

MORGAN STATE UNIVERSITY

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

Years Ended June 30, 2016 and 2015



SB & COMPANY, LLC
KNOWLEDGE • QUALITY • CLIENT SERVICE

JUNE 30, 2016 AND 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 the business-type activities 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, 2016 and 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 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, 2016 and 2015. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, 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.

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, 2016 and 2015, and the respective changes in its 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, schedule of proportionate share of net pension liability, and schedule of 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
October 5, 2016

A handwritten signature in black ink that reads "SB & Company, LLC". The signature is written in a cursive, flowing style.

MORGAN STATE UNIVERSITY

Management's Discussion and Analysis June 30, 2016 and 2015

OVERVIEW OF THE UNIVERSITY

Morgan State University is Maryland's premier public urban research university, known for its excellence in teaching, intensive research, effective public service and community engagement. Morgan prepares diverse and competitive graduates for success in a global, interdependent society. The University's ten schools and colleges—Liberal Arts, Architecture and Planning, Earl G. Graves School of Business and Management, Community Health and Policy, Computer Mathematical and Natural Sciences, Education and Urban Studies, Engineering, Global Journalism and Communication, Graduate Studies, and Social Work --offers 45 baccalaureate programs, 35 master's programs, 16 doctoral programs and 11 post-baccalaureate certificates. The University provides a world-class education to more than 7,800 undergraduate and graduate students from all 50 states and 55 countries and has a strong global network of 27,000 active alumni. Approximately 25% of all students enrolled at Morgan are from outside the State of Maryland. It is one of the leading institutions nationally in the number of applications received from African-American high school graduates and is ranked first in Fulbright Scholars among all HBCUs. Nationally, the University is ranked 11th for doctoral degrees awarded to African Americans.

Founded in 1867 as the Centenary Biblical Institute by the Baltimore Conference of the Methodist Episcopal Church, the institution's original mission was to train young men in ministry. The school was renamed Morgan College in 1890 in honor of the Reverend Lyttleton Morgan, the first chairman of its Board of Trustees, who donated land to the college. In 1915 the late Andrew Carnegie gave the school a conditional grant of \$50,000 for the central academic building. Morgan remained a private institution until 1939. That year, the state of Maryland purchased the school in response to a state study that determined that Maryland needed to provide more opportunities for its black citizens. In 1975, the State Legislature designated Morgan as a university, gave it the authority to offer doctorates, and provided for it to once again have its own governing board. In 1988, Maryland reorganized its higher education structure and strengthened its coordinating board, the Higher Education Commission. The campuses in the state college system became part of the University System of Maryland. Morgan and St. Mary's College of Maryland were the only public baccalaureate-granting institutions authorized to have their own governing boards. The legislation also strengthened Morgan's authority to offer advanced degree programs and designated the campus as Maryland's Public Urban University.

MORGAN STATE UNIVERSITY

Management's Discussion and Analysis June 30, 2016 and 2015

OVERVIEW OF THE FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS

The following discussion presents an overview of the financial position and financial performance of the University during the fiscal years ended June 30, 2016 and 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.

The 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 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 (GASB) 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 purpose includes, but is 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.

MORGAN STATE UNIVERSITY

Management's Discussion and Analysis June 30, 2016 and 2015

INSTITUTION FINANCIAL HIGHLIGHTS

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. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most institutions. Starting in 2015, these statements included the implementation of GASB No. 68, Accounting and Financial Reporting for Pensions. This accounting standard modified existing financial reporting requirements as well as established new ones for governmental entities-including public colleges and universities- that participate in defined benefit pension plans. GASB 68 dramatically changed the way that public colleges and universities account for their defined benefit plans. The primary consequence is that most institutions are reporting a much larger pension liability on their financial statements than in the past. The net pension liability as of June 30, 2016 was \$67.8 million.

As of June 30, 2016, the University had \$558.0 million in assets plus \$25.1 million in deferred financing outflows that totals \$583.1 million. This compares to the June 30, 2015 and 2014 total assets and deferred outflows of \$503.6 and \$469.6 million, respectively. This increase in total assets was driven by increases in current assets and net capital assets.

At June 30, 2016, the University had \$168.1 million in liabilities plus \$5.5 million in deferred financing inflows that totals \$173.6 million. This compares to the June 30, 2015 and 2014, liabilities and deferred inflow totals of \$142.6 and \$145.6 million, respectively. This change in the liability position is primarily due to the increase in pension liability and offset by reduction in current liabilities.

The University generated \$263.1 million in total revenue for the year ended June 30, 2016. This was an 8.8% and 16.9% increase over the same period in 2015 and 2014, respectively. Total expenses grew to \$214.7 million, an increase of 4.7% and 5.6% compared to the same period in 2015 and 2014, respectively. This operation performance resulted in an increase in net position of \$48.4 million. For June 20, 2016, the University's net position was \$409.5 million.

ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATION

The Statement of Net Position presents the University's assets, deferred outflows, liabilities, deferred inflows and net position as of the end of the fiscal year. The purpose of this statement is to present to the financial statement readers a snapshot of the University's financial position at year-end. From the data presented, readers of the Statement of Net Position are able to determine the assets available to continue the University's operations. It also allows readers to determine how much the University owes vendors and creditors.

MORGAN STATE UNIVERSITY

Management's Discussion and Analysis June 30, 2016 and 2015

ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATION

(continued)

Net position is divided into three major categories. The first category, net investment in capital assets, depicts the University's equity in property, plant, and equipment owned by the University. The next category is restricted, which is divided into two categories in the financial statements, nonexpendable and expendable. Restricted nonexpendable net position consists solely of the University's permanent endowment funds and is only available for investment purposes. Expendable restricted net position is available for expenditure by the institution but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on them. The final category is unrestricted net position which is available to the institution for any lawful purpose of the institution.

STATEMENT OF FINANCIAL POSITION SUMMARY

(in millions)

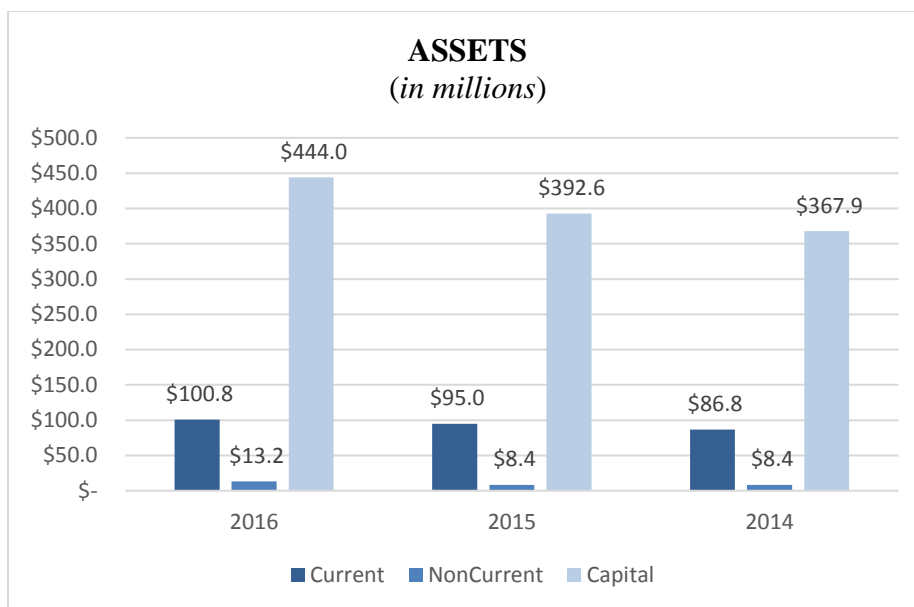
	<u>2016</u>	<u>2015</u>	<u>2014</u>
ASSETS			
Current Assets	\$ 100.8	\$ 95.0	\$ 86.8
Non Current Assets:			
Capital assets, net	444.0	392.6	367.9
Other noncurrent assets	13.2	8.4	8.4
Total noncurrent assets	<u>457.2</u>	<u>401.0</u>	<u>376.3</u>
Total Assets	<u>558.0</u>	496.0	463.1
Deferred financing outflows	25.1	7.6	6.5
Total Assets and Deferred Outflows	<u>\$ 583.1</u>	<u>\$ 503.6</u>	<u>\$ 469.6</u>
LIABILITIES			
Current liabilities	\$ 35.4	\$ 34.7	\$ 33.2
Noncurrent liabilities	132.7	102.4	112.4
Total Liabilities	<u>168.1</u>	137.1	145.6
Deferred financing inflows	<u>5.5</u>	5.5	-
Total Liabilities and deferred Inflows	<u>173.6</u>	<u>142.6</u>	<u>145.6</u>
NET POSITION			
Net Investment in capital assets	386.5	344.3	315.7
Restricted	10.2	10.5	10.2
Unrestricted	12.8	6.2	(1.9)
Total Net Position	<u>409.5</u>	<u>361.0</u>	<u>324.0</u>
Total Liabilities, Deferred Inflows and Net Position	<u>\$ 583.1</u>	<u>\$ 503.6</u>	<u>\$ 469.6</u>

MORGAN STATE UNIVERSITY

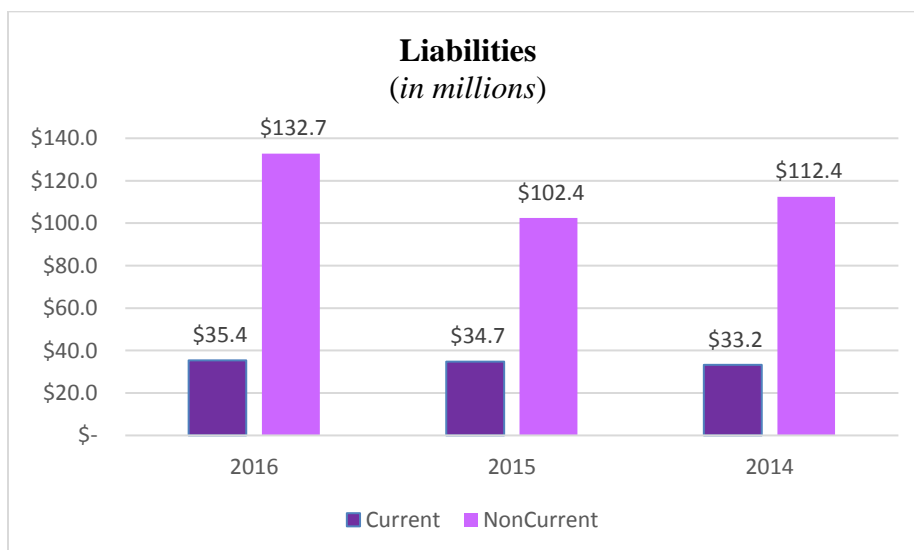
Management's Discussion and Analysis June 30, 2016 and 2015

ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATION (continued)

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 \$100.8 million represented an increase of \$5.8 and \$14.0 million, or 6.1% and 16.1% from 2015 and 2014, respectively, due to an increase in cash and cash equivalents. Noncurrent and capital assets of \$457.2 million increased \$56.2 and \$80.9 million, or 14.0% and 21.5% from 2015 and 2014, respectively, due to the addition of capital assets during the periods.



Noncurrent liabilities of \$132.7 million (2016), \$102.4 million (2015), and \$112.4 million (2014) include the net pension liability and other long term debt.



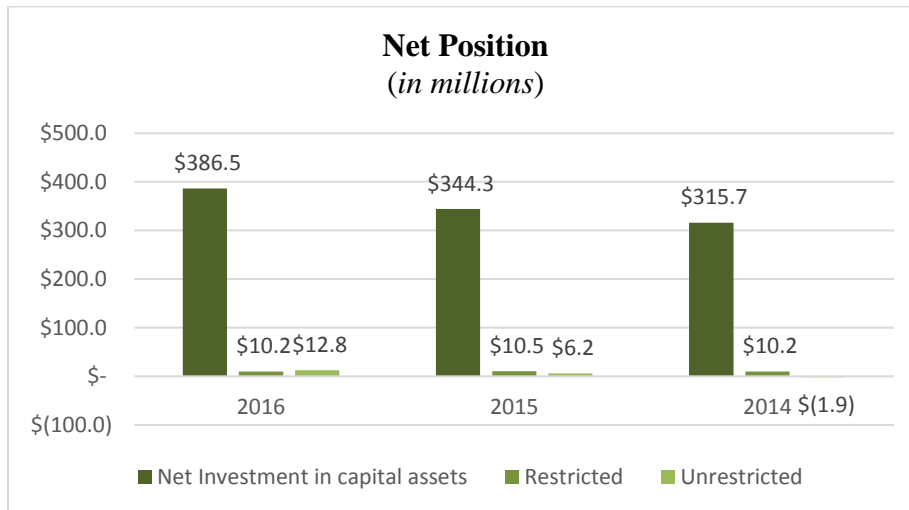
MORGAN STATE UNIVERSITY

Management's Discussion and Analysis June 30, 2016 and 2015

ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATION (continued)

As of June 30, 2016, the University's net position was \$409.5 million, compared to \$361.0 and \$324.0 million for the same period in 2015 and 2014. This represents an increase of \$48.5 million or 13.4% from the 2015's net position of \$361.0. This increase is due, primarily, to the increase in the state appropriations for operating and capital.

Net investment in capital assets represents the University's capital assets ownership less associated debt, 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 position is \$12.8 million representing a \$6.6 million increase from 2015 and a \$14.7 million increase from 2014.



Over the last three years, the University's net position has been favorable, increasing \$85.4 million or 26.4 % to the fiscal year 2016 level of \$409.5 million. 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, 2016 and 2015

SUMMARY OF REVENUES AND OPERATING AND NON-OPERATING EXPENSES

Changes in total net position, as presented on the Statement of Net Position, are based on the activity presented in the Statement of Revenues, Expenses and Changes in Net Position. The purpose of the statement is to present the revenues received by the University, both operating and non-operating, and the expenses paid by the University, operating and non-operating, and any other revenues, expenses, gains and losses received or spent by the University.

Generally, operating revenues are received for providing goods and services to students and other constituencies of the institution. Operating expenses are those expenses incurred to acquire or produce the goods and services provided in return for the operating revenues and to carry out the University's mission. Payments to employees including salaries, fringe benefits, and pension for faculty and staff are the largest type of operating expense totaling \$135.9 million or 64.0% of \$212.4 million.

Non-operating revenues are revenues received for which goods and services are not provided. For example, the University's state appropriations are non-operating because they are provided by the state legislature without the legislature directly receiving commensurate goods and services for those revenues. All of the current year's revenues and expenses are recorded on the accrual basis of accounting.

SUMMARY OF REVENUE

(in millions)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Operating Revenues			
Tuition and fees , net	\$ 42.3	\$ 40.0	\$ 39.1
Other	<u>64.9</u>	<u>60.1</u>	<u>61.0</u>
Total Operating Revenues	<u>107.2</u>	<u>100.1</u>	<u>100.1</u>
Non-Operating Revenues			
State appropriations	86.1	84.2	79.1
Pell grants	15.8	16.7	16.3
Other non-operating revenues	<u>1.2</u>	<u>1.0</u>	<u>1.2</u>
Total Non-Operating Revenues	<u>103.1</u>	<u>101.9</u>	<u>96.6</u>
Other Revenues			
Capital appropriations	52.8	39.9	28.3
Total Revenues	<u>\$ 263.1</u>	<u>\$ 241.9</u>	<u>\$ 225.0</u>

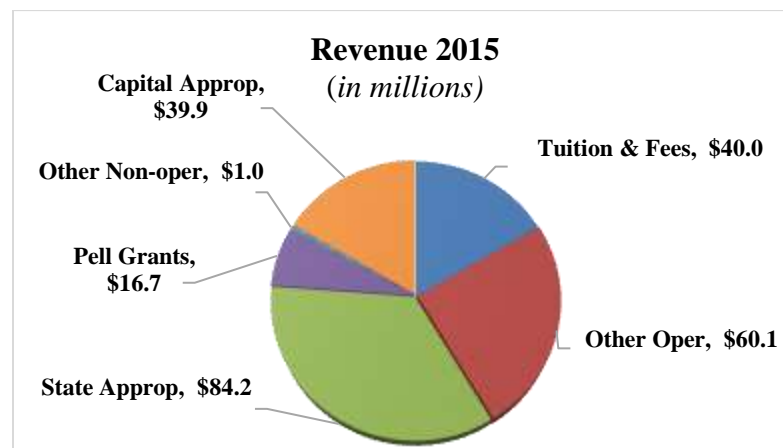
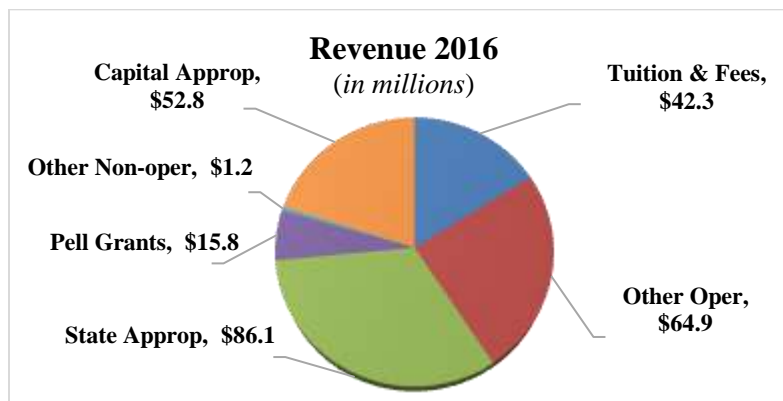
MORGAN STATE UNIVERSITY

Management's Discussion and Analysis June 30, 2016 and 2015

SUMMARY OF REVENUES AND OPERATING AND NON-OPERATING EXPENSES (continued)

University revenues are comprised of three major categories, operating revenue, non-operating and other revenue. For the year ended June 30, 2016, the University's total revenues were \$263.1 million, an increase of \$21.2 million, or 8.8 %. For the year, operating revenues of \$ 107.2 million increased slightly by \$7.1 and \$7.0 million over the same period in 2015 and 2014, respectively.

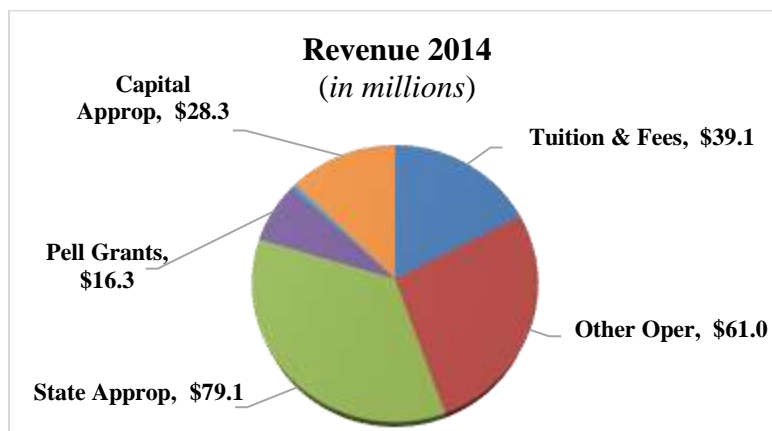
Non-operating revenues of \$103.1 million, increased \$1.2 and \$6.5 million from 2015 and 2014, respectively, due to the higher State appropriation for the period. The State of Maryland continues to provide strong support for the University, affirming the positive return on investment that Morgan State University represents. Other revenues of \$52.8 million consist of capital appropriations from the State of Maryland. The capital appropriations were \$12.9 and \$24.5 million higher in 2016 compared to 2015 and 2014, respectively, primarily due to funds received for the construction of the new School of Business and Management complex, the Hillen Road bridge, and the Behavioral Social Sciences Center. The School of Business opened in the fall of 2015 and the Behavioral Social Sciences Center is scheduled to open in the fall of 2017. 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, 2016 and 2015

SUMMARY OF REVENUES AND OPERATING AND NON-OPERATING EXPENSES (continued)



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

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Operating Expenses			
Instruction	\$ 59.1	\$ 57.0	\$ 54.3
Research	27.4	23.0	25.9
Public service	0.5	0.4	0.4
Academic support	23.6	23.0	21.4
Student services	7.2	6.3	6.6
Institutional support	34.0	33.2	30.9
Operation and maintenance of plant	18.3	18.4	23.6
Scholarships and fellowships	7.2	7.1	7.5
Auxiliary enterprises	35.1	34.4	30.3
Total Operating Expenses	<u>212.4</u>	<u>202.8</u>	<u>200.9</u>
Non-Operating Expenses			
Interest on indebtedness	1.9	2.0	2.3
Other expenses	0.3	0.1	-
Other finance use	-	-	2
Total Non-Operating Expenses	<u>2.2</u>	<u>2.1</u>	<u>4.3</u>
Total Expenses	<u>\$ 214.6</u>	<u>\$ 204.9</u>	<u>\$ 205.2</u>

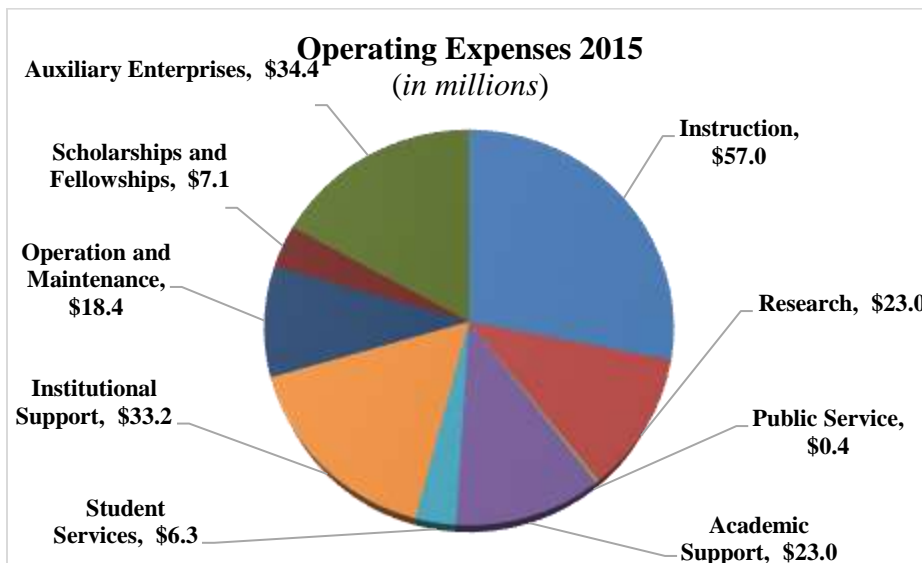
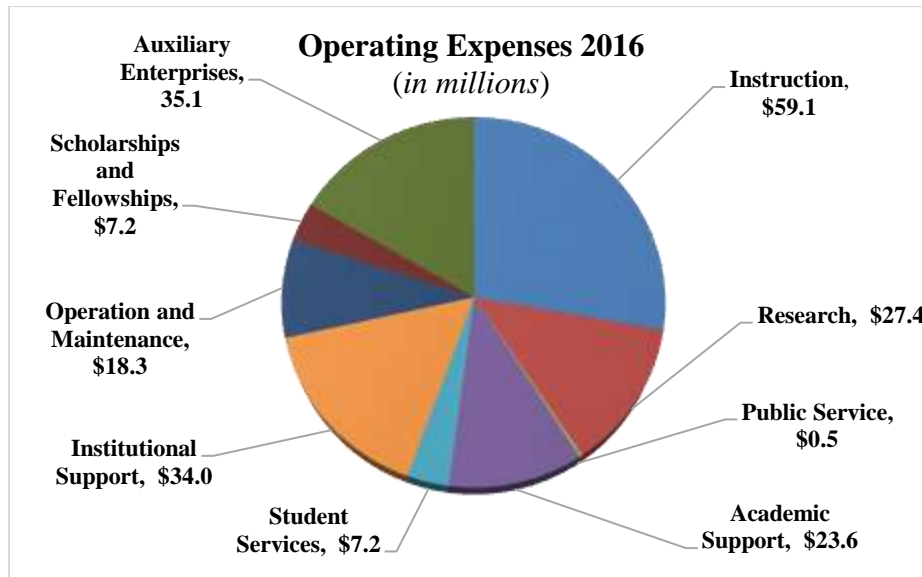
MORGAN STATE UNIVERSITY

Management's Discussion and Analysis June 30, 2016 and 2015

SUMMARY OF REVENUES AND OPERATING AND NON-OPERATING EXPENSES (continued)

Total operating and non-operating expenses for the year ended June 30, 2016 were \$214.7 million, an increase of \$9.7 and \$11.4 million or 4.7% and 5.6% from 2015 and 2014, respectively. Interest expense was lower by \$0.1 and \$0.3 million from 2015 and 2014, respectively, due to the 2012 debt refinancing. Offsetting the lower interest expense was an increase in operating expenses, primarily due to higher pension costs.

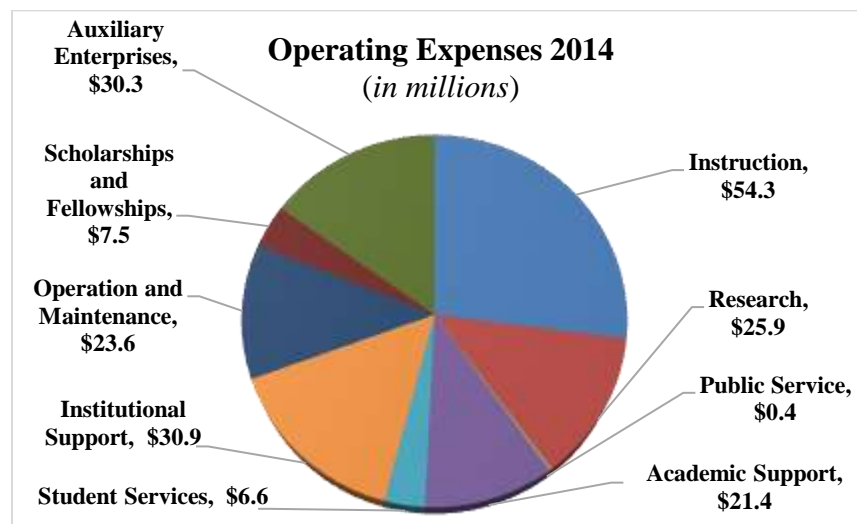
Total operating expenses of \$212.4 million were higher by \$9.6 and \$11.5 million or 4.7% and 5.7% from 2015 and 2014, respectively, due to increases of \$5.4 million for payments to employees including salary, fringe, and pension expenses, \$3.3 million for payments to suppliers and contractors, and \$1.0 million for depreciation expense.



MORGAN STATE UNIVERSITY

Management's Discussion and Analysis June 30, 2016 and 2015

SUMMARY OF REVENUES AND OPERATING AND NON-OPERATING EXPENSES (continued)



SUMMARY OF OPERATING RESULTS

The increase in operating expenses was primarily due to higher pension costs and faculty and salary increases. These increases were offset by the lower proportional increase of expenses for auxiliary enterprise expenses and improved energy management.

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Net Position, Beginning of Year	\$ 361.0	\$ 324.0	\$ 352.6
Total revenues	263.1	241.9	225.0
Total expenses	<u>(214.6)</u>	<u>(204.9)</u>	<u>(205.2)</u>
Increase in net position	48.5	37.0	19.8
Adjustment for Pension Liability	-	-	(48.4)
Net Position, End of Year	<u>\$ 409.5</u>	<u>\$ 361.0</u>	<u>\$ 324.0</u>

MORGAN STATE UNIVERSITY

Management's Discussion and Analysis June 30, 2016 and 2015

STATEMENTS OF CASH FLOWS SUMMARY

The Statement of Cash Flows provides relevant information that aids in the assessment of the University's ability to generate cash to meet present and future obligations and provides detailed information reflecting the University's sources and uses of cash during the fiscal year. The statement is divided into four sections. The first section deals with operating cash flows and reflects the sources and uses to support the essential mission of the University. The second section presents cash flows from non-capital financing activities and reflects non-operating sources and uses of cash primarily to support operations. The third section represents cash flows from capital financing activities and details the activities related to the acquisition and construction of capital assets, including related debt payments. The fourth section deals with cash flows from investing activities and includes interest on investments and sale of investments.

SUMMARY OF CASH FLOWS

(in millions)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Cash (used) provided by:			
Operating activities	\$ (83.3)	\$ (87.0)	\$ (93.0)
Noncapital financing activities	101.4	100.6	93.1
Capital and related financing activities	(4.1)	(7.4)	(0.4)
Investing activities	<u>(3.9)</u>	<u>0.9</u>	<u>0.30</u>
Net Increase in			
Cash and Cash Equivalents	10.1	7.1	-
Cash and cash equivalent, beginning of year	<u>76.4</u>	<u>69.3</u>	<u>69.3</u>
Cash and Cash Equivalent, End of Year	<u>\$ 86.5</u>	<u>\$ 76.4</u>	<u>\$ 69.3</u>

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 \$86.1, \$84.2, and \$79.1 million in 2016, 2015 and 2014, respectively.

MORGAN STATE UNIVERSITY

Management's Discussion and Analysis June 30, 2016 and 2015

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 \$117 million were completed or recently started. These capital investments include the following projects:

- 1) Completed the construction of the new School of Business Complex
- 2) Completed the construction of the new Hillen Road South bridge
- 3) Started construction of a new Behavioral Social Sciences Center
- 4) Paid the residual vendor payments on the recently completed facilities
- 5) Continued 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, 2016, the University had \$62.5 million in outstanding long term debt versus \$48.2 and \$52.0 million, an increase of 29.7% and 20.0% in 2015 and 2014, respectively. The table below summarizes these amounts by type of debt instrument.

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Revenue bonds	\$ 43.2	\$ 47.1	\$ 50.8
Lease obligations	19.3	1.1	1.2
Total	<u>\$ 62.5</u>	<u>\$ 48.2</u>	<u>\$ 52.0</u>

MORGAN STATE UNIVERSITY

Management's Discussion and Analysis June 30, 2016 and 2015

SUMMARY

The University's overall financial position continues to strengthen, despite a national trend of declining high school graduates. The strengths that serve as a strong foundation in maintaining this growth are a diverse and capable faculty, Carnegie classification as a doctoral research university, specialized accreditation of academic programs, collaborations with federal agencies and with private corporations, production of STEM graduates, and a comprehensive array of doctoral programs. The University's goals for the future are enhancing student success, enhancing the doctoral programs, improving infrastructure and operational processes, growing resources, and engaging with the community and is guided by its strategic plan, "Growing the future, leading the world, 2011-2021". The University is continuing its commitment to building strong academic programs. As part of the plan, the University will enhance its status as a Doctoral Research University through its success in securing grants and contracts and its faculty's achievements in basic and applied research, professional expression, artistic creation, and creative inquiry. Additionally, initiatives will be designed to enhance doctoral achievements in the science, technology, engineering, and mathematics (STEM) and non-STEM disciplines for underrepresented minority students. Going forward, Morgan State University will continue to manage its resources and position itself to continue its pursuit of excellence in teaching, research, scholarship, and creative endeavors with integrity, respect, diversity, innovation and leadership.

MORGAN STATE UNIVERSITY

Statements of Net Position June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 86,518,660	\$ 76,459,652
Accounts receivable (net of allowance for doubtful accounts of \$1,857,467 and \$1,967,042, respectively)	12,974,438	17,284,278
Notes receivable	160,601	181,932
Inventories	768,187	573,939
Prepaid expenses	349,419	524,615
Total Current Assets	100,771,305	95,024,416
Non-Current Assets		
Endowment investments	2,419,971	2,342,635
Restricted investments	9,712,790	4,701,379
Notes receivable (net of allowance for doubtful notes of \$658,662 and \$384,728, respectively)	1,088,570	1,350,198
Capital assets, net	444,035,371	392,571,321
Total Non-Current Assets	457,256,702	400,965,533
Total Assets	558,028,007	495,989,949
Deferred financing outflows	25,081,883	7,597,725
Total Assets and Deferred Outflows	\$ 583,109,890	\$ 503,587,674

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

MORGAN STATE UNIVERSITY

**Statements of Net Position (continued)
As of June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 17,762,215	\$ 20,519,087
Accrued workers' compensation, current portion	529,800	557,225
Accrued vacation costs, current portion	4,216,953	3,848,658
Revenue bonds payable, current portion	3,775,000	3,600,000
Obligations under capital lease agreements, current portion	1,958,244	210,845
Unearned revenue	5,219,149	4,649,580
Funds held by other organizations	1,954,262	1,303,894
Total Current Liabilities	<u>35,415,623</u>	<u>34,689,289</u>
Non-Current Liabilities		
Accrued workers' compensation, net of current portion	3,002,200	3,037,775
Accrued vacation costs, net of current portion	5,185,249	5,113,382
Net pension liability	67,805,629	49,822,391
Revenue bonds payable, net of current portion	39,444,376	43,508,405
Obligations under capital lease agreements, net of current portion	17,296,176	928,909
Total Non-Current Liabilities	<u>132,733,630</u>	<u>102,410,862</u>
Total Liabilities	<u>168,149,253</u>	<u>137,100,151</u>
Deferred financing inflows	5,478,641	5,453,386
Total Liabilities and deferred Inflows	<u>173,627,894</u>	<u>142,553,537</u>
NET POSITION		
Net investment in capital assets	386,485,302	344,323,162
Restricted:		
Expendable:		
Scholarships and fellowships	3,927,267	3,719,359
Loans	1,472,490	2,040,936
Debt service	4,789,062	4,701,379
Total expendable net position	<u>10,188,819</u>	<u>10,461,674</u>
Unrestricted net position	<u>12,807,875</u>	<u>6,249,301</u>
Total Net Position	<u>409,481,996</u>	<u>361,034,137</u>
Total Liabilities, Deferred Inflows and Net Position	<u>\$ 583,109,890</u>	<u>\$ 503,587,674</u>

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, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
Operating Revenues		
Tuition and fees	\$ 60,245,451	\$ 57,474,323
Less: Scholarship allowances	<u>(17,941,612)</u>	<u>(17,484,633)</u>
	42,303,839	39,989,690
Federal grants and contracts	28,403,315	24,583,560
State and local grants and contracts	2,935,310	2,718,543
Private gifts, grants and contracts	1,911,882	812,198
Sales and services educational	872,372	1,601,912
Residential facilities	20,206,631	19,905,271
Less: Scholarship allowances	<u>(5,897,452)</u>	<u>(6,026,091)</u>
	14,309,179	13,879,180
Parking facilities	942,953	929,992
Less: Scholarship allowances	<u>(195,759)</u>	<u>(188,992)</u>
	747,194	741,000
Intercollegiate athletics	9,417,415	9,283,330
Less: Scholarship allowances	<u>(2,401,500)</u>	<u>(2,463,068)</u>
	7,015,915	6,820,262
Bookstore	2,386,960	2,467,511
Less: Scholarship allowances	<u>(158,786)</u>	<u>(185,245)</u>
	2,228,174	2,282,266
Student center	3,494,847	3,299,006
Less: Scholarship allowances	<u>(939,472)</u>	<u>(938,914)</u>
	2,555,375	2,360,092
Other revenues	3,926,508	4,337,669
Total Operating Revenues	<u>\$ 107,209,063</u>	<u>\$ 100,126,372</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, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
Operating Expenses		
Instruction	\$ 59,077,149	\$ 56,958,064
Research	27,452,250	23,048,623
Public service	511,751	415,177
Academic support	23,595,714	22,994,650
Student services	7,168,497	6,321,824
Institutional support	33,976,915	33,196,240
Operation and maintenance of plant	18,359,251	18,390,018
Scholarships and fellowships	7,200,906	7,105,731
Auxiliary enterprises	35,107,085	34,415,979
Total Operating Expenses	<u>212,449,518</u>	<u>202,846,306</u>
Operating Loss	(105,240,455)	(102,719,934)
Non-operating Revenue (Expenses)		
State appropriations	86,134,601	84,207,261
Pell grants	15,832,934	16,696,563
Investment income	1,164,211	958,621
Interest on indebtedness	(1,936,758)	(2,019,585)
Other non-operating expenses	(1,124)	(605)
Total Non-Operating Revenues, Net	<u>101,193,864</u>	<u>99,842,255</u>
Loss Before Other Revenues, Expenses, Gains and Losses	(4,046,591)	(2,877,679)
Other Revenues, Expenses, Gains and Losses		
Capital appropriations	52,780,527	39,864,456
Other losses	(286,077)	(50,428)
Total Other Revenues, Expenses, Gains and Losses	<u>52,494,450</u>	<u>39,814,028</u>
Increase in Net Position	48,447,859	36,936,349
Net position, beginning of year	361,034,137	324,097,788
Net Position, End of Year	<u>\$ 409,481,996</u>	<u>\$ 361,034,137</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, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash Flows from Operating Activities		
Tuition and fees	\$ 41,790,741	\$ 40,661,880
Contracts and grants	35,294,014	25,087,374
Payments to employees	(137,485,117)	(129,011,206)
Payments to suppliers and contractors	(58,650,570)	(56,880,560)
Loans issued to students	(71,812)	(165,362)
Collections of loans from students	355,459	192,376
Auxiliary enterprises charges:		
Residence halls and dining facilities	14,309,179	13,879,180
Bookstores	2,228,174	2,282,266
Other	10,318,485	13,382,879
Other receipts	8,567,221	3,613,241
Net Cash Used by Operating Activities	<u>(83,344,226)</u>	<u>(86,957,932)</u>
Cash Flows from Non-Capital Financing Activities		
State appropriations	86,134,601	84,207,261
Pell Grants	15,832,934	16,696,563
Other non-operating losses	(575,105)	(308,968)
Net Cash Provided by Non-Capital Financing Activities	<u>101,392,430</u>	<u>100,594,856</u>
Cash Flows from Capital and Related Financing Activities		
Proceeds from capital debt	19,208,362	124,614
Capital appropriations	52,780,527	39,864,456
Purchases of capital assets	(69,421,972)	(41,679,699)
Payments on debt and capital leases	(4,693,696)	(3,665,297)
Interest paid on debt and capital leases	(1,936,758)	(2,019,585)
Net Cash Used by Capital and Related Financing Activities	<u>(4,063,537)</u>	<u>(7,375,511)</u>
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	4,701,379	4,624,330
Interest on investments	1,086,876	958,621
Investment expense	(1,124)	(605)
Purchases of investments	(9,712,790)	(4,701,380)
Net Cash Provided by Investing Activities	<u>(3,925,659)</u>	<u>880,966</u>
Net increase in cash and cash equivalents	10,059,008	7,142,379
Cash and cash equivalents, beginning of year	76,459,652	69,317,273
Cash and Cash Equivalents, End of Year	<u>\$ 86,518,660</u>	<u>\$ 76,459,652</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, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Reconciliation of Operating Loss to Net Cash Used by Operating Activities		
Operating Loss	\$ (105,240,455)	\$ (102,719,934)
Adjustments to Reconcile Operating Loss to Net Cash from Operating Activities		
Depreciation expense	17,957,922	17,046,139
Effect of Changes in Non-Cash Operating Assets and Liabilities		
Accounts receivable, net	3,855,258	(1,117,800)
Notes receivable, net	282,959	58,677
Inventories	(194,248)	4,010
Prepaid Expenses	175,196	45,196
Funds held for other organizations	650,368	892,393
Accounts payable and accrued liabilities	(2,906,873)	(459,520)
Unearned revenue	1,174,151	(722,975)
Pension costs, net	524,335	(709,089)
Accrued workers' compensation	(63,000)	394,000
Accrued vacation	440,161	330,971
Net Cash from Operating Activities	<u>\$ (83,344,226)</u>	<u>\$ (86,957,932)</u>

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

MORGAN STATE UNIVERSITY FOUNDATION, INC

Statements of Financial Position As of Years June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and cash equivalents	\$ 4,421,849	\$ 4,315,531
Investments	27,029,413	25,707,354
Pledges receivable, net allowance of \$23,810 and \$26,488, respectively and discount of \$207,796 and \$205,326, respectively	1,633,547	1,591,944
Other assets and deposits	253,756	454,806
Total Assets	\$ 33,338,565	\$ 32,069,635
LIABILITIES AND NET ASSETS		
Accounts payable and accruals	\$ 613,624	\$ 712,671
Net Assets		
Unrestricted	219,414	294,821
Temporarily restricted	9,106,340	9,577,427
Permanently restricted	23,399,187	21,484,716
Total Net Assets	32,724,941	31,356,964
Total Liabilities and Net Assets	\$ 33,338,565	\$ 32,069,635

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

MORGAN STATE UNIVERSITY FOUNDATION, INC

**Statement of Activities and Changes in Net Position
For the Year Ended June 30, 2016, with comparative 2015 totals**

	2016			Total	2015 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Revenues and Support					
Contributions and fund raising	\$ 789,593	\$ 3,669,137	\$ 1,914,471	\$ 6,373,201	\$ 6,085,250
Interest and dividend income	-	116,030	-	116,030	169,620
Unrealized loss	-	(66,086)	-	(66,086)	(1,310,864)
Realized gain	-	231,245	-	231,245	1,907,510
Total Revenues and Support	789,593	3,950,326	1,914,471	6,654,390	6,851,516
Net assets released from restrictions:					
Satisfaction of program restrictions	4,421,413	(4,421,413)	-	-	-
Total Revenues, Support and Net Assets Released from Restrictions	5,211,006	(471,087)	1,914,471	6,654,390	6,851,516
Expenses					
Grants and scholarships	1,567,946	-	-	1,567,946	1,357,023
Program support expenses	2,895,567	-	-	2,895,567	2,357,495
University support	35,223	-	-	35,223	24,336
General and administrative	669,740	-	-	669,740	501,210
Fundraising	117,937	-	-	117,937	124,775
Total Expenses	5,286,413	-	-	5,286,413	4,364,839
Non-Operating					
(Decrease) increase in net assets	(75,407)	(471,087)	1,914,471	1,367,977	2,486,677
Net Assets, beginning of year	294,821	9,577,427	21,484,716	31,356,964	28,870,287
Net Assets, End of Year	\$ 219,414	\$ 9,106,340	\$ 23,399,187	\$ 32,724,941	\$ 31,356,964

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

MORGAN STATE UNIVERSITY FOUNDATION, INC

**Statement of Activities and Changes in Net Position
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	-	(1,310,864)	-	(1,310,864)
Realized gain	-	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>	<u>-</u>	<u>-</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
Fundraising	124,775	-	-	124,775
Total Expenses	<u>4,364,839</u>	<u>-</u>	<u>-</u>	<u>4,364,839</u>
Non-Operating				
Increase in net assets	126,623	1,115,741	1,244,313	2,486,677
Net Assets, beginning of year	168,198	8,461,686	20,240,403	28,870,287
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, 2016 and 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, 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, 2016 and 2015, the Foundation distributed \$35,223 and \$24,336, respectively, 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, 2016 and 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 position.
- (5) Accounts Receivable Accounts receivable consists of tuition and fees 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, 2016 and 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 years ended June 30, 2016 and 2015, the discount rate was 1.8% percent and 2.2%, respectively, and the amount amortized was \$23,810 and \$26,488, 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>2016</u>	<u>2015</u>
Promises to give before unamortized discount and allowance for uncollectibles	\$ 1,865,152	\$ 1,823,758
Less: Unamortized discount	<u>(23,810)</u>	<u>(26,488)</u>
	1,841,342	1,797,270
Less: Allowance for uncollectibles	<u>(207,795)</u>	<u>(205,326)</u>
Net promises to give	<u><u>\$ 1,633,547</u></u>	<u><u>\$ 1,591,944</u></u>

The Foundation wrote off \$175,980 and \$71,654 in uncollectible pledges during the years ended June 30, 2016 and 2015, respectively.

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

	<u>2016</u>	<u>2015</u>
Amounts due in:		
One year	\$ 1,140,456	\$ 950,998
Two years	370,948	408,858
Three years	280,760	273,698
Four years	63,048	181,332
Five years	9,940	8,872
Total	<u><u>\$ 1,865,152</u></u>	<u><u>\$ 1,823,758</u></u>

MORGAN STATE UNIVERSITY

Notes to the Financial Statements June 30, 2016 and 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 to 7 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, including tuition and fees received from students prior to the start of classes. 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 position, and as a component of expenses in the statement of revenues, expenses, and changes in net position.

MORGAN STATE UNIVERSITY

Notes to the Financial Statements June 30, 2016 and 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 expenses, 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, 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.

- (8) Net Position - The University’s net position is 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 net investment in capital assets.

(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, 2016 and 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting (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) funds derived from Federal grants and contracts, (3) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, and (4) 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.

MORGAN STATE UNIVERSITY

Notes to the Financial Statements June 30, 2016 and 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting (continued)

- (12) Scholarship Discounts and Allowances: Student tuition and fees 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.

E. New Accounting Pronouncements

As of the year ended June 30, 2016, GASB issued GASB No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, GASB No. 80, *Blending Requirements for Certain Component Units – and amendment of GASB Statement No. 14*, and GASB No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*. 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. Adoption of New Accounting Standards

During the fiscal year ended June 30, 2016, the University adopted GASB No. 72, *Fair Value Measurement and Application* which addresses accounting and financial reporting issues related to fair value measurements. See footnote 2.C for more information. The University also adopted GASB No. 73, *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 67 and 68*, GASB No. 76, *the Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, and GASB No. 79, *Certain External Investment Pools and Pool Participants*. There are no significant changes to the financial from the adoption of above GASB statements.

MORGAN STATE UNIVERSITY

Notes to the Financial Statements June 30, 2016 and 2015

2. DEPOSITS AND INVESTMENTS

A. Deposits in State of Maryland Cash Pool

As of June 30, 2016 and 2015, the University had cash on deposit in an internal pooled cash account with the Maryland State Treasurer (Treasurer) in the amount of \$86,374,398 and \$76,369,044, 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 \$144,262 and \$90,608, as compared to bank balances of \$113,755 and \$107,280, as of June 30, 2016 and 2015, respectively.

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, 2016 and 2015, all investments of the Endowment pool consist of common stocks with a market value of \$2,419,971 and \$2,342,636, respectively. These funds are held by a third-party custodial financial institution designated by the State.
- (3) The University has restricted investments of \$9,712,790 and \$4,701,379, respectively, as of June 30, 2016 and 2015. The June 30, 2015 restricted investments were invested by and accounted for by the Bond Trustee, the Bank of New York Mellon. The restricted investments as of June 30, 2016 were invested and accounted for by the Bank of New York Mellon and trustee BOK Financial. As required by GASB Statement No. 40, *Deposits and Investment Risk Disclosures* we have classified the investments as follows:

	2016		2015	
	Market Value	Rating	Market Value	Rating
Federated Auto Gov't Money Tranche #44	\$ -		\$ 2,644,792	AAA
Fidelity Treasury M Mkt #695 Class 1	-		2,056,587	AAA
Federated Treas Oblig Fd 115	<u>4,789,063</u>	AAA	-	
Total Investments held by Bank of NY Mellon	4,789,063		4,701,379	
Cavanal Hill Govt Sec Mmkt-Admin 001	<u>4,923,727</u>	AAA	-	
Total Investments	<u><u>\$ 9,712,790</u></u>		<u><u>\$ 4,701,379</u></u>	

MORGAN STATE UNIVERSITY

**Notes to the Financial Statements
June 30, 2016 and 2015**

2. DEPOSITS AND INVESTMENTS (continued)

C. Investments and Investment Income

Investments are recorded at fair value as of June 30, 2016 and 2015, and consisted of the following:

	<u>2016</u>	<u>2015</u>
Quasi Endowment Funds		
Stocks	\$ 1,575,563	\$ 1,543,890
Unrestricted		
Stocks	<u>844,408</u>	<u>798,745</u>
Total Market Value	<u>2,419,971</u>	<u>2,342,635</u>
Prior Year Market Value	<u>2,342,635</u>	<u>2,379,216</u>
Total Unrealized Gain/(Loss)	<u>\$ 77,336</u>	<u>\$ (36,581)</u>

The University categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The University has the following recurring fair value measurements as of June 30, 2016 and 2015:

	<u>June 30, 2016</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Investments by fair value level				
Money market fund	\$ 9,712,790	\$ 9,712,790	\$ -	\$ -
Equity securities				
Financial	235,139	235,139	-	-
Industrials	229,252	229,252	-	-
Telecommunication services	142,367	142,367	-	-
Consumer staples	1,117,496	1,117,496	-	-
Energy	563,883	563,883	-	-
Other	131,834	131,834	-	-
Total Equity Securities	<u>\$ 12,132,761</u>	<u>\$ 12,132,761</u>	<u>\$ -</u>	<u>\$ -</u>

	<u>June 30, 2015</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Investments by fair value level				
Money market fund	\$ 4,701,379	\$ 4,701,379	\$ -	\$ -
Equity securities				
Financial	267,097	267,097	-	-
Industrials	254,841	254,841	-	-
Telecommunication services	108,042	108,042	-	-
Consumer staples	1,044,779	1,044,779	-	-
Energy	543,741	543,741	-	-
Other	124,135	124,135	-	-
Total Equity Securities	<u>\$ 7,044,014</u>	<u>\$ 7,044,014</u>	<u>\$ -</u>	<u>\$ -</u>

Money market and equity securities are classified in Level 1 of the fair value hierarchy and are valued using prices quoted in active markets for those investments.

MORGAN STATE UNIVERSITY

**Notes to the Financial Statements
June 30, 2016 and 2015**

2. DEPOSITS AND INVESTMENTS (continued)

C. Investments and Investment Income (continued)

The Foundation categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Foundation has the following recurring fair value measurements as of June 30, 2016 and 2015:

	<u>June 30, 2016</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Investments by fair value level				
Money market fund	\$ 1,279,351	\$ 1,279,351	\$ -	\$ -
Mutual funds	3,004,641	3,004,641	-	-
Certificate of deposits	1,065,799	1,065,799	-	-
Common stocks	1,864	1,864	-	-
US Treasury obligations	1,783,674	1,783,674	-	-
US Government securities	118,480	118,480	-	-
Corporate & foreign bonds	1,852,483	-	1,852,483	-
Equity funds	17,923,121	-	17,923,121	-
Total Equity Securities	<u>\$ 27,029,413</u>	<u>\$ 7,253,809</u>	<u>\$ 19,775,604</u>	<u>\$ -</u>

	<u>June 30, 2015</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Investments by fair value level				
Money market fund	\$ 661,600	\$ 661,600	\$ -	\$ -
Mutual funds	3,207,133	3,207,133	-	-
Certificate of deposits	411,676	411,676	-	-
Common stocks	2,259	2,259	-	-
US Treasury obligations	1,604,539	1,604,539	-	-
US Government securities	152,647	152,647	-	-
Corporate & foreign bonds	1,777,749	-	1,777,749	-
Equity funds	17,889,751	-	17,889,751	-
Total Equity Securities	<u>\$ 25,707,354</u>	<u>\$ 6,039,854</u>	<u>\$ 19,667,500</u>	<u>\$ -</u>

Money market, certificates of deposits, common stocks, and U.S. Government obligations and securities are classified in Level 1 of the fair value hierarchy and are valued using prices quoted in active markets for those investments.

Mutual and Equity funds are valued at the last quoted sales price, except securities traded on the Nasdaq Stock Market, Inc. (NASDAQ), which are value in accordance with the NASDAQ official closing price. Over the counter securities are valued at the mean between the latest bid and asked prices as furnished by dealers who make markets in such securities. Mutual funds are classified in Level 1 while equity funds are valued in Level 2.

Corporate and foreign bonds are valued based upon quotes for similar securities; therefore, these investments are classified in Level 2.

MORGAN STATE UNIVERSITY

Notes to the Financial Statements June 30, 2016 and 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 investment in repurchase agreements 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 Risks-Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the University's deposits may not be returned. 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 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 follows 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, 2016, 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, 2016 and 2015**

3. ACCOUNTS RECEIVABLE, ACCOUNTS PAYABLE, AND ACCRUED LIABILITIES

Accounts receivable, accounts payable, and accrued liabilities consisted of the following as of June 30, 2016 and 2015:

	Accounts Receivable	Accounts Payable and Accrued Liabilities
Student	\$ 7,173,471	\$ 750,005
Federal grants	5,295,862	-
Other grants (primarily state grants)	962,289	-
Vendor	-	8,198,279
Employee	-	84,585,972
Other	1,400,283	1,435,790
Total	14,831,905	94,970,046
Less allowance for doubtful accounts	(1,857,467)	-
Total	\$ 12,974,438	\$ 94,970,046

	Accounts Receivable	Accounts Payable and Accrued Liabilities
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	19,251,320	77,868,125
Less allowance for doubtful accounts	(1,967,042)	-
Total	\$ 17,284,278	\$ 77,868,125

MORGAN STATE UNIVERSITY

**Notes to the Financial Statements
June 30, 2016 and 2015**

4. CAPITAL ASSETS

The following were the changes in capital assets for the year ended June 30, 2016:

	June 30, 2015	Additions/ Transfers	Reductions	June 30, 2016
Capital Assets not Being Depreciated				
Land	\$ 10,551,343	\$ -	\$ -	\$ 10,551,343
Construction in-progress	73,371,185	66,962,885	(81,167,817)	59,166,253
Total Capital Assets not Being Depreciated	83,922,528	66,962,885	(81,167,817)	69,717,596
Other capital assets:				
Infrastructure networks	41,496,552	8,449,556	-	49,946,108
Land improvements	17,602,461	4,197,978	-	21,800,439
Buildings	449,474,276	68,480,476	(325,931)	517,628,821
Furniture, fixtures and equipment	47,154,087	2,219,330	(39,656)	49,333,761
Library materials	2,312,954	279,564	-	2,592,518
Total Other Capital Assets	558,040,330	83,626,904	(365,587)	641,301,647
Less accumulated depreciation for:				
Infrastructure networks	(10,731,109)	(1,466,063)	-	(12,197,172)
Land improvements	(11,354,458)	(1,003,038)	-	(12,357,496)
Buildings	(183,411,889)	(13,054,152)	325,931	(196,140,110)
Furniture, fixtures and equipment	(42,522,538)	(2,387,944)	39,656	(44,870,826)
Library materials	(1,371,543)	(46,725)	-	(1,418,268)
Total Accumulated Depreciation	(249,391,537)	(17,957,922)	365,587	(266,983,872)
Other capital assets, net	308,648,793	65,668,982	-	374,317,775
Capital Asset Summary				
Capital asset not being depreciated	83,922,528	66,962,885	(81,167,817)	69,717,596
Other capital assets, at cost	558,040,330	83,626,904	(365,587)	641,301,647
Total cost of capital assets	641,962,858	150,589,789	(81,533,404)	711,019,243
Less accumulated depreciation	(249,391,537)	(17,957,922)	365,587	(266,983,872)
Capital Assets, Net	\$ 392,571,321	\$ 132,631,867	\$ (81,167,817)	\$ 444,035,371

MORGAN STATE UNIVERSITY

**Notes to the Financial Statements
June 30, 2016 and 2015**

4. CAPITAL ASSETS (continued)

The following were the changes in capital assets for the 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 asset 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, 2016 and 2015**

5. LONG-TERM LIABILITIES

Long-term liability activity for the years ended June 30, 2016 and 2015, were as follows:

	June 30, 2015	Additions	Reductions	June 30, 2016	Amounts Due Within one year
Bonds and Capital Lease Obligations:					
Revenue bonds payable	\$ 42,530,000	\$ -	\$ (3,600,000)	\$ 38,930,000	\$ 3,775,000
Unamortized bond premium	4,578,405	-	(289,029)	4,289,376	-
Total Revenue Bonds Payable	47,108,405	-	(3,889,029)	43,219,376	3,775,000
Lease Purchase Agreement:					
Network upgrade-New Generation Information Technology	-	18,703,145	(926,413)	17,776,732	1,646,995
Capital lease obligations	1,139,754	505,217	(167,283)	1,477,688	311,249
Total Lease Purchase Agreements	1,139,754	19,208,362	(1,093,696)	19,254,420	1,958,244
Accrued workers' compensation	3,595,000	772,037	(835,037)	3,532,000	529,800
Accrued vacation	8,962,040	4,560,730	(4,120,568)	9,402,202	4,216,953
Net Pension Liability	49,822,391	17,983,238	-	67,805,629	-
Total Long-Term Liabilities	\$ 110,627,590	\$ 42,524,367	\$ (9,938,330)	\$ 143,213,627	\$ 10,479,997

	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
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
Net Pension Liability	54,929,425	-	(5,107,034)	49,822,391	-
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 Lease Purchase Agreement and Capital Lease Obligations is included at Note 7.

MORGAN STATE UNIVERSITY

Notes to the Financial Statements June 30, 2016 and 2015

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, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
1993 Revenue Bonds:		
Current interest tem 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 tem 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	92,052	150,557
Total 1993 Bonds Payable	<u>13,167,052</u>	<u>15,405,557</u>
2012 Revenue Bonds		
Current interest tem bonds, maturing July 1, 2032, bearing interest of 2.08%-5.0% which is paid semiannually on January 1 and July 1	25,855,000	27,275,000
Unamortized bond premium	4,197,324	4,427,848
Total 2012 Bond Payable	<u>30,052,324</u>	<u>31,702,848</u>
Total Revenue Bonds Payable	<u>\$ 43,219,376</u>	<u>\$ 47,108,405</u>

MORGAN STATE UNIVERSITY

**Notes to the Financial Statements
June 30, 2016 and 2015**

6. REVENUE BONDS PAYABLE (continued)

B. Principal and Interest Maturities

- (4) 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:

Fiscal Year	Total		
Ending	Principal	Interest	Payments
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	4,640,000	1,028,365	5,668,365
2022-2026	6,895,000	3,559,875	10,454,875
2027-2031	7,485,000	1,858,375	9,343,375
2032-2033	3,545,000	179,375	3,724,375
Total	\$ 38,930,000	\$ 13,062,304	\$ 51,992,304

- (5) 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, 2016.
- (6) The University is subject to Federal arbitrage laws governing the use of these proceeds of tax-exempt debt.
- (7) As of June 30, 2016 and 2015, the trustee held restricted investments in mutual funds in the amount of \$4,789,063, and \$4,701,379, respectively. The funds in the restricted investments will be used to cover the \$4,789,063 revenue bonds debt service payments due July 1, 2016. The July 1, 2016 debt service payment will pay \$2,075,275 for the 2012 Revenue Bond Debt service and \$2,713,788 for the 1993 Revenue Bond Debt Service.

MORGAN STATE UNIVERSITY

Notes to the Financial Statements June 30, 2016 and 2015

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, 2016.
- (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.

B. Leases (Financed through the State of Maryland)

- (1) The University maintains capital leases primarily for equipment. As of June 30, 2016 and 2015, the net gross value of the underlying assets relating to the capital lease liability is \$1,481,985 and \$1,441,216, respectively.

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>
2017	\$ 355,696
2018	355,331
2019	354,958
2020	354,578
2021	177,144
Total future minimum payments	1,597,707
Less: Interest	(115,722)
Administrative fees	(4,297)
Net Minimum Lease Payments	\$ 1,477,688

MORGAN STATE UNIVERSITY

Notes to the Financial Statements June 30, 2016 and 2015

7. COMMITMENTS AND CONTINGENCIES (continued)

B. Leases (Financed through the State of Maryland) (continued)

- (3) Amortization expense for the assets held under capital lease was \$122,778 and \$5,510, for the years ended June 30, 2016 and 2015, respectively.
- (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>
2017	2,394,054
2018	589,973
2019	427,407
2020	142,469
	<u>\$ 3,553,903</u>

- (5) Lease expenses for the years ended June 30, 2016 and 2015, were \$2,520,505 and \$2,492,915, respectively.

C. Leases (Financed through Third Parties)

Lease-Purchase Agreement

Morgan State University (the “Lessee”) entered into a Lease-Purchase Agreement, dated January 22, 2016, by and between Grant Capital Management, Inc. (the “Lessor”). The Agreement states that the Lessor will deposit with Escrow Agent-BOK FINANCIAL cash in the amount of \$18,703,145. The “Escrow Fund” is to be applied from time to time to (i) pay the Vendor(s) or Manufacturer(s) of the Equipment its invoice cost and (ii) reimburse the Lessee (a portion of which may if required, be paid prior to final acceptance of the Equipment by Lessee). The Equipment Lease Purchase Agreement Contract provides Next Generation Network Upgrade, data network equipment and integrated network admissions management solution to satisfy and replaces the existing University data network infrastructure. The Lease Agreement includes hardware, software, maintenance, and service for a complete turnkey solution. The term of the agreement is for ten years. The lease agreement requires the University to make twenty semi-annual payments to Capital One Public Funding, LLC, as assigned by Grant Capital Management. The Principal amount is \$18,703,145; the lease financing interest amount is \$2,899,135 and the total principal with interest is \$21,602,281. The total annual principal and interest payment by the University is \$2,159,350. As of June 30, 2016, deposited escrow balance with the Escrow Agent- BOK FINANCIAL is \$4,923,728, which represents the unspent lease proceeds for infrastructure and is included in restricted investments in the statement of net position.

MORGAN STATE UNIVERSITY

Notes to the Financial Statements June 30, 2016 and 2015

7. COMMITMENTS AND CONTINGENCIES (continued)

C. Leases (Financed through Third Parties) (continued)

Lease-Purchase Agreement (continued)

Future minimum Lease Payments under Lease Purchase Agreement for the years ending June 30 are as follows:

Fiscal Year Ending	Principal	Interest	Total Payments
2017	\$ 1,646,995	\$ 512,356	\$ 2,159,351
2018	1,695,939	463,412	2,159,351
2019	1,746,338	413,013	2,159,351
2020	1,798,235	361,116	2,159,351
2021	1,851,675	307,676	2,159,351
2022-2026	9,037,550	679,528	9,717,078
Total	\$ 17,776,732	\$ 2,737,101	\$ 20,513,833

D. Construction Commitments

As of June 30, 2016, the University had commitments of \$153,515,919, for various capital improvement projects. These include:

- a. Continuation of campus wide utility upgrades,
- b. Complete the construction of Legacy Pedestrian Bridge over South Hillen Road,
- c. The residual vendor payments on facilities (Lillie Carroll Jackson Museum, etc.),
- d. Construction of a new Behavioral Social Sciences Center
- e. Athletic facility renovation
- f. Facilities maintenance and site improvement
- g. Campus-wide site improvements and ADA accessibility projects continue to be phased in over the entire campus.
- h. The construction of a new Student Services building is in the planning and design stage

E. Contingent Construction Liabilities

For the completed construction projects, the University has accrued, as of June 30, 2016, \$321,995 for the Lillie Carol Jackson Museum renovation to cover the estimated residual vendor payments for this facility.

MORGAN STATE UNIVERSITY

Notes to the Financial Statements June 30, 2016 and 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 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 (average final compensation) 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 of full retirement benefits upon the earlier of attaining the 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 eligible 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, 2016 and 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 or creditable service, whichever is less. The maximum reduction for members of the Teachers' or Employee's Retirement System 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 the 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.

MORGAN STATE UNIVERSITY

Notes to the Financial Statements June 30, 2016 and 2015

8. PENSION PLANS (continued)

Contributions

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.

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 special funding situation. The State of Maryland did not make contributions on behalf of the University for the years ended June 30, 2016 and 2015.

The University's contractually required contribution rate for the years ended June 30, 2016 and 2015, was \$6,916,260 and \$6,877,006, respectively, 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, 2016 and 2015, the University reported a liability of \$67,805,629 and \$49,822,391, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015 for June 30, 2016 and as of June 30, 2014 for June 30, 2015, 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 governmental units, actuarially determined. As of June 30, 2016 and 2015, the University's proportion for the net pension liability was 0.35 percent and 0.30 percent, respectively.

MORGAN STATE UNIVERSITY

**Notes to the Financial Statements
June 30, 2016 and 2015**

8. PENSION PLANS (continued)

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

For the years ended June 30, 2016 and 2015, the University recognized pension provision of \$7,440,596 and \$6,167,917, respectively. As of June 30, 2016, the University reported deferred outflows of resources and deferred inflows of resources related to the net pension liability of the following sources:

	Deferred Outflow of Resources	Deferred Inflows of Resources
Net Difference in Investment Earnings	\$ 5,972,264	\$ -
Change in actuarial assumptions	3,934,748	-
Net difference between projected and actual earnings on pension plan investments	-	4,090,040
Change in experience	-	1,388,601
Change in proportionate share	8,258,611	-
Contributions made subsequent to the measurement date	6,916,260	-
Total	\$ 25,081,883	\$ 5,478,641

These amounts reported as deferred outflows of resources and deferred inflows of resources related to the pension will be recognized in pension expense as follows:

	Deferred Outflow of Resources	Deferred Inflows of Resources
Net Difference in Investment Earnings	\$ 5,972,264	\$ -
Change in actuarial assumptions	3,934,748	-
Net difference between projected and actual earnings on pension plan investments	-	4,090,040
Change in experience	-	1,388,601
Change in proportionate share	8,258,611	-
Contributions made subsequent to the measurement date	6,916,260	-
Total	\$ 25,081,883	\$ 5,478,641

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/.

MORGAN STATE UNIVERSITY

Notes to the Financial Statements June 30, 2016 and 2015

8. PENSION PLANS (continued)

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

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 7.55 percent as of June 30, 2016, is \$67,805,629. 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 (6.55 percent) is \$95,832,858 or 1-percentage-point higher (8.55 percent) is \$44,565,471.

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, 2016 and 2015, were \$2,595,911 and \$2,517,248, respectively.

Other Post-Employment 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 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 healthcare costs to all participating employers.

Financial information for the Plan is included in the State of Maryland Comprehensive Annual Financial Report, which can be obtained from the Office of the Comptroller, Louis L. Goldstein Treasury Building, Annapolis, MD 21401.

A separate actuarial valuation is not performed for the University. The University's only obligation to the Plan is its required annual contribution, which it has fully funded during the years ended June 30, 2016 and 2015. The amounts contributed for the years ended June 30, 2016 and 2015, were \$4,257,268 and \$3,187,568, respectively.

MORGAN STATE UNIVERSITY

Notes to the Financial Statements June 30, 2016 and 2015

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, 2016. Settlement amounts have not exceeded insurance coverage levels for the years ended June 30, 2016, 2015, or 2014.
- D. As of 2016 and 2015, the University recorded \$3,532,000 and \$3,595,000, 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 the Financial Statements June 30, 2016 and 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, provides apartment-style living for approximately 750 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, constructed and manages 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 years ended June 30, 2016 and 2015:

Functional Classification	2016			
	Natural Classification			
	Payments to Employees	Payments to Suppliers and Contractors	Depreciation	Total
Instruction	\$ 50,856,217	\$ 1,177,820	\$ 7,043,112	\$ 59,077,149
Research	17,616,200	8,131,384	1,704,666	27,452,250
Public service	288,047	73,554	150,150	511,751
Academic support	15,411,270	5,076,729	3,107,715	23,595,714
Student service	5,581,602	1,575,705	11,190	7,168,497
Institutional support	27,949,511	5,655,181	372,223	33,976,915
Operation and maintenance of plant	7,947,261	8,289,189	2,122,801	18,359,251
Scholarships and fellowships	-	7,200,906	-	7,200,906
Auxiliary enterprises	10,245,494	21,415,526	3,446,065	35,107,085
Total Expenses	\$ 135,895,602	\$ 58,595,994	\$ 17,957,922	\$ 212,449,518

MORGAN STATE UNIVERSITY

**Notes to the Financial Statements
June 30, 2016 and 2015**

11. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS
(continued)

Functional Classification	2015			
	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 service	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".

12. SUBSEQUENT EVENTS

The University evaluated the accompanying financial statements for subsequent events and transactions through October 5, 2016, the date these financial statements were available for issue and have determined that no material subsequent events have occurred that would affect the information presented in the accompanying financial statements or require additional disclosure.

REQUIRED SUPPLEMENTAL INFORMATION

MORGAN STATE UNIVERSITY

Schedule of Proportionate Share of Net Pension Liability June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
The University's proportion of the net pension liability	0.35%	0.30%
The University's proportionate share of the ERS net pension liability	\$ 67,805,629	\$ 49,822,391
State and other agencies proportionate share of the net pension liability	19,468,527,051	16,733,256,657
Total State Net Pension Liability	<u>\$ 19,536,332,680</u>	<u>\$ 16,783,079,048</u>
The University's covered-employee payroll	39,007,196	38,992,278
The University's proportionate share of the net pension liability as a percentage of its covered-employee payroll	173.83%	127.78%
Plan fiduciary net position as a percentage of the total pension liability	68.78%	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, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 6,916,260	\$ 6,877,006
Contributions in relation to the contractually required contribution	<u>(6,916,260)</u>	<u>(6,877,006)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
University's covered-employee payroll	39,007,196	38,992,278
Contributions as a percentage of covered-employee payroll	17.73%	17.64%

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