

TOPIC: Discussion of FY 2016 USM Audited Financial Statements

COMMITTEE: Finance

DATE OF COMMITTEE MEETING: January 26, 2017

SUMMARY: This item covers a brief review of the audited University System of Maryland basic financial statements for the year ended June 30, 2016, for which SB & Company—the USM’s independent accountants—provided an unqualified opinion.

A set of key points of the System’s financial statements appears on page one. The balance sheets, along with the statement of revenues, expenses, and changes in net position follows on pages two and three.

The fourth 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 financial statements, to provide a comparison between June 30, 2015 and 2016. The bottom part of the Financial Snapshot displays adjustments for the publically reported balances for Board-approved claims and authorizations not yet expended or reflected in the financial statements to arrive at a “true” financial health ratio for internal management and decision-making purposes.

NOTE: The comprehensive Financial Statements and Supplemental Schedules for FY 2016 can be viewed online at <http://www.usmd.edu/usm/adminfinance/finafair/fsssch.html>

ALTERNATIVE(S): This item is presented for information and discussion.

FISCAL IMPACT: This item is presented for information and discussion.

CHANCELLOR’S RECOMMENDATION: This item is presented for information and discussion.

COMMITTEE RECOMMENDATION: ACCEPTED FOR INFORMATION

DATE: 1/26/17

BOARD ACTION:

DATE:

SUBMITTED BY: Joseph F. Vivona (301) 445-1923



Financial Statements
Years ended June 30, 2016 and 2015

Key Points Associated with FY 2016 Financial Statements:

1. The Total net position increase of \$516.7M (see **A**) is comprised of an increase of \$162.7M (see **B**) in unrestricted net position and \$363.5M (see **C**) increase in net invested in capital assets and a decline in restricted net position of \$9.5M (see **D**)
2. The increase in unrestricted net position reflects an increase from operating activities of more than \$241M offset by cash-funded spending on capital projects of \$79M.
3. The following institutions report the largest increases in unrestricted net position: UMCP \$50M, TU \$22M, UMUC \$36M and UMBC \$18M. All institutions have met the President's fund balance goal for fiscal year 2016.
4. In FY15, USM implemented GASB # 68 "Accounting and Financial Reporting for Pensions." The net pension liability for FY16 and FY15 is \$966M and \$718M (see **E**), respectively. The majority of the increase is the result of the overall increase in the System's proportionate share of the Statewide pension liability based on contributions to the pension plan in proportion to total contributions made Statewide. USM's share of the Plan, based on the total contributions paid by USM institutions relative to all State agencies, increased from 4% to 5%. The Statewide net pension liability increased from \$16.7B to \$19.5B as of June 30, 2016.
5. As shown on the "**Financial Snapshot**," the financial statements report an improvement in the key Balance Sheet strength ratio used by the rating agencies. Balance Sheet strength, defined as the ratio of 'available resources' (USM unrestricted net position + pension related amounts + USM accrued leave liability + affiliated foundation unrestricted net assets) to debt outstanding, increased from 158% at June 30, 2015 to 163% at June 30, 2016 (see **F**). Adjusting for Board-approved commitments and authorizations to spend not yet reflected in the financial statements, FY16 resulted in an overall increase in 'true' financial standing, with the ratio of available resources to debt outstanding on an adjusted basis improving to 112% from 98% in FY15 (see **G**).

**UNIVERSITY SYSTEM OF MARYLAND
BALANCE SHEETS
JUNE 30, 2016 AND 2015**

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$2,158,518,807	\$1,931,035,806
Accounts receivable, net	239,163,750	238,773,981
Notes receivable, current portion, net	8,820,782	9,204,215
Inventories	10,722,032	10,751,254
Prepaid expenses and other	9,908,629	8,802,462
Total current assets	<u>2,427,134,000</u>	<u>2,198,567,718</u>
Noncurrent assets:		
Restricted cash and cash equivalents	72,001,213	53,635,361
Endowment investments	244,736,560	259,180,796
Other investments	19,770,395	9,465,963
Notes receivable, net	50,228,131	56,425,074
Capital assets, net	6,014,590,059	5,618,391,771
Total noncurrent assets	<u>6,401,326,358</u>	<u>5,997,098,965</u>
Total assets	<u>8,828,460,358</u>	<u>8,195,666,683</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>380,912,045</u>	<u>137,469,855</u>
Total assets and deferred outflows of resources	<u><u>\$9,209,372,403</u></u>	<u><u>\$8,333,136,538</u></u>
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	\$336,820,908	\$305,763,023
Accrued workers' compensation, current portion	4,487,550	4,650,000
Accrued vacation costs, current portion	104,082,163	102,968,033
Revenue bonds and notes payable, current portion	91,997,237	89,598,948
Obligations under capital lease agreements, current portion	1,356,864	1,268,224
Unearned revenues	217,867,754	193,328,789
Total current liabilities	<u>756,612,476</u>	<u>697,577,017</u>
Noncurrent liabilities:		
Accrued workers' compensation	25,429,450	25,350,000
Accrued vacation costs	104,584,488	102,200,886
Revenue bonds and notes payable	1,169,531,685	1,099,813,115
Obligations under capital lease agreements	7,496,422	8,853,287
Net pension liability	966,400,173	718,516,394 E
Total noncurrent liabilities	<u>2,273,442,218</u>	<u>1,954,733,682</u>
Total liabilities	<u>3,030,054,694</u>	<u>2,652,310,699</u>
DEFERRED INFLOWS OF RESOURCES	<u>404,419,331</u>	<u>422,645,905</u>
NET POSITION		
Unrestricted	1,032,165,637	869,422,201 B
Net investment in capital assets	4,504,161,728	4,140,685,079 C
Restricted:		
Nonexpendable	37,230,670	37,154,011 D
Expendable	201,340,343	210,918,643 D
Total net position	<u>5,774,898,378</u>	<u>5,258,179,934 A</u>
Total liabilities, deferred inflows of resources and net position	<u><u>\$9,209,372,403</u></u>	<u><u>\$8,333,136,538</u></u>

UNIVERSITY SYSTEM OF MARYLAND
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2016 AND 2015

	Year ended June 30, 2016	Year ended June 30, 2015
OPERATING REVENUES:		
Tuition and fees	\$1,570,420,925	\$1,501,372,760
Less: scholarship allowances	<u>(283,964,138)</u>	<u>(280,247,390)</u>
Federal grants and contracts	648,929,406	632,967,441
State and local grants and contracts	211,097,694	211,070,386
Nongovernmental grants and contracts	215,495,189	201,844,204
Sales and services of educational departments	342,146,755	331,889,848
Auxiliary enterprises	641,513,844	629,132,172
Less: scholarship allowances	<u>(24,077,769)</u>	<u>(25,574,228)</u>
Other operating revenues	<u>65,145,520</u>	<u>66,190,600</u>
Total operating revenues	<u>3,386,707,426</u>	<u>3,268,645,793</u>
OPERATING EXPENSES:		
Instruction	1,247,404,365	1,224,231,147
Research	964,465,402	936,234,104
Public service	164,703,932	152,294,821
Academic support	418,943,312	412,231,388
Student services	225,731,947	218,553,357
Institutional support	481,794,470	445,527,993
Operation and maintenance of plant	328,367,297	336,605,301
Scholarships and fellowships	110,541,568	104,239,654
Auxiliary enterprises	563,765,711	546,264,612
Hospital	<u>201,931,095</u>	<u>193,069,257</u>
Total operating expenses	<u>4,707,649,099</u>	<u>4,569,251,634</u>
Operating loss	<u>(1,320,941,673)</u>	<u>(1,300,605,841)</u>
NONOPERATING REVENUES (EXPENSES):		
State appropriations	1,257,323,499	1,203,572,985
Pell grants	146,285,279	146,299,427
Gifts	51,213,357	49,174,792
Investment income	21,283,109	33,575,694
Less: Investment expense	<u>(738,044)</u>	<u>(732,089)</u>
Interest on indebtedness	(44,791,417)	(46,131,763)
Other revenues, (expenses), gains and (losses)	<u>13,288,283</u>	<u>19,005,767</u>
Total nonoperating revenues	<u>1,443,864,066</u>	<u>1,404,764,813</u>
Income before other revenues	<u>122,922,393</u>	<u>104,158,972</u>
OTHER REVENUES:		
Capital appropriations	358,198,458	234,361,573
Capital gifts and grants	35,520,935	22,109,432
Additions to permanent endowments	<u>76,658</u>	<u>414,067</u>
Total other revenues	<u>393,796,051</u>	<u>256,885,072</u>
Increase in net position	516,718,444	361,044,044
Net position - beginning of year	5,258,179,934	5,594,953,744
Restatement for pension liability due to GASB Statement No. 68		<u>(697,817,854)</u>
Net position - end of year	<u>\$5,774,898,378</u>	<u>\$5,258,179,934</u>



**UNIVERSITY SYSTEM
of MARYLAND**
Financial Snapshot
As of June 30, 2016 Compared with 2015

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
From the June 30, 2016 and 2015 audit financial statements		
USM Unrestricted Net Position	\$ 1,032,165,637	\$ 869,422,201
Unfunded pension amounts	687,322,202	679,058,876
USM Accrued Leave	208,666,651	205,168,919
Affiliated foundations unrestricted net assets	<u>139,248,013</u>	<u>147,950,690</u>
Available funds	<u>\$ 2,067,402,503</u>	<u>\$ 1,901,600,686</u>
Debt Outstanding	\$ 1,270,379,542	\$ 1,199,533,574
Ratio of Available Resources to Debt Outstanding Per Financial Statements	162.74%	158.53% F
Claims against the June 30 available resources not reflected in financial statements:		
Available funds per financial statements	\$ 2,067,402,503	\$ 1,901,600,686
Cash-funded capital projects not fully spent at June 30,	(219,032,026)	(202,070,707)
Future years cash-funded committed but not yet authorized	<u>(209,000,000)</u>	<u>(261,000,000)</u>
Adjusted available funds	<u>\$ 1,639,370,477</u>	<u>\$ 1,438,529,979</u>
Debt outstanding per financial statements	\$ 1,270,382,208	\$ 1,199,533,574
Revenue bond-funded projects authorized but debt not yet issued	<u>193,465,677</u>	<u>270,403,247</u>
Adjusted total debt outstanding	<u>\$ 1,463,847,885</u>	<u>\$ 1,469,936,821</u>
Ratio of Available Resources to Debt Outstanding, Adjusted	111.99%	97.86% G

While rating agencies base their assessments based on financial statement balances, the System manages the ratio of available funds to debt outstanding to not fall below 1:1 ratio to ensure that financial health does not fall below medians for Aa1 rating category.