

**COLLEGE OF WILLIAM AND MARY IN VIRGINIA**

**REPORT ON AUDIT  
FOR THE YEAR ENDED  
JUNE 30, 2006**

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***APA***

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**Auditor of  
Public Accounts**

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**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, 2006, found:

- the financial statements are presented fairly, in all material respects;
- internal control matters that we consider to be reportable conditions; however, we do not consider any of these to be material weaknesses;
- no instances of noncompliance or other matters required to be reported; and
- the College has not completed adequate corrective action with respect to the previously reported issue "Test Financial Statement Preparation Process." Adequate corrective action has been taken with respect to the audit finding reported in the prior year that is not repeated in this report.

We recommend that the College:

- improve its financial statement preparation process, and
- develop a checkout list for terminated employees.

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## INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

### Improve Financial Statement Preparation Process

The 2005 audit report noted that the College's implementation of the new Banner financial system completely changed how the College's financial reporting staff produced financial statements. Although we recognize the College's effort to improve their financial reporting process, some of the inadequacies noted in the previous audit continued in the present year.

In preparing the financial statements for fiscal year 2006, College financial reporting staff continued to encounter difficulties in obtaining information from the Banner system. These problems continued to cause delays and inefficiencies in preparing the financial statements and turnover in key positions within the financial reporting department compounded the problems. While College staff created new system reports and corrected some of the prior year issues, continued improvement is necessary if the financial statement preparation process is to work efficiently.

We again recommend the College continue to work with the financial system vendor, along with other state universities using the Banner financial system to streamline its financial statement preparation. College financial reporting staff should continue with their project to fully document and test the financial statement preparation process. With improved financial system information and clearly documented and tested processes, the financial statement process should take less time, continue to meet all applicable deadlines, and allow staff to complete their regular work cycle while preparing the financial statements.

### Develop Checkout List for Terminated Employees

The College does not have standard procedures to properly recover all College property from employees when they leave employment. The only written policy on the collection of College property states that the supervisor has responsibility to collect all items. A standard separation procedure with a checklist would assist departments to recover College property such as identification cards, charge cards, keys, portable computers, and cell phones.

Without a standard procedure including a checklist, there is a risk that the College could lose equipment or fail to cancel system access therefore leading to unauthorized transactions, continued access to College buildings, and inappropriate identification as a College employee on campus and in the community. In order to make sure that all departments consider these issues the College should develop and maintain standard procedures to follow when employees terminate. Furthermore, the College should establish a standard checklist that employees and supervisors sign that lists the College property distributed and collected.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

The College is the second oldest institution of higher education in North America, its royal charter dating to 1693. Building on its history, the College is one of the premier universities in the nation. The College, beginning with its designation as a “Public Ivy“ nearly 20 years ago, has witnessed remarkable growth in its national reputation such that it is now routinely considered among the top national universities in surveys of every kind. The College’s commitment to quality education has generated steadily increasing numbers of applications for undergraduate enrollment, topping out with approximately 10,700 applications for 1,350 slots for the class of 2010.

The College’s stature enables the recruitment of superlative faculty and staff as essential ingredients to a community of the best teachers, students, researchers, scholars, creative artists, and professionals. External research has more than tripled since 1997, and private giving provides those “Margin of Excellence” funds that allow the College to be unique in public higher education. Both undergraduate research and an ever-expanding study abroad program are hallmarks of the College experience. As a result, student retention, graduation, and placement rates are comparable to only the most elite institutions of higher education in the country, public or private.

Under President Gene R. Nichol, the College is affirming its intent to be both “Great and Public”. Great in quality of program and public in terms of being accessible to all, committed to public service and outreach, and conscious of the needs of the Commonwealth of Virginia (Commonwealth) and its citizens. Under the on-going restructuring of higher education in the Commonwealth, the College is receiving greater fiscal and managerial flexibility while establishing specific goals as it moves to meet the educational and economic needs of the Commonwealth.

### MD&A Overview:

This Management’s discussion and analysis (MD&A) is a required supplement to the College’s financial statements. The MD&A’s intent is to assist the reader in understanding the financial information presented for fiscal year 2006 including a comparative analysis with the prior fiscal year and highlighting significant changes and decisions by management. The summarized information presented in the MD&A should be reviewed in conjunction with both the financial statements and accompanying footnotes in order for the reader to have a comprehensive understanding to the College’s financial status and results of operations for fiscal year 2006. College management has prepared the MD&A, along with the financial statements and accompanying footnotes, and is responsible for the information presented.

It should be noted that the financial statements of the College include the financial operations of the College as well as those of the Virginia Institute of Marine Science (VIMS) and Richard Bland College. All three entities are agencies of the Commonwealth reporting to the Board of Visitors of the College of William and Mary and are referred to collectively as the “College” within the MD&A as well as in the financial statements under the columns titled “College”, unless otherwise indicated.

The College’s affiliated foundations are also included in these statements consistent with the Governmental Accounting Standards Board (GASB) Statement 39, *Determining Whether Certain Organizations are Component Units* – an amendment of GASB Statement 14. Financial information regarding the College’s foundations is summarized in the statements under the column titled “Component Units”. Footnotes to the statements provide detailed information on the individual foundations. While affiliated foundations are not under the direct control of College’s Board of Visitors, this presentation provides a more holistic view of all resources available to support the College and its mission. The information presented in the MD&A is that of the College and does not include the related foundations, unless otherwise indicated.

## Financial Summary:

### 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, 2006. The information allows the reader to determine the College's assets available for future operations, amounts owed by the College and the categorization of net assets as follows:

- Invested in Capital Assets – reflects the College's capital assets net of accumulated depreciation and any debt attributable to their acquisition, construction, or improvements.
- Restricted Non-Expendable – reflects the College's endowment and similar funds whereby the donor has stipulated that the gift principal is to be maintained and the income from the principal is to be used to support specific programs of the College. Donor restrictions have been grouped into generally descriptive categories of scholarships, fellowships, research, departmental uses, etc.
- Restricted Expendable – reflects the College's endowment and similar funds whereby the donor has stipulated that the gift be used to support specific programs of the College. Donor restrictions have been grouped into generally descriptive categories of scholarships, fellowships, research, departmental uses, etc.
- Unrestricted – reflects a broad range of assets available to the College that may be used at the discretion of the Board of Visitors for any lawful purpose in support of the College's primary mission of education, research, and public service. These assets are derived from student tuition and fees, state appropriations, indirect cost recoveries from grants and contracts, auxiliary services sales and gifts.

#### Summary Statement of Net Assets

	<u>Fiscal Year</u> <u>2006</u>	<u>Fiscal Year</u> <u>2005</u>	<u>Dollar</u> <u>Change</u>	<u>Percent</u> <u>Change</u>
Assets:				
Current	\$ 50,535,089	\$ 47,879,910	\$ 2,655,179	5.55%
Capital, net of accumulated depreciation	379,037,775	302,298,857	76,738,918	25.39%
Other non-current	<u>84,409,476</u>	<u>88,852,853</u>	<u>(4,443,377)</u>	<u>(5.00%)</u>
Total assets	<u>513,982,340</u>	<u>439,031,620</u>	<u>74,950,720</u>	<u>17.07%</u>
Liabilities:				
Current	52,107,308	49,420,493	2,686,815	5.44%
Non-current	<u>110,083,756</u>	<u>69,858,368</u>	<u>40,225,388</u>	<u>57.58%</u>
Total liabilities	<u>162,191,064</u>	<u>119,278,861</u>	<u>42,912,203</u>	<u>35.98%</u>
Net assets:				
Invested in capital assets, net of related debt	283,445,376	254,117,611	29,327,765	11.54%
Restricted	43,717,463	45,917,854	(2,200,391)	(4.79%)
Unrestricted	<u>24,628,437</u>	<u>19,717,295</u>	<u>4,911,142</u>	<u>24.91%</u>
Total net assets	<u>\$351,791,276</u>	<u>\$319,752,760</u>	<u>\$32,038,516</u>	<u>10.02%</u>

The overall result of the College's fiscal year 2006 operations was an increase in net assets of approximately \$32.0 million, to \$351.8 million, an increase of ten percent. The increase in net assets occurred primarily in the categories of capital and unrestricted net assets and is an overall indicator of the College's positive growth and financial health. In addition to the growth in the College's net assets as shown above, net assets for the College's affiliated foundations grew by \$58.9 million to \$515.6 million, an increase of approximately 13 percent.

The increase in non-current liabilities is attributable to the new issuance of bond-financed debt for capital construction. The major construction projects include the new dormitory (\$13.3 million), parking deck (\$6.6 million), athletic facilities (\$3.5 million), and the recreational sports center (\$2.6 million).

The \$29.3 million increase in capital assets, net of related debt, reflects the significant capital construction activity at the College. In general, the increase reflects the completion of renovation and new construction projects including the renovation and expansion of Swem Library, the construction of the magnet facility adjacent to the Small Hall physics lab, on-going dormitory renovations including restoration of the Preston Hall dormitory, restoration of the President's House, construction of the marine research building complex at VIMS, and selected property acquisitions. The specifics of the extensive capital construction and renovation activity are detailed in the Capital Asset and Debt Administration section of the MD&A.

In addition to the capital construction activity noted above, two events also impacted the net assets of the College. In accordance with GASB Statement 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, the College recorded a beginning balance adjustment of (\$761,892) as a result of the fire in Preston Hall and an extraordinary gain of \$1,038,108 from insurance recoveries in the current year. The other event was beginning balance adjustment recording accumulated depreciation in the amount of (\$7,025,763) for equipment where depreciation expense had not previously been reported and other capital asset accounting corrections.

The increase in unrestricted net assets of \$4.9 million reflects various funding sources including state funds, local funds of the College, and private gifts. The increase in state funds accounts for the majority of the increase and is attributable to an increase in the cash balances associated with indirect cost recovery charges to grants and contracts.

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

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

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

	<u>Fiscal Year 2006</u>	<u>Fiscal Year 2005</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Operating revenues	\$178,422,490	\$166,783,439	\$11,639,051	6.98%
Operating expenses	<u>274,800,432</u>	<u>250,714,080</u>	<u>24,086,352</u>	<u>9.61%</u>
Operating gain/(loss)	(96,377,942)	(83,930,641)	(12,447,301)	(14.83%)
Net non-operating revenues	<u>88,293,662</u>	<u>82,277,639</u>	<u>6,016,023</u>	<u>7.31%</u>
Income/(loss) before other revenues	(8,084,280)	(1,653,002)	(6,431,278)	(389.07%)
Net other revenues	<u>40,122,799</u>	<u>17,848,302</u>	<u>22,274,497</u>	<u>124.80%</u>
Increase in net assets	<u>\$ 32,038,519</u>	<u>\$ 16,195,300</u>	<u>\$15,843,219</u>	<u>97.83%</u>

As a result of fiscal year 2006 operations, the College's net assets increased by \$32.0 million. This increase is attributable to the capital construction appropriations and contributions. The primary source of funds for capital construction was from bond finance debt included in the net other revenues section (\$40.1 million), offset by the loss before other revenues (\$8.1 million). The loss before other revenues reflects the planned use of accumulated fund balances to supplement capital construction, renovation activities, and operations.

With the inclusion of state General Fund appropriations for the College in the non-operating category, the College will routinely display an operating loss for the year. This operating loss is primarily covered by the state appropriations included in the non-operating category as well as private and auxiliary fund balances. The following table provides additional details of the operating, non-operating, and other revenues of the College.



Summary of Revenues

	<u>Fiscal Year 2006</u>	<u>Fiscal Year 2005</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Operating revenues:				
Student tuition and fees, net of scholarship allowances	\$ 73,151,909	\$ 67,216,749	\$ 5,935,160	8.8%
Federal, state, local and non-governmental grants and contracts	47,765,440	45,600,888	2,164,553	4.7%
Auxiliary enterprise, net of scholarship allowances	51,491,253	46,805,461	4,685,792	10.0%
Other	<u>6,013,888</u>	<u>7,160,341</u>	<u>(1,146,453)</u>	<u>(16.0%)</u>
Total operating revenues	<u>178,422,490</u>	<u>166,783,439</u>	<u>11,639,051</u>	<u>7.0%</u>
Non-operating:				
State appropriations	71,874,284	63,155,599	8,718,685	13.8%
Gifts, investment income and other income and expenses	<u>16,419,378</u>	<u>19,122,040</u>	<u>(2,702,662)</u>	<u>(14.1%)</u>
Total non-operating	<u>88,293,662</u>	<u>82,277,639</u>	<u>6,016,023</u>	<u>7.3%</u>
Capital revenues, gains, and losses:				
Capital appropriations	30,174,491	9,106,199	21,068,292	231.4%
Capital grants and gifts	8,910,200	8,742,103	168,097	1.9%
Extraordinary gain	<u>1,038,108</u>	<u>-</u>	<u>1,038,108</u>	<u>100.0%</u>
Total capital revenues, gains, and losses	<u>40,122,799</u>	<u>17,848,302</u>	<u>22,274,497</u>	<u>124.8%</u>
Total revenues	<u>\$306,838,951</u>	<u>\$266,909,380</u>	<u>39,929,571</u>	<u>15.0%</u>

Within the operating revenue category, student tuition and fees increased \$5.9 million, net of scholarship allowances, reflecting the average eight percent increase approved by the Board of Visitors in May 2005. The increase in auxiliary enterprise revenues reflects both the increase in student comprehensive fee, as part of the overall increase in tuition and fees, and an increase in the average dormitory room rate. The increased grant and contract revenues reflect continuing success of the College's faculty in securing federal research awards.

Within the non-operating revenue category, the state appropriation increase was primarily attributable to the increase in the overall operating appropriation for the year by the General Assembly (\$3.5 million) and the special appropriation for the inclusion of an additional payroll in the fiscal year as directed by the Governor (\$2.5 million). The decrease in the category of gifts, investment income, and other income and expense was primarily the result of a reduction of gifts to the College, along with an increase in the interest expense on debt related to capital projects. These reductions were partially offset by the increase in net investment revenue.

The Capital Revenues, Gains, and Losses reflects the significant capital construction activity of the College including the renovation and expansion of the Marshall-Wythe Law library, construction of the Integrated Science Center, and construction of the marine science building at VIMS. The extraordinary gain of \$1,038,108 reflects the recording of insurance recoveries for the Preston Hall fire in accordance with GASB Statement 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*.

Additional details of the operating expenses of the College are summarized below:

Summary of Operating Expenses

	Fiscal Year 2006	Fiscal Year 2005	Dollar Change	Percent Change
Operating expenses:				
Instruction	\$ 77,494,893	\$ 72,505,375	\$ 4,989,518	6.9%
Research	49,977,482	47,712,026	2,265,456	4.7%
Public service	10,500	16,883	(6,383)	(37.8%)
Academic services	24,423,350	23,661,701	761,649	3.2%
Student services	7,151,605	6,206,369	945,236	15.2%
Institutional support	23,565,056	20,129,070	3,435,986	17.1%
Operation and maintenance of plant	16,824,671	12,895,110	3,929,561	30.5%
Student aid	7,362,082	6,761,461	600,621	8.9%
Auxiliary enterprise	54,598,384	49,422,591	5,175,793	10.5%
Depreciation	13,094,770	11,178,852	1,915,918	17.1%
Other operating expenses	<u>297,639</u>	<u>224,642</u>	<u>72,997</u>	<u>32.5%</u>
Total operating expenses	<u>\$274,800,432</u>	<u>\$250,714,080</u>	<u>\$24,086,352</u>	<u>9.6%</u>

For fiscal year 2006, operating expenses increased in response to various factors including state-approved salary increases for faculty and staff, increases in grant and contract activity, and increased operational costs, most notably in the operation and maintenance of plant. The plant increases occurred primarily in the cost associated with petroleum products along with contractual services for repair and maintenance. The increase in depreciation expense is attributable to two factors; bringing new buildings on line and an increased depreciable equipment base given a prior period adjustment to depreciate equipment acquired with federal funds.

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

	Fiscal Year 2006	Fiscal Year 2005	Dollar Change	Percent Change
Cash flows from:				
Operating activities	\$(91,849,988)	\$(67,823,235)	\$(24,026,753)	35.43%
Non-capital financing	84,722,754	78,856,497	5,866,257	7.44%
Capital financing	(6,100,357)	20,504,102	(26,604,459)	(129.75%)
Investing activities	<u>6,593,153</u>	<u>(19,559,888)</u>	<u>26,153,041</u>	<u>(133.71%)</u>
Net increase in cash	<u>\$ (6,634,438)</u>	<u>\$ 11,977,476</u>	<u>\$(15,611,914)</u>	<u>(155.39%)</u>

Cash flow from operations and non-capital financing reflects the sources and uses of cash to support the core mission of the College. The primary sources of cash supporting the core mission of the College in fiscal year 2006 were tuition and fees (\$68 million), state appropriations (\$71 million), auxiliary enterprise revenues (\$51 million), and research grants and contracts (\$43 million).

The primary uses of operating cash in fiscal year 2006 were payments to employees (\$171 million) representing salaries, wages and fringe benefits, and payments to suppliers of goods and services (\$86 million). Other categories of cash flow from operations remained relatively constant between the two fiscal years.

Cash flow from capital financing activities reflects the activities associated with the acquisition and construction of capital assets including related debt payments. The primary sources of cash in fiscal year 2006 were proceeds from bond sales (\$47 million), capital appropriations (\$30 million), grants, and gifts for capital construction (\$9 million). The primary use of cash was a significant increase in capital expenditures (\$86 million) and capital debt payments (\$9 million).

#### Capital Asset and Debt Administration:

##### The College of William and Mary

###### General

The College expended \$48 million (\$4 million per month) for capital building construction during fiscal year 2006, has an additional \$158 million dollars in design, and another \$133 million approved for design and construction subject to the availability of funding.

###### Completed Work

Completed projects include the following: a \$36 million expansion/renovation of Swem Library; a \$10 million renovation of Commons Dining; the restoration of Preston Hall in less than 90 days of construction following a third floor fire which resulted in smoke and/or water damage to the entire structure; and the installation of lighting at Zable Stadium for its first night game in history under permanent lights. Athletic/student recreation facilities experienced a major renewal as the Barksdale, Dillard, and Yates Fields were rebuilt, in addition to the replacement of the Kaplan Arena Court at William & Mary Hall, and installation of Phase I of the track replacement at Zable Stadium.

###### Construction

Thirteen capital projects are currently under construction. Of these thirteen, eight projects including the President's House Renovation, Jamestown North and South Dormitories, the Recreation Sports Center Addition/Renovation, the Campus Drive Parking Garage, installation of Field Turf on Cary Field at Zable Stadium, Graduate Housing Façade Repair Phase II, fire sprinkler installation in three dormitories, and a new chilled water/hot water utility to loop to the west side of South Campus will be delivered in time for the fall, 2006 semester. The remaining projects: Law School Addition/Renovation, Lake Matoaka Amphitheater Renovation, Old Bookstore Renovation (new Admissions Office), Emergency Generator installations at six critical facilities, and Phase II of the Zable Stadium Track Replacement will be delivered by the end of the Spring, 2007 semester. It should be noted that the College also finalized a Storm Water Master Plan that has been approved by the State Department of Conservation and Recreation to enable the prevention of erosion and the capture/control of sediment associated with construction activities over the next decade to ensure protection of College water resources.

## Design

Design is underway on the Jimmie Laycock Football Complex, the Mason School of Business, and renovation of the Power Plant. The Jimmie Laycock Complex is in final design and will be advertised for a late fall, 2006 construction start. The Power Plant renovation will initiate an eight year sequence to consolidate chilled water/hot water production for the Ancient and Historic Campuses in a single district heating/cooling plant and, in a phased construction sequence, will replace distribution lines which are at the end of their useful service lives. The Mason School of Business is in conceptual design. Once approved, detailed engineering will take 18 months to complete to a design, which unifies the entire Business Program, undergraduate and graduate, in a single facility capable of competing and winning the competition for talent and resources with peer competitors. Documentation and permitting necessary to ensure College compliance with all required air quality standards by new plant and infrastructure has also been initiated as part of continuing College environmental stewardship.

## Future Projects

The 2006 General Assembly has authorized the acquisition of the Sentara Williamsburg Community Hospital and has appropriated initial funds for conversion design in order to create a new home with a distinct identity for the School of Education. Appropriations were also sought and approved to begin design for the Small Hall Addition/Renovation Project in order to bring facilities up to current standards for cutting edge Physics and Applied Science Programs.

## Virginia Institute of Marine Science

	<u>Expenditures to Date</u>	<u>Project Budget</u>
Major Project Activity:		
CBNERRVA Education Laboratory Building	\$ 854,000	\$ 855,000
New construction: Marine Research Building Complex	11,352,000	29,325,000
Acquisition: Master Plan Properties	433,000	1,100,000
Acquisition: Wachapreague Property	91,000	195,000
Acquisition: (Va. Estuarine & Coastal Research Reserve)	195,000	350,000
Information technology infrastructure	262,000	1,200,000
New construction: Field Support Center	<u>43,000</u>	<u>2,000,000</u>
Total	<u>\$13,230,000</u>	<u>\$35,025,000</u>

The Virginia Institute of Marine Science received a federal grant to construct an education laboratory building for the Chesapeake Bay Estuarine Research Reserve in Virginia program on the Virginia Institute of Marine Science campus. Construction was substantially complete in May 2005 and Final Occupancy was granted in August 2005.

The Marine Research Building Complex was bid in April 2005 and the Construction Contract was awarded to W.M. Jordan. Construction started in August 2005 with completion scheduled for February 2007.

There are three appropriations for property acquisitions for the Gloucester Point and Wachapreague campuses and for the Virginia Estuarine & Coastal Research Reserve program. Virginia Institute of Marine Science purchased one property adjacent to the Gloucester Point campus in May 2004 and the appropriation “Acquisition: Master Plan Properties” remains open to purchase other properties that are contiguous to the Virginia Institute of Marine Science campus as they become available. Virginia Institute of Marine Science purchased one property for its Wachapreague campus in April 2003 and the “Acquisition: Wachapreague Property” appropriation remains open in the event other property becomes available. Two parcels of land were purchased for the Virginia Estuarine & Coastal Research Reserve program in 2002-03 and that appropriation remains open in the event other property becomes available.

The Information Technology Infrastructure project involves the modernizing of VIMS’ aging information technology infrastructure to meet increasing demands for information exchange including systems to carry voice, data, and video. Currently, approximately 100 percent of the existing copper network has been replaced with the new high-speed fiber optics. Also, design efforts are in progress to improve the air conditioning and power requirements for the Watermen’s Hall network server room.

The Field Support Center project involves the construction of a 10,000 square foot field support center on the Gloucester Point Campus. This building will replace vessel operation’s facilities and field support infrastructure that was severely damaged as a result of Hurricane Isabel. The Environmental Impact Report has been completed and approval was obtained in October to build this facility in a floodplain. The project is in the Schematic Phase of the design and construction is scheduled for completion in early 2008.

Richard Bland College

	<u>Expenditures to Date</u>
Major projects in progress as of June 30, 2006:	
Renovation of Statesman Hall Relocation of Computer Center	\$ 347,370
Renovation and Expansion of Art Building	1,026,659
Renovation of the Library	<u>164,990</u>
Total	<u>\$1,539,019</u>

The Renovation of Statesman Hall – Relocation of Computer Center project is complete. The project was for renovation of space on the second floor of Statesman Hall and relocation of the College Computer Center to that space. The Computer Center was previously located in the basement of Maze Hall (Administration). Flooding in that basement occurred three different times during a five-year period, resulting in temporary loss of computer services, damage to equipment, furniture, and records, and very costly environmental clean up procedures. These floods happened in spite of the expenditure of significant funds in an attempt to correct this problem.

The renovated space at Statesman Hall provided the appropriate climate-controlled space for IT equipment, office space for IT staff, a small meeting space, storage space, and controlled access to the area. An equipment elevator was also installed to permit easier moving of equipment into and out of the second floor space. The equipment area has a raised floor with all wiring accessed under that floor and contains a separate HVAC system for appropriate humidity and temperature control.

The Renovation and Expansion of Art Building project is complete. The Art Building housed the Art Program of the College before that program was relocated to another academic building. After being vacant for several years, the building was leased to the Crater Criminal Justice Academy, a state agency which trained police officers, sheriff deputies, and prison guards for localities in the planning district. Once this agency built its own facility, the building was vacant for approximately five years before it was renovated for use as a Center for Student Affairs. The Center houses Admissions, Financial Aid, Counseling, student organizations, and space for testing, a conference room, and a general student lounge area.

The renovation of the existing facility included the gutting of the interior and reconfiguration of the space for offices, a reception area, two rooms for testing of students, meeting areas for student organizations, a conference room, file room and storage space, and a general lounge area. New building systems for HVAC, electrical, lighting, and plumbing were installed. The expansion included a two story addition to the building which provided a stairway for emergency exit, elevator for handicapped access, accessible restrooms, and electrical, HVAC, and IT equipment rooms.

Renovation of the Library: The Library was located on the first floor of the Student Center. The building is forty years old and does not contain sufficient electrical service to provide for the technology services needed by a modern library. The Library is being expanded into the second floor of the building, using space once occupied by Admissions, Financial Aid, and Counseling offices which have been relocated to the newly renovated Center for Student Affairs (Art Building Renovation and Expansion project).

The renovated Library, scheduled to be occupied in July 2008, will have double the space of the previous facility and will include office space for staff, computer access areas, special study rooms, a community meeting room, and expanded shelving for library collections. The space will have updated HVAC, electrical, lighting, plumbing, and security systems. The Library will also have wired access to the College's local area network and wireless access for use by both students and staff. An additional entrance/exit will provide access to the facility from both ends of the building. The building will also be repainted and trim replaced.

### Economic Outlook

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

Our ability to recruit, admit, and retain top-caliber students remains excellent, even as we compete against the most select public and private institutions in the country. Undergraduate applications to the College reached a new high of 10,765 for fall 2006. The credentials of our admitted students, including SAT scores and the number of students within the top ten percent of their graduating class, remain stable reflecting the highly selective nature of the College. 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 result, the College projects enrollment growth of 515 students (five percent) over the next six years.

As a public institution, the College receives significant financial support from the Commonwealth 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 2006-08 budget as approved by the Governor and General Assembly reflects the continued strength of both the national and state economies. The College benefited from this economy strength as the Commonwealth allocated incremental support for faculty and staff salaries, base operations, faculty research, and undergraduate and graduate student financial aid. Additional support of these areas is expected for fiscal year 2008 once the biennial budget is amended by the Governor and 2007 General Assembly. 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. In this regard, implementation of Gateway William and Mary, a financial aid program that guarantees that in-state undergraduate students whose families have income of less than \$40,000 will be able to graduate from the College without taking out loans, expands access to the College for this socio-economic group.

The College's overall financial and managerial strength was independently verified as it went through the bond rating process with Standard and Poor's in August 2005. This independent evaluation of the College considered all aspects of its operations and resulted in Standard and Poor's assigning the College a "AA" bond rating.

Long-term planning continues to ensure that the College not only protects its core programs but also invests strategically for the future. With passage of the Restructured Higher Education and Administrative Operation Act of 2005 and the Management Agreement by and Between the Commonwealth and the College of William and Mary (Chapter 943, 2006 Acts of Assembly), the College is moving forward with the restructuring of its financial, administrative, and managerial relationship with the Commonwealth. This renewed partnership between the College and the Commonwealth will confirm a stable, long-term funding relationship with the Commonwealth, allowing the College to strengthen its long-term planning efforts while meeting the most critical needs of the Commonwealth in a variety of areas.

Incremental capital construction funding for the College is now available through various bond funded initiatives as well as direct cash investment by the Commonwealth. Chief among these investments is funding to support the purchase of the recently vacated Williamsburg Community Hospital site to serve as the future home of the College's School of Education. Beyond providing funds to support the site purchase, the Commonwealth also provided funds allowing the College to begin planning for a School of Education facility. This planning is on going for a 100,000+ square foot facility to support the School's instruction and educational outreach activities. This state funding continues to 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 our students. At the same time, the College expects to meet its \$500 million fundraising target established for the Campaign for William and Mary no later than June 30, 2007.

## **FINANCIAL STATEMENTS**



THE COLLEGE OF WILLIAM AND MARY IN VIRGINIA  
STATEMENT OF NET ASSETS  
As of June 30, 2006

ASSETS	College	Component Units
Current assets:		
Cash and cash equivalents (Note 3)	\$ 28,132,957	\$ 4,526,847
Investments (Note 3)	7,783,710	17,485,380
Receivables, net of allowance for doubtful accounts (Note 5)	12,328,205	913,928
Notes receivable (Note 5)	6,655	-
Due from Commonwealth	119,857	-
Inventories	535,197	61,284
Pledges receivable - current portion	-	6,270,647
Prepaid expenses	1,232,126	-
Other	396,382	97,470
Total current assets	<u>50,535,089</u>	<u>29,355,556</u>
Non-current assets:		
Restricted cash and cash equivalents	15,633,144	10,594,471
Restricted investments (Note 3)	65,991,251	373,601,456
Notes receivable, net of allowance for doubtful accounts (Note 5)	2,785,081	-
Pledges receivable	-	19,942,049
Capital assets, non-depreciable (Note 6)	168,667,711	10,597,029
Capital assets, depreciable net of accumulated depreciation (Note 6)	210,370,064	2,704,907
Funds held in trust by others	-	75,615,122
Other assets	-	10,996,668
Total non-current assets	<u>463,447,251</u>	<u>504,051,702</u>
Total assets	<u>513,982,340</u>	<u>533,407,258</u>
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses (Note 7)	26,655,968	2,216,124
Deferred revenue	5,890,644	616,796
Deposits held in custody for others	4,393,468	311,972
Long-term liabilities-current portion (Note 9)	13,188,484	6,285,981
Obligations under securities lending	1,978,744	-
Other	-	1,095,969
Total current liabilities	<u>52,107,308</u>	<u>10,526,842</u>
Non-current liabilities		
Long-term liabilities (Note 9)	<u>110,083,756</u>	<u>7,288,377</u>
Total liabilities	<u>162,191,064</u>	<u>17,815,219</u>

THE COLLEGE OF WILLIAM AND MARY IN VIRGINIA  
STATEMENT OF NET ASSETS  
As of June 30, 2006

NET ASSETS	College	Component Units
Invested in capital assets, net of related debt	283,445,376	11,895,084
Restricted for:		
Non-expendable:		
Scholarships and fellowships	4,868,325	64,539,690
Departmental uses	29,300,219	96,891,749
Other	-	121,362,641
Expendable:		
Scholarships and fellowships	3,602,040	60,944,538
Research	(2,112,108)	3,347,817
Debt service	187,554	-
Capital projects	5,126,491	27,283,959
Loans	353,749	36,552
Departmental uses	2,391,193	82,315,929
Other	-	16,185,166
Unrestricted	24,628,437	30,788,914
 Total net assets	 <u>\$ 351,791,276</u>	 <u>\$ 515,592,039</u>

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

THE COLLEGE OF WILLIAM AND MARY IN VIRGINIA  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
For the Year Ended June 30, 2006

	College	Component Units
Operating revenues:		
Student tuition and fees, net of scholarship allowances of \$10,238,377	\$ 73,151,909	\$ -
Gifts and contributions	-	10,871,430
Endowment income	-	12,146,474
Federal grants and contracts	38,499,304	-
State grants and contracts	2,889,388	-
Local grants and contracts	472,349	-
Nongovernmental grants and contracts	5,904,399	-
Auxiliary enterprises, net of scholarship allowances of \$5,098,266	51,491,253	-
Other	6,013,888	13,097,557
<b>Total operating revenues</b>	<b>178,422,490</b>	<b>36,115,461</b>
Operating expenses: (Note 11)		
Instruction	77,494,893	5,522,652
Research	49,977,482	181,190
Public service	10,500	341,503
Academic support	24,423,350	3,365,657
Student services	7,151,605	2,407,523
Institutional support	23,565,056	3,806,014
Operation and maintenance of plant	16,824,671	484,485
Student aid	7,362,082	8,312,319
Fundraising	-	2,877,341
Management and general	-	2,932,047
Auxiliary enterprises	54,598,384	317,183
Depreciation	13,094,770	625,042
Other	297,639	8,833,421
<b>Total operating expenses</b>	<b>274,800,432</b>	<b>40,006,377</b>
<b>Operating loss</b>	<b>(96,377,942)</b>	<b>(3,890,916)</b>

THE COLLEGE OF WILLIAM AND MARY IN VIRGINIA  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
For the Year Ended June 30, 2006

	College	Component Units
Non-operating revenues/(expenses):		
State appropriations (Note 12)	71,874,284	-
Gifts	13,305,019	-
Net investment revenue	6,300,051	29,064,668
Interest on capital asset related debt	(4,100,176)	(21,863)
Other non-operating revenue	5,230,418	3,388,180
Other non-operating expense	(4,315,934)	(310,074)
Net non-operating revenues	88,293,662	32,120,911
Income/(loss) before other revenues, expenses, gains or losses	(8,084,280)	28,229,995
Capital appropriations	30,174,491	-
Capital grants and contributions	8,910,200	17,511,767
Extraordinary gain	1,038,108	-
Additions to permanent endowments	-	13,217,511
Net other revenues	40,122,799	30,729,278
Increase in net assets	32,038,519	58,959,273
Net assets - beginning of year (Note 2)	319,752,760	456,632,766
Net assets - end of year	\$ 351,791,279	\$ 515,592,039

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, 2006

Cash flows from operating activities:	
Tuition and fees	\$ 68,288,421
Scholarships	(4,019,158)
Research grants and contracts	42,853,676
Auxiliary enterprise charges	51,074,234
Payments to suppliers	(71,386,829)
Payments for operating and maintenance of facilities	(14,281,763)
Payments to employees	(170,646,715)
Loans issued to students and employees	(850,215)
Collection of loans to students	720,811
Other receipts	<u>6,397,550</u>
Net cash used by operating activities	<u>(91,849,988)</u>
Cash flows from non-capital financing activities:	
State appropriations	71,874,284
Gifts	13,305,019
Agency receipts	5,449,029
Agency payments	(3,924,833)
PLUS loans receipts	6,254,720
PLUS loans disbursements	(6,254,720)
Payments to Treasurer of Virginia	(769,500)
Other non-operating revenue	2,492,765
Other non-operating expenses	<u>(3,704,010)</u>
Net cash provided by noncapital financing activities	<u>84,722,754</u>
Cash flows from capital and related financing activities:	
Proceeds from issuance of capital debt	47,434,558
Capital appropriations	30,174,491
Capital gifts and contributions	8,995,745
Insurance proceeds	3,021,513
Principal paid on capital-related debt	(5,355,287)
Interest paid on capital-related debt	(4,100,176)
Capital expenditures	<u>(86,271,201)</u>
Net cash used by capital and related financing activities	<u>(6,100,357)</u>
Cash flows from investing activities:	
Investment income	6,300,051
Proceeds from sale of investments	<u>293,102</u>
Net cash provided by investing activities	<u>6,593,153</u>
Net decrease in cash	<u>(6,634,438)</u>
Cash-beginning of year - restated	<u>49,406,002</u>
Cash-end of year	<u><u>\$ 42,771,564</u></u>

THE COLLEGE OF WILLIAM AND MARY IN VIRGINIA  
STATEMENT OF CASH FLOWS  
For the Year Ended June 30, 2006

Reconciliation of Statement of Cash Flows, Statement of Net Assets :	
Statement of Net Assets	
Cash and cash equivalents	\$ 28,132,957
Restricted cash and cash equivalents	15,633,144
Less: Securities lending -Treasurer of Virginia	<u>(994,537)</u>
Net cash and cash equivalents	<u>\$ 42,771,564</u>
Reconciliation of net operating expenses to net cash used by operating activities:	
Net operating loss	\$ (96,377,942)
Adjustments to reconcile net operating expenses to cash used by operating activities:	
Depreciation expense	13,094,770
Changes in assets and liabilities:	
Receivables	(3,868,336)
Accounts payable	(4,430,040)
Prepaid expenses	(188,657)
Deposits held for others	176,507
Deferred revenue	(213,647)
Advance from Treasurer of Virginia	(769,500)
Inventories	(94,735)
Other assets	122,934
Compensated absences	<u>698,658</u>
Net cash used in operating activities	<u>\$ (91,849,988)</u>
Noncash investing, noncapital financing, and capital and related financing transactions	
Amortization of a deferred loss	\$ 61,360

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

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## **NOTES TO FINANCIAL STATEMENTS**



THE COLLEGE OF WILLIAM AND MARY IN VIRGINIA

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

The financial reporting entity is defined by Governmental Accounting Standards Board (GASB) Statement 14, *The Financial Reporting Entity*, and Statement 39, *Determining Whether Certain Organizations are Component Units*. The 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 their exclusion could cause the financial statements to be misleading or incomplete. These statements address the conditions under which institutions should include associated fund-raising foundations as component units in their basic financial statements and how such component units should be displayed in the basic financial statements.

The College has seven component units as defined by GASB Statement 39 – the Endowment Association of the College of William and Mary, the Marshall-Wythe School of Law Foundation, the Alumni Association, the Athletic Educational Foundation, the School of Business Foundation, the Virginia Institute of Marine Science Foundation and the Richard Bland College Foundation. These organizations are separately incorporated tax-exempt entities and have been formed to promote the achievements and further the aims and purposes of the College.

Although the University 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 are 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 is a private; not-for-profit Corporation organized under the laws of the Commonwealth to “aid, strengthen, and expand in every proper and useful way” the work of the College. For additional information on the Endowment Association, contact their office at Post Office Box 8795, Williamsburg, Virginia 23187.

The Marshall-Wythe School of Law Foundation is a non-stock, not-for-profit Corporation organized under the laws of the Commonwealth, established for the purpose of soliciting and receiving gifts to support the College of William and Mary School of Law. The Foundation supports the Law School through the funding of scholarships and fellowships, instruction and research activities, and academic support. For additional information on the Marshall-Wythe School of Law Foundation, contact the Foundation Office at Post Office Box 8795, Williamsburg, Virginia 23187.

The William and Mary Alumni Association is a private, not-for-profit Corporation organized under the laws of the Commonwealth, which provides aid to the College in its work, and promotes and strengthens the bonds of interest between and among the College and its alumni. For additional information on the Alumni Association, contact the Association Office at Post Office Box 2100, Williamsburg, Virginia 23187-2100.

The William and Mary Athletic Educational Foundation is a not-for-profit Corporation organized under the laws of the Commonwealth. The purpose of the Foundation is to promote, foster, encourage, and further education, in all enterprises of all kinds at the College, but it principally supports the Athletic Department of the College. For additional information on the Athletic Educational Foundation, contact the Foundation Office at 751 Ukrop Drive, Williamsburg, Virginia 23187.

The William and Mary Business School Foundation is a non-stock, non-for-profit Corporation organized under the laws of the Commonwealth. The purpose of the Business School Foundation is to solicit and receive gifts to endow the College School of Business Administration and to support the School through the operations of the Foundation. For additional information on the William and Mary Business School Foundation, contact the Foundation Office at Post Office Box 3023, Williamsburg, Virginia, 23187.

The Virginia Institute of Marine Science Foundation is a not-for-profit Corporation organized under the laws of the Commonwealth. The purpose of the Foundation is to support the College's Virginia Institute of Marine Science primarily through contributions from the public. For additional information on the Virginia Institute of Marine Science Foundation, contact the Foundation Office at Post Office Box 1346, Gloucester Point, Virginia, 23062.

The Richard Bland College Foundation is a private, not-for-profit Corporation organized under the laws of the Commonwealth, which provides scholarships, financial aid, and books to the College's students, along with support for faculty development and cultural activities. For additional information on the Richard Bland College Foundation, contact the Foundation office at 11301 Johnson Road, Petersburg, Virginia 23805-7100.

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 elected by OIEAHC's Executive Board. Prior to the beginning of each fiscal year, the sponsors determine the nature and extent of their responsibility for the financial support of the OIEAHC in the upcoming year.

For financial reporting purposes, assets of the OIEAHC are not included in the accompanying financial statements. The following summarizes the unaudited financial position of the OIEAHC at June 30, 2006:

Assets	<u>\$1,315,877</u>
Liabilities	43,283
Net assets	<u>1,272,594</u>
Liabilities and net assets	<u>\$1,315,877</u>

The total unaudited receipts and disbursements of the OIEAHC were \$1,692,350 and \$1,818,360, respectively, for the year ended June 30, 2006. Separate financial statements for the OIEAHC may be obtained by writing the Treasurer, Omohundro Institute of Early American History and Culture, P. O. Box 220, Williamsburg, Virginia 23187-0220.

#### Basis of Presentation

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

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

#### Basis of Accounting

The financial statements of the College have been prepared using the economic resources measurement focus and the accrual basis of accounting, including depreciation expense related to capitalized fixed assets. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Bond premiums and discounts are deferred and amortized over the life of the debt. 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

Investments are recorded at cost or fair market value, if purchased, or fair market value at the date of receipt, if received as a gift, and reported in accordance with GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

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

### 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.

### Inventories

Inventories at the College campuses are reported using the consumption method, and valued at average cost.

### Capital Assets

Capital assets are recorded at historical cost at the date of acquisition or fair market value at the date of donation in the case of gifts. Construction expenses for capital assets and improvements are capitalized when expended. The College's capitalization policy on equipment includes all items with an estimated useful life of two years or more. The Williamsburg and York River campuses capitalize all items with a unit price greater than or equal to \$2,000 and Richard Bland College capitalizes all items with a unit price greater than or equal to \$5,000. Library materials for the academic or research libraries are capitalized as a collection and are valued at cost.

Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets as follows:

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

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

### Deferred Revenue

Deferred revenue represents revenue collected but not earned as of June 30, 2006. This is primarily comprised of revenue for student tuition paid in advance of the semester, amounts received from grant and contract sponsors that have not yet been earned, and advance ticket sales for athletic events.

### Compensated Absences

Employees' compensated absences are accrued when earned. The liability and expense incurred are recorded at year-end as accrued compensated absences in the Statement of Net Assets, and as a component of compensation and benefit expense in the Statement of Revenues, Expenses, and Changes in Net Assets. The applicable share of employer related taxes payable on the eventual termination payments is also included.

### Non-current Liabilities

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

### Net Assets

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

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

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

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

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

### Scholarship Allowances

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

### Federal Financial Assistance Programs

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

### Classification of Revenues and Expenses

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

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

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

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

## 2. RESTATEMENT OF NET ASSETS

Certain net assets originally reported in the College's financial statements as of June 30, 2005, have been restated to reflect further evaluation of assets and liabilities.

Net assets as previously reported on June 30, 2005	\$327,540,415
Impairment loss on Preston Hall dormitory fire	(761,892)
Prior year depreciation not previously recorded and other corrections to capital asset balances	<u>(7,025,763)</u>
Net assets at July 1, 2005	<u>\$319,752,760</u>

### 3. CASH, CASH EQUIVALENTS AND INVESTMENTS

#### Cash and Cash Equivalents

Pursuant to Section 2.2-1800, et seq., Code of Virginia, all state funds of the College are maintained by the Treasurer of Virginia, who is responsible for the collection, disbursement, custody, and investment of state funds. Certain deposits held by the College are maintained in accounts that are collateralized in accordance with the Virginia Securities for Public Deposits Act, Section 2.2-4400, et seq., Code of Virginia, or covered by depository insurance. Under this Act, banks holding public deposits in excess of 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 deposit, and temporary investments with original maturities of three months or less.

The carrying amount of cash not held by the Treasurer of Virginia is \$5,884,809. The carrying amount consists of bank balances reported at June 30, 2006, in the amount of \$8,256,301 adjusted for reconciling items, petty cash items, and change funds. The Virginia Security for Public Deposits Act eliminates any custodial credit risk for the College.

#### Investments

The investment policy of the College is established by the Board of Visitors and monitored by the Board's Financial Affairs Committee. In accordance with the Board of Visitors' Resolution 6(R), November 16, 2001, and Resolution 12(R) November 21-22, 2002, investments can be made in the following instruments: cash, U.S. Treasury and Federal agency obligations, commercial bank certificates of deposit, commercial paper, bankers' acceptances, corporate notes and debentures, money market funds, convertible securities and equities.

#### Concentration of Credit Risk

Concentration of credit risk requires the disclosure by amount and issuer of any investments in any one issuer that represents five percent or more of total investments. Investments explicitly guaranteed by the U.S. government and investments in mutual funds or external investment pools and other pooled investments are excluded from this requirement. As of June 30, 2006, none of the investments in stocks or bonds represents five percent or more of the total investments and therefore, the College does not have concentration of credit risk.

#### Custodial Credit Risk

Custodial credit risk is the risk that, in the event of failure of the counterparty, the College will not be able to recover the value of its investment or collateral securities that are in the possession of the outside party. All investments are registered and held in the name of the College and therefore, the College does not have this risk.

### Interest Rate Risk

The interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The College limits its exposure to interest rate risk by limiting the maximum maturity lengths of investments and structuring the portfolio to maintain adequate liquidity to ensure the College's ability to meet its operating requirements.

### Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The College does not have investments in foreign currency.

### Securities Lending Transactions

Securities lending transactions represent the College's 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.

### Credit Risk

	<u>Fair Value</u>	<u>S&amp;P Credit Quality Rating</u>	
		<u>AAA</u>	<u>Unrated</u>
Cash and cash equivalents:			
Mutual and money market funds	<u>\$13,836,369</u>	<u>\$ 488,234</u>	<u>\$13,348,135</u>
Investments:			
U.S. Treasury and agency securities	\$ 7,609,276	\$ 4,019,439	\$ 3,589,837
Mutual and money market funds	10,867,616	8,332,905	2,534,711
Commercial paper	<u>414,655</u>	<u>-</u>	<u>414,655</u>
Total	<u>18,891,547</u>	<u>\$12,352,344</u>	<u>\$6,539,203</u>
Other investments:			
Common and preferred stock	33,341,413		
State non-arbitrage program investments	19,562,977		
Securities lending	1,978,744		
Rare coins	<u>280</u>		
Total	<u>54,883,414</u>		
Total investments	<u>\$73,774,961</u>		



Interest Rate Risk Maturities

	<u>Fair Value</u>	<u>0-3 Months</u>	<u>4-12 Months</u>	<u>1-5 years</u>	<u>6-10 years</u>
Cash and cash equivalents:					
Mutual and money market funds	<u>\$13,836,369</u>	<u>\$13,836,369</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Investments:					
U.S. Treasury and agency securities	\$ 7,609,276	\$ -	\$6,616,776	\$992,500	\$ -
Mutual and money market funds	10,867,616	415,571	-	3,954,232	6,497,813
Commercial paper	<u>414,655</u>	<u>254,655</u>	<u>-</u>	<u>160,000</u>	<u>-</u>
Total	<u>18,891,547</u>	<u>\$ 670,226</u>	<u>\$6,616,776</u>	<u>\$5,106,732</u>	<u>\$6,497,813</u>
Other investments:					
Common and preferred stock	33,341,413				
State non-arbitrage program investments	19,562,977				
Securities lending	1,978,744				
Rare coins	<u>280</u>				
Total	<u>54,883,414</u>				
Total investments	<u>\$73,774,961</u>				

4. DONOR RESTRICTED ENDOWMENTS

Investments of the College's endowment funds are pooled and consist primarily of gifts and bequests, the use of which is restricted by donor imposed limitations. The Uniform Management of Institutional Funds Act, section 55-268.1, et seq., 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 College, 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.

At June 30, 2006, the College had a net appreciation of \$11,704,890 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 - \$5,861,744, Restricted for Expendable Research - \$29,652, Restricted for Expendable Capital Projects - \$170,613, Restricted for Expendable Departmental Uses - \$4,472,224 and Unrestricted - \$1,170,657.

Investments of Endowment and Similar Funds:

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

	<u>Balance at June 30, 2006</u>
College of William and Mary:	
Equity investments	\$33,245,008
Bond investments	10,488,710
Cash equivalents and money market funds	<u>494,637</u>
Total	<u>\$44,228,355</u>
Richard Bland College:	
Cash equivalents and money market funds	<u>\$ 488,234</u>

5. ACCOUNTS AND NOTES RECEIVABLE

Accounts receivable consisted of the following at June 30, 2006:

Student tuition and fees	\$ 1,139,177
Auxiliary enterprises	179,901
Federal, state, and nongovernmental grants and contracts	9,713,871
Other	<u>1,389,578</u>
Gross receivables	<u>12,422,527</u>
Less: allowance for doubtful accounts	<u>(94,322)</u>
Net accounts receivable	<u>\$12,328,205</u>

Notes receivable consisted of the following at June 30, 2006:

Current portion:	
Federal student loans	<u>\$ 6,655</u>
Non-current portion:	
Federal student loans	2,813,196
Less: allowance for doubtful accounts	<u>(28,115)</u>
Net non-current notes receivable	<u>\$2,785,081</u>

## 6. CAPITAL ASSETS

A summary of changes in the various capital asset categories for the year ending June 30, 2006 consists of the following:

	Beginning Balance	Beginning Balance Adjustment	Adjusted Beginning Balance	Additions	Reductions	Ending Balance
Non-depreciable capital assets:						
Land	\$ 7,251,744	\$ -	\$ 7,251,744	\$ -	\$ -	\$ 7,251,744
Inexhaustible artwork and historical treasures	69,479,086	-	69,479,086	361,665	-	69,840,751
Construction-in-progress	<u>70,822,425</u>	<u>(516,354)</u>	<u>70,306,071</u>	<u>82,229,166</u>	<u>(60,960,021)</u>	<u>91,575,216</u>
Total non-depreciable capital assets	<u>147,553,255</u>	<u>(516,354)</u>	<u>147,036,901</u>	<u>82,590,831</u>	<u>(60,960,021)</u>	<u>168,667,711</u>
Depreciable capital assets:						
Buildings	216,108,401	(761,892)	215,346,509	51,725,247	(54,871)	267,016,885
Equipment	73,391,111	(1,253,407)	72,137,704	5,961,985	(3,405,269)	74,694,420
Infrastructure	19,427,761	-	19,427,761	9,087,947	-	28,515,708
Other improvements	3,878,299	-	3,878,299	779,376	-	4,657,675
Library materials	<u>80,537,754</u>	<u>702,553</u>	<u>81,240,307</u>	<u>1,655,792</u>	<u>(1,775,184)</u>	<u>81,120,915</u>
Total depreciable capital assets	<u>393,343,326</u>	<u>(1,312,746)</u>	<u>392,030,580</u>	<u>69,210,347</u>	<u>(5,235,324)</u>	<u>456,005,603</u>
Less accumulated depreciation for:						
Buildings	(99,113,124)	(135,334)	(99,248,458)	(5,530,137)	54,871	(104,723,724)
Equipment	(41,421,613)	(5,746,922)	(47,168,535)	(5,179,627)	2,397,797	(49,950,365)
Infrastructure	(18,572,847)	728,245	(17,844,602)	(316,024)	-	(18,160,626)
Other improvements	(3,703,319)	(101,991)	(3,805,310)	(56,364)	-	(3,861,674)
Library materials	<u>(67,999,163)</u>	<u>(702,553)</u>	<u>(68,701,716)</u>	<u>(2,012,618)</u>	<u>1,775,184</u>	<u>(68,939,150)</u>
Total accumulated depreciation	<u>(230,810,066)</u>	<u>(5,958,555)</u>	<u>(236,768,621)</u>	<u>(13,094,770)</u>	<u>4,227,852</u>	<u>(245,635,539)</u>
Depreciable capital assets, net	<u>162,533,259</u>	<u>(7,271,301)</u>	<u>155,261,959</u>	<u>56,115,577</u>	<u>(1,007,472)</u>	<u>210,370,064</u>
Total capital assets, net	<u>\$ 310,086,515</u>	<u>\$(7,787,655)</u>	<u>\$ 302,298,860</u>	<u>\$138,706,408</u>	<u>\$(61,967,493)</u>	<u>\$ 379,037,775</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. Special collections maintained by each library are valued at historical cost or acquisition value.

### Impairment of Capital Assets

GASB Statement 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, was issued effective for the fiscal year ended June 30, 2006. This statement requires an evaluation of prominent events or changes in circumstances to determine whether an impairment loss should be recorded and whether any insurance recoveries should be offset against the impairment loss.

The effect of the implementation of GASB Statement 42 was a beginning balance adjustment to the College's net assets of \$761,892, due to an impairment loss resulting from a fire at the Preston Hall Dormitory in May 2005. This effect on the College's net assets was to decrease net assets as of July 1, 2005. Proceeds from insurance recoveries attributable to capital assets are reported as a capital related financing activity in the Statement of Cash Flows. Accordingly, \$3,021,513 of proceeds from insurance recoveries are classified as a capital related financing activity. In addition, there was \$5,560 in non-capital insurance recoveries in the fiscal year ended June 30, 2006.

## 7. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at June 30, 2006:

Employee salaries, wages and fringe benefits payable	\$ 9,345,494
Vendors and suppliers accounts payable	5,598,678
Capital project accounts and retainage payable	<u>11,711,796</u>
Total accounts payable and accrued expenses	<u>\$26,655,968</u>

## 8. COMMITMENTS

At June 30, 2006, outstanding construction commitments totaled approximately \$209,917,000 of which \$126,947,000 had been incurred.

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

Rental expense under all operating leases for the fiscal year ending June 30, 2006, was \$3,541,850.

As of June 30, 2006, the following total future minimum rental payments are due under the above leases:

<u>Year Ending June, 30</u>	<u>Operating Lease Obligation</u>
2007	\$1,886,266
2008	1,556,568
2009	1,263,676
2010	1,227,526
2011	663,749
2012-2016	2,694,331
2017-2021	<u>538,707</u>
Total	<u>\$9,830,823</u>

#### 9. LONG-TERM LIABILITIES

The College's long-term liabilities consist of long-term debt (further described in Note 10), and other long-term liabilities. A summary of changes in long-term liabilities for the year ending June 30, 2006 is presented as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Capital leases	\$ 323,584	\$ -	\$ 169,528	\$ 154,056	\$ 137,181
Installment purchases	87,372	2,029,191	117,805	1,998,758	142,093
Notes payable	39,224,174	27,390,568	2,457,698	64,157,044	3,331,466
Bonds payable	<u>32,935,412</u>	<u>17,696,472</u>	<u>4,400,256</u>	<u>46,231,628</u>	<u>3,251,330</u>
Total long-term debt	<u>72,570,542</u>	<u>47,116,231</u>	<u>7,145,287</u>	<u>112,541,486</u>	<u>6,862,070</u>
Federal loan program contribution	2,496,040	75,515	-	2,571,555	-
Accrued compensated absences	<u>7,460,538</u>	<u>8,029,269</u>	<u>7,330,608</u>	<u>8,159,199</u>	<u>6,326,414</u>
Total long-term liabilities	<u>\$82,527,120</u>	<u>\$55,221,015</u>	<u>\$14,475,895</u>	<u>\$123,272,240</u>	<u>\$13,188,484</u>

10. LONG-TERM DEBT

Bonds Payable

The College issues bonds pursuant to Section 9 of Article X of the Constitution of Virginia. Section 9(c) bonds are general obligation bonds issued by the Commonwealth on behalf of the College and are backed by the full faith, credit and taxing power of the Commonwealth and are issued to finance capital projects which, when completed, will generate revenue to repay the debt. Listed below are the bonds outstanding at year-end:

<u>Description</u>	<u>Interest Rates (%)</u>	<u>Maturity</u>	<u>Balance as of June 30, 2006</u>
Section 9(c) bonds payable:			
Dormitory, Series 1997A2	3.790 - 5.400	2007	\$ 35,000
Dormitory, Series 1997A3	3.790 - 5.400	2007	160,000
Dormitory, Series 1998A1	4.470 - 4.930	2008	585,000
Dormitory, Series 1998R2	3.500 - 5.000	2013	661,752
Dormitory, Series 1998R3	3.500 - 5.000	2008	30,282
Dormitory, Series 1998R4	3.500 - 5.000	2008	333,208
Dormitory, Series 2001A1	3.500 - 5.000	2021	1,415,000
Dormitory, Series 2002A1	2.500 - 5.000	2022	4,265,000
Dormitory, Series 2002R4	2.500 - 5.000	2013	280,618
Dormitory, Series 2002R9	2.500 - 4.000	2016	898,268
Dormitory, Series 2004B	3.000 - 5.000	2017	458,977
Dormitory, Series 2004B	3.000 - 5.000	2017	2,033,823
Dormitory, Series 2004B	3.000 - 5.000	2018	3,705,414
Dormitory, Series 2004B	3.000 - 5.000	2020	2,575,816
Dormitory, Series 2005A	3.500 - 5.000	2026	5,800,000
Dormitory, Series 2006A	4.000 - 5.000	2008	165,000
Dormitory, Series 2006A	4.000 - 5.000	2014	1,525,000
Dormitory, Series 2006A	4.000 - 5.000	2014	100,000
Graduate Housing, Series 2003R5	3.500 - 5.000	2011	2,585,324
Randolph Residence, Series 2003R3	3.500 - 5.000	2009	464,871
Tyler Hall, Series 2003R1	3.750 - 5.200	2008	173,142
University Center, Series 1998R1	3.500 - 5.000	2013	5,102,869
University Center, Series 2002R5	2.500 - 5.000	2013	95,240
Underground Utility, Series 1995A1	3.500 - 5.600	2016	75,000
Underground Utility, Series 1997A1	3.790 - 5.400	2007	95,000
Underground Utility, Series 2002R8	3.500 - 5.600	2016	878,248
Underground Utility, Series 2004B	3.000 - 5.000	2017	1,200,553
Renovate Commons Dining Hall	3.500 - 5.000	2026	<u>9,555,000</u>
Total bonds payable			45,253,405
Deferred gain on advance refundings			168,395
Unamortized premiums			<u>809,828</u>
Net bonds payable			<u>\$46,231,628</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 two seven-year commercial notes 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 these notes are payable from a specific annual appropriation of funds from the Commonwealth and other discretionary funds of the College. The College is currently implementing Banner, an integrated information system using SunGard SCT Corporation's Banner products for higher education. Implementation began with the Student Information System (SIS) module. The Finance module was implemented on July 1, 2004 and Human Resource was implemented on January 1, 2006. The following are notes outstanding at year-end:

Description	Interest Rate (%)	Maturity	Balance as of June 30, 2006
Section 9(d) Bonds:			
Barksdale Dormitory, Series 2003A	2.000 - 5.000	2024	\$ 1,800,000
Barksdale Dormitory, Series 2004A	3.000 - 5.000	2025	10,640,000
Barksdale Dormitory, Series 2005A	3.500 - 5.000	2026	13,250,000
William and Mary Hall, Series 1997A	3.750 - 5.000	2009	465,000
William and Mary Hall, Series 2004B	3.000 - 5.000	2016	1,020,000
Parking Deck, Series 2003A	2.000 - 5.000	2024	3,785,000
Parking Deck, Series 2004A	3.000 - 5.000	2025	2,315,000
Parking Deck, Series 2005A	3.500 - 5.000	2026	6,575,000
Recreation Sports Center, Series 2003A	2.000 - 5.000	2024	900,000
Recreation Sports Center, Series 2004A	3.500 - 5.000	2025	7,535,000
Recreation Sports Center, Series 2005A	3.500 - 5.000	2026	2,570,000
Improve Athletics Facilities, Series 2005A	3.500 - 5.000	2026	3,510,000
Marshall-Wythe Library, Series 1999A	5.000 - 6.000	2010	320,000
Marshall-Wythe Library, Series 2004B	3.000 - 5.000	2019	1,225,000
Law School Library, Series 2003A	2.000 - 5.000	2024	1,080,000
Magnet Facility, Series 2003A	2.000 - 5.000	2024	2,260,000
Total 9 (d) bonds			59,250,000
Commercial Notes:			
Enterprise Resource Planning System	5.82	2008	2,352,367
Enterprise Resource Planning System	3.75	2010	1,101,609
Total commercial notes			3,453,976
Total notes payable			62,703,976
Deferred gain on advance refundings			(30,000)
Unamortized premiums			1,483,068
Net notes payable			\$64,157,044

### Installment Purchases and Capital Leases

At June 30, 2006, 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 fifteen years, and the interest rate charges are from 2.92 to 4.7 percent.

Description	<u>Maturity</u>	Balance as of <u>June 30, 2006</u>
Installment purchases and capital leases payable	2006-2020	<u>\$2,152,814</u>

Long-term debt matures as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 6,862,070	\$ 5,132,140
2008	7,180,134	4,798,175
2009	5,983,008	4,455,305
2010	6,158,470	4,272,230
2011	6,128,377	3,995,441
2012-2016	28,472,348	15,607,045
2017-2021	26,485,788	8,773,353
2022-2026	22,840,000	2,634,429
Refunding gain	138,395	-
Unamortized premiums	<u>2,292,896</u>	<u>-</u>
Total	<u>\$112,541,486</u>	<u>\$49,668,118</u>

### Defeasance of Debt

In March 2006, the Commonwealth issued \$102,965,000 of Article X, Section 9(c) Refunding Bonds, Series 2006A with a true interest cost (TIC) of 3.686 percent. The sale of these bonds enabled the College to advance refund certain 1996 bonds of Article X Section 9(c) Bonds, with interest rates ranging from 4.75 percent to 5.125 percent used to finance projects for the Renovation of dormitories. The net proceeds from the sale of the Refunding Bonds were deposited into irrevocable trusts with escrow agents to provide for all future debt service payments on the refunded bonds. As a result, these bonds are considered defeased and the College's portion of the liability has been removed from the financial statements.

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

<u>Series</u>	<u>Debt Outstanding</u>	<u>Amount Defeased</u>	<u>Percentage Defeased</u>
1996A1	\$ 165,000	\$ 165,000	100%
1996R5	109,348	100,000	91%
1996R6	<u>1,632,400</u>	<u>1,525,000</u>	93%
Total	<u>\$1,906,748</u>	<u>\$1,790,000</u>	94%



The College's portion of the accounting loss recognized in the financial statements was \$29,496. The net economic gain attributable to the College was \$144,825 and will result in decreased cash flow requirement of \$168,257 over the remaining life of the debt.

Prior Year Defeasance of Debt

During fiscal years 1993, 1994, 1996, 2003, 2004 and 2006, 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, 2006, \$26,019,882 of the defeased bonds were outstanding.

11. EXPENSES BY NATURAL CLASSIFICATIONS

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

	Salaries, Wages and Fringe Benefits	Services and Supplies	Scholarships and Fellowships	Plant and Equipment	Depreciation	Total
Instruction	\$ 71,458,489	\$ 6,293,919	\$ (20,147)	\$ (237,368)	\$ -	\$ 77,494,893
Research	32,104,654	14,718,020	1,330,178	1,824,630	-	49,977,482
Public service	5,764	5,062	-	(326)	-	10,500
Academic support	18,029,380	2,429,182	36,841	3,927,947	-	24,423,350
Student services	5,061,021	2,217,999	75,846	(203,261)	-	7,151,605
Institutional support	17,431,936	5,849,222	55,971	227,927	-	23,565,056
Operation and maintenance of plant	4,459,115	8,498,929	31,520	3,835,107	-	16,824,671
Scholarships and related expenses	3,211,734	3,804	4,409,195	(262,651)	-	7,362,082
Auxiliary enterprises	14,943,509	31,558,995	3,574,365	4,521,515	-	54,598,384
Depreciation	-	-	-	-	13,094,770	13,094,770
Other	-	259,825	37,813	-	-	297,639
Total	<u>\$166,705,602</u>	<u>\$71,834,958</u>	<u>\$9,531,582</u>	<u>\$13,633,520</u>	<u>\$13,094,770</u>	<u>\$274,800,432</u>

12. STATE APPROPRIATIONS

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

Chapter 951 - 2005 Appropriation Act		\$63,481,753
Additional Higher Education Research		(324,800)
Student Financial Assistance		3,128,235
Supplemental appropriations:		
VSDP rate increase	194,570	
Health insurance premium	1,195,900	
Additional year-end payroll	2,541,073	
Eminent Scholars	1,324,930	
Salary increases	750,260	
Other	<u>117,318</u>	6,124,051
Appropriation reductions:		
Retiree health credit reduction	60,953	
Retirement rate reduction	42,002	
Group life rate suspension	<u>279,736</u>	(382,691)
Reversions to the General Fund of the Commonwealth		<u>(152,264)</u>
Appropriations as adjusted		<u>\$71,874,284</u>

13. COMPONENT UNIT FINANCIAL INFORMATION

The College has seven component units, the Endowment Association College of William and Mary, the Marshall-Wythe School of Law Foundation, the Alumni Association, the Athletic Educational Foundation, the School of Business Foundation, the VIMS Foundation and the Richard Bland College Foundation. These organizations are separately incorporated entities and other auditors examine the related 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
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 193,378	\$ 989,134	\$ 985,051
Short term investments	615,702	3,842,217	9,319,584
Receivables, net of allowance	463,916	102,479	301,068
Inventories	-	-	-
Pledges receivable - current portion	2,320,141	1,115,141	2,182,253
Other assets	-	36,220	7,632
<b>Total current assets</b>	<b>3,593,137</b>	<b>6,085,191</b>	<b>12,795,588</b>
Non-current assets:			
Restricted cash and cash equivalents	10,108,661	485,810	-
Restricted investments	316,315,482	17,922,574	32,960,763
Pledges receivable	3,463,645	1,631,744	13,647,888
Capital assets, non-depreciable	10,302,313	262,916	-
Capital assets, net of accumulated depreciation	2,533,249	12,691	49,411
Funds held in trust by others	75,615,122	-	-
Other assets	8,016,663	5,965	-
<b>Total non-current assets</b>	<b>426,355,135</b>	<b>20,321,700</b>	<b>46,658,062</b>
<b>Total assets</b>	<b>429,948,272</b>	<b>26,406,891</b>	<b>59,453,650</b>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable and accrued expenses	588,114	74,965	1,237,804
Deferred revenue	60,941	334,775	167,200
Deposits held in custody for others	285,925	-	26,047
Long-term liabilities-current portion	6,281,995	-	-
Other liabilities	216,319	-	-
<b>Total current liabilities</b>	<b>7,433,294</b>	<b>409,740</b>	<b>1,431,051</b>
Non-current liabilities:			
Long-term liabilities - noncurrent	6,920,558	363,500	-
<b>Total liabilities</b>	<b>14,353,852</b>	<b>773,240</b>	<b>1,431,051</b>

Alumni Association	Athletic Educational Foundation	Virginia Institute of Marine Science Foundation	Richard Bland College Foundation	Total
\$ 858,314	\$ 1,195,008	\$ 73,842	\$ 232,120	\$ 4,526,847
3,119,592	-	588,285	-	17,485,380
43,233	3,094	-	138	913,928
61,284	-	-	-	61,284
-	387,009	196,250	69,853	6,270,647
52,319	-	-	1,299	97,470
4,134,742	1,585,111	858,377	303,410	29,355,556
-	-	-	-	10,594,471
-	1,696,283	2,182,197	2,524,157	373,601,456
-	663,431	535,341	-	19,942,049
31,800	-	-	-	10,597,029
101,584	7,972	-	-	2,704,907
-	-	-	-	75,615,122
2,974,040	-	-	-	10,996,668
3,107,424	2,367,686	2,717,538	2,524,157	504,051,702
7,242,166	3,952,797	3,575,915	2,827,567	533,407,258
208,042	81,000	15,552	10,647	2,216,124
40,503	13,377	-	-	616,796
-	-	-	-	311,972
-	3,986	-	-	6,285,981
878,636	1,014	-	-	1,095,969
1,127,181	99,377	15,552	10,647	10,526,842
-	4,319	-	-	7,288,377
1,127,181	103,696	15,552	10,647	17,815,219

Summary of Statement of Net Assets - Component Units

	Endowment Association	School of Law Foundation	Business School Foundation
NET ASSETS			
Invested in capital assets, net of related debt	11,570,399	275,607	49,411
Restricted for:			
Non-expendable:			
Scholarships and fellowships	55,859,094	3,244,303	288,177
Departmental uses	61,337,578	5,656,181	29,897,990
Other	118,765,116	-	357,930
Expendable:			
Scholarships and fellowships	55,012,765	3,422,702	229,506
Research	3,321,429	-	26,388
Capital projects	7,423,307	-	19,653,190
Loans	-	-	36,552
Departmental uses	71,057,479	6,592,757	4,660,693
Other	12,294,734	2,246,283	202,764
Unrestricted	18,952,519	4,195,818	2,619,998
Total net assets	\$ 415,594,420	\$ 25,633,651	\$ 58,022,599

Alumni Association	Athletic Educational Foundation	Virginia Institute of Marine Science Foundation	Richard Bland College Foundation	Total
-	(333)	-	-	11,895,084
-	-	2,739,276	2,408,840	64,539,690
-	-	-	-	96,891,749
2,239,595	-	-	-	121,362,641
-	2,264,912	14,653	-	60,944,538
-	-	-	-	3,347,817
-	-	207,462	-	27,283,959
-	-	-	-	36,552
-	-	5,000	-	82,315,929
1,032,420	-	392,417	16,548	16,185,166
2,842,970	1,584,522	201,555	391,532	30,788,914
<u>\$ 6,114,985</u>	<u>\$ 3,849,101</u>	<u>\$ 3,560,363</u>	<u>\$ 2,816,920</u>	<u>\$ 515,592,039</u>

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

	Endowment Association	School of Law Foundation	Business School Foundation
Operating revenues:			
Gifts and contributions	\$ 1,035,886	\$ 2,899,676	\$ 1,863,793
Endowment income	10,639,875	860,788	645,811
Other	4,591,405	1,037,533	3,641,637
Total operating revenues	16,267,166	4,797,997	6,151,241
Operating expenses:			
Instruction	3,051,504	1,052,961	1,418,187
Research	158,526	-	22,664
Public service	46,026	80,353	215,124
Academic support	983,188	1,297,614	886,289
Student services	65,431	41,062	2,301,030
Institutional support	1,328,573	-	2,477,441
Operation and maintenance of plant	286,541	174,425	23,519
Student aid	3,832,629	478,106	12,582
Fundraising	2,254,862	491,115	91,208
Management and general	1,153,045	286,922	726,607
Auxiliary enterprises	317,183	-	-
Depreciation	551,513	22,989	13,750
Other	4,467,777	-	1,658,544
Total operating expenses	18,496,798	3,925,547	9,846,945
Operating gain/(loss)	(2,229,632)	872,450	(3,695,704)
Non-operating revenues/(expenses):			
Net investment revenue	24,917,359	1,811,737	2,153,565
Interest on capital asset related debt	(20,383)	(1,480)	-
Other non-operating revenue	3,016,410	-	-
Other non-operating expense	(306,026)	-	(4,048)
Net non-operating revenues	27,607,360	1,810,257	2,149,517
Income (loss) before other revenues	25,377,728	2,682,707	(1,546,187)
Capital grants and contributions	2,486,089	-	15,025,678
Additions to permanent endowments	6,449,842	411,492	5,963,153
Total other revenues	8,935,931	411,492	20,988,831
Increase in net assets	34,313,659	3,094,199	19,442,644
Net assets - beginning of year	381,280,761	22,539,452	38,579,955
Net assets - end of year	\$ 415,594,420	\$ 25,633,651	\$ 58,022,599

Alumni Association	Athletic Educational Foundation	Virginia Institute of Marine Science Foundation	Richard Bland College Foundation	Totals
\$ -	\$ 4,472,519	\$ 131,330	\$ 468,226	\$ 10,871,430
-	-	-	-	12,146,474
3,469,692	351,654	-	5,636	13,097,557
3,469,692	4,824,173	131,330	473,862	36,115,461
-	-	-	-	5,522,652
-	-	-	-	181,190
-	-	-	-	341,503
-	-	198,566	-	3,365,657
-	-	-	-	2,407,523
-	-	-	-	3,806,014
-	-	-	-	484,485
-	3,783,664	-	205,338	8,312,319
-	34,339	-	5,817	2,877,341
251,085	449,038	44,252	21,098	2,932,047
-	-	-	-	317,183
31,025	5,765	-	-	625,042
2,622,415	84,685	-	-	8,833,421
2,904,525	4,357,491	242,818	232,253	40,006,377
565,167	466,682	(111,488)	241,609	(3,890,916)
-	82,116	99,891	-	29,064,668
-	-	-	-	(21,863)
371,770	-	-	-	3,388,180
-	-	-	-	(310,074)
371,770	82,116	99,891	-	32,120,911
936,937	548,798	(11,597)	241,609	28,229,995
-	-	-	-	17,511,767
-	-	273,066	119,958	13,217,511
-	-	273,066	119,958	30,729,278
936,937	548,798	261,469	361,567	58,959,273
5,178,048	3,300,303	3,298,894	2,455,353	456,632,766
\$ 6,114,985	\$ 3,849,101	\$ 3,560,363	\$ 2,816,920	\$ 515,592,039



## 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.

	Endowment Association	School of Law Foundation	Business School Foundation	Alumni Association	Athletic Educational Foundation	VIMS Foundation	Richard Bland College Foundation	Totals
Certificates of deposit	\$ 1,693,265	\$ 7,325	\$ 2,390,531	\$ -	\$ 1,524,390	\$ 588,285	\$ -	\$ 6,203,796
US government obligations	3,859,957	583,484	1,169,617	-	-	-	-	5,613,058
Equities and equity mutual funds	2,720,601	-	32,829,109	2,296,321	12,527	2,182,197	2,509,242	42,549,997
Fixed income funds	2,146,228	-	4,838,627	823,271	-	-	-	7,808,126
Real estate	1,202,157	-	78,008	-	71,200	-	-	1,351,365
Investment in grantor trust	296,228,124	-	-	-	-	-	-	296,228,124
Notes receivable	6,157,860	-	974,455	-	-	-	-	7,132,315
Other	<u>128,761</u>	<u>21,173,982</u>	<u>-</u>	<u>-</u>	<u>88,166</u>	<u>-</u>	<u>14,915</u>	<u>21,405,824</u>
Total	<u>\$314,136,953</u>	<u>\$21,764,791</u>	<u>\$42,280,347</u>	<u>\$3,119,592</u>	<u>\$1,696,283</u>	<u>\$2,770,482</u>	<u>\$2,524,157</u>	<u>\$388,292,605</u>

## 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 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.

	Endowment Association	School of Law Foundation	Business School Foundation	Athletic Educational Foundation	VIMS Foundation	Richard Bland College Foundation	Totals
Total pledges receivable	\$7,913,467	\$3,307,861	\$19,167,008	\$1,369,638	\$767,250	\$83,500	\$32,608,724
Less: allowance for uncollectible pledges	(1,244,402)	(341,732)	-	(123,909)	-	(2,000)	(1,712,043)
Less: present value discounting	<u>(885,279)</u>	<u>(219,244)</u>	<u>(3,336,867)</u>	<u>(195,289)</u>	<u>(35,659)</u>	<u>(11,647)</u>	<u>(4,683,985)</u>
Net pledges receivable	5,783,786	2,746,885	15,830,141	1,050,440	731,591	69,853	26,212,696
Less: current pledges	<u>2,320,141</u>	<u>1,115,141</u>	<u>2,182,253</u>	<u>387,009</u>	<u>196,250</u>	<u>15,260</u>	<u>6,216,054</u>
Total non-current pledges receivable	<u>\$3,463,645</u>	<u>\$1,631,744</u>	<u>\$13,647,888</u>	<u>\$ 663,431</u>	<u>\$535,341</u>	<u>\$54,593</u>	<u>\$19,996,642</u>

Capital Assets

	<u>Endowment Association</u>	<u>School of Law Foundation</u>	<u>Business School Foundation</u>	<u>Alumni Association</u>	<u>Athletic Educational Foundation</u>	<u>Totals</u>
Non-depreciable capital assets:						
Land	\$ 6,949,617	\$262,916	\$ -	\$ -	\$ -	\$ 7,212,533
Historical collections and other	<u>3,352,696</u>	<u>-</u>	<u>-</u>	<u>31,800</u>	<u>-</u>	<u>3,384,496</u>
Total non-depreciable capital assets	<u>10,302,313</u>	<u>262,916</u>	<u>-</u>	<u>31,800</u>	<u>-</u>	<u>10,597,029</u>
Depreciable capital assets:						
Buildings and improvements	1,980,794	-	-	232,988	-	2,213,782
Equipment	435,660	121,045	90,250	-	1,970	648,925
Furniture and fixtures	30,560	-	28,539	363,130	-	422,229
Telecommunications system	7,609,551	-	-	-	-	7,609,551
Vehicles	-	-	-	-	19,932	19,932
Other	<u>55,915</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>55,915</u>
Total	<u>10,112,480</u>	<u>121,045</u>	<u>118,789</u>	<u>596,118</u>	<u>21,902</u>	<u>10,970,334</u>
Less: Accumulated depreciation	<u>7,579,231</u>	<u>108,354</u>	<u>69,378</u>	<u>494,534</u>	<u>13,930</u>	<u>8,265,427</u>
Depreciable capital assets, net	<u>\$ 2,533,249</u>	<u>\$ 12,691</u>	<u>\$ 49,411</u>	<u>\$101,584</u>	<u>\$ 7,972</u>	<u>\$ 2,704,907</u>

Long-term Liabilities - Non-current portion

	<u>Endowment Association</u>	<u>School of Law Foundation</u>	<u>Athletic Educational Foundation</u>	<u>Totals</u>
Deferred compensation liability	\$ 7,023	\$363,500	\$ -	\$ 370,523
Trust and annuity obligations	2,871,733	-	-	2,871,733
Other long-term liabilities	<u>4,041,802</u>	<u>-</u>	<u>4,319-</u>	<u>4,046,121</u>
Total non-current liabilities	<u>\$6,920,558</u>	<u>\$363,500</u>	<u>\$4,319</u>	<u>\$7,288,377</u>

Endowment Association of the College of William and Mary

Funds Held for Others

The Association holds certain assets for the benefit of the Alumni Association of the College of William and Mary and for the OIEAHC. Such funds held for others are recorded as an asset and an offsetting liability.

### Notes Payable

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 \$2,000,000, 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 \$6,400,000 with all principal and accrued interest due and payable on June 30, 2007. The amount outstanding at June 30, 2006 was \$6,000,000. Interest paid during the year ended June 30, 2006 was \$301,213.

The Association had entered into a revolving line of credit agreement with SunTrust Bank in the amount of \$5,000,000. Interest, which accrues at the rate of the 30 day LIBOR plus .50 percent, is paid monthly and principal is repaid based on a term that matches the useful life of the projects financed. During the year ended June 30, 2003, \$1,540,000 was drawn, and will be repaid over four years. These funds were used for upgrades to the telecommunications system and will be repaid from technology fees from the College. This line of credit has terminated. Though the balance will be repaid under the terms noted above, no additional draws may be made. The amount outstanding at June 30, 2006 was \$224,583. Interest paid during the year ended June 30, 2006 was \$20,383.

### 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, 2006 amounted to \$50,000.

### Athletic Educational Foundation – Notes Payable

The Athletic Educational Foundation has one note payable for the purchase of an automobile with monthly payments and a maturity in 2009. The following schedule represents principal amounts due to maturity.

Chrysler Financial collateralized note payable	\$8,305
Less: portion due within one year	<u>3,986</u>
Long-term debt net of current portion	<u>\$4,319</u>

## 14. RETIREMENT PLANS

### Virginia Retirement System

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

The VRS does not measure assets and pension benefit obligations separately for individual state institutions. Information related to this plan is available at the statewide level only and can be found in the Commonwealth of Virginia's Comprehensive Annual Financial Report (CAFR). The Commonwealth, not the College, has the overall responsibility for contributions to this plan. The CAFR provides disclosure of the Commonwealth's unfunded pension benefit obligation at June 30, 2006. 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 approximately \$5,422,383 for the year ended, June 30, 2006. The retirement contribution rate was 8.91 percent for fiscal year 2006. Contributions to VRS were calculated using the base salary amount of approximately \$60,020,495 for the year ended June 30, 2006. The College's total payroll was approximately \$143,122,691 for the fiscal year ended June 30, 2006.

#### Optional Retirement Plans

Full-time faculty and certain administrative staff participate in a defined contribution plan administered by providers other than the VRS. The providers are TIAA/CREF Insurance Companies, Fidelity Investment 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 immediate vesting of both the College's and the employee's contributions. Total pension costs under this plan were approximately \$6,300,366 for the year ended June 30, 2006. Contributions to the optional retirement plan were calculated using the base salary amount of approximately \$60,580,445 for fiscal year 2006.

#### Deferred Compensation Plan

Employees of the College are employees of the Commonwealth. State employees may participate in the Commonwealth's Deferred Compensation Plan. Participating employees can contribute to the plan each pay period with the Commonwealth matching up to \$20 per pay period. The dollar amount match can change depending on the funding available in the Commonwealth's budget. The Deferred Compensation Plan is a qualified defined contribution plan under Section 401(a) of the Internal Revenue Code. Employer contributions under the Deferred Compensation Plan were approximately \$548,232 for the fiscal year ended June 30, 2006.

### 15. POST-RETIREMENT BENEFITS

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

## 16. CONTINGENCIES

### Grants and Contracts

The College receives assistance from non-state grantor agencies in the form of grants and contracts. Entitlement to these resources is conditional upon compliance with the terms and conditions of the agreements, including the expenditure of resources for eligible purposes. Substantially all grants and contracts are subject to financial and compliance audits by the grantors. Any disallowances as a result of these audits become a liability. As of June 30, 2006, the College estimates that no material liabilities will result from such audits.

### Litigation

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

## 17. RISK MANAGEMENT

The College is exposed to various risks of loss related to torts; theft, 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. The state employee health care and worker's compensation plans are administered by the Department of Human Resource Management and the risk management insurance plans are administered by the Department of Treasury, Division of Risk Management. Risk management insurance includes property, general liability, medical malpractice, faithful performance of duty bond, automobile, and air and watercraft plans. The College pays premiums to each of these departments for its insurance coverage. Information relating to the Commonwealth's insurance plans is available at the statewide level in the CAFR.

## 18. SUBSEQUENT EVENTS

In November 2006, the College issued 2006A, 9(d) revenue bonds through the Virginia College Building Authority (VCBA) Public Higher Education Financing Pooled Bonds Program in the amount of \$13,250,000. Proceeds from the bonds will be used to construct a new dormitory, construct a new football facility and improve athletic facilities, acquire property (Sentara Hospital), and improve dormitory fire safety systems. 9(c) bonds in the amount of \$5,000,000 are also expected to be issued to renovate dormitories. The bonds are anticipated to be issued with interest rates varying from three to five percent and will mature in 20 years.

## **SUPPLEMENTARY INFORMATION**

THE COLLEGE OF WILLIAM AND MARY IN VIRGINIA  
SCHEDULE OF AUXILIARY ENTERPRISES REVENUES AND EXPENDITURES  
For the Year Ended June 30, 2006

	Food Services	Residential Facilities	Stores and Shops
Operating revenues:			
Student fees	\$ 9,878,505	\$ 16,684,242	\$ -
Sales and services	193,572	626,717	2,302,288
Gross operating revenues	10,072,077	17,310,959	2,302,288
Cost of sales	-	-	90,530
Net operating revenues	10,072,077	17,310,959	2,211,758
Operating expenditures:			
Personal services	38,527	3,171,120	572,016
Contractual services	8,416,070	3,439,474	795,702
Current charges and obligations	1,036,502	5,190,842	912,654
Supplies and materials	63,934	617,837	94,553
Equipment	41,489	620,657	229,521
Property and improvements	-	-	-
Plant and improvements	-	362,789	-
Scholarships	-	753,675	-
Total operating expenditures	9,596,522	14,156,394	2,604,446
Excess/(deficiency) of revenues over/(under) operating expenditures	475,555	3,154,565	(392,688)
Non-operating revenues:			
Private gifts	-	-	118,757
Mandatory transfers:			
Debt service	(429,970)	(4,333,687)	-
Net increase/(decrease) for the year	45,585	(1,179,122)	(273,931)
Fund balances/(deficits) at beginning of year - restated	4,956,147	519,748	(2,291,515)
Fund balances/(deficits) at end of year	\$ 5,001,732	\$ (659,374)	\$ (2,565,446)

\* 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.

Student Health	Telecommunications	Intercollegiate Athletics	Parking and Transportation	Other *	Total
\$ 2,334,253	\$ 2,450,071	\$ 7,057,179	\$ 305,454	\$ 2,974,361	\$ 41,684,065
517,564	1,025,391	2,290,815	1,329,507	3,786,222	12,072,076
2,851,817	3,475,462	9,347,994	1,634,961	6,760,583	53,756,141
3,555	-	-	-	25,954	120,039
2,848,262	3,475,462	9,347,994	1,634,961	6,734,629	53,636,102
2,194,000	491,882	4,936,299	268,921	3,270,354	14,943,119
150,336	2,330,770	2,743,404	379,345	3,793,994	22,049,095
177,250	197,743	518,600	85,167	1,976,988	10,095,746
296,140	29,509	700,957	13,143	801,024	2,617,097
19,672	381,569	774,623	329	67,250	2,135,110
-	-	-	225,314	72	225,386
-	-	(250,662)	-	206,178	318,305
8,580	-	4,428,451	250	(5,032,066)	158,890
2,845,978	3,431,473	13,851,672	972,469	5,083,794	52,542,748
2,284	43,989	(4,503,678)	662,492	1,650,835	1,093,354
-	-	4,983,452	375	145	5,102,729
-	-	(60,457)	(591,948)	(2,354,947)	(7,771,009)
2,284	43,989	419,317	70,919	(703,967)	(1,574,926)
1,218,407	1,091,392	(1,685,154)	3,626,421	(6,415,006)	1,020,440
\$ 1,220,691	\$ 1,135,381	\$ (1,265,837)	\$ 3,697,340	\$ (7,118,973)	\$ (554,486)



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# Commonwealth of Virginia

**Walter J. Kucharski, Auditor**

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

January 9, 2007

The Honorable Timothy M. Kaine  
Governor of Virginia

The Honorable Thomas K. Norment, Jr.  
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 Richard Bland College and the Virginia Institute of Marine Science, a component unit of the Commonwealth of Virginia, and its aggregate discretely presented component units as of and for the year ended June 30, 2006, 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 and of its aggregate discretely presented component units as of June 30, 2006, 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.

The Management's Discussion and Analysis on pages 2 through 12 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 Schedule of Auxiliary Enterprises Revenues and Expenditures is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The Schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statement taken as a whole.

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the College's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the section titled "Internal Control Findings and Recommendations."

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

### Compliance and Other Matters

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

### Status of Prior Findings

The College has not completed adequate corrective action with respect to the previously reported finding "Test Financial Statement Preparation Process". Accordingly, we included this issue in the finding entitled "Improve Financial Statement Preparation Process" in the section of the report entitled "Internal Control Findings and Recommendations." The College has taken adequate corrective action with respect to the audit finding reported in the prior year that is not repeated in this report.

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 February 7, 2007

AUDITOR OF PUBLIC ACCOUNTS

JHS:sks  
Sks:95



CHARTERED 1693

THE COLLEGE OF WILLIAM AND MARY IN VIRGINIA  
OFFICE OF FINANCE  
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WILLIAMSBURG, VIRGINIA 23187-8795  
757/221-2740, FAX 757/221-2749

February 20, 2007

Mr. David Von Moll  
State Comptroller  
Department of Accounts  
P.O. Box 1971  
Richmond, VA 23218-1971

Dear Mr. Von Moll:

Enclosed is our corrective action plan for management points included in the Auditor of Public Accounts fiscal year 2006 audit of the College of William and Mary. This plan is being submitted in accordance with section 10205 of the CAPP manual.

Sincerely,

Samuel E. Jones  
Vice President for Finance

cc: Secretary of Education  
Director of Planning and Budget  
Auditor of Public Accounts

The College of William and Mary  
Corrective Action Plan  
Fiscal Year 2006 Audit

1. Improve Financial Statement Preparation Process

A. Auditor's Comment:

The 2005 audit report noted that the College's implementation of the new Banner financial system completely changed how the College's financial reporting staff produced financial statements. Although we recognize the College's effort to improve their financial reporting process; some of the inadequacies noted in the previous audit continued in the present year.

In preparing the financial statements for fiscal year 2006, College financial reporting staff continued to encounter difficulties in obtaining information from the Banner system. These problems continued to cause delays and inefficiencies in preparing the financial statements and turnover in key positions within the financial reporting department compounded the problems. While College staff created new system reports and corrected some of the prior year issues, continued improvement is necessary if the financial statement preparation process is to work efficiently.

We again recommend the College continue to work with the financial system vendor, along with other state universities using the Banner financial system to streamline its financial statement preparation. College financial reporting staff should continue with their project to fully document and test the financial statement preparation process. With improved financial system information and clearly documented and tested processes, the financial statement process should take less time, continue to meet all applicable deadlines, and allow staff to complete their regular work cycle while preparing the financial statements.

B. Management's Response:

Management concurs with the auditor's comment. Corrective actions being taken include (1) continued training of the financial statement accountants on our report writing software in combination with the reporting data base, (2) additional research and testing of the SungardHE's financial statement reporting module with the vendor and other state universities, (3) training additional employees to assist in the financial reporting process and developing techniques for retaining key employees.

C. Implementation Date:

By July 2007, we will have conducted additional research in the reporting module, addressed the additional training requirements of the financial reporting staff and trained additional employees to assist in the financial statement reporting process. We believe these actions will enhance our financial statement reporting process addressing the concerns of APA.

D. Responsible Position:

Director Financial Operations

The College of William and Mary  
Corrective Action Plan  
Fiscal Year 2006 Audit

2. Develop Checkout List for Terminated Employees

A. Auditor's Comment:

The College does not have standard procedures to properly recover all College property from employees, when they leave employment. The only written policy on the collection of College property states that the supervisor has responsibility to collect all items. A standard separation procedure with a checklist would assist department to recover College property such as identification cards, charge cards, keys, portable computers, and cell phones.

Without a standard procedure including a checklist, there is a risk that the College could lose equipment or fail to cancel system access therefore leading to unauthorized transactions, continued access to College buildings, and inappropriate identification as a College employee on campus and in the community. In order to make sure that all departments consider these issues the College should develop and maintain standard procedures to follow during the terminating employee. Furthermore, the College should establish a standard checklist that employees and supervisors sign that lists the College property distributed and collected.

B. Management's Response:

Management concurs with the auditor's comment. Two clearance procedures have been established and implemented. The faculty clearance policy was implemented December 1, 2006 and the non-faculty policy was implemented on January 16, 2007.

C. Implementation Date:

- (1) December 1, 2006 for the faculty clearance policy
- (2) January 16, 2007 for the non-faculty clearance policy

D. Responsible Positions:

Director of Human Resources

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