

University of Mary  
Washington  
Financial Report  
2012-2013

UNAUDITED

UMW  
10/1/2013

# TABLE OF CONTENTS

Management’s Discussion and Analysis .....	3
Financial Statements.....	10
Statement of Net Position .....	10
Statement of Revenues, Expenses, and Changes in Net Position .....	12
Statement of Cash Flows .....	13
Notes to Financial Statements.....	15
University Officials .....	39

UNAUDITED

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

The University of Mary Washington 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 recently created 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 historic, downtown Fredericksburg and the Gari Melchers Home and Studio at Belmont in neighboring Stafford.

There are approximately 4,500 undergraduate students enrolled at the Fredericksburg campus and about 600 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 and 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, 2013. Comparative numbers are included for the fiscal year ended June 30, 2012. 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* and GASB Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. 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*, 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, liabilities, 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 assets over time are one indicator of the financial health of the organization.

The University's net assets are classified as follows:

- **Invested in capital assets, net of related debt** – Invested in capital assets, net of related debt, 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 invested in capital assets, net of related debt.
- **Restricted net assets, expendable** – Expendable restricted net assets include resources the University is legally or contractually obligated to expend in accordance with restrictions imposed by external third parties.
- **Restricted net assets, nonexpendable** – Nonexpendable restricted net assets consist 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 assets** – Unrestricted net assets represent 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 increased by approximately \$33.9 million, or 12.9%, during fiscal year 2013, bringing the total assets to \$297.2 million at year-end. Significant growth was seen in capital assets, net (\$11.7 million), and other assets (\$19.7 million). The increase in capital assets, net, reflects the ongoing construction of two capital projects and completion of several capital projects discussed in detail in the following section, Capital Asset and Debt Administration. The increase in other assets is largely due to an increase in restricted cash and cash equivalents (\$21.2 million). This increase can be attributed to debt issued in fiscal year 2013 for the Campus Center project.

The University's liabilities increased approximately \$23.8 million, or 23.5%, during fiscal year 2013. This is due to newly issued debt for the Campus Center project.

Since total assets increased more than the increase in total liabilities, the University saw an increase in total net position of \$10.0 million (6.2%). *Invested in capital assets, net of related debt* increased \$4.3 million as a

	2013	2012	Change Amount	Change Percent
<b>Assets</b>				
Current assets	\$ 23.8	\$ 21.3	\$ 2.5	11.7%
Capital assets, net	238.8	227.1	11.7	5.2%
Other assets	34.6	14.9	19.7	132.2%
Total assets	297.2	263.3	33.9	12.9%
<b>Liabilities</b>				
Current liabilities	17.4	20.4	(3.0)	(14.7)%
Noncurrent liabilities	107.8	81.0	26.8	33.1%
Total liabilities	125.2	101.4	23.8	23.5%
<b>Net Position</b>				
Invested in capital assets, net	161.0	156.7	4.3	2.7%
Restricted	0.4	0.5	(0.1)	(20.0)%
Unrestricted	10.6	4.8	5.8	120.8%
<b>Total net position</b>	<b>\$172.0</b>	<b>\$ 162.0</b>	<b>\$ 10.0</b>	<b>6.2%</b>

direct result of the increase in capital assets as offset by the amount of the existing debt already spent.

## 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 significant investment in depreciable capital assets with gross additions of \$37.2 million. The following table indicates capital projects completed during 2013.

<b>Capital project completions</b>	
For the year ended June 30, 2013 (All \$ in millions)	
	<b>Project Amount</b>
Mason – Randolph (Buildings)	\$34.4
Monroe (additional completion costs – Buildings)	0.7
Anderson Center (additional completion costs – Buildings)	0.4
Sidewalks (Infrastructure)	0.2
Marshall-Russell Parking (Infrastructure)	0.2
Other capital projects completed	0.2
<b>Total capital project completions</b>	<b>\$36.1</b>

overall net increase in depreciable capital assets in 2013 of \$30.4 million.

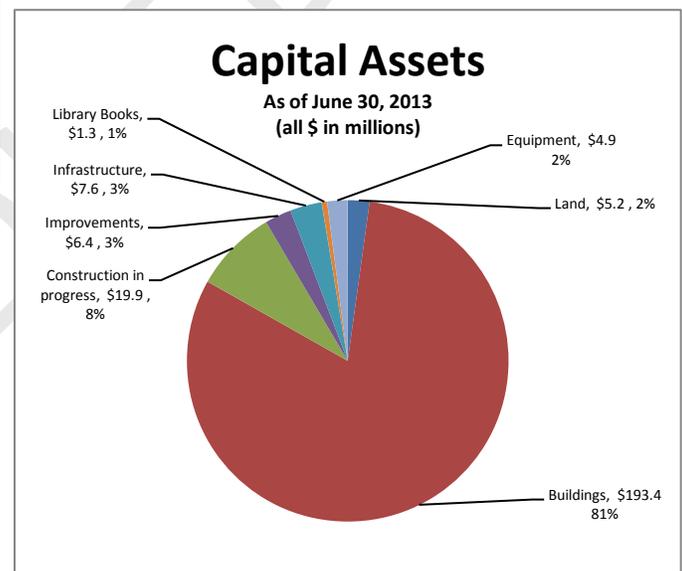
Non-depreciable capital assets decreased \$18.7 million during 2013. This is directly attributable to a net decrease in Construction in Progress. The table below indicates those capital projects on-going at year end.

Capital projects in progress carry commitments to construction contractors, architects, and engineers totaling \$20.3 million at June 30, 2013. 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 graph above. 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.

<b>Construction in Progress</b>	
For the year ended June 30, 2013 (All \$ in millions)	
	<b>Project Amount</b>
Convergence Center	\$ 15.0
Campus Center	4.6
Mercer Woodard	0.3
<b>Total construction in progress</b>	<b>\$ 19.9</b>

Ongoing investments in instructional, research, computer equipment, and library books totaled \$1.1 million. Depreciation expense was \$6.7 million with net retirements of less than \$0.1 million. This created an



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 \$27,955,000, 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 and loss on debt defeasance of less than \$0.1 million, both of which will be amortized over the life of

the debt. All debt of the University is directly related to the acquisition of capital assets.

## Statement of Revenues, Expenses, and Changes in Net Position

Operating and non-operating activities creating changes in the University's total net assets 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 missions 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 this category, 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

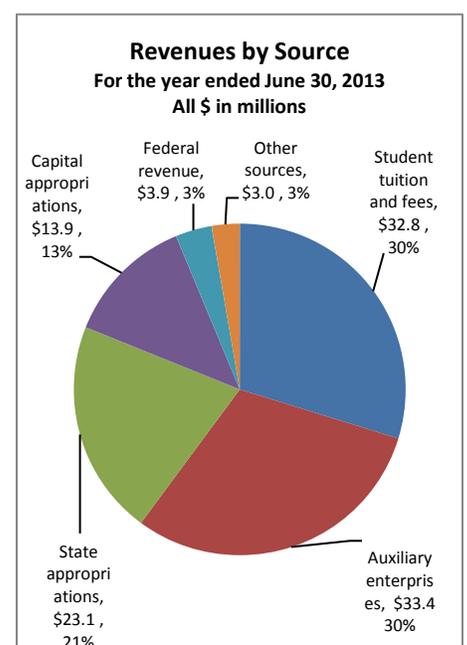
Total operating revenues increased \$3.6 million (5.4%) from the prior fiscal year. Increases in both student tuition and fees (\$0.4 million) and auxiliary revenue (\$2.0 million) were due to increased tuition and auxiliary fee rates. A decline in enrollment prevented larger growth in these revenues. The University recognized an increase in non-governmental grant and contract revenue (\$0.8 million). This can be directly attributed to contributions due from Sodexo per the new dining and food services contract.

### Non-operating and Other Revenues

Non-operating revenue increased \$1.3 million (5.2%) from the prior fiscal year. This is due to an increase in state appropriations of \$1.8 million, offset slightly by a decrease in Build America Bond interest subsidies.

Other revenues of the University consist of capital appropriations and capital gifts. Capital appropriations decreased \$2.1 million (13.1%) during fiscal year 2013. Capital appropriations for the Convergence Center increased \$8.2 million. However, several projects funded with capital appropriations, most notably the Monroe Hall renovation and construction of the Dahlgren Campus, were completed in fiscal year 2012. Therefore, during fiscal year 2013 less funding (\$10.7million) was needed for those projects.

<b>Summary of Revenues</b>				
For the years ended June 30, 2013 and 2012 (All \$ in millions)				
	2013	2012	Change Amount	Change Percent
<b>Operating revenues</b>				
Student tuition and fees, net	\$ 32.8	\$ 32.4	\$ 0.4	1.2%
Grants and contracts	2.3	1.5	0.8	53.3%
Auxiliary enterprises, net	33.4	31.4	2.0	6.4%
Other operating revenue	1.6	1.2	0.4	33.3%
Total operating revenues	70.1	66.5	3.6	5.4%
<b>Non-operating revenues</b>				
State appropriations	23.1	21.3	1.8	8.5%
Federal Pell grant revenue	2.8	2.7	0.1	3.7%
Other non-operating income	0.2	0.8	(0.6)	(75.0)%
Total non-operating revenues	26.1	24.8	1.3	5.2%
<b>Other revenues</b>				
Capital appropriations	13.9	16.0	(2.1)	(13.1)%
Capital gifts	0.0	0.0	0.0	0.0%
Total other revenues	13.9	16.0	(2.1)	(13.1)%
<b>Total revenues</b>	<b>\$110.1</b>	<b>\$ 107.3</b>	<b>\$2.8</b>	<b>2.6%</b>



## 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*.

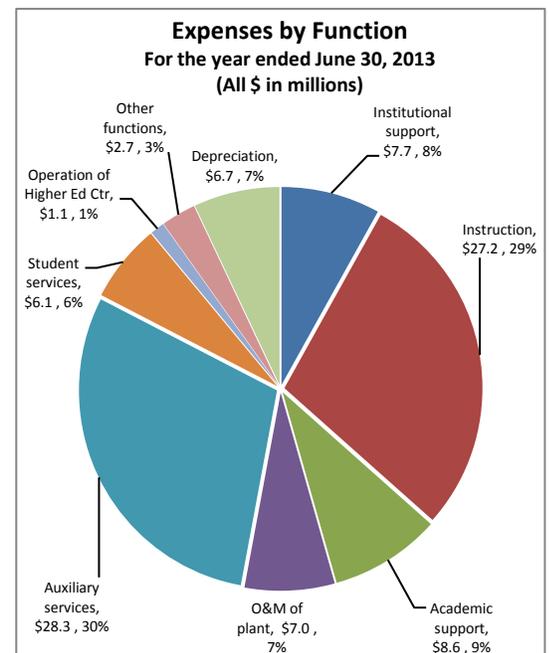
Overall, the operating expenses of the University increased by \$2.7 million – an increase of 2.9%. Operating expenses for auxiliary services, student services, operation of higher education centers, operation and maintenance of plant, and depreciation increased as indicated in the table below.

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 remained flat, while expenses in auxiliary services increased \$1.3 million (4.8%). This increase can be attributed to additional costs associated with the operation of facilities. Expenses at the Dahlgren Campus Center for Education and Research increased \$0.3 million (37.5%), due to the fact that fiscal year 2013 was the first full year of operations at this higher education center. The increase in student services expenses of \$0.5 million (8.9%) is directly related to enhancements in Admissions. In fiscal year 2013, net operating results at Eagle Landing did not require an additional payment to the Foundation, therefore institutional support expenses decreased from the prior year.

When looking at the expenses of the University by natural classification, the largest expense incurred is that 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 fringe benefits and services and supplies. Fringe benefits increased \$0.8 million, or 8%, due to rising health care costs. Expenses for services and supplies increased \$1.8 million (6.6%) due to enhancements in Admissions referenced above, increased contract labor in academic support, and the operation of new auxiliary facilities.

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.

<b>Summary of Expenses by Function</b>				
For the years ended June 30, 2013 and 20112 (All \$ in millions)				
	2013	2012	Change Amount	Change Percent
<b>Operating expenses</b>				
Instruction	\$27.2	\$27.2	0.0	0.0%
Research	0.3	0.3	0.0	0.0%
Public Service	0.8	0.8	0.0	0.0%
Academic Support	8.6	8.6	0.0	0.0%
Student Services	6.1	5.6	0.5	8.9%
Institutional Support	7.7	9.1	(1.4)	(15.4)%
Operation & maintenance of plant	7.0	6.2	0.8	12.9%
Depreciation	6.7	5.6	1.1	19.6%
Student aid	0.6	0.6	0.0	0.0%
Auxiliary services	28.3	27.0	1.3	4.8%
Operation of Higher Ed. Centers	1.1	0.8	0.3	37.5%
Museum & cultural services	0.8	0.7	0.1	14.3%
Historic attraction management	0.2	0.2	0.0	0.0%
<b>Total operating expenses</b>	<b>\$ 95.4</b>	<b>\$ 92.7</b>	<b>\$2.7</b>	<b>2.9%</b>



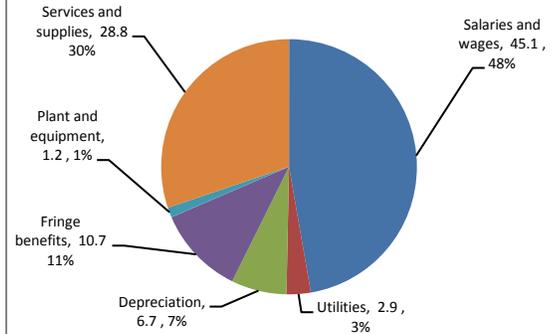
### Summary of Expenses by Natural Classification

For the years ended June 30, 2013 and 2012  
(All \$ in millions)

	2013	2012	Change Amount	Change Percent
<b>Operating expenses</b>				
Salaries and wages	\$ 45.1	\$ 45.6	\$(0.5)	(1.1)%
Fringe benefits	10.7	9.9	0.8	8.0%
Services and supplies	28.8	27.0	1.8	6.6%
Utilities	2.9	2.9	0.0	0.0%
Plant and equipment	1.2	1.7	(0.5)	(29.4)%
Depreciation	6.7	5.6	1.1	19.8%
<b>Total operating expenses</b>	<b>\$ 95.4</b>	<b>\$ 92.7</b>	<b>\$ 2.7</b>	<b>2.9%</b>

### Expenses by Natural Classification

For the year ended June 30, 2013  
(All \$ in millions)



## Changes in Net Position

The increase in operating revenues was greater than the increase in operating expenses, therefore the operating loss of the University was \$1.0 million less than the previous fiscal year. The University recognized an operating loss for fiscal year 2013 of \$25.3 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 2013, the University saw an increase in net position of \$10 million.

### Summary of Revenues, Expenses and Changes in Net Position

For the years ended June 30, 2013 and 2012  
(All \$ in millions)

	2013	2012	Change Amount	Change Percent
Operating revenues	\$ 70.1	\$ 66.4	\$ 3.7	5.6%
Operating expenses	95.4	92.7	2.7	2.9%
Operating loss	(25.3)	(26.3)	1.0	(3.8)%
Non-operating revenues and expenses	21.4	21.8	(0.4)	(1.8)%
Loss before other revenues, expenses, gains or losses	(3.9)	(4.5)	(0.6)	(13.3)%
Other revenues, expenses, gains or losses	13.9	16.0	(2.1)	(13.1)%
Increase in net position	10.0	11.5	(1.5)	(13.0)%
Net position – beginning of year	161.9	150.4	11.5	7.7%
Net position – end of year	\$ 172.0	\$ 161.9	10.0	6.2%

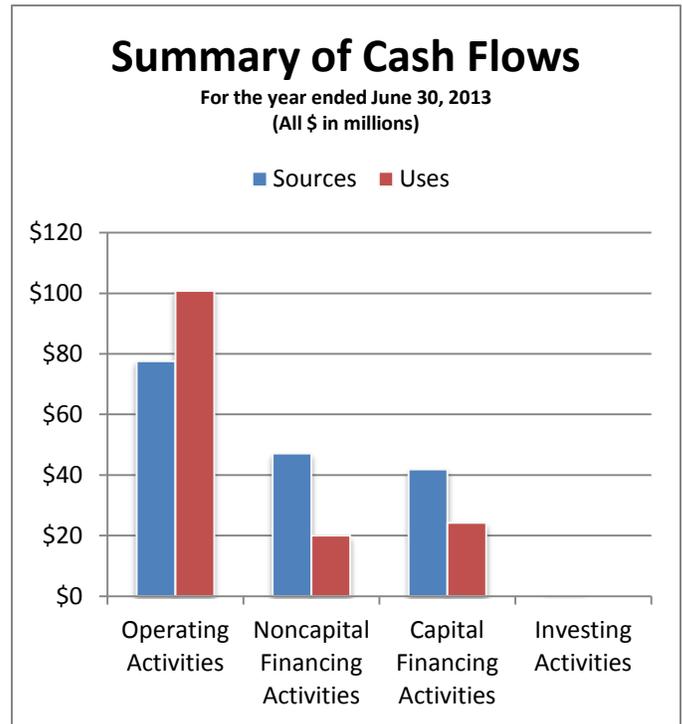
## Statement of Cash Flows

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 \$1.3 million more in fiscal year 2013 than in fiscal year 2012. This is due to additional spending for services and supplies, as well as for fringe benefits. The additional spending was somewhat offset by an increase in cash collected for both student tuition and fees and auxiliary services, such as housing and dining, but the net result was a greater amount of cash used in fiscal year 2013. *Cash flows provided by non-capital financing activities* increased \$5.0 million in fiscal year 2013. This is due to an increase in State appropriations (\$2.0 million) and UMW Foundation’s repayment of a short term loan in fiscal year 2013. *Net cash provided by capital financing activities* increased \$44.4 million. New debt was issued in fiscal year 2013 totaling \$27.9 million. In addition, less was spent on the purchase of capital assets in fiscal year 2013 than in fiscal year 2012.



	2013	2012	Change Amount	Change Percent
Net cash used by operating activities	(\$23.2)	(\$ 21.9)	\$ (1.3)	5.9%
Net cash provided by noncapital financing activities	27.1	22.1	5.0	22.6%
Net cash provided by capital financing activities	17.8	(26.7)	44.4	(166.7)%
Net cash provided by investing activities	0.1	.1	0.0	0.0%
Net increase in cash	21.8	(26.4)	48.2	(182.6)%
Cash – beginning of year	25.0	51.5	(26.5)	(51.5)%
Cash – end of year	\$46.8	\$25.0	\$ 21.8	87.2%

## 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 2013 and an increase in fiscal year 2014 is reflected in the appropriation act passed by the 2013 General Assembly. Likewise, general fund support for need-based student aid increased in both fiscal years 2013 and 2014, helping to offset the cost of attendance for Virginia students enrolled at UMW

The University’s executive management believes that 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, 2013

	UMW	UMW Foundation
<b>Assets</b>		
Current assets:		
Cash and cash equivalents (Notes 3, 19)	\$ 16,265,168	\$ 3,868,530
Securities lending cash and cash equivalents (Note 3)	97,771	-
Accounts receivable, net of allowance for doubtful accounts (Note 4)	3,666,983	597,734
Pledges receivable, current portion (Note 19)	-	394,617
Due from the Commonwealth	1,231,302	-
Due from the Foundation	1,307,627	-
Due from the University (Note 17)	-	-
Inventories	491,276	-
Prepaid items	693,579	140,186
Other current assets	-	13,406
Total current assets	23,753,706	5,014,473
Noncurrent assets:		
Restricted cash and cash equivalents (Notes 3, 19)	30,497,315	7,640,460
Restricted investments (Note 19)	-	40,672,332
Due from the Commonwealth, restricted (Note 5)	2,673,472	-
Due from the Foundation, noncurrent notes receivable (Note 17)	1,440,550	-
Pledges receivable, noncurrent portion (Note 19)	-	684,358
Securities lending investments (Note 3)	5,272	-
Other long-term investments (Note 19)	-	-
Other noncurrent assets	-	1,732,671
Nondepreciable capital assets (Notes 6, 19)	25,129,916	42,377,902
Capital assets, net of accumulated depreciation (Notes 6, 19)	213,651,730	87,674,229
Total noncurrent assets	273,398,255	180,781,952
<b>Total Assets</b>	<b>\$ 297,151,961</b>	<b>\$ 185,796,425</b>
<b>Deferred Outflows of Resources</b>	-	-
<b>Total Assets and Deferred Outflows</b>	<b>\$ 297,151,961</b>	<b>\$ 185,796,425</b>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable (Note 7, 19)	9,992,787	2,990,569
Deferred revenue	1,499,991	67,195
Deposits held in trust	1,233,229	98,645
Obligations under Securities Lending Program (Note 3)	103,043	-
Amounts due to the Commonwealth	3,548	-
Amounts due to Foundation (Note 17)	921,566	-
Amounts due to University	-	386,062
Long-term liabilities – current portion (Notes 8, 9, 17)	3,658,681	737,135
Total current liabilities	17,412,845	4,279,606
Noncurrent liabilities:		
Amounts due to University – noncurrent portion (Note 17)	-	1,440,550
Long-term liabilities – noncurrent portion (Notes 8, 9, 17)	107,237,148	141,454,222
Federal Perkins loan program contributions refundable	539,431	-
Total noncurrent liabilities	107,776,579	142,894,772
<b>Total Liabilities</b>	<b>\$ 125,189,424</b>	<b>\$ 147,174,378</b>
<b>Deferred Inflows of Resources</b>	-	-
<b>Total Liabilities and Deferred Inflows</b>	<b>\$ 125,189,424</b>	<b>\$ 147,174,378</b>

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

## STATEMENT OF NET POSITION (CONTINUED)

For the year ended June 30, 2013

	UMW	UMW Foundation
<b>Net Position</b>		
Invested in capital assets, net of related debt	\$ 160,964,897	\$ 12,072,445
Restricted for:		
Nonexpendable:		
Permanently restricted	-	30,057,208
Expendable:		
Capital Projects	-	-
Loans	240,240	-
Sponsored programs	72,992	-
Research	85,714	-
Temporarily restricted	-	13,002,514
Unrestricted	10,598,694	(16,510,120)
<b>Total Net Position</b>	<b>\$ 171,962,537</b>	<b>\$ 38,622,047</b>

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, 2013

	UMW	UMW Foundation
<b>Operating revenues:</b>		
Student tuition and fees, net of scholarship allowances of \$6,830,494	\$ 32,847,082	\$ -
Federal grants and contracts	1,039,773	-
State grants and contracts	2,860	-
Nongovernmental grants and contracts	1,290,875	-
Auxiliary enterprises, net of scholarship allowances of \$2,254,088	33,377,636	-
Foundation operations	-	11,080,528
Other operating revenues	1,625,063	-
<b>Total operating revenues</b>	<b>70,183,289</b>	<b>11,080,528</b>
<b>Operating expenses:</b>		
Instruction	27,172,589	-
Research	353,463	-
Public service	842,661	-
Academic support	8,554,784	-
Student services	6,093,428	-
Institutional support	7,674,697	-
Operation and maintenance of plant	6,953,330	-
Depreciation	6,710,235	-
Student aid	624,861	-
Auxiliary activities	28,354,740	-
Operation of Higher Education Centers	1,065,222	-
Museum and cultural services	773,947	-
Historic attraction management	261,112	-
Foundation operations	-	13,515,321
<b>Total operating expenses</b>	<b>95,435,069</b>	<b>13,515,321</b>
<b>Operating Gain/(Loss)</b>	<b>(25,251,780)</b>	<b>(2,434,793)</b>
<b>Non-operating revenues/(expenses):</b>		
State appropriations (Note 11)	23,121,643	-
Federal student financial aid – Pell grant revenue	2,813,115	-
Federal Build America Bond interest subsidy revenue	(379,894)	-
Investment income/(loss)	160,003	4,017,531
Unrealized gain/(loss) on interest rate swap contracts	-	10,657,888
Gain/(Loss) on disposal of capital assets	(71,980)	-
Interest on capital asset related debt	(4,248,930)	(5,361,936)
<b>Net non-operating revenues/(expenses)</b>	<b>21,393,957</b>	<b>9,313,483</b>
<b>Income/(Loss) before other revenues, expenses, gains, or losses</b>	<b>(3,857,823)</b>	<b>6,878,690</b>
Capital appropriations (Note 5)	13,878,379	-
Capital gifts	20,697	-
Additions to minority partner capital	-	4,000,000
Additions to term endowments	-	1,926,823
Additions to permanent endowments	-	1,655,421
<b>Net other revenues, expenses, gains, or losses</b>	<b>13,899,076</b>	<b>7,582,244</b>
<b>Increase in net position</b>	<b>10,041,253</b>	<b>14,460,934</b>
<b>Net Position – Beginning of year</b>	<b>161,921,283</b>	<b>24,161,113</b>
<b>Net Position – End of year</b>	<b>\$ 171,962,536</b>	<b>\$ 38,622,047</b>

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

# STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2013

	UMW
<b>Cash flows from operating activities:</b>	
Student tuition and fees	\$ 39,707,235
Grants and contracts	568,861
Auxiliary enterprises	35,630,801
Other receipts	1,550,699
Payments to employees	(45,689,238)
Payments for fringe benefits	(10,681,027)
Payments for services and supplies	(31,088,331)
Payments for utilities	(2,926,759)
Payments for scholarships and fellowships	(9,084,582)
Payments for noncapitalized plant and equipment	(1,202,752)
Perkins and other loans issued to students	(107,686)
Collection of Perkins and other loans from students	116,051
<b>Net cash used by operating activities</b>	<b>(23,206,728)</b>
<b>Cash flows from noncapital financing activities:</b>	
State appropriations	22,842,334
Federal Pell Grant revenue	2,813,115
Federal Family Education Loan Program receipts	19,842,008
Federal Family Education Loan Program payments	(19,842,008)
Loan made to UMW Foundation	1,600,000
Agency receipts and payments (net)	(188,878)
<b>Net cash provided by noncapital financing activities</b>	<b>27,066,571</b>
<b>Cash flows from capital financing activities:</b>	
Capital appropriations	13,957,289
Purchase of capital assets	(18,404,978)
Proceeds received from capital debt, leases, and installments	27,955,000
Principle paid on capital debt, leases, and installments	(2,864,064)
Interest paid on capital debt, leases, and installments	(2,915,506)
<b>Net cash provided by capital financing activities</b>	<b>17,727,741</b>
<b>Cash flows from investing activities:</b>	
Interest on investments	143,340
<b>Net cash provided by investing activities</b>	<b>143,340</b>
<b>Net increase in cash</b>	<b>21,730,924</b>
<b>Cash – Beginning of the year</b>	<b>25,031,559</b>
<b>Cash – End of the year</b>	<b>\$ 46,762,483</b>

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

## STATEMENT OF CASH FLOWS (CONTINUED)

For the Year Ended June 30, 2013

	UMW
<b>Reconciliation of net operating loss to net cash used by operating activities:</b>	
<b>Operating loss</b>	<b>\$ (25,251,780)</b>
Adjustments to reconcile net loss to net cash used by operating activities:	
Depreciation expense	6,710,235
Changes in assets and liabilities:	
Accounts receivable (operating portion)	(1,152,226)
Inventories	37,616
Prepaid expenses	118,853
Accounts payable	(1,977,592)
Deferred revenue	(307,866)
Deposits held in trust, excluding Agency funds	(4,616)
Due to Foundation	(1,457,913)
Due to Commonwealth (operating portion)	(381)
Accrued leave liability	78,942
<b>Total adjustments</b>	<b>2,045,052</b>
<b>Net cash used by operating activities</b>	<b>\$ (23,206,728)</b>
<b>Noncash investing, capital, and financing activities</b>	
Gift of capital assets	20,697

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

# NOTES TO THE FINANCIAL STATEMENTS

## CONTENTS

1. Reporting Entity .....	16
2. Summary of Significant Accounting Policies .....	16
3. Cash, Cash Equivalents, and Investments .....	19
4. Accounts Receivable .....	21
5. Commonwealth Equipment and Capital Project Reimbursement Programs.....	21
6. Capital Assets .....	22
7. Accounts Payable and Accrued Expenses .....	23
8. Non-Current Liabilities .....	23
9. Long-Term Indebtedness .....	23
10. Expenses By Natural Classification.....	26
11. State Appropriations.....	26
12. Commitments.....	27
13. Contributions To Pension Plans .....	28
14. Post-Employment Benefits.....	29
15. Risk Management and Employee Health Care Plans .....	29
16. Contingencies.....	29
17. Related Party Transactions .....	29
18. Affiliated Foundation .....	30
19. UMW Foundation Footnote Disclosures.....	31
20. Subsequent Events.....	38

## 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*, 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 assets 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 Statement 39 addressed above, the financial position and results of its operations are not discretely presented in conjunction with the University's financial statements. Summary information related to the University of Mary Washington Alumni Association is presented in Note 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.

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.

The University has the option to apply all FASB pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The University has elected not to apply FASB pronouncements issued after the applicable date.

## Cash Equivalents

For purposes of the statements of net assets 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 average cost 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.

## Deferred Revenues

Deferred 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 for refinancing purposes is also reported net of any gain or loss on the defeasance of prior debt and is expensed over the life of the debt. Material debt issuance costs are reported as a non-current asset that is amortized over the life of the debt on a straight-line basis.

## 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, 2013, 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 Assets

The University's net assets are classified as follows:

- **Invested in capital assets, net of related debt** – Invested in capital assets, net of related debt 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 invested in capital assets, net of related debt.
- **Restricted net assets, expendable** – Expendable restricted net assets include resources for which the University is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.
- **Restricted net assets, nonexpendable** – Nonexpendable restricted net assets consist 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 assets** – Unrestricted net assets represent 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, 2013	Credit Rating	Investment Maturity
Cash and cash equivalents:			
Cash with the Treasurer	\$536,224		
Deposits with financial institutions	7,604,788		
Collateral held for securities lending	97,771		<3 months
Money market deposits with brokers/dealers	6,904,868	Moody’s AAA	<3 months
State non-arbitrage program (SNAP)	31,716,603	S&P AAAm	<3 months
	\$ 46,860,254		
Short-term Investments			
Collateral held for securities lending	\$5,272		<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. 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, 2013:

### Accounts Receivable

Student tuition and fees	\$1,984,163
Auxiliary enterprises	962,182
Perkins loan	836,882
VCBA Series 2010A/B Interest Subsidy	510,756
Other activities	37,420
	<hr/>
Total receivables before allowance	4,331,403
	<hr/>
Less: allowance for doubtful accounts	(664,420)
	<hr/>
Total receivables	\$3,666,983

## 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 (21<sup>st</sup> 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, 2013, 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 21 <sup>st</sup> Century program	13,349,798
	<hr/>
Total capital appropriations	\$ 13,878,379

The line item, "Due from the Commonwealth, restricted," on the *Statement of Net Position* for the year ended June 30, 2013, represents pending reimbursements from the following programs:

<b>Due from the Commonwealth, restricted</b>	
VCBA Equipment Trust Fund Program	\$528,581
VCBA 21 <sup>st</sup> Century program	2,144,891
<b>Total Due from the Commonwealth, restricted</b>	<b>\$ 2,673,472</b>

## 6. CAPITAL ASSETS

A summary of changes in capital asset categories for the year ended June 30, 2013, is presented as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
<b>Non-depreciable capital assets:</b>				
Land	\$ 5,176,399	\$ -	\$ -	\$ 5,176,399
Construction in progress	38,698,655	18,822,010	(37,567,148)	19,953,517
<b>Total non-depreciable capital assets</b>	<b>43,875,054</b>	<b>18,822,010</b>	<b>(37,567,148)</b>	<b>25,129,916</b>
<b>Depreciable capital assets:</b>				
Buildings	214,278,238	35,735,089	(1,665,519)	248,347,808
Equipment	17,358,286	858,157	(432,237)	17,784,206
Infrastructure	32,129,622	337,275	-	32,466,897
Improvements other than buildings	9,439,909	57,195	-	9,497,104
Library books	11,605,694	184,140	(125,445)	11,664,389
<b>Total depreciable capital assets at historical cost</b>	<b>284,811,749</b>	<b>37,171,856</b>	<b>(2,223,201)</b>	<b>319,760,404</b>
<b>Less accumulated depreciation for:</b>				
Buildings	52,714,572	3,797,381	(1,602,712)	54,909,241
Equipment	11,956,255	1,370,936	(422,021)	12,905,170
Infrastructure	23,929,925	935,313	-	24,865,238
Improvements other than buildings	2,734,935	347,208	-	3,082,143
Library books	10,212,930	259,397	(125,445)	10,346,882
<b>Total accumulated depreciation</b>	<b>101,548,617</b>	<b>6,710,235</b>	<b>(2,150,178)</b>	<b>106,108,674</b>
<b>Depreciable capital assets, net of depreciation</b>	<b>183,263,132</b>	<b>30,461,621</b>	<b>(73,023)</b>	<b>213,651,730</b>
<b>Total capital assets, net of depreciation</b>	<b>\$ 227,138,186</b>	<b>\$ 49,283,631</b>	<b>\$ (37,640,171)</b>	<b>\$ 238,781,646</b>

## 7. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at June 30, 2013:

Accounts payable and accrued expenses	
Accounts payable	\$ 4,293,970
Accrued salaries and wages payable	3,361,436
Accrued interest on capital debt	1,576,888
Retainage payable	760,493
	<hr/>
Total accounts payable and accrued expenses	<u>\$ 9,992,787</u>

## 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, 2013 is presented below:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Long-term debt:					
Bonds payable	\$ 5,206,026	\$ 596,673	(1,476,650)	\$ 4,326,049	\$ 305,255
Notes payable	75,751,689	29,581,811	(2,053,654)	103,279,846	2,030,000
Installment purchases	1,936,263	-	(223,820)	1,712,443	233,571
	<hr/>				
Total long-term debt	82,893,978	30,178,484	(3,754,124)	109,318,338	2,568,826
	<hr/>				
Other non-current liabilities:					
Accrued compensated absences	1,498,548	1,065,014	(986,071)	1,577,491	1,089,855
	<hr/>				
Total long-term liabilities	<u>\$ 84,392,526</u>	<u>\$ 31,243,498</u>	<u>\$(4,740,195)</u>	<u>\$ 110,895,829</u>	<u>\$ 3,658,681</u>

## 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, 2013 is presented as follows:

	Interest Rates	Maturity	Outstanding Balance
Residence Halls			
Series 2004A, issued \$1,036,316 – partial refunding series 2001	2.0% - 5.0%	2020	\$ 813,698
Series 2009C, issued \$152,541- partial refunding series 2001A	3.0% - 4.0%	2021	152,542
Dining Halls			

	Interest Rates	Maturity	Outstanding Balance
Series 2005A, issued \$4,730,000 – partial refunding	5.0%	2015	420,000
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)			494,153
Gain/(loss) deferral on debt defeasance			(399,200)
Total Bonds Payable			<u>\$ 4,326,049</u>

## 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, 2013 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	\$ 495,000
Fitness Center			
Series 2004R, issued \$1,385,000 – partial refunding series 2000A	3.00% - 5.00%	2016	1,105,000
Series 2007B, issued \$1,030,000 – partial refunding series 2000A	4.00% - 4.50%	2019	1,020,000
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	835,000
Series 2010B, issued \$630,000 – partial refunding series 2002A	2.00% - 5.00%	2023	630,000
Jepson Science Center			
Series 2004R, issued \$725,000 – partial refunding series 1997	3.00% - 5.00%	2016	390,000
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	495,000
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	1,775,000
Residence Halls			
Series 2007A, issued \$4,895,000	4.50% - 5.00%	2037	4,485,000
Series 2010A/B, issued \$36,765,000	3.75% - 5.60%	2040	36,065,000
Convocation Center			
Series 2009B, issued \$18,795,000	3.00% - 5.00%	2039	18,175,000
Athletic Complex Renovations			
Series 2010A/B, issued \$2,530,000	2.00% - 5.60%	2041	2,435,000
Dining Halls			
Series 2012B, issued \$27,955,000	3.00% - 5.00%	2043	27,955,000
Unamortized premium/(discount)			3,888,676
Gain/(loss) deferral on debt defeasance			(498,830)
Total Notes Payable			<u>\$ 103,279,846</u>

## 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, 2013 is \$1,712,443.

## 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, 2013, \$2,855,000 of the bonds and \$3,740,000 of the notes 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:				
2014	\$305,255	\$2,030,000	\$ 233,571	\$2,568,826
2015	321,192	2,645,000	243,746	3,209,938
2016	336,903	2,755,000	254,365	3,346,268
2017	361,172	2,900,000	265,446	3,526,618
2018	373,600	3,050,000	277,010	3,700,610
2019 – 2023	1,853,860	15,765,000	438,305	18,057,165
2024 – 2028	679,114	15,970,000	-	16,649,114
2029 – 2033	-	17,885,000	-	17,885,000
2034 – 2038	-	21,525,000	-	21,525,000
2039 – 2043	-	15,365,000	-	15,365,000
Unamortized premium/(discount)	494,153	3,888,676	-	4,382,829
Gain/(loss) deferral on debt defeasance	(399,200)	(498,830)	-	(898,030)
<b>Total future principal requirements</b>	<b>\$ 4,326,049</b>	<b>\$103,279,846</b>	<b>\$ 1,712,443</b>	<b>\$ 109,318,338</b>
Future Interest commitments:				
2014	\$ 200,631	\$ 4,515,483	\$ 71,316	\$ 4,787,430
2015	185,280	4,407,883	61,141	4,654,304
2016	170,326	4,282,989	50,522	4,503,837
2017	153,166	4,142,645	39,441	4,335,252
2018	135,117	3,996,931	27,877	4,159,925
2019 – 2023	403,135	17,768,046	19,025	18,190,206
2024 – 2028	43,085	14,115,368	-	14,158,453
2029 – 2033	-	10,333,431	-	10,333,431
2034 – 2038	-	5,895,058	-	5,895,058
2039 – 2043	-	1,207,989	-	1,207,989
<b>Total future interest requirements</b>	<b>\$ 1,290,740</b>	<b>\$ 70,665,823</b>	<b>\$269,322</b>	<b>\$ 72,225,885</b>

## 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	\$ 21,647,045	\$ 4,273,695	\$ 1,188,494	\$ 1,068	\$ 62,287	\$ -	\$ 27,172,589
Research	181,800	7,633	152,779	-	11,251	-	353,463
Public service	454,210	124,125	230,277	-	34,049	-	842,661
Academic support	5,006,278	994,081	1,834,740	950	718,735	-	8,554,784
Student services	3,314,542	736,190	1,986,090	-	56,606	-	6,093,428
Institutional support	3,836,182	1,689,299	2,107,020	2,727	39,469	-	7,674,697
Plant – operation & maintenance	1,701,087	985,258	1,550,742	2,817,371	(101,128)	-	6,953,330
Depreciation	-	-	-	-	-	6,710,235	6,710,235
Student aid	417,890	24,437	182,093	-	441	-	624,861
Operation of Higher Ed Centers	294,767	62,536	545,181	57,697	105,041	-	1,065,222
Museum & cultural Services	527,662	88,208	109,829	44,953	3,295	-	773,947
Historic attraction Management	201,391	37,511	16,549	5,661	-	-	261,112
Auxiliary activities	7,537,178	1,670,342	18,878,182	(3,668)	272,706	-	28,354,740
<b>Total Expenses</b>	<b>\$ 45,120,032</b>	<b>\$ 10,693,315</b>	<b>\$ 28,781,976</b>	<b>\$ 2,926,759</b>	<b>\$ 1,202,752</b>	<b>\$ 6,710,235</b>	<b>\$95,435,069</b>

## 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	\$ 19,195,775
Student financial assistance	1,723,020
Museum and cultural services	459,539
Historic attraction management	205,430
Operation of Higher Education Centers	1,900,000

Supplemental adjustments:

College Scholarship Assistance Program (CSAP)	30,250
Capital Project Funding changes	(744,667)
Equipment Trust Fund debt transfer	(436,732)
Health Insurance Rate Changes	270,609
Information Technology Overhead Savings	(251)
Line of Duty Benefits	1,684
Other Benefits Rate Changes	(97,851)

## State Appropriations

Performance Budgeting System	2,331
Retirement Contribution Changes	264,671
State Employee Bonus	531,031
State Employee Group Life, Sickness, and Disability	4,082
Statewide Purchase & Supply System (eVa) Rate Changes	(3,271)
Stormwater Management	305,214
Two-year College Transfer Grant	4,000
Va. Military Survivors & Dependent Education Program	12,250
Virginia DOE Pathways to Excellence	(9,346)
Virginia DOE Special Ed Teacher Support	19,639
Virginia Guaranteed Assistance Program	750
Virtual Library of Virginia (VIVA) allocation	13,959
Cash reversions:	
Dahlgren	(530,473)
State appropriation revenue, adjusted	\$23,121,643

## 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, 2013, include:

#### Capital commitments by project

Convergence Center	\$ 18,033,334
Mercer – Woodard Renovations	542,652
Mason – Randolph Renovations	426,057
Dahlgren	341,504
Maintenance Reserve	608,382
Other projects	309,196
Total capital commitments	<u>\$20,261,125</u>

In addition, \$760,493 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 \$5,100 for the year ended June 30, 2013.

The University is committed to an operating lease for office space for administrative offices of the University. The lease is a two year lease beginning May 2009 and was extended until October 2013. Rental expense was \$150,342 for the year ended June 30, 2013. The University has a lease for storage space off-campus. It is a five year lease beginning January 2012. Rental expense was \$14,312 for the year ended June 30, 2013.

Additionally, the University is committed to ten leases with the UMW Foundation, a related party to the University, and its subsidiaries. The first of these leases is for additional parking near the campus. The lease was for one year beginning in July 2010 and was extended until June 2013. The second lease is for storage space off-campus. The lease is for a two year term beginning in June 2009 and was extended during the year until June 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. The final six leases are for the rental of five houses and a duplex in the immediate area of the University. All are for five year terms with four of the leases beginning in July 2010, two beginning May 2011. Rental expense on all ten leases was \$ 575,464 for the year ended June 30, 2013.

The University has, as of June 30, 2013, the following future minimum rental payments due under the above leases:

<b>Future minimum operating lease payments</b>	
Year ending June 30, 2014	\$ 573,494
Year ending June 30, 2015	524,162
Year ending June 30, 2016	429,057
Year ending June 30, 2017	137,503
Total	\$ 1,664,216

### 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 \$2,182,759 for the year ended June 30, 2013.

#### 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 \$1,669,091 for fiscal year 2013. Contributions to the optional retirement plan were calculated using the base salary amount of approximately \$16,489,311 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 \$191,781 for fiscal year 2013.

#### 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, 2013, 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, 2013.

#### 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*.

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, 2013 were \$43,056 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, 2013 were \$836,309. Amounts due from the Foundation under the Series 2009 Bond agreement at June 30, 2013 were \$1,300,297. Both amounts are included in "Due to 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. Additional information can be found in Note 20. 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, 2013, \$1,440,550 has been advanced per the agreement and is included in "Note Receivable" 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. Proceeds of \$27,955,000 will be used to finance construction of a student center. The note was issued with interest rates varying from 3.0% to 5.0% and a 2042 maturity. The agreement with the Foundation and its subsidiary, Eagle Developers, LLC, was amended on May 31, 2013, to revise the scope of services provided by Eagle Developers regarding the assignment and duties of a Progress Inspector for the student center project.

The University has currently entered into ten 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*, 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, 2013.

**University of Mary Washington Alumni Association**

Assets:	
Cash and investments	\$ 107,915
Other assets	4,991
Total assets	\$ 112,906
Liabilities and net assets:	
Due to UMW Foundation	\$ 8,623
Net assets	104,283
Total liabilities and net assets	\$ 112,906

The revenues and expenditures of the Alumni Association, determined as if in consolidation with the University, were \$224,479 and \$233,208 respectively, for the year ended June 30, 2013.

## 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, 2013. 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 designated and qualifying as cash flow hedges 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, 2013, is summarized below:

<b>UMW Foundation Investments</b>	<b>Market Value As of June 30, 2013</b>
US Treasury Securities	\$ 1,019,563
Bond mutual funds	4,657,110
Stock mutual funds	15,065,385
Hedge funds	11,450,483
Private Equity	2,848,905
Natural resources and real assets	5,630,885
Total Investments	\$ 40,672,331

Investment income includes the following components for the year ended June 30, 2013:

**UMW Foundation Investment Income**

Interest and dividends	\$ 977,932
Unrealized gain (loss)	2,493,423
Realized gain	546,176
Investment income(loss)	<u>\$ 4,017,531</u>

The Foundation is the remainder beneficiary and trustee of twenty-seven charitable gift annuities and one charitable remainder trust, dated 1991 to 2013. 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 2013 were \$73,382.

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 their accounting process for pledges receivable, the Foundation has elected to record all pledges receivable at fair value. The fair value adjustment for 2013 was (\$7,199). 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, 2013:

**Pledges Receivable**

Pledges due within one year	\$ 88,846
Pledges due in two to five years	92,147
Thereafter	40,000
Total receivables before discount	<u>220,993</u>
Less: discounts to net present value (using a discount rate of 5%)	<u>(16,640)</u>
Pledges receivable – net	<u>\$ 204,353</u>

The Foundation has a loan receivable of \$75,000 due from a former key employee of the University. No payments were received in 2013. 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.

On April, 1, 2012, the Foundation entered into an agreement to loan \$5,056 to a lessee for business operation costs. Payments are due in monthly installments of \$500 - \$556, with no interest charged. The loan matures October 2013. The loan is included in tenant receivables.

## Capital Assets

A summary of changes in capital asset categories of the UMW Foundation for the year ended June 30, 2013, is presented as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Non-depreciable capital assets:				
Land	\$ 33,319,963	\$ 0	\$ 0	\$33,319,963
Construction in progress	3,058,724	8,021,541	(2,022,326)	9,057,939
<b>Total non-depreciable capital assets</b>	<b>36,378,687</b>	<b>8,021,541</b>	<b>(2,022,326)</b>	<b>42,377,902</b>
Depreciable capital assets:				
Buildings	95,608,009	925,788	(409,955)	96,123,842
Equipment	2,612,976	3,990	(1,196,408)	1,420,558
Improvements other than buildings	955,733	103,777	-	1,059,510
<b>Total depreciable capital assets at historical cost</b>	<b>99,176,718</b>	<b>1,033,555</b>	<b>(1,606,363)</b>	<b>98,603,910</b>
Less accumulated depreciation for:				
Buildings	7,786,889	2,783,080	(53,292)	10,516,677
Equipment	800,381	107,433	(539,948)	367,866
Improvements other than buildings	28,682	16,456	-	45,138
<b>Total accumulated depreciation</b>	<b>8,615,952</b>	<b>2,906,969</b>	<b>(593,240)</b>	<b>10,929,681</b>
<b>Depreciable capital assets, net of depreciation</b>	<b>90,560,766</b>	<b>(1,873,414)</b>	<b>(1,013,123)</b>	<b>87,674,229</b>
<b>Total capital assets, net of depreciation</b>	<b>\$126,939,453</b>	<b>\$ 6,148,127</b>	<b>\$ (3,035,449)</b>	<b>\$ 130,052,131</b>

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, 2013:

Accounts Payable	
Accounts payable	\$ 2,432,811
Accrued interest	474,805
Deferred compensation liability	82,953
<b>Total accounts payable</b>	<b>\$ 2,990,569</b>

## 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, 2012) 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 2008 Bonds – Marye's Heights Apartments*

During November 2008, Eagle Housing, LLC obtained \$10,670,000 in tax exempt financing through the Economic Development Authority of the City of Fredericksburg, Virginia (Series 2008 Bonds). The proceeds were used to refund a previous bond issuance for the acquisition of Marye's Heights Apartments, which are owned by the Foundation and operated by the University as part of its student housing system. The Series 2008 Bonds were due to mature April 1, 2029 and have a variable interest rate as determined by the remarketing agent. The bonds were refinanced under a loan agreement dated June 29, 2012 and effective July 2, 2012.

#### *Series 2009 Bonds – Eagle Village Phase I*

In June 2009, Eagle Housing, LLC obtained \$88,990,000 in financing through the Economic Development Authority of the City of Fredericksburg, Virginia. Series 2009A tax exempt and 2009B taxable (2009 Bonds) are variable rate revenue bonds totaling \$70,780,000 and \$18,210,000, respectively. The bonds were issued to finance development of Eagle Village Phase I. This project included student apartments; a multi-use building consisting of a parking deck, retail and office space; and a pedestrian bridge to the University campus. Construction on this project was completed during 2011. The bonds were refinanced under a loan agreement dated June 29, 2012 and effective July 2, 2012.

Effective July 2, 2012, a taxable loan was entered into with the Bank of America to refund its 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. As of June 30, 2013, management believes the Foundation was in compliance with all terms of the loan agreement.

The line of credit was scheduled to mature in December 2012, however, on June 29, 2012, Eagle Village I, LLC entered into a loan agreement with Bank of America to refinance this line of credit effective July 2, 2012. The amount is now included in the taxable loan.

One of the loans 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.

In June 2011, the Foundation obtained a commitment from the University for a non-interest bearing, promissory note. Under the agreement the University loaned \$1,000,000 to fund the soft costs related to the planning and design of a campus center for the ultimate ownership and use by the University. The loan was repaid in January 2013.

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.

Bonds payable consists of the following at June 30, 2013:

<b>Bonds Payable</b>	<b>Interest Rates</b>	<b>Maturity</b>	<b>Outstanding Balance</b>
2007 Bonds, net of unamortized discount	Variable 4.0% at June 30	2037	\$ 2,270,000
Total Bonds Payable			<u>\$2,270,000</u>

Loans Payable

Loans payable consists of the following at June 30, 2013:

<b>Loans Payable</b>	<b>Interest Rates</b>	<b>Maturity</b>	<b>Outstanding Balance</b>
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	1.3%	2015	\$ 119,150,000
Eagle Hospitality, LLC, construction and term loan secured by a Deed of trust and guarantee by the Foundation	5.25		2,829,631
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, an assignment of rents and leases, and a guarantee by the Foundation.	5.25%	2015	1,500,000
Mortgage note secured by a deed of trust, an assignment of rents and leases, and a guarantee by the Foundation.	5.5%	2028	276,837
Total Notes Payable			<u>\$ 125,197,018</u>

The line of credit above was scheduled to mature in December 2013, however, was refinanced under a loan agreement subsequent to year end.

Annual debt service requirements

	<b>Bonds Payable</b>	<b>Notes Payable</b>	<b>Total Long-Term Debt</b>
Future principal commitments:			
2014	\$ 50,000	\$ 575,321	\$ 625,321
2015	55,000	4,650,808	4,705,808
2016	55,000	39,890,912	39,945,912
2017	60,000	6,285	66,285
2018	60,000	6,645	66,645
Thereafter	1,990,000	247,050	2,237,050
Subsequent refinanced loans payable (Loss) deferral on debt defeasance		79,820,000	79,820,000
Total future principle requirements	<u>\$ 2,270,000</u>	<u>\$125,197,021</u>	<u>\$ 127,467,021</u>

### Deferred Financing Costs

Financing costs of \$977,646 are amortized on a straight-line basis over the term of the related debt. Accumulated amortization at June 30, 2013 was \$302,417.

### Debt Related Derivative Instruments

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

Bond Series	Notional Amount	Interest Rate	Effective Date	Expiration Date	Fair Value
2009A	\$ 70,000,000	3.604%	09/01/2010	09/01/2014	(\$2,782,922)
2009A	\$ 69,975,000	3.604%	09/01/2014	09/01/2041	(\$ 11,998,556)
2009B	\$ 18,210,000	3.876%	09/01/2010	09/01/2015	(\$ 1,319,859)
2008	\$ 9,210,000	3.280%	11/28/2008	04/01/2014	(\$ 249,954)
2008	\$ 8,405,000	3.280%	04/01/2014	04/01/2029	(\$ 817,721)

### Restricted Deposits and Funded Reserves

In accordance with the bond agreements, the Foundation has the following restricted deposits and funded reserves which are held by Trustees of the Series 2008 and 2009 bonds and all are cash and cash equivalents:

<b>Restricted Deposits and Funded Reserves</b>	
Debt Service Reserve Fund	\$ 3,150,000
Debt Basis Account	1,605,287
Bond Principal Fund	754,650
Surplus Reserve	750,000
Repair & Replacement Reserve Fund	475,623
Tenant Improvement & Leasing Commissions Reserve	285,402
Interest Reserve Fund	619,498
<b>Total</b>	<b>\$ 7,640,460</b>

### **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 2013, the Foundation gave the UMW AA \$144,091. However, 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 8,623 at June 30, 2013.

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.

## 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 nine years. The following is a schedule by years of future minimum rentals under the leases at June 30, 2013:

<b>Future Minimum Operating Lease Payments</b>	
2014	\$ 2,226,842
2015	2,085,385
2016	1,930,112
2017	1,481,996
2018	831,165
Thereafter	2,125,087
Total	<u>\$ 10,680,587</u>

Included in the future payments above are multiple lease agreements between the University and the Foundation with approximately \$1,700,000 in future minimum rentals at June 30, 2013.

### 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*

The Foundation and Eagle Hospitality, LLC signed a development management contract totaling approximately \$625,000 for the future construction of a hotel. The consultant contract requires a fee equal to 5.00% of the total project cost for a 28-month period, payable in monthly installments. Costs incurred totaling \$496,600 at June 30, 2013 are included in construction in progress with a remaining commitment of \$128,400. The project is estimated to cost approximately \$16,000,000 and is expected to be completed under a joint venture agreement with unrelated minority shareholders. During 2012, Eagle Hospitality, LLC entered into an operating agreement with three equity investing members that will fund the remaining equity requirements for the hotel. Under this agreement, Eagle Property Holdings, LLC shall serve as the Manager with a minimum 80.77% common interest in Eagle Hospitality, LLC. As of June 30, 2013, minority partners have fully funded their commitments with contributed cash investment of \$4,000,000.

Eagle Hospitality, LLC signed an agreement with a hotel management company for the operation of the hotel. The contract provides for \$50,000 in pre-opening management fees. 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.

As of June 30, 2013, Eagle Hospitality had architectural, construction and equipment commitments of approximately \$7.1 million.

#### *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 \$222,833 and \$354,300 during 2013 and 2012, respectively. As of June 30, 2013, Eagle Developers had architectural and construction commitments of approximately \$2.0 million.

## 20. SUBSEQUENT EVENTS

Subsequent to June 30, the University terminated four leases previously held with Foundation entities. The terminated leases were replaced by a single consolidated lease beginning September 1, 2013. The new lease is a five year lease with Foundation entities. Annual rent in the first year is \$47,404, increasing 3% each subsequent year

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

<b>Future minimum operating lease payments</b>	
Year ending June 30, 2014	\$ 39,503
Year ending June 30, 2015	48,589
Year ending June 30, 2016	50,047
Year ending June 30, 2017	51,548
Year ending June 30, 2018	53,095
Year ending June 30, 2019	8,892
<b>Total</b>	<b>\$ 251,674</b>

### *Campus Center Commitments*

In July, 2013, Eagle Developers signed a construction contract for the construction of the campus center for the University in the amount of \$2,090,775. No charges were incurred or accrued at June 30.

### *Refinanced Loan Agreement*

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 (EDA) of the City of Fredericksburg, Virginia. Eagle Housing used the proceeds from the bond to refinance a portion of its 2012 taxable loan held by the Bank of America. Under the agreement, Eagle Housing issued to the EDA of the City of Fredericksburg a promissory note in the amount of \$79,820,000, which the EDA assigned to Bank of America as purchaser of the bond. The Series 2013 bond has a principal balance of \$79,820,000 and carries a variable interest rate equal to 70% of the one-month London Interbank Offered Rate plus 1.45%. The bond provides for principal payments of \$3,345,000 over a 5-year term with a balloon payment of the remaining principal due at maturity on July 1, 2018. The bond purchase agreement calls for the borrower to maintain certain minimum balances in accounts with Bank of America over the life of the bond and to maintain a debt service coverage ratio of at least 1.2 to 1.0. Under the bond purchase agreement, Eagle Housing, LLC is also required to maintain its interest rate swap contracts for a period of 5 years. 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.

Estimated principal payments on the refinanced debt payable for future years ending June 30 are as follows:

<b>Estimated principal payments on refinanced debt</b>	
Year ending June 30, 2014	\$ 0
Year ending June 30, 2015	555,000
Year ending June 30, 2016	585,000
Year ending June 30, 2017	600,000
Year ending June 30, 2018	735,000
Thereafter	77,345,000
<b>Total</b>	<b>\$ 79,820,000</b>

## UNIVERSITY OFFICIALS

### Board of Visitors at June 30, 2013

Pamela J. White '74, Rector  
Holly T. Cuellar '89, Vice Rector  
Xavier R. Richardson, Secretary

Mary J. Berry  
Tara C. Corrigan '82  
Theresa Young Crawley '77  
Joseph W. Grzeika '83  
Dorcas R. Hardy  
B Judson Honaker  
Mark S. Ingrao '81  
Daniel K. Steen '84  
Joseph R. Wilson

### University Leadership

Richard V. Hurley  
President

Richard R. Pearce  
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