

ST. MARY'S COLLEGE OF MARYLAND

Financial Statements

Years ended June 30, 2004 and 2003, with Report of Independent Auditors

St. Mary's College of Maryland

Financial Statements

Years ended June 30, 2004 and 2003

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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, and its discretely presented component unit, St. Mary's College of Maryland Foundation, Inc. (Foundation), as of and for the years ended June 30, 2004 and 2003, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the Foundation, which represents 100% of the discretely presented component unit as of and for the years ended June 30, 2004 and 2003. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based on the reports of other auditors.

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. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards*. 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 and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audits and reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the College and its discretely presented component unit as of June 30, 2004 and 2003, and the respective changes in financial position and cash flows, where applicable, thereof, for the years then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2004, 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 other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that

testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis on pages 5 through 15 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. The College has not presented comparative condensed financial information and related analysis for the year ended June 30, 2003, that accounting principles generally accepted in the United States require to supplement, although not to be part of, the basic financial statements.

*Ernst & Young LLP*

September 30, 2004

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, and its discretely presented component unit, St. Mary's College of Maryland Foundation, Inc., as of and for the years ended June 30, 2004 and 2003, which collectively comprise the College's basic financial statements, and have issued our report thereon dated September 30, 2004, which expressed reliance on other auditors. 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. The financial statements of the Foundation were not audited in accordance with *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 an opinion 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 that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud 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 30, 2004.

## 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 grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

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 30, 2004

# St. Mary's College of Maryland

## Management's Discussion and Analysis

June 30, 2004

### **Overview of the Financial Statements and Financial Analysis**

St. Mary's College of Maryland is pleased to present its financial statements for fiscal year 2004 with fiscal year 2003 prior year data for comparative purposes. While the College has adopted GASB 39 "*Determining whether certain organizations are component units*" and included the discrete financial information of the St. Mary's College of Maryland Foundation, Inc. in its basic financial statements management's discussion and analysis focuses on the financial information of the College. The Foundation is a private nonprofit organization whose purposes 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. Complete financial statements for the Foundation can be obtained from St. Mary's College of Maryland Foundation, Inc., Development Office, 18952 E. Fisher Road, St. Mary's City, MD 20686, or from the Foundation's website at [www.smcm.edu/development/foundation.cfm](http://www.smcm.edu/development/foundation.cfm). 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.

### **Statement 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 financial 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.

St. Mary's College of Maryland

Management's Discussion and Analysis (continued)

**Condensed Statements of Net Assets**

|   | <b>June 30, 2004</b> | <b>% of<br/>total</b> | <b>June 30, 2003</b> | <b>% of<br/>total</b> |
|---|----------------------|-----------------------|----------------------|-----------------------|
| <b>Assets</b>                                   |                      |                       |                      |                       |
| Current Assets                                  | <b>\$ 13,453,138</b> | <b>12.5%</b>          | \$ 12,207,625        | 12.6%                 |
| Noncurrent Assets                               |                      |                       |                      |                       |
| Capital   | <b>87,848,283</b>    | <b>81.3%</b>          | 77,057,211           | 79.2%                 |
| Other   | <b>6,688,168</b>     | <b>6.2%</b>           | 8,014,153            | 8.2%                  |
| <b>Total Assets</b>                             | <b>107,989,589</b>   | <b>100.0%</b>         | 97,278,989           | 100.0%                |
| <b>Liabilities</b>                              |                      |                       |                      |                       |
| Current Liabilities                             | <b>5,389,997</b>     | <b>11.8%</b>          | 5,829,097            | 12.5%                 |
| Noncurrent Liabilities                          | <b>40,384,480</b>    | <b>88.2%</b>          | 40,845,501           | 87.5%                 |
| <b>Total Liabilities</b>                        | <b>45,774,477</b>    | <b>100.0%</b>         | 46,674,598           | 100.0%                |
| <b>Net Assets</b>                               |                      |                       |                      |                       |
| Invested in capital assets, net of related debt | <b>49,734,516</b>    | <b>79.9%</b>          | 38,522,558           | 76.1%                 |
| Restricted                                      |                      |                       |                      |                       |
| Nonexpendable                                   | <b>1,355,984</b>     | <b>2.2%</b>           | 1,020,998            | 2.0%                  |
| Expendable                                      | <b>263,664</b>       | <b>0.4%</b>           | 558,342              | 1.1%                  |
| Unrestricted                                    | <b>10,860,948</b>    | <b>17.5%</b>          | 10,502,503           | 20.8%                 |
| <b>Total Net Assets</b>                         | <b>\$ 62,215,112</b> | <b>100.0%</b>         | \$ 50,604,391        | 100.0%                |

The total assets of the institution increased \$10.7 million. This increase was primarily due to an increase in capital assets. The construction of a new recreational facility increased capital assets in the amount of \$10.8 million.

The total liabilities for the year decreased \$900 thousand. The primary cause of this decrease was a reduction of accrued payroll due to the timing of year-end payroll disbursements. This combination of an increase in total assets of \$10.7 million and decrease in total liabilities of \$900 thousand resulted in an increase in total net assets of \$11.6 million.

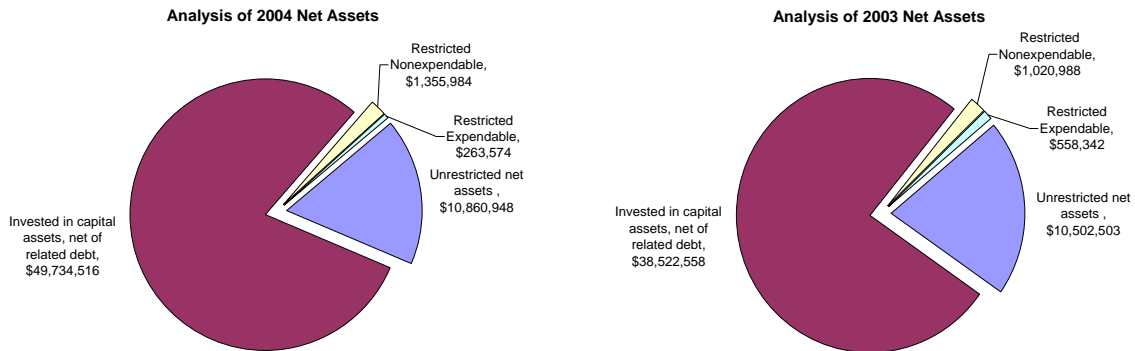


# St. Mary's College of Maryland

## Management's Discussion and Analysis (continued)

### Condensed Statement 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 use 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 graphs detail net assets by category held by the college as of June 30, 2004 and 2003 respectively:



The increase of \$11.6 million in total net assets is primarily due to an increase of \$10.8 million in the invested in capital assets net assets category. Unrestricted net assets increased \$358 thousand as a result of a decrease in encumbrances and carryovers of \$375 thousand and an increase of \$733 thousand in unrestricted funds for general operating purposes. The breakdown of net assets with comparisons to last year is shown below.

St. Mary's College of Maryland

Management's Discussion and Analysis (continued)

**Breakdown of Unrestricted Net Assets**

|  | <b>June 30</b>       |                      |
|--|----------------------|----------------------|
|  | <b>2004</b>          | <b>2003</b>          |
|  | <hr/>                | <hr/>                |
| Encumbrances and carryovers for general operating purposes | \$ 898,534           | \$ 650,344           |
| Encumbrances for capital projects                          | 977,626              | 1,602,244            |
| Funds designated for current plant projects                | 1,637,195            | 2,289,517            |
| Funds designated for future plant projects                 | 1,796,047            | 1,107,304            |
| Funds functioning as endowments (quasi-endowments)         | 2,939,063            | 2,974,038            |
| Unrestricted funds for general operating purposes          | 2,612,483            | 1,879,056            |
| Total unrestricted net assets                              | <u>\$ 10,860,948</u> | <u>\$ 10,502,503</u> |

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

Changes in total net assets as presented on the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of these statements is 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.

St. Mary's College of Maryland

Management's Discussion and Analysis (continued)

**Condensed Statements of Revenues, Expenses and Changes in Net Assets**

|  | <b>Year ended June 30</b> |               |
|--|---------------------------|---------------|
|  | <b>2004</b>               | <b>2003</b>   |
| Operating revenues:  |                           |               |
| Tuition and fees   | <b>\$ 14,102,319</b>      | \$ 12,164,391 |
| Grants and contracts   | <b>358,799</b>            | 135,431       |
| Auxiliary enterprises  | <b>12,074,115</b>         | 10,386,717    |
| Other operating revenues                                     | <b>672,553</b>            | 625,998       |
| Total operating revenues                                     | <b>27,207,786</b>         | 23,312,537    |
| Operating expenses   | <b>41,524,585</b>         | 40,101,080    |
| Operating loss   | <b>(14,316,799)</b>       | (16,788,543)  |
| Nonoperating revenues:                                       |                           |               |
| State appropriations   | <b>13,682,871</b>         | 13,853,271    |
| Other nonoperating income                                    | <b>1,517,268</b>          | 1,707,898     |
| Net nonoperating revenues                                    | <b>15,200,139</b>         | 15,561,169    |
| Gain/(loss) before other revenues, expenses, gains or losses | <b>883,340</b>            | (1,227,374)   |
| Capital appropriations                                       | <b>10,850,845</b>         | 2,873,065     |
| Other revenues, expenses, gains and losses                   | <b>(123,464)</b>          | (67,131)      |
| Net increase in net assets                                   | <b>11,610,721</b>         | 1,578,560     |
| Net assets:  |                           |               |
| Net assets at beginning of year                              | <b>50,604,391</b>         | 49,025,831    |
| Net assets at end of year                                    | <b>\$ 62,215,112</b>      | \$ 50,604,391 |

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

Net assets increased 22.9% or \$11.6 million for 2004. An overall increase in operating revenues of \$3.9 million is due to increased tuition and fee revenue of \$1.9 million and an increase of \$1.9 million in auxiliary revenue as a result of increased enrollment. Operating expenses increased \$1.4 million mainly as a result of increased 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.

# St. Mary's College of Maryland

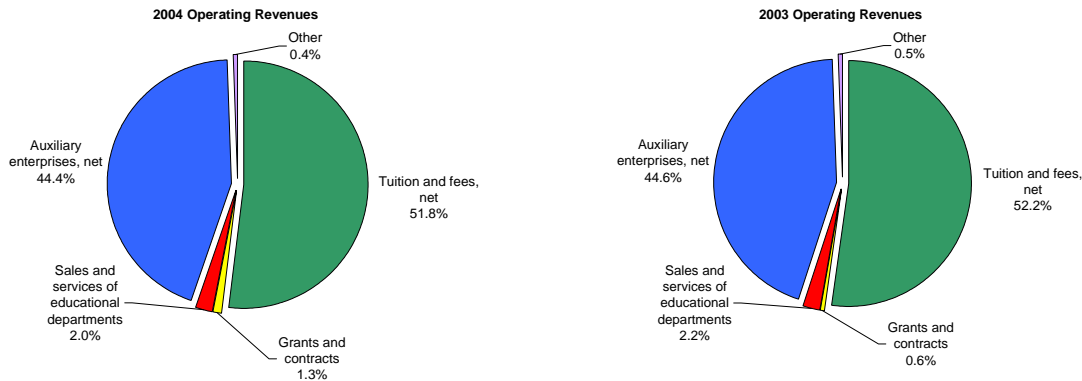
## Management's Discussion and Analysis (continued)

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

Overall nonoperating revenues and expenses remained consistent, decreasing only 2.3% or \$361 thousand from the previous year. A decrease of \$325 thousand in investment earnings accounted for the majority of the decrease. Capital appropriations increased \$8.0 million as a result of state funding for the renovation of the recreation center, land and infrastructure improvements for a new entrance road and parking lot, and for the planning and design work on a new academic building and student services building.

### Operating Revenues

Total operating revenues for fiscal year 2004 were \$27.2 million. The graphs below show comparisons in operating revenue for fiscal years 2004 and 2003.



### Tuition and Fees

Tuition and fees of \$14.1 million, net of tuition discounts totaling \$3.8 million accounted for over 51.8% of total operating revenue and increased 15.9% 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.

# St. Mary's College of Maryland

## Management's Discussion and Analysis (continued)

### Auxiliary Enterprises

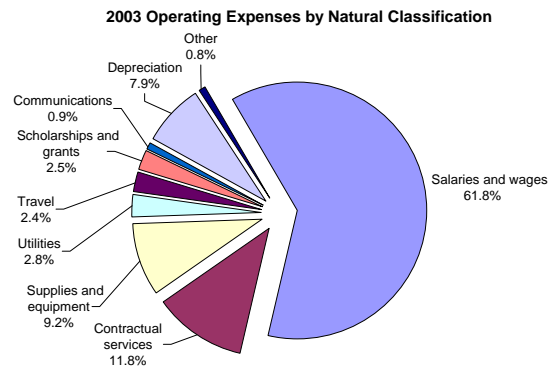
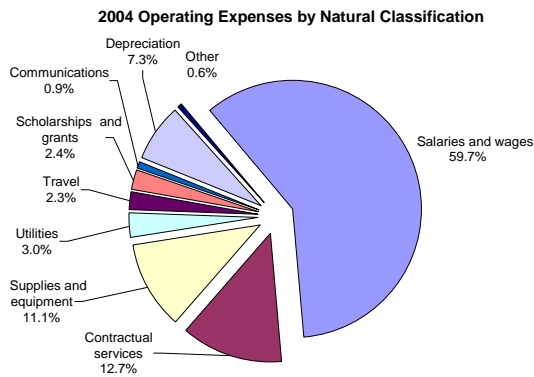
Auxiliary enterprises consist of various enterprise entities that exist predominantly to furnish goods or services to students, faculty, staff, or the general public and charge a fee directly related to the cost of those goods or services. They are intended to be self-supporting. Auxiliary enterprises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

### Sales and Service of Educational Activities

Other operating revenues consist of sales and services of educational activities totaling \$557 thousand. Some examples of educational activities include the Johns Hopkins Center for Talented Youth and Professional Programs.

### Operating Expenses

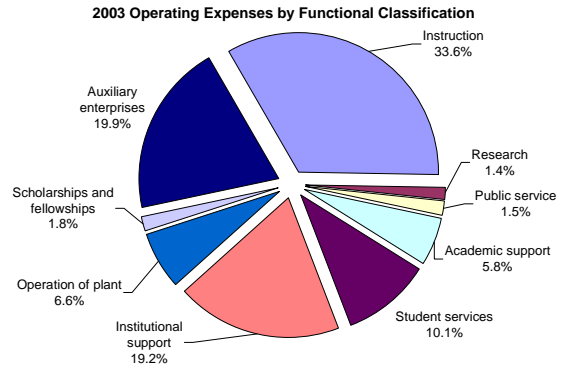
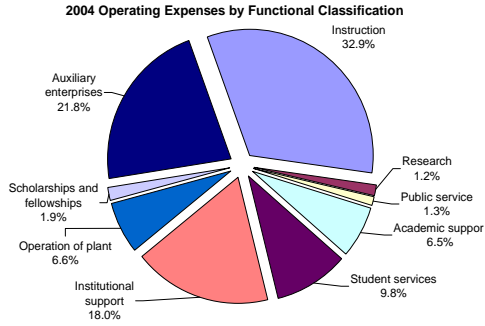
Operating expenses for 2004 totaled \$41.5 million. Of this total, \$13.6 million or 32.9% was for instruction. Operating expenses include salaries and benefits of \$24.8 million, scholarships and grants of \$1.0 million, utilities of \$1.3 million, supplies & non-capitalized equipment of \$4.6 million and depreciation of \$3.0 million.



# St. Mary's College of Maryland

## Management's Discussion and Analysis (continued)

### Operating Expenses (continued)



### State Appropriation

The largest inflow in the noncapital financing activities group is the State appropriation of \$13.7 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. In recent years, the implicit price deflator has provided an increase to the College's appropriation that has ranged between 2% and 3%. The state appropriation provides approximately 31% of the operating budget for the College.

### Investment Income, Net

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

St. Mary's College of Maryland

Management's Discussion and Analysis (continued)

**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 includes the cash activity resulting from state appropriations, grant activity, and other nonoperating gains and losses. The third 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 fourth section reflects the cash flows from investing activities and shows the purchases, proceeds, and interest received from investing activities. The final section reconciles the net cash used to the operating loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets. Below is a condensed version of the first four sections of the cash flow statement.

**Condensed Statement of Cash Flows-Direct Method**

|  | <u>2004</u>                 | <u>2003</u>          |
|--|-----------------------------|----------------------|
| Cash and cash equivalents provided/(used)by:         |                             |                      |
| Operating activities                                 | \$ (12,014,595)             | \$ (13,965,567)      |
| Noncapital financing activities                      | 15,758,423                  | 16,398,721           |
| Capital and related financing activities             | (5,473,584)                 | (578,696)            |
| Investing activities                                 | <u>2,125,352</u>            | <u>(1,948,458)</u>   |
| Net increase (decrease) in cash and cash equivalents | <b>395,596</b>              | (94,000)             |
| Cash and cash equivalents-beginning of the year      | <u>10,532,740</u>           | <u>10,626,740</u>    |
| Cash and cash equivalents-end of the year            | <u><b>\$ 10,928,336</b></u> | <u>\$ 10,532,740</u> |

## St. Mary's College of Maryland

### Management's Discussion and Analysis (continued)

#### Campus Enrollment

The following table indicates the total historical on-campus enrollment of undergraduate and graduate students for the 1998-99 through 2003-04 academic years. Also indicated are full-time equivalent students attending the College.

#### Full-time, Part-time, and FTE Enrollment: Fall 1998 to Fall 2003

| Fall Semester | Full-time |        | Part-time |        | Total | Full-Time Equivalent (FTE) |
|---------------|-----------|--------|-----------|--------|-------|----------------------------|
|               | N         | (%)    | N         | (%)    |       |                            |
| 2003          | 1,772     | (93.9) | 116       | (6.1)  | 1,888 | 1,990                      |
| 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                      |

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 goal for fall semester 2005 remains 1,850 students.

#### Capital Asset and Debt Administration

Capital additions totaled \$13.8 million in 2004. Capital additions were primarily comprised of renovation and new construction of a new athletic and recreation center and planning and design work for a new student services building and a new academic building. Current year capital additions were funded primarily with state capital appropriations of \$10.9 million and debt proceeds of \$1.6 million and unrestricted net assets which were designated for capital purposes.

At June 30, 2004, the College had outstanding general revenue bonds totaling \$40.1 million. Bonds payable is the College's largest liability at June 30, 2004, representing 87.7% of total College liabilities. For additional information concerning Capital Assets and Debt Administration, see notes 8 through 10 in the notes to the financial statements.



## St. Mary's College of Maryland

### Management's Discussion and Analysis (continued)

#### **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 appropriations contribute approximately \$13.7 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 support for academic programs, deferred maintenance, new technology, and the operating impact of new construction projects is a significant challenge facing the College in the years to come.

The College's overall financial position continues to improve and remains strong. The College anticipates the current fiscal year to 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.

Dr. Thomas J. Botzman  
Vice President for Business and Finance

# St. Mary's College of Maryland

## Statements of Net Assets

|  | June 30        |               |
|--|----------------|---------------|
|  | 2004           | 2003          |
| <b>Assets</b>  |                |               |
| Current assets:  |                |               |
| Cash and cash equivalents  | \$ 10,728,663  | \$ 10,253,982 |
| Accounts receivable (net of allowance for doubtful accounts of \$74,234 and \$26,623 in 2004 and 2003, respectively) | 1,203,358      | 462,980       |
| Notes receivable (net of allowance for doubtful notes of \$6,346 and \$5,772 in 2004 and 2003, respectively)         | 57,140         | 47,920        |
| Interest receivable  | –              | 8,728         |
| Inventories  | 397,387        | 379,450       |
| Prepaid expenses   | 197,240        | 192,547       |
| Deferred charges   | 869,350        | 862,017       |
| Total current assets   | 13,453,138     | 12,207,625    |
| Noncurrent assets:   |                |               |
| Restricted cash and cash equivalents   | 199,673        | 278,758       |
| Endowment investments  | 4,095,374      | 3,716,268     |
| Other restricted investments   | 1,438,626      | 3,701,861     |
| Other investments  | 535,581        | –             |
| Notes receivable (net of allowance for doubtful notes of \$46,546 and \$35,218 in 2004 and 2003, respectively)       | 418,914        | 317,266       |
| Capital assets, net  | 87,848,283     | 77,057,211    |
| Total noncurrent assets  | 94,536,451     | 85,071,364    |
| Total assets   | \$ 107,989,589 | \$ 97,278,989 |

St. Mary's College of Maryland

Statement of Net Assets (continued)

|   | June 30               |                      |
|---|-----------------------|----------------------|
|   | 2004                  | 2003                 |
| <b>Liabilities and net assets</b>                           |                       |                      |
| Current liabilities:  |                       |                      |
| Accounts payable  | \$ 823,969            | \$ 656,645           |
| Accrued expenses  | 349,880               | 290,725              |
| Accrued payroll   | 1,185,121             | 1,833,263            |
| Accrued interest  | 643,023               | 657,759              |
| Accrued workers' compensation, current portion              | 40,765                | 39,835               |
| Accrued vacation costs, current portion                     | 643,146               | 597,181              |
| Revenue bonds, current portion                              | 830,000               | 645,000              |
| Notes payable, current portion                              | -                     | 125,127              |
| Obligations under capital lease agreements, current portion | 40,274                | 49,410               |
| Deferred revenue  | 833,819               | 934,152              |
| Total current liabilities                                   | <u>5,389,997</u>      | <u>5,829,097</u>     |
| Noncurrent liabilities:                                     |                       |                      |
| Accrued workers' compensation                               | 222,235               | 217,165              |
| Accrued vacation costs                                      | 471,509               | 526,749              |
| Revenue bonds   | 39,295,000            | 37,755,000           |
| Notes payable   | -                     | 1,923,271            |
| Federal loan program contribution refundable                | 395,736               | 383,962              |
| Obligations under capital lease agreements                  | -                     | 39,354               |
| Total noncurrent liabilities                                | <u>40,384,480</u>     | <u>40,845,501</u>    |
| Total liabilities   | <u>45,774,477</u>     | <u>46,674,598</u>    |
| Net assets:   |                       |                      |
| Invested in capital assets, net of related debt             | 49,734,516            | 38,522,558           |
| Restricted:   |                       |                      |
| Nonexpendable:  |                       |                      |
| Scholarships and fellowships                                | 351,552               | 264,880              |
| Other   | 1,004,432             | 756,108              |
| Expendable:   |                       |                      |
| Research  | 182,876               | 179,679              |
| Loans   | 80,788                | 10,477               |
| Debt service  | -                     | 368,186              |
| Unrestricted  | <u>10,860,948</u>     | <u>10,502,503</u>    |
| Total net assets  | <u>62,215,112</u>     | <u>50,604,391</u>    |
| Total liabilities and net assets                            | <u>\$ 107,989,589</u> | <u>\$ 97,278,989</u> |

See accompanying notes.

St. Mary's College of Maryland

St. Mary's College of Maryland Foundation, Inc. –  
Balance Sheets – Component Unit

|                                       | June 30              |                      |
|---------------------------------------|----------------------|----------------------|
|                                       | 2004                 | 2003                 |
| <b>Assets</b>                         |                      |                      |
| Cash                                  | \$ 60,761            | \$ 783,113           |
| Investments                           | 21,973,170           | 19,501,798           |
| Receivables                           | 176,962              | 90,147               |
| Prepaid expenses                      | 875                  | 500                  |
| Property and equipment, net           | 481,729              | 543,330              |
| Promises to give, net                 | 2,008,087            | 2,008,455            |
|                                       | <u>\$ 24,701,584</u> | <u>\$ 22,927,343</u> |
| <b>Liabilities and net assets</b>     |                      |                      |
| Liabilities:                          |                      |                      |
| Accounts payable and accrued expenses | \$ 195,888           | \$ 187,847           |
| Gift annuity                          | 41,313               | 100,179              |
| Deferred revenue                      | 143,759              | 42,720               |
|                                       | <u>380,960</u>       | <u>330,746</u>       |
| Net assets                            |                      |                      |
| Unrestricted                          | 679,185              | 1,076,075            |
| Temporarily restricted                | 8,564,057            | 7,224,031            |
| Permanently restricted                | 15,077,382           | 14,296,491           |
|                                       | <u>24,320,624</u>    | <u>22,596,597</u>    |
|                                       | <u>\$ 24,701,584</u> | <u>\$ 22,927,343</u> |

*See accompanying notes.*

# St. Mary's College of Maryland

## Statements of Revenues, Expenses and Changes in Net Assets

|   | June 30       |               |
|---|---------------|---------------|
|   | 2004          | 2003          |
| Operating revenues:   |               |               |
| Tuition and fees, net of scholarship allowances of \$3,844,648 and \$2,851,065 in 2004 and 2003, respectively | \$ 14,102,319 | \$ 12,164,391 |
| Federal grants and contracts  | 351,051       | 120,467       |
| State and local grants and contracts  | 7,498         | 3,380         |
| Nongovernmental grants and contracts  | 250           | 11,584        |
| Sales and services of educational departments   | 556,822       | 502,804       |
| Residential facilities, net of scholarship allowances of \$62,720 and \$45,992 in 2004 and 2003, respectively | 9,640,132     | 8,255,319     |
| Bookstore, net of scholarship allowances of \$14,781 and \$11,211 in 2004 and 2003, respectively              | 2,271,815     | 2,014,364     |
| Other auxiliary enterprises revenues  | 162,168       | 117,034       |
| Interest earned on loans to students  | 8,669         | 9,696         |
| Other operating revenues  | 107,062       | 113,498       |
| Total operating revenues  | 27,207,786    | 23,312,537    |
| Operating expenses:   |               |               |
| Instruction   | 13,649,251    | 13,485,224    |
| Research  | 498,828       | 567,701       |
| Public service  | 546,969       | 612,090       |
| Academic support  | 2,698,841     | 2,316,338     |
| Student services  | 4,068,572     | 4,046,448     |
| Institutional support   | 7,466,561     | 7,717,836     |
| Operation and maintenance of plant  | 2,748,064     | 2,651,271     |
| Scholarships and fellowships  | 780,809       | 735,687       |
| Auxiliary enterprises   | 9,066,690     | 7,968,485     |
| Total operating expenses  | 41,524,585    | 40,101,080    |
| Operating loss  | (14,316,799)  | (16,788,543)  |
| Nonoperating revenues (expenses):   |               |               |
| State appropriations  | 13,682,871    | 13,853,271    |
| Federal grants and contracts  | 1,300,405     | 1,308,396     |
| State and local grants and contracts  | 192,512       | 20,233        |
| Nongovernmental grants and contracts  | 1,392,611     | 1,349,934     |
| Investment gain   | 776,804       | 1,101,553     |
| Investment expense  | -             | (7,809)       |
| Interest on indebtedness  | (2,145,064)   | (2,064,409)   |
| Net nonoperating revenues   | 15,200,139    | 15,561,169    |
| Income (loss) before other revenues, expenses, gains, and losses  | 883,340       | (1,227,374)   |
| Other revenues, expenses, gains and losses:   |               |               |
| State appropriation restricted for capital purposes   | 10,850,845    | 2,873,065     |
| Other gains and losses  | (123,464)     | (67,131)      |
| Total other revenues, expenses, gains, and losses   | 10,727,381    | 2,805,934     |
| Net increase in net assets  | 11,610,721    | 1,578,560     |
| Net assets at beginning of year   | 50,604,391    | 49,025,831    |
| Net assets at end of year   | \$ 62,215,112 | \$ 50,604,391 |

*See accompanying notes.*

St. Mary's College of Maryland

St. Mary's College of Maryland Foundation, Inc. –  
Statements of Activities – Component Unit

Year ended June 30, 2004

|   | Unrestricted     | Temporarily<br>Restricted | Permanently<br>Restricted | Total            |
|---|------------------|---------------------------|---------------------------|------------------|
| <b>Support and revenue</b>                    |                  |                           |                           |                  |
| Contributions                                 | \$ 219,661       | \$ 898,786                | \$ 570,592                | \$ 1,689,039     |
| Donated services                              | 262,151          | –                         | –                         | 262,151          |
| Event revenue                                 | 91,963           | 245,283                   | –                         | 337,246          |
| Sponsorship                                   | –                | 160,100                   | –                         | 160,100          |
| Investment income                             | 23,287           | 2,242,104                 | –                         | 2,265,391        |
| Other revenues                                | 55,499           | 243,257                   | –                         | 298,756          |
| Net assets released from restrictions         | 2,239,205        | (2,449,504)               | 210,299                   | –                |
| Total support and revenue                     | <u>2,891,766</u> | <u>1,340,026</u>          | <u>780,891</u>            | <u>5,012,683</u> |
| <b>Expenses</b>                               |                  |                           |                           |                  |
| Program services:                             |                  |                           |                           |                  |
| Support to St. Mary's College of<br>Maryland: |                  |                           |                           |                  |
| Scholarships                                  | 766,111          | –                         | –                         | 766,111          |
| Waterfront                                    | 326,730          | –                         | –                         | 326,730          |
| Athletics                                     | 163,521          | –                         | –                         | 163,521          |
| Center for Democracy                          | 157,198          | –                         | –                         | 157,198          |
| Choir Fund                                    | 116,856          | –                         | –                         | 116,856          |
| Washington DC Program                         | 103,000          | –                         | –                         | 103,000          |
| Library                                       | 87,892           | –                         | –                         | 87,892           |
| Academic Chair                                | 81,123           | –                         | –                         | 81,123           |
| Art Alliance                                  | 40,041           | –                         | –                         | 40,041           |
| Alumni activities                             | 21,607           | –                         | –                         | 21,607           |
| Crew team                                     | 19,579           | –                         | –                         | 19,579           |
| Sailing                                       | 13,429           | –                         | –                         | 13,429           |
| Lectureship Series                            | 9,745            | –                         | –                         | 9,745            |
| Holocaust                                     | 2,782            | –                         | –                         | 2,782            |
| Other support                                 | 120,092          | –                         | –                         | 120,092          |
|   | <u>2,029,706</u> | –                         | –                         | <u>2,029,706</u> |
| River Concert Series                          | 275,406          | –                         | –                         | 275,406          |
| Anne Marie Gardens                            | 85,963           | –                         | –                         | 85,963           |
| Governor's Cup                                | 64,222           | –                         | –                         | 64,222           |
| Family Weekend                                | 10,613           | –                         | –                         | 10,613           |
| Other programs                                | 89,321           | –                         | –                         | 89,321           |
| Total program services                        | <u>2,555,231</u> | –                         | –                         | <u>2,555,231</u> |

St. Mary's College of Maryland

St. Mary's College of Maryland Foundation, Inc. –  
Statements of Activities – Component Unit (continued)

Year ended June 30, 2004

|                            | <b>Unrestricted</b> | <b>Temporarily<br/>Restricted</b> | <b>Permanently<br/>Restricted</b> | <b>Total</b>         |
|----------------------------|---------------------|-----------------------------------|-----------------------------------|----------------------|
| <b>Supporting Services</b> |                     |                                   |                                   |                      |
| Management and general     | \$ 438,550          | \$ –                              | \$ –                              | \$ 438,550           |
| Fundraising                | 294,875             | –                                 | –                                 | 294,875              |
| Total supporting services  | <u>733,425</u>      | –                                 | –                                 | <u>733,425</u>       |
| Total expenses             | <u>3,288,656</u>    | –                                 | –                                 | <u>3,288,656</u>     |
| <br>Change in net assets   | <br>(396,890)       | <br>1,340,026                     | <br>780,891                       | <br>1,724,027        |
| <b>Net Assets</b>          |                     |                                   |                                   |                      |
| Beginning                  | <u>1,076,075</u>    | <u>7,224,031</u>                  | <u>14,296,491</u>                 | <u>22,596,597</u>    |
| Ending                     | <u>\$ 679,185</u>   | <u>\$ 8,564,057</u>               | <u>\$ 15,077,382</u>              | <u>\$ 24,320,624</u> |

*See accompanying notes.*

St. Mary's College of Maryland

St. Mary's College of Maryland Foundation, Inc. –  
Statements of Activities – Component Unit

Year ended June 30, 2003

|   | Unrestricted     | Temporarily<br>Restricted | Permanently<br>Restricted | Total            |
|---|------------------|---------------------------|---------------------------|------------------|
| <b>Support and revenue</b>                    |                  |                           |                           |                  |
| Contributions                                 | \$ 253,443       | \$ 1,240,358              | \$ 387,342                | \$ 1,881,143     |
| Donated services                              | 265,534          | –                         | –                         | 265,534          |
| Supported services                            | 258,610          | –                         | –                         | 258,610          |
| Event revenue                                 | 176,166          | –                         | –                         | 176,166          |
| Sponsorship                                   | 160,636          | –                         | –                         | 160,636          |
| Investment income                             | 18,900           | 1,595,449                 | –                         | 1,614,349        |
| Other revenues                                | 312,783          | –                         | –                         | 312,783          |
| Net assets released from restrictions         | 1,930,949        | (1,930,949)               | –                         | –                |
| <b>Total support and revenue</b>              | <b>3,377,021</b> | <b>904,858</b>            | <b>387,342</b>            | <b>4,669,221</b> |
| <b>Expenses</b>                               |                  |                           |                           |                  |
| Program services:                             |                  |                           |                           |                  |
| Support to St. Mary's College of<br>Maryland: |                  |                           |                           |                  |
| Scholarships                                  | 847,740          | –                         | –                         | 847,740          |
| Choir Fund                                    | 137,069          | –                         | –                         | 137,069          |
| Academic Chair                                | 127,935          | –                         | –                         | 127,935          |
| Library                                       | 102,900          | –                         | –                         | 102,900          |
| Athletics                                     | 122,524          | –                         | –                         | 122,524          |
| Center for Democracy                          | 75,495           | –                         | –                         | 75,495           |
| Lectureship Series                            | 67,243           | –                         | –                         | 67,243           |
| Art Alliance                                  | 42,377           | –                         | –                         | 42,377           |
| Alumni activities                             | 29,942           | –                         | –                         | 29,942           |
| Holocaust                                     | 21,796           | –                         | –                         | 21,796           |
| Sailing                                       | 19,265           | –                         | –                         | 19,265           |
| Crew team                                     | 15,507           | –                         | –                         | 15,507           |
| Other support                                 | 247,557          | –                         | –                         | 247,557          |
|   | 1,857,350        | –                         | –                         | 1,857,350        |
| Waterfront                                    | 380,232          | –                         | –                         | 380,232          |
| River Concert Series                          | 270,491          | –                         | –                         | 270,491          |
| Governor's Cup                                | 60,039           | –                         | –                         | 60,039           |
| Family Weekend                                | 18,319           | –                         | –                         | 18,319           |
| Russian Leadership                            | 26,180           | –                         | –                         | 26,180           |
| Anne Marie Gardens                            | 15,500           | –                         | –                         | 15,500           |
| Other programs                                | 81,624           | –                         | –                         | 81,624           |
| <b>Total program services</b>                 | <b>2,709,735</b> | <b>–</b>                  | <b>–</b>                  | <b>2,709,735</b> |



St. Mary's College of Maryland

St. Mary's College of Maryland Foundation, Inc. –  
Statements of Activities – Component Unit (continued)

Year ended June 30, 2003

|                           | Unrestricted | Temporarily<br>Restricted | Permanently<br>Restricted | Total         |
|---------------------------|--------------|---------------------------|---------------------------|---------------|
| Supporting Services       |              |                           |                           |               |
| Fundraising               | \$ 306,500   | \$ –                      | \$ –                      | \$ 306,500    |
| Management and general    | 478,357      | –                         | –                         | 478,357       |
| Total supporting services | 784,857      | –                         | –                         | 784,857       |
| Total expenses            | 3,494,592    | –                         | –                         | 3,494,592     |
| Change in net assets      | (117,571)    | 904,858                   | 387,342                   | 1,174,629     |
| Net Assets                |              |                           |                           |               |
| Beginning                 | 1,193,646    | 6,319,173                 | 13,909,149                | 21,421,968    |
| Ending                    | \$ 1,076,075 | \$ 7,224,031              | \$ 14,296,491             | \$ 22,596,597 |

*See accompanying notes.*

# St. Mary's College of Maryland

## Statements of Cash Flows

|   | Year ended June 30 |               |
|---|--------------------|---------------|
|   | 2004               | 2003          |
| <b>Cash flows from operating activities</b>                     |                    |               |
| Tuition and fees  | \$ 13,991,687      | \$ 12,321,512 |
| Research contracts and grants                                   | 358,799            | 135,431       |
| Payments to employees   | (24,878,485)       | (24,880,397)  |
| Payments to suppliers and contractors                           | (14,087,557)       | (12,486,057)  |
| Loans issued to students  | (207,760)          | (141,800)     |
| Collections of loans to students                                | 96,892             | 77,442        |
| Interest earned on loans to students                            | 8,669              | 9,696         |
| Residence halls and dining facilities                           | 9,640,132          | 8,255,319     |
| Bookstores  | 2,271,815          | 2,014,364     |
| Other auxiliary revenue   | 162,168            | 117,034       |
| Other receipts  | 629,045            | 611,889       |
| Net cash used by operations                                     | (12,014,595)       | (13,965,567)  |
| <b>Cash flows from noncapital financing activities</b>          |                    |               |
| State appropriations  | 13,682,871         | 13,853,271    |
| Gifts and grants received for other than capital purposes       | 2,199,016          | 2,612,581     |
| Other nonoperating losses                                       | (123,464)          | (67,131)      |
| Net cash provided by noncapital financing activities            | 15,758,423         | 16,398,721    |
| <b>Cash flows from capital and related financing activities</b> |                    |               |
| Proceeds from capital debt                                      | 6,620,000          | 13,650,000    |
| Capital appropriations  | 10,850,845         | 2,873,065     |
| Capital grants and gifts received                               | 11,774             | 11,774        |
| Purchases of capital assets                                     | (13,804,515)       | (14,495,859)  |
| Payment of arbitrage rebate                                     | -                  | (118,737)     |
| Principal paid on debt and capital leases                       | (6,991,888)        | (633,959)     |
| Interest paid on debt and capital leases                        | (2,159,800)        | (1,864,980)   |
| Net cash used by capital and related financing activities       | (5,473,584)        | (578,696)     |
| <b>Cash flows from investing activities</b>                     |                    |               |
| Proceeds from sales and maturities of investments               | 4,760,108          | 13,634,351    |
| Interest on investments   | 298,276            | 549,780       |
| Investment expense  | -                  | (7,809)       |
| Purchases of investments  | (2,933,032)        | (16,124,780)  |
| Net cash provided by (used in) investing activities             | 2,125,352          | (1,948,458)   |
| Net increase (decrease) in cash                                 | 395,596            | (94,000)      |
| Cash and cash equivalents at beginning of year                  | 10,532,740         | 10,626,740    |
| Cash and cash equivalents at end of year                        | \$ 10,928,336      | \$ 10,532,740 |

St. Mary's College of Maryland  
Statements of Cash Flows (continued)

|   | <b>Year ended June 30</b> |                 |
|---|---------------------------|-----------------|
|   | <b>2004</b>               | <b>2003</b>     |
| <b>Reconciliation of operating loss to net cash used by operating activities</b>          |                           |                 |
| Operating loss  | \$ (14,316,799)           | \$ (16,788,543) |
| Adjustments to reconcile operating loss to net cash used by operating activities:         |                           |                 |
| Depreciation expense  | 3,013,443                 | 3,171,265       |
| Changes in assets and liabilities:  |                           |                 |
| Receivables, net  | (106,573)                 | 61,282          |
| Prepaid expenses  | (12,025)                  | 19,501          |
| Deferred charges  | -                         | (372,931)       |
| Inventories   | (17,937)                  | (29,088)        |
| Accounts payable  | 167,324                   | (102,049)       |
| Accrued expenses  | 59,155                    | 147,394         |
| Accrued payroll   | (648,142)                 | (7,115)         |
| Accrued interest  | -                         | (5,000)         |
| Accrued workers' compensation   | 6,000                     | 4,000           |
| Accrued vacation  | (9,275)                   | 8,649           |
| Deferred revenue  | (38,898)                  | (8,574)         |
| Loans to students   | (110,868)                 | (64,358)        |
| Net cash used by operating activities   | \$ (12,014,595)           | \$ (13,965,567) |
| <b>Noncash transactions</b>   |                           |                 |
| Change in fair value of investments recognized as a component of investment income (loss) | \$ 478,528                | \$ 543,045      |

*See accompanying notes.*

# St. Mary's College of Maryland

## Notes to Financial Statements

Year ended June 30, 2004

### 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 this 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. The Foundation meets the criteria established by Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations are Component Units*, and qualifies as a component unit of the College; therefore the activities of the Foundation are shown in these financial statements as a discretely presented component unit.

During the years ended June 30, 2004 and 2003, the foundation distributed \$2,555,231 and \$2,451,125 to the College for both restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from St. Mary's College of Maryland Foundation, Inc., Development Office, 18952 E. Fisher Road, St. Mary's City, MD 20686, or from the foundation's website ([www.smcm.edu/development/foundation.cfm](http://www.smcm.edu/development/foundation.cfm)).

The Foundation is a private nonprofit organization that reports under the standards of the Financial Accounting Standards Board (FASB), including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features differ from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences.

# St. Mary's College of Maryland

## Notes to Financial Statements (continued)

### **1. Organization and Purpose (continued)**

In fiscal year 2004 and 2003, 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 a component unit of the College.

### **2. Summary of Significant Accounting Policies**

#### **Basis of Accounting**

For financial reporting purposes, the College follows pronouncements of the GASB and 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 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.

#### **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 consists 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 from 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.

St. Mary's College of Maryland  
Notes to Financial Statements (continued)

**2. Summary of Significant Accounting Policies (continued)**

**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 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.

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.

## St. Mary's College of Maryland

### Notes to Financial Statements (continued)

#### **2. Summary of Significant Accounting Policies (continued)**

##### **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.

## St. Mary's College of Maryland

### Notes to Financial Statements (continued)

#### 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.



# St. Mary's College of Maryland

## Notes to Financial Statements (continued)

### 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, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*, 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.

St. Mary's College of Maryland

Notes to Financial Statements (continued)

**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 the fiscal year ended June 30, 2004.

As of June 30, 2004, the College has recorded \$263,000 in liabilities associated with workers' compensation. The workers' compensation liability activity for the years ended June 30, 2004 and 2003 was as follows:

|                          | <b>Beginning of<br/>Fiscal Year<br/>Liability</b> | <b>Claims and<br/>Changes in<br/>Estimates</b> | <b>Claim<br/>Payments</b> | <b>Balance at<br/>Fiscal<br/>Year-end</b> | <b>Amounts<br/>due within<br/>one year</b> |
|--------------------------|---|--|---------------------------|---|--|
| Year ended June 30, 2004 | \$257,000   | \$34,911                                       | \$28,911                  | \$263,000                                 | \$40,765                                   |
| Year ended June 30, 2003 | 253,000   | 25,203   | 21,203                    | 257,000                                   | 39,835                                     |

**Accounting Changes**

The GASB issued Statement No. 39, *Determining Whether Certain Organizations Are Component Units* which was effective for financial statements for periods beginning after June 15, 2003. As such the College adopted the statement for the year ending June 30, 2004 and has presented the discrete financial information of its component unit for the years ended June 30, 2004 and 2003.

St. Mary's College of Maryland

Notes to Financial Statements (continued)

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

**Cash and Cash Equivalents**

At June 30, 2004 and 2003, the College had cash on deposit in an internal pooled cash account with the Maryland State Treasurer (Treasurer) in the amount of \$10,571,760 and \$10,117,756, 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, 2004 and 2003 was \$356,576 and \$414,984 with associated bank balances of \$409,500 and \$517,279. These deposits are fully insured by Federal depository insurance.

**Investments—College**

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. The carrying value of endowment and other investments at June 30, 2004 and 2003 are as follows:

|   | June 30, 2004     |                     |                     |                     | June 30,<br>2003<br>Fair Value |
|---|-------------------|---------------------|---------------------|---------------------|--------------------------------|
|   | 1                 | 2                   | Un-<br>categorized  | Fair Value          |                                |
| Mutual funds                                  | \$ —              | \$ —                | \$ 2,429,743        | \$ 2,429,743        | \$ 2,106,011                   |
| Corporate bonds                               | —                 | 656,851             | —                   | 656,851             | 510,966                        |
| U.S. Government Securities                    | 535,582           | 289,036             | —                   | 824,618             | 995,013                        |
| U.S. agency and other asset-backed securities | —                 | 2,130,819           | —                   | 2,130,819           | 3,761,180                      |
| Foreign bonds                                 | —                 | 26,572              | —                   | 26,572              | 43,981                         |
| Corporate equity securities                   | —                 | 978                 | —                   | 978                 | 978                            |
| <b>Total Investments</b>                      | <b>\$ 535,582</b> | <b>\$ 3,104,256</b> | <b>\$ 2,429,743</b> | <b>\$ 6,069,581</b> | <b>\$ 7,418,129</b>            |

St. Mary's College of Maryland

Notes to Financial Statements (continued)

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

**Investments—College (continued)**

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 \$2,130,819 and \$3,761,180 at June 30, 2004 and 2003 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.

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 \$298,276 and \$549,780 of which \$94,303 and \$272,190 was restricted for various purposes, for the years ended June 30, 2004 and 2003, respectively.

**Investments—Foundation**

Investments consist of the following:

|                       | <b>June 30,<br/>2004</b>    | <b>June 30,<br/>2003</b>    |
|-----------------------|-----------------------------|-----------------------------|
| Corporate bonds       | \$ —                        | \$ 4,908,388                |
| Equities              | <b>14,441,584</b>           | 5,703,667                   |
| Mutual stock funds    | —                           | 4,770,182                   |
| Money Market          | —                           | 1,720,897                   |
| U.S. Government bonds | —                           | 1,256,562                   |
| Realty funds          | <b>1,222,169</b>            | 1,142,102                   |
| Fixed income          | <b>5,530,196</b>            | —                           |
| Cash equivalents      | <b>779,221</b>              | —                           |
|                       | <b><u>\$ 21,973,170</u></b> | <b><u>\$ 19,501,798</u></b> |

St. Mary's College of Maryland

Notes to Financial Statements (continued)

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

**Investments— Foundation (continued)**

During 2000, the Foundation became a named beneficiary to one-fourth of a trust held by a third party. The trust is restricted to scholarships. Under the terms of the trust, the Foundation will receive a distribution each year of approximately one-fourth of 5% of the value of the trust, even if the 5% is to be paid from the principal. The Foundation records one-fourth of the annual changes in market value of the trust as investment income. The value of the Foundation's share of the trust was \$1,429,757 as of June 30, 2004 and 2003, respectively. The Foundation received no distributions in 2004, and a distribution of \$85,000 in 2003.

Investment income consists of the following:

|                               | June 30, 2004    |                        |                    | June 30, 2003    |                        |                    |
|-------------------------------|------------------|------------------------|--------------------|------------------|------------------------|--------------------|
|                               | Unrestricted     | Temporarily Restricted | Total              | Unrestricted     | Temporarily Restricted | Total              |
| Interest and dividends        | \$ 8,969         | \$ 524,264             | \$ 533,233         | \$ 9,758         | \$ 480,729             | \$ 490,487         |
| Realized and unrealized gains | 14,318           | 1,717,840              | 1,732,158          | 9,142            | 1,114,720              | 1,123,862          |
|                               | <u>\$ 23,287</u> | <u>\$ 2,242,104</u>    | <u>\$2,265,391</u> | <u>\$ 18,900</u> | <u>\$ 1,595,449</u>    | <u>\$1,614,349</u> |

**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.

St. Mary's College of Maryland

Notes to Financial Statements (continued)

**4. Endowments (continued)**

The endowment net assets are reported as follows:

|   | <b>June 30,<br/>2004</b>   | <b>June 30,<br/>2003</b>   |
|---|----------------------------|----------------------------|
| Nonexpendable—scholarship and fellowships | \$ 351,552                 | \$ 264,880                 |
| Nonexpendable—other                       | 1,004,432                  | 756,108                    |
| Unrestricted net assets                   | <u>2,939,063</u>           | 2,974,038                  |
| Total endowment net assets                | <u><u>\$ 4,295,047</u></u> | <u><u>\$ 3,995,026</u></u> |

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 at June 30, 2004 and 2003:

|  | <b>June 30,<br/>2004</b>   | <b>June 30,<br/>2003</b> |
|--|----------------------------|--------------------------|
| Student tuition and fees                             | \$ 222,573                 | \$ 103,229               |
| Employee accounts                                    | 5,729                      | 2,676                    |
| Auxiliary enterprises and other operating activities | 75,193                     | 46,720                   |
| Travel advances                                      | 25,205                     | 14,405                   |
| Tuition assistance program                           | 17,438                     | 5,855                    |
| Federal, state and private grants and contracts      | 859,250                    | 206,924                  |
| Interest income receivable                           | 8,728                      | -                        |
| Other miscellaneous                                  | 63,476                     | 109,794                  |
|  | <u>1,277,592</u>           | 489,603                  |
| Less allowance for doubtful accounts                 | <u>(74,234)</u>            | <u>(26,623)</u>          |
| Net accounts receivable                              | <u><u>\$ 1,203,358</u></u> | <u><u>\$ 462,980</u></u> |

St. Mary's College of Maryland

Notes to Financial Statements (continued)

**6. Encumbrances**

The College does not separately identify the reserve for encumbrances in unrestricted net assets. As of June 30, 2004 and 2003, there were \$1,410,538 and \$1,727,473 of encumbrances and \$469,692 and \$525,095 of funds designated for future use reported in unrestricted net assets.

**7. Inventories**

Inventories consisted of the following at June 30, 2004 and 2003:

|                   | <b>June 30,<br/>2004</b> | <b>June 30,<br/>2003</b> |
|-------------------|--------------------------|--------------------------|
| Health Center     | \$ 3,558                 | \$ 2,402                 |
| Housekeeping      | 29,786                   | 29,848                   |
| Central Store     | 1,472                    | 335                      |
| Campus Store      | 362,571                  | 346,865                  |
| Total inventories | <u>\$ 397,387</u>        | <u>\$ 379,450</u>        |

**8. Capital Assets**

Following are the changes in capital assets for fiscal year ending June 30, 2004 and 2003:

|  | <b>For year ended June 30, 2004</b>  |                      |                    | <b>Balance<br/>June 30,<br/>2004</b> |
|--|--------------------------------------|----------------------|--------------------|--------------------------------------|
|  | <b>Balance<br/>June 30,<br/>2003</b> | <b>Additions</b>     | <b>Retirements</b> |                                      |
| Capital assets not being depreciated:        |                                      |                      |                    |                                      |
| Land   | \$ 3,120,717                         | \$ 490,602           | \$ -               | \$ 3,611,319                         |
| Total capital assets not being depreciated   | <u>3,120,717</u>                     | <u>490,602</u>       | <u>-</u>           | <u>3,611,319</u>                     |
| Capital assets being depreciated:            |                                      |                      |                    |                                      |
| Infrastructure                               | \$ 2,239,815                         | \$ 254,805           | \$ -               | \$ 2,494,620                         |
| Buildings                                    | 87,785,273                           | 12,147,195           | -                  | 99,932,468                           |
| Furnitures, fixtures and equipment           | 6,346,297                            | 534,428              | (312,086)          | 6,568,639                            |
| Library materials                            | 7,158,700                            | 461,511              |                    | 7,620,211                            |
| Total capital assets being depreciated       | <u>103,530,085</u>                   | <u>13,397,939</u>    | <u>(312,086)</u>   | <u>116,615,938</u>                   |
| Less accumulated depreciation for:           |                                      |                      |                    |                                      |
| Infrastructure                               | (576,830)                            | (97,764)             |                    | (674,594)                            |
| Buildings                                    | (20,163,470)                         | (1,810,384)          |                    | (21,973,854)                         |
| Furnitures, fixtures and equipment           | (3,677,430)                          | (607,140)            | 228,060            | (4,056,510)                          |
| Library materials                            | (5,175,861)                          | (498,155)            |                    | (5,674,016)                          |
| Total accumulated depreciation               | <u>(29,593,591)</u>                  | <u>(3,013,443)</u>   | <u>228,060</u>     | <u>(32,378,974)</u>                  |
| Total capital assets, being depreciated, net | <u>73,936,494</u>                    | <u>10,384,496</u>    | <u>(84,026)</u>    | <u>84,236,964</u>                    |
| Total capital assets, net                    | <u>\$ 77,057,211</u>                 | <u>\$ 10,875,098</u> | <u>\$ (84,026)</u> | <u>\$ 87,848,283</u>                 |

St. Mary's College of Maryland

Notes to Financial Statements (continued)

**8. Capital Assets (continued)**

|  | For year ended June 30, 2003 |               |             | Balance<br>June 30,<br>2003 |
|--|------------------------------|---------------|-------------|-----------------------------|
|  | Balance<br>June 30,<br>2002  | Additions     | Retirements |                             |
| 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                  |
| Furnitures, 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)                |
| Furnitures, 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               |

**9. Long-term Liabilities**

Long-term liability activity for the year ended June 30, 2004 and 2003 was as follows:

|   | For year ended June 30, 2004 |              |               |                             |                                   |
|---|------------------------------|--------------|---------------|-----------------------------|-----------------------------------|
|   | Balance<br>June 30,<br>2003  | Additions    | Reductions    | Balance<br>June 30,<br>2004 | Amounts<br>Due Within<br>One Year |
| Bonds and notes payable and capital leases: |                              |              |               |                             |                                   |
| Revenue bonds payable                       | \$ 38,400,000                | \$ 6,620,000 | \$(4,895,000) | \$ 40,125,000               | \$ 830,000                        |
| Notes payable                               | 2,048,398                    | -            | (2,048,398)   | -                           | -                                 |
| Capital lease obligations                   | 88,764                       | -            | (48,490)      | 40,274                      | 40,274                            |
| Total bonds, notes, and capital leases      | 40,537,162                   | 6,620,000    | (6,991,888)   | 40,165,274                  | 870,274                           |
| Other liabilities:                          |                              |              |               |                             |                                   |
| Workers' compensation liability             | 257,000                      | 34,911       | (28,911)      | 263,000                     | 40,765                            |
| Accrued vacation costs                      | 1,123,930                    | 663,046      | (672,321)     | 1,114,655                   | 643,146                           |
| Federal loan program refundable             | 383,962                      | 11,774       | -             | 395,736                     | -                                 |
| Total other liabilities                     | 1,764,892                    | 709,731      | (701,232)     | 1,773,391                   | 683,911                           |
| Total long-term liabilities                 | \$ 42,302,054                | \$ 7,329,731 | \$(7,693,120) | \$ 41,938,665               | \$ 1,554,185                      |



St. Mary's College of Maryland

Notes to Financial Statements (continued)

**9. Long-term Liabilities (continued)**

|   | Year Ended June 30, 2003    |               |                |                             | Amounts<br>Due Within<br>One Year |
|---|-----------------------------|---------------|----------------|-----------------------------|-----------------------------------|
|   | Balance<br>June 30,<br>2002 | Additions     | Reductions     | Balance<br>June 30,<br>2003 |                                   |
| 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:                          |                             |               |                |                             |                                   |
| Workers' 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                      |

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, 2004 and 2003 consists of the following:

|  | June 30,<br>2004     | June 30,<br>2003 |
|--|----------------------|------------------|
| 1993 Revenue Bonds, Series A             | \$ –                 | \$ 4,365,000     |
| 1997 Revenue Bonds, Series A             | <b>9,120,000</b>     | 9,315,000        |
| 2000 Revenue Bonds, Series A             | <b>10,885,000</b>    | 11,070,000       |
| 2002 Subordinate Revenue Bonds, Series A | <b>13,500,000</b>    | 13,650,000       |
| 2003 Subordinate Revenue Bonds, Series A | <b>6,620,000</b>     | –                |
| Notes Payable—Student Residence Loan     | –                    | 2,048,398        |
| Total                                    | <b>\$ 40,125,000</b> | \$ 40,448,398    |

## St. Mary's College of Maryland

### Notes to Financial Statements (continued)

#### **10. Revenue Bonds and Notes Payable (continued)**

##### **Academic Fees and Auxiliary Facilities Fees Revenue Bonds**

In 1993, 1997, and 2000 the College issued \$5,105,000 and \$10,000,000, \$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 a 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 a debt of the State. In 2003, the college issued \$6,620,000 of Subordinate Revenue Bonds to refinance the 1993 Revenue Bonds and the DOE loan. Payment of the 2003 bonds is subordinate to the 1993, 1997, 2000 and 2002 bonds.

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 college exercised the callable options and repaid the bonds in 2003.

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 4.880%. 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%.

## St. Mary's College of Maryland

### Notes to Financial Statements (continued)

#### **10. Revenue Bonds and Notes Payable (continued)**

##### **Academic Fees and Auxiliary Facilities Fees Revenue Bonds (continued)**

The 2003 Series A Subordinate Revenue Bonds are dated August 1, 2003, and bear interest from 2.500% to 4.880%. Annual maturities will increase until the final payment of \$350,000 becomes due in 2023. The bonds maturing after September 1, 2013 are callable at no premium.

Investments totaling \$1,438,626 and \$3,701,861 for 2004 and 2003 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 and 2003 Series A Subordinate Revenue Bonds establish several covenants with which the College must comply. Those covenants address the payment of bonds, operation and maintenance of facilities, and transfers of facilities, 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.

##### **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 was payable in semi-annual installments of \$92,824 through October 15, 2016, at an annual interest rate of 3%. The loan agreement was secured by a first lien on the residences and a pledge of the net revenues derived from the College's general operations. In August 2003, the College repaid all amounts outstanding related to this loan.

St. Mary's College of Maryland

Notes to Financial Statements (continued)

**10. Revenue Bonds and Notes Payable (continued)**

**Principal & Interest Payments**

Future principal and interest payments of outstanding revenue bonds for the year ended June 30, 2004, are as follows:

| <b>Fiscal Year</b> | <b>Revenue<br/>Bonds</b> | <b>Interest</b>      | <b>Total</b>         |
|--------------------|--------------------------|----------------------|----------------------|
| 2005               | \$ 830,000               | \$ 1,913,324         | \$ 2,743,324         |
| 2006               | 960,000                  | 1,879,943            | 2,839,943            |
| 2007               | 1,000,000                | 1,843,581            | 2,843,581            |
| 2008               | 1,045,000                | 1,804,606            | 2,849,606            |
| 2009               | 1,080,000                | 1,762,623            | 2,842,623            |
| 2010-2014          | 6,125,000                | 8,064,083            | 14,189,083           |
| 2015-2019          | 7,400,000                | 6,508,544            | 13,908,544           |
| 2020-2024          | 8,675,000                | 4,559,365            | 13,234,365           |
| 2025-2029          | 8,485,000                | 2,264,674            | 10,749,674           |
| 2030-2034          | 4,525,000                | 399,155              | 4,924,155            |
| <b>Total</b>       | <b>\$ 40,125,000</b>     | <b>\$ 30,999,898</b> | <b>\$ 71,124,898</b> |

**Interest Costs**

The College incurred \$2,145,064 and \$2,064,409 in interest expense during the years ended June 30, 2004 and 2003, respectively, related to long-term debt.

**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, 2002 Series A, and 2003 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 \$32,207 and \$33,810 for 2004 and 2003. During the year ended June 30, 2004, the College capitalized \$178,773 of deferred debt issuance costs related to the 2003 Series A bonds and recorded as additional amortization expense \$150,902, which represented the remaining unamortized debt issuance costs of the 1993 Series A bonds at the time the debt was fully paid.

St. Mary's College of Maryland

Notes to Financial Statements (continued)

**11. Leases**

**Operating Leases**

The College leases office equipment under an operating lease. Total cost for such leases was \$10,655 for both the years ended June 30, 2004 and 2003. The future minimum lease payments for these leases are as follows:

| <u>Year ending June 30,</u> | <u>Amount</u>           |
|-----------------------------|-------------------------|
| 2005                        | \$ 10,655               |
| 2006                        | \$ 10,655               |
| 2007                        | <u>\$ 3,996</u>         |
| Total                       | <u><u>\$ 25,306</u></u> |

**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.

The assets acquired through capital leases are as follows:

|                                  | <u>Computer<br/>Equipment</u> | <u>Office<br/>Equipment</u> | <u>Lawn Care<br/>Equipment</u> | <u>Total</u>            |
|----------------------------------|-------------------------------|-----------------------------|--------------------------------|-------------------------|
| Asset                            | \$ 84,055                     | \$ 13,484                   | \$ 40,076                      | \$ 137,615              |
| Less accumulated<br>depreciation | <u>(66,543)</u>               | <u>(9,692)</u>              | <u>(28,805)</u>                | <u>(105,040)</u>        |
| Total                            | <u><u>\$ 17,512</u></u>       | <u><u>\$ 3,792</u></u>      | <u><u>\$ 11,271</u></u>        | <u><u>\$ 32,575</u></u> |

St. Mary's College of Maryland  
Notes to Financial Statements (continued)

**11. Leases (continued)**

**Capital Leases (continued)**

The future minimum lease payments of these lease obligations as of June 30, 2004 were as follows:

| <b>Year ending June 30,</b>        | <b>Amount</b> |
|------------------------------------|---------------|
| 2005                               | 41,277        |
| Less amounts representing interest | (1,003)       |
| Total                              | \$ 40,274     |

**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 various 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.

## St. Mary's College of Maryland

### Notes to Financial Statements (continued)

#### **12. Retirement Plans (continued)**

##### **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, 2004, 2003, and 2002, of \$313,634, \$314,723, and \$332,671, respectively.

##### **Optional Retirement Programs**

In addition to the Retirement and Pension System, the College also offers optional retirement programs for faculty and professional staff including 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 \$795,473 and \$799,363 for the fiscal years ended June 30, 2004 and 2003, 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 \$440,181 and \$398,339 for the years ended June 30, 2004 and 2003, 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.

St. Mary's College of Maryland  
Notes to Financial Statements (continued)

**14. Natural Classifications with Functional Classifications**

The College's operating expenses by natural classification were as follows:

| Year Ended June 30, 2004         |                           |                  |                  |                    |                    |                       |                    |                   |                    |                     |
|----------------------------------|---------------------------|------------------|------------------|--------------------|--------------------|-----------------------|--------------------|-------------------|--------------------|---------------------|
| Natural Classification           | Functional Classification |                  |                  |                    |                    |                       |                    |                   |                    | Total               |
|                                  | Instruction               | Research         | Public Service   | Academic Support   | Student Services   | Institutional Support | Operation Of Plant | Scholarships      | Auxiliary          |                     |
| Salaries & wages                 | \$11,522,193              | \$230,827        | \$234,149        | \$1,073,172        | \$3,034,440        | \$5,686,618           | \$1,440,201        | \$ 3,775          | \$1,565,658        | \$24,791,033        |
| Contractual services             | 295,488                   | 60,546           | 229,684          | 427,381            | 450,416            | 751,029               | 189,324            | –                 | 2,876,224          | 5,280,092           |
| Supplies, materials, & equipment | 854,374                   | 39,662           | 11,275           | 375,260            | 268,850            | 84,176                | 333,903            | –                 | 2,657,863          | 4,625,363           |
| Utilities                        | –                         | –                | –                | –                  | 35                 | –                     | 644,097            | –                 | 610,221            | 1,254,353           |
| Travel                           | 282,740                   | 11,895           | 16,107           | 7,213              | 212,263            | 270,149               | 53,034             | –                 | 86,592             | 939,993             |
| Scholarships & grants            | 3,858                     | 78,183           | 50,422           | –                  | 6,094              | 100                   | –                  | 777,034           | 85,450             | 1,001,141           |
| Communications                   | 4,305                     | 88               | 440              | 95                 | 3,432              | 313,652               | 1,772              | –                 | 51,491             | 375,275             |
| Other operating expenses         | 29,418                    | 66               | 80               | 3,118              | 37,078             | 111,844               | 23,240             | –                 | 39,048             | 243,892             |
| Depreciation                     | 656,875                   | 77,561           | 4,812            | 812,602            | 55,964             | 248,993               | 62,493             | –                 | 1,094,143          | 3,013,443           |
| <b>Total expenses</b>            | <b>\$13,649,251</b>       | <b>\$498,828</b> | <b>\$546,969</b> | <b>\$2,698,841</b> | <b>\$4,068,572</b> | <b>\$7,466,561</b>    | <b>\$2,748,064</b> | <b>\$ 780,809</b> | <b>\$9,066,690</b> | <b>\$41,524,585</b> |

| Year Ended June 30, 2003         |                           |                  |                  |                    |                    |                       |                    |                   |                    |                     |
|----------------------------------|---------------------------|------------------|------------------|--------------------|--------------------|-----------------------|--------------------|-------------------|--------------------|---------------------|
| Natural Classification           | Functional Classification |                  |                  |                    |                    |                       |                    |                   |                    | Total               |
|                                  | Instruction               | Research         | Public Service   | Academic Support   | Student Services   | Institutional Support | Operation Of Plant | Scholarships      | Auxiliary          |                     |
| Salaries & 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, & 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 & 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           |
| <b>Total expenses</b>            | <b>\$13,485,224</b>       | <b>\$567,701</b> | <b>\$612,090</b> | <b>\$2,316,338</b> | <b>\$4,046,448</b> | <b>\$7,717,836</b>    | <b>\$2,651,271</b> | <b>\$ 735,687</b> | <b>\$7,968,485</b> | <b>\$40,101,080</b> |