



**COMMUNICATION OF AUDIT RESULTS AND
REPORT TO THOSE CHARGED WITH GOVERNANCE**

FOR THE YEAR ENDED JUNE 30, 2013

DECEMBER 19, 2013



SB & COMPANY, LLC
EXPERIENCE • QUALITY • CLIENT SERVICE

December 19, 2013

Dear Audit Committee of the Board of Regents
of the University System of Maryland:

We are pleased to present the results of our audit of the June 30, 2013, financial statements of the University System of Maryland (the System).

This Report to the Audit Committee of the Board of Regents of the University System of Maryland (the Committee) summarizes our audit, the scope of our engagement, the reports to be issued, and various observations we noted during the audit that we want to report to you. This document also contains the Committee communications required by our professional and firm standards.

This audit was designed to express an opinion on the June 30, 2013, financial statements. We considered and will continue to consider the System's current and emerging business needs, along with an assessment of risk that could materially affect the financial statements, and aligned our audit procedures accordingly. We conducted the audit with the objectivity and independence that you, the Committee, and the users of your financial statements expect.

We received the full support and assistance of the System's personnel. This report is intended solely for the information and use of the members of the Audit Committee of the Board of Regents and management, and is not intended to be and should not be used by anyone other than these specified parties.

At SB & Company, LLC, we are continually evaluating the quality of our professionals' work in order to deliver audit services of the highest quality that will meet or exceed your expectations. We encourage you to evaluate our services and communicate back to us your evaluation of our services and how we can better exceed your expectations. This communication is most important to us as it will ensure that we do not overlook a single detail as it relates to the quality of our services.

We appreciate this opportunity to meet with you.

Very truly yours,
SB & Company, LLC

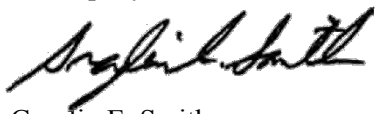
By: 
Graylin E. Smith



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Scope of Services and Highlight of Results



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Scope of Services

- Audit of June 30, 2013, financial statements
- OMB-Circular A-133 Single Audit testing at certain universities as part of the State of Maryland Single Audit Report
- Campus enrollment agreed upon procedures reports
- Agreed upon procedures reports for bond offerings
- Available for year-round consultation

Results

- Issued an unmodified opinion on the financial statements
- No material weaknesses noted
- Received full cooperation from management
- Implemented GASB 60
- Planning for GASB 68 – an approximate \$600 to 700 million unfunded pension liability will be recorded
- ACC receivable – no allowance required
- ACC lawsuit disclosure – contingent accrual not accrued – concluded not material to the financial statements considering facts and management's opinion
- Kuali implementation

Required Communications

- No significant concerns to report



SBC Risk-Based Audit Approach

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Risk-based Audit Approach

Planning - Understand the Client & Audit Risk

- Client Acceptance
- Client Environment
- Materiality
- Planning Document
- Issues Matrix
- Time & Fee Budget

Understand Design and Operations of Control

- What Can Go Wrong?
- Walk Throughs
- Identify Key Controls
- Test of Controls

Financial Close and Reporting (FCR)

- Determine Ending Balances
- Verify Ending Balances
- Proper Accounting Application

Financial Misstatement Analysis (FMA)

- Filter to Detect Potential Misstatement

Substantive Testing

- Firm & GAAS Requirements
- Negative Operating Controls
- Negative Financial Close
- Negative FMA Results

GAAS Compliance

- GAAS Checklist
- Wrap-up

Reporting

- Draft Financial Statements
- Draft Board Presentation
- Draft Management Recomm. Letter

Focus During this Stage

- Identifying internal, external, and financial statements risks
- Develop audit plans
- Evaluate your controls and processes
- Test your key controls
- Evaluate your processes to report correct amounts
- Evaluate reporting policies
- Review financial statements for misstatements
- Verify selected account balances
- Obtain third-party verification
- Professional standards requirements
- Obtain representation
- Evaluate results of audit procedures
- Communicate results and prepare reports to issue

Scope and Location of Testing



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| | Fiscal Year 2013 Scope of Work | | | | | |
|---|-----------------------------------|--------|------------|--------------|-------------------|------------------------------|
| University | Audit | Review | Analytical | Single Audit | Total 2013 Assets | Total 2013 Operating Revenue |
| | | | | | (in thousands) | (in thousands) |
| University of Maryland, College Park | | X | | | \$ 2,594,255 | \$ 1,162,677 |
| University of Maryland, Baltimore | X | | | X | 1,164,920 | 797,219 |
| University of Maryland University College | X | | | | 474,877 | 311,130 |
| Towson University | X | | | X | 921,741 | 250,656 |
| University of Maryland, Baltimore County | | | X | | 564,814 | 264,730 |
| Salisbury University | | | X | | 449,322 | 106,289 |
| University of Baltimore | | | X | | 230,343 | 69,503 |
| Coppin State University | | X | | | 284,022 | 25,778 |
| Bowie State University | | X | | | 270,238 | 46,059 |
| Headquarters (cash, debt, investments) | X | | | | 285,822 | 4,096 |
| University of Maryland, Eastern Shore | | X | | X | 199,239 | 66,195 |
| Frostburg State University | | | X | | 172,716 | 55,294 |
| University of Maryland Center for Environmental Science | | | X | | 86,895 | 25,477 |
| Multi-year rotation of Level of Testing at Each Institution | | | | | | |

| | Audit | Review | Analytical |
|-----------------------------------|--------------|--------------|--------------|
| Total assets (in thousands) | \$ 2,847,360 | \$ 3,347,754 | \$ 1,504,090 |
| Operating revenues (in thousands) | \$ 1,363,101 | \$ 1,300,709 | \$ 521,293 |
| Total assets coverage | 37% | 43% | 20% |
| Operating revenue coverage | 43% | 41% | 16% |



Level of Testing by Type

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| Level | Understand Control Environment | Understand Effectiveness of the Design of Controls | Testing Effectiveness of Key Controls | Understand Financial Close Process | Financial Misstatement Analysis | Substantive Testing | Evaluate General IT Controls |
|------------|--------------------------------|--|---------------------------------------|------------------------------------|---------------------------------|---------------------|------------------------------|
| Audit | X | X | X | X | X | X | X |
| Review | X | X | | X | X | | |
| Analytical | | | | X | X | | |

Understanding the Environment and Its Key Risks



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Strategic

Planning &

Resource Allocation

- Organizational structure
- Strategic planning
- Budgeting and forecasting
- Capital planning
- Cost management
- IT planning
- Resource planning
- Strategic partnerships

Reputation with Stakeholders

- Students
- Alumni
- Community
- Vendors

Revenue Enhancement

- Related/affiliated organizations
- Distance learning
- International expansion
- Technology transfer

External Dynamics

- Competition
- Economic factors
- Interest rates

Operations

Facilities

- Disaster preparedness
- Maintenance and condition
- Construction
- Safety and security

Academic Affairs

- Academic quality
- Accreditation
- Enrollment management
- Promotion and tenure
- Recruitment/completion
- Graduation rates

Information Technology

- Information security
- Data privacy
- Change management
- System implementation
- Automated application controls
- Management reporting

Student Services

- Student wellness
- Student rights and responsibilities
- Financial aid
- Organizations and activities
- Athletic and recreational activities
- International and immigration

Understanding the Environment and Its Key Risks



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(continued)

Financial & Compliance

Sponsor Research

- Post – ARRA access to funding
- Conflicts of Interest
- Effort certification
- Lab safety & compliance

Academic Medical Centers

- Healthcare reform
- Patient care / quality
- Health information & HIPAA
- Patient / grant billing
- Medical conflicts of interest
- Clinical research
- Faculty

Financial and Accounting

- GAAS
- A133
- International accounting standards
- Cash management
- Investments
- Debt management
- Credit and collections
- Risk management and insurance
- Tax
- Procurement
- Payroll
- Grants and donation accounting

Governance

- Board performance
- Ethics
- Code of conduct
- Conflict of interest
- Fraud

Legal & Regulatory Activities

- Student financial aid
- Copyright and trademarks
- Privacy and confidentiality
- Security
- State and local
- Contract
- Environmental
- Labor
- Tuition affordability

Human Resources

- Hiring and termination
- Ability to retain key talent
- Compensation and benefits – OPEB
- Performance evaluation
- FLSA, OSHA compliance

Accounting and Audit Pronouncements



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| Number | Statement | Fiscal Year Effective |
|-----------------|--|-----------------------|
| GASB 60* | Accounting and Financial Reporting for Service Concession | June 30, 2013 |
| GASB 61* | The Financial Reporting Entity – Omnibus – An Amendment of GASB Statements No. 14 and No. 34 | June 30, 2013 |
| GASB 62* | Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements | June 30, 2013 |
| GASB 63* | Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position | June 30, 2013 |
| GASB 64 | Derivative Instruments – Application of Hedge Accounting Termination Provisions – An Amendment of GASB Statement No. 53 | June 30, 2014 |
| GASB 65* | Items Previously Reported as Assets and Liabilities | June 30, 2014 |
| GASB 66 | Technical Corrections | June 30, 2014 |
| GASB 67 | Financial Reporting for Pension Plans | June 30, 2015 |
| GASB 68* | Accounting and Financial Reporting for Pensions | June 30, 2014 |
| GASB 69 | Government Combinations and Disposals of Government Operations | June 30, 2014 |

* Statements that will effect the System's reporting

Assessment of Control Environment by Institution



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Design of Controls Audit and Review Schools Only

| Area | Points to Consider | Overall | UMB | UMUC | TU | UMCP | CSU | BSU | UMES |
|------------------------------|--|-----------|-----------|-----------|-----------|-----------|----------------------|-----------|-----------|
| Control Environment | *Key executive integrity, ethics and behavior | Effective | Effective | Effective | Effective | Effective | Area for Improvement | Effective | Effective |
| | *Control consciousness and operating style | | | | | | | | |
| | *Commitment to competence | | | | | | | | |
| | *Board's participation in governance and oversight | | | | | | | | |
| | *Organizational structure and assignment of authority and responsibility | | | | | | | | |
| | *HR policies and procedures | | | | | | | | |
| Risk Assessment | *Mechanisms to anticipate, identify, and react to significant events | Effective | Effective | Effective | Effective | Effective | Effective | Effective | Effective |
| | *Process and procedures to identify changes in GAAP, business practices and internal control | | | | | | | | |
| Information & Communications | *Adequate performance reports produced from the information system(s) | Effective | Effective | Effective | Effective | Effective | Area for Improvement | Effective | Effective |
| | *Information systems are connected with business strategy | | | | | | | | |
| | *Business continuity/disaster plan for IT | | | | | | | | |

Assessment of Control Environment by Institution



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(continued)

Design of Controls Audit and Review Schools Only

| Area | Points to Consider | Overall | UMB | UMUC | TU | UMCP | CSU | BSU | UMES |
|--|--|-----------|----------------------|-----------|-----------|-----------|----------------------|-----------|-----------|
| Information & Communications (Continue) | *Commitment of HR and finance to develop, test and monitor IT systems and programs | Effective | Effective | Effective | Effective | Effective | Area for Improvement | Effective | Effective |
| | *Established communication channels for employees to fulfill responsibilities | | | | | | | | |
| | *Adequate communication across the organization | | | | | | | | |
| Control Activities | *Existence of necessary policies and procedures | Effective | Area for Improvement | Effective | Effective | Effective | Area for Improvement | Effective | Effective |
| | *Clear financial objectives with active monitoring | | | | | | | | |
| | *Logical segregation of duties | | | | | | | | |
| | *Periodic comparisons of book to actual and physical count to books | | | | | | | | |
| | *Adequate safeguards of documents, records and assets | | | | | | | | |
| | *Access controls in place | | | | | | | | |
| Monitoring | *Periodic evaluation of internal controls | Effective | Effective | Effective | Effective | Effective | Effective | Effective | Effective |
| | *Implementation of improvement recommendations | | | | | | | | |
| | *Internal audit function established to monitor activities | | | | | | | | |

Evaluation of Key Processes by Institution



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Design of Controls Audit and Review Schools Only

| Process | Function | Overall | UMB | UMUC | TU | UMCP | CSU | BSU | UMES |
|--------------------------|--|-----------|----------------------|-----------|-----------|-----------|----------------------|-----------|-----------|
| Financial Reporting | <ul style="list-style-type: none"> Accounting Principles and Disclosure Closing the Books General Ledger and Journal Entry Processing Substantiation and Review of Results | Effective | Effective | Effective | Effective | Effective | Ineffective | Effective | Effective |
| Treasury | <ul style="list-style-type: none"> Cash Management Investment Accounting | Effective | Effective | Effective | Effective | Effective | Ineffective | Effective | Effective |
| Estimation | <ul style="list-style-type: none"> Identification Methodology Information Calculation | Effective | Effective | Effective | Effective | Effective | Effective | Effective | Effective |
| Purchasing/ Disbursement | <ul style="list-style-type: none"> Purchasing Receiving Accounts Payable/Cash Disbursement | Effective | Effective | Effective | Effective | Effective | Area for Improvement | Effective | Effective |
| Payroll | <ul style="list-style-type: none"> Hiring Attendance Reporting Payroll Accounting and Processing Payroll Disbursements Employee Separation | Effective | Effective | Effective | Effective | Effective | Effective | Effective | Effective |
| Revenue | <ul style="list-style-type: none"> Tuition Billing Cash Receipts Revenue Recognition Other Billing | Effective | Effective | Effective | Effective | Effective | Area for Improvement | Effective | Effective |
| Expenditures | <ul style="list-style-type: none"> Purchasing Receiving Accounts Payable Cash Disbursement | Effective | Effective | Effective | Effective | Effective | Effective | Effective | Effective |
| Fixed Assets | <ul style="list-style-type: none"> Physical Custody Asset Accounting | Effective | Effective | Effective | Effective | Effective | Effective | Effective | Effective |
| Compliance | <ul style="list-style-type: none"> Assess Risk Regulatory Compliance Monitor Compliance Grant Compliance | Effective | Effective | Effective | Effective | Effective | Area for Improvement | Effective | Effective |
| Information Technology | <ul style="list-style-type: none"> Program Integrity Information Security Segregation of Duties Computer Operations | Effective | Area for improvement | Effective | Effective | Effective | Effective | Effective | Effective |

Evaluation of Key Processes by Institution



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(continued)

Operations of Control Audit Schools Only

| Process | Function | Overall | UMB | UMUC | TU |
|-----------------------------|---|-----------|----------------------|-----------|-----------|
| Financial Reporting | · Accounting Principles and Disclosure | Effective | Effective | Effective | Effective |
| | · Closing the Books | | | | |
| | · General Ledger and Journal Entry Processing | | | | |
| | · Substantiation and Review of Results | | | | |
| Treasury | · Cash Management · Investment Accounting | Effective | Effective | Effective | Effective |
| Estimation | · Identification · Methodology · Information · Calculation | Effective | Effective | Effective | Effective |
| Purchasing/ Disbursement | · Purchasing · Receiving · Accounts Payable/Cash Disbursement | Effective | Effective | Effective | Effective |
| Payroll | · Hiring · Attendance Reporting · Payroll Accounting and Processing · Payroll Disbursements · Employee Separation | Effective | Effective | Effective | Effective |
| Revenue | · Tuition Billing · Cash Receipts · Revenue Recognition · Other Billing | Effective | Effective | Effective | Effective |
| Expenditures | · Purchasing · Receiving · Accounts Payable · Cash Disbursement | Effective | Effective | Effective | Effective |
| Fixed Assets | · Physical Custody · Asset Accounting | Effective | Effective | Effective | Effective |
| Compliance | · Assess Risk · Regulatory Compliance · Monitor Compliance · Grant Compliance | Effective | Effective | Effective | Effective |
| Information Technology | · Program Integrity · Information Security · Segregation of Duties · Computer Operations | Effective | Area for improvement | Effective | Effective |

Summary of Enrollment Audit Findings



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| 2013 Nature of Finding | # of Findings |
|--|---------------|
| Incorrect race category was recorded. | 2 |
| Incorrect tuition status category was recorded. | 1 |
| Incorrect recording of existing student as a first time student. | 1 |
| Total | 4 |

| Campus | 2013 Population | | Total Findings by Year | | |
|--|-----------------|---------------|------------------------|----------|-----------|
| | Enrollment | First Time | 2013 | 2012 | 2011 |
| Bowie State University | 5,421 | 477 | - | - | - |
| Coppin State University | 3,612 | 429 | - | 3 | 1 |
| Frostburg State University | 5,421 | 814 | - | - | - |
| Salisbury University | 8,657 | 1,212 | - | 1 | - |
| Towson University | 21,960 | 2,436 | 1 | - | 1 |
| University of Baltimore | 6,558 | 215 | 1 | - | 1 |
| University of Maryland, Baltimore | 6,368 | N/A | - | - | - |
| University of Maryland, Baltimore County | 13,637 | 1,418 | - | - | 2 |
| University of Maryland, College Park | 37,247 | 3,493 | - | 2 | - |
| University of Maryland, University College | 42,268 | 169 | 2 | - | 2 |
| University of Maryland, Eastern Shore | 4,454 | 882 | - | 1 | 10 |
| Total | 155,603 | 11,545 | 4 | 7 | 17 |

Financial Statement Highlights



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| Key Accounts | As of June 30, Amounts Expressed in Thousands | | |
|--|--|--------------|--------------|
| | 2013 | 2012 | 2011 |
| Cash and Cash Equivalents | \$ 1,820,391 (a) | \$ 1,653,690 | \$ 1,425,961 |
| Tuition Receivables | 61,990 | 75,507 | 62,035 |
| Grant Receivables | 177,161 (b) | 207,843 | 229,692 |
| Notes Receivables/net | 66,296 | 68,227 | 67,345 |
| Investments | 192,921 | 190,280 | 198,655 |
| Inventory | 10,272 | 11,890 | 11,704 |
| Capital Assets, net | 5,273,348 (c) | 5,013,672 | 4,329,368 |
| Total Assets | 7,699,205 | 6,886,744 | 6,437,632 |
| Accounts Payable and Accrued Expenses | 310,619 | 272,523 | 244,535 |
| Revenue Bonds and Notes Payable | 1,183,368 | 1,156,594 | 1,115,179 |
| Obligations Under Capital Leases | 12,410 | 13,765 | 14,043 |
| Deferred Revenue | 177,345 | 191,691 | 189,593 |
| Total Liabilities | 1,895,255 | 1,839,010 | 1,766,032 |
| Deferred Inflows of Resources | 380,712 (d) | 432,401 | N/A |
| Net Investment in Capital Assets | 3,733,261 (e) | 3,485,170 | 3,284,965 |
| Unrestricted | 1,442,111 | 1,319,432 | 1,134,240 |
| Total Net Position | 5,423,238 | 5,058,483 | 4,671,599 |

- a) Cash balances increased due to overall increase in revenue and the System's goal to reserve cash for future capital additions.
- b) Decreased ARRA grants, primarily at UMB and UMCP.
- c) Capital additions at TU and UB – see page 22.
- d) GASB 60 implemented in 2013 and 2012 was restated. UMBC project ended in 2013.
- e) Capital additions at TU and UB, offset by debt.

Financial Statement Highlights



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(continued)

| Key Accounts | For the Years Ended June 30, Amounts Expressed in Thousands | | |
|--|--|--------------|--------------|
| | 2013 | 2012 | 2011 |
| Tuition and Fee Revenue | \$ 1,433,382 (a) | \$ 1,403,570 | \$ 1,313,970 |
| Scholarship Allowance | (245,613) | (236,903) | (227,975) |
| Auxiliary Revenues: | | | |
| Residential Facilities | 149,800 | 150,219 | 112,124 |
| Dining Facilities | 107,529 | 107,673 | 100,061 |
| Intercollegiate Athletics | 91,248 | 93,191 | 83,823 |
| Bookstore | 26,180 | 27,287 | 27,341 |
| Parking Facilities | 38,876 | 41,177 | 38,289 |
| Other Auxiliary Enterprises | 137,775 (b) | 128,564 | 128,479 |
| Other Operating Revenues | 61,658 (c) | 57,953 | 57,950 |
| Expenses by Natural Classification: | | | |
| Employee Costs | 2,831,312 | 2,735,956 | 2,602,632 |
| Vendor Expenses | 1,197,433 | 1,165,114 | 1,175,228 |
| Depreciation | 264,594 | 244,928 | 220,315 |
| Change in Net Position | 364,754 | 386,885 | 466,268 |

a) Increased tuition rates for undergraduate and graduate students offset by slight decrease in enrollment.

b) Deferred inflows from GASB 60 implementation and increased services provided by UMB to local hospitals.

c) Increased visits to the health center at UMB and insurance settlement at UMCP.



Financial Statement Highlights

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(continued)

| Entity-Wide | | | |
|---|-----------------|----------------|----------------|
| | 2013 | 2012 | 2011 |
| Debt to Fund Balance | 22% | 23% | 24% |
| Percentage of Tuition to Total Revenue | 37% | 37% | 36% |
| Receivable to Total Revenue | 8% | 9% | 10% |
| | | | |
| Endowment Investments | \$ 192,920,622 | \$ 190,279,721 | \$ 198,654,868 |
| Investment Income/(Loss) | 32,991,408 (a) | 22,139,093 | 31,624,217 |
| | | | |
| State Appropriations | 1,070,834,339 | 1,063,371,086 | 1,044,674,552 |
| Net Income from Auxiliary Activities | 52,484,712 (b) | 57,974,386 | 45,537,039 |
| Capital Expenditures | 516,053,770 (c) | 485,775,230 | 550,663,114 |

a) A stronger market produced returns on foundation investments of 7.0% compared to the prior year return of 0.6%.

b) Decreases in athletic ticket sales, bookstore sales, and dining hall revenue.

c) Increased non-capital expenditures, especially at UMUC with increased technology costs in 2013.



Financial Statement Highlights

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(continued)

| | Total | UMB | UMCP | BSU | TU | UMES | FSU |
|---|-----------------------|----------------------|----------------------|---------------------|----------------------|---------------------|---------------------|
| Tuition & fees | \$ 51,588,382 | \$ 359,931 | \$ 10,460,069 | \$ 483,083 | \$ 2,670,466 | \$ 2,273,862 | \$ 675,259 |
| CCU Receivables | 8,076,121 | 113,239 | 477,448 | 371,144 | 369,000 | 366,981 | 95,819 |
| Auxiliary Enterprises | 22,755,589 | - | 17,877,709 | - | 2,436,673 | - | 670,598 |
| Contracts & Grants | 59,964,787 | 26,689,902 | 18,195,563 | 1,026,754 | 4,650,337 | 984,439 | 206,148 |
| Unbilled-Contracts & Grants | 114,587,778 | 48,479,728 | 44,920,209 | - | 2,783,060 | 1,970,407 | 569,103 |
| nonstudent receivable | 1,270,352 | - | - | - | 1,270,352 | - | - |
| Due from component unit | 9,549,280 | 3,509,245 | 3,088,686 | - | - | - | 2,272 |
| Other (agency) | 19,669,956 | 10,301,605 | 3,367,373 | 1,121,155 | 446,324 | 453,734 | 28,004 |
| Total Accounts Receivable | 287,462,245 | 89,453,650 | 98,387,057 | 3,002,136 | 14,626,212 | 6,049,423 | 2,247,203 |
| Allowance for doubtful accounts | (18,606,429) | (4,347,297) | (1,390,053) | (80,484) | (849,000) | (694,441) | (192,175) |
| Accounts Receivable, net | <u>\$ 268,855,816</u> | <u>\$ 85,106,353</u> | <u>\$ 96,997,004</u> | <u>\$ 2,921,652</u> | <u>\$ 13,777,212</u> | <u>\$ 5,354,982</u> | <u>\$ 2,055,028</u> |
| Allowance for doubtful accounts 2012 | \$ (27,281,575) | \$ (5,200,176) | \$ (1,418,775) | \$ (156,113) | \$ (1,163,000) | \$ (977,436) | \$ (231,184) |
| Allowance % of A/R - 2013 | 7% | 5% | 1% | 3% | 6% | 13% | 9% |
| Allowance % of A/R - 2012 | 10% | 5% | 2% | 6% | 7% | 17% | 11% |
| Days Tuition Revenue in A/R - 2013 | 13 | 1 | 8 | 5 | 6 | 45 | 7 |
| Days Tuition Revenue in A/R - 2012 | 17 | 1 | 7 | 11 | 8 | 67 | 12 |
| Billed | \$ 151,762,643 | \$ 40,973,922 | \$ 33,258,208 | \$ 3,002,136 | \$ 11,843,152 | \$ 4,079,016 | \$ 1,134,891 |
| Unbilled | 135,699,602 | 48,479,728 | 65,128,849 | - | 2,783,060 | 1,970,407 | 1,112,312 |
| Total Accounts Receivable | <u>\$ 287,462,245</u> | <u>\$ 89,453,650</u> | <u>\$ 98,387,057</u> | <u>\$ 3,002,136</u> | <u>\$ 14,626,212</u> | <u>\$ 6,049,423</u> | <u>\$ 2,247,203</u> |

Financial Statement Highlights



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(continued)

| | CSC | UB | SU | UMUC | UMBC | UMCES | USM |
|---|---------------------|-----------------------|---------------------|-----------------------|------------------------|---------------------|-------------------|
| Tuition & fees | \$ 428,957 | \$ 2,084,073 | \$ 259,768 | \$ 28,483,244 | \$ 3,409,670 | \$ - | \$ - |
| CCU Receivables | 635,787 | 180,954 | 131,934 | 4,904,624 | 429,191 | - | - |
| Auxiliary Enterprises | 105,115 | - | 204,207 | - | 1,461,287 | - | - |
| Contracts & Grants | 1,429,899 | 1,013,376 | 165,247 | 342,720 | 3,016,009 | 1,755,949 | 488,444 |
| Unbilled-Contracts & Grants nonstudent receivable | 1,762,877 | - | 1,203,276 | - | 9,438,292 | 3,460,826 | - |
| Due from component unit | 100,000 | 2,767,396 | 81,681 | - | - | - | - |
| Other (agency) | 118,388 | 543,940 | 64,904 | 362,586 | 2,805,126 | 42,164 | 14,653 |
| Total Accounts Receivable | 4,581,023 | 6,589,739 | 2,111,017 | 34,093,174 | 20,559,575 | 5,258,939 | 503,097 |
| Allowance for doubtful accounts | (107,239) | (1,212,017) | (59,293) | (4,913,050) | (4,761,380) | - | - |
| Accounts Receivable, net | \$ 4,473,784 | \$ 5,377,722 | \$ 2,051,724 | \$ 29,180,124 | \$ 15,798,195 | \$ 5,258,939 | \$ 503,097 |
| Allowance for doubtful accounts 2012 | \$ (101,182) | \$ (1,082,836) | \$ (67,024) | \$ (5,250,154) | \$ (11,633,695) | \$ - | \$ - |
| Allowance % of A/R - 2013 | 2% | 23% | 3% | 17% | 30% | N/A | N/A |
| Allowance % of A/R - 2012 | 3% | 29% | 5% | 15% | 80% | N/A | N/A |
| Days Tuition Revenue in A/R - 2013 | 10 | 12 | 2 | 33 | 11 | N/A | N/A |
| Days Tuition Revenue in A/R - 2012 | 133 | 14 | 3 | 37 | 24 | N/A | N/A |
| Billed | \$ 2,818,146 | \$ 6,589,739 | \$ 797,755 | \$ 34,086,674 | \$ 10,877,798 | \$ 1,798,113 | \$ 503,093 |
| Unbilled | 1,762,877 | - | 1,313,262 | 6,500 | 9,681,777 | 3,460,826 | 4 |
| Total Accounts Receivable | \$ 4,581,023 | \$ 6,589,739 | \$ 2,111,017 | \$ 34,093,174 | \$ 20,559,575 | \$ 5,258,939 | \$ 503,097 |

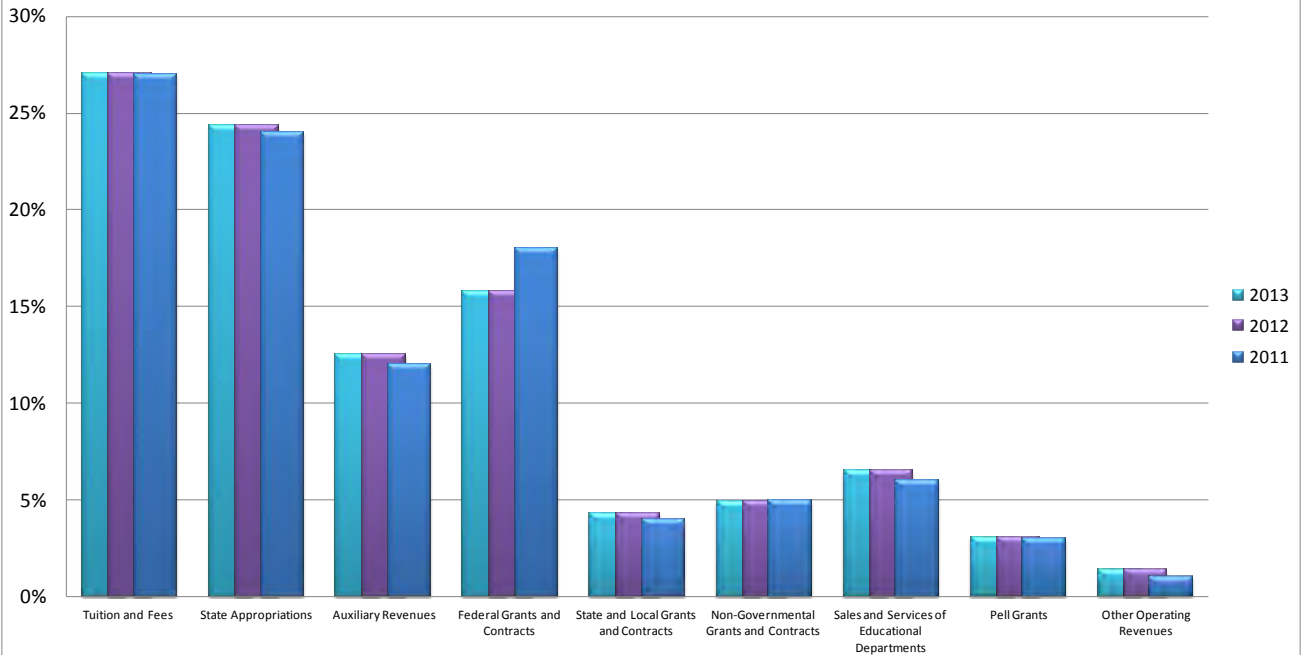
Financial Statement Highlights



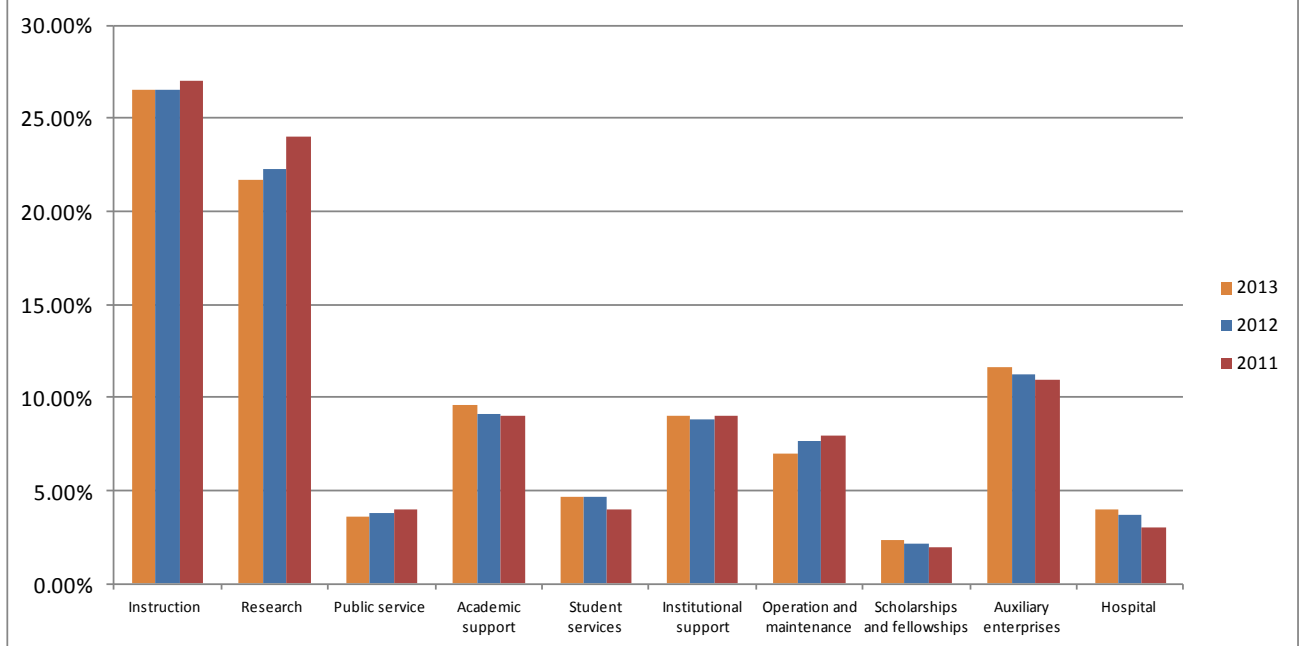
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(continued)

Percentage of Revenue by Category



Percentage of Expense by Category



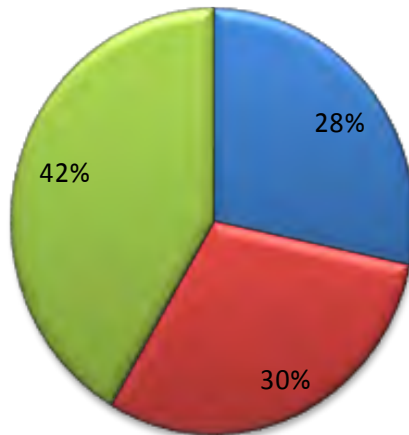


Financial Statement Highlights

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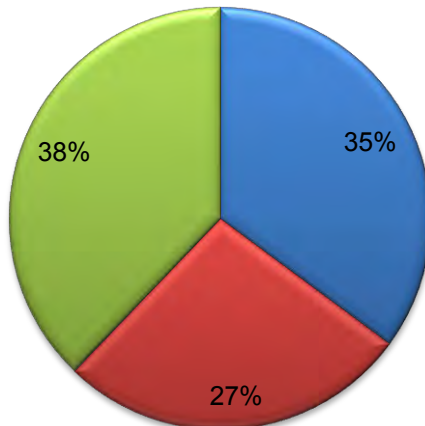
(continued)

2013 Capital Asset Funding Sources



- State of Maryland debt proceeds or cash balances
- System debt proceeds
- System cash balances or donations

2012 Capital Asset Funding Sources



- State of Maryland debt proceeds or cash balances
- System debt proceeds
- System cash balances or donations



Financial Statement Highlights

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(continued)

Major Additions

| Institution | Project | Additions in FY13 |
|--------------------------------------|---|-----------------------|
| University of Maryland, College Park | Fraternity/Sorority, Ph 9 Renovations | \$ 13,730,000 |
| Towson University | Towson Center Arena Addition/Renovation | 73,000,000 |
| | Newell and Richmond Halls Renovations | 25,700,000 |
| Salisbury University | Chester and Choptank Halls Renovations | 15,035,000 |
| University of Baltimore | New Law Center | 107,279,000 |
| Total | | <u>\$ 221,014,000</u> |

Required Communications



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1. Auditor's Responsibilities Under Generally Accepted Auditing Standards (GAAS)

The financial statements are the responsibility of management. Our audit was designed in accordance with auditing standards generally accepted in the United States of America, and provide for reasonable, rather than absolute, assurance that the financial statements are free of material misstatement.

2. Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by management are described in the notes to the financial statements.

3. Auditor's Judgments About the Quality of Accounting Principles

We discuss our judgments about the quality, not just the acceptability, of accounting principles selected by management, the consistency of their application, and the clarity and completeness of the financial statements, which include related disclosures.

We have reviewed the significant accounting policies adopted by the Maryland University System (the System) and believe these principles are consistently and properly applied.

Required Communications



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(continued)

4. Audit Adjustments

We are required to inform the System's oversight body about adjustments arising from the audit (whether recorded or not) that could in our judgment either individually or in the aggregate have a significant effect on the entity's financial reporting process. We also are required to inform the System's oversight body about unadjusted audit differences that were determined by management to be individually and in the aggregate, immaterial.

All adjustments proposed during the audit process were made.

5. Fraud and Illegal Acts

We are required to report to the System's oversight body any fraud and illegal acts involving senior management and fraud and illegal acts (whether caused by senior management or other employees) that cause a material misstatement of the financial statements.

Our procedures identified no instances of fraud or illegal acts. However, we were notified of fraud activity that was being investigated during the year.

6. Material Weaknesses in Internal Control

We are required to communicate all significant deficiencies in the System's systems of internal controls, whether or not they are also material weaknesses.

No material weaknesses noted.

Required Communications



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(continued)

7. Other Information in Documents Containing Audited Financial Statements

None.

8. Disagreements with Management on Financial Accounting and Reporting Matters

None.

9. Serious Difficulties Encountered in Performing the Audit

None.

10. Major Issues Discussed with Management Prior to Acceptance

None.

11. Management Representations

We received certain written representations from management as part of the completion of the audit.

12. Consultation with Other Accountants

To our knowledge, there were no consultations with other accountants since our appointment as the System's independent public accountants.

13. Independence

As part of our client acceptance process, we go through a process to ensure we are independent of the System. We are independent of the System.



14. Our Responsibility Related to Fraud

- Plan and perform the audit to obtain reasonable assurance that there is no material misstatement caused by error or fraud;
- Comply with GAAS AUC 240 “Consideration of Fraud in a Financial Statement Audit”;
- Approach all audits with an understanding that fraud could occur in any entity, at any time, by anyone; and
- Perform mandatory procedures required by GAAS and our firm policies.

Examples of Procedures Performed

- Discuss thoughts and ideas on where the financial statements might be susceptible to material misstatement due to fraud;
- Understand pressures on the financial statement results;
- Understand the tone and culture of the organization;
- Look for unusual or unexpected transactions, relationships, or procedures;
- Discussions with individuals outside of finance;
- Evaluate key processes and controls; and
- Consider information gathered throughout the audit.



Responsibility for Mitigating Fraud

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Management:

- ⦿ CFO/Controller: controls to deter and detect fraud
- ⦿ General Counsel/Compliance: monitoring

Audit Committee:

- ⦿ Evaluate management identification of fraud risk
- ⦿ Evaluate implementation of fraud controls
- ⦿ Reinforce “tone at the top”
- ⦿ Conduct special investigations

External Auditor

- ⦿ Evaluate management programs and controls to deter and detect fraud for identified risks
- ⦿ Reasonable assurance that financial statements are free of material misstatement due to fraudulent financial reporting or misappropriation of assets
- ⦿ Compliance with fraud standard (SAS 99)
 - Conversations with finance and operations personnel
 - Disaggregated analytics
 - Surprise audit procedures
 - Journal entry testing



SBC's Pledge to Value

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SBC is governed by a set of standards that stresses the most important of our firm's core values: *clients first*. We recognize that our success depends entirely on the value-added services that we provide to our clients, and nothing takes precedence over our commitment to meet your continual need for effective, insightful knowledge.

Quality is an integral part of SBC's culture and we are dedicated to providing you with an exemplary standard of professional services. Our Bullseye Philosophy is based on the premise that we will consistently deliver a quality product and quality service so that we have the opportunity to establish a quality relationship with you, allowing us to provide you with quality knowledge for your continual success. Only after we have provided you with the knowledge that enables your business to grow and prosper, have we hit the bullseye.

Our commitment to you is the execution of our Bullseye Philosophy. We execute this philosophy for every client, on every engagement, *every time*.





Contact Information

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