St. Mary's College of Maryland

Financial Statements

Year ended June 30, 2001 with Report of Independent Auditors

0105-0183730-PH

St. Mary's College of Maryland

Financial Statements

Year ended June 30, 2001

Contents

Report of Independent Auditors on Financial Statements Audited in Accordance with *Government Auditing Standards*

Board of Trustees of
St. Mary's College of Maryland

We have audited the accompanying balance sheet of St. Mary's College of Maryland, a component unit of the State of Maryland, as of June 30, 2001, and the related statements of changes in fund balances and current funds revenues, expenditures and other changes for the year then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of St. Mary's College of Maryland as of June 30, 2001, and the changes in fund balances and current funds revenues, expenditures and other changes for the year then ended in conformity with accounting principles generally accepted in the United States.

As discussed in Note 3 to the financial statements, in the fiscal year ended June 30, 2001 the College changed its capitalization threshold on equipment.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2001, on our consideration of the College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Ernst + Young LLP

September 21, 2001

St. Mary's College of Maryland

Balance Sheet

June 30, 2001

	Current Funds		
	Unrestricted	**Restricted**	**Total**
Assets			
Cash with Maryland State Treasurer	$5,028,716	$488,074	$5,516,790
Cash and cash equivalents	109,770	–	109,770
Cash – restricted	–	–	–
Investments	–	–	–
Investments – restricted	–	–	–
Accounts receivable (net of allowance for doubtful accounts of $34,489)	304,881	401,675	706,556
Loans receivable (net of allowance for doubtful accounts of $32,626)	–	–	–
Deposits, advances and prepaid expenses	381,076	–	381,076
Inventories	384,919	–	384,919
Investment in plant	–	–	–
Total assets	$6,209,362	$889,749	$7,099,111
Liabilities and fund balances			
Liabilities:			
Accounts payable and accrued liabilities	$3,641,978	$ 52,785	$3,694,763
Accrued workers' compensation	219,000	–	219,000
Long-term debt	–	–	–
Deferred revenues	694,446	–	694,446
Total liabilities	4,555,424	52,785	4,608,209
Fund balances:			
Unrestricted, allocated:			
Unexpended plant funds	–	–	–
Renewal and replacements	–	–	–
Encumbrances	223,425	–	223,425
Future use	109,572	–	109,572
Unrestricted, unallocated	1,320,941	–	1,320,941
Endowment funds	–	–	–
Net investment in plant	–	–	–
Restricted:			
Grant programs	–	836,964	836,964
U.S. Government loan programs	–	–	–
Retirement of indebtedness	–	–	–
Total fund balances	1,653,938	836,964	2,490,902
Total liabilities and fund balances	$6,209,362	$889,749	$7,099,111

See accompanying notes.

		Plant Funds				
Loan Fund	Endowment Fund	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment in Plant	Total
$ 68,102	$ 19,460	$962,345	$3,256,260	$ 1,411	$ –	$ 4,220,016
–	180,928	–	–	–	–	–
–	–	–	6,444,910	–	–	6,444,910
–	4,343,189	–	–	–	–	–
–	–	–	–	619,352	–	619,352
66,710	–	–	151	–	–	151
293,632	–	–	–	–	–	–
–	–	–	217,454	291,883	–	509,337
–	–	–	–	–	–	–
–	–	–	–	–	86,200,325	86,200,325
$428,444	$4,543,577	$962,345	$9,918,775	$912,646	$86,200,325	$97,994,091
$ –	$ –	$ –	$3,345,177	$449,155	$ 14,298	$ 3,808,630
–	–	–	–	–	–	–
–	–	–	3,021,304	–	24,766,442	27,787,746
–	–	–	–	–	–	–
–	–	–	6,366,481	449,155	24,780,740	31,596,376
–	–	962,345	–	–	–	962,345
–	–	–	422,878	–	–	422,878
–	–	–	3,129,416	–	–	3,129,416
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	4,543,577	–	–	–	–	–
–	–	–	–	–	61,419,585	61,419,585
–	–	–	–	–	–	–
428,444	–	–	–	–	–	–
–	–	–	–	463,491	–	463,491
428,444	4,543,577	962,345	3,552,294	463,491	61,419,585	66,397,715
$428,444	$4,543,577	$962,345	$9,918,775	$912,646	$86,200,325	$97,994,091

St. Mary's College of Maryland

Statement of Changes in Fund Balances

Year ended June 30, 2001

	Current Funds		
	Unrestricted	**Restricted**	**Total**
Revenues and other additions:			
Education and general revenues	$34,296,850	$ –	$34,296,850
Student tuition and fees	–	–	–
Federal grants and contracts	–	909,625	909,625
State grants and contracts	–	746,275	746,275
Private gifts, grants and contracts	–	1,058,279	1,058,279
Endowment income	–	98	98
Unrealized gain on investments	–	–	–
State appropriations	–	7,155	7,155
Investment income	–	–	–
Interest on loans receivable	–	–	–
Other income	–	–	–
Retirement of indebtedness	–	–	–
Expended for plant facilities (including $487,171 charged to current funds expenditures)	–	–	–
Total revenues and other additions	34,296,850	2,721,432	37,018,282
Expenditures and other deductions:			
Educational and general expenditures	29,418,108	2,151,844	31,569,952
Auxiliary enterprises expenditures	5,583,606	–	5,583,606
Expended for plant facilities (including non capitalized expenditures of $800,626)	–	–	–
Retirement of indebtedness	–	–	–
Interest on indebtedness	–	–	–
Disposal of plant facilities	–	–	–
Donation of plant facilities	–	–	–
Other	–	–	–
Total expenditures and other deductions	35,001,714	2,151,844	37,153,558
Transfers among funds – additions (deductions):			
Mandatory:			
Debt service	(1,203,570)	–	(1,203,570)
Nonmandatory:			
Other	11,163	(11,163)	–
Total transfers among funds	(1,192,407)	(11,163)	(1,203,570)
Net increase (decrease) in fund balances	(1,897,271)	558,425	(1,338,846)
Fund balances at beginning of year, as restated	3,551,209	278,539	3,829,748
Fund balances at end of year	$ 1,653,938	$ 836,964	$ 2,490,902

See accompanying notes.

		Plant Funds				
Loan Fund	Endowment Fund	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment in Plant	Total
$ –	$ –	$ –	$ –	$ –	$ –	$ –
–	–	409,125	–	–	–	409,125
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	56,281	–	–	–	–	–
–	–	–	–	–	1,128,834	1,128,834
–	–	–	461,358	19,978	–	481,336
10,568	–	–	–	–	–	–
1,670	–	270,489	508,515	–	715	779,719
–	–	–	–	–	384,655	384,655
–	–	–	–	–	10,024,495	10,024,495
12,238	56,281	679,614	969,873	19,978	11,538,699	13,208,164
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	9,745,607	–	–	9,745,607
–	–	–	–	384,813	–	384,813
–	–	–	–	1,383,015	–	1,383,015
–	–	–	–	–	69,950	69,950
–	–	–	–	–	9,018	9,018
1,530	7,129	–	–	–	–	–
1,530	7,129	–	9,745,607	1,767,828	78,968	11,592,403
–	–	–	8,705,355	1,203,570	(8,705,355)	1,203,570
–	–	(1,140,415)	605,415	535,000	–	–
–	–	(1,140,415)	9,310,770	1,738,570	(8,705,355)	1,203,570
10,708	49,152	(460,801)	535,036	(9,280)	2,754,376	2,819,331
417,736	4,494,425	1,423,146	3,017,258	472,771	58,665,209	63,578,384
$428,444	$4,543,577	$ 962,345	$3,552,294	$ 463,491	$61,419,585	$66,397,715

St. Mary's College of Maryland

Statement of Current Funds Revenues, Expenditures and Other Changes

Year ended June 30, 2001

	Unrestricted	Restricted	Total
Revenues:			
State appropriations	$13,474,825	$ 7,155	$13,481,980
Student tuition and fees	11,079,753	–	11,079,753
Federal grants and contracts	71,636	926,304	997,940
State and local grants and contracts	–	129,043	129,043
Private gifts, grants and contracts	–	1,100,407	1,100,407
Investment income:			
Endowment	–	98	98
Interest and other investment income	932,088	–	932,088
Sales and services of educational departments	535,969	–	535,969
Sales and services of auxiliary enterprises	8,113,565	–	8,113,565
Other	89,014	–	89,014
Total revenues	34,296,850	2,163,007	36,459,857
Expenditures and mandatory transfers:			
Expenditures:			
Instruction	11,931,205	234,595	12,165,800
Institutional support	7,307,595	50,200	7,357,795
Student services	3,811,939	56,680	3,868,619
Operation and maintenance of plant	2,711,497	–	2,711,497
Academic support	2,001,417	124,094	2,125,511
Scholarships and fellowships	1,156,025	1,147,227	2,303,252
Public service	479,870	119,751	599,621
Research	18,560	419,297	437,857
Auxiliary enterprises	5,583,606	–	5,583,606
Total expenditures	35,001,714	2,151,844	37,153,558
Mandatory transfers:			
Debt service	(1,203,570)	–	(1,203,570)
Total expenditures and mandatory transfers	36,205,284	2,151,844	38,357,128
Other transfers and additions (deductions):			
Nonmandatory transfers:			
Other	11,163	(11,163)	–
Excess of restricted receipts over transfers to revenues	–	558,425	558,425
Total transfers and other additions (deductions)	11,163	547,262	558,425
Net increase (decrease) in fund balances	$(1,897,271)	$ 558,425	$(1,338,846)

See accompanying notes.

1. Organization and Purpose

St. Mary's College of Maryland (the College) is a component unit of the State of Maryland (the State). The College, which is governed by its Board of Trustees (the Board), is an undergraduate liberal arts institution located in St. Mary's City in southern Maryland. The campus has been an educational site since 1840. In 1964, the College was authorized by the State Legislature as a four-year liberal arts college.

In fiscal year 1992, the State Legislature enacted, and the Governor signed, a law that changed the nature of the College's relationship with the State, primarily by granting to the College authority, which was previously vested in State control agencies. The significant effects of this law were the stabilization of the College's general fund support and the empowerment of the College's Board with regard to budget establishment and management, human resources functions, procurement of goods and services, and investment management of the College's endowment fund. Under the new governance structure, the College and its Board are held accountable to the citizens and officials of the State, primarily through oversight provided by the Maryland Higher Education Commission.

In October 1971, St. Mary's College of Maryland Foundation, Inc. (the Foundation) was organized exclusively for charitable, religious, educational and scientific purposes. The Foundation's purposes further include, but are not restricted to, receiving and administering funds to enhance, improve, develop and promote St. Mary's College of Maryland and to benefit the College, its students and faculty. While the College benefits from the Foundation economically, it does not exercise control over the Foundation; therefore, the activities of the Foundation are not consolidated in these financial statements.

In fiscal year 2001, the College performed some accounting and public safety functions for Historic St. Mary's City (the City). The College is paid a fee for these services. The College does not exercise control over the City; therefore, the activities of the City are not reflected or consolidated in these financial statements.

2. Summary of Significant Accounting Policies

The financial statements of the College have been prepared in accordance with the accounting guidance and reporting practices applicable to public colleges and universities, as outlined in the American Institute of Certified Public Accountants Industry Audit Guide, Audits of Colleges and Universities and in the Financial Accounting and Reporting Manual for Higher Education published by the National Association of College and University Business Officers. The reporting objectives set forth in the aforementioned literature are accomplished through the presentation of the accompanying balance sheet, statement of changes in fund balances, and statement of current funds revenues, expenditures and other changes.

Accrual Basis

The financial statements of the College have been prepared on the accrual basis of accounting.

Fund Accounting

In order to ensure observance of limitations and restrictions placed on the use of the resources available to the College, the accounts of the College are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with specified activities or objectives. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund groups.

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds allocated for specific purposes by action of the College. Externally restricted funds may only be utilized in accordance with the purposes established by the source of such funds and are in contrast with unrestricted funds over which the College retains full control to use in achieving its institutional purposes.

2. Summary of Significant Accounting Policies (continued)

Fund Accounting (continued)

All unrestricted revenue is accounted for in the Current Funds – Unrestricted. Restricted gifts, grants, contracts, endowment income and other restricted resources are accounted for in the appropriate restricted funds. Revenues from restricted grants and contracts are recognized when expenditures are incurred for current operating purposes.

Endowment funds are subject to the restrictions of gift instruments requiring that the principal be invested in perpetuity and that only the resulting income may be utilized. Quasi-endowment funds (funds functioning as endowments) have been established by the Board for the same purposes as endowment funds, except that any portion of a quasi-endowment fund may be expended at the Board's discretion.

All gains and losses arising from the sale, collection or other disposition of investments and other noncash assets, are accounted for in the fund owning such assets. Realized income derived from investments of endowment and similar funds is accounted for in the fund to which it is restricted or, if unrestricted, as revenue in unrestricted current funds. Unrealized income remains in the endowment fund. Any endowment income that is not expended at year-end is transferred to a quasi-endowment fund.

Resources available for loans to students are accounted for in the loan fund. The plant fund is used to record the accumulation of resources for the purchase of property, plant, and equipment and retirement of related indebtedness as well as the purchase and disposition of property, plant, and equipment.

Investments

Investments are stated at fair value. Shares of mutual funds are valued at quoted market prices, which represent the net values of shares held by the College at year end. The fair value of other types of investments is based on quoted market prices at year end.

Inventories

Inventories are valued at cost and are accounted for under the first-in, first-out method, which is not in excess of net realizable value.

2. Significant Accounting Policies (continued)

Plant

Property, plant, and equipment is stated principally at cost at date of acquisition or fair value at date of donation, in the case of gifts. Equipment is capitalized for financial statement purposes if acquisition cost is $2,500 or higher and useful life is two or more years. Library books are capitalized at actual cost; works of fine art are capitalized. To the extent that current funds are used to finance plant assets, the amounts so provided are accounted for as mandatory transfers in the case of required provisions for debt amortization and interest. Acquisition costs of capital assets such as movable equipment and library books are reported in current funds expenditures to the extent current funds are budgeted for and used by operating departments for such purposes. Such assets are capitalized in the Investment in Plant subgroup and are reflected as an addition to that subgroup's fund balance. Consistent with current accounting principles generally accepted in the United States for public colleges and universities, depreciation on plant assets is not recorded.

Student Revenues

Student tuition and fees are recognized in the fiscal year in which the related course or activities are principally conducted. Student tuition and fees collected in advance for future courses and activities are recorded as deferred revenues.

Risk Management

The College is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to and illnesses of employees; and natural disasters. The College participates in the State's various self-insurance programs. The State is self-insured for general liability, property and casualty, workers' compensation, environmental and anti-trust liabilities and certain employee health benefits.

The State allocates the cost of providing claims servicing and claims payment by charging a "premium" to the College based on a percentage of the College's estimated current-year payroll or based on the average loss experienced by the College. This charge considers recent trends in actual claims experience of the State as a whole and makes provisions for catastrophic losses.

2. Significant Accounting Policies (continued)

Risk Management (continued)

The College records a liability when it is probable that a loss has been incurred and the amount of that loss can be reasonable estimated. Liabilities recorded include a provision for claims incurred but not reported. Because actual claims liabilities depend on such complex factors such as inflation, changes in legal doctrines, and damage awards, actual claims could differ from estimates. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims and other economic and social factors. Liabilities for incurred workers' compensation losses to be settled by fixed or reasonably determinable payments over a long period of time are reported at their present value using a 4% discount rate. The provision for workers' compensation is based upon a separately determined actuarial valuation for the fiscal year ended June 30, 2001.

As of June 30, 2001, the College has recorded $219,000 in liabilities associated with workers' compensation.

Pending Change in Accounting Principles

In 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 35, "Basic Financial Statements – and Management's Discussion and Analysis for Public Colleges and Universities – an amendment of GASB Statement 34." Statement No. 35 establishes significant new financial reporting requirements for public colleges and universities. The College is required to adopt Statement No. 35 for its financial statements for the year ending June 30, 2002. The College is in the process of completing the varied and complex analysis required to estimate the financial statement impact of this new pronouncement.

3. Change in Accounting Principle

During the fiscal year ended June 30, 2001, the College changed its capitalization threshold on equipment from $1,000 to $2,500 primarily to align capitalization thresholds with departmental limits on purchase orders. The net effect of this change resulted in a $2,639,280 reduction in the fund balance of the investment in plant subgroup of the plant fund as follows:

	Fund Balance as Previously Reported at June 30, 2001	Effect of Change in Accounting Principle	Fund Balance at July 1, 2001, as Restated
Investment in plant	$61,304,489	$(2,639,280)	$58,665,209

4. Deposits and Investments

At June 30, 2001, the College had cash on deposit in an internal pooled cash account with the Maryland State Treasurer (Treasurer). The Treasurer maintains these and other Maryland State agency funds on a pooled basis in accordance with the Annotated Code of the State of Maryland. The internal cash pool functions similar to a mutual fund in the sense that each state agency holds a share of that pool; thus, the College's share of this pool cannot be categorized in accordance with GASB Statement No. 3. The State Treasurer's Office invests pooled cash balances on a daily basis. The investments consist of direct purchases of securities or repurchase agreements.

The carrying value of other deposits at June 30, 2001 was $910,050 (comprising current funds unrestricted and endowment fund "cash and cash equivalents" of $109,770 and $180,928, respectively, and plant funds "investments – restricted" of $619,352) and the associated bank balances were $928,366. $500,000 was covered by federal depository insurance. The remainder was categorized as uncollateralized (bank balances collateralized with securities held by the pledging financial institution's agent but not in the College's name).

4. Deposits and Investments (continued)

The carrying value of investments at June 30, 2001 is presented below:

Endowment Fund	
Mutual funds	$2,857,819
Corporate bonds	525,571
U.S. Government securities	163,534
U.S. agency and other asset-backed securities	760,348
Foreign bonds	34,940
Corporate equity securities	977
	$4,343,189

Plant Fund	
U.S. Government securities mutual fund	$ 650,537
Repurchase agreement	5,794,373
	$6,444,910

The Endowment Fund may invest in derivatives as permitted by guidelines established by the Board of Trustees and the Finance, Audit, and Investment Committee. Compliance with these guidelines is monitored by the Fund's staff.

Derivatives are used to hedge against foreign currency risk, improve yield, adjust the duration of the fixed income portfolio, or hedge against changes in interest rates. These securities are subject to changes in value due to changes in interest rates or currency valuations. The $760,348 U.S. Agency and other asset backed securities meet the definition of derivatives as defined by GASB Technical Bulletin 96-1. These securities are subject to prepayment risk when interest rates are falling.

Statutes and provisions of debt agreements authorize the College to invest in various securities, including money market accounts. With respect to endowment funds, statutes authorize the College to invest its funds in most types of debt and equity securities, subject to any specific limitations set forth in the applicable gift instrument or any applicable law.

4. Deposits and Investments (continued)

There are three categories or levels of credit risk associated with investments.

Category 1 – Insured or registered, or securities held by the College or its agent in the College's name.

Category 2 – Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the College's name.

Category 3 – Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not in the College's name.

The investments in mutual funds are not categorized in accordance with GASB Statement No. 3. The remainder of the College's investments is considered Category 2, in accordance with GASB Statement No. 3.

5. Endowment Funds

The fund balances making up the Endowment Fund as of June 30, 2001 are as follows:

Pure endowments	$1,020,011
Quasi-endowment	3,523,566
	$4,543,577

The College records most endowment income in the current funds. Endowment income not expended for restricted scholarships or other allowable purposes during the fiscal year is included in funds functioning as endowments.

The Board has established a spending rule for determining annual expendable amounts from endowment income. The objectives of the spending rule are to preserve the value of principal and the purchasing power of earnings. The amount of income available to be spent is tied to various economic indexes.

6. Investment in Plant

As of June 30, 2001, the components of the College's investment in plant were as follows:

Land	$ 2,617,828
Buildings and improvements	72,071,401
General equipment	4,557,004
Vehicles	757,249
Library collections	6,196,843
	$86,200,325

7. Long-Term Debt

Long-term debt as of June 30, 2001 consists of the following:

Student Residence Loan	$ 2,287,746
1993 Revenue Bonds, Series A	4,580,000
1997 Revenue Bonds, Series A	9,675,000
2000 Revenue Bonds, Series A	11,245,000
	$27,787,746

Student Residence Loan

In 1987, the College entered into a loan agreement with the Department of Education for the purpose of constructing new student residences. The loan is payable in semiannual installments of $92,824 through October 15, 2016, at an annual interest rate of 3%. The loan agreement is secured by a first lien on the residences and a pledge of the net revenues derived from the College's general operations.

As a special condition for the loan agreement, the College was required to establish a "Debt Service Reserve Account" in the amount of $181,600. Under the terms of the loan agreement, the College must continue to deposit to a required "Repair and Replacement Reserve Account," on or before April 15 each year, the sum of $35,000 until a total of $350,000 has been accumulated. As of June 30, 2001, the College has met this requirement and no future transfers will be required.

7. Long-Term Debt (continued)

Academic Fees and Auxiliary Facilities Fees Revenue Bonds

In 1993 and 1997, the College issued $5,105,000 and $10,000,000, respectively, of Revenue Bonds for the purpose of constructing new townhouse residences, designing the expansion of Charles Hall for a Campus Center and for completion of design, construction and equipping of Charles Hall. In 2000, the College issued $11,245,000 of Revenue Bonds for the purpose of constructing new student housing facilities and the renovation of, and construction of an addition to, the existing gymnasium. All of the aforementioned bonds are limited obligations of the College payable solely from, and secured by, the gross revenues derived from academic fees and auxiliary facilities fees. The Department of Education has the first lien on the revenues derived from these fees. Debt issued by the College for this purpose is not a debt of the State.

The 1993 Series A Revenue Bonds are dated April 1, 1993, and bear interest from 4.55% to 5.45%. Annual maturities will increase until the final principal payment of $345,000 becomes due in 2023. The bonds maturing after September 1, 2003, are callable at premiums of up to 2%.

The 1997 Series A Revenue Bonds are dated July 1, 1997, and bear interest from 4.70% to 5.135%. Annual maturities will increase until the final principal payment of $645,000 becomes due in 2027. The bonds maturing after September 1, 2007, are callable at premiums of up to 1%.

The 2000 Series A Revenue Bonds are dated July 15, 2000, and bear interest from 5.125% to 5.550%. Annual maturities will increase until the final principal payment of $740,000 becomes due in 2030. The bonds maturing after March 1, 2010, are callable at premiums of up to 1%.

Restricted cash and investments in the aggregate of $6,993,084 included in the Plant Fund are comprised of certain funds to be held and invested by the Trustee. As such, the use of these funds is limited to the bond project or capitalized interest purposes.

7. Long-Term Debt (continued)

Academic Fees and Auxiliary Facilities Fees Revenue Bonds (continued)

The trust agreements related to the 1993, 1997, and 2000 Series A Revenue Bonds establish several covenants that the College must comply with. Those covenants address the payment of bonds, operation and maintenance of facilities, and transfers of facilities, etc., among other matters. The covenants also require the College to fix, revise, charge, and collect auxiliary facilities and academic fees with respect to each fiscal year in amounts sufficient to make all the payments on the bonds as required by the trust agreement.

Deferred Debt Issue Costs

Administrative, legal, financing, underwriting discount and other miscellaneous expenses that were incurred in connection with the 1993 Series A, 1997 Series A, and 2000 Series A Academic Fees and Auxiliary Facilities Fees Revenue Bond offerings were deferred and are being amortized over the life of the bond issue. The amortization expense on deferred debt issue costs related to these offerings was $21,925 for 2001.

Principal Maturities

Future principal maturities of long-term debt for the years ending June 30 are as follows:

2002	$ 397,893
2003	591,456
2004	620,127
2005	638,909
2006	667,805
2007 and thereafter	24,871,556
	$27,787,746

Interest Costs

The College incurred $1,396,446 in interest expense during the year related to long-term debt.

8. Retirement Plans

Maryland State Retirement and Pension System

The College contributes to the Retirement and Pension System of Maryland (the System), established by the State to provide pension benefits for State employees and employees of 123 participating entities within the State. Although the System is an agent, multiple employer public employee retirement system, the College accounts for the plan as a cost-sharing multiple employer public employee retirement system as a separate valuation is not performed for the College and the College's only obligation to the plan is its required annual contributions. The System is considered part of the State's financial reporting entity and is not considered a part of the College's reporting entity. The System prepares a separate Comprehensive Annual Financial Report which can be obtained from the Maryland State Retirement and Pension System at 120 East Baltimore Street, Baltimore, Maryland 21202.

Plan Description

The System, which is administered in accordance with Article 73B of the Annotated Code of Maryland, consists of the several plans that are managed by the Board of Trustees for the System. All State employees hired into positions that are permanently funded and employees of the participating entities are eligible for coverage by the plans.

Funding Policy

The College's required contributions are based upon actuarial valuations. Effective July 1, 1980, in accordance with the laws governing the System, all benefits of the System are funded in advance. The entry age normal cost method is the actuarial cost method used. Both the College and covered employees are required by state statute to contribute to the System. The employees contribute from 2% to 5% of compensation, as defined, depending on the participant's plan.

The College made its required contributions during fiscal years ended June 30, 2001, 2000, and 1999, of $386,008, $502,202 and $516,746, respectively.

8. Retirement Plans (continued)

Optional Retirement Programs

In addition to the Retirement and Pension System, the College also offers optional retirement programs for faculty and professional staff that includes: TIAA-CREF, Aetna, 20th Century, and Valic. The College contributes 7.25% of annual salary into these plans. At this time, the employee is not required to contribute to the plan. The amount contributed by the College was $771,394 for the fiscal year ended June 30, 2001.

Postretirement Benefits

Former College employees who are receiving retirement benefits may participate in the State health care insurance plans. These plans, which provide insurance coverage for medical, dental and hospital costs are funded currently by the payment of premiums to the carriers and, under State policy, are contributory. Substantially all employees become eligible for these benefits when they retire with pension benefits. The cost of retirees' health care benefits is expensed when paid, and totaled $321,369 for the year ended June 30, 2001.

9. Construction Commitments

The estimated costs to complete construction in progress at June 30, 2001 are $3,129,416, of which $3,021,304 is to be funded from bond proceeds with $108,112 to be provided by College funds.

10. Litigation

In the normal course of operations, certain claims have been brought against the College, which are in various stages of resolution. Management believes that the ultimate resolution of the claims will not have a material adverse effect on the College's financial position.