



TOPIC: FY 2014 Draft USM Financial Statements

COMMITTEE: Audit Committee

DATE OF COMMITTEE MEETING: October 15, 2014

SUMMARY:

A brief review of the draft and preliminary University System of Maryland basic financial statements for the year ended June 30, 2014.

The sheet titled 'Financial Snapshot' summarizes the System's key financial health ratio used by rating agencies, available resources to debt outstanding, using the figures reflected in the draft financial statements, to provide a comparison between June 30, 2013 and 2014 based on the information that is used by rating agencies. The bottom part of the Financial Snapshot adjusts the publically reported balances for Board-approved claims and authorizations not yet expended or reflected yet in the financial statements to arrive at a 'true' financial health ratio for internal management and decision-making purposes, is included.

A set of key points to be considered in reviewing the System's draft and preliminary financial statements is included.

The financial statements reflect the financial position and the results of operations of the University System of Maryland for the years ended June 30, 2014 and 2013, prepared on an accrual basis of accounting. The final, audited financial statements for the University System of Maryland will be available in early December, and will include the auditors opinion (System officials anticipate a 'clean' or unqualified opinion at this point) all appropriate note disclosures, a section containing management's discussion and analysis, the financial statements of the affiliated foundations, and supplementary financial statements for each of the USM institutions.

FISCAL IMPACT: Information item

CHANCELLOR'S RECOMMENDATION: Information item

COMMITTEE ACTION:

DATE:

BOARD ACTION:

DATE:

SUBMITTED BY: David Mosca



**University System of Maryland
Draft Financial Statements
Year ended June 30, 2014**

Key points associated with FY 2014 financial statements:

1. Balance sheet at June 30, 2014 reflects a decrease in unrestricted net assets of \$35.8M, to \$1.406M. The decline in unrestricted net assets includes just over \$100M of cash spending on Board-approved capital projects, recognition of the settlement of the ACC exit fee claim of just over \$31M, as well as the transfer of cash to the state government to avoid base appropriation cuts, also \$31M.
2. Results of operations outside of transfers to state government and cash spending on Board-approved capital projects have declined from an average of \$250M per year for 2010 through 2013, to approximately \$125M in fiscal year 2014. This narrowing of operating margins has made cash-funding of new capital projects unaffordable in the short-term.
3. As shown on the 'Financial Snapshot', the financial statements reflect a decline in the one of the two key ratios the bond rating agencies consider. Balance sheet strength, defined as the ratio of 'available resources' (USM unrestricted net assets + USM accrued leave liability + affiliated foundation unrestricted net assets) to debt outstanding, declined from 146% at June 30, 2013 to 137% at June 30, 2014. However, taking into account Board-approved commitments and authorizations to spend not yet reflected in the financial statements, FY 14 resulted in a slight improvement overall in 'true' financial standing, improving from 101% ratio of available resources to debt outstanding on an adjusted basis, to 112%. (see Financial Snapshot)
4. The other key ratio the bond rating agencies consider is the ratio of debt service to total expendable resources (total operating revenues + state appropriations). At June 30, 2014 and 2013, this ratio is 3.2% and 3.1%, respectively, compared to Board of Regents Policy limit of 4.50%
5. Based on draft financials, the following institutions did not meet the President's fund balance goal: University of Maryland College Park, University of Maryland Eastern Shore, Frostburg State University and the University of Baltimore.



**University System of Maryland
Financial Snapshot
Fiscal Year 2014 Compared with FY2013**

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
From the June 30, 2013 audited and 2014 draft financial statements:		
USM Unrestricted Net Position	\$ 1,406,310,133	\$ 1,442,111,011
USM Accrued Leave	195,557,656	183,281,062
Affiliated foundations unrestricted net assets	<u>147,009,262</u>	<u>126,289,245</u>
Available funds	<u>\$ 1,748,877,051</u>	<u>\$ 1,751,681,318</u>
Debt Outstanding	\$ 1,271,106,575	\$ 1,195,778,354
Ratio of Available Funds to Debt Outstanding	137.59%	146.49%
Endowment Funds Value	\$ 260,082,565	\$ 192,920,622
Claims against the June 30 available resources not reflected in financial statements:		
Cash-funded capital projects not fully spent at June 30,	\$ 168,140,375	\$ 262,348,787
Revenue bond-funded projects authorized but debt not yet issued	\$ 157,105,892	\$ 275,936,146
Ratio of Available Funds to Outstanding Debt adjusted for claims	112.00%	101.47%

**UNIVERSITY SYSTEM OF MARYLAND
BALANCE SHEET
JUNE 30, 2014 AND 2013**

	June 30, 2014	June 30, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$1,768,024,327	\$1,820,390,529
Accounts receivable, net	273,886,131	268,855,816
Notes receivable, current portion, net	8,379,623	7,728,081
Inventories	11,410,126	10,271,714
Prepaid expenses and deferred charges	9,687,391	9,038,098
Total current assets	<u>2,071,387,598</u>	<u>2,116,284,238</u>
Noncurrent assets:		
Restricted cash and cash equivalents	120,156,870	51,390,989
Endowment investments	260,082,565	192,920,622
Restricted investments		
Other investments	8,074,194	6,693,185
Notes receivable, net	57,309,733	58,567,542
Capital assets, net	5,455,276,832	5,273,348,180
Total noncurrent assets	<u>5,900,900,194</u>	<u>5,582,920,518</u>
Total assets	<u>7,972,287,792</u>	<u>7,699,204,756</u>
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized loss on refundings of debt	18,492,974	21,666,123
Total assets and deferred outflows of resources	<u>\$7,990,780,766</u>	<u>\$7,720,870,879</u>
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	\$349,447,185	\$310,619,251
Accrued workers' compensation, current portion	4,744,085	4,375,805
Accrued vacation costs, current portion	98,254,183	89,344,370
Revenue bonds and notes payable, current portion	87,281,886	79,050,151
Obligations under capital lease agreements, current portion	1,126,090	1,104,394
Deferred revenue	168,449,166	177,345,393
Total current liabilities	<u>709,302,595</u>	<u>661,839,364</u>
Noncurrent liabilities:		
Accrued workers' compensation	25,862,915	23,855,195
Accrued vacation costs	97,303,473	93,936,692
Revenue bonds and notes payable	1,191,012,008	1,125,984,278
Obligations under capital lease agreements	10,179,565	11,305,654
Total noncurrent liabilities	<u>1,324,357,961</u>	<u>1,255,081,819</u>
Total liabilities	<u>2,033,660,556</u>	<u>1,916,921,183</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred service concession arrangement receipts	362,355,637	380,711,678
NET POSITION		
Unrestricted	1,406,310,133	1,442,111,011
Net investment in capital assets	3,931,716,446	3,733,261,041
Restricted:		
Nonexpendable:		
Scholarships and fellowships	15,825,794	15,729,733
Research	4,060,103	4,055,554
Other	16,854,045	16,518,773
Expendable:		
Scholarships and fellowships	38,028,452	37,653,479
Research	76,172,765	69,959,016
Loans	69,310,705	71,207,868
Capital projects	7,917,513	5,651,220
Other	28,568,617	27,090,323
Total net position	<u>5,594,764,573</u>	<u>5,423,238,018</u>
Total liabilities, deferred inflows of resources and net position	<u>\$7,990,780,766</u>	<u>\$7,720,870,879</u>

UNIVERSITY SYSTEM OF MARYLAND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2014 AND 2013

	Year ended June 30, 2014		Year ended June 30, 2013	
OPERATING REVENUES:				
Tuition and fees	\$1,431,252,098		\$1,433,382,221	
Less: scholarship allowances	(258,532,366)	\$1,172,719,732	(245,612,865)	\$1,187,769,356
Federal grants and contracts		643,590,123		691,994,706
State and local grants and contracts		204,976,241		188,065,280
Nongovernmental grants and contracts		186,623,448		217,198,445
Sales and services of educational departments		312,193,754		287,007,719
Auxiliary enterprises:				
Residential facilities	168,435,935		163,147,129	
Less: scholarship allowances	(11,409,662)	157,026,273	(13,346,944)	149,800,185
Dining facilities	119,849,411		115,694,298	
Less: scholarship allowances	(7,587,679)	112,261,732	(8,165,031)	107,529,267
Intercollegiate athletics	107,307,995		95,851,126	
Less: scholarship allowances	(5,045,911)	102,262,084	(4,603,108)	91,248,018
Bookstore	26,629,359		27,778,782	
Less: scholarship allowances	(1,627,436)	25,001,923	(1,599,367)	26,179,415
Parking facilities		40,573,133		38,875,667
Other auxiliary enterprises revenues	143,429,716		137,815,456	
Less: scholarship allowances	(25,576)	143,404,140	(39,863)	137,775,593
Other operating revenues		73,873,509		61,658,055
Total operating revenues		3,174,506,092		3,185,101,706
OPERATING EXPENSES:				
Instruction		1,174,350,576		1,139,913,339
Research		924,899,646		931,958,951
Public service		152,924,530		152,996,481
Academic support		425,748,872		411,613,583
Student services		211,645,833		198,424,948
Institutional support		419,066,424		386,575,951
Operation and maintenance of plant		332,965,938		298,788,447
Scholarships and fellowships		105,263,838		100,959,500
Auxiliary enterprises:				
Residential facilities		146,670,981		136,208,180
Dining facilities		109,969,872		105,843,280
Intercollegiate athletics		100,307,139		89,937,185
Bookstore		25,096,550		27,352,051
Parking facilities		25,199,814		25,342,513
Other auxiliary enterprises expenses		120,900,855		114,240,224
Hospital		179,791,939		173,184,262
Total operating expenses		4,454,802,807		4,293,338,895
Operating loss		(1,280,296,715)		(1,108,237,189)
NONOPERATING REVENUES (EXPENSES):				
State appropriations		1,103,095,560		1,070,834,339
Pell grants		135,772,355		134,134,086
Gifts		39,801,377		44,631,760
Investment income	48,502,826		33,695,044	
Less: Investment expense	(713,354)	47,789,472	(703,636)	32,991,408
Interest on indebtedness		(46,548,259)		(45,504,869)
Other revenues, (expenses), gains and (losses)		(16,318,917)		45,978,162
Total net nonoperating revenues		1,263,591,588		1,283,064,886
Income before other revenues		(16,705,127)		174,827,697
OTHER REVENUES:				
Capital appropriations		181,125,898		149,213,513
Capital gifts and grants		6,691,877		38,107,205
Additions to permanent endowments		413,907		2,605,624
Total other revenues		188,231,682		189,926,342
Increase in net position		171,526,555		364,754,039
Net position - beginning of year		5,423,238,018		5,058,483,979
Net position - end of year		\$5,594,764,573		\$5,423,238,018