University of Mary Washington

Financial Report

2010-2011

UMW
7/31/2012

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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

The University of Mary Washington is a comprehensive, Liberal Arts University located in Fredericksburg, Virginia. The University offers nine degrees across its three academic colleges and two campuses. The University serves more than 4,300 undergraduate students on the Fredericksburg campus and more than 1,000 students are enrolled in degree completion and graduate programs at the nearby Stafford County campus. In addition, the University oversees the James Monroe Museum and Law Library in historic, downtown Fredericksburg and the Gari Melchers Home and Studio at Belmont in neighboring Stafford.

The University continues to receive national recognition for its programs and value. The University is ranked number six among public Southern institutions by U.S. News and World Report and number one nationally in Peace Corps alumni with 32 alumni currently volunteering for the Peace Corps. The University is also proud to have a Pulitzer-prize winning poet on the faculty.

The University is an agency of the Commonwealth of Virginia, and therefore included as a component unit in the Commonwealth of Virginia's *Comprehensive Annual Financial Report*. The 12 members of the University of Mary Washington's Board of Visitors govern University operations. Members of the board are appointed by the Governor of Virginia.

Overview

This unaudited Management's Discussion and Analysis (MD&A) is required supplemental information under the Governmental Accounting Standards Board's (GASB) reporting model. It is designed to assist readers in understanding the accompanying financial statements and provides an overall view of the University's financial activities based on currently known facts, decisions, and conditions. This discussion includes an analysis of the University's financial condition and results of operations for the fiscal year ended June 30, 2011. Comparative numbers are included for the fiscal year ended June 30, 2010. Since this presentation includes highly summarized data, it should be read in conjunction with the accompanying basic financial statements, including notes, and other supplementary information. The University's management is responsible for all of the financial information presented, including this discussion and analysis.

The University's financial statements have been prepared in accordance with GASB Statement 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. The three required financial statements are the *Statement of Net Assets* (balance sheet), the *Statement of Revenues, Expenses, and Changes in Net Assets* (operating statement), and the *Statement of Cash Flows*. These statements are summarized and analyzed in the following sections.

Using criteria provided in GASB Statement 39, *Determining Whether Certain Organizations are Component Units*, the University's two affiliated organizations were evaluated on the nature and significance of their relationship to the University. The University of Mary Washington Foundation was determined to be a component unit and is presented in a separate column on the University's financial statements. The Foundation is not part of this MD&A, but additional detail regarding its financial activities can be found in Note 19 of the *Notes to the Financial Statements*.

Statement of Net Assets

The *Statement of Net Assets* (SNA) presents the assets, liabilities, and net assets of the University as of the end of the fiscal year. The purpose of the statement is to present a snapshot of the University's financial position to the readers of the financial statements.

The data presented aids readers in determining the assets available to continue operations of the University. It also allows readers to determine how much the University owes to vendors, investors, and lending institutions. Finally, the SNA provides a picture of net assets and their availability for expenditure by the University. Sustained increases in net assets over time are one indicator of the financial health of the organization.

The University's net assets are classified as follows:

- **Invested in capital assets, net of related debt –** Invested in capital assets, net of related debt, represent the University's total investment in capital assets, net of accumulated depreciation and outstanding debt obligations related to those capital assets. Debt incurred, but not yet expended for capital assets, is not included as a component of invested in capital assets, net of related debt.
- **Restricted net assets, expendable –** Expendable restricted net assets include resources the University is legally or contractually obligated to expend in accordance with restrictions imposed by external third parties.
- **Restricted net assets, nonexpendable –** Nonexpendable restricted net assets consist of endowment and similar type funds where donors or other outside sources have stipulated, as a condition of the gift instrument, the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income to be expended or added to principal.
- **Unrestricted net assets –** Unrestricted net assets represent resources used for transactions relating to academic departments and general operations of the University, and may be used at the discretion of the University's board of visitors to meet current expenses for any lawful purpose in support of the University's primary missions. These resources are derived from student tuition and fees, state appropriations, and sales and services of auxiliary enterprises and educational departments. The auxiliary enterprises are self-supporting entities that provide services for students, faculty, and staff. Some examples of the University's auxiliaries are student residential and dining programs.

Total University assets increased by approximately $59.4 million or 30.4% during fiscal year 2011, bringing the total assets to $254.6 million at year-end. Growth was seen in all three areas of assets – current assets ($1.7 million); capital assets, net ($36.4 million); and other assets ($21.3 million). The increase in current assets is almost entirely attributable to an increase in cash as outlined in the *Statement of Cash Flows,* discussed in a later section. The increase in invested in capital assets, net, reflects the ongoing construction of five capital projects and completion of several capital projects discussed in detail in the following section, Capital Asset and Debt Administration. The increase in the other asset category is due to an increase in restricted cash and cash equivalents also outlined in the *Statement of Cash Flows,* discussed in a later section. In summary, restricted cash and cash equivalents increased by the proceeds of debt issued for the Mason and Randolph Renovations ($36.8 million) and Battleground Athletic Field Improvements ($2.5 million) offset by restricted cash being spent on the capital projects.

The universities liabilities increased by approximately $43.0 million or 70.4% during fiscal year 2011. Current liabilities increased by $5.1 million due to the increase in accounts payable, primarily attributed to outstanding capital project invoices and the accrual of interest on capital asset related debt. The increase of $37.9 million in noncurrent liabilities was due to the issuance of $39.3 million in Notes Payable for renovation of Mason and Randolph Halls and Battleground Athletic Field Improvements, offset by the normal reclassification of next year's principal commitment to the current liabilities category ($1.2 million).

Total net assets increased by $16.4 million as the increase in assets was larger than the increase in liabilities. *Invested in capital assets, net of related debt* increased $18.4 million as a direct result of the increase in capital assets as offset by the amount of the new debt already spent.

Summary of Assets, Liabilities, and Net Assets
For the years ended June 30, 2011 and 2010
(All $ in millions)

	2011	2010	Change Amount	Change Percent
Assets				
Current assets	$ 20.5	$ 18.8	$ 1.7	9.0%
Capital assets, net	194.1	157.7	36.4	23.1%
Other assets	40.0	18.7	21.3	113.9%
Total assets	254.6	195.2	59.4	30.4%
Liabilities				
Current liabilities	20.0	14.9	5.1	34.2%
Noncurrent liabilities	84.1	46.2	37.9	82.0%
Total liabilities	104.1	61.1	43.0	70.4%
Net Assets				
Invested in capital assets, net	147.8	129.4	18.4	14.2%
Restricted	0.5	0.3	0.2	66.7%
Unrestricted	2.2	4.4	(2.2)	(50.0)%
Total net assets	$150.5	$ 134.1	$ 16.4	12.2%

Capital Asset and Debt Administration

One of the critical factors in ensuring the quality of the University's academic and residential life functions is the development and renewal of its capital assets. The University continues to maintain and upgrade current structures as well as pursue opportunities for additional facilities. Investment in new structures and the upgrade of current structures serves to enrich high-quality instructional programs and residential lifestyles.

Note 6 of the *Notes to Financial Statements* describes the University's significant investment in depreciable capital assets with gross additions of $3.1 million. The following table indicates those capital projects completed during 2011.

Capital project completions
For the year ended June 30, 2011
(All $ in millions)

	Project Amount
Alvey Roadway (Infrastructure)	$ 0.7
Belmont Phase III Renovations	0.6
Dodd Auditorium Renovations (Buildings)	0.2
Rowing Dock (Improvements Other Than Buildings)	0.1
Jepson Hall Renovations (Buildings)	0.1
Dupont Hall Renovations (Buildings)	0.1
Other building renovations	0.3
Other improvements other than buildings completions	0.1
Total capital project completions	**$ 2.2**

Ongoing investments in instructional, research, and computer equipment totaled $0.7 million. Depreciation expense was $5.4 million with net retirements of $0.2 million. This created an overall net decrease in depreciable capital assets in 2011 of $2.3 million.

Non-depreciable capital assets increased $38.9 million during 2011. This is directly attributable to an increase in Construction in Progress. The table below indicates those capital projects on-going at year end.

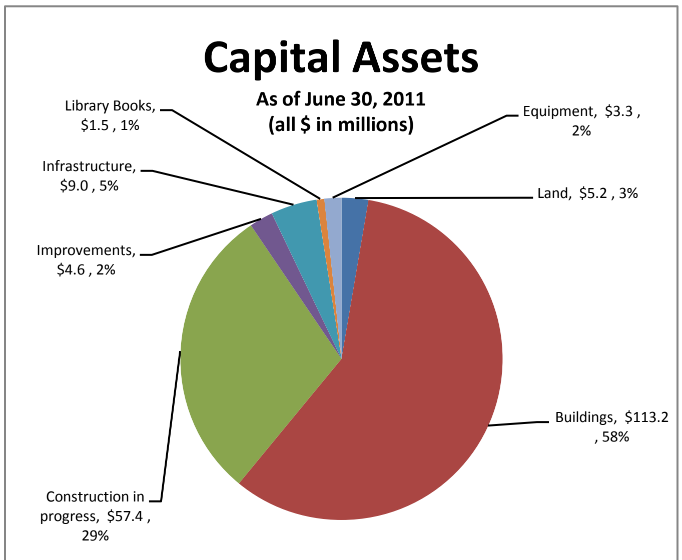
Capital projects in progress carry commitments to construction contractors, architects, and engineers totaling $30.0 million at June 30, 2011. These obligations are for future effort and as such have not been accrued as expenses or liabilities on the University's financial statements. Additional information can be obtained in Note 12 of the *Notes to Financial Statements.*

A breakdown of both depreciable and non-depreciable assets can be found in the graph below. Buildings continue to account for the majority of capital assets on campus. Most of the costs currently sitting in Construction in Progress will eventually become part of buildings once the projects are complete.

Notes 8 and 9 of the *Notes to Financial Statements* contain information about the long-term debt of the University. Two new notes payable, in the amount of $39,295,000, were issued for the renovation of Mason and Randolph dorms and improvements to the Battleground Athletic Field complex. A portion of the interest for these bonds will be offset by proceeds received from the federal government in conjunction with the Build America Bonds program. The amount of revenue associated with this can be found on the *Statement of Revenues, Expenses, and Changes in Net Assets.* In addition, $1.2 million in notes payable were refinanced by the Commonwealth resulting in a premium of $169,298 and loss on debt defeasance of $106,175, both of which will be amortized over the life of the debt. All debt of the University is directly related to the acquisition of capital assets.

Construction in Progress
For the year ended June 30, 2011
(All $ in millions)

	Project Amount
Convocation (Anderson) Center	$ 15.6
Mason/Randolph Renovations	13.9
Monroe Renovations	13.2
Dahlgren Campus	13.0
Convergence Center	1.6
Battleground Athletic Field Improvements	0.1
Total construction in progress	**$ 57.4**



Statement of Revenues, Expenses, and Changes in Net Assets

Operating and non-operating activities creating changes in the University's total net assets are presented in the *Statement of Revenues, Expenses, and Changes in Net Assets*. The purpose of the statement is to present all revenues received and accrued, all expenses paid and accrued, and gains or losses from investments and capital assets.

Operating revenues are generally received through providing goods and services to the various customers and constituencies of the University. Operating expenses are expenditures made to acquire or procure the goods and services provided in return for the operating revenues, and to carry out the missions of the University. Salaries and fringe benefits for faculty and staff are the largest type of operating expenses. Non-operating revenues are revenues received for which goods and services are not directly provided. State appropriations and gifts, included in this category, provide substantial support for paying operating expenses of the University. Therefore, the University, like most public institutions, will expect to show an operating loss.

Operating Revenues

Total operating revenues decreased 3.0% ($1.9 million) from the prior fiscal year. Decreases in both student tuition and fees ($0.9 million) and auxiliary revenue ($1.2 million) were due to 128 fewer out-of-state students attending the University in 2011 than in 2010.

Non-operating and Other Revenues

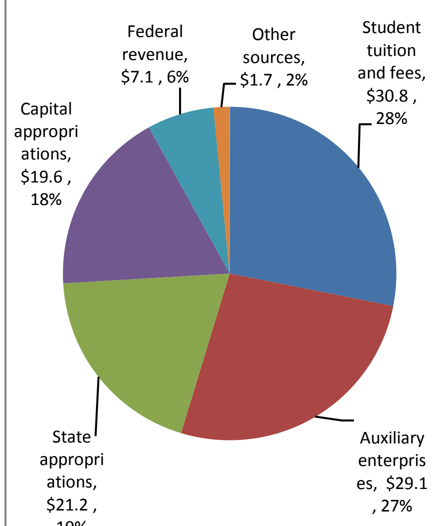
Non-operating revenue increased 18.2% ($4.3 million) from the prior fiscal year. The increase in non-operating revenue is due to a $1.6 million increase in state appropriations. There was also a 33% increase in the amount of federal Pell grant funds received by the University. For a second year, the University received funds ($3.5 million in 2011) from the Federal American Recovery and Reinvestment Act – State Fiscal Stabilization Fund (ARRA-SFSF).

Other revenues of the University consist of capital appropriations and capital gifts. Capital appropriations increased 110% during FY11. This increase of $10.3 million is attributable to the continuation of several projects funded with capital appropriations, most notably the Monroe Hall Renovation and construction of the Dahlgren Campus.

Summary of Revenues
For the years ended June 30, 2011 and 2010
(All $ in millions)

	2011	2010	Change Amount	Change Percent
Operating revenues				
Student tuition and fees, net	$ 30.8	$ 31.7	($ 0.9)	(2.8)%
Grants and contracts	1.3	1.2	0.1	8.3%
Auxiliary enterprises, net	29.1	30.3	(1.2)	(4.0)%
Other operating revenue	0.8	0.7	0.1	14.3%
Total operating revenues	62.0	63.9	(1.9)	(3.0)%
Non-operating revenues				
State appropriations	21.2	19.6	1.6	8.2%
Federal Pell grant revenue	2.8	2.1	0.7	33.3%
Federal ARRA SFSF revenue	3.5	1.6	1.9	118.8%
Other non-operating income	0.4	0.3	0.1	33.3%
Total non-operating revenues	27.9	23.6	4.3	18.2%
Other revenues				
Capital appropriations	19.6	9.3	10.3	110.8%
Capital gifts	0.0	0.1	(0.1)	(100.0)%
Total other revenues	19.6	9.4	10.2	108.5%
Total revenues	$ 109.5	$ 96.9	$12.6	13.0%

Revenues by Source
For the year ended June 30, 2011
All $ in millions



Capital gifts to the University consisted only of library books donated to the University. The decrease of $0.1 million is due to no funds being transferred from the UMW Foundation for capital projects of the University.

Total Expenses

The expenses of the University can also be separated into operating and non-operating expenses. The operating expenses of the University can be divided either by natural classification or by function. Note 10 in the *Notes to Financial Statements* gives the correlation between the two different methods of classification. Functional classification is the method presented in the *Statement of Revenues, Expenses, and Changes in Net Assets.*

Overall, the operating expenses of the University increased by $2.3 million – an increase of 2.6%. The harsh economic environment the University has operated in for the past few years was mitigated by the receipt of the ARRA-SFSF funding. In addition, the issuance of debt for capital projects allowed for cash to be freed up for operating expenses that had been previously used for the up-front costs of those capital projects.

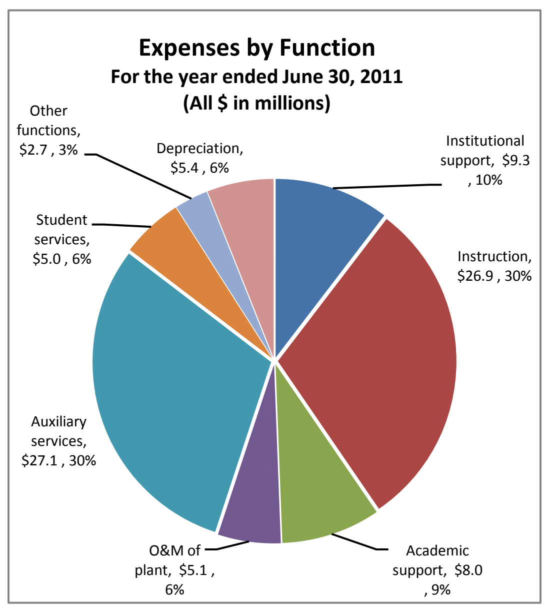
When looking at the expenses of the University by function, the largest expenses are those of instruction and auxiliary services. These functions represent the core of any University – the education of students as well as their housing and dining. Instruction expenses decreased $1.0 million in 2011 from 2010. This is due in part to the reclassification of several positions from Instruction to Public Service as a result of restructuring of the academic colleges ($0.6 million). An additional $0.3 million can be accounted for by a change in the method of processing waived tuition. Offsetting the decrease in instruction expenses was an increase of $1.3 million in Institutional Support expenses. This increase is a result in increases in software licensing fees ($0.5 million), building rentals ($0.2 million), and an increase in accrued expenses from 2011 over 2010 ($0.6 million).

When looking at the expenses of the University by natural classification, the largest expense incurred is that for the salaries and wages of employees. However, the entire $2.3 million increase in expenses can be accounted for with the increase in services and supplies expenses. The increase in Instructional Support discussed above accounts for $1.3 million of the increase in expenses. The remaining increase can be found in services and supplies expenses for Auxiliary services. In 2011, $0.5 million was paid in accordance with the University's support agreement for Eagle Landing with the UMW Foundation. In addition, there was a $0.7 million increase in board charges. Decreases in cable in the dorms ($0.2 million) offset the increases.

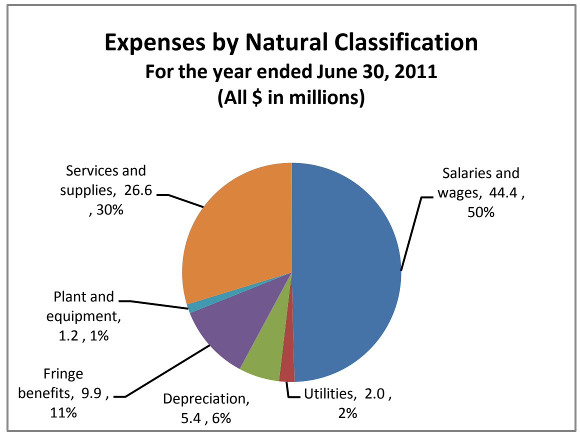
Non-operating expenses include the loss on disposal of capital assets and the interest paid on capital asset related debt. Interest expenses on capital asset related debt increased $1.4 million due to new debt taken on in FY10 and FY11.

Summary of Expenses by Function
For the years ended June 30, 2011 and 2010
(All $ in millions)

	2011	2010	Change Amount	Change Percent
Operating expenses				
Instruction	$26.9	$27.9	$ (1.0)	(3.6)%
Research	0.3	0.4	(0.1)	(25.0)%
Public Service	1.0	0.2	0.8	400.0%
Academic Support	8.0	7.2	0.8	11.1%
Student Services	5.0	4.8	0.2	4.2%
Institutional Support	9.3	8.0	1.3	16.2%
Operation & maintenance of plant	5.1	4.9	0.2	4.1%
Depreciation	5.4	5.9	(0.5)	(8.5)%
Student aid	0.4	0.6	(0.2)	(33.3)%
Auxiliary services	27.1	26.3	0.8	3.0%
Museum & cultural services	0.8	0.8	<0.1	<0.1%
Historic attraction management	0.2	0.2	<0.1	<0.1%
Total operating expenses	$ 89.5	$ 87.2	$ 2.3	2.6%



Summary of Expenses by Natural Classification For the years ended June 30, 2011 and 2010 (All $ in millions)	2011	2010	Change Amount	Change Percent
Operating expenses				
Salaries and wages	$ 44.4	$ 43.8	$ 0.6	1.4%
Fringe benefits	9.9	9.1	0.8	8.8%
Services and supplies	26.6	24.3	2.3	9.5%
Utilities	2.0	2.8	(0.8)	(28.6)%
Plant and equipment	1.2	1.3	(0.1)	(7.7)%
Depreciation	5.4	5.9	(0.5)	(8.5)%
Total operating expenses	$ 89.5	$ 87.2	$ 2.3	2.6%



Changes in Net Assets

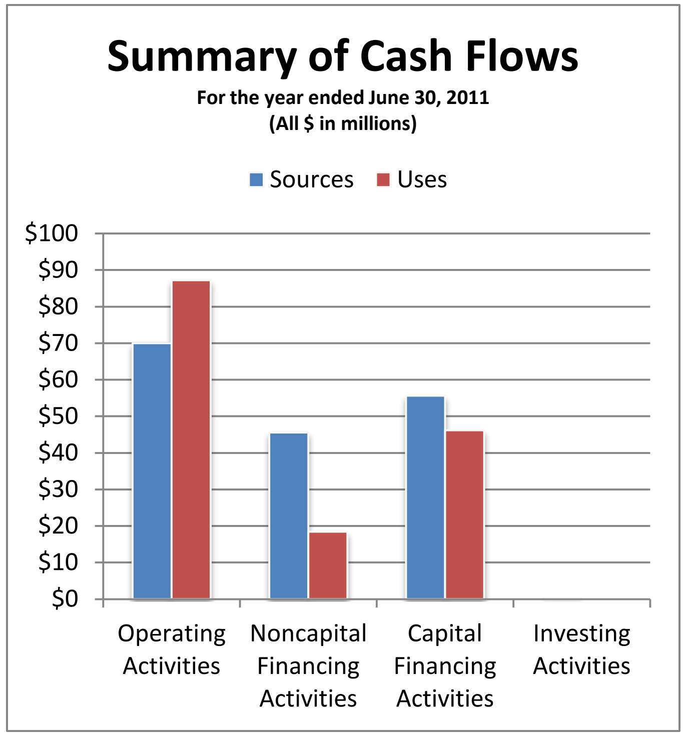
With the increase in operating expenses greater than the increase in operating revenues, the operating loss of the University was $4.2 million more than last year. Non-operating revenue, in the form of state appropriations, capital appropriations and ARRA-SFSF funding was used to cover the operating loss of the University. In FY11, the University saw a net result of an increase in net assets of $16.4 million.

Summary of Revenues, Expenses and Changes in Net Assets For the years ended June 30, 2011 and 2010 (All $ in millions)	2011	2010	Change Amount	Change Percent
Operating revenues	$ 62.0	$ 63.9	$ (1.9)	(3.0)%
Operating expenses	89.5	87.2	2.3	2.6%
Operating loss	(27.5)	(23.3)	4.2	18.0%
Non-operating revenues and expenses	24.3	21.6	2.7	12.5%
Loss before other revenues, expenses, gains or losses	(3.2)	(1.7)	1.5	88.2%
Other revenues, expenses, gains or losses	19.6	9.4	10.2	108.5%
Increase in net assets	16.4	7.7	8.7	113.0%
Net assets – beginning of year	134.0	126.3	7.7	6.1%
Net assets – end of year	$ 150.4	$ 134.0	16.4	12.2%

Statement of Cash Flows

The *Statement of Cash Flows* presents detailed information about the cash activity of the University during the year. Cash flows from operating activities will always be different from the operating loss on the *Statement of Revenues, Expenses, and Changes in Net Assets* (SRECNA). This difference occurs because the SRECNA is prepared on the accrual basis of accounting and includes noncash items, such as depreciation expenses, whereas the *Statement of Cash Flows* presents cash inflows and outflows without regard to accrual items. The *Statement of Cash Flows* should help readers assess the ability of an institution to generate sufficient cash flows necessary to meet its obligations.

The statement is divided into five sections. The first section, *Cash flows from operating activities*, deals with operating cash flows and shows net cash used by the operating activities of the University. The *Cash flows from noncapital financing activities* section reflects cash received and disbursed for purposes other than operating, investing, and capital financing. GASB requires that general appropriations from the Commonwealth be shown as cash flows from noncapital financing activities. Since state appropriations are used to cover the operating expenses of the University, net cash should always be used by operating activities and provided by noncapital financing activities. *Cash flows from capital financing activities* presents cash used for the acquisition and construction of capital and related items. Plant funds and related long-term debt activities (except depreciation and amortization), as well as capital appropriations are included in cash flows from capital financing activities. *Cash flows from investing activities* reflects the cash flows generated from investments, including purchases, proceeds, and interest. The last section reconciles the operating loss reflected on the *Statement of Revenues, Expenses, and Changes in Net Assets* to the net cash used by operating activities.



Cash flows used by operating activities was $2.2 million more in FY11 than in FY10. This is primarily due to the increase in cash spent on fringe benefits ($0.9 million) offset by decreases in cash usages in most all other areas. *Cash flows provided by non-capital financing activities* increased $5.0 million in FY11. This is due to the increase in state appropriations, federal Pell revenue and federal ARRA-SFSF revenue, offset by a smaller amount loaned to the UMW Foundation in FY11. *Net cash provided by capital financing activities* increased $1.1 million which is mostly attributable to the increase in interest paid on capital debt due to the FY10 bond issuance for the Convocation Center and the FY11 notes issuances for Mason and Randolph Renovations and the Battleground Athletic Field Improvements. The sum of these changes resulted in an increase of $19.6 million in cash available in FY11 over FY10.

Summary of Cash Flows
For the years ended June 30, 2011 and 2010
(All $ in millions)

	2011	2010	Change Amount	Change Percent
Net cash used by operating activities	($ 17.2)	($ 15.0)	$ 2.2	14.7%
Net cash provided by noncapital financing activities	27.1	22.2	4.9	22.1%
Net cash provided by capital financing activities	9.4	8.2	1.2	14.6%
Net cash provided by investing activities	0.2	0.2	<0.1	<0.1%
Net increase in cash	19.6	15.6	4.0	25.6%
Cash – beginning of year	31.9	16.3	15.6	95.7%
Cash – end of year	$ 51.5	$ 31.9	$ 19.6	61.4%

Economic Outlook

The University's economic outlook is closely tied to that of the Commonwealth of Virginia. As a state-supported higher education institution, the economic outlook for the University is affected by the revenue and budgetary environment of the Commonwealth. The revenue downturn experienced during fiscal year 2010 moderated in fiscal year 2011. There were no additional state funding cuts in fiscal year 2011. Further, the fiscal year 2011 budget for the University was temporarily bolstered with additional allocations of federal funding provided to the Commonwealth through the American Recovery and Reinvestment Act of 2009 (ARRA).

Based on actions of the 2011 General Assembly of the Commonwealth of Virginia, the University will, however, face a fiscal year 2012 funding reduction in its educational and general programs of $1.1 million. This reduction will be compounded by the elimination of the $3.5 million in federal ARRA funding received in 2011. The University anticipated these reductions in its long-range financial planning and will be able to manage the reductions without further across-the-board budget cuts.

As in prior years of the current economic downturn, the University has employed a strategic planning process in order to minimize the budget impact on the University's core instructional mission. The University's executive management believes that the University will maintain its solid financial foundation. Management's policies of cost containment, adherence to its core mission, and investment in key initiatives will ensure the University is well positioned to manage fluctuations in state support while protecting its established reputation for high quality academic programs, first-rate faculty, and excellent students.

STATEMENT OF NET ASSETS

For the year ended June 30, 2011

	UMW	UMW Foundation
Assets		
Current assets:		
Cash and cash equivalents (Notes 3, 19)	$ 17,348,173	$ 993,935
Securities lending cash and cash equivalents (Note 3)	65,405	-
Accounts receivable, net of allowance for doubtful accounts (Note 4)	1,677,083	749,956
Pledges receivable, current portion (Note 19)	-	531,137
Due from the Commonwealth	149,285	-
Due from the University (Note 17)	-	477,097
Inventories	577,723	-
Prepaid items	656,951	169,981
Other current assets	-	14,319
Total current assets	20,474,620	2,936,425
Noncurrent assets:		
Restricted cash and cash equivalents (Notes 3, 19)	34,130,575	7,541,552
Restricted investments (Note 19)	-	37,834,281
Due from the Commonwealth, restricted (Note 5)	4,395,834	-
Due from the Foundation, noncurrent notes receivable (Note 17)	1,440,550	-
Pledges receivable, noncurrent portion (Note 19)	-	361,293
Securities lending investments (Note 3)	20,056	-
Other long-term investments (Note 19)	-	1,761,960
Other noncurrent assets	-	3,706,093
Nondepreciable capital assets (Notes 6, 19)	62,539,077	33,025,781
Capital assets, net of accumulated depreciation (Notes 6, 19)	131,589,810	90,894,897
Total noncurrent assets	234,115,902	175,125,857
Total Assets	**$ 254,590,522**	**$ 178,062,282**
Liabilities		
Current liabilities:		
Accounts payable (Note 7, 19)	13,344,893	690,856
Deferred revenue	1,379,695	142,576
Deposits held in trust	1,199,007	77,841
Obligations under Securities Lending Program (Note 3)	85,461	-
Amounts due to the Commonwealth	330,048	-
Amounts due to Foundation (Note 17)	477,097	-
Long-term liabilities – current portion (Notes 8, 9, 17)	3,214,691	469,040
Total current liabilities	20,030,892	1,380,313
Noncurrent liabilities:		
Amounts due to University – noncurrent portion (Note 17)	-	1,440,550
Long-term liabilities – noncurrent portion (Notes 8, 9, 17)	83,553,013	133,391,227
Federal Perkins loan program contributions refundable	539,431	-
Total noncurrent liabilities	84,092,444	134,831,777
Total Liabilities	**$ 104,123,336**	**$ 136,212,090**

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

STATEMENT OF NET ASSETS (CONTINUED)

For the year ended June 30, 2011

	UMW	UMW Foundation
Net Assets		
Invested in capital assets, net of related debt	$ 147,850,510	$ 9,686,661
Restricted for:		
Nonexpendable:		
Permanently restricted	-	24,985,818
Expendable:		
Loans	249,816	-
Sponsored programs	191,645	-
Research	20,872	-
Temporarily restricted	-	12,848,463
Unrestricted	2,154,343	(5,670,750)
Total Net Assets	**$ 150,467,186**	**$ 41,850,192**

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

For the year ended June 30, 2011

	UMW	UMW Foundation
Operating revenues:		
Student tuition and fees, net of scholarship allowances of $6,259,623	$ 30,791,566	$ -
Federal grants and contracts	660,161	-
State grants and contracts	34,453	-
Nongovernmental grants and contracts	569,924	-
Auxiliary enterprises, net of scholarship allowances of $1,573,885	29,088,932	-
Foundation operations	-	9,941,410
Other operating revenues	839,743	-
Total operating revenues	61,984,779	9,941,410
Operating expenses:		
Instruction	26,941,969	-
Research	294,936	-
Public service	1,026,348	-
Academic support	7,972,802	-
Student services	5,025,059	-
Institutional support	9,282,341	-
Operation and maintenance of plant	5,143,049	-
Depreciation	5,412,237	-
Student aid	399,013	-
Auxiliary activities	27,058,005	-
Museum and cultural services	750,668	-
Historic attraction management	186,996	-
Foundation operations	-	11,456,193
Total operating expenses	89,493,423	11,456,193
Operating Gain/(Loss)	**(27,508,644)**	**(1,514,783)**
Non-operating revenues/(expenses):		
State appropriations (Note 11)	21,176,733	-
Federal student financial aid – Pell grant revenue	2,752,265	-
Federal ARRA State Fiscal Stabilization Fund revenue	3,483,596	-
Federal Build America Bond interest subsidy revenue	175,405	-
Investment income/(loss)	183,753	6,399,954
Unrealized gain/(loss) on interest rate swap contracts	-	2,088,778
Gain/(Loss) on disposal of capital assets	(184,071)	(92,405)
Interest on capital asset related debt	(3,310,068)	(2,747,207)
Net non-operating revenues/(expenses)	**24,277,613**	**5,649,120**
Income/(Loss) before other revenues, expenses, gains, or losses	**(3,231,031)**	**4,134,337**
Capital appropriations (Note 5)	19,581,025	-
Capital gifts	35,198	-
Additions to term endowments	-	262,021
Additions to permanent endowments	-	(3,123,517)
Net other revenues, expenses, gains, or losses	**19,616,223**	**(2,861,496)**
Increase in net assets	**16,385,192**	**1,272,841**
Net assets – Beginning of year	**134,081,994**	**40,577,351**
Net assets – End of year	**$ 150,467,186**	**$ 41,850,192**

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

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2011

	UMW
Cash flows from operating activities:	
Student tuition and fees	$ 36,950,528
Grants and contracts	716,287
Auxiliary enterprises	30,674,241
Other receipts	1,513,204
Payments to employees	(44,221,540)
Payments for fringe benefits	(9,972,903)
Payments for services and supplies	(21,820,847)
Payments for utilities	(2,013,496)
Payments for scholarships and fellowships	(7,833,508)
Payments for noncapitalized plant and equipment	(1,189,547)
Perkins and other loans issued to students	(110,771)
Collection of Perkins and other loans from students	118,015
Net cash used by operating activities	**(17,190,337)**
Cash flows from noncapital financing activities:	
State appropriations	21,135,896
Federal Pell Grant revenue	2,752,265
Federal Family Education Loan Program receipts	18,188,209
Federal Family Education Loan Program payments	(18,188,209)
Federal ARRA State Fiscal Stabilization Fund revenue	3,483,596
Loan made to UMW Foundation	(185,550)
Agency receipts and payments (net)	(46,391)
Net cash provided by noncapital financing activities	**27,139,816**
Cash flows from capital financing activities:	
Capital appropriations	16,306,895
Purchase of capital assets	(42,007,645)
Proceeds received from capital debt, leases, and installments	39,295,000
Principle paid on capital debt, leases, and installments	(1,857,400)
Interest paid on capital debt, leases, and installments	(2,382,568)
Net cash provided by capital financing activities	**9,354,282**
Cash flows from investing activities:	
Interest on investments	250,090
Net cash provided by investing activities	**250,090**
Net increase in cash	**19,553,851**
Cash – Beginning of the year	**31,924,897**
Cash – End of the year	**$ 51,478,748**

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

STATEMENT OF CASH FLOWS (CONTINUED)

For the Year Ended June 30, 2011

	UMW
Reconciliation of net operating loss to net cash used by operating activities:	
Operating loss	**$ (27,508,644)**
Adjustments to reconcile net loss to net cash used by operating activities:	
Depreciation expense	5,412,237
Changes in assets and liabilities:	
Accounts receivable (operating portion)	389,158
Inventories	(16,701)
Prepaid expenses	(271,623)
Accounts payable	4,773,243
Deferred revenue	(354,112)
Deposits held in trust, excluding Agency funds	(26,792)
Due to Foundation	375,352
Due to Commonwealth (operating portion)	99,133
Accrued leave liability	(61,588)
Total adjustments	**10,318,307**
Net cash used by operating activities	**$ (17,190,337)**
Noncash investing, capital, and financing activities	
Gift of capital assets	35,198

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

NOTES TO THE FINANCIAL STATEMENTS

CONTENTS

1. REPORTING ENTITY

The University of Mary Washington is a comprehensive University that is part of the Commonwealth of Virginia's statewide system of public higher education. The University's Board of Visitors, appointed by the Governor, is responsible for overseeing governance of the University. 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. As such, the University is a component unit of the Commonwealth of Virginia and is included in the Comprehensive Annual Financial Report of the Commonwealth.

The University also benefits from a number of organizations that exist mainly to support the various purposes and activities of the University. In accordance with Governmental Accounting Standards Board (GASB) Statement 39, *Determining Whether Certain Organizations Are Component Units,* the University is discretely presenting the financial position of the University of Mary Washington Foundation (UMW Foundation). The UMW Foundation is a non-profit organization incorporated under the laws of the Commonwealth of Virginia. It was formed to seek, receive, hold, invest, administer, and distribute funds and property of all kinds, exclusively in furtherance of the educational activities and objectives of the University. The financial reports of the UMW Foundation include the net assets and results of operations of several wholly owned subsidiaries. The UMW Foundation issues its own audited financial statements in addition to being included in the statements of the University.

In addition, the University benefits from the University of Mary Washington Alumni Association. In accordance with GASB Statement 39 addressed above, the financial position and results of its operations are not discretely presented in conjunction with the University's financial statements. Summary information related to the University of Mary Washington Alumni Association is presented in Note 10. Financial statements are also issued by the Alumni Association.

Both organizations are separate legal entities from the University and the University exercises no control over them. Complete financial statements for the UMW Foundation and the UMW Alumni Association can be obtained from the respective entity, 1125 Jefferson Davis Hwy; Suite 200; Fredericksburg, Virginia 22401.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

GASB Statement 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities,* issued November 1999, establishes accounting and financial reporting standards for public colleges and universities within the financial guidelines of GASB Statement 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. The standards are designed to provide financial information that responds to the needs of three groups of primary users of general-purpose external financial reports: The citizenry, legislative and oversight bodies, and investors and creditors. The University is required under the guidance to include Management's Discussion and Analysis, and basic financial statements, including notes, in its financial statement presentations.

The UMW Foundation is a private non-profit organization that does not report under the guidelines of the GASB, instead following the guidance of the Financial Accounting Standards Board (FASB), including FASB Statement 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the UMW Foundation's financial information in the University's financial reporting entity for these differences. Information as to the significant accounting policies of the UMW Foundation can be obtained from its audited financial statements.

Basis of Accounting

For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the University'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, regardless of the timing of related cash flows. All significant intra-agency transactions have been eliminated.

The University has the option to apply all FASB pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The University has elected not to apply FASB pronouncements issued after the applicable date.

Cash Equivalents

For purposes of the statements of net assets and cash flows, the University considers all highly liquid investments with an original maturity of 90 days or less to be cash equivalents.

Investments

GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, requires that purchased investments, interest-bearing temporary investments classified with cash, and investments received as gifts be recorded at fair value. All investment income, including changes in the fair market value of investments (unrealized gains and losses), is reported as non0operating revenue in the *Statement of Revenues, Expenses, and Changes in Net Assets*.

Prepaid Expenses

Prepaid expenses of the University included items such as insurance premiums, membership dues, and conference registrations for next fiscal year that were paid in advance, as well as publications, subscriptions, and maintenance contracts which include initial and renewal annual subscriptions that continue into the next fiscal year.

Inventories

Inventories are stated at the lower of cost (generally determined on the average cost method) or market. Inventories consist primarily of merchandise for resale in the University'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 University's Central Storeroom.

Noncurrent Cash and Investments

Noncurrent cash and investments are externally restricted for the Federal Department of Education Perkins Loan program and for the construction of capital or other non-current assets.

Capital Assets

Capital assets consisting of land, buildings and other improvements, infrastructure, and equipment are stated at appraised historical cost or actual cost where determinable. Construction in progress is capitalized at actual cost as expenses are incurred. Library materials are valued using average prices for library acquisitions. All gifts of capital assets are recorded at fair market value as of the date of donation.

Interest expense incurred during the construction of capital assets is capitalized, if material, net of interest income earned on resources set aside for this purpose.

Equipment is capitalized when the unit acquisition cost is $5,000 or greater and the estimated useful life is two years or more. Renovation costs are capitalized when expenses total more than $5,000, the asset value significantly increases, or the useful life is significantly extended. Routine repairs and maintenance are charged to operating expenses in the year the expense is incurred. 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 useful life of the asset. The useful life is 50 years for buildings, 5-30 years for improvements other than buildings, 5-50 years for infrastructure, 5-15 years for equipment, and 10 years for library materials.

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. These collections were appraised in 1982 and 2001 for approximately $2,300,000 and $2,842,000 respectively.

In addition, the University 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 University, but have not been appraised and total market value of the entire collection is unknown.

The items held in all three collections are held for public exhibition, education, or research in furtherance of public service rather than financial gain; are protected, kept unencumbered, cared for, and preserved; and are subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for the collection. Since these conditions exist and historical cost data for the collections are not available; in accordance with GASB Statement 34, no balances are reported in the accompanying financial statements.

Deferred Revenues

Deferred revenue represents revenue collected but not earned as June 30. This amount includes amounts received for tuition and fees and certain auxiliary activities (resident housing deposits) related to the period after June 30.

Noncurrent Liabilities

Noncurrent liabilities include the principal amounts of bonds payable, notes payable, and installment purchase obligations with maturities greater than one year and estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year.

Debt payable is reported net of related discounts and premiums, which are expensed over the life of the debt. Debt for refinancing purposes is also reported net of any gain or loss on the defeasance of prior debt and is expensed over the life of the debt. Material debt issuance costs are reported as a non-current asset that is amortized over the life of the debt on a straight-line basis.

Accrued Compensated Absences

Certain salaried employees' attendance and leave regulations make provisions for granting a specified number of days of leave with pay each year. The amount reflects, as of June 30, 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 payments is also included. The University's liability and expense for the amount of leave earned by employees but not taken, as of June 30, 2011, is recorded in the *Statement of Net Assets*, and is included in the various functional categories of operating expenses in the *Statement of Revenues, Expenses, and Changes in Net Assets*.

Federal Financial Assistance Programs

The University 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 1995, the Office of Management and Budget Revised Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and the compliance supplement.

Net Assets

The University's net assets are classified as follows:

- **Invested in capital assets, net of related debt** – Invested in capital assets, net of related debt represents the University's total investment in capital assets, net of accumulated depreciation and outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.
- **Restricted net assets, expendable** – Expendable restricted net assets include resources for which the University is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.
- **Restricted net assets, nonexpendable** – Nonexpendable restricted net assets consist of endowment and similar type funds where 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, to be expended or added to the principal.

- **Unrestricted net assets** – Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, recoveries of facilities and administrative (indirect) costs, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational departments and the general operations of the University, and may be used at the discretion of the University's board of visitors to meet current expenses for any lawful purpose.

Income Taxes

The University, as a political subdivision of the Commonwealth of Virginia, is excluded from federal income taxes under Section 115(1) of the Internal Revenue Code, as amended.

Classifications of Revenues and Expenses

The University has classified its revenues and expenses as either operating or non-operating according to the following criteria:

- **Operating revenues** – Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship allowance; (2) sales and services of auxiliary enterprises, net of scholarship allowances; and (3) most federal, state, local, and nongovernmental grants and contracts and federal appropriations.
- **Non-operating revenues** – Non-operating revenues are revenues received for which goods and services are not provided. State appropriations, gifts, and other revenue sources defined as non-operating 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, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* are included in this category.
- **Operating expenses** – Operating expenses include those expenses necessary for the operation of the University including those for wages and fringes, services and supplies, and operation of plant including utilities as well as any expense not classified as non-operating.
- **Non-operating expenses** – Non-operating expenses are those expenses incurred for interest on debt related to the purchase of capital assets and the losses on the disposal of capital assets.

Scholarship Discounts and Allowances

Student tuition and fees and certain auxiliary revenues are reported net of scholarship allowance in the *Statement of Revenues, Expenses, and Changes in Net Assets*. Scholarship allowance is the difference between the stated charge for goods and services provided by the University and the amount paid by students and/or third parties making payments on the students' behalf.

Certain governmental grants, such as Pell grants, and other federal, state, or nongovernmental programs are recorded as either operating or non-operating revenue in the University's financial statements. To the extent that such revenues are used to satisfy tuition and fees or certain auxiliary charges, the University has recorded a scholarship discount and allowance.

3. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Certain risk disclosures are required by GASB Statement 40, *Deposit and Investment Risk Disclosures* which is an amendment of GASB Statement 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reserve Repurchase Agreements*. With respect to deposit risks, there are custodial credit risk and foreign currency risk. With respect to investments, there are credit risks (both custodial credit risk and concentrations of credit risk), interest rate risk, and foreign currency risk. These risks are defined as:

- **Credit risk** – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. GASB Statement 40 requires the disclosure of the credit quality rating on any investments subject to credit risk.
- **Custodial credit risk** – The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of the institution. The custodial risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in possession of

an outside party. The University does not have a policy limiting the ratings type of investment choices. The University does not have any funds subject to custodial credit risk.

- **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. GASB Statement 40 requires disclosure of any issuer with more than five percent of total investments. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from disclosure. The University does not have a policy limiting the amount that can be invested in any one issuer.
- **Interest rate risk** – Interest rate risk is the risk that interest rate changes will adversely affect the fair value of an investment. GASB Statement 40 requires disclosure of maturities for investments subject to interest rate risk. The University does not have a policy limiting investment maturities as a means of managing interest rate risk.
- **Foreign currency risk** – Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The University does not have a policy limiting foreign investments. The University does not have any investments subject to foreign currency risk.

Cash and Cash Equivalents

Cash and cash equivalents reporting requirements are defined by GASB Statement 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting*. Cash and cash equivalents represent cash with the treasurer of the Commonwealth, cash on hand, certificates of deposit and temporary investments with original maturities of 90 days or less, and cash equivalents with the Virginia State Non-Arbitrage Program (SNAP). SNAP is an open-end management investment company registered with the Securities and Exchange Commission.

Pursuant to Section 2.2-1800 et seq. Code of Virginia, all state funds of the University are maintained by the Treasurer of Virginia, who is responsible for the collection, disbursement, custody, and investment of state funds. Some local cash deposits held by the University are maintained in accounts that are insured by the Federal Deposit Insurance Corporation (FDIC) or collateralized in accordance with the *Virginia Security for Public Deposits Act*, Section 2.2-4400, et. seq. Code of Virginia.

Investments

The investment policy of the University is established by the Board of Visitors and monitored by the board. Authorized investments are set forth in the *Investment of Public Funds Act*, Sections 2.2-4500 through 2.2-4516 et seq., Code of Virginia.

Investments fall into two groups: short-term and long-term. Short-term investments have an original maturity of over 90 days but less than or equal to one year. Long-term investments have an original maturity greater than one year. A categorization of the University's cash, cash equivalents, and investments are presented below.

	Market Value As of June 30, 2011	Credit Rating	Investment Maturity
Cash and cash equivalents:			
Cash with the Treasurer	($ 3,317,497)		
Deposits with financial institutions	4,651,251		
Collateral held for securities lending	65,405		<3 months
Money market deposits with brokers/dealers	10,836,120	Moody's AAA	<3 months
State non-arbitrage program (SNAP)	39,308,874	S&P AAAm	<3 months
Total cash and cash equivalents	$ 51,544,153		
Short-term Investments			
Collateral held for securities lending	$ 20,056		<1 year

Securities Lending Transactions

Collateral held for securities lending and the securities lending transactions reported on the financial statements represent the University'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 is available on a statewide level in the Commonwealth of Virginia's *Comprehensive Annual Financial Report*.

4. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30, 2011:

Accounts Receivable	
Student tuition and fees	$ 963,460
Auxiliary enterprises	242,099
Perkins loan	795,326
Other activities	169,185
Total receivables before allowance	2,170,070
Less: allowance for doubtful accounts	(492,987)
Total receivables	$ 1,677,083

5. COMMONWEALTH EQUIPMENT AND CAPITAL PROJECT REIMBURSEMENT PROGRAMS

The Commonwealth has established several programs to provide state-supported institutions of higher education with bond proceeds for financing the acquisition and replacement of instructional and research equipment and facilities. During fiscal year 2011, funding has been provided to the University from three programs: general obligation bonds [code section 9(c)], and two programs (21st Century program and the Equipment Trust Fund) managed by the Virginia College Building Authority (VCBA). The VCBA issues bonds and uses the proceeds to reimburse the University for expenses incurred in the acquisition of equipment and facilities.

The *Statement of Revenues, Expenses, and Changes in Net Assets* includes amounts listed below for the year ended June 30, 2011, in "Capital appropriations" line item for equipment and facilities obtained with funding under these three programs.

Capital Appropriations	
VCBA Equipment Trust Fund program	$ 528,581
General obligation bonds 9(C)	895,216
VCBA 21st Century program	18,157,228
Total capital appropriations	$ 19,581,025

The line item, "Due from the Commonwealth, restricted," on the *Statement of Net Assets* for the year ended June 30, 2011, represents pending reimbursements from the following programs:

Due from the Commonwealth, restricted	
VCBA Equipment Trust Fund program	$ 528,581
General obligation bonds 9(C)	4,765
VCBA 21st Century program	3,862,488
Total Due from the Commonwealth, restricted	$ 4,395,834

6. CAPITAL ASSETS

A summary of changes in capital asset categories for the year ended June 30, 2011, is presented as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Non-depreciable capital assets:				
Land	$ 5,176,399	$ -	$ -	$ 5,176,399
Construction in progress	18,443,053	41,454,974	(2,535,349)	57,362,678
Total non-depreciable capital assets	23,619,452	41,454,974	(2,535,349)	62,539,077
Depreciable capital assets:				
Buildings	162,052,970	1,268,768	(195,785)	163,125,953
Equipment	13,615,170	712,537	(381,187)	13,946,520
Infrastructure	31,343,065	698,632	-	32,041,697
Improvements other than buildings	6,845,220	209,553	-	7,054,773
Library books	11,362,645	250,207	(49,841)	11,563,011
Total depreciable capital assets at historical cost	225,219,070	3,139,697	(626,813)	227,731,954
Less accumulated depreciation for:				
Buildings	47,256,523	2,721,390	(15,801)	49,962,112
Equipment	9,857,312	1,169,102	(360,622)	10,665,792
Infrastructure	22,031,019	964,907	-	22,995,926
Improvements other than buildings	2,228,769	239,398	-	2,468,167
Library books	9,782,547	317,441	(49,841)	10,050,147
Total accumulated depreciation	91,156,170	5,412,238	(426,264)	96,142,144
Depreciable capital assets, net of depreciation	134,062,900	(2,272,541)	(200,549)	131,589,810
Total capital assets, net of depreciation	$ 157,682,352	$ 39,182,433	$ (2,735,898)	$ 194,128,887

7. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at June 30, 2011:

Accounts payable and accrued expenses	
Accounts payable	$ 6,700,486
Accrued salaries and wages payable	3,530,012
Accrued interest on capital debt	1,295,865
Retainage payable	1,818,530
Total accounts payable and accrued expenses	$ 13,344,893

8. NON-CURRENT LIABILITIES

The University's non-current liabilities consist of long-term debt (further described in Note 9), accrued compensated absences, and the federal Perkins Loan program contribution refundable. A summary of changes in the long-term liabilities for the year ending June 30, 2011 is presented below:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Long-term debt:					
Bonds payable	$ 6,885,296	-	($ 828,124)	$ 6,057,172	$ 846,103
Notes payable	37,738,934	$41,486,422	(2,087,675)	77,137,681	1,150,000
Installment purchases	2,356,263	-	(205,523)	2,150,740	214,477
Total long-term debt	46,980,493	41,486,422	(3,121,322)	85,345,593	2,210,580
Other non-current liabilities:					
Accrued compensated absences	1,483,699	1,026,798	(1,088,386)	1,422,111	1,004,111
Total long-term liabilities	$ 48,464,192	$ 42,513,220	($ 4,209,708)	$ 86,767,704	$ 3,214,691

9. LONG-TERM INDEBTEDNESS

Bonds Payable

The University has issued bonds pursuant to section 9(c) of Article X of the *Constitution of Virginia*. Section 9(c) bonds are general obligation bonds issued by the Commonwealth of Virginia on behalf of the University. They 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 payable as of June 30, 2011 is presented as follows:

	Interest Rates	Maturity	Outstanding Balance
Residence Halls			
Series 2004A, issued $1,036,316 – partial refunding series 2001	2.0% - 5.0%	2020	$ 1,008,898
Series 2008R, issued $1,202,181 – refunding series 1998	3.0% - 5.0%	2013	502,337
Series 2009C, issued $152,541 – partial refunding series 2001A	3.0% - 4.0%	2021	152,542

	Interest Rates	Maturity	Outstanding Balance
Telecommunications Replacement			
Series 2002R, issued $2,646,766 – partial refunding series 1993	2.5% - 5.0%	2013	660,000
Dining Halls			
Series 2005A, issued $4,730,000 – partial refunded	3.5% - 5.0%	2025	2,030,000
Series 2009D, issued $1,625,000 – partial refunding series 2005A	5.0%	2022	1,625,000
Unamortized premium/(discount)			302,995
Gain/(loss) deferral on debt defeasance			(224,600)
Total Bonds Payable			$ 6,057,172

Notes Payable

The University 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) issues 9(d) bonds and uses the proceeds to purchase debt obligations (notes) of the University. The notes are secured by the pledged general revenues of the University. A summary of all notes payable as of June 30, 2011 is presented below:

	Interest Rates	Maturity	Outstanding Balance
Tennis Court Replacement			
Series 2004R, issued $695,000 – partial refunding series 1999A	3.00% - 5.00%	2019	610,000
Fitness Center			
Series 2004R, issued $1,385,000 – partial refunding series 2000A	3.00% - 5.00%	2016	1,350,000
Series 2007B, issued $1,030,000 – partial refunding series 2000A	4.00% - 4.50%	2019	1,020,000
Series 2010B, issued $545,000 – partial refunding series 2000A	2.00% - 5.00%	2021	545,000
Indoor Tennis Facility			
Series 2002A, issued $2,335,000 – partial refunded	3.00% - 5.25%	2023	215,000
Series 2007B, issued $860,000 – partial refunding series 2002A	4.00% - 4.50%	2019	845,000
Series 2010B, issued $630,000 – partial refunding series 2002A	2.00% - 5.00%	2023	630,000
Jepson Science Center			
Series 2004R, issued $725,000 – partial refunding series 1997	3.00% - 5.00%	2016	560,000
Series 2007B, issued $190,000 – partial refunding series 1997	4.00% - 4.25%	2018	115,000
Parking Deck			
Series 2004A, issued $5,665,000	3.00% - 5.00%	2026	4,685,000
Athletic Field Replacement			
Series 2007A, issued $1,935,000	4.50% - 5.00%	2037	1,845,000
Residence Halls			
Series 2007A, issued $4,895,000	4.50% - 5.00%	2037	4,660,000
Series 2010A/B, issued $36,765,000	3.75% - 5.60%	2041	36,765,000
Convocation Center			
Series 2009B, issued $18,795,000	3.00% - 5.00%	2040	18,795,000
Athletic Complex Renovations			
Series 2010A/B, issued $2,530,000	2.00% - 5.60%	2037	2,530,000
Unamortized premium/(discount)			2,090,086
Gain/(loss) deferral on debt defeasance			(122,405)
Total Notes Payable			$ 77,137,681

Installment Purchases

The University has entered into an installment purchase contract to finance the acquisition of energy savings infrastructure and equipment. The purchase agreement continues until 2019 with interest rates from 2.99% to 4.31%.

Prior Year Defeasance of Debt

In prior years, the University and the Commonwealth of Virginia, on behalf of the University, 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 University's financial statements. On June 30, 2011, $1,625,000 of the bonds and $1,455,000 of the notes considered defeased remain outstanding.

Annual Debt Service Requirements

A summary of the University's future principal commitments and future interest commitments is presented below:

	Section 9(c) Bonds	Notes Payable	Installment Purchases	Total Long-Term Debt
Future principal commitments:				
2012	$ 846,102	$ 1,150,000	$ 214,477	$ 2,210,579
2013	891,435	1,920,000	223,820	3,035,255
2014	305,255	2,030,000	233,571	2,568,826
2015	321,192	2,130,000	243,746	2,694,938
2016	341,139	2,230,000	254,365	2,825,504
2017 – 2021	1,963,654	12,455,000	980,761	15,399,415
2022 – 2026	1,310,000	11,995,000	-	13,305,000
2027 – 2031	-	11,810,000	-	11,810,000
2032 – 2036	-	14,405,000	-	14,405,000
2037 – 2041	-	15,045,000	-	15,045,000
Unamortized premium/(discount)	302,995	2,090,086	-	2,393,081
Gain/(loss) deferral on debt defeasance	(224,600)	(122,405)	-	(347,005)
Total future principal requirements	$ 6,057,172	$ 77,137,681	$ 2,150,740	$ 85,345,593
Future Interest commitments:				
2012	$ 289,408	$ 3,712,208	$ 90,411	$ 4,092,027
2013	247,177	3,642,308	81,067	3,970,552
2014	205,137	3,543,633	71,316	3,820,086
2015	189,786	3,440,333	61,141	3,691,260
2016	173,745	3,332,489	50,522	3,556,756
2017 – 2021	603,550	14,926,974	86,343	15,616,867
2022 – 2026	160,500	12,104,325	-	12,264,825
2027 – 2031	-	9,169,250	-	9,169,250
2032 – 2036	-	5,835,281	-	5,835,281
2037 – 2041	-	1,867,013	-	1,867,013
Total future interest requirements	$ 1,869,303	$ 61,573,814	$ 440,800	$ 63,883,917

10. EXPENSES BY NATURAL CLASSIFICATION

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	$ 21,690,047	$ 4,007,275	$ 1,096,979	$ 13,717	$ 133,951	$ -	$ 26,941,969
Research	138,114	6,626	144,670	-	5,526	-	294,936
Public service	720,783	161,211	140,025	-	4,329	-	1,026,348
Academic support	4,736,779	979,559	1,561,371	(133)	695,226	-	7,972,802
Student services	2,886,831	615,319	1,462,708	(66)	60,267	-	5,025,059
Institutional support	4,382,298	1,550,246	3,210,874	82,551	56,372	-	9,282,341
Plant – operation & maintenance	1,682,811	909,333	575,649	1,967,783	7,473	-	5,143,049
Depreciation	-	-	-	-	-	5,412,237	5,412,237
Student aid	268,268	11,417	109,323	-	10,005	-	399,013
Museum & cultural Services	515,371	86,209	99,113	48,362	1,613	-	750,668
Historic attraction Management	140,792	12,373	27,957	5,874	-	-	186,996
Auxiliary activities	7,206,507	1,623,261	18,118,044	(104,592)	214,785	-	27,058,005
Total Expenses	$ 44,368,601	$ 9,962,829	$ 26,546,713	$ 2,013,496	$ 1,189,547	$ 5,412,237	$89,493,423

11. STATE APPROPRIATIONS

The University receives state appropriations from the General Fund of the Commonwealth. The Appropriations 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 re-appropriations in the next year by the Governor become part of the General Fund of the Commonwealth and are, therefore, no longer available to the University for disbursements.

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

State Appropriations	
Original legislative appropriation per Chapter 874:	
Educational and general programs	$ 18,987,067
Student financial assistance	1,468,704
Museum and cultural services	459,539
Historic attraction management	205,430
Supplemental adjustments:	
College Scholarship Assistance Program (CSAP)	35,011
Deferred Compensation Cash Match Suspension	(90,652)
Eminent Scholars	15,246
Equipment Trust Fund debt transfer	(97,063)
Health Insurance Rate Changes	8,776
Other Benefits Rate Changes	(8,505)
Out of state student capital outlay fee	(422,985)
Retirement Changes for New Employees	(33,072)
Retirement Contribution Changes	(3,601)
State Employee Bonuses	563,706
State Employee Workers Compensation Premium Changes	1,420
Statewide Purchase & Supply System (eVa) Rate Changes	(3,271)
Va. Military Survivors & Dependent Education Program	10,890
Virginia DOE Pathways to Excellence	32,092
Virginia DOE Special Ed Teacher Support	69,299

State Appropriations	
Virtual Library of Virginia (VIVA) allocation	15,081
VITA savings	(4,569)
VRS FY10 4th Quarter Payment Deferral	134,293
VRS FY11 4th Quarter Payment Deferral	(166,094)
Cash reversions:	(9)
State appropriation revenue, adjusted	$21,176,733

12. COMMITMENTS

Capital Improvement Commitments

The amounts listed in the following table represent the value of obligations remaining on capital improvement project contracts. These obligations are for future effort and as such have not been accrued as expenses or liabilities on the University's financial statements. Outstanding contractual commitments for capital improvement projects as of June 30, 2011, include:

Capital commitments by project	
Mason & Randolph Hall renovations	$ 20,975,444
Dahlgren campus	5,276,639
Monroe Hall renovations	2,121,070
Anderson (Convocation) Center	1,152,477
Other projects	511,401
Total capital commitments	$ 30,037,031

In addition, $1,818,530 was held by the University 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.

Lease Commitments

The University has entered into several agreements to lease space, primarily buildings for office space. The University is committed to an operating lease for office space for the Warsaw office of the Rappahannock Small Business Development Center run by the University. The lease is for a three-year term beginning in July 2010. Rental expense was $5,100 for the year ended June 30, 2011.

The University is also committed to two operating leases for office space for administrative offices of the University. The first lease is a five-year lease beginning in September 2006. Rental expense was $278,132 for the year ended June 30, 2011. The second lease was a two year lease beginning in May 2009 and was extended during the year until October 2013. Rental expense was $161,982 for the year ended June 30, 2011.

Additionally, the University is committed to eight leases with the UMW Foundation and its subsidiaries, a related party to the University. The first of these leases is for additional parking spaces near the campus. The lease was for one year beginning in July 2010. The second lease is for storage space off-campus. The lease is for a two year term beginning in June 2009 and was extended during the year until June 2012. The next lease is for office space in the new Eagle Village. The lease is for a five year term beginning in December 2010. The final five leases are for the rental of five houses in the immediate area of the University. All are for five year terms with four of the leases beginning in July 2010 and one beginning in May 2011. Rental expense on all eight leases was $278,380 for the year ended June 30, 2011.

The University has, as of June 30, 2011, the following future minimum rental payments due under the above leases:

Future minimum operating lease payments	
Year ending June 30, 2012	$ 457,752
Year ending June 30, 2013	321,824
Year ending June 30, 2014	207,590
Year ending June 30, 2015	173,747
Year ending June 30, 2016	74,845
Total	$ 1,235,758

13. CONTRIBUTIONS TO PENSION PLANS

Virginia Retirement System

Employees of the University are employees of the Commonwealth of Virginia and therefore eligible to participate in the Commonwealth's defined benefit retirement plan. This plan is administered by the Virginia Retirement System (VRS). VRS is a 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. Information related to this plan is available at the statewide level only and can be found in the Commonwealth of Virginia's *Comprehensive Annual Financial Report*. The Commonwealth, not the University, has the overall responsibility for contributions to this plan.

The University's expenses include the amount assessed by the Commonwealth for contributions to VRS, which totaled $1,474,376 for the year ended June 30, 2011.

Optional Retirement Plans

Full-time faculty and certain administrative staff can participate in a defined contribution plan administered by two different providers other than the VRS. The two different providers are TIAA/CREF Insurance Companies and Fidelity Investments Tax-Exempt Services Company. For employees who became members of this plan prior to July 1, 2010, this plan is a defined contribution program where the retirement benefits received are based upon the employer's contribution (10.4%), plus interest and dividends. For employees who became members of this plan after July 1, 2010, this plan is a defined contribution program where the retirement benefits received are based upon the employer's contribution (8.5%), plus the employee's contribution (5.0%), plus interest and dividends.

Individual contracts issued under the plan provide for full and immediate vesting of both the University's and the employee's contributions. Total employer pension costs under this plan were $1,599,025 for fiscal year 2011. Contributions to the optional retirement plan were calculated using the base salary amount of approximately $15,619,154 for the fiscal year.

Deferred Compensation Plan

Employees of the University are employees of the Commonwealth of Virginia. State employees may participate in the Commonwealth's Deferred Compensation Plan. Participating employees can contribute to the plan each pay period with the Commonwealth matching up to $20 per pay period. The dollar amount match can change depending on the funding available in the Commonwealth's budget. The Deferred Compensation Plan is a qualified defined contribution plan under Section 401(a) of the Internal Revenue Code. The University expense for contributions under the Deferred Compensation Plan, which is an amount assessed by the Commonwealth, was $102,035 for fiscal year 2011.

14. POST-EMPLOYMENT BENEFITS

The Commonwealth sponsors post-employment benefit programs that are administered by the Virginia Retirement System. These programs, a statewide group life insurance program and the Virginia Sickness & Disability program's long-term care plan, provide post-employment benefits to eligible retired and terminated employees. Health care credits are also provided to offset the monthly health insurance premiums of its retirees who have at least 15 years of service. Information related to these plans is available at the statewide level in the Commonwealth's *Comprehensive Annual Financial Report*.

15. RISK MANAGEMENT AND EMPLOYEE HEALTH CARE PLANS

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; nonperformance of duty; injuries to employees; and natural disasters. The University 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, boiler and machinery, and air and watercraft plans. The University pays premiums to each of these departments for its insurance coverage. Information relating to the Commonwealth's insurance plans is available in the Commonwealth of Virginia's *Comprehensive Annual Financial Report*.

16. CONTINGENCIES

Grants and Contracts

The University has received federal grants for specific purposes that are subject to review and audit by 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 outlay of resources for allowable purposes. Any disallowance resulting from a federal audit may become a liability of the University.

In addition, the University is required to comply with the various federal regulations issued by the Office of Management and Budget. Failure to comply with certain system requirements of these regulations may result in questions concerning the allowance of related direct and indirect charges pursuant to such agreements. As of June 30, 2011, the University estimates that no material liabilities will result from such audits or questions.

Pending Litigation

The University was not named as a defendant in any lawsuits as of June 30, 2011.

17. RELATED PARTY TRANSACTIONS

The UMW Foundation provides financial support to the University. The UMW Foundation is a separate entity, whose financial position is presented along with the University as required by GASB Statement 39 *Determining Whether Certain Organizations Are Component Units*.

Pursuant to the Series 2007 bonds of the Foundation, the University entered into a support and management agreement with the Foundation. The University shall operate and manage the 1201 William Street project (2007 Project) as part of and on an equal basis with its own academic and administrative offices. Subject to this agreement and upon consultation with the Foundation, the University shall be responsible for all aspects of the operation of the 2007 Project. On each January 15 and July 15, commencing July 15, 2008, the University shall transfer to the Foundation the amounts set forth in the 2007 Project budget for the succeeding six month period of such fiscal year. The amount of the transfer shall include, without limitation, the amount necessary for the Foundation to satisfy its payment and other obligations under the 2007 Project loan agreement and the Deed of Trust during such period. In addition, promptly upon the request of the Foundation, the University shall transfer to the Foundation any other amount requested by the Foundation necessary to pay any amount due and payable under the 2007 Project loan agreement or the Deed of Trust, including any additional payments as defined in the loan agreement. The amounts received are to be pledged as security for the Foundation's obligations under the 2007 Project loan agreement and the Deed of Trust. Amounts due to the Foundation under this agreement at June 30, 2011 were $44,648 and is included in "Due to the Foundation" on the University's *Statement of Net Assets*.

Pursuant to the 2008 and 2009 bonds of the Foundation and Eagle Housing, LLC, the University entered into a support and management agreement with the Foundation and Eagle Housing, LLC, a wholly-owned subsidiary of the Foundation. The support agreement requires preferential treatment in that the University must assign all of its students in need of housing first to the University Apartment Project and the Eagle Village I Project (Student Housing Projects), until at least 95% of the available units in the Student Housing Projects have been filled. The management agreement appoints the University as the property's facilities manager, and requires the University to establish annual operating and capital budgets that facilitate the Foundation's compliance with the financial covenants of the bond financing agreements. In addition, the agreement requires a Project Revenue Fund be established at the University to collect revenues and pay expenses of operating, maintaining, and insuring the facility. The net results of the Project Revenue Fund are to be transferred to the Foundation at its request. Amounts due to the Foundation under the Series 2008 Bond agreement at June 30, 2011 were $175,107. Amounts due to the Foundation under the Series 2009 Bond agreement at June 30, 2011 were $253,467. Both amounts are included in "Due to the Foundation" on the University's *Statement of Net Assets.*

The support agreement remains in effect for as long as the 2008 and 2009 bonds are outstanding. The management support agreement extends to September 1, 2041. The management agreement may be terminated by either party after June 30, 2015, with certain restrictions. A termination of the management agreement shall in no way terminate the support agreement or affect the University's obligations under the support agreement.

In June 2011, with the Board of Visitor's previous approval of the relationship between the University and the Foundation, the University gave the Foundation $500,000 from auxiliary funds to further facilitate the Foundation's compliance with the financial covenants of the 2008 and 2009 bond financing agreements referenced above. The University does not expect repayment.

In December 2009, the Foundation obtained a non-interest bearing, promissory note from the University in the amount of $1,600,000 for the purpose of purchasing property for the ultimate ownership and use by the University. Per the agreement, the University commits to purchase the property from the Foundation and the Foundation commits to sell the properties to the University by the maturity date of December 2015. The purchase price will be the sum of purchase price paid plus costs and expenses to carry and maintain the properties during the term of ownership. At settlement, the loan will be repaid via a credit to the University against the purchase price equal to the outstanding principal balance of the loan.

In June 2011, the Foundation obtained a commitment from the University for another non-interest bearing promissory note in the amount of $1,000,000 to fund the soft costs related to the planning and design of a student center for the ultimate ownership and use by the University. Per the agreement, the University will lease land to the Foundation for the construction of the student center and will purchase the student center from the Foundation upon completion of construction. The loan will be repaid to the University once the Foundation obtains construction financing from a different lender. No amounts had been advanced under this agreement at June 30, 2011.

The University has currently entered into eight operating leases with the Foundation and its related entities for parking, storage, and office space. These leases are further discussed in footnote 12 (Commitments).

18. AFFILIATED FOUNDATION

In accordance with GASB Statement 39, *Determining Whether Certain Organizations Are Component Units*, the financial statements do not include the assets, liabilities, and net assets of the University of Mary Washington Alumni Association. The purpose of this organization is to promote the welfare and support the mission of the University and to encourage an enduring relationship with the University by deepening alumni and student loyalty. This organization is a separately incorporated entity and the related financial statements are reviewed by other auditors. The following condensed summary is based solely upon the reports of other auditors at and for the year ended June 30, 2011.

University of Mary Washington Alumni Association	
Assets:	
Cash and investments	$ 107,436
Other assets	5,405
Total assets	$ 112,841

University of Mary Washington Alumni Association	
Liabilities and net assets:	
Liabilities	$ 0
Net assets	112,841
Total liabilities and net assets	$ 112,841

The revenues and expenditures of the Alumni Association, determined as if in consolidation with the University, were $214,473 and $248,215 respectively, for the year ended June 30, 2011.

19. UMW FOUNDATION FOOTNOTE DISCLOSURES

Full and complete footnotes related to the UMW Foundation can be obtained from the Foundation's audited financial statements. Information as to the UMW Foundation's significant accounting policies, board designated net assets, restricted fund net assets, endowment funds, fair value measurements, and working capital contingencies are not presented below and can only be obtained from the Foundation's audited financial statements.

Cash, Cash Equivalents and Investments

Financial instruments that potentially subject the Foundation to concentration of credit risk consist of cash and cash equivalents, receivables and investments. The Foundation places its temporary cash investments with high credit quality financial institutions. The Foundation had no cash and cash equivalents in excess of the Federal Deposit Insurance Corporation limit at June 30, 2011. Investments are diversified and managed by several different managers. The Foundation monitors its investments and receivables to minimize credit risk.

The Foundation uses derivatives to manage risks related to interest rate movements. Interest rate swap contracts designated and qualifying as cash flow hedges are reported at fair value on the *Statement of Net Assets* with the changes in the fair value included in the *Statement of Revenues, Expenses, and Changes in Net Assets*. The Foundation documents its risk management strategy and hedge effectiveness at the inception of, and during the term of, each hedge. The Foundation's interest rate risk management strategy is to stabilize cash flow requirements by maintaining interest rate swap contracts to convert variable-rate debt to fixed rate.

The market value of investments held by various funds at June 30, 2011, is summarized below:

UMW Foundation Investments	Market Value As of June 30, 2011
US Treasury Securities	$ 1,356,966
Bond mutual funds	4,442,873
Stock mutual funds	19,590,416
Partnerships	14,205,986
Total Cash and Investments	$ 39,596,241

Investment income includes the following components for the year ended June 30, 2011:

UMW Foundation Investment Income	
Interest and dividends	$ 477,858
Unrealized gain (loss)	5,482,404
Realized gain	379,692

UMW Foundation Investment Income	
Investment income(loss)	$ 6,339,954

The Foundation has beneficial interests in various split-interest agreements. The contribution portion of an agreement is recognized as revenue when the Foundation has the unconditional right to receive benefits under the agreement, and is measured at the expected future payments to be received. Any assets received under a trust agreement are recorded at fair value. Any liabilities to third-party beneficiaries are recorded at the present value of the expected payments. All present value calculations are made using federal discount rates and life expectancy tables. During the term of the agreement, any changes in actuarial assumptions are recognized as "changes in value of split-interest agreements."

The Foundation is the remainder beneficiary and trustee of twenty charitable gift annuities and one charitable remainder trust, dated 1991 to 2010. The discount rates range from 2.6% to 10.6% and are paid either monthly or quarterly. Total annuity payments for 2011 were $64,408.

Pledges and Loans Receivable

In order to simplify their accounting process for pledges receivable, the Foundation has elected to record all pledges receivable at fair value. The fair value adjustment for 2011 was $608,665. No changes in the fair value measurement were attributable to instrument specific credit risk. During 2011, the Foundation incurred $4,748,086 in pledge losses due to the passing of a donor. UMW Foundation had unconditional pledges receivable consisting of the following at June 30, 2011:

Pledges Receivable	
Pledges due within one year	$ 531,137
Pledges due in two to five years	389,847
Thereafter	1,000
Total receivables before discount	921,984
Less: discounts to net present value (using a discount rate of 5%)	(29,554)
Pledges receivable – net	$ 892,430

The Foundation has a loan receivable of $75,000 due from a former key employee of the University. No payments were received in 2011. The stated interest rate of 5% per annum has been forgiven by the Foundation.

On September 1, 2010, the Foundation entered into an agreement to loan $150,000 to a lessee for build out costs. Payments are due in monthly installments of $2,831, including interest at 5.0%, with the loan maturing August 2015.

Capital Assets

A summary of changes in capital asset categories of the UMW Foundation for the year ended June 30, 2011, is presented as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Non-depreciable capital assets:				
Land	$ 31,976,183	$ 366,503	$ -	$32,342,686
Construction in progress	64,292,624	10,123,110	(74,021,477)	394,257
Artwork and antiquities	283,438	5,400	-	288,838
Total non-depreciable capital assets	96,552,245	10,495,013	(74,021,477)	33,025,781

	Beginning Balance	Additions	Deletions	Ending Balance
Depreciable capital assets:				
Buildings	21,363,656	72,815,072	-	94,178,728
Equipment	903,208	1,593,791	(26,381)	2,470,618
Improvements other than buildings	46,358	6,852	-	53,210
Total depreciable capital assets at historical cost	22,313,222	74,415,715	(26,381)	96,702,556
Less accumulated depreciation for:				
Buildings	3,305,194	1,929,390	-	5,234,584
Equipment	374,847	202,814	(16,268)	561,393
Improvements other than buildings	9,251	2,431	-	11,682
Total accumulated depreciation	3,689,292	2,134,635	(16,268)	5,807,659
Depreciable capital assets, net of depreciation	18,623,930	72,281,080	(10,113)	90,894,897
Total capital assets, net of depreciation	$ 115,176,175	$ 82,776,093	$ (74,031,590)	$ 123,920,678

The Foundation owns two parcels of real estate that were donated with restricted deeds. While both deeds restrict the use of the parcels of land by requiring them to be used by an accredited institution of higher learning, one of the deeds also prohibits the land from being used for dormitories or other residential purposes. The combined donated value of the two parcels is $8,600,000.

Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses of UMW Foundation consisted of the following at June 30, 2011:

Accounts Payable	
Accounts payable	$ 271,079
Accrued interest	419,119
Due to UMW Alumni Association	658
Total accounts payable	$ 690,856

Long-Term Indebtedness

Bonds Payable

Series 2007 Bonds – 1201 William Street

In February 2007, the Foundation purchased a building adjacent to the University campus to be operated and managed by the University as part of its faculty offices. The acquisition was financed by a short-term bank loan. In 2008, the Foundation paid off the short-term loan by obtaining tax- exempt financing through a bond pool issuance with the Industrial Development Authority of the County of Stafford and the City of Staunton, Virginia (Series 2007 Bonds). Interest on the bonds is payable at 4.00%-4.75% over a 30-year period. The original issue discount of $25,185 and bond issuance costs of $122,896 are being amortized over the life of the bonds using the straight-line method. The bonds are secured by a deed of trust and a support agreement with the University.

Series 2008 Bonds – Marye's Heights Apartments

During November 2008, Eagle Housing, LLC obtained $10,670,000 in tax exempt financing through the Economic Development Authority of the City of Fredericksburg, Virginia (Series 2008 Bonds). The proceeds were used to refund a previous bond issuance for the acquisition of Marye's Heights Apartments, which are owned by the Foundation and operated by the University as part of its student housing system. The Series 2008 Bonds mature April 1, 2029 and have a variable interest rate as determined by the remarketing agent. The rate at June 30, 2011 was .12%. The bonds are secured by a deed of trust and a Support Agreement with the University. The Foundation has also signed a guarantee agreement. Eagle Housing, LLC entered into an interest rate swap agreement in order to convert this variable-rate debt to a fixed rate.

The Bond indenture and related agreements require establishment and maintenance of specific reserve accounts. The Foundation is to deposit into the Repair and Replacement Reserve Account an amount equal to $200 per bed in the project with an increase of 3% each year over the prior year's repair and replacement reserve requirement. By submitting a requisition to the Trustee, the Foundation may request withdrawals from this fund at any time, and there is no minimum balance requirement.

Eagle Housing, LLC is also required to meet certain covenants. As of June 30, 2011, management believes the Foundation is in compliance with all covenants.

Series 2009 Bonds – Eagle Village Phase I

In June 2009, Eagle Housing, LLC obtained $88,990,000 in financing through the Economic Development Authority of the City of Fredericksburg, Virginia. Series 2009A tax exempt and 2009B taxable (2009 Bonds) are variable rate revenue bonds totaling $70,780,000 and $18,210,000, respectively. The bonds were issued to finance development of Eagle Village Phase I. This project included student apartments; a multi-use building consisting of a parking deck, retail and office space; and a pedestrian bridge to the University campus. Construction on this project was completed during 2011.

The variable rate bonds have staggered maturities through September 1, 2041 and have a variable interest rate as determined by the remarketing agent. The rate at June 30, 2011 was .10% and .15% for the 2009A and 2009B Bonds, respectively. The 2009 Bonds are collateralized by a deed of trust and a Support Agreement with the University and the Foundation has also signed a guarantee agreement. Eagle Housing, LLC entered into an interest rate swap agreement in order to convert this variable-rate debt to a fixed rate.

The Bond indenture and related agreements require the establishment and maintenance of specific reserve accounts. The Foundation is to deposit into the Repair and Replacement Reserve Account an amount equal to $200 per bed in the project with an increase of 3% each year over the prior year's repair and replacement reserve requirement. By submitting a requisition to the Trustee, the Foundation may request withdrawals from this fund at any time, and there is no minimum balance requirement.

Eagle Housing, LLC is also required to meet certain covenants. As of June 30, 2011, management believes the Foundation is in compliance with all covenants.

Bonds payable consists of the following at June 30, 2011:

Bonds Payable	Interest Rates	Maturity	Outstanding Balance
2007 Bonds, net of unamortized discount	Variable 4.0% at June 30	2037	$ 2,348,103
2008 Bonds	Variable .12% at June 30	2029	9,585,000
2009A Bonds	Variable .10% at June 30	2041	70,780,000
2009B Bonds	Variable .15% at June 30	2041	18,210,000
Loss on defeasance of prior debt issuances			(1,325,699)
Total Bonds Payable			$ 99,597,404

Loans Payable

Loans payable consists of the following at June 30, 2011:

Notes Payable	Interest Rates	Maturity	Outstanding Balance
Eagle Housing, LLC $25,000,000 promissory note secured by a deed of trust, an assignment of rents and leases, and a guarantee by the Foundation. Eagle Village I, LLC, Eagle Village-Roger-Dodger, LLC and Snowden Street, LLC are co-borrowers.	2.18%	2011	$ 20,030,751
UMW Foundation $1,600,000 promissory note with the University of Mary Washington	0.0%	2014	1,440,550
Eagle Pizza, LLC $1,500,000 promissory note secured by a deed of trust, an assignment of rents and leases, and a guarantee by the Foundation.	5.25%	2015	1,500,000
Mortgage note secured by a deed of trust, an assignment of rents and leases, and a guarantee by the Foundation.	5.5%	2028	286,595
Total Notes Payable			$ 23,257,896

Annual debt service requirements

	Bonds Payable	Notes Payable	Total Long-Term Debt
Future principal commitments:			
2012	$ 89,415,000	$ 4,722	$ 89,419,722
2013	620,000	20,035,807	20,655,807
2014	755,000	5,345	760,345
2015	800,000	2,946,201	3,746,201
2016	835,000	5,934	840,934
Thereafter	8,498,103	259,887	8,757,990
(Loss) deferral on debt defeasance	(1,325,699)	-	(1,325,699)
Total future principle requirements	$ 99,597,404	$ 23,257,896	$ 122,855,300

Capital Lease

The Foundation had a commitment for information technology equipment totaling $684,245. The down payment of $359,245 was included in accounts payable as of June 30, 2010. The remaining $325,000 was financed through a capital lease with 59 payments of $6,582 including interest at 7.1% beginning with final acceptance of the installation. The Foundation bought out the capital lease during 2011 eliminating the lease obligation using proceeds from the Series 2009 bonds.

Deferred Financing Costs

Financing costs of $2,051,331 are amortized on a straight-line basis over the term of the related debt. Accumulated amortization at June 30, 2011 was $152,694.

Debt Related Derivative Instruments

Eagle Housing, LLC has entered into interest rate swap agreements in order to convert variable-rate bond debt to a fixed rate. A summary of the interest rate swap contracts at June 30, 2011 follows:

Bond Series	Notional Amount	Interest Rate	Effective Date	Expiration Date	Fair Value
2009A	$ 70,000,000	3.604%	9/1/10	9/1/14	($ 6,035,641)
2009A	$ 69,975,000	3.604%	9/1/10	9/1/41	($ 3,523,012)
2009B	$ 18,210,000	3.876%	9/1/10	9/1/15	($ 1,641,389)
2008	$ 9,950,000	3.280%	11/28/08	4/1/14	($ 652,585)
2008	$ 8,405,000	3.280%	4/1/14	4/1/29	($ 159,064)

Restricted Deposits and Funded Reserves

In accordance with the bond agreements, the Foundation has the following restricted deposits and funded reserves which are held by Trustees of the Series 2008 and 2009 bonds and all are cash and cash equivalents:

	Restricted Deposits and Funded Reserves
Debt Service Reserve Fund	$ 2,520,537
Bond Principal Fund	62,500
Repair & Replacement Reserve Fund	166,021
Interest Reserve Fund	569,708
Total	**$ 3,318,766**

Related Party Transactions

The Foundation has an agreement to give the University of Mary Washington Alumni Association (UMW AA) annually 20% of unrestricted alumni gifts, with a minimum of $50,000 each year. For 2011, the Foundation gave the UMW AA $154,342. However, the UMW AA directs all royalty revenue to the Foundation for scholarships. Under these arrangements, the Foundation had a net payable to the UMW AA of $658 at June 30, 2011.

Pursuant to an agreement with a former President of the University, the Foundation shall pay the former President’s estate $5,100 per month, should he decease within 180 months of his retirement. The commitment declines each month and ceases in its entirety at June 30, 2021. Payments under this agreement shall be funded by the death benefit of a life insurance policy on the former President, of which the Foundation is the owner and beneficiary.

Commitments

Operating Leases

The Foundation leased three vehicles under non-cancellable operating leases expiring in 2014 with monthly rental payments totaling $957, two of which are funded by restricted donations. Expense incurred under vehicle operating leases totaled $9,815 and $11,753, during 2011 and 2010. Future minimum payments under this lease and the amounts which are funded by donations for future years ended June 30 are:

	Minimum Payment	Amount Funded by Donations
2012	$ 11,486	$ 7,702
2013	11,486	7,202
2014	957	600
Total	$ 23,929	$ 15,004

Operating Lease Commitments

The Foundation leases office and retail space to tenants under non-cancelable operating leases, using a real estate brokerage firm with terms of one to ten years. The following is a schedule by years of future minimum rentals under the leases at June 30, 2011:

2012	$ 1,536,116
2013	1,105,188
2014	870,078
2015	805,927
2016	695,583
Thereafter	1,595,068
Total	$ 6,607,960

Future Development and Construction in Progress

Eagle Village Phase I

The Foundation completed and placed into service the Eagle Village Phase I construction project totaling approximately $77,000,000 during 2011. The Foundation has a contract with a real estate brokerage firm to manage the leasing, operations and accounting for the Eagle Village I shopping center and the office and retail merchant leases of Phase I shopping center. The management fee for these services is 3% of gross receipts or $4,000 per month, whichever is greater.

Connector Road

The Foundation and an unrelated organization, Mary Washington Healthcare (MWH) signed a letter of agreement to share the cost to construct a connector road between Eagle Village and the adjacent campus of MWH. The project is estimated to cost $1,380,000 with a maximum cost allocation to MWH of $500,000. As of June 30, 2011, the Foundation and Eagle Village I, LLC have incurred costs of approximately $100,000 with approximately $1,280,000 remaining in the commitment. The pathway for the road is mostly situated on MWHC property with a small portion being on Eagle Village land. Each party will contribute their land, at no cost to the other party, to be used for the road. The road will be owned by Eagle Village I, LLC but the Hospital will maintain the road. A real estate development consultant has been hired to manage the development and construction of the connector road.

Hotel

The Foundation and Eagle Hospitality, LLC signed a development management contract totaling approximately $660,000 for the future construction of a hotel. The consultant contract requires a fee equal to 4% of the total project cost for a 28-month period and 1% of total project costs for overhead, payable in monthly installments. Costs incurred totaling $60,000 at June 30, 2011 are included in construction in progress with a remaining commitment of $600,000. The project is estimated to cost approximately $13,217,000 and is expected to be completed under a joint venture agreement with unrelated minority shareholders. In June 2011, Eagle Hospitality, LLC signed an agreement with a bank committing to a $9.3 million construction and term loan to fund the project. Per the agreement, the loan advances shall not exceed the lesser of seventy percent of appraised value or seventy percent of cost. Subsequent to year end, the loan was closed. The loan is secured by a deed of trust and guaranteed by the Foundation. For the first twenty-four months, interest only monthly payments are due at the greater of either a variable rate of the 30-day London Interbank Offered Rate (LIBOR) plus 3.5% or 5.25% per annum. After the twenty-four month period, monthly interest and principal payments will begin upon the conversion of the construction loan to a term loan.

Student Center

The Foundation and Eagle Developers, LLC signed a development management contract totaling $1,930,000 for the development and construction of a student center and dining hall for the University. The contract requires a fee equal to $60,000 per month for 32 months. During 2011, approximately $60,000 was paid with approximately $1,860,000 remaining on the commitment. The project is estimated to cost $60,000,000. The University entered into a loan agreement for the Foundation for initial funding. Subsequent to year end, the Foundation accepted a proposal from a bank to loan up to $45,000,000 for the project.

20. SUBSEQUENT EVENTS

Subsequent to June 30, the University has entered into five operating leases for office space and parking spaces. The first lease is an extension of the five year lease beginning in September 2006 for office space off campus. The lease was extended until December 2011. The University also entered into a lease for rental of storage space. It is a 5 year lease beginning January 2012.

In addition, the University has entered into three leases with various subsidiaries of the University of Mary Washington Foundation, a related party. The first of these leases exercised the first year additional option for additional parking spaces near the campus. The lease is for one year beginning in July 2011. The next lease is for office space in the new Eagle Village. The lease is for a five year term beginning in December 2011. The University entered into a lease for rental of a duplex in the immediate area of the University. The lease is for a five years term retroactive to May 2011. The University has the following additional future minimum rental payments due under the above leases:

	Future minimum operating lease payments
Year ending June 30, 2012	$ 289,617
Year ending June 30, 2013	313,435
Year ending June 30, 2014	322,298
Year ending June 30, 2015	331,426
Year ending June 30, 2016	340,829
Year ending June 30, 2017	137,503
Total	**$ 1,735,108**

Commonwealth of Virginia

Auditor of Public Accounts

Walter J. Kucharski
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

July 12, 2012

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable John M. O'Bannon, III
Chairman, Joint Legislative Audit
and Review Commission

Board of Visitors
University of Mary Washington

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the business-type activities and discretely presented component unit of the **University of Mary Washington**, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2011, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the component unit of the University, which is discussed in Note 1. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the component unit of the University is based on the reports of the 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the component unit of the University that were audited by other auditors upon whose reports we are relying were audited in accordance with auditing standards generally accepted in the United States of America, but not in accordance with Government Auditing Standards. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and discretely presented component unit of the University as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 10 is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. 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.

In accordance with Government Auditing Standards, we have also issued our report dated July 12, 2012 on our consideration of the University of Mary Washington's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

AUDITOR OF PUBLIC ACCOUNTS

DBC/clj

UNIVERSITY OFFICIALS

Board of Visitors at June 30, 2011

University Leadership

Richard V. Hurley
President

Richard R. Pearce
Vice President for Administration and Finance
and Chief Financial Officer

Allyson P. Moerman
Associate Vice President for Finance and Controller

Tera Kovanes
Director of Internal Audit