ST. MARY'S COLLEGE OF MARYLAND
Statements of Cash Flows (Continued)

	Years Ended June 30 2005	2004
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	$ (15,004,253)	$ (12,720,941)
Noncash expenses:		
Depreciation	3,584,531	3,013,443
Direct Foundation assistance	635,830	-
Paid from bond funds	239,032	-
Accrued vacation	28,580	(9,275)
Other noncash expenses	(82,797)	(42,070)
Changes in assets and liabilities:		
Decrease (increase) in net accounts receivable	352,906	(731,650)
Decrease (increase) in net notes receivable	25,369	(110,868)
Decrease (increase) in inventories	6,224	(17,937)
Decrease (increase) in prepaid expenses	13,417	(12,025)
Increase in accounts payable	119,206	226,479
Increase (decrease) in salaries payable	141,091	(642,142)
Increase (decrease) in deferred revenues	131,532	(100,333)
Net cash used in operating activities	$ (9,809,332)	$ (11,147,319)

NON-CASH TRANSACTIONS

1. The State spent $7,496,602 in capital expenditures on the College's behalf during fiscal 2005. The College did not receive these funds; the vendors were paid directly by the State from the College's capital appropriation.

2. On April 20, 2005, the College issued bonds of par value $19,105,000 for the purpose of refunding the 1997 and 2000 Series A bonds. As a result of the refinancing, the College will save $1,208,349 in total over the next twenty-six years.

3. The Foundation provided direct assistance of $635,830 to College departments.

4. The market value of the endowment investments increased by $287,927.

"See Accompanying Notes"

1. ORGANIZATION AND PURPOSE

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

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

In October 1971, St. Mary's College of Maryland Foundation, Inc. (the Foundation) was organized exclusively for charitable, religious, educational and scientific purposes. The Foundation's purposes further include, but are not restricted to, receiving and administering funds to enhance, improve, develop and promote St. Mary's College of Maryland and to benefit the College, its students and faculty. The Foundation meets the criteria established by GASB 39 as a component unit of the College; therefore, the activities of the Foundation are shown on these financial statements as a discretely presented component unit. The Foundation is a private, nonprofit organization that reports under the standards of the Financial Accounting Standards Board (FASB). No modifications have been made to the Foundation's financial information in the College's financial reporting for any differences between GASB and FASB standards.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation - College

The College presents its financial statements in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments* (GASB No. 34), and GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities* (GASB No. 35). The financial statement presentation required by GASB No. 34 and No. 35 provides a comprehensive, entity-wide perspective of the College's assets, liabilities, net assets, revenues, expenses, changes in net assets and cash flows, and replaces the fund-group perspective previously required.

B. Basis of Presentation - Foundation

The financial statement presentation for the Foundation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations.* Under SFAS No. 117, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

C. Basis of Accounting

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. 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.

E. 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.

F. 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 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.

G. 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.

H. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Capital Assets (Continued)

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.

I. 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.

J. 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 expense in the statement of revenues, expenses, and changes in net assets. The current portion of accrued vacation payable is estimated by assuming that the proportion of the accrued vacation that will be used during the next year will be the same as the proportion that was used this year.

K. Net Assets - College

The College's net assets are classified as follows:

Invested in capital assets, net of related debt: This represents the College's investment in capital assets, net of outstanding debt related to those capital assets. It is measured by the fund balance in the investment in plant subgroup, after the debt related to finished construction has been transferred into the subgroup.

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

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

K. **Net Assets – College** (Continued)

The College's net assets are classified as follows: (Continued)

Restricted net assets – nonexpendable: Nonexpendable restricted net assets represent endowment and similar type funds 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. Auxiliary enterprises are substantially self-supported activities that provide services for students, faculty, staff, or the local community.

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

L. **Net Assets – Foundation**

The Foundation's net assets are classified as follows:

Contributions received are recorded as permanently restricted, temporarily restricted, or unrestricted revenue, depending on the existence and/or nature of any donor restrictions.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Classification of Revenues

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

Operating Revenues: Operating revenues are generated by the typical activities of a university, such as teaching and research, and include: (1) student tuition and fees, (2) sales and services of auxiliary enterprises, and (3) grants that support research and instruction.

Nonoperating revenues: Nonoperating revenues are generated by incidental activities, gifts and subsidies, and include investment income, gifts, and state appropriations.

N. 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 published charge for goods and services provided by the College, and the amount that is actually paid by students or third parties making payments on the students' behalf. To the extent that the College's unrestricted funds are used to award scholarships, grants and waivers, the College reports a scholarship discount and allowance.

O. Unconditional Promises to Give

Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are met.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. 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.

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 re-evaluated 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, 2005.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. Risk Management (Continued)

As of June 30, 2005, the College has recorded $250,000 in liabilities associated with workers' compensation. The workers' compensation liability activity for the years ended June 30, 2005 and 2004 was as follows:

	Beginning of Fiscal Year Liability	Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-end	Amounts due within one year
Year Ended June 30, 2005	$ 263,000	$ (10,516)	$ 2,484	$ 250,000	$ 38,750
Year Ended June 30, 2004	$ 257,000	$ 34,911	$ 28,911	$ 263,000	$ 40,765

Q. Accounting Changes

The GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures.* The College is required to adopt Statement 40 for its financial statements for the year ending June 30, 2005.

3. CASH AND CASH EQUIVALENTS

As of June 30, 2005 and 2004, the College had cash on deposit in an internal pooled cash account with the Maryland State Treasurer (Treasurer) in the amount of $11,004,798 and $10,571,761, respectively. The State treasurer has statutory responsibility for the State's cash management activities. The amount due from the Treasurer is part of the State's internal investment pool and is not separately identified as to specific types of securities for individual agencies within the State. The Treasurer maintains these and other State agency funds on a pooled basis in accordance with State statutes. As of June 30, 2005, the College's amount due from the treasurer was less than 1 percent of total deposits with the Treasurer. For additional information on cash risks, see the State of Maryland Comprehensive Annual Financial Report for the year ended June 30, 2005.

ST. MARY'S COLLEGE OF MARYLAND
Notes to Financial Statements
June 30, 2005 and 2004

4. INVESTMENTS

The carrying value of endowment and other investments at June 30, 2005 and 2004 are as follows:

	June 30, 2005 Fair Value	June 30, 2004 Fair Value
Mutual funds	$ 2,682,781	$ 2,629,416
Corporate bonds	484,466	656,851
U.S. Government Securities	2,317,355	2,263,244
U.S. agency and other asset-backed securities	813,433	692,193
Foreign bonds	-	26,572
Corporate equity securities	978	978
Total Investments	$ 6,299,013	$ 6,269,254

Endowment fund investments are made in accordance with the investment policy of the College, adopted by consent of the Board of Trustees of the College, which authorizes the College to invest in domestic equities, international equities, fixed income or cash equivalents, and real estate investment trusts, within the proportions defined by the policy. Mutual funds, convertible preferred stocks, and convertible bonds may be used.

Bond funds are invested in U.S. government money market funds only.

4. INVESTMENTS (Continued)

As of June 30, 2005, the College's endowment fund had the following fixed income investments, ratings and maturities:

Investment Type	Ratings (S & P)	Fair Value	Investment Maturities (in years) < 1	1-5	6-10	11-15	>15
US Government securities	AAA	$ 427,108	$ -	$ 216,281	$ 120,546	$ -	$ 90,281
US agency & other asset-backed securities		$ 813,433	$ -	$ 166,764	$ 80,815	$ 150,911	$ 414,943
Corporate Bonds	AAA	$ 30,525	$ -	$ 15,256	$ 15,269	$ -	$ -
Corporate Bonds	AA-	$ 8,120	$ 8,120	$ -	$ -	$ -	$ -
Corporate Bonds	A+	$ 77,216	$ 8,132	$ 19,534	$ 21,116	$ -	$ 28,434
Corporate Bonds	A	$ 174,411	$ -	$ 30,709	$ 73,378	$ -	$ 70,324
Corporate Bonds	A-	$ 65,215	$ -	$ 65,215	$ -	$ -	$ -
Corporate Bonds	BBB+	$ 53,189	$ -	$ -	$ 19,677	$ -	$ 33,512
Corporate Bonds	BBB	$ 75,792	$ -	$ 15,722	$ 45,743	$ -	$ 14,327

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The College's investment policy requires that fixed income securities may consist only of obligations with average durations of seven years or less.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The College's investment policy requires that the quality rating of bonds be BBB or better. The quality rating of commercial paper must be A-1 or better.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The College's investment policy implies that the investments in the debt securities of any one company may not exceed 10 percent of the portfolio. As of June 30, 2005, the College had invested $434,947 of endowment funds in Fannie Mae, amounting to 7% of the College's total investments.

4. **INVESTMENTS** (Continued)

Custodial Credit Risk: For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the College will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the College, and are held by either (a) the counterparty or (b) the counterparty's trust department or agent but not in the College's name. The College does not have a policy for custodial credit risk.

The Foundation's investments consisted of the following as of June 30, 2005:

Equities	$ 11,684,837
Fixed income	9,575,205
REITS	1,496,370
Cash equivalents	1,563,721
	$ 24,320,133

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 $1,461,957 as of June 30, 2005, and the Foundation received a $85,000 distribution in 2005.

The Foundation's investment income consisted of the following for the year ended June 30, 2005:

	Unrestricted	Temporarily Restricted	Total
Realized and unrealized gains	$ 18,468	$ 1,522,402	$ 1,540,870
Interest and dividends	13,978	747,380	761,358
	$ 32,446	$ 2,269,782	$ 2,302,228

5. ENDOWMENTS

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

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

The endowment net assets are reported as follows:

	June 30, 2005	June 30, 2004
Restricted—scholarship and fellowships	$ 1,000,117	$ 1,000,117
Unrestricted net assets	3,934,598	3,275,036
Total endowment net assets	$ 4,934,715	$ 4,275,153

6. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following:

	June 30, 2005	June 30, 2004
Student tuition and fees	$ 196,876	$ 204,236
Employee accounts	6,743	5,729
Campus store	64,687	75,193
Travel advances	29,715	25,205
Tuition assistance program	27,262	17,438
Federal, state and private grants and contracts	486,218	910,030
Interest income receivable	8,728	8,728
Other miscellaneous	61,873	31,032
	882,102	1,277,591
Less allowance for doubtful accounts	(31,650)	(74,234)
Net accounts receivable	$ 850,452	$ 1,203,357

7. COMMITMENTS

As of June 30, 2005, there was $1,656,651 of encumbrances and funds designated for future use reported in unrestricted net assets. The College does not separately identify the reserve for encumbrances in unrestricted net assets.

In August 2005, the State Department of General Services entered into a contract to construct an academic building, Goodpaster Hall, for the College, scheduled to open in 2007. The contract amount is $25,399,100. The College's financial commitment for this construction is $819,000. The State of Maryland is responsible for the remainder.

8. INVENTORIES

Inventories consisted of the following:

	June 30, 2005	June 30, 2004
Health Center	$ 2,747	$ 3,558
Housekeeping	13,514	29,786
Central Store	1,400	1,472
Campus Store	373,502	362,571
Total inventories	$ 391,163	$ 397,387

9. CAPITAL ASSETS

Following are the changes in capital assets for the year ended June 30, 2005:

	Balance June 30, 2004	Additions	Retirements	Balance June 30, 2005
Capital assets not being depreciated:				
Land	$ 3,611,319	$ 1,241,371	$ -	$ 4,852,690
Capital assets being depreciated:				
Infrastructure	2,494,620	1,614,358	-	4,108,978
Buildings	99,932,468	6,222,387	-	106,154,855
Furnitures, fixtures and equipment	6,568,639	593,600	(260,809)	6,901,430
Library materials	7,620,211	462,630	-	8,082,841
Total capital assets being depreciated	116,615,938	8,892,975	(260,809)	125,248,104
Less accumulated depreciation for:				
Infrastructure	(674,594)	(111,035)	-	(785,629)
Buildings	(21,973,854)	(2,394,366)	-	(24,368,220)
Furnitures, fixtures and equipment	(4,056,510)	(583,185)	190,435	(4,449,260)
Library materials	(5,674,016)	(496,591)	-	(6,170,607)
Total accumulated depreciation	(32,378,974)	(3,585,177)	190,435	(35,773,716)
Total capital assets, being depreciated, net	84,236,964	5,307,798	(70,374)	89,474,388
Total all capital assets, net	$ 87,848,283	$ 6,549,169	$ (70,374)	$ 94,327,078

9. CAPITAL ASSETS (Continued)

Following are the changes in capital assets for the year ended June 30, 2004:

	Balance June 30, 2003	Additions	Retirements	Balance June 30, 2004
Capital assets not being depreciated:				
Land	$ 3,120,717	$ 490,602	$ -	$ 3,611,319
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	103,530,085	13,397,939	(312,086)	116,615,938
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	(29,593,591)	(3,013,443)	228,060	(32,378,974)
Total capital assets, being depreciated, net	73,936,494	10,384,496	(84,026)	84,236,964
Total all capital assets, net	$ 77,057,211	$ 10,875,098	$ (84,026)	$ 87,848,283

10. LONG-TERM LIABILITIES

Long-term liability activity for the years ended June 30, 2005 and 2004 was as follows:

	Year ended June 30, 2005				
	Balance June 30, 2004	Additions	Reductions	Balance June 30, 2005	Amounts Due Within One Year
Bonds and capital leases:					
Revenue bonds payable	$40,125,000	$19,105,000	$ (18,665,000)	$ 40,565,000	$ 1,120,000
Capital lease obligations	40,274	-	(40,274)	-	-
Unamortized premium	-	131,464	(2,498)	128,966	-
GASB 23 adjustment	-	(1,360,466)	8,818	(1,351,648)	-
Total bonds and capital leases	40,165,274	17,875,998	(18,698,954)	39,342,318	1,120,000
Other liabilities:					
Worker's compensation liability	263,000	-	(13,000)	250,000	38,750
Accrued vacation costs	1,114,655	157,571	(128,992)	1,143,234	731,670
Federal Loan Program refundable	395,736	11,774	-	407,510	-
Total other liabilities	1,773,391	169,345	(141,992)	1,800,744	770,420
Total long-term liabilities	$41,938,665	$18,045,343	$ (18,840,946)	$ 41,143,062	$ 1,890,420

10. LONG-TERM LIABILITIES (Continued)

	Year ended June 30, 2004				
	Balance June 30, 2003	Additions	Reductions	Balance June 30, 2004	Amounts Due Within One Year
Bonds 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 and capital leases	40,537,162	6,620,000	(6,991,888)	40,165,274	870,274
Other liabilities:					
Worker's 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

Additional information regarding Revenue bonds Payable and Notes Payable is included in Note 11. Additional information regarding capital lease obligations is included in Note 12.

11. REVENUE BONDS

Revenue bonds consist of the following (at par):

	June 30, 2005	June 30, 2004
1997 revenue bonds, Series A	$ 665,000	$ 9,120,000
2000 revenue bonds, Series A	1,115,000	10,885,000
2002 subordinate revenue bonds, Series A	13,250,000	13,500,000
2003 subordinate revenue bonds, Series A	6,430,000	6,620,000
2005 subordinate revenue bonds, Series A	19,105,000	-
Total	$ 40,565,000	$ 40,125,000

11. REVENUE BONDS (Continued)

A. Academic Fees and Auxiliary Facilities Fees Revenue Bonds

In 1993, 1997, and 2000 the College issued $5,105,000, $10,000,000, and $11,245,000 respectively, of revenue bonds for the purpose of constructing new student housing facilities, design, construction and equipping of Charles Hall for a Campus Center, and the renovation of, and construction of an addition to, the existing gymnasium. All of the aforementioned bonds are limited obligations of the College payable solely from, and secured by, the gross revenues derived from academic fees and auxiliary facilities fees. In 2002, the College issued $13,650,000 of subordinate revenue bonds to finance the planning and construction of a new student housing facility. 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 Department of Education loan. In 2005, the College issued $19,105,000 of subordinate revenue bonds to refinance the 1997 and 2000 revenue bonds.

The 1993 bonds maturing after September 1, 2003, were callable at premiums of up to 2%. The college exercised the callable options and refinanced 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%.

The 2003 Series A Subordinate revenue bonds are dated August 1, 2003, and bear interest rates from 2.500% to 4.800%. 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.

11. REVENUE BONDS (Continued)

A. Academic Fees and Auxiliary Facilities Fees Revenue Bonds (Continued)

The 2005 Series A subordinate revenue bonds are dated April 1, 2005, and bear interest rates from 3.250% to 5.000%. Annual maturities will increase from 2006 until the final payment of $4,480,000 becomes due in 2030. The bonds maturing after September 1, 2015 are callable at a premium of 1%.

Investments totaling $1,355,448 and $1,438,626 for 2005 and 2004 are recorded as Other Restricted 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 1997 and 2000 Series A revenue bonds and the 2002, 2003 and 2005 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.

B. In-Substance Defeasance

The 2005 Series A bonds were issued on April 20, 2005, to refinance the 1997 Series A and the 2000 Series A bonds. The total difference between the cash flows required to service the old debt and the cash flows required to service the new debt and complete the refunding was $1,208,349.

The reacquisition price exceeded the net carrying value of the old debt by $1,360,466 on April 20, 2005. This amount was deferred and is being amortized to interest expense over 30 years, which is the remaining life of the debt. The unamortized balance was $1,351,648 as of June 30, 2005, and is reported as a deduction from the new debt.

11. REVENUE BONDS (Continued)

C. Principal and Interest Payments

Future principal and interest payments of outstanding revenue bonds are as follows:

Fiscal Year	Revenue Bonds	Interest	Total
2006	$ 1,120,000	$ 1,676,849	$ 2,796,849
2007	1,095,000	1,704,184	2,799,184
2008	1,145,000	1,662,041	2,807,041
2009	1,180,000	1,618,646	2,798,646
2010	1,225,000	1,573,731	2,798,731
2011-2015	6,830,000	7,123,834	13,953,834
2016-2020	7,855,000	5,641,967	13,496,967
2021-2025	8,865,000	3,791,796	12,656,796
2026-2030	8,180,000	1,660,650	9,840,650
2031-2034	3,070,000	197,500	3,267,500
Total	$ 40,565,000	$ 26,651,198	$ 67,216,198

D. Deferred Debt Issue Costs

Administrative, legal, financing, underwriting discount and other miscellaneous expenses that were incurred in connection with the 2002 Series A, 2003 Series A, and 2005 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 $37,251 and $32,207 for 2005 and 2004, respectively.

12. LEASES

A. Operating Leases

The College leases copiers and trailers. Total costs for these operating leases were $53,791 and $58,480 for years ended June 30, 2005 and 2004. The future minimum lease payments for these leases are as follows:

Year ending June 30,	Amount
2006	$ 42,445
2007	28,948
2008	23,037
Total	$ 94,430

B. Capital Leases

During fiscal 2005, the College paid off its capital leases that were acquired through the State of Maryland's Master Lease-Purchase financing program. As of June 30, 2005, the College had no capital leases.

13. RETIREMENT PLANS

A. Maryland State Retirement and Pension System

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

B. 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.

13. RETIREMENT PLANS (Continued)

C. 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's contributions during the years ended June 30, 2005 and 2004 were $330,860 and $313,634, respectively.

D. Optional Retirement Programs

In addition to the Retirement and Pension System, the College also offers optional retirement programs for faculty and professional staff that includes: TIAA-CREF, Aetna, 20th Century, and VALIC. The College contributes 7.25% of annual salary into these plans. At this time, the employee is not required to contribute to the plan. The amounts contributed by the College were $884,677 and $789,368 for the years ended June 30, 2005 and 2004.

E. 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 $501,593 and $440,181 for the years ended June 30, 2005 and 2004.

14. 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
June 30, 2005 and 2004

15. FUNCTIONAL CLASSIFICATIONS WITH NATURAL CLASSIFICATIONS

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

Year Ended June 30, 2005

Natural Classification	Instruction	Research	Public Service	Academic Support	Student Services	Institutional Support	Operation Of Plant	Scholarships	Auxiliary	Total
	Functional Classification									
Salaries & wages	$ 9,782,796	$ 196,838	$ 106,490	$ 807,409	$ 2,575,260	$ 5,015,573	$ 1,209,146	$ -	$ -	$ 19,693,512
Benefits	2,626,915	24,876	22,654	236,387	754,959	1,322,900	375,932	-	-	5,364,623
Supplies & other services	1,646,329	120,227	338,034	1,303,122	918,908	1,842,943	692,336	-	-	6,861,899
Utilities	-	-	-	-	-	-	864,677	-	-	864,677
Scholarships & grants	-	-	-	-	-	-	-	1,554,017	-	1,554,017
Auxiliary enterprises	-	-	-	-	-	-	-	-	9,122,800	9,122,800
Other operating expenses	696,323	10,079	68,091	16,113	247,864	229,184	10,964	-	-	1,278,618
Depreciation	-	-	-	-	-	-	2,096,031	-	-	2,096,031
Total expenses	$ 14,752,363	$ 352,020	$ 535,269	$ 2,363,031	$ 4,496,991	$ 8,410,600	$ 5,249,086	$ 1,554,017	$ 9,122,800	$ 46,836,177

Year Ended June 30, 2004

Natural Classification	Instruction	Research	Public Service	Academic Support	Student Services	Institutional Support	Operation Of Plant	Scholarships	Auxiliary	Total
	Functional Classification									
Salaries & wages	$ 9,034,647	$ 199,928	$ 195,091	$ 832,859	$ 2,253,038	$ 4,528,371	$ 1,081,425	$ -	$ -	$ 18,125,359
Benefits	2,311,853	24,149	26,821	228,589	651,861	1,207,753	347,130	-	-	4,798,156
Supplies & other services	1,382,923	224,456	253,657	1,342,321	713,724	1,623,545	520,891	-	-	6,061,517
Utilities	-	-	-	-	35	-	644,097	-	-	644,132
Scholarships & grants	-	-	-	-	-	-	-	1,489,029	-	1,489,029
Auxiliary enterprises	-	-	-	-	-	-	-	-	7,928,014	7,928,014
Other operating expenses	362,423	88,484	49,695	8,551	231,891	326,458	6,988	1,271	-	1,075,761
Depreciation	-	-	-	-	-	-	1,934,374	-	-	1,934,374
Total expenses	$ 13,091,846	$ 537,017	$ 525,264	$ 2,412,320	$ 3,850,549	$ 7,686,127	$ 4,534,905	$ 1,490,300	$ 7,928,014	$ 42,056,342

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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and Maryland Association of Certified Public Accountants

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED 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 year ended June 30, 2005, which collectively comprise the College's basic financial statements, and have issued our report thereon dated October 7, 2005, which expressed reliance on other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. 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 audit, we considered the College's internal control over financial reporting 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 involving the internal control over financial reporting, which we have reported to management of the College in a separate letter dated October 7, 2005.

Compliance and Other Matters

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 is not intended to be and should not be used by anyone other than these specified parties.

Abrams, Foster, Nole + Williams, P.A.

Abrams, Foster, Nole & Williams, P.A.
Certified Public Accountants
Baltimore, Maryland

October 7, 2005