

**MORGAN STATE UNIVERSITY**

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

**For the Years Ended June 30, 2013 and 2012**



**S B & C O M P A N Y, L L C**  
EXPERIENCE • QUALITY • CLIENT SERVICE

**JUNE 30, 2013 AND 2012**

**CONTENTS**

<b>REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS</b>	<b>1</b>
<b>MANAGEMENT’S DISCUSSION AND ANALYSIS</b>	<b>3</b>
<b>FINANCIAL STATEMENTS</b>	
Statements of Net Position	9
Statements of Revenues, Expenses, and Changes in Net Position	11
Statements of Cash Flows	13
Statements of Financial Position – Morgan State University Foundation, Inc.	15
Statements of Activities and Changes in Net Assets – Morgan State University Foundation, Inc.	16
Notes to Financial Statements	18



**S B & C O M P A N Y, L L C**  
EXPERIENCE • QUALITY • CLIENT SERVICE

## **REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS**

Board of Regents  
Morgan State University

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

We have audited the accompanying statements of net position of Morgan State University (the University), a component unit of the State of Maryland, as of June 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

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

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

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

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the component unit financial statements of the Morgan State University Foundation, Inc. (the Foundation) as of and for the years ended June 30, 2013, and 2012. Those financial statements were audited by other auditors whose reports thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based solely on the reports of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 basic financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the basic financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the basic 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 basic financial statements.



**SB & COMPANY, LLC**  
EXPERIENCE • QUALITY • CLIENT SERVICE

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

***Opinions***

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University and Foundation, as of June 30, 2013 and 2012, and the respective changes in their financial position and, where applicable, their cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Required Supplementary Information***

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

Hunt Valley, Maryland  
November 19, 2013

*SB & Company, LLC*

# **MORGAN STATE UNIVERSITY**

## **Management's Discussion and Analysis June 30, 2013 and 2012**

### **PURPOSE**

Morgan State University (the University) is pleased to present its financial statements for fiscal years 2013 and 2012, with prior-year data for comparative purposes. While the University has adopted Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Universities Are Component Units*, an amendment of GASB Statement No. 14, and included the discrete financial information of the Morgan State University Foundation, Inc. (the Foundation) in its basic financial statements, this management's discussion and analysis focuses on the financial information of the University. The Foundation is a private nonprofit whose purposes includes, but are not restricted to, receiving and administering funds to enhance, improve, develop, and promote the University and to benefit the University, its students, and faculty. Complete financial statements for the Foundation can be obtained from Morgan State University Foundation, Truth Hall, Room 201, 1700 East Cold Spring Lane, Baltimore, MD 21251. There are three financial statements presented for each fiscal year: the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows.

This discussion and analysis of the University's financial statements provides an overview of its financial activities for the year. This discussion has been prepared by management along with the financial statements and related footnote disclosures and should be read in conjunction with the financial statements and footnotes. This discussion and analysis is designed to focus on current activities, resulting changes, and current known facts.

# MORGAN STATE UNIVERSITY

## Management's Discussion and Analysis June 30, 2013 and 2012

### INSTITUTION FINANCIAL HIGHLIGHTS CONDENSED STATEMENTS OF NET POSITION (in millions)

	<u>2013</u>	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>			
Current assets	\$ 80.9	\$ 77.9	\$ 65.7
Noncurrent assets:			
Capital assets, net	361.1	368.2	347.5
Other noncurrent assets	7.4	8.0	9.5
Total noncurrent assets	<u>368.5</u>	<u>376.2</u>	<u>357.0</u>
<b>Total Assets</b>	<b>449.4</b>	454.1	422.7
<b>LIABILITIES</b>			
Current liabilities	36.2	36.8	34.6
Noncurrent liabilities	60.6	63.0	67.6
<b>Total Liabilities</b>	<b>96.8</b>	99.8	102.2
<b>Net position</b>			
Invested in capital assets, net of related debt	305.8	308.8	284.0
Restricted	9.0	9.4	10.7
Unrestricted	37.8	36.1	25.8
<b>Total Net Position</b>	<b>\$ 352.6</b>	<b>\$ 354.3</b>	<b>\$ 320.5</b>
<b>(Decrease) Increase in Net Position</b>	<b>\$ (1.7)</b>	<b>\$ 33.9</b>	<b>\$ 35.9</b>

These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector institutions. For the year ended June 30, 2013, the \$9.0 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 net position as of June 30, 2013, decreased \$1.7 million or 0.5% from the previous year's net position. This decrease indicates that expenses exceeded revenues during fiscal year 2013. This decrease is primarily the result of an increase of depreciation of \$2.3 million compared to fiscal year 2012. The University has instituted a hiring freeze and other cost saving measures to assist with its finances.

The University's net position amount (the difference between assets and liabilities) is one way to measure the University's financial health, or financial position. Over time, increases or decreases in the University's net position are one indicator of whether the University's financial health is improving. However, several non-financial factors are relevant as well, such as the trend and quality of applicants, freshman class size, student retention, building conditions, and campus safety, to assess the overall health of the institution.

# MORGAN STATE UNIVERSITY

## Management's Discussion and Analysis June 30, 2013 and 2012

### SUMMARY OF REVENUES (in millions)

	Years Ended June 30,		
	2013	2012	2011
<b>Operating Revenues</b>			
Tuition and fees, net	\$ 38.4	\$ 38.0	\$ 40.4
Other	60.7	64.7	53.2
<b>Total Operating Revenues</b>	<b>99.1</b>	<b>102.7</b>	<b>93.6</b>
<b>Non-Operating Revenues</b>			
State appropriations	73.7	73.0	72.2
Pell grants	16.7	17.7	17.2
Other non-operating revenues	1.1	0.9	1.6
<b>Total Non-Operating Revenues</b>	<b>91.5</b>	<b>91.6</b>	<b>91.0</b>
<b>Other Revenues</b>			
Capital appropriations	11.1	33.7	33.4
<b>Total Other Revenues</b>	<b>11.1</b>	<b>33.7</b>	<b>33.4</b>
<b>Total Revenues</b>	<b>\$ 201.7</b>	<b>\$ 228.0</b>	<b>\$ 218.0</b>

All of the current year's revenues and expenses are recorded on the accrual basis of accounting without respect to when cash is received or paid.

The University's operating revenues decreased by \$3.6 million, primarily due to a decrease in Federal grants and contracts. Federal grants and contracts were \$5.8 million less in 2013 than in 2012 because federal funding for grants have been reduced due to federal budget cutbacks, the 2011 Federal Continuing Resolution and the 2012 Federal reductions also known as sequestration. As non-operating revenues remained consistent year over year, capital appropriations were \$22.6 million lower in 2013 compared to 2012 because a temporary reduction in State funded building construction. The new Center for Built Environment and Infrastructure Studies was placed in operation in fiscal year 2013. In fiscal years 2014 and 2015, the construction of the new School of Business building will substantially increase the capital appropriations over fiscal year 2013. Operating expenses increased by \$8.2 million in 2013. The largest increase was a rise in instruction costs of \$5.1 million due to \$1.9 million increase in Instructional depreciation due to new academic buildings, a reduction in the number of faculty vacancies, and the University paying for the new equipment to put in the Center for Built Environment and Infrastructure Studies. Overall, the University had a decrease in net position of \$1.7 million, a difference of \$35.6 million compared to 2012, primarily because of the temporary reduction in the state capital appropriations, a reduction in the University's student population, and increases in health insurance and retirement costs. As construction of the new School of Business building occurs, there will be a considerable improvement to the net position in fiscal year 2014.

**MORGAN STATE UNIVERSITY**

**Management's Discussion and Analysis  
June 30, 2013 and 2012**

**SUMMARY OF EXPENSES**  
*(in millions)*

	<b>Years Ended June 30,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b>Operating Expenses</b>			
Instruction	\$ 56.6	\$ 51.5	\$ 47.6
Research	26.5	31.8	26.1
Public service	0.3	0.3	0.1
Academic support	23.5	20.8	18.6
Student services	6.3	6.5	5.9
Institutional support	30.3	29.0	28.7
Operation and maintenance of plant	19.9	18.9	18.2
Scholarships and fellowships	5.8	3.0	5.4
Auxiliary enterprises	30.0	29.2	29.4
<b>Total Operating Expenses</b>	<b>199.2</b>	191.0	180.0
<b>Non-Operating Expenses</b>			
Interest on indebtedness	3.3	2.9	1.9
Other expenses	0.9	0.2	0.2
<b>Total Non-Operating Expenses</b>	<b>4.2</b>	3.1	2.1
<b>Total Expenses</b>	<b>\$ 203.4</b>	\$ 194.1	\$ 182.1

**SUMMARY OF OPERATING RESULTS**  
*(in millions)*

	<b>Years Ended June 30,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b>Net Position, Beginning of Year</b>	\$ 354.4	\$ 320.5	\$ 284.6
Total revenues	201.7	228.0	218.0
Total expenses	(203.4)	(194.1)	(182.1)
(Decrease) Increase in net position	(1.7)	33.9	35.9
<b>Net Position, End of Year</b>	<b>\$ 352.7</b>	\$ 354.4	\$ 320.5



# MORGAN STATE UNIVERSITY

## Management's Discussion and Analysis June 30, 2013 and 2012

### STATEMENTS OF CASH FLOWS

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

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

### SUMMARY OF CASH FLOWS

*(in millions)*

	Years Ended June 30,		
	2013	2012	2011
<b>Cash (used) provided by:</b>			
Operating activities	\$ (81.8)	\$ (72.3)	\$ (64.1)
Noncapital financing activities	90.1	90.5	87.8
Capital and related financing activities	(7.1)	(9.9)	(8.9)
Investing activities	1.7	2.2	1.2
<b>Net Increase in</b>			
<b>Cash and Cash Equivalents</b>	<b>2.9</b>	10.5	16.0
Cash and cash equivalents, beginning of year	66.4	55.9	39.9
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 69.3</b>	<b>\$ 66.4</b>	<b>\$ 55.9</b>

The primary cash receipts from operating activities consist of tuition and fees, and auxiliary enterprises. Cash disbursements from operations include salaries and wages, benefits, supplies, utilities, maintenance, and scholarships. The overall increase in net cash used by operations reflects the increase in tuition and fees together with the timing of payments to suppliers and employees from year to year. State appropriations are the primary source of non-capital financing. Non-capital state appropriation receipts were \$73.7 million in 2013 and \$73.0 million in 2012.

# MORGAN STATE UNIVERSITY

## Management's Discussion and Analysis June 30, 2013 and 2012

### CAPITAL ASSETS

Major capital additions completed this year and the source of the resources that funded their acquisition included (*in millions*):

Construction of the North Campus Parking Garage funded from State capital appropriations and University auxiliary funds \$7.1

The University has planned capital expenditures of approximately \$99.9 million. These include the continuing Campus Wide Utility Upgrades, as well as completion of the following projects:

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

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

### DEBT

As of June 30, 2013, the University had \$55.3 million in outstanding long term debt compared to \$59.1 million in the previous year, a decrease of 6.4%. The table below summarizes these amounts by type of debt instrument.

	Years Ended June 30,		
	2013	2012	2011
Revenue bonds	\$ 53.5	\$ 56.6	\$ 59.7
Lease obligations	1.8	2.5	3.8
<b>Total</b>	<b>\$ 55.3</b>	<b>\$ 59.1</b>	<b>\$ 63.5</b>

### SUMMARY

The University's overall financial position remains strong. The number of high school students in Maryland that are attending universities is declining which has hurt the University's ability to grow our student base. However, the State of Maryland continues to give high priority to the higher education institutions. This commitment has allowed the University to continue to offer competitive tuition, fees, and other charges for all deserving students.

# MORGAN STATE UNIVERSITY

## Statements of Net Position As of June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 69,330,048	\$ 66,380,721
Accounts receivable (net of allowance for doubtful accounts of \$1,406,064 and \$1,422,987, respectively)	10,719,009	9,890,073
Notes receivable	111,109	93,748
Inventories	672,486	909,918
Prepaid expenses	62,036	76,120
Unearned charges, net	-	555,195
<b>Total Current Assets</b>	<u>80,894,688</u>	<u>77,905,775</u>
<b>Non-Current Assets</b>		
Endowment investments	2,196,821	1,885,434
Restricted investments	3,763,767	4,661,005
Notes receivable (net of allowance for doubtful notes of \$366,413 and \$330,441, respectively)	1,426,362	1,494,828
Capital assets, net	<u>361,085,636</u>	<u>368,183,455</u>
<b>Total Non-Current Assets</b>	<u>368,472,586</u>	<u>376,224,722</u>
<b>Total Assets</b>	<u>449,367,274</u>	<u>454,130,497</u>

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

**MORGAN STATE UNIVERSITY****Statements of Net Position (continued)  
As of June 30, 2013 and 2012****LIABILITIES AND NET ASSETS**

	<b>2013</b>	<b>2012</b>
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	\$ 20,858,151	\$ 22,275,853
Accrued workers' compensation, current portion	465,620	446,710
Accrued vacation costs, current portion	3,116,611	3,137,066
Revenue bonds payable, current portion	2,515,000	3,195,000
Obligations under capital lease agreements, current portion	613,840	850,010
Unearned revenue	7,114,492	6,030,437
Funds held for other organizations	1,466,670	870,885
<b>Total Current Liabilities</b>	<b>36,150,384</b>	<b>36,805,961</b>
<b>Non-Current Liabilities</b>		
Accrued workers' compensation, net of current portion	2,538,380	2,435,290
Accrued vacation costs, net of current portion	5,878,825	5,457,793
Revenue bonds payable, net of current portion	51,019,818	53,391,998
Obligations under capital lease agreements, net of current portion	1,177,310	1,710,476
<b>Total Non-Current Liabilities</b>	<b>60,614,333</b>	<b>62,995,557</b>
<b>Total Liabilities</b>	<b>96,764,717</b>	<b>99,801,518</b>
<b>Net Position</b>		
Invested in capital assets, net of related debt	305,759,668	308,792,343
Restricted		
Expendable:		
Scholarships and fellowships	3,339,740	2,949,253
Loans	1,897,685	1,825,742
Debt service	3,763,767	4,661,005
<b>Total expendable net position</b>	<b>9,001,192</b>	<b>9,436,000</b>
Unrestricted Net Position	37,841,697	36,100,636
<b>Total Net Position</b>	<b>\$ 352,602,557</b>	<b>\$ 354,328,979</b>

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

**MORGAN STATE UNIVERSITY**

**Statements of Revenues, Expenses, and Changes in Net Position  
For the Years Ended June 30, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
<b>Operating Revenues</b>		
Tuition and fees	\$ 55,237,080	\$ 56,978,024
Less: Scholarship allowances	<u>(16,872,787)</u>	<u>(19,013,827)</u>
	<b>38,364,293</b>	37,964,197
Federal grants and contracts	24,325,617	30,144,206
State and local grants and contracts	2,586,687	3,926,207
Private gifts, grants and contracts	2,729,878	1,428,101
Sales and services educational	1,859,484	254,319
Residential facilities	18,236,048	18,473,149
Less: Scholarship allowances	<u>(5,499,177)</u>	<u>(6,062,898)</u>
	<b>12,736,871</b>	12,410,251
Parking facilities	962,945	1,002,455
Less: Scholarship allowances	<u>(206,140)</u>	<u>(229,941)</u>
	<b>756,805</b>	772,514
Intercollegiate athletics	9,193,732	9,266,554
Less: Scholarship allowances	<u>(2,446,439)</u>	<u>(2,774,666)</u>
	<b>6,747,293</b>	6,491,888
Bookstore	3,209,763	3,670,564
Less: Scholarship allowances	<u>(396,849)</u>	<u>(602,241)</u>
	<b>2,812,914</b>	3,068,323
Student center	3,176,485	3,321,927
Less: Scholarship allowances	<u>(890,793)</u>	<u>(1,010,330)</u>
	<b>2,285,692</b>	2,311,597
Other auxiliary enterprises revenues	3,895,124	3,890,055
<b>Total Operating Revenues</b>	<u><b>99,100,658</b></u>	<u>102,661,658</u>

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

**MORGAN STATE UNIVERSITY**

**Statements of Revenues, Expenses, and Changes in Net Position (continued)  
For the Years Ended June 30, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
<b>Operating Expenses</b>		
Instruction	\$ 56,555,700	\$ 51,470,954
Research	26,495,136	31,799,412
Public service	317,297	250,890
Academic support	23,473,347	20,833,996
Student services	6,298,524	6,553,040
Institutional support	30,265,430	28,951,817
Operation and maintenance of plant	19,933,865	18,915,490
Scholarships and fellowships	5,848,649	2,961,354
Auxiliary enterprises	29,983,980	29,232,609
<b>Total Operating Expenses</b>	<u>199,171,928</u>	<u>190,969,562</u>
<b>Operating Loss</b>	<u>(100,071,270)</u>	<u>(88,307,904)</u>
<b>Non-Operating Revenue (Expenses)</b>		
State appropriations	73,748,316	73,001,828
Pell Grants	16,648,113	17,673,662
Investment income	1,124,627	863,743
Interest on indebtedness	(3,274,807)	(2,917,809)
Other non-operating expenses	(879,149)	(53,499)
<b>Total Non-Operating Revenues, Net</b>	<u>87,367,100</u>	<u>88,567,925</u>
<b>(Loss) Gain Before Other Revenues, Expenses, Gains and Losses</b>	<u>(12,704,170)</u>	260,021
<b>Other Revenues, Expenses, Gains and Losses</b>		
Capital appropriations	11,055,668	33,641,066
Other losses	(77,920)	(73,863)
<b>Total Other Revenues, Expenses, Gains and Losses</b>	<u>10,977,748</u>	<u>33,567,203</u>
<b>(Decrease) Increase in Net Position</b>	<u>(1,726,422)</u>	33,827,224
Net Position, beginning of year	354,328,979	320,501,755
<b>Net Position, End of Year</b>	<u>\$ 352,602,557</u>	<u>\$ 354,328,979</u>

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

# MORGAN STATE UNIVERSITY

## Statements of Cash Flows For the Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b>Cash Flows From Operating Activities</b>		
Tuition and fees	\$ 37,478,207	\$ 37,939,704
Contracts and grants	31,821,053	35,117,191
Payments to employees	(123,722,206)	(121,274,352)
Payments to suppliers and contractors	(57,682,413)	(53,176,541)
Loans issued to students	(71,932)	(72,100)
Collections of loans to students	124,678	135,053
Auxiliary enterprises charges:		
Residence halls and dining facilities	12,736,872	12,410,251
Bookstores	2,812,915	3,068,323
Other	13,684,913	13,466,055
Other receipts	1,045,700	115,104
<b>Net Cash Used by Operating Activities</b>	<u>(81,772,213)</u>	<u>(72,271,312)</u>
<b>Cash Flows From Non-Capital Financing Activities</b>		
State appropriations	73,748,316	73,001,828
Pell grants	16,648,113	17,673,662
Other non-operating losses	(246,486)	(191,380)
<b>Net Cash Provided by Non-Capital Financing Activities</b>	<u>90,149,943</u>	<u>90,484,110</u>
<b>Cash Flows From Capital and Related Financing Activities</b>		
Capital appropriations	11,055,668	33,641,066
Purchases of capital assets	(10,942,838)	(36,432,980)
Payments on debt and capital leases	(3,964,336)	(4,225,828)
Interest paid on debt and capital leases	(3,274,807)	(2,917,809)
<b>Net Cash Used by Capital and Related Financing Activities</b>	<u>(7,126,313)</u>	<u>(9,935,551)</u>
<b>Cash Flows From Investing Activities</b>		
Proceeds from sales and maturities of investments	4,661,005	4,854,364
Interest on investments	1,124,627	890,677
Investment expense	(323,955)	(2,527)
Purchases of investments	(3,763,767)	(3,508,889)
<b>Net Cash Provided by Investing Activities</b>	<u>1,697,910</u>	<u>2,233,625</u>
Net increase in cash and cash equivalents	2,949,327	10,510,872
Cash and cash equivalents, beginning of year	<u>66,380,721</u>	<u>55,869,849</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 69,330,048</u>	<u>\$ 66,380,721</u>

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

# MORGAN STATE UNIVERSITY

## Statements of Cash Flows (continued) For the Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b>Reconciliation of Operating Loss to Net Cash Used by Operating Activities</b>		
Operating loss	\$ (100,071,270)	\$ (88,307,904)
<b>Adjustments to Reconcile Operating Loss to Net Cash from Operating Activities</b>		
Depreciation expense	18,040,657	15,749,404
<b>Effect of Changes in Non-Cash Operating Assets and Liabilities</b>		
Accounts receivable, net	(828,936)	(1,480,347)
Notes receivable, net	51,105	62,882
Inventories	237,432	(337,133)
Prepaid expenses	14,084	80,028
Funds held for other organizations	595,785	198,992
Accounts payable and accrued liabilities	(1,417,702)	554,544
Unearned revenue	1,084,055	917,731
Accrued workers' compensation	122,000	49,148
Accrued vacation	400,577	241,343
<b>Net Cash from Operating Activities</b>	<u>\$ (81,772,213)</u>	<u>\$ (72,271,312)</u>

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



**MORGAN STATE UNIVERSITY FOUNDATION, INC.**

**Statements of Financial Position  
As of June 30, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 2,085,418	\$ 1,788,974
Investments	21,475,149	19,095,514
Pledges receivable (net of allowance and discount of \$258,475 and \$283,239, respectively)	1,843,656	1,486,455
Other assets and deposits	59,486	156,822
Property (net of accumulated depreciation of \$146,000 and \$29,200, respectively )	-	116,800
<b>Total Assets</b>	<u><u>\$ 25,463,709</u></u>	<u><u>\$ 22,644,565</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
Accounts payable and accruals	\$ 144,882	\$ 114,560
<b>Net Assets</b>		
Unrestricted	179,573	289,507
Temporarily restricted	5,990,951	4,247,082
Permanently restricted	19,148,303	17,993,416
<b>Total Net Assets</b>	<u><u>25,318,827</u></u>	<u><u>22,530,005</u></u>
<b>Total Liabilities and Net Assets</b>	<u><u>\$ 25,463,709</u></u>	<u><u>\$ 22,644,565</u></u>

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

**MORGAN STATE UNIVERSITY FOUNDATION, INC.**

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

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

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

**MORGAN STATE UNIVERSITY FOUNDATION, INC.**

**Statement of Activities and Changes in Net Assets  
For the Year Ended June 30, 2012**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Revenues and Support</b>				
Contributions and fund raising	\$ 439,427	\$ 3,351,655	\$ 714,384	\$ 4,505,466
Interest and dividend income	-	158,498	-	158,498
Gift annuity	-	-	200,000	200,000
Unrealized gain (loss) on investments	234	(1,055,225)	-	(1,054,991)
Realized gain on investments	-	290,896	-	290,896
<b>Total Revenues and Support</b>	<u>439,661</u>	<u>2,745,824</u>	<u>914,384</u>	<u>4,099,869</u>
Net asset reclassifications				
Satisfaction of program restrictions	<u>3,728,371</u>	<u>(3,728,371)</u>	<u>-</u>	<u>-</u>
<b>Total Revenue, Support and Net Assets Released from Restrictions</b>	<u>4,168,032</u>	<u>(982,547)</u>	<u>914,384</u>	<u>4,099,869</u>
<b>Expenses</b>				
Grants and scholarships	1,318,245	-	-	1,318,245
Program support expenses	2,435,451	-	-	2,435,451
University support	34,706	-	-	34,706
General and administrative	529,019	-	-	529,019
Fund raising	105,387	-	-	105,387
<b>Total Expenses</b>	<u>4,422,808</u>	<u>-</u>	<u>-</u>	<u>4,422,808</u>
(Decrease) increase in net assets	(254,776)	(982,547)	914,384	(322,939)
Net assets, beginning of year	544,283	5,229,629	17,079,032	22,852,944
<b>Net Assets, End of Year</b>	<u>\$ 289,507</u>	<u>\$ 4,247,082</u>	<u>\$ 17,993,416</u>	<u>\$ 22,530,005</u>

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

# MORGAN STATE UNIVERSITY

## Notes to Financial Statements June 30, 2013 and 2012

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Nature of Operations

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

#### B. Reporting Entity

- (1) The University is a component unit of the State of Maryland and is included in the general-purpose financial statements of the State of Maryland.
- (2) In 1971, the Morgan State University Foundation, Inc, (the Foundation) was organized exclusively for charitable, religious, educational, and scientific purposes. The Foundation's purposes further include, but are not restricted to, receiving and administering funds to enhance, improve, develop, and promote and to benefit the University, its students, and its faculty. The Foundation meets the criteria established by the Government Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, and qualifies as a component unit of the University; therefore, the activities of the Foundation are shown in these financial statements as a discretely presented component unit.
- (3) During the years ended June 30, 2013 and 2012, the Foundation distributed \$35,699 and \$34,706 to the University for unrestricted purposes. Complete financial statements for the Foundation can be obtained from Morgan State University Foundation, Truth Hall, Room 201, 1700 East Cold Spring Lane, Baltimore, MD 21251.

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

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

# MORGAN STATE UNIVERSITY

## Notes to Financial Statements June 30, 2013 and 2012

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

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

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

**MORGAN STATE UNIVERSITY**

**Notes to Financial Statements  
June 30, 2013 and 2012**

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

**D. Basis of Accounting**

- (1) Promises to Give – Foundation Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises to give are received. Amortization of the discounts is included in contribution revenue. For the years ended June 30, 2013 and 2012, the discount rate was 1.2% and the amount amortized was \$7,247 and \$7,103, respectively.

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

Included in promises to give are the following restricted promises:

	<u>2013</u>	<u>2012</u>
Promises to give before unamortized discount and allowance for uncollectibles	\$ 2,102,131	\$ 1,769,694
Less: unamortized discount	<u>35,605</u>	<u>42,852</u>
	<u>2,066,526</u>	<u>1,726,842</u>
Less: allowance for uncollectibles	<u>222,870</u>	<u>240,387</u>
<b>Net promises to give</b>	<u><u>\$ 1,843,656</u></u>	<u><u>\$ 1,486,455</u></u>

The Foundation wrote off \$163,663 and \$729,589, in uncollectible pledges during the years ended June 30, 2013 and 2012, respectively.

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

<b>Amounts due in:</b>	<u>2013</u>	<u>2012</u>
One year	\$ 1,105,517	\$ 810,091
Two years	450,304	449,136
Three years	254,800	298,016
Four years	174,038	128,717
Five years	95,846	48,735
Thereafter	<u>21,626</u>	<u>34,999</u>
<b>Total</b>	<u><u>\$ 2,102,131</u></u>	<u><u>\$ 1,769,694</u></u>

# MORGAN STATE UNIVERSITY

## Notes to Financial Statements June 30, 2013 and 2012

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

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

- (2) Inventories - Inventories are carried at cost, determined under the first-in, first-out (FIFO) basis, which is not in excess of realizable value.
- (3) Capital Assets - Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation in the case of gifts. For equipment, the University's capitalization policy includes all items including library books in bulk with a unit cost of \$5,000 or more, and an estimated useful life of greater than one year. The University records capital projects such as roads, bridges, tunnels and sidewalks with a minimum cost of \$100,000 as infrastructure. Building and building improvements with a minimum cost of \$250,000, which significantly increase the value or extend the useful life of the structure, are capitalized. Land improvements with a minimum cost of \$100,000 are also capitalized since they increase the value of related structures. Routine repairs, maintenance and items less than the minimum capitalization thresholds are charged to operating expense in the year in which the expense was incurred. All costs relating to the construction of capital assets owned by the University are capitalized. The University's museum collections, consisting primarily of donated African American art, are not capitalized as allowed by criteria of paragraph 118 of GASB Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments". Depreciation of capitalized assets is computed using the straight-line method over the estimated useful lives of the assets, generally 40 years for buildings and infrastructure, 20 for significant building renovations, 15 years for land improvements, 50 years for library books, and 5 to 7 years for furniture and equipment.
- (4) Deferred Revenues - Deferred 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. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.
- (5) Accrued Vacation Costs - Employee vacation pay is accrued at year-end for financial statement purposes. The liability and expense incurred are recorded at year-end as accrued vacation payable in the statements of net position, and as a component of expenses in the statement of revenues, expenses, and changes in net position.

# MORGAN STATE UNIVERSITY

## Notes to Financial Statements June 30, 2013 and 2012

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

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

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

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



# MORGAN STATE UNIVERSITY

## Notes to Financial Statements June 30, 2013 and 2012

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

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

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

# MORGAN STATE UNIVERSITY

## Notes to Financial Statements June 30, 2013 and 2012

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

#### E. New Accounting Pronouncements

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, and Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*, effective for periods beginning after December 15, 2012. In June 2012, the GASB issued Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*, and Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, effective for periods beginning after June 15, 2013, and 2014, respectively. In January 2013, GASB issued Statement No. 69, *Government Combination and Disposals of Government Operations*, effective for periods beginning after December 15, 2013. In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Non-exchange Guarantees*, effective for periods beginning after June 15, 2013. The University will implement these statements as of their effective dates. While the University is still in the process of determining the effect of implementing these GASB statements, it is expected that Statement No. 68 will have a material effect on the financial position of the University.

#### F. Reclassification

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

### 2. DEPOSITS AND INVESTMENTS

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

As of June 30, 2013 and 2012, the University had cash on deposit in an internal pooled cash account with the Maryland State Treasurer (Treasurer) in the amount of \$69,246,096 and \$66,320,000, 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 \$83,952 and \$60,721, as compared to bank balances of \$221,857 and \$227,237, as of June 30, 2013 and 2012, respectively.

#### B. Endowment Investments and Restricted Investments

(1) With respect to Endowment Funds, statutes authorize the University to invest its funds in most types of debt and equity securities, subject to any specific limitations set forth in the applicable gift instruments or any applicable law, provided the University exercises ordinary business care and prudence and considers long and short-term needs for carrying out its stated purposes.

**MORGAN STATE UNIVERSITY**

**Notes to Financial Statements  
June 30, 2013 and 2012**

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

**B. Endowment Investments and Restricted Investments (continued)**

- (2) As of June 30, 2013 and 2012, all investments of the Quasi Endowment pool consist of common stocks with a market value of \$2,196,821 and \$1,885,434, respectively. These funds are held by a third-party custodial financial institution designated by the State.
- (3) The University's restricted investments of \$3,763,767 and \$4,661,005, respectively as of June 30, 2013 and 2012, are invested by and accounted by the Bond Trustee, the Bank of New York Mellon. As required by GASB Statement No. 40, Deposits and Investment Risk Disclosures, investments classified are as follows:

	<u>2013</u>		<u>2012</u>	
	<u>Market Value</u>	<u>Rating</u>	<u>Market Value</u>	<u>Rating</u>
Federated Auto Gov't Money Tranche # 44	\$ 2,525,732	AAA	\$ 2,920,782	AAA
Fidelity Treasury M Mkt #695 Class 1	1,238,035	AAA	1,740,223	AAA
<b>Total Investments</b>	<u>\$ 3,763,767</u>		<u>\$ 4,661,005</u>	

**C. Investments and Investment Income**

Investments are recorded at fair value as of June 30, 2013 and 2012, and consisted of the following:

	<u>2013</u>	<u>2012</u>
<b>Quasi Endowment Funds</b>		
Stocks	\$ 1,320,267	\$ 1,100,433
<b>Unrestricted</b>		
Stocks	<u>876,554</u>	<u>785,001</u>
Total Market Value	<u>2,196,821</u>	1,885,434
Prior Year Market Value	<u>1,885,434</u>	1,912,368
<b>Total Unrealized Gain/(Loss)</b>	<u>\$ 311,387</u>	<u>\$ (26,934)</u>

Foundation investments are recorded at fair value as of June 30, 2013 and 2012, and consisted of the following:

	<u>2013</u>	<u>2012</u>
<b>Restricted and Endowment Funds</b>		
Money market	\$ 1,460,809	\$ 1,785,351
Mutual funds	2,210,489	2,509,592
Certificates of deposit	460,894	414,122
Common Stock	2,876,702	2,217,960
Treasury obligations	1,396,397	1,334,298
Government securities	562,470	910,095
Equity funds	11,099,338	8,653,256
Corporate and foreign bonds	1,408,050	1,270,840
<b>Total Restricted and Endowment Fair Value</b>	<u>\$ 21,475,149</u>	<u>\$ 19,095,514</u>

**MORGAN STATE UNIVERSITY**

**Notes to Financial Statements  
June 30, 2013 and 2012**

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

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

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

Accounts receivable, accounts payable, and accrued liabilities consisted of the following as of June 30, 2012:

	<u>Accounts Receivable</u>	<u>Accounts Payable and Accrued Liabilities</u>
Student	\$ 3,877,135	\$ 3,160,686
Federal grants	4,793,423	-
Other grants (primarily state grants)	2,518,189	-
Vendor	-	10,127,780
Employee	-	16,014,809
Other	124,313	1,567,437
<b>Total</b>	<u>11,313,060</u>	<u>30,870,712</u>
Less: allowance for doubtful accounts	1,422,987	-
<b>Total</b>	<u>\$ 9,890,073</u>	<u>\$ 30,870,712</u>

**MORGAN STATE UNIVERSITY**

**Notes to Financial Statements  
June 30, 2013 and 2012**

**4. CAPITAL ASSETS**

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

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

# MORGAN STATE UNIVERSITY

## Notes to Financial Statements June 30, 2013 and 2012

### 4. CAPITAL ASSETS (continued)

The following were the changes in capital assets for the ended June 30, 2012:

	<u>June 30, 2011</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>June 30, 2012</u>
<b>Capital Assets Not Being Depreciated</b>					
Land	\$ 10,551,343	\$ -	\$ -	\$ -	\$ 10,551,343
Construction in-progress	44,129,059	31,638,140	(62,688)	(60,903,000)	14,801,511
<b>Total Capital Assets not Being Depreciated</b>	<u>54,680,402</u>	<u>31,638,140</u>	<u>(62,688)</u>	<u>(60,903,000)</u>	<u>25,352,854</u>
<b>Other Capital Assets</b>					
Infrastructure networks	38,218,997	-	-	-	38,218,997
Land improvements	14,952,479	-	-	2,650,000	17,602,479
Buildings	383,076,734	-	-	58,253,000	441,329,734
Furniture, fixtures, and equipment	39,406,442	4,857,527	(1,508,230)	-	42,755,739
Library materials	2,211,847	-	-	-	2,211,847
<b>Total other capital assets</b>	<u>477,866,499</u>	<u>4,857,527</u>	<u>(1,508,230)</u>	<u>60,903,000</u>	<u>542,118,796</u>
<b>Less accumulated depreciation for:</b>					
Infrastructure networks	(6,576,154)	(1,251,163)	-	-	(7,827,317)
Land improvements	(7,236,546)	(1,069,625)	-	-	(8,306,171)
Buildings	(133,841,851)	(11,076,940)	-	-	(144,918,791)
Furniture, fixtures, and equipment	(36,200,481)	(2,307,438)	1,508,230	-	(36,999,689)
Library materials	(1,191,990)	(44,237)	-	-	(1,236,227)
<b>Total accumulated depreciation</b>	<u>(185,047,022)</u>	<u>(15,749,403)</u>	<u>1,508,230</u>	<u>-</u>	<u>(199,288,195)</u>
Other capital assets, net	<u>292,819,477</u>	<u>(10,891,876)</u>	<u>-</u>	<u>60,903,000</u>	<u>342,830,601</u>
<b>Capital asset summary:</b>					
Capital assets not being depreciated	54,680,402	31,638,140	-	(60,903,000)	25,352,854
Other capital assets, at cost	477,866,499	4,857,527	(1,508,230)	60,903,000	542,118,796
Total cost of capital assets	<u>532,546,901</u>	<u>36,495,667</u>	<u>(1,508,230)</u>	<u>-</u>	<u>567,471,650</u>
Less accumulated depreciation	<u>(185,047,022)</u>	<u>(15,749,403)</u>	<u>1,508,230</u>	<u>-</u>	<u>(199,288,195)</u>
<b>Capital Assets, Net</b>	<u>\$ 347,499,879</u>	<u>\$ 20,746,264</u>	<u>\$ (62,688)</u>	<u>\$ -</u>	<u>\$ 368,183,455</u>

# MORGAN STATE UNIVERSITY

## Notes to Financial Statements June 30, 2013 and 2012

### 5. LONG-TERM LIABILITIES

Long-term liability activity for the years ended June 30, 2013 and 2012, were as follows:

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

  

	<u>June 30, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2012</u>	<u>Amounts Due Within One Year</u>
Bonds and capital lease obligations:					
Revenue bonds payable	\$ 58,830,000	\$ -	\$ (3,030,000)	\$ 55,800,000	\$ 3,195,000
Unamortized bond premium	904,515	-	(117,517)	786,998	-
Total revenue bonds payable	<u>59,734,515</u>	<u>-</u>	<u>(3,147,517)</u>	<u>56,586,998</u>	<u>3,195,000</u>
Capital lease obligations	3,756,314	-	(1,195,828)	2,560,486	850,010
Total bonds and capital lease obligations	<u>63,490,829</u>	<u>-</u>	<u>(4,343,345)</u>	<u>59,147,484</u>	<u>4,045,010</u>
Accrued workers' compensation	2,832,852	709,747	(660,599)	2,882,000	446,710
Accrued vacation	8,353,516	3,344,984	(3,103,641)	8,594,859	3,137,066
<b>Total long-term liabilities</b>	<u>\$ 74,677,197</u>	<u>\$ 4,054,731</u>	<u>\$ (8,107,585)</u>	<u>\$ 70,624,343</u>	<u>\$ 7,628,786</u>

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

The University's operating revenues decreased by \$3.6 million, primarily due to a decrease in Federal grants and contracts. Federal grants and contracts were \$5.8 million less in 2013 than in 2012 because federal funding for grants have been reduced due to federal budget cutbacks, the 2011 Federal Continuing Resolution and the 2012 Federal reductions also known as sequestration. As non-operating revenues remained consistent year over year, capital appropriations were \$22.6 million lower in 2013 compared to 2012 because a temporary reduction in State funded building construction. The new Center for Built Environment and Infrastructure Studies was placed in operation in fiscal year 2013. In fiscal years 2014 and 2015, the construction of the new School of Business building will substantially increase the capital appropriations over fiscal year 2013. Operating expenses increased by \$8.2 million in 2013. The largest increase was a rise in instruction costs of \$5.1 million due to \$1.9 million increase in Instructional depreciation due to new academic buildings, a reduction in the number of faculty vacancies, and the University paying for the new equipment to put in the Center for Built Environment and Infrastructure Studies. Overall, the University had a decrease in net position of \$1.7 million, a difference of \$35.6 million compared to 2012, primarily because of the temporary reduction in the state capital appropriations, a reduction in the University's student population, and increases in health insurance and retirement costs. As construction of the new School of Business building occurs, there will be a considerable improvement to the net position in fiscal year 2014.

# MORGAN STATE UNIVERSITY

## Notes to Financial Statements June 30, 2013 and 2012

### 6. REVENUE BONDS PAYABLE

#### A. Revenue Bonds Payable

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

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

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

The 1993, 2001, 2003, 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, 2001, 2003 and 2012 Revenue Bonds consist of the following as of June 30, 2013 and 2012:

<b>1993 Revenue Bonds:</b>	<b>2013</b>	<b>2012</b>
Current interest term bonds, maturing July 1, 2015, bearing interest of 6.05% which is paid semiannually on January 1 and July 1	<b>\$ 6,180,000</b>	\$ 8,010,000
Current interest term bonds, maturing July 1, 2020, bearing interest of 6.10%, which is paid semiannually on January 1 and July 1	<b>13,075,000</b>	13,075,000
Unamortized bond premium	<b>304,594</b>	398,740
<b>Total 1993 bonds payable</b>	<b>19,559,594</b>	21,483,740



**MORGAN STATE UNIVERSITY**

**Notes to Financial Statements  
June 30, 2013 and 2012**

**6. REVENUE BONDS PAYABLE (continued)**

**A. Revenue Bonds Payable (continued)**

	<u>2013</u>	<u>2012</u>
<b>2001 Revenue Bonds:</b>		
Current interest term bonds, maturing July 1, 2021, bearing interest of 2.5%-4.98%, which is paid semiannually on January 1 and July 1	-	4,280,000
<b>2003 Revenue Bonds, Series A (New Student Center):</b>		
Current interest term bonds, maturing July 1, 2032 bearing interest of 3.0% - 5.0% which is paid semiannually on January 1 and July 1	-	27,545,000
<b>2003 Revenue Bonds, Series B (University Boiler Plant):</b>		
Current interest term bonds, maturing July 1, 2022 bearing interest of 2.0% - 5.0% which is paid semiannually on January 1 and July 1	-	2,890,000
Unamortized bond premium	-	388,258
Total 2003 Bonds payable	<u>-</u>	<u>30,823,258</u>
<b>2012 Revenue Bonds</b>		
Current interest term bonds, maturing July 1, 2032 bearing interest of 2.1% - 5.0% which is paid semiannually on January 1 and July 1	<b>29,230,000</b>	-
Unamortized bond premium	<b>4,745,224</b>	-
Total 2012 bonds payable	<u><b>33,975,224</b></u>	-
<b>Total Revenue Bonds Payable</b>	<u><b>\$ 53,534,818</b></u>	<u><b>\$ 56,586,998</b></u>

**B. Principal and Interest Maturities**

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

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payments</u>
2014	\$ 2,515,000	\$ 2,433,080	\$ 4,948,080
2015	3,440,000	2,285,630	5,725,630
2016	3,600,000	2,115,370	5,715,370
2017	3,775,000	1,928,318	5,703,318
2018	3,970,000	1,723,333	5,693,333
2019-2023	16,465,000	5,435,653	21,900,653
2024-2028	6,465,000	2,903,125	9,368,125
2029-2033	8,255,000	1,071,875	9,326,875
<b>Total</b>	<u><b>\$ 48,485,000</b></u>	<u><b>\$ 19,896,384</b></u>	<u><b>\$ 68,381,384</b></u>

# MORGAN STATE UNIVERSITY

## Notes to Financial Statements June 30, 2013 and 2012

### 6. REVENUE BONDS PAYABLE (continued)

#### B. Principal and Interest Maturities (continued)

- (2) Pursuant to Article V of the 1993 Revenue Bond trust agreement, dated July 1, 1993, the University has covenanted to perform certain actions related to the collection of fees, timely payment of debt service, maintenance of adequate insurance coverage and performance of independent audits. The University was in compliance with these covenants at June 30, 2013.
- (3) The University is subject to Federal arbitrage laws governing the use of these proceeds of tax-exempt debt.
- (4) As of June 30, 2013 and 2012, the trustee held restricted investments in mutual funds in the amount of 3,763,767, and \$4,661,005, respectively. The funds in the restricted investments will be used to cover the \$4,848,883, revenue bonds debt service payments due July 1, 2013. The July 1, 2013, debt service payment will pay \$1,238,034 for the 2012 Revenue Bond Debt service and \$2,525,733 for the 1993 Revenue Bond Debt Service.

#### C. Defeased Revenue Bonds

- (1) In connection with the issuance of the 1993 Revenue Bonds, the Academic Fees and Auxiliary Facilities Fees Revenue Bonds, 1990 Series A (1990 Revenue Bonds) were legally defeased. Assets were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the defeased bonds. Accordingly, neither the indebtedness nor the assets of the irrevocable trust are included in the University's financial statements. As of June 30, 2013 and 2012, the outstanding balance of the defeased 1985 loan and 1990 Revenue Bonds was \$270,090, and \$528,381, respectively.
- (2) In connection with the issuance of the 2012 Revenue Bonds, the Academic Fees and Auxiliary Facilities Fees Revenue Bonds, (a) 2001 Series Bonds were refunded and retired September 11, 2012, (b) the 2003A Revenue Bonds Series and (c) the 2003B Revenue Bonds Series maturing on and after July 1, 2014 were legally defeased. Assets were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the defeased bonds. The 2003 Series A Bonds and 2003 Series Bonds were fully retired on July 1, 2013.
- (3) Accordingly, neither the indebtedness nor the irrevocable trust are included in the University's financial statements. As of June 30, 2013, the outstanding balance of defeased 2003A Revenue Series Bonds and 2003B Revenue Series Bonds was \$29,420,000, and was paid off on July 1, 2013. The 2001 Revenue Series Bonds outstanding bond principal balance of \$3,930,000 as of June 30, 2012, was paid off on September 11, 2012.

# MORGAN STATE UNIVERSITY

## Notes to Financial Statements June 30, 2013 and 2012

### 7. COMMITMENTS AND CONTINGENCIES

#### A. Contingencies

- (1) In the normal course of operations, certain claims have been brought against the University, which are in various stages of resolution. In the opinion of management, based on the advice of the State's Attorney General, the claims asserted are not expected to have a material effect on the University's financial position as of June 30, 2013.
- (2) The University receives funds from various Federal and State Agencies to fund specific programs. Final determination of various amounts is subject to audit under the Federal Single Audit Act Amendments of 1996 and by the responsible agencies. University officials believe that any audit adjustments resulting from final settlements will be immaterial in relation to the University's financial resources.

#### B. Leases

- (1) The University maintains capital leases primarily for equipment. As of June 30, 2013 and 2012, the net gross value of the underlying assets relating to the capital lease liability is \$7,310,667.

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

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

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

<u>For the Years Ending June 30,</u>	<u>Amount</u>
2014	\$ 613,840
2015	275,679
2016	209,819
2017	209,735
2018	209,647
2019-2021	523,705
Total future minimum payments	2,042,425
Less: interest	248,051
administrative fees	3,224
<b>Net Minimum Lease Payments</b>	<b><u><u>\$ 1,791,150</u></u></b>

# MORGAN STATE UNIVERSITY

## Notes to Financial Statements June 30, 2013 and 2012

### 7. COMMITMENTS AND CONTINGENCIES (continued)

#### B. Leases (continued)

- (3) Amortization expense for the assets held under capital lease was \$544,165, and \$732,192, for the years ended June 30, 2013 and 2012, respectively.
- (4) The University leases certain property under noncancelable operating leases. Future minimum lease payments under the operating leases for the years ending June 30, are as follows:

<u>For the Years Ending June 30,</u>	<u>Amount</u>
2014	\$ 2,417,140
2015	60,000
<b>Total</b>	<b><u><u>\$ 2,477,140</u></u></b>

- (5) Lease expenses for the years ended June 30, 2013 and 2012, were \$2,633,783, and \$2,654,163, respectively.

#### C. Construction Commitments

As of June 30, 2013, the University had commitments of \$99,882,968, for various capital improvement projects. These include:

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

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

- a. The renovation or replacement of the Jenkins Behavioral Center,
- b. Construction of a new Student Services building, and
- c. 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, 2013 and 2012

### 7. COMMITMENTS AND CONTINGENCIES (continued)

#### (2) Contingent Construction Liabilities

For the 2013 completed construction projects, the University has accrued as of June 30, 2013, \$536,675, for the Center for Built Environment and Infrastructure Studies/ North Campus Garage to cover the estimated residual vendor payments for these facilities. In addition, the University is in negotiation with the various contractors on completed projects. Based on these negotiations, the University has accrued as of June 30, 2013, \$794,697, for the Lillie Carol Jackson Museum, \$200,000, for the Earl S. Richardson Library, and \$503,903, for the Student Center.

### 8. RETIREMENT PLANS

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

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

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

#### *Plan Description*

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

#### *Funding Policy*

The University's required contributions are based upon actuarial valuations. Effective July 1, 1980, in accordance with the law governing the System, all benefits of the System are funded in advance. The entry age normal cost method is the actuarial cost method used. Both the University and covered employees are required by State statute to contribute to the System. The employees contribute from 2% to 5% of compensation, as defined, depending on the participant's plan. The University made its required contributions during the fiscal years ended June 30, 2013, 2012, and 2011, of \$6,024,025, \$5,250,718, and \$5,011,224, respectively.

# MORGAN STATE UNIVERSITY

## Notes to Financial Statements June 30, 2013 and 2012

### 8. RETIREMENT PLANS (continued)

#### *Optional Retirement Plans*

In addition to retirement and pension plans, the University offers optional retirement programs for certain faculty and professional staff. The University contributes 4% to 7% of the annual salary to these plans. The amount contributed by the University for these Plans for the fiscal years ended June 30, 2013, 2012, and 2011 were \$2,173,044, \$2,087,477, and \$1,835,907, respectively.

#### *Other Post Employment Benefits*

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

#### *Plan Description*

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

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

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

Members of the University's OPEB plan are generally employees who retired before July 1, 1984, employees who retired on or after July 1, 1984 with at least 5 years of creditable services, and employees who receive disability retirement allowances or special death benefits. The University subsidizes approximately 50% to 90% of covered medical and hospitalization costs, depending on the type of insurance plan. The University assesses a surcharge for post-employment health care benefits, which is based on health care insurance charges for current employees. During fiscal years 2013, 2012, and 2011, these benefits, which are financed on a pay-as-you-go basis, amounted to \$3,989,789, \$3,397,077, and \$2,319,128, respectively.

# MORGAN STATE UNIVERSITY

## Notes to Financial Statements June 30, 2013 and 2012

### 9. RISK MANAGEMENT

- A. The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to and illnesses of employees; and natural disasters. The University participates in the State's various self-insurance programs. The State is self-insured for general liability, property and casualty, workers compensation, environmental and anti-trust liabilities and certain employee health benefits.
- B. The State allocates the cost of providing claims servicing and claims payment by charging a "premium" to the University based on a percentage of the University's estimated current-year payroll or based on the average loss experienced by the University. This charge considers recent trends in actual claims experience of the State as a whole and makes provisions for catastrophic losses.
- C. The University records a liability when it is probable that a loss has been incurred and the amount of that loss can be reasonably estimated. Liabilities recorded include a provision for claims incurred but not reported. Because actual claims liabilities depend on complex factors such as inflation, changes in legal doctrines, and damage awards, actual claims could differ from estimates. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims and other economic and social factors. Liabilities for incurred workers' compensation losses to be settled by fixed or reasonably determinable payments over a long period of time are reported at their present value using a 4% discount rate. The provision for workers' compensation is based upon a separately determined actuarial valuation for the fiscal year ended June 30, 2011. Settlement amounts have not exceeded insurance coverage levels for the years ended June 30, 2013, 2012, or 2011.
- D. As of June 30, 2013 and 2012, the University has recorded \$3,004,000, and \$2,882,000, respectively in accrued expense liabilities associated with self-insurance. The recorded amounts represent the actuary's allocation of the University's share of the State's overall liability under the various state self-insurance programs to the University.

**MORGAN STATE UNIVERSITY**

**Notes to Financial Statements  
June 30, 2013 and 2012**

**10. RELATED PARTY TRANSACTIONS**

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

**11. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS**

The University's operating expenses by functional classification were as follows for the years ended June 30, 2013 and 2012:

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



**MORGAN STATE UNIVERSITY**

**Notes to Financial Statements  
June 30, 2013 and 2012**

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

<b>Functional Classification</b>	<b>2012 Natural Classification</b>			<b>Total</b>
	<b>Payments to Employees</b>	<b>Payments to Suppliers and Contractors</b>	<b>Depreciation</b>	
Instruction	\$ 44,207,346	\$ 2,559,320	\$ 4,704,288	\$ 51,470,954
Research	19,437,607	10,724,920	1,636,885	31,799,412
Public service	97,598	3,142	150,150	250,890
Academic support	13,174,848	3,582,276	4,076,872	20,833,996
Student services	5,054,733	1,496,089	2,218	6,553,040
Institutional support	22,929,487	5,548,992	473,338	28,951,817
Operation and maintenance of plant	7,769,717	9,643,391	1,502,382	18,915,490
Scholarships and fellowships	428,975	2,532,379	-	2,961,354
Auxiliary enterprises	9,111,673	16,917,665	3,203,271	29,232,609
<b>Total Expenses</b>	<b>\$ 122,211,984</b>	<b>\$ 53,008,174</b>	<b>\$ 15,749,404</b>	<b>\$ 190,969,562</b>

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