's proportionate share of the net pension liability	<u>16,733,256,657</u>
Total	<u>\$ 16,783,079,048</u>
The University's covered-employee payroll	\$ 38,992,278
The University's proportionate share of the net pension liability as a percentage of its covered-employee payroll	127.78%
Plan fiduciary net position as a percentage of the total pension liability	71.87%

This schedule is presented to illustrate the requirement to show information for 10 years. However, information prior to June 30, 2015 is not available.

MORGAN STATE UNIVERSITY

**Schedule of Contributions
June 30, 2015**

	<u>2015</u>
Contractually required contribution	\$ 6,877,006
Contributions in relation to the contractually required contribution	<u>(6,877,006)</u>
Contribution deficiency (excess)	<u>\$ -</u>
University's covered-employee payroll	\$ 38,992,278
Contributions as a percentage of covered-employee payroll	17.64%

This schedule is presented to illustrate the requirement to show information for 10 years. However, information prior to June 30, 2015 is not available.