MARY WASHINGTON COLLEGE

FREDERICKSBURG, VIRGINIA

REPORT ON AUDIT

FOR THE YEAR ENDED

JUNE 30, 2003

Auditor of Public Accounts
COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of Mary Washington College for the year ended June 30, 2003, found:

- the financial statements are presented fairly, in all material respects;

- an internal control matter that we consider to be a reportable condition; however, we do not consider this to be a material weaknesses;

- no instances of noncompliance required to be reported under Government Auditing Standards; and

- the College has taken adequate corrective action with respect to audit findings reported in the prior year except for the finding "Enforce Small Purchase Charge Card Procedures" which is repeated in this report.

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Commonwealth of Virginia

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

April 5, 2004

The Honorable Mark R. Warner
Governor of Virginia

The Honorable Lacey E. Putney
Vice Chairman, Joint Legislative Audit
and Review Commission

The Board of Visitors
Mary Washington College

We have audited the accounts and records of **Mary Washington College,** as of and for the year ended June 30, 2003, and submit herewith our complete reports on financial statements and compliance and internal control over financial reporting.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying basic financial statements of Mary Washington College, a component unit of the Commonwealth of Virginia, as of and for the year then ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mary Washington College as of June 30, 2003, and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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

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

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

In planning and performing our audit of the financial statements of Mary Washington College as of and for the year ended June 30, 2003, we considered internal controls over financial reporting and tested compliance with certain provisions of laws, regulations, contracts and grants in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards.

Compliance

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

Internal Control over Financial Reporting

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

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

Status of Prior Findings

The College has not taken adequate corrective action with respect to the previously reported finding "Enforce Small Purchase Charge Card Procedures." Accordingly, we included this finding in the section entitled "Internal Control and Compliance Findings and Recommendations." The College has taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this report.

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

EXIT CONFERENCE

We discussed this report with management at an exit conference held on May 12, 2004.

AUDITOR OF PUBLIC ACCOUNTS

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INTERNAL CONTROL FINDING AND RECOMMENDATION

Improve Controls Over Small Purchase Charge Card Procedures

The College did not comply with State guidelines regarding the maintenance of purchasing logs, the usage of the card by non-cardholders, and reconciliations of the purchasing log. The College updated a section of its Small Purchase Charge Card (SPCC) procedures to allow card loaning in specific situations under the direct control and supervision of a Department Manager, with the use of certain checks and balances.

This directly violates the State Accounting Procedures, which require that authorized use of the card be limited to the person whose name appears on the face of the card and prohibits lending the purchasing card to another person. (CAPP Manual Section 20355 Purchasing Charge Card) Further, we identified the following instances where employees did not follow other established policies:

- Some cardholders recorded transactions on the Master Purchasing Log after receiving the charge card statement. This procedure also violates the required procedures that require updating the purchase logs when making each purchase to allow for proper monitoring, reconciliation, and authorization. We also found an occurrence where the cardholder had not prepared a log. This does not allow for proper approval of a supervisor or identification and documentation of items requiring resolution on subsequent monthly charge card statements.

- Four out of five of the cardholders tested had card usage that contained multiple transactions where someone other than the cardholder signed the sales receipt authorizing the transaction and payment.

- One cardholder reviews and approves his own purchasing log reconciliation as well as the monthly charge card statement.

The College should revise its procedures to only allow authorized cardholders to make purchases. If a cardholder allows purchases by non-authorized cardholders, management should suspend the cardholder's account for at least three months, in accordance with state guidelines. Management should also enforce other already established procedures for managing the purchase card program in accordance with the state requirements. Management should ensure that the cardholders' supervisors are properly reviewing and approving purchases, ensuring cardholders have proper support and documentation for transactions, and are following state and university guidelines. This will help to ensure that cardholders are only making allowable purchases.

MANAGEMENT'S DISCUSSION AND ANALYSIS

MARY WASHINGTON COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS

Mary Washington College'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 an overview of the College'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

The College continues to experience strong demands for admissions with demand for undergraduate programs reflected in an increase in the number of applications received and number of new students enrolled. The number of full time equivalent students increased by over 5 percent from the previous year. Mary Washington College has been and continues to be recognized for its academic excellence, campus beauty, and quality of student life by many prestigious national rankings (i.e., U. S. News and World Report, The Fiske Guide to Colleges, Barron's Best Buys in College Education, Kaplan/Newsweek).

Demand for undergraduate on-campus housing has exceeded capacity for several years and that trend continued in fiscal year 2003. There were 2,353 applications received for 2,130 beds. A private consulting firm was hired in fiscal year 2002 to conduct a study of current and future housing demand and offer recommendations for meeting that demand. The study indicated that the gap between demand and availability of on-campus housing would continue to increase over the foreseeable future. In an effort to address the situation, the Mary Washington College Real Estate Foundation, Inc., 501C (3) organization, purchased a 121 unit apartment complex located directly adjacent to the College's main campus in Fredericksburg. The College has entered into an operating agreement with the Foundation and has filled all 350 beds in the complex with students beginning with the fall 2003 semester.

Demand for College housing also effects demand for meal plans. Participation remains strong, even among non-College housed commuting students.

Fiscal year 2003 also marked the first year that the College's self-operated Bookstore exceeded $3 million in gross sales, enabling it to contribute $692,000 to the College's revenue coffers. As compared to the industry's benchmark, the Bookstore's gross sales per square foot of space exceeded the national average by over 8 percent.

The College's James Monroe Center for Graduate and Professional Studies experienced enrollment growth in fiscal year 2003. The Center is now offering a wide variety of degrees (Bachelors and Masters) and Certificate Programs. The Center has contracted with many local businesses and governmental organizations to provide education and training to employees. The Center also works closely with the private and public sectors to promote economic activity in the Fredericksburg region. As a result of the continuing growth, planning for the new James Monroe Center's second academic building was put into high gear.

Statistical Abstract by Academic Year

	1999-00	2000-01	2001-02	2002-03
Enrollment Data: (Headcount)				
Undergraduate	3,961	4,107	4,173	4,275
Graduate	39	176	310	460
Total	4,000	4,283	4,483	4,735
Undergraduate Application Data:				
Applications Received	4,882	5,063	5,883	4,946
Applications Accepted	2,749 (56%)	2,772 (55%)	2,817 (56%)	2,997 (61%)
Students Enrolled	1,024 (37%)	1,140 (41%)	1,131 (41%)	1,180 (39%)
Graduate Application Data:				
Applications Received	35	161	97	125
Application Accepted	32 (90%)	114 (71%)	93 (96%)	116 (93%)
Students Enrolled	25 (80%)	112 (98%)	81 (87%)	104 (90%)
Tuition and Fees:				
Tuition	$1,550	$1,550	$1,550	$ 1,690
Fees	1,654	1,696	1,790	2,244
Room and Board	5,298	5.448	5,692	5,318
Total	$8,502	$8,694	$9.032	$ 9,252

Statement of Net Assets

The Statement of Net Assets presents the College's assets, liabilities and net assets as of the end of the fiscal year. The purpose of the statement is to present the readers a fiscal snapshot as of June 30, 2003. Readers of the Statement of Net Assets are able to determine the assets available to continue the College's operations. They can also determine how much the College owes to vendors, employees, or is held on behalf of others.

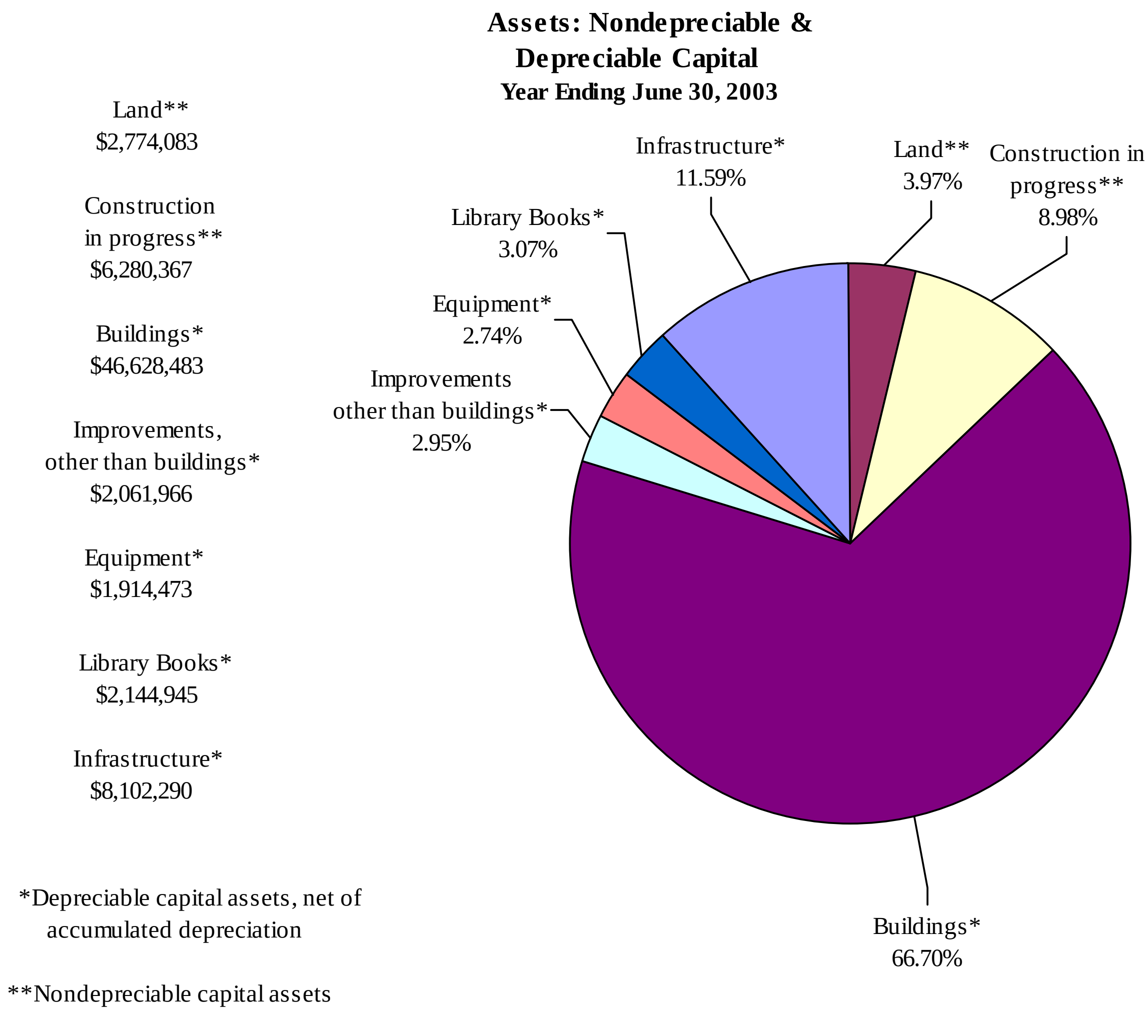
The College's net assets are one indicator of the College's financial health. Over time, increases and decreases in net assets are indicators of the improvement or erosion of the College's financial health when considered with non-financial facts such as enrollment levels and the condition of facilities.

The following table reflects the condensed Statement of Net Assets for the College for fiscal years 2003 and 2002.

	2003	2002
Current assets	$ 14,878,310	$ 10,350,053
Non-current assets	7,760,036	27,083,193
Capital assets	69,906,607	68,167,088
Total assets	92,544,953	105,600,334
Current liabilities	11,552,848	12,072,146
Non-current liabilities	18,519,998	17,850,891
Total net assets	$ 62,472,107	$ 76,677,297

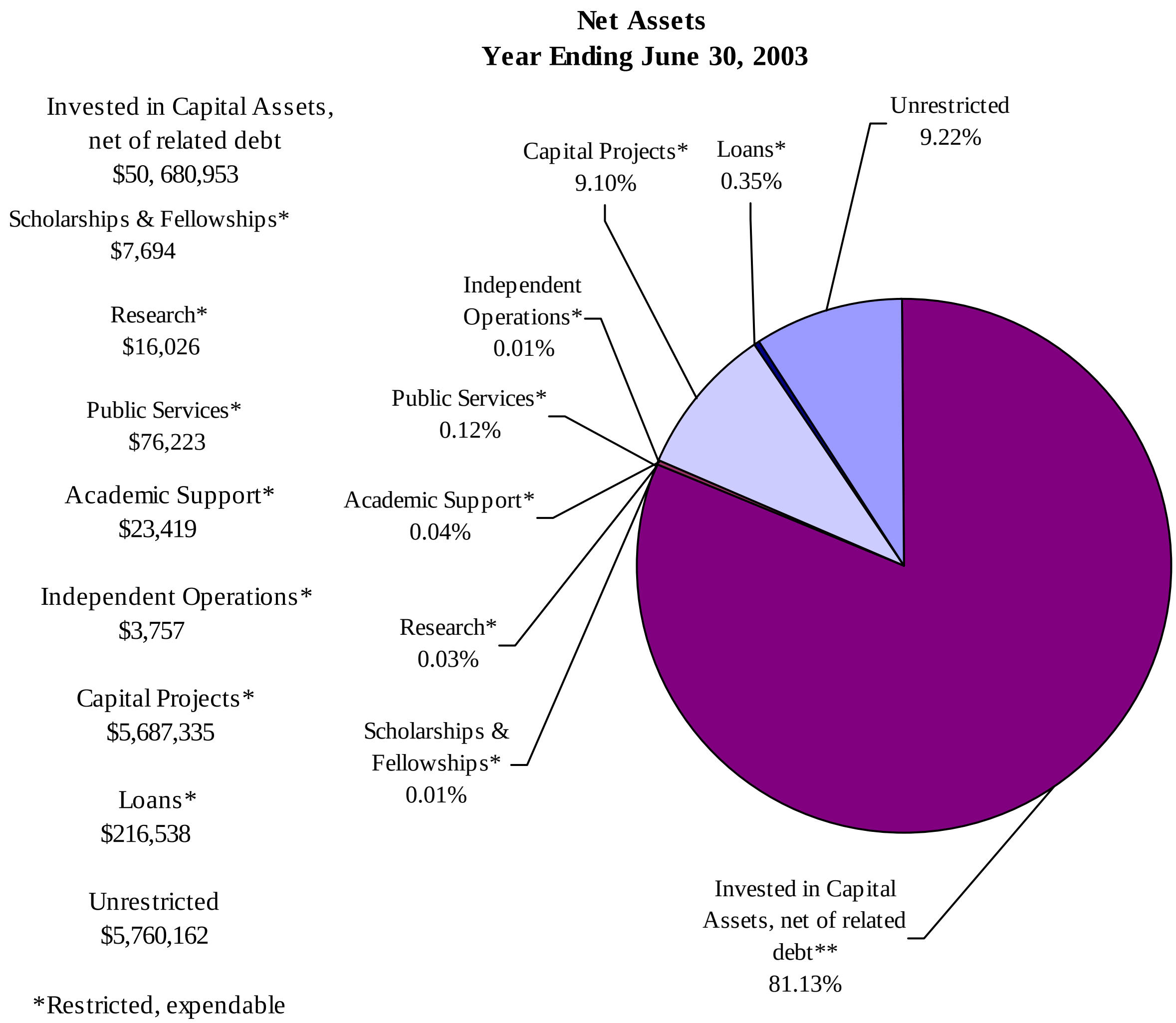
Assets and liabilities are shown as current and non-current. Generally, non-current assets, such as restricted investments, including endowments, are held for longer than one year. Appropriations available are used to construct capital assets.

In July 2003, the College transferred to the Foundation, 100 percent of all permanent endowments, which resulted in decrease in non-current assets. Capital assets are shown net of accumulated depreciation due to the implementation of GASB34/35. All depreciable assets are depreciated over their useful lives. The breakdown of Capital Assets is as follows:



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

The Net Assets as of June 2003 are as follows



Statement of Revenues, Expenses, and Changes in Net Assets

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

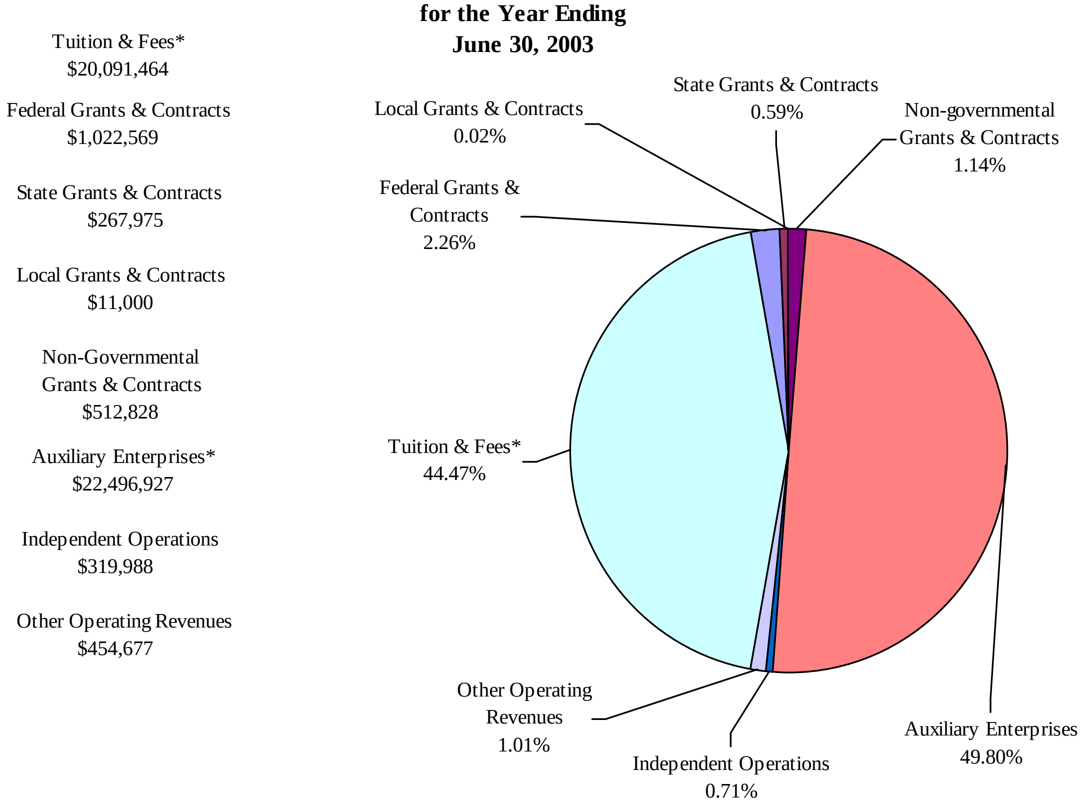
Operating revenues primarily include tuition and fees and auxiliary enterprises. Tuition and fees remained fairly stable due to the State's tuition freeze. There was a slight increase in Auxiliary revenues due to the increase in room and board participation and rates.

Despite cuts in fiscal year 2003 General Fund Appropriations, the Education and General fund, which experienced the brunt of the reduction, ended the year with a small surplus. In addition, the College was able to contribute $1 million to its Auxiliary Operations Reserve fund. The ability to absorb the General Fund reductions was primarily due to the additional revenue generated by growing enrollments and tuition increases.

The following tables and graphs show the fiscal years 2003 and 2002 results:

	2003	2002
Operating revenue	$ 45,177,428	$ 37,137,897
Operating expenses	58,353,111	56,163,500
Operating loss	(13,175,683)	(19,025,603)
Net nonoperating revenue/(expenses)	14,799,349	17,121,706
Income (loss) before other revenues, expenses, gains, or losses	1,623,666	(1,903,897)
Net other revenue, expenses	(14,828,856)	2,233,425
Increase (decrease) in net assets	$ (13,205,190)	$ 329,528

Operating Revenues for the Year Ending June 30, 2003



Operating Expenses
for the Year Ending
June 30, 2003

Instruction
$17,719,331

Research & Public Service
$478,290

Academic Support
$3,511,765

Student Services
$3,474,399

Institutional Support
$5,750,979

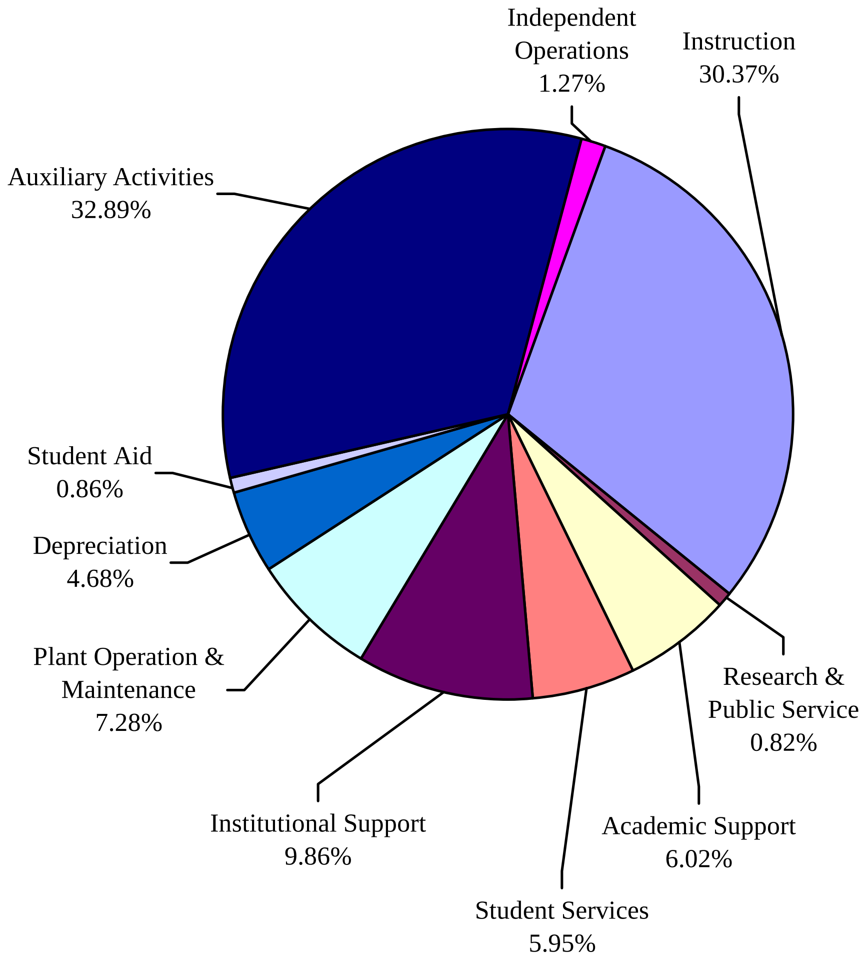
Plant Operation &
Maintenance
$4,249,552

Depreciation
$2,730,677

Student Aid
$500,387

Auxiliary Activities
$19,195,097

Independent Operations
$742,634



<u>Statement of Cash Flows</u>

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

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

	2003	2002
Cash provided (used) by:		
Operating activities	$ (11,143,872)	$ (13,883,509)
Noncapital financing activities	16,157,912	19,309,132
Capital and related financing activities	(2,750,383)	(6,474,348)
Investing activities	(2,573,052)	(1,645,115)
Net decrease in cash	(309,395)	(2,693,840)
Cash, beginning of year	6,664,300	9,358,140
Cash, end of year	$ 6,354,905	$ 6,664,300

Capital Asset and Long Term Debt

The College did not participate in the Commonwealth's 9C and 9D bond sales during fiscal year 2003. It is anticipated that bonds to finance the renovation of Seacobeck Hall will be sold in fall 2004.

During fiscal year 2003, the renovation of Combs Hall was completed and a number of projects were begun. They included the construction of the College Fitness Center, the Alumni Executive Center, and an overhaul of one of the College's major heating (boiler) systems. In addition, work continued on the various residence hall renovation projects, planning for the Indoor Tennis Center was nearly completed and a number of small maintenance reserve projects were completed. As referred to previously, planning for the second academic building on the James Monroe Center campus was also initiated.

In November 2002, the Commonwealth of Virginia Department of the Treasury refunded several series of 9C bonds to take advantage of low interest rates. Two of the refunded series (1992C and 1993B) impacted the College's debt payments for financing of a residence hall and the campus telecommunications system, respectively. Overall, the College's debt service to expenditures ratio, based on a formula used by the State Council for Higher Education in Virginia, continues to be in the very healthy 5 percent range.

Economic Outlook and Additional Facts

Beginning in 2003, the College began the process of implementing a new administrative system. The Finance (to include general ledger, encumbrances, stores inventory, purchasing and payables) and Alumni modules are scheduled to go live July 1, 2004, with the Human Resources/Payroll and Student systems going live beginning January 2005. The College is in the beginning stages of decentralizing from the Commonwealth's payroll system and will begin to process payroll internally starting January 2005.

The Commonwealth's financial condition continued to deteriorate during the year. The College began the fiscal year with a reduction in State funding of $2.4 million. For the first time in several years, the General Assembly allowed colleges and universities to increase tuition, which Mary Washington College did, generating an additional $1 million in revenue to partially offset the State funding reduction. The College also made $1.3 million in cuts primarily to its non-academic programs. The College's goal was to protect the academic mission as much as possible. By the beginning of the second quarter, the State revenue picture had worsened to the point where the Governor instituted a second wave of cuts. Mary Washington College was given a reduction target of nearly $1.8 million. To partially offset the reduction, the Governor allowed colleges and universities to impose a mid-year tuition hike. The College increased both in-state and out-of-state tuition by $255 for the Spring 2003 semester, generating $825,000 in revenue. Nonetheless, the College, having reduced non-academic expenditures dramatically under the first reduction, was forced to cut into the academic programs to a significant degree to meet the additional reductions.

FINANCIAL STATEMENTS

MARY WASHINGTON COLLEGE
STATEMENT OF NET ASSETS
As of June 30, 2003

ASSETS

Current assets:	
Cash and cash equivalents (Note 2)	$ 5,837,343
Short-term investments (Note 2)	7,332,410
Accounts receivable, net of allowance for doubtful accounts (Note 3)	1,105,941
Inventories	581,987
Other assets	20,629
Total current assets	14,878,310
Noncurrent assets:	
Restricted cash and cash equivalents (Note 2)	517,562
Restricted investments (Note 2)	6,335,021
Other restricted assets	708,454
Other long-term investments (Note 2)	198,999
Nondepreciable capital assets (Note 4)	9,054,450
Capital assets, net of accumulated depreciation (Note 4)	60,852,157
Total noncurrent assets	77,666,643
Total assets	92,544,953

LIABILITIES

Current liabilities:	
Accounts payable (Note 5)	5,466,951
Deferred revenue	2,429,029
Deposits held in trust	736,847
Obligations under Securities Lending Program (Note 2)	198,999
Amounts due to the Commonwealth	13,143
Other liabilities	304,323
Long-term liabilities - current portion (Note 6)	2,403,556
Total current liabilities	11,552,848
Noncurrent liabilities:	
Noncurrent liabilities (Note 6)	17,858,945
Perkins loan	661,053
Total noncurrent liabilities	18,519,998
Total liabilities	30,072,846

MARY WASHINGTON COLLEGE
STATEMENT OF NET ASSETS
As of June 30, 2003

NET ASSETS

Invested in capital assets, net of related debt	50,680,953
Restricted for:	
Expendable:	
Academic support	23,419
Capital projects	5,687,335
Independent operations	3,757
Loans	216,538
Public services	76,223
Research	16,026
Scholarships and fellowships	7,694
Unrestricted	5,760,162
Total net assets	$ 62,472,107

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

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MARY WASHINGTON COLLEGE
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2003

Operating revenues:	
Student tuition and fees, net of scholarship allowances of $1,986,387	$ 20,091,464
Federal grants and contracts	1,022,569
State grants and contracts	267,975
Local grants and contracts	11,000
Nongovernmental grants and contracts	512,828
Auxiliary enterprises, net of scholarship allowances of $83,680	22,496,927
Independent operations	319,988
Other operating revenues	454,677
Total operating revenues	45,177,428
Operating expenses:	
Instruction	17,719,331
Research	279,049
Public service	199,241
Academic support	3,511,765
Student services	3,474,399
Institutional support	5,750,979
Operation and maintenance of plant	4,249,552
Depreciation	2,730,677
Student aid	500,387
Auxiliary activities	19,195,097
Independent operations	742,634
Total operating expenses	58,353,111
Operating loss	(13,175,683)
Nonoperating revenues/(expenses):	
State appropriations (Note 9)	16,077,861
Investment loss	(404,111)
Interest on capital asset related debt	(874,401)
Net nonoperating revenues	14,799,349
Income before other revenues, expenses, gains, or losses	1,623,666
Capital appropriations	363,636
Capital gifts	928,962
Decrease in permanent endowments (Note 16)	(16,121,454)
Net other revenues, expenses, gains, or losses	(14,828,856)
Decrease in net assets	(13,205,190)
Net assets - Beginning of year	75,677,297
Net assets - End of year	$ 62,472,107

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

MARY WASHINGTON COLLEGE
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2003

Cash flows from operating activities:	
Student tuition and fees	$ 21,652,459
Grants and contracts	2,388,780
Auxiliary enterprises	22,215,858
Independent operations	319,988
Other receipts	388,228
Payments to employees	(30,664,655)
Payments for fringe benefits	(5,904,704)
Payments for services and supplies	(15,707,317)
Payments for utilities	(1,480,940)
Payments for scholarships and fellowships	(1,909,775)
Payments for noncapitalized plant and equipment	(2,423,527)
Loans issued to students	(166,670)
Collection of loans from students	148,403
Net cash used by operating activities	(11,143,872)
Cash flows from noncapital financing activities:	
State appropriations	16,077,861
Agency receipts and payments (net)	80,051
Net cash provided by noncapital financing activities	16,157,912
Cash flows from capital financing activities:	
Proceeds from sale of notes	2,335,000
Proceeds from sale of land	1,100,010
Capital appropriations	363,636
Capital gifts	928,962
Purchase of capital assets	(4,827,847)
Principal paid on capital debt, leases, and installments	(1,775,743)
Interest paid on capital debt, leases, and installments	(874,401)
Net cash used by capital financing activities	(2,750,383)
Cash flows from investing activities:	
Sale/purchase of investments (net)	(3,011,877)
Interest on investments	438,825
Net cash provided by investing activities	(2,573,052)
Net decrease in cash	(309,395)
Cash - Beginning of the year	6,664,300
Cash - End of the year	$ 6,354,905

MARY WASHINGTON COLLEGE
STATEMENT OF CASH FLOWS, continued
For the Year Ended June 30, 2003

Reconciliation of net operating loss to	
net cash used by operating activities:	
Operating loss	(13,175,683)
Adjustments to reconcile net loss to net cash used by operating activities:	
Depreciation expense	2,730,677
Changes in assets and liabilities:	
Accounts receivable, net	(769,418)
Inventories	35,615
Due from Commonwealth	552,009
Accounts payable	(938,761)
Accrued leave liability	425,508
Deferred revenue	76,597
Other liabilities	(50,891)
Deposits held in trust	(29,188)
Due to Commonwealth	(337)
Net cash used by operating activities	$ (11,143,872)

Noncash investing, noncapital financing, and capital and related financing transactions:	
Gift of capital assets	$ 333,962

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

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NOTES TO FINANCIAL STATEMENTS

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MARY WASHINGTON COLLEGE

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

B. Basis of Presentation

The College'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.*

C. Basis of Accounting

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

D. Investments

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

E. Capital Assets

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

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

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

F. Inventories

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

G. Collections

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

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

H. Noncurrent Cash and Investments

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

I. Deferred Revenue

Deferred revenue primarily includes amounts received for tuition and fees and certain auxiliary activities (resident housing deposits) prior to the end of the fiscal year, but related to the period after June 30, 2003.

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, all unused vacation leave, sabbatical leave, and the amount payable upon termination under the Commonwealth of Virginia'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 College participates in federally funded Pell Grants, Supplemental Educational Opportunity Grants, Federal Work-Study, and Perkins Loans programs. Federal programs are audited in accordance with the Single Audit Act Amendments of 1996, the Office of Management and Budget Revised Circular A-133, *Audit of States, Local Governments and Non-Profit Organizations*, and the Compliance Supplement.

L. Net Assets

GASB Statement 34 requires that the Statement of Net Assets report the difference between assets and liabilities as net assets. 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.

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

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

N. Scholarship Discounts and Allowances

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

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS

The following information is provided with respect to the credit risk associated with the College's cash and cash equivalents and investments at June 30, 2003.

A. Cash and Cash Equivalents

Pursuant to Section 2.2-1800, et seq., Code of Virginia, all state funds of the College are maintained by the Treasurer of Virginia, who is responsible for the collection, disbursement, custody, and investment of state funds. Cash deposits held by the College are maintained in accounts that are collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400, et seq., Code of Virginia. The College's deposits as of June 30, 2003 are categorized by levels of credit risk where category one includes insured deposits. Deposits with financial institutions are all category one. In accordance with the GASB Statement 9 definition of cash and cash equivalents, cash represents cash with the Treasurer, cash on hand, and cash deposits including certificates of deposits, and temporary investments with original maturities of three months or less. Cash with the Treasurer includes $143,642 of appropriations available that is expected to be reappropriated in fiscal year 2004.

B. Investments

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

	Market Value As of June 30, 2003
Cash and cash equivalents:	
Deposits with financial institutions	$ 1,298,248
Cash with the Treasurer	5,056,657
Total	$ 6,354,905
Investments:	
State non-arbitrage program (SNAP)	$ 5,157,176
Investments with the Treasurer	1,177,845
Collateral held for securities lending	198,999
Mutual funds	7,332,410
Total	$13,866,430

C. Securities Lending Transactions

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

3. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30, 2003:

Student tuition and fees	$ 907,191
Auxiliary enterprises	346,699
Other activities	94,156
Total	$1,348,046
Less: Allowance for doubtful accounts	(242,105)
Net accounts receivable	$1,105,941

4. CAPITAL ASSETS

A summary of changes in the various capital asset categories for the year ending June 30, 2003, is presented as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Nondepreciable capital assets:				
Land	$ 2,781,212	$ -	$ (7,129)	$2,774,083
Construction in progress	17,382,077	4,541,408	(15,643,118)	,280,367
Total nondepreciable capital assets	20,163,289	4,541,408	(15,650,246)	9,054,450
Depreciable capital assets:				
Buildings	65,848,102	15,542,946	-	81,391,048
Infrastructure	25,349,880	-	-	25,349,880
Equipment	7,886,446	329,615	(1,112,148)	7,103,913
Improvements other than buildings	3,194,696	81,606	-	3,276,302
Library books	9,210,344	290,827	(28,050)	9,473,121
Total depreciable capital assets	111,489,468	16,244,994	(1,140,198)	126,594,264
Less accumulated depreciation for:				
Buildings	33,757,510	1,005,055	-	34,762,565
Infrastructure	16,674,694	572,896	-	17,247,590
Equipment	4,993,653	641,977	(446,190)	5,189,440
Improvements other than buildings	1,103,389	110,947	-	1,214,336
Library books	6,956,424	399,802	(28,050)	7,328,176
Total accumulated depreciation	63,485,670	2,730,677	(474,240)	65,742,107
Depreciable capital assets, net	48,003,798	13,514,317	(665,958)	60,852,157
Total capital assets, net	$ 68,167,087	$18,055,725	$(16,316,204)	$69,906,608

5. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at June 30, 2003:

Employee salaries, wages, and fringe benefits payable	$2,370,523
Vendors and suppliers accounts payable	3,096,428
Total accounts payable	$5,466,951

6. NONCURRENT LIABILITIES

The College's noncurrent liabilities consist of long-term debt (further described in Note 7), and accrued compensated absences. A summary of changes in noncurrent liabilities for the year ending June 30, 2003, is presented as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Long-term debt:					
Bonds payable	$ 9,814,091	$5,118,998	$(6,157,157)	$ 8,775,932	$ 771,679
Notes payable	6,880,000	2,335,000	(240,000)	8,975,000	310,000
Capital leases	154,015	-	(154,015)	-	-
Installment purchases	1,738,300	-	(539,101)	1,199,199	578,475
Total long-term debt	18,586,406	7,453,998	(7,090,273)	18,950,131	1,660,154
Accrued compensated absences	886,862	497,615	(72,107)	1,312,370	743,402
Total long-term liabilities	$19,473,268	$7,951,613	$(7,162,380)	$20,262,501	$2,403,556

7. LONG TERM DEBT

A. Bonds and Notes Payable

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

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

A summary of all bonds and notes payable debt as of June 30, 2003, is presented as follows:

Details of Bonds Payable	Outstanding June 30, 2003
Higher Education Bonds, Series 1998R, issued $2,094,152 to refund a portion of the 148 bed dormitory bond, Series 1992C, the balance to finance construction of new parking lots and athletic fields, the balance payable in annual installments from $14,835 to $262,822 with interest of 3.5 percent to 4.7 percent payable semiannually, the final installment of $262,822 due June 1, 2013	$2,008,355
Higher Education Bonds, Series 2001A, issued $1,925,000 to renovate dormitories, the balance payable in annual installments from $65,000 to $145,000 with interest of 4 percent to 5 percent payable semiannually the final installment of $145,000 due June 1, 2021	1,795,000
Higher Education Bonds, Series 2002A, issued $309,123 to refund a portion of the residence hall bond, Series 1992C, the balance payable in annual installments from $146,421 to $162,702 with interest of 2.5 percent to 4.0 percent payable semiannually, the final installment of $162,702 due June 1, 2004	162,702
Higher Education Bonds, Series 2002A, issued $2,646,766 to refund a portion of the telecommunications bond, Series 1993B, the balance payable in annual installments from $114,232 to $340,000 with interest of 2.5 percent to 5.0 percent payable semiannually, the final installment of $340,000 due June 1, 2013	2,646,766
Higher Education Bonds, Series 2003A, issued $702,280 to refund a portion of the Series 1993R bonds which refunded a portion of the Series 1986A student activity center bond, the balance payable in annual installments from $226,426 to $244,290 with interest of 2.5 percent to 5.5 percent payable semiannually, the final installment of $244,290 due June 1, 2006	702,280
Higher Education Bonds, Series 2003A, issued $1,460,829 to refund a portion of the Series 1993R bonds which refunded a portion of the Series 1990B residence hall bond, the balance payable in annual installments from $183,098 to $235,186 with interest of 2.5 percent to 5.0 percent payable semiannually, the final installment of $235,186 due June 1, 2010	1,460,829
Total Bonds Payable	$8,775,932
Details of Notes Payable	
VCBA Educational Facilities Revenue Bonds, Series 1997A, issued $1,515,000 to finance construction of Jepson Science Building, the balance payable in annual installments from $55,000 to $115,000 with interest of 3.75 percent to 5 percent payable semiannually, the final installment of $115,000 due September 1, 2017	$1,255,000
VCBA Bonds, Series 1999A, issued $1,045,000 to finance replacement of the Tennis Courts, the balance payable in annual installments from $35,000 to	

$85,000 with interest of 4.5 percent to 6 percent payable semiannually, the final installment of $85,000 due September 1, 2019	955,000
VCBA Bonds, Series 2000A, issued $4,690,000 to finance construction of a Fitness Center, the balance payable in annual installments from $150,000 to $370,000 with interest of 4.25 percent to 5.75 percent payable semiannually, the final installment of $370,000 due September 1, 2020.	4,430,000
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 3.00 percent to 5.25 percent payable semiannually, the final installment of $180,000 due September 1, 2022.	2,335,000
Total Notes Payable	$8,975,000

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

Year Ending June 30,	Principal	Interest	Total
2004	$ 1,081,679	$ 860,370	$ 1,942,049
2005	1,247,220	821,952	2,069,172
2006	1,311,066	762,468	2,073,534
2007	1,098,970	701,867	1,800,837
2008	1,159,490	648,925	1,808,415
2009-2013	5,907,507	2,374,654	8,282,161
2014-2018	3,495,000	1,119,766	4,614,766
2019-2023	2,450,000	243,375	2,693,375
Total	$ 17,750,932	$ 7,533,377	$ 25,284,309

B. Prior Year Defeasance of Debt

In prior years, the College and the Commonwealth of Virginia, on behalf of the College, issued bonds and the proceeds were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on other debt. The bonds representing that debt are, therefore, considered defeased. Accordingly, the trust account's assets and the liabilities for the defeased bonds are not included in the College's financial statements. On June 30, 2003, $9,354,531 of the bonds considered defeased remained outstanding.

C. Installment Purchases

The College has entered into various installment purchase contracts to finance the acquisition of computer and telecommunications equipment. The remaining purchase agreement continues for another three years with interest rates from 4.3 percent to 4.6 percent. A summary of the remaining installment purchases payable debt as of June 30, 2003, is presented as follows:

Year Ending June 30,	Principal	Interest	Total
2004	$ 578,475	$ 66,277	$ 644,752
2005	620,724	24,028	644,752
Total	$ 1,199,199	$ 90,305	$ 1,289,504

D. Equipment Trust Fund Program

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

8. EXPENSES BY NATURAL CLASSIFICATIONS

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

	Salaries and Wages	Fringe Benefits	Services and Supplies	Utilities	Plant and Equipment	Depreciation	Total
Instruction	$13,274,109	$2,795,576	$ 765,241	$ 1,388	$ 883,017	$ -	$17,719,331
Research	95,256	7,273	172,752	-	3,768	-	279,049
Public service	202,605	44,588	(54,504)	-	6,552	-	199,241
Academic support	2,229,892	454,497	722,853	-	104,523	-	3,511,765
Student services	1,874,213	404,459	1,154,991	-	40,736	-	3,474,399
Institutional support	2,236,868	733,466	2,469,840	82,993	227,812	-	5,750,979
Operation and maintenance of plant	941,086	589,434	747,938	1,375,094	596,000	-	4,249,552
Depreciation	-	-	-	-	-	2,730,677	2,730,677
Student aid	292,718	52,426	155,078	-	165	-	500,387
Auxiliary activities	7,547,656	1,151,646	9,935,659	-	560,136	-	19,195,097
Independent operations	508,495	96,846	15,010	21,465	818	-	742,634
Total	$29,202,898	$6,330,211	$16,184,858	$1,480,940	$2,423,527	$2,730,677	$58,353,111

9. STATE APPROPRIATIONS

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

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

Original legislative appropriation per Chapter 1042:	
Educational and general programs	$ 14,633,387
Student financial assistance	882,540
Independent operations	454,921
Supplemental adjustments	107,013
State appropriation revenue, adjusted	$ 16,077,861

10. AFFILIATED FOUNDATIONS

The financial statements do not include the assets, liabilities, and net assets of the Mary Washington College Foundation, Inc., Mary Washington College Alumni Association, or the Mary Washington College Real Estate Foundation. The purpose of these organizations is to operate for the benefit of the College. These organizations are separately incorporated entities and the related financial statements are examined by other auditors. The following condensed summary is based solely upon the reports of other auditors at and for the year ended June 30, 2003.

Assets:	
Cash and investments	$ 26,140,110
Other assets	14,247,955
Total Assets	$ 40,388,065
Liabilities and net assets:	
Liabilities	10,771,378
Net assets	29,616,687
Total liabilities and net assets	$ 40,388,065

The aggregate revenues and expenditures of these organizations determined as if in consolidation with the College were $22,826,543 and $5,339,524, respectively, for the year ended June 30, 2003.

The Mary Washington College Foundation, Inc. receives gifts and expends funds for the benefit of the College. The revenues and expenditures of the College include funds expended by the

Foundation and paid directly to the College of approximately $1,923,165 for the year ended June 30, 2003.

11. COMMITMENTS

At June 30, 2003, the College was a party to construction and other contracts with outstanding commitments of $10,528,660. In addition, $129,857 was held by the College as retainage on ongoing projects for which work had been performed. The retainage will be remitted to the contractors upon satisfactory completion of the project.

12. RETIREMENT PLANS

A. Virginia Retirement System

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

The VRS does not measure assets and pension benefit obligations separately for individual state institutions. Therefore, all information relating to this plan is available at the statewide level only and can be found in the Commonwealth's *Comprehensive Annual Financial Report* (CAFR). The Commonwealth of Virginia, not the College, has the overall responsibility for contributions to this plan. The CAFR provides disclosure of the Commonwealth's unfounded pension benefit obligation at June 30, 2003. The same report contains historical trend information showing VRS's progress in accumulating sufficient assets to pay benefits when due.

The College's expenses include the amount assessed by the Commonwealth for contributions to VRS, which totaled $845,465 for the year ended June 30, 2003. These contributions included the five percent employee contribution assumed by the employer.

B. Optional Retirement Plans

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

Individual contracts issued under the plan provide for full and immediate vesting of both the College's and the employee's contributions. Total pension costs under this plan were approximately $921,677 for the year ended June 30, 2003.

13. POST-EMPLOYMENT BENEFITS

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

14. CONTINGENCIES

A. Grants and Contracts

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

In addition, the College is required to comply with the various federal regulations issued by the Office of Management and Budget. Failure to comply with certain requirements of these regulations may result in questions concerning the allowability of related direct and indirect charges pursuant to such agreements. As of June 30, 2003, the College estimates that no material liabilities will result from such audits or questions.

B. Litigation

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

15. RISK MANAGEMENT AND EMPLOYEE HEALTH CARE PLANS

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

16. FOUNDATION TRANSFER

The Rector and Board of Visitors of Mary Washington College approved that the College Endowment be transferred to the Mary Washington College Foundation effective July 1, 2002. The College Endowment consists solely of restricted funds, primarily for scholarship purposes. The action is intended to provide for improved reporting, monitoring and fund management efficiencies, eliminate confusion in the interpretation and comparison of annual financial statements, and ensure that the subject funds are not considered state funds. The final transfer occurred on July 2 and 3, 2002.

17. PENDING GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENT

Governmental Accounting Standards Board Statement No. 39, "Determining Whether Certain Organizations are Component Units," issued May 2002, will be effective for the fiscal year ending June 30, 2004. This Statement provides additional guidance to determine whether certain organizations for which the College is not financially accountable should be reported as component units. Generally, it requires reporting, as a component unit, an organization that raises and holds economic resources for the direct benefit of the College. As a result, where in the past the College presented summary financial information of certain of its foundations in the notes to the financial statements, the College will be required under Statement No. 39 to include selected foundations in the body of its financial statements. The College is in the process of assessing which of the foundations should be included as components units.

SUPPLEMENTARY INFORMATION

MARY WASHINGTON COLLEGE
SCHEDULE OF AUXILIARY ENTERPRISES - REVENUES AND EXPENDITURES
For the Year Ended June 30, 2003

	Intercollegiate Athletics	Bookstore	Brompton	Dining Services	Residence Halls
Revenues:					
Sales and services	$ 1,256	$3,072,653	$ -	$ 5,873,242	$6,795,355
Student fees	1,110,657	-	20,146	-	-
Interest income	-	-	-	-	-
Miscellaneous	38,116	466	-	-	-
Total revenues	1,150,029	3,073,119	20,146	5,873,242	6,795,355
Expenditures and other deductions:					
Expenses of operation:					
Personal services	818,613	258,791	-	-	1,198,930
Fringe benefits	161,787	43,604	-	-	247,315
Contractual services	319,842	93,142	9,735	3,360,841	185,758
Supplies and materials	79,424	2,001,423	10,411	13,738	173,748
Equipment	18,031	-	-	199	3,825
Depreciation	-	-	-	-	-
Other	220	178,316	-	181,836	3,810,370
Total expenses of operation	1,397,917	2,575,276	20,146	3,556,614	5,619,946
Payments for securities lending	-	-	-	-	-
Mandatory transfers	91,887	-	-	-	-
Total expenditures and other deductions	1,489,804	2,575,276	20,146	3,556,614	5,619,946
Excess (deficiency) of revenues over/(under) expenditures and other deductions	$ (339,775)	$ 497,843	$ -	$ 2,316,628	$1,175,409
Beginning fund balance					
Ending fund balance					

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

Health Center	Student Activities	Telecomm-unications	Other	Total
$ 69,237	$ 3,650	$ 68,033	$ 805,839	$ 16,689,265
-	(324,586)	544,741	3,064,496	4,415,454
-	-	-	235,880	235,880
-	19,421	-	1,182,007	1,240,010
69,237	(301,515)	612,774	5,288,222	22,580,609
291,523	460,346	476,840	1,866,473	5,371,516
59,371	87,052	123,217	429,300	1,151,646
16,941	152,858	538,249	602,637	5,280,003
77,941	66,437	20,843	57,232	2,501,197
1,072	4,192	472,307	37,613	537,239
-	-	-	490,639	490,639
39,074	19,833	28,070	171,814	4,429,533
485,922	790,718	1,659,526	3,655,708	19,761,773
-	-	-	7,642	7,642
-	37,171	105,651	575,274	809,983
485,922	827,889	1,765,177	4,238,624	20,579,398
$ (416,685)	$ (1,129,404)	$ (1,152,403)	$ 1,049,598	2,001,211
				3,964,837
				$ 5,966,048

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MARY WASHINGTON COLLEGE
EXECUTIVE VICE PRESIDENT

May 14, 2004

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

Subject: Management Response to the Audit Recommendation for
Fiscal Year Ending June 30, 2003

Dear Mr. Kucharski:

I am pleased to send you Mary Washington College's response to the one audit point identified during the audit of the fiscal year ending June 30, 2003.

The College purchasing office has supported the integrity of the procurement process within the Commonwealth and has built trust and respect for the process and its administration throughout the campus. Where possible, the purchasing operation seeks opportunities that allow end users to do their jobs more efficiently. In conjunction with the many strengths of the department, the APA recommendations will be viewed as opportunities to enhance the success of the purchasing office. Action plans underway to address the specific recommendations follow.

1) The College should revise its procedures to only allow authorized cardholders to make purchases.

The following procedure was established by the College at the inception of the credit card program. The original procedures, inclusive of the following statement, were approved by the Department of General Services, Division of Purchasing and Supply.

> *In general, the purchasing card should not be loaned to another person. In specific situations, where adequate checks and balances are employed, there may be controlled card loaning, but only under the direct control and supervision of a Departmental Manager.*

Subsequent to the development of MWC internal policies, a DOA CAPP Manual update disallowed card lending. The College procedures were not altered to accommodate this change. The College will update their AMEX procedures to disallow card lending and establish new operational procedures.

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2) Management should ensure the cardholders' supervisors are properly reviewing and approving purchases.

The individual referenced in the audit recommendation holds written, delegated purchasing authority for transactions up to $5,000 as set forth in the Agency Procurement and Surplus Property Manual. The College was not aware that this delegated authority did not extend to the use of the SPCC. Therefore, based on the APA recommendation, we will require all cardholders, regardless of their delegated purchasing authority, to have a second approval on all AMEX transactions.

In closing, I want you to know that from our perspective, the audit went very well. It was completed on schedule, and the audit staff was very thorough and professional.

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

Sincerely,

Richard V. Hurley
Executive Vice President
and Chief Financial Officer