

MARY WASHINGTON COLLEGE

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2004**

APA

**Auditor of
Public Accounts**

COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of the Mary Washington College for the year ended June 30, 2004, found:

- the financial statements are presented fairly, in accordance with generally accepted accounting principles;
- no internal control matters that we consider material weaknesses;
- no instances of noncompliance or other matters required to be reported; and
- the College has taken adequate corrective action with respect to audit findings reported in the prior year.

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COLLEGE OFFICIALS

MANAGEMENT'S DISCUSSION AND ANALYSIS
(unaudited)

Mary Washington College's Management's Discussion and Analysis (MD&A) of its financial condition provides an overview of the financial activity, identifies changes in financial position, and assists the reader in focusing on significant financial issues. The basic statements are: Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Net Assets; and Statement of Cash Flows. The following analysis discusses elements from each of these statements and presents an overview of the 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

Enrollment demand remains solid for the College, as indicated by continuing growth in applications and enrollment. In particular, the College's graduate and professional studies enrollment increased by nearly 25 percent in fiscal year 2004 as compared to fiscal year 2003. The College was once again recognized for its academic excellence, campus beauty and quality of student life by national publications such as *U.S. News and World Report* and *The Fiske Guide to Colleges*.

Demand for on-campus housing remains very high as overall capacity is at 100 percent. Even with the addition in fiscal year 2004 of 350 new beds in the recently acquired apartment complex, demand exceeded capacity and students were turned away.

Statistical Abstract by Academic Year based on Fall Census

	<u>2000-2001</u>		<u>2001-2002</u>		<u>2002-2003</u>		<u>2003-2004</u>	
Enrollment data (headcount):								
Undergraduate	4,107		4,173		4,275		4,299	
Graduate	<u>176</u>		<u>310</u>		<u>460</u>		<u>493</u>	
Total	<u>4,283</u>		<u>4,483</u>		<u>4,735</u>		<u>4,792</u>	
Undergraduate application data:								
Applications received	5,063		5,883		4,946		5,127	
Applications accepted	2,772	55%	2,817	48%	2,997	61%	3,107	61%
Students enrolled	1,140	41%	1,131	40%	1,180	39%	1,158	37%
Graduate application data:								
Applications received	161		97		125		152	
Applications accepted	114	71%	93	96%	116	93%	144	95%
Students enrolled	112	98%	81	87%	104	90%	132	92%
Tuition and fees:								
Tuition	\$1,550		\$1,550		\$1,690		\$ 2,344	
Fees	1,696		1,790		2,244		2,344	
Room and board	<u>5,448</u>		<u>5,692</u>		<u>5,318</u>		<u>5,478</u>	
Total	<u>\$8,694</u>		<u>\$9,032</u>		<u>\$9,252</u>		<u>\$10,166</u>	

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, 2004. 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 and employees or how much 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 nonfinancial 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 2004 and 2003.

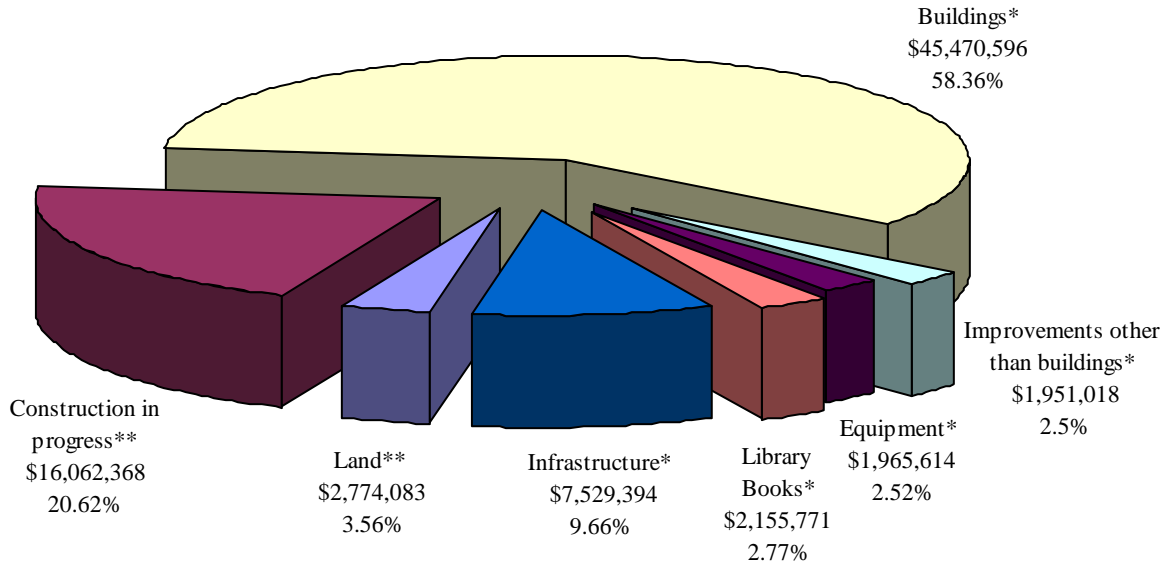
	<u>2004</u>	<u>2003</u>
ASSETS		
Current assets	\$14,714,385	\$14,878,310
Noncurrent assets	4,635,341	7,760,036
Capital assets	<u>77,908,844</u>	<u>69,906,607</u>
Total assets	<u>97,258,570</u>	<u>92,544,953</u>
LIABILITIES		
Current liabilities	11,329,152	11,552,848
Noncurrent liabilities	<u>16,596,212</u>	<u>18,519,998</u>
Total liabilities	<u>27,925,364</u>	<u>30,072,846</u>
NET ASSETS		
Invested in capital assets, net of related debt	60,423,068	50,680,953
Restricted	3,118,369	6,030,992
Unrestricted	<u>5,791,769</u>	<u>5,760,162</u>
Total net assets	<u>\$69,333,206</u>	<u>\$62,472,107</u>

Capital assets increased primarily due to construction in progress relating to the Alumni Executive Center and Belmont Phase II projects.

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

The decrease in non-current assets was due to the draw down of SNAP-funded bond projects, which is reflected in the increase in capital assets. 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, 2004



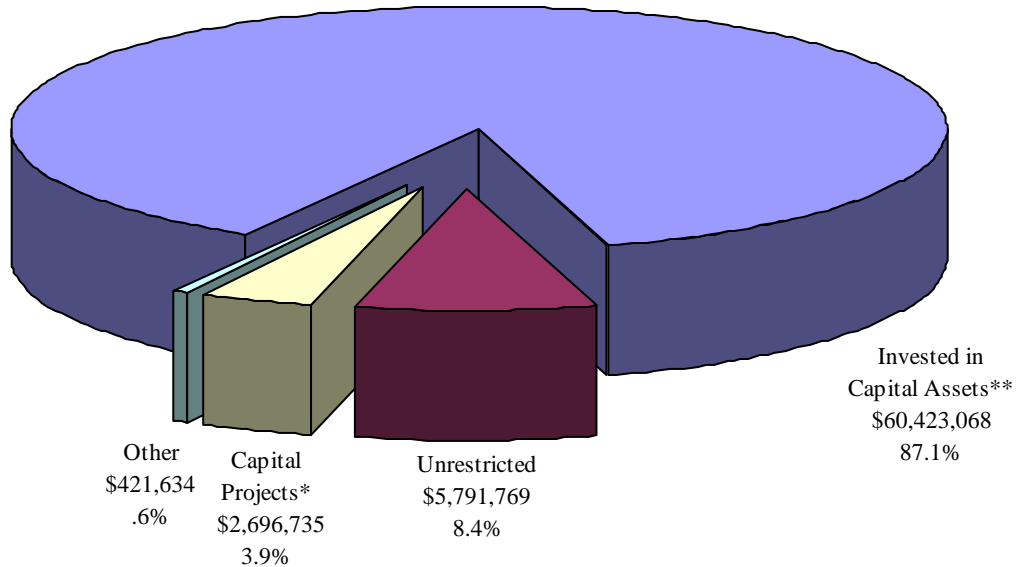
* Depreciable capital assets, net of accumulated depreciation

** Nondepreciable capital assets

Net assets are divided into three major categories. The first category, “Invested in Capital Assets, Net of Related Debt,” shows the College’s equity in property, plant, infrastructure, and equipment owned by the College. 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,” are the net assets available to the College for any lawful purpose.

The net assets as of June 30, 2004, are as follows:

Net Assets for the Year Ended June 30, 2004



¹Other includes: Research* \$18,159 (.02%); Scholarships and Fellowships* \$40,124 (.06%); Public Services* \$83,360 (.12%); Loans* \$241,431 (.35%); and Academic Support* \$38,560 (.06%)

* 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 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 the 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 of non-operating revenue is the revenue received where no goods or services are provided. An example of non-operating revenue are state appropriations since the state legislature does not directly receive commensurate goods and services in return for those revenues.

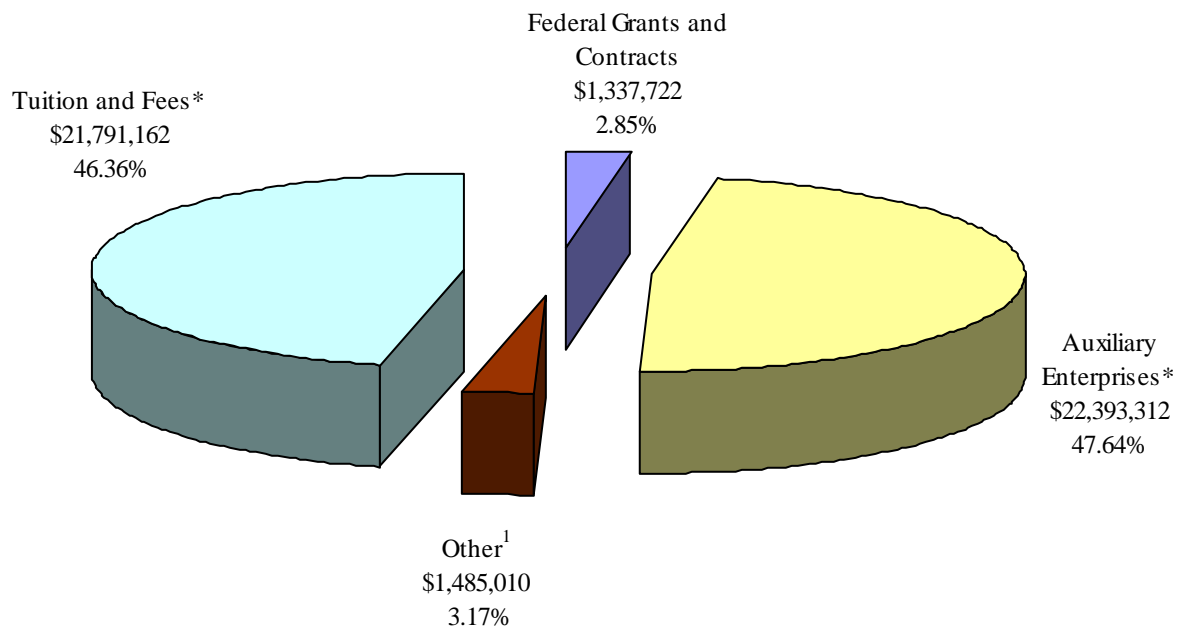
Operating revenues primarily include tuition and fees and auxiliary enterprises. Tuition and fees increased due to increases in enrollment and tuition and fee charges. There was a slight increase in auxiliary revenues due to the increase in room and board participation and rates.

General Fund appropriations were reduced \$997,351 in fiscal year 2004. The College was able to increase enrollment and tuition and fees to partially offset two years of state appropriation reductions, as well as continue cost-reduction efforts. Due to a growing demand for its services and effective management, the College was able to contribute \$871,853 to its auxiliary reserve fund.

The following table and graphs show the fiscal years 2004 and 2003 results.

	<u>2004</u>	<u>2003</u>
Operating revenues	\$ 47,007,206	\$ 45,177,428
Operating expenses	<u>61,403,336</u>	<u>58,353,111</u>
Operating loss	(14,396,130)	(13,175,683)
Net nonoperating revenues	<u>14,259,030</u>	<u>14,799,349</u>
Income (loss) before other revenues, expenses, gains, or losses	(137,100)	1,623,666
Net other revenues (expenses)	<u>6,998,199</u>	<u>(14,828,856)</u>
Increase in net assets	<u>\$ 6,861,099</u>	<u>\$ 13,205,190</u>

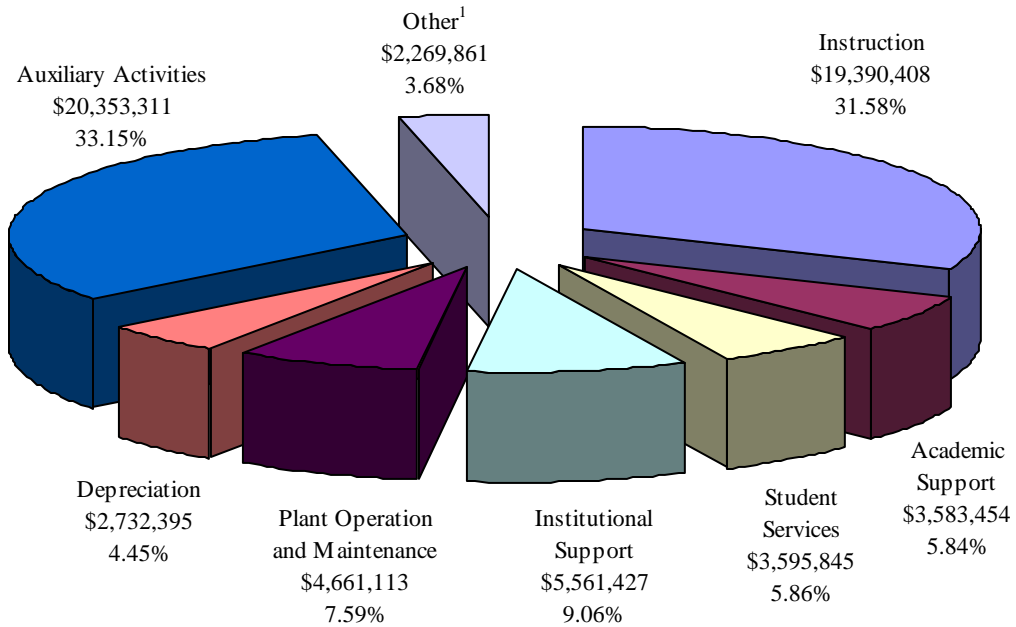
Operating Revenues for the Year Ended June 30, 2004



¹Other includes: Other operating revenues \$418,250 (0.89%); Independent operations \$341,940 (0.73%); State grants and contracts \$317,933 (0.68%); Local grants and contracts \$19,000 (0.04%); and Non-governmental grants and contracts \$387,887 (0.83%).

* Net of scholarship allowances

Operating Expenses for the Year Ended June 30, 2004



¹Other includes: Research and Public Service \$396,297 (.65%); Student Aid \$410,691 (.67%); and Independent Operations \$718,395 (1.17%).

Statement of Cash Flows

The Statement of Cash Flows presents detailed information about the College'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 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.

	<u>2004</u>	<u>2003</u>
Cash provided (used) by:		
Operating activities	\$(13,535,470)	\$ (11,143,872)
Noncapital financing activities	15,102,441	16,157,912
Capital and related financing activities	2,038,603	(2,750,383)
Investing activities	<u>1,981,106</u>	<u>(2,573,052)</u>
Net increase (decrease) in cash	5,586,680	(309,395)
Cash, beginning of year	<u>6,354,905</u>	<u>6,664,300</u>
Cash, end of year	<u>\$ 11,941,585</u>	<u>\$ 6,354,905</u>

Capital Asset and Long Term Debt

The College did not participate in the Commonwealth's 9C and 9D bond sales during fiscal year 2004. 9C bonds were subsequently sold in Fall 2004 (fiscal year 2005) to assist in financing the Indoor tennis center, for which construction began during fiscal year 2004.

During fiscal year 2004, the Fitness Center was completed; the Alumni Executive Center was essentially completed, with its opening ceremony held on June 5, 2004; Phase 2 of the Belmont Studio expansion began; renovations to the College's dining facility, Seacobeck Hall, began; and planning continued for Building #2 at the James Monroe Center (now named the College of Graduate and Professional Studies), the Convocation Center, and the parking deck.

Economic Outlook and Additional Facts

The College continued its implementation of the new Banner/SCT ERP/Administrative Software System. The finance module was implemented to include the accounts payable function, which was decentralized from the State in July 2004. Fiscal year 2004 involved much training, planning, and preproduction work and set-up.

The Commonwealth's financial condition began improving during fiscal year 2004, setting the stage for modest salary and wage increases in fiscal year 2004 of 2.25 percent. The General Assembly once again permitted Virginia's public institutions of higher education to increase tuition and fees. The College's Board of Visitors approved increases to provide funding for the College's share of the salary and wage raises and to partially restore academic operating budgets, which were reduced as part of budget-cutting actions during the previous two years.

MARY WASHINGTON COLLEGE
STATEMENT OF NET ASSETS
As of June 30, 2004

ASSETS	MWC Real		
	MWC	Estate Foundation	MWC Foundation
Current assets:			
Cash and cash equivalents (Note 2)	\$ 11,451,034	\$ 75,092	\$ 1,885,836
Accounts receivable, net of allowance for doubtful accounts (Note 3)	437,050	7,500	-
Pledges receivable, current portion (Note 3)	-	-	895,532
Due from the Commonwealth	1,695,247	-	-
Due from the College	-	157,728	13,666
Inventories	533,859	-	-
Other assets	18,566	271,199	53,000
Total current assets	14,135,756	511,519	2,848,034
Noncurrent assets:			
Restricted cash and cash equivalents (Note 2)	490,552	-	-
Restricted investments (Note 2)	3,340,667	-	23,863,106
Other restricted assets	834,707	-	269,462
Pledges receivable, noncurrent portion (Note 3)	-	-	1,055,886
Other long-term investments (Note 2)	548,044	1,148,189	1,797,617
Nondepreciable capital assets (Note 4)	18,836,451	5,000,000	195,000
Capital assets, net of accumulated depreciation (Note 4)	59,072,393	9,085,219	41,399
Total noncurrent assets	83,122,814	15,233,408	27,222,470
Total assets	97,258,570	15,744,927	30,070,504
LIABILITIES			
Current liabilities:			
Accounts payable (Note 5)	4,987,477	-	305,718
Deferred revenue	1,880,458	-	55,040
Deposits held in trust	831,888	-	-
Obligations under Securities Lending Program (Note 2)	548,044	-	-
Amounts due to the Commonwealth	2,627	-	-
Amounts due to Foundations	171,394	-	-
Short term debt	-	-	1,770,000
Other liabilities	398,857	132,153	-
Long-term liabilities - current portion (Note 6)	2,508,407	230,000	48,049
Total current liabilities	11,329,152	362,153	2,178,807
Noncurrent liabilities:			
Long-term liabilities - noncurrent portion (Note 6)	15,928,221	10,796,703	288,615
Perkins loan (Note 6)	667,991	-	-
Total noncurrent liabilities	16,596,212	10,796,703	288,615
Total liabilities	27,925,364	11,158,856	2,467,422

NET ASSETS			
Invested in capital assets, net of related debt	60,423,068	4,500,000	236,399
Restricted for:			
Nonexpendable:			
Permanently restricted	-	-	13,771,539
Expendable:			
Academic support	38,560	-	-
Capital projects	2,696,735	-	-
Loans	241,431	-	-
Public services	83,360	-	-
Research	18,159	-	-
Scholarships and fellowships	40,124	-	-
Temporarily restricted	-	-	11,975,783
Unrestricted	5,791,769	86,071	1,619,361
	<u>5,791,769</u>	<u>86,071</u>	<u>1,619,361</u>
Total net assets	<u>\$69,333,206</u>	<u>\$4,586,071</u>	<u>\$27,603,082</u>

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

MARY WASHINGTON COLLEGE
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2004

	MWC	MWC Real Estate Foundation	MWC Foundation
Operating revenues:			
Student tuition and fees, net of scholarship allowances of \$2,318,856	\$ 21,791,162	\$ -	\$ -
Federal grants and contracts	1,337,722	-	-
State grants and contracts	317,933	-	-
Local grants and contracts	19,000	-	-
Nongovernmental grants and contracts	387,887	-	-
Auxiliary enterprises, net of scholarship allowances of \$103,172	22,393,312	-	-
Independent operations	341,940	-	-
Foundation operations	-	1,245,755	2,817,700
Other operating revenues	418,250	-	-
Total operating revenues	47,007,206	1,245,755	2,817,700
Operating expenses:			
Instruction	19,390,408	-	-
Research	179,922	-	-
Public service	216,375	-	-
Academic support	3,583,454	-	-
Student services	3,595,845	-	-
Institutional support	5,561,427	-	-
Operation and maintenance of plant	4,661,113	-	-
Depreciation	2,732,395	333,483	20,994
Student aid	410,691	-	-
Auxiliary activities	20,353,311	-	-
Independent operations	718,395	-	-
Foundation operations	-	731,900	8,864,791
Total operating expenses	61,403,336	1,065,383	8,885,785
Operating income/(loss)	(14,396,130)	180,372	(6,068,085)
Nonoperating revenues/(expenses):			
State appropriations (Note 10)	15,080,510	-	-
Investment income	78,910	1,356	3,882,560
Interest on capital asset related debt	(900,390)	(401,890)	-
Net nonoperating revenues/(expenses)	14,259,030	(400,534)	3,882,560
Income before other revenues, expenses, gains, or losses	(137,100)	(220,162)	(2,185,525)
Capital appropriations	2,370,604	-	-
Capital gifts	4,627,595	4,500,000	-
Additions to permanent endowments	-	-	668,623
Total other revenues, expenses, gains, or losses	6,998,199	4,500,000	668,623
Increase (decrease) in net assets	6,861,099	4,279,838	(1,516,902)
Net assets - Beginning of year	62,472,107	306,233	29,119,984
Net assets - End of year	\$ 69,333,206	\$ 4,586,071	\$ 27,603,082

MARY WASHINGTON COLLEGE
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2004

	MWC	MWC Real Estate Foundation	MWC Foundation
Cash flows from operating activities:			
Student tuition and fees	\$ 23,870,721	\$ -	\$ -
Grants and contracts	371,143	-	-
Auxiliary enterprises	22,486,938	-	-
Independent operations	341,940	-	-
Contributions	-	-	3,066,109
Rental receipts	-	1,728,601	-
Other receipts	472,656	14,106	358,591
Payments to employees	(25,979,602)	-	-
Payments for fringe benefits	(7,712,593)	-	-
Payments for services and supplies	(22,260,997)	-	-
Payments for utilities	(1,633,621)	-	-
Payments for scholarships and fellowships	(2,112,990)	-	-
Payments for noncapitalized plant and equipment	(1,223,797)	-	-
Payments for Foundation activities	-	(967,606)	(8,015,152)
Loans issued to students	(166,900)	-	-
Collection of loans from students	11,632	-	-
Net cash provided/(used) by operating activities	(13,535,470)	775,101	(4,590,452)
Cash flows from noncapital financing activities:			
State appropriations	15,080,510	-	-
Agency receipts and payments (net)	21,931	-	-
Net cash provided/(used) by noncapital financing activities	15,102,441	-	-
Cash flows from capital financing activities:			
Capital appropriations	956,107	-	-
Capital gifts	4,627,595	-	-
Proceeds from sale of bonds	-	11,022,530	-
Proceeds from line of credit	-	-	1,770,000
Purchase of capital assets	(904,569)	(728,208)	-
Financing costs	-	(276,734)	-
Principle paid on capital debt, leases, and installments	(1,710,226)	(10,000,000)	-
Interest paid on capital debt, leases, and installments	(930,304)	(294,158)	-
Net cash provided/(used) by capital financing activities	2,038,603	(276,570)	1,770,000
Cash flows from investing activities:			
Proceeds from gift annuities	-	-	77,607
Payment of gift annuities liability	-	-	(44,404)
Sale/purchase of investments (net)	1,896,470	(1,150,942)	1,984,698
Interest on investments	84,636	4,108	725,044
Net cash provided/(used) by investing activities	1,981,106	(1,146,834)	2,742,945
Net increase/(decrease) in cash	5,586,680	(648,303)	(77,507)
Cash - Beginning of the year	6,354,905	723,395	1,963,343
Cash - End of the year	\$ 11,941,585	\$ 75,092	\$ 1,885,836

Reconciliation of net operating gain/(loss) to net cash used by operating activities:			
Operating gain/(loss)	\$ (14,396,130)	\$ 180,372	\$ (5,399,462)
Adjustments to reconcile net loss to net cash used by operating activities:			
Depreciation expense	2,732,394	333,483	20,994
Gain on asset disposition	-	-	(41,311)
Changes in assets and liabilities:			
Accounts/Pledges receivable	536,911	4,680	748,172
Inventories	48,128	-	-
Other assets	-	-	(32,428)
Due from College	-	492,272	(13,666)
Due from Commonwealth	(1,695,247)	-	-
Accounts payable	(271,121)	(235,706)	131,739
Accrued leave liability	(115,648)	-	-
Deferred revenue	(548,571)	-	(4,490)
Other liabilities	(79,644)	-	-
Deposits held in trust	95,042	-	-
Due to Foundations	171,394	-	-
Due to Commonwealth	(12,978)	-	-
Net cash provided/(used) by operating activities	<u>\$ (13,535,470)</u>	<u>\$ 775,101</u>	<u>\$ (4,590,452)</u>
Noncash investing, noncapital financing, and capital and related financing transactions:			
Gift of capital assets	\$ 48,063	\$ 4,500,000	\$ -

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

MARY WASHINGTON COLLEGE

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Mary Washington 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. As such, the College is a component unit of the Commonwealth of Virginia and is included in the Comprehensive Annual Financial Report of the Commonwealth.

The College has two component units, as defined by the Governmental Accounting Standards Board (GASB) Statement 14, *The Financial Reporting Entity*. The College is financially accountable for the independent operations of the Gari Melchers Memorial and the James Monroe Law Office Museum and Memorial Library. Thus, the net assets and results of operations are combined with the net assets and results of operations of the College.

In addition, the College benefits from a number of organizations that exist mainly to support the various purposes and activities of the College. In accordance with Governmental Accounting Standards Board (GASB) Statement 39, *Determining Whether Certain Organizations Are Component Units*, the College is also discretely presenting the financial statements of the Mary Washington College Real Estate Foundation and the Mary Washington College Foundation. The Mary Washington College 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 College and to operate any corresponding rental operations. The Mary Washington College Foundation is also a non-profit organization incorporated under the laws of the Commonwealth of Virginia 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 College. Both the Mary Washington College Real Estate Foundation and the Mary Washington College Foundation issue their own audited financial statements in addition to being included in the statements of the College.

The College also benefits from the Mary Washington College 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 College's financial statements. Summary information related to the Mary Washington College Alumni Association is presented in Note 11. Audited financial statements are also issued by the Alumni Association.

All three organizations are separate legal entities from the College and the College exercises no control over them.

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 Colleges and Universities*. The College follows Statement 34 requirements for "reporting by special-purpose governments engaged only in business-type activities." The financial statement presentation provides a comprehensive entity-wide look at the College's financial activities.

The foundations included are private nonprofit organizations that do not report under the guidelines of the GASB, instead following the guidance of FASB, including FASB Statement 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the foundations' financial information in the College's financial reporting entity for these differences.

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

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

F. Inventories

Inventories are valued at the lower of cost (generally determined on the first-in, first-out method) or market. Inventories consist primarily of merchandise for resale in the 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 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 the 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, 2004.

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, 2004, all unused vacation leave, sabbatical leave, and the amount payable upon termination under the Commonwealth of Virginia's sick leave pay-out policy. The applicable share of employer-related taxes payable on the eventual termination payment is also included.

K. Federal Financial Assistance Programs

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

L. Net Assets

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

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, 2004.

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, 2004 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 \$79,690 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.

	<u>Market Value at June 30, 2004</u>
Cash and cash equivalents:	
Deposits with financial institutions	\$ 9,382,709
Cash with the Treasurer	<u>2,558,877</u>
Total	<u>\$11,941,586</u>
Investments:	
State non-arbitrage program (SNAP)	\$ 2,810,299
Investments with the Treasurer	530,368
Collateral held for securities lending	<u>548,044</u>
Total	<u>\$ 3,888,711</u>

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.

D. Mary Washington College Real Estate Foundation Cash and Cash Equivalents

Financial instruments, which 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, 2004, the Foundation did not have any amount in excess of the Federal Deposit Insurance Corporation limit.

E. Mary Washington College Foundation Investments

Financial instruments that potentially subject the Foundation to concentration of credit risk consist of cash and cash equivalents, certificates of deposits, receivables, and investments. The Foundation places its temporary cash investments with high credit quality financial institutions. At June 30, 2004, the Foundation had cash deposits of \$1,796,493 in excess of the Federal Deposit Insurance Corporation limit. Investments consist primarily of mutual funds and managed partnerships that are not heavily concentrated in any one company or industry. The Foundation monitors its receivables to minimize credit risk.

Investments are reported at fair market values. The cost and market value of investments as of June 30, 2004 are as follows:

	<u>Cost</u>	<u>Market Value</u>
Investments:		
Bonds	\$ 5,287,301	\$ 5,242,030
Stocks	2,177,596	3,065,358
Mutual funds	10,679,322	14,262,887
Partnerships	<u>2,384,379</u>	<u>2,534,948</u>
Total	<u>\$20,528,598</u>	<u>\$25,105,223</u>

The Foundation has investments and future investment commitments in partnerships managed by the Investment Fund for Foundations (TIFF) Advisor Services, Inc., that are subject to capital calls and mandatory lock periods. The following is a schedule of commitments and lock-in periods. Real estate carried at \$555,500 is also included in the investments.

	<u>Dollars Committed</u>	<u>Dollars Called to Date</u>	<u>Market Value</u>	<u>Lock in Period</u>
TIFF ARP II	n/a	n/a	\$1,106,644	12/31/06
TIFF Secondary Partners I	\$1,000,000	\$140,000	153,804	12/31/15
TIFF Partners V - United States	500,000	10,000	10,000	12/31/06
TIFF Partners V - International	500,000	-	-	12/31/06

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

The Foundation is also the remainder beneficiary and trustee of 30 charitable gift annuities and three charitable remainder trusts dated 1986 to 2004. The discount rates range from 4.2 percent to 11.6 percent and are all paid quarterly. Total annuity payments for the year ended June 30, 2004 were \$44,404.

3. ACCOUNTS AND PLEDGES RECEIVABLE

Accounts receivable consisted of the following at June 30, 2004:

Student tuition and fees	\$ 446,818
Auxiliary enterprises	171,182
Other activities	<u>34,032</u>
Total	652,032
Less: Allowance for doubtful accounts	<u>(214,982)</u>
Net accounts receivable	<u>\$ 437,050</u>

The Mary Washington College Foundation had unconditional pledges receivable consisting of the following at June 30, 2004:

Pledges due within one year	\$ 895,532
Pledges due in two to seven years	<u>1,179,224</u>
Total	2,074,756
Less: Discounts to net present value (using a discount rate of 5%)	<u>(123,338)</u>
Net pledges receivable	<u>\$1,951,418</u>

4. CAPITAL ASSETS

A summary of changes in the various capital asset categories for the College for the year ending June 30, 2004, is presented as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Nondepreciable capital assets:				
Land	\$ 2,774,083	\$ -	\$ -	\$ 2,774,083
Construction in progress	<u>6,280,367</u>	<u>9,782,001</u>	<u>-</u>	<u>16,062,368</u>
Total nondepreciable capital assets	<u>9,054,450</u>	<u>9,782,001</u>	<u>-</u>	<u>18,836,451</u>
Depreciable capital assets:				
Buildings	81,391,048	-	-	81,391,048
Infrastructure	25,349,880	-	-	25,349,880
Equipment	7,103,913	551,797	(139,878)	7,515,832
Improvements other than buildings	3,276,302	-	-	3,276,302
Library books	<u>9,473,121</u>	<u>400,835</u>	<u>(16,253)</u>	<u>9,857,703</u>
Total depreciable capital assets	<u>126,594,264</u>	<u>952,632</u>	<u>(156,131)</u>	<u>127,390,765</u>
Less accumulated depreciation for:				
Buildings	34,762,565	1,157,887	-	35,920,452
Infrastructure	17,247,590	572,896	-	17,820,486
Equipment	5,189,440	500,656	(139,878)	5,550,218
Improvements other than buildings	1,214,336	110,948	-	1,325,284
Library books	<u>7,328,176</u>	<u>390,009</u>	<u>(16,253)</u>	<u>7,701,932</u>
Total accumulated depreciation	<u>65,742,107</u>	<u>2,732,396</u>	<u>(156,131)</u>	<u>68,318,372</u>
Depreciable capital assets, net	<u>60,852,157</u>	<u>(1,779,764)</u>	<u>-</u>	<u>59,072,393</u>
Total capital assets, net	<u>\$ 69,906,607</u>	<u>\$ 8,002,237</u>	<u>\$ -</u>	<u>\$ 77,908,844</u>

A summary of changes in the various capital asset categories for the Mary Washington College Real Estate Foundation for the year ending June 30, 2004, is presented as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Nondepreciable capital assets:				
Land	\$ 500,000	\$4,500,000	\$ -	\$ 5,000,000
Construction in progress	<u>694,753</u>	<u>-</u>	<u>(694,753)</u>	<u>-</u>
Total nondepreciable capital assets	<u>1,194,753</u>	<u>4,500,000</u>	<u>(694,753)</u>	<u>5,000,000</u>

Depreciable capital assets:				
Buildings	8,284,775	-	-	8,284,775
Equipment, furniture, and fixtures	16,206	460,859	-	477,065
Improvements other than buildings	<u>-</u>	<u>962,103</u>	<u>-</u>	<u>962,103</u>
Total depreciable capital assets	<u>8,300,981</u>	<u>1,402,657</u>	<u>-</u>	<u>9,723,943</u>
Less accumulated depreciation for:				
Buildings	319,309	207,119	-	526,428
Equipment	579	58,267	-	58,845
Improvements other than buildings	<u>-</u>	<u>53,450</u>	<u>-</u>	<u>53,450</u>
Total accumulated depreciation	<u>319,888</u>	<u>318,836</u>	<u>-</u>	<u>638,724</u>
Depreciable capital assets, net	<u>7,981,093</u>	<u>1,104,126</u>	<u>-</u>	<u>9,085,219</u>
Total capital assets, net	<u>\$9,175,846</u>	<u>\$5,604,126</u>	<u>\$(694,753)</u>	<u>\$14,085,219</u>

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

A summary of changes in the various capital asset categories for the Mary Washington College Foundation for the year ending June 30, 2004, is presented as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Nondepreciable capital assets: Artwork	<u>\$195,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$195,000</u>
Depreciable capital asset: Equipment	114,738	-	-	114,738
Less accumulated depreciation for: Equipment	<u>52,344</u>	<u>20,995</u>	<u>-</u>	<u>73,339</u>
Depreciable capital asset, net	<u>62,394</u>	<u>(20,995)</u>	<u>-</u>	<u>41,399</u>
Total capital assets, net	<u>\$ 257,394</u>	<u>\$(20,995)</u>	<u>\$ -</u>	<u>\$236,399</u>

5. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at June 30, 2004:

Employee salaries, wages, and fringe benefits payable	\$2,496,334
Vendors and suppliers accounts payable	<u>2,491,143</u>
Total accounts payable	<u>\$4,987,477</u>

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, 2004, 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	\$ 8,775,932	\$ -	\$ (771,679)	\$ 8,004,253	\$ 912,220
Notes payable	8,975,000	-	(310,000)	8,665,000	335,000
Installment purchases	<u>1,199,199</u>	<u>-</u>	<u>(628,547)</u>	<u>570,652</u>	<u>570,652</u>
Total long-term debt	<u>18,950,131</u>	<u>-</u>	<u>(1,710,226)</u>	<u>17,239,905</u>	<u>1,817,872</u>
Other noncurrent liabilities:					
Accrued compensated absences	1,312,370	743,402	(859,049)	1,196,723	690,535
Perkins loan	<u>661,053</u>	<u>6,938</u>	<u>-</u>	<u>667,991</u>	<u>-</u>
Total long-term liabilities	<u>\$20,923,554</u>	<u>\$750,340</u>	<u>\$(2,569,275)</u>	<u>\$19,104,619</u>	<u>\$2,508,407</u>

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, 2004, is presented as follows:

<u>Details of Bonds Payable</u>	<u>Outstanding June 30, 2004</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 and 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.	\$1,993,134
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.	1,725,000
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.	2,532,534
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.	475,854
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.	<u>1,277,731</u>
Total bonds payable	<u>\$8,004,253</u>
 <u>Details of Notes Payable</u>	
VCBA Educational Facilities Revenue Bonds, Series 1997A, issued \$1,515,000 to finance construction of the 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.	\$1,195,000
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.	920,000
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.	4,275,000
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.	<u>2,275,000</u>
Total notes payable	<u>\$8,665,000</u>

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

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	1,207,644	592,016	1,799,660
2010-2014	5,324,863	2,078,675	7,403,538
2015-2019	3,565,000	934,822	4,499,822
2020-2023	<u>1,755,000</u>	<u>132,282</u>	<u>1,887,282</u>
Total	<u>\$16,669,253</u>	<u>\$6,673,007</u>	<u>\$23,342,260</u>

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, 2004, \$8,148,706 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 to 4.6 percent. A summary of the remaining installment purchases payable debt as of June 30, 2004, is presented as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	<u>\$570,652</u>	<u>\$20,370</u>	<u>\$591,022</u>

8. FOUNDATION LONG-TERM DEBT

A. Mary Washington College Foundation Line of Credit

The Foundation has a revolving line of credit up to \$2.2 million bearing interest monthly at LIBOR plus .8 percent (1.91 percent at June 30, 2004). 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, 2004, \$1,770,000 was outstanding on this line of credit.

B. Mary Washington College 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 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 College 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 to a bond sinking fund semiannually. Interest only was payable on the outstanding bonds for the first 12 months from the date of issuance and is payable semiannually thereafter along with the principal to the bond sinking fund. For the term bonds due April 1, 2024, and April 1, 2029, interest is payable at a rate of 5.20 and 5.35 percent, respectively. For the \$5,555,000 serial bond issue, interest is payable at the rates ranging from 2.1 to 5.25 percent depending on maturity dates.

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

<u>June 30.</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 230,000	\$ 528,615	\$ 758,615
2006	260,000	523,785	783,785
2007	275,000	517,415	792,415
2008	285,000	509,578	794,578
2009	295,000	500,478	795,478
2010-2014	1,660,000	2,324,108	3,984,108
2015-2019	2,075,000	1,915,744	3,990,744
2020-2024	2,645,000	1,340,078	3,985,078
2025-2029	<u>3,301,703</u>	<u>567,102</u>	<u>3,868,805</u>
Total	<u>\$11,026,703</u>	<u>\$8,726,903</u>	<u>\$19,753,606</u>

Beginning with the fiscal year 2005, the bond agreement requires the Foundation to meet a long-term debt coverage ratio of not less than 1.20.

The bond issue also requires the Foundation to establish a repair and replacement reserve fund. The Foundation is to deposit into this fund each fiscal year an amount equal to the product of \$200 times the number of beds in the project, which is currently estimated to be \$70,000. The Foundation may request withdrawals from this fund at any time and there is no minimum balance requirement.

C. Mary Washington College Real Estate Foundation Lease Agreement

Prior to the issuance of the Industrial Revenue Bonds and the execution of the associated management agreement, the Foundation had a lease agreement with the College for the related student housing facility. The initial term of the lease was three years ending in February 2005. Total rent to be received was \$2,100,000, payable in arrears at \$700,000 per year in two separate payments due May 1 and November 1 of each year. Rents were to be paid only if deemed necessary by the Real Estate Foundation. Rent charged to the University was \$650,000 for the year ended June 30, 2002 and a final payment of \$488,278 was received for the year ended June 30, 2004. This agreement was terminated upon execution of the new management agreement.

D. Mary Washington College Real Estate Foundation Mortgage Payable

At June 30, 2003, the Foundation had a mortgage payable of \$10,000,000 that was refinanced during 2004 with the issuance of the Industrial Revenue Bonds. The mortgage note accrued interest at the London Interbank Offered Rate (LIBOR) plus 135 points (2.47 percent for June 30, 2003), payable semiannually, with a balloon principal payment due at maturity in November 2004. The mortgage was collateralized by the assignment of leases, rents, and profits.

9. EXPENSES BY NATURAL CLASSIFICATIONS

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

	<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	\$14,421,241	\$3,449,472	\$ 1,151,489	\$ 1,331	\$ 366,875	\$ -	\$19,390,408
Research	49,304	3,772	125,485	-	1,361	-	179,922
Public service	205,114	50,559	(41,340)	-	2,042	-	216,375
Academic support	2,245,643	581,874	620,408	-	135,529	-	3,583,454
Student services	1,811,571	459,294	1,278,905	-	46,075	-	3,595,845
Institutional support	2,457,357	874,502	1,871,079	72,376	286,113	-	5,561,427
Operation and maintenance of plant	894,204	703,348	1,585,842	1,394,855	82,864	-	4,661,113
Depreciation	-	-	-	-	-	2,732,395	2,732,395
Student aid	226,057	40,339	140,058	-	4,237	-	410,691
Auxiliary activities	5,564,186	1,331,566	12,992,633	143,185	321,741	-	20,353,311
Independent operations	<u>405,726</u>	<u>102,219</u>	<u>188,720</u>	<u>21,874</u>	<u>(144)</u>	<u>-</u>	<u>718,395</u>
Total	<u>\$28,280,403</u>	<u>\$7,596,945</u>	<u>\$19,913,279</u>	<u>\$1,633,621</u>	<u>\$1,246,693</u>	<u>\$2,732,395</u>	<u>\$61,403,336</u>

10. 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 943:	
Educational and general programs	\$13,669,491
Student financial assistance	913,578
Independent operations	410,925
Supplemental adjustments	<u>86,516</u>
State appropriation revenue, adjusted	<u>\$15,080,510</u>

11. AFFILIATED FOUNDATIONS

The financial statements do not include the assets, liabilities, and net assets of the Mary Washington College Alumni Association. The purpose of this organization is to promote the welfare and support the mission of the College and to encourage an enduring relationship with the College 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, 2004.

Assets:	
Cash and investments	\$109,476
Other assets	<u>18,759</u>
Total assets	<u>\$128,235</u>
Liabilities and net assets:	
Liabilities	\$ -
Net assets	<u>128,235</u>
Total liabilities and net assets	<u>\$128,235</u>

The revenues and expenditures of the Alumni Association, determined as if in consolidation with the College were \$181,744 and \$228,979, respectively, for the year ended June 30, 2004.

12. RELATED PARTY TRANSACTIONS

A. Mary Washington College and Mary Washington College Real Estate Foundation

Pursuant to the Industrial Revenue Bond issue, the Real Estate Foundation has entered into a support and management agreement with the College. The support agreement requires preferential treatment in that the College 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 College 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 College to collect revenues and pay expenses of operating, maintaining, and insuring the facility. These net project revenues are held by the College on the Real Estate Foundation's behalf and are to be used for debt service payments and required reserve funding. The balance of the Project Revenue Fund held by the College at June 30, 2004 was \$157,728.

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 College's obligations under the support agreement.

The College accounts for 100 percent of the Real Estate Foundation's rental revenue by operating the facility under this management agreement.

B. Mary Washington College and Mary Washington College Foundation

The Foundation occupies facilities located on the College 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. In addition, College employees perform work for the Foundation free of charge. The estimated value of their time is included as contributed services and salaries expense.

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

C. Mary Washington College Foundation and Mary Washington College Alumni Association

The Foundation has an agreement to give the Alumni Association annually \$15,500 and 20 percent of unrestricted alumni gifts of \$1,000 or less with a total floor of \$65,500 each year. For the year ended 2004, the Foundation gave the Alumni Association \$135,670. The amount payable under this agreement at June 30, 2004 was \$18,760.

13. COMMITMENTS

At June 30, 2004, the College was a party to construction and other contracts with outstanding commitments of \$1,906,878. In addition, \$494,090 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.

14. 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 unfunded pension benefit obligation at June 30, 2004. The same report contains historical trend information showing VRS's progress in accumulating sufficient assets to pay benefits when due.

The College's expenses include the amount assessed by the Commonwealth for contributions to VRS, which totaled \$1,401,750 for the year ended June 30, 2004. 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 \$994,212 for the year ended June 30, 2004.

15. POST-EMPLOYMENT BENEFITS

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

16. 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, 2004, 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. While the final outcome of these lawsuits cannot be determined at this time, none of the pending lawsuits seeks a settlement that would be material to the College's financial position.

17. 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.

18. SUBSEQUENT EVENTS

A. Name Change

On July 1, 2004, Mary Washington College was officially granted university status and thus changed its name to the University of Mary Washington. All related foundations changed their name to reflect this change as well. The Mary Washington College Foundation became the University of Mary Washington Foundation. The Mary Washington College Real Estate Foundation became the University of Mary Washington Real Estate Foundation. The Mary Washington College Alumni Association became the University of Mary Washington Alumni Association.

B. Bond Issuance

On October 7, 2004, the College issued 2004A, 9(d) revenue bonds through the Virginia College Building Authority's Public Higher Education Financing Pooled Bond Program in the amount of \$5,665,000. The proceeds from the bonds will be used to construct a parking deck. The bonds were issued with interest rates varying from three to five percent and mature in 2026.

MARY WASHINGTON COLLEGE
SCHEDULE OF AUXILIARY ENTERPRISES REVENUES AND EXPENDITURES
For the Year Ended June 30, 2004

	Intercollegiate			Dining	Residence
	Athletics	Bookstore	Brompton	Services	Halls
Revenues:					
Sales and services	\$ -	\$ 3,198,668	\$ -	\$ 6,011,007	\$ 7,303,565
Student fees	996,595	-	44,300	-	-
Interest income	-	-	-	-	-
Miscellaneous	43,926	413	-	-	-
Total revenues	1,040,521	3,199,081	44,300	6,011,007	7,303,565
Expenditures and other deductions:					
Expense of operation:					
Personal services	818,585	262,467	-	-	1,248,487
Fringe benefits	195,181	51,389	-	-	266,732
Contractual services	368,222	87,615	14,816	3,515,616	361,526
Supplies and materials	147,491	2,145,876	12,962	15,586	213,888
Equipment	119,035	-	-	19,111	29,804
Depreciation	-	-	-	-	-
Other	5,320	178,315	16,522	183,959	4,678,538
Total operating expenditures	1,653,835	2,725,662	44,300	3,734,272	6,798,976
Payments for securities lending	-	-	-	-	-
Mandatory transfers	(458,867)	-	-	-	-
Total expenditures and other deductions	1,194,968	2,725,662	44,300	3,734,272	6,798,976
Excess (Deficiency) of revenues over expenditures and other deductions	\$ (154,447)	\$ 473,419	\$ -	\$ 2,276,736	\$ 504,590

Beginning fund balance

Ending fund balance

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

Health Center	Student Activities	Telecommunications	Other	Total
\$ 87,665	\$ (551,005)	\$ 50,023	\$ 433,785	\$ 16,533,709
-	329,359	1,215,252	3,126,761	5,712,266
-	-	-	150,350	150,350
-	2,010	-	53,810	100,160
87,665	(219,635)	1,265,275	3,764,705	22,496,484

293,397	512,748	491,845	1,936,657	5,564,186
70,788	109,259	141,299	496,918	1,331,566
17,418	168,295	475,585	647,819	5,656,911
97,857	92,633	35,374	105,350	2,867,018
-	64,468	45,309	44,013	321,741
-	-	-	448,806	448,806
33,602	26,510	28,201	178,556	5,329,523
513,063	973,912	1,217,613	3,858,120	21,519,752
-	-	-	3,814	3,814
-	23,600	698,481	582,329	845,543
513,063	997,512	1,916,094	4,444,262	22,369,109

<u>\$ (425,398)</u>	<u>\$ (1,217,148)</u>	<u>\$ (650,820)</u>	<u>\$ (679,557)</u>	127,375
				<u>5,966,048</u>
				<u>\$ 6,093,423</u>



Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

March 15, 2005

The Honorable Mark R. Warner
Governor of Virginia

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

Board of Visitors
Mary Washington College

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, and its aggregate discretely presented component units as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the component units of the College, which are discussed in Note 1A. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as it relates the amounts included for the component units of the College, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the component units of the College that were audited by other auditors and upon whose reports we are relying were audited in accordance with auditing standards generally accepted in the United States of America, but not in accordance with Government Auditing Standards. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of College and of its aggregate discretely

presented component units as of June 30, 2004, and the respective changes in financial position and cash flows thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in the Notes to Financial Statements, the University has implemented the provisions of Governmental Accounting Standards Board Statement 39, *Determining Whether Certain Organizations are Component Units*, which addresses the conditions under which institutions should include associated foundations as component units and how such component units should be displayed in the financial statements.

The Management's Discussion and Analysis on pages one through seven is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Mary Washington College. 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 basic financial statements. The information in that schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statement taken as a whole.

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

Internal Control over Financial Reporting

In planning and performing our audit, we considered the 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 an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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 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 Findings

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

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 March 23, 2005.

AUDITOR OF PUBLIC ACCOUNTS

MSM/kva

MARY WASHINGTON COLLEGE

BOARD OF VISITORS
As of June 30, 2004

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Mona D. Albertine, Vice Rector

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Dorcas R. Hardy	J. William Poole
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Richard Hurley, Executive Vice President and Chief Financial Officer

Richard R. Pearce, Assistant Vice President for Business and Finance

Allyson P. Moerman, Controller