

**UNIVERSITY OF MARY WASHINGTON**

**REPORT ON AUDIT  
FOR THE YEAR ENDED  
JUNE 30, 2006**

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***APA***

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**Auditor of  
Public Accounts**

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**COMMONWEALTH OF VIRGINIA**

## **AUDIT SUMMARY**

Our audit of the University of Mary Washington for the year ended June 30, 2006, found:

- the financial statements are presented fairly, in all material respects, in accordance with generally accepted accounting principles;
- internal control matters that we consider to be reportable conditions; however, we do not consider these to be material weaknesses; and
- no instances of non-compliance or other matters required to be reported.

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## INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

### Develop Policies and Procedures

As noted in the prior year audit, the University of Mary Washington (University) has documented some, but not all, of its operating policies and procedures. Having documented procedures, educating employees about them, and enforcing their compliance are important components 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 again 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 prepaid accounting, fixed assets, and payroll. 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 (ARMICS) released in the fall 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 serve to increase employee understanding of and support for controls, and management should provide periodic employee training to ensure that everyone understands the University's policies and procedures.

### Strengthen Physical and Environmental Controls for Critical Information Technology Equipment

The facilities that house critical information technology equipment at the University's Fredericksburg and Stafford campuses lack several physical and environmental controls to ensure reliability and availability of critical information assets. Physical controls protect unauthorized individuals from accessing equipment and environmental controls identify and prevent that equipment from exposure to hazards such as heat, fire, and moisture.

We recommend that the University strengthen or implement the environmental and physical controls that support these facilities. Inadequate environmental and physical controls can result in data loss or destruction, unauthorized access, or theft of sensitive data. While basic controls exist at both campuses, the University should make the improvements to provide adequate protection over critical systems.

### Complete and Update the Continuity of Operations Plan

The University does not currently have a complete comprehensive Continuity of Operations Plan (COOP). The Virginia Department of Emergency Management (Emergency Management) requires that each executive branch agency and institution of higher education provide Emergency Management an electronic copy of their COOP and that it conforms to the standard template so that Emergency Management and the institution can support each other in an emergency. Executive Order 44 (2007) also requires all agencies and institutions create or update a COOP and submit it to Emergency Management by April 1 annually.

We recommend that University complete their updated COOP as soon as possible to ensure the entire University's ability to continue operations in an emergency. Without a comprehensive COOP, the University risks not being prepared to continue critical business functions in the event that a disaster prevents normal operations. The University began developing a comprehensive COOP in March of 2006, but management has not yet received and approved a complete plan.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

(unaudited)

The University's Management 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 increased by over three percent for undergraduate and over 200 percent for graduate applicants from fall 2005 to fall 2006. The increase in graduate applicants is attributed to increased advertisement of the Stafford campus graduate programs as well as the addition of a Master of Science in Management Information Systems. 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

	<u>2002-2003</u>		<u>2003-2004</u>		<u>2004-2005</u>		<u>2005-2006</u>	
Enrollment data (headcount):								
Undergraduate	4,275		4,299		4,158		4,085	
Graduate	<u>460</u>		<u>493</u>		<u>578</u>		<u>649</u>	
Total	<u>4,735</u>		<u>4,792</u>		<u>4,736</u>		<u>4,734</u>	
Undergraduate application data:								
Applications received	4,946		5,127		5,117		5,298	
Applications accepted	2,997	61%	3,107	61%	3,261	64%	3,835	73%
Students enrolled	1,180	39%	1,158	37%	1,176	36%	1,417	37%
Graduate application data:								
Applications received	125		152		159		502	
Applications accepted	116	93%	144	95%	149	94%	450	90%
Students enrolled	104	90%	132	92%	133	89%	280	63%
Tuition and fees:								
Tuition	\$1,690		\$ 2,344		\$2,544		\$2,806	
Fees	2,244		2,344		2,584		2,828	
Room and board	<u>5,318</u>		<u>5,478</u>		<u>5,744</u>		<u>6,002</u>	
Total	<u>\$9,252</u>		<u>\$10,166</u>		<u>\$10,872</u>		<u>\$11,636</u>	

## 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, 2006. 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.

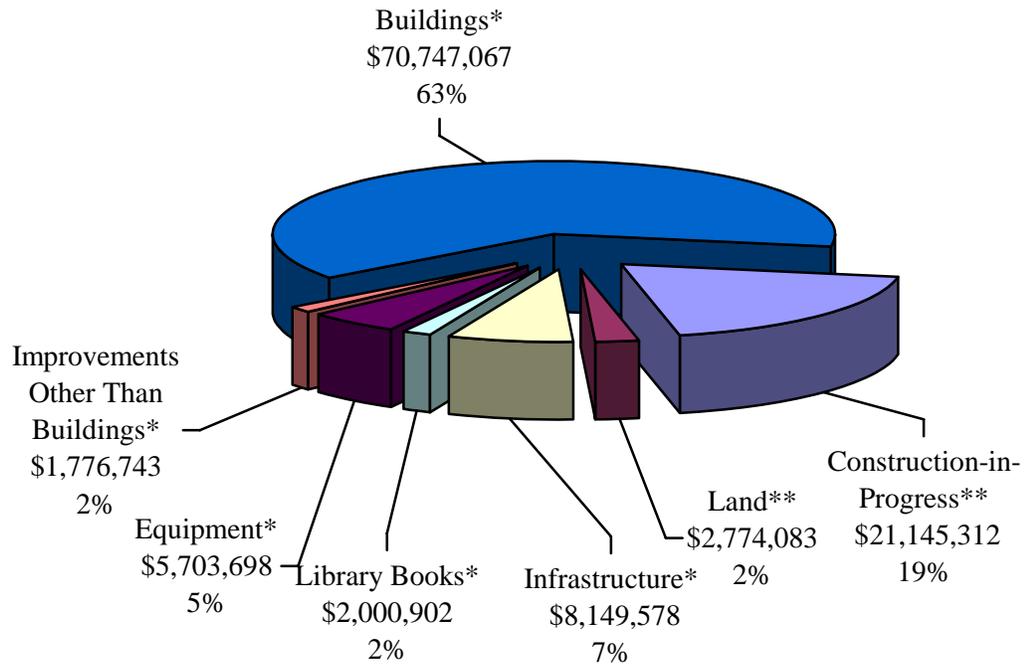
The following table reflects the condensed Statement of Net Assets for the University for fiscal years 2006 and 2005.

	<u>2006</u>	<u>2005</u>
Assets:		
Current assets	\$ 16,284,427	\$ 16,136,194
Non-current assets	11,991,127	11,530,658
Capital assets	<u>112,297,383</u>	<u>89,996,809</u>
Total assets	<u>140,572,937</u>	<u>117,663,661</u>
Liabilities:		
Current liabilities	13,264,309	13,141,473
Non-current liabilities	<u>29,017,633</u>	<u>27,002,095</u>
Total liabilities	<u>42,281,942</u>	<u>40,143,568</u>
Net assets:		
Invested in capital assets, net of related debt	87,326,901	72,099,936
Restricted	6,297,463	1,638,695
Unrestricted	<u>4,666,631</u>	<u>3,781,462</u>
Total net assets	<u>\$ 98,290,995</u>	<u>\$ 77,520,093</u>

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. Appropriations available are used to construct capital assets.

The increase in non-current liabilities relates to increases for new notes payable and installment purchases for capital assets. Depreciable capital assets increased with completion of several new buildings and a parking deck. 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, 2006



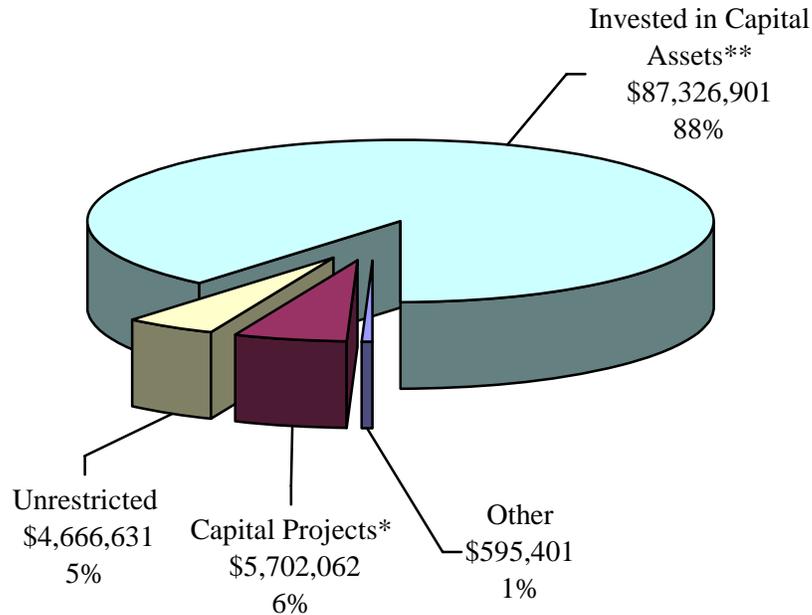
\* Depreciable capital assets, net of accumulated depreciation

\*\* Nondepreciable 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, infrastructure, and equipment owned by the University. The second category, restricted, is divided between expendable and nonexpendable 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, 2006, are as follows:

Net Assets for the Year Ended June 30, 2006



<sup>1</sup>Other includes: Research\* \$27,368 (4.60%); Scholarships and Fellowships\* \$33,732 (5.67%); Departmental Uses\* \$278,778 (46.82%); and Loans\* \$255,523 (42.92%)

\* Restricted, expendable

\*\* Net of related debt

Statement of Revenues, Expenses and Changes in Net Assets

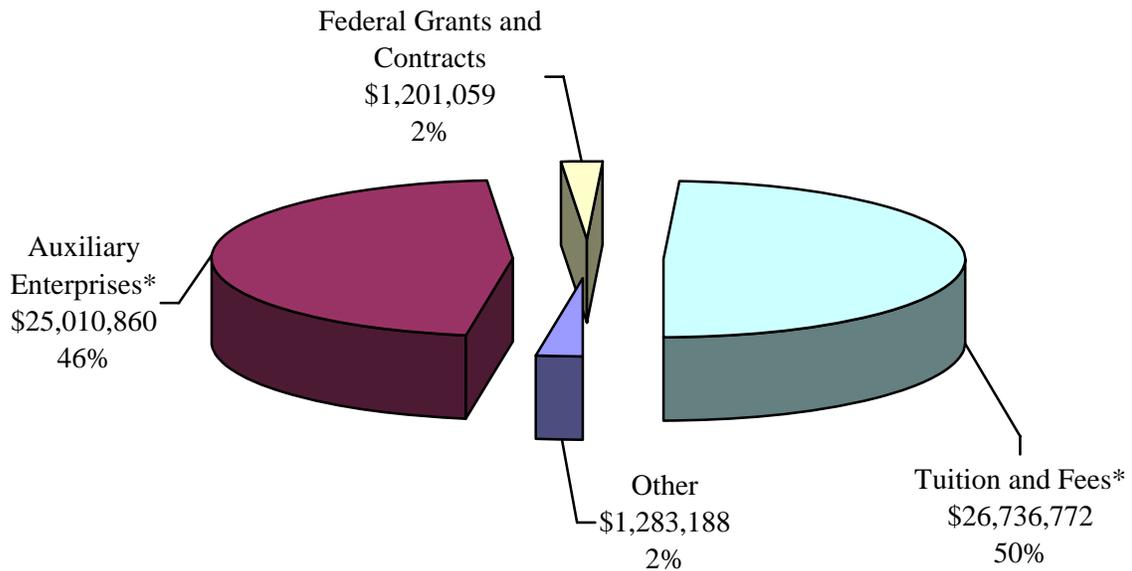
The Statement of Revenues, Expenses and Changes in Net Assets presents the changes in total net assets based on activity. Its purpose is to show the University's operating and non-operating revenues recognized and expenses incurred, as well as any other revenues, expenses, gains, and losses. Operating 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 revenue received where no goods or services are provided. An example of non-operating revenues is 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 \$1,444,765 due to the increase in room and board participation and rates. General Fund appropriations increased \$2,077,756 in fiscal year 2006.

The following table and graphs show the fiscal years 2006 and 2005 results.

	<u>2006</u>	<u>2005</u>
Operating revenues	\$54,231,879	\$49,657,805
Operating expenses	<u>71,277,760</u>	<u>65,222,568</u>
Operating loss	(17,045,881)	(15,564,763)
Net non-operating revenues	<u>18,172,815</u>	<u>16,108,497</u>
Income before other revenues, expenses, gains, or losses	1,126,234	543,734
Net other revenues	<u>19,643,968</u>	<u>5,820,740</u>
Increase in net assets	<u>\$20,770,902</u>	<u>\$ 6,364,474</u>

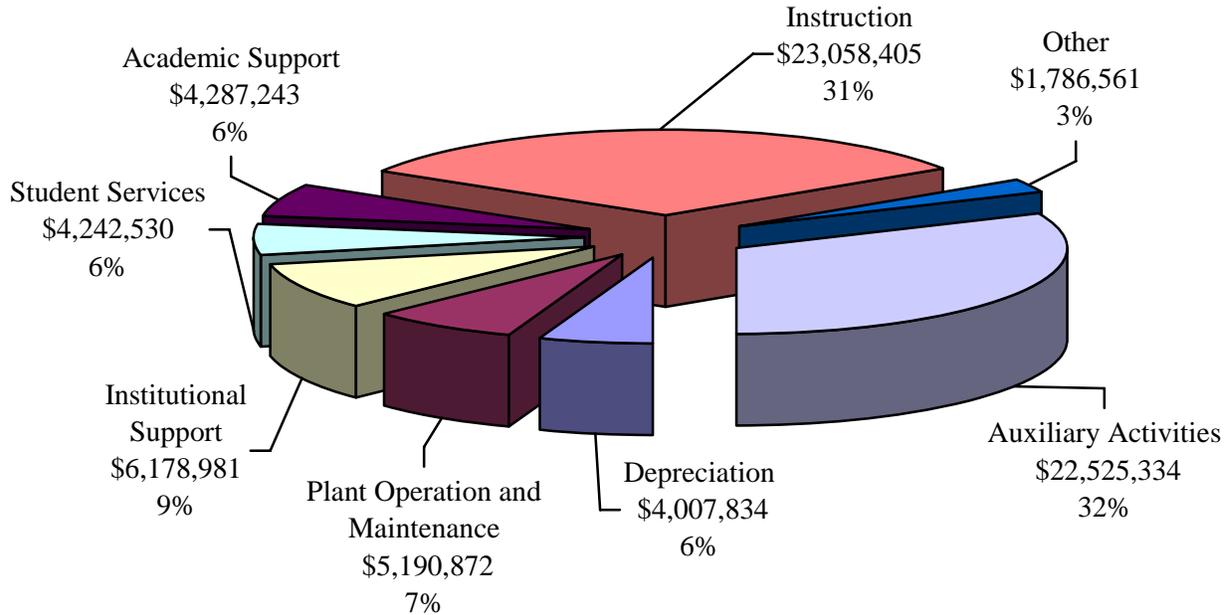
Operating Revenues for the Year Ended June 30, 2006



<sup>1</sup>Other includes: Other Operating Revenues \$440,962 (34.36%); State Grants and Contracts \$401,834 (31.32%); Nongovernmental Grants and Contracts \$439,892 (34.28%); and Local Grants \$500 (0.04%).

\* Net of scholarship allowances

Operating Expenses for the Year Ended June 30, 2006



<sup>1</sup>Other includes: Research and Public Service \$633,082 (35.44%); Student Aid \$218,905 (12.25%); and Museum and Cultural Services and Historic Attraction Management \$934,574 (52.31%).

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.

	<u>2006</u>	<u>2005</u>
Cash provided (used) by:		
Operating activities	\$(13,449,796)	\$(11,344,528)
Non-capital financing activities	19,310,323	16,593,845
Capital and related financing activities	(8,529,345)	(4,007,277)
Investing activities	<u>1,048,414</u>	<u>9,250,416</u>
Net increase/(decrease) in cash	(1,620,404)	10,492,456
Cash, beginning of year	<u>22,434,042</u>	<u>11,941,586</u>
Cash, end of year	<u>\$ 20,813,638</u>	<u>\$ 22,434,042</u>

### Capital Asset and Long Term Debt

In May 2006, the University secured a \$663,000 master equipment lease/purchase agreement with SunTrust under a Commonwealth of Virginia Department of the Treasury program. The lease covered a portion of the purchase and implementation of a new enterprise resource system from Banner/SCT. In November 2005, the Commonwealth of Virginia issued a general obligation bond in the amount of \$4,730,000 to finance the cost of the renovation of the Seacobeck kitchen.

During fiscal year 2006, the following capital projects were completed:

- Gari Melchers Studio
- Boiler Renovation and Replacement
- Parking Deck
- University Tennis Center
- Brompton Renovations
- Residence Hall Renovations

The following capital projects are still in progress:

- Seacobeck Dining Hall Renovation
- Campanile/Bell Tower
- College of Graduate and Professional Studies Building #2
- George Washington Hall Mold Remediation
- Lee Hall Renovation
- Gari Melchers Home Roof Replacement
- Convocation Center
- Energy Project
- Melchers HVAC Renovation
- Dodd Auditorium Renovation

### Additional Items of Note

The University completed its implementation of the final Banner/SCT enterprise resource system modules and testing for an updated version has begun.

The University once again met all of the Management Standards for the Institutions of Higher Education in Virginia. These standards are:

- An unqualified opinion from the Auditor of Public Accounts (APA)
- No significant audit deficiencies are attested to by APA
- Compliance with the financial reporting standards endorsed by the State Comptroller
- Attainment of the accounts receivable standards
- Attainment of the accounts payable standards

## **FINANCIAL STATEMENTS**

UNIVERSITY OF MARY WASHINGTON  
STATEMENT OF NET ASSETS  
As of June 30, 2006

ASSETS	University	Real Estate Foundation	University Foundation
Current assets:			
Cash and cash equivalents (Note 2)	\$ 9,940,288	\$ 47,365	\$ 2,602,074
Securities lending cash and cash equivalents (Note 2)	193,795	-	-
Short-term investments (Note 2)	-	155,201	-
Accounts receivable, net of allowance for doubtful accounts of \$31,186 (Note 3)	785,621	-	125,000
Pledges receivable, current portion (Note 3)	-	-	1,315,027
Due from the Commonwealth	4,737,872	-	-
Due from the foundations (Note 11)	-	-	247,500
Due from the University (Note 11)	-	346,018	4,398
Inventories	626,851	-	-
Other assets	-	249,061	236,611
Total current assets	16,284,427	797,645	4,530,610
Non-current assets:			
Restricted cash and cash equivalents (Note 2)	10,873,350	557,440	1,483,601
Restricted investments (Note 2)	-	770,752	29,439,427
Other restricted assets	670,623	-	-
Pledges receivable, noncurrent portion (Note 3)	-	-	3,842,666
Securities lending investments (Note 2)	191,782	-	-
Other long-term investments (Note 2)	255,372	-	838,708
Non-depreciable capital assets (Note 4)	23,919,395	9,100,000	210,250
Capital assets, net of accumulated depreciation (Note 4)	88,377,988	8,444,839	16,979
Total non-current assets	124,288,510	18,873,031	35,831,631
Total assets	140,572,937	19,670,676	40,362,241

UNIVERSITY OF MARY WASHINGTON  
STATEMENT OF NET ASSETS  
As of June 30, 2006

LIABILITIES			
Current liabilities:			
Accounts payable (Note 5)	7,272,944	2,000	124,632
Deferred revenue	1,509,173	-	43,260
Deposits held in trust	464,115	-	-
Obligations under Securities Lending Program (Note 2)	385,577	-	-
Amounts due to the Commonwealth	710,245	-	-
Amounts due to foundations (Note 11)	350,416	247,500	-
Short term debt (Note 7)	-	-	200,000
Other liabilities	-	129,354	-
Long-term liabilities - current portion (Notes 6 and 7)	2,571,839	275,000	86,159
Total current liabilities	13,264,309	653,854	454,051
Non-current liabilities:			
Long-term liabilities - non-current portion (Notes 6 and 7)	28,442,167	10,278,395	404,557
Perkins loan	575,466	-	-
Total non-current liabilities	29,017,633	10,278,395	404,557
Total liabilities	42,281,942	10,932,249	858,608
NET ASSETS			
Invested in capital assets, net of related debt	87,326,901	6,991,444	227,229
Restricted for:			
Non-expendable:			
Permanently restricted	-	-	18,041,750
Expendable:			
Capital projects	5,702,062	-	-
Loans	255,523	-	-
Departmental uses	278,778	-	-
Research	27,368	-	-
Scholarships and fellowships	33,732	-	-
Temporarily restricted	-	-	14,762,967
Unrestricted	4,666,631	1,746,983	6,471,687
Total net assets	\$ 98,290,995	\$ 8,738,427	\$ 39,503,633

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, 2006

	University	Real Estate Foundation	University Foundation
Operating revenues:			
Student tuition and fees, net of scholarship allowances of \$2,338,996	\$ 26,736,772	\$ -	\$ -
Federal grants and contracts	1,201,059	-	-
State grants and contracts	401,834	-	-
Local grants and contracts	500	-	-
Non-governmental grants and contracts	439,892	-	-
Auxiliary enterprises, net of scholarship allowances of \$266,989	25,010,860	-	-
Foundation operations	-	1,417,593	6,775,184
Other operating revenues	440,962	-	-
<b>Total operating revenues</b>	<b>54,231,879</b>	<b>1,417,593</b>	<b>6,775,184</b>
Operating expenses:			
Instruction	23,058,405	-	-
Research	268,993	-	-
Public service	364,089	-	-
Academic support	4,287,243	-	-
Student services	4,242,530	-	-
Institutional support	6,178,981	-	-
Operation and maintenance of plant	5,190,872	-	-
Depreciation	4,007,834	331,259	9,934
Student aid	218,905	-	-
Museum and cultural services	697,737	-	-
Historic attraction management	236,837	-	-
Auxiliary activities	22,525,334	-	-
Foundation operations	-	705,556	4,497,567
<b>Total operating expenses</b>	<b>71,277,760</b>	<b>1,036,815</b>	<b>4,507,501</b>
<b>Operating income/(loss)</b>	<b>(17,045,881)</b>	<b>380,778</b>	<b>2,267,683</b>
Non-operating revenues/(expenses):			
State appropriations (Note 9)	18,618,279	-	-
Investment income	811,380	60,779	3,318,499
Interest on capital asset related debt	(1,256,844)	(530,539)	(22,841)
<b>Net non-operating revenues/(expenses)</b>	<b>18,172,815</b>	<b>(469,760)</b>	<b>3,295,658</b>
<b>Income/(loss) before other revenues, expenses, gains, or losses</b>	<b>1,126,934</b>	<b>(88,982)</b>	<b>5,563,341</b>
Capital appropriations	17,840,793	-	-
Capital gifts	1,803,175	4,100,000	165,901
Additions to permanent endowments	-	-	1,385,580
<b>Net other revenues, expenses, gains, or losses</b>	<b>19,643,968</b>	<b>4,100,000</b>	<b>1,551,481</b>
<b>Increase in net assets</b>	<b>20,770,902</b>	<b>4,011,018</b>	<b>7,114,822</b>
<b>Net assets - beginning of year, as restated (Note 17)</b>	<b>77,520,093</b>	<b>4,727,409</b>	<b>32,388,811</b>
<b>Net assets - end of year</b>	<b>\$ 98,290,995</b>	<b>\$ 8,738,427</b>	<b>\$ 39,503,633</b>

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, 2006

	<u>University</u>
Cash flows from operating activities:	
Student tuition and fees	\$ 33,324,636
Grants and contracts	1,592,715
Auxiliary enterprises	25,280,735
Other receipts	885,779
Payments to employees	(34,177,173)
Payments for fringe benefits	(7,866,449)
Payments for services and supplies	(22,926,561)
Payments for utilities	(1,533,158)
Payments for scholarships and fellowships	(6,344,717)
Payments for non-capitalized plant and equipment	(1,691,999)
Loans issued to students	(183,800)
Collection of loans from students	<u>190,196</u>
Net cash used by operating activities	<u>(13,449,796)</u>
Cash flows from non-capital financing activities:	
State appropriations	18,618,279
Proceeds from state treasury loan	708,689
Agency receipts and payments (net)	<u>(16,645)</u>
Net cash provided by non-capital financing activities	<u>19,310,323</u>
Cash flows from capital financing activities:	
Capital appropriations	15,554,899
Capital gifts	1,763,233
Proceeds from new debt financings	5,634,214
Purchase of capital assets	(26,268,466)
Principal paid on capital debt, leases, and installments	(4,163,917)
Interest paid on capital debt, leases, and installments	<u>(1,049,308)</u>
Net cash used by capital financing activities	<u>(8,529,345)</u>
Cash flows from investing activities:	
Sale/purchase of investments (net)	240,998
Interest on investments	<u>807,416</u>
Net cash provided by investing activities	<u>1,048,414</u>
Net decrease in cash	(1,620,404)
Cash - beginning of the year	<u>22,434,042</u>
Cash - end of the year	<u>\$ 20,813,638</u>

UNIVERSITY OF MARY WASHINGTON  
STATEMENT OF CASH FLOWS  
For the Year Ended June 30, 2006

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RECONCILIATION OF NET OPERATING LOSS TO

NET CASH USED BY OPERATING ACTIVITIES:

Operating loss	\$ (17,045,881)
Adjustments to reconcile net loss to net cash used by operating activities:	
Depreciation expense	4,007,834
Changes in assets and liabilities:	
Accounts/pledges receivable	(258,510)
Inventories	(51,781)
Other assets	8,828
Accounts payable	(614,190)
Accrued leave liability	(38,085)
Deferred revenue	300,133
Deposits held in trust	419,988
Due to foundations	(178,140)
Due to Commonwealth	<u>8</u>
Net cash used by operating activities	<u><u>\$ (13,449,796)</u></u>
Noncash investing, noncapital financing, and capital and related financing transactions:	
Gift of capital assets	<u><u>\$ 39,942</u></u>

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, 2006

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 of Virginia 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 Real Estate Foundation is a non-profit organization incorporated under the laws of the Commonwealth of Virginia on December 20, 1989. Its purpose is to hold real estate for the University and to operate any corresponding rental operations. The University 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 Real Estate Foundation and the University 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 10. Audited financial statements are also issued by the Alumni Association.

All three organizations are separate legal entities from the University and the University exercises no control over them. Complete financial statements for the foundations and the Alumni Association can be obtained from the respective entity, 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 No. 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. Information as to the significant accounting policies of the foundations can be obtained from their respective audited financial statements.

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. Assets are recorded at actual cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation. Expenses for major capital assets and improvements are capitalized (construction-in-progress) as projects are constructed. Interest expense relating to construction is capitalized net of interest income earned on resources set aside for this

purpose. The costs of normal maintenance and repairs that do not add to an asset's value or materially extend its useful life are not capitalized. Certain maintenance and replacement reserves have been established to fund costs relating to residences and other auxiliary activities.

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

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

F Inventories

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

H Non-current Cash and Investments

Cash and investments that are externally restricted for the Federal Department of Education Perkins Loan program and for the purchase or construction of 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, 2006.

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, 2006, 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 nongovernmental 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 Nonexpendable 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, 2006.

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 \$11,563,681; deposits uncollateralized are in the amount of \$1,340,847.

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:

	<u>Market Value at June 30, 2006</u>	<u>Investment Maturity</u>	<u>Credit Rating</u>
Cash and cash equivalents:			
Cash with the Treasurer	\$ 7,175,738		
Deposits with financial institutions	3,438,717		
Collateral held for securities lending	193,795	<3 months	
Money market deposits with financial institutions	6,663,125	<3 months	Moody's AAA
State non-arbitrage program (SNAP)	<u>3,536,058</u>	<3 months	S&P AAAM
Total	<u>\$ 21,007,433</u>		
Short-term investments:			
Collateral held for securities lending	<u>\$ 191,782</u>	<1 year	
Long-term investments:			
Federal Farm Credit Bank bonds	<u>\$ 255,372</u>	1-5 years	Moody's AAA

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 Real Estate Foundation Investments

Financial instruments that potentially subject the Foundation to concentration of credit risk consist principally of temporary cash investments. The Foundation places its temporary cash investments with high credit quality financial institutions. At June 30, 2006, the Foundation had no cash deposits in excess of the FDIC limit.

E University of Mary Washington Foundation 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. At June 30, 2006, the Foundation had cash deposits of \$4,199,615 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 UMW Foundation monitors its receivables to minimize credit risk.

Investments are reported at fair market values. The market value of investments as of June 30, 2006 is as follows:

	<u>Market Value</u>
Investments:	
Bonds	\$ 4,629,523
Stocks	1,077,183
Mutual funds	17,414,008
Partnerships	<u>6,318,713</u>
Total	<u>\$29,439,427</u>

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.

	<u>Dollars Committed</u>	<u>Dollars Called to Date</u>	<u>Market Value</u>	<u>Lock in Period</u>
Private Advisors Distressed Opportunities	\$1,250,000	\$1,250,000	\$1,558,089	12/31/06
TIFF ARP II – Series I	1,000,000	1,000,000	1,343,095	12/31/06
TIFF ARP II – Series 2005-03	1,000,000	1,000,000	1,140,837	12/31/08
TIFF Secondary Partners I	1,000,000	582,015	741,603	12/31/15
TIFF Partners V – United States	500,000	195,000	174,691	12/31/15
TIFF Partners V – International	500,000	75,000	67,392	12/31/15
Property Investment Advisors PH IV	500,000	68,037	70,635	12/31/17

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. During the term of the agreement, any changes in actuarial assumptions are recognized as changes in split-interest agreements.

The Foundation is also the remainder beneficiary and trustee of thirty charitable gift annuities and three charitable remainder trusts, dated 1986 to 2006. The discount rates range from 3.8 percent to 10.6 percent and are all paid quarterly. Total annuity payments for the year ended June 30, 2006 were \$70,843.

### 3. ACCOUNTS AND PLEDGES RECEIVABLE

Accounts receivable consisted of the following at June 30, 2006:

Student tuition and fees	\$599,926
Auxiliary enterprises	148,783
Other activities	<u>68,098</u>
Total	816,807
Less: allowance for doubtful accounts	<u>(31,186)</u>
Net accounts receivable	<u>\$785,621</u>

The University of Mary Washington Foundation had unconditional pledges receivable consisting of the following at June 30, 2006:

Pledges due within one year	\$1,315,027
Pledges due in two to five years	592,250
Pledges due after five years	<u>5,091,250</u>
Total	6,998,527
Less: Discounts to net present value (using a discount rate of five percent)	<u>(1,840,834)</u>
Net pledges receivable	<u>\$5,157,693</u>

The Foundation had a loan receivable consisting of \$125,000 to a related party, a former key employee of the University. The loan bears five percent and principal is payable in \$25,000 annual installments plus accrued interest. The loan matures February 2011.

#### 4. CAPITAL ASSETS

A summary of changes in the various capital asset categories for the University for the year ending June 30, 2006, 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	<u>15,192,753</u>	<u>25,055,222</u>	<u>(19,102,663)</u>	<u>21,145,312</u>
Total non-depreciable capital assets	<u>17,966,836</u>	<u>25,055,222</u>	<u>(19,102,663)</u>	<u>23,919,395</u>
Depreciable capital assets:				
Buildings	92,549,852	16,711,850	-	109,261,702
Equipment	11,160,322	1,914,104	(65,932)	13,008,494
Infrastructure	25,349,880	1,367,904	-	26,717,784
Improvements other than buildings	3,276,302	44,038	-	3,320,340
Library books	<u>10,143,709</u>	<u>317,954</u>	<u>(27,992)</u>	<u>10,433,671</u>
Total depreciable capital assets	<u>142,480,065</u>	<u>20,355,850</u>	<u>(93,924)</u>	<u>162,741,991</u>
Less accumulated depreciation for:				
Buildings	37,087,106	1,427,529	-	38,514,635
Equipment	5,925,260	1,445,468	(65,932)	7,304,796
Infrastructure	17,931,759	636,447	-	18,568,206
Improvements other than buildings	1,434,431	109,166	-	1,543,597
Library books	<u>8,071,537</u>	<u>389,224</u>	<u>(27,992)</u>	<u>8,432,769</u>
Total accumulated depreciation	<u>70,450,093</u>	<u>4,007,834</u>	<u>(93,924)</u>	<u>74,364,003</u>
Depreciable capital assets, net	<u>72,029,972</u>	<u>16,348,016</u>	<u>-</u>	<u>88,377,988</u>
Total capital assets, net	<u>\$ 89,996,808</u>	<u>\$41,403,238</u>	<u>\$(19,102,663)</u>	<u>\$112,297,383</u>

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, 2006, is presented as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Non-depreciable capital assets:				
Land	<u>\$ 5,000,000</u>	<u>\$4,100,000</u>	<u>\$ -</u>	<u>\$ 9,100,000</u>
Total non-depreciable capital assets	<u>5,000,000</u>	<u>4,100,000</u>	<u>-</u>	<u>9,100,000</u>
Depreciable capital assets:				
Buildings	8,284,775	-	-	8,284,775
Equipment, furniture, and fixtures	477,065	-	-	477,065
Improvements other than buildings	<u>962,103</u>	<u>-</u>	<u>-</u>	<u>962,103</u>
Total depreciable capital assets	<u>9,723,943</u>	<u>-</u>	<u>-</u>	<u>9,723,943</u>
Less accumulated depreciation for:				
Buildings	733,547	207,119	-	940,666
Equipment	107,775	48,930	-	156,705
Improvements other than buildings	<u>117,592</u>	<u>64,141</u>	<u>-</u>	<u>181,733</u>
Total accumulated depreciation	<u>958,914</u>	<u>320,190</u>	<u>-</u>	<u>1,279,104</u>
Depreciable capital assets, net	<u>8,765,029</u>	<u>(320,190)</u>	<u>-</u>	<u>8,444,839</u>
Total capital assets, net	<u>\$13,765,029</u>	<u>\$3,779,810</u>	<u>\$ -</u>	<u>\$17,544,839</u>

Donated property consists of a contribution of land, which has been independently appraised at a value of \$4,100,000. The donation has the restriction that it must be used exclusively for an accredited institution of higher learning. The donation also has the restriction that it will not be used for any form of residential use, including dormitory or other student resident.

A summary of changes in the various capital asset categories for the University of Mary Washington Foundation for the year ending June 30, 2006, is presented as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Non-depreciable capital assets:	<u>\$202,250</u>	<u>\$ 8,000</u>	<u>\$ -</u>	<u>\$210,250</u>
Depreciable capital asset:				
Equipment	114,738	-	-	114,738
Less: accumulated depreciation for equipment	<u>87,825</u>	<u>9,934</u>	<u>-</u>	<u>97,759</u>
Depreciable capital asset, net	<u>26,913</u>	<u>(9,934)</u>	<u>-</u>	<u>16,979</u>
Total capital asset, net	<u>\$229,163</u>	<u>\$ (1,934)</u>	<u>\$ -</u>	<u>\$227,229</u>

5. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at June 30, 2006:

Vendors and suppliers accounts payable	\$5,138,073
Employee salaries, wages, and fringe benefits payable	1,136,921
Retainage payable on construction contracts	984,440
Other accounts payable	<u>12,510</u>
Total accounts payable	<u>\$7,272,944</u>

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, 2006, is presented as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Long-term debt:					
Bonds payable	\$ 7,082,388	\$5,096,972	\$(1,237,863)	\$10,941,497	\$ 893,970
Notes payable	14,035,000	367,719	(397,580)	14,005,139	555,000
Installment purchases	<u>6,734,276</u>	<u>663,043</u>	<u>(2,577,851)</u>	<u>4,819,468</u>	<u>355,022</u>
Total long-term debt	<u>27,851,664</u>	<u>6,127,734</u>	<u>(4,213,294)</u>	<u>29,766,104</u>	<u>1,803,992</u>
Other non-current liabilities:					
Accrued compensated absences	<u>1,209,817</u>	<u>718,245</u>	<u>(680,160)</u>	<u>1,247,902</u>	<u>767,847</u>
Total long-term liabilities	<u>\$29,061,481</u>	<u>\$6,845,979</u>	<u>\$(4,893,454)</u>	<u>\$31,014,006</u>	<u>\$2,571,839</u>

7. LONG TERM DEBT

A Bonds Payable

The University's bonds payable consists of Section 9(c) bonds which are general obligation bonds issued by the Commonwealth on behalf of the University. These bonds 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 payable as of June 30, 2006, is presented as follows:

Details of Bonds Payable

	<u>Outstanding June 30, 2006</u>
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.	\$ 1,613,144
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.	555,000
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 percent payable semi-annually, the final installment of \$340,000 due June 1, 2013.	2,113,473
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 percent payable semi-annually, the final installment of \$235,186 due June 1, 2010.	925,368
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 percent to 5 percent payable semi-annually, the final installment of \$125,153 due June 1, 2025.	1,005,453
Higher Education Bonds, Series 2005A, issues \$4,730,000 to renovate dining facilities, the balance payable in annual installments from \$155,000 to \$350,000 with interest of 3.5 percent to 5 percent payable semi-annually, the final installment of \$350,000 due June 1, 2025.	<u>4,729,060</u>
Total bonds payable	<u>\$10,941,497</u>

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

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 923,756	\$ 502,822	\$ 1,396,792
2008	964,274	464,118	1,398,607
2009	999,265	420,129	1,389,608
2010	1,041,080	378,263	1,389,558
2011	838,861	330,542	1,148,789
2012-2016	2,793,405	1,113,402	3,829,165
2017-2021	2,019,476	609,209	2,567,288
2022-2024	<u>1,361,379</u>	<u>160,500</u>	<u>1,470,500</u>
Total	<u>\$10,941,497</u>	<u>\$3,978,985</u>	<u>\$14,920,482</u>

B 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) 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 secures these notes. A summary of all notes payable as of June 30, 2006, is presented as follows:

Details of Notes Payable

	<u>Outstanding June 30, 2006</u>
VCBA Bonds, Series 1997A, issued \$1,515,000 to finance construction of the Jepson Science Building, the balance payable in annual installments from \$65,000 to \$115,000 with interest of 3.75 percent to 5 percent payable semi-annually, the final installment of \$115,000 due September 1, 2017.	\$ 325,000
VCBA Bonds, Series 1999A, issued \$1,045,000 to finance replacement of the tennis courts, the balance payable in annual installments from \$40,000 to \$50,000 with interest of 4.5 percent to 6 percent payable semi-annually, the final installment of \$50,000 due September 1, 2009.	180,000
VCBA Bonds, Series 2000A, issued \$4,690,000 to finance construction of a fitness center, the balance payable in annual installments from \$170,000 to \$370,000 with interest of 4.25 percent to 5.75 percent payable semi-annually, the final installment of \$370,000 due September 1, 2020.	2,585,000
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 percent to 5.25 percent payable semi-annually, the final installment of \$180,000 due September 1, 2022.	2,232,485
VCBA Bonds, Series 2004R, issued \$725,000 to partially 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.	737,143
VCBA Bonds, Series 2004R, issued \$695,000 to partially 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.	654,375
VCBA Bonds, Series 2004R, issued \$1,385,000 to partially 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.	1,347,941
VCBA Bonds, Series 2004A, issued \$5,665,000 to finance Construction of a Parking Deck, the balance payable in annual installments from \$185,000 to \$425,000 with interest of 3 percent to 5 percent payable semi-annually, the final installment of \$425,000 due September 1, 2026.	<u>5,943,195</u>
Total notes payable	<u>\$14,005,139</u>

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

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 573,297	\$ 652,032	\$ 1,207,032
2008	603,297	626,822	1,211,822
2009	628,297	600,188	1,210,188
2010	658,297	571,000	1,211,000
2011	683,297	540,050	1,205,050
2012-2016	3,916,485	2,153,850	5,978,850
2017-2021	4,574,386	1,096,463	5,581,463
2022-2024	<u>2,367,783</u>	<u>257,644</u>	<u>2,542,644</u>
Total	<u>\$14,005,139</u>	<u>\$6,498,049</u>	<u>\$20,503,188</u>

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 fourteen 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, 2006, is presented as follows:

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 355,022	\$ 201,776	\$ 556,798
2008	370,071	185,565	555,636
2009	385,760	169,876	555,636
2010	402,114	153,522	555,636
2011	419,163	136,473	555,636
2012-2016	1,570,680	475,854	2,046,534
2017-2020	<u>1,316,658</u>	<u>115,915</u>	<u>1,432,573</u>
Total	<u>\$4,819,468</u>	<u>\$1,438,981</u>	<u>\$6,258,449</u>

D 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, 2006, \$6,554,606 of the bonds and \$2,765,000 of the notes considered defeased remained outstanding.

E University of Mary Washington Foundation Line of Credit

The University of Mary Washington Foundation has a revolving line of credit up to \$2.2 million bearing interest monthly at the London Interbank Offered Rate (LIBOR) plus .8 percent (6.15 percent at June 30, 2006). 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, 2006, \$200,000 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, 2006, management of the Foundation believes it was in compliance with the covenants.

F 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 (Bonds) 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. 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.

At June 30, 2006, the carrying value of the bonds payable is shown net of unamortized original issue discount of \$96,605. Amortization of the discount is reported in the statement of activities of the Foundation as interest expense.

The Bond agreement requires the Real Estate Foundation to meet a long-term debt coverage ratio of not less than 1.20. As of June 30, 2006, the Real Estate Foundation met the required ratio.

The Bond agreement also requires a Series Repair and Replacement Reserve Account for each series of bonds that has the requirement. The repair and replacement reserve requirement for the Series 2003 Bonds was \$350,000 upon the issuance of the bonds. Thereafter, the Foundation is to deposit into this account each fiscal year an amount equal to the product of \$200 times the number of beds in the project. Deposits for 2006 totaled \$72,000. By submitting a requisition to the Trustee, the Foundation may request withdrawals from this fund at any time and there is no minimum balance.

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

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 275,000	\$ 517,415	\$ 792,415
2008	285,000	509,577	794,577
2009	295,000	500,458	795,458
2010	305,000	490,280	795,280
2011	320,000	478,843	798,843
2012-2016	1,805,000	2,179,087	3,984,087
2017-2021	2,280,000	1,707,069	3,987,069
2022-2026	2,930,000	1,057,150	3,987,150
2027-2029	<u>2,058,395</u>	<u>234,597</u>	<u>2,292,992</u>
Total	<u>\$10,553,395</u>	<u>\$7,674,476</u>	<u>\$18,227,871</u>

#### 8. EXPENSES BY NATURAL CLASSIFICATIONS

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

	<u>Salaries and Wages</u>	<u>Fringe Benefits</u>	<u>Services and Supplies</u>	<u>Utilities</u>	<u>Plant and Equipment</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$18,191,751	\$3,326,213	\$ 1,270,991	\$ 754	\$ 268,696	\$ -	\$23,058,405
Research	196,672	16,877	49,922	-	5,522	-	268,993
Public service	217,199	51,905	94,446	-	539	-	364,089
Academic support	2,536,214	566,284	731,833	-	452,912	-	4,287,243
Student services	2,186,873	473,454	1,565,636	-	16,567	-	4,242,530
Institutional support	3,607,421	1,137,008	931,844	5,072	497,636	-	6,178,981
Operation and maintenance of plant	746,872	777,957	2,180,077	1,445,598	40,368	-	5,190,872
Depreciation	-	-	-	-	-	4,007,834	4,007,834
Student aid	150,883	17,923	39,203	-	10,896	-	218,905
Museum and cultural services	426,414	77,735	179,408	13,177	1,003	-	697,737
Historic attraction management	143,116	24,128	42,619	5,142	21,832	-	236,837
Auxiliary activities	<u>6,888,204</u>	<u>1,646,278</u>	<u>13,551,411</u>	<u>63,415</u>	<u>376,026</u>	<u>-</u>	<u>22,525,334</u>
Total	<u>\$35,291,619</u>	<u>\$8,115,765</u>	<u>\$20,637,390</u>	<u>\$1,533,158</u>	<u>\$1,691,997</u>	<u>\$4,007,834</u>	<u>\$71,277,760</u>

#### 9. 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	\$16,091,475
Student financial assistance	1,087,545
Museum and cultural services	228,775
Historic attraction management	300,109
Supplemental adjustments:	
Shift in July 3, 2006 pay date to June 30, 2006	714,804
Health insurance and VSDP rate increases	283,681
Retiree benefit and group life rate reductions	(213,147)
Faculty and staff salary increases	174,825
Equipment Trust Fund debt transfers	(152,528)
In-state military waivers funding	45,119
Miscellaneous supplemental adjustments	<u>2,123</u>
State appropriation revenue, adjusted	<u>\$18,618,279</u>

10. 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, 2006.

Assets:	
Cash and investments	\$128,724
Other assets	<u>30,997</u>
Total assets	<u>159,721</u>
Liabilities and net assets:	
Liabilities	-
Net assets	<u>159,721</u>
Total liabilities and net assets	<u>\$159,721</u>

The revenues and expenditures of the Alumni Association, determined as if in consolidation with the University were \$207,895 and \$222,094, respectively, for the year ended June 30, 2006.

## 11. 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, 2006 was \$346,018.

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 2006. 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 \$1,235,076 for 2006.

The Foundation also provides financial support to the University. At June 30, 2006, the Foundation had advanced funds of \$4,398 for scholarships to the University. For the year ended June 30, 2006, the University paid the Foundation \$56,200 for program services provided by the Foundation.

The Foundation has agreements with the University to reimburse it for vendor invoices paid in connection with the Chappell Bell Tower. This agreement states initial limits on reimbursement amounts. The Chappell Bell Tower is currently limited to \$1,500,000. The University has signed contracts for construction of this project in the amount of \$1,399,864. Through June 30, 2006, \$107,678 had been remitted to the University.

### C Between the University of Mary Washington Foundation and the University of Mary Washington Real Estate Foundation

At June 30, 2006, \$247,500 is due from the Real Estate Foundation to the University of Mary Washington Foundation in order to assist the University of Mary Washington Foundation in meeting its goal to support the University.

D 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 2006, the Foundation gave the Alumni Association \$167,296. The amount payable under this agreement at June 30, 2006 was \$37,655. For 2006, the Alumni Association received \$167,297 and had amounts receivable at year end under this agreement of \$37,655. The Alumni Association directs all royalty revenue to the Foundation for scholarships. At June 30, 2006 the Association owed the Foundation \$15,379 for amounts collected and not yet remitted. The amount due to the Foundation has been offset against the amount due to the Alumni Association for a net payable of \$22,276 to the Foundation and a net receivable of \$22,276 to the Alumni Association.

E Between the University of Mary Washington Foundation and other related parties

The Foundation has a consultant agreement with a related party, a former President of the University, who is to provide consulting services in the areas of fundraising and charitable giving, strategic planning, and legislative relations. The agreement began on July 1, 2006 and will continue until June 30, 2009, or until such earlier time as the consultant and the Foundation may agree in writing. The terms of the agreement call for an annual fee of \$172,500 to be paid in quarterly installments to the consultant. The parties may mutually agree to renew the agreement for one additional two-year term at a daily rate of \$2,000, with the former President performing services on an "on-call" basis.

The Foundation entered into an agreement with a related party, a former President of the University. The terms of the agreement state that the Foundation shall pay the individual'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 are funded by the death benefit of a life insurance policy on the former President, of which the Foundation is the beneficiary.

12. COMMITMENTS

At June 30, 2006, the University was a party to construction and other contracts with outstanding commitments of \$9,324,590. In addition, \$984,440 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. 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, 2006.

The University has, as of June 30, 2006, the following future minimum rental payments due under the above lease:

Year Ending <u>June 30,</u> 2007	Operating Lease <u>Obligation</u> \$4,740
Total	<u>\$4,740</u>

The University of Mary Washington Foundation has signed an agreement with a photographer totaling \$18,000 plus expenses. The project is expected to be completed in January 2007. As of June 30, 2006, \$10,500 has been paid under this agreement.

The Real Estate Foundation had outstanding commitments for surveying services and an environmental study totaling \$17,600 and \$2,000 respectively.

13. 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 of Virginia and its political subdivisions.

The VRS does not measure assets and pension benefit obligations separately for individual state institutions. Therefore, all information relating to this plan is available at the statewide level only and can be found in the Commonwealth's CAFR. The Commonwealth, not the University, has the overall responsibility for contributions to this plan. The CAFR provides disclosure of the Commonwealth's unfunded pension benefit obligation at June 30, 2006. 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 \$1,689,809 for the year ended June 30, 2006. These contributions included the 9.81 percent employee contribution assumed by the employer. Contributions to VRS were calculated using the base salary amount of approximately \$17,225,372. The University's total payroll was approximately \$35,291,619 for the year ended June 30, 2006.

B Optional Retirement Plans

Full-time faculty and certain administrative staff participate in a defined contribution plan administered by two different providers rather than the VRS. The two different providers are TIAA/CREF Insurance Companies and Fidelity Investments Tax-Exempt Services. 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 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 \$1,355,139 for the year ended June 30, 2006. Contributions to the optional retirement plans were calculated using the base salary amount of approximately \$25,095,167.

C Deferred Compensation Plan

Employees of the University are employees of the Commonwealth. 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's expense for contributions under the Deferred Compensation Plan was approximately \$160,482 for the year ended June 30, 2006.

14. 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.

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; non-performance 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, 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.

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, 2006, the University estimates that no material liabilities will result from such audits or questions.

**B**     Litigation

The University was not named as a defendant in any lawsuits as of June 30, 2006.

**17. 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 eight fixed assets were converted incorrectly. In addition, twenty two fixed assets were disposed of during fiscal year 2005 without being properly recorded. As a result of these corrections to capital assets net of depreciation, Beginning Net Assets decreased \$9,323 from \$77,529,415 to \$77,520,093.

**18. SUBSEQUENT EVENTS**

Effective July 1, 2006, the University executed an employment agreement with the new President of the University. The agreement outlines benefits that are to be paid from the University of Mary Washington Foundation. Per the agreement, the UMW Foundation will be responsible for the following: The President's base salary in excess of amounts specified in the Commonwealth's Appropriation Act and the University's Consolidated General Fund; the establishment of an unqualified deferred compensation plan equal to \$25,000 per contract year, plus interest at five percent; travel and entertainment expenses not allowed by state policies; and membership in clubs and organizations deemed helpful to the President in carrying out his duties. The Foundation is also obligated to provide the President with an automobile and provide for related maintenance and operating costs.

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## **SUPPLEMENTARY INFORMATION**

UNIVERSITY OF MARY WASHINGTON  
SCHEDULE OF AUXILIARY ENTERPRISES REVENUES AND EXPENDITURES  
For the Year Ended June 30, 2006

	Dining Services	Bookstore	Residence Halls	Parking
<b>Revenues:</b>				
Sales and services	\$ 6,791,561	\$ 3,239,970	\$ 7,517,945	\$ 320,730
Student fees	-	-	(28,425)	-
Commissions	300,000	36,043	-	-
Other	-	-	5,000	-
<b>Total revenues</b>	<b>7,091,561</b>	<b>3,276,013</b>	<b>7,494,520</b>	<b>320,730</b>
<b>Expenditures:</b>				
Personal services	-	298,034	1,418,615	-
Fringe benefits	-	43,611	432,863	-
Services and supplies	3,828,208	2,136,190	804,809	222,660
Utilities	-	59	(3,542)	-
Equipment	(11,225)	8,181	56,322	-
Other	181,436	177,878	3,295,081	-
<b>Total expenditures</b>	<b>3,998,419</b>	<b>2,663,953</b>	<b>6,004,148</b>	<b>222,660</b>
<b>Non-operating revenues:</b>				
Capital gifts	-	-	-	-
Interest income	-	-	-	-
<b>Net increase/(decrease) before transfers</b>	<b>3,093,142</b>	<b>612,060</b>	<b>1,490,372</b>	<b>98,070</b>
<b>Transfers:</b>				
Debt service	(367,132)	-	(678,239)	-
Other non-mandatory transfers	(11,225)	-	-	-
<b>Total transfers</b>	<b>(378,357)</b>	<b>-</b>	<b>(678,239)</b>	<b>-</b>
<b>Net increase/(decrease) for the year</b>	<b>\$ 2,714,785</b>	<b>\$ 612,060</b>	<b>\$ 812,133</b>	<b>\$ 98,070</b>

Net assets at beginning of year

Net assets at end of year

Note: Net asset balances of individual enterprises are not maintained by the University.  
This schedule is prepared on the modified accrual basis of accounting.

Telecom- munications	Health Services	Student Activities	Intercollegiate Athletics	Other	Total
\$ 4,091	\$ 33,842	\$ 52,566	\$ 86	\$ 58,411	\$ 18,019,202
138,113	-	1,035,847	1,588,298	4,144,297	6,878,130
-	-	-	-	-	336,043
-	2,000	9,292	6,060	1,698	24,050
142,204	35,842	1,097,705	1,594,444	4,204,406	25,257,425
740,304	331,762	603,152	946,703	2,549,634	6,888,204
175,420	69,966	102,014	186,112	636,292	1,646,278
558,295	151,299	239,444	635,873	1,453,493	10,030,271
-	-	60,000	-	6,898	63,415
9,425	59,122	13,246	8,294	248,181	391,546
24,903	28,461	-	-	49,806	3,757,565
1,508,347	640,610	1,017,856	1,776,982	4,944,304	22,777,279
-	-	-	-	1,033,488	1,033,488
-	-	-	-	378,184	378,184
(1,366,143)	(604,768)	79,849	(182,538)	671,774	3,891,818
(351,333)	-	-	-	-	(1,396,704)
-	-	(27,401)	(35,025)	3,103,454	3,029,803
(351,333)	-	(27,401)	(35,025)	3,103,454	1,633,099
\$ (1,717,476)	\$ (604,768)	\$ 52,448	\$ (217,563)	\$ 3,775,228	5,524,917
					1,983,304
					\$ 7,508,221



# Commonwealth of Virginia

**Walter J. Kucharski, Auditor**

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

January 30, 2007

The Honorable Timothy M. Kaine  
Governor of Virginia

The Honorable Thomas K. Norment, Jr.  
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** (University), a component unit of the Commonwealth of Virginia, and its aggregate discretely presented component units, as of and for the year ended June 30, 2006, 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 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 to the amounts included for the component units of the University, is based on the reports of 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 audits 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 audits 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 respective financial position of the University and of its aggregate discretely presented component units as of June 30, 2006 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, as listed in the table of contents, 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 opinions on the basic financial statements of the University. 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 the 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 opinions on the financial statements and not to provide an opinion 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 are described in the section titled, "Internal Control Findings and Recommendations."

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. 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, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

### Status of Prior Finding

The University has not taken adequate corrective action with respect to the previously reported finding titled, Inadequate Policies and Procedures. Accordingly, we again included this finding in the section entitled, "Internal Control Findings and Recommendations."

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 April 16, 2007.

AUDITOR OF PUBLIC ACCOUNTS



April 5, 2007

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

Subject: Management Response to the Audit Recommendations for  
Fiscal Year Ending June 30, 2006

Dear Mr. Kucharski:

I am pleased to send you University of Mary Washington's response to the internal control findings and recommendations identified during the audit of the fiscal year ended June 30, 2006. Excerpts from the findings and management's responses are as follows:

Inadequate Policies and Procedures

As noted in the prior year audit, the University of Mary Washington (University) has documented some, but not all, of its operating policies and procedures. We again 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, prepaid accounting, fixed assets, and payroll. 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 (ARMICS) released in the fall of 2006.

Management's Response

As recommended by the APA staff, the University will continue to review its policies and procedures in coordination with its work to meet the Department of Accounts Agency Risk Management and Internal Control Standards. Procedures regarding prepaid accounting, fixed assets, and payroll are in process and will be completed within twelve months. We will also continue to document existing policies and procedures that are unwritten or have not been adequately communicated to University employees.

Strengthen Physical and Environmental Controls for Critical IT Equipment

The facilities that house critical IT equipment at the University's Fredericksburg and Stafford campuses lack several physical and environmental controls to ensure reliability and availability of critical information assets. We recommend that the University strengthen or implement the environmental and physical controls that support these facilities. While basic controls exist at both campuses, the University should make the improvements to provide adequate protection over critical systems.

Management's Response

We concur with the APA recommendations and would like to note the following:

- Improvements to ensure proper maintenance of room temperature at the CGPS server room were recommended by the University's Internal Audit Office in the summer of 2006 and were placed on the current year's pending project list for scheduling by the Department of Facilities Services.
- The University has requested, and the Governor included in his 2007 budget proposal to the General Assembly, funding for a project to provide backup electrical power generators for both server rooms, as well as other physical improvements in the George Washington Hall server room.

Complete and Update the Continuity of Operations Plan

The University does not currently have a complete comprehensive Continuity of Operations Plan (COOP). We recommend that the University complete their updated COOP as soon as possible to ensure the entire University's ability to continue operations in an emergency. The University began developing a comprehensive COOP in March of 2006, but management has not yet received and approved a complete plan.

Management's Response

The University of Mary Washington has entered into a contract with Beck Disaster Recovery, Inc. to develop the University's Continuity of Operations Plan. At this time, the plan development process is underway with a scheduled completion date of June 2007.

If you have any questions or need additional information, please don't hesitate to contact me by phone at (540) 654-1020 or send an e-mail to rhurley@umw.edu. Thank you.

Sincerely,



Richard V. Hurley  
Vice President for Administration, Finance, and Legislative Affairs

bk

UNIVERSITY OF MARY WASHINGTON

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June 30, 2006

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