ST. MARY'S COLLEGE OF MARYLAND

Financial Statements

Years ended June 30, 2003 and 2002, with Report of Independent Auditors

St. Mary's College of Maryland

Financial Statements

Years ended June 30, 2003 and 2002

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

Board of Trustees
St. Mary's College of Maryland

We have audited the accompanying basic financial statements of St. Mary's College of Maryland (the College), a component unit of the State of Maryland, as of and for the years ended June 30, 2003 and 2002, as listed in the table of contents. 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 audits.

We conducted our audits 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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 the College as of June 30, 2003 and 2002, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

As described in Note 2, the College has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis for Public Colleges and Universities*, as of July 1, 2001. The financial statements as of and for the year ended June 30, 2002, have also been restated as discussed in Note 2 to the financial statements related to accounting for federal capital contributions to the Federal Perkins Loan Program.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2003, 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.

Management's discussion and analysis on pages 5 through 14 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Ernst & Young LLP

September 22, 2003

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of the Financial Statements in Accordance with *Government Auditing Standards*

Board of Trustees
St. Mary's College of Maryland

We have audited the financial statements of St. Mary's College of Maryland as of and for the years ended June 30, 2003 and 2002, and have issued our report thereon dated September 22, 2003. We conducted our audits 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.

Compliance

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters that we have reported to management of the College in a separate letter dated September 22, 2003.

This report is intended solely for the information and use of the Board of Trustees, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Ernst + Young LLP

September 22, 2003

St. Mary's College of Maryland

Management's Discussion and Analysis

June 30, 2003

Overview of the Financial Statements and Financial Analysis

St. Mary's College of Maryland is proud to present its financial statements for fiscal years 2003 and 2002. During 2002, the College adopted GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis for Public Colleges and Universities*, as amended by GASB Statements No. 37 and No. 38. These statements establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a consolidated basis to focus on the College as a whole. Previously, financial statements focused on the accountability of individual fund groups, rather than a consolidated statement of all funds. There are three financial statements presented for each fiscal year: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows.

The discussion and analysis of the College's financial statements provides an overview of its financial activities for the year. This discussion has been prepared by management along with the financial statements and related footnote disclosures and should be read in conjunction with, and is qualified in its entirety by, the financial statements and footnotes. The discussion and analysis is designed to focus on current activities, resulting changes and current known facts.

Statements of Net Assets

The Statement of Net Assets presents the assets, liabilities, and net assets of the College as of the end of each fiscal year. The purpose of the Statement of Net Assets is to present to the readers of the financial statements a fiscal snapshot of St. Mary's College of Maryland. The Statement of Net Assets presents end-of-year data concerning Assets (current and noncurrent), Liabilities (current and noncurrent), and Net Assets (Assets minus Liabilities). From the data presented, readers of the Statement of Net Assets are able to determine the assets available to continue the operations of the institution. They are also able to determine how much the institution owes vendors, investors and lending institutions. Finally, the Statement of Net Assets provides a picture of the net assets and their availability for expenditure by the institution.

Condensed Statements of Net Assets

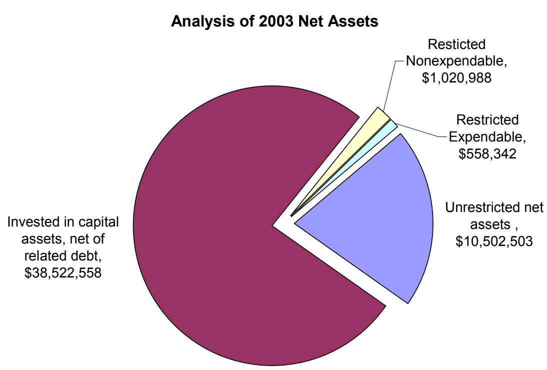
	June 30, 2003		June 30, 2002	
	Amount	**% of Total**	**Amount**	**% of Total**
Assets				
Current assets	**$ 12,207,625**	**12.6%**	$ 12,008,350	14.6%
Noncurrent assets:				
Capital	**77,057,211**	**79.2%**	65,732,617	79.6
Other	**8,014,153**	**8.2%**	4,794,641	5.8
Total assets	**97,278,989**	**100.0%**	82,535,608	100.0%
Liabilities				
Current liabilities	**5,829,097**	**12.5%**	5,511,370	16.4%
Noncurrent liabilities	**40,845,501**	**87.5%**	27,998,407	83.6
Total liabilities	**46,674,598**	**100.0%**	33,509,777	100.0%
Net assets				
Invested in capital assets, net of related debt	**38,522,558**	**76.1%**	38,199,579	77.9%
Restricted:				
Nonexpendable	**1,020,988**	**2.0%**	1,020,011	2.1
Expendable	**558,342**	**1.1%**	988,504	2.0
Unrestricted	**10,502,503**	**20.8%**	8,817,737	18.0
Total net assets	**$50,604,391**	**100.0%**	$ 49,025,831	100.0%

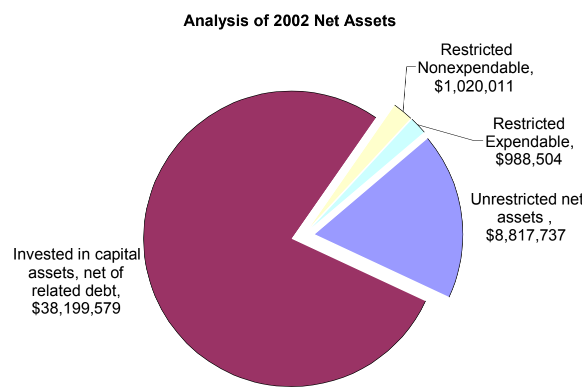
The total assets of the institution increased 17.9% or $14.7 million. This increase was primarily due to an increase in capital assets of $11.3 million and the construction of a new residential facility. In addition investments increased $2.8 million due to unspent bond proceeds for capital projects. These unspent proceeds will be used to fund capital projects in the following year.

The total liabilities for the year increased 39.3% or $13.1 million. The primary cause of this increase was the issuance of new debt of $13.6 million to fund the construction of the new residential facility. This combination of an increase in total assets of $14.7 million and increase in total liabilities of $13.1 million resulted in an increase of total net assets of $1.6 million.

Condensed Statements of Net Assets (continued)

Net assets are divided into three major categories. The first category, invested in capital assets, net of related debt, provides the institution's equity in property, plant and equipment owned by the institution. The next asset category is restricted net assets, which is divided into two categories, nonexpendable and expendable. The corpus of nonexpendable restricted resources is only available for investment purposes. Expendable restricted net assets are available for expenditure by the institution but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets which are available to be expended for any lawful purpose of the institution. The following graph details net assets by category held by the college as of June 30, 2003 and 2002 respectively.





The increase of 3.2% or $1.6 million in total net assets is primarily due to an increase of $1.7 million in the unrestricted net assets category. Although unrestricted net assets are not subject to externally imposed stipulations, substantially all of the College's unrestricted net assets have been designated for various academic programs and initiatives, as well as capital projects. The breakdown of unrestricted net assets as of June 30, 2003 and 2002 respectively is shown below.

Breakdown of Unrestricted Net Assets

	June 30	
	2003	**2002**
Encumbrances and carryovers for general operating purposes	**$ 650,344**	$ 243,350
Encumbrances for capital projects	**1,602,244**	853,040
Funds designated for current plant projects	**2,289,517**	1,763,072
Funds designated for future plant projects	**1,107,304**	1,725,875
Funds functioning as endowments (quasi-endowments)	**2,974,038**	2,622,004
Unrestricted funds for general operating purposes	**1,879,056**	1,610,396
Total unrestricted net assets	**$10,502,503**	$ 8,817,737

Statement of Revenues, Expenses and Changes in Net Assets

Changes in total net assets as presented on the Statements of Net Assets are based on the activity presented in the Statements of Revenues, Expenses, and Changes in Net Assets. The purpose of the statements are to present the revenues received by the institution, both operating and nonoperating, and the expenses paid by the institution, operating and nonoperating, and any other revenues, expenses, gains and losses received or spent by the institution.

Generally speaking operating revenues are received for providing goods and services to the various customers and constituencies of the institution. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the institution. Nonoperating revenues are revenues received for which goods and services are not provided. The financial reporting model classifies State appropriations and gifts as nonoperating revenues. Public colleges' and universities' dependency on state aid results in an operating deficit. The utilization of long-lived assets, referred to as Capital Assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

Condensed Statements of Revenues, Expenses and Changes in Net Assets

	Year ended June 30	
	2003	**2002**
Operating revenues:		
Tuition and fees	**$ 12,164,391**	$ 10,186,902
Grants and contracts	**135,431**	568,104
Auxiliary enterprises	**10,386,717**	9,682,641
Other operating revenues	**625,998**	1,004,324
Total operating revenues	**23,312,537**	21,441,971
Operating expenses	**40,101,080**	39,418,801
Operating loss	**(16,788,543)**	(17,976,830)
Nonoperating revenues, net:		
State appropriations	**13,853,271**	14,721,919
Other nonoperating income	**1,707,898**	1,027,934
Net nonoperating revenues	**15,561,169**	15,749,853
Loss before other revenues, expenses, gains or losses	**(1,227,374)**	(2,226,977)
Capital appropriations	**2,873,065**	604,298
Other revenues, expenses, gains and losses	**(67,131)**	(17,840)
Net increase/(decrease) in net assets	**1,578,560**	(1,640,519)
Net assets:		
At beginning of year, restated	**49,025,831**	50,666,350
At end of year	**$ 50,604,391**	$ 49,025,831

Summary of Changes in Statement of Revenues, Expenses and Changes in Net Assets

Net assets increased 3.2% or $1.6 million for 2003. An overall increase in operating revenues is mostly due to increased tuition rates and enrollment growth of approximately 140 full-time students, resulting in an additional $2.0 million of tuition and fee revenues. Operating expenses increased $682 thousand mainly as a result of increase auxiliary expenses associated with campus store and dining facilities. These additional expenses were offset by increased revenues from auxiliary operations and are mainly due to increased enrollment.

Summary of Changes in Statement of Revenues, Expenses and Changes in Net Assets (continued)

Overall, net nonoperating revenues remained consistent, decreasing only 1.2% or $189 thousand from the previous year. A decrease of $869 thousand in state appropriation and an increase in interest expense of $638 thousand due to new debt issuances was offset by an increase in investment income totaling $1.2 million. Capital appropriations increased $2.3 million as a result of state funding for the renovation of the recreation center and for the planning and design work on a new academic building and student services building.

Operating Revenues

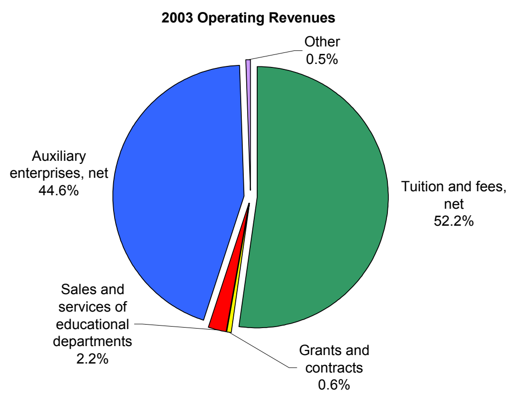
Total operating revenues for fiscal year 2003 were $23.3 million. Tuition and fees of $12.2 million, net of tuition discounts totaling $2.9 million, accounted for over 52% of total operating revenues and increased almost 20% from the prior year.

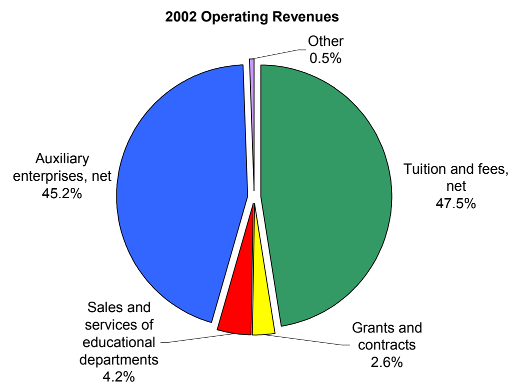
Grants and Contracts

This includes all restricted revenues made available by government agencies as well as private agencies. Grant revenues are recorded only to the extent a claim to resources has been established.

Auxiliary Enterprises

Auxiliary enterprises consist of various enterprise entities that exist predominately to furnish goods or services to students, faculty, staff, or the general public and charge a fee directly related to the cost of those goods or services. They are intended to be self-supporting. Auxiliary enterprises include residence halls, food services, and the College bookstore.





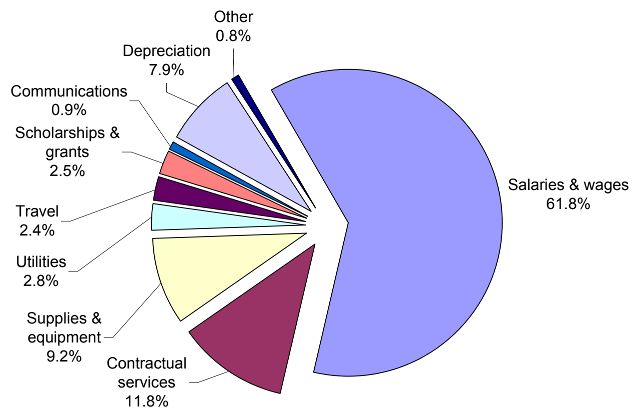
Sales and Service of Educational Activities

Other operating revenues consist of sales and services of educational activities totaling $503 thousand. Some examples are Johns Hopkins Center for Talented Youth $310 thousand; Shanghai Business Executive Program $117 thousand and Professional Programs $76 thousand.

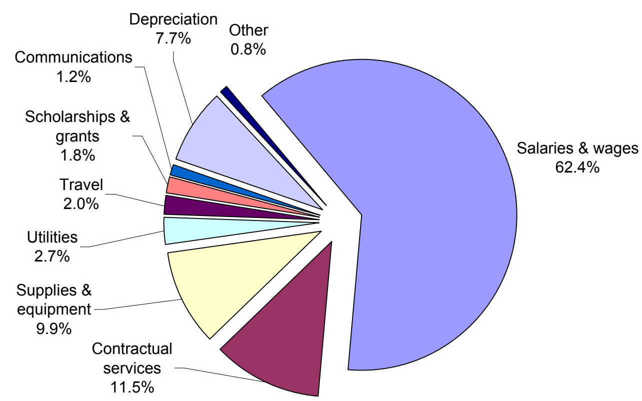
Operating Expenses

Operating expenses for 2003 totaled $40.1 million. Of this total, $13.5 million or 33.6% was for instruction. Operating expenses include salaries and benefits of $24.9 million, scholarships and grants of $996.2 thousand, utilities of $1.1 million, supplies & non-capitalized equipment of $3.7 million and depreciation of $3.2 million.

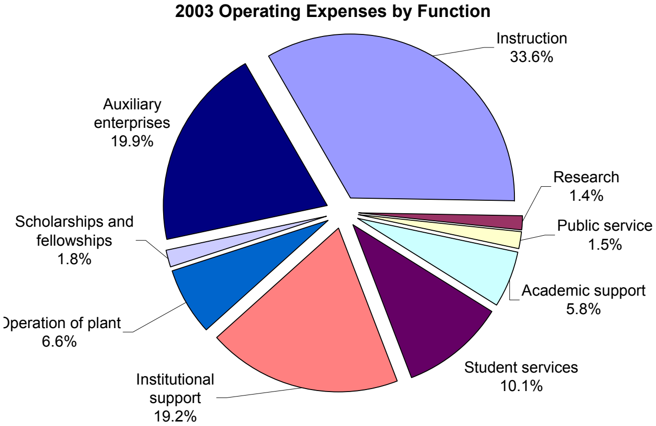
2003 Operating Expenses by Natural Classification



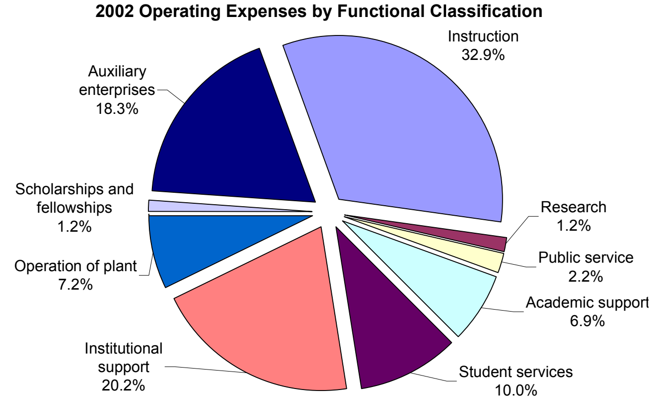
2002 Operating Expenses by Natural Classification



2003 Operating Expenses by Function



2002 Operating Expenses by Functional Classification



State Appropriation

The largest inflow in the noncapital financing activities group is the State appropriation of $13.9 million. The legislation governing the provision of state support to St. Mary's College of Maryland requires the Governor to submit an appropriation request to the legislature equal to the prior year's budgeted amount plus an amount equal to the implicit price deflator for state and local governments.

During 2003 the State of Maryland experienced fiscal difficulties and the state appropriation amount was reduced mid-year by 8% or $1.2 million. The inflator used to develop the 2004 appropriation amount was 3.34% or $462 thousand based on the reduced 2003 budget amount. During the legislative session the appropriation was reduced a further $229 thousand and in August 2003 the Governor reduced the appropriation by another $404 thousand for a total net reduction in 2004 of $170 thousand or 2.68%. The College's final 2004 appropriation totaled $13.7 million.

Investment Income, Net

Included in investment income are the earnings from pooled cash held at the State, funds functioning as endowment investments, other investment, and the unrealized gains and losses on those investments.

Statement of Cash Flows

The final statement presented by St. Mary's College of Maryland is the Statement of Cash Flows. One important factor to consider when evaluating financial viability is the College's ability to meet financial obligations as they mature. The Statement of Cash Flows presents detailed information about the cash activity of the institution during the year. The statement is divided into five parts. The first part deals with operating cash flows and shows the net cash used by the operating activities of the institution. The second section reflects cash flows from noncapital financing activities. This section reflects the cash received and spent for nonoperating, noninvesting, and noncapital financing purposes. The third section reflects the cash flows from investing activities and shows the purchases, proceeds, and interest received from investing activities. The fourth section deals with the cash flows from capital and related financing activities. This section deals with the cash used for the acquisition and construction of capital and related items. The fifth section reconciles the net cash used to the operating income or loss reflected on the Statements of Revenues, Expenses, and Changes in Net Assets.

Condensed Statements of Cash Flows—Direct Method

	Year ended June 30	
	2003	**2002**
Cash and cash equivalents provided by (used in)		
Operating activities	**$(13,965,567)**	$(17,659,427)
Noncapital financing activities	**16,398,721**	17,769,187
Capital and related financing activities	**(578,696)**	(6,501,068)
Investing activities	**(1,948,458)**	458,072
Net decrease in cash and cash equivalents	**(94,000)**	(5,933,236)
Cash and cash equivalents-beginning of the year	**10,626,740**	16,559,976
Cash and cash equivalents-end of the year	**$ 10,532,740**	$ 10,626,740

Campus Enrollment

The following table indicates the total historical on-campus enrollment of undergraduate and graduate students for the 1995-96 through 2002-03 academic years. Also indicated are full-time equivalent students attending the College.

Full-Time, Part-Time, and FTE Enrollment

Fall	Full-Time		Part-Time		Total	Full-Time Equivalent
Semester	**N**	**(%)**	**N**	**(%)**	**Students**	**(FTE)**
2002	1,648	(91.8)	148	(8.2)	1,796	1,836
2001	1,508	(90.2)	164	(9.8)	1,672	1,699
2000	1,382	(90.2)	150	(9.8)	1,532	1,556
1999	1,393	(87.8)	194	(12.2)	1,587	1,594
1998	1,492	(89.4)	177	(10.6)	1,669	1,690
1997	1,477	(89.0)	183	(11.0)	1,660	1,687
1996	1,444	(87.2)	212	(12.8)	1,656	1,651
1995	1,401	(85.6)	235	(14.4)	1,636	1,597

Although enrollment dropped from 1998 to 1999, it rebounded by 2001. The decline was a result of a variety of factors including a more aggressive marketing of honors programs at competing schools and the disruption on the campus from the renovation of the student center. The upward trend in enrollment can be linked to the completion of the campus center renovations and a more active marketing strategy as an honors college. The enrollment objective of the College is to reach total enrollment of 1,850 by the fall 2004.

Capital Asset and Debt Administration

Capital additions totaled $14.5 million in 2003. Capital additions were primarily comprised of renovation and new construction of a recreation center and construction of a student resident facility. Current year capital additions were funded primarily with state capital appropriations of $2.8 million and debt proceeds of $10.5 million and unrestricted net assets which were designated for capital purposes.

At June 30, 2003, the College had outstanding general revenue bonds and notes payable totaling $40.4 million. Bonds and notes payable is the College's largest liability at June 30, 2002, representing 87% of total College liabilities. Annual debt service payments were $2.5 million, including $1.9 million for interest expense. For additional information concerning Capital Assets and Debt Administration, see Notes 8 through 10 in the notes to the financial statements.

On August 1, 2003, the College issued $6,620,000 of Academic and Auxiliary Facility Fees Subordinate Revenue Bonds, 2003 Series A. Proceeds of the bonds will primarily be used to repay the US Department of Education Loan, the costs of issuance and a reserve fund for the Subordinate Revenue Bonds, 2003 Series A.

Factors Impacting Future Periods

The College is not aware of any currently known facts, decisions, or conditions that are expected to have a significant effect on the financial position or changes in financial position during this fiscal year beyond those known variations having a global effect on virtually all types of business operations.

The level of State support, compensation increases, student tuition and fee increases, and energy cost increases impact the College's ability to expand programs, undertake new initiatives, and meet its core mission and ongoing operational needs.

State appropriation contributed approximately $13.8 million of general operations revenue not including grant, contracts and auxiliary revenues. The level of State support is therefore one of the key factors influencing the College's financial condition. A crucial element to the College's future will continue to be our relationship with the State of Maryland, as we work to manage tuition to make it competitive while providing an outstanding college education for our students. There is a direct relationship between the growth of state support and the College's ability to control tuition growth, as declines in state appropriations generally result in increased tuition levels.

The need to continue to address priority needs and requirements for current enrollment growth, deferred maintenance, new technology, and the operating impact of new construction projects is a large challenge facing the College in the years to come.

The College's overall financial position is strong. The College anticipates the current fiscal year will be much like the last and will maintain a close watch over resources to maintain the College's ability to react to unknown internal and external issues.

Laurie L. Stickelmaier
Vice President for Business and Finance

St. Mary's College of Maryland

Statements of Net Assets

	June 30	
	2003	**2002**
Assets		*(see Note 2)*
Current assets:		
Cash and cash equivalents	**$ 10,253,982**	$ 10,453,986
Accounts receivable (net of allowance for doubtful accounts of $26,623 and $48,497 in 2003 and 2002, respectively)	**462,980**	439,271
Notes receivable (net of allowance for doubtful notes of $5,772 and $7,066 in 2003 and 2002, respectively)	**47,920**	63,596
Interest receivable	**8,728**	–
Inventories	**379,450**	350,362
Prepaid expenses	**192,547**	212,100
Deferred charges	**862,017**	489,035
Total current assets	**12,207,625**	12,008,350
Noncurrent assets:		
Restricted cash and cash equivalents	**278,758**	172,754
Endowment investments	**3,716,268**	3,471,138
Other restricted investments	**3,701,861**	913,517
Notes receivable (net of allowance for doubtful notes of $35,218 and $26,359 in 2003 and 2002, respectively)	**317,266**	237,232
Capital assets, net	**77,057,211**	65,732,617
Total noncurrent assets	**85,071,364**	70,527,258
Total assets	**$ 97,278,989**	$ 82,535,608

	June 30	
	2003	**2002**
Liabilities and net assets		*(see Note 2)*
Current liabilities:		
Accounts payable	**$ 656,645**	$ 758,694
Accrued expenses	**290,725**	143,331
Accrued payroll	**1,833,263**	1,840,378
Accrued interest	**657,759**	463,330
Accrued workers' compensation, current portion	**39,835**	39,215
Accrued vacation costs, current portion	**597,181**	587,640
Revenue bonds, current portion	**645,000**	470,000
Notes payable, current portion	**125,127**	121,456
Obligations under capital lease agreements, current portion	**49,410**	44,872
Deferred compensation	–	100,000
Deferred revenue	**934,152**	823,717
Arbitrage rebate payable	–	118,737
Total current liabilities	**5,829,097**	5,511,370

St. Mary's College of Maryland

Statements of Net Assets (continued)

Noncurrent liabilities:		
Accrued workers' compensation	**217,165**	213,785
Accrued vacation costs	**526,749**	527,641
Revenue bonds	**37,755,000**	24,750,000
Notes payable	**1,923,271**	2,048,398
Federal loan program contribution refundable	**383,962**	372,188
Obligations under capital lease agreements	**39,354**	86,395
Total noncurrent liabilities	**40,845,501**	27,998,407
Total liabilities	**46,674,598**	33,509,777
Net assets:		
Invested in capital assets, net of related debt	**38,522,558**	38,199,579
Restricted:		
Nonexpendable:		
Scholarships and fellowships	**264,880**	263,903
Other	**756,108**	756,108
Expendable:		
Research	**179,679**	250,976
Loans	**10,477**	63,139
Debt service	**368,186**	674,389
Unrestricted	**10,502,503**	8,817,737
Total net assets	**50,604,391**	49,025,831
Total liabilities and net assets	**$ 97,278,989**	$ 82,535,608

See accompanying notes.

St. Mary's College of Maryland

Statements of Revenues, Expenses, and Changes in Net Assets

	Year ended June 30	
	2003	**2002**
		(see Note 2)
Operating revenues:		
Tuition and fees, net of scholarship allowances of $2,851,065 and $2,730,001 in 2003 and 2002, respectively	**$ 12,164,391**	$ 10,186,902
Federal grants and contracts	**120,467**	162,558
State and local grants and contracts	**3,380**	26,167
Nongovernmental grants and contracts	**11,584**	379,379
Sales and services of educational departments	**502,804**	904,331
Residential facilities, net of scholarship allowances of $45,992 and $45,937 in 2003 and 2002, respectively	**8,255,319**	7,680,223
Bookstore, net of scholarship allowances of $11,222 and $11,211 in 2003 and 2002, respectively	**2,014,364**	1,874,385
Other auxiliary enterprises revenues	**117,034**	128,033
Interest earned on loans to students	**9,696**	5,075
Other operating revenues	**113,498**	94,918
Total operating revenues	**23,312,537**	21,441,971
Operating expenses:		
Instruction	**13,485,224**	12,949,851
Research	**567,701**	470,491
Public service	**612,090**	862,329
Academic support	**2,316,338**	2,702,086
Student services	**4,046,448**	3,937,694
Institutional support	**7,717,836**	7,960,284
Operation and maintenance of plant	**2,651,271**	2,821,874
Scholarships and fellowships	**735,687**	485,554
Auxiliary enterprises	**7,968,485**	7,228,638
Total operating expenses	**40,101,080**	39,418,801
Operating loss	**(16,788,543)**	(17,976,830)

St. Mary's College of Maryland

Statements of Revenues, Expenses, and Changes in Net Assets (continued)

	Year ended June 30	
	2003	**2002**
		(see Note 2)
Nonoperating revenues (expenses):		
State appropriations	**13,853,271**	14,721,919
Federal grants and contracts	**1,308,396**	1,402,453
State and local grants and contracts	**20,233**	128,444
Nongovernmental grants and contracts	**1,349,934**	1,161,740
Investment gain/(loss)	**1,101,553**	(112,717)
Investment expense	**(7,809)**	(7,097)
Interest on indebtedness	**(2,064,409)**	(1,426,152)
Arbitrage rebate	–	(118,737)
Net nonoperating revenues	**15,561,169**	15,749,853
Loss before other revenues, expenses, gains, and losses	**(1,227,374)**	(2,226,977)
Other revenues, expenses, gains and losses:		
State appropriation restricted for capital purposes	**$ 2,873,065**	$ 604,298
Other gains and losses	**(67,131)**	(17,840)
Total other revenues, expenses, gains, and losses:	**2,805,934**	586,458
Net increase (decrease) in net assets	**1,578,560**	(1,640,519)
Net assets at beginning of year, as restated *(see Note 2)*	**49,025,831**	50,666,350
Net assets at end of year	**$ 50,604,391**	$ 49,025,831

See accompanying notes.

St. Mary's College of Maryland

Statements of Cash Flows

	Year ended June 30	
	2003	**2002**
		(see Note 2)
Cash flows from operating activities		
Tuition and fees	**$ 12,321,512**	$ 10,152,384
Research contracts and grants	**135,431**	568,104
Payments to employees	**(24,880,397)**	(24,582,368)
Payments to suppliers and contractors	**(12,486,057)**	(14,615,227)
Loans issued to students	**(141,800)**	(89,500)
Collections of loans to students	**77,442**	82,304
Interest earned on loans to students	**9,696**	5,075
Residence halls and dining facilities	**8,255,319**	7,680,223
Bookstores	**2,014,364**	1,874,385
Other auxiliary revenue	**117,034**	128,033
Other receipts	**611,889**	1,137,160
Net cash used by operations	**(13,965,567)**	(17,659,427)
Cash flows from noncapital financing activities		
State appropriations	**13,853,271**	14,721,919
Gifts and grants received for other than capital purposes	**2,612,581**	3,049,478
Other nonoperating losses	**(67,131)**	(2,210)
Net cash provided by noncapital financing activities	**16,398,721**	17,769,187
Cash flows from capital and related financing activities		
Proceeds from capital debt	**13,650,000**	–
Capital appropriations	**2,873,065**	604,298
Capital grants and gifts received	**11,774**	11,774
Purchases of capital assets	**(14,495,859)**	(5,419,240)
Payment of arbitrage rebate	**(118,737)**	–
Principal paid on debt and capital leases	**(633,959)**	(266,625)
Interest paid on debt and capital leases	**(1,864,980)**	(1,431,275)
Net cash used by capital and related financing activities	**(578,696)**	(6,501,068)
Cash flows from investing activities		
Proceeds from sales and maturities of investments	**13,634,351**	257,356
Interest on investments	**549,780**	524,392
Investment expense	**(7,809)**	(7,097)
Purchases of investments	**(16,124,780)**	(316,579)
Net cash provided by investing activities	**(1,948,458)**	458,072
Net decrease in cash	**(94,000)**	(5,933,236)
Cash and cash equivalents at beginning of year	**10,626,740**	16,559,976
Cash and cash equivalents at end of year	**$ 10,532,740**	$ 10,626,740

St. Mary’s College of Maryland

Statements of Cash Flows (continued)

	Year ended June 30	
	2003	**2002**
Reconciliation of operating loss to net cash used by operating activities		*(see Note 2)*
Operating loss	**$(16,788,543)**	$ (17,976,830)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	**3,171,265**	3,040,627
Changes in assets and liabilities:		
Receivables, net	**61,282**	106,025
Prepaid expenses	**19,501**	169,025
Deferred charges	**(372,931)**	20,253
Inventories	**(29,088)**	34,557
Accounts payable	**(102,049)**	(2,884,200)
Accrued expenses	**147,394**	(276,893)
Accrued payroll	**(7,115)**	(3,404)
Accrued interest	**(5,000)**	5,000
Accrued workers’ compensation	**4,000**	34,000
Accrued vacation	**8,649**	(17,759)
Deferred revenue	**(8,574)**	97,368
Loans to students	**(64,358)**	(7,196)
Net cash used by operating activities	**$(13,965,567)**	$ (17,659,427)
Noncash transactions		
Fixed assets acquired by incurring capital lease obligations	**$ –**	$ 131,267
Change in fair value of investments recognized as a component of investment income (loss)	**543,045**	(637,109)

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 2003 and 2002, the College performed various accounting, personnel, 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

Financial Statement Presentation

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. This was followed in November 1999 by GASB Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis for Public Colleges and Universities*. As a component unit of the State of Maryland, the College was required to adopt GASB No. 34 and No. 35 as of July 1, 2001. The financial statement presentation required by GASB No. 34 and No. 35 provides a comprehensive, entity-wide perspective of the College's assets, liabilities, net assets, revenues, expenses, changes in net assets and cash flows, and replaces the fund-group perspective previously required.

Significant accounting changes made in order to comply with the new requirements included (1) adoption of depreciation on capital assets and (2) reporting summer school revenues and expenses between fiscal years rather than in one fiscal year.

Basis of Accounting

For financial reporting purposes, the College is considered a special-purpose government engaged only in business-type activities. Accordingly, the College's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

The College has the option to apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The College has elected to not apply FASB pronouncements issued after the applicable date.

Cash Equivalents

For purposes of the statements of cash flows, the College considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

2. Summary of Significant Accounting Policies (continued)

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.

Accounts Receivable

Accounts receivable consist of tuition and fee charges to students and charges for auxiliary enterprises services provided to students, faculty, and staff, the majority of each residing in the State of Maryland. Accounts receivable also include amounts due from federal, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the College's grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts.

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.

Noncurrent Cash and Investments

Cash and investments that are externally restricted to make debt service payments, maintain sinking or reserve funds, or those restricted to purchase or construct capital or other noncurrent assets, are classified as noncurrent assets in the statement of net assets.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. For equipment, the College's capitalization policy includes all items with a unit cost of $2,500 or more, and an estimated useful life of greater than one year. Renovations to buildings, infrastructure, and land improvements with a cost of $50,000 or more, and that significantly increase the value or extend the useful life of the structure, are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over estimated useful lives of the assets, generally 40 years for buildings, 20 years for building improvements, 16-25 years for infrastructure, 7 years for library books, and 3-12 years for capital equipment.

2. Summary of Significant Accounting Policies (continued)

Works of art and historical collections have not been capitalized or depreciated. Under College policy, works of art and historical collections are held for public exhibition, education or research in furtherance of public service rather than financial gain. They are protected, cared for and preserved, and the proceeds from sales of the collection are used to acquire other items for the collection.

Deferred Revenues

Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period.

Compensated Absences

Employee vacation pay is accrued at year-end for financial statement purposes. The liability and expense incurred are recorded at year-end as accrued vacation payable in the statement of net assets, and as a component of compensation and benefit expense in the statement of revenues, expenses, and changes in net assets.

Noncurrent Liabilities

Noncurrent liabilities include (1) principal amounts of revenue bonds payable, notes payable, and capital lease obligations with contractual maturities greater than one year; and (2) estimated amounts for accrued compensated absences, workers' compensation payable, and other liabilities that will not be paid within the next fiscal year.

Net Assets

The College's net assets are classified as follows:

Invested in capital assets, net of related debt: This represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Restricted net assets—expendable: Restricted expendable net assets include resources in which the College is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

2. Summary of Significant Accounting Policies (continued)

Net Assets (continued)

Restricted net assets—nonexpendable: Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

Unrestricted net assets: Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the College, and may be used at the direction of the governing board to meet current expenses for any purpose. These resources also include auxiliary enterprises, which are substantially self-supported activities that provide services for students, faculty, staff, and the local community.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the College's policy is to first apply the expense towards the restricted resources, and then towards unrestricted purposes.

Classification of Revenues

The College has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating Revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, (3) some federal, state and local grants and contracts, and (4) interest on institutional student loans.

2. Summary of Significant Accounting Policies (continued)

Classification of Revenues (continued)

Nonoperating revenues: Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB No. 9, *Reporting Cash Flow of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB No. 34, such as state appropriations and investment income.

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the College, and the amount that is paid by students and/or third parties making payments on the students' behalf. To the extent that revenues from governmental grants and other state and nongovernmental programs are used to satisfy tuition and fees and other student charges, the College has recorded a scholarship discount and allowance.

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. Summary of 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 reasonably 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 both fiscal years ended June 30, 2003 and 2002.

As of June 30, 2003 and 2002, the College has recorded $257,000 and $253,000 in liabilities associated with workers' compensation.

The workers' compensation liability activity was as follows:

	Beginning of Fiscal Year Liability	Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year End	Amounts Due Within One Year
Year ended June 30, 2003	$253,000	$25,203	$21,203	$257,000	$39,835
Year ended June 30, 2002	219,000	55,814	21,814	253,000	39,215

Pending Change in Accounting Principle

The GASB issued Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. The College is required to adopt GASB No. 39 for its financial statements for the year ending June 30, 2004. The College is in the process of completing the complex analysis required to estimate the financial statement impact of this new pronouncement.

2. Summary of Significant Accounting Policies (continued)

Accounting Changes

As a result of the adoption of GASB Statements No. 34 and No. 35 at July 1, 2001, the College was required to make certain changes in accounting principles, specifically (1) adoption of depreciation on capital assets, and (2) recording of certain summer session revenues between fiscal years rather than the fiscal year in which the semester was predominantly conducted.

In addition, effective July 1, 2001, the College changed its accounting for the refundable portion of the federal capital contribution to the Perkins Loan Program. The College now records a liability for the refundable portion of the federal capital contribution to the Federal Perkins Loan Program as opposed to a net asset because this amount is due back to the federal government upon cessation of the Perkins Loan Program.

Based on these changes, net assets at July 1, 2001 were reduced by $22,833,874 as detailed below:

Net Assets Previously Reported as of June 30, 2001	$ 73,860,638
Federal loan contributions refundable	(360,414)
Change in net assets for the adoption of depreciation and infrastructure for capital assets	(22,830,691)
Change in net assets for the recordation of summer session revenues	(3,183)
Net Assets as of June 30, 2001, as adjusted	$ 50,666,350

Reclassification

Certain amounts from the 2002 financial statements have been reclassified to conform to the current-year presentation.

3. Cash and Cash Equivalents; Other Deposits; and Investments

Cash and Cash Equivalents

At June 30, 2003 and 2002, the College had cash on deposit in an internal pooled cash account with the Maryland State Treasurer (Treasurer) in the amount of $10,117,756 and $10,412,685, respectively. 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.

Other Deposits

The carrying value of other deposits at June 30, 2003 and 2002 was $414,984 and $214,054, respectively, with associated bank balances of $517,279 and $330,918, respectively. These deposits are fully insured by federal depository insurance.

3. Cash and Cash Equivalents; Other Deposits; and Investments (continued)

Investments

The College's investments are categorized as to credit risk as either (1) insured or registered, or securities held by the College or its agent in the College's name, (2) uninsured and unregistered, with securities held by the counterparty's trust department or agent in the College's name, or (3) uninsured and unregistered, with securities held by counterparty, or by its trust department or agent, but not in the College's name. Investments in mutual funds are considered uncategorized in accordance with GASB No. 3. The carrying values of endowment and other investments at June 30, 2003 and 2002, are as follows:

	June 30, 2003				June 30, 2002
	Risk Category			Fair	
	1	2	Uncategorized	Value	Fair Value
	$ -		**$ 2,106,011**	**$ 2,106,011**	$ 1,886,236
Money markets	**-**	**-**	**-**	**-**	631,718
Corporate bonds	**-**	**510,966**	**-**	**510,966**	456,921
U.S. Government Securities	**535,582**	**459,431**	**-**	**995,013**	519,972
U.S. agency and other asset-backed securities	**-**	**3,761,180**	**-**	**3,761,180**	851,045
Foreign bonds	**-**	**43,981**	**-**	**43,981**	37,786
Corporate equity securities	**-**	**978**	**-**	**978**	977
Total investments	**$ 535,582**	**$ 4,776,536**	**$ 2,106,011**	**$ 7,418,129**	$ 4,384,655

The College 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 Joint Investment and Advisory Committee, consisting of members from the College and the Foundation.

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 $3,761,180 and $851,045 at June 30, 2003 and 2002 of 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.

3. Cash and Cash Equivalents; Other Deposits; and Investments (continued)

Investments (continued)

Statutes and provisions of debt agreements authorize the College to invest in various securities, including money market accounts. With respect to endowments, 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.

Interest earned on investments totaled $549,780 and $524,392 of which $272,190 and $138,639 was restricted for various purposes, for the years ended June 20, 2003 and 2002, respectively.

4. Endowments

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

The spending rate of general endowment funds (quasi and pure), as adopted by the Board, is 4% of the average market value of total funds as of the last day of the previous three calendar years. The spending rate applies to endowment funds for both unrestricted and restricted purposes and is applied in accordance with the designation of each endowment. The difference between the calculated amount and the actual realized endowment income is recorded as a non-mandatory transfer from or to the quasi-endowment fund in accordance with the above spending policy.

The endowment net assets are reported as follows:

	2003	**2002**
Nonexpendable—scholarship and fellowships	**$ 264,880**	$ 263,903
Nonexpendable—other	**756,108**	756,108
Unrestricted net assets	**2,974,038**	2,622,004
Total endowment net assets	**$ 3,995,026**	$ 3,642,015

4. Endowments (continued)

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.

5. Accounts Receivable

Accounts receivable consisted of the following:

	June 30	
	2003	**2002**
Student tuition and fees	**$ 103,229**	$ 190,782
Employee accounts	**2,677**	6,949
Auxiliary enterprises and other operating activities	**46,720**	50,242
Travel advances	**14,405**	20,911
Tuition assistance program	**5,855**	2,248
Federal, state and private grants and contracts	**206,924**	142,082
Other miscellaneous	**109,793**	74,554
	489,603	487,768
Less allowance for doubtful accounts	**(26,623)**	(48,497)
Net accounts receivable	**$ 462,980**	$ 439,271

6. Encumbrances

The College does not separately identify the reserve for encumbrances in unrestricted net assets. As of June 30, 2003 and 2002, there was $1,727,493 and $897,921 of encumbrances and $525,095 and $198,469 of funds designated internally for future use, respectively, reported in unrestricted net assets.

7. Inventories

Inventories consisted of the following:

	June 30 2003	June 30 2002
Health Center	**$ 2,402**	$ 2,795
Housekeeping	**29,848**	26,929
Central Store	**335**	1,266
Campus Store	**346,865**	319,372
Total inventories	**$ 379,450**	$ 350,362

8. Capital Assets

Following are the changes in capital assets for fiscal year ended June 30, 2003:

	Balance June 30, 2002	Additions	Retirements	Balance June 30, 2003
Capital assets not being depreciated:				
Land	$ 2,617,828	$ 502,889	$ –	$ 3,120,717
Total capital assets not being depreciated	$ 2,617,828	$ 502,889	$ –	$ 3,120,717
Capital assets being depreciated:				
Infrastructure	$ 2,239,815	$ –	$ –	$ 2,239,815
Buildings	74,696,941	13,088,332	–	87,785,273
Furniture, fixtures and equipment	6,128,382	361,821	(143,906)	6,346,297
Library materials	6,599,935	558,765	–	7,158,700
Total capital assets being depreciated	89,665,073	14,008,918	(143,906)	103,530,085
Less accumulated depreciation for:				
Infrastructure	(479,066)	(97,764)	–	(576,830)
Buildings	(18,266,366)	(1,897,104)	–	(20,163,470)
Furniture, fixtures and equipment	(3,113,444)	(691,944)	127,958	(3,677,430)
Library materials	(4,691,408)	(484,453)	–	(5,175,861)
Total accumulated depreciation	(26,550,284)	(3,171,265)	127,958	(29,593,591)
Total capital assets, being depreciated, net	63,114,789	10,837,653	(15,948)	73,936,494
Total capital assets, net	$ 65,732,617	$11,340,542	$ (15,948)	$ 77,057,211

8. Capital Assets (continued)

Following are the changes in capital assets for fiscal year ended June 30, 2002:

	Balance June 30, 2001	Additions	Retirements	Balance June 30, 2002
Capital assets not being depreciated:				
Land	$ 2,617,828	$ –	$ –	$ 2,617,828
Total capital assets not being depreciated	$ 2,617,828	$ –	$ –	$ 2,617,828
Capital assets being depreciated:				
Infrastructure	$ 2,239,815	$ –	$ –	$ 2,239,815
Buildings	72,071,401	2,625,540	–	74,696,941
Furniture, fixtures and equipment	5,314,253	1,889,774	(1,075,645)	6,128,382
Library materials	6,196,843	403,092	–	6,599,935
Total capital assets being depreciated	85,822,312	4,918,406	(1,075,645)	89,665,073
Less accumulated depreciation for:				
Infrastructure	(385,376)	(93,690)	–	479,066
Buildings	(16,433,935)	(1,832,431)	–	18,266,366
Furniture, fixtures and equipment	(3,545,999)	(627,480)	1,060,035	3,113,444
Library materials	(4,204,382)	(487,026)	–	4,691,408
Total accumulated depreciation	24,569,692	3,040,627	1,060,035	26,550,284
Total capital assets, being depreciated, net	61,252,620	1,877,779	(15,610)	63,114,789
Total capital assets, net	$ 63,870,448	$ 1,877,779	$ (15,610)	$ 65,732,617

9. Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2003, was as follows:

	Balance June 30 2002	Additions	Reductions	Balance June 30 2003	Amounts Due Within One Year
Bonds and notes payable and capital leases:					
Revenue bonds payable	$ 25,220,000	$ 13,650,000	$ (470,000)	$ 38,400,000	$ 645,000
Notes payable	2,169,854	–	(121,456)	2,048,398	125,127
Capital lease obligations	131,267	–	(42,503)	88,764	49,410
Total bonds, notes and capital leases	27,521,121	13,650,000	(633,959)	40,537,162	819,537
Other liabilities:					
Worker's compensation liability	253,000	25,203	(21,203)	257,000	39,835
Accrued vacation costs	1,115,281	624,913	(616,264)	1,123,930	597,181
Federal Loan Program refundable	372,188	11,774	–	383,962	–
Total other liabilities	1,740,469	661,890	(637,467)	1,764,892	637,016
Total long-term liabilities	$ 29,261,590	$ 14,311,890	$ (1,271,426)	$ 42,302,054	$ 1,456,553

Long-term liability activity for the year ended June 30, 2002 was as follows:

	Balance June 30 2001	Additions	Reductions	Balance June 30 2002	Amounts Due Within One Year
Bonds and notes payable and capital leases:					
Revenue bonds payable	$ 25,500,000	$ –	$ (280,000)	$ 25,220,000	$ 470,000
Notes payable	2,287,746	–	(117,892)	2,169,854	121,456
Capital lease obligations	–	137,615	(6,348)	131,267	44,872
Total bonds, notes and capital leases	27,787,746	137,615	(404,240)	27,521,121	636,328
Other liabilities:					
Worker's compensation liability	219,000	55,814	(21,814)	253,000	39,215
Accrued vacation costs	1,133,040	569,059	(586,818)	1,115,281	587,640
Federal Loan Program refundable	360,414	11,774	–	372,188	–
Total other liabilities	1,712,454	636,647	(608,632)	1,740,769	626,855
Total long-term liabilities	$ 29,500,200	$ 774,262	$ (1,012,872)	$ 29,261,590	$ 1,263,183

9. Long-Term Liabilities (continued)

Additional information regarding Revenue Bonds Payable and Notes Payable is included in Note 10. Additional information regarding capital lease obligations is included in Note 11.

10. Revenue Bonds and Notes Payable

Revenue Bonds and Notes Payable as of June 30, 2003 and 2002, consist of the following:

	June 30	
	2003	**2002**
Debt classification		
1993 Revenue Bonds, Series A	**$ 4,365,000**	$ 4,475,000
1997 Revenue Bonds, Series A	**9,315,000**	9,500,000
2000 Revenue Bonds, Series A	**11,070,000**	11,245,000
2002 Revenue Bonds, Series A	**13,650,000**	–
Notes Payable—Student Residence Loan	**2,048,398**	2,169,854
Total	**$ 40,448,398**	$ 27,389,854

Academic Fees and Auxiliary Facilities Fees Revenue Bonds

In 1993, 1997, and 2000 the College issued $5,105,000, $10,000,000 and $11,245,000 respectively, of Revenue Bonds for the purpose of constructing new student housing facilities, design, construction and equipping of Charles Hall for a Campus Center, 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. In 2002, the College issued $13,650,000 of Subordinate Revenue Bonds to finance the planning and construction of new student housing facilities. Payment of the 2002 bonds is subordinate to the 1993, 1997, and 2000 bonds. Debt issued by the College for this purpose is not considered a debt of the State.

10. Revenue Bonds and Notes Payable (continued)

Academic Fees and Auxiliary Facilities Fees Revenue Bonds (continued)

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%.

The 2002 Series A Subordinate Revenue Bonds are dated June 15, 2002, and bear interest from 3.000% to 5%. Annual maturities will increase until the final principal payment of $830,000 becomes due in 2033. The bonds maturing after September 2012, are callable at premiums of up to 1%.

Investments totaling $3,701,861 and $913,517 at 2003 and 2002 are recorded as other investments under Non-current assets and 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, capitalized interest, or reserve fund purposes.

The trust agreements related to the 1993, 1997, and 2000 Series A Revenue Bonds and the 2002 Series A Subordinate 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.

10. Revenue Bonds and Notes Payable (continued)

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 semi-annual 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 was required 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 had been accumulated. As of June 30, 2000, the College met this requirement and no future transfers are required.

Principal and Interest Payments

Future principal and interest payments of notes payables and revenue bonds for the year ended June 30, 2003, is as follows:

	Notes Payable		Revenue Bonds	
Fiscal Year	**Principal**	**Interest**	**Principal**	**Interest**
2004	$ 125,127	$ 60,520	$ 645,000	$ 1,920,432
2005	128,909	56,739	760,000	1,889,624
2006	132,802	52,842	795,000	1,856,055
2007	136,819	48,828	830,000	1,820,433
2008	140,995	44,693	875,000	1,782,313
2009-2013	771,273	156,925	5,010,000	8,246,463
2014-2018	612,473	37,295	6,365,000	6,874,130
2019-2023	–	–	8,200,000	5,029,329
2024-2028	–	–	9,050,000	2,725,930
2029-2033	–	–	5,870,000	668,779
Total	$ 2,048,398	$ 457,842	$ 38,400,000	$ 32,813,488

Interest Costs

The College incurred $2,064,409 and $1,426,152 in interest expense during the years ended June 30, 2003 and 2002, respectively, related to long-term debt.

10. Revenue Bonds and Notes Payable (continued)

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, 2000 Series A, and 2002 Series A Academic Fees and Auxiliary Facilities Fees Revenue Bond offerings were deferred and are being amortized over the life of the respective bond issue. The amortization expense on deferred debt issue costs related to these offerings was $33,810 for 2003 and $20,252 for 2002.

11. Leases

Operating Leases

The College leases office equipment under an operating lease. Total cost for such leases was $10,655 and $6,659 for years ended June 30, 2003 and 2002, respectively. The future minimum lease payments for these leases are as follows:

2004	$ 10,655
2005	10,655
2006	10,655
2007	3,996
Total	$ 35,961

Capital Leases

The College has entered into various lease agreements through the State of Maryland's Master Lease-Purchase Financing Program for financing of computer, office, and lawn care equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. Amortization expense for assets under capital leases is included in depreciation expense.

11. Leases (continued)

Capital Leases (continued)

The assets acquired through capital leases are as follows:

	Computer Equipment	Office Equipment	Lawn Care Equipment	Total
Asset	$ 84,055	$ 13,484	$ 40,076	$ 137,615
Less accumulated depreciation	(38,524)	(6,321)	(18,785)	(63,630)
Total	$ 45,531	$ 7,163	$ 21,291	$ 73,985

The future minimum lease payments of these lease obligations as of June 30, 2003 were as follows:

2004	$ 51,283
2005	41,277
Less amounts representing interest	(3,796)
	$ 88,764

12. 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 other 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.

12. Retirement Plans (continued)

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, 2003, 2002, and 2001, of $314,723, $332,671, and $386,008, respectively.

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 $799,363 and $788,869 for the fiscal years ended June 30, 2003 and 2002, respectively.

Post-Retirement 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 $398,339 and $384,411 for the years ended June 30, 2003 and 2002, respectively.

13. 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.

14. Natural Classifications with Functional Classifications

The College's operating expenses by natural classification for year ended June 30, 2003 were as follows:

Natural Classification	Functional Classification: Instruction	Research	Public Service	Academic Support	Student Services	Institutional Support	Operation of Plant	Scholar-ships	Auxiliary	Total
Salaries and wages	**$ 11,389,836**	**$ 275,584**	**$ 247,855**	**$ 1,134,746**	**$ 3,054,876**	**$ 5,668,231**	**$ 1,474,026**	**$ -**	**$ 1,539,781**	**$ 24,784,935**
Contractual services	**263,200**	**67,970**	**219,918**	**195,367**	**390,569**	**938,366**	**155,725**	**-**	**2,492,510**	**4,723,625**
Supplies, materials, and equipment	**668,013**	**26,051**	**34,840**	**138,055**	**223,441**	**75,695**	**316,280**	**-**	**2,205,101**	**3,687,476**
Utilities	**-**	**-**	**-**	**-**	**-**	**-**	**570,820**	**-**	**564,410**	**1,135,230**
Travel	**305,723**	**11,229**	**67,023**	**12,830**	**189,094**	**274,894**	**40,437**	**-**	**43,200**	**944,430**
Scholarships and grants	**3,650**	**114,923**	**36,721**	**-**	**1,740**	**-**	**-**	**735,687**	**103,436**	**996,157**
Communications	**2,745**	**129**	**196**	**941**	**3,173**	**294,767**	**2,284**	**-**	**45,239**	**349,474**
Other operating expenses	**3,774**	**605**	**85**	**3,512**	**54,194**	**165,026**	**47,061**	**-**	**34,231**	**308,488**
Depreciation	**848,283**	**71,210**	**5,452**	**830,887**	**129,361**	**300,857**	**44,638**	**-**	**940,577**	**3,171,265**
Total expenses	**$ 13,485,224**	**$ 567,701**	**$ 612,090**	**$ 2,316,338**	**$ 4,046,448**	**$ 7,717,836**	**$ 2,651,271**	**$ 735,687**	**$ 7,968,485**	**$ 40,101,080**

The College's operating expenses by natural classification for year ended June 30, 2002 were as follows:

Natural Classification	Functional Classification: Instruction	Research	Public Service	Academic Support	Student Services	Institutional Support	Operation of Plant	Scholar-ships	Auxiliary	Total
Salaries and wages	$ 10,835,663	$ 297,326	$ 251,614	$ 1,260,301	$ 2,930,440	$ 5,946,720	$ 1,604,204	$ –	$ 1,480,458	$ 24,606,726
Contractual services	158,611	43,416	424,697	284,118	421,924	949,187	96,425	–	2,162,705	4,541,083
Supplies, materials, and equipment	780,609	479	41,080	247,034	230,440	285,391	418,802	–	1,913,946	3,917,781
Utilities	–	–	–	–	–	36	554,230	–	502,833	1,057,099
Travel	316,557	20,646	95,132	18,205	189,313	94,126	3,145	–	48,324	785,448
Scholarships and grants	7,196	105,683	26,312	5,515	5,398	68,462	–	485,554	11,015	715,135
Communications	1,506	289	224	301	5,198	307,982	2,161	–	136,604	454,265
Other operating expenses	28,969	3	23,270	17,169	37,682	64,732	103,827	–	24,985	300,637
Depreciation	820,740	2,649	–	869,443	117,299	243,648	39,080	–	947,768	3,040,627
Total expenses	$ 12,949,851	$ 470,491	$ 862,329	$ 2,702,086	$ 3,937,694	$ 7,960,284	$ 2,821,874	$ 485,554	$ 7,228,638	$ 39,418,801

15. Subsequent Event

On August 1, 2003, the College issued $6.6 million of Academic and Auxiliary Facilities Fees Subordinate Revenue Bonds, 2003 Series A. Proceeds of the bonds will primarily be used to repay the US Department of education loan, the costs of issuance and a reserve fund for the Subordinate Revenue Bonds, 2003 Series A.

Principal payments on the Subordinate Revenue bonds, 2003 Series A, range from $190,000 to $430,000 and are due on September 1 of each year from 2003 to 2023, with interest rates ranging from 2.50% to 4.80%.