

MORGAN STATE UNIVERSITY
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND 2019

**MORGAN STATE UNIVERSITY
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YEARS ENDED JUNE 30, 2020 AND 2019**

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INDEPENDENT AUDITORS' REPORT

Board of Regents
Morgan State University
Baltimore, Maryland

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of Morgan State University (the University), a component unit of the State of Maryland, as of and for the year ended June 30, 2020, 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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the component unit financial statements of the Morgan State University Foundation, Inc. (the Foundation), which represent 100% percent of the assets, net position, and revenues of the aggregate discretely presented component unit information. Those financial statements were audited by another auditor whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based solely on the reports of the other 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.

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

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 business-type activities and the discretely presented component unit of the University, as of June 30, 2020, and the respective changes in their financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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 the pension plan, 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.

Prior-Year Comparative Information

The financial statements of the University as of and for the year ended June 30, 2019, were audited by other auditors whose report dated October 1, 2019, expressed an unmodified opinion on those statements.



CliftonLarsonAllen LLP

Baltimore, Maryland
September 30, 2020

**MORGAN STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2020 AND 2019**

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 126 programs including 49 bachelor's degrees, 39 masters' degrees, 16 doctorate degrees, 12 post-baccalaureate certificates. In 2020, the University added four new degree programs, including a new Bachelor of Science in Cloud Computing, the only such degree offered in Maryland. 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-two 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 first for doctoral degrees awarded to African Americans for bioenvironmental sciences, community college leadership, engineering, and history. Morgan continues to be one of the nation's leading producers of African American engineers and STEM graduates.

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 later, in 2017, designated the University as Maryland's Preeminent Public Urban Research University with the signing of SB1085 into law by Governor Larry Hogan.

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.

**MORGAN STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2020 AND 2019**

OVERVIEW OF THE UNIVERSITY (CONTINUED)

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 153 years of success, purpose, promise, and progress. In 2018, the University completed its \$250 million Anniversary Campaign which has given birth to 30 new research and academic programs, and new scholarship opportunities for students. Also in December 2018, the University reached another milestone by being reclassified as an "R2" (high research) institution by the Carnegie Classification of Institutions of Higher Education. Morgan is one of the nation's 11 HBCU high research universities. This new designation is consistent with the University strategic plan enhancing Morgan's status as a doctoral research university.

The University's strategic plan (2011-2021) will be ending next year. The President formed a new strategic planning committee in March 2020. The committee will work with university constituents to develop a new strategic plan through 2030. One of the hallmark goals will be to elevate Morgan to very high research of R1 level.

Fiscal year 2020 is an unusual year because of the world-wide pandemic that infected the world. This extraordinary event had an adverse effect on the higher education industry. Morgan was not immune to this event, and the impact of the COVID-19 pandemic is reflected in the financial statements presented within. Management has made reference to the impact of COVID-19 where appropriate. The pandemic impacted the last four months of the fiscal year and will have an effect on the next fiscal year. The University's management with the guidance of its Board of Regents developed a very detailed plan at the early beginning of this pandemic event. Morgan intends to stay focus in meeting its mission and vision. The new strategic planning process will address post-COVID-19 impacts with an opportunity for future growth to meets the needs of our students, faculty and staff.

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, 2020 and 2019, with comparative information for 2018. 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.

**MORGAN STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2020 AND 2019**

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.

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, 2020, was \$78.5 million.

As of June 30, 2020, the University had \$637.8 million in assets plus \$22.4 million in deferred financing outflows that totals \$660.2 million. This compares to the June 30, 2019 and 2018 totals of \$646.3 and \$604.1 million, respectively. The increase in total assets were driven by an increase in net capital assets.

As of June 30, 2020, the University had \$169.9 million in liabilities plus \$8.8 million in deferred financing inflows that totals \$178.7 million. This compares to the June 30, 2019 and 2018 totals of \$183.7 and \$167.7 million, respectively. The changes in liabilities are primarily due to fluctuations in the pension liability and a new loan payable.

The University generated \$279.9 million in total revenue for the year ended June 30, 2020. This was a 1.5% increase over the prior year and 11.7% increase over the same period from 2019. Total operating expenses were \$259.0 million in 2020, an increase of 5.5%, compared to prior operating expenses of \$245.5 million and \$233.4 in 2019 and 2018, respectively. It should be noted in 2020, the University incurred an additional \$12.7 million in COVID-19 related expenses. When these one-time expenses are excluded, the adjusted total operating expenses were \$246.2 million, a modest .6 million increase over the prior year, or .2%. This operation performance resulted in an increase in net asset position of \$18.8 million. For June 30, 2020, the University's net asset position was \$481.5 million.

**MORGAN STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2020 AND 2019**

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.

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.

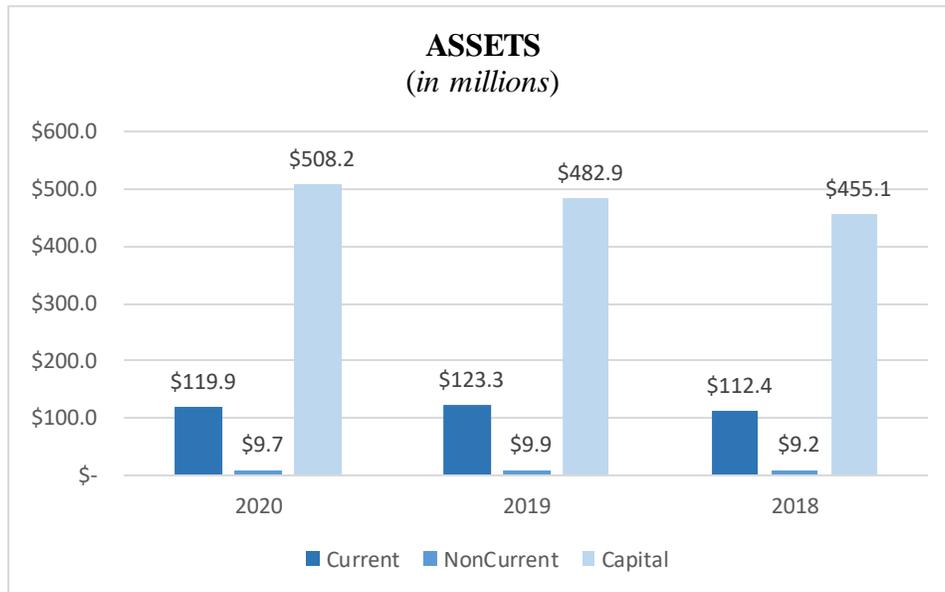
BALANCE SHEET SUMMARY (IN MILLIONS)

| | As of June 30, | | |
|--|-----------------|-----------------|-----------------|
| | 2020 | 2019 | 2018 |
| ASSETS | | | |
| Current Assets | \$ 119.9 | \$ 123.3 | \$ 112.4 |
| Non-Current Assets: | | | |
| Capital Assets, Net | 508.2 | 482.9 | 455.1 |
| Other Non-Current Assets | 9.7 | 9.9 | 9.2 |
| Total Non-Current Assets | <u>517.9</u> | <u>492.8</u> | <u>464.3</u> |
| Total Assets | <u>637.8</u> | <u>616.1</u> | <u>576.7</u> |
| Deferred Financing Outflows | 22.4 | 30.2 | 27.4 |
| Total Assets and Deferred Outflows | <u>\$ 660.2</u> | <u>\$ 646.3</u> | <u>\$ 604.1</u> |
| LIABILITIES | | | |
| Current Liabilities | 43.7 | 41.7 | 34.2 |
| Non-Current Liabilities | 126.2 | 133.4 | 124.5 |
| Total Liabilities | <u>169.9</u> | <u>175.1</u> | <u>158.7</u> |
| Deferred Financing Inflows | 8.8 | 8.6 | 9.0 |
| Total Liabilities and Deferred Inflows | <u>178.7</u> | <u>183.7</u> | <u>167.7</u> |
| NET POSITION | | | |
| Net Investment in Capital Assets | \$ 459.9 | \$ 434.5 | \$ 405.0 |
| Restricted | 11.8 | 11.9 | 10.9 |
| Unrestricted | 9.8 | 16.2 | 20.5 |
| Total Net Position | <u>481.5</u> | <u>462.6</u> | <u>436.4</u> |
| Total Liabilities, Deferred Inflows, and Net Position | <u>\$ 660.2</u> | <u>\$ 646.3</u> | <u>\$ 604.1</u> |

**MORGAN STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2020 AND 2019**

ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATION (CONTINUED)

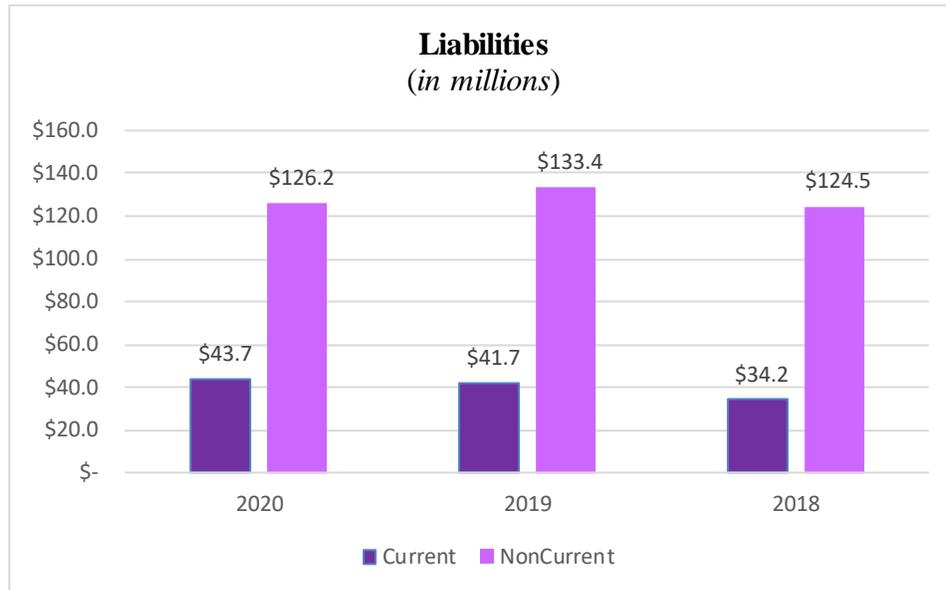
Assets included in the balance sheet are classified as current and noncurrent. Current assets consist, primarily, of cash and cash equivalents, investments and accounts receivable. Noncurrent assets consist primarily of plant and equipment known as capital assets. Current assets of \$119.9 million represented a decrease of \$3.4 million, or 3 % compared to an increase of \$10.9 million, or 3.4 % from 2020 and 2019, respectively, primarily due to a decrease in accounts receivable. Noncurrent and capital assets of \$517.9 million increased \$25.1 million and increased \$28.4 million, or 5.1% and 6.1% from 2020 and 2019, respectively, due to an increase in Construction In Progress as the construction of the new student services building is nearing completion.



Noncurrent liabilities of \$126.2 million (2020), \$133.4 million (2019), and \$124.5 million (2018) include the net pension liability and other long-term debt. The University continues to pay down debt, with a decline in long term bond obligations of \$ 5.6 million in 2020.

**MORGAN STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2020 AND 2019**

ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATION (CONTINUED)

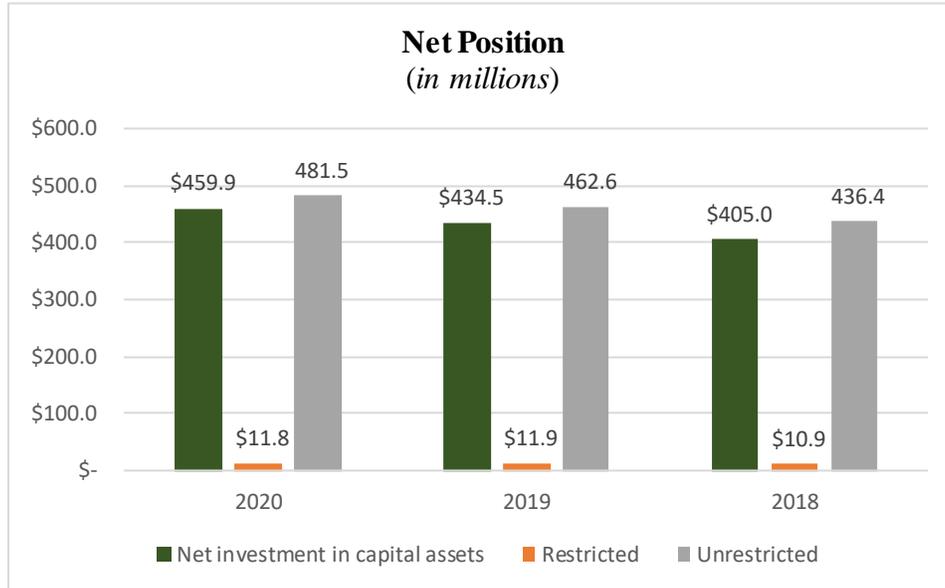


As of June 30, 2020, the University's net position was \$481.5 million, compared to \$462.6 million and \$436.4 million as of June 30, 2019 and 2018, respectively. This represents an \$18.9 million increase or 4.1% in net position from the June 30, 2019 net position primarily as the result of an increase of capital state appropriations.

Net Investment in capital assets represents the University's capital assets ownership less any related obligations, while the \$11.8 million in restricted net position consists of investments given to the University for scholarships and a lecture series, the Federal Perkins loan program, and funds invested for capital debt service and disbursements. The University's unrestricted net position is \$9.8 million representing a \$1.2 million decrease from 2019.

**MORGAN STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2020 AND 2019**

ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATION (CONTINUED)



Over the last three years the University's net position has been favorable increasing \$18.9 million or 4.1% for the current fiscal year 2020 level of \$481.5 million. This combined growth demonstrates the University's continued strengthening of its financial position.

**MORGAN STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2020 AND 2019**

SUMMARY OF REVENUES AND OPERATING AND NONOPERATING 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 nonoperating, and the expenses paid by the University, operating and nonoperating, and any other revenues, expenses, gains and losses received or spent by the University.

Generally, operating revenues are received for providing educational learning 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 \$158.6 million or 61.2% of \$259.0 million.

Nonoperating revenues are revenues received for which goods and services are not provided. For example, the University's state appropriations are nonoperating 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)

| | As of June 30, | | |
|--|------------------------|------------------------|------------------------|
| | 2020 | 2019 | 2018 |
| OPERATING REVENUES | | | |
| Tuition and Fees, Net | \$ 50.1 | \$ 49.4 | \$ 50.4 |
| Other | 58.0 | 63.0 | 64.4 |
| Total Operating Revenues | <u>108.1</u> | <u>112.4</u> | <u>114.8</u> |
| NONOPERATING REVENUES | | | |
| State Appropriations | 104.9 | 97.4 | 93.7 |
| Pell Grants and Cares Award | 29.5 | 17.1 | 16.5 |
| Other Nonoperating Revenues | 1.9 | 2.7 | 1.7 |
| Total Liabilities and Deferred Inflows | <u>136.3</u> | <u>117.2</u> | <u>111.9</u> |
| OTHER REVENUES | | | |
| Capital Appropriations | <u>35.0</u> | <u>45.6</u> | <u>19.7</u> |
| Total Revenues | <u><u>\$ 279.4</u></u> | <u><u>\$ 275.2</u></u> | <u><u>\$ 246.4</u></u> |

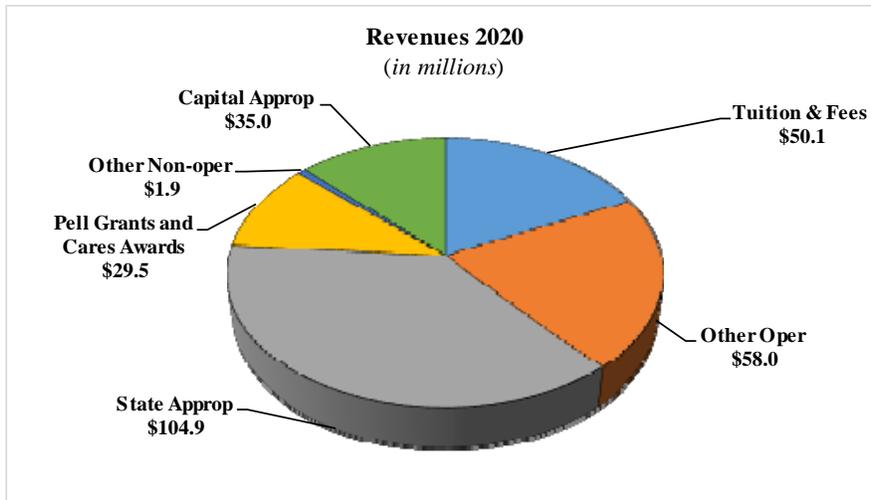
**MORGAN STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2020 AND 2019**

SUMMARY OF REVENUES AND OPERATING AND NONOPERATING EXPENSES (CONTINUED)

University revenues are comprised of three major categories, operating revenue, nonoperating and other revenue. For the year ended June 30, 2020, the University's total revenues were \$279.4 million, an increase of \$4.2 million or 1.5%. For the year ended June 30, 2020, operating revenues of \$116.6 million increased by \$4.2 million from year ended June 30, 2019.

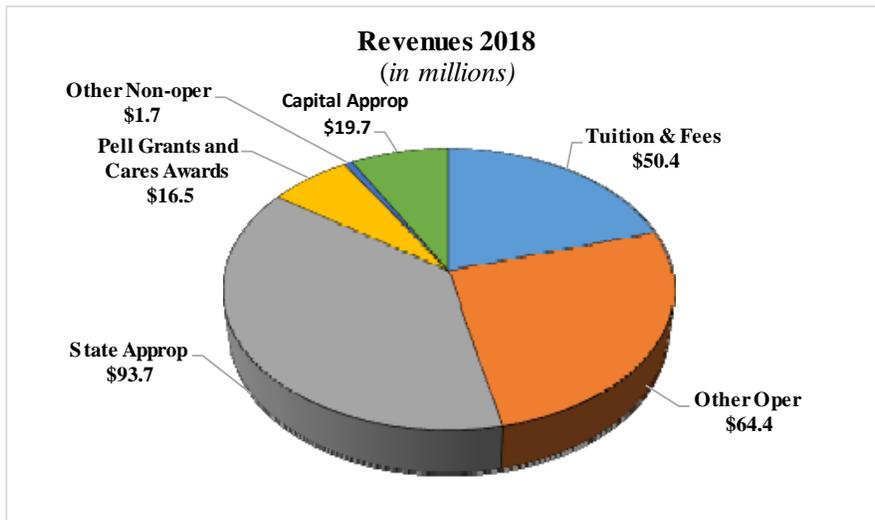
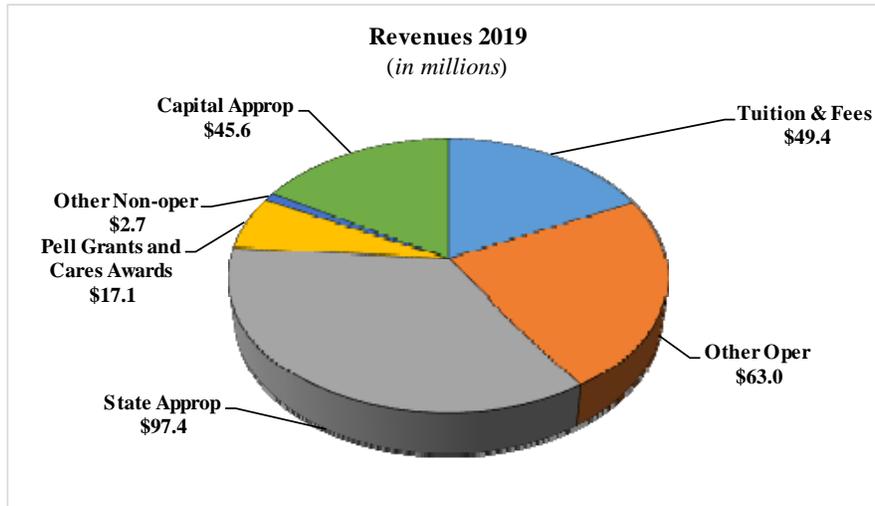
For the years ended June 30, 2020 and 2019, nonoperating revenues of \$136.3 million and \$117.2 million, increased \$19.1 million and \$5.3 million, respectively, due to the higher State appropriations for the period and additional funds related to the COVID-19 pandemic. The State of Maryland continues to provide strong support for the University affirming the positive return on investment that Morgan State University represents. Other revenues of \$35.0 million consist of capital appropriations from the State of Maryland. The capital appropriations were \$45.6 and \$19.7 million for 2019 and 2018, 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 2020 is due primarily to the timing of the cash flow 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.

The graphs below show the University's revenue distribution by category for 2020 and 2019. As evidenced by the graph the Universities' state appropriation has increased, while other categories are fairly consistent. Other operating revenue declined largely due to the impact of COVID-19 resulting in lower auxiliary related revenue



**MORGAN STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2020 AND 2019**

SUMMARY OF REVENUES AND OPERATING AND NONOPERATING EXPENSES (CONTINUED)



**MORGAN STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2020 AND 2019**

SUMMARY OF OPERATING AND NONOPERATING EXPENSES (IN MILLIONS)

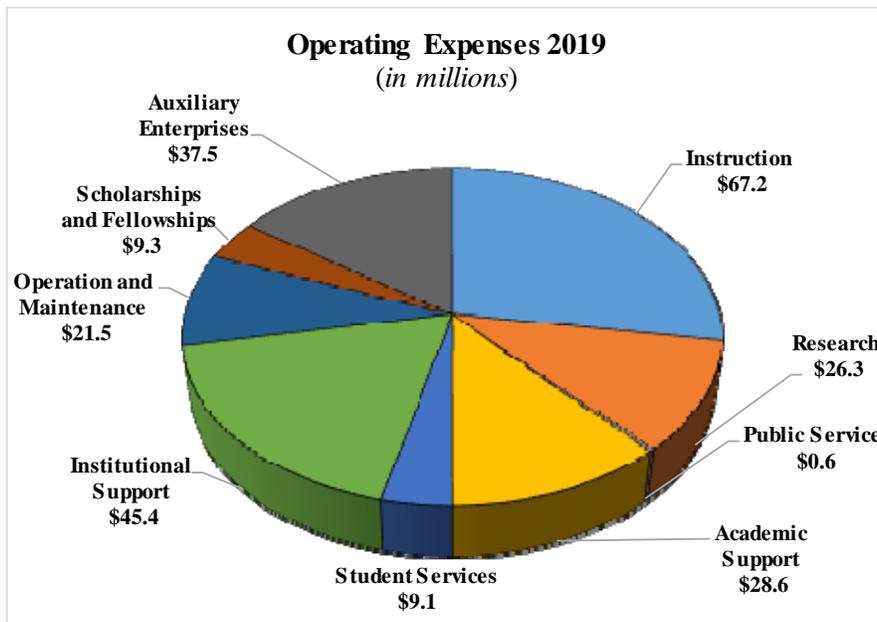
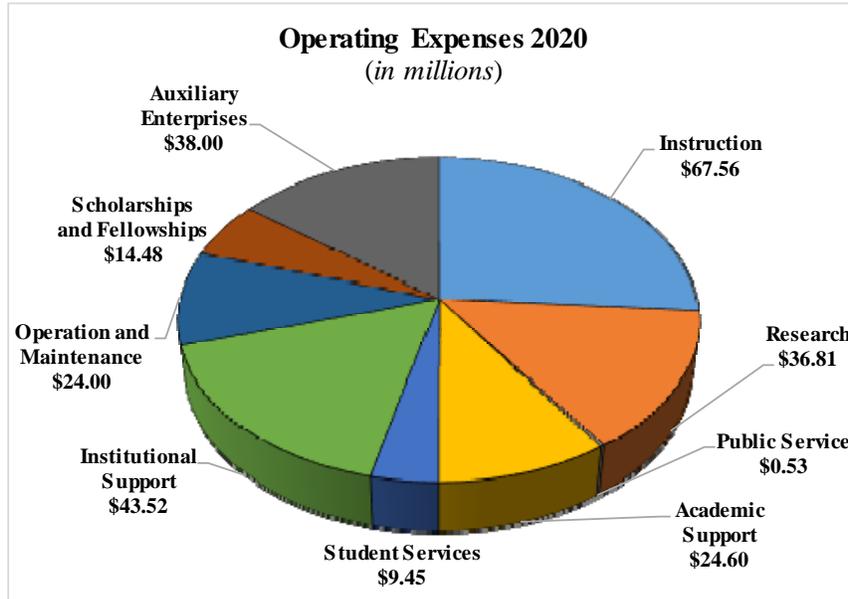
| | As of June 30, | | |
|------------------------------------|-----------------|-----------------|-----------------|
| | 2020 | 2019 | 2018 |
| OPERATING EXPENSES | | | |
| Instruction | \$ 67.6 | \$ 67.2 | \$ 64.2 |
| Research | 36.8 | 26.3 | 25.5 |
| Public Service | 0.5 | 0.6 | 0.6 |
| Academic Support | 24.6 | 28.6 | 24.9 |
| Student Services | 9.5 | 9.1 | 8.3 |
| Institutional Support | 43.5 | 45.4 | 41.4 |
| Operation and Maintenance of Plant | 24.0 | 21.5 | 21.8 |
| Scholarships and Fellowships | 14.5 | 9.3 | 10.5 |
| Auxiliary Enterprises | 38.0 | 37.5 | 36.2 |
| Total Operating Expenses | <u>259.0</u> | <u>245.5</u> | <u>233.4</u> |
| NONOPERATING EXPENSES | | | |
| Interest in Indebtedness | 1.3 | 1.6 | 1.8 |
| Capital Expense | 0.4 | 1.3 | 9.0 |
| Other Expenses | - | 0.5 | - |
| Total Nonoperating Expenses | <u>1.7</u> | <u>3.4</u> | <u>10.8</u> |
| Total Expenses | <u>\$ 260.6</u> | <u>\$ 248.9</u> | <u>\$ 244.2</u> |

Total operating and nonoperating expenses for the year ended June 30, 2020, was \$260.6 million, an increase of \$11.7 million or 4.7%. For the year ended June 30, 2019, total expenses increased \$4.7 million or 1.9%. Interest expense decreased by \$.3 million in 2020 and \$0.2 million in 2019, due to the 2012 debt refinancing.

For the year ended June 30, 2020, total operating expenses of \$259.0 million were higher by \$13.5 million or 5.5%. As stated previously, in 2020 operating expenses included COVID-19 related expenses of \$12.7 million. Excluding this one-time event, 2020 operating expenses were \$246.2 million representing a very small increase of \$.6 million compared to 2019. For the year ended June 30, 2019, total operating expenses increased by \$12.1 million or 5.2%. Operating expenses fluctuate primarily due to variations in the pension expense.

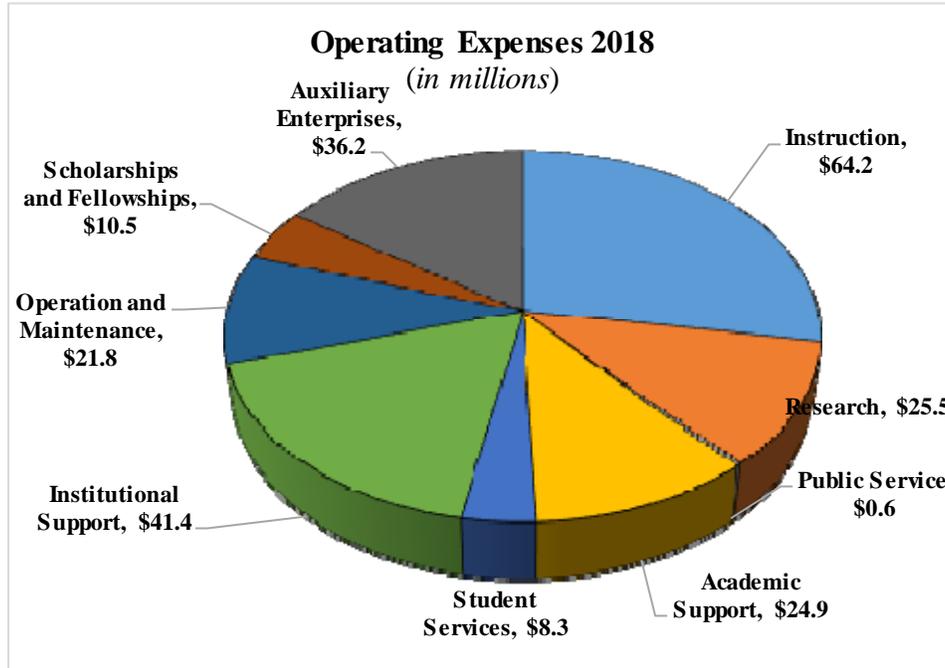
**MORGAN STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2020 AND 2019**

SUMMARY OF REVENUES AND OPERATING AND NONOPERATING EXPENSES (CONTINUED)



**MORGAN STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2020 AND 2019**

SUMMARY OF REVENUES AND OPERATING AND NONOPERATING EXPENSES (CONTINUED)



SUMMARY OF OPERATING RESULTS

The University realized an increase in its net position of \$18.8 million or 4.1% during fiscal year 2020. 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 University's financial management team continues to guide the University to meeting its long-term financial goals.

| | As of June 30, | | |
|---|-----------------|-----------------|-----------------|
| | 2020 | 2019 | 2018 |
| Net Position - Beginning of Year | \$ 462.7 | \$ 436.4 | \$ 434.1 |
| Total Revenues | 279.4 | 275.2 | 246.5 |
| Total Expenses | (260.6) | (248.9) | (244.2) |
| Increase in Net Position | 18.8 | 26.3 | 2.3 |
| NET POSITION - END OF YEAR | <u>\$ 481.5</u> | <u>\$ 462.7</u> | <u>\$ 436.4</u> |

**MORGAN STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2020 AND 2019**

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 noncapital financing activities and reflects nonoperating 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)

| | As of June 30, | | |
|--|-----------------|-----------------|----------------|
| | 2020 | 2019 | 2018 |
| Cash (Used) Provided By: | | | |
| Operating Activities | \$ (115.9) | \$ (98.6) | \$ (99.1) |
| Noncapital Financing Activities | 134.6 | 114.2 | 109.8 |
| Capital and Related Financing Activities | (21.2) | (8.1) | (6.9) |
| Investing Activities | 1.7 | 7.4 | 1.6 |
| Net (Decrease)/Increase in Cash and Cash Equ | (0.9) | 14.9 | 5.4 |
| Cash and Cash Equivalents - Beginning of Year | 110.2 | 95.3 | 89.9 |
| CASH AND CASH EQUIVALENTS - END OF YEAR | \$ 109.3 | \$ 110.2 | \$ 95.3 |

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 noncapital financing. Noncapital state appropriation receipts were \$104.9 million in 2020, \$97.4 million in 2019, and \$93.7 million in 2018.

**MORGAN STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2020 AND 2019**

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) The University is in its second year of a comprehensive deferred maintenance program.
- 2) Campus-wide utility upgrades
- 3) Construction of the new Student Services building
- 4) The New health and Human services building

Opening in spring 2020, the newly constructed Calvin and Tina Tyler Hall houses student services and administrative support services including Admissions, Records and Registration, Financial Aid, Bursar, Comptroller, and Human Resources. The 139,000 square foot facility encompasses five stories and was designed to achieve LEED Silver Certification for optimum energy and environmental efficiency.

The University has a \$ 50 Million deferred maintenance program underway. Through the first two years the University has spent more than \$22 million addressing deferred maintenance issues throughout the campus. 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, 2020, the University had \$44.3 million in outstanding long-term debt versus \$48.4 and \$50.2 million in 2019 and 2018, respectively. The table below summarizes these amounts in millions by type of debt instrument.

| | As of June 30, | | |
|-------------------|----------------|----------------|----------------|
| | 2020 | 2019 | 2018 |
| Revenue Bonds | \$ 25.8 | \$ 30.4 | \$ 34.9 |
| Loans Payable | 7.5 | 4.8 | - |
| Lease Obligations | 11.1 | 13.2 | 15.3 |
| Total | <u>\$ 44.3</u> | <u>\$ 48.4</u> | <u>\$ 50.2</u> |

**MORGAN STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2020 AND 2019**

SUMMARY AND ECONOMIC TRENDS

During 2020, all higher education institutions experienced an unprecedented era due to COVID 19. In March, Morgan, like many other institutions, moved to a 100% remote learning and work environment following the mandates of Governor Larry Hogan of the State of Maryland. The University responded with significant investments in technology to support this remote learning and work environment. Additionally, the University completed a very comprehensive cleaning and disinfecting protocol for the entire campus. The University's leadership team developed a proactive and an aggressive approach to ensuring an excellent educational learning environment for its students, faculty and staff. Given the uncertainty and challenges around the pandemic, the University developed an interim comprehensive financial management plan. Consistent with the University's current financial plan, this new plan is also based on sound principles and linked directly to the University's strategic plan to ensure that the quality of student's education remained at the highest level. The plan included two options for fall 2020. The first option was a hybrid model that provided students an option to remote learn or to in-person learn with social distancing protocols. The second option was a primarily on-line learning model. As the fall approached, Morgan opted for the primarily on-line as COVID 19 cases in Maryland continued to rise. Currently for fall 2020, Morgan has opted to offer primarily on-line instruction except for research and laboratory programs due to the pandemic.

The higher education industry has been severely impacted by the pandemic. The rating agencies has changed their outlook to negative for the higher education sector. Morgan was not insulated from the effect of the pandemic. The financial impact for the spring in FY2020 resulted in a decrease of student fee revenues which resulted in student refunds of approximately \$5 million. As mentioned previously, there were facilities and technology upgrades resulting in increased costs to ensure effective remote learning environments and creating a safe work environment for essential employees. These additional costs totaled approximated \$4 million for FY2020. In April 2020, Morgan was awarded Cares Act funding from the Federal government that helped to mitigate these costs that totaled approximately \$28 million. Of this amount, \$4.6 million was designated for Morgan students, \$4.6 million for the University for primarily technology needs to ensure successful remote learning, and \$19 million of HBCU funding designated to support and mitigate the COVID-19 impact. The initial amount designated for students of \$4.2 M was disbursed to 4,282 eligible students based on financial need using information from the 2019-2020 FAFSA. A sliding scale based on expected family contribution (EFC) and number of credits enrolled in during spring 2020 was used to determine the amount awarded to each eligible student. Students with EFC up to \$10,000 were eligible for these funds. The remainder of the emergency financial aid grant funding \$.437 was provided to eligible students through the Morgan State University Emergency Student Grant Fund. Students may apply here: <https://www.morgan.edu/studentemergencyfund>. As of September 21, 2020, 76 students have been awarded a total of \$53,242.84 in CARES-2 funding.

In addition, the University received Cares Act funding from the State of Maryland through an operating budget amendment that totaled approximately \$2.5 million for FY2020. These funds were primarily used for additional security expenses and technology needs as a result of the pandemic.

**MORGAN STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2020 AND 2019**

SUMMARY AND ECONOMIC TRENDS (CONTINUED)

Given the adverse impact of the pandemic on the Morgan family, the University's Board of Regents rescinded the FY 2020-2021 tuition increase. The University also made the decision to reduce its mandatory fees by 15% for the fall semester. Due to the 100% remote instruction modality, room and board fee revenue has declined as well. It is anticipated the fall enrollment will decline approximately 3-5%. This will cause a decrease in expected revenue of approximately \$5 million in tuition and fees. The State of Maryland has also projected a decrease of operating appropriations for FY2021 of approximately \$9 million. As reported above, Morgan has taken a proactive and aggressive approach to maintain financial stability through cost reduction measures, a hiring freeze, furloughs/salary reductions and substantial improvement in processes to increase efficiency.

Despite the impact of the pandemic, and to continue Morgan's mission and status of Maryland's preeminent urban research institute, Morgan has continued to pursue grant funding opportunities in response to the pandemic and to continue its research as a R2 institution.

Morgan received a grant of a \$110,000 grant from the Andrew W. Mellon Foundation for emergency student support to bridge financial fallout resulting from the COVID-19 pandemic. The grant also aims to provide much-needed relief assisting MSU's efforts to stabilize enrollments for the academic year.

Morgan was also 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.

The Institute of Museum and Library Services (IMLS) awarded Morgan State University (MSU) a one-year, \$248,551 grant to implement a comprehensive interpretive project titled, "Ellen Irene Diggs: Creating Pathways for Young Pioneers."

Morgan's James H. Gilliam, Jr. College of Liberal Arts (CLA) received a \$150,000 grant from the Henry Luce Foundation to advance community-based efforts and programs to address the critical challenges associated with the COVID-19 pandemic. The Morgan grant comes as part of nearly \$5 million that the Henry Luce Foundation has awarded nationwide to rapidly address COVID-19-related needs and relieve budget shortfalls during these unprecedented times.

Morgan received a \$500,000 grant award from the National Park Service (NPS) to advance the federal agency's commitment to the preservation of historic structures on campuses of Historically Black Colleges and Universities (HBCUs). The grant awarded to Morgan will underwrite complete restoration of the original windows of the University Memorial Chapel.

In support of Morgan'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.

**MORGAN STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2020 AND 2019**

SUMMARY AND ECONOMIC TRENDS (CONTINUED)

The strengths in continued excellence in research, cost containment measures, continual improvement in technology infrastructure and systems, and preparedness for both continued remote learning and hybrid models will provide Morgan the tools to remain financially stable and to continue to be successful despite any environment. Morgan is determined to be at the fore front for proactively adjusting to changing environments and conditions.

Morgan is cautiously planning for the spring semester and assessing the long term effects of the COVID-19. It is apparent that the higher education industry will be looking at a new normal as it pertains to educational delivery systems for the future. Additionally, the current business model for higher education could be altered as well. Since Morgan has recently started its new strategic planning process, this process will include a complete assessment of academic programs, learning modalities and the business and budget models. Morgan intends to make sure it takes advantage of the opportunity to enhance the long term financial sustainability for now and into the future.

**MORGAN STATE UNIVERSITY
BALANCE SHEETS
JUNE 30, 2020 AND 2019**

| | 2020 | 2019 |
|---|----------------|----------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and Cash Equivalents | \$ 103,747,003 | \$ 104,756,449 |
| Accounts Receivable, Net of Allowance for Doubtful Accounts of \$3,008,807 and \$3,191,541, Respectively | 15,631,639 | 17,870,319 |
| Notes Receivable | 79,967 | 57,576 |
| Inventories | 193,547 | 220,070 |
| Prepaid Expenses | 210,737 | 430,816 |
| Total Current Assets | 119,862,893 | 123,335,230 |
| NONCURRENT ASSETS | | |
| Restricted Cash and Cash Equivalents | 5,513,810 | 5,355,466 |
| Endowment Investments | 2,855,118 | 3,106,109 |
| Notes Receivable (Net of Allowance for Doubtful Notes of \$705,187 and \$691,447, respectively) | 1,361,442 | 1,443,976 |
| Capital Assets, Net | 508,189,042 | 482,948,858 |
| Total Noncurrent Assets | 517,919,412 | 492,854,409 |
| Total Assets | 637,782,305 | 616,189,639 |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Total Assets and Deferred Outflows | \$ 660,180,937 | \$ 646,357,334 |
| LIABILITIES | | |
| CURRENT LIABILITIES | | |
| Accounts Payable and Accrued Liabilities | \$ 24,252,530 | \$ 21,719,582 |
| Unearned Revenue | 6,577,314 | 6,400,565 |
| Funds Held for Other Organizations | 1,996,110 | 2,168,595 |
| Accrued Workers' Compensation, Current Portion | 501,000 | 572,100 |
| Accrued Vacation Costs, Current Portion | 3,424,510 | 4,276,710 |
| Revenue Bonds Payable, Current Portion | 4,917,603 | 4,420,000 |
| Obligations Under Capital Lease Agreements, Current Portion | 2,026,019 | 2,139,023 |
| Total Current Liabilities | 43,695,086 | 41,696,575 |
| NONCURRENT LIABILITIES | | |
| Non-Current Liabilities | | |
| Accrued Workers' Compensation, Net of Current Portion | 2,839,000 | 3,241,900 |
| Accrued Vacation Costs, Net of Current Portion | 7,521,497 | 5,354,872 |
| Revenue Bonds Payable, Net of Current Portion | 20,834,960 | 26,021,237 |
| Obligations Under Capital Lease Agreements, Net of Current Portion | 9,037,549 | 11,063,569 |
| Loans payable | 7,518,965 | 4,761,938 |
| Net Pension Liability | 78,493,621 | 83,001,543 |
| Total Non-Current Liabilities | 126,245,592 | 133,445,059 |
| Total Liabilities | 169,940,678 | 175,141,634 |
| DEFERRED INFLOWS OF RESOURCES | | |
| Total Liabilities and Deferred Financing Inflows | 178,711,128 | 183,704,964 |
| NET POSITION | | |
| Net Investment in Capital Assets | 459,855,750 | 439,898,557 |
| Restricted: | | |
| Expendable: | | |
| Scholarships and Fellowships | 4,828,488 | 4,958,929 |
| Loans | 1,488,767 | 1,557,224 |
| Debt Service | 5,513,810 | 5,355,466 |
| Total Expendable Net Position | 11,831,065 | 11,871,619 |
| Unrestricted Net Position | 9,782,994 | 10,882,194 |
| Total Net Position | 481,469,809 | 462,652,370 |
| Total Liabilities, Deferred Inflows, and Net Position | \$ 660,180,937 | \$ 646,357,334 |

See accompanying Notes to Financial Statements.

MORGAN STATE UNIVERSITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

| | 2020 | 2019 |
|---|----------------|----------------|
| OPERATING REVENUES | | |
| Tuition and Fees | \$ 67,426,909 | \$ 68,267,388 |
| Less: Scholarship Allowances | (17,361,107) | (18,914,515) |
| Total | 50,065,802 | 49,352,873 |
| Federal Grants and Contracts | 27,038,259 | 25,322,987 |
| State and Local Grants and Contracts | 1,516,790 | 1,491,443 |
| Private Gifts, Grants and Contracts | 1,654,361 | 1,788,348 |
| Sales and Services Educational | 511,497 | 624,889 |
| Auxiliary Enterprises, Net | 23,895,393 | 28,997,427 |
| Other Revenues | 3,418,037 | 4,813,534 |
| Total Operating Revenues | 108,100,139 | 112,391,501 |
| OPERATING EXPENSES | | |
| Instruction | 67,560,183 | 67,249,029 |
| Research | 36,809,874 | 26,310,892 |
| Public Service | 531,524 | 599,955 |
| Academic Support | 24,603,911 | 28,564,834 |
| Student Services | 9,452,146 | 9,096,749 |
| Institutional Support | 43,515,790 | 45,383,562 |
| Operation and Maintenance of Plant | 24,003,560 | 21,541,444 |
| Scholarships and Fellowships | 14,476,279 | 9,288,280 |
| Auxiliary Enterprises | 37,999,399 | 37,528,493 |
| Total Operating Expenses | 258,952,666 | 245,563,238 |
| OPERATING LOSS | (150,852,527) | (133,171,737) |
| NONOPERATING REVENUES (EXPENSES) | | |
| State Appropriations | 104,890,339 | 97,412,257 |
| Pell Grants | 16,835,919 | 17,063,057 |
| CARES Act Grants | 12,702,823 | - |
| Investment Income | 1,436,384 | 2,663,627 |
| Interest on Indebtedness | (1,303,851) | (1,563,779) |
| Other Nonoperating Revenues/(Expenses) | 483,674 | (487,429) |
| Total Non-Operating Revenues, Net | 135,045,288 | 115,087,733 |
| LOSS BEFORE OTHER REVENUES, (EXPENSES), GAINS AND (LOSSES) | (15,807,239) | (18,084,004) |
| OTHER REVENUES, (EXPENSES), GAINS AND (LOSSES) | | |
| Capital Appropriations | 34,991,248 | 45,632,928 |
| Capital Expenses | (370,450) | (1,304,690) |
| Other (Gains)/ Losses | 3,880 | (20,043) |
| Total Other Revenues, (Expenses), Gains and (Losses) | 34,624,678 | 44,308,195 |
| INCREASE IN NET POSITION | 18,817,439 | 26,224,191 |
| Net Position - Beginning of Year | 462,652,370 | 436,428,179 |
| NET POSITION - END OF YEAR | \$ 481,469,809 | \$ 462,652,370 |

See accompanying Notes to Financial Statements.

**MORGAN STATE UNIVERSITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

| | 2020 | 2019 |
|---|----------------|----------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Tuition and Fees | \$ 51,159,485 | \$ 53,564,281 |
| Contracts and Grants | 28,711,758 | 28,081,984 |
| Payments to Employees | (154,003,363) | (149,535,772) |
| Payments to Suppliers and Contractors | (72,530,474) | (60,480,476) |
| Loans Issued to Students | (16,179) | (500) |
| Collections of Loans from Students | 76,438 | 80,941 |
| Auxiliary Enterprises Charges: | | |
| Residence Halls and Dining Facilities | 23,895,393 | 28,997,427 |
| Other Receipts | 6,758,879 | 740,124 |
| Net Cash Used by Operating Activities | (115,948,063) | (98,551,991) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| State Appropriations | 104,890,339 | 97,412,257 |
| Pell Grants and Cares Award | 29,538,742 | 17,063,057 |
| Other Nonoperating Cost Paid | 218,878 | (294,095) |
| Net Cash Provided by Noncapital Financing Activities | 134,647,959 | 114,181,219 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Capital Appropriations | 30,993,051 | 45,632,928 |
| Proceeds from Capital Debt | 2,757,027 | 4,761,938 |
| Capital Expenses | (370,450) | (1,304,690) |
| Purchases of Capital Assets | (46,755,126) | (48,837,222) |
| Principal Payments on Debt and Capital Leases | (6,559,023) | (6,275,979) |
| Interest Paid on Debt and Capital Leases | (1,303,851) | (1,563,779) |
| Loan Issuance Cost | - | (487,429) |
| Net Cash Used by Capital and Related Financing Activities | (21,238,372) | (8,074,233) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from Sales and Maturities of Investments | 5,513,809 | 10,602,343 |
| Interest on Investments | 1,687,375 | 2,242,200 |
| Purchases of Investments | (5,513,810) | (5,593,258) |
| Net Cash Provided by Investing Activities | 1,687,374 | 7,251,285 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | (851,102) | 14,806,280 |
| Cash and Cash Equivalents - Beginning of Year | 110,111,915 | 95,305,635 |
| CASH AND CASH EQUIVALENTS - END OF YEAR | \$ 109,260,813 | \$ 110,111,915 |

See accompanying Notes to Financial Statements.

**MORGAN STATE UNIVERSITY
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

| | 2020 | 2019 |
|---|-------------------------|------------------------|
| RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES | | |
| Operating Loss | \$ (150,852,527) | \$ (133,171,737) |
| ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES | | |
| Depreciation Expense | 21,514,945 | 21,072,691 |
| EFFECT OF CHANGES IN NONCASH OPERATING ASSETS AND LIABILITIES | | |
| Accounts Receivable, Net | 2,238,680 | (1,359,803) |
| Notes Receivable, Net | 60,143 | 80,319 |
| Inventories | 26,523 | 145,160 |
| Prepaid Expenses | 220,079 | (286,060) |
| Funds Held for Other Organizations | (172,485) | 139,924 |
| Accounts Payable and Accrued Liabilities | 6,531,144 | 6,800,680 |
| Unearned Revenue | 176,749 | 55,868 |
| Pension Costs, Net | 3,468,261 | 7,874,587 |
| Accrued Workers' Compensation | (474,000) | (163,000) |
| Accrued Vacation | 1,314,425 | 259,380 |
| NET CASH FROM OPERATING ACTIVITIES | \$ (115,948,063) | \$ (98,551,991) |
| RECONCILIATION TO STATEMENT OF NET POSITION | | |
| Cash and Cash Equivalents | \$ 103,747,003 | \$ 104,756,449 |
| Restricted Cash and Cash Equivalents | 5,513,810 | 5,355,466 |
| Total Cash and Cash Equivalents | \$ 109,260,813 | \$ 110,111,915 |
| NONCASH TRANSACTIONS | | |
| Change in fair market value of investments | \$ (250,991) | \$ 346,380 |
| Change in worker's compensation liability | \$ (474,000) | \$ 506,475 |
| Decrease in bond accretion | \$ 268,674 | \$ 274,053 |
| Capital expenditures included in accounts payable | \$ 3,998,196 | \$ 2,716,791 |

See accompanying Notes to Financial Statements.

MORGAN STATE UNIVERSITY
STATEMENTS OF FINANCIAL POSITION – MORGAN STATE UNIVERSITY FOUNDATION, INC.
AS OF JUNE 30, 2020 AND 2019

| | 2020 | 2019 |
|--|---------------|---------------|
| ASSETS | | |
| Cash and Cash Equivalents | \$ 8,523,117 | \$ 6,411,679 |
| Investments | 39,278,135 | 37,424,722 |
| Pledges Receivable, Net of Discount of \$893,431 and \$276,486, Respectively and Allowance of \$602,099 and \$426,666, Respectively | - | 8,743,498 |
| Other Assets and Deposits | 114,732 | 153,332 |
| Total Assets | \$ 52,772,592 | \$ 52,733,231 |
| LIABILITIES AND NET ASSETS | | |
| Accounts Payable and Accruals | \$ 192,678 | \$ 173,892 |
| NET ASSETS | | |
| Without Donor Restrictions | 659,860 | 397,372 |
| With Donor Restrictions | 51,920,054 | 52,161,967 |
| Total Net Assets | 52,579,914 | 52,559,339 |
| Total Liabilities and Net Assets | \$ 52,772,592 | \$ 52,733,231 |

See accompanying Notes to Financial Statements.

MORGAN STATE UNIVERSITY
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS – MORGAN STATE UNIVERSITY FOUNDATION, INC.
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

| | 2020 | | | 2019 | | |
|---|-------------------------------|----------------------------|---------------|-------------------------------|----------------------------|---------------|
| | Without Donor Restrictions | With Donor Restrictions | Total | Without Donor Restrictions | With Donor Restrictions | Total |
| REVENUES AND SUPPORT | | | | | | |
| Contributions and Fund Raising | \$ 1,338,688 | \$ 6,952,346 | \$ 8,291,034 | \$ 940,781 | \$ 13,073,462 | \$ 14,014,243 |
| Interest and Dividend Income | - | 166,003 | 166,003 | - | 382,277 | 382,277 |
| Unrealized Gain | - | 1,766,014 | 1,766,014 | - | 3,018,961 | 3,018,961 |
| Realized Gain | - | 122,842 | 122,842 | - | 27,788 | 27,788 |
| Total Revenues and Support | 1,338,688 | 9,007,205 | 10,345,893 | 940,781 | 16,502,488 | 17,443,269 |
| Net Assets Released from Restrictions: | | | | | | |
| Satisfaction of Program Restrictions | 9,249,118 | (9,249,118) | - | 7,398,768 | (7,398,768) | - |
| Total Revenues, Support, and Net Assets Released from Restrictions | 10,587,806 | (241,913) | 10,345,893 | 8,339,549 | 9,103,720 | 17,443,269 |
| EXPENSES | | | | | | |
| Grants and Scholarships | 3,261,200 | - | 3,261,200 | 1,733,656 | - | 1,733,656 |
| Program Support Expenses | 6,202,475 | - | 6,202,475 | 5,669,110 | - | 5,669,110 |
| University Support | 38,502 | - | 38,502 | 28,836 | - | 28,836 |
| General and Administrative | 689,693 | - | 689,693 | 693,874 | - | 693,874 |
| Fundraising | 133,448 | - | 133,448 | 127,011 | - | 127,011 |
| Total Expenses | 10,325,318 | - | 10,325,318 | 8,252,487 | - | 8,252,487 |
| INCREASE IN NET ASSETS | 262,488 | (241,913) | 20,575 | 87,062 | 9,103,720 | 9,190,782 |
| Net Assets - Beginning of Year | 397,372 | 52,161,967 | 52,559,339 | 310,310 | 43,058,247 | 43,368,557 |
| NET ASSETS - END OF YEAR | \$ 659,860 | \$ 51,920,054 | \$ 52,579,914 | \$ 397,372 | \$ 52,161,967 | \$ 52,559,339 |

See accompanying Notes to Financial Statements.

**MORGAN STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE UNIVERSITY

Reporting Entity

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.

The University is governed by the Board of Regents (the Board), a 15 member board, as established under Title 14 of the Education Article, Annotated Code of Maryland which is appointed for a six year term by the Governor of Maryland, except for the student regent who is appointed for a one-year term. The University is considered a component unit of the State of Maryland for financial reporting purposes and is included in the financial statements of the State of Maryland.

As required by accounting principles generally accepted in the United States of America, these financial statements present the University and its component units. 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.

During the years ended June 30, 2020 and 2019, the Foundation distributed \$38,502 and \$28,836, respectively, to the University for unrestricted purposes. The Foundation provided grants and scholarships to students of \$3,261,200 and \$1,733,656, for the years ended June 30, 2020 and 2019, 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.

Measurement Focus and Basis of Accounting

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.

The statements of revenues, expenses, and changes in net position for special-purpose governments engaged in business-type activities require an operating/ nonoperating format to be used. The University has elected to report its operating expenses by functional classification. The statements of cash flows are presented using the direct method which depicts cash flows from operating activities and a reconciliation of operating cash flows to operating income.

**MORGAN STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Operating and Nonoperating Components

Financial statement operating components include all transactions and other events that are not defined as capital and related financing, noncapital financing or investing activities. The University's principal ongoing operations determine operating activities. 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.

Current and Noncurrent

Current assets are defined as cash and other assets or resources commonly identified as those which are reasonably expected to be realized in cash or consumed during a normal operating cycle of business, usually one year or less, without interfering with the normal business operation. They can consist of cash, inventories, accounts receivable, notes receivable, marketable securities, and prepaid expenses which meet the conditions stated above. Current liabilities are defined as obligations whose liquidation is reasonably expected to require the use of existing resources properly classifiable as current assets, or the creation of other current liabilities. Other assets and liabilities which extend past the one year period are classified as noncurrent.

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.

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.

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.

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.

Inventories

Inventories are carried at cost, determined under the first-in, first-out (FIFO) basis, which is not in excess of realizable value.

**MORGAN STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Depreciation of capitalized assets is computed using the straight-line method over the estimated useful lives of the assets, as listed below.

| <u>Asset</u> | <u>Capitalization Threshold</u> | <u>Useful Life</u> |
|---|-------------------------------------|--------------------|
| Furniture, Fixtures and Equipment | \$ 5,000 | 5 Years |
| Infrastructure (Roads Bridges, tunnels and Sidewalks) | 100,000 | 40 Years |
| Buildings and Building Improvements | 250,000 | 20-40 Years |
| Land Improvements | 100,000 | 15 Years |
| Library Books | 5,000 | 50 Years |

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.

Deferred Outflows/Inflows of Resources

A deferred outflow of resources represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expenditure) until the future period. The University recognizes deferred outflows for changes in actuarial assumptions that are being amortized over a five-year period, the difference between projected and actual experience and earnings on pension plan investments, proportionate share of contributions, and contributions made subsequent to the measurement date related to pensions and OPEB.

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.

MORGAN STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about fiduciary net position of the Maryland State Retirement and Pension System (the System) and additions to/deductions from the System's fiduciary net position have been determined on the same basis as they are reported by the System. 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.

Net Position

The University's net position is classified as follows:

Net Investment in Capital Assets – This represents the University's total investment in capital assets, net of accumulated depreciation and 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.

Restricted Net Position - expendable – Restricted expendable net position includes resources in which the University is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

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.

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.

**MORGAN STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Revenue Recognition

Revenue is recognized when earned and on an accrual basis with the establishment of corresponding accounts receivable. Tuition receivables are uncollateralized obligations of students resulting from course registration. The allowance method for accounts receivable is used to measure bad debts, which include account charge-offs. The allowance for doubtful accounts is determined based upon aging analysis and management's estimation of collectability of such accounts.

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 nonoperating 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.

Reclassification

Certain amounts have been reclassified from the 2019 presentation to agree to the 2020 presentation.

Discretely Presented Component Unit of the University

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.

Basis of Accounting – Foundation

The financial statements of the Foundation are prepared on the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America.

**MORGAN STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pledges Receivable– Foundation

Unconditional pledges to give represent promises from donors to contribute monies for the Foundation's programs and activities. Such pledges are recognized as support when the pledge is made. Unconditional pledges to give where payment is due in the next year are recognized at their net realizable amounts. Unconditional pledges to give where payment is due in subsequent years are recognized at the present value of their net realizable amounts, using a discount rate.

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, 2020 and 2019, the discount rate was 0.6% and 2.6%, respectively, and the amount amortized was \$839,431 and \$276,486 for the years ended June 30, 2020 and 2019, respectively.

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

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

| | <u>2020</u> | <u>2019</u> |
|--|---------------------|---------------------|
| Promises to Give Before Unamortized Discount and Allowance for Uncollectibles | \$ 6,298,138 | \$ 9,484,098 |
| Less: Unamortized Discount | 839,431 | 276,486 |
| Total | <u>5,458,707</u> | <u>9,207,612</u> |
| Less: Allowance for Uncollectibles | 602,099 | 426,665 |
| Net Promises to Give | <u>\$ 4,856,608</u> | <u>\$ 8,780,947</u> |

The Foundation wrote off \$1,377,573 and \$614,434 in uncollectible pledges during the years ended June 30, 2020 and 2019, respectively.

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

| | <u>2020</u> | <u>2019</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 | 373,049 | 5,725,739 |
| Total | <u>\$ 6,298,138</u> | <u>\$ 9,484,098</u> |

**MORGAN STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes – Foundation –

The Foundation is exempt from income taxes, except for taxes on unrelated business income, under Section 501(c)(3) of the Internal Revenue Code and related state statutes. The Foundation did not have any unrelated business income for the years ended June 30, 2020 and 2019.

Accounting principles generally accepted in the United State of America require management of an organization to evaluate tax positions taken by the organization and recognize an income tax liability if the organization has taken a position that more likely than not would not be sustained upon examination by the IRS. Management has analyzed the tax positions taken by the Foundation and concluded that as of June 30, 2020 there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements.

Revenue and Revenue Recognition– Foundation

Revenue is recognized when earned. Program service fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Donated Services and In-Kind Contributions– Foundation

Volunteers contribute significant amounts of time to our program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by accounting principles generally accepted in the United States of America. The University has allowed the Foundation to utilize office space on its campus. The utilities, water, and the space provided at no cost to the Foundation are not deemed significant. There are no amounts for utilities, water and the space reflected in the financial statements. Contributed goods are recorded at fair value at the date of donation. The Foundation records donated professional services at the respective fair values of the services received.

Net Assets – Foundation

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment.

MORGAN STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets– Foundation (Continued)

Net Assets With Donor Restrictions – Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

NOTE 2 DEPOSITS AND INVESTMENTS

Deposits in State of Maryland Cash Pool

As of June 30, 2020 and 2019, the University's carrying value was \$103,471,550 and \$104,490,894 as compared to the amount held in the internal pooled cash account with the Maryland State Treasurer (Treasurer) in the amount of \$103,670,470 and \$104,678,664 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 \$275,453 and \$77,785 as compared to bank balances of \$266,555 and \$50,092, as of June 30, 2020 and 2019, respectively. These time deposits were fully insured as of June 30, 2020 and 2019.

Endowment Investments and Restricted Cash and Cash Equivalents

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. The restricted investments are held by a third-party custodial financial institution designated by the State.

The University categorizes its fair value measurements with the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset and gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 – Valuations based on unadjusted quoted prices for identical assets or liabilities in active markets;

Level 2 – Valuations based on quoted prices for similar assets or liabilities in active markets or identical assets or liabilities in less active markets, such as dealer or broker markets; and

**MORGAN STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable, such as pricing models, discounted cash flow models and similar techniques not based on market, exchange, dealer, or broker-traded transactions.

Transactions are recorded on the trade date. Realized gains and losses are determined using the identified cost method. Any change in net unrealized gain or loss from the preceding period is reported in the statement of revenues, expenses, and changes in net position. Dividends are recorded on the ex-dividend date. Interest is recorded on the accrual basis.

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.

The University categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles.

As of June 30, 2020 and 2019, investments of the Endowment pool consisted of the following:

| | June 30, 2020 | 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 | | | | |
| Equity Securities | | | | |
| Financial | \$ 309,474 | \$ 309,474 | \$ - | \$ - |
| Industrials | 403,857 | 403,857 | - | - |
| Telecommunication Services | 126,679 | 126,679 | - | - |
| Consumer Staples | 1,388,175 | 1,388,175 | - | - |
| Energy | 394,118 | 394,118 | - | - |
| Other | 232,815 | 232,815 | - | - |
| Total Equity Securities | <u>\$ 2,855,118</u> | <u>\$ 2,855,118</u> | <u>\$ -</u> | <u>\$ -</u> |

| | 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 | | | | |
| 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 | <u>\$ 3,106,109</u> | <u>\$ 3,106,109</u> | <u>\$ -</u> | <u>\$ -</u> |

MORGAN STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

The University has restricted cash and cash equivalents of \$5,513,810 and \$5,355,466, respectively, as of June 30, 2020 and 2019. The June 30, 2020 and 2019, restricted cash and cash equivalents were held 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:

| | 2020 | | 2019 | |
|---|---------------------|--------|---------------------|--------|
| | Market Value | Rating | Market Value | Rating |
| Federated Treas Oblig Fd 115 | \$ - | AAA | \$ 1 | AAA |
| Federated Treas Oblig As 115 | 5,220,755 | AAA | 5,117,673 | AAA |
| Total Investments held by Bank of NY Mellon | 5,220,755 | | 5,117,674 | |
| Fidelity Treasury-Regions Bank | 293,055 | AAA | 237,792 | AAA |
| Total Restricted Cash and Cash Equivalents | <u>\$ 5,513,810</u> | | <u>\$ 5,355,466</u> | |

Investments and Investment Income

Investments are recorded at fair value as of June 30, 2020 and 2019, and consisted of the following:

| | 2020 | 2019 |
|-----------------------|---------------------|---------------------|
| Quasi Endowment Funds | | |
| Stocks | \$ 2,034,812 | \$ 2,111,587 |
| Unrestricted | | |
| Stocks | 820,306 | 994,521 |
| Total | <u>\$ 2,855,118</u> | <u>\$ 3,106,108</u> |

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, 2020 and 2019:

| | June 30, 2020 | 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 | \$ 1,154,472 | \$ 1,154,472 | \$ - | \$ - |
| Mutual Funds | 5,935,349 | 5,935,349 | - | - |
| Certificate of Deposits | 1,110,720 | 1,110,720 | - | - |
| U.S. Treasury Obligations | 1,707,155 | 1,707,155 | - | - |
| U.S. Government Securities | 405,028 | 405,028 | - | - |
| Corporate & Foreign Bonds | 1,897,352 | - | 1,897,352 | - |
| Equity Funds | 27,068,059 | - | 27,068,059 | - |
| Total Equity Securities | <u>\$ 39,278,135</u> | <u>\$ 10,312,724</u> | <u>\$ 28,965,411</u> | <u>\$ -</u> |

**MORGAN STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

Investments and Investment Income (Continued)

| | 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 | - | - |
| U.S. Treasury Obligations | 1,997,785 | 1,997,785 | - | - |
| U.S. 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 | <u>\$ 37,424,722</u> | <u>\$ 9,858,895</u> | <u>\$ 27,565,827</u> | <u>\$ -</u> |

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

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

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

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.

**MORGAN STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

Investments and Investment Income (Continued)

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, 2020, 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 FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 3 ACCOUNTS RECEIVABLE, ACCOUNTS PAYABLE, AND ACCRUED LIABILITIES

Accounts receivable, accounts payable, and accrued liabilities consisted of the following as of June 30, 2020 and 2019:

| June 30, 2020 | Accounts Receivable | Accounts Payable and Accrued Liabilities |
|---------------------------------------|------------------------|--|
| Student | \$ 4,801,532 | \$ 1,798,801 |
| Federal Grants | 9,335,505 | - |
| Other Grants (Primarily State Grants) | 2,286,712 | - |
| Vendor | - | 12,748,046 |
| Employee | - | 9,124,276 |
| Other | 2,216,697 | 581,407 |
| Total | 18,640,446 | 24,252,530 |
| Less Allowance for Doubtful Accounts | 3,008,807 | - |
| Total | \$ 15,631,639 | \$ 24,252,530 |
| | | |
| 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 | - | 8,872,921 |
| Other | 5,758,015 | 916,718 |
| Total | 21,061,860 | 21,719,582 |
| Less Allowance for Doubtful Accounts | 3,191,541 | - |
| Total | \$ 17,870,319 | \$ 21,719,582 |

MORGAN STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 4 CAPITAL ASSETS

The following were the changes in capital assets for the years ended June 30, 2020 and 2019:

| | June 30, 2019 | Additions/ Transfers | Reductions | June 30, 2020 |
|---|-----------------------|-------------------------|-----------------------|-----------------------|
| Capital Assets, Not Being Depreciated: | | | | |
| Land | \$ 10,551,343 | \$ - | \$ - | \$ 10,551,343 |
| Construction In-Progress | 60,981,664 | 45,816,097 | (85,641,111) | 21,156,650 |
| Total Capital Assets, Not Being Depreciated | <u>71,533,007</u> | <u>45,816,097</u> | <u>(85,641,111)</u> | <u>31,707,993</u> |
| Capital Assets, Being Depreciated: | | | | |
| Infrastructure Networks | 71,802,104 | - | - | 71,802,104 |
| Land Improvements | 21,800,439 | - | 2,344,457 | 24,144,896 |
| Buildings | 589,334,516 | - | 83,296,654 | 672,631,170 |
| Furniture, Fixtures and Equipment | 53,149,870 | 939,032 | (993,478) | 53,095,424 |
| Library Materials | 2,917,625 | - | - | 2,917,625 |
| Total Capital Assets, Being Depreciated | <u>739,004,554</u> | <u>939,032</u> | <u>84,647,633</u> | <u>824,591,219</u> |
| Total Capital Assets | <u>810,537,561</u> | <u>46,755,129</u> | <u>(993,478)</u> | <u>856,299,212</u> |
| Less Accumulated Depreciation: | | | | |
| Infrastructure Networks | (20,940,338) | (3,501,634) | - | (24,441,972) |
| Land Improvements | (15,492,393) | (959,740) | - | (16,452,133) |
| Buildings | (239,671,198) | (15,574,629) | - | (255,245,827) |
| Furniture, Fixtures and Equipment | (49,900,169) | (1,420,829) | 993,478 | (50,327,520) |
| Library Materials | (1,584,605) | (58,113) | - | (1,642,718) |
| Total Accumulated Depreciation | <u>(327,588,703)</u> | <u>(21,514,945)</u> | <u>993,478</u> | <u>(348,110,170)</u> |
| Capital Assets, Net | <u>\$ 482,948,858</u> | <u>\$ 25,240,184</u> | <u>\$ -</u> | <u>\$ 508,189,042</u> |
| | | Additions/ Transfers | Reductions | |
| | June 30, 2018 | | | 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 | <u>27,022,319</u> | <u>45,592,935</u> | <u>(1,082,247)</u> | <u>71,533,007</u> |
| Capital Assets, Being Depreciated: | | | | |
| 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 Capital Assets, Being Depreciated | <u>734,270,884</u> | <u>4,326,536</u> | <u>407,134</u> | <u>739,004,554</u> |
| Total Capital Assets | <u>761,293,203</u> | <u>49,919,471</u> | <u>(675,113)</u> | <u>810,537,561</u> |
| 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 | <u>(306,108,878)</u> | <u>(21,072,691)</u> | <u>(407,134)</u> | <u>(327,588,703)</u> |
| Capital Assets, Net | <u>\$ 455,184,325</u> | <u>\$ 28,846,780</u> | <u>\$ (1,082,247)</u> | <u>\$ 482,948,858</u> |

MORGAN STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 5 LONG-TERM LIABILITIES

Long-term liability activity for the years ended June 30, 2020 and 2019 were as follows:

| | June 30, 2019 | Additions/ Transfers | Reductions | June 30, 2020 | Amounts Due Within One Year |
|---|-----------------------|-------------------------|------------------------|-----------------------|--------------------------------|
| Bonds, Loans Payable and Capital Lease Obligations: | | | | | |
| Revenue Bonds Payable | \$ 26,985,000 | \$ - | \$ (4,420,000) | \$ 22,565,000 | \$ 4,640,000 |
| Unamortized Bond Premium | 3,456,237 | - | (268,674) | 3,187,563 | 277,603 |
| Total Revenue Bonds Payable | 30,441,237 | - | (4,688,674) | 25,752,563 | 4,917,603 |
| Loans Payable | 4,761,938 | 2,757,027 | - | 7,518,965 | - |
| Lease Purchase Agreement: | | | | | |
| Network Upgrade-New Generation Information Technology | 12,687,459 | - | (1,798,235) | 10,889,224 | 1,851,675 |
| Capital Lease Obligations | 515,133 | - | (340,789) | 174,344 | 174,344 |
| Total Lease Purchase Agreements | 13,202,592 | - | (2,139,024) | 11,063,568 | 2,026,019 |
| Accrued Workers' Compensation | 3,814,000 | 474,000 | (948,000) | 3,340,000 | 501,000 |
| Accrued Vacation | 9,631,582 | 4,761,392 | (3,446,967) | 10,946,007 | 3,424,510 |
| Net Pension Liability | 83,001,543 | (4,507,922) | - | 78,493,621 | - |
| Total Long-Term Liabilities | <u>\$ 144,852,892</u> | <u>\$ 3,484,497</u> | <u>\$ (11,222,665)</u> | <u>\$ 137,114,724</u> | <u>\$ 10,869,132</u> |

| | June 30, 2018 | Additions/ Transfers | 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 | <u>\$ 135,400,571</u> | <u>\$ 20,811,439</u> | <u>\$ (11,359,118)</u> | <u>\$ 144,852,892</u> | <u>\$ 11,407,833</u> |

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 FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 6 REVENUE BONDS PAYABLE

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, 2020 and 2019:

| | 2020 | 2019 |
|--|---------------|---------------|
| 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 | \$ 2,930,000 | \$ 5,695,000 |
| Unamortized Bond Premium | - | - |
| Total 1993 Bonds Payable | 2,930,000 | 5,695,000 |
| 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 | 19,635,000 | 21,290,000 |
| Unamortized Bond Premium | 3,187,563 | 3,456,237 |
| Total 1993 Bonds Payable | 22,822,563 | 24,746,237 |
| Total Revenue Bonds Payable | \$ 25,752,563 | \$ 30,441,237 |

**MORGAN STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 6 REVENUE BONDS PAYABLE (CONTINUED)

Principal and Interest Maturities

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

| <u>Fiscal Year Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total Payments</u> |
|------------------------------------|----------------------|---------------------|---------------------------|
| 2021 | \$ 4,640,000 | \$ 1,028,365 | \$ 5,668,365 |
| 2022 | 1,795,000 | 896,250 | 2,691,250 |
| 2023 | 1,410,000 | 806,500 | 2,216,500 |
| 2024 | 1,170,000 | 736,000 | 1,906,000 |
| 2025 | 1,230,000 | 677,500 | 1,907,500 |
| 2026-2030 | 7,130,000 | 2,402,000 | 9,532,000 |
| 2031-2032 | 5,190,000 | 527,500 | 5,717,500 |
| Total | <u>\$ 22,565,000</u> | <u>\$ 7,074,115</u> | <u>\$ 29,639,115</u> |

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, 2020 and 2019.

The University is subject to Federal arbitrage laws governing the use of these proceeds of tax-exempt debt.

As of June 30, 2020 and 2019, the trustee held restricted cash and cash equivalents in mutual funds in the amount of \$5,513,810 and \$5,355,466 respectively. The funds in the restricted investments will be used to cover the \$5,220,240 revenue bonds debt service payments due July 1, 2020. The July 1, 2020 debt service payment will pay \$ 2,200,875 for the 2012 Revenue Bond Debt service and \$3,019,365 for the 1993 Revenue Bond Debt Service.

Contingencies

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, 2020.

The University receives funds from various Federal and State Agencies to fund specific programs. Final determination of various amounts is subject to audit under the Federal Single Audit Act Amendments of 1996 and by the responsible agencies. University officials believe that any audit adjustments resulting from final settlements will be immaterial in relation to the University's financial resources.

**MORGAN STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 7 COMMITMENTS AND CONTINGENCIES

Leases (Financed through the State of Maryland)

The University maintains capital leases primarily for equipment. As of June 30, 2020 and 2019, the net book value of the underlying assets relating to the capital lease liability was \$1,334,704 and \$1,432,558 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% |

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> |
| 2021 | \$ 177,144 |
| Less: | |
| Interest | 2,702 |
| Administrative Fees | 98 |
| New Minimum Lease Payments | <u>\$ 174,344</u> |

Amortization expense for the assets held under capital lease was \$120,618 and \$122,778, for the years ended June 30, 2020 and 2019, respectively.

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 Year Ending June 30,</u> | <u>Amounts</u> |
| 2021 | \$ 6,241,891 |
| 2022 | 7,641,181 |
| Total | <u>\$ 13,883,072</u> |

Lease expense for the years ended June 30, 2020 and 2019, was \$7,409,025 and \$5,801,990, respectively.

**MORGAN STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 7 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Leases (Financed through Third Parties)

Lease-Purchase Agreement

Morgan State University (the "Lessee") entered into a Lease-Purchase Agreement, dated January 22, 2016, by and between Grant Capital Management, Inc. (the "Lessor"). The Agreement states that the Lessor will deposit with Escrow Agent-BOK FINANCIAL cash in the amount of \$18,703,145. The "Escrow Fund" is to be applied from time to time to (i) pay the Vendor(s) or Manufacturer(s) of the Equipment its invoice cost and (ii) reimburse the Lessee (a portion of which may if required, be paid prior to final acceptance of the Equipment by Lessee). The Equipment Lease Purchase Agreement Contract provides Next Generation Network Upgrade, data network equipment and integrated network admissions management solution to satisfy and replaces the existing University data network infrastructure. The Lease Agreement includes hardware, software, maintenance, and service for a complete turnkey solution. The term of the agreement is for ten years. The lease agreement requires the University to make twenty semi-annual payments to Capital One Public Funding, LLC, as assigned by Grant Capital Management. As of June 30, 2020, the Principal amount is \$10,889,224; the lease financing total amount is \$11,876,428. 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.

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

| <u>Fiscal Year Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total Payments</u> |
|------------------------------------|----------------------|-------------------|---------------------------|
| 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 | 2,081,790 | 77,559 | 2,159,349 |
| 2026 | 1,063,981 | 15,694 | 1,079,675 |
| Total | <u>\$ 10,889,224</u> | <u>\$ 987,204</u> | <u>\$ 11,876,428</u> |

The net book value of the underlying assets relating to the lease liability was \$12,936,342 and \$11,066,027 respectively.

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.

**MORGAN STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 7 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Leases (Financed through Third Parties) (Continued)

Lease-Purchase Agreement (Continued)

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.
- (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.

**MORGAN STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 7 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Leases (Financed through Third Parties) (Continued)

Lease-Purchase Agreement (Continued)

| <u>Draw Downs</u> | <u>Disbursement Date</u> | <u>Interest Rate (%)</u> | <u>Maturity Date</u> | <u>Total Advance</u> | <u>Reimbursement Cost</u> | <u>Escrow Fund Requirement</u> |
|-----------------------|------------------------------|------------------------------|--------------------------|--------------------------|-------------------------------|------------------------------------|
| #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 | 69,822 |
| #5 | 9/23/2019 | 1.989 | July 1, 2048 | 1,031,061 | 979,508 | 51,553 |
| #6 | 5/15/2020 | 1.005 | July 1, 2048 | 700,740 | 665,703 | 35,037 |
| #7 | 6/26/2020 | 1.105 | July 1, 2048 | 1,025,225 | 973,964 | 51,261 |
| | | | | <u>\$ 7,518,965</u> | <u>\$ 7,143,016</u> | <u>\$ 375,949</u> |

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

| <u>Fiscal Year Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total Payments</u> |
|------------------------------------|---------------------|---------------------|---------------------------|
| 2021 | \$ - | \$ 169,925 | \$ 169,925 |
| 2022 | - | 169,925 | 169,925 |
| 2023 | 105,891 | 169,712 | 275,603 |
| 2024 | 219,008 | 163,582 | 382,590 |
| 2025 | 222,938 | 159,171 | 382,109 |
| 2026-2030 | 1,192,849 | 718,983 | 1,911,832 |
| 2031-2035 | 1,332,337 | 578,072 | 1,910,409 |
| 2036-2040 | 1,489,919 | 418,182 | 1,908,101 |
| 2041-2045 | 1,668,779 | 237,095 | 1,905,874 |
| 2046-2051 | 1,287,244 | 45,375 | 1,332,619 |
| Total | <u>\$ 7,518,965</u> | <u>\$ 2,830,022</u> | <u>\$ 10,348,987</u> |

Construction Commitments

As of June 30, 2020 the University had commitments of \$41,995,989 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 FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 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). Police employees or any cadet of the Maryland State Police may participate in the State Police Retirement System (PRS) – a cost-sharing multiple- employer defined benefit pension plan administered by the 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.

An individual who is a member of the State Police Retirement System is eligible for full retirement benefits upon the earlier of attaining age 50 or accumulating 22-25 years of eligibility service regardless of age. The annual retirement allowance equals 2.55% of the member's AFC multiplied by the number of years of accumulated creditable service and may not exceed 71.4% of the member's AFC.

**MORGAN STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 8 PENSION PLANS (CONTINUED)

General Information about the Pension Plan (Continued)

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.

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

Early Service Retirement

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

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

Members of the State Police Systems are not eligible for early service benefits.

**MORGAN STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 8 PENSION PLANS (CONTINUED)

Disability and Death Benefits

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

Contributions

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, 2020 and 2019.

Contributions: (PRS) 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 8% of their annual pay.

The University's contractually required contribution rate for the years ended June 30, 2020 and 2019, \$9,123,226 and \$7,849,256, 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, 2020 and 2019, the University reported a liability of \$ 78,493,621 and \$83,001,543 respectively, for its proportionate share of the net pension liability. The liability is inclusive of the University's share of the net pension liability for the ERS, TPS and PRS Plans. The net pension liability was measured as of June 30, 2019 for June 30, 2020 and as of June 30, 2018 for June 30, 2019, 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, 2020 and 2019, the University's proportion for the net pension liability was 0.381% and 0.422%, respectively.

**MORGAN STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 8 PENSION PLANS (CONTINUED)

For the years ended June 30, 2020 and 2019, the University recognized pension expense of \$12,591,488 and \$15,723,842 respectively. As of June 30, 2020, the University reported deferred outflows of resources and deferred inflows of resources related to the net pension liability of the following sources:

| | <u>Deferred Outflow of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|--|--|
| Changes in Actuarial Assumptions | \$ 556,724 | \$ 2,136,234 |
| Net Difference Between Projected and Actual Earnings on Pension Plan Investments | 1,470,746 | - |
| Differences between Expected and Actual Experience | - | 4,385,088 |
| Change in Proportionate Share | 11,247,936 | 45,693 |
| Change in Proportion | - | 2,203,435 |
| Contributions Made Subsequent to the Measurement Date | 9,123,226 | - |
| Total | <u>\$ 22,398,632</u> | <u>\$ 8,770,450</u> |

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, | <u>Deferred Outflows</u> | | | |
|-------------------------|--|-------------------------------------|---------------------------|---|
| | Difference between projected and actual earnings | Change in Proportionate Share | Changes in Assumptions | Contributions made subsequent to the measurement date |
| 2021 | \$ 1,396,489 | \$ 4,116,903 | \$ 215,386 | \$ 9,123,226 |
| 2022 | (523,447) | 2,465,181 | 215,386 | - |
| 2023 | 194,272 | 2,387,868 | 125,952 | - |
| 2024 | 403,432 | 2,277,984 | - | - |
| 2025 | - | - | - | - |
| Total | <u>\$ 1,470,746</u> | <u>\$ 11,247,936</u> | <u>\$ 556,724</u> | <u>\$ 9,123,226</u> |

| Year Ending June 30, | <u>Deferred Inflows</u> | | | |
|-------------------------|--|---------------------------|-------------------------------------|-------------------------|
| | Difference between projected and actual earnings | Changes in Assumptions | Change in Proportionate Share | Change in Proportion |
| 2021 | \$ 1,798,744 | \$ 456,265 | \$ 12,410 | \$ 598,434 |
| 2022 | 1,586,673 | 456,265 | 12,410 | 598,434 |
| 2023 | 716,246 | 456,265 | 12,410 | 598,434 |
| 2024 | 168,503 | 456,265 | 8,463 | 408,133 |
| 2025 | 114,922 | 311,174 | - | - |
| Total | <u>\$ 4,385,088</u> | <u>\$ 2,136,234</u> | <u>\$ 45,693</u> | <u>\$ 2,203,435</u> |

MORGAN STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 8 PENSION PLANS (CONTINUED)

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:

| | <u>Deferred Outflow of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|--|--|
| Changes in Actuarial Assumptions | \$ 1,620,662 | \$ - |
| Net Difference Between Projected and Actual Earnings on Pension Plan Investments | \$ 5,332,938 | 2,989,797 |
| Differences between Expected and Actual Experience | - | 5,573,533 |
| Change in Proportionate Share | 15,364,839 | - |
| Contributions Made Subsequent to the Measurement Date | 7,849,256 | - |
| Total | <u>\$ 30,167,695</u> | <u>\$ 8,563,330</u> |

| Year Ending June 30, | <u>Deferred Outflows</u> | | | |
|-------------------------|--|-------------------------------------|---------------------------|---|
| | Difference between projected and actual earnings | Change in Proportionate Share | Changes in Assumptions | Contributions made subsequent to the measurement date |
| 2020 | \$ 3,413,002 | \$ 4,116,903 | \$ 1,063,938 | \$ 7,849,256 |
| 2021 | 1,919,936 | 4,116,903 | 215,386 | - |
| 2022 | - | 2,465,181 | 215,386 | - |
| 2023 | - | 2,387,868 | 125,952 | - |
| 2024 | - | 2,277,984 | - | - |
| Total | <u>\$ 5,332,938</u> | <u>\$ 15,364,839</u> | <u>\$ 1,620,662</u> | <u>\$ 7,849,256</u> |

| Year Ending June 30, | <u>Deferred Inflows</u> | |
|-------------------------|--|---|
| | Difference between projected and actual earnings | Net Difference in Investment Earnings |
| 2020 | \$ 1,977,388 | \$ 926,879 |
| 2021 | 1,630,238 | 926,879 |
| 2022 | 1,418,167 | 926,879 |
| 2023 | 547,740 | 209,160 |
| 2024 | - | - |
| Total | <u>\$ 5,573,533</u> | <u>\$ 2,989,797</u> |

**MORGAN STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 8 PENSION PLANS (CONTINUED)

Actuarial Assumptions

The total pension liability in the actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | 2020 | 2019 |
|---------------------------|--|--|
| Valuation Date | June 30, 2019 | June 30, 2018 |
| Inflation - General | 2.6% | 2.6% |
| Inflation - Wage | 3.1% | 3.1% |
| Salary Increases | 3.1% to 11.6%, Including Inflation | 3.1% to 9.1%, Including Inflation |
| Investment Rate of Return | 7.40% | 7.45% |
| Mortality Rates | Pub-2010 Mortality Tables with projected generational mortality improvements based on the MP-2018 fully generational mortality improvement scale | RP-2014 Mortality Tables with Projected Generational Mortality Improvements Based on the MP-2014 2-Dimensional Mortality Improvement Scale |

The economic and demographic actuarial assumptions used in the June 30, 2019 valuation were adopted by the System's Board of Trustees based upon review of the System's experience study for the period 2014-2018, after completion of the June 30, 2018 valuations. Assumptions from the experience study including investment return, inflation, COLA increases, mortality rates, retirement rates, withdrawal rates, disability rates and rates of salary increase were adopted by the Board for the first use in the actuarial valuation as of June 30, 2019. As a result, an investment return assumption of 7.40% and an inflation assumption of 2.60% were used in the June 30, 2019 valuation.

The long term expected rate of return on pension plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-range expected rate of return by weighting the expected future real rates by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return were adopted by the Board after considering input from the System's investment consultant(s) and actuary(s). For each major asset class that is included in the System's target asset allocation, these best estimates are summarized in the following table:

| Asset Class | 2020 | |
|--------------------|-------------------|--|
| | Target Allocation | Long-Term Expected Real Rate of Return |
| Public Equity | 37.0 % | 6.30 % |
| Private Equity | 13.0 | 7.50 |
| Rate Sensitive | 19.0 | 1.30 |
| Credit Opportunity | 9.0 | 3.90 |
| Real Assets | 14.0 | 4.50 |
| Absolute Return | 8.0 | 3.00 |
| Total | <u>100.0 %</u> | |

**MORGAN STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 8 PENSION PLANS (CONTINUED)

The above was the System's Board of Trustees adopted asset allocation policy and best estimate of geometric real rates for each major asset class as of June 30, 2019.

For the years ended June 30, 2019 and 2018, the annual money-weighted rate of return on pension plan investments, net of the pension plan expense was 6.46% and 8.08%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

The single discount rate used to measure the total pension liability was 7.40% and 7.45% as of June 30, 2019 and 2018, respectively. This single discount rate was based on the expected rate of return on pension plan investments of 7.40% and 7.45% as of June 30, 2019 and 2018, respectively. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability

Regarding the sensitivity of the net pension liability to changes in the single discount rate, the following presents the University's net pension liability, calculated using a single discount rate that is 1-percentage-point lower and 1- percentage-point higher as of June 30, 2020 and 2019:

| | 2020 | | |
|----------------------------------|------------------------|----------------------------------|------------------------|
| | 1% Decrease (6.40%) | Current Discount Rate (7.40%) | 1% Increase (8.40%) |
| University's Proportionate Share | \$ 113,611,667 | \$ 78,493,621 | \$ 46,244,725 |
| | 2019 | | |
| | 1% Decrease (6.45%) | Current Discount Rate (7.45%) | 1% Increase (8.45%) |
| University's Proportionate Share | \$ 120,000,000 | \$ 83,001,543 | \$ 53,000,000 |

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued System's financial report available at www.sra.state.md.us/Agency/Downloads/CAFR/.

**MORGAN STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 8 PENSION PLANS (CONTINUED)

Optional Retirement Plans

In addition to retirement and pension plans, the University offers optional defined contribution 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, 2020 and 2019, were \$2,933,914 and \$2,953,126, 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 single-employer defined benefit healthcare plan established by the State Personnel and Pensions Article, Section 2-501 of the Annotated Code of Maryland. The Plan is self-insured to provide medical, hospitalization, prescription drug and dental insurance benefits to eligible state employees, retirees, and their dependents. The 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>.

A separate actuarial valuation is not performed for the University. The statutorily required employer contribution for the year-ended June 30, 2020, 2019 and 2018 was \$ 4,315,836, \$4,555,492, and \$3,584,599, respectively.

The contribution recognized by the OPEB plan in relation to statutorily required employer contribution for the year-ended June 30, 2020, 2019 and 2018 was \$ 4,315,836, \$4,555,492, and \$3,584,599, respectively.

Payroll for employees covered in OPEB for the year-ended June 30, 2020, 2019 and 2018 was \$ 87,923,660, \$83,052,243, and \$80,633,680, respectively. The percentage amount of contributions recognized by the OPEB plan as related to the statutorily required employer contribution of covered-employee payroll is 4.91%, 5.49%, and 4.45%, respectively (See Schedule of Other Postemployment Benefits (OPEB) in the "Required Supplementary Information" section).

MORGAN STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 9 RISK MANAGEMENT

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.

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.

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, 2020. Settlement amounts have not exceeded insurance coverage levels for the years ended June 30, 2020, 2019, or 2018.

As of 2020 and 2019, the University recorded \$ 3,340,000 and \$3,814,000, 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.

NOTE 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.

**MORGAN STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 11 AUXILIARY ENTERPRISES

Auxiliary enterprises revenues for the years ended June 30, 2020 and 2019, were as follows:

| 2020 | | | |
|--|----------------------|------------------------|----------------------|
| Auxiliary Enterprises Revenue Category | Gross Amount | Scholarship Allowances | Net Balance |
| Residential Facilities | \$ 20,924,089 | \$ 6,170,809 | \$ 14,753,280 |
| Intercollegiate Athletics | 7,478,915 | 2,011,967 | 5,466,948 |
| Student Center | 3,550,250 | 883,985 | 2,666,265 |
| Parking Facilities | 955,020 | 176,337 | 778,683 |
| Bookstore | 230,217 | - | 230,217 |
| Total | <u>\$ 33,138,491</u> | <u>\$ 9,243,098</u> | <u>\$ 23,895,393</u> |
| 2019 | | | |
| Auxiliary Enterprises Revenue Category | Gross Amount | Scholarship Allowances | Net Balance |
| Residential Facilities | \$ 24,659,061 | \$ 6,741,058 | \$ 17,918,003 |
| Intercollegiate Athletics | 9,521,316 | 2,284,242 | 7,237,074 |
| Student Center | 3,689,512 | 952,799 | 2,736,713 |
| Parking Facilities | 981,182 | 200,064 | 781,118 |
| Bookstore | 324,519 | - | 324,519 |
| Total | <u>\$ 39,175,590</u> | <u>\$ 10,178,163</u> | <u>\$ 28,997,427</u> |

**MORGAN STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 12 NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The financial statements show expenses by functional expense classification for the University. The following table reflects expenses for the years ended June 30, 2020 and 2019 by natural classification:

| 2020 | | | | |
|------------------------------------|--------------------------|---|----------------------|-----------------------|
| Natural Classification | | | | |
| Functional Classification | Payments to Employees | Payments to Suppliers and Contractors | Depreciation | Total |
| Instruction | \$ 55,174,146 | \$ 3,416,747 | \$ 8,969,290 | \$ 67,560,183 |
| Research | 18,642,994 | 17,159,467 | 1,007,413 | 36,809,874 |
| Public Service | 314,483 | 66,891 | 150,150 | 531,524 |
| Academic Support | 19,756,635 | 1,514,015 | 3,333,261 | 24,603,911 |
| Student Service | 7,495,986 | 1,956,160 | - | 9,452,146 |
| Institutional Support | 33,035,804 | 8,084,180 | 2,395,806 | 43,515,790 |
| Operation and Maintenance of Plant | 11,414,842 | 10,228,455 | 2,360,263 | 24,003,560 |
| Scholarships and Fellowships | 391,780 | 14,084,499 | - | 14,476,279 |
| Auxiliary Enterprises | 12,336,735 | 22,363,902 | 3,298,762 | 37,999,399 |
| Total Expenses | <u>\$ 158,563,405</u> | <u>\$ 78,874,316</u> | <u>\$ 21,514,945</u> | <u>\$ 258,952,666</u> |

| 2019 | | | | |
|------------------------------------|--------------------------|---|----------------------|-----------------------|
| Natural Classification | | | | |
| Functional 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 | 150,149 | 599,955 |
| Academic Support | 20,829,712 | 4,983,438 | 2,751,684 | 28,564,834 |
| Student Service | 7,072,544 | 2,024,206 | - | 9,096,750 |
| 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 | - | 9,288,279 |
| Auxiliary Enterprises | 11,717,109 | 22,485,530 | 3,325,854 | 37,528,493 |
| Total Expenses | <u>\$ 158,148,826</u> | <u>\$ 66,341,721</u> | <u>\$ 21,072,691</u> | <u>\$ 245,563,238</u> |

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."

REQUIRED SUPPLEMENTAL INFORMATION

MORGAN STATE UNIVERSITY
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
FOR THE MARYLAND STATE RETIREMENT AND PENSION SYSTEM
JUNE 30, 2020
LAST TEN FISCAL YEARS

| | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| The University's Proportion of the System's Net Pension Liability | 0.382% | 0.422% | 0.352% | 0.349% | 0.347% | 0.297% |
| The University's Proportionate Share of the System's Net Pension Liability | \$ 78,493,621 | \$ 83,001,543 | \$ 71,857,509 | \$ 77,422,295 | \$ 67,805,629 | \$ 49,822,391 |
| State and Other Agencies Proportionate Share of the System's Net Pension Liability | 19,206,756,940 | 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>\$ 19,285,250,561</u> | <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 Payroll | \$ 40,215,363 | \$ 40,081,182 | \$ 40,185,137 | \$ 39,007,196 | \$ 38,992,278 | \$ 38,992,278 |
| The University's Proportionate Share of the System's Net Pension Liability as a Percentage of its Covered Payroll | 195.18% | 207.08% | 178.82% | 198.48% | 173.90% | 127.78% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 67.98% | 68.36% | 66.71% | 62.97% | 66.26% | 69.53% |

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 THE MARYLAND STATE RETIREMENT AND PENSION SYSTEM
JUNE 30, 2020
LAST TEN FISCAL YEARS

| | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
|--|---------------|---------------|---------------|---------------|---------------|---------------|
| Contractually Required Contribution | \$ 9,123,226 | \$ 7,849,256 | \$ 7,803,727 | \$ 8,097,317 | \$ 6,916,260 | \$ 6,877,006 |
| Contributions in Relation to the Contractually Required Contribution | (9,123,226) | (7,849,256) | (7,803,727) | (8,097,317) | (6,916,260) | (6,877,006) |
| Contribution Deficiency (Excess) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| University's Covered Payroll | \$ 44,936,035 | \$ 40,215,363 | \$ 40,081,182 | \$ 40,185,137 | \$ 39,007,196 | \$ 38,992,278 |
| Contributions as a Percentage of Covered Payroll | 20.30% | 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 THE OTHER POSTEMPLOYMENT BENEFITS (OPEB) PLAN
JUNE 30, 2020
LAST TEN FISCAL YEARS

| | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> |
|--|--------------------|--------------------|--------------------|--------------------|
| Statutory Required Contributions | \$ 4,315,836 | \$ 4,555,492 | \$ 3,584,599 | \$ 4,773,228 |
| Contributions in Relations to Statutorily Required Contributions | <u>(4,315,836)</u> | <u>(4,555,492)</u> | <u>(3,584,599)</u> | <u>(4,773,228)</u> |
| Contribution Deficiency (Excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| University's Covered-Employee Payroll | \$ 87,923,660 | \$ 83,052,243 | \$ 80,633,680 | \$ 79,315,339 |
| Contributions as a Percentage of Covered-Employee Payroll | 4.909% | 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.

**MORGAN STATE UNIVERSITY
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2020**

MARYLAND STATE RETIREMENT AND PENSION SYSTEM

NOTE 1 CHANGES IN BENEFIT TERMS

There were no benefit changes during the years 2015 through 2019

NOTE 2 CHANGES IN ASSUMPTIONS

Inflation assumptions changed as follows:

- 6/30/2019 2.60%
- 6/30/2018 2.60%
- 6/30/2017 2.65%
- 6/30/2016 2.70%
- 6/30/2015 2.70%

Investment return assumption changed as follows:

- 6/30/2019 7.40%
- 6/30/2018 7.50%
- 6/30/2017 7.50%
- 6/30/2016 7.55%
- 6/30/2015 7.65%