

Financial Statements

St. Mary's College of Maryland  
(A Component Unit of the State of Maryland)

*Year Ended June 30, 2000  
with Report of Independent Auditors*

St. Mary's College of Maryland

Financial Statements

Year Ended June 30, 2000

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## Report of Independent Auditors

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

We have audited the accompanying balance sheet of St. Mary's College of Maryland (College), a component unit of the State of Maryland, as of June 30, 2000, and the related statements of changes in fund balances and current funds revenues, expenditures and other changes for the year then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of St. Mary's College of Maryland as of June 30, 2000, and the changes in fund balances and current funds revenues, expenditures and other changes for the year then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2000, on our consideration of the College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

September 29, 2000

# St. Mary's College of Maryland

## Balance Sheet

June 30, 2000

|  | Current Funds       |                   |                     | Loan Fund         | Endowment Fund      | Plant Funds         |                       |                            |                      |                      |
|--|---------------------|-------------------|---------------------|-------------------|---------------------|---------------------|-----------------------|----------------------------|----------------------|----------------------|
|  | Unrestricted        | Restricted        | Total               |                   |                     | Unexpended          | Renewal & Replacement | Retirement of Indebtedness | Investment in Plant  | Total                |
| <b>Assets</b>  |                     |                   |                     |                   |                     |                     |                       |                            |                      |                      |
| Cash with Maryland State Treasurer                                       | \$ 6,086,369        | \$ 16,592         | \$ 6,102,961        | \$ 77,461         | \$ 26,589           | \$ 1,423,146        | \$ 3,014,057          | \$ 4,942                   | \$ -                 | \$ 4,442,145         |
| Cash and cash equivalents  |                     |                   | -                   |                   | 128,160             |                     |                       |                            |                      | -                    |
| Cash-restricted  |                     |                   | -                   |                   |                     |                     | 429,751               | 599,374                    |                      | 1,029,125            |
| Investments  |                     |                   | -                   |                   | 4,754,676           |                     |                       |                            |                      | -                    |
| Accounts receivable (net of allowance for doubtful accounts of \$21,210) | 286,852             | 29,735            | 316,587             | 12,908            |                     |                     |                       |                            |                      | -                    |
| Due from grantors  |                     | 342,772           | 342,772             |                   |                     |                     |                       |                            |                      | -                    |
| Loans receivable (net of allowance for doubtful accounts of \$36,374)    |                     |                   | -                   | 327,367           |                     |                     |                       |                            |                      | -                    |
| Deposits, advances and prepaid expenses                                  | 372,458             |                   | 372,458             |                   |                     |                     | 129,908               | 176,401                    |                      | 306,309              |
| Inventories  | 473,316             |                   | 473,316             |                   |                     |                     |                       |                            |                      | -                    |
| Due from other funds   | 415,000             |                   | 415,000             |                   |                     |                     |                       |                            |                      | -                    |
| Investment in plant  |                     |                   | -                   |                   |                     |                     |                       |                            | 77,765,245           | 77,765,245           |
| <b>Total assets</b>  | <b>\$ 7,633,995</b> | <b>\$ 389,099</b> | <b>\$ 8,023,094</b> | <b>\$ 417,736</b> | <b>\$ 4,909,425</b> | <b>\$ 1,423,146</b> | <b>\$ 3,573,716</b>   | <b>\$ 780,717</b>          | <b>\$ 77,765,245</b> | <b>\$ 83,542,824</b> |
| <b>Liabilities and fund balances</b>                                     |                     |                   |                     |                   |                     |                     |                       |                            |                      |                      |
| <b>Liabilities</b>   |                     |                   |                     |                   |                     |                     |                       |                            |                      |                      |
| Accounts payable and accrued liabilities                                 | \$ 3,225,573        | \$ 110,560        | \$ 3,336,133        | \$ -              | \$ -                | \$ -                | \$ 131,512            | \$ 251,233                 | \$ 15,014            | \$ 397,759           |
| Accrued workers' compensation  | 241,996             |                   | 241,996             |                   |                     |                     |                       |                            |                      | -                    |
| Obligations under capital leases   |                     |                   | -                   |                   |                     |                     |                       | 5,221                      |                      | 5,221                |
| Long-term debt   |                     |                   | -                   |                   |                     |                     | 424,946               | 56,713                     | 16,440,521           | 16,922,180           |
| Due to other funds   |                     |                   | -                   |                   | 415,000             |                     |                       |                            |                      | -                    |
| Deferred revenues  | 615,217             |                   | 615,217             |                   |                     |                     |                       |                            |                      | -                    |
| <b>Total liabilities</b>   | <b>4,082,786</b>    | <b>110,560</b>    | <b>4,193,346</b>    | <b>-</b>          | <b>415,000</b>      | <b>-</b>            | <b>556,458</b>        | <b>307,946</b>             | <b>16,460,756</b>    | <b>17,325,160</b>    |
| <b>Fund balances</b>   |                     |                   |                     |                   |                     |                     |                       |                            |                      |                      |
| Unrestricted, allocated:   |                     |                   |                     |                   |                     |                     |                       |                            |                      |                      |
| Unexpended plant funds   |                     |                   | -                   |                   |                     | 1,423,146           |                       |                            |                      | 1,423,146            |
| Encumbrances   | 554,054             |                   | 554,054             |                   |                     |                     | 3,012,647             |                            |                      | 3,012,647            |
| Future use   | 196,298             |                   | 196,298             |                   |                     |                     |                       |                            |                      | -                    |
| Unrestricted, unallocated  | 2,800,857           |                   | 2,800,857           |                   |                     |                     |                       |                            |                      | -                    |
| Endowment funds  |                     |                   | -                   |                   | 4,494,425           |                     |                       |                            |                      | -                    |
| Renewal and replacement  |                     |                   | -                   |                   |                     |                     | 4,611                 |                            |                      | 4,611                |
| Net investment in plant  |                     |                   | -                   |                   |                     |                     |                       |                            | 61,304,489           | 61,304,489           |
| Restricted:  |                     |                   |                     |                   |                     |                     |                       |                            |                      |                      |
| Grant programs   |                     | 278,539           | 278,539             |                   |                     |                     |                       |                            |                      | -                    |
| U.S. Government loan programs  |                     |                   | -                   | 417,736           |                     |                     |                       |                            |                      | -                    |
| Retirement of indebtedness   |                     |                   | -                   |                   |                     |                     |                       | 472,771                    |                      | 472,771              |
| <b>Total fund balances</b>   | <b>3,551,209</b>    | <b>278,539</b>    | <b>3,829,748</b>    | <b>417,736</b>    | <b>4,494,425</b>    | <b>1,423,146</b>    | <b>3,017,258</b>      | <b>472,771</b>             | <b>61,304,489</b>    | <b>66,217,664</b>    |
| <b>Total liabilities and fund balances</b>                               | <b>\$ 7,633,995</b> | <b>\$ 389,099</b> | <b>\$ 8,023,094</b> | <b>\$ 417,736</b> | <b>\$ 4,909,425</b> | <b>\$ 1,423,146</b> | <b>\$ 3,573,716</b>   | <b>\$ 780,717</b>          | <b>\$ 61,304,489</b> | <b>\$ 83,542,824</b> |

See accompanying notes.

St. Mary's College of Maryland  
Statement of Changes in Fund Balances

Year ended June 30, 2000

|  | Current Funds       |                   |                     | Loan Fund         | Endowment Fund      | Plant Funds         |                       |                            |                      |                      |
|--|---------------------|-------------------|---------------------|-------------------|---------------------|---------------------|-----------------------|----------------------------|----------------------|----------------------|
|  | Unrestricted        | Restricted        | Total               |                   |                     | Unexpended          | Renewal & Replacement | Retirement of Indebtedness | Investment in Plant  | Total                |
| Revenues and Other Additions   |                     |                   |                     |                   |                     |                     |                       |                            |                      |                      |
| Education and general revenues   | \$ 32,163,535       | \$ -              | \$ 32,163,535       | \$ -              | \$ -                | \$ -                | \$ -                  | \$ -                       | \$ -                 | \$ -                 |
| Student tuition and fees   |                     | 4,830             | 4,830               |                   |                     | 411,300             |                       |                            |                      | 411,300              |
| Federal grants and contracts   |                     | 1,083,924         | 1,083,924           |                   |                     |                     |                       |                            |                      |                      |
| State grants and contracts   |                     | 190,348           | 190,348             |                   |                     |                     |                       |                            |                      |                      |
| Private gifts, grants and contracts  |                     | 864,327           | 864,327             |                   |                     |                     |                       |                            |                      |                      |
| Endowment income   |                     | 28,820            | 28,820              |                   |                     |                     |                       |                            |                      |                      |
| Unrealized gain on investments   |                     |                   |                     |                   | 59,511              |                     |                       |                            |                      |                      |
| Sales and service of educational activities  |                     | 2,046             | 2,046               |                   |                     |                     |                       |                            |                      |                      |
| State appropriations   |                     |                   |                     |                   |                     |                     |                       |                            |                      |                      |
| Investment income  |                     |                   |                     |                   | 5,548               |                     | 136,572               | 19,128                     | 165,358              | 165,358              |
| Interest on loans receivable   |                     |                   |                     | 13,132            |                     |                     |                       |                            |                      |                      |
| Other income   |                     |                   |                     | 2,117             |                     | 350,000             |                       |                            | 23,716               | 373,716              |
| Retirement of Indebtedness   |                     |                   |                     |                   |                     |                     |                       |                            | 374,100              | 374,100              |
| Expended for plant facilities (including \$ 927,196 charged to current funds expenditures) |                     |                   |                     |                   |                     |                     |                       |                            | 6,030,342            | 6,030,342            |
| <b>Total revenues and other additions</b>  | <b>32,163,535</b>   | <b>2,174,295</b>  | <b>34,337,230</b>   | <b>15,249</b>     | <b>65,059</b>       | <b>761,300</b>      | <b>136,572</b>        | <b>19,128</b>              | <b>6,593,516</b>     | <b>7,510,516</b>     |
| Expenditures and Other Deductions  |                     |                   |                     |                   |                     |                     |                       |                            |                      |                      |
| Educational and general expenditures   | 27,872,754          | 1,915,801         | 29,788,555          |                   |                     |                     |                       |                            |                      |                      |
| Auxiliary enterprises expenditures   | 4,670,800           |                   | 4,670,800           |                   |                     |                     |                       |                            |                      |                      |
| Expended for plant facilities (including non-capitalized expenditures of \$1,269,044)      |                     |                   |                     |                   |                     |                     | 5,784,183             |                            |                      | 5,784,183            |
| Retirement of indebtedness   |                     |                   |                     |                   |                     |                     |                       | 374,146                    |                      | 374,146              |
| Interest on indebtedness   |                     |                   |                     |                   |                     |                     |                       | 841,301                    |                      | 841,301              |
| Disposal of plant facilities   |                     |                   |                     |                   |                     |                     |                       |                            | 405,520              | 405,520              |
| Donation of plant facilities   |                     |                   |                     |                   |                     |                     |                       |                            | 243,312              | 243,312              |
| Other fund deductions  |                     |                   |                     | 23,663            | 2,126               |                     |                       |                            | 868,852              | 868,852              |
| <b>Total expenditures and other deductions</b>   | <b>32,543,554</b>   | <b>1,915,801</b>  | <b>34,459,355</b>   | <b>23,663</b>     | <b>2,126</b>        | <b>-</b>            | <b>5,784,183</b>      | <b>1,215,447</b>           | <b>1,517,684</b>     | <b>8,517,314</b>     |
| Transfers among funds - additions(deductions)  |                     |                   |                     |                   |                     |                     |                       |                            |                      |                      |
| Mandatory:   |                     |                   |                     |                   |                     |                     |                       |                            |                      |                      |
| Debt service   | (1,243,270)         |                   | (1,243,270)         |                   |                     |                     | 3,914,830             | 1,243,270                  | (3,914,830)          | 1,243,270            |
| Loan fund matching grant   | (4,179)             |                   | (4,179)             | 4,179             |                     |                     |                       |                            |                      |                      |
| Restricted activities match  | (48,665)            | 48,665            |                     |                   |                     |                     |                       |                            |                      |                      |
| Nonmandatory:  |                     |                   |                     |                   |                     |                     |                       |                            |                      |                      |
| Future needs   | 426,000             |                   | 426,000             |                   | (426,000)           |                     |                       |                            |                      |                      |
| Other  | (5,547)             | (28,620)          | (34,167)            |                   | 34,167              | 398,110             | (387,560)             |                            | (10,550)             |                      |
| <b>Total transfers among funds</b>   | <b>(875,661)</b>    | <b>20,045</b>     | <b>(855,616)</b>    | <b>4,179</b>      | <b>(391,833)</b>    | <b>398,110</b>      | <b>3,527,270</b>      | <b>1,243,270</b>           | <b>(3,925,380)</b>   | <b>1,243,270</b>     |
| Net increase (decrease) in fund balances   | (1,255,680)         | 278,539           | (977,741)           | (4,235)           | (328,900)           | 1,159,410           | (2,120,341)           | 46,951                     | 1,150,452            | 236,472              |
| Fund balances, beginning of year   | 4,806,889           |                   | 4,806,889           | 421,971           | 4,823,325           | 263,736             | 5,137,599             | 425,820                    | 60,154,037           | 65,981,192           |
| <b>Fund balances, end of year</b>  | <b>\$ 3,551,209</b> | <b>\$ 278,539</b> | <b>\$ 3,829,148</b> | <b>\$ 417,736</b> | <b>\$ 4,494,425</b> | <b>\$ 2,219,366</b> | <b>\$ 3,017,258</b>   | <b>\$ 472,771</b>          | <b>\$ 61,304,489</b> | <b>\$ 66,217,664</b> |

See accompanying notes.

# St. Mary's College of Maryland

## Statement of Current Funds Revenues, Expenditures and Other Changes

Year ended June 30, 2000

|  | Unrestricted          | Restricted        | Total               |
|--|-----------------------|-------------------|---------------------|
| Revenues:  |                       |                   |                     |
| State appropriations                                     | \$ 12,664,202         | \$ —              | \$ 12,664,202       |
| Student tuition and fees                                 | 10,813,884            | 4,830             | 10,818,714          |
| Federal grants and contracts                             | 93,791                | 993,307           | 1,087,098           |
| State and local grants and contracts                     |                       | 129,709           | 129,709             |
| Private gifts, grants and contracts                      |                       | 737,044           | 737,044             |
| Investment Income:                                       |                       |                   |                     |
| Endowment  | 56,432                | 28,820            | 85,252              |
| Interest and other investment income                     | 935,619               |                   | 935,619             |
| Sales and services of educational departments            | 624,860               |                   | 624,860             |
| Sales and services of auxiliary enterprises              | 6,886,292             | 2,046             | 6,888,338           |
| Other  | 88,455                |                   | 88,455              |
| <b>Total revenues</b>                                    | <b>32,163,535</b>     | <b>1,895,756</b>  | <b>34,059,291</b>   |
| Expenditures and mandatory transfers:                    |                       |                   |                     |
| Expenditures:  |                       |                   |                     |
| Instruction  | 11,808,645            | 160,675           | 11,969,320          |
| Institutional support                                    | 6,838,547             |                   | 6,838,547           |
| Student services   | 3,194,002             | 51,162            | 3,245,164           |
| Operation and maintenance of plant                       | 2,456,720             |                   | 2,456,720           |
| Academic support   | 1,809,207             | 97,349            | 1,906,556           |
| Scholarships and fellowships                             | 1,125,969             | 954,750           | 2,080,719           |
| Public service   | 638,190               | 103,883           | 742,073             |
| Research   | 1,500                 | 547,982           | 549,482             |
| Auxiliary enterprises                                    | 4,670,774             |                   | 4,670,774           |
| <b>Total expenditures</b>                                | <b>32,543,554</b>     | <b>1,915,801</b>  | <b>34,459,355</b>   |
| Mandatory transfers:                                     |                       |                   |                     |
| Debt service   | (1,243,270)           |                   | (1,243,270)         |
| Loan fund matching grants                                | (4,179)               |                   | (4,179)             |
| Restricted activities match                              | (48,665)              | 48,665            | —                   |
| <b>Total expenditures and mandatory transfers</b>        | <b>33,839,668</b>     | <b>1,867,136</b>  | <b>35,706,804</b>   |
| Other transfers and additions (deductions):              |                       |                   |                     |
| Nonmandatory transfers:                                  |                       |                   |                     |
| Future needs   | 426,000               |                   | 426,000             |
| Other  | (5,547)               | (28,620)          | (34,167)            |
| Excess of restricted receipts over transfers to revenues |                       | 278,539           | 278,539             |
| <b>Total transfers and other additions (deductions)</b>  | <b>420,453</b>        | <b>249,919</b>    | <b>670,372</b>      |
| <b>Net increase (decrease) in fund balances</b>          | <b>\$ (1,255,680)</b> | <b>\$ 278,539</b> | <b>\$ (947,141)</b> |

*See accompanying notes.*

# St. Mary's College of Maryland

## Notes to Financial Statements

Year ended June 30, 2000

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

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

In fiscal year 2000, the College performed some accounting functions for Historic St. Mary's City (the City). The College is paid a fee for the accounting services. The college does not exercise control over the City; therefore, the activities of the City are not reflected or consolidated in these financial statements.

# St. Mary's College of Maryland

## Notes to Financial Statements (continued)

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

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

#### **Accrual Basis**

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

#### **Fund Accounting**

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

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



# St. Mary's College of Maryland

## Notes to Financial Statements (continued)

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

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

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

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

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

#### **Investments**

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

#### **Inventories**

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

# St. Mary's College of Maryland

## Notes to Financial Statements (continued)

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

#### **Plant**

Property, plant, and equipment is stated principally at cost at date of acquisition or fair value at date of donation, in the case of gifts. Equipment is capitalized for financial statement purposes if acquisition cost is \$1,000 or higher and useful life is two or more years. Library books are capitalized at actual cost; works of fine art are capitalized. To the extent that current funds are used to finance plant assets, the amounts so provided are accounted for as mandatory transfers in the case of required provisions for debt amortization and interest. Acquisition costs of capital assets such as movable equipment and library books are reported in current funds expenditures to the extent current funds are budgeted for and used by operating departments for such purposes. Such assets are capitalized in the Investment in Plant subgroup and are reflected as an addition to that subgroup's fund balance. Consistent with current accounting principles generally accepted in the United States for public colleges and universities, depreciation on plant assets is not recorded.

#### **Student Revenues**

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

#### **Risk Management**

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

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

# St. Mary's College of Maryland

## Notes to Financial Statements (continued)

### 2. Significant Accounting Policies (continued)

#### Pending Change in Accounting Principles

In 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 35, "Basic Financial Statements – and Management's Discussion and Analysis for Public Colleges and Universities – an amendment of GASB Statement 34." Statement No. 35 establishes significant new financial reporting requirements for public colleges and universities. The College is required to adopt Statement No. 35 for its financial statements for the year ending June 30, 2002. The College has not yet completed the varied and complex analysis required to estimate the financial statement impact of this new pronouncement.

### 3. Deposits and Investments

At June 30, 2000, the College had cash on deposit in an internal pooled cash account with the Maryland State Treasurer (Treasurer). The Treasurer maintains these and other Maryland State agency funds on a pooled basis in accordance with the Annotated Code of the State of Maryland. The internal cash pool functions similar to a mutual fund in the sense that each state agency holds a share of that pool; thus, the College's share of this pool cannot be categorized in accordance with GASB Statement No. 3. The State Treasurer's Office invests pooled cash balances on a daily basis. The investments consist of direct purchases of securities or repurchase agreements.

The carrying value of other deposits at June 30, 2000 was \$1,157,285 and the associated bank balances were \$1,164,991. \$400,000 was covered by federal depository insurance. The remainder was categorized as uncollateralized (bank balances collateralized with securities held by the pledging financial institution's agent but not in the College's name.

The carrying value of investments at June 30, 2000 is presented below:

|   | <b>Endowment<br/>Funds</b> |
|---|----------------------------|
| Mutual funds                                  | \$ 3,379,996               |
| Corporate Bonds                               | 459,527                    |
| U.S. Government Securities                    | 255,763                    |
| U.S. Agency and Other Asset Backed Securities | 643,704                    |
| Foreign Bonds                                 | 14,709                     |
| Corporate Equity Securities                   | 977                        |
|   | <u>\$ 4,754,676</u>        |

## St. Mary's College of Maryland

### Notes to Financial Statements (continued)

#### **3. Deposits and Investments (continued)**

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

Derivatives are used to hedge against foreign currency risk, improve yield, adjust the duration of the fixed income portfolio, or hedge against changes in interest rates. These securities are subject to changes in value due to changes in interest rates or currency valuations. The \$643,704 U.S. Agency and other asset backed securities meet the definition of derivatives as defined by GASB Technical Bulletin 96-1. These securities are subject to prepayment risk when interest rates are falling.

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

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

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

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

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

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

# St. Mary's College of Maryland

## Notes to Financial Statements (continued)

### 4. Endowment Funds

The balances of the fund groups making up the Endowment Fund as of June 30, 2000 are as follows:

|                 |                     |
|-----------------|---------------------|
| Pure endowments | \$ 1,020,011        |
| Quasi-endowment | 3,474,414           |
|                 | <u>\$ 4,494,425</u> |

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

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

### 5. Investment in Plant

As of June 30, 2000, the components of the College's investment in plant were as follows:

|                            |                      |
|----------------------------|----------------------|
| Land                       | \$ 2,617,828         |
| Buildings and improvements | 62,028,275           |
| General Equipment          | 5,912,157            |
| Leased Equipment           | 905,868              |
| Vehicles                   | 643,549              |
| Library collections        | 5,657,568            |
|                            | <u>\$ 77,765,245</u> |

### 6. Lease Commitments

The College has entered into an agreement to lease a photocopier. The lease, which runs through 2001, is classified as a capital lease. As of June 30, 2000, minimum future rental commitments under this capital lease for the year ending June 30, 2000, total \$5,379, of which \$158 represents interest.

St. Mary's College of Maryland

Notes to Financial Statements (continued)

**7. Long-term Debt**

Long-term debt as of June 30, 2000 consists of the following:

|                              |                      |
|------------------------------|----------------------|
| Student Residence Loan       | \$ 2,402,180         |
| 1993 Revenue Bonds, Series A | 4,680,000            |
| 1997 Revenue Bonds, Series A | 9,840,000            |
|                              | <u>\$ 16,922,180</u> |

**Student Residence Loan**

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

As a special condition for the loan agreement, the College was required to establish a "Debt Service Reserve Account" in the amount of \$181,600. Under the terms of the loan agreement, the College must continue to deposit to a required "Repair and Replacement Reserve Account," on or before April 15 each year, the sum of \$35,000 until a total of \$350,000 has been accumulated. As of June 30, 2000, the College has met this requirement and no future transfers will be required.

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

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

# St. Mary's College of Maryland

## Notes to Financial Statements (continued)

### 7. Long-term Debt (continued)

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

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

Cash and cash equivalents of \$1,029,126 included in the Renewal and Replacement Fund are comprised of certain funds to be held and invested by the Trustee. As such, the use of these funds is limited to the bond project or capitalized interest purposes.

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

### Deferred Debt Issue Costs

Administrative, legal, financing, underwriting discount and other miscellaneous expenses that were incurred in connection with the 1993 Series A and 1997 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 \$11,081 for 2000.

### Principal Maturities

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

|                     |                      |
|---------------------|----------------------|
| 2001                | \$ 379,434           |
| 2002                | 397,893              |
| 2003                | 416,457              |
| 2004                | 435,127              |
| 2005                | 448,909              |
| 2006 and thereafter | 14,844,360           |
|                     | <u>\$ 16,922,180</u> |

## St. Mary's College of Maryland

### Notes to Financial Statements (continued)

#### **7. Long-term Debt (continued)**

##### **Interest Costs**

The College incurred \$838,724 in interest expense during the year related to the Student Resident Loan, the 1993 Series A Revenue Bonds and the 1997 Series A Revenue Bonds.

#### **8. Retirement Plans**

##### **Maryland State Retirement and Pension System**

The College contributes to the Retirement and Pension System of Maryland (the System), established by the State to provide pension benefits for State employees and employees of 123 participating entities within the State. Although the System is an agent, multiple employer public employee retirement system, the College accounts for the plan as a cost-sharing multiple employer public employee retirement system as a separate valuation is not performed for the College and the College's only obligation to the plan is its required annual contributions. The System is considered part of the State's financial reporting entity and is not considered a part of the College's reporting entity. The System prepares a separate Comprehensive Annual Financial Report which can be obtained from the Maryland State Retirement and Pension System at State Office Building, 301 West Preston Street, Baltimore, Maryland 21201.

##### **Plan Description**

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

##### **Funding Policy**

The College's required contributions are based upon actuarial valuations. Effective July 1, 1980, in accordance with the laws governing the System, all benefits of the System are funded in advance. The entry age normal cost method is the actuarial cost method used. Both the College and covered employees are covered 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.



# St. Mary's College of Maryland

## Notes to Financial Statements (continued)

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

The College made its required contributions during fiscal years ended June 30, 2000, 1999, and 1998, of \$502,202, \$516,746, and \$545,174, respectively.

### **Optional Retirement Programs**

In addition to the Retirement and Pension System, the College also offers optional retirement programs for faculty and professional staff which includes: TIAA-CREF, Aetna, 20th Century, and Valic. The College contributes 7.25% of annual salary into these plans. At this time, the employee is not required to contribute to the plan. The amount contributed by the College was \$659,952 for the fiscal year ended June 30, 2000.

### **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 \$299,656 for the year ended June 30, 2000.

### **9. 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.

### **10. Subsequent Event**

On July 15, 2000, the College issued \$11,245,000 of Academic Fees and Auxiliary Facility Fees Revenue Bonds, 2000 Series A. Proceeds of the bonds will be used to pay for the construction of a new student housing facility and the renovation of an addition to the existing gymnasium and the costs of insurance of the Revenue Bonds, 2000 Series A.

St. Mary's College of Maryland

Notes to Financial Statements (continued)

**10. Subsequent Event (continued)**

Principal payments on the Revenue Bonds, 2000 Series A, range from \$175,000 to \$430,000 and are due on September 1 of each year from 2002 to 2030 with interest rates ranging from 5.125% to 5.45%.