

THE COLLEGE OF WILLIAM AND MARY IN VIRGINIA

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

APA

**Auditor of
Public Accounts**

COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of the College of William and Mary in Virginia, including the Virginia Institute of Marine Science and Richard Bland College, for the year ended June 30, 2004, found:

- the financial statements are presented fairly, in all material respects;
- no internal control matters that we consider to be material weaknesses; and
- no instances of noncompliance or other matters required to be reported.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)

The following Management's Discussion and Analysis (MD&A) is required supplemental information under the Governmental Accounting Standards Board (GASB) reporting model. It is designed to assist readers in understanding the accompanying financial statements and provides an objective, easily readable analysis of the College's financial activities based on currently known facts, decisions, and conditions. This discussion includes an analysis of the College's financial condition and results of operations for the fiscal year ended June 30, 2004. Comparative numbers, where presented, are for the fiscal year ended June 30, 2003. Since this presentation includes highly summarized data, it should be read in conjunction with the accompanying financial statements, Notes to Financial Statements, and other supplementary information. College management is responsible for all of the financial information presented, including this discussion and analysis.

Reporting Entity

The financial statements of the College of William and Mary include the financial operations of the main campus in Williamsburg as well as the operations of the Virginia Institute of Marine Science (York River campus) and Richard Bland College in Petersburg. All three entities are agencies of the Commonwealth of Virginia reporting to the Board of Visitors of the College of William and Mary.

In accordance with GASB Statement 39, *Determining Whether Certain Organizations are Component Units – an amendment of GASB Statement 14*, the College's affiliated foundations, meeting the reporting criteria of Statement 39, have been included in these statements. While foundation information is summarized on the individual statement schedules along with College information, detailed information by foundation is provided in the Notes 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, 2004. Within net assets, three major categories are presented. Invested in capital assets, net of related debt represents the College's equity in property, plant, and equipment. Restricted net assets represents College assets whose use is prescribed by the donor or providing entity. Restricted net assets are further presented in the categories of expendable and nonexpendable. Expendable assets may be fully consumed for the specified purpose while nonexpendable assets require preservation of the corpus with any investment earnings being available to the College based on 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>As of</u> <u>June 30, 2004</u>	<u>As of</u> <u>June 30, 2003</u>
ASSETS		
Current assets	\$ 46,968,277	\$ 37,720,876
Capital assets, net	294,851,157	285,815,990
Other noncurrent assets	<u>69,029,644</u>	<u>55,578,809</u>
Total assets	<u>410,849,078</u>	<u>379,115,675</u>
LIABILITIES		
Current liabilities	45,749,867	44,769,352
Noncurrent liabilities	<u>53,754,096</u>	<u>46,307,617</u>
Total liabilities	<u>99,503,963</u>	<u>91,076,969</u>
NET ASSETS		
Invested in capital assets, net of related debt	251,344,088	242,140,402
Restricted	45,319,394	38,316,943
Unrestricted	<u>14,681,633</u>	<u>7,581,361</u>
Total net assets	<u>\$311,345,115</u>	<u>\$288,038,706</u>

Statement of Revenues, Expenses and Changes in Net Assets

Changes in total net assets as presented on the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of this statement is to present revenues received by the institution, both operating and nonoperating, and expenses paid by the institution, operating and nonoperating, and any other revenues, expenses, gains and losses received or spent by the institution.

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

	<u>Year Ended</u> <u>June 30, 2004</u>	<u>Year Ended</u> <u>June 30, 2003</u>
Operating revenues:		
Student tuition and fees	\$ 67,260,725	\$ 56,211,376
Auxiliary enterprises	47,767,031	45,535,247
Federal grants and contracts	34,120,681	29,652,337
State grants and contracts	1,999,511	2,566,268
Local grants and contracts	202,567	153,007
Nongovernmental grants and contracts	5,760,285	2,822,506
Other	<u>4,009,723</u>	<u>1,347,114</u>
Total operating revenues	<u>161,120,523</u>	<u>138,287,855</u>

Operating expenses:		
Instruction	71,926,498	67,035,050
Research	45,378,771	41,147,812
Public service	15,044	10,808
Academic support	20,862,214	19,561,402
Student services	6,609,288	6,013,953
Institutional support	16,802,327	16,912,852
Operation and maintenance of plant	10,775,810	11,183,314
Scholarships	3,054,706	7,631,366
Auxiliary enterprises	46,418,516	44,469,252
Depreciation	11,563,664	10,048,949
Other	<u>111,526</u>	<u>524,205</u>
Total operating expenses	<u>233,518,364</u>	<u>224,538,963</u>
Operating loss	<u>(72,397,841)</u>	<u>(86,251,108)</u>
Nonoperating revenues (expenses):		
State appropriations	58,666,039	62,740,446
Gifts	9,702,582	19,953,425
Investment income	6,837,427	2,844,662
Interest on capital asset related debt	(2,395,482)	(2,323,426)
Other nonoperating revenue	7,627,495	2,209,124
Other nonoperating expense	<u>(1,728,926)</u>	<u>(1,932,345)</u>
Net nonoperating revenues	<u>78,709,135</u>	<u>83,491,886</u>
Income (loss) before other revenues	6,311,294	(2,759,222)
Net other revenues	<u>16,995,115</u>	<u>6,415,307</u>
Increase in net assets	23,306,409	3,656,085
Net assets - beginning of year	<u>288,038,706</u>	<u>284,382,621</u>
Net assets - end of year	<u>\$311,345,115</u>	<u>\$288,038,706</u>

Generally, operating revenues are received for providing goods and services to the various customers and constituencies of the institution. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the institution. Nonoperating revenues are revenues received for which goods and services are not provided. The College's state appropriation is nonoperating revenue because it is provided by the state legislature without the legislature directly receiving commensurate goods and services for these revenues.

Within the operating revenues of the College, all major revenue components reflected 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 decreased slightly overall, with a \$10 million increase in gifts being the offset for a reduction in state appropriations and other non-operating revenue. Other revenues increased as a result of the state appropriations for capital projects.

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>Year Ended</u> <u>June 30, 2004</u>	<u>Year Ended</u> <u>June 30, 2003</u>
Cash flows from operating activities	\$(67,268,648)	\$(77,133,566)
Cash flows from non-capital financing activities	70,164,666	83,022,450
Cash flows from capital financing activities	1,681,593	(16,504,265)
Cash flows from investing activities	<u>(2,074,264)</u>	<u>(608,247)</u>
Net change in cash	<u>\$ 2,503,347</u>	<u>\$(11,223,628)</u>

Cash flows from operations reflect the sources and uses of cash to support the mission of the College. The primary sources of operating cash in fiscal year 2004 were tuition and fees (\$69 million), auxiliary enterprise revenues (\$52 million) and research grants and contracts (\$42 million). The primary uses of operating cash in fiscal year 2004 were payments to employees (\$134 million) representing salaries, wages and fringe benefits and payments to vendors (\$83 million).

Cash flows from non-capital financing reflect non-operating sources and uses of cash. The primary sources of non-capital financing in fiscal year 2004 were state appropriations (\$59 million) followed by gifts (\$12 million). The cash from non-capital financing is used to support cash requirements of operations.

Cash flows from capital financing activities reflect the activities associated with the acquisition and construction of capital assets including related debt payments. The primary sources of cash in fiscal year 2004 were proceeds from state capital appropriations and investments (\$14 million) and gifts and grants (\$5 million). The primary uses of cash were capital expenditures (\$13 million) and capital debt payments (\$6 million).

Cash flows from investing activities reflect activities associated with the acquisition and disposal of debt and equity investments, including in fiscal year 2004 net investment income (\$2 million) and purchases of investments (\$4 million).

Capital Asset and Debt Administration

The College of William and Mary

In fiscal year 2004, the College completed the construction of the Albert-Daley Soccer Field, the Tyler Garden, an upgrade to the Dupont Hall hot water system, the renovation of Madison and Stith Dormitories, the replacement of the Barrett Hall roof under the Dormitory Phase IV project, and several interior renovations located at sites across the campus.

With respect to on-going capital projects, Swem Library construction continues with the completion of the renovation of the top three floors of the old library building. The ground floor is nearing completion and it is anticipated that the project will be substantially complete in October 2004. Phases I and II of the

Campus Heating and Cooling Improvements and Underground Utilities projects are nearing completion. The Phase II Regional Heating and Cooling plant housed in the basement of the Swem Library new addition is undergoing commissioning and should be completed by August 2004. Immediately adjacent to Swem Library, a High Field Magnet Facility is being constructed as an addition to Small Hall. The project, which began in May, will be complete by November 2004.

Designs for \$100 million in future projects were initiated during the last twelve months. The architectural and engineering designs for electrical and fire alarm upgrades in Hunt Hall, Taliaferro Hall, four sorority houses and fraternity complex units have already been completed to enable installation by the end of summer 2004. Designs for Bryan and Chandler Halls are nearing completion for construction in 2005. Designs for the Parking Deck, additions and renovations to the Recreation Sports Center, Law Library, Millington Hall and Rogers Hall, and the Lake Matoaka Amphitheater revitalization are all underway to support project starts beginning in summer 2004 (parking garage) and continuing through January 2006 (amphitheater). Construction of the Lake Matoaka Amphitheater will be completed in early 2007 in order to support the 2007 Jamestown Celebration. Design is nearing completion for the Recreation Sports Center addition and renovation with construction anticipated to begin in 2005.

Virginia Institute of Marine Science

Major Projects in Progress at June 30, 2004:

	<u>Expenditures</u>	<u>Budget</u>
Handicapped Access	\$ 476	\$ 480
Renovation and Expansion of Byrd Hall	542	585
Replace Gloucester Point Bulkhead	1,066	1,102
Wachapreague Property Acquisition	91	195
Master Properties Acquisition Plan	427	1,100
Education Laboratory Building	530	825
Marine Research Building Complex Construction	1,099	24,792
Virginia Estuarine and Coastal Research Reserve Property Acquisition	<u>193</u>	<u>350</u>
 Total	 <u>\$4,424</u>	 <u>\$29,429</u>

* in thousands

The remaining funds of the Handicapped Access project are being used to make the Smith House accessible at the Eastern Shore Lab.

Executive Order 74 (2001) froze the renovation and expansion of Byrd Hall. The maintenance repairs to keep Byrd Hall usable until the Marine Research Building Complex is built and occupied were completed.

The Gloucester Point bulkhead replacement construction contract is approximately 99 percent complete with final site work cleanup and inspections remaining to be completed. The concrete loading pad and additional steel bulkhead authorized by change order last year have been installed.

The Virginia Institute of Marine Science (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 project is under construction and is approximately 80 percent complete with substantial completion scheduled for November 2004.

As of June 30, 2004, the Marine Research Building Complex was in the working drawing stage and will be submitted to the Bureau for Capital Outlay Management for review in August 2004. Bidding is scheduled to take place in late fall of 2004 with the construction startup tentatively scheduled for late March 2005.

Economic Outlook

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

The College's ability to recruit, admit, and retain top-caliber students is excellent, even as it competes against the most select public and private institutions in the country. The number of undergraduate applications to the College remains stable as does the credentials of admitted students including SAT scores, the number of students within the top 10% 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 2004-06 budget as approved by the 2004 General Assembly reflects the national and state economic recovery currently underway. The College benefited from this recovery as the Commonwealth allocated incremental support for base operations and faculty and staff salaries. Additional support of these areas is expected for fiscal year 2005-06 as well. Supplementing state funds with additional tuition and private fund support, the College continues to protect its core academic programs' quality and integrity while providing incremental support for student financial assistance to ensure access for all qualified students.

Long-term planning continues to ensure that the College not only protects its core programs but also invests strategically for the future. In this regard, the College is in active discussions with the Commonwealth to restructure its operating relationship. This restructuring is intended to confirm a stable, long-term funding relationship with the Commonwealth, allowing the College to strengthen its long-term planning efforts.

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 by a 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 its students. At the same time, the College continues to meet its fundraising targets established for the Campaign for William and Mary, a \$500 million campaign now in its fourth year.

THE COLLEGE OF WILLIAM AND MARY IN VIRGINIA
STATEMENT OF NET ASSETS
As of June 30, 2004

	ASSETS	
	College	Component Units
Current assets:		
Cash and cash equivalents (Note 2)	\$ 25,412,306	\$ 10,251,886
Short-term investments	5,961,796	5,355,850
Receivables, net of allowance for doubtful accounts (Note 4)	13,015,537	1,610,809
Inventories	421,733	61,142
Pledges receivable - current portion	-	4,430,796
Other assets	2,156,905	99,073
Total current assets	<u>46,968,277</u>	<u>21,809,556</u>
Noncurrent assets:		
Restricted cash and cash equivalents	13,994,263	1,397
Restricted investments (Note 2)	55,035,381	281,538,296
Pledges receivable	-	12,233,256
Capital assets, nondepreciable (Note 5)	128,349,256	8,980,762
Capital assets, depreciable net of accumulated depreciation (Note 5)	166,501,901	3,956,988
Funds held in trust by others (Note 15)	-	102,098,437
Other assets	-	7,669,285
Total noncurrent assets	<u>363,880,801</u>	<u>416,478,421</u>
Total assets	<u>410,849,078</u>	<u>438,287,977</u>
	LIABILITIES	
Current liabilities:		
Accounts payable and accrued expenses (Note 6)	20,431,620	1,785,649
Deferred revenue	6,666,189	482,261
Deposits held in custody for others	3,457,403	2,604,817
Advance from the Treasurer of Virginia (Note 9)	1,000,000	-
Long-term liabilities-current portion (Note 11)	8,938,207	5,194,279
Other liabilities (Note 7)	5,256,448	926,352
Total current liabilities	<u>45,749,867</u>	<u>10,993,358</u>
Noncurrent liabilities (Note 10)	<u>53,754,096</u>	<u>5,195,749</u>
Total liabilities	<u>99,503,963</u>	<u>16,189,107</u>
	NET ASSETS	
Invested in capital assets, net of related debt	251,344,088	12,937,750
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	533,634	150,706
Departmental uses	24,518,003	-
Other	-	100,000
Expendable:		
Scholarships and fellowships	7,154,300	54,616,348
Research	1,527,883	306,594
Debt service	104,367	-
Capital projects	3,554,602	1,405,271
Loans	417,696	-
Departmental uses	7,508,909	78,399,985
Other	-	126,636,634
Unrestricted	<u>14,681,633</u>	<u>147,545,582</u>
Total net assets	<u>\$ 311,345,115</u>	<u>\$ 422,098,870</u>

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

	College	Component Units
Operating revenues:		
Student tuition and fees, net of scholarship allowances of \$8,615,346	\$ 67,260,725	\$ -
Auxiliary enterprises, net of scholarship allowances of \$4,573,980 (Note 12)	47,767,031	-
Federal grants and contracts	34,120,681	-
State grants and contracts	1,999,511	-
Local grants and contracts	202,567	-
Nongovernmental grants and contracts	5,760,285	-
Gifts and contributions	-	21,641,547
Endowment income	-	17,324,204
Other	4,009,723	7,026,919
Total operating revenues	<u>161,120,523</u>	<u>45,992,670</u>
Operating expenses:		
Instruction	71,926,498	3,349,466
Research	45,378,771	138,616
Public service	15,044	62,238
Academic support	20,862,214	2,100,841
Student services	6,609,288	75,198
Institutional support	16,802,327	982,026
Operation and maintenance of plant	10,775,810	600,760
Scholarships	3,054,706	3,963,347
Auxiliary enterprises (Note 12)	46,418,516	3,668,734
Depreciation	11,563,664	-
Fundraising	-	3,596,942
Management and general	-	3,384,450
Other	111,526	9,143,029
Total operating expenses	<u>233,518,364</u>	<u>31,065,647</u>
Operating gain / (loss)	<u>(72,397,841)</u>	<u>14,927,023</u>
Nonoperating revenues (expenses):		
State appropriations (Note 14)	58,666,039	-
Gifts	9,702,582	-
Investment income	6,837,427	30,794,660
Interest on capital asset related debt	(2,395,482)	-
Other nonoperating revenue	7,627,495	763,550
Other nonoperating expense	(1,728,926)	-
Net nonoperating revenues	<u>78,709,135</u>	<u>31,558,210</u>
Income before other revenues	<u>6,311,294</u>	<u>46,485,233</u>
Capital appropriations	8,700,751	-
Capital grants and contributions	8,294,364	-
Total other revenues	<u>16,995,115</u>	<u>-</u>
Increase in net assets	23,306,409	46,485,233
Net assets - beginning of year	<u>288,038,706</u>	<u>375,613,637</u>
Net assets - end of year	<u>\$ 311,345,115</u>	<u>\$ 422,098,870</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, 2004

Cash flows from operating activities:	
Tuition and fees	\$ 69,150,859
Auxiliary enterprise charges and sales	51,747,274
Research grants and contracts	42,177,487
Payments to employees	(134,240,149)
Payments to suppliers	(83,029,549)
Scholarships	(16,568,025)
Loans issued to students and employees	(744,575)
Collection of loans to students and employees	667,609
Other receipts	3,570,421
	<u>3,570,421</u>
Net cash used by operating activities	<u>(67,268,648)</u>
Cash flows from noncapital financing activities:	
State appropriations	58,658,942
Gifts	12,459,493
Agency receipts	3,442,533
Agency payments	(3,505,031)
PLUS Loans receipts	1,640,684
PLUS Loans disbursements	(1,640,684)
Other receipts	5,685,371
Other disbursements	(6,576,642)
	<u>(6,576,642)</u>
Net cash provided by noncapital financing activities	<u>70,164,666</u>
Cash flows from capital financing activities:	
Proceeds from sales and maturities of capital restricted investments	10,139,558
Capital appropriations	3,641,821
Grants and gifts for capital purchases	5,138,291
Student fees for capital purchases	1,981,286
Proceeds from advance from Treasurer of Virginia	275,000
Other capital related receipts	37,711
Capital expenditures	(13,182,224)
Principal paid on capital-related debt	(3,933,633)
Interest paid on capital-related debt	(2,416,217)
	<u>(2,416,217)</u>
Total cash flows provided by capital financing activities	<u>1,681,593</u>
Cash flows from investing activities:	
Investment income	2,790,374
Investment expense	(554,293)
Purchases of investments	(4,310,345)
	<u>(4,310,345)</u>
Net cash used by capital and related financing activities	<u>(2,074,264)</u>
Net increase in cash	2,503,347
Cash and cash equivalents - beginning of year (restated)	<u>36,903,222</u>
Cash and cash equivalents - end of year	<u>\$ 39,406,569</u>

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

Net operating loss	
Adjustments to reconcile net operating expenses to cash used by operating activities:	(72,397,841)
Depreciation expense	
Changes in assets and liabilities:	11,563,664
Receivables	(4,274,260)
Other assets	1,955
Accounts payable	(733,447)
Advances from Treasurer of Virginia	1,430,857
Other liabilities	(370,000)
Deferred revenue	293,764
Inventories	(1,512,827)
Compensated absences and other liabilities	<u>(1,270,513)</u>
Net cash used in operating activities	<u>\$ (67,268,648)</u>

Noncash capital and related financing transactions:

Equipment acquired by capital lease	<u>\$ 59,380</u>
Donated infrastructure and historical treasures	<u>\$ 295,782</u>

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

THE COLLEGE OF WILLIAM AND MARY IN VIRGINIA

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2004

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

The financial reporting entity, as defined by Governmental Accounting Standards Board (GASB) Statement 14, *The Financial Reporting Entity*, consists of the primary government organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the financial statements to be misleading or incomplete. Effective for the fiscal year ended June 30, 2004, the College implemented GASB Statement 39, *Determining Whether Certain Organizations are Component Units*. This statement addresses the conditions under which institutions should include associated fund-raising and research foundations as component units in their basic financial statements and how such component units should be displayed in the financial statements.

The College did not have any component units, as defined by GASB Statement 14 prior to fiscal year 2004. However, under GASB Statement 39 standards, the Endowment Association, the Marshall-Wythe School of Law Foundation, the Business School Foundation, the Society of the Alumni, the Athletic Educational Foundation, the Virginia Institute of Marine Science Foundation, and the Richard Bland College Foundation meet the criteria qualifying them as component units of the College. These foundations are legally separate and tax-exempt organizations formed to promote the achievements and further the aims and purposes of the College. Although the College does not control the timing or amount of receipts from the Foundations, the majority of resources, or income thereon, that the Foundations hold and invest are restricted to the activities of the College by the donors. Because these restricted resources held by the Foundations can only be used by, or for the benefit of the College, the Foundations are considered component units of the College and are discretely presented in the financial statements.

The Endowment Association of The College of William and Mary in Virginia was established to "aid, strengthen, and expand in every proper and useful way" the work of the College. The board of the Association, which must consist of not less than fifteen nor more than forty members, is self-perpetuating. During the year ended June 30, 2004, the Association made distributions of \$7,117,758 to the College for both restricted and unrestricted purposes. The Association also made distributions of \$121,051 to other foundations for both restricted and

unrestricted purposes. Complete financial statements for the Association can be obtained from Private Funds Office, P.O. Box 8795, Williamsburg, VA 23187.

The Marshall-Wythe School of Law Foundation acts primarily as a fundraising organization to supplement the resources that are available to the College in support of its programs and support the Law School through the funding of scholarships and fellowships, instruction and research activities, and academic support. Its twenty-eight member board is self-perpetuating and consists of alumni and other supporters. During the year ended June 30, 2004, the Marshall-Wythe School of Law Foundation made distributions of \$233,379 to the College for both restricted and unrestricted purposes. Complete financial statements for the Marshall-Wythe School of Law Foundation can be obtained from Terri Lorincz, P.O. Box 8795, Williamsburg, VA 23187.

The William and Mary Business School Foundation was established for the purposes of soliciting and receiving gifts to endow the School of Business Administration and support the School through the operations of the Foundation, continuing education seminars through the Center for Corporate Education, and administer and manage the Executive MBA Program of the School. The board of the William and Mary Business School Foundation is self-perpetuating and consists of 47 trustees. During the year ended June 30, 2004, the William and Mary Business School Foundation made distributions of \$2,798,652 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from Carla King-Johnson, Assistant Treasurer, P.O. Box 8795, Williamsburg, VA 23187.

The Society of the Alumni of The College of William and Mary acts primarily as a fundraising organization and sponsors various events during the year to support the College and its programs. The 20 member board of the Society is self-perpetuating and consists of College alumni. During the year ended June 30, 2004, the Society of the Alumni made distributions of \$20,000 to the College and of \$70,000 to the Endowment Association for both restricted and unrestricted purposes. Complete financial statements for the Society can be obtained from Elaine Campbell, P.O. Box 2100, Williamsburg, VA 23187-2100.

The William and Mary Athletic Educational Foundation, acts primarily as a fundraising organization to supplement the resources that are available to the College, principally in support of the Athletic Department of the College. The 30 member board of the Foundation is self-perpetuating and consists of alumni and other supporters. During the year ended June 30, 2004, the Athletic Educational Foundation made distributions of \$1,904,034 to the College and \$166,781 to the Endowment Association for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from Jean Beall, P.O. Box 399, Williamsburg, VA 23187.

The Virginia Institute of Marine Science Foundation acts primarily as a fundraising organization to supplement the resources that are available to the Institute in support of its programs. Complete financial statements for the Foundation may be obtained from Carol Tomlinson, P.O. Box 1346, Gloucester Point, VA 23062

The Richard Bland College Foundation acts primarily as a fundraising organization to supplement the resources that are available to the College in support of its programs. The 30 member board of the Foundation is self-perpetuating and consists of alumni and other supporters of Richard Bland College. During the year ended June 30, 2004, the Richard Bland College Foundation made distributions of \$82,850 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from Russell E. Whitaker, Jr., Treasurer, 11301 Johnson Road, Petersburg VA, 23805.

Affiliated Institute

The Omohundro Institute of Early American History and Culture (OIEAHC), sponsored by the College 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, the chairperson of the Institute Council, and three members who are elected by the executive board. 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, financial position and activity of the OIEAHC are not included in the accompanying financial statements. The following summarizes the unaudited financial position of the OIEAHC at June 30, 2004:

Assets	<u>\$1,629,577</u>
Liabilities	\$ 108,831
Net assets	<u>1,520,746</u>
Total liabilities and net assets	<u>\$1,629,577</u>

The total unaudited receipts and disbursements of the OIEAHC were \$1,870,519 and \$1,615,659, respectively, for the year ended June 30, 2004. 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 College's accounting policies conform 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 opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The College has the option to apply all FASB pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The College has elected not to apply the FASB pronouncements issued after the applicable date.

The financial statements have been prepared in accordance with GASB Statement 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and GASB Statement 35, *Basic Financial Statements and Management's Discussion and Analysis of Public College and Universities*. The financial statement presentation required by GASB Statements 34 and 35 provides a comprehensive entity-wide look at the College's financial activities and replaces the fund-group perspective previously required.

GASB Statements 34 and 35 standards are designed to provide 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. Under this guidance, the College is required to include a management's discussion and analysis (MD&A), basic financial statements, notes to the financial statements and supplementary information other than MD&A.

The Foundations are private, nonprofit organizations that report under Financial Accounting Standards Board (FASB) standards, 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 and presentation features. No modifications have been made to the Foundations' financial information in the College's financial statements for these differences.

Basis of Accounting

For reporting purposes, the College is considered a special-purpose government engaged only in business-type activities. Accordingly, its statements have been presented using the economic resource measurement focus and the accrual basis of accounting whereby revenues are recognized when earned, and expenses are recorded when an obligation has been incurred, regardless of the timing of related cash flows. The financial statements include depreciation expense related to capital assets, premiums received on debt issuances are reported as interest income, and discounts on debt issuances 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

The College accounts for its investments that are purchased at fair value; investments received by gift are recorded at fair value at date of acquisition in accordance with GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. All investment income, including changes in the fair value of investments (unrealized gains and losses), is reported as nonoperating revenue in the Statement of Revenues, Expenses, and Changes in Net Assets.

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.

Receivables

Receivables 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.

Capital Assets

Capital assets include land, buildings and other improvements, library materials, equipment and infrastructure assets such as campus lighting. Capital assets are generally defined by the College as assets with an initial cost of \$2,000 or more for the Williamsburg and York River campuses and \$5,000 for Richard Bland College and an estimated useful life in excess of two years including assets acquired under the Higher Education Trust Fund. Such assets are recorded at actual cost or estimated historical cost, if purchased or constructed. Library materials are valued using purchase price for library acquisitions. Donated capital assets are recorded at the estimated fair market value at the date of donation. Expenses for major capital assets and improvements are capitalized (construction in progress) as projects are constructed. The costs of normal maintenance and repairs that do not add to an asset's value or materially extend its useful life are not capitalized. Certain maintenance and replacement reserves have been established to fund costs relating to residences and other auxiliary activities. 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.

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

Buildings	40-50 years
Other improvements and infrastructure	10-50 years
Equipment	2-30 years
Library materials	10 years

Inventories

Inventories are valued at the lower of cost (generally determined on the first-in, first-out method) or market, and consist primarily of expendable supplies held for consumption.

Noncurrent Cash and Investments

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

Deferred Revenue

Deferred revenue primarily includes amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year, but related to the period after June 30, 2004, advance ticket sales for athletic events, and certain grants that have received advance funding but have not met their restriction prior to year end.

Accrued Compensated Absences

Accrued leave reflected in the accompanying financial statements represents the amount of annual, sick, and compensatory leave earned but not taken as of June 30, 2004. The amount reflects all earned vacation leave, sick, and compensatory leave payable under the Commonwealth of Virginia's sick leave pay-out policy and the College's faculty administrators' leave pay-out policy

upon employment termination. The applicable share of employer related taxes payable on the eventual termination payments is also included.

Noncurrent Liabilities

Noncurrent liabilities include principal amounts of bonds payable, notes payable, and capital lease obligations 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.

Federal Student Aid Programs

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

Net Assets

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

Invested in Capital Assets, Net of Related Debt – consists of total investments in capital assets, net accumulated depreciation and outstanding debt obligations.

Restricted Net Assets-Nonexpendable - includes endowment 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 - represents 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 - represents 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. Restricted funds remain classified as such until restrictions have been satisfied.

Classification of Revenues and Expenses

The College presents its revenues and expenses as operating or nonoperating 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 discounts and allowances; (2) sales and

services of auxiliary enterprises, net of scholarship allowances; and (3) federal, state, and nongovernmental grants and contracts.

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

Nonoperating expenses include interest 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.

Scholarship Allowances

Student tuition and fee revenues, and certain other revenues from charges to students, is reported net of scholarship allowances in the Statements of Revenue, 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.

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS

Cash with the Treasurer of Virginia

The Treasurer of Virginia pursuant to Section 2.2-1800, et seq., Code of Virginia, is responsible for the collection, disbursement, custody, and investment of state funds and holds all state funds of the College. Each fund's equity in pooled state funds is reported as "Cash" on the accompanying Statement of Net Assets and is not categorized as to credit risk. The College also holds certain deposits. Deposits with banks and savings institutions are covered by Federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400, et seq., Code of Virginia. Under the Act, banks holding public deposits in excess of the amounts insured by FDIC must pledge collateral in the amount of 50 percent of excess deposits to a collateral pool in the name of the State Treasury Board. Savings institutions are required to collateralize 100 percent of deposits in excess of FSLIC limits. In accordance with the GASB Statement 9 definition of cash and cash equivalents, cash represents cash with the Treasurer, cash on hand, and cash deposits including certificates of deposits and temporary investments with original maturities of three months or less.

Statutes and Board of Visitors' policies authorize the investment of funds held by the College in cash, federal government obligations, commercial bank certificates of deposit, commercial paper, bankers' acceptances, corporate notes and debentures, money market funds, convertible securities, and equities.

Deposits

At June 30, 2004, the carrying value of the College's deposits with banks was \$1,442,260 and the bank balances were \$8,879,263. The carrying value of deposits differs from the bank balance because of reconciling items such as deposits in transit and outstanding checks. Deposits with banks are covered by Federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act.

Investments

The College's investments are categorized below to give an indication of the level of credit risk assumed by the College at June 30, 2004. Credit risk is the risk that the College may not be able to obtain possession of its investment instrument or collateral at maturity. Risk category 1 includes investments which are insured or registered or for which the securities are held by the College or its safekeeping agent in the College's name. Risk category 2 includes uninsured or unregistered investments for which the securities are held by the broker or dealer, or by its trust department or safekeeping agent in the College's name. Risk category 3 includes uninsured or unregistered investments for which the securities are held by the broker or dealer, or by its trust department or safekeeping agent but not in the College's name. The College does not have any category 2 or 3 investments. The composition and categorization of investments held by the College at June 30, 2004, follows:

Cash and Cash Equivalents

Noncategorized:

Cash in banks	\$ 2,363,143
Cash with the Treasurer of Virginia	27,473,784
Appropriations available	5,248,074
Mutual and money market funds	<u>4,321,568</u>
Total cash and cash equivalents	<u>\$ 39,406,569</u>

Investments

Category 1:

U.S. Government Securities and U. S. Government Agent Securities	\$ 7,791,887
Common and preferred stock	30,404,082
Corporate bonds	7,855,945
Commercial paper	<u>170,000</u>
Subtotal	<u>46,221,914</u>

Noncategorized :

State Non Arbitrage Program (SNAP)	10,655,370
Securities lending	2,091,389
Money market funds	<u>2,028,504</u>
Subtotal	<u>14,775,263</u>

Total investments	<u>\$ 60,997,177</u>
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3. 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, Code of Virginia Title 55, Chapter 15 sections 268.1-268.10, 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 2004, had a net appreciation of \$9,905,588 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 (\$4,989,651), Restricted for Expendable Departmental Uses (\$3,917,446), and Unrestricted (\$998,491).

4. ACCOUNTS RECEIVABLE

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

Student tuition and fees	\$ 1,439,382
Auxiliary enterprises	568,053
Federal, state, and nongovernmental grants and contracts	6,564,440
Other activities	<u>4,471,316</u>
Gross receivables	13,043,191
Less: allowance for doubtful accounts	<u>(27,654)</u>
Net accounts receivable	<u>\$ 13,015,537</u>

5. CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Nondepreciable capital assets:				
Land	\$ 7,251,744	\$ -	\$ -	\$ 7,251,744
Inexhaustible artwork and historical treasures	68,507,520	196,046	-	68,703,566
Construction in progress	<u>41,658,160</u>	<u>12,365,626</u>	<u>1,629,840</u>	<u>52,393,946</u>
Total nondepreciable capital assets	<u>117,417,424</u>	<u>12,561,672</u>	<u>1,629,840</u>	<u>128,349,256</u>
Depreciable capital assets:				
Buildings	214,187,845	1,583,814	171,793	215,599,866
Infrastructure	19,365,949	148,142	156,790	19,357,301
Equipment	65,580,511	6,666,644	1,850,506	70,396,649
Other improvements	3,702,187	33,933	-	3,736,120
Library materials	<u>78,592,825</u>	<u>1,872,416</u>	<u>933,759</u>	<u>79,531,482</u>
Total depreciable capital assets	<u>381,429,317</u>	<u>10,304,949</u>	<u>3,112,848</u>	<u>388,621,418</u>
Less accumulated depreciation for:				
Buildings	89,316,318	4,999,241	13,070	94,302,489
Infrastructure	18,397,223	151,330	138,845	18,409,708
Equipment	36,190,162	4,170,555	1,389,223	38,971,494
Other improvements	3,699,320	284	-	3,699,604
Library materials	<u>65,427,728</u>	<u>2,242,253</u>	<u>933,759</u>	<u>66,736,222</u>
Total accumulated depreciation	<u>213,030,751</u>	<u>11,563,663</u>	<u>2,474,897</u>	<u>222,119,517</u>
Depreciable capital assets, net	<u>168,398,566</u>	<u>(1,258,714)</u>	<u>637,951</u>	<u>166,501,901</u>
Total capital assets, net	<u>\$285,815,990</u>	<u>\$11,302,958</u>	<u>\$2,267,791</u>	<u>\$294,851,157</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 Library are based on average cost determined by each library. The average cost of the Swem Library for purchases of books was \$44.54 for fiscal year 2004. The average cost of the Law Library purchases of books was \$113.46 for fiscal year 2004. 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 \$245.00 for fiscal year 2004. The average cost of library books purchased for Richard Bland College was \$20.89 for fiscal year 2004. The effects of the net change in the value of the collections of the libraries have been included as additions to current year operations.

6. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

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

Employee salaries, wages, and fringe benefits payable	\$ 12,262,517
Vendors and suppliers accounts payable	5,068,975
Capital project accounts and retainage payable	<u>3,100,128</u>
Accounts payable and accrued expenses	<u>\$20,431,620</u>

7. OTHER LIABILITIES

Other liabilities consisted of the following at June 30, 2004:

Perkins loan federal contributions	\$ 2,584,768
Obligations under securities lending program	2,091,389
Deposits pending distribution and other	<u>580,291</u>
Total other liabilities	<u>\$ 5,256,448</u>

8. COMMITMENTS

At June 30, 2004, the College was a party to construction and other contracts totaling approximately \$174,018,000 of which \$47,853,000 has been incurred.

The College is also committed under various operating leases for buildings, equipment and computer software. In general, the leases are for a one to three-year terms with appropriate renewal options for each type of lease. In most cases, the College expects that in the normal course of business, 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, Virginia. Rental expense was approximately \$2,793,636 for the year ended June 30, 2004.

The College has, as of June 30, 2004, the following future minimum rental payments due under the above leases:

Year Ending <u>June 30,</u>	Operating Lease <u>Obligations</u>
2005	\$2,267,853
2006	504,440
2007	405,471
2008	189,349
2009	184,118
2010-2014	920,591
2015-2019	<u>718,103</u>
Total	<u>\$5,189,925</u>

9. 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. As of June 30, 2004, the \$1,000,000 in Advances from the Treasurer represents advances from the Commonwealth of Virginia for working capital pending the receipt of funds from federal grants and contracts.

10. NONCURRENT LIABILITIES

The College's noncurrent liabilities consist of long-term debt (further described in Note 11), and other noncurrent liabilities. A summary of changes in noncurrent liabilities for the year ending June 30, 2004 is presented as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Bonds payable	\$ 38,431,051	\$ -	\$ 2,646,288	\$ 35,784,763	\$ 2,582,028
Notes payable	8,896,331	12,246,500	1,318,250	19,824,581	1,682,907
Installment purchases	97,071	-	88,483	8,588	8,588
Capital leases	<u>-</u>	<u>59,380</u>	<u>21,258</u>	<u>38,122</u>	<u>18,103</u>
Total long-term debt	47,424,453	12,305,880	4,074,279	55,656,054	4,291,626
Accrued compensated absences	<u>6,691,912</u>	<u>5,360,352</u>	<u>5,016,015</u>	<u>7,036,249</u>	<u>4,646,581</u>
Total non-current liabilities	<u>\$ 54,116,365</u>	<u>\$ 17,666,232</u>	<u>\$ 9,090,294</u>	<u>\$ 62,692,303</u>	<u>\$ 8,938,207</u>

11. 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. The following are the bonds outstanding at year-end:

<u>Description</u>	<u>Interest Rates (%)</u>	<u>Maturity</u>	<u>Balance as of June 30, 2004</u>
Section 9(c) Bonds Payable:			
Dormitory, Series 1996A1	2.500 – 5.000	2016	\$ 315,000
Dormitory, Series 1996R5	4.750 – 5.125	2014	111,088
Dormitory, Series 1996R6	4.750 – 5.125	2015	1,657,154
Dormitory, Series 1997A2	3.790 – 5.400	2017	570,000
Dormitory, Series 1997A3	3.790 – 5.400	2017	2,560,000
Dormitory, Series 1998A1	4.470 – 4.930	2018	4,995,000
Dormitory, Series 1998R2	3.500 – 5.000	2013	671,326
Dormitory, Series 1998R3	3.500 – 5.000	2008	30,858
Dormitory, Series 1998R4	3.500 – 5.000	2008	339,618
Dormitory, Series 2001A1	3.500 – 5.000	2021	4,380,000
Dormitory, Series 2002A1	2.500 – 5.000	2022	4,620,000
Dormitory, Series 2002R3	2.500 – 4.000	2006	148,089
Dormitory, Series 2002R4	2.500 – 5.000	2013	346,832
Dormitory, Series 2002R6	2.500 – 4.000	2006	20,344
Dormitory, Series 2002R7	2.500 – 4.000	2006	305,195
Dormitory, Series 2002R9	2.500 – 4.000	2006	<u>898,268</u>
Renovation of Dormitories Bonds			<u>21,968,772</u>
Graduate Housing, Series 2003R5	3.500 – 5.000	2011	<u>3,481,089</u>
Randolph Residence, Series 2003R3	3.500 – 5.000	2009	<u>742,008</u>
Tyler Hall, Series 2003R1	3.750 – 5.200	2008	<u>330,421</u>
Telecommunication, Series 2003R4	3.550 – 4.625	2005	<u>37,013</u>
University Center, Series 1998R1	3.500 – 5.000	2013	6,297,920
University Center, Series 2002R5	2.500 – 5.000	2013	<u>115,635</u>
University Center Bonds			<u>6,413,555</u>
Underground Utility, Series 1995A1	3.500 – 5.600	2016	215,000
Underground Utility, Series 1997A1	3.790 – 5.400	2017	1,510,000
Underground Utility, Series 2002R8	3.500 – 5.600	2016	<u>878,248</u>
Underground Utility Bonds			<u>2,603,248</u>
Total bonds payable			35,576,106
Deferred gain on advance refundings			<u>208,657</u>
Net bonds payable			<u>\$35,784,763</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 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.

The following are notes outstanding at year-end.

<u>Description</u>	<u>Interest Rates (%)</u>	<u>Maturity</u>	<u>Balance as of June 30, 2004</u>
Section 9(d) Bonds:			
William and Mary Hall, Series 1997A	3.750 – 5.000	2018	\$ 1,700,000
Marshall-Wythe Library, Series 1999A	5.000 – 6.000	2019	1,640,000
Barksdale Dormitory, Series 2003A	2.000 – 5.000	2024	1,915,000
Parking Deck, Series 2003A	2.000 – 5.000	2024	4,030,000
Recreation Sports Center, Series 2003A	2.000 – 5.000	2024	960,000
Law School Library, Series 2003A	2.000 – 5.000	2024	1,150,000
Magnet Facility, Series 2003A	2.000 – 5.000	2024	<u>2,400,000</u>
Total 9(d) bonds			<u>13,795,000</u>
Commercial Notes:			
Enterprise Resource Planning System	5.820	2008	4,446,842
Enterprise Resource Planning System	5.820	2008	<u>1,582,739</u>
Total commercial notes			<u>6,029,581</u>
Total notes payable			<u>\$ 19,824,581</u>

Installment Purchases and Capital Leases

At June 30, 2004, installment purchases and capital leases 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, 2004</u>
Installment purchases and capital leases payable	Various	2004-2007	<u>\$46,810</u>

Long-term debt matures as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 4,291,626	\$ 2,606,370
2006	4,520,807	2,398,819
2007	4,719,006	2,185,116
2008	4,929,612	1,947,408
2009	3,822,844	1,737,299
2010-2014	16,729,365	6,120,010
2015-2019	10,939,137	2,591,790
2020-2024	5,495,000	568,292
Refunding gain	<u>208,657</u>	<u>-</u>
Total	<u>\$ 55,656,054</u>	<u>\$20,155,104</u>

Prior Year Defeasance of Debt

During fiscal years 1993, 1994, 1996, and 2003, 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, 2004, \$21,128,927 of the defeased bonds were outstanding.

12. AUXILIARY ENTERPRISE ACTIVITIES

Auxiliary operating revenues and expenses are distributed as shown in the following table for the year ending June 30, 2004. Additionally, the College used auxiliary revenues to pay debt service and capital improvements of \$4,979,978. This amount is not included in the auxiliary operating expenses.

Revenues:	
Room contracts	\$14,563,428
Food service contracts	9,191,311
Comprehensive fees	17,033,980
Other student fees, sales, and services	<u>6,978,312</u>
Total auxiliary enterprises revenues	<u>\$47,767,031</u>
Expenses:	
Residential facilities	\$12,250,233
Dining operations	9,039,653
Athletics	12,412,077
Other auxiliary activities	<u>12,716,553</u>
Total auxiliary enterprises expenses	<u>\$46,418,516</u>

13. EXPENSES BY NATURAL CLASSIFICATIONS

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

	Salaries, wages, and <u>fringe benefits</u>	Non-personal <u>services/supplies</u>	Scholarships and <u>fellowships</u>	Plant and <u>equipment</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$ 64,067,079	\$ 4,809,959	\$ 3,443	\$ 3,046,017	\$ -	\$ 71,926,498
Research	25,841,780	12,963,186	579,629	5,994,176	-	45,378,771
Public service	-	14,664	-	380	-	15,044
Academic support	13,845,185	2,237,130	-	4,779,899	-	20,862,214
Student services	3,880,266	2,614,445	-	114,577	-	6,609,288
Institutional support	12,297,995	3,653,179	-	851,152	-	16,802,327
Operation and maintenance of plant	3,340,237	4,521,794	-	2,913,779	-	10,775,810
Scholarships and related expenses	2,113	-	3,051,813	780	-	3,054,706
Auxiliary enterprises	11,798,411	23,157,899	242,751	11,219,455	-	46,418,516
Depreciation	-	-	-	-	11,563,664	11,563,664
Other	-	64,294	-	47,232	-	111,526
Total	<u>\$135,073,066</u>	<u>\$54,036,551</u>	<u>\$3,877,636</u>	<u>\$28,967,447</u>	<u>\$11,563,664</u>	<u>\$233,518,364</u>

14. STATE APPROPRIATIONS

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

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

Original legislative appropriation:	
Educational and general programs	\$54,976,718
Commonwealth Technology Research Fund	1,087,196
Student financial assistance	1,325,534
Supplemental adjustments:	
Central fund appropriation transfers	1,897,849
General fund appropriation reductions	(617,189)
Reversions	<u>(4,069)</u>
Adjusted appropriations	<u>\$58,666,039</u>

15. COMPONENT UNIT FINANCIAL INFORMATION

The College has seven component units - the Endowment Association of the College of William and Mary in Virginia, the Marshall-Wythe School of Law Foundation, the William and Mary Business School Foundation, the Society of the Alumni, the Athletic Educational Foundation, the Virginia Institute of Marine Science Foundation, and the Richard Bland College Foundation. These organizations are separately incorporated entities and other auditors examine the related financial statements. The College's component units are presented in the aggregate on the financial statements. Summary financial statements and related disclosures follow.

Summary of Statement of Net Assets - Component Units

	Endowment Association	School of Law Foundation	Business School Foundation
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 6,488,378	\$ 535,245	\$ 831,756
Short term investments	4,091,538	-	-
Receivables, net of allowance	935,492	94,229	471,578
Inventories	-	-	-
Pledges receivable - current portion	2,093,807	628,663	692,845
Other assets	-	29,646	6,368
Total current assets	13,609,215	1,287,783	2,002,547
Noncurrent assets:			
Restricted cash and cash equivalents	-	1,397	-
Restricted investments	238,744,168	19,149,405	18,076,117
Pledges receivable	7,962,647	556,758	2,871,252
Capital assets, nondepreciable	8,980,762	-	-
Capital assets, net of accumulated depreciation	3,700,732	51,564	28,109
Funds held in trust by others	99,821,975	-	-
Other assets	7,619,101	-	-
Total noncurrent assets	366,829,385	19,759,124	20,975,478
Total assets	380,438,600	21,046,907	22,978,025
LIABILITIES			
Current liabilities:			
Accounts payable and accrued expenses	726,770	91,553	686,046
Deferred revenue	-	309,875	109,074
Deposits held in custody for others	2,604,817	-	-
Long-term liabilities-current portion	4,885,000	301,023	-
Other liabilities	-	-	-
Total current liabilities	8,216,587	702,451	795,120
Noncurrent liabilities	5,174,563	-	-
Total liabilities	13,391,150	702,451	795,120
NET ASSETS			
Invested in capital assets, net of related debt	12,681,494	51,564	28,109
Restricted for:			
Nonexpendable:			
Scholarships and fellowships	-	-	-
Other	-	-	-
Expendable:			
Scholarships and fellowships	51,526,812	2,822,168	267,368
Research	306,594	-	-
Capital projects	1,405,271	-	-
Departmental uses	57,421,990	5,152,172	15,825,823
Other	123,263,951	-	-
Unrestricted	120,441,338	12,318,552	6,061,605
Total net assets	\$ 367,047,450	\$ 20,344,456	\$ 22,182,905

Society of the Alumni	Athletic Educational Foundation	Virginia Institute of Marine Science Foundation	Richard Bland College Foundation	Total Component Units
\$ 899,290	\$ 600,245	\$ 678,027	\$ 218,945	\$ 10,251,886
-	-	1,264,312	-	5,355,850
76,682	32,701	-	127	1,610,809
61,142	-	-	-	61,142
-	510,481	505,000	-	4,430,796
63,059	-	-	-	99,073
1,100,173	1,143,427	2,447,339	219,072	21,809,556
-	-	-	-	1,397
2,192,178	1,399,196	-	1,977,232	281,538,296
-	636,124	206,475	-	12,233,256
-	-	-	-	8,980,762
147,474	29,109	-	-	3,956,988
2,276,462	-	-	-	102,098,437
-	-	50,184	-	7,669,285
4,616,114	2,064,429	256,659	1,977,232	416,478,421
5,716,287	3,207,856	2,703,998	2,196,304	438,287,977
279,791	-	-	1,489	1,785,649
49,912	13,400	-	-	482,261
-	-	-	-	2,604,817
-	8,256	-	-	5,194,279
924,134	2,218	-	-	926,352
1,253,837	23,874	-	1,489	10,993,358
-	21,186	-	-	5,195,749
1,253,837	45,060	-	1,489	16,189,107
147,474	29,109	-	-	12,937,750
-	-	150,706	-	150,706
-	-	100,000	-	100,000
-	-	-	-	54,616,348
-	-	-	-	306,594
-	-	-	-	1,405,271
-	-	-	-	78,399,985
1,797,432	-	-	1,575,251	126,636,634
2,517,544	3,133,687	2,453,292	619,564	147,545,582
\$ 4,462,450	\$ 3,162,796	\$ 2,703,998	\$ 2,194,815	\$ 422,098,870

Summary of Statement of Revenues, Expenses, and Changes in Net Assets - Component Units

	Endowment Association	School of Law Foundation	Business School Foundation	Society of the Alumni
Operating revenues:				
Gifts and contributions	\$ 10,398,745	\$ 1,965,499	\$ 4,018,275	\$ 1,638,843
Endowment income	12,068,478	2,494,153	1,885,403	353,591
Other	1,752,642	780,736	3,060,046	1,193,993
Total operating revenues	24,219,865	5,240,388	8,963,724	3,186,427
Operating expenses:				
Instruction	2,985,689	363,777	-	-
Research	101,568	37,048	-	-
Public service	44,581	17,657	-	-
Academic support	958,548	1,142,293	-	-
Student Services	30,929	44,269	-	-
Institutional support	982,026	-	-	-
Operation and maintenance of plant	319,844	280,916	-	-
Scholarships	3,669,081	294,266	-	-
Auxiliary enterprises	305,674	-	-	-
Fundraising	3,076,899	409,276	105,590	-
Management and general	1,266,123	87,691	1,108,755	406,517
Other	2,289,624	73,283	4,274,954	2,303,505
Total operating expenses	16,030,586	2,750,476	5,489,299	2,710,022
Operating gain (loss)	8,189,279	2,489,912	3,474,425	476,405
Nonoperating revenues:				
Net investment revenue	30,794,660	-	-	-
Other nonoperating revenue	-	-	-	763,550
Net nonoperating revenues	30,794,660	-	-	763,550
Increase in net assets	38,983,939	2,489,912	3,474,425	1,239,955
Net assets - beginning of year	328,063,511	17,854,544	18,708,480	3,222,495
Net assets - end of year	\$ 367,047,450	\$ 20,344,456	\$ 22,182,905	\$ 4,462,450

Athletic Educational Foundation	Virginia Institute of Marine Science Foundation	Richard Bland College Foundation	Total Component Units
\$ 2,965,248	\$ 407,860	\$ 247,077	\$ 21,641,547
44,104	224,430	254,045	17,324,204
233,367	-	6,135	7,026,919
3,242,719	632,290	507,257	45,992,670
-	-	-	3,349,466
-	-	-	138,616
-	-	-	62,238
-	-	-	2,100,841
-	-	-	75,198
-	-	-	982,026
-	-	-	600,760
-	-	-	3,963,347
3,363,060	-	-	3,668,734
-	-	5,177	3,596,942
494,360	211	20,793	3,384,450
54,955	28,130	118,578	9,143,029
3,912,375	28,341	144,548	31,065,647
(669,656)	603,949	362,709	14,927,023
-	-	-	30,794,660
-	-	-	763,550
-	-	-	31,558,210
(669,656)	603,949	362,709	46,485,233
3,832,452	2,100,049	1,832,106	375,613,637
\$ 3,162,796	\$ 2,703,998	\$ 2,194,815	\$ 422,098,870

Investments

Each component unit holds various investments based on the investment policies established by the governing board of the individual foundation. The following table shows the various investment types held by each component unit.

	<u>Endowment Association</u>	<u>School of Law Foundation</u>	<u>Business School Foundation</u>	<u>Society of the Alumni</u>	<u>Athletic Educational Foundation</u>	<u>Richard Bland College Foundation</u>	<u>Virginia Institute of Marine Science Foundation</u>	<u>Total</u>
Certificates of deposit	\$ 4,834,654	\$ -	\$ 1,867,677	\$ -	\$ 927,750	\$ -	\$ 1,264,312	\$ 8,894,393
US Gov't obligations	5,865,952	2,727,842	-	-	23,761	-	-	8,617,555
Equities and equity mutual funds	155,315,536	11,676,186	12,115,589	1,584,107	26,826	1,962,317	-	182,680,561
Fixed income funds	55,157,345	3,901,443	-	608,071	298,459	-	-	59,965,318
REITS and real estate	15,471,884	498,130	-	-	122,400	-	-	16,092,414
Notes receivable	6,157,860	-	4,092,851	-	-	-	-	10,250,711
Other	<u>32,475</u>	<u>345,804</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,915</u>	<u>-</u>	<u>393,194</u>
Total	<u>\$242,835,706</u>	<u>\$19,149,405</u>	<u>\$18,076,117</u>	<u>\$2,192,178</u>	<u>\$1,399,196</u>	<u>\$1,977,232</u>	<u>\$1,264,312</u>	<u>\$286,894,146</u>

* and other short-term investments

Pledges Receivable

Unconditional promises to give (pledges) are recorded as receivables and revenues and are assigned net asset categories in accordance with donor imposed restrictions. Pledges expected to be collected within one year are recorded at net realizable value. Pledges that are expected to be collected in future years are recorded at the net present value of their estimated future cash flows. The discounts on these amounts are computed using risk free interest rates applicable to the years in which the payments will be received. The foundations record an allowance against pledges receivable for estimated uncollectible amounts. The Society of the Alumni and the Richard Bland College Foundation did not have any pledges receivable at year end.

	<u>Endowment Association</u>	<u>School of Law Foundation</u>	<u>Business School Foundation</u>	<u>Athletic Educational Foundation</u>	<u>Virginia Institute of Marine Science Foundation</u>	<u>Total</u>
Total pledges receivable	\$12,956,829	\$1,372,564	\$3,728,187	\$1,309,590	\$722,000	\$20,089,170
Less allowance for uncollectible accounts	(1,224,993)	(187,143)	-	(131,126)	-	(1,543,262)
Less effect of discounting to present value	<u>(1,675,382)</u>	<u>-</u>	<u>(164,090)</u>	<u>(31,859)</u>	<u>(10,525)</u>	<u>(1,881,856)</u>
Net pledges receivable	10,056,454	1,185,421	3,564,097	1,146,605	711,475	16,664,052
Less: Current pledges receivable	<u>2,093,807</u>	<u>628,663</u>	<u>692,845</u>	<u>510,481</u>	<u>505,000</u>	<u>4,430,796</u>
Noncurrent pledges receivable	<u>\$ 7,962,647</u>	<u>\$ 556,758</u>	<u>\$2,871,252</u>	<u>\$ 636,124</u>	<u>\$206,475</u>	<u>\$12,233,256</u>

Capital Assets

	<u>Endowment Association</u>	<u>Business School Foundation</u>	<u>School of Law Foundation</u>	<u>Society of the Alumni</u>	<u>Athletic Educational Foundation</u>	<u>Total</u>
Nondepreciable capital assets:						
Land, collections and other	<u>\$ 8,980,762</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,980,762</u>
Depreciable capital assets:						
Buildings and improvements	2,873,795	-	-	226,535	-	3,100,330
Equipment	275,246	-	292,390	-	-	567,636
Furniture and fixtures	30,562	85,518	-	382,764	-	498,844
Telecommunications system	7,013,682	-	-	-	-	7,013,682
Vehicles	-	-	-	14,250	41,278	55,528
Other	<u>55,915</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,970</u>	<u>57,885</u>
Total	10,249,200	85,518	292,390	623,549	43,248	11,293,905
Less: Accumulated depreciation	<u>(6,548,468)</u>	<u>(57,409)</u>	<u>(240,826)</u>	<u>(476,075)</u>	<u>(14,139)</u>	<u>(7,336,917)</u>
Depreciable capital assets, net	<u>\$ 3,700,732</u>	<u>\$ 28,109</u>	<u>\$ 51,564</u>	<u>\$ 147,474</u>	<u>\$ 29,109</u>	<u>\$ 3,956,988</u>

Long-term Liabilities

	<u>Endowment Association</u>	<u>School of Law Foundation</u>	<u>Athletic Educational Foundation</u>	<u>Total</u>
Notes payable	\$ 6,494,583	\$ -	\$29,442	\$ 6,524,025
Deferred compensation liability	1,141,365	263,500	-	1,404,865
Obligations under split interest agreements	1,406,163	-	-	1,406,163
Other long-term liabilities	<u>1,017,452</u>	<u>37,523</u>	<u>-</u>	<u>1,054,975</u>
Total noncurrent liabilities	<u>\$10,059,563</u>	<u>\$301,023</u>	<u>\$29,442</u>	<u>\$10,390,028</u>

Endowment Association

Funds Held for Others

The Association holds certain assets for the benefit of the Society of the Alumni of the College of William and Mary (Society) and for the Omohundro Institute of Early American History and Culture (Institute). Such funds held for others are recorded as an asset and an offsetting liability.

Notes Payable

On June 23, 2000, the Association purchased an interest in investment real estate from C.C. Casey, LLC for \$1,000,000 cash and a \$5,000,000 long-term note, payable in \$1,000,000 annual installments starting on July 1, 2001, with an interest rate of 9%. The amount outstanding was \$2,000,000 at June 30, 2004.

On June 25, 2001, Reliance Holdings, LLC entered into a revolving line of credit agreement with First Union National Bank (now Wachovia Bank) in the amount of \$2 million, which the Association guaranteed. Interest only, which accrues daily at the LIBOR Market Index Rate plus .60 percent, is payable quarterly. This line of credit has been extended to \$4,700,000 with all principal and accrued interest due and payable on June 30, 2005. The amount outstanding was \$3,500,000 at June 30, 2004.

The Association had entered into a revolving line of credit agreement with SunTrust Bank in the amount of \$5 million. Any interest due, which accrues at the rate of the 30 day LIBOR plus .50 percent, is to be paid monthly and principal will be repaid based on a term that matches the useful life of the projects financed. The amount outstanding at June 30, 2004 was \$994,583. These funds were used for upgrades to the telecommunications system and will be repaid from technology fees from the College.

	<u>Balance at June 30, 2004</u>
C.C. Casey note payable	\$2,000,000
Reliance Holdings line of credit guarantee	3,500,000
SunTrust Bank line of credit	<u>994,583</u>
 Total notes payable	 6,494,583
 Less portion due within one year	 <u>4,885,000</u>
 Notes payable, long-term portion	 <u>\$1,609,583</u>

The following represents principal amounts due to maturity:

Year Ending <u>June 30,</u>	
2005	\$4,885,000
2006	1,385,000
2007	<u>224,583</u>
 Total notes payable	 <u>\$6,494,583</u>

Deferred Compensation Liability

The President of the College participates in a deferred compensation plan. The deferred compensation liability represents plan assets that were provided primarily by gifts and also by funds from the College and from the Endowment Association.

Obligations Under Split Interest Agreements

Donors have contributed assets to the Association or to trusts for which the Association serves as trustee. In exchange the donor or other beneficiary will receive a fixed amount or percentage of assets over their lifetime. The present values of these commitments are liabilities classified as obligations under split interest agreements.

Other

Other Association noncurrent liabilities include an interest in New Town, LLC, a joint venture to develop real estate in Williamsburg.

Marshall-Wythe School of Law Foundation – Deferred Compensation Liability

A key administrator has an option benefit arrangement with the Foundation. Reserves maintained to discharge the Foundation's obligation are held in a grantor trust. The option holder may exercise options on trust shares over a 17-year period at specified exercise prices. Net cost of the plan for the year ended June 30, 2004 amounted to \$50,000.

Athletic Educational Foundation – Notes Payable

The Athletic Educational Foundation has two notes payable for the purchase of automobiles with monthly payments and maturities in 2007 and 2008. The following schedule represents principal amounts due to maturity.

Year Ending <u>June 30,</u>	
2005	\$ 8,256
2006	8,256
2007	8,255
2008	4,343
2009	<u>332</u>
Total notes payable	<u>\$29,442</u>

16. RETIREMENT PLANS

Virginia Retirement System

Employees of the College are employees of the Commonwealth of Virginia. Substantially all full-time classified salaried employees of the College participate in a defined benefit retirement plan administered by the Virginia Retirement System (VRS). VRS is an agent multiple-employer public employee retirement system (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 Commonwealth of Virginia, not the College, has the overall responsibility for contributions to this plan. The CAFR provides disclosure of the Commonwealth's unfunded pension benefit obligation. The same report contains historical trend information showing VRS's progress in accumulating sufficient assets to pay benefits when due.

The College's expenses include the amount assessed by the Commonwealth for contributions to VRS, which totaled \$4,777,245 for the year ended June 30, 2004. These contributions included the five percent employee contribution assumed by the employer. The College's total payroll for employees covered by VRS was approximately \$54,125,524 for the year ended June 30, 2004.

Optional Retirement Plans

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

Individual contracts issued under the plan provide for full and immediate vesting of both the College's and the employee's contributions. Total pension costs under this plan were approximately \$5,038,483 for year ended June 30, 2004. Contributions to the optional retirement plan were calculated using the base salary amount of approximately \$48,446,953 for the year ended June 30, 2004.

The College's total payroll for the year ended June 30, 2004 was approximately \$120,422,785.

17. POST-EMPLOYMENT BENEFITS

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

18. CONTINGENCIES

Grants and Contracts

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

In addition, the College is required to comply with the various federal regulations issued by the Office of Management and Budget. Failure to comply with certain system requirements of these regulations may result in questions concerning the allowability of related direct and indirect charges pursuant to such agreements. As of June 30, 2004, the College estimates that no material liabilities will result from such audits or questions.

19. RISK MANAGEMENT AND EMPLOYEE HEALTH CARE PLANS

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

20. SUBSEQUENT EVENTS

On October 28, 2004, the College issued 2004A, 9(d) revenue bonds through the Virginia College Building Authority (VCBA) Public Higher Education Financing Pooled Bonds Program in the amount of \$21,080,000. Proceeds from the bonds will be used to construct a new dormitory, a parking deck, and a recreation sports center. The bonds were issued with interest rates varying from 3 percent to 5 percent and mature in 20 years.

THE COLLEGE OF WILLIAM AND MARY IN VIRGINIA
SCHEDULE OF AUXILIARY ENTERPRISES REVENUES AND EXPENDITURES
For The Year Ended June 30, 2004

	Food Services	Residential Facilities	Stores and Shops	Student Health
Operating revenues:				
Student fees	\$ 9,184,111	\$ 14,563,428	\$ -	\$ 2,125,661
Sales and services	292,126	477,391	821,697	475,633
Other sources	-	-	4,689	-
Gross operating revenues	9,476,237	15,040,819	826,386	2,601,294
Cost of sales	-	-	-	-
Net operating revenues	9,476,237	15,040,819	826,386	2,601,294
Operating expenditures:				
Personal services	269	2,636,818	152,648	1,895,951
Contractual services	8,115,886	3,483,411	256,717	152,795
Current charges and obligations	838,549	4,638,554	701,506	165,137
Supplies and materials	60,179	461,087	36,695	279,048
Equipment	24,520	237,097	6,156	23,044
Property and improvements	-	-	-	-
Plant and improvements	-	139,213	-	597
Scholarships	250	654,053	240	200
Miscellaneous	-	-	63,250	-
Total operating expenditures	9,039,653	12,250,233	1,217,212	2,516,772
Excess (deficiency) of revenues over (under) operating expenditures	436,584	2,790,586	(390,826)	84,522
Nonoperating revenues:				
Private gifts	-	186,692	-	-
Transfers (out):				
Mandatory:				
Debt service	-	(2,888,601)	-	-
Nonmandatory	-	-	-	-
Total transfers	-	(2,888,601)	-	-
Net increase (decrease) for the year	436,584	88,677	(390,826)	84,522
Net assets at beginning of year	3,939,379	736,576	(1,135,459)	1,073,691
Net assets at end of year	\$ 4,375,963	\$ 825,253	\$ (1,526,285)	\$ 1,158,213

* 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.

Telecom- munications	Intercollegiate Athletics	Parking and Transportation	Extramural Programs	Other *	Total
\$ 1,649,408	\$ 6,229,272	\$ 347,889	\$ 1,919	\$ 3,920,292	\$ 38,021,980
1,243,532	1,988,698	1,026,056	1,427,308	3,676,207	11,428,648
-	-	2,125	-	14,495	21,309
2,892,940	8,217,970	1,376,070	1,429,227	7,610,994	49,471,937
-	635	-	-	122,672	123,307
2,892,940	8,217,335	1,376,070	1,429,227	7,488,322	49,348,630
674,890	4,002,044	286,532	187,916	(1,593,888)	8,243,180
721,882	2,826,454	232,164	577,090	4,784,454	21,150,853
424,561	530,732	93,805	16,872	1,955,418	9,365,134
43,441	449,390	3,490	19,295	650,341	2,002,966
202,648	772,153	22,069	3,352	36,767	1,327,806
-	103	107,283	-	2,862	110,248
-	-	4,970	-	71,393	216,173
-	3,833,126	350	297,476	51,603	4,837,298
-	-	8,000	-	6,386	77,636
2,067,422	12,414,002	758,663	1,102,001	5,965,336	47,331,294
825,518	(4,196,667)	617,407	327,226	1,522,986	2,017,336
-	4,188,891	-	5,125	96,243	4,476,951
(335,504)	-	(84,000)	-	(1,671,873)	(4,979,978)
-	-	-	-	(33,089)	(33,089)
(335,504)	-	(84,000)	-	(1,704,962)	(5,013,067)
490,014	(7,776)	533,407	332,351	(85,733)	1,481,220
625,054	(647,067)	2,917,440	916,066	(6,181,927)	2,243,754
\$ 1,115,068	\$ (654,843)	\$ 3,450,847	\$ 1,248,417	\$ (6,267,660)	\$ 3,724,974



Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

February 18, 2005

The Honorable Mark R. Warner
Governor of Virginia

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

Board of Visitors
The College of William and Mary in Virginia

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying basic financial statements of the **College of William and Mary in Virginia**, including the Virginia Institute of Marine Science and Richard Bland College, a component unit of the Commonwealth of Virginia, and its aggregate discretely presented component units as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the component units of the College, which are discussed in Note 1. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates the amounts included for the component units of the College, is based on the reports of the other auditors.

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

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

Virginia, including the Virginia Institute of Marine Science and Richard Bland College, and of its aggregate discretely presented component units as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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

The management's discussion and analysis on pages 1 through 6 is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

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

Internal Control Over Financial Reporting

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

Compliance and Other Matters

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

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

EXIT CONFERENCE

We discussed this report with management at an exit conference held on March 24, 2005.

AUDITOR OF PUBLIC ACCOUNTS

JHS/kva

THE COLLEGE OF WILLIAM AND MARY IN VIRGINIA

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COLLEGE OFFICIALS

The College of William and Mary

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P. Geoffrey Feiss, Provost

Samuel E. Jones, Vice President for Finance

Anna B. Martin, Vice President for Administration

Stewart H. Gamage, Vice President for Public Affairs

W. Samuel Sadler, Vice President for Student Affairs

Dennis W. Cross, Vice President for University Development

Edmund A. Brummer, Director of Financial Operations

Richard Bland College

James B. McNeer, President

Vernon R. Lindquist, Provost and Dean of the Faculty

Russell E. Whitaker, Jr., Dean of Administration and Finance