

TOPIC: Discussion of FY 2017 USM Audited Financial Statements

COMMITTEE: Finance

DATE OF COMMITTEE MEETING: January 25, 2018

SUMMARY: This item covers a brief review of the audited University System of Maryland basic financial statements for the year ended June 30, 2017, for which SB & Company—the USM’s independent accountants—provided an unqualified opinion.

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

The fourth page 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, 2016 and 2017. The bottom part of the Financial Snapshot displays adjustments to the publicly 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 2017 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: 1/25/18

BOARD ACTION:

DATE:

SUBMITTED BY: Ellen Herbst (301) 445-1923



Financial Statements
Years ended June 30, 2017 and 2016

Key Points Associated with FY 2017 Financial Statements:

1. The Total net position (the technical term for fund balance) increase of \$355.6M (see **A**) is comprised of an increase of \$87.5M (see **B**) in unrestricted net position and \$266.0M (see **C**) increase in net invested in capital assets and an increase in restricted net position of \$2.0M (see **D**)
2. The increase in unrestricted net position reflects an increase from operating activities of more than \$277M offset by cash-funded spending on capital projects of \$158.2M and an one time transfer to the state government of \$31M.
3. The following institutions report the largest increases in unrestricted net position: UMB \$20M, TU \$16M, BSU \$10M and UMUC \$16M. All institutions, except UMES, have met the President's fund balance goal for fiscal year 2017.
4. In FY15, USM implemented GASB # 68 "Accounting and Financial Reporting for Pensions." The net pension liability for FY17 and FY16 is \$1,216M and \$966M (see **E**), respectively. The overall increase in the Statewide pension liability is due to investment results for FY16. The allocation of the pension liability is based on USM's contribution to the pension plan in relation to total contributions made Statewide. USM's share of the State-wide pension liability, based on total contributions paid by USM relative to all State agencies increased from 4.95% to 5.49%.
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 163% at June 30, 2016 to 168% at June 30, 2017 (see **F**). Adjusting for Board-approved commitments and authorizations to spend not yet reflected in the financial statements, FY17 resulted in an overall increase in 'true' financial standing, with the ratio of available resources to debt outstanding on an adjusted basis improving to 119% from 112% in FY16 (see **G**).

UNIVERSITY SYSTEM OF MARYLAND
BALANCE SHEETS
JUNE 30, 2017 AND 2016

	June 30, 2017	June 30, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$2,173,087,940	\$2,158,518,807
Accounts receivable, net	275,273,036	239,163,750
Notes receivable, current portion, net	8,647,499	8,820,782
Inventories	10,659,675	10,722,032
Prepaid expenses and other	14,037,560	9,908,629
Total current assets	2,481,705,710	2,427,134,000
Noncurrent assets:		
Restricted cash and cash equivalents	100,060,603	72,001,213
Endowment investments	264,216,610	244,736,560
Other investments	11,087,345	19,770,395
Notes receivable, net	41,911,500	50,228,131
Capital assets, net	6,270,469,058	6,014,590,059
Total noncurrent assets	6,687,745,116	6,401,326,358
Total assets	9,169,450,826	8,828,460,358
DEFERRED OUTFLOWS OF RESOURCES	603,156,888	380,912,045
Total assets and deferred outflows of resources	\$9,772,607,714	\$9,209,372,403
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	\$269,144,379	\$336,820,908
Accrued workers' compensation, current portion	4,440,600	4,487,550
Accrued vacation costs, current portion	104,818,549	104,082,163
Revenue bonds and notes payable, current portion	93,370,871	91,997,237
Obligations under capital lease agreements, current portion	1,450,296	1,356,864
Unearned revenues	239,825,944	217,867,754
Total current liabilities	713,050,639	756,612,476
Noncurrent liabilities:		
Accrued workers' compensation	25,163,400	25,429,450
Accrued vacation costs	108,424,668	104,584,488
Revenue bonds and notes payable	1,196,953,524	1,169,531,685
Obligations under capital lease agreements	6,046,126	7,496,422
Net pension liability	1,216,808,542	966,400,173 E
Total noncurrent liabilities	2,553,396,260	2,273,442,218
Total liabilities	3,266,446,899	3,030,054,694
DEFERRED INFLOWS OF RESOURCES	375,669,914	404,419,331
NET POSITION		
Unrestricted	1,119,703,242	1,032,165,637 B
Net investment in capital assets	4,770,197,890	4,504,161,728 C
Restricted:		
Nonexpendable	37,625,121	37,230,670 D
Expendable	202,964,648	201,340,343 D
Total net position	6,130,490,901	5,774,898,378 A
Total liabilities, deferred inflows of resources and net position	\$9,772,607,714	\$9,209,372,403

UNIVERSITY SYSTEM OF MARYLAND
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2017 AND 2016

	Year ended June 30, 2017	Year ended June 30, 2016	
OPERATING REVENUES:			
Tuition and fees	\$1,628,712,485	\$1,570,420,925	
Less: scholarship allowances	<u>(295,368,216)</u>	<u>(283,964,138)</u>	\$1,286,456,787
Federal grants and contracts	677,154,092		648,929,406
State and local grants and contracts	205,676,639		211,097,694
Nongovernmental grants and contracts	233,649,313		215,495,189
Sales and services of educational departments	344,781,319		342,146,755
Auxiliary enterprises	668,971,168	641,513,844	
Less: scholarship allowances	<u>(24,853,943)</u>	<u>(24,077,769)</u>	617,436,075
Other operating revenues	<u>76,997,357</u>		<u>65,145,520</u>
Total operating revenues	<u>3,515,720,214</u>		<u>3,386,707,426</u>
OPERATING EXPENSES:			
Instruction	1,304,339,999		1,247,404,365
Research	1,006,751,565		964,465,402
Public service	159,815,026		164,703,932
Academic support	451,797,952		418,943,312
Student services	242,660,746		225,731,947
Institutional support	507,673,901		481,794,470
Operation and maintenance of plant	353,917,522		328,367,297
Scholarships and fellowships	110,187,780		110,541,568
Auxiliary enterprises	574,454,741		563,765,711
Hospital	<u>207,609,768</u>		<u>201,931,095</u>
Total operating expenses	<u>4,919,209,000</u>		<u>4,707,649,099</u>
Operating loss	<u>(1,403,488,786)</u>		<u>(1,320,941,673)</u>
NONOPERATING REVENUES (EXPENSES):			
State appropriations	1,295,338,118		1,257,323,499
Pell grants	147,457,189		146,285,279
Gifts	50,652,089		51,213,357
Investment income	65,280,437	21,283,109	
Less: Investment expense	<u>(714,292)</u>	<u>(738,044)</u>	20,545,065
Interest on indebtedness	(42,826,529)		(44,791,417)
Other revenues, (expenses), gains and (losses)	<u>13,326,667</u>		<u>13,288,283</u>
Total nonoperating revenues	<u>1,528,513,679</u>		<u>1,443,864,066</u>
Income before other revenues	<u>125,024,893</u>		<u>122,922,393</u>
OTHER REVENUES:			
Capital appropriations	208,834,385		358,198,458
Capital gifts and grants	21,435,670		35,520,935
Additions to permanent endowments	<u>297,575</u>		<u>76,658</u>
Total other revenues	<u>230,567,630</u>		<u>393,796,051</u>
Increase in net position	355,592,523		516,718,444
Net position - beginning of year	<u>5,774,898,378</u>		<u>5,258,179,934</u>
Net position - end of year	<u>\$6,130,490,901</u>		<u>\$5,774,898,378</u>



**UNIVERSITY SYSTEM
of MARYLAND**
Financial Snapshot
As of June 30, 2017 Compared with 2016

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
From the June 30, 2017 preliminary statements and 2016 audit financial statements		
USM Unrestricted Net Position	\$ 1,119,703,242	\$ 1,032,165,637
Unfunded pension amounts	701,832,124	687,322,202
USM Accrued Leave	213,243,217	208,666,651
Affiliated foundations unrestricted net assets	<u>143,632,009</u>	<u>139,248,013</u>
Available funds	<u>\$ 2,178,410,592</u>	<u>\$ 2,067,402,503</u>
Debt Outstanding	\$ 1,297,820,817	\$ 1,270,379,542
Ratio of Available Resources to Debt Outstanding Per Financial Statements	168%	163% F
 Claims against the June 30 available resources not reflected in financial statements:		
Available funds per financial statements	\$ 2,178,410,592	\$ 2,067,402,503
Cash-funded capital projects not fully spent at June 30,	(249,419,018)	(219,032,026)
Future years cash-funded committed but not yet authorized	<u>(191,475,000)</u>	<u>(209,000,000)</u>
Adjusted available funds	<u>\$ 1,737,516,574</u>	<u>\$ 1,639,370,477</u>
Debt outstanding per financial statements	\$ 1,297,820,817	\$ 1,270,382,208
Revenue bond-funded projects authorized but debt not yet issued	<u>168,376,186</u>	<u>193,465,677</u>
Adjusted total debt outstanding	<u>\$ 1,466,197,003</u>	<u>\$ 1,463,847,885</u>
Ratio of Available Resources to Debt Outstanding, Adjusted	119%	112% 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.