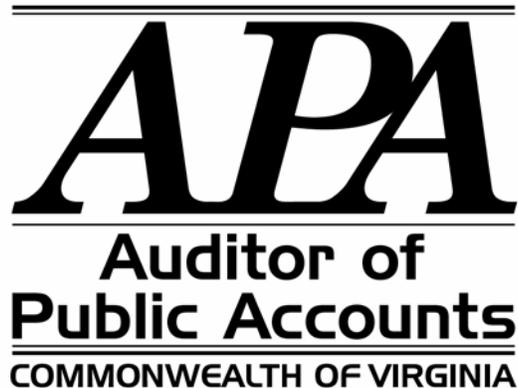


**THE COLLEGE OF WILLIAM AND MARY  
WILLIAMSBURG, VIRGINIA**

**REPORT ON AUDIT  
FOR THE YEAR ENDED  
JUNE 30, 2003**



## **AUDIT SUMMARY**

Our audit of the College of William and Mary in Virginia for the year ended June 30, 2003, found:

- the financial statements are presented fairly, in all material respects;
- no internal control matters that we consider to be material weaknesses;
- no instances of noncompliance that are required to be reported under Government Auditing Standards; and
- corrective action of prior audit findings.

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# Commonwealth of Virginia

**Walter J. Kucharski, Auditor**

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

June 15, 2004

The Honorable Mark R. Warner  
Governor of Virginia

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

The Board of Visitors  
The College of William and Mary in Virginia

We have audited the accounts and records of **The College of William and Mary in Virginia**, including Richard Bland College and Virginia Institute of Marine Science, as of and for the year ended June 30, 2003, and submit herewith our complete reports on financial statements and compliance and internal control over financial reporting.

## INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

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

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

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

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

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

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

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

#### Compliance

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

#### Internal Control over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

#### Status of Prior Findings

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

The "Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting" is intended solely for the information and use of the Governor and General Assembly of Virginia, Board of Visitors, and management, and is not intended to be and should not be used by anyone other than these

specified parties. However, this report is a matter of public record and its distribution is not limited.

EXIT CONFERENCE

We discussed this report with management at an exit conference held on June 25, 2004.

AUDITOR OF PUBLIC ACCOUNTS

JHS:whb  
whb:97

THE COLLEGE OF WILLIAM AND MARY IN VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

As of June 30, 2003

Reporting Entity

The financial statements of The College of William and Mary include the financial operations of the main campus as well as those of the Virginia Institute of Marine Science and Richard Bland College, hereafter jointly referred to as "the College". All three entities are agencies of the Commonwealth of Virginia reporting to the Board of Visitors of The College of William and Mary. These statements do not include the financial activity of any affiliated foundations or similar not-for-profit organizations providing support to the College. These organizations are identified and described in the footnotes to the financial statements.

Statement of Net Assets

The Statement of Net Assets provides a snapshot of the College's financial position, specifically the assets, liabilities and resulting net assets as of June 30, 2003 with comparative figures as of June 30, 2002. Certain balances as of June 30, 2002 have been restated as further explained in Note 2. Within net assets, three major categories are presented. Net assets invested in capital assets, net of debt presents the College's equity in property, plant and equipment. Restricted net assets presents College assets whose use is prescribed the donor or providing entity. Restricted net assets are further presented in the categories of expendable and non-expendable. Expendable assets may be fully consumed for the specified purpose while non-expendable assets require preservation of the corpus with any investment earning being available to the College within the donor's restrictions. Unrestricted net assets are available to support the mission of the College as determined by management.

Summary Statement of Net Assets

	<u>FY 2003</u>	<u>FY2002 (as restated)</u>
<u>Assets:</u>		
Current	\$ 37,720,876	\$ 41,972,944
Capital, Net of Accumulated Depreciation	285,815,990	278,727,605
Other non-current	<u>55,578,809</u>	<u>53,907,613</u>
Total assets	<u>\$ 379,115,675</u>	<u>\$ 374,608,162</u>
<u>Liabilities:</u>		
Current	\$ 44,769,352	\$ 45,388,744
Non-current	<u>46,307,617</u>	<u>44,836,797</u>
Total liabilities	<u>\$ 91,076,969</u>	<u>\$ 90,225,541</u>
<u>Net Assets:</u>		
Invested in capital assets, net of related debt	\$ 242,140,402	\$ 230,787,705
Restricted	38,316,943	46,089,446
Unrestricted	<u>7,581,361</u>	<u>7,505,470</u>
Total net assets	<u>\$ 288,038,706</u>	<u>\$ 284,382,621</u>

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

The Statement of Revenues, Expenses and Changes in Net Assets presents the College's results from operations for the fiscal year. Revenues of the College are now presented in two distinct categories: operating and non-operating. Operating revenues include tuition and fees, grants and contracts, and the sales of auxiliary enterprises. Non-operating revenues include state appropriations, gifts, and investment income and appear after the results from operations.

### Summary Statement of Revenues, Expense and Changes in Net Assets

	<u>FY 2003</u>	<u>FY 2002</u>
Operating revenues	\$ 138,287,855	\$ 126,587,077
Operating expenses	<u>224,538,963</u>	<u>213,250,041</u>
Operating loss	(86,251,108)	(86,662,964)
Net non-operating revenues	<u>83,491,886</u>	<u>82,493,251</u>
Loss before other revenues, expenses, gains or losses	(2,759,222)	(4,169,713)
Net other revenues	<u>6,415,307</u>	<u>7,713,284</u>
Increase in net assets	<u>\$ 3,656,085</u>	<u>\$ 3,543,571</u>

Within the operating revenues of the College, all major revenue components reflected slight increases for the year. Tuition and fee revenues increased as a result of an increase in tuition for both in-state and out-of-state students. Non-operating revenues increased slightly overall, with an increase in gifts being offset by the reversion of state appropriations stemming from statewide mandatory budget reductions and decreased investments earnings. Other revenues decreased as a result of the state reducing appropriations for capital projects and replacing the appropriations with bond-financed debt authority.

Overall, the College's financial position remains strong. In response to substantial reductions in state-support for the College's budget, management responded with a balanced program of cost reductions, reprogramming of revenues and selective increases in tuition and fees. These actions will preserve the academic integrity of the College as the foundation to all aspects of its operations and, therefore, its fiscal integrity.

## Statement of Cash Flows

The Statement of Cash Flows provides detailed information about the College's sources and uses of cash during the fiscal year. Cash flow information is presented in four distinct categories: operations, non-capital financing, capital financing, and investing activities. This statement aids in the assessment of the College's ability to generate cash to meet current and future obligations.

### Summary Statement of Cash Flows

	<u>FY 2003</u>	<u>FY 2002</u>
Cash flows (to) operating activity	\$ (77,133,566)	\$ (75,968,349)
Cash flows from non-capital financing activity	83,022,450	86,168,989
Cash flows (to) capital financing activities	(16,504,265)	(15,265,495)
Cash flows (to) investing activities	<u>(608,247)</u>	<u>1,359,670</u>
Net decrease in cash	<u>\$ (11,223,628)</u>	<u>\$ (3,705,185)</u>

Cash flow from operations reflects the sources and uses of cash to support the comprehensive mission of the College. The primary sources of operating cash in fiscal year 2003 were tuition and fees (\$62.5 million) and research grants and contracts (\$33.7 million). The primary uses of operating cash in fiscal year 2003 were payments to employees (\$123.5 million) representing salaries, wages and fringe benefits and payments to vendors (\$39.2 million).

Cash flow from non-capital financing reflects non-operating sources and uses of cash. The primary sources of non-capital financing in fiscal year 2003 were state appropriations (\$62.7 million) followed by gifts (\$18.8 million). The excess cash from non-capital financing is used to support cash requirements of operations.

Cash flow from capital financing activities reflects the activities associated with the acquisition and construction of capital assets including related debt payments. The primary sources of cash in fiscal year 2003 included grants and gifts (\$4.6 million) and student fees (\$1.9 million). The primary uses of cash were capital expenditures (\$10.4 million), debt payments (\$6.7 million) and the reversion of state capital appropriations (\$6.3 million) that will be replaced with state-supported bonds.

## Capital Asset and Debt Administration

The College of William and Mary in Virginia

In fiscal year 2003, the College completed the installation of ramps and walkways at various locations on campus for disabled access, the Phase III Dormitory Renovations, the Campus Housing Dormitory Study as well as the Design Guidelines and Campus Precinct Framework.

The Design Guidelines and Campus Precinct Framework is an important step that will provide architectural guidelines for future renovation and construction. It will give attention to the concepts of open spaces, pedestrian corridors, and campus tradition that will unify the campus and provide a framework for future development that respects the diversity of the projects and provides a comprehensive approach to consistency in architectural style and use.

Portions of other major projects were completed during the fiscal year. For the Dormitory Renovations Phase IV project, Old Dominion Phase II, Dawson Hall Phase II, and Brown Hall Dormitory handicapped accessibility were completed as was the replacement of the Washington Hall windows. The replacement of Barrett Hall Roof and the renovation of Madison and Stith Halls will be completed by the end of summer 2003. Design for Chandler Hall is in progress.

Several projects are underway as of June 30, 2003. Swem Library remains in construction in addition to a roof replacement. Campus Heating and Cooling Improvements and Underground Utilities Upgrades continue as phased projects. Fire Alarm upgrades are scheduled to be completed by the end of summer 2003.

The Recreational Sports Center Addition and Renovation, the Marshall Wythe Law Library Addition and Renovation, the construction of a Small Hall Laboratory Facility to house a Nuclear Magnetic Spectrometer and preparation for constructing a new dormitory are in early planning and design stages. Millington Hall Renovations and Expansion and Parking Deck design projects are in later stages of design. Rodgers Hall Renovations planning is expected to begin in Fall 2003.

#### Virginia Institute of Marine Science

No major projects were completed in fiscal year 2003. The status of the Handicapped Access project has changed since last year's report. The bulk of the remaining funds will be used at the Eastern Shore Lab. Executive Order 74 (2001) froze the renovation and expansion of Byrd Hall. The current budget reflects the outstanding commitments of the closed renovation and expansion project plus an additional \$160,000 appropriation for maintenance repairs to keep the building usable. These maintenance repairs are currently underway. The original Gloucester Point bulkhead replacement construction contract is nearly complete and additional funds have been added to the project to install a concrete loading pad and complete the installation of the steel bulkhead along the west side of the entrance channel to the marina.

VIMS received a federal grant to construct an education laboratory building for the Chesapeake Bay Estuarine Research Reserve in Virginia program on the VIMS campus. The working drawings have been submitted for review by BCOM.

The Brooke and Davis Hall replacement projects were expanded to include the replacement of Byrd Hall and the construction of a new 46,000 square foot seawater laboratory and was renamed the marine Research Building Complex project. The project is in the preliminary and revised preliminary design phases.

The remaining appropriations are for property acquisitions for the Gloucester Point and Wachapreague campuses and the Virginia Estuarine & Coastal Research Reserve. VIMS purchased #2 Riverview Avenue for its Wachapreague campus in Spring 2003; property on the Dragon Run river in Fall 2002; and the Catlett Islands in June 2003 for the Virginia Estuarine & Coastal Research Reserve. The general fund portion of the Master plan properties acquisition, frozen in 2001 by Executive Order 74, has been restored through a Virginia College Building Authority bond.

#### Economic Outlook

The College's economic outlook is tied to various factors including the ability to recruit students, its status as a public institution within the Commonwealth of Virginia's higher education system, and its ability to raise revenue through grants and contracts activity and private fund raising.

The ability to recruit, admit, and retain top-caliber students is excellent, even as the College competes against the most select public and private institutions in the country. The number of undergraduate applications

to the College continues to increase as do the credentials of admitted students including SAT scores, the number of students within the top 10 percent of their graduating class, and the number of students designated by the College as Monroe Scholars based on their scholastic achievement. These statistics, coupled with the College's academic reputation and projected increases in the number of high school graduates, suggest a strong continuing student demand for the future.

As a public institution, the College receives significant financial support from the Commonwealth of Virginia in the form of operating and capital construction appropriations. As such, the College is directly impacted by changes in the State's financial outlook. The Commonwealth's 2002-04 budget as approved by the 2002 General Assembly required reductions in the operating budgets of institutions and agencies across the Commonwealth with reductions to the College's operating budget totaling \$6.9 million for FY 2002-03, increasing to \$8.8 million for FY 2003-04. Additional mid-year reductions in state support totaled \$4.9 million, increasing to \$6.0 million in FY 2003-04. In addressing these budget reductions, the College developed a set of guiding principles designed to protect the excellence, character, and financial integrity of the College. Balancing increases in tuition and offsetting student financial aid with targeted budget reductions, the College continues to protect its core academic programs' quality and integrity. Long-term planning continues to ensure that the College not only protects its core programs, but also invests strategically for the future.

Incremental capital construction funding for the College is now available through various bond funded initiatives passed by the 2002 General Assembly and endorsed by the voters of Virginia through referendum. Through a combination of Virginia College Building Authority and state supported general obligation bonds, the College is investing approximately \$90 million in its academic facilities. This state funding will be supplemented by additional College and private investment in other academic and student support facilities.

Through the efforts of its faculty, grant and contract activity at the College continues to increase, supporting faculty research while providing educational and research opportunities for students. At the same time, the College continues to exceed its fund raising targets established for the Campaign for William and Mary, a \$500 million campaign now in its third year.

## **FINANCIAL STATEMENTS**

THE COLLEGE OF WILLIAM AND MARY IN VIRGINIA  
STATEMENT OF NET ASSETS  
As of June 30, 2003

ASSETS	
Current assets:	
Cash and cash equivalents (Note 3)	\$ 27,132,452
Accounts receivable, net (Note 5)	8,741,278
Inventories	423,688
Other assets	<u>1,423,458</u>
Total current assets	<u>37,720,876</u>
Non-current assets	
Restricted cash and cash equivalents (Note 3)	7,731,694
Restricted investments (Note 3)	45,808,039
Appropriations available	2,039,076
Capital assets, nondepreciable (Note 6)	117,417,424
Capital assets, depreciable, net of accumulated depreciation (Note 6)	<u>168,398,566</u>
Total non-current assets	<u>341,394,799</u>
Total assets	<u>379,115,675</u>
LIABILITIES	
Current liabilities	
Accounts payable and accrued expenses (Note 7)	19,000,763
Retainage payable (Note 8)	1,366,752
Other liabilities (Note 9)	3,524,174
Deferred revenue	8,179,014
Deposits held in custody for others	3,519,901
Advances from the Treasurer of Virginia (Note 11)	1,370,000
Long-term obligations-current portion (Note 12)	<u>7,808,748</u>
Total current liabilities	<u>44,769,352</u>
Non-current liabilities (Note 12)	<u>46,307,617</u>
Total liabilities	<u>91,076,969</u>
NET ASSETS	
Invested in capital assets, net of related debt	242,140,402
Restricted for:	
Unexpendable:	
Scholarships and fellowships	471,509
Departmental uses	24,976,773
Expendable:	
Scholarships and fellowships	3,943,721
Research	1,896,619
Debt service	158,782
Capital projects	1,862,915
Loans	403,785
Departmental uses	4,602,839
Unrestricted	<u>7,581,361</u>
Total net assets	<u>\$ 288,038,706</u>

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

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

Operating revenues:	
Student tuition and fees, net of scholarship allowances of \$7,273,451	\$ 56,211,376
Federal grants and contracts	29,652,337
State grants and contracts	2,566,268
Local grants and contracts	153,007
Nongovernmental grants and contracts	2,822,506
Sales and services of educational departments	37,742
Auxiliary enterprises, net of scholarship allowances of \$4,314,554 (Note 14)	45,535,247
Other operating revenues	<u>1,309,372</u>
 Total operating revenues	 <u>138,287,855</u>
Operating expenses	
Instruction	67,035,050
Research	41,147,812
Public service	10,808
Academic support	19,561,402
Student services	6,013,953
Institutional support	16,912,852
Operation and maintenance of plant	11,183,314
Student aid	7,631,366
Auxiliary enterprises (Note 14)	44,469,252
Depreciation	10,048,949
Other	<u>524,205</u>
 Total operating expenses	 <u>224,538,963</u>
 Operating loss	 <u>(86,251,108)</u>
Non-operating revenues (expenditures)	
State appropriations (Note 16)	62,740,446
Gifts	19,953,425
Net investment income	2,844,662
Interest on capital asset related debt	(2,323,426)
Other non-operating revenue	2,209,124
Other non-operating expense	<u>(1,932,345)</u>
 Net non-operating revenues	 <u>83,491,886</u>
 Loss before other revenues	 <u>(2,759,222)</u>
Capital appropriations	702,000
Capital grants and contributions	<u>5,713,307</u>
 Total other revenues	 <u>6,415,307</u>
 Increase in net assets	 3,656,085
 Net assets - beginning of year, as adjusted (Note 2)	 <u>284,382,621</u>
 Net assets - end of year	 <u>\$ 288,038,706</u>

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

THE COLLEGE OF WILLIAM AND MARY IN VIRGINIA  
STATEMENT OF CASH FLOWS  
For the Year Ended June 30, 2003

Cash flows from operating activities:	
Receipts for tuition and fees	\$ 62,478,812
Receipts for research grants and contracts	33,699,300
Auxiliary enterprise charges	50,421,680
Payments to employees	(136,269,932)
Payments for scholarships	(14,742,811)
Payments to suppliers	(75,906,521)
Payments for maintenance expenses	(896,091)
Loans issued to students and employees	(457,506)
Collection of loans to students	715,779
Other receipts	4,238,762
Other expenses	(452,780)
Sales and services of educational departments	<u>37,742</u>
Net cash used by operating activities	<u>(77,133,566)</u>
Cash flows from noncapital financing activities:	
State appropriations	62,740,446
Gifts	18,842,543
Agency receipts	4,899,626
Agency payments	(3,386,053)
Other nonoperating revenue	376,509
Other nonoperating expenses	<u>(450,621)</u>
Net cash provided by noncapital financing activities	<u>83,022,450</u>
Cash flows from capital and related financing activities:	
Capital appropriations	(6,252,275)
Grants and gifts for capital purchases	4,588,130
Student fees for capital purchases	1,866,348
Capital income	352,918
Capital expenditures	(10,401,799)
Principal paid on capital-related debt	(4,319,986)
Interest paid on capital-related debt	<u>(2,337,601)</u>
Net cash used by capital and related financing activities	<u>(16,504,265)</u>
Cash flows from investing activities:	
Investment income	3,849,363
Investment expense	<u>(4,457,610)</u>
Net cash provided by investing activities	<u>(608,247)</u>
Net decrease in cash	(11,223,628)
Cash and cash equivalents - beginning of year, as adjusted (Note 2)	<u>46,087,774</u>
Cash and cash equivalents - end of year	<u><u>\$ 34,864,146</u></u>

Reconciliation of net operating expenses to net cash used by operating activities:

Net operating loss	\$ (86,251,108)
Adjustments to reconcile net operating expenses to cash used by operating activities:	
Depreciation expense	10,048,949
Changes in assets and liabilities:	
Accounts receivable	(1,683,333)
Other assets	628,533
Accounts payable	(680,974)
Advances from Treasurer of Virginia	130,000
Other liabilities	(245,149)
Deferred revenue	1,898,763
Inventories	(6,465)
Long-term obligations	<u>(972,782)</u>
Net cash used in operating activities	<u>\$ (77,133,566)</u>

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

## **NOTES TO FINANCIAL STATEMENTS**

THE COLLEGE OF WILLIAM AND MARY

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The College of William and Mary in Virginia, which includes the Williamsburg campus, the Virginia Institute of Marine Science, and Richard Bland College is a part of the Commonwealth of Virginia's statewide system of public higher education. The College's Board of Visitors is appointed by the Governor and is responsible for overseeing governance of the College. The College is a component unit of the Commonwealth of Virginia and is included in the general-purpose financial statements of the Commonwealth.

The accompanying financial statements present all funds for which the College's Board of Visitors is financially accountable. Related foundations and similar non-profit corporations for which the College is not financially accountable are not part of the accompanying financial statements. These entities are not included because they are separately incorporated and the College exercises no control over them. These affiliated organizations are described in Note 20.

The Omohundro Institute of Early American History and Culture (OIEAHC), sponsored by the College of William and Mary and The Colonial Williamsburg Foundation, is organized exclusively for educational purposes. Its Executive Board, subject to its sponsors, determines matters of policy and has responsibility for financial and general management as well as resource development. The Executive Board consists of six members: the chief education officer of the Colonial Williamsburg Foundation, the chief academic officer of the College of William and Mary, the chairperson of the Institute Council and three who are elected by OIEAHC's Executive Board. Prior to the beginning of each fiscal year, the sponsors determine the nature and extent of their responsibility for the financial support of the OIEAHC in the upcoming year.

For financial reporting purposes, assets of the OIEAHC are not included in the accompanying financial statements. The following summarizes the unaudited financial position of the OIEAHC at June 30, 2003:

Assets	<u>\$ 1,263,952</u>
Liabilities	1,934
Net Assets	<u>1,265,886</u>
Total Liabilities and Net Assets	<u>\$ 1,265,886</u>

The total unaudited receipts and disbursements of the OIEAHC were \$1,382,943 and \$1,375,761, respectively, for the year ended June 30, 2003. Separate financial statements for the OIEAHC may be obtained by writing the Treasurer, Omohundro Institute of Early American History and Culture, P. O. Box 220, Williamsburg, Virginia 23187-0220.

### Basis of Presentation

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), including all applicable GASB pronouncements, as well as applicable Financial Accounting Standards Board (FASB) statements and interpretations, Accounting Principles Board (APB) opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. It is the Colleges' policy not to follow FASB standards issued after that date.

Pursuant to the provisions of GASB Statement 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, and Statement 35, Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities, effective for the years ending on or after June 30, 2002, the full scope of the College's activities is considered to be a single business-type activity and accordingly, is reported within a single column in the basic financial statements.

### Basis of Accounting

The financial statements of the College have been prepared using the economic resources measurement focus and the accrual basis of accounting, including depreciation expense related to capitalized fixed assets. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Bond premiums, discounts, and issuance costs are recognized in the current period. Premiums received on debt issuances are reported as interest income, while discounts are added to the cost of issuance. All significant intra-agency transactions have been eliminated.

### Cash and Cash Equivalents

In accordance with the GASB Statement 9, Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting, definition, cash and cash equivalents consist of cash on hand, money market funds, and temporary highly liquid investments with an original maturity of three months or less.

### Investments

In accordance with GASB Statement 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools, purchased investments, interest-bearing temporary investments classified with cash, and investments received as a gift are recorded at fair value.

Realized and unrealized gains and losses are reported in investment income as non-operating revenue in the Statement of Revenues, Expenses, and Changes in Net Assets.

### Accounts Receivable

Accounts receivable consist of tuition and fee charges to students and auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to grants and contracts. Receivables are recorded net of estimated uncollectible amounts.

### Inventories

Inventories at the Williamsburg and Virginia Institute of Marine Science campuses are reported using the consumption method and are valued at average cost.

### Capital Assets

Capital assets are recorded at historical cost value at the date of acquisition or fair market at the date of donation in the case of gifts. Construction expenses for capital assets and improvements are capitalized when expended. Interest expense relating to construction is capitalized net of interest income earned on resources set aside for this purpose. The College's capitalization policy on equipment includes all items with an estimated useful life of two years or more. The Williamsburg and Virginia Institute of Marine Science campuses capitalize all items with a unit price greater than or equal to \$2,000 and Richard Bland College capitalizes all items with a unit price greater than or equal to \$5,000. Library materials for the academic or research libraries are capitalized as a collection and are valued at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets as follows:

Buildings	40-50 years
Infrastructure	10-50 years
Equipment	2-30 years
Library Books	10 years

Collections of works of art and historical treasures are capitalized at cost or fair value at the date of donation. These collections, which include rare books, are considered inexhaustible and therefore are not depreciated.

### Deferred Revenue

Deferred revenue represents revenue collected but not earned as of June 30, 2003. This is primarily comprised of revenue for student tuition accrued in advance of the semester, amounts received from grant and contract sponsors that have not yet been earned and advance ticket sales for athletic events.

### Compensated Absences

The amount of leave earned, but not taken by non-faculty salaried employees is recorded as a liability on the Statement of Net Assets and as a component of compensation and benefit expense in the Statement of Revenues, Expenses, and Changes in Net Assets. The amount reflects as of June 30, all unused vacation leave, sabbatical leave, and the amount payable upon termination under the Commonwealth of Virginia's sick leave payout policy. The applicable share of employer related taxes payable on the eventual termination payment is also included.

### Noncurrent Liabilities

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

## Net Assets

GASB Statement 34 requires that the Statement of Net Assets report the difference between assets and liabilities as net assets rather than fund balance. Accordingly, the Colleges' net assets are classified as follows:

Invested in Capital Assets, net of related debt – consist of total investment in capital assets, net of accumulated depreciation and outstanding debt obligations.

Restricted Net Assets – Nonexpendable – include endowments and similar type assets whose use is limited by donors or other outside sources and as a condition of the gift, the principal is to be maintained in perpetuity.

Restricted Net Assets – Expendable – represent funds that have been received for specific purposes and the College is legally or contractually obligated to spend the resources in accordance with restrictions imposed by external parties.

Unrestricted Net Assets – represent resources derived from student tuition and fees, state appropriations, unrestricted gifts, interest income, and sales and services of educational departments and auxiliary enterprises. When an expense is incurred that can be paid using either restricted or unrestricted resources, the College's policy is to first apply the expense toward restricted resources, and then toward unrestricted.

## Scholarship Allowances

Student tuition and fee revenues and certain other revenues from charges to students is reported net of scholarship allowances in the Statement of Revenues, Expenses, and Changes in Net Assets. Scholarship allowances are the difference between the actual charge for goods and services provided by the College and the amount that is paid by students and/or third parties on the students' behalf. Financial aid to students is reported in the financial statements under the alternative method as prescribed by the National Association of College and University Business Officers (NACUBO). The alternative method is a simple proportionality algorithm that computes scholarship discounts and allowances on a college-wide basis by allocating the cash payments to students, excluding payments for services, on the ratio of total aid to the aid not considered to be third party aid. Student financial assistance grants and other federal, state or nongovernmental programs are recorded as either operating or non-operating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the College has recorded a scholarship allowance.

## Federal Financial Assistance Programs

The College participates in federally funded Pell Grants, Supplemental Educational Opportunity Grants (SEOG), Federal Work Study, Perkins Loans, and Federal Family Education Loan Program (FFELP), which includes Stafford Loans and Parent Loans for Undergraduate Students (PLUS). Federal programs are audited in accordance with the Single Audit Act Amendments of 1996, the U.S. Office of Management and Budget Revised Circular A-133, Audit of States, Local Governments and Non-Profit Organizations, and the Compliance Supplement.

## Classification of Revenues and Expenses

The College presents its revenues and expenses as operating or non-operating based on the following criteria:

Operating revenues - include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship allowances, (2) sales and services of auxiliary enterprises, (3) most Federal, state and local grants and contracts and (4) interest on student loans.

Non-operating revenues - include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenue sources that are defined as non-operating revenues by GASB Statement 9, and GASB Statement 34, such as State appropriations and investment income.

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

### 2. RESTATEMENT OF BEGINNING NET ASSETS

Beginning net assets originally reported in the College's financial statements as of June 30, 2002, have been restated to reflect further evaluation of assets and liabilities.

Net Assets as previously reported June 30, 2002	\$ 282,972,843
Beginning Balance Adjustments:	
To correct for prepayments not previously recorded	1,772,458
To correct for deferred revenue not previously recorded	(795,793)
To record the James Monroe collection	375,679
Other	<u>57,434</u>
Net Asset Balance at July 1, 2003	<u>\$ 284,382,621</u>

As a result of the above restatement, the cash balance of the Statement of Cash Flows as of July 1, 2002 has been restated to \$46,087,774.

### 3. CASH, CASH EQUIVALENTS AND INVESTMENTS

#### A. Cash and Cash Equivalents

Cash held by the Treasurer of Virginia is maintained pursuant to Section 2.2-1800, et. seq., Code of Virginia, who is responsible for the collection, disbursement, custody and investment of State funds. Richard Bland College has received a petty cash advance in the amount of \$3,000 from the Treasurer of Virginia, which is included in "Cash and Cash Equivalents".

The carrying amount of cash not held by the Treasurer of Virginia is \$3,495,493. The carrying amount consists of bank balances reported at June 30, 2003, in the amount of \$11,110,697 adjusted for reconciling items, petty cash items and change funds. The College has elected to have these amounts collateralized in accordance with the Virginia Securities for Public Deposits Act, Section 2.2-4400 et. seq. of the Code of Virginia, and the cash is, therefore, considered insured or collateralized and reportable as Category 1 as defined by GASB Statement 3.

**B. Investments**

In accordance with GASB Statement 31, certain investments have been reported at fair market value.

In accordance with the Board of Visitors' policy, investments can be made in the following instruments: cash, U.S. Treasury and Federal agency obligations, commercial bank certificates of deposit, commercial paper, bankers' acceptances, corporate notes and debentures, money market funds, convertible securities and equities. Investments at June 30, 2003, are categorized below by credit risk.

The three categories of risk are:

Category 1 - Insured or registered securities or securities held by the Colleges or their agents in the name of the respective College.

Category 2 - Uninsured or unregistered, with securities held by the counterparties' trust departments or agents in the name of the respective College. None of the Colleges' investments are classified as category 2.

Category 3 - Uninsured and unregistered, with securities held by the counterparties, or by their trust departments or agents, but not in the institutions' name. None of the Colleges' investments are classified as category 3.

	<u>Category 1</u>	<u>Non- categorized</u>	<u>Fair Value</u>
Cash and cash equivalents			
Cash in banks		\$ 4,235,612	\$ 4,235,612
Cash with the Treasurer of Virginia		25,256,925	25,256,925
Mutual and Money Market Funds		<u>5,371,609</u>	<u>5,371,609</u>
Total cash and cash equivalents		<u>\$ 34,864,146</u>	<u>\$ 34,864,146</u>
Investments			
State non-arbitrage program (SNAP)	-	\$ 5,072,815	\$ 5,072,815
US Treasury and agency securities	\$ 6,477,056	-	6,477,056
Common and preferred stock	24,858,554	-	24,858,554
Corporate bonds	8,683,585	-	8,683,585
Commercial paper and certificates of deposit	170,000	-	170,000
Collateral held for securities lending	-	546,015	546,015
Stone Mountain half dollars	<u>-</u>	<u>14</u>	<u>14</u>
Total investments	<u>\$ 40,189,195</u>	<u>\$ 5,618,844</u>	<u>\$ 45,808,039</u>

C. Securities Lending Transactions

Securities lending transactions represent the Colleges' allocated share of securities received for securities lending transactions held in the General Account of the Commonwealth. Loaned securities, for which the collateral is reported on the Statement of Net Assets, are non-categorized as to credit risk. Details of the General Account securities lending program are included in the Commonwealth's Comprehensive Annual Financial Report.

4. DONOR RESTRICTED ENDOWMENTS

Investments of the College's endowment funds are pooled and consist primarily of gifts and bequests, the use of which is restricted by donor imposed limitations. The Uniform Management of Institutional Funds Act, section 55-268.1 et. seq. of the Code of Virginia, permits the spending policy adopted by the Board of Visitors to appropriate an amount of realized and unrealized endowment appreciation as the Board determines to be prudent. In determining the amount of appreciation to appropriate, the Board is required by the Act to consider such factors as long- and short-term needs of the institution, present and anticipated financial requirements, expected total return on investments, price level trends, and general economic conditions. The amount available for spending is determined by applying the payout percentage to the average market value of the investment portfolio for the three previous calendar year-ends. The payout percentage is reviewed and adjusted annually as deemed prudent.

The College, during fiscal year 2003, had a net appreciation of \$7,643,977 which is available to be spent and is reported in the Statement of Net Assets in the following categories: Restricted for Expendable Scholarships and Fellowships - \$3,824,275, Restricted for Expendable Departmental Uses - \$3,037,358, and Unrestricted - \$782,344.

Investments of Endowment and Similar Funds:

Marketable securities are reported at fair value in accordance with GASB Statement 31. Generally, assets of individual endowment funds are pooled on a market value basis. Each individual fund subscribes to or disposes of units on the basis of the market value per unit share at the beginning of the calendar quarter within which the transaction takes place. The distribution of income is based on the number of units owned by each fund. Realized gains and losses are not distributed to individual funds but are reflected in the Reserve for Securities Appreciation Fund. Valuation of investments of endowment and similar funds are as follows:

	<u>Fair Value</u>
Equity Investments	\$ 24,931,258
Bond Investments	7,922,297
Cash Equivalents/Money Market	<u>453,747</u>
Total	<u>\$ 33,307,302</u>

5. ACCOUNTS RECEIVABLE

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

Student tuition and fees	\$ 540,908
Auxiliary enterprises	442,440
Federal, state and nongovernmental grants and contracts	4,537,915
Other activities	<u>3,256,565</u>
Gross receivables	8,777,828
Less: Allowance for doubtful accounts	<u>(36,550)</u>
Net receivables	<u>\$ 8,741,278</u>

6. CAPITAL ASSETS

A summary of changes in the various capital asset categories for the year ending June 30, 2003 consists of the following:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Nondepreciable capital assets:				
Land	\$ 6,994,743	\$ 257,001	\$ -	\$ 7,251,744
Inexhaustible artwork and historical treasures	67,027,367	1,547,653	67,500	68,507,520
Construction in progress	<u>44,708,981</u>	<u>11,989,162</u>	<u>15,039,983</u>	<u>41,658,160</u>
Total nondepreciable capital assets	<u>118,731,091</u>	<u>13,793,816</u>	<u>15,107,483</u>	<u>117,417,424</u>
Depreciable capital assets:				
Buildings	202,269,710	11,918,135	-	214,187,845
Equipment	62,576,638	6,754,809	3,750,936	65,580,511
Infrastructure	19,354,795	326,261	315,107	19,365,949
Other improvements	3,702,187	-	-	3,702,187
Library materials	<u>76,921,783</u>	<u>2,118,242</u>	<u>447,200</u>	<u>78,592,825</u>
Total depreciable capital assets	<u>364,825,113</u>	<u>21,117,447</u>	<u>4,513,243</u>	<u>381,429,317</u>
Less accumulated depreciation for:				
Buildings	84,532,319	4,783,999	-	89,316,318
Equipment	33,898,428	3,687,445	1,395,711	36,190,162
Infrastructure	18,225,206	172,017	-	18,397,223
Other improvements	3,698,999	321	-	3,699,320
Library materials	<u>64,473,647</u>	<u>1,405,167</u>	<u>451,086</u>	<u>65,427,728</u>
Total accumulated depreciation	<u>204,828,599</u>	<u>10,048,949</u>	<u>1,846,797</u>	<u>213,030,751</u>
Depreciable capital assets, Net	<u>159,996,514</u>	<u>11,068,498</u>	<u>2,666,446</u>	<u>168,398,566</u>
Total capital assets, Net	<u>\$278,727,605</u>	<u>\$24,862,314</u>	<u>\$ 17,773,929</u>	<u>\$285,815,990</u>

Capitalization of Library Books

The methods employed to value the general collections of the Earl Gregg Swem Library and the Marshall-Wythe Law Library, York River Library, and Richard Bland College are based on average cost determined by each library. The average cost of the Swem Library for purchases of books was \$50.04 for fiscal year 2003. The average cost of the law library purchases of books was \$117.04 for fiscal year 2003. Special Collections maintained by each library are valued at historical cost or acquisition value. The average cost of library books purchased for the Virginia Institute of Marine Science was \$85.82 for fiscal year 2003. The average cost of library books purchased for Richard Bland College was \$24.00 for fiscal year 2003. The effects of the net change in the value of the collections of the libraries have been included as additions to current year operations. The changes reflected in the valuation are due to the recognition of depreciation in accordance with GASB Statements 34 and 35.

7. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

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

Employee salaries, wages, and fringe benefits payable	\$11,706,570
Vendors and suppliers accounts payable	<u>7,294,193</u>
Total current liabilities – accounts payable and accrued liabilities	<u>\$19,000,763</u>

8. RETAINAGE PAYABLE

At June 30, 2003, \$1,366,752 was held as retainage on various construction contracts for work that had been performed. The retainage will be remitted to the various contractors upon satisfactory completion of the construction projects.

9. OTHER LIABILITIES

Other liabilities consisted of the following at June 30, 2003:

Perkins loan federal contributions	\$2,521,189
Obligations under securities lending program	546,015
Deposits pending distribution and other	<u>456,970</u>
Total other liabilities	<u>\$3,524,174</u>

10. COMMITMENTS

At June 30, 2003, outstanding construction commitments totaled approximately \$156,827,000 of which \$45,682,000 has been incurred.

Commitments also exist under various operating leases for buildings, equipment and computer software. In general, the leases are for one to three year terms with renewal options on the buildings, equipment, and certain computer software for additional one-year terms. In most cases, these leases will be replaced by similar leases. The College has also entered into one twenty-year lease for space in

the Applied Science Research Center Building at the Jefferson Center for Research and Technology in Newport News. Rental expense for the fiscal year ending June 30, 2003, was \$1,229,338.

As of June 30, 2003, the following total future minimum rental payments are due under the above leases:

<u>Year Ending June 30,</u>	<u>Amount</u>
2004	\$ 2,054,291
2005	1,592,436
2006	302,224
2007	184,118
2008	184,118
2009-2013	920,591
2014-2018	<u>902,221</u>
Total	<u>\$ 6,139,999</u>

#### 11. ADVANCES FROM THE TREASURER OF VIRGINIA

Section 4-3.02 of the Appropriation Act describes the circumstances under which agencies and institutions may borrow funds from the State treasury, including prefunding for capital projects in anticipation of bond sale proceeds and operating funds in anticipation of federal revenues. Listed below are the Advances from the Treasurer of Virginia at June 30, 2003.

Anticipation of federal revenues	\$ 1,000,000
Parking deck construction project, 9(d) bond anticipation	<u>370,000</u>
Total advances payable	<u>\$ 1,370,000</u>

#### 12. NON-CURRENT LIABILITIES

The College's non-current liabilities consist of long-term debt (further described in Note 13), and other non-current liabilities. A summary of changes in non-current liabilities for the year ending June 30, 2003 is presented as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Bonds payable	\$ 36,306,376	\$14,832,641	\$12,707,966	\$ 38,431,051	\$ 2,594,125
Notes payable	9,941,700	-	1,045,369	8,896,331	1,109,489
Installment purchases	185,960	13,532	102,421	97,071	51,545
Capital leases	<u>345,111</u>	<u>-</u>	<u>345,111</u>	<u>-</u>	<u>-</u>
Total long-term debt	46,779,147	14,846,173	14,200,867	47,424,453	3,755,159
Accrued compensated absences	<u>6,438,661</u>	<u>5,044,496</u>	<u>4,791,245</u>	<u>6,691,912</u>	<u>4,053,589</u>
Total non-current liabilities	<u>\$ 53,217,808</u>	<u>\$19,890,669</u>	<u>\$18,992,112</u>	<u>\$ 54,116,365</u>	<u>\$ 7,808,748</u>

13. LONG-TERM DEBT

Bonds Payable

The College of William and Mary's bonds are issued pursuant to Section 9 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 College and are backed by the full faith, credit and taxing power of the Commonwealth and are issued to finance capital projects which, when completed, will generate revenue to repay the debt. Listed below are the bonds outstanding at year-end:

<u>Description</u>	<u>Interest Rates (%)</u>	<u>Maturity</u>	<u>Balance as of June 30, 2003</u>
Section 9(c) Bonds Payable:			
Dormitory, Series 2002R3	2.500 – 4.000	2006	\$ 215,860
Dormitory, Series 2002R4	2.500 – 5.000	2013	362,416
Dormitory, Series 2002R6	2.500 – 4.000	2006	30,895
Dormitory, Series 2002R7	2.500 – 4.000	2006	448,201
Dormitory, Series 2002R9	2.500 – 4.000	2006	898,268
Dormitory, Series 1996A1	2.500 – 5.000	2016	385,000
Dormitory, Series 1996R5	4.750 – 5.125	2014	111,951
Dormitory, Series 1996R6	4.750 – 5.125	2015	1,669,482
Dormitory, Series 1997A2	3.790 – 5.400	2017	600,000
Dormitory, Series 1997A3	3.790 – 5.400	2017	2,695,000
Section 9(c) Bonds Payable:			
Dormitory, Series 1998A1	4.470 – 4.930	2018	5,240,000
Dormitory, Series 1998R2	3.500 – 5.000	2013	675,702
Dormitory, Series 1998R3	3.500 – 5.000	2008	31,147
Dormitory, Series 1998R4	3.500 – 5.000	2008	342,824
Dormitory, Series 2001A1	3.500 – 5.000	2021	4,550,000
Dormitory, Series 2002A1	2.500 – 5.000	2022	<u>4,625,000</u>
Renovation of Dormitories Bonds			<u>22,881,746</u>
Graduate Housing, Series 2003R5	3.500 – 5.000	2011	3,906,187
Randolph Residence, Series 2003R3	3.500 – 5.000	2009	881,382
Tyler Hall, Series 2003R1	3.750 – 5.200	2008	409,939
Telecommunication, Series 2003R2	3.500 – 4.600	2004	286,833
Telecommunication, Series 2003R4	3.550 – 4.625	2005	<u>75,515</u>
Telecommunication Bonds			<u>362,348</u>
University Center, Series 1992R2	2.500 – 4.000	2004	513,527
University Center, Series 2002R5	2.500 – 5.000	2013	120,818
University Center, Series 1998R1	3.500 – 5.000	2013	<u>6,346,035</u>
University Center Bonds			<u>6,980,380</u>

Underground Utility, Series 1995A1	3.500 – 5.600	2016	280,000
Underground Utility, Series 2002R8	3.500 – 5.600	2016	878,248
Underground Utility, Series 1997A1	3.790 – 5.400	2017	<u>1,590,000</u>
Underground Utility Bonds			<u>2,748,248</u>
Total Bonds Payable			<u>38,170,230</u>
Deferred Gain on Advance Refundings			<u>260,821</u>
Net Bonds Payable			<u>\$38,431,051</u>

#### Notes Payable

Section 9(d) bonds, issued through the Virginia College Building Authority's Pooled Bond Program, are backed by pledges against the general revenues of the College and are issued to finance other capital projects. The principal and interest on bonds and notes are payable only from net income and specific auxiliary activities or from designated fee allocations.

In addition, the College entered into a seven-year commercial note with SunTrust Bank to partially finance the multi-year implementation of a new administrative and financial system, described as an enterprise resource planning system. The annual debt service on this note is payable from a specific annual appropriation of funds from the Commonwealth and other discretionary funds of the College.

The following are notes outstanding at year-end.

<u>Description</u>	<u>Interest Rates (%)</u>	<u>Maturity</u>	<u>Balance as of June 30, 2003</u>
Section 9(d) Bonds:			
William and Mary Hall, Series 1997A	3.750 – 5.000	2018	\$ 1,785,000
Marshall-Wythe Library, Series 1999A	5.000 – 6.000	2019	<u>1,705,000</u>
			3,490,000
Commercial Note:			
Enterprise Resource Planning System	5.820	2008	<u>5,406,331</u>
Total Notes Payable			<u>\$ 8,896,331</u>

The College is currently implementing Project MAST (Mastering Administrative Systems and Technologies), an integrated information system using Systems and Computer Technology's (SCT) Banner products for higher education. Implementation began with the Student Information System (SIS) module and continues with Finance and Human Resource modules.

#### Installment Purchases

At June 30, 2003, installment purchases consist of the current and long-term portions of obligations resulting from various contracts used to finance the acquisition of equipment. The lengths of the purchase agreements range from two to five years, and the interest rate charges are from 3.41 percent to 5.65 percent.

<u>Description</u>	<u>Interest Rates (%)</u>	<u>Maturity</u>	<u>Balance as of June 30, 2003</u>
Installment purchases payable	Various	2003-2007	\$97,071

Long-term debt matures as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2004	\$ 3,755,159	\$ 2,246,636
2005	3,804,399	2,086,416
2006	3,896,138	1,895,070
2007	4,099,172	1,700,693
2008	4,290,488	1,487,541
2009-2013	15,278,475	5,048,278
2014-2018	9,339,801	1,873,479
2019-2023	2,700,000	274,729
Refunding gain	<u>260,821</u>	<u>-</u>
Total	<u>\$ 47,424,453</u>	<u>\$ 16,612,842</u>

#### Defeasance of Debt

In October 2002, the Commonwealth issued \$223,730,000 of Article X, Section 9(c) Refunding Bonds, Series 2002 with a true interest cost (TIC) of 3.3 percent. In June 2003, the Commonwealth issued \$178,155,000 of Article X, Section 9(c) Refunding Bonds, Series 2003A with a true interest cost (TIC) of 2.705 percent. The sale of these bonds enabled the College to advance refund certain 1992D, 1992C, 1993A, 1993B, 1994A, 1995A and 1996A bonds of Article X Section 9(c) Bonds, with interest rates ranging from 4.5 percent to 6.1 percent used to finance the construction of Graduate and Randolph Housing, Telecommunications and Underground Utility projects, renovation of dormitories, and the construction of the William & Mary University Center. The net proceeds from the sale of the Refunding Bonds were deposited into irrevocable trusts with escrow agents to provide for all future debt service payments on the refunded bonds. As a result, these bonds are considered defeased and the College's portion of the liability has been removed from the financial statements.

The amount and percentage of debt defeased relating to the College follows:

<u>Series</u>	<u>Debt Outstanding</u>	<u>Amount Defeased</u>	<u>Percentage Defeased</u>
1988A	\$ 500,000	\$ 70,000	14%
1989B	1,625,000	395,000	24%
1990B	115,000	35,000	30%
1991A	4,365,000	370,000	8%
1992C	7,115,000	480,000	6%
1992D	<u>920,000</u>	<u>65,000</u>	7%
Total	<u>\$14,640,000</u>	<u>\$1,415,000</u>	9%

The College's portion of the accounting gain recognized in the financial statements was \$260,821. The net economic gain attributable to the College was \$528,685 and will result in decreased cash flow requirement of \$554,087 over the remaining life of the debt.

Prior Year Defeasance of Debt

During fiscal years 1993, 1994, and 1996, the College defeased certain General Obligation Revenue Bonds. The proceeds from these refunding bonds were deposited into irrevocable trusts with escrow agents to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the College's financial statements. At June 30, 2003, \$23,807,641 of the defeased bonds were outstanding.

14. AUXILIARY ACTIVITIES

Auxiliary operating revenues and expenses are distributed as shown in the following table for the year ending June 30, 2003. Additionally, the College used auxiliary revenues to pay debt service and capital improvements of \$5,124,627 and \$1,709,504, respectively. Those amounts are not included in the auxiliary operating expenses below.

Revenues:	
Room contracts	\$ 13,847,721
Food service contracts	8,784,468
Comprehensive fees	15,449,001
Other student fees and sales and services	<u>7,454,057</u>
Total auxiliary enterprise revenues	<u>\$ 45,535,247</u>
Expenses:	
Residential facilities	\$ 11,345,182
Dining operations	8,811,106
Athletics	11,280,157
Other auxiliary activities	<u>13,032,807</u>
Total auxiliary enterprises expenses	<u>\$ 44,469,252</u>

15. EXPENSES BY NATURAL CLASSIFICATIONS

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

	<u>Salaries and wages</u>	<u>Fringe benefits</u>	<u>Services and supplies</u>	<u>Scholarships and fellowships</u>	<u>Plant and equipment</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$ 47,241,570	\$10,669,151	\$ 5,291,490	\$3,607,795	\$ 225,011	\$ -	\$ 67,035,050
Research	20,889,640	3,551,580	10,793,486	1,531,780	4,381,056	-	41,147,812
Public service	1,212	-	9,521	-	75	-	10,808
Academic support	11,420,565	2,674,270	1,865,074	8,057	3,593,436	-	19,561,402
Student services	3,108,923	781,613	1,941,616	86,913	94,888	-	6,013,953
Institutional support	9,555,505	2,828,231	3,934,846	72,507	521,763	-	16,912,852

Operation and maintenance of plant	1,868,976	1,408,478	4,652,770	-	3,253,090	-	11,183,314
Student aid	29,058	3,166	4,520	7,594,521	101	-	7,631,366
Auxiliary enterprises	10,124,656	2,818,370	22,429,236	249,634	8,847,356	-	44,469,252
Depreciation	-	-	-	-	-	10,048,949	10,048,949
Other	<u>6,825</u>	<u>-</u>	<u>49,356</u>	<u>-</u>	<u>468,024</u>	<u>-</u>	<u>524,205</u>
Total	<u>\$104,246,930</u>	<u>\$24,735,129</u>	<u>\$50,971,915</u>	<u>\$13,151,207</u>	<u>\$21,384,833</u>	<u>\$ 10,048,949</u>	<u>\$224,538,963</u>

#### 16. STATE APPROPRIATIONS

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

Chapter 1042 Appropriation Act	\$59,681,356
Commonwealth Technology Research Fund	1,083,916
Financial Assistance – Education and General Services	1,516,983
Supplemental Appropriations:	
Bond Funding Faculty	1,298,041
Bond Funding Non-Faculty	284,510
Health Insurance Premium	1,262,342
Salary Increases	375,851
VSDP Rate Increase	113,640
VIVA Libraries	<u>19,120</u>
	3,353,504
Appropriation Reductions:	
7% Budget Reduction	(1,262,450)
Retirement Rate Reduction	(1,053,006)
Retirement Health Insurance Credit	(78,653)
Group Life Rate Suspension	(346,361)
VSDP Rate Reduction	(54,199)
Airline Ticket Savings	(12,652)
E-Procurement Charge	<u>(38,717)</u>
	(2,895,313)
Reversions to the General Fund to the Commonwealth	<u>(49,275)</u>
Appropriations as adjusted	<u>\$62,740,446</u>

#### 17. CONTRIBUTION TO PENSION PLAN

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

The VRS does not measure assets and pension benefit obligations separately for individual State institutions. Therefore, all information relating to this plan is available at the statewide level only

and can be found in the Commonwealth's Comprehensive Annual Financial Report (CAFR). The CAFR provides disclosure of the Commonwealth's unfunded pension benefit obligation at June 30, 2003. The same report contains historical trend information showing VRS progress in accumulating sufficient assets to pay benefits when due.

The College's total VRS contributions were \$2,589,570 for the year ended June 30, 2003, which included a five percent employee contribution assumed by the employer. These contributions represent approximately 5 percent of covered payroll. The College's payroll costs for employees covered by VRS were \$51,791,392 for the year ended June 30, 2003.

#### Optional Retirement Plan

Full-time faculty and certain administrative staff may participate in a retirement annuity program through various optional retirement plans other than the VRS. This is a fixed-contribution program where the retirement benefits received are based upon the employer's contributions of approximately 10.4 percent, plus interest and dividends.

Individual contracts issued under the plan provide for full and immediate vesting of contributions of the College and their employees. Total pension costs under this plan were \$4,854,413 for the year ended June 30, 2003. Contributions to the optional retirement plans were calculated using the base salary amount of \$46,677,050 for fiscal year 2003.

The College's total payroll for fiscal year 2003 was \$115,224,643.

#### 18. POST-RETIREMENT BENEFITS

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

#### 19. GIFTS

Gifts are not recorded until received. Gifts to College-related organizations whose funds are not administered by the Presidents or the Board of Visitors are not recorded in these financial statements.

#### 20. AFFILIATED ORGANIZATIONS

The financial statements do not include the assets, liabilities and the fund balances of the Athletic Educational Foundation of The College of William and Mary, Incorporated; The Endowment Association of The College of William and Mary in Virginia, Incorporated; The Society of the Alumni of The College of William and Mary in Virginia, Incorporated; The College of William and Mary, School of Business Administration Sponsors, Incorporated; The Marshall-Wythe School of Law Foundation, Incorporated; and The Richard Bland Foundation. The purpose of these organizations is to operate for the benefit of the College.

These organizations were examined by other auditors, whose reports thereon have been furnished to the College. Amounts included for the organizations are based solely on the reports of the other auditors. Following is a condensed summary of the June 30, 2003, financial position of the above organizations.

Assets	<u>\$391,721,244</u>
Liabilities	18,207,656
Net Assets	<u>373,513,588</u>
Total Liabilities and Net Assets	<u>\$391,721,244</u>

The aggregate revenues and expenses of these organizations were \$53,255,123 and \$29,996,839, respectively, for the year ended June 30, 2003.

The following is a description of the above-named organizations:

Athletic Educational Foundation of The College of William and Mary, Incorporated - The Foundation was established on May 6, 1948, as the William and Mary Educational Foundation to promote and further education at the College. In 1975, the title of the Foundation was changed to include the word "Athletic" to more accurately reflect the activity of the Foundation.

The Endowment Association of The College of William and Mary, Incorporated - The Endowment Association was established on February 15, 1939, to further the endeavors of the College. The Association is authorized to receive and administer gifts and bequests of all kinds. The Endowment Association makes cash available to the College within the Association's budgetary restrictions.

The Society of the Alumni of The College of William and Mary, Incorporated - The Society of the Alumni was incorporated on February 21, 1923. The Society is organized to cultivate alumni relations in order to benefit the Foundation's fund-raising efforts. The College provides direct financial support to the Society.

The College of William and Mary, School of Business Administration Sponsors, Incorporated - The School of Business Administration Sponsors was established on April 20, 1982, for the purpose of fostering closer ties between business education and the business community.

The Marshall-Wythe School of Law Foundation, Incorporated - The Foundation was established for the purpose of soliciting and receiving gifts to endow the College's Marshall-Wythe School of Law.

Other organizations affiliated with the College of William and Mary such as The Law School Association, Incorporated; The Masters of Business Administration (MBA) Association, Incorporated; The Friends of the Library of The College of William and Mary, Incorporated; and The Order of the White Jacket, Incorporated were founded primarily along fraternal lines with the intent to benefit the College in the area of the organizations' special interests.

The Richard Bland College Foundation, which is separately incorporated and managed by its own Board, was organized as a fund-raising activity to support the College. Gifts and grants to the College are received and managed by the Foundation. Income received from the Foundation is recorded as a gift when received.

## 21. CONTINGENCIES

### Grants and Contracts

The College receives assistance from non-state grantor agencies in the form of grants and contracts. Entitlement to these resources is conditional upon compliance with the terms and conditions of the agreements, including the expenditure of resources for eligible purposes. Substantially all grants and contracts are subject to financial and compliance audits by the grantors. Any disallowances as a result of these audits become a liability. The College estimates that no material liabilities will result from such audits.

### Litigation

The College is currently involved in litigation which could result in a judgment against the College. The final outcome of this lawsuit cannot be determined at this time. However, management is of the opinion that any ultimate liability to which the College may be exposed will not have a material effect upon the College's financial position.

## 22. RISK MANAGEMENT AND EMPLOYEE HEALTH CARE PLANS

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

## 23. PENDING GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENT

Governmental Accounting Standards Board Statement 39, "Determining Whether Certain Organizations are Component Units," issued May 2002 will be effective for the fiscal year ending June 30, 2004. This Statement provides additional guidance to determine whether certain organizations for which the System and its Colleges are not financially accountable should be reported as component units. Generally, it requires reporting, as a component unit, an organization that raises and holds economic resources for the direct benefit of College. As a result, where in the past the College presented summary financial information of certain of the foundations related to the College in the notes to the financial statements, the College will be required under Statement 39 to include selected foundations in the body of its financial statements. The College has assessed which of the foundations should be included as component units and is planning for the implementation of this standard.

## **SUPPLEMENTARY INFORMATION**

THE COLLEGE OF WILLIAM AND MARY IN VIRGINIA AND RICHARD BLAND COLLEGE  
SCHEDULE OF AUXILIARY ENTERPRISES REVENUES AND EXPENDITURES  
For The Year Ended June 30, 2003

	Food Services	Residential Facilities	Stores and Shops	Student Health	Telecom- munications
Operating revenues:					
Student fees	\$ 8,784,468	\$ 13,847,721	\$ -	\$ 2,025,476	\$ 1,331,262
Sales and services	216,261	375,827	902,180	427,613	1,272,790
Other sources	-	-	3,600	-	-
Gross operating revenues	9,000,729	14,223,548	905,780	2,453,089	2,604,052
Cost of Sales	-	966	1,475	-	-
Net operating revenues	9,000,729	14,222,582	904,305	2,453,089	2,604,052
Operating expenditures:					
Personal services	(1,045)	2,581,410	193,118	1,786,507	595,833
Contractual services	7,933,775	2,959,807	124,306	199,131	734,060
Current charges and obligations	818,773	3,799,996	674,276	158,197	412,545
Supplies and materials	54,805	427,475	22,386	196,905	23,168
Equipment	11,632	927,975	15,393	11,862	118,688
Property and improvements	-	-	-	-	-
Plant and improvements	600	19,689	-	-	-
Scholarships	250	628,830	-	255	-
Miscellaneous	-	-	35,000	-	-
Total operating expenditures	8,818,790	11,345,182	1,064,479	2,352,857	1,884,294
Excess (deficiency) of revenues over (under) operating expenditures	181,939	2,877,400	(160,174)	100,232	719,758
Nonoperating revenues: Private Gifts	-	225,201	-	-	-
Transfers (out) in:					
Mandatory:					
Debt service	-	(3,285,867)	-	-	(332,084)
Nonmandatory	-	-	-	-	-
Total transfers	-	(3,285,867)	-	-	(332,084)
Net increase (decrease) for the year	-	(183,266)	(160,174)	100,232	387,674
Fund balances (deficits) at beginning of year	3,757,440	919,843	(975,285)	973,458	237,381
Fund balances (deficits) at end of year	\$ 3,939,379	\$ 736,577	\$ (1,135,459)	\$ 1,073,690	\$ 625,055

\* Other includes the following: Ash Lawn, Auxiliary Enterprise Administration, Auxiliary Enterprise Licensing Royalties, Busch Tennis Courts, Campus Center, College Enterprises, Inc., Concerts, Conference Services, Elderhostel, Facilities Management, Facilities Planning, Faculty Housing, Fine Arts Museum, General Auxiliary Enterprise Fee, ID Office, JCC Decal Program, National Planning & Giving Institute, Plumeri House, Recreational Sports, Shakespeare Festival, Student Information Network, Student Recreation Center, Tennis Center, Underground Utility Fee, University Center, and William and Mary Hall.

This schedule accounts for the purchases of capital assets as expenses and does not include depreciation. Additionally, all revenues are recorded as charged, including student charges and internal activities. Management uses this method of accounting to monitor individual auxiliary enterprises and set rates.

	Intercollegiate Athletics	Parking and Transportation	Extramural Programs	Other *	Total
\$	5,784,257	\$ 339,195	\$ 1,430	\$ 8,128,737	\$ 40,242,546
	1,822,211	1,015,087	1,174,281	4,086,433	11,292,683
	-	2,100	-	18,377	24,077
	7,606,468	1,356,382	1,175,711	12,233,547	51,559,306
	-	-	-	113,367	115,808
	7,606,468	1,356,382	1,175,711	12,120,180	51,443,498
	3,949,411	389,403	337,822	3,126,171	12,958,630
	2,703,172	155,166	666,488	4,972,205	20,448,110
	461,305	94,195	32,392	1,858,214	8,309,893
	355,597	36,477	20,471	450,280	1,587,564
	195,611	10,276	6,997	238,402	1,536,836
	-	29,930	-	3,851	33,781
	-	-	-	217,188	237,477
	3,615,061	288	258,948	5,859	4,509,491
	-	341	-	9,972	45,313
	11,280,157	716,076	1,323,118	10,882,142	49,667,095
	(3,673,689)	640,306	(147,407)	1,238,038	1,776,403
	3,460,176	-	1,419	84,222	3,771,018
	-	(12,240)	-	(1,548,361)	(5,178,552)
	-	-	-	(81,681)	(81,681)
	-	(12,240)	-	(1,630,042)	(5,260,233)
	(213,513)	628,066	(145,988)	(307,782)	287,188
	(433,554)	2,289,033	1,062,053	(5,878,408)	1,951,961
\$	(647,067)	\$ 2,917,099	\$ 916,065	\$ (6,186,190)	\$ 2,239,149

THE COLLEGE OF WILLIAM AND MARY  
Williamsburg, Virginia

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