MARY WASHINGTON COLLEGE

FREDERICKSBURG, VIRGINIA

REPORT ON AUDIT

FOR THE YEAR ENDED

JUNE 30, 2002

APA

Auditor of Public Accounts

COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of Mary Washington College for the year ended June 30, 2002, found:

- the financial statements are presented fairly, in all material respects;
- internal control matters that we consider to be reportable conditions; however, we do not consider these to be material weaknesses;
- no instances of noncompliance required to be reported under Government Auditing Standards; and
- the College has taken adequate corrective action with respect to audit findings reported in the prior year.

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Commonwealth of Virginia

Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218

Walter J. Kucharski, Auditor

May 15, 2003

The Honorable Mark R. Warner
Governor of Virginia

The Honorable Kevin G. Miller
Chairman, Joint Legislative Audit
and Review Commission

The Board of Visitors
Mary Washington College

We have audited the accounts and records of **Mary Washington College,** as of and for the year ended June 30, 2002, and submit herewith our complete reports on financial statements and compliance and internal control over financial reporting.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying basic financial statements of Mary Washington College, a component unit of the Commonwealth of Virginia, as of and for the year then ended June 30, 2002, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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 Mary Washington College as of June 30, 2002, and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the College has implemented a new financial reporting model as required by the provisions of Governmental Accounting Standards Board Statement 34, *Basic Financial Statements – and*

Management's and Analysis – for State and Local Governments, and Statement 35, *Basic Financial Statements Discussion – and Management's Discussion and Analysis – for Public Colleges and Universities* as of June 30, 2002.

The Management's Discussion and Analysis presented on pages 5 through 13 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The accompanying Schedule of Auxiliary Enterprises – Revenues and Expenditures is presented for the purpose of additional analysis and is not a required part of the financial statements. The information in that schedule has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, such information is fairly presented in all material respects in relation to the financial statements taken as a whole.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements of Mary Washington College as of and for the year ended June 30, 2002, we considered internal controls over financial reporting and tested compliance with certain provisions of laws, regulations, contracts and grants 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.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the College's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. These reportable conditions are described in the section titled "Internal Control Findings and Recommendations."

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. However, we believe that the reportable conditions described above are not material weaknesses.

Status of Prior Findings

The College has taken adequate corrective action with respect to audit findings reported in the prior year.

The "Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting" is intended solely for the information and use of the Governor and General Assembly of Virginia, Board of Visitors and management, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

EXIT CONFERENCE

We discussed this report with management at an exit conference held on June 6, 2003.

AUDITOR OF PUBLIC ACCOUNTS

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INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

Enforce Small Purchase Charge Card Procedures

The College should enforce the established procedures for managing the small purchase charge card program. The College has issued charge cards to approximately 168 employees for purchasing various goods and services. College employees made purchases of over $2.4 million under the program during fiscal year 2002. The College has developed policies and procedures for the program to ensure that all purchases made using the cards follow state guidelines. However, we found the following specific internal control weaknesses related to cardholder card usage.

- Three of 10 cardholders tested did not properly track their purchases on a Master Purchasing Log. As a result, College personnel cannot properly identify and document discrepancies between the purchasing log and the cardholder statement.

- Six of the 30 purchasing logs tested did not include proper documentation to support purchases.

Management should ensure that cardholders' supervisors are properly reviewing purchases to ensure that all purchases have proper supporting documentation and there are complete Master Purchasing Logs.

Improve Controls Over Cash Collections

The College did not have adequate controls over its cash collection process at the EagleOne Center. The employee who collects and records the cash also reconciles the Envision program. This employee also prepares a cash transmittal sheet and delivers the cash to the cashier's office. The lack of separation of duties could allow errors to occur and go undetected.

The College should strengthen controls over the cash collection process by assigning the reconciliation responsibility to an employee not responsible for collecting, recording, and depositing cash collections. This will reduce the risk of error as well as the opportunity to misappropriate funds.

MANAGEMENT'S DISCUSSION AND ANALYSIS

MARY WASHINGTON COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS

New Accounting Standards

In June 1999, the Government Accounting Standards Board (GASB) issued Statement 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, which established new financial reporting requirements. In November 1999, GASB issued Statement 35, *Basic Financial Statements – and Management's Discussion Analysis – for Public Colleges and Universities* – an Amendment of GASB Statement 34, which applies the new reporting standards to public institutions. As a component unit of the Commonwealth of Virginia, public institutions will implement GASB Statement 35 at the same time the Commonwealth implements GASB 34.

The new reporting standards significantly change the appearance and nature of the required financial information. The major changes are: financial statements are presented on an entity-wide basis instead of major fund groups; depreciation expense is now recognized; expenses rather then expenditures are reported; and the required Management's Discussion and Analysis.

As required by the new accounting pronouncements, the basic statements are: Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Net Assets; and Statement of Cash Flows. The following analysis discusses elements from each of these statements and an overview of the College's activities. In this transition year, the College will present only the current year of financial information. In future years, when prior-year information is available, a comparative analysis of entity-wide data will be presented.

Enrollment and Admission Information

The College continues to experience strong demands for admissions. Mary Washington College has been and continues to be recognized for its academic excellence, campus beauty, and quality of student life by many prestigious national rankings (i.e., U. S. News and World Report, The Fiske Guide to Colleges, Barron's Best Buys in College Education, Kaplan/Newsweek).

The growth in enrollments has also impacted the returns in the Auxiliary Services fund. Increased demand for on-campus residence and meal plans has generated additional revenues. The College-run bookstore has seen its revenue and returns increase. In the fall of 2003, the College will offer to the College seniors apartment style dorms.

The College's James Monroe Center for Graduate and Professional Studies experienced double-digit enrollment growth in fiscal year 2002. The Center is now offering a wide variety of degrees (Bachelors and Masters) and Certificate Programs. The Center has contracted with many local businesses and governmental organizations to provide education and training to employees. The Center also works closely with the private and public sectors to promote economic activity in the Fredericksburg region.

Statistical Abstract by Academic Year

	1998-99	1999-00	2000-01	2001-02
Enrollment data: (headcount)				
Undergraduate	3,770	3,961	4,107	4,173
Graduate	36	39	176	310
Total	3,806	4,000	4,283	4,483
Undergraduate application data:				
Applications received	5,406	4,882	5,063	4,883
Applications accepted	2,916 (54%)	2,749 (56%)	2,772 (55%)	2,817 (56%)
Students enrolled	1,142 (39%)	1,024 (37%)	1,140 (41%)	1,131 (41%)
Graduate application data:				
Applications received	27	35	161	97
Application accepted	24 (89%)	32 (90%)	114 (71%)	93 (96%)
Students enrolled	19 (79%)	25 (80%)	112 (98%)	81 (87%)
Tuition and fees:				
Tuition	$2,086	$1,550	$1,550	$1,550
Fees	1,588	1,654	1,696	1,790
Room and board	5,158	5,298	5,448	5,692
Total	$8,832	$8,502	$8,694	$9,032

Statement of Net Assets

The Statement of Net Assets presents the College's assets, liabilities, and net assets as of the end of the fiscal year. The purpose of the statement is to present the readers a fiscal snapshot as of June 30, 2002. Readers of the Statement of Net Assets are able to determine the assets available to continue the College's operations. Also, they can determine how much the College owes to vendors, employees, or is held on behalf of others.

The following table reflects the condensed Statement of Net Assets for the College.

Current assets	$ 10,350,053
Non-current assets	27,359,201
Capital assets	68,167,088
Total assets	$105,876,342
Current liabilities	12,072,146
Non-current liabilities	17,850,891
Total net assets	$ 75,953,305

Assets and liabilities are shown as current and non-current. Generally, non-current assets, such as restricted investments, including endowments, are held for longer than one year. Appropriations available, included in cash and cash equivalents with the Treasurer, are used to construct capital assets.

During fiscal year 2002, capital assets are shown net of accumulated depreciation due to the implementation of GASB34 and 35. All depreciable assets are depreciated over their useful lives. Land increased due to the recording of the Stafford County property where the James Monroe Center for Graduate and Professional Studies Center resides. The breakdown of Capital Assets is as follows:

Capital Assets:
Nondepreciable & Depreciable
Year Ending June 30, 2002

Land**
$2,781,212

Construction
in progress**
$17,382,078

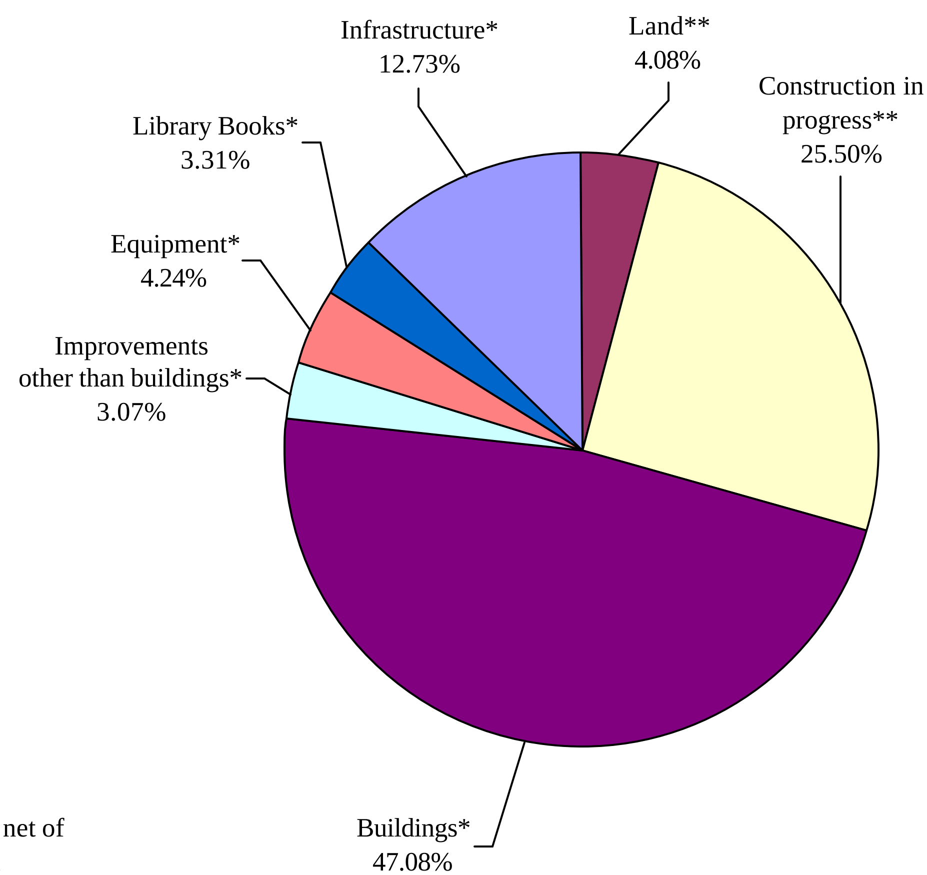
Buildings*
$32,090,592

Improvements,
other than buildings*
$2,091,307

Equipment*
$2,892,793

Library Books*
$2,253,920

Infrastructure*
$8,675,186



*Depreciable capital assets, net of accumulated depreciation

**Nondepreciable capital assets

Net assets are divided into three major categories. The first "Invested in Capital Assets, net of Related Debt" shows the College's equity in property, plant, infrastructure, and equipment owned by the College. The second "Restricted for" is divided between expendable and nonexpendable. Expendable restricted resources are available to the College to spend for the purposes determined by the donor or entity that have placed the restriction on the use of the asset. Non-expendable restricted resources are available only for investment purposes and represent the endowments of the College. The third is "Unrestricted" which represents the net assets available to the College for any lawful purpose of the College.

The Net Assets as of June 30, 2002 are as follows:

Net Assets
Year Ending June 30, 2002

Invested in Capital Assets, net of related debt
$49,603,372

Scholarships & Fellowships**
$13,711,805

Scholarships & Fellowships*
$1,941,576

Research*
$34,512

Public Services*
$52,267

Academic Support*
$147,515

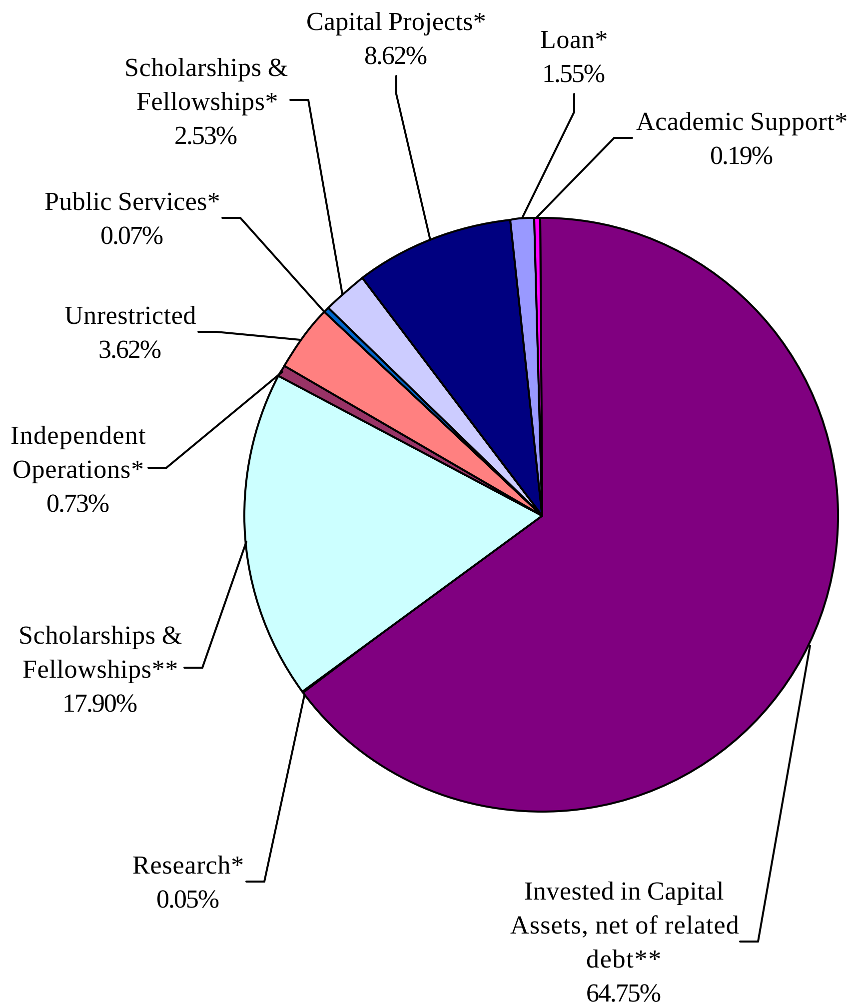
Independent Operations*
$560,352

Capital Projects*
$6,603,025

Loans*
$1,183,676

Unrestricted
$2,769,765

*Restricted, expendable
**Restricted, nonexpendable



Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets presents the changes in total net assets based on the activity. Its purpose is to show the College's operating and non-operating revenues recognized and expenses incurred as well as any other revenues, expenses, gains, and loses. Operating revenues are received for providing goods and services to students and other customers of the College. Operating expenses are those expenses incurred to acquire or produce the goods and services. Non-operating revenue is the revenue received where no goods or services are provided. An example is the State appropriations, since the State legislature does not directly receive commensurate goods and services in return for those revenues.

Operating revenues primarily include tuition and fees and auxiliary enterprises. Tuition and fees remained stable due to the State's tuition freeze. There was a slight increase in auxiliary revenues due to the increase in room and board participation and rates. Auxiliary expenses decreased slightly due to fewer maintenance projects being necessary and less equipment replacement.

Despite cuts of 3 percent in fiscal year 2002 General Fund Appropriations, the Education and General fund, which experienced the brunt of the reduction, ended the year with a small surplus. In addition, the College was able to contribute $1 million to its Auxiliary Operations Reserve fund. The ability to absorb the General Fund reductions was primarily due to the additional revenue generated by growing enrollments.

The following tables and graphs show the fiscal year 2002 results:

Operating Revenues
for the Year Ending
June 30, 2002

Tuition & Fees*
$13,971,218

Federal Grants & Contracts
$1,175,574

State Grants & Contracts
$153,792

Local Grants & Contracts
$68,663

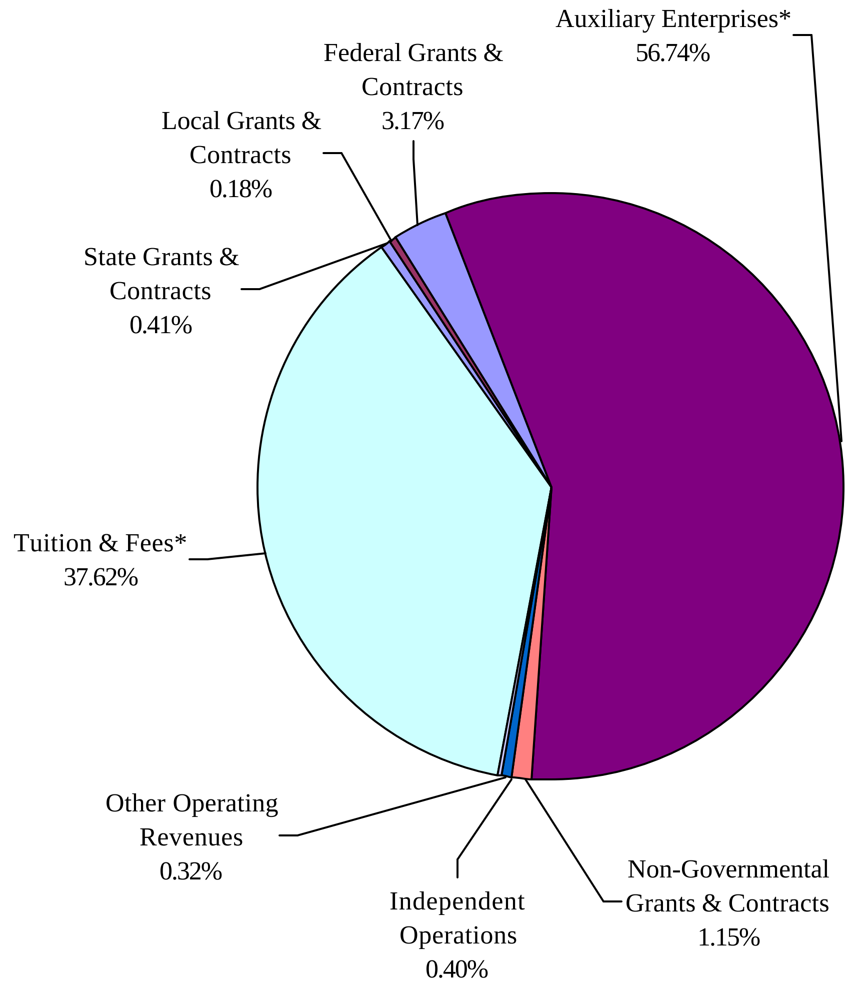
Non-Governmental
Grants & Contracts
$427,473

Auxiliary Enterprises*
$21,073,574

Independent Operations
$149,134

Other Operating Revenues
$118,469

*Net of scholarship allowances



Instruction
$17,988,330

Research & Public Service
$405,443

Academic Support
$3,659,892

Student Services
$3,778,504

Institutional Support
$5,089,678

Plant Operation &
Maintenance
$3,036,359

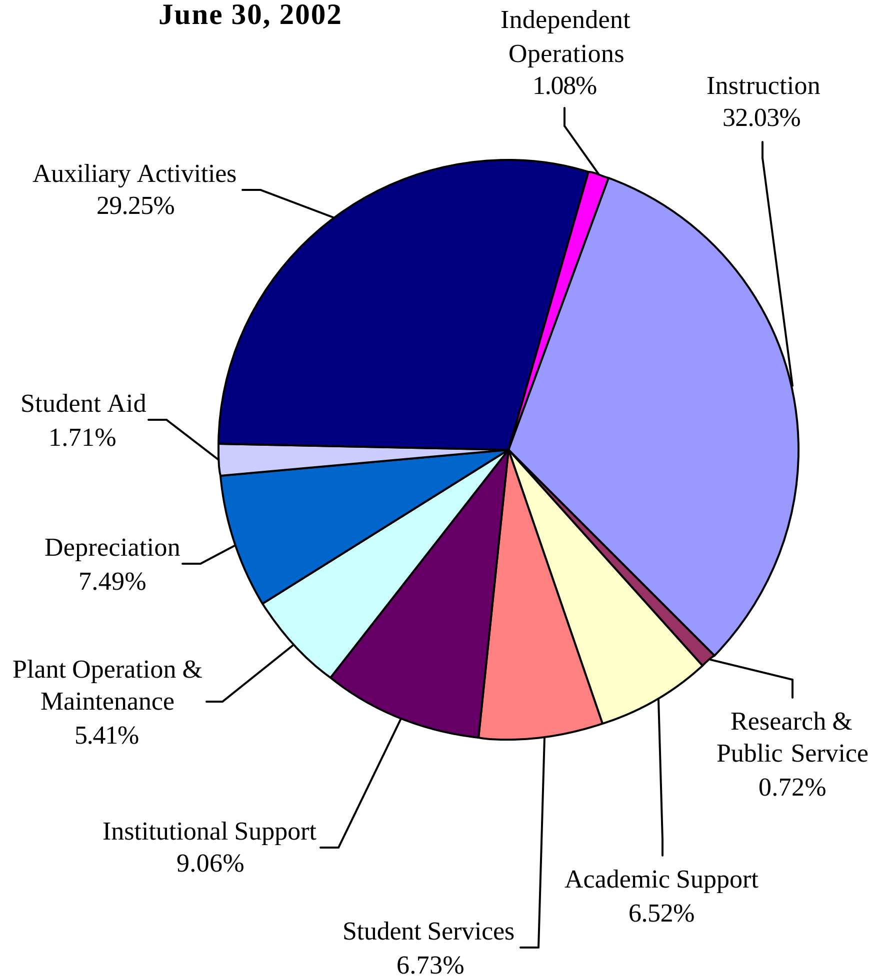
Depreciation
$4,205,152

Student Aid
$961,893

Auxiliary Activities
$16,430,297

Independent Operations
$607,952

Operating Expenses for the Year Ending June 30, 2002



Non-operating revenue consisted of $19,299,608 in State appropriations. Market conditions contributed to non-operating expenses for investment losses of $1,172,723. Interest on debt for capital assets of $1,005,179 is the other non-operating expense. The College received capital appropriations of $1,514,673 and capital gifts of $718,752 during fiscal year 2002.

Statement of Cash Flows

The Statement of Cash Flows presents detailed information of the College's cash activity during the year. Operating cash flows shows the net cash used for operating activities for the College. The major sources of cash are student tuition and fees, auxiliary, grants and contracts. The major uses of cash are salaries, wages, fringe benefits, and payments for services such as utilities.

The next section is cash flows from non-capital financing activities and includes the state appropriations for the College's educational and general programs and financial aid. The cash flows from capital financing shows cash used for acquisition and construction of capital and related items. The final section reconciles the net cash used by operations activities to the operating loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

For fiscal year 2002, net cash used included $13,883,509 for operating, $6,474,378 for financing and $1,645,115 for investing. Net cash received was $19,309,132 for noncapital financing activities, resulting in an overall usage of $2,693,840.

Capital Asset and Long Term Debt

The College participated in the Commonwealth's Fall 2001 9(c) bond sale to fund a variety of renovation projects within campus residence halls. Bond proceeds totaled $2 million with an interest rate of 4.49 percent for 20 years. The Combs Hall renovation, which was funded with General Funds, was approximately 95 percent complete by year end. Faculty and staff moved into Combs at the start of the Fall 2002 semester.

The James Monroe Campus, located in Stafford County, was essentially completed during the year, with some minor equipment installations still to take place. As indicated previously, enrollment growth has quickly filled most classrooms there. The second building for the James Monroe Campus was approved as a project under the Fall 2002 Higher Education Building Referendum and is scheduled to open in fiscal year 2006.

Planning for several projects took place during fiscal year 2002 included the Alumni Executive Center (private funds), Indoor Tennis Center (9(d) bonds and private funds), and the overhaul of a boiler in the College heating plant. The capital campaign on behalf of the Alumni Executive Center was extremely successful. By June 30, 2002, over $5,000,000 in cash and pledges has been received by the Mary Washington College Foundation, Inc. in support of the Alumni Center.

During fiscal year 2002, the College made the final debt service payment of $238,112 for the Telecom Master Lease and incurred new debt for the Residence Hall Renovation projects for which annual debt service is $124,012. Based on the formula used by the State Council of Higher Education in Virginia, the College's debt service to expenditures ratio was less than five percent for the year.

The College participated in the Commonwealth's Fall 2002 9(d) Bond Sale. Bond proceeds of $2,500,000 are being used in conjunction with $1,500,000 in private funds to construct an indoor tennis center. The estimated annual debt service is $190,000. The Fall of 2002 also saw the closing on the sale of a parcel of land owned by the College located in the City of Fredericksburg with a sale price of $1,100,010.

Economic Outlook and Additional Facts

On July 1, 2002, the College endowment was transferred back to the Mary Washington College Foundation, Inc. where it had originally resided. This will result in a significant reduction in assets on the College's Statement of Net Assets for fiscal year 2003. The action was taken to improve reporting, monitoring, and fund management efficiencies and effectiveness.

Starting in 2003, the College will begin the process of implementing a new administrative system. The Finance (to include general ledger, encumbrances, stores inventory, purchasing, and payables), Alumni, and Human Resources modules are scheduled to go live July 1, 2004.

The College's economic well-being is closely linked to the financial support of the Commonwealth's government. As the Commonwealth continues to experience revenue shortfalls, all state agencies, including higher education institutions, are bracing for additional reductions in General Fund support. The fiscal year

2003 appropriation was initially reduced by 8 percent. By October 2002, the State's revenue projections had dimmed further and an additional 11.4 percent reduction in General Funds was implemented. These decreases in State support will continue and increase by an additional 6.8 percent in fiscal year 2004. The General Assembly authorized public colleges and universities to increase tuition for the first time since 1996. In October 2002, the College's BOV approved an across the board tuition increase of $255 per semester to be used to offset a portion of the funding cuts. Reducing operating budgets and eliminating vacant support positions accomplished the remaining cuts. The goals were to protect the academic program and employee's jobs. It is also anticipated that tuition and fees will increase for the 2003-2004 academic year.

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FINANCIAL STATEMENTS

MARY WASHINGTON COLLEGE
STATEMENT OF NET ASSETS
As of June 30, 2002

ASSETS	
Current assets:	
Cash and cash equivalents with the Treasurer (Note 2)	$ 4,066,143
Cash and cash equivalents not with the Treasurer (Note 2)	449,395
Short-term investments (Note 2)	4,338,444
Accounts receivable, net of allowance for doubtful accounts (Note 3)	303,768
Due from the Commonwealth (Note 7D)	552,009
Inventories	617,602
Other assets	22,692
Total current assets	10,350,053
Noncurrent assets:	
Restricted cash and cash equivalents with the Treasurer (Note 2)	1,896,656
Restricted cash and cash equivalents not with the Treasurer (Note 2)	252,106
Restricted investments (Note 2)	22,820,144
Other restricted assets	739,497
Other long-term investments (Note 2)	1,374,790
Nondepreciable capital assets (Note 4):	
Land	2,781,212
Construction in progress	17,382,078
Depreciable capital assets, net of accumulated depreciation (Note 4):	
Buildings	32,090,592
Improvements other than buildings	2,091,307
Equipment	2,892,793
Library books	2,253,920
Infrastructure	8,675,186
Total noncurrent assets	95,250,281
Total assets	105,600,334
LIABILITIES	
Current liabilities:	
Accounts payable and accrued expenses (Note 5)	6,452,543
Deferred revenue	2,352,432
Deposits held in trust	766,035
Obligations under Securities Lending Program (Note 2)	198,489
Amounts due to the Commonwealth	13,480
Other liabilities	12,230
Long-term liabilities - current portion (Note 6):	
Compensated absences	497,615
Capital lease obligations	154,015
Notes payable	240,000
Bonds payable	846,206
Installment purchases	539,101
Total current liabilities	12,072,146

MARY WASHINGTON COLLEGE
STATEMENT OF NET ASSETS, continued
As of June 30, 2002

Noncurrent liabilities (Note 6):	
Compensated absences	389,247
Notes payable	6,640,000
Bonds payable	8,967,885
Installment purchases	1,199,199
Perkins loan	654,560
Total noncurrent liabilities	17,850,891
Total liabilities	29,923,037
NET ASSETS	
Invested in capital assets, net of related debt	49,603,372
Restricted for:	
Nonexpendable - scholarships and fellowships	13,711,805
Expendable:	
Scholarships and fellowships	1,941,576
Research	34,512
Public services	52,267
Academic support	147,515
Independent operations	560,352
Capital projects	6,327,017
Loans	529,116
Unrestricted	2,769,765
Total net assets	$ 75,677,297

The accompanying Notes to Financial Statements are an integral part of this statement.

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MARY WASHINGTON COLLEGE
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET ASSETS
For the Year Ended June 30, 2002

Operating revenues:	
Student tuition and fees, net of scholarship allowances of $2,751,283	$ 13,971,218
Federal grants and contracts	1,175,574
State grants and contracts	153,792
Local grants and contracts	68,663
Nongovernmental grants and contracts	427,473
Auxiliary enterprises, net of scholarship allowances of $96,194	21,073,574
Independent operations	149,134
Other operating revenues	118,469
Total operating revenues	37,137,897
Operating expenses:	
Instruction	17,988,330
Research	188,994
Public service	216,449
Academic support	3,659,892
Student services	3,778,504
Institutional support	5,089,678
Operation and maintenance of plant	3,036,359
Depreciation	4,205,152
Student aid	961,893
Auxiliary activities	16,430,297
Independent operations	607,952
Total operating expenses	56,163,500
Operating loss	(19,025,603)
Nonoperating revenues/(expenses):	
State appropriations (Note 9)	19,299,608
Investment loss	(1,172,723)
Interest on capital asset related debt	(1,005,179)
Net nonoperating revenues (expenses)	17,121,706
Loss before other revenues, expenses, gains, or losses	(1,903,897)
Capital appropriations (Note 9)	1,514,673
Capital gifts	718,752
Net other revenues, expenses, gains, or losses	2,233,425
Increase in net assets	329,528
Net assets - beginning of year as restated (Note 1N)	75,347,769
Net assets - end of year	$ 75,677,297

The accompanying Notes to Financial Statements are an integral part of this statement.

MARY WASHINGTON COLLEGE
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2002

Cash flows from operating activities:	
Student tuition and fees	$ 17,315,044
Grants and contracts	1,352,593
Auxiliary enterprises	21,048,256
Independent operations	149,134
Other receipts	119,274
Payments to employees	(29,521,356)
Payments for fringe benefits	(6,784,621)
Payments for services and supplies	(13,105,991)
Payments for utilities	(1,497,259)
Payments for scholarships and fellowships	(2,714,493)
Payments for noncapitalized plant and equipment	(215,514)
Loans issued to students	(142,233)
Collection of loans from students	113,657
Net cash used by operating activities	(13,883,509)
Cash flows from noncapital financing activities:	
State appropriations	19,299,608
Agency receipts and payments (net)	9,524
Net cash provided by noncapital financing activities	19,309,132
Cash flows from capital financing activities:	
Proceeds from sale of bonds	1,925,000
Capital appropriations	1,514,673
Capital gifts	718,752
Purchase of capital assets	(7,580,200)
Principal paid on capital debt, leases, and installments	(2,047,394)
Interest paid on capital debt, leases, and installments	(1,005,179)
Net cash used by capital financing activities	(6,474,348)
Cash flows from investing activities:	
Sale/purchase of investments (net)	(1,708,834)
Interest on investments	63,719
Net cash used by investing activities	(1,645,115)
Net decrease in cash	(2,693,840)
Cash and cash equivalents - beginning of the year	9,358,140
Cash and cash equivalents - end of the year	$ 6,664,300

MARY WASHINGTON COLLEGE
STATEMENT OF CASH FLOWS, continued
For the Year Ended June 30, 2002

RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating loss		(19,025,603)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation expense		4,205,152
Accrued leave liability expense		10,694
Bad debt expense		91,143
Changes in assets and liabilities:		
Accounts receivable		(3,159)
Inventories		21,161
Due from Commonwealth		(470,353)
Accounts payable		550,569
Deferred revenue		586,795
Other liabilities		(86,516)
Deposits held in trust		243,752
Due to Commonwealth		(7,144)
Net cash used by operating activities	$	(13,883,509)

Noncash investing, noncapital financiang, and capital and related financing transactions:		
Gift of capital assets	$	20,872

The accompanying Notes to Financial Statements are an integral part of this statement.

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NOTES TO FINANCIAL STATEMENTS

MARY WASHINGTON COLLEGE

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Mary Washington College (the "College") is a comprehensive college that is part of the Commonwealth of Virginia's statewide system of public higher education. The College's Board of Visitors, appointed by the Governor, is responsible for overseeing governance of the College. A separate report is prepared for the Commonwealth of Virginia, which includes all agencies, higher education institutions, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority. The College is a component unit of the Commonwealth of Virginia and is included in the basic financial statements of the Commonwealth.

The College has two component units, as defined by the Governmental Accounting Standards Board (GASB) Statement 14, *The Financial Reporting Entity*. The College is financially accountable for the independent operations of the Gari Melchers Memorial and the James Monroe Law Office Museum and Memorial Library. Thus, the net assets and results of operations are combined with the net assets and results of operations of the College. In addition, the College has related party corporations whose combined financial conditions are stated in Note 10. These organizations are separate legal entities from the College and the College exercises no control over them. For these reasons, the College's related parties are not included in these financial statements. Separate financial statements can be obtained from each respective component unit.

B. Basis of Presentation

The College's accounting policies conform with generally accepted accounting principles generally accepted in the United States of America as prescribed by GASB, including all applicable GASB pronouncements, as well as applicable Financial Accounting Standards Board (FASB) statements and interpretations, Accounting Principles Board opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The financial statements have been prepared in accordance with GASB Statement 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and GASB Statement 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public College and Universities*. These new statements are effective for the Commonwealth and all of its component units for the fiscal year ending June 30, 2002. The College now follows Statement 34 requirements for "reporting by special-purpose governments engaged only in business-type activities." The change in financial statement presentation provides a comprehensive entity-wide look at the College's financial activities and replaces the fund-group perspective previously required.

C. Basis of Accounting

The College's financial statements have been prepared 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 a liability is incurred, regardless of the timing of related cash flows. All significant intra-agency transactions have been eliminated.

D. Investments

In accordance with GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, purchased investments, interest-bearing temporary investments classified with cash, and investments received as gifts are recorded at fair value. All investment income, including changes in the fair market value of investments (unrealized gains and losses), is reported as nonoperating revenue in the Statement of Revenues, Expenses, and Changes in Net Assets.

E. Capital Assets

Capital assets include land, buildings and other improvements, library materials, equipment, and infrastructure assets such as sidewalks, parking lots, steam tunnels, and electrical and computer network cabling systems. Capital assets are generally defined by the College as assets with an initial cost of $5,000 or more and an estimated useful life in excess of two years. Library materials are valued using published average prices for library acquisitions. Such assets are recorded at actual cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation. Expenses for major capital assets and improvements are capitalized (construction in progress) as projects are constructed. Interest expense relating to construction is capitalized net of interest income earned on resources set aside for this purpose. The costs of normal maintenance and repairs that do not add to an asset's value or materially extend its useful life are not capitalized. Certain maintenance and replacement reserves have been established to fund costs relating to residences and other auxiliary activities.

Depreciation is computed using the straight-line method over the estimated useful life of the asset and is not allocated to the functional expense categories. Useful lives by asset categories are listed below:

Buildings	50 years
Other improvements	30 years
Infrastructure	20 years
Equipment	5-15 years
Library materials	10 years

F. Inventories

Inventories are valued at the lower of cost (generally determined on the first-in, first-out method) or market. Inventories consist primarily of merchandise for resale in the College's bookstore, the James Monroe Law Office Museum and Memorial Library, and the Gari Melchers Memorial as well as expendable supplies held for consumption in the College's central storeroom.

G. Collections

The Gari Melchers Memorial maintains a collection of paintings, drawings, and etchings by Gari Melchers. A smaller collection of art works by other artists is also maintained. The James Monroe Law Office Museum and Memorial Library also maintains a collection of jewelry, furniture, documents, books, antiques, and portraits. Historical cost data for both of these collections is not available; accordingly, no balances are reported in the accompanying financial statements. These collections were appraised in 1982 and 1989 for approximately $2,300,000 and $1,747,000 respectively.

In addition, the College Gallery maintains collections of paintings and drawings by several artists including Alfred Levitt, Phyllis Ridderhof Martin, and Margaret Sutton. All collections have been donated to the College, but have not been appraised and total market value of the entire collection is unknown.

H. Noncurrent Cash and Investments

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

I. Deferred Revenue

Deferred revenue primarily includes amounts received for tuition and fees and certain auxiliary activities (resident housing deposits) prior to the end of the fiscal year, but related to the period after June 30, 2002.

J. Accrued Compensated Absences

The amount of leave earned, but not taken by non-faculty salaried employees is recorded as a liability on the Statement of Net Assets. The amount reflects, as of June 30, 2002 all unused vacation leave, sabbatical leave, and the amount payable upon termination under the Commonwealth of Virginia's sick leave pay-out policy. The applicable share of employer related taxes payable on the eventual termination payment is also included.

K. Federal Financial Assistance Programs

The College participates in federally-funded Pell Grants, Supplemental Educational Opportunity Grants, Federal Work-Study, and Perkins Loans programs. Federal programs are audited in accordance with the Single Audit Act Amendments of 1996, the Office of Management and Budget Revised Circular A-133, *Audit of States, Local Governments and Non-Profit Organizations*, and the Compliance Supplement.

L. Net Assets

GASB Statement 34 requires that the Statement of Net Assets report the difference between assets and liabilities as net assets, not fund balances. Net assets are classified as Invested in capital assets, net of related debt; Restricted; and Unrestricted. "Invested in capital assets, net of related debt" consists of capital assets, net of accumulated depreciation and is reduced by outstanding debt that is attributable to the acquisition, construction, or improvement of those assets. Net assets are reported as "restricted" when constraints on the net asset use are either externally imposed by creditors, grantors, or contributors or imposed by law. Unrestricted net assets consist of net assets that do not meet either definition above.

In addition, in was determined that land that was donated to the College in 1997 was not recorded at that time. Additional review of fixed assets indicated that some equipment was not capitalized in accordance with the existing capitalization policy. In connection with the recording of the donated land, capitalization of existing equipment, and implementation of GASB Statements 34 and 35, the following adjustments were made to reflect the cumulative effect of this accounting change:

Fund balances as reported at June 30, 2001	$ 115,731,968
Land donated in 1997 not previously recorded	2,308,100
Correction of equipment capitalization	3,434,066
Infrastructure capital assets at June 30, 2001 not previously recorded	13,949,850
Accumulated depreciation on capital assets at June 30, 2001 not previously recorded	(59,421,655)
Federal Perkins loan reclassified as liability	(654,560)
Net asset balance at June 30, 2001	$ 75,347,769

M. Revenue and Expense Classifications

Operating revenues include activities that have the characteristics of exchange transactions, such as: (1) student tuition and fees, net of scholarship discounts and allowances; (2) sales and services of auxiliary enterprises, net of scholarship allowances; and (3) federal, state, and nongovernmental grants and contracts.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts, and other revenue sources that are defined as nonoperating revenues by GASB Statement 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement 34, such as state appropriations and investment and interest income.

Nonoperating expenses include interest of debt related to the purchase of capital assets and losses on the disposal of capital assets. All other expenses are classified as operating expenses.

N. Scholarship Discounts and Allowances

Student tuition and fees revenue and certain other revenues from students are reported net of scholarship discounts and allowances in the Statements of Revenue, Expenses, and Changes in Net Assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the College and the amount that is paid by students and/or third parties making payments on the student's behalf. Certain governmental grants, such as Pell grants, and other federal, state, or nongovernmental programs are recorded as either operating or nonoperating revenues in the College's financial statements. To the extent that such revenues are used to satisfy tuition and fees and other student charges, the College has recorded a scholarship discount and allowance.

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS

The following information is provided with respect to the credit risk associated with the College's cash and cash equivalents and investments at June 30, 2002.

A. Cash and Cash Equivalents

Pursuant to Section 2.2-1800, et seq., Code of Virginia, all state funds of the College are maintained by the Treasurer of Virginia, who is responsible for the collection, disbursement, custody, and investment of state funds. Except for $163,499 of deposits with financial institutions, cash deposits held by the College are maintained in accounts that are collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400, et seq., Code of Virginia. The College's deposits as of June 30, 2002 are categorized by levels of credit risk as follows: Category 1 includes insured deposits; Category 3 includes uninsured, uncollateralized deposits. Deposits with financial institutions include $163,499 of uncollateralized deposits, which are Category 3 deposits; all remaining deposits are Category 1. In accordance with the GASB Statement 9 definition, cash and cash equivalents represents cash with the Treasurer, cash on hand, and cash deposits including certificates of deposits, and temporary investments with original maturities of three months or less. Cash with the Treasurer includes $2,097,580 of Appropriations Available that is expected to be reappropriated in fiscal year 2003.

B. Investments

The Board of Visitors establishes the College's investment policy. Credit risk is the risk that the College may not be able to obtain possession of its investment instrument at maturity. The College's investments are in investment pools held by the Treasurer of Virginia and in mutual funds and therefore, are not categorized as to level of credit risk.

	Market Value As of June 30, 2002
Cash and cash equivalents:	
Deposits with financial institutions	$ 701,501
Cash with the Treasurer	5,962,799
Total	$ 6,664,300
Investments:	
State non-arbitrage program (SNAP)	$ 4,614,833
Investments with the Treasurer	1,747,152
Mutual funds	22,171,393
Total	$28,533,378

C. Securities Lending Transactions

Collateral held for securities lending and the securities lending transactions reported on the financial statements represent the College's allocated share of cash received for securities lending transactions held in the General Account of the Commonwealth. Information related to the credit risk of these investments and securities lending transactions held in the General Account is available on a statewide level in the Commonwealth of Virginia's *Comprehensive Annual Financial Report*.

3. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30, 2002:

Student tuition and fees	$ 481,814
Auxiliary enterprises	60,068
Other activities	31,262
Total	$ 573,144
Less: Allowance for doubtful accounts	(269,376)
Net accounts receivable	$ 303,768

4. CAPITAL ASSETS

A summary of changes in the various capital asset categories for the year ending June 30, 2002, is presented as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Nondepreciable capital assets:				
Land	$ 2,781,212	$ -	$ -	$ 2,781,212
Construction in progress	29,031,969	7,090,906	(18,740,797)	17,382,078
Total nondepreciable capital assets	31,813,181	7,090,906	(18,740,797)	20,163,290
Depreciable capital assets:				
Buildings	48,632,571	17,215,531	-	65,848,102
Infrastructure	25,349,880	-	-	25,349,880
Equipment	7,332,281	657,669	(103,504)	7,886,446
Improvements other than buildings	2,149,496	1,047,000	(1,800)	3,194,696
Library books	8,845,479	402,498	(37,633)	9,210,344
Total depreciable capital assets at historical cost	92,309,707	19,322,698	(142,937)	111,489,468
Less accumulated depreciation for:				
Buildings	31,894,388	1,863,122	-	33,757,510
Infrastructure	16,101,798	572,896	-	16,674,694
Equipment	3,827,220	1,269,937	(103,504)	4,993,653
Improvements other than buildings	996,042	107,347	-	1,103,389
Library books	6,602,207	391,850	(37,633)	6,956,424
Total accumulated depreciation	59,421,655	4,205,152	(141,137)	63,485,670
Depreciable capital assets, net	32,888,052	15,117,546	(1,800)	48,003,798
Total capital assets, net	$ 64,701,233	$ 22,208,452	$(18,742,597)	$ 68,167,088

5. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at June 30, 2002:

Employee salaries, wages, and fringe benefits payable	$ 3,832,278
Vendors and suppliers accounts payable	2,620,265
Total accounts payable	$ 6,452,543

6. NONCURRENT LIABILITIES

The College's noncurrent liabilities consist of long-term debt (further described in Note 7), and accrued compensated absences. A summary of changes in noncurrent liabilities for the year ending June 30, 2002, is presented as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Long-term debt:					
Bonds payable	$ 8,702,134	$ 1,925,000	$ (813,043)	$ 9,814,091	$ 846,206
Notes payable	7,075,000	-	(195,000)	6,880,000	240,000
Capital leases	464,815	-	(310,800)	154,015	154,015
Installment purchases	2,466,851	-	(728,551)	1,738,300	539,101
Perkins federal loan	647,996	6,564	-	654,560	-
Total long-term debt	19,356,796	1,931,564	(2,047,394)	19,240,966	1,779,322
Accrued compensated absences	874,202	578,418	(565,758)	886,862	497,615
Total long-term liabilities	$20,230,998	$2,509,982	$(2,613,152)	$20,127,828	$2,276,937

7. LONG TERM DEBT

A. Bonds and Notes Payable

The College has issued two categories of bonds pursuant to Section 9 of Article X of the *Constitution of Virginia*. Section 9(d) bonds are revenue bonds, which are limited obligations of the College, payable exclusively from pledged general revenues and are not debt of the Commonwealth of Virginia, legally, morally, or otherwise. Pledged revenues include General Fund appropriations, tuition and fees, auxiliary enterprise revenues, and other revenues not required by law to be used for another purpose. The College issued 9(d) bonds directly through underwriters and also participates in the Public Higher Education Financing Program (Pooled Bond Program) created by the Virginia General Assembly in 1996. Through the Pooled Bond Program, the Virginia College Building Authority (VCBA) also issued 9(d) bonds and uses the proceeds to purchase debt obligations (notes) of the College and various other institutions of higher education. The College's general revenue also secures these notes.

Section 9(c) bonds are general obligation bonds issued by the Commonwealth of Virginia on behalf of the College, which are secured by the net revenues of the completed project and the full faith, credit, and taxing power of the Commonwealth of Virginia.

A summary of all bonds and notes payable debt as of June 30, 2002, is presented as follows:

Details of Bonds Payable	Outstanding June 30, 2002
Higher Education Bonds, Series 1992C, issued $3,305,000 with a discount of $26,766, net proceeds of $3,278,234 to finance construction of a 148 bed dormitory, the balance payable in annual installments from $150,000 to $160,000 with interest of 5 percent to 6 percent payable semiannually, the final installment of $160,000 due June 1, 2004	$310,000
General Revenue Bonds, Series 1993R, issued $2,169,713 to refund a portion of Student Activity Center Bond, Series1986A, the balance payable in annual installments from $225,435 to $254,445 with interest of 3.5 percent to 4.75 percent payable semiannually, the final installment of $254,445 due June 1, 2006	955,760
Higher Education Bonds, Series 1993R, issued $1,998,496 to refund a portion of Dormitory Bonds, Series 1990B, the balance payable in annual installments from $180,936 to $251,391 with interest of 3.5 percent to 5.0 percent payable semiannually, the final installment of $251,391 due June 1, 2010	1,715,141
Higher Education Bonds, Series 1993B, issued $4,340,000 with a discount of $39,196, net proceeds of $4,300,804 to finance construction of telecommunications campus-wide, the balance payable in annual installments from $210,000 to $340,000 with interest of 3.5 percent to 5 percent payable semiannually, the final installment of $340,000 due June 1, 2013	2,950,000
Higher Education Bonds, Series 1998R, issued $2,094,152 to refund a portion of the 148 bed dormitory bond, Series 1992C, the balance to finance construction of new parking lots and athletic fields, the balance payable in annual installments from $14,835 to $262,822 with interest of 3.5 percent to 4.7 percent payable semiannually, the final installment of $262,822 due June 1, 2013	2,023,190
Higher Education Bonds, Series 2001A, issued $1,925,000 to renovate dormitories, the balance payable in annual installments from $65,000 to $145,000 with interest of 4 percent to 5 percent payable semiannually, the final installment of $145,000 due June 1, 2021	1,860,000
Total Bonds Payable	$9,814,091

Details of Notes Payable

VCBA Educational Facilities Revenue Bonds, Series 1997A, issued \$1,515,000 to finance construction of Jepson Science Building, the balance payable in annual installments from \$55,000 to \$115,000 with interest of 3.75 percent to 5 percent payable semiannually, the final installment of \$115,000 due September 1, 2017	\$1,310,000
VCBA Bonds, Series 1999A, issued \$1,045,000 to finance replacement of the Tennis Courts, the balance payable in annual installments from \$35,000 to \$85,000 with interest of 4.5 percent to 6 percent payable semiannually, the final installment of \$85,000 due September 1, 2019	990,000
VCBA Bonds, Series 2000A, issued \$4,690,000 to finance construction of a Fitness Center, the balance payable in annual installments from \$150,000 to \$370,000 with interest of 4.25 percent to 5.75 percent payable semiannually, the final installment of \$370,000 due September 1, 2020	4,580,000
Total Notes Payable	\$6,880,000

Annual debt service requirements to maturity for bonds and notes payable are as follows:

Year Ending June 30,	Principal	Interest	Total
2003	\$ 1,086,206	\$ 818,380	\$ 1,904,586
2004	1,136,046	768,186	1,904,232
2005	1,188,957	714,726	1,903,683
2006	1,245,132	659,999	1,905,131
2007	1,024,286	601,804	1,626,090
2008-2012	5,430,642	2,207,363	7,638,005
2013-2017	3,317,822	994,928	4,312,750
2018-2021	2,265,000	223,944	2,488,944
Total	\$16,694,091	\$6,989,330	\$23,683,421

B. Prior Year Defeasance of Debt

In prior years, the College and the Commonwealth of Virginia, on behalf of the College, issued bonds and the proceeds were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on other debt. The bonds representing that debt are, therefore, considered defeased. Accordingly, the trust account's assets and the liabilities for the defeased bonds are not included in the College's financial statements. On June 30, 2002, \$1,680,000 of the bonds considered defeased remained outstanding.

C. Installment Purchases

The College has entered into various installment purchase contracts to finance the acquisition of computer and telecommunications equipment. The remaining purchase agreement continues for another three years with interest rates from 4.3 percent to 4.6 percent. A summary of the remaining installment purchases payable debt as of June 30, 2002, is presented as follows:

Year Ending June 30,	Principal	Interest	Total
2003	$ 539,101	$105,651	$ 644,752
2004	578,475	66,277	644,752
2005	620,724	24,028	644,752
Total	$1,738,300	$195,956	$1,934,256

D. Equipment Trust Fund Program

The Equipment Trust Fund (ETF) program was established to provide state-supported institutions of higher education bond proceeds for financing the acquisition and replacement of instructional and research equipment. The VCBA manages the program. The VCBA issues bonds and uses the proceeds to reimburse the College and other institutions of higher education for equipment purchased. For fiscal years prior to 1999, the VCBA purchased the equipment and leased it to the College. The final payment by the College to VCBA for leased equipment will occur in 2003 in the amount of $154,015. For fiscal years 1999 and following, financing agreements for ETF were changed so that the College now owns the equipment from the date of purchase.

The Statement of Net Assets line "Due from the Commonwealth of Virginia" totaling $552,009 at June 30, 2002, represents equipment purchased by the College that was not reimbursed by the VCBA at year end.

8. EXPENSES BY NATURAL CLASSIFICATIONS

The following table shows a classification of expenses both by function as listed in the Statement of Revenues, Expenses, and Changes in Net Assets and by natural classification, which is the basis for amounts shown in the Statement of Cash Flows.

	Salaries and Wages	Fringe Benefits	Services and Supplies	Utilities	Plant and Equipment	Depreciation	Total
Instruction	$14,017,050	$3,176,054	$ 1,097,870	$ 928	$(303,572)	$ -	$17,988,330
Research	114,870	6,947	(42,020)	-	109,197	-	188,994
Public service	223,401	46,452	(62,373)	-	8,969	-	216,449
Academic support	1,935,639	517,375	692,988	-	513,890	-	3,659,892
Student services	1,872,705	425,651	1,448,461	-	31,687	-	3,778,504
Institutional support	2,981,366	904,775	1,131,196	-	72,341		5,089,678
Operation and maintenance of plant	851,747	597,481	135,217	1,379,475	72,439	-	3,036,359
Depreciation	-	-	-	-	-	4,205,152	4,205,152
Student aid	365,417	60,460	533,620	-	2,396	-	961,893
Auxiliary activities	4,304,467	975,503	10,988,388	-	161,939	-	16,430,297
Independent operations	346,459	84,617	150,543	22,662	3,671	-	607,952
Total	$27,013,121	$6,795,315	$16,073,890	$1,403,065	$672,957	$4,205,152	$56,163,500

9. STATE APPROPRIATIONS

The College receives state appropriations from the General Fund of the Commonwealth. The Appropriation Act specifies that such unexpended appropriations shall revert, as specifically provided by the General Assembly, at the end of the biennium. For years ending at the middle of a biennium, unexpended appropriations that have not been approved for reappropriation in the next year by the Governor become part of the General Fund of the Commonwealth and are, therefore, no longer available to the College for disbursements.

The following is a summary of state appropriations received by the College including all supplemental appropriations and reversions:

Original legislative appropriation per Chapter 814:	
Educational and general programs	$ 18,760,740
Student financial assistance	852,681
Independent operations	574,027
Supplemental adjustments	(858,526)
Reversions to the General fund of the Commonwealth	(29,314)
State appropriation revenue, adjusted	$ 19,299,608

10. AFFILIATED FOUNDATIONS

The financial statements do not include the assets, liabilities, and net assets of the Mary Washington College Foundation, Inc., Mary Washington College Alumni Association, or the Mary Washington College Real Estate Foundation. The purpose of these organizations is to operate for the benefit of the College. These organizations are separately incorporated entities and the related financial statements are examined by other auditors. The following condensed summary is based solely upon the reports of other auditors at and for the year ended June 30, 2002.

Assets:	
Cash and investments	$ 9,668,139
Other assets	12,977,310
Total assets	$22,645,449
Liabilities and net assets:	
Liabilities	$10,515,781
Net assets	12,129,668
Total liabilities and net assets	$22,645,449

The aggregate revenues and expenditures of these organizations determined as if in consolidation with the College were $7,586,391 and $3,456,036, respectively, for the year ended June 30, 2002.

The Mary Washington College Foundation, Inc., receives gifts and expends funds for the benefit of the College. The revenues and expenditures of the College include funds expended by the Foundation and paid directly to the College of approximately $920,749 for the year ended June 30, 2002.

11. COMMITMENTS

At June 30, 2002, the College was a party to construction and other contracts with outstanding commitments of $1,457,937. In addition, $242,774 was held by the College as retainage on ongoing projects for which work had been performed. The retainage will be remitted to the contractors upon satisfactory completion of the project.

12. RETIREMENT PLANS

A. Virginia Retirement System

Employees of the College are employees of the Commonwealth of Virginia. Substantially all full-time classified salaried employees of the College participate in a defined benefit retirement plan administered by the Virginia Retirement System (VRS). VRS is an agent multiple-employer public employee retirement system that acts as a common investment and administrative agency for the Commonwealth of Virginia and its political subdivisions.

The VRS does not measure assets and pension benefit obligations separately for individual state institutions. Therefore, all information relating to this plan is available at the statewide level only and can be found in the Commonwealth's *Comprehensive Annual Financial Report* (CAFR). The Commonwealth of Virginia, not the College, has the overall responsibility for contributions to this plan. The CAFR provides disclosure of the Commonwealth's unfounded pension benefit obligation at June 30, 2002. The same report contains historical trend information showing VRS's progress in accumulating sufficient assets to pay benefits when due.

The College's expenses include the amount assessed by the Commonwealth for contributions to VRS, which totaled $1,191,472 for the year ended June 30, 2002. These contributions included the five percent employee contribution assumed by the employer.

B. Optional Retirement Plans

Full-time faculty and certain administrative staff participate in a defined contribution plan administered by five different providers rather than the VRS. The five different providers are TIAA/CREF Insurance Companies, Fidelity Investments Tax-Exempt Services and Met Life Resources, Great-West Life Assurance Company, T. Rowe Price Associates, and VALIC. This plan is a fixed-contribution program where the retirement benefits received are based upon the employer's (5.4 percent) and employee's (5.0 percent) contributions, plus interest and dividends.

Individual contracts issued under the plan provide for full and immediate vesting of both the College's and the employee's contributions. Total pension costs under this plan were approximately $918,768 for the year ended June 30, 2002.

13. POST-EMPLOYMENT BENEFITS

The Commonwealth participates in the VRS administered statewide group life insurance program, which provides post-employment life insurance benefits to eligible retired and terminated employees. The Commonwealth also provides health care credits against the monthly health insurance premiums of its retirees who have at least 15 years of state service and participate in the state's health plan. Information related to these plans is available at the statewide level in the Commonwealth's *Comprehensive Annual Financial Report*.

14. CONTINGENCIES

A. Grants and Contracts

The College has received grants for specific purposes that are subject to review and audit by the grantor agencies. Claims against these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditures of resources for allowable purposes. Any disallowance resulting from a federal audit may become a liability of the College.

In addition, the College is required to comply with the various federal regulations issued by the Office of Management and Budget. Failure to comply with certain requirements of these regulations may result in questions concerning the allowability of related direct and indirect charges pursuant to such agreements. As of June 30, 2002, the College estimates that no material liabilities will result from such audits or questions.

B. Litigation

The College has been named as a defendant in a number of lawsuits. The final outcome of these lawsuits cannot be determined at this time. However, management is of the opinion that any ultimate liability to which the College may be exposed will not have a material effect upon the College's financial position.

15. RISK MANAGEMENT AND EMPLOYEE HEALTH CARE PLANS

The College is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; non-performance of duty; injuries to employees; and natural disasters. The College participates in insurance plans maintained by the Commonwealth of Virginia. The state employee health care and worker's compensation plans are administered by the Department of Human Resource Management and the risk management insurance plans are administered by the Department of Treasury, Division of Risk Management. Risk management insurance includes property, general liability, medical malpractice, faithful performance of duty bond, automobile, and air and watercraft plans. The College pays premiums to each of these departments for its insurance coverage. Information relating to the Commonwealth's insurance plans is available at the statewide level in the Commonwealth's *Comprehensive Annual Financial Report*.

SUPPLEMENTARY INFORMATION

MARY WASHINGTON COLLEGE
SCHEDULE OF AUXILIARY ENTERPRISES - REVENUES AND EXPENDITURES
For the Year Ended June 30, 2002

	Intercollegiate Athletics	Bookstore	Brompton
Revenues:			
Sales and services	$ -	$ 2,827,283	$ -
Student fees	714,189	-	64,887
Interest income	-	-	-
Miscellaneous	38,319	302	-
Total revenues	752,508	2,827,585	64,887
Expenditures and other deductions:			
Expense of operation:			
Personal services	699,456	263,964	-
Fringe benefits	156,931	47,721	-
Contractual services	328,393	91,290	22,977
Supplies and materials	95,204	1,890,700	20,697
Equipment	28,175	1,200	4,966
Depreciation	-	-	-
Other	192	177,874	16,247
Total operating expenditures	1,308,351	2,472,749	64,887
Payments for securities lending	-	-	-
Mandatory transfers	85,794	-	-
Total expenditures and other deductions	1,394,145	2,472,749	64,887
Excess (deficiency) of revenues over expenditures and other deductions	$ (641,637)	$ 354,836	$ -
Beginning fund balance			
Ending fund balance			

Note: Fund balances of individual enterprises are not maintained by the College.

Dining Services	Residence Halls	Health Center	Student Activities	Telecomm-unications	Other	Total
$ 6,104,771	$ 6,356,036	$ 86,100	$ -	$ 98,209	$ 772,204	$ 16,244,603
-	63,208	-	519,700	644,752	2,453,554	4,460,290
-	-	-	-	-	257,185	257,185
-	50	-	18,508	4	150,509	207,692
6,104,771	6,419,294	86,100	538,208	742,965	3,633,452	21,169,770
-	1,236,714	292,383	402,505	446,482	962,961	4,304,465
-	246,206	63,628	72,330	123,120	265,567	975,503
3,255,466	224,736	20,833	169,675	556,839	266,585	4,936,794
16,081	187,983	74,115	54,294	14,905	78,028	2,432,007
19,367	47,478	9,316	20,691	2,086	28,660	161,939
-	-	-	-	-	533,330	533,330
195,780	3,164,223	28,774	35,312	26,918	57,822	3,703,142
3,486,694	5,107,340	489,049	754,807	1,170,350	2,192,953	17,047,180
-	-	-	-	-	12,639	12,639
-	-	-	268,573	644,752	608,519	1,607,638
3,486,694	5,107,340	489,049	1,023,380	1,815,102	2,814,111	18,667,457
$ 2,618,077	$ 1,311,954	$ (402,949)	$ (485,172)	$ (1,072,137)	$ 819,341	2,502,313
						1,462,527
						$ 3,964,840

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MARY WASHINGTON COLLEGE
Fredericksburg, Virginia

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