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## **REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS**

To the Board of Regents  
University System of Maryland

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

We have audited the accompanying financial statements of the University System of Maryland (the System), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

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

The System's 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 an opinion on these financial statements based on our audit. We audited the component unit financial statements of UMBC Research Park Corporation, Inc. and the Bowie State University Foundation, Inc. We did not audit the financial statements of the other component units, which represent 99 percent, 99 percent, and 98 percent, respectively, of the total assets, net assets and unrestricted revenue of the total component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those component units, is based on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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



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***Opinion***

In our opinion, based on our audit 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 System and its discretely presented component units as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As discussed in Note 11 to the financial statements, during the year ended June 30, 2015, the System adopted new accounting guidance from Government Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions". Our opinion is not modified with respect to this matter.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedule of proportionate share of net pension liability as listed in the table of contents 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.

***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements. The supplemental information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Hunt Valley, Maryland  
November 9, 2015

A handwritten signature in black ink that reads "SB &amp; Company, LLC". The signature is written in a cursive, flowing style.

## UNIVERSITY SYSTEM OF MARYLAND

### MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2015

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Management of the University System of Maryland (the System) provides the readers of the System's financial statements with this narrative overview and analysis of the financial activities of the System for the years ended June 30, 2015 and 2014.

#### Financial Highlights

- Governmental Accounting Standards Board (GASB) Statement No. 68 *Accounting and Financial Reporting for Pensions* was implemented in fiscal year 2015 and resulted in a restatement to the July 1, 2014 net position in the amount of \$697,817,854.
- Unrestricted net position increased by \$161,537,396 for the year ended June 30, 2015, after adjusting for GASB Statement No. 68 restatement of the July 1, 2014 net position, compared to a decrease of \$36,408,352 for the year ended June 30, 2014.
- State appropriations for the System increased by 9% for the year ended June 30, 2015. For the year ended June 30, 2014, State appropriations increased by 3% from the amount received in the year ended June 30, 2013.
- Tuition and fees, after deducting Scholarship Allowances, increased by \$48,039,748 or 4.1% for the year ended June 30, 2015. During the year ended June 30, 2014, net Tuition and fees, decreased by \$14,683,734 or 1.2%.
- For the year ended June 30, 2015, investment income on Endowment assets was \$8,390,109, representing investment returns of 4%. Investment income on Endowment assets amounted to \$24,291,204, an investment return of 13%, for the year ended June 30, 2014.

#### Overview of the Financial Statements

The System's financial statements consist of three basic financial statements and the notes that provide information on the accounting alternatives used, financial statements for discretely presented component units, and explanatory information and detail on certain financial statement elements. The three basic financial statements are the Balance Sheet, the Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows.

The *Balance Sheet* presents information on the System's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position, all as of the end of the reporting period. Net position represents the difference between assets plus deferred outflows of resources and liabilities plus deferred inflow of resources, and is detailed into classifications that help readers understand the constraints that the System must consider in making decisions on expending assets. Over time, changes in net position can help in understanding whether the financial condition of the System is improving or deteriorating.

The *Statement of Revenues, Expenses and Changes in Net Position* presents information on the changes in net position during the year. All changes in net position are reported as soon as the underlying event takes place, regardless of the timing of the related cash flows. Thus, revenue and expenses are recorded for some items that will result in cash flows in future fiscal years (for example tuition and fees owed by students, or vacation earned by employees but not used as of the date of the financial statements).

## UNIVERSITY SYSTEM OF MARYLAND

### MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2015

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The *Statement of Cash Flows* presents information on sources and uses of cash during the year. This statement details the changes in cash and cash equivalents from the amounts reported at the end of the preceding year, to the amounts reported in the Balance Sheet as of the end of the current year. Sources and uses are organized into operating activities, noncapital financing activities, capital and related financing activities, and investing activities.

The System's financial statements include all accounts and balances of the System (considered the primary government, in accounting terms), as well as 19 legally-separate and distinct entities for which the System is financially accountable, which are considered component units. Of the 19 component units, three are considered major component units due to their significance in terms of size.

The focus of this Management's Discussion and Analysis is on the System itself. Reference should be made to the separately audited financial statements of the component units for additional information.

#### Financial Analysis

As of June 30, 2015, the System's financial health remains strong, with assets and deferred outflows of resources exceeding liabilities and deferred inflows of resources by \$5,258,179,934, shown on the Balance Sheet as total net position. This compares with total net position of \$5,594,953,744 as of June 30, 2014. As suggested earlier, when viewed over time, net position may be useful as an indicator of financial health.

For the year ended June 30, 2015, total net position decreased by \$336,773,810. While net investment in capital assets increased by \$206,040,034, unrestricted net position decreased by \$536,280,458 and restricted net position categories decreased by \$6,533,386.

Unrestricted net position represents the portion of assets, after taking into account liabilities, which can be used to meet ongoing obligations and fund new initiatives. Unrestricted net position increased by \$161,537,396 after adjusting for the \$697,817,854 restatement attributable to the recording of pension liabilities as required by GASB Statement No. 68.

As of June 30, 2014, the System's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$5,594,953,744.

For the year ended June 30, 2014, total net position increased by \$171,715,726. Net investment in capital assets increased by \$201,384,004, while unrestricted net position decreased \$36,408,352, and restricted net position categories increased by \$6,740,074.

The \$36,408,352 decrease in unrestricted net position for the year ended June 30, 2014, is attributable to declines in enrollment, continuing institutional efforts to limit expenditures, as well as efforts to accumulate resources to provide for future facilities needs and renewal and renovation requirements.

**UNIVERSITY SYSTEM OF MARYLAND**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2015**

The table below presents summary-level information of the System's assets, liabilities, and net position as of June 30, 2015 and 2014.

	<b>2015</b>	<b>2014</b>
Current and other assets	\$2,577,274,912	\$2,516,361,486
Capital assets, net	5,618,391,771	5,456,115,475
Total assets	8,195,666,683	7,972,476,961
Total deferred outflows of resources	137,469,855	18,492,974
Total assets and deferred outflows of resources	<u>\$8,333,136,538</u>	<u>\$7,990,969,935</u>
Debt and obligations under capital lease agreements	\$1,199,533,574	\$1,289,599,574
Other liabilities	734,260,731	744,061,007
Net pension liability	718,516,394	
Total liabilities	2,652,310,699	2,033,660,554
Total deferred inflows of resources	422,645,905	362,355,637
Total liabilities and deferred inflows of resources	<u>2,694,956,604</u>	<u>2,396,016,191</u>
Net investment in capital assets	4,140,685,079	3,934,645,045
Restricted	248,072,654	254,606,040
Unrestricted	869,422,201	1,405,702,659
Total net position	<u>5,258,179,934</u>	<u>5,594,954,744</u>
Total liabilities, deferred inflows of resources and net position	<u>\$8,333,136,538</u>	<u>\$7,990,969,935</u>

Net position for the year ended June 30, 2015 was also affected by the implementation of GASB Statement No. 68 as previously indicated. The requirements of the new accounting standard resulted in a restatement of the July 1, 2014 net position of \$697,817,854. As allowed by GASB Statement No. 68, the System has recorded its pension liability for June 30, 2015 based on an actuarial valuation as of June 30, 2014. An actuarial valuation prepared in accordance with GASB Statement No. 68 was not performed that would allow the System to restate the financial statements for fiscal year 2014.

**UNIVERSITY SYSTEM OF MARYLAND**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2015**

The table below presents summary-level information on revenues, expenses, and other changes in the System's net assets for the years ended June 30, 2015 and 2014.

	<u>2015</u>	<u>2014</u>
Operating revenues	\$3,268,645,793	\$3,174,792,691
Operating expenses	4,569,251,634	4,453,964,164
Operating (loss)	(1,300,605,841)	(1,279,171,473)
State appropriations	1,203,572,985	1,103,095,560
Other nonoperating revenue, net	201,191,828	159,559,957
Total nonoperating	1,404,764,813	1,262,655,517
Income (loss) before other revenues	104,158,972	(16,515,956)
Other revenues	256,885,072	188,231,682
Increase in net position	361,044,044	171,715,726
Net position, beginning of year	5,594,953,744	5,423,238,018
Restatement for pension liability due to GASB Statement No. 68	(697,817,854)	
Net position, end of year	<u>\$5,258,179,934</u>	<u>\$5,594,953,744</u>

The System's operating revenues arise from activities associated with its core mission: education, research, and public service.

For the years ended June 30, 2015 and 2014, operating revenues, which under the definitions used by GASB excludes state appropriations, are detailed below:

	<u>2015</u>		<u>2014</u>	
	\$	%	\$	%
Tuition and fees, net	\$1,221,125,370	37.4%	\$1,173,085,622	37.0%
Contracts and grants	1,045,882,031	32.0	1,035,379,978	32.6
Sales and services of educational departments	331,889,848	10.2	311,924,297	9.8
Auxiliary enterprises, net	603,557,944	18.5	580,999,408	18.3
Other operating	66,190,600	2.0	73,403,386	2.3
Total	<u>\$3,268,645,793</u>	<u>100.0%</u>	<u>\$3,174,792,691</u>	<u>100.0%</u>

Tuition and fees reflect increases in resident undergraduate and graduate student rates, and non-resident rates and other student charges enacted for years ended June 30, 2015 and 2014.

## UNIVERSITY SYSTEM OF MARYLAND

### MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2015

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For the years ended June 30, 2015 and 2014, operating expenses are detailed below:

	2015		2014	
	\$	%	\$	%
Instruction	\$1,224,231,147	26.8%	\$1,173,522,028	26.3%
Research	936,234,104	20.5%	924,899,646	20.8%
Public service	152,294,821	3.3%	152,924,530	3.4%
Academic support	412,231,388	9.0%	425,738,777	9.6%
Student services	218,553,357	4.8%	211,645,833	4.8%
Institutional support	445,527,993	9.7%	419,066,424	9.4%
Operation and maintenance of plant	336,605,301	7.4%	332,965,938	7.5%
Scholarships and fellowships	104,239,654	2.3%	105,263,838	2.4%
Auxiliary enterprises	546,264,612	12.0%	528,145,211	11.8%
Hospital	193,069,257	4.2%	179,791,939	4.0%
Total	<u>\$4,569,251,634</u>	<u>100.0%</u>	<u>\$4,453,964,164</u>	<u>100.0%</u>

Operating expenses are detailed by (1) employee costs, (2) payments to suppliers, contractors and other, and (3) depreciation expense in the notes to the financial statements, in order to provide an alternative presentation of operating expenses.

For the years ended June 30, 2015 and 2014, increases in employee payments of \$137,702,755 and \$96,021,121 respectively, represent the largest component of the overall increase in operating expenses over the prior year with the largest increase associated with employee payments for Instruction activities.

#### Capital Asset and Debt Administration

The System continually makes investments in facilities necessary to achieve long-term objectives resulting from:

- State-wide public policy goals,
- System-wide strategic planning,
- institutional facilities master planning,
- projected enrollment growth,
- projected research space needs, and
- maintenance and renewal needs for existing facilities.

**UNIVERSITY SYSTEM OF MARYLAND**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2015**

Funding sources for additions to capital facilities and equipment for the last two fiscal years ended June 30, were funded through:

<b>Funding source</b>	<b>2015</b>	<b>2014</b>
State of Maryland debt proceeds or cash balances	\$234,361,573	\$181,125,898
System debt proceeds	70,987,051	107,485,870
System cash balances or donations	161,385,074	177,181,392
<b>Total</b>	<b>\$466,733,698</b>	<b>\$465,793,160</b>

Over the past two fiscal years ended June 30, major projects completed or placed in service are as follows:

<b>Project</b>	<b>Institution</b>	<b>Cost</b>
<b>Year ended June 30, 2015</b>		
Performing Arts and Humanities Facility	University of Maryland Baltimore County	\$71,931,000
Harford Education Center	Towson University	28,000,000
Center for Communication & Information Technology	Frostburg State University	69,328,000
<b>Year ended June 30, 2014</b>		
Physical Sciences Complex	University of Maryland, College Park	126,474,000
Prince Frederick Hall	University of Maryland, College Park	72,291,000
Student Center	Bowie State University	42,700,000

In August 2003, the System issued Revolving Loan Program Bonds to provide a pool of funds to finance the acquisition of personal property on a revolving basis. On June 1, 2013, the System redeemed \$15,000,000 of the Revolving Loan Program Bonds. The remaining principal balance of \$35,000,000 was remarketed for five years at a multi-annual interest rate of 1.25% and mature on July 1, 2023.



## UNIVERSITY SYSTEM OF MARYLAND

### MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2015

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The System has issued revenue bonds to fund the construction, acquisition, and renewal and replacement of facilities, or refinance previously issued revenue bonds to realize lower current interest rates, during the years ended June 30, 2015 and 2014, and since, as follows:

<b>Revenue Bond Issuance</b>	<b>Date</b>	<b>Purpose</b>	<b>Total Par Value Issued</b>	<b>Present Value of Future Debt Service Savings</b>
2014 Series A and B	2/5/2014	Refinancing, construction and facilities renewal	\$151,480,000	\$559,717
2015 Series A	3/4/2015	Refinancing	93,690,000	9,564,489

The System continually pursues opportunities to reduce its overall effective cost of capital financing, and as conditions in the financial markets allow, refinances previously issued debt with new debt at lower interest costs.

#### **Economic Factors and Next Year's Budget and Rates**

Enrollment demand, availability of funding for contracts and grants, and State of Maryland support through both operating and capital appropriations are the three most significant drivers of the System's revenue base.

Across all student categories, enrollment is expected to continue to increase over the next ten years, with just under 14% more full-time equivalent students anticipated by the fall 2024. Preliminary fall 2015 enrollment indicates an increase in headcount enrollment of almost 1,500 students.

The University of Maryland, College Park, the University of Maryland, Baltimore, and the University of Maryland, Baltimore County each have considerable numbers of faculty that pursue research grants and other sponsored funding arrangements. Indirect cost recoveries associated with contract and grants are an important funding source for institution's administrative costs. The Federal Budget Control Act places limits on Federal government spending commonly referred to as sequestration. These limits have constrained Federal spending on research activities, will reduce indirect cost recoveries generally, and will continue, unless Congress and the President agree upon and enact legislation that relieves the constraints on governmental spending currently in place.

As a region with a significant Federal government employee population, the potential for significant reductions in Federal spending in all likelihood would have serious implications for state tax revenues, both from income as well as sales taxes. The State government closely monitors revenue receipts and revises projections on a quarterly basis. As an economic engine for the entire state and region, System officials point out the impact that proposed reductions of State funding provided to higher education would have on state-wide economic activity and work-force development.

Personnel costs account for more than two-thirds of the System's noncapital spending. Healthcare costs and the adoption of a state-wide funding strategy for providing for retiree's healthcare costs are expected to be significant considerations for the System's future spending levels.

#### **Requests for Information**

This financial report is intended to provide a general overview of the System's finances. Questions concerning any of the information provided in this report, or requests for additional information should be addressed to the Office of the Vice Chancellor for Administration and Finance and Chief Operating Officer, 3300 Metzert Road, Adelphi, MD 20783.