

MORGAN STATE UNIVERSITY

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

Years Ended June 30, 2019 and 2018



S B & COMPANY, LLC
KNOWLEDGE • QUALITY • CLIENT SERVICE

JUNE 30, 2019 and 2018

CONTENTS

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS	1
MANAGEMENT’S DISCUSSION AND ANALYSIS	3
FINANCIAL STATEMENTS	
Balance Sheets	19
Statements of Revenues, Expenses, and Changes in Net Position	21
Statements of Cash Flows	22
Statements of Financial Position – Morgan State University Foundation, Inc.	24
Statements of Activities and Changes in Net Position – Morgan State University Foundation, Inc.	25
Notes to the Financial Statements	27
REQUIRED SUPPLEMENTAL INFORMATION	
Schedule of Proportionate Share of Net Pension Liability	59
Schedule of Contributions for Net Pension Liability	60
Schedule of Contributions for Other Postemployment Benefits (OPEB)	61



S B & COMPANY, LLC
KNOWLEDGE • QUALITY • CLIENT SERVICE

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, 2019 and 2018, 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 controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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, 2019 and 2018. Those financial statements were audited by another auditor whose report thereon has 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 auditor. 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 controls 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.



SB & COMPANY, LLC
KNOWLEDGE • QUALITY • CLIENT SERVICE

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

Opinion

In our opinion, based on our audit and the report of the other auditor, 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, 2019 and 2018, and the respective changes in their 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, schedule of contributions for net pension liability, and schedule of contributions for other post employee benefits 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 basic 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.

Owings Mills, Maryland
October 1, 2019

SB & Company, LLC

MORGAN STATE UNIVERSITY

Management's Discussion and Analysis June 30, 2019 and 2018

OVERVIEW OF THE UNIVERSITY

Morgan State University (the University or Morgan) is Maryland's Preeminent Public Urban Research University as designated by the Maryland legislature and is 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 has ten schools and colleges—James H. Gilliam, Jr. College of Liberal Arts, School of Architecture and Planning, Earl G. Graves School of Business and Management, School of Community Health and Policy, School of Computer Mathematical and Natural Sciences, School of Education and Urban Studies, Clarence M. Mitchell, Jr. School of Engineering, School of Global Journalism and Communication, School of Graduate Studies, and School of Social Work. The University offers 47 baccalaureate programs, 36 master's programs, 16 doctoral programs and 12 post-baccalaureate certificates. The University provides a world-class education to nearly 7,800 undergraduate and graduate students from all 50 states and approximately 60 countries and has a strong global network of approximately 45,000 active alumni. Thirty-one percent 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 Historically Black Colleges and Universities (HBCUs). Nationally, the University is ranked 16th for doctoral degrees awarded to African Americans.

Morgan State University recently celebrated its sesquicentennial anniversary, honoring its founding 150 years ago as the Centenary Biblical Institute by the Baltimore Conference of the Methodist Episcopal Church. Today, the University is celebrating 152 years of success, purpose, promise, and progress. The University recently completed \$250 million Anniversary Campaign which has given birth to 30 new research and academic programs, and new scholarship opportunities for students. In December 2018, the University was proud to be reclassified as an "R2" (high research) institution by the Carnegie Classification of Institutions of Higher Education. The institution's original mission in 1867 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 addition to legislation strengthening Morgan's authority to offer advanced degree programs, it also designated the University as Maryland's Preeminent Public Urban Research University with the signing of SB1085 into law by Governor Larry Hogan.

MORGAN STATE UNIVERSITY

Management's Discussion and Analysis June 30, 2019 and 2018

OVERVIEW OF THE UNIVERSITY (continued)

In an effort towards preserving the rich cultural legacy of HBCUs, the National Trust for Historic Preservation named Morgan State University a National Treasure. The National Trust and Morgan State University have partnered to develop a preservation plan that stewards the many historic buildings on campus, while planning wisely for the University's future.

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, 2019 and 2018, with comparative information for 2017. 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 Balance Sheet, 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 purposes includes, but are not restricted to, receiving and administering funds to enhance, improve, develop, and promote the University and to benefit the University, its students, and faculty. Complete financial statements for the Foundation can be obtained from Morgan State University Foundation, Truth Hall, Room 201, 1700 East Cold Spring Lane, Baltimore, MD 21251.

MORGAN STATE UNIVERSITY

Management's Discussion and Analysis June 30, 2019 and 2018

INSTITUTION FINANCIAL HIGHLIGHTS

There are three financial statements presented for each fiscal year: the Balance Sheet; 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, 2019, was \$83.0 million.

As of June 30, 2019, the University had \$616.2 million in assets plus \$30.2 million in deferred financing outflows that totals \$646.4 million. This compares to the June 30, 2018 and 2017 totals of \$604.2 and \$614.7 million, respectively. The increase in total assets were driven by increases in both net capital assets and cash.

As of June 30, 2019, the University had \$175.1 million in liabilities plus \$8.6 million in deferred financing inflows that totals \$183.7 million. This compares to the June 30, 2018 and 2017 totals of \$167.7 and \$180.6 million, respectively. The changes in liabilities are primarily due to fluctuations in the pension liability and a new loan payable.

The University generated \$275.2 million in total revenue for the year ended June 30, 2019. This was a 11.7% increase over the prior year and 6.4% decrease over the same period from 2017. Total operating expenses were \$245.5 million in 2019, an increase of 5.2%, compared to prior operating expenses of \$233.3 million and \$235.2 in 2018 and 2017, respectively. This operation performance resulted in an increase in net asset position of \$26.3 million. For June 30, 2019, the University's net asset position was \$462.7 million.

ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATION

The Balance Sheet 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 Balance Sheet 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, 2019 and 2018

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.

BALANCE SHEET SUMMARY (in millions)

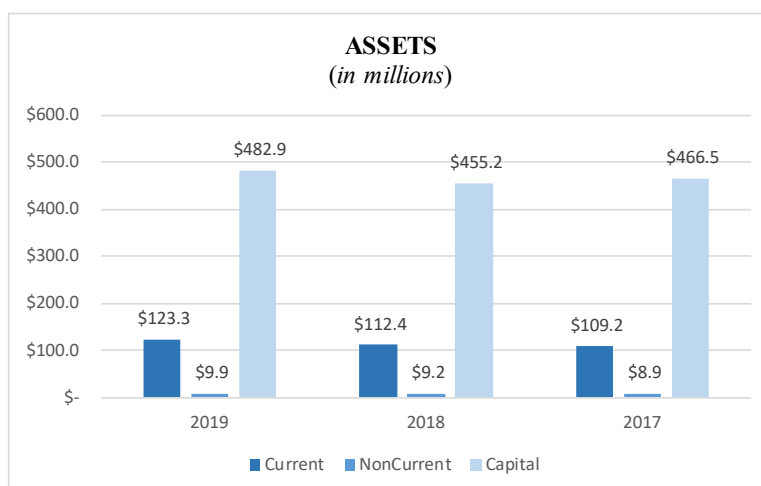
	As of June 30,		
	2019	2018	2017
ASSETS			
Current Assets	\$ 123.3	\$ 112.4	\$ 109.2
Non-Current Assets:			
Capital assets, net	482.9	455.2	466.5
Other non-current assets	9.9	9.2	8.9
Total Non-Current Assets	492.8	464.4	475.4
Total Assets	616.1	576.8	584.6
Deferred financing outflows	30.2	27.4	30.2
Total Assets and Deferred Outflows	\$ 646.3	\$ 604.1	\$ 614.8
LIABILITIES			
Current liabilities	\$ 41.7	\$ 34.2	\$ 39.0
Non-current liabilities	133.4	124.5	137.0
Total Liabilities	175.1	158.7	176.0
Deferred financing inflows	8.6	9.0	4.6
Total Liabilities and Deferred Inflows	183.7	167.7	180.6
NET POSITION			
Net investment in capital assets	434.5	405.0	410.0
Restricted	11.9	10.9	10.6
Unrestricted	16.2	20.5	13.5
Total Net Position	462.6	436.4	434.1
Total Liabilities, Deferred Inflows and Net Position	\$ 646.3	\$ 604.1	\$ 614.7

MORGAN STATE UNIVERSITY

Management's Discussion and Analysis June 30, 2019 and 2018

ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATION (continued)

Assets included in the balance sheet are classified as current and noncurrent. Current assets consist, primarily, of cash and cash equivalents, investments and accounts receivable. Non-current assets consist primarily of plant and equipment known as capital assets. Current assets of \$123.3 million represented an increase of \$10.9 and \$3.2, or 9.7% and 2.9% from 2018 and 2017, respectively, primarily due to an increase in cash and cash equivalents. Non-current and capital assets of \$492.8 million increased \$28.4 million and decreased \$11.0 million, or 6.1% and 2.3 % from 2018 and 2017, respectively, due to an increase in Construction In Progress as the construction of the new student services building is nearing completion.

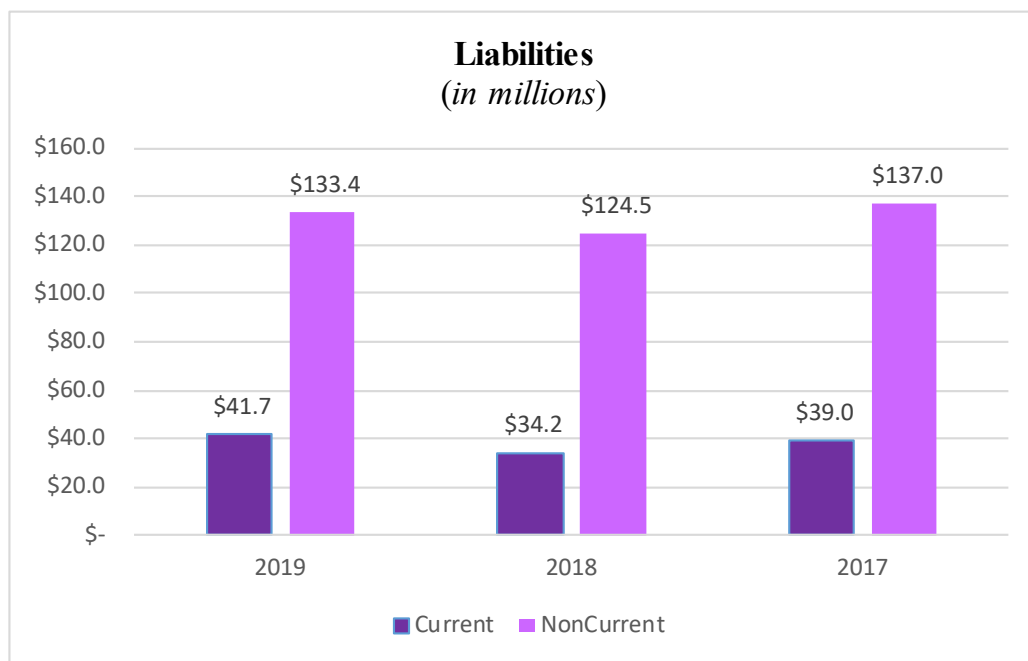


Noncurrent liabilities of \$133.4 million (2019), \$124.5 million (2018), and \$137.0 million (2017) include the net pension liability and other long term debt.

MORGAN STATE UNIVERSITY

Management's Discussion and Analysis June 30, 2019 and 2018

ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATION (continued)



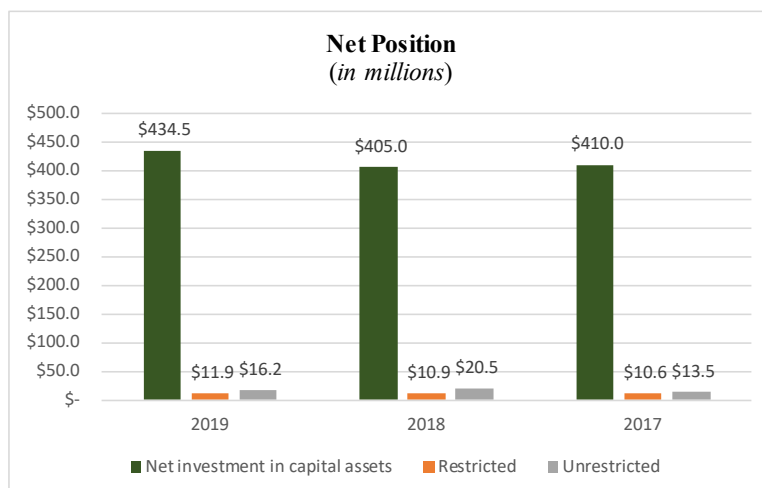
As of June 30, 2019, the University's net asset position was \$462.6 million, compared to \$436.4 million and \$434.1 million as of June 30, 2018 and 2017, respectively. This represents a \$26.2 million increase in net position from the June 30, 2018 net position primarily as the result of an increase of capital state appropriations.

Investment in capital assets represents the University's capital assets ownership, while the \$11.9 million in restricted net position consists of investments given to the University for scholarships and a lecture series, the Federal Perkins loan program, and funds invested for capital debt service and disbursements. The University's unrestricted net asset position is \$16.2 million representing a \$4.3 million decrease from 2018.

MORGAN STATE UNIVERSITY

Management's Discussion and Analysis June 30, 2019 and 2018

ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATION (continued)



Over the last three years the University's net asset position has been favorable increasing \$28.5 million or 6.6% for the current fiscal year 2019 level of \$462.6 million. This combined growth demonstrates the University's continued strengthening of its financial position.

MORGAN STATE UNIVERSITY

Management's Discussion and Analysis June 30, 2019 and 2018

SUMMARY OF REVENUES AND OPERATING AND NON-OPERATING EXPENSES

Changes in total net position, as presented on the Balance Sheet, 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 \$158.1 million or 64.4% of \$245.6 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 REVENUES (in millions)

	Years Ended June 30,		
	2019	2018	2017
Operating Revenues			
Tuition and fees, net	\$ 49.4	\$ 50.4	\$ 50.1
Other	63.0	64.4	67.0
Total Operating Revenues	112.4	114.9	117.1
Non-Operating Revenues			
State appropriations	97.4	93.7	93.2
Pell grants	17.1	16.5	15.3
Other non-operating revenues	2.7	1.7	1.8
Total Non-Operating Revenues	117.2	111.9	110.3
Other Revenues			
Capital appropriations	45.6	19.7	35.9
Total Revenues	\$ 275.2	\$ 246.5	\$ 263.3

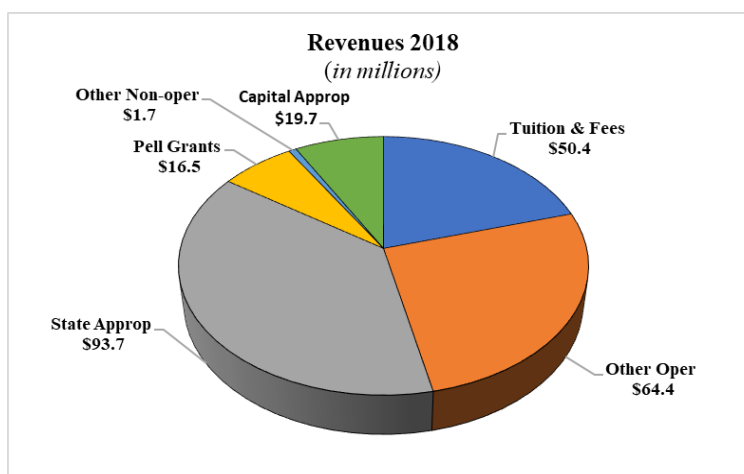
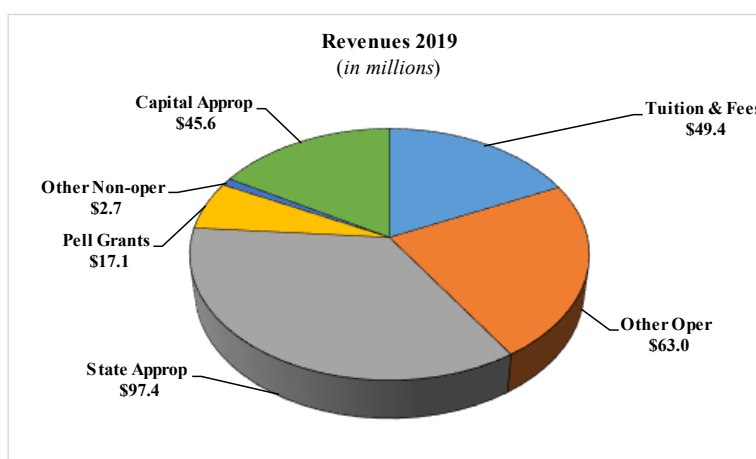
MORGAN STATE UNIVERSITY

Management's Discussion and Analysis June 30, 2019 and 2018

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, 2019, the University's total revenues were \$275.2 million, an increase of \$28.7 million or 11.6%. For the year ended June 20, 2019, operating revenues of \$112.4 million decreased slightly by \$2.5 million from year ended June 30, 2018.

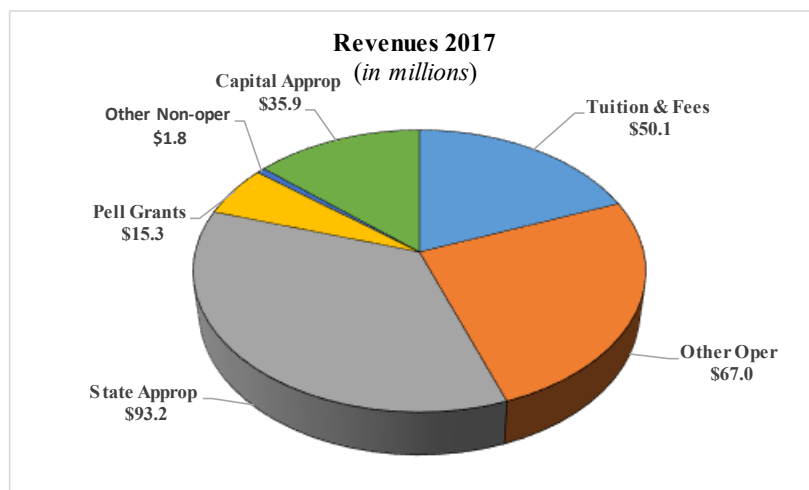
For the years ended June 30, 2019 and 2018, non-operating revenues of \$117.2 million and \$111.9 million, increased \$5.3 million and \$1.6 million, respectively, due to the higher State appropriations for the period. The State of Maryland continues to provide strong support for the University affirming the positive return on investment that Morgan State University represents. Other revenues of \$45.6 million consist of capital appropriations from the State of Maryland. The capital appropriations were \$19.7 and \$35.9 million for 2018 and 2017, respectively. The University continues to receive capital appropriations to enhance its physical plant and to support the University's long-term capital plan. The higher capital appropriations for 2019 is due primarily to the timing of the cashflow requirements for the majority of projects funded by the State of Maryland. Capital appropriations from the State of Maryland over the last 6 years totaled \$222.2 million.



MORGAN STATE UNIVERSITY

Management's Discussion and Analysis June 30, 2019 and 2018

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



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

	2019	2018	2017
Operating Expenses			
Instruction	\$ 67.2	\$ 64.2	\$ 65.5
Research	26.3	25.5	26.8
Public service	0.6	0.6	0.5
Academic support	28.6	24.9	24.8
Student services	9.1	8.3	7.9
Institutional support	45.4	41.4	41.5
Operation and maintenance of plant	21.5	21.8	21.6
Scholarships and fellowships	9.3	10.5	11.5
Auxiliary enterprises	37.5	36.2	35.1
Total Operating Expenses	245.5	233.4	235.2
Non-Operating Expenses			
Interest on indebtedness	1.6	1.8	2.0
Capital expense	1.3	9.0	1.3
Other expenses	0.5	-	-
Total Non-Operating Expenses	3.4	10.8	3.3
Total Expenses	\$ 248.9	\$ 244.2	\$ 238.5

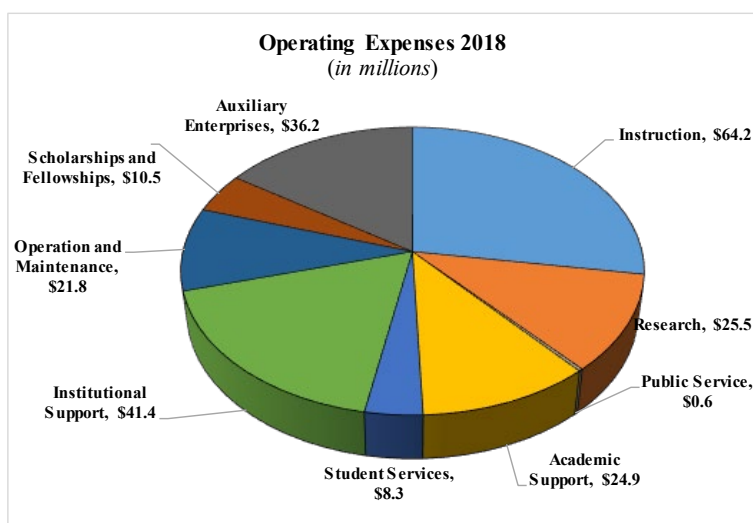
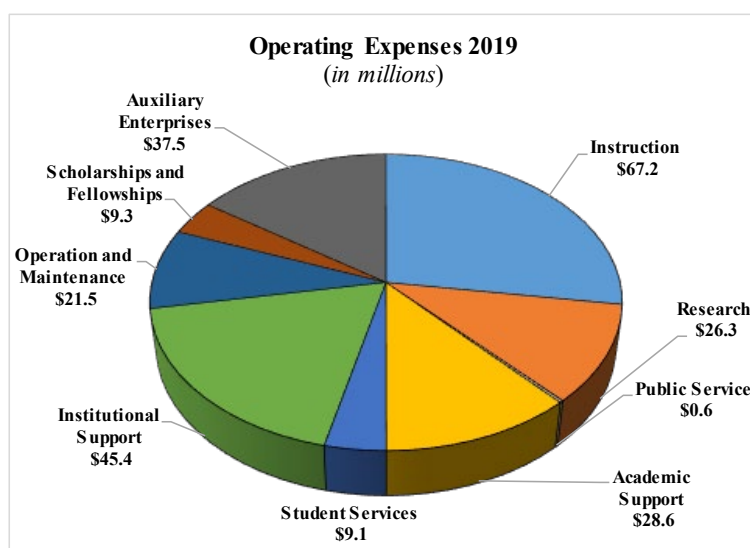
MORGAN STATE UNIVERSITY

Management's Discussion and Analysis June 30, 2019 and 2018

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

Total operating and non-operating expenses for the year ended June 30, 2019, was \$248.9 million, an increase of \$4.7 million or 1.9%. For the year ended June 30, 2018, total expenses increased \$5.7 million or 2.4%. Interest expense decreased by \$0.2 million in 2019 and decreased by \$0.2 million in 2018, due to the 2012 debt refinancing.

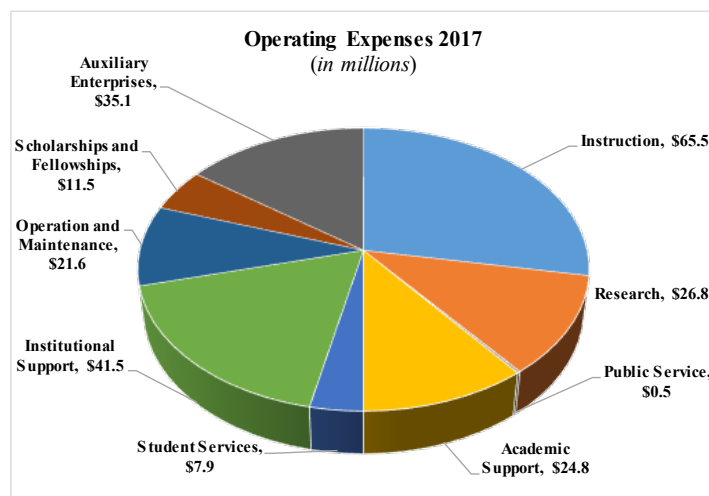
For the year ended June 30, 2019, total operating expenses of \$245.5 million were higher by \$12.1 million or 5.2%. For the year ended June 30, 2018, total operating expenses decreased by \$1.8 million or -0.8%. Operating expenses fluctuate primarily due to variations in the pension expense.



MORGAN STATE UNIVERSITY

Management's Discussion and Analysis June 30, 2019 and 2018

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



SUMMARY OF OPERATING RESULTS

The University realized an increase in its net position of \$26.3 million or 6.0% during fiscal year 2019. The University continually builds its net position as evidenced from the multi-year increase of \$28.5 million or 6.6% since fiscal year 2017. The long-term financial plan places an emphasis on growing the net position. The cost reduction committee continues to guide the University to meeting its long-term financial goals.

	Years Ended June 30,		
	2019	2018	2017
Net Position, Beginning of Year	\$ 436.4	\$ 434.1	\$ 409.3
Total revenues	275.2	246.5	263.3
Total expenses	(248.9)	(244.2)	(238.5)
Increase in net position	26.3	2.3	24.8
Net Position, End of Year	<u>\$ 462.7</u>	<u>\$ 436.4</u>	<u>\$ 434.1</u>

MORGAN STATE UNIVERSITY

Management's Discussion and Analysis June 30, 2019 and 2018

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)

	Years Ended June 30,		
	2019	2018	2017
Cash (used) provided by:			
Operating activities	\$ (98.6)	\$ (99.1)	\$ (97.1)
Noncapital financing activities	114.2	109.8	108.2
Capital and related financing activities	(8.1)	(6.9)	(14.1)
Investing activities	1.9	1.6	6.4
Net Increase in			
Cash and Cash Equivalents	9.4	5.4	3.4
Cash and cash equivalent, beginning of year	95.3	89.9	86.5
Cash and Cash Equivalent, End of Year	\$ 104.7	\$ 95.3	\$ 89.9

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 reduction 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 \$97.4 million in 2019, \$93.7 million in 2018, and \$93.2 million in 2017.

MORGAN STATE UNIVERSITY

Management's Discussion and Analysis June 30, 2019 and 2018

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 \$101 million were completed or recently started:

- 1) Residual vendor payments on the recently completed facilities
- 2) Campus-wide utility upgrades
- 3) Construction of the new Student Services building

In addition, several projects are in the planning stages including the construction of a new health and human services building and a new state of the art science facility. 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, 2019, the University had \$48.4 million in outstanding long-term debt versus \$50.2 and \$56.5 million in 2018 and 2017, respectively. The table below summarizes these amounts in millions by type of debt instrument.

	As of June 30,		
	2019	2018	2017
Revenue bonds	\$ 30.4	\$ 34.9	\$ 39.2
Loans payable	4.8	-	-
Lease obligations	13.2	15.3	17.3
Total	\$ 48.4	\$ 50.2	\$ 56.5

MORGAN STATE UNIVERSITY

Management's Discussion and Analysis June 30, 2019 and 2018

SUMMARY AND ECONOMIC TRENDS

The University's overall financial position continues to strengthen due to a comprehensive financial management approach based on sound principles and linked directly to the University's strategic plan. The University continues its national ranking at the top tier and continually promotes accessibility and affordability in line with its mission. State of Maryland support continues to keep tuition rates affordable for public universities. As such, tuition increases are expected to remain in the 2% to 2.5% range going forward. New student enrollment has increased over the past five years along with an increase in out-of-state and international students. New geographical markets have been added to recruiting strategies and will continue to be added in the following fiscal years. Applications have increased more than 20% from prior year with a relative increase in admissions and confirmations. In addition, retention rates have increased more than 10% over the past decade with \$2.0 million in additional institutional student aid being earmarked for honor student recipients and other student's needs. The State of Maryland also continues to support the University from a capital perspective. A new administration and student services building designed to improve the student's experience with one-stop service for financial aid, registration and other services will be completed in fiscal year 2020.

In January 2019, the University was elevated to R2 status in the Carnegie Classification of Institutions of Higher Education. Morgan State is among only 130 universities nationwide to earn the R2 ranking, the second highest status in the classification and an indication of "high research activity."

Morgan State University was awarded a total of \$35 million in new grant awards from the National Institutes of Health (NIH), the world's largest public funder of biomedical research. The funding will be used to advance research being primarily conducted by faculty and students in the School of Computer, Mathematical and Natural Sciences (SCMNS), chiefly through continued support of the ASCEND program and the establishment of a new university center to reduce urban health disparities. The remaining grant resources will be allocated to support a variety of other important research initiatives emanating from the School's Departments of Biology and Chemistry.

NASA awarded Morgan State University a three-year, \$1.6 million Aerospace Workforce and Leadership Development Grant, which will fund a state-of-the-art rocketry lab and launch a student rocketry team.

MORGAN STATE UNIVERSITY

Management's Discussion and Analysis June 30, 2019 and 2018

SUMMARY AND ECONOMIC TRENDS *(continued)*

In support of Morgan State University's longstanding commitment to producing graduates with proficiencies in STEM (Science, Technology, Engineering, or Math) and related fields, the National Science Foundation (NSF) has awarded \$1,248,895 in grant funding to the School of Computer, Mathematical and Natural Sciences (SCMNS). The NSF grant will fund the PERSIST Program, a multilayered independent project designed to address student retention by creating pathways for greater success among STEM majors at Morgan.

The strengths that serve as a strong foundation in maintaining Morgan's position are a diverse and capable faculty, Carnegie "R2" classification as a doctoral research university, specialized accreditation of academic programs and a nationally recognized brand name and reputation. Through an enhanced effort on student retention and success, the University is building new collaborations with federal agencies and with private corporations resulting in increased gifts and grant revenue. 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 is enhancing its status as a Doctoral Research University through successfully securing grants and contracts and its faculty's achievements in basic and applied research, professional expression, artistic creation, and creative inquiry. Additionally, initiatives are 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

Balance Sheets

As of June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 104,756,449	\$ 95,305,635
Accounts receivable (net of allowance for doubtful accounts of \$3,191,541 and \$3,338,143, respectively)	17,870,319	16,510,515
Notes receivable	57,576	78,073
Inventories	220,070	365,230
Prepaid expenses	430,818	144,758
Total Current Assets	<u>123,335,231</u>	<u>112,404,211</u>
Non-Current Assets		
Endowment investments	3,106,109	2,684,682
Restricted investments	5,355,466	5,009,086
Notes receivable (net of allowance for doubtful notes of of \$691,447 and \$669,408, respectively)	1,443,976	1,503,798
Capital assets, net	482,948,858	455,184,325
Total Non-Current Assets	<u>492,854,409</u>	<u>464,381,891</u>
Total Assets	<u>616,189,639</u>	<u>576,786,102</u>
Deferred Financing Outflows	30,167,695	27,381,369
Total Assets and Deferred Outflows	<u><u>\$ 646,357,334</u></u>	<u><u>\$ 604,167,471</u></u>

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

MORGAN STATE UNIVERSITY**Balance Sheets (continued)
As of June 30, 2019 and 2018**

	2019	2018
	<hr/>	<hr/>
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 21,719,582	\$ 14,918,903
Accrued workers' compensation, current portion	572,100	596,550
Accrued vacation costs, current portion	4,276,710	4,061,835
Revenue bonds payable, current portion	4,420,000	4,200,000
Obligations under capital lease agreements, current portion	2,139,023	2,076,912
Unearned revenue	6,400,565	6,344,697
Funds held for other organizations	2,168,595	2,028,671
Total Current Liabilities	<hr/> 41,696,575 <hr/>	<hr/> 34,227,568 <hr/>
Non-Current Liabilities		
Accrued workers' compensation, net of current portion	3,241,900	3,380,450
Accrued vacation costs, net of current portion	5,354,872	5,310,366
Net pension liability	83,001,543	71,857,509
Loans payable	4,761,938	-
Revenue bonds payable, net of current portion	26,021,237	30,715,290
Obligations under capital lease agreements, net of current portion	11,063,569	13,201,659
Total Non-Current Liabilities	<hr/> 133,445,059 <hr/>	<hr/> 124,465,274 <hr/>
Total Liabilities	<hr/> 175,141,634 <hr/>	<hr/> 158,692,842 <hr/>
Deferred Financing Inflows	8,563,330	9,046,450
Total Liabilities and Deferred Inflows	<hr/> 183,704,964 <hr/>	<hr/> 167,739,292 <hr/>
NET POSITION		
Net investment in capital assets	434,543,091	404,990,464
Restricted:		
Expendable:		
Scholarships and fellowships	4,958,929	4,402,941
Loans	1,557,224	1,531,894
Debt service	5,355,466	5,009,086
Total expendable net position	11,871,619	10,943,920
Unrestricted net position	16,237,660	20,493,795
Total Net Position	<hr/> 462,652,370 <hr/>	<hr/> 436,428,179 <hr/>
Total Liabilities, Deferred Inflows and Net Position	<hr/> \$ 646,357,334 <hr/>	<hr/> \$ 604,167,471 <hr/>

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, 2019 and 2018

	2019	2018
Operating Revenues		
Tuition and fees	\$ 68,267,388	\$ 69,027,178
Less: Scholarship allowances	(18,914,515)	(18,601,900)
	<u>49,352,873</u>	<u>50,425,278</u>
Federal grants and contracts	25,322,987	26,163,883
State and local grants and contracts	1,491,443	2,492,539
Private gifts, grants and contracts	1,788,348	1,508,012
Sales and services educational	624,889	566,209
Auxiliary enterprises, net	28,997,427	28,926,737
Other revenues	4,813,534	4,769,937
Total Operating Revenues	<u>112,391,500</u>	<u>114,852,595</u>
Operating Expenses		
Instruction	67,249,029	64,150,601
Research	26,310,892	25,490,909
Public service	599,955	578,426
Academic support	28,564,834	24,907,929
Student services	9,096,749	8,275,582
Institutional support	45,383,562	41,420,072
Operation and maintenance of plant	21,541,444	21,832,577
Scholarships and fellowships	9,288,280	10,480,452
Auxiliary enterprises	37,528,493	36,197,258
Total Operating Expenses	<u>245,563,238</u>	<u>233,333,805</u>
Operating Loss	(133,171,738)	(118,481,210)
Non-Operating Revenues (Expenses)		
State appropriations	97,412,257	93,661,305
Pell grants	17,063,057	16,438,072
Investment income	2,663,627	1,733,807
Interest on indebtedness	(1,563,779)	(1,838,013)
Other non-operating expenses	(487,429)	31,495
Total Non-Operating Revenues, Net	<u>115,087,733</u>	<u>110,026,666</u>
Loss Before Other Revenues, (Expenses), Gains and (Losses)	(18,084,004)	(8,454,544)
Other Revenues, (Expenses), Gains and (Losses)		
Capital appropriations	45,632,928	19,747,624
Capital Expenses	(1,304,690)	(8,990,533)
Other losses	(20,043)	(1,240)
Total Other Revenues, (Expenses), Gains and (Losses)	<u>44,308,195</u>	<u>10,755,852</u>
Increase in Net Position	26,224,191	2,301,308
Net position, beginning of year	436,428,179	434,126,871
Net Position, End of Year	<u><u>\$ 462,652,370</u></u>	<u><u>\$ 436,428,179</u></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, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
Tuition and fees	\$ 53,564,281	\$ 50,716,277
Contracts and grants	28,081,984	29,391,243
Payments to employees	(149,535,772)	(145,106,479)
Payments to suppliers and contractors	(60,480,476)	(68,397,037)
Loans issued to students	(500)	(150,524)
Collections of loans from students	80,941	61,611
Auxiliary enterprises charges:		
Residence halls and dining facilities	28,997,427	28,926,737
Other receipts	740,124	5,463,799
Net Cash Used by Operating Activities	(98,551,991)	(99,094,373)
Cash Flows from Non-Capital Financing Activities		
State appropriations	97,412,257	93,661,305
Pell grants	17,063,057	16,438,073
Other non-operating cost paid	(294,095)	(278,148)
Net Cash Provided by Non-Capital Financing Activities	114,181,219	109,821,230
Cash Flows from Capital and Related Financing Activities		
Capital appropriations	45,632,928	19,747,624
Proceeds from capital debt	4,761,938	-
Capital expenses	(1,304,690)	-
Purchases of capital assets	(48,837,222)	(18,852,673)
Principal payments on debt and capital leases	(6,275,979)	(5,987,604)
Interest paid on debt and capital leases	(1,563,779)	(1,838,014)
Loan issuance cost	(487,429)	-
Net Cash Used by Capital and Related Financing Activities	(8,074,233)	(6,930,667)
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	5,246,877	4,885,486
Interest on investments	2,242,200	1,733,807
Purchases of investments	(5,593,258)	(5,009,085)
Net Cash Provided by Investing Activities	1,895,819	1,610,208
Net increase in cash and cash equivalents	9,450,814	5,406,399
Cash and cash equivalents, beginning of year	95,305,635	89,899,236
Cash and Cash Equivalents, End of Year	\$ 104,756,449	\$ 95,305,635

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, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
Reconciliation of Operating Loss to Net Cash Used by Operating Activities:		
Operating loss	\$ (133,171,738)	\$ (118,481,210)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation expense	21,072,691	21,134,458
Effect of Changes in Non-Cash Operating Assets and Liabilities:		
Accounts receivable, net	(1,359,804)	1,695,819
Notes receivable, net	80,319	(89,688)
Inventories	145,160	361,145
Prepaid expenses	(286,060)	117,135
Funds held for other organizations	139,924	171,102
Accounts payable and accrued liabilities	6,800,680	(4,223,850)
Unearned revenue	55,868	(892,999)
Pension costs, net	7,874,587	1,639,602
Accrued workers' compensation	(163,000)	(137,000)
Accrued vacation	259,380	(388,887)
Net Cash from Operating Activities	<u><u>\$ (98,551,991)</u></u>	<u><u>\$ (99,094,373)</u></u>

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

MORGAN STATE UNIVERSITY

Statements of Financial Position – Morgan State University Foundation, Inc. As of June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and cash equivalents	\$ 6,411,679	\$ 6,345,232
Investments	37,424,722	33,708,328
Pledges receivable, net of discount of \$276,486 and \$80,835, respectively and allowance of \$426,666 and \$314,398, respectively	8,743,498	3,363,126
Other assets and deposits	153,332	168,183
Total Assets	<u>\$ 52,733,231</u>	<u>\$ 43,584,869</u>
LIABILITIES AND NET ASSETS		
Accounts payable and accruals	\$ 173,892	\$ 216,312
Net Assets		
Without donor restrictions	397,372	310,310
With donor restrictions	52,161,967	43,058,247
Total Net Assets	<u>52,559,339</u>	<u>43,368,557</u>
Total Liabilities and Net Assets	<u>\$ 52,733,231</u>	<u>\$ 43,584,869</u>

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

MORGAN STATE UNIVERSITY

Statement of Activities and Changes in Net Assets – Morgan State University Foundation, Inc. For the Year Ended June 30, 2019, with comparative 2018 totals

	2019			
	Without Donor Restrictions	With Donor Restrictions	Total	2018 Total
Revenues and Support				
Contributions and fund raising	\$ 940,781	\$ 13,073,462	\$ 14,014,243	\$ 8,218,714
Interest and dividend income	-	382,277	382,277	193,316
Unrealized gain	-	3,018,961	3,018,961	3,091,102
Realized gain	-	27,788	27,788	58,792
Total Revenues and Support	940,781	16,502,488	17,443,269	11,561,924
Net assets released from restrictions:				
Satisfaction of program restrictions	7,398,768	(7,398,768)	-	-
Total Revenues, Support and Net Assets Released from Restrictions	8,339,549	9,103,720	17,443,269	11,561,924
Expenses				
Grants and scholarships	1,733,656	-	1,733,656	2,178,242
Program support expenses	5,669,110	-	5,669,110	4,760,829
University support	28,836	-	28,836	55,760
General and administrative	693,874	-	693,874	663,182
Fundraising	127,011	-	127,011	128,064
Total Expenses	8,252,487	-	8,252,487	7,786,077
Increase in net assets	87,062	9,103,720	9,190,782	3,775,847
Net Assets, beginning of year	310,310	43,058,247	43,368,557	39,592,710
Net Assets, End of Year	\$ 397,372	\$ 52,161,967	\$ 52,559,339	\$ 43,368,557

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

MORGAN STATE UNIVERSITY

Statement of Activities and Changes in Net Assets – Morgan State University Foundation, Inc. For the Year Ended June 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and Support			
Contributions and fund raising	\$ 891,320	\$ 7,327,394	\$ 8,218,714
Interest and dividend income	-	193,316	193,316
Unrealized loss	-	3,091,102	3,091,102
Realized gain	-	58,792	58,792
Total Revenues and Support	<u>891,320</u>	<u>10,670,604</u>	<u>11,561,924</u>
Net assets released from restrictions:			
Satisfaction of program restrictions	<u>6,923,321</u>	<u>(6,923,321)</u>	<u>-</u>
Total Revenues, Support and Net Assets Released from Restrictions	<u>7,814,641</u>	<u>3,747,283</u>	<u>11,561,924</u>
Expenses			
Grants and scholarships	2,178,242	-	2,178,242
Program support expenses	4,760,829	-	4,760,829
University support	55,760	-	55,760
General and administrative	663,182	-	663,182
Fundraising	128,064	-	128,064
Total Expenses	<u>7,786,077</u>	<u>-</u>	<u>7,786,077</u>
Increase in net assets	28,564	3,747,283	3,775,847
Net Assets, beginning of year	281,746	39,310,964	39,592,710
Net Assets, End of Year	<u>\$ 310,310</u>	<u>\$ 43,058,247</u>	<u>\$ 43,368,557</u>

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

MORGAN STATE UNIVERSITY

Notes to the Financial Statements June 30, 2019 and 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Nature of Operations

Morgan State University (the University) is a modern comprehensive research 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 as Maryland's Preeminent Public Urban Research 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) 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 qualifies as a component unit of the University under accounting standards generally accepted in the United States of America; 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, 2019 and 2018, the Foundation distributed \$28,836 and \$55,760, respectively, to the University for unrestricted purposes. The Foundation provided grants and scholarships to students of \$1,733,656 and \$2,178,242, for the years ended June 30, 2019 and 2018, respectively. 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, 2019 and 2018

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). As such, certain revenue recognition criteria and presentation features differ from GASB's 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 and 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. 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 receivable 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.

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. As of June 30, 2019 and 2018, the discount rate was 2.6% and 3.4%, respectively, and the amount amortized was \$276,486 and \$80,835 for the years ended June 30, 2019 and 2018, respectively.

MORGAN STATE UNIVERSITY

Notes to the Financial Statements June 30, 2019 and 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting (continued)

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

Included in promises to give are the following restricted promises as of June 30:

	<u>2019</u>	<u>2018</u>
Promises to give before unamortized discount and allowance for uncollectibles	\$ 9,138,731	\$ 4,066,278
Less: Unamortized discount	<u>80,835</u>	<u>276,486</u>
	9,057,896	3,789,792
Less: Allowance for uncollectibles	<u>314,398</u>	<u>426,666</u>
Net promises to give	<u><u>\$ 8,743,498</u></u>	<u><u>\$ 3,363,126</u></u>

The Foundation wrote off \$614,434 and \$60,500 in uncollectible pledges during the years ended June 30, 2019 and 2018, respectively.

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

	<u>2019</u>	<u>2018</u>
Amounts due in:		
One year	\$ 1,908,925	\$ 2,564,047
Two years	1,638,058	643,914
Three years	1,017,400	512,917
Four years	959,056	33,995
Five years	401,650	3,486
Thereafter	3,521,561	-
Total	<u><u>\$ 9,446,650</u></u>	<u><u>\$ 3,758,359</u></u>

MORGAN STATE UNIVERSITY

Notes to the Financial Statements June 30, 2019 and 2018

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 maintains art collections, consisting primarily of donated African American art and are held for educational, research, and curatorial purposes. The collections which were acquired by contributions since the University's inception are not recognized as assets in the Balance Sheet. The art collections are not capitalized as allowed by criteria of generally accepted accounting principles of the United States of America. Each of the items are catalogued, preserved and cared for, and activities verifying their existence and assessing their condition are performed continuously.

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 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, 2019 and 2018

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, 2019 and 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting (continued)

- (a) *Unrestricted net position:* Unrestricted net position represents 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) Revenues - Operating revenues and expenses are generally associated with those activities that relate to the core activities of instruction, research and auxiliary services that form the essence of the University. Nonoperating revenues, expenses and gains and losses represent amounts that occur regularly but are not included in operating revenues and expenses. Generally accepted accounting principles defines State appropriations as nonoperating.
- (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.

MORGAN STATE UNIVERSITY

Notes to the Financial Statements June 30, 2019 and 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. New Accounting Pronouncements

The GASB has issued Statement No. 88, Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements, and Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period, which the University has implemented in the current fiscal year. The GASB issued Statement No. 83, Certain Asset Retirement Obligations, which the University deems to be not materially applicable to its financial statements.

The GASB has also issued Statement No. 84, Fiduciary Activities; Statement No. 87, Leases; Statement No. 90, Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61; and Statement No. 91, Conduit Debt Obligations; which will require adoption in the future, if applicable.

These statements may or will 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 dates.

E. Reclassification

Certain amounts have been reclassified from the 2018 presentation to agree to the 2019 presentation.

2. DEPOSITS AND INVESTMENTS

A. Deposits in State of Maryland Cash Pool

As of June 30, 2019 and 2018, the University had cash on deposit in an internal pooled cash account with the Maryland State Treasurer (Treasurer) in the amount of \$104,678,664 and \$95,204,509 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 \$77,785 and \$101,126 as compared to bank balances of \$50,092 and \$107,852, as of June 30, 2019 and 2018, respectively. These time deposits were fully insured as of June 30, 2019 and 2018.

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.

MORGAN STATE UNIVERSITY

Notes to the Financial Statements June 30, 2019 and 2018

2. DEPOSITS AND INVESTMENTS (continued)

- (2) As of June 30, 2019 and 2018, all investments of the Endowment pool consist of common stocks with a market value of \$3,106,109 and \$2,684,682 respectively. These funds are held by a third-party custodial financial institution designated by the State.
- (3) The University has restricted investments of \$5,355,466 and \$5,009,086, respectively, as of June 30, 2019 and 2018. The June 30, 2019 and 2018, restricted investments were invested by and accounted for by the Bond Trustees, the Bank of New York Mellon and Regions Bank. As of June 30, the risk disclosures of investments were classified as follows:

	2019		2018	
	Market Value	Rating	Market Value	Rating
Federated Treas Oblig Fd 115	\$ 1	AAA	\$ 2,611	AAA
Federated Treas Oblig As 115	5,117,673	AAA	5,006,475	AAA
Total Investments held by Bank of NY Mellon	5,117,674		5,009,086	
Fidelity Treasury-Regions Bank	237,792	AAA	-	
Total Investments	\$ 5,355,466		\$ 5,009,086	

C. Investments and Investment Income

Investments are recorded at fair value as of June 30, 2019 and 2018, and consisted of the following:

	2019	2018
Quasi Endowment Funds		
Stocks	\$ 2,111,587	\$ 1,708,558
Unrestricted		
Stocks	994,521	976,124
Total Market Value	3,106,108	2,684,682
Prior Year Market Value	2,684,682	2,653,187
Total Unrealized Gain	\$ 421,426	\$ 31,495

MORGAN STATE UNIVERSITY

Notes to the Financial Statements June 30, 2019 and 2018

2. DEPOSITS AND INVESTMENTS (continued)

C. Investments and Investment Income (continued)

The University categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The University had the following recurring fair value measurements as of June 30, 2019 and 2018:

		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	June 30, 2019			
Investments by fair value level				
Federated Treasury Obligations	\$ 5,355,466	\$ 5,355,466	\$ -	\$ -
Equity securities				
Financial	382,845	382,845	-	-
Industrials	441,575	441,575	-	-
Telecommunication services	138,028	138,028	-	-
Consumer staples	1,297,951	1,297,951	-	-
Energy	584,554	584,554	-	-
Other	261,156	261,156	-	-
Total Equity Securities	\$ 8,461,575	\$ 8,461,575	\$ -	\$ -
	June 30, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
Federated Treasury Obligations	\$ 5,009,086	\$ 5,009,086	\$ -	\$ -
Equity securities				
Financial	369,571	369,571	-	-
Industrials	402,728	402,728	-	-
Telecommunication services	110,415	110,415	-	-
Consumer staples	945,510	945,510	-	-
Energy	605,835	605,835	-	-
Other	250,623	250,623	-	-
Total Equity Securities	\$ 7,693,768	\$ 7,693,768	\$ -	\$ -

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, 2019 and 2018

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 had the following recurring fair value measurements as of June 30, 2019 and 2018:

	June 30, 2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
Money market fund	\$ 1,757,251	\$ 1,757,251	\$ -	\$ -
Mutual funds	4,647,795	4,647,795	-	-
Certificate of deposits	1,088,429	1,088,429	-	-
US Treasury obligations	1,997,785	1,997,785	-	-
US Government securities	367,635	367,635	-	-
Corporate & foreign bonds	1,596,798	-	1,596,798	-
Equity funds	25,969,029	-	25,969,029	-
Total Equity Securities	\$ 37,424,722	\$ 9,858,895	\$ 27,565,827	\$ -

	June 30, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
Money market fund	\$ 1,346,337	\$ 1,346,337	\$ -	\$ -
Mutual funds	3,235,286	3,235,286	-	-
Certificate of deposits	1,073,398	1,073,398	-	-
Common stocks	1,753,267	1,753,267	-	-
US Treasury obligations	358,573	358,573	-	-
US Government securities	-	-	-	-
Corporate & foreign bonds	1,624,251	-	1,624,251	-
Equity funds	24,317,216	-	24,317,216	-
Total Equity Securities	\$ 33,708,328	\$ 7,766,861	\$ 25,941,467	\$ -

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, 2019 and 2018

2. DEPOSITS AND INVESTMENTS (continued)

D. 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, 2019, 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, 2019 and 2018

3. ACCOUNTS RECEIVABLE, ACCOUNTS PAYABLE, AND ACCRUED LIABILITIES

Accounts receivable, accounts payable, and accrued liabilities consisted of the following as of June 30, 2019 and 2018:

June 30, 2019	Accounts Receivable	Accounts Payable and Accrued Liabilities
Student	\$ 6,263,942	\$ 1,280,939
Federal grants	6,616,473	-
Other grants (primarily state grants)	2,423,430	-
Vendor	-	10,649,004
Employee	-	18,504,503
Other	5,758,015	916,718
Total	21,061,860	31,351,164
Less allowance for doubtful accounts	3,191,541	-
Total	\$ 17,870,319	\$ 31,351,164

June 30, 2018	Accounts Receivable	Accounts Payable and Accrued Liabilities
Student	\$ 11,573,176	\$ 1,051,349
Federal grants	5,316,765	-
Other grants (primarily state grants)	2,063,078	-
Vendor	-	4,646,860
Employee	-	17,603,037
Other	895,639	989,858
Total	19,848,658	24,291,104
Less allowance for doubtful accounts	3,338,143	-
Total	\$ 16,510,515	\$ 24,291,104

MORGAN STATE UNIVERSITY

Notes to the Financial Statements June 30, 2019 and 2018

4. CAPITAL ASSETS

The following were the changes in capital assets for the year ended June 30, 2019:

	June 30, 2018	Additions/ Transfers	Reductions	June 30, 2019
Capital Assets not Being Depreciated				
Land	\$ 10,551,343	\$ -	\$ -	\$ 10,551,343
Construction in-progress	16,470,976	45,592,935	(1,082,247)	60,981,664
Total Capital Assets not Being Depreciated	27,022,319	45,592,935	(1,082,247)	71,533,007
Other capital assets:				
Infrastructure networks	68,649,253	3,152,851		71,802,104
Land improvements	21,800,439	-	-	21,800,439
Buildings	589,334,516	-	-	589,334,516
Furniture, fixtures and equipment	51,641,074	1,101,662	407,134	53,149,870
Library materials	2,845,602	72,023	-	2,917,625
Total Other Capital Assets	734,270,884	4,326,536	407,134	739,004,554
Less accumulated depreciation for:				
Infrastructure networks	(17,401,917)	(3,538,421)	-	(20,940,338)
Land improvements	(14,610,802)	(881,591)	-	(15,492,393)
Buildings	(224,617,174)	(15,054,024)	-	(239,671,198)
Furniture, fixtures and equipment	(47,951,292)	(1,541,743)	(407,134)	(49,900,169)
Library materials	(1,527,693)	(56,912)	-	(1,584,605)
Total Accumulated Depreciation	(306,108,878)	(21,072,691)	(407,134)	(327,588,703)
Other capital assets, net	428,162,006	(16,746,155)	-	411,415,851
Capital Asset Summary				
Capital asset not being depreciated	27,022,319	45,592,935	(1,082,247)	71,533,007
Other capital assets, at cost	734,270,884	4,326,536	407,134	739,004,554
Total cost of capital assets	761,293,203	49,919,471	(675,113)	810,537,561
Less accumulated depreciation	(306,108,878)	(21,072,691)	(407,134)	(327,588,703)
Capital Assets, Net	\$ 455,184,325	\$ 28,846,780	\$ (1,082,247)	\$ 482,948,858

MORGAN STATE UNIVERSITY

Notes to the Financial Statements June 30, 2019 and 2018

4. CAPITAL ASSETS (continued)

The following were the changes in capital assets for the ended June 30, 2018:

	<u>June 30, 2017</u>	<u>Additions/ Transfers</u>	<u>Reductions</u>	<u>June 30, 2018</u>
Capital Assets not Being Depreciated				
Land	\$ 10,551,343	\$ -	\$ -	\$ 10,551,343
Construction in-progress	8,529,530	8,896,266	(954,820)	16,470,976
Total Capital Assets not Being Depreciated	19,080,873	8,896,266	(954,820)	27,022,319
Other capital assets:				
Infrastructure networks	68,649,253	-	-	68,649,253
Land improvements	21,800,439	-	-	21,800,439
Buildings	588,339,696	994,820	-	589,334,516
Furniture, fixtures and equipment	50,970,244	811,127	(140,297)	51,641,074
Library materials	2,730,854	114,748	-	2,845,602
Total Other Capital Assets	732,490,486	1,920,695	(140,297)	734,270,884
Less accumulated depreciation for:				
Infrastructure networks	(13,942,317)	(3,459,600)	-	(17,401,917)
Land improvements	(13,653,464)	(957,338)	-	(14,610,802)
Buildings	(209,505,839)	(15,111,335)	-	(224,617,174)
Furniture, fixtures and equipment	(46,540,212)	(1,551,377)	140,297	(47,951,292)
Library materials	(1,472,885)	(54,808)	-	(1,527,693)
Total Accumulated Depreciation	(285,114,717)	(21,134,458)	140,297	(306,108,878)
Other capital assets, net	447,375,769	(19,213,763)	-	428,162,006
Capital Asset Summary				
Capital asset not being depreciated	19,080,873	8,896,266	(954,820)	27,022,319
Other capital assets, at cost	732,490,486	1,920,695	(140,297)	734,270,884
Total cost of capital assets	751,571,359	10,816,961	(1,095,117)	761,293,203
Less accumulated depreciation	(285,114,717)	(21,134,458)	140,297	(306,108,878)
Capital Assets, Net	<u>\$ 466,456,643</u>	<u>\$ (10,317,497)</u>	<u>\$ (954,820)</u>	<u>\$ 455,184,325</u>

MORGAN STATE UNIVERSITY

Notes to the Financial Statements June 30, 2019 and 2018

5. LONG-TERM LIABILITIES

Long-term liability activity for the years ended June 30, 2019 and 2018, were as follows:

	June 30, 2018	Additions	Reductions	June 30, 2019	Amounts Due Within one year
Bonds, Loans Payable and Capital Lease Obligations:					
Revenue bonds payable	\$ 31,185,000	\$ -	\$ (4,200,000)	\$ 26,985,000	\$ 4,420,000
Unamortized bond premium	3,730,290	-	(274,053)	3,456,237	-
Total Revenue Bonds Payable	34,915,290	-	(4,474,053)	30,441,237	4,420,000
Loans Payable	-	4,761,938	-	4,761,938	-
Lease Purchase Agreement:					
Network upgrade-New Generation Information Technology	14,432,864	-	(1,745,405)	12,687,459	1,798,235
Capital lease obligations	845,707	-	(330,574)	515,133	340,788
Total Lease Purchase Agreements	15,278,571	-	(2,075,979)	13,202,592	2,139,023
Accrued workers' compensation	3,977,000	506,475	(669,475)	3,814,000	572,100
Accrued vacation	9,372,201	4,398,992	(4,139,611)	9,631,582	4,276,710
Net Pension Liability	71,857,509	11,144,034	-	83,001,543	-
Total Long-Term Liabilities	\$ 135,400,571	\$ 20,811,439	\$ (11,359,118)	\$ 144,852,892	\$ 11,407,833
	June 30, 2017	Additions	Reductions	June 30, 2018	Amounts Due Within one year
Bonds and Capital Lease Obligations:					
Revenue bonds payable	\$ 35,155,000	\$ -	\$ (3,970,000)	\$ 31,185,000	\$ 4,200,000
Unamortized bond premium	4,007,202	-	(276,912)	3,730,290	-
Total Revenue Bonds Payable	39,162,202	-	(4,246,912)	34,915,290	4,200,000
Lease Purchase Agreement:					
Network upgrade-New Generation Information Technology	16,129,737	-	(1,696,873)	14,432,864	1,746,338
Capital lease obligations	1,166,439	-	(320,732)	845,707	330,574
Total Lease Purchase Agreements	17,296,176	-	(2,017,605)	15,278,571	2,076,912
Accrued workers' compensation	4,114,000	454,805	(591,805)	3,977,000	596,550
Accrued vacation	9,761,081	3,664,910	(4,053,790)	9,372,201	4,061,835
Net Pension Liability	77,422,295	-	(5,564,786)	71,857,509	-
Total Long-Term Liabilities	\$ 147,755,754	\$ 4,119,715	\$ (16,474,898)	\$ 135,400,571	\$ 10,935,297

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, 2019 and 2018

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 consisted of the following as of June 30, 2019 and 2018:

	2019	2018
1993 Revenue Bonds:		
Current interest Term bonds, maturing July 1, 2020, bearing interest of 6.10%, which is paid semiannually on January 1 and July 1	\$ 5,695,000	\$ 8,305,000
Unamortized bond premium	-	15,931
Total 1993 Bonds Payable	5,695,000	8,320,931
2012 Revenue Bonds		
Current interest Term bonds, maturing July 1, 2032, bearing interest of 2.08%-5.0% which is paid semiannually on January 1 and July 1	21,290,000	22,880,000
Unamortized bond premium	3,456,237	3,714,359
Total 2012 Bond Payable	24,746,237	26,594,359
Total Revenue Bonds Payable	\$ 30,441,237	\$ 34,915,290

MORGAN STATE UNIVERSITY

Notes to the Financial Statements June 30, 2019 and 2018

6. REVENUE BONDS PAYABLE (continued)

B. Principal and Interest Maturities

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

Fiscal Year Ending	Principal	Interest	Total Payments
2020	\$ 4,420,000	\$ 1,277,913	\$ 5,697,913
2021	4,640,000	1,028,365	5,668,365
2022	1,795,000	851,375	2,646,375
2023	1,410,000	771,250	2,181,250
2024	1,170,000	706,750	1,876,750
2025-2029	6,790,000	2,571,750	9,361,750
2030-2034	6,760,000	696,500	7,456,500
Total	\$ 26,985,000	\$ 7,903,903	\$ 34,888,903

- (2) Pursuant to the trust agreements for both the 1993 and 1992 Revenue Bonds, 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 as of June 30, 2019 and 2018.
- (3) The University is subject to Federal arbitrage laws governing the use of these proceeds of tax-exempt debt.
- (4) As of June 30, 2019 and 2018, the trustee held restricted investments in mutual funds in the amount of \$5,117,674 and \$5,009,086 respectively. The funds in the restricted investments will be used to cover the \$5,117,672 revenue bonds debt service payments due July 1, 2019. The July 1, 2019 debt service payment will pay \$2,178,975 for the 2012 Revenue Bond Debt service and \$2,938,697 for the 1993 Revenue Bond Debt Service.

MORGAN STATE UNIVERSITY

Notes to the Financial Statements June 30, 2019 and 2018

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, 2019.
- (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, 2019 and 2018, the gross value of the underlying assets relating to the capital lease liability was \$515,718 and \$847,159 respectively.

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

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

- (1) Future minimum lease payments under capital leases for the years ending June 30, were as follows:

<u>For the Years Ending June 30,</u>	<u>Amount</u>
2020	\$ 354,578
2021	177,144
Total future minimum payments	531,722
Less: Interest	16,004
Administrative fees	585
Net Minimum Lease Payments	\$ 515,133

MORGAN STATE UNIVERSITY

Notes to the Financial Statements June 30, 2019 and 2018

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, for each of the years ended June 30, 2019 and 2018.
- (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, were as follows:

<u>For the Years Ending June 30,</u>	<u>Amounts</u>
2020	\$ 3,490,852
2021	3,525,761
Total	\$ 7,016,613

- (5) Lease expense for the years ended June 30, 2019 and 2018, was \$5,801,990 and \$3,230,625, respectively.

C. Leases (Financed through Third Parties)

(1) 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. As of June 30, 2019, the Principal amount is \$12,687,459; the lease financing interest amount is \$1,348,321 and the total principal with interest is \$14,035,780. The total annual principal and interest payment by the University was \$2, 159,351. The University Next Generation Network (NGN) upgrade is completed and the vendor-Magothy Technology, LLC was paid as of May 11, 2017.

MORGAN STATE UNIVERSITY

Notes to the Financial Statements June 30, 2019 and 2018

7. COMMITMENTS AND CONTINGENCIES (continued)

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

Lease-Purchase Agreement (continued)

Future minimum lease payments under the lease purchase agreement for the years ending June 30, were as follows:

Fiscal Year Ending	Principal	Interest	Total Payments
2020	\$ 1,798,235	\$ 361,116	\$ 2,159,351
2021	1,851,675	307,676	2,159,351
2022	1,906,702	252,649	2,159,351
2023	1,963,365	195,986	2,159,351
2024	2,021,711	137,640	2,159,351
2025-2026	3,145,771	93,254	3,239,025
Total	\$ 12,687,459	\$ 1,348,321	\$ 14,035,780

D. Historically Black Colleges and Universities (HBCU) Loan

In fiscal year 2019, Morgan State University initiated \$25,000,000 Future Advance Project Funding Bonds, Series A 2018-5 HBCU Loan for University Projects. The Loan Agreement was dated November 14, 2018.

When the Trustee disburses funds from this loan Account to the University, the Trustee is actually reimbursing the University for Incurred Expenses paid by the University for construction and/or renovation projects. Interest is only incurred after disbursement funds are sent to the University by the Trustee. Each installment disbursement has its own Debt Service Payment Schedule. The draws are interest only until January 2023, at which time principal and interest payments are due.

The projects to be financed by the Series A 2018-5 HBCU Loan are described below and they are expected to be completed by April 1, 2022.

Projects:

- (i) The cost of designing, constructing and equipping a new facility to house the University's Public Safety Department. It will serve as the operations center for approximately 85 officers, administrative personnel and private security forces combined.

MORGAN STATE UNIVERSITY

Notes to the Financial Statements June 30, 2019 and 2018

7. COMMITMENTS AND CONTINGENCIES (continued)

D. Historically Black College and Universities (HBCU) Loan (continued)

(ii) The cost of all or a portion of the following deferred maintenance projects:

(a) Dixon Lab Renovations.

(b) Building renovations, inclusive of roof replacements on Portage Avenue, Harper House/Tubman House ("Harper Tubman"), Baldwin Hall, Cummings Hall, Rawlings Residential Hall and Blount Towers.

(c) McMechen Hall — Building renovations, inclusive of replacing cooling tower and steam traps and steam station pressure valves around campus.

(d) Murphy Fine Arts — Building and replace electrical and lighting controls and System Repairs (including controls for the lighting system) in the Turpin — Lamb Theatre and other locations in Murphy Fine Arts Building. Repair the ceiling in the concert hall. Repair/replace UPS systems and MMC starters and disconnects campus-wide.

(e) Harper Tubman — Building renovations, inclusive of the replacement of two hot water boiler tanks, approximately 250,000 gallons in size.

(f) Blount Towers and Rawlings Residence — Building renovations, inclusive of the replacement of approximately 300 air conditioning units.

(g) Carter Grant Wilson — Building renovations, inclusive of replacing piping and office HVAC units.

(h) Truth Hall — Building renovations, inclusive of roofing repairs/replacement, replacement of HVAC units and piping replacement.

Draw Downs	Disbursement Date	Interest Rate (%)	Maturity Date	Total Advance	Reimbursement Cost	Escrow Fund Requirement
#1	11/15/2018	3.268	July 1, 2048	\$ 596,801	\$ 566,961	\$ 29,840
#2	2/15/2019	2.867	July 1, 2048	1,687,556	1,603,178	84,378
#3	5/1/2019	2.755	July 1, 2048	1,081,155	1,027,097	54,058
#4	6/14/2019	2.900	July 1, 2048	1,396,427	1,326,605	69,516
				<u>\$ 4,761,938</u>	<u>\$ 4,523,841</u>	<u>\$ 237,792</u>

MORGAN STATE UNIVERSITY

Notes to the Financial Statements June 30, 2019 and 2018

7. COMMITMENTS AND CONTINGENCIES (continued)

Future minimum payments under the HBCU loan agreements for the years ending June 30, were as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total Payments
2020	\$ -	\$ 131,405	\$ 131,405
2021	-	131,046	131,046
2022	-	131,046	131,046
2023	62,116	130,920	193,036
2024	129,693	126,336	256,029
2025-2049	4,570,129	1,683,392	6,253,521
Total	\$ 4,761,938	\$ 2,334,145	\$ 7,096,083

E. Construction Commitments

As of June 30, 2019, the University had commitments of \$20,355,244 for various capital improvement projects. These include:

- (a) the construction of a new Student Services building
- (b) the new Health and Human Services building in the initial planning stages.
- (c) residual vendor payments on facilities (Behavioral Sciences Building and School of Business complex)
- (d) continuation of campus wide utility upgrades,
- (e) facilities maintenance and site improvement, and
- (f) campus-wide site improvements and ADA accessibility projects continue to be phased in over the entire campus

MORGAN STATE UNIVERSITY

Notes to the Financial Statements June 30, 2019 and 2018

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, 2019 and 2018

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 Employees' 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, 2019 and 2018

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, 2019 and 2018.

The University's contractually required contribution rate for the years ended June 30, 2019 and 2018, \$7,849,256 and \$7,803,727 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, 2019 and 2018, the University reported a liability of \$83,001,543 and \$71,857,509 respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018 for June 30, 2019 and as of June 30, 2017 for June 30, 2018, 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, 2019 and 2018, the University's proportion for the net pension liability was 0.422 percent and 0.352 percent, respectively.

MORGAN STATE UNIVERSITY

Notes to the Financial Statements June 30, 2019 and 2018

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, 2019 and 2018, the University recognized pension expense of \$15,723,842 and \$10,956,688 respectively. As of June 30, 2019, 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	\$ 5,332,938	\$ -
Change in actuarial assumptions	1,620,662	-
Net difference between projected and actual earnings on pension plan investments	-	2,989,797
Change in experience	-	5,573,533
Change in proportionate share	15,364,839	-
Contributions made subsequent to the measurement date	7,849,256	-
Total	\$ 30,167,695	\$ 8,563,330

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:

Year Ending June 30,	Deferred Outflows				Deferred Inflows	
	Net Difference in Investment Earnings	Change in proportionate share	Change in Assumptions	Contribution	Actual and Expected Experience	Net Difference in Investment Earnings
2020	\$ 3,413,002	\$ 4,116,903	\$ 1,063,938	\$ 7,849,256	\$ 1,977,388	\$ 926,879
2021	1,919,936	4,116,903	215,386	-	1,630,238	926,879
2022	-	2,465,181	215,386	-	1,418,167	926,879
2023	-	2,387,868	125,952	-	547,740	209,160
2024	-	2,277,984	-	-	-	-
Total	\$ 5,332,938	\$ 15,364,839	\$ 1,620,662	\$ 7,849,256	\$ 5,573,533	\$ 2,989,797

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, 2019 and 2018

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 7.45 percent as of June 30, 2019, was \$83,001,543. 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 (6.45 percent) was \$120,000,000 or 1-percentage-point higher (8.45 percent) was \$53,000,000.

Optional Retirement Plans

In addition to retirement and pension plans, the University offers optional defined benefit 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, 2019 and 2018, were \$2,953,126 and \$2,782,847, 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), which is administered by the Department of Budget and Management. 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 a single-employer defined benefit healthcare plan. The Plan is self-insured to provide medical, hospitalization, prescription drug and dental insurance benefits to eligible state employees, retirees, and their dependents. The Secretary of the Department of Budget and Management has the authority to establish/amend benefit terms. The State does not distinguish employees by employer/State agency. Instead, the State allocates the postemployment healthcare costs to all participating employers. As such, the State has elected to maintain the entire net postemployment benefit liability as a liability of the general fund of the State and has not allocated any liability to State entities, including the University, and as a result, did not require a contribution.

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 or https://finances.marylandtaxes.gov/Where_the_Money_Comes_From/General_Revenue_Reports/default.shtml.

MORGAN STATE UNIVERSITY

Notes to the Financial Statements June 30, 2019 and 2018

8. PENSION PLANS (continued)

Other Post-Employment Benefits (continued)

A separate actuarial valuation is not performed for the University. The statutorily required employer contribution for the year-ended June 30, 2019, 2018 and 2017 was \$4,555,492, \$3,584,599, and \$4,773,228, respectively.

The contribution recognized by the OPEB plan in relation to statutorily required employer contribution for the year-ended June 30, 2019, 2018 and 2017 was \$4,555,492, \$3,584,599, and \$4,773,228, respectively.

Payroll for employees covered in OPEB for the year-ended June 30, 2019, 2018, and 2017 was \$83,052,243, \$80,633,680, and \$79,315,339, respectively. The percentage amount of contributions recognized by the OPEB plan as related to the statutorily required employer contribution of covered-employee payroll is 5.49%, 4.45%, and 6.02%, respectively (See Schedule of Other Postemployment Benefits (OPEB) in the “Required Supplementary Information” section).

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, 2019. Settlement amounts have not exceeded insurance coverage levels for the years ended June 30, 2019, 2018 or 2017.

MORGAN STATE UNIVERSITY

Notes to the Financial Statements June 30, 2019 and 2018

9. RISK MANAGEMENT (continued)

D. As of 2019 and 2018, the University recorded \$3,814,000 and \$3,977,000 respectively, in accrued expense liabilities associated with workers' compensation. The recorded amounts represent the actuary's allocation of the University's share of the State's overall liability under the workers' compensation program to the University.

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 780 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 approximately one million dollars 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. AUXILIARY ENTERPRISES

Auxiliary enterprises revenues for the years ended June 30, 2019 and 2018, were as follows:

	2019		2018	
Residential facilities	\$ 24,659,061		\$ 22,311,815	
Less: Scholarship allowances	<u>(6,741,058)</u>	\$ 17,918,003	<u>(5,945,848)</u>	\$ 16,365,967
Parking facilities	981,182		971,090	
Less: Scholarship allowances	<u>(200,064)</u>	781,118	<u>(190,656)</u>	780,434
Intercollegiate athletics	9,521,316		9,756,713	
Less: Scholarship allowances	<u>(2,284,242)</u>	7,237,074	<u>(2,270,766)</u>	7,485,947
Bookstore	324,519		1,742,622	
Less: Scholarship allowances	<u>-</u>	324,519	<u>(125,244)</u>	1,617,378
Student center	3,689,512		3,602,564	
Less: Scholarship allowances	<u>(952,797)</u>	2,736,714	<u>(925,553)</u>	2,677,011
Total		<u><u>\$ 28,997,427</u></u>		<u><u>\$ 28,926,737</u></u>

MORGAN STATE UNIVERSITY

Notes to the Financial Statements June 30, 2019 and 2018

12. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The University's operating expenses by functional classification were as follows for the years ended June 30, 2019 and 2018:

Functional Classification	2019			
	Natural Classification			
	Payments to Employees	Payments to Suppliers and Contractors	Depreciation	Total
Instruction	\$ 56,351,871	\$ 1,904,846	\$ 8,992,312	\$ 67,249,029
Research	18,194,412	7,049,377	1,067,103	26,310,892
Public service	349,040	100,766	150,150	599,955
Academic support	20,829,712	4,983,438	2,751,684	28,564,834
Student service	7,072,544	2,024,206	-	9,096,749
Institutional support	32,619,685	10,364,185	2,399,692	45,383,562
Operation and maintenance of plant	10,632,201	8,523,346	2,385,897	21,541,444
Scholarships and fellowships	382,252	8,906,027	-	9,288,280
Auxiliary enterprises	11,717,109	22,485,530	3,325,854	37,528,493
Total Expenses	\$ 158,148,825	\$ 66,341,722	\$ 21,072,691	\$ 245,563,237

Functional Classification	2018			
	Natural Classification			
	Payments to Employees	Payments to Suppliers and Contractors	Depreciation	Total
Instruction	\$ 53,102,802	\$ 2,037,816	\$ 9,009,983	\$ 64,150,601
Research	18,315,537	6,069,299	1,106,073	25,490,909
Public service	299,815	128,461	150,150	578,426
Academic support	17,758,013	4,462,094	2,687,822	24,907,929
Student service	6,381,236	1,884,380	9,966	8,275,582
Institutional support	30,220,234	8,803,887	2,395,951	41,420,072
Operation and maintenance of plant	8,740,459	10,683,508	2,408,610	21,832,577
Scholarships and fellowships	428,480	10,051,972	-	10,480,452
Auxiliary enterprises	11,070,136	21,761,218	3,365,903	36,197,257
Total Expenses	\$ 146,316,712	\$ 65,882,635	\$ 21,134,458	\$ 233,333,805

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

MORGAN STATE UNIVERSITY

Notes to the Financial Statements June 30, 2019 and 2018

13. SUBSEQUENT EVENTS

The University evaluated the accompanying financial statements for subsequent events and transactions through October 1, 2019, 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

	2019	2018	2017	2016	2015
The University's proportion of the net pension liability	0.422%	0.352%	0.349%	0.347%	0.297%
The University's proportionate share of the ERS net pension liability	\$ 83,001,543	\$ 71,857,509	\$ 77,422,295	\$ 67,805,629	\$ 49,822,391
State and other agencies proportionate share of the net pension liability	19,591,032,654	20,318,346,203	22,096,034,108	19,468,527,051	16,733,256,657
Total State Net Pension Liability	<u>\$ 19,674,034,197</u>	<u>\$ 20,390,203,712</u>	<u>\$ 22,173,456,403</u>	<u>\$ 19,536,332,680</u>	<u>\$ 16,783,079,048</u>
 The University's covered-employee payroll	 \$ 40,215,363	 \$ 40,081,182	 \$ 40,185,137	 \$ 39,007,196	 \$ 38,992,278
The University's proportionate share of the net pension liability as a percentage of its covered-employee payroll	206.39%	179.28%	192.66%	173.83%	127.78%
Plan fiduciary net position as a percentage of the total pension liability	71.18%	69.38%	65.79%	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 for Net Pension Liability

	2019	2018	2017	2016	2015
Contractually required contribution	\$ 7,849,256	\$ 7,803,727	\$ 8,097,317	\$ 6,916,260	\$ 6,877,006
Contributions in relation to the contractually required contribution	(7,849,256)	(7,803,727)	(8,097,317)	(6,916,260)	(6,877,006)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
University's covered-employee payroll	\$ 40,215,363	\$ 40,081,182	\$ 40,185,137	\$ 39,007,196	\$ 38,992,278
Contributions as a percentage of covered-employee payroll	19.52%	19.47%	20.15%	17.64%	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.

MORGAN STATE UNIVERSITY**Schedule of Contributions for Other Postemployment Benefits (OPEB)**

	2019	2018	2017
Statutory required contributions	<u>\$ 4,555,492</u>	<u>\$ 3,584,599</u>	<u>\$ 4,773,228</u>
Contributions in relations to statutorily required contributions	<u>\$ (4,555,492)</u>	<u>\$ (3,584,599)</u>	<u>\$ (4,773,228)</u>
Contriburion deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
University's covered-employee payroll	\$ 83,052,243	\$ 80,633,680	\$79,315,339
Contributions as a percentage of covered-employee payroll	5.485%	4.446%	6.018%

The schedule is presented to illustrate the requirement to show information for 10 years. However, information prior to June 30, 2017 is not available.