UNIVERSITY OF MARY WASHINGTON

REPORT ON AUDIT

FOR THE YEAR ENDED

JUNE 30, 2005

Auditor of Public Accounts

COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of the University of Mary Washington for the year ended June 30, 2005, found:

- the financial statements are presented fairly, in all material respects, in accordance with generally accepted accounting principles;

- an internal control matter that we consider to be a reportable condition; however, we do not consider it to be a material weakness; and

- no instances of non-compliance or other matters required to be reported.

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INTERNAL CONTROL FINDING AND RECOMMENDATION

Prepare Written Policies and Procedures

The University of Mary Washington (University) has documented some, but not all, of its operating policies and procedures. Having documented procedures are an important component of the University's internal control structure and without them the risk of fraud and the likelihood that errors and improper payments could occur and go undetected increases.

We recommend that the University review all of its policies and procedures to ensure they are sufficient. Areas they should review include, but are not limited to, human resources and payroll, cash collections, reconciliations, Fiscal Operations Report and Application to Participate (FISAP) report preparation, and program change control. We recommend that the University couple this review of policies and procedures with the University's work to meet the Department of Accounts Agency Risk Management and Internal Control Standards, planned for released in the summer of 2006.

Documented policies and procedures should be readily available to all employees to ensure they understand and follow management's internal control expectations. The documented policies and procedures increase an employee's understanding and support of internal controls. In addition, the University should supplement the written policies and procedures with periodic training to make sure employees are aware of University policies and procedures.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(unaudited)

The University's Management's Discussion and Analysis (MD&A) of its financial condition provides an overview of the financial activity, identifies changes in financial position, and assists the reader in focusing on significant financial issues. The basic statements are: Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Net Assets; and Statement of Cash Flows. The following analysis discusses elements from each of these statements and presents an overview of the University's activities. The MD&A provides summary level financial information and should be read in conjunction with the accompanying financial statements.

Enrollment and Admission Information

Applications received by the University remained level from fall 2003 to fall 2004 but applications accepted increased by over five percent from fall 2004 to fall 2005. Demand remains strong in both the undergraduate and graduate programs. As in past years, the University was recognized for its academic excellence, campus beauty and quality of student life by several national publications and college guides.

The University also continues to attract students to its on-campus residential facilities. The academic year began with housing well above its stated capacity.

Statistical Abstract by Academic Year based on Fall Census

	2001-2002		2002-2003		2003-2004		2004-2005	
Enrollment data (headcount):								
Undergraduate	4,173		4,275		4,299		4,158	
Graduate	310		460		493		578	
Total	4,483		4,735		4,792		4,736	
Undergraduate application data:								
Applications received	5,883		4,946		5,127		5,117	
Applications accepted	2,817	58%	2,997	61%	3,107	61%	3,261	64%
Students enrolled	1,131	40%	1,180	39%	1,158	37%	1,176	36%
Graduate application data:								
Applications received	97		125		152		159	
Applications accepted	93	96%	116	93%	144	95%	149	94%
Students enrolled	81	87%	104	90%	132	92%	133	89%
Tuition and fees:								
Tuition	$1,550		$1,690		$ 2,344		$ 2,544	
Fees	1,790		2,244		2,344		2,584	
Room and board	5,692		5,318		5,478		5,744	
Total	$9,032		$9,252		$10,166		$10,872	

Statement of Net Assets

The Statement of Net Assets presents the University's assets, liabilities, and net assets as of the end of the fiscal year. The purpose of the statement is to present the readers a fiscal snapshot as of June 30, 2005. Readers of the Statement of Net Assets are able to determine the assets available to continue the University's operations. They can also determine how much the University owes to vendors and employees or how much is held on behalf of others.

The University's net assets are one indicator of the University's financial health. Over time, increases and decreases in net assets are indicators of the improvement or erosion of the University's financial health when considered with non-financial facts such as enrollment levels and the condition of facilities.

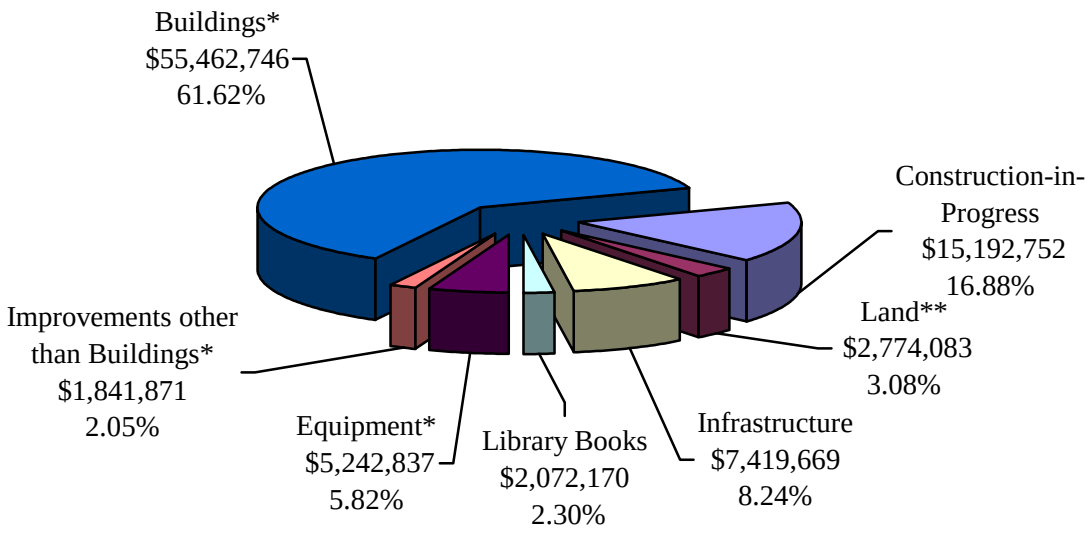
The following table reflects the condensed Statement of Net Assets for the University for fiscal years 2005 and 2004.

	2005	2004
Assets:		
Current assets	$ 16,136,194	$14,135,756
Non-current assets	11,530,658	5,213,970
Capital assets	90,006,131	79,491,570
Total assets	117,672,983	98,841,296
Liabilities:		
Current liabilities	13,141,473	11,329,152
Non-current liabilities	27,002,095	16,596,212
Total liabilities	40,143,568	27,925,364
Net Assets:		
Invested in capital assets, net of related debt	72,109,258	63,170,863
Restricted	1,638,695	3,118,369
Unrestricted	3,781,462	4,626,700
Total net assets	$ 77,529,415	$70,915,932

Assets and liabilities are shown as current and non-current. Generally, non-current assets such as restricted investments are held for longer than one year.

The increase in non-current assets relates to assets acquired under new notes payable and installment purchases for capital assets and related restricted cash and investments. Depreciable capital assets increased with completion of two buildings and the new administrative system. Capital assets are shown net of accumulated depreciation due to the implementation of GASB Statements 34 and 35. All depreciable assets are depreciated over their useful lives. The breakdown of Capital Assets is as follows:

Capital Assets for the Year Ended June 30, 2005

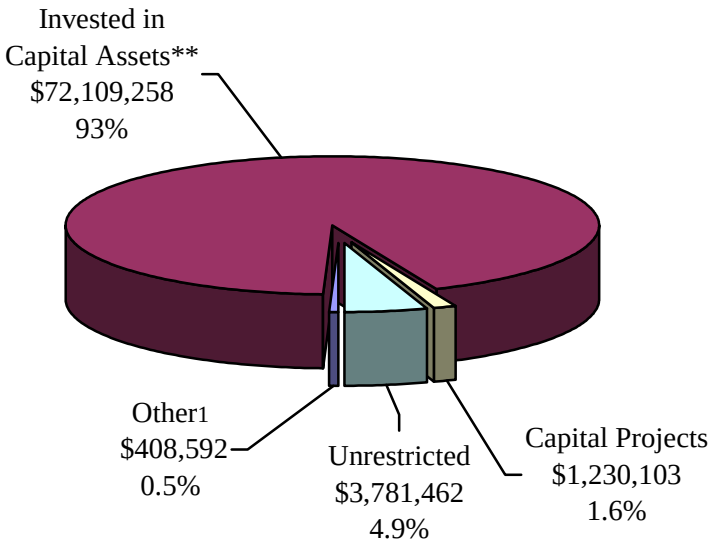


* Depreciable capital assets, net of accumulated depreciation
** Non-depreciable capital assets

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

The net assets as of June 30, 2005, are as follows:

Net Assets for the Year Ended June 30, 2005



[1]Other includes: Research* $34,050 (8.3%); Scholarships and Fellowships* $32,482 (8.0%); Public Services* $182,640 (44.7%); Loans* $129,560 (31.7%); and Academic Support* $29,860 (7.3%)

*Restricted, expendable
**Net of related debt

Statement of Revenues, Expenses and Changes in Net Assets

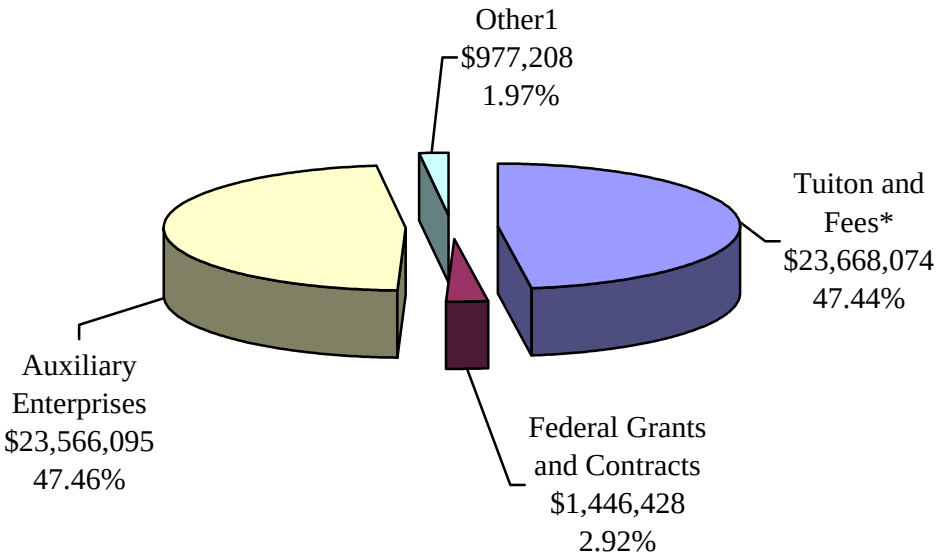
The Statement of Revenues, Expenses, and Changes in Net Assets presents the changes in total net assets based on activity. Its purpose is to show the University's operating and non-operating revenues recognized and expenses incurred, as well as any other revenues, expenses, gains, and losses. Operating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

Operating revenues primarily include tuition and fees and auxiliary enterprises. Tuition and fees increased due to increases in enrollment and tuition and fee charges. Auxiliary revenues increased $1,172,783 due to the increase in room and board participation and rates. General Fund appropriations increased $1,460,013 in fiscal year 2005.

The following table and graphs show the fiscal years 2005 and 2004 results.

	2005	2004
Operating revenues	$49,657,805	$47,007,206
Operating expenses	65,222,568	61,403,336
Operating loss	(15,564,763)	(14,396,130)
Net non-operating revenues	16,108,497	14,259,030
Income/(loss) before other revenues, expenses, gains, or losses	543,734	(137,100)
Net other revenues/(expenses)	5,820,740	6,998,199
Increase in net assets	$ 6,364,474	$ 6,861,099

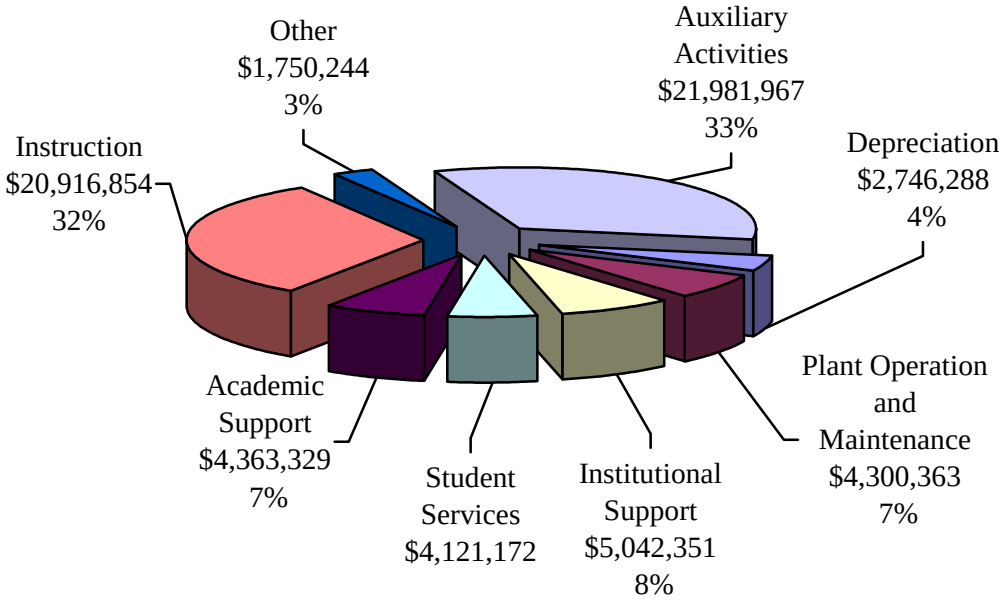
Operating Revenues for the Year Ended June 30, 2005



[1]Other includes: Other Operating Revenues $509,813 (1.02%); State Grants and Contracts $124,925 (0.26%); and Non-governmental Grants and Contracts $342,470 (0.69%).

*Net of scholarship allowances

Operating Expenses for the Year Ended June 30, 2005



[1]Other includes Research and Public Service $626,239 (0.96%); Student Aid $294,721 (0.46%); and Museum and Cultural Services and Historic Attraction Management $829,284 (1.28%).

Statement of Cash Flows

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

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

	2005	2004
Cash provided/(used) by:		
Operating activities	$(11,344,528)	$(13,535,470)
Non-capital financing activities	16,593,845	15,102,441
Capital and related financing activities	(4,007,277)	2,038,603
Investing activities	9,250,416	1,981,106
Net increase/(decrease) in cash	10,492,456	5,586,680
Cash, beginning of year	11,941,586	6,354,905
Cash, end of year	$ 22,434,042	$ 11,941,585

Capital Asset and Long Term Debt

The University participated in the Commonwealth's Series 2004A bond sales in fall 2004. The $6 million in proceeds are being used to finance the planning and construction of a new 275-space parking deck on campus, for which construction began in spring 2005.

In March 2005, the University secured a $4.3 million master equipment lease/purchase agreement with Citimortgage to finance a campus-wide energy conservation management project. Savings from reduced energy costs will meet the lease payments over a fourteen year period.

During fiscal year 2005, the Fitness Center and Alumni Executive Center were completed. Construction on the Belmont Studio continued and is scheduled to be substantially complete in early winter 2005. Planning was completed for the second building at the College of Graduate and Professional Studies, and ground was broken for construction in July 2005. A $1.5 million renovation of Dodd Auditorium began in May 2005 and was completed in time for the fall 2005 semester.

Additional Items of Note

The University successfully completed the first year with its accounts payable function decentralized from the state's vendor payment system. Vendors were paid per prompt payment guidelines 99 percent of the time over the course of the year.

The University also completed its first full year utilizing the SCT Banner Finance module and began preparing for the implementation of the SCT Banner Accounts Receivable module, which went live July 2005.

FINANCIAL STATEMENTS

UNIVERSITY OF MARY WASHINGTON
STATEMENT OF NET ASSETS
As of June 30, 2005

ASSETS	University	Real Estate Foundation	University Foundation
Current assets:			
Cash and cash equivalents (Note 2)	$ 12,079,205	$ 213,191	$ 2,257,486
Securities lending cash and cash equivalents (Note 2)	359,490	-	-
Short-term investments (Note 2)	76,389	-	-
Accounts receivable, net of allowance for doubtful accounts (Note 3)	527,111	-	128,108
Pledges receivable, current portion (Note 3)	-	-	1,760,336
Due from the Commonwealth	2,451,978	-	-
Due from the University	-	172,278	-
Inventories	575,070	-	-
Prepaid items	-	-	89,292
Other assets	66,951	260,130	157,679
Total current assets	16,136,194	645,599	4,392,901
Non-current assets:			
Restricted cash and cash equivalents (Note 2)	10,354,837	-	984,706
Restricted investments (Note 2)	-	1,252,776	26,600,212
Other restricted assets (Note 4)	679,451	-	-
Pledges receivable, non-current portion (Note 3)	-	-	729,797
Other long-term investments (Note 2)	496,370	-	555,500
Non-depreciable capital assets (Note 4)	17,966,836	5,000,000	202,250
Capital assets, net of accumulated depreciation (Note 4)	72,039,295	8,765,029	26,913
Total non-current assets	101,536,789	15,017,805	29,099,378
Total assets	117,672,983	15,663,404	33,492,279
LIABILITIES			
Current liabilities:			
Accounts payable (Note 5)	6,658,753	-	129,353
Deferred revenue	1,809,305	-	36,980
Deposits held in trust	884,102	-	-
Obligations under Securities Lending Program (Note 2)	435,879	-	-
Amounts due to the Commonwealth	1,564	-	-
Amounts due to foundations	172,278	-	-
Short term debt	-	-	600,000
Other liabilities	544,740	130,946	-
Long-term liabilities - current portion (Note 6 and 8)	2,634,852	260,000	51,180
Total current liabilities	13,141,473	390,946	817,513
Non-current liabilities:			
Long-term liabilities - non-current portion (Note 6 and 8)	26,426,629	10,545,049	285,955
Perkins loan	575,466	-	-
Total non-current liabilities	27,002,095	10,545,049	285,955
Total liabilities	40,143,568	10,935,995	1,103,468

NET ASSETS			
Invested in capital assets, net of related debt	72,109,258	2,959,980	-
Restricted for:			
Non-expendable:			
Permanently restricted	-	-	15,633,998
Expendable:			
Academic support	29,860	-	-
Capital projects	1,230,103	-	-
Loans	129,560	-	-
Public services	182,640	-	-
Research	34,050	-	-
Scholarships and fellowships	32,482	-	-
Temporarily restricted	-	-	14,409,934
Unrestricted	3,781,462	1,767,429	2,344,879
Total net assets	$ 77,529,415	$ 4,727,409	$ 32,388,811

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

UNIVERSITY OF MARY WASHINGTON
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2005

	University	Real Estate Foundation	University Foundation
Operating revenues:			
Student tuition and fees, net of scholarship allowances of $2,346,978	$ 23,668,074	$ -	$ -
Federal grants and contracts	1,446,428	-	-
State grants and contracts	124,925	-	-
Non-governmental grants and contracts	342,470	-	-
Auxiliary enterprises, net of scholarship allowances of $114,664	23,566,095	-	-
Foundation operations	-	1,343,068	4,122,941
Other operating revenues	509,813	-	-
Total operating revenues	49,657,805	1,343,068	4,122,941
Operating expenses:			
Instruction	20,916,854	-	-
Research	270,676	-	-
Public service	355,563	-	-
Academic support	4,363,329	-	-
Student services	4,121,172	-	-
Institutional support	5,042,351	-	-
Operation and mainenance of plant	4,300,363	-	-
Depreciation	2,746,288	331,259	14,486
Student aid	294,721	-	-
Museum and cultural services	609,589	-	-
Historic attraction management	219,695	-	-
Auxiliary activities	21,981,967	-	-
Foundation operations	-	384,802	4,062,236
Total operating expenses	65,222,568	716,061	4,076,722
Operating income/(loss)	(15,564,763)	627,007	46,219
Non-operating revenues/(expenses):			
State appropriations	16,540,523	-	-
Investment income	470,865	50,102	3,266,508
Interest on capital asset related debt	(902,891)	(535,771)	(34,735)
Net non-operating revenues	16,108,497	(485,669)	3,231,773
Income before other revenues, expenses, gains, or losses	543,734	141,338	3,277,992
Capital appropriations	5,449,771	-	-
Capital gifts	370,969	-	-
Additions to permanent endowments	-	-	1,507,737
Net other revenues, expenses, gains, or losses	5,820,740	-	1,507,737
Increase in net assets	6,364,474	141,338	4,785,729
Net assets - beginning of year	71,164,941	4,586,071	27,603,082
Net assets - end of year	$ 77,529,415	$ 4,727,409	$ 32,388,811

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

UNIVERSITY OF MARY WASHINGTON
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2005

	University	Real Estate Foundation	University Foundation
Cash flows from operating activities:			
Student tuition and fees	$ 25,617,875	$ -	$ -
Grants and contracts	1,482,757	-	-
Auxiliary enterprises	23,947,193	-	-
Contributions	-	-	3,072,967
Rental receipts	-	1,328,535	-
Other receipts	821,813	-	461,465
Payments to employees	(28,417,269)	-	-
Payments for fringe benefits	(9,129,033)	-	-
Payments for services and supplies	(19,995,985)	-	-
Payments for utilities	(1,635,348)	-	-
Payments for scholarships and fellowships	(2,461,642)	-	-
Payments for non-capitalized plant and equipment	(1,742,281)	-	-
Payments for foundation activities	-	(377,336)	(4,232,601)
Loans issued to students	(96,625)	-	-
Collection of loans from students	264,017	-	-
Net cash provided/(used) by operating activities	(11,344,528)	951,199	(698,169)
Cash flows from noncapital financing activities:			
State appropriations	16,540,523	-	-
Agency receipts and payments	53,322	-	-
Net cash provided by non-capital financing activities	16,593,845	-	-
Cash flows from capital financing activities:			
Capital appropriations	4,693,040	-	-
Capital gifts	344,278	-	-
Proceeds from installment purchase agreements	6,719,252	-	-
Proceeds from line of credit	-	-	-
Purchase of capital assets	(12,985,148)	-	-
Principal paid on capital debt, leases, and installments	(1,823,809)	(230,000)	(1,170,000)
Interest paid on capital debt, leases, and installments	(954,890)	(528,615)	(34,735)
Net cash provided by capital financing activities	(4,007,277)	(758,615)	(1,204,735)
Cash flows from investing activities:			
Proceeds from gift annuities	-	-	15,074
Payment of gift annuities liability	-	-	(50,861)
Gifts to permanent endowment	-	-	1,507,738
Sale/purchase of investments	8,901,837	(95,587)	744,341
Interest on investments	348,579	41,102	1,042,968
Net cash provided by investing activities	9,250,416	(54,485)	3,259,260
Net increase in cash	10,492,456	138,099	1,356,356
Cash - beginning of the year	11,941,586	75,092	1,885,836
Cash - end of the year	$ 22,434,042	$ 213,191	$ 3,242,192

Reconciliation of net operating gain/(loss) to			
net cash used by operating activities:			
Operating gain/(loss)	$ (15,564,763)	$ 627,007	$ 46,219
Adjustments to reconcile net loss to net cash used by operating activities:			
Depreciation expense	2,746,288	331,259	14,486
Changes in assets and liabilities:			
Accounts/Pledges receivable	(90,061)	7,483	(538,715)
Inventories	(41,211)	-	-
Other assets	155,256	-	(39,400)
Due from University	-	(14,550)	13,666
Due from Commonwealth	11,652	-	-
Accounts payable	1,539,347	-	(176,365)
Accrued leave liability	13,095	-	-
Deferred revenue	(71,152)	-	(18,060)
Other liabilities	(92,525)	-	-
Deposits held in trust	49,561	-	-
Due to Foundations	884	-	-
Due to Commonwealth	(899)	-	-
Net cash provided/(used) by operating activities	$ (11,344,528)	$ 951,199	$ (698,169)
Non-cash investing, non-capital financing, and			
capital and related financing transactions:			
Gift of capital assets	$ 26,691	$ -	$ -

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

NOTES TO FINANCIAL STATEMENTS

UNIVERSITY OF MARY WASHINGTON

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The University is a comprehensive university that is part of the Commonwealth of Virginia's (Commonwealth) 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, 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, and is included in the Comprehensive Annual Financial Report of the Commonwealth (CAFR).

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 Real Estate Foundation (Real Estate Foundation) and the University of Mary Washington Foundation (University Foundation). The University of Mary Washington Real Estate Foundation is a non-profit organization incorporated under the laws of the Commonwealth on December 20, 1989. Its purpose is to hold real estate for the University and to operate any corresponding rental operations. The University of Mary Washington Foundation is also a non-profit organization incorporated under the laws of the Commonwealth on February 8, 1975. 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. Both the University of Mary Washington Real Estate Foundation and the University of Mary Washington Foundation issue their 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 11.

All three organizations are separate legal entities from the University and the University exercises no control over them. Complete financial statements for the foundations can be obtained from University of Mary Washington Foundation or University of Mary Washington Real Estate Foundation, 1119 Hanover Street, Fredericksburg, Virginia, 22401-5412.

B. Basis of Presentation

The University's accounting policies conform with generally accepted accounting principles as prescribed by GASB, including all applicable GASB pronouncements, as well as applicable Financial Accounting Standards Board (FASB) statements and interpretations, Accounting Principles Board opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The financial statements have been prepared in accordance with GASB Statement 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and GASB Statement 35, *Basic Financial Statements and Management's Discussion and Analysis of Public College and Universities*.

The foundations included are private non-profit organizations that do not report under the guidelines of the GASB, instead following the guidance of 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 foundations' financial information in the University's financial reporting entity for these differences.

C. Basis of Accounting

The University's financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. All significant intra-agency transactions have been eliminated.

D. Investments

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

E. Capital Assets

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

materially extend its useful life are not capitalized. Certain maintenance and replacement reserves have been established to fund costs relating to residences and other auxiliary activities.

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

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

Property and equipment held by the University of Mary Washington Foundation is depreciated using the straight-line method over the estimated useful life of the asset, which is five years. Property and equipment held by the University of Mary Washington Real Estate Foundation is also depreciated using the straight-line method of the estimated useful life of the asset, which ranges from seven to forty years.

F. Inventories

Inventories are valued at the lower of cost (generally determined on the first-in, first-out method) or market. Inventories consist primarily of merchandise for resale in the 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.

G. Collections

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

In addition, the 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.

H. Non-current Cash and Investments

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

I. Deferred Revenue

Deferred revenue primarily includes amounts received for tuition and fees and certain auxiliary activities (resident housing deposits) prior to the end of the fiscal year, but related to the period after June 30, 2005.

J. Accrued Compensated Absences

The amount of leave earned, but not taken by non-faculty salaried employees is recorded as a liability on the Statement of Net Assets. The amount reflects, as of June 30, 2005 all unused vacation leave, sabbatical leave, and the amount payable upon termination under the Commonwealth's sick leave payout policy. The applicable share of employer related taxes payable on the eventual termination payment is also included.

K. 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 1996, the Office of Management and Budget Revised Circular A-133, *Audit of States, Local Governments and Non-Profit Organizations*, and the Compliance Supplement.

L. Net Assets

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

M. Revenue and Expense Classifications

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

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

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

N. Scholarship Discounts and Allowances

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

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS

For reporting periods beginning after June 15, 2004, GASB Statement 40, *Deposit and Investment Risk Disclosures* became effective. This is an amendment of GASB Statement 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*. The statement modifies disclosure requirements related to both deposit risks and investment risks.

With respect to deposit risks, there are custodial credit risk and foreign currency risk. With respect to investments, there are credit risk (both custodial credit risk and concentrations of credit risk), interest rate risk, and foreign currency risk. These risks are defined as follows:

Custodial Credit Risk – The risk that in the event of the failure of a depository financial institution or the counterparty to an investment transaction, the University will not be able to recover deposits or the value of investments that are in the possession of an outside party. The University does not have a policy limiting the ratings type of investment choices. Additional information is included below.

Foreign Currency Risk – The risk that changes in exchange rates will adversely affect the fair value of a deposit or investment. The University has no foreign currency risk policy, nor does it have any foreign deposits or investments at June 30, 2005.

Concentration of Credit Risk – The risk of loss attributed to the magnitude of a government's investment in a single issuer. 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. Additional information is included below.

Interest Rate Risk – The risk that changes in interest rates will adversely affect the fair value of an investment. The University does not have a policy limiting investment maturities as a means of managing interest rate risk. Additional information is included below.

A. Cash and Cash Equivalents

In accordance with the GASB Statement 9, *Reporting Cash Flows*, definition of cash and cash equivalents, cash represents cash with the Treasurer of the Commonwealth, cash on hand at the University, and cash deposits at financial institutions including certificates of deposits and any temporary investments with original maturities of three months or less (such as money market funds).

Pursuant to Section 2.1-1800, 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 cash deposits held by the University are maintained in accounts that are either FDIC insured or collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400, et seq., Code of Virginia. Other cash deposits made as a result of installment purchase arrangements are uncollateralized and thus subject to the custodial credit risk defined above. FDIC insured deposits are in the amount of $300,000; deposits collateralized in accordance with the Virginia Security for Public Deposits Act are in the amount of $14,356,452; deposits uncollateralized are in the amount of $3,789,765.

B. Investments

The Board of Visitors establishes the University's investment policy. 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. The University's cash and cash equivalents, short-term investments, and long-term investments are as follows:

	Market Value at June 30, 2005	Investment Maturity	Credit Rating	Percent Invested
Cash and cash equivalents:				
Cash with the Treasurer	$ 4,080,359			
Deposits with financial institutions	1,237,133			
Collateral held for securities lending	359,490	<3 months		
Money market deposits with financial institutions	10,473,735	<3 months	Moody's AAA	
State non-arbitrage program (SNAP)	6,642,815	<3 months	S&P AAAm	
Total	$22,793,532			
Short-term investments:				
Collateral held for securities lending	76,389	<1 year		
Long-term investments:				
Federal Farm Credit Bank bonds	258,050	1-5 years	Moody's AAA	52%
Federal Home Loan Bank bonds	238,320	1-5 years	Moody's AAA	48%
Total	$ 496,370			

C. 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 and securities lending transactions held in the General Account is available on a statewide level in the CAFR.

D. University of Mary Washington Foundation Investments

Financial instruments that potentially subject the Foundation to concentration of credit risk consist of cash and cash equivalents, certificates of deposits, receivables, and investments. The Foundation places its temporary cash investments with high credit quality financial institutions. At June 30, 2005, the Foundation had cash deposits of $2,947,497 in excess of the Federal Deposit Insurance Corporation limit. Investments consist primarily of mutual funds and managed partnerships that are not heavily concentrated in any one company or industry. The Foundation monitors its receivables to minimize credit risk.

Investments are reported at fair market values. The cost and market value of investments as of June 30, 2005 is as follows:

	Cost	Market Value
Investments:		
Bonds	$ 6,624,290	$ 6,708,871
Stocks	845,827	1,791,310
Mutual funds	8,570,595	13,338,655
Partnerships	4,297,046	4,761,376
Total	$20,337,758	$26,600,212

The Foundation has investments and future investment commitments in partnerships that are subject to capital calls and mandatory lock periods. The following is a schedule of commitments and lock in periods.

	Dollars Committed	Dollars Called to Date	Market Value	Lock in Period
Private Advisors Distressed Opportunities	$1,250,000	$1,250,000	$1,387,526	12/31/06
TIFF ARP II – Series I	1,000,000	1,000,000	1,199,700	12/31/06
TIFF ARP II – Series 200-03	1,000,000	1,000,000	1,019,100	12/31/08
TIFF Secondary Partners I	1,000,000	183,000	264,618	12/31/13
TIFF Partners V - United States	500,000	80,000	70,471	12/31/15
TIFF Partners V - International	500,000	15,000	10,272	12/31/15

The Foundation has beneficial interest 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.

The Foundation is also the remainder beneficiary and trustee of 30 charitable gift annuities and three charitable remainder trusts, dated 1986 to 2005. The discount rates range from 3.8 percent to 11.6 percent and are all paid quarterly. Total annuity payments for the year ended June 30, 2005 were $50,861.

3. ACCOUNTS AND PLEDGES RECEIVABLE

Accounts receivable consisted of the following at June 30, 2005:

Student tuition and fees	$456,273
Auxiliary enterprises	47,833
Other activities	64,501
Total	568,607
Less: Allowance for doubtful accounts	(41,496)
Net accounts receivable	$527,111

The University of Mary Washington Foundation had unconditional pledges receivable consisting of the following at June 30, 2005:

Pledges due within one year	$ 1,760,336
Pledges due in two to five years	649,887
Pledges due after five years	182,500
Total	2,592,723
Less: Discounts to net present value (using a discount rate of five percent)	(102,590)
Net pledges receivable	$2,490,133

4. CAPITAL ASSETS

A summary of changes in the various capital asset categories for the University for the year ending June 30, 2005, is presented as follows:

	Beginning Balance, as Adjusted	Increases	Decreases	Ending Balance
Non-depreciable capital assets:				
Land	$ 2,774,083	$ -	$ -	$ 2,774,083
Construction-in-progress	17,476,404	11,614,996	(13,898,647)	15,192,753
Total non-depreciable capital assets	20,250,487	11,614,996	(13,898,647)	17,966,836
Depreciable capital assets:				
Buildings	81,391,048	11,158,804	-	92,549,852
Infrastructure	25,349,880	-	-	25,349,880
Equipment	7,515,831	3,823,927	-	11,339,758
Improvements other than buildings	3,276,302	-	-	3,276,302
Library books	9,857,703	312,759	(26,753)	10,143,709
Total depreciable capital assets	127,390,764	15,295,490	(26,753)	142,659,501
Less accumulated depreciation for:				
Buildings	35,920,452	1,166,654	-	37,087,106
Infrastructure	17,299,465	630,746	-	17,930,211
Equipment	5,653,542	443,379	-	6,096,921
Improvements other than buildings	1,325,283	109,148	-	1,434,431
Library books	7,701,932	396,358	(26,753)	8,071,537
Total accumulated depreciation	67,900,674	2,746,285	(26,753)	70,620,206
Depreciable capital assets, net	59,490,090	12,549,205	-	72,039,295
Total capital assets, net	$ 79,740,577	$24,164,201	$(13,898,647)	$ 90,006,131

A summary of changes in the various capital asset categories for the University of Mary Washington Real Estate Foundation for the year ending June 30, 2005, is presented as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Non-depreciable capital assets:				
Land	$ 5,000,000	$ -	$ -	$ 5,000,000
Total non-depreciable capital assets	5,000,000	-	-	5,000,000
Depreciable capital assets:				
Buildings	8,284,775	-	-	8,284,775
Equipment, furniture, and fixtures	477,065	-	-	477,065
Improvements other than buildings	962,103	-	-	962,103
Total depreciable capital assets	9,723,943	-	-	9,723,943
Less accumulated depreciation for:				
Buildings	526,428	207,119	-	733,547
Equipment	58,845	48,930	-	107,775
Improvements other than buildings	53,451	64,141	-	117,592
Total accumulated depreciation	638,724	320,190	-	958,914
Depreciable capital assets, net	9,085,219	(320,190)	-	8,765,029
Total capital assets, net	$14,085,219	$(320,190)	$ -	$13,765,029

Donated property consists of a contribution of land, which has been independently appraised at a value of $4,500,000. The donation has the restriction that it must be used solely for the public use of an institution of higher education.

A summary of changes in the various capital asset categories for the University of Mary Washington Foundation for the year ending June 30, 2005, is presented as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Non-depreciable capital assets:	$195,000	$ 7,250	$ -	$202,250
Depreciable capital asset:	114,738	-	-	114,738
Equipment				
Less: accumulated depreciation for equipment	73,339	14,486	-	87,825
Depreciable capital asset, net	41,399	(14,486)	-	26,913
Total capital asset, net	$236,399	$ (7,236)	$ -	$229,163

5. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at June 30, 2005:

Employee salaries, wages, and fringe benefits payable	$2,405,413
Vendors and suppliers accounts payable	4,253,340
Total accounts payable	$6,658,753

6. NON-CURRENT LIABILITIES

The University's non-current liabilities consist of long-term debt (further described in Note 7), and accrued compensated absences. A summary of changes in non-current liabilities for the year ending June 30, 2005, is presented as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Long-term debt:					
Bonds payable	$ 8,004,253	$ 1,036,316	$(1,958,181)	$ 7,082,388	$ 956,066
Notes payable	8,665,000	11,835,000	(6,465,000)	14,035,000	385,000
Installment purchases	570,652	6,734,276	(570,652)	6,734,276	575,541
Total long-term debt	17,239,905	19,605,592	(8,993,833)	27,851,664	1,916,607
Other non-current liabilities:					
Accrued compensated absences	1,196,723	703,629	(690,535)	1,209,817	718,245
Total long-term liabilities	$18,436,628	$20,309,221	$(9,684,368)	$29,061,481	$2,634,852

7. LONG TERM DEBT

A. Bonds and Notes Payable

The University has issued two categories of bonds pursuant to Section 9 of Article X of the Constitution of Virginia. Section 9(d) bonds are revenue bonds, which are limited obligations of the University, payable exclusively from pledged general revenues and are not debt of the Commonwealth, legally, morally, or otherwise. Pledged revenues include General Fund appropriations, tuition and fees, auxiliary enterprise revenues, and other revenues not required by law to be used for another purpose. The 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) issued 9(d) bonds and uses the proceeds to purchase debt obligations (notes) of the University and various other institutions of higher education. The University's general revenue also secures these notes.

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

A summary of all bonds and notes payable debt as of June 30, 2005, is presented as follows:

Details of Bonds Payable	Outstanding June 30, 2005
Higher Education Bonds, Series 1998R, issued $2,094,152 to refund a portion of the 148 bed dormitory bond, Series 1992C, the balance to finance construction of new parking lots and athletic fields, the balance payable in annual installments from $14,835 to $262,822 with interest of 3.5 percent to 4.7 percent payable semi-annually, the final installment of $262,822 due June 1, 2013.	$1,807,293
Higher Education Bonds, Series 2001A, issued $1,925,000 to renovate dormitories, the balance payable in annual installments from $65,000 to $145,000 with interest of 4 percent to 5 percent payable semi-annually, the final installment of $145,000 due June 1, 2021.	630,000
Higher Education Bonds, Series 2002R, issued $2,646,766 to refund a portion of the telecommunications bond, Series 1993B, the balance payable in annual installments from $114,232 to $340,000 with interest of 2.5 percent to 5.0 percent payable semi-annually, the final installment of $340,000 due June 1, 2013.	2,298,342
Higher Education Bonds, Series 2003R, issued $702,280 to refund a portion of the Series 1993R bonds, which refunded a portion of the Series 1986A student activity center bond, the balance payable in annual installments from $226,426 to $244,290 with interest of 2.5 percent to 5.5 percent payable semi-annually, the final installment of $244,290 due June 1, 2006.	244,291
Higher Education Bonds, Series 2003R, issued $1,460,829 to refund a portion of the Series 1993R bonds, which refunded a portion of the Series 1990B residence hall bond, the balance payable in annual installments from $183,098 to $235,186 with interest of 2.5 percent to 5.0 percent payable semi-annually, the final installment of $235,186 due June 1, 2010.	1,087,107
Higher Education Bonds, Series 2004R, issued $1,036,316 to refund a portion of the Series 2001A bonds for renovation of dormitories, the balance payable in annual installments from $1,835 to $125,264 with interest of 2.0 percent to 5.0 percent payable semi-annually, the final installment of $125,153 due June 1, 2020.	1,015,355
Total bonds payable	$7,082,388

Details of Notes Payable	Outstanding June 30, 2005
VCBA Bonds, Series 2002A, issued $2,335,000 to finance construction of an indoor tennis facility, the balance payable in annual installments from $60,000 to $180,000 with interest of 3.00 percent to 5.25 percent payable semi-annually, the final installment of $180,000 due September 1, 2022.	$ 2,200,000
VCBABonds, Series 2004R, issued $1,115,000 to refund the Series 1997A bonds to finance construction of Jepson Science Building, the balance payable in annual installments from $65,000 to $115,000 with interest of 3 percent to 5 percent payable semi-annually, the final installment of $115,000 due September 1, 2017.	1,115,000
VCBA Bonds, Series 2004R, issued $915,000 to refund the Series 1999A bonds for replacement of the tennis courts, the balance payable in annual installments from $45,000 to $80,000 with interest of 3 percent to 5 percent payable semi-annually, the final installment of $80,000 due September 1, 2019.	915,000
VCBA Bonds, Series 2004R, issued $4,140,000 to refund the Series 2000A bonds to finance construction of a fitness center, the balance payable in annual installments from $180,000 to $370,000 with interest of 3 percent to 5 percent payable semi-annually, the final installment of $370,000 due September 1, 2020.	4,140,000
VCBA Bonds, Series 2004A, issued $5,665,000 to finance the construction of a parking deck, the balance payable in annual installments from $185,000 to $425,000 with interest of 3.00 percent to 5.00 percent payable semi-annually, the final installment of $425,000 due September 1, 2026.	5,665,000
Total notes payable	$14,035,000

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

June 30,	Principal	Interest	Total
2006	$ 1,341,066	$1,003,156	$ 2,344,222
2007	1,293,970	939,179	2,233,149
2008	1,359,489	880,691	2,240,180
2009	1,414,479	816,067	2,230,546
2010	1,481,295	751,613	2,232,908
2011-2015	5,868,870	2,754,726	8,623,596
2016-2020	5,058,219	1,428,521	6,486,740
2021-2025	2,875,000	387,319	3,262,319
2026	425,000	10,094	435,094
Total	$21,117,388	$8,971,366	$30,088,754

B. Prior Year Defeasance of Debt

In prior years, the University and the Commonwealth, 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, 2005, $7,895,589 of the bonds and $6,130,000 of the notes considered defeased remained outstanding.

C. Installment Purchases

The University has entered into various installment purchase contracts to finance the acquisition of computer and telecommunications equipment. The purchase agreements continue for another 14 years with interest rates from 2.99 percent to 4.31 percent. A summary of the remaining installment purchases payable debt as of June 30, 2005, is presented as follows:

June 30,	Principal	Interest	Total
2006	$ 575,541	$ 202,902	$ 778,443
2007	700,688	230,108	930,796
2008	724,998	205,797	930,795
2009	750,182	180,615	930,797
2010	776,267	154,529	930,796
2011-2015	1,548,460	541,531	2,089,991
2016-2020	1,658,140	183,741	1,841,881
Total	$6,734,276	$1,699,223	$8,433,499

8. FOUNDATION LONG-TERM DEBT

A. University of Mary Washington Foundation Line of Credit

The Foundation has a revolving line of credit up to $2.2 million bearing interest monthly at LIBOR plus .8 percent (4.14 percent at June 30, 2005). The line of credit is secured by the full faith and credit of the Foundation and written pledges from the Alumni Executive Center donors. The line also assesses fees on the undrawn balance at a rate of .10 percent per annum, paid quarterly in arrears. The maturity date of the line of credit is four years from the date of closing, February 23, 2004; however, the Foundation has the ability to prepay the line at any time without penalty. At June 30, 2005, $600,000 was outstanding on this line of credit.

Under the line of credit agreement, the Foundation must maintain certain financial covenants and ratios, including a working capital ratio. As of June 30, 2005, management of the Foundation believes it was in compliance with the covenants.

B. University of Mary Washington Real Estate Foundation Bonds Payable

During the fiscal year ended June 30, 2004, the Foundation obtained $11,140,000 in tax-exempt financing through an Industrial Development Housing Facility Revenue Bond (Bond) with the City of Fredericksburg, Virginia. The Series 2003 Bonds consist of $5,555,000 in serial bonds with staggered maturities through April 1, 2020, $2,170,000 in term bonds due April 1, 2024, and $3,415,000 in term bonds due April 1, 2029. The Foundation used the proceeds to refinance the costs of acquisition and renovation of property, which will be operated and managed by the University as part of its student housing system. The loan agreement is collateralized by a deed of trust to the trustee, SunTrust Bank.

The bond indenture and related agreements provide for the payment of principal and interest to a bond sinking fund semi-annually. Interest only was payable on the outstanding bonds for the first 12 months from date of issuance and is payable semi-annually thereafter along with the principal to the bond sinking fund. For the term bonds due April 1, 2024, and April 1, 2029, interest is payable at a rate of 5.20 percent and 5.35 percent, respectively. For the $5,555,000 serial bond issue, interest is payable at the rates ranging from 2.1 percent to 5.25 percent depending on maturity dates.

Sinking fund payments for the bonds, including principal and interest, for future fiscal years ending June 30 are as follows:

June 30,	Principal	Interest	Total
2006	$ 260,000	$ 523,785	$ 783,785
2007	275,000	517,415	792,415
2008	285,000	509,578	794,578
2009	295,000	500,458	795,458
2010	305,000	490,280	795,280
2011-2015	1,730,000	2,254,550	3,984,550
2016-2020	2,175,000	1,814,906	3,989,906
2021-2025	2,785,000	1,202,892	3,987,892
2026-2029	2,695,049	384,397	3,079,446
Total	$10,805,049	$8,198,261	$19,003,310

The bond agreement requires the Foundation to meet a long-term debt coverage ratio of not less than 1.20. As of June 30, 2005, the Foundation met the required ratio.

The bond issue also requires the Foundation to establish a repair and replacement reserve fund. The Foundation is to deposit into this fund each fiscal year an amount equal to the product of $200 time the number of beds in the project. Deposits for 2005 totaled $71,400. The Foundation may request withdrawals from this fund at any time, and there is no minimum balance requirement.

9. EXPENSES BY NATURAL CLASSIFICATIONS

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

	Salaries and Wages	Fringe Benefits	Services and Supplies	Utilities	Plant and Equipment	Depreciation	Total
Instruction	$15,594,586	$4,031,736	$ 960,877	$ 1,189	$ 328,466	$ -	$20,916,854
Research	51,941	4,831	203,178	-	10,726	-	270,676
Public service	219,343	51,245	83,071	-	1,904	-	355,563
Academic support	2,501,005	693,126	608,192	-	561,006	-	4,363,329
Student services	2,062,510	539,004	1,486,618	-	33,040	-	4,121,172
Institutional support	2,802,005	1,127,983	615,271	(3,913)	501,005	-	5,042,351
Operation and maintenance of plant	655,571	845,828	1,259,792	1,557,962	(18,790)	-	4,300,363
Depreciation	-	-	-	-	-	2,746,288	2,746,288
Student aid	203,423	40,308	48,368	-	2,622	-	294,721
Museum and cultural services	347,352	82,921	159,967	14,803	4,546	-	609,589
Historic attraction management	115,696	35,033	62,000	4,778	2,188	-	219,695
Auxiliary activities	5,917,026	1,723,541	13,942,404	60,529	338,467	-	21,981,967
Total	$30,470,458	$9,175,556	$19,429,738	$1,635,348	$1,765,180	$2,746,288	$65,222,568

10. STATE APPROPRIATIONS

The University receives state appropriations from the General Fund of the Commonwealth. The Appropriation Act specifies that such unexpended appropriations shall revert, as specifically provided by the General Assembly, at the end of the biennium. For years ending at the middle of a biennium, unexpended appropriations that have not been approved for re-appropriation 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:

Original legislative appropriation per Chapter 951:	
Educational and general programs	$15,005,461
Student financial assistance	1,016,397
Museum and cultural services	278,775
Historic attraction management	250,109
Supplemental adjustments	(10,219)
State appropriation revenue, adjusted	$16,540,523

11. AFFILIATED FOUNDATIONS

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 examined by other auditors. The following condensed summary is based solely upon the reports of other auditors at and for the year ended June 30, 2005.

Assets:	
Cash and investments	$142,476
Other assets	31,444
Total assets	173,920
Liabilities and net assets:	
Liabilities	-
Net assets	173,920
Total liabilities and net assets	$173,920

The revenues and expenditures of the Alumni Association, determined as if in consolidation with the University were $181,394 and $135,709, respectively, for the year ended June 30, 2005.

12. RELATED PARTY TRANSACTIONS

A. Between the University of Mary Washington and the University of Mary Washington Real Estate Foundation

Pursuant to the Industrial Revenue Bond issue, the Real Estate Foundation has entered into a support and management agreement with the University. The support agreement requires preferential treatment in that the University must assign all of its students in need of housing first to the project, until at least 95 percent of the units in the project have been assigned. The management agreement appoints the University as the property facilities manager, and requires the University to establish annual operating budgets that facilitate the Real Estate Foundation's compliance with the financial covenants of the bond financing agreement. Under the agreement, a Project Revenue Fund is established at the University to collect revenues and pay expenses of operating, maintaining, and insuring the facility. These net project revenues are held by the University on the Real Estate Foundation's behalf and are to be used for debt service payments and required reserve funding. The balance of this Project Revenue Fund held by the University at June 30, 2005 was $172,278.

The support agreement remains in effect for as long as the Series 2003 Bonds are outstanding. The term of the management agreement extends to June 30, 2030. The management agreement may be terminated by either party after June 30, 2009 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.

B. Between the University of Mary Washington and the University of Mary Washington Foundation

The Foundation occupies facilities located on the University campus. The estimated fair rental value of these facilities is reported as contributed support and rent expense for the period in which the facilities were used, which totaled $6,000 for 2005. The Foundation also receives significant donated services in the form of salaries and related costs from the University free of charge. The value of these donated services totaled $839,700 for 2005.

The Foundation has agreements with the University to reimburse for vendor invoices paid in connection with the Chappell Bell Tower, indoor tennis facility, and alumni executive center capital projects. These agreements state initial limits on reimbursement amounts. The Chappell Bell Tower is currently limited to $1,500,000. The indoor tennis facility is currently limited to $1,000,000. The Foundation anticipates continued underwriting of construction costs related with the alumni executive center with collection of pledges currently outstanding.

C. Between the University of Mary Washington Foundation and the University of Mary Washington Alumni Association

The Foundation has an agreement to give the Alumni Association annually 20 percent of unrestricted alumni gifts, with a minimum of $50,000 each year. For the year ended 2005, the Foundation gave the Alumni Association $149,177. The amount payable under this agreement at June 30, 2005 was $22,340 and is included in accounts payable.

13. COMMITMENTS

At June 30, 2005, the University was a party to construction and other contracts with outstanding commitments of $3,266,444. In addition, $378,183 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.

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 a three year term with renewal options. In most cases, the University expects that in the normal course of business, similar leases will replace this lease. Rental expense was approximately $4,740 for the year ended June 30, 2005.

The University has, as of June 30, 2005, the following future minimum rental payments due under the above lease:

Year Ending June 30,	Operating Lease Obligation
2006	$4,740
2007	4,740
Total	$9,480

14. RETIREMENT PLANS

A. Virginia Retirement System

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

The VRS does not measure assets and pension benefit obligations separately for individual state institutions. Therefore, all information relating to this plan is available at the statewide level only and can be found in the Commonwealth's CAFR. The Commonwealth, not the University, has the overall responsibility for contributions to this plan. The CAFR provides disclosure of the Commonwealth's unfounded pension benefit obligation at June 30, 2005. The same report contains historical trend information showing VRS's progress in accumulating sufficient assets to pay benefits when due.

The University's expenses include the amount assessed by the Commonwealth for contributions to VRS, which totaled $1,535,493 for the year ended June 30, 2005. These contributions included the five percent employee contribution assumed by the employer.

B. Optional Retirement Plans

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

Individual contracts issued under the plan provide for full and immediate vesting of both the University's and the employee's contributions. Total pension costs under this plan were approximately $1,178,993 for the year ended June 30, 2005.

15. POST-EMPLOYMENT BENEFITS

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

16. CONTINGENCIES

A. Grants and Contracts

The University has received grants for specific purposes that are subject to review and audit by the grantor agencies. Claims against these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditures of resources for allowable purposes. Any disallowance resulting from a federal audit may become a liability of the 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 requirements of these regulations may result in questions concerning the allowability of related direct and indirect charges pursuant to such agreements. As of June 30, 2005, the University estimates that no material liabilities will result from such audits or questions.

B. Litigation

The University has been named as a defendant in a number of lawsuits. While the final outcome of these lawsuits cannot be determined at this time, one lawsuit has the potential of imposing a settlement on the institution that could have a material effect on the University's financial position.

17. 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; non-performance of duty; injuries to employees; and natural disasters. The University participates in insurance plans maintained by the Commonwealth. The state employee health care and worker's compensation plans are administered by the Department of Human Resource Management and the risk management insurance plans are administered by the Department of Treasury, Division of Risk Management. Risk management insurance includes property, general liability, medical malpractice, faithful performance of duty bond, automobile, and air and watercraft plans. The University pays premiums to each of these departments for its insurance coverage. Information relating to the Commonwealth's insurance plans is available at the statewide level in the CAFR.

18. BEGINNING NET ASSET ADJUSTMENT

The University converted to a new financial accounting system on July 1, 2004. During conversion to the new system, it was determined that several corrections were needed concerning the implementation of fixed assets changes due to GASB 35 during fiscal year 2002. In addition, it was determined that a capital project started during fiscal year 2004 was not capitalized. As a result of these corrections to Construction-in-Progress and Accumulated Depreciation for both Equipment and Infrastructure, the Beginning Net Assets increased from $69,333,206 to $71,164,941.

19. SUBSEQUENT EVENTS

A. Bond Issuance

On November 16, 2005, the Commonwealth issued 2005A, 9(c) general obligation bonds on behalf of the University in the amount of $4,730,000. The proceeds from the bonds will be used to renovate Seacobeck Dining Hall. The bonds were issued with interest rates varying from 3.5 percent to 5.0 percent and mature in 2025.

B. Installment Purchase Early Payoff

In February 2006, the University paid off the remaining amount due to SunTrust in conjunction with the installment purchase of the new enterprise-wide software system. The entire $2,419,252 was paid during fiscal year 2006 instead of fiscal years 2006 to 2011. This resulted in a savings of $148,299 in interest expense over the next six years.

SUPPLEMENTARY INFORMATION

UNIVERSITY OF MARY WASHINGTON
SCHEDULE OF AUXILIARY ENTERPRISES REVENUES AND EXPENDITURES
For the Year Ended June 30, 2005

	Dining Services	Bookstore	Residence Halls	Parking
Revenues:				
Sales and services	$ 6,177,552	$ 3,280,075	$ 7,333,579	$ 278,559
Student fees	-	-	-	-
Commissions	369,559	27,207	-	-
Interest income	-	-	-	-
Other	-	-	-	347
Total revenues	6,547,111	3,307,282	7,333,579	278,906
Expenditures:				
Personal services	-	274,176	816,247	-
Fringe benefits	-	59,407	87,945	-
Services and supplies	3,755,442	2,393,665	710,127	133,249
Utilities	-	-	33,195	-
Equipment	-	464	73,385	-
Other	181,436	177,878	3,095,081	-
Total expenditures	3,936,878	2,905,590	4,815,980	133,249
Transfers:				
Debt service	-	-	-	(88,827)
Other non-mandatory transfers	-	-	5,496	(892)
Total transfers	-	-	5,496	(89,719)
Net increase/(decrease) for the year	$ 2,610,233	$ 401,692	$ 2,523,095	$ 55,938
Net assets at beginning of year (as restated)				
Net assets at end of year				

Note: Net asset balances of individual enterprises are not maintained by the University.

Telecom-munications	Health Services	Student Activities	Intercollegiate Athletics	Other	Total
$ 8,242	$ 54,587	$ 42,447	$ 16,507	$ 18,673	$ 17,210,221
841,335	-	959,448	1,868,399	2,222,961	5,892,143
-	-	-	-	48,024	444,790
-	-	-	-	263,609	263,609
-	-	1,609	3,120	13,865	18,941
849,577	54,587	1,003,504	1,888,026	2,567,132	23,829,704
621,188	279,600	585,514	830,095	2,510,206	5,917,026
193,855	78,348	134,267	209,585	960,134	1,723,541
926,137	129,652	119,090	482,963	1,717,992	10,368,317
-	-	27,334	-	-	60,529
31,014	303	36,839	16,461	180,001	338,467
24,903	28,461	-	-	66,328	3,574,087
1,797,097	516,364	903,044	1,539,104	5,434,661	21,981,967
(941,715)	-	(1,320,973)	-	(573,439)	(2,924,954)
-	-	75	652	(127,497)	(122,166)
(941,715)	-	(1,320,898)	652	(700,936)	(3,047,120)
$ (1,889,235)	$ (461,777)	$ (1,220,438)	$ 349,574	$ (3,568,465)	(1,199,383)
					3,182,687
					$ 1,983,304

Commonwealth of Virginia

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

Walter J. Kucharski, Auditor

April 19, 2006

The Honorable Timothy M. Kaine
Governor of Virginia

The Honorable Lacey E. Putney
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 basic financial statements of the **University of Mary Washington**, a component unit of the Commonwealth of Virginia, and its aggregate discretely presented component units as of and for the year ended June 30, 2005. 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 University's component units, which are 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 the amounts included for the component units 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 units 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 University of Mary Washington and of its aggregate discretely presented component units as of June 30, 2005, 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 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.

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

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

Internal Control over Financial Reporting

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

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

Compliance and Other Matters

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

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

EXIT CONFERENCE

We discussed this report with management at an exit conference held on May 26, 2006.

AUDITOR OF PUBLIC ACCOUNTS

UNIVERSITY OF
MARY WASHINGTON

Executive Vice President

June 2, 2006

Mr. Walter J. Kucharski
Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218

Subject: Management Response to the Audit Recommendation for
Fiscal Year Ending June 30, 2005

Dear Mr. Kucharski:

I am pleased to send the University of Mary Washington's response to the one internal control finding and recommendation identified during the audit of the fiscal year ended June 30, 2005. The finding and response are as follows:

Prepare Written Policies and Procedures

The University of Mary Washington (University) has documented some, but not all, of its operating policies and procedures. Having documented procedures are an important component of the University's internal control structure and without them the risk of fraud and the likelihood that errors and improper payments could occur and go undetected increases.

We recommend that the University review all of its policies and procedures to ensure they are sufficient. Areas they should review include, but are not limited to, human resources and payroll, cash collections, reconciliations, Fiscal Operations Report and Application to Participate (FISAP) report preparation, and program change control. We recommend that the University couple this review of policies and procedures with the University's work to meet the Department of Accounts Agency Risk Management and Internal Control Standards, planned for release in the summer of 2006.

Documented policies and procedures should be readily available to all employees to ensure they understand and follow management's internal control expectations. The documented policies and procedures increase an employee's understanding and support of internal controls. In addition, the University should supplement the written policies and procedures with periodic training to make sure employees are aware of University policies and procedures.

Management Response

As recommended by the APA staff, the University will review its policies and procedures in coordination with its work to meet the Department of Accounts Agency Risk Management and Internal Control Standards. We will also continue to document existing policies and procedures that are unwritten or have not been adequately communicated to University employees.

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In closing, I want you to know that from our perspective, the financial statement preparation and audit were quite successful. This was the University's first audit based on our new SCT/Banner financial system and I was very pleased that the staff and system performed so well.

If you have any questions, or need additional information, please feel free to contact me at (540) 654-1020.

Sincerely,

Richard V. Hurley
Executive Vice President and Chief Financial Officer

rrp/anw

UNIVERSITY OF MARY WASHINGTON

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June 30, 2005

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