Financial Report

For the year ended June 30, 2014

Audited

07/17/2015

UNIVERSITY OF MARY WASHINGTON

where great minds get to work

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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

The University of Mary Washington (UMW) is a coeducational, public institution that offers graduate and undergraduate degrees. In addition to its primary location in the heart of historic Fredericksburg, VA, UMW has two other campuses – one in Stafford, which caters to working professionals, and another in Dahlgren offering graduate science and engineering programs. There are three academic colleges – arts and sciences, business, and education – all of which produce graduates who are critical thinkers prepared to succeed. The University operates a Center for Economic Development, which connects faculty and students with regional initiatives and businesses seeking their assistance. The University also oversees the James Monroe Museum and Law Library in downtown Fredericksburg and the Gari Melchers Home and Studio at Belmont in neighboring Stafford.

There are approximately 4,300 undergraduate students enrolled at the Fredericksburg campus and about 450 students enrolled in degree completion and graduate programs, primarily at the Stafford campus. The University continues to receive national recognition for its programs and value. *U.S. News and World Report* has ranked UMW fifth among public southern universities. The *Fiske Guide to Colleges 2014* designated UMW as a "Best Buy School," making it the only college in Virginia, Maryland and the District of Columbia reaching this distinction. Students at UMW learn from master teachers, more than 90 percent of whom have earned a doctorate or other terminal degree in their field. The University has no graduate teaching assistants. Since 2006, UMW has had one faculty member win a Pulitzer Prize in poetry and three other faculty members have received Fulbright Awards to teach abroad.

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

Overview

This unaudited Management's Discussion and Analysis (MD&A) is required supplemental information under the Governmental Accounting Standards Board's (GASB) reporting model. It is designed to assist readers in understanding the accompanying financial statements and provides an overall view of the University's financial activities based on currently known facts, decisions, and conditions. This discussion includes an analysis of the University's financial condition and results of operations for the fiscal year ended June 30, 2014. Comparative numbers are included for the fiscal year ended June 30, 2013. Since this presentation includes highly summarized data, it should be read in conjunction with the accompanying basic financial statements, including notes, and other supplementary information. The University's management is responsible for all of the financial information presented, including this discussion and analysis.

The University's financial statements have been prepared in accordance with GASB Statement 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities,* GASB Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* and GASB Statement 65, Items *Previously Reported as Assets and Liabilities.* The three required financial statements are the *Statement of Net Position* (balance sheet), the *Statement of Revenues, Expenses, and Changes in Net Position* (operating statement), and the *Statement of Cash Flows*. These statements are summarized and analyzed in the following sections.

Using criteria provided in GASB Statement 39, *Determining Whether Certain Organizations are Component Units* and GASB Statement 61, *The Financial Reporting Entity Omnibus, amendments to GASB Statement 14*, the University's two affiliated organizations were evaluated on the nature and significance of their relationship to the University. The University of Mary Washington Alumni Association is not considered a component unit, however information regarding its financial activity can be found in Note 18 of the *Notes to the Financial Statements*. The University of Mary Washington Foundation was determined to be a component unit and is presented in a separate column on the University's financial statements. The Foundation is not part of this MD&A, but additional detail regarding its financial activities can be found in Note 19 of the *Notes to the Financial Statements*.

Statement of Net Position

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

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

The University's net position is made up of the following.

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

Total University assets and deferred outflows increased by approximately $34.0 million, or 11.4%, during fiscal year 2014, bringing the total assets and deferred outflows to $332 million at year-end. Significant growth was seen in the areas of net capital assets ($29.9 million), and other assets ($4.3 million). The increase in net capital assets reflects the ongoing construction of the Campus Center and the Information Technology Convergence Center. The increase in other assets is largely due to an increase in restricted cash and cash equivalents ($4.0 million), primarily related to the Campus Center project.

The University's liabilities increased approximately $21.5 million, or 17.0%, during fiscal year 2014. This is due to newly issued debt for the Campus Center project and accrued payables related to construction projects.

Since total assets and deferred outflows increased more than the increase in total liabilities, the University saw an increase in total net position of $12.4 million (7.2%). *Net Investment in Capital Assets* increased $17.8 million as a direct result of the increase in capital assets as offset by the amount of the existing debt already spent.

Summary of Assets, Liabilities, and Net Position
For the years ended June 30, 2014 and 2013
(All $ in millions)

	2014	2013	Change Amount	Change Percent
Assets				
Current Assets	$ 23.6	$ 23.7	$ (0.1)	(0.4)%
Net Capital Assets	268.7	238.8	29.9	12.5%
Other Assets	38.9	34.6	4.3	12.4%
Deferred Outflows	0.8	0.9	0.1	(11.1)%
Total Assets and Deferred Outflows	332.0	298.0	34.0	11.4%
Liabilities				
Current Liabilities	23.2	17.4	5.8	33.3%
Noncurrent Liabilities	124.4	108.7	15.7	14.4%
Total Liabilities	147.6	126.1	21.5	17.0%
Net Position				
Net Investment in Capital Assets	178.8	161.0	17.8	11.1%
Restricted	0.4	0.4	0.0	0.0%
Unrestricted	5.2	10.6	(5.4)	(50.9)%
Total Net Position	**$184.4**	**$ 172.0**	**$ 12.4**	**7.2%**

Capital Asset and Debt Administration

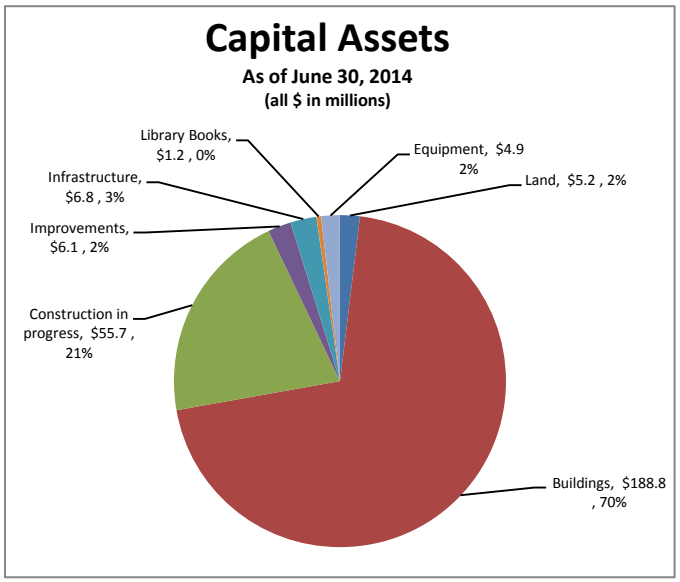
One of the critical factors in ensuring the quality of the University's academic and residential life functions is the development and renewal of its capital assets. The University continues to maintain and upgrade current structures, as well as pursue opportunities for additional facilities. Investment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

Note 6 of the *Notes to Financial Statements* describes the University's investment in depreciable capital assets with gross additions of $1.8 million. The following table indicates capital projects completed during 2014.

Capital project completions
For the year ended June 30, 2014
(All $ in millions)

	Project Amount
Parking lot paving & marking (Infrastructure)	0.2
Total capital project completions	**$0.2**

Ongoing investments in instructional, research, computer equipment, and library books totaled $1.6 million. Depreciation expense was $7.5 million with net retirements of $0.3 million. This created an overall net decrease in depreciable capital assets in 2014 of $5.8 million.



Non-depreciable capital assets increased $35.8 million during 2014. This is directly attributable to a net increase in Construction in Progress. The table below indicates those capital projects on-going at year end.

Capital projects in progress carry commitments to construction contractors, architects, and engineers totaling $12.0 million at June 30, 2014. These obligations are for future effort and as such have not been accrued as expenses or liabilities on the University's financial statements. Additional information can be obtained in Note 12 of the *Notes to Financial Statements.*

A breakdown of both depreciable and non-depreciable assets can be found in the adjacent chart. Buildings continue to account for the majority of capital assets on the University's campuses. The costs currently in Construction in Progress will eventually become part of buildings once the projects are complete.

Notes 8 and 9 of the *Notes to Financial Statements* contain information about the long-term debt of the University. A new note payable, in the amount of $18,835,000, was issued for construction of the Campus Center. In addition, the Commonwealth refinanced $0.6 million in bonds payable resulting in a premium of $0.1 million, which will be amortized over the life of the debt. All debt of the University is directly related to the acquisition of capital assets.

Construction in Progress
For the year ended June 30, 2014
(All $ in millions)

	Project Amount
Convergence Center	$ 33.2
Campus Center	20.3
Mercer Woodard	1.6
Stormwater Management	.4
Other projects	.2
Total construction in progress	**$ 55.7**

Statement of Revenues, Expenses, and Changes in Net Position

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

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

Operating Revenues

Total operating revenues decreased $0.9 million (1.3%) from the prior fiscal year. A decline in enrollment resulted in $0.4 million (1.2%) decrease in student tuition and fee revenue. The University also recognized a decrease in grant and contract revenue of $0.9 million, due to a change in the dining and food services contract and the corresponding accounting adjustment. Losses were slightly offset by an increase in facility rental at Dahlgren of $0.2 million.

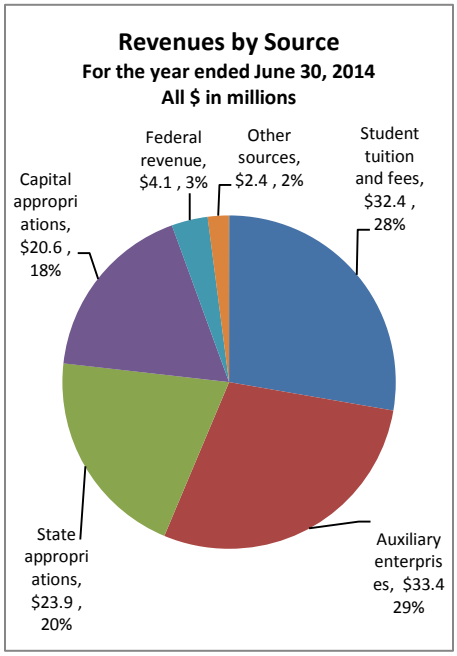
Non-operating and Other Revenues

Non-operating revenue increased $0.6 million (2.2%) from the prior fiscal year. This is largely due to an increase in state appropriations.

Other revenues of the University consist of capital appropriations and capital gifts. Capital appropriations increased $6.7 million (48.2%) during fiscal year 2014. The increase is directly attributable to ongoing construction of the Information Technology Convergence Center.

Summary of Revenues
For the years ended June 30, 2014 and 2013
(All $ in millions)

	2014	2013	Change Amount	Change Percent
Operating revenues				
Student tuition and fees, net	$ 32.4	$ 32.8	$ (0.4)	(1.2)%
Grants and contracts	1.1	2.0	(0.9)	(45.0)%
Auxiliary enterprises, net	33.4	33.4	0.0	0.0%
Other operating revenue	2.0	1.6	0.4	25.0%
Total operating revenues	68.9	69.8	(0.9)	(1.3)%
Non-operating revenues				
State appropriations	23.9	23.1	0.8	3.5%
Federal Pell grant revenue	2.7	2.8	(0.1)	(3.6)%
Other non-operating income	0.7	0.8	(0.1)	(12.5)%
Total non-operating revenues	27.3	26.7	0.6	2.2%
Other revenues				
Capital appropriations	20.6	13.9	6.7	48.2%
Capital gifts	0.0	0.0	0.0	0.0%
Total other revenues	20.6	13.9	6.7	48.2%
Total revenues	**$116.8**	**$ 110.4**	**$6.4**	**5.8%**



Total Expenses

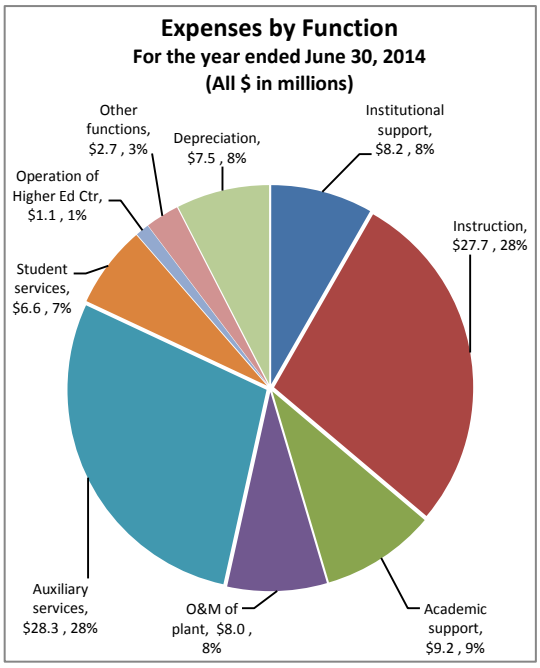
The expenses of the University can also be separated into operating and non-operating expenses. The operating expenses of the University can be divided either by natural classification or by function. Note 10 in the *Notes to Financial Statements* gives the correlation between the two different methods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

Overall, the operating expenses of the University increased $3.9 million or 4.1%. Operating expenses for instruction, academic support, institutional support, student aid, student services, operation and maintenance of plant, and depreciation increased as indicated in the table below.

When looking at the expenses of the University by function, the largest expenses are those of instruction and auxiliary services. These functions represent the core of any University – the education of students as well as their housing and dining. Expenses for instruction rose slightly during fiscal year 2014, 1.8%, while expenses in auxiliary services remained flat. Changes in expenses for all of the functional areas indicated in the chart below are primarily attributable to an increase in employer health insurance premiums, salary increases, and staffing changes. The University realized additional expenses in the operation and maintenance of plant due to increased utility expense, specifically fuel oil, during the winter months. In an effort to control 2014 capital project costs, the University opted to forgo the capital project manager salary recoveries and instead absorb this as an operating expense. This is reflected in the increase in the operation and maintenance and plant expenses.

Summary of Expenses by Function
For the years ended June 30, 2014 and 2013
(All $ in millions)

	2014	2013	Change Amount	Change Percent
Operating expenses				
Instruction	$27.7	$27.2	0.5	1.8%
Research	0.3	0.3	0.0	0.0%
Public Service	0.6	0.8	(0.2)	(25.0)%
Academic Support	9.2	8.6	0.6	7.0%
Student Services	6.6	6.1	0.5	8.2%
Institutional Support	8.2	7.7	0.5	6.5%
Operation & maintenance of plant	8.0	7.0	1.0	14.3%
Depreciation	7.5	6.7	0.8	11.9%
Student aid	0.8	0.6	0.2	33.3%
Auxiliary services	28.3	28.3	0.0	0.0%
Operation of Higher Ed. Centers	1.1	1.1	0.0	0.0%
Museum & cultural services	0.8	0.8	0.0	0.0%
Historic attraction management	0.2	0.2	0.0	0.0%
Total operating expenses	$ 99.3	$ 95.4	$3.9	4.1%

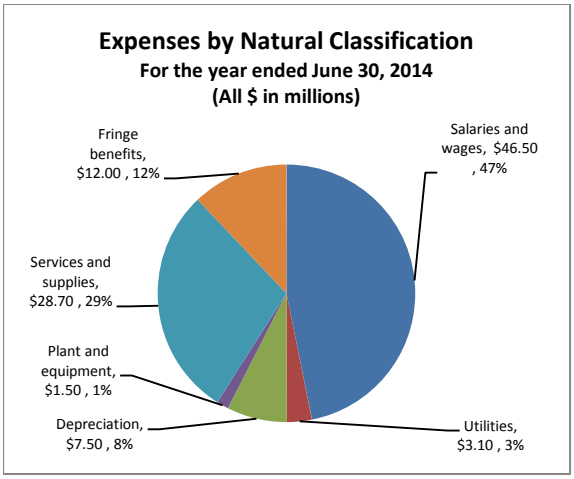


When looking at the expenses of the University by natural classification the largest expenses incurred are those for salaries and wages of employees. A summary of Expenses by Natural Classification can be found on the table on the following page. The largest increases were in salaries, fringe benefits, and plant and equipment. Salary expenses increased $1.4 million (3.1%) and fringe benefits increased $1.3 million (12.1%). As stated above, this is due to an increase in employer health insurance premiums, salary increases, and staffing changes. Expenses for plant and equipment increased $0.3 million (25.0%) due to the purchase of additional instructional and support equipment.

Non-operating expenses include the loss on disposal of capital assets and the interest paid on capital asset related debt. Interest expenses on capital asset related debt increased due to debt refinancing and accrued interest on new debt.

Summary of Expenses by Natural Classification
For the years ended June 30, 2014 and 2013
(All $ in millions)

	2014	2013	Change Amount	Change Percent
Operating expenses				
Salaries and wages	$ 46.5	$ 45.1	$ 1.4	3.1 %
Fringe benefits	12.0	10.7	1.3	12.1%
Services and supplies	28.7	28.8	(0.1)	(0.3)%
Utilities	3.1	2.9	0.2	6.9%
Plant and equipment	1.5	1.2	0.3	25.0%
Depreciation	7.5	6.7	0.2	11.9%
Total operating expenses	$ 99.3	$ 95.4	$ 3.9	4.1%



Changes in Net Position

The decrease in operating revenues coupled with the increase in operating expenses resulted in an operating loss $4.8 million (18.7%) greater in fiscal year 2014 than in the previous fiscal year. The University recognized an operating loss for fiscal year 2014 of $30.4 million. Non-operating revenue, in the form of state appropriations and capital appropriations, was used to cover the operating loss of the University. In fiscal year 2014, the University saw an increase in net position of $12.4 million.

Summary of Revenues, Expenses and Changes in Net Position
For the years ended June 30, 2014 and 2013
(All $ in millions)

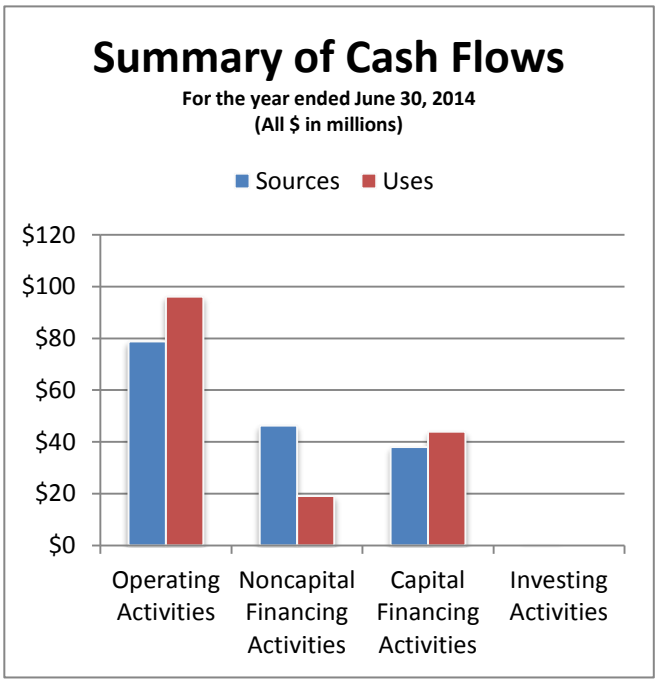
	2014	2013	Change Amount	Change Percent
Operating revenues	$ 68.9	$ 69.8	$ (0.9)	(1.3)%
Operating expenses	99.3	95.4	3.9	4.1%
Operating loss	(30.4)	(25.6)	(4.8)	18.7%
Non-operating revenues and expenses	22.2	22.3	(0.1)	(0.4)%
Loss before other revenues, expenses, gains or losses	(8.2)	(3.3)	(4.9)	148.5%
Other revenues, expenses, gains or losses	20.6	13.9	6.7	48.2%
Increase in net position	12.4	10.6	1.8	17.0%
Net position – beginning of year	172.0	161.4	10.6	6.6%
Net position – end of year	$ 184.4	$ 172.0	12.4	7.2%

Statement of Cash Flows

The *Statement of Cash Flows* presents detailed information about the cash activity of the University during the year. Cash flows from operating activities will always be different from the operating loss on the *Statement of Revenues, Expenses, and Changes in Net Position* (SRECNP). This difference occurs because the SRECNP is prepared on the accrual basis of accounting and includes

noncash items, such as depreciation expenses, whereas the *Statement of Cash Flows* presents cash inflows and outflows without regard to accrual items. The *Statement of Cash Flows* should help readers assess the ability of an institution to generate sufficient cash flows necessary to meet its obligations.

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



Cash flows used by operating activities were $6.8 million less in fiscal year 2014 than in fiscal year 2013. This is primarily due to an increase in accrued vendor payables. *Cash flows provided by non-capital financing activities* increased only $0.1 million in fiscal year 2014. *Net cash provided by capital financing activities* decreased $24.7 million. While the University saw an increase in cash flow from capital appropriations, the University also saw a greater increase in cash used for construction in progress related purchases. In addition, the University received less cash from debt proceeds in fiscal year 2014 than in 2013. Overall, cash balances at the end of fiscal year 2014 were $3.9 million higher than the previous fiscal year.

For the years ended June 30, 2014 and 2013
(All $ in millions)

	2014	2013	Change Amount	Change Percent
Net cash used by operating activities	($17.4)	($ 24.2)	$ 6.8	(28.1)%
Net cash provided by noncapital financing activities	27.2	27.1	0.1	0.4%
Net cash provided by capital financing activities	(6.0)	18.7	(24.7)	(132.1)%
Net cash provided by investing activities	0.1	0.1	0.0	0.0%
Net increase in cash	3.9	21.7	(17.8)	(82.0)%
Cash – beginning of year	46.7	25.0	21.7	86.8%
Cash – end of year	$50.6	$46.7	$ 3.9	8.4%

Economic Outlook

The University's economic outlook is closely tied to that of the Commonwealth of Virginia. As a state-supported higher education institution, the economic outlook for the University is affected by the revenue and budgetary environment of the Commonwealth.

State funding support for Educational and General (E&G) Programs increased in fiscal year 2014, and an increase in fiscal year 2015 is reflected in the appropriation act passed by the 2014 General Assembly. The fiscal year 2015 general fund increase, however, was intended entirely to offset the cost of annualizing state salary and fringe benefit increases initially funded in fiscal year 2014. No additional general fund support will be provided in fiscal year 2015 for new initiatives or operating cost increases. General fund support for need-based student aid increased in fiscal year 2014, which helped to offset the cost of attendance for Virginia students enrolled at UMW, but did not increase in fiscal year 2015.

It is anticipated that state funding reductions will be required in both fiscal years 2015 and 2016.

Even in light of potential reductions in state funding support, the University's executive management believes the University will maintain its solid financial foundation. Management's policies of cost containment, adherence to its core mission, and investment in key initiatives will ensure the University is well positioned to manage fluctuations in State support while protecting its established reputation for high quality academic programs, first-rate faculty, and excellent students.

STATEMENT OF NET POSITION

For the year ended June 30, 2014

	UMW	UMW Foundation
Assets and Deferred Outflows of Resources		
Current assets:		
Cash and cash equivalents (Notes 3, 19)	$ 16,133,451	$ 2,037,362
Securities lending cash and cash equivalents (Note 3)	93,878	-
Accounts receivable, net of allowance for doubtful accounts (Note 4)	3,815,212	698,220
Pledges receivable, current portion (Note 19)	-	779,906
Due from the Commonwealth	423,096	-
Due from the Foundation	1,715,142	-
Due from the University (Note 17)	-	2,787,416
Inventories	540,778	1,090
Prepaid items	830,775	82,337
Other current assets	-	39,480
Total current assets	23,552,332	6,425,811
Noncurrent assets:		
Restricted cash and cash equivalents (Notes 3, 19)	34,526,841	6,316,891
Restricted investments (Note 19)	-	42,303,590
Due from the Commonwealth, restricted (Note 5)	4,391,156	-
Pledges receivable, noncurrent portion (Note 19)	-	1,795,497
Securities lending investments (Note 3)	3,039	-
Other noncurrent assets (Note 19)	-	1,198,634
Nondepreciable capital assets (Notes 6, 19)	60,886,919	34,241,094
Capital assets, net of accumulated depreciation (Notes 6, 19)	207,835,862	101,923,575
Total noncurrent assets	307,643,817	187,779,281
Total Assets	**$ 331,196,149**	**$ 194,205,092**
Deferred Outflows of Resources	**813,244**	-
Total Assets and Deferred Outflows	**$ 332,009,393**	**$ 194,205,092**
Liabilities and Deferred Inflows of Resources		
Current liabilities:		
Accounts payable (Note 7, 19)	13,455,221	4,451,962
Unearned revenue	1,178,845	127,787
Deposits held in trust	1,253,260	109,835
Obligations under Securities Lending Program (Note 3)	96,917	-
Amounts due to the Commonwealth	3,265	-
Amounts due to Foundation (Note 17)	2,787,416	-
Amounts due to University	-	1,715,142
Long-term liabilities – current portion (Notes 8, 9, 17)	4,479,033	2,714,822
Total current liabilities	23,253,957	9,119,548
Noncurrent liabilities:		
Long-term liabilities – noncurrent portion (Notes 8, 9, 17)	123,840,848	148,345,044
Federal Perkins loan program contributions refundable	539,431	-
Total noncurrent liabilities	124,380,279	148,345,044
Total Liabilities	**$ 147,634,236**	**$ 157,464,592**
Deferred Inflows of Resources	**225**	**-**
Total Liabilities and Deferred Inflows	**$ 147,634,461**	**$157,464,592**

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

STATEMENT OF NET POSITION (CONTINUED)

For the year ended June 30, 2014

	UMW	UMW Foundation
Net Position		
Net investment in capital assets	$ 178,798,387	$ 9,709,495
Restricted for:		
Nonexpendable:		
Permanently restricted	-	32,989,183
Expendable:		
Capital Projects	-	-
Loans	211,819	-
Sponsored programs	94,006	-
Research	53,674	-
Temporarily restricted	-	17,395,025
Unrestricted	5,217,046	(23,353,203)
Total Net Position	**$ 184,374,932**	**$ 36,740,500**

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

For the year ended June 30, 2014

	UMW	UMW Foundation
Operating revenues:		
Student tuition and fees, net of scholarship allowances of $6,830,494	$ 32,346,524	$ -
Federal grants and contracts	811,129	-
State grants and contracts	29,059	-
Nongovernmental grants and contracts	293,354	-
Auxiliary enterprises, net of scholarship allowances of $2,254,088	33,436,820	-
Foundation operations	-	12,773,835
Other operating revenues	2,017,599	-
Total operating revenues	**68,934,485**	**12,773,835**
Operating expenses:		
Instruction	27,655,789	-
Research	338,830	-
Public service	644,076	-
Academic support	9,169,728	-
Student services	6,603,911	-
Institutional support	8,225,425	-
Operation and maintenance of plant	7,958,876	-
Depreciation	7,491,324	-
Student aid	791,909	-
Auxiliary activities	28,271,645	-
Operation of Higher Education Centers	1,128,916	-
Museum and cultural services	755,153	-
Historic attraction management	275,198	-
Foundation operations	-	16,167,463
Total operating expenses	**99,310,780**	**16,167,463**
Operating Gain/(Loss)	**(30,376,295)**	**(3,393,628)**
Non-operating revenues/(expenses):		
State appropriations (Note 11)	23,915,783	-
Federal student financial aid – Pell grant revenue	2,743,891	-
Federal Build America Bond interest subsidy revenue	559,787	-
Investment income/(loss)	111,667	5,597,275
Unrealized gain/(loss) on interest rate swap contracts	-	134
Gain/(Loss) on disposal of capital assets	(11,809)	(12,117)
Interest on capital asset related debt	(5,101,308)	(5,577,579)
Net non-operating revenues/(expenses)	**22,218,011**	**7,713**
Income/(Loss) before other revenues, expenses, gains, or losses	**(8,158,284)**	**(3,385,915)**
Capital appropriations (Note 5)	20,568,764	-
Capital gifts	19,548	-
Non-controlling interest in division loss	-	(48,899)
Non-controlling interest contributed capital		(80,000)
Additions to term endowments	-	2,568,311
Additions to permanent endowments	-	2,314,956
Net other revenues, expenses, gains, or losses	**20,588,312**	**4,754,368**
Increase in net position	**12,430,028**	**1,368,453**
Net Position – Beginning of year	**171,944,904**	**35,372,047**
Net Position – End of year	**$ 184,374,932**	**$ 36,740,500**

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

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2014

	UMW
Cash flows from operating activities:	
Student tuition and fees	$ 38,413,477
Grants and contracts	1,345,651
Auxiliary enterprises	35,634,666
Other receipts	3,301,525
Payments to employees	(46,272,196)
Payments for fringe benefits	(11,824,319)
Payments for services and supplies	(24,413,130)
Payments for utilities	(3,149,535)
Payments for scholarships and fellowships	(9,035,190)
Payments for noncapitalized plant and equipment	(1,464,849)
Perkins and other loans issued to students	(58,200)
Collection of Perkins and other loans from students	118,589
Net cash used by operating activities	**(17,403,511)**
Cash flows from noncapital financing activities:	
State appropriations	24,346,691
Federal Pell Grant revenue	2,743,891
Federal Family Education Loan Program receipts	19,241,117
Federal Family Education Loan Program payments	(19,241,117)
Agency receipts and payments (net)	64,580
Net cash provided by noncapital financing activities	**27,155,162**
Cash flows from capital financing activities:	
Capital appropriations	19,156,294
Purchase of capital assets	(37,424,721)
Proceeds received from capital debt, leases, and installments	18,835,000
Principle paid on capital debt, leases, and installments	(2,625,820)
Interest paid on capital debt, leases, and installments	(3,978,347)
Net cash provided by capital financing activities	**(6,037,594)**
Cash flows from investing activities:	
Interest on investments	183,751
Net cash provided by investing activities	**183,751**
Net increase in cash	**3,897,808**
Cash – Beginning of the year	**46,762,483**
Cash – End of the year	**$ 50,660,291**

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

STATEMENT OF CASH FLOWS (CONTINUED)

For the Year Ended June 30, 2014

	UMW
Reconciliation of net operating loss to net cash used by operating activities:	
Operating loss	**$ (30,376,295)**
Adjustments to reconcile net loss to net cash used by operating activities:	
Depreciation expense	7,491,324
Changes in assets and liabilities:	
Accounts receivable (operating portion)	(192,512)
Inventories	(49,502)
Prepaid expenses	(137,197)
Accounts payable	3,237,161
Unearned revenue	(321,147)
Deposits held in trust, excluding Agency funds	(44,548)
Due to Foundation	2,898,884
Due to Commonwealth (operating portion)	3,150
Accrued leave liability	87,171
Total adjustments	**5,481,460**
Net cash used by operating activities	**$ (17,403,511)**
Noncash investing, capital, and financing activities	
Bond premium, discount, gain, loss amortization	1,122,961
Loss on disposal of fixed assets	12,072
Gift of capital assets	19,548

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

NOTES TO THE FINANCIAL STATEMENTS

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1. REPORTING ENTITY

The University of Mary Washington is a comprehensive University that is part of the Commonwealth of Virginia's statewide system of public higher education. The University's Board of Visitors, appointed by the Governor, is responsible for overseeing governance of the University. A separate report is prepared for the Commonwealth of Virginia, which includes all agencies, higher education institutions, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority. As such, the University is a component unit of the Commonwealth of Virginia and is included in the Comprehensive Annual Financial Report of the Commonwealth.

The University also benefits from a number of organizations that exist mainly to support the various purposes and activities of the University. In accordance with Governmental Accounting Standards Board (GASB) Statement 39, *Determining Whether Certain Organizations Are Component Units* and Statement 61*, The Financial Reporting Omnibus,* amendments of GASB Statement 14*,* the University is discretely presenting the financial position of the University of Mary Washington Foundation (UMW Foundation). The UMW Foundation is a non-profit organization incorporated under the laws of the Commonwealth of Virginia. It was formed to seek, receive, hold, invest, administer, and distribute funds and property of all kinds, exclusively in furtherance of the educational activities and objectives of the University. The financial reports of the UMW Foundation include the net position and results of operations of several wholly owned subsidiaries. The UMW Foundation issues its own audited financial statements in addition to being included in the statements of the University.

The University benefits from the University of Mary Washington Alumni Association. In accordance with GASB Statements 39 and 61 addressed above, the financial position and results of its operations are not discretely presented in conjunction with the University's financial statements. Summary information related to the University of Mary Washington Alumni Association is presented in Note 18. Financial statements are also issued by the Alumni Association.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

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

GASB Statement 65, *Items Previously Reported as Assets and Liabilities,* issued March 2012 and effective for financial statements for periods beginning after December 15, 2012 was effective for fiscal year 2014. GASB 65 required deferred debt refunding losses and deferred debt refunding gains, which were previously reported as a component of long term debt, to be reclassified to deferred outflows of resources and deferred inflows of resources on the Statement of Net Position. Deferred gains of $225 were reclassified to deferred inflows of resources, and deferred losses of $813,244 were reclassified to deferred outflows of resources.

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

Basis of Accounting

For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the University's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred, regardless of the timing of related cash flows. All significant intra-agency transactions have been eliminated.

Cash Equivalents

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

Investments

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

Prepaid Expenses

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

Inventories

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

Noncurrent Cash and Investments

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

Capital Assets

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

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

Equipment is capitalized when the unit acquisition cost is $5,000 or greater and the estimated useful life is two years or more. Renovation costs are capitalized when expenses total more than $5,000, the asset value significantly increases, or the useful life is significantly extended. Routine repairs and maintenance are charged to operating expenses in the year the expense is incurred. Certain maintenance and replacement reserves have been established to fund costs relating to residences and other auxiliary activities.

Depreciation is computed using the straight-line method over the useful life of the asset. The useful life is 50 years for buildings, 5-30 years for improvements other than buildings, 5-50 years for infrastructure, 5-15 years for equipment, and 10 years for library materials.

Collections

The Gari Melchers Memorial maintains a collection of paintings, drawings, and etchings by Gari Melchers. A smaller collection of art works by other artists is also maintained. The James Monroe Law Office Museum and Memorial Library also maintains a collection of jewelry, furniture, documents, books, antiques, and portraits. These collections were appraised in 1982 and 2001 for approximately $2,300,000 and $2,842,000 respectively.

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

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

Unearned Revenues

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

Noncurrent Liabilities

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

Debt payable is reported net of related discounts and premiums, which are expensed over the life of the debt. Debt issuance costs are recognized as an expense in the period incurred.

Accrued Compensated Absences

Certain salaried employees' attendance and leave regulations make provisions for granting a specified number of days of leave with pay each year. The amount reflects, as of June 30, all unused vacation leave, sabbatical leave, and the amount payable upon termination under the Commonwealth of Virginia's sick leave pay out policy. The applicable share of employer related taxes payable on the eventual termination payments is also included. The University's liability and expense for the amount of leave earned by employees but not taken, as of June 30, 2014, is recorded in the *Statement of Net Position*, and is included in the various functional categories of operating expenses in the *Statement of Revenues, Expenses, and Changes in Net Position*.

Federal Financial Assistance Programs

The University participates in federally-funded Pell Grants, Supplemental Educational Opportunity Grants, Federal Work-Study, and Perkins Loans programs. Federal programs are audited in accordance with the Single Audit Act Amendments of 1995, the Office of Management and Budget Revised Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and the compliance supplement.

Net Position

The University's net position is made up of the following:

- **Net Investment in Capital Assets** – Net Investment in Capital Assets represents the University's total investment in capital assets, net of accumulated depreciation and outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of Net Investment in Capital Assets.
- **Restricted Expendable Net Position** – Restricted Expendable Net Position includes resources for which the University is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.
- **Restricted Nonexpendable Net Position** – Restricted Nonexpendable Net Position consists of endowment and similar type funds where donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, to be expended or added to the principal.
- **Unrestricted Net Position** – Unrestricted Net Position represents resources derived from student tuition and fees, state appropriations, recoveries of facilities and administrative (indirect) costs, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational departments and the general operations of the University, and may be used at the discretion of the University's Board of Visitors to meet current expenses for any lawful purpose.

Income Taxes

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

Classifications of Revenues and Expenses

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

- **Operating revenues** – Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship allowance; (2) sales and services of auxiliary enterprises, net of scholarship allowances; and (3) most federal, state, local, and nongovernmental grants and contracts and federal appropriations.
- **Non-operating revenues** – Non-operating revenues are revenues received for which goods and services are not provided. State appropriations, gifts, and other revenue sources defined as non-operating revenues by GASB Statement 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* are included in this category.
- **Operating expenses** – Operating expenses include those expenses necessary for the operation of the University including those for wages and fringes, services and supplies, and operation of plant including utilities as well as any expense not classified as non-operating.
- **Non-operating expenses** – Non-operating expenses are those expenses incurred for interest on debt related to the purchase of capital assets and the losses on the disposal of capital assets.

Scholarship Discounts and Allowances

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

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

3. CASH, CASH EQUIVALENTS, AND INVESTMENTS

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

- **Credit risk** – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. GASB Statement 40 requires the disclosure of the credit quality rating on any investments subject to credit risk.
- **Custodial credit risk** – The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of the institution. The custodial risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in possession of an outside party. The University does not have a policy limiting the ratings type of investment choices. The University does not have any funds subject to custodial credit risk.
- **Concentration of credit risk** – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. GASB Statement 40 requires disclosure of any issuer with more than five percent of total investments. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from disclosure. The University does not have a policy limiting the amount that can be invested in any one issuer.
- **Interest rate risk** – Interest rate risk is the risk that interest rate changes will adversely affect the fair value of an investment. GASB Statement 40 requires disclosure of maturities for investments subject to interest rate risk. The University does not have a policy limiting investment maturities as a means of managing interest rate risk.
- **Foreign currency risk** – Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The University does not have a policy limiting foreign investments. The University does not have any investments subject to foreign currency risk.

Cash and Cash Equivalents

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

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

Investments

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

Investments fall into two groups: short-term and long-term. Short-term investments have an original maturity of over 90 days but less than or equal to one year. Long-term investments have an original maturity greater than one year. A categorization of the University's cash, cash equivalents, and investments are presented below. Collateral held for securities lending is not included in the Statement of Cash Flows.

	Market Value As of June 30, 2014	Credit Rating	Investment Maturity
Cash and cash equivalents:			
Cash with the Treasurer	$(2,575,314)		
Deposits with financial institutions	5,397,748		
Collateral held for securities lending	93,878		<3 months

Money market deposits with brokers/dealers	9,020,725	Moody's AAA	<3 months
State non-arbitrage program (SNAP)	38,817,133	S&P AAAm	<3 months
Total cash and cash equivalents	$ 50,754,170		
Short-term Investments			
Collateral held for securities lending	$3,039		<1 year

Securities Lending Transactions

Collateral held for securities lending and the securities lending transactions reported on the financial statements represent the University's allocated share of cash received for securities lending transactions held in the General Account of the Commonwealth. The Commonwealth's policy is to record unrealized gains and losses in the General Fund in the Commonwealth's basic financial statements. When gains or losses are realized, the actual gains and losses are recorded by the affected agencies. Information related to the credit risk of these investments is available on a statewide level in the Commonwealth of Virginia's *Comprehensive Annual Financial Report*.

4. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30, 2014:

Accounts Receivable	
Student tuition and fees	$2,568,473
Auxiliary enterprises	687,987
Perkins loan	807,668
VCBA Series 2010A/B Interest Subsidy	466,473
Other activities	87,347
Total receivables before allowance	4,617,948
Less: allowance for doubtful accounts	(802,736)
Total receivables	$3,815,212

5. COMMONWEALTH EQUIPMENT AND CAPITAL PROJECT REIMBURSEMENT PROGRAMS

The Commonwealth has established several programs to provide state-supported institutions of higher education with bond proceeds for financing the acquisition and replacement of instructional and research equipment and facilities. During fiscal year 2013, funding has been provided to the University from three programs: general obligation bonds [code section 9(c)], and two programs (21st Century program and the Equipment Trust Fund) managed by the Virginia College Building Authority (VCBA). The VCBA issues bonds and uses the proceeds to reimburse the University for expenses incurred in the acquisition of equipment and facilities.

The *Statement of Revenues, Expenses, and Changes in Net Position* includes amounts listed below for the year ended June 30, 2014, in "Capital appropriations" line item for equipment and facilities obtained with funding under these three programs.

Capital Appropriations	
VCBA Equipment Trust Fund program	$ 528,581
General obligation bonds 9(C)	0
VCBA 21st Century program	20,040,183

Total capital appropriations	$ 20,568,764

The line item, "Due from the Commonwealth, restricted," on the *Statement of Net Position* for the year ended June 30, 2014, represents pending reimbursements from the following programs:

Due from the Commonwealth, restricted	
VCBA Equipment Trust Fund Program	$7,231
VCBA 21st Century program	4,383,925
Total Due from the Commonwealth, restricted	$ 4,391,156

6. CAPITAL ASSETS

A summary of changes in capital asset categories for the year ended June 30, 2014, is presented as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Non-depreciable capital assets:				
Land	$ 5,176,399	$ -	$ -	$ 5,176,399
Construction in progress	19,953,517	36,480,221	(723,218)	55,710,520
Total non-depreciable capital assets	25,129,916	36,480,221	(723,218)	60,886,919
Depreciable capital assets:				
Buildings	248,347,808	74,698	(165,125)	248,257,381
Equipment	17,784,206	1,443,658	(174,537)	19,053,327
Infrastructure	32,466,897	141,029	-	32,607,926
Improvements other than buildings	9,497,104	-	-	9,497,104
Library books	11,664,389	193,269	(130,791)	11,726,867
Total depreciable capital assets at historical cost	319,760,404	1,852,654	(470,453)	321,142,605
Less accumulated depreciation for:				
Buildings	54,909,241	4,517,196		59,426,437
Equipment	12,905,170	1,415,635	(162,465)	14,158,340
Infrastructure	24,865,238	951,543	-	25,816,781
Improvements other than buildings	3,082,143	340,270	-	3,422,413
Library books	10,346,882	266,681	(130,791)	10,482,772
Total accumulated depreciation	106,108,674	7,491,325	(293,256)	113,306,743
Depreciable capital assets, net of depreciation	213,651,730	(5,638,671)	(177,197)	207,835,862
Total capital assets, net of depreciation	$ 238,781,646	$ 30,841,550	$ (900,415)	$ 268,722,781

7. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at June 30, 2014:

Accounts payable and accrued expenses	
Accounts payable	$ 6,831,845
Accrued salaries and wages payable	3,698,216
Accrued interest on capital debt	1,798,728
Retainage payable	1,126,432
Total accounts payable and accrued expenses	$ 13,455,221

8. NON-CURRENT LIABILITIES

The University's non-current liabilities consist of long-term debt (further described in Note 9), accrued compensated absences, and the federal Perkins Loan program contribution refundable. A summary of changes in the long-term liabilities for the year ending June 30, 2014 is presented below:

	Beginning Balance*	Additions	Reductions	Ending Balance	Current Portion
Long-term debt:					
Bonds payable	$ 4,725,250	$ 747,565	(1,065,960)	$ 4,406,855	$ 276,516
Notes payable	103,778,676	19,213,527	(2,222,711)	120,769,492	2,645,000
Installment purchases	1,712,443	-	(233,571)	1,478,872	243,746
Total long-term debt	110,216,369	19,961,092	(3,522,242)	126,655,219	3,165,262
Other non-current liabilities:					
Accrued compensated absences	1,577,491	1,089,856	(1,002,685)	1,664,662	1,313,771
Total long-term liabilities	$ 111,793,860	$ 21,050,948	$(4,524,927)	$ 128,319,881	$ 4,479,033

With the adoption of GASB Statement 65, the remaining difference between the acquisition price and the carrying amount of the debt at July 1, 2013 was reclassified as a loss on refunding within deferred outflows of resources on the Statement of Net Position. The beginning balance amount reclassified for bonds payable and notes payable was $399,201 and 498,830 respectively.

9. LONG-TERM INDEBTEDNESS

Bonds Payable

The University has issued bonds pursuant to section 9(c) of Article X of the *Constitution of Virginia*. Section 9(c) bonds are general obligation bonds issued by the Commonwealth of Virginia on behalf of the University. They are secured by the net revenues of the completed project and the full faith, credit, and taxing power of the Commonwealth of Virginia. A summary of all bonds payable as of June 30, 2014 is presented as follows:

	Interest Rates	Maturity	Outstanding Balance
Residence Halls			
Series 2009C, issued $152,541- partial refunding series 2001A	3.0% - 4.0%	2021	152,542

	Interest Rates	Maturity	Outstanding Balance
Series 2014B, issued $656,449 – partial refunding series 2004A	2.0% - 5.0%	2020	656,448
Dining Halls			
Series 2005A, issued $4,730,000 – partial refunding	5.0%	2015	215,000
Series 2009D, issued $1,625,000 – partial refunding series 2005A	5.0%	2022	1,625,000
Series 2012A, issued $ 654,765 – partial refunding series 2005A	2.0% - 5.0%	2024	654,765
Series 2013B, issued $ 565,091 – partial refunding series 2005A	3.0% - 5.0%	2025	565,091
Unamortized premium/(discount)			538,009
Total Bonds Payable			$ 4,406,855

Notes Payable

The University participates in the Public Higher Education Financing Program (Pooled Bond Program) created by the Virginia General Assembly in 1996. Through the Pooled Bond Program, the Virginia College Building Authority (VCBA) issues 9(d) bonds and uses the proceeds to purchase debt obligations (notes) of the University. The notes are secured by the pledged general revenues of the University. A summary of all notes payable as of June 30, 2014 is presented below:

	Interest Rates	Maturity	Outstanding Balance
Tennis Court Replacement			
Series 2004R, issued $695,000 – partial refunding series 1999A	3.00% - 5.00%	2019	$ 435,000
Fitness Center			
Series 2004R, issued $1,385,000 – partial refunding series 2000A	3.00% - 5.00%	2016	850,000
Series 2007B, issued $1,030,000 – partial refunding series 2000A	4.00% - 4.50%	2019	1,015,000
Series 2010B, issued $545,000 – partial refunding series 2000A	2.00% - 5.00%	2021	340,000
Indoor Tennis Facility			
Series 2007B, issued $860,000 – partial refunding series 2002A	4.00% - 4.50%	2019	830,000
Series 2010B, issued $630,000 – partial refunding series 2002A	2.00% - 5.00%	2023	515,000
Jepson Science Center			
Series 2004R, issued $725,000 – partial refunding series 1997	3.00% - 5.00%	2016	300,000
Series 2007B, issued $190,000 – partial refunding series 1997	4.00% - 4.25%	2018	115,000
Parking Deck			
Series 2004A, issued $5,665,000	3.00% - 5.00%	2015	255,000
Series 2012A, issued $3,575,000 – partial refunding series 2004	2.75% - 5.00%	2026	3,575,000
Athletic Field Replacement			
Series 2007A, issued $1,935,000	4.50% - 5.00%	2037	1,735,000
Residence Halls			
Series 2007A, issued $4,895,000	4.50% - 5.00%	2037	4,390,000
Series 2010A/B, issued $36,765,000	3.75% - 5.60%	2040	35,325,000
Convocation Center			
Series 2009B, issued $18,795,000	3.00% - 5.00%	2039	17,840,000
Athletic Complex Renovations			
Series 2010A/B, issued $2,530,000	2.00% - 5.60%	2041	2,385,000
Campus Center			
Series 2012B, issued $27,955,000	3.00% - 5.00%	2043	27,955,000
Series 2013B, issued $18,835,000	2.00% - 5.00%	2043	18,835,000
Unamortized premium/(discount)			4,074,492
Total Notes Payable			$ 120,769,492

Installment Purchases

The University has entered into an installment purchase contract to finance the acquisition of energy savings infrastructure and equipment. The purchase agreement continues until 2019 with interest rates from 2.99% to 4.31%. Principal balance as of June 30, 2014 is $1,478,872.

Prior Year Defeasance of Debt

In prior years, the University and the Commonwealth of Virginia, on behalf of the University, issued bonds and the proceeds were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on other debt. The bonds representing that debt are, therefore, considered defeased. Accordingly, the trust account's assets and the liabilities for the defeased bonds are not included in the University's financial statements. On June 30, 2014, $2,855,000 of the bonds considered defeased remain outstanding.

Annual Debt Service Requirements

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

	Section 9(c) Bonds	Notes Payable	Installment Purchases	Total Long-Term Debt
Future principal commitments:				
2015	$276,516	$2,645,000	$ 243,746	$3,165,262
2016	334,920	3,110,000	254,365	3,699,285
2017	357,941	3,270,000	265,446	3,893,387
2018	370,181	3,440,000	277,010	4,087,191
2019	388,961	3,500,000	289,078	4,178,039
2020 – 2024	1,796,000	18,020,000	149,227	19,965,227
2025 – 2029	344,327	18,905,000	-	19,249,327
2030 – 2034	-	21,855,000	-	21,855,000
2035 – 2039	-	25,960,000	-	25,960,000
2040 – 2044	-	15,990,000	-	15,990,000
Unamortized premium/(discount)	538,009	4,074,492	-	4,612,501
Total future principal requirements	$ 4,406,855	$120,769,492	$ 1,478,872	$ 126,655,219
Future Interest commitments:				
2015	$ 186,946	$ 5,185,051	$ 61,141	$ 5,433,138
2016	172,308	5,046,683	50,522	5,269,513
2017	156,378	4,889,989	39,441	5,085,808
2018	138,491	4,725,275	27,877	4,891,643
2019	119,993	4,559,989	15,809	4,695,791
2020 – 2024	315,962	20,377,493	3,217	20,696,672
2025 – 2029	13,773	16,255,666	-	16,269,439
2030 – 2034	-	11,807,086	-	11,807,086
2035 – 2039	-	6,456,660	-	6,456,660
2040 – 2044	-	1,218,239	-	1,218,239
Total future interest requirements	$ 1,103,851	$ 80,522,131	$198,007	$ 81,823,989

10. EXPENSES BY NATURAL CLASSIFICATION

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

	Salaries and Wages	Fringe Benefits	Services and Supplies	Utilities	Plant and Equipment	Depreciation	Total
Instruction	$ 21,534,338	$ 4,622,801	$ 1,327,871	$ 1,924	$168,855	$ -	$ 27,655,789
Research	164,017	7,903	161,866	-	5,044	-	338,830
Public service	278,819	105,739	255,399	-	4,119	-	644,076
Academic support	5,624,770	1,227,828	1,534,683	(917)	783,364	-	9,169,728
Student services	3,161,688	742,073	2,661,813		38,337	-	6,603,911
Institutional support	4,052,581	1,949,865	2,083,650	46,518	92,811	-	8,225,425
Plant – operation & maintenance	2,310,004	1,176,230	1,454,764	2,982,377	35,501	-	7,958,876
Depreciation	-	-	-	-	-	7,491,324	7,491,324
Student aid	540,924	18,664	229,214	-	3,107	-	791,909
Operation of Higher Ed Centers	329,214	84,729	617,540	60,781	36,652		1,128,916
Museum & cultural Services	516,240	96,220	95,082	46,419	1,192	-	755,153
Historic attraction Management	193,686	45,602	27,628	6,358	1,924	-	275,198
Auxiliary activities	7,836,928	1,915,040	18,219,659	6,075	293,943	-	28,271,645
Total Expenses	$ 46,543,209	$ 11,992,694	$ 28,669,169	$ 3,149,535	$ 1,464,849	7,491,324	99,310,780

11. STATE APPROPRIATIONS

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

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

State Appropriations	
Original legislative appropriation per Chapter 890:	
Educational and general programs	$ 19,800,128
Student financial assistance	1,827,885
Museum and cultural services	459,539
Historic attraction management	215,430
Operation of Higher Education Centers	1,750,000
Supplemental adjustments:	
Employee Health Insurance	800,287
Employee Retirement Contribution Rate Change	284,455
Employee 2% Salary Increase	116,058
Employee Compression Pay	98,312
Virtual Library of Virginia (VIVA) allocation	12,581
Employee Group Life Sickness and Disability	4,412
Performance Budgeting System	1,968

State Appropriations	
Employee Healthcare Credit Change	1,720
Other Rebate changes	10,742
Virginia DOE Special Ed Teacher Support	24,143
Va. Military Survivors & Dependent Education Program	21,825
Two-year College Transfer Grant	7,000
Equipment Trust Fund debt transfer	(390,601)
Cash reversions:	
Stormwater Management	(305,214)
Dahlgren	(824,887)
State appropriation revenue, adjusted	$23,915,783

12. COMMITMENTS

Capital Improvement Commitments

The amounts listed in the following table represent the value of obligations remaining on capital improvement project contracts. These obligations are for future effort and as such have not been accrued as expenses or liabilities on the University's financial statements. Outstanding contractual commitments for capital improvement projects as of June 30, 2014, include:

Capital commitments by project	
Convergence Center	$ 7,136,283
Mercer – Woodard Renovation	1,520,663
Stormwater Management	1,296,090
Jepson Renovation	1,136,524
Anderson Center	711,137
Maintenance Reserve	94,082
Dahlgren	45,792
Other Projects	81,355
Total capital commitments	$12,021,926

In addition, $1,126,432 was held by the University as retainage on ongoing projects for which work had been performed. The retainage will be remitted to the contractors upon satisfactory completion of the project.

Lease Commitments

The University has entered into several agreements to lease space, primarily buildings for office space. The University is committed to an operating lease for office space for the Warsaw office of the Rappahannock Small Business Development Center run by the University. The lease was for a three-year term beginning July 2010 and was extended through June 2016. Rental expense was $5,200 for the year ended June 30, 2014.

The University is committed to an operating lease for office space for administrative offices of the University. The lease term began in 2006 and has been extended thru July 2015. Rental expense was $150,342 for the year ended June 30, 2014. The University also has a lease for storage space off-campus. It is a five year lease beginning January 2012. Rental expense was $14,741 for the year ended June 30, 2014.

Additionally, the University is committed to nine leases with the UMW Foundation and its subsidiaries. The first lease is for storage space off-campus. The lease is for a three year term beginning in April 2013. The University is committed to three leases for office

space in Eagle Village. One lease is for a five year term beginning December 2010, the second is for a five year term beginning December 2011, and the third is an 18 month lease beginning December 2012 and was extended until September 2014. The University also leases three houses in the immediate area of the University. All are for five year terms with two of the leases beginning in July 2010 and the other beginning May 2011. In September 2013, the University terminated 4 leases and entered into a Deed of Parking lease agreement with the UMW Foundation. This lease has a 5 year term. In November 2013, the University began leasing property near the main campus to be used for office or classroom space. The lease has a 5 year term. Rental expense on all these leases was $578,187 for the year ended June 30, 2014.

The University has, as of June 30, 2014, the following future minimum rental payments due under the above leases:

Future minimum operating lease payments	
Year ending June 30, 2015	$ 768,403
Year ending June 30, 2016	555,896
Year ending June 30, 2017	267,715
Year ending June 30, 2018	131,758
Year ending June 30, 2019	35,113
Total	$ 1,758,885

13. CONTRIBUTIONS TO PENSION PLANS

Virginia Retirement System

Employees of the University are employees of the Commonwealth of Virginia and therefore eligible to participate in the Commonwealth's defined benefit retirement plan. This plan is administered by the Virginia Retirement System (VRS). VRS is a multiple-employer public employee retirement system that acts as a common investment and administrative agency for the Commonwealth of Virginia and its political subdivisions.

The VRS does not measure assets and pension benefit obligations separately for individual state institutions. Information related to this plan is available at the statewide level only and can be found in the Commonwealth of Virginia's *Comprehensive Annual Financial Report*. The Commonwealth, not the University, has the overall responsibility for contributions to this plan.

The University's expenses include the amount assessed by the Commonwealth for contributions to VRS, which totaled $2,189,375 for the year ended June 30, 2014.

Optional Retirement Plans

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

Individual contracts issued under the plan provide for full and immediate vesting of both the University's and the employee's contributions. Total employer pension costs under this plan were $1,723,773 for fiscal year 2014. Contributions to the optional retirement plan were calculated using the base salary amount of approximately $17,297,368 for the fiscal year.

Deferred Compensation Plan

Employees of the University are employees of the Commonwealth of Virginia. State employees may participate in the Commonwealth's Deferred Compensation Plan. Participating employees can contribute to the plan each pay period with the Commonwealth matching up to $20 per pay period. The dollar amount match can change depending on the funding available in the Commonwealth's budget. The Deferred Compensation Plan is a qualified defined contribution plan under Section 401(a) of the

Internal Revenue Code. The University expense for contributions under the Deferred Compensation Plan, which is an amount assessed by the Commonwealth, was $192,450 for fiscal year 2014.

14. POST-EMPLOYMENT BENEFITS

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

15. RISK MANAGEMENT AND EMPLOYEE HEALTH CARE PLANS

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

16. CONTINGENCIES

Grants and Contracts

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

In addition, the University is required to comply with the various federal regulations issued by the Office of Management and Budget. Failure to comply with certain system requirements of these regulations may result in questions concerning the allowance of related direct and indirect charges pursuant to such agreements. As of June 30, 2014, the University estimates that no material liabilities will result from such audits or questions.

Pending Litigation

The University was not named as a defendant in any lawsuits as of June 30, 2014.

17. RELATED PARTY TRANSACTIONS

The UMW Foundation provides financial support to the University. The UMW Foundation is a separate entity, whose financial position is presented along with the University as required by GASB Statement 39 *Determining Whether Certain Organizations Are Component Units* and GASB Statement 61, *The Financial Reporting Omnibus.*

Pursuant to the Series 2007 bonds of the Foundation, the University entered into a support and management agreement with the Foundation. Under the terms of this agreement, the University operates and manages the 1201 William Street project (2007 Project) as part of and on an equal basis with its own academic and administrative offices and is responsible for all aspects of the operation of the 2007 Project. On each January 15 and July 15, commencing July 15, 2008, the University transfers to the Foundation the amounts set forth in the 2007 Project budget for the succeeding six month period of such fiscal year. The amount of the transfer includes, without limitation, the amount necessary for the Foundation to satisfy its payment and other obligations

under the 2007 Project loan agreement and the Deed of Trust during such period. In addition, promptly upon the request of the Foundation, the University transfers to the Foundation any other amount requested by the Foundation necessary to pay any amount due and payable under the 2007 Project loan agreement or the Deed of Trust, including any additional payments as defined in the loan agreement. The amounts received are pledged as security for the Foundation's obligations under the 2007 Project loan agreement and the Deed of Trust. Amounts due to the Foundation under this agreement at June 30, 2014 were $42,396 and are included in "Due to the Foundation" on the University's *Statement of Net Position*.

Pursuant to the 2008 and 2009 bonds of the Foundation and Eagle Housing, LLC, the University entered into a support and management agreement with the Foundation and Eagle Housing, LLC, a wholly-owned subsidiary of the Foundation. The support agreement requires preferential treatment in that the University must assign all of its students in need of housing first to the University Apartment Project and the Eagle Village I Project (Student Housing Projects), until at least 95% of the available units in the Student Housing Projects have been filled. The management agreement appoints the University as the property's facilities manager, and requires the University to establish annual operating and capital budgets that facilitate the Foundation's compliance with the financial covenants of the bond financing agreements. In addition, the agreement requires a Project Revenue Fund be established at the University to collect revenues and pay expenses of operating, maintaining, and insuring the facility. The net results of the Project Revenue Fund are to be transferred to the Foundation at its request. Amounts due to the Foundation under the Series 2008 Bond agreement at June 30, 2014 were $103,644. This is included in "Amounts Due to Foundation" on the University's *Statement of Net Position*. Amounts due from the Foundation under the Series 2009 Bond agreement at June 30, 2014 were $266,866. This is included in "Due from the Foundation" on the University's *Statement of Net Position*.

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

In December 2009, the Foundation obtained a non-interest bearing, promissory note from the University in the amount of $1,600,000 for the purpose of purchasing properties for the ultimate ownership and use by the University. Per the agreement, the University commits to purchase the properties from the Foundation and the Foundation commits to sell the properties to the University by the maturity date of December 2015. The purchase price will be the sum of purchase price paid plus costs and expenses to carry and maintain the properties during the term of ownership. At settlement, the loan will be repaid via a credit to the University against the purchase price equal to the outstanding principal balance of the loan. As of June 30, 2014, $1,440,550 has been advanced per the agreement and is included in "Due from the Foundation" on the University's *Statement of Net Position*.

In June 2011, the Foundation obtained a commitment from the University for another non-interest bearing promissory note in the amount of $1,000,000 to fund the soft costs related to the planning and design of a student center for the ultimate ownership and use by the University. Per the agreement, the University will lease land to the Foundation for the construction of a student center and will purchase the student center from the Foundation upon completion of construction. The loan was repaid to the University in fiscal year 2013. Per the agreement, the University also advanced $600,000 to the Foundation as of June 30, 2012. The $600,000 was repaid in fiscal year 2013. In November 2012, the Virginia College Building Authority (VCBA), through the Pooled Bond Program, issued Series 2012B 9(d) bonds and used the proceeds to purchase a debt obligation (note) of the University. In November 2013, the VCBA, through the Pooled Bond Program, issued Series 2013A 9(d) bonds and purchased a debt obligation of the University. Proceeds totaling $46,790,000 are being used to finance construction of a student center. The notes were issued with interest rates varying from 3.0% to 5.0% and mature in 2042 and 2043 respectively. At June 30, 2014, the University accrued expenses related to the project of $2,629,802. This is included in "Amounts Due to Foundation" on the University's *Statement of Net Position*.

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

18. AFFILIATED FOUNDATION

In accordance with GASB Statement 39, *Determining Whether Certain Organizations Are Component Units*, and GASB Statement 61, *The Financial Reporting Omnibus*, the financial statements do not include the assets, liabilities, and net assets of the University of Mary Washington Alumni Association. The purpose of this organization is to promote the welfare and support the mission of the University and to encourage an enduring relationship with the University by deepening alumni and student loyalty. This organization is a separately incorporated entity and the related financial statements are reviewed by other auditors. The following condensed summary is based solely upon the reports of other auditors at and for the year ended June 30, 2014.

University of Mary Washington Alumni Association	
Assets:	
Cash and investments	$ 112,163
Other assets	3,176
Total assets	$ 115,339
Liabilities and net assets:	
Due to UMW Foundation	$ 16,098
Accrued Accounts Payable	44
Net assets	99,197
Total liabilities and net assets	$ 115,339

The revenues and expenditures of the Alumni Association, determined as if in consolidation with the University, were $258,975 and $264,061 respectively, for the year ended June 30, 2014.

19. UMW FOUNDATION FOOTNOTE DISCLOSURES

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

Cash, Cash Equivalents and Investments

Financial instruments that potentially subject the Foundation to concentration of credit risk consist of cash and cash equivalents, receivables and investments. The Foundation places its temporary cash investments with high credit quality financial institutions. The Foundation had cash and cash equivalents, including restricted deposits and funded reserves in a financial institution, in excess of the Federal Deposit Insurance Corporation limit at June 30, 2014. Investments are diversified and managed by several different managers. The Foundation monitors its investments and receivables to minimize credit risk.

The Foundation uses derivatives to manage risks related to interest rate movements. Interest rate swap contracts are reported at fair value on the *Statement of Net Position* with the changes in the fair value included in the *Statement of Revenues, Expenses, and Changes in Net Position*. The Foundation's interest rate risk management strategy is to stabilize cash flow requirements by maintaining interest rate swap contracts to convert variable-rate debt to fixed rate.

The market value of investments held by various funds at June 30, 2014, is summarized below:

UMW Foundation Investments	Market Value As of June 30, 2014
US Treasury Securities	$ 1,537,842
Bond mutual funds	4,905,857
Stock mutual funds	21,730,341
Hedge funds	9,258,190
Private Equity	2,709,348
Natural resources and real assets	2,162,012
Total Investments	$ 42,303,590

Investment income includes the following components for the year ended June 30, 2014:

UMW Foundation Investment Income	
Interest and dividends	$ 971,442
Unrealized gain (loss)	4,102,794
Realized gain	523,039
Investment income(loss)	$ 5,597,275

The Foundation is the remainder beneficiary and trustee of twenty-seven charitable gift annuities dated 1991 to 2014. These agreements provide fixed annual payments to the original donor or a designated beneficiary and are paid either monthly or quarterly. Total annuity payments for 2014 were $112,083

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. Payment streams are valued at the present value of the expected future obligations factoring in the applicable discount rate and actuarial mortality tables and are recorded as liabilities to third-party beneficiaries. Fixed payout percentages range from 5% to 10%. During the term of the agreement, any changes in actuarial assumptions are recognized as "change in value of split-interest agreements" in the consolidated statements of activities.

Pledges and Loans Receivable

In order to simplify its accounting process for pledges receivable, the Foundation has elected to record all pledges receivable at fair value. The fair value adjustment for 2014 was $132,894. No changes in the fair value measurement were attributable to instrument specific credit risk.

UMW Foundation had unconditional pledges receivable consisting of the following at June 30, 2014:

Pledges Receivable	
Pledges due within one year	$ 779,906
Pledges due in two to five years	1,960,592
Thereafter	38,417
Total receivables before discount	2,778,915
Less: discounts to net present value (using a discount rate of 5%)	(203,512)
Pledges receivable – net	$2,575,403

The Foundation has a loan receivable of $75,000 due from a former key employee of the University. No payments were received in 2014. The stated interest rate of 5% per annum has been forgiven by the Foundation.

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

Capital Assets

A summary of changes in capital asset categories of the UMW Foundation for the year ended June 30, 2014, is presented as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Non-depreciable capital assets:				
Land	$ 33,319,963	$ 615,753	$ -	$33,935,716
Construction in progress	9,057,939	6,839,114	(15,895,513)	1,540
Total non-depreciable capital assets	42,377,902	7,454,867	(15,895,513)	33,937,256
Depreciable capital assets:				
Buildings	96,123,842	14,217,403	-	110,341,245
Equipment	1,420,558	2,811,951	-	4,232,509
Improvements other than buildings	1,059,510	380,917	-	1,440,427
Total depreciable capital assets at historical cost	98,603,910	17,410,271	-	116,014,181
Less accumulated depreciation for:				
Buildings	10,516,677	2,769,053	(52,657)	13,233,073
Equipment	367,866	343,887	(29,772)	681,981
Improvements other than buildings	45,138	130,997	(583)	175,552
Total accumulated depreciation	10,929,681	3,243,937	(83,012)	14,090,606
Depreciable capital assets, net of depreciation	87,674,229	14,166,334	83,012	101,923,575
Total capital assets, net of depreciation	$130,052,131	$21,621,201	$(15,812,501)	$135,860,831

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

Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses of UMW Foundation consisted of the following at June 30, 2014:

Accounts Payable	
Accounts payable	$ 3,803,787
Accrued interest	475,034
Deferred compensation liability	173,141
Total accounts payable	**$ 4,451,962**

Long-Term Indebtedness

Bonds Payable

Series 2007 Bonds – 1201 William Street

In February 2007, the Foundation purchased a building adjacent to the University campus to be operated and managed by the University as part of its faculty offices. The acquisition was financed with tax-exempt financing through a bond pool issuance with the Industrial Development Authority of the County of Stafford and the City of Staunton, Virginia (Series 2007 Bonds). Interest on the bonds is payable at 4.00% - 4.75% (4.00% as of June 30, 2014) over a 30-year period. The original issue discount of $25,185 and bond issuance costs of $122,896 are being amortized over the life of the bonds using the straight-line method. The bonds are collateralized by a deed of trust and a support agreement with the University.

Series 2013 Bonds – Eagle Housing – Student Housing

On July 2, 2013, Eagle Housing, LLC, with the Foundation as guarantor, entered into an agreement with Bank of America for the bank to purchase a tax-exempt bond that Eagle Housing issued through the Economic Development Authority of the City of Fredericksburg, Virginia (Series 2013 Bonds). The proceeds were used to refinance a portion of its 2012 taxable loan related to student housing projects held by the Bank of America. Interest on the bonds is payable at a variable interest rate equal to 70% of the one-month London Interbank Offered Rate plus 1.45% (1.55% at June 30, 2014). Bond issuance costs of $161,287 are being amortized over the five year life of the bonds using the straight-line method. The bond is secured by a deed of trust and assignment of rents and leases on Eagle Landing, University Apartments, Eagle Village's commercial properties and the pedestrian bridge over Route 1, as well as a Support Agreement between the Foundation and the University. The agreement maintains the original loan requirements of maintaining certain minimum balances in accounts with the Bank of America over the life of the bonds and to maintain a debt service coverage ratio of at least 1.2 to 1.0. Eagle Housing, LLC is also required to maintain its interest rate swap contracts that were supporting the 2008 and 2009 bonds.

Bonds payable consists of the following at June 30, 2014:

Bonds Payable	Interest Rates	Maturity	Outstanding Balance
2007 Bonds, net of unamortized discount	Variable 4.0% at June 30	2037	$ 2,220,000
2013 Bonds	Variable 1.55% at June 30	2018	79,820,000
Total Bonds Payable			$82,040,000

Loans Payable

Loan from University

The loan payable to the University of Mary Washington for the purchase of real estate was established in December 2009 when the Foundation purchased certain property for ultimate ownership and use by the University. Under the agreement, the University committed to loan the Foundation up to $1,600,000 to purchase multiple specified properties. The University committed to purchase the property from the Foundation, and Foundation committed to sell the properties to the University by the maturity date of December 2014. The purchase price will be the sum of purchase price paid plus costs and expenses to carry and maintain the properties during the term of ownership. At settlement, the loan will be repaid via a credit to the University against the purchase price equal to the outstanding principal balance of the loan.

Refunding and refinancing Series 2008 and 2009 bonds

During 2013, a taxable loan was entered into with the Bank of America to refund Series 2008 and 2009A tax exempt bonds, Series 2009B taxable bonds, and the existing Bank of America line of credit. The loan agreement calls for the borrowers to maintain certain

minimum balances in accounts with the Bank of America over the life of the loan and to maintain a debt service coverage ratio of at least 1.2 to 1.0. Eagle Housing, LLC is also required to maintain its interest rate swap contracts that were supporting the 2008 and 2009 bonds. During 2014, a portion of the taxable loan related to student housing was refinanced on July 2, 2013 with tax-exempt bonds issued by Eagle Housing through the Economic Development Authority of the City of Fredericksburg, VA.

Loans payable consists of the following at June 30, 2014:

Loans Payable	Interest Rates	Maturity	Outstanding Balance
Eagle Housing, LLC, taxable loan, secured by deed of trust, Assignment of rents and leases, guarantee by the Foundation and a Support Agreement between the Foundation and University. Eagle Village I, LLC, Eagle Village-Roger Dodger, LLC, and Snowden Street, LLC are co-borrowers	1.45 – 1.49%	2015	$ 39,110,000
Eagle Hospitality, LLC, construction and term loan secured by a Deed of trust and guarantee by the Foundation	5.25%	2039	9,285,889
UMW Foundation $1,600,000 promissory note with the University of Mary Washington	0.0%	2014	1,440,550
Eagle Pizza, LLC $1,500,000 promissory note secured by a deed of trust, and assignment of rents and leases, and a guarantee by the Foundation.	5.25%	2015	1,500,000
Academic Village, LLC promissory note secured by a deed of trust, Assignment of rents and leases and a Support Agreement between the Foundation and the University	4.24%	2018	773,087
Mortgage note secured by a deed of trust, an assignment of rents and leases, and a guarantee by the Foundation.	5.5%	2028	271,512
Total Notes Payable			$ 52,381,038

Annual debt service requirements

	Bonds Payable	Loans Payable	Total Long-Term Debt
Future principal commitments:			
2015	$ 610,000	$ 3,432,248	$ 4,042,248
2016	640,000	39,065,942	39,705,942
2017	660,000	239,435	899,435
2018	795,000	252,206	1,047,206
2019	77,410,000	895,615	78,305,615
Thereafter	1,925,000	8,495,592	10,420,592
Total future principle requirements	$ 82,040,000	$52,381,038	$ 134,421,038

Deferred Financing Costs

Financing costs of $608,551 are amortized on a straight-line basis over the term of the related debt. Accumulated amortization at June 30, 2014 was $243,679.

Debt Related Derivative Instruments

Eagle Housing, LLC has entered into interest rate swap agreements in order to convert variable-rate taxable loan and Series 2013 bond debt to a fixed rate. A summary of the interest rate swap contracts at June 30, 2014 follows:

Notional Amount	Interest Rate	Effective Date	Expiration Date	Fair Value
$ 69,980,000	3.604%	09/01/2010	09/01/2014	($771,504)
$ 69,975,000	3.604%	09/01/2014	09/01/2041	($ 14,658,593)
$ 17,915,000	3.876%	09/01/2010	09/01/2015	($ 730,219)
$ 8,405,000	3.280%	04/01/2014	04/01/2029	($ 1,008,562)

Restricted Deposits and Funded Reserves

In accordance with the bond and loan agreements, the Foundation has the following restricted deposits and funded reserves which are held by Trustees of the Series 2013 bonds and 2012 Taxable Loan

All are cash and cash equivalents:

Restricted Deposits and Funded Reserves	
Debt Service Reserve Fund	$ 3,152,928
Debt Basis Account	-
Bond Principal Fund	825,589
Surplus Reserve	750,000
Repair & Replacement Reserve Fund	722,861
Tenant Improvement & Leasing Commissions Reserve	263,743
Interest Reserve Fund	601,770
Total	**$ 6,316,891**

Related Party Transactions

The Foundation has an agreement to give the University of Mary Washington Alumni Association (UMW AA) annually 20% of unrestricted alumni gifts, with a minimum of $50,000 each year. For 2014, the Foundation gave the UMW AA $152,575. The UMW AA directs all royalty revenue to the Foundation for scholarships. Under these arrangements, the Foundation had a net receivable from the UMW AA of $16,098 at June 30, 2014.

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

The Foundation and Eagle Developers, LLC has agreed to manage the development of a campus center for the University. Under the agreement, the Foundation incurs all costs related to development and is being reimbursed by the University. Costs of $2,628,731 as of June 30, 2014 have been incurred by the Foundation. The Foundation received $136,469 during 2014 and 2013 in management fees from the University for its services.

Commitments

Operating Lease Commitments

The Foundation leases office and retail space to tenants under non-cancelable operating leases, using a real estate brokerage firm with terms of one to ten years.

The following is a schedule by years of future minimum rentals under the leases at June 30, 2014:

Future Minimum Operating Lease Payments	
2015	$ 2,320,451
2016	2,158,874
2017	1,743,577
2018	1,155,878
2019	885,394
Thereafter	1,733,851
Total	$ 9,998,025

Included in the future payments above are multiple lease agreements between the University and the Foundation with approximately $1,400,000 in future minimum rentals at June 30, 2014.

Future Development and Construction in Progress

Eagle Village Phase I

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

Hotel

During 2012, Eagle Hospitality, LLC entered into an operating agreement with two equity investing members to fund a portion of the equity requirement for the hotel. As of June 30, 2013, the minority partners had fully funded their commitments of $750,000. On September 30, 2013, Eagle Hospitality, LLC bought out the minority partners in accordance with the operating agreement requirements. On December 6, 2013, one of the minority partners was brought back in under an amended operating agreement. As of June 30, 2014, the minority partner had fully funded their 9% ownership commitment of $670,000. The net result of the equity transactions is ($80,000). As of June 30, 2014 Eagle Property Holdings has contributed $3,521,894 and the University of Mary Washington Foundation has contributed $3,250,000. During the year ended June 30, 2014, losses of $48,899, $379,096, and $307,558 were allocated to the minority partner, Eagle Property Holdings and the University of Mary Washington Foundation, respectively.

Eagle Hospitality, LLC signed an agreement with a hotel management company for the operation of the hotel. During the first year of operations, the management fee will be 2.5% of total revenues of the hotel. After the first year of operations, the management fee will be 3.0% of total revenues or $65,000 per year, whichever is greater. The hotel opened for business on January 21, 2014.

Campus Center

The Foundation and Eagle Developers, LLC has agreed to manage the development of a campus center for the University. Eagle Developers, LLC signed an owner representative services agreement with a property development consulting firm and incurred development consulting fees of $80,945 during 2014. As of June 30, 2014, Eagle Developers had architectural and construction commitments of approximately $30.8 million.

20. SUBSEQUENT EVENTS

On July 29, 2014, the University sold a parcel of land in Fredericksburg. The property sold for approximately $15,000.

In September 2014, the Commonwealth reduced funding for the University by $635,000 as part of a statewide budget reduction.

On September 22, 2014, the University entered into a lease agreement with Transitional Properties, LLC to rent a house in the vicinity of the Stafford campus. This is a 5 year lease with rents totaling $103,678 over the entire term of the lease.

On February 5, 2015, the lease between Eagle Pizza, LLC and the University was amended. The lease term was extended to 2020, and rent was increased to $67,313 annually.

The University has the following additional future minimum rental payments due under the above leases:

	Future minimum operating lease payments
Year ending June 30, 2015	$ 71,806
Year ending June 30, 2016	88,136
Year ending June 30, 2017	88,136
Year ending June 30, 2018	88,136
Year ending June 30, 2019	88,136
Year ending June 30, 2020	43,983
Total	**$ 468,333**

On March 18, 2015, the lease between the University and Mobile Modular Management Corporation was amended. The lease was an operating lease and has been amended to a 3 year lease to purchase capital lease. Lease payments total $166,244 annually.

On August 20, 2014, Transitional Properties, LLC entered into a real estate purchase agreement to acquire property and its improvements for the amount of $215,000 plus acquisition costs. The purchase will be financed with a note payable secured by a deed of trust on the property and a lease agreement between Transitional Properties, LLC and the University.

On September 2, 2014, $250,000 of surplus reserve funds was released to the Foundation and Eagle Housing, LLC to use without restriction. These funds are recorded as restricted deposits and funded reserves on the consolidated statements of financial position at June 30.

On September 9, 2014, Eagle Village – Roger Dodger, LLC signed a lease with a retailer for 1,320 square feet of space in the Roger Dodger section of Eagle Village. The lease is for five years beginning ninety days after the earlier of the fixturing period or the date the tenant opens for business.

On September 15, 2014, Eagle Housing, LLC signed a lease with a retailer for 1,664 square feet of space. The lease is for five years beginning ninety days after the earlier of the fixturing period or the date the tenant opens for business.

On October 30, 2014, the Foundation settled on a real estate agreement to sell property and its improvements for the amount of $183,500 less settlement charges and seller contributions. The proceeds will be used to fund an annuity and other uses as directed by the original donor at the time the property was donated to the Foundation.

On December 2, 2014, the Foundation received a donation of land and its improvements with an appraised value of $285,000. The property will be sold and the proceeds restricted for scholarships and other uses as directed by the donor.

On December 15, 2014, the Foundation settled on a real estate agreement to sell property and its improvements for the amount of $290,000 less settlement charges and seller contributions.

On December 20, 2014, the Foundation received an unrestricted donation of land with an appraised value of $2,320,000.

On January 15, 2015, the University amended its note agreement with the University of Mary Washington Foundation. The note, not to exceed $1,600,000 with a balance $1,440,500 currently, shall become due and payable on January 15, 2020. No interest shall accrue or be payable on the note.

On February 5, 2015, Eagle Pizza, LLC and Transitional Properties, LLC refinanced the current loan payable in the amount of $1,500,000. The loan, originally for the purchase of real estate, is collateralized by a deed of trust, an assignment of rents and leases, and a guarantee by the Foundation. Interest, at a rate of 4.25%, and principle payments are to be made monthly until maturing February 2020.

On February 25, 2015, Eagle Housing, LLC signed a lease with an office tenant for 3,530 square feet of space. The lease is for three years beginning the later of fifteen days following the execution of the lease or when the Landlord tenders possession of the premises.

Commonwealth of Virginia

Auditor of Public Accounts

Martha S. Mavredes, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

July 17, 2015

The Honorable Terence R. McAuliffe
Governor of Virginia

The Honorable John C. Watkins
Chairman, Joint Legislative Audit
and Review Commission

Board of Visitors
University of Mary Washington

INDEPENDENT AUDITOR'S REPORT

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities and discretely presented component unit of the University of Mary Washington, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component unit of the University of Mary Washington, which is discussed in Notes 1 and 19. Those financial statements were audited by another auditor whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the component unit of the University of Mary Washington, is based on the report of the other auditor.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the component unit of the University that were audited by another auditor upon whose report 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinions.

Opinion

In our opinion, based on our audit and the report of another auditor, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and discretely presented component unit of the University of Mary Washington as of June 30, 2014, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages two through nine be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the

information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated July 17, 2015, on our consideration of the University of Mary Washington's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the University of Mary Washington's internal control over financial reporting and compliance.

AUDITOR OF PUBLIC ACCOUNTS

JMR/clj

UNIVERSITY OFFICIALS

Board of Visitors at June 30, 2014

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President

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Vice President for Administration and Finance
and Chief Financial Officer

Allyson P. Moerman
Associate Vice President for Finance and Controller

Tera Kovanes
Director of Internal Audit