COLLEGE OF WILLIAM AND MARY IN VIRGINIA

REPORT ON AUDIT

FOR THE YEAR ENDED

JUNE 30, 2005

Auditor of Public Accounts
COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of the College of William and Mary in Virginia, including the Virginia Institute of Marine Science and Richard Bland College, for the year ended June 30, 2005, 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; and
- no instances of noncompliance or other matters required to be reported.

We recommend that the College:

- test the financial statement preparation process and
- consolidate lease information into a single system.

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INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

Test Financial Statement Preparation Process

The College's implementation of the new Banner financial system completely changed how the College's financial reporting staff produced financial statements. Using the new financial accounting system to produce the financial statements for the first time, the College's financial reporting staff experienced significant problems in obtaining accurate information from the new accounting system. Both during and after the financial statement preparation process, College staff has worked with the financial system vendor to develop reports that will facilitate preparation of the financial statements. Management believes that these new system reports will provide sufficient and accurate financial information that staff need to prepare the financial statements.

We recommend that College financial management test, in advance of year-end, the reliability of the new financial system reports to create the College's year-end financial statements. The College should continue to work with the financial system vendor, along with the other state universities using the Banner financial system, to improve reports from the financial system to streamline its financial statement preparation. With improved financial system information, the financial statement preparation process should take less time, meet all applicable deadlines, and allow staff to complete their regular work cycle while preparing the financial statements.

Consolidate Lease Information into a Single System

The College does not have a central system to monitor its building and equipment leases and ensure that it properly accumulates and maintains all lease data for financial management, so that they can make all the required disclosures for the Commonwealth's Comprehensive Annual Financial Report and the College's stand-alone financial statements. The College currently keeps information on its leases in six different spreadsheets maintained by different individuals throughout the College. The lack of a single lease system causes unnecessary work in accumulating information for financial statement disclosures and could cause omissions or errors in accumulating that information.

We recommend that the College consolidate its lease information into a single central system maintained by staff trained in lease accounting. The College could consider using the statewide Lease Accounting System maintained by the Department of Accounts, the capital assets module of its new Banner financial accounting system, or another system that accurately maintains and reports lease information. Use of a single central system to maintain lease information will save staff time and better ensure that accurate lease accounting information is reported in the College's financial statements and to senior management.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(unaudited)

Reporting Entity

The financial statements of the College of William and Mary in Virginia (College) include the financial operations of the main campus, as well as those of the Virginia Institute of Marine Science (VIMS) and Richard Bland College. All three entities are agencies of the Commonwealth of Virginia and report to the Board of Visitors of the College.

In accordance with the Governmental Accounting Standards Board (GASB) Statement 39, *Determining Whether Certain Organizations are Component Units*, an amendment of GASB Statement 14, the College's affiliated foundations meeting the reporting criteria of Statement 39 have been included in these statements. While foundation information is summarized on the individual statement schedules along with College information, detailed information by foundation is provided in the Notes to Financial Statements.

Statement of Net Assets

The Statement of Net Assets provides a snapshot of the College's financial position, specifically the assets, liabilities, and resulting net assets as of June 30, 2005. The information presented aids the reader in determining 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 improvement.
>
> *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 and fellowships, departmental uses, and other.
>
> *Restricted Expendable* reflects the College's endowment and similar funds whereby the donor has stipulated that the gift be used for specific programs of the College. Donor restrictions have been grouped into generally descriptive categories of scholarships and fellowships, research, debt service, capital projects, loans, and departmental uses.
>
> *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 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 donations.

Summary Statement of Net Assets
As of June 30, 2004 and 2005

	2005	2004	Increase / (Decrease) Amount	Percentage
Assets:				
Current	$ 47,879,910	$ 46,968,277	$ 911,633	1.9%
Capital, net of accumulated depreciation	310,086,515	294,851,157	15,235,358	5.2%
Other noncurrent	88,852,851	69,029,644	19,823,207	28.7%
Total assets	446,819,276	410,849,078	35,970,198	8.8%
Liabilities:				
Current	49,420,493	45,749,867	3,670,626	8.0%
Noncurrent	69,858,368	53,754,096	16,104,272	30.0%
Total liabilities	119,278,861	99,503,963	19,774,898	19.9%
Net assets:				
Invested in capital assets, net of related debt	261,905,266	251,344,088	10,561,178	4.2%
Restricted	45,917,854	45,319,394	598,460	1.3%
Unrestricted	19,717,295	14,681,633	5,035,662	34.3%
Total net assets	$327,540,415	$311,345,115	$16,195,300	5.2%

The overall result of the College's fiscal year 2005 operations was an increase in net assets of approximately $16.2 million. The increase in net assets occurred primarily in the categories of capital and unrestricted net assets and reflects the positive growth trend of the College.

The increase in capital assets, net of related debt, of $10.6 million reflects the significant capital construction activity of the College as described in detail in the Capital Asset and Debt Administration section. In general, the increase reflects the completion of significant renovation and new construction activity of Swem Library and the new Small Hall facility for the physics department.

The increase in unrestricted net assets of $5.0 million reflects various events including investment revenues, the reclassification of true and quasi endowments, and increased indirect cost recoveries from grants and contracts.

As reflected by the overall increase in net assets, the dollar increase in College assets exceed the increase in liabilities. The increase in assets occurred in the categories of cash and cash equivalents, investments, and capital assets.

Statement of Revenues, Expenses, and Changes in Net Assets

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

Summary Statement of Revenues, Expenses, and Changes in Net Assets
For the years ended June 30, 2004 and 2005

	2005	2004	Increase / (Decrease) Amount	Percentage
Operating revenues	$166,783,439	$161,120,523	$ 5,662,916	3.5%
Operating expenses	250,714,080	233,518,364	17,195,716	7.4%
Operating loss	(83,930,641)	(72,397,841)	(11,532,800)	15.9%
Net nonoperating revenues	82,277,639	78,709,135	3,568,504	4.5%
Income/(loss) before other revenues	(1,653,002)	6,311,294	(7,964,296)	(126.2%)
Net other revenues	17,848,302	16,995,115	853,187	5.0%
Increase in net assets	$ 16,195,300	$ 23,306,409	$ (7,111,109)	(30.5%)

As a result of operations, the College's net assets increased by $16.2 million. This increase was the result of a combination of changes in both revenues and expenses for the year relative to the prior year. Both operating and nonoperating revenues increased during the year along with a corresponding increase in operating expenditures. With the inclusion of state General Fund appropriations for the College in the nonoperating category, the College will routinely display an operating loss for the year. This operating loss is covered by state appropriations, as well as private and auxiliary fund balances.

The following table provides a detailed presentation of operating, nonoperating, and other revenues of the College.

Summary of Revenues
For the years ended June 30, 2004 and 2005

	2005	2004	Increase / (Decrease) Amount	Percentage
Operating revenues:				
Student tuition and fees, net of scholarship allowances	$ 67,216,749	$ 67,260,725	$ (43,976)	(0.1%)
Federal, state, local and nongovernmental grants and contracts	45,600,888	42,083,044	3,517,844	8.4%
Auxiliary enterprises, net of scholarship allowances	46,805,461	47,767,031	(961,570)	(2.0%)
Other	7,160,341	4,009,723	3,150,618	78.6%
Total operating revenues	166,783,439	161,120,523	5,662,916	3.5%
Nonoperating revenues:				
State appropriations	63,155,599	58,666,039	4,489,560	7.7%
Gifts, investment income, and other income and expenses	19,122,040	20,043,096	(921,056)	(4.6%)
Total nonoperating revenues	82,277,639	78,709,135	3,568,504	4.5%

Capital revenues:				
Capital appropriations	9,106,199	8,700,751	405,448	4.7%
Capital grants and gifts	8,742,103	8,294,364	447,739	5.4%
Total capital revenues	17,848,302	16,995,115	853,187	5.0%
Total revenues	$266,909,380	$256,824,773	$10,084,607	3.9%

The notable changes in revenues include an increase in grants and contracts of $3.5 million and other operating revenues of $3.2 million. Both student tuition and fees and auxiliary revenues are presented net of scholarship allowances. In both categories, the amount of revenue dedicated to scholarships increased, giving the appearance of decreasing revenues. The increase in student tuition and fee scholarships was approximately $1 million while the auxiliary enterprise increase in scholarships was approximately $1.3 million.

Summary of Operating Expenses
For the years ended June 30, 2004 and 2005

			Increase / (Decrease)	
	2005	2004	Amount	Percentage
Operating expenses:				
Instruction	$ 72,505,375	$ 71,926,498	$ 578,877	0.8%
Research	47,712,026	45,378,771	2,333,255	5.1%
Public service	16,883	15,044	1,839	12.2%
Academic support	23,661,701	20,862,214	2,799,487	13.4%
Student services	6,206,369	6,609,288	(402,919)	(6.1%)
Institutional support	20,129,070	16,802,327	3,326,743	19.8%
Operation and maintenance of plant	12,895,110	10,775,810	2,119,300	19.7%
Student aid	6,761,461	3,054,706	3,706,755	121.3%
Auxiliary enterprises	49,422,591	46,418,516	3,004,075	6.5%
Depreciation	11,178,852	11,563,664	(384,812)	(3.3%)
Other	224,642	111,526	113,116	101.4%
Total operating expenses	$250,714,080	$233,518,364	$17,195,716	7.4%

Significant increases in operating expenses include the categories of research ($2.3 million), which corresponds to the increase in grant and contract revenues; academic support ($2.8 million); institutional support ($3.3 million); operation and maintenance of plant ($2.1 million); student financial aid, net of scholarship allowances ($3.7 million); and auxiliary enterprises ($3.0 million). Operating expenses increased due to general increases in costs including faculty salaries and utilties.

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: operating, noncapital 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
For the years ended June 30, 2004 and 2005

	2005	2004	Increase / (Decrease) Amount	Percentage
Cash flows from:				
Operating activities	$(67,823,235)	$(67,268,648)	$ (554,587)	(0.8%)
Noncapital financing activities	78,856,497	70,164,666	8,691,831	12.4%
Capital financing activities	20,504,102	1,681,593	18,822,509	1,119.3%
Investing activities	(19,559,888)	(2,074,264)	(17,485,624)	(843.0%)
Net increase in cash	$11,977,476	$ 2,503,347	$ 9,474,129	378.5%

Cash flows from operating and noncapital financing activities 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 2005 were tuition and fees ($69 million), state appropriations ($63 million), auxiliary enterprise revenues ($47 million), and research grants and contracts ($45 million). The appropriations to the College from the Commonwealth of Virginia increased by $4.5 million (7.8%). Cash from research grants and contracts increased by $2.4 million contributing $45 million.

The primary uses of operating cash in fiscal year 2005 were payments to employees ($151 million) representing salaries, wages and fringe benefits and payments to suppliers of goods and services ($82 million). Other categories of cash flows from operating activities remained relatively constant between the two fiscal years.

Cash flows 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 2005 were proceeds from capital appropriations available ($10.7 million), capital appropriations ($9.1 million), grants and gifts for capital construction ($8.7 million), and proceeds from the issuance of capital debt ($21.8 million). The primary uses of cash were capital expenditures ($21.8 million) and capital debt payments ($7.3 million).

Capital Asset and Debt Administration

The College of William and Mary of Virginia

The College completed two projects and initiated construction on several other projects in fiscal year 2005. The multi-phase Swem Library renovation and addition was completed for re-dedication during Charter Day weekend in February 2005. Also, the Small Hall addition that houses a large new high field NMR magnet for the physics department was completed in March 2005.

In January 2005, construction began on the new parking deck, the new dormitory at Barksdale Field, the Recreational Sports Center renovation and expansion, and the Law School Library renovation and expansion. Completion dates for these projects are staggered through calendar year 2006. In an extremely compressed schedule, renovation of the Commons Dining Hall began in March and was completed on August 22, 2005. May 2005 saw the initiation of several summer projects, including the renovation of Bryan Hall, the construction of a new soccer field at Dillard Complex, the replacement of the track at Cary Field, and fire alarm and electrical upgrades to fraternity and sorority houses, respectively.

Design-work continues on the Lake Matoaka Amphitheater, the new Office of Admissions (the old

Jamestown Road Bookstore), various underground utility projects, and the Integrated Science Center (formerly the renovation and expansion of Millington and Rogers Halls). Construction will begin on these projects in calendar year 2006. Appropriation authority was sought in 2005 for several projects, including renovation of the President's House, which will begin in August 2005. On May 3, 2005, an electrical fire in Preston Hall, one of the Randolph Complex Residence Halls, destroyed the roof and third floor of the facility (no students were injured). Work to restore that facility began in June, and was completed on October 7, 2005.

Finally, initial authority to purchase the old Sentara Williamsburg Community Hospital property adjacent to the main campus was sought and approved by the 2005 General Assembly. The old hospital will house the School of Education, as well as other professional development programs beginning in July 2006.

The Virginia Institute of Marine Science

Major Capital Outlay Projects in Progress
at June 30, 2005

	Total Project Expenditures*	Project Budget *
Marine Research Building Complex	$1,911	$29,325
Field support center	8	2,000
Information technology infrastructure	82	1,200
Gloucester Point bulkhead replacement	1,078	1,102
Master plan properties acquisition	427	1,100
Education Laboratory Building	825	825
Byrd Hall renovation and expansion	542	542
Other	762	1,025
Total	$5,635	$37,119

* in thousands

The Marine Research Building Complex was bid in April 2005 and the approval to award the contract was received in June 2005. Construction is expected to start in August 2005 and be completed in January 2007.

The Field Support Center project involves the construction of a 15,000-square foot field support center on the Gloucester Point Campus. This building will replace the vessel operation's facilities and field support infrastructure that were severely damaged as a result of Hurricane Isabel. The project is in the design phase and construction is scheduled for completion in February 2007.

The Information Technology Infrastructure project involves the modernization of VIMS' aging information technology infrastructure to meet increasing demands for information exchange including systems to carry voice, data, and video. Currently, approximately 50 percent of the existing copper network has been replaced with new high speed fiber optics. Also, design efforts are in progress to improve the air conditioning and power requirements for the Waterman's Hall network server room.

The Gloucester Point bulkhead replacement construction contract is 100 percent complete and the project is awaiting final closeout.

Appropriations for property acquisitions for the Gloucester Point and Wachapreague campuses and for the Virginia Estuarine and Coastal Research Reserve System remain open in the event additional property becomes available.

VIMS received a federal grant to construct an education laboratory building for the Chesapeake Bay National Estuarine Research Reserve in Virginia program on the VIMS campus. Construction was substantially completed in May 2005 and the building is occupied. Final punchlist corrections remain to be completed.

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

Economic Outlook

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

The College's ability to recruit, admit, and retain top-caliber students remains excellent, even as it competes against the most select public and private institutions in the country. Undergraduate applications to the College reached a new high of 10,610 for Fall 2005. The credentials of admitted students including SAT scores and the number of students within the top ten percent of their graduating class remain stable and reflect 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 (seven percent) over the next six years.

As a public institution, the College receives significant financial support from the Commonwealth of Virginia in the form of operating and capital construction appropriations. As such, the College is directly impacted by changes in the state's financial outlook. The Commonwealth's 2004 - 2006 budget, as amended by the 2005 General Assembly, reflects the national and state economic recovery currently underway. The College benefited from this recovery as the Commonwealth allocated incremental support for base operations and faculty and staff salaries. Additional support of these areas is expected for 2006 - 2008 as well. Supplementing state funds with additional tuition and private fund support, the College continues to protect its core academic programs' quality and integrity while providing incremental support for student financial assistance to ensure access for all qualified students.

The College's overall financial and managerial strength was independently verified as it went through the bond rating process with Standard and Poors in August 2005. This independent evaluation of the College considered all aspects of its operations and resulted in Standard and Poors assigning the College an 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 the passage of the Restructured Higher Education and Administrative Operation Act of 2005, the College is in the final stages of negotiating with the Commonwealth to restructure its operating relationship. This restructuring is intended to confirm a stable, long-term funding relationship with the Commonwealth, allowing the College to strengthen its long-term planning efforts 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 passed by the 2002 General Assembly and endorsed by the voters of Virginia. Through a combination of Virginia College Building Authority and state supported general obligation bonds, the College is investing approximately $90 million in its academic facilities. This state funding 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 students. At the same time, the College continues to meet its fundraising targets established for the Campaign for William and Mary, a $500 million campaign now in its final two years.

THE COLLEGE OF WILLIAM AND MARY IN VIRGINIA
STATEMENT OF NET ASSETS
As of June 30, 2005

	College	Component Units
ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	$ 31,482,828	$ 4,335,084
Investments (Note 2)	3,576,032	15,507,809
Receivables, net of allowance for doubtful accounts (Note 4)	10,817,803	1,506,003
Inventories	440,462	75,216
Pledges receivable - current portion (Note 15)	-	5,504,631
Other assets	1,562,785	210,289
Total current assets	47,879,910	27,139,032
Noncurrent assets:		
Restricted cash and cash equivalents	19,901,217	8,502,206
Restricted investments (Notes 2 and 15)	68,951,634	314,265,451
Pledges receivable (Note 15)	-	14,539,904
Capital assets, nondepreciable (Notes 5 and 15)	147,553,255	11,424,409
Capital assets, depreciable net of accumulated depreciation (Notes 5 and 15)	162,533,260	1,526,693
Funds held in trust by others	-	8,900,142
Other assets	-	88,609,083
Total noncurrent assets	398,939,366	447,767,888
Total assets	446,819,276	474,906,920
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses (Note 6)	25,569,167	1,731,187
Deferred revenue	6,104,290	458,707
Deposits held in custody for others	1,298,059	1,458,554
Advance from the Treasurer of Virginia (Note 9)	769,500	-
Long-term liabilities-current portion (Note 10)	10,172,712	6,111,840
Other liabilities (Note 7)	5,506,765	894,468
Total current liabilities	49,420,493	10,654,756
Noncurrent liabilities:		
Long-term liabilities (Note 10)	69,858,368	7,519,398
Total liabilities	119,278,861	18,174,154
NET ASSETS		
Invested in capital assets, net of related debt	261,905,266	11,218,343
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	4,831,775	58,464,808
Departmental uses	28,136,982	88,645,273
Other	-	116,518,733
Expendable:		
Scholarships and fellowships	3,346,492	46,426,342
Research	(97,993)	1,470,520
Debt service	154,431	-
Capital projects	4,495,717	12,366,201
Loans	416,442	32,446
Departmental uses	4,634,008	80,937,803
Other	-	7,824,517
Unrestricted	19,717,295	32,827,780
Total net assets	$ 327,540,415	$ 456,732,766

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

THE COLLEGE OF WILLIAM AND MARY IN VIRGINIA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2005

	College	Component Units
Operating revenues:		
Student tuition and fees, net of scholarship allowances of $9,604,813	$ 67,216,749	$ -
Gifts and contributions	-	16,963,837
Endowment income	-	11,259,119
Federal grants and contracts	33,430,076	-
State grants and contracts	4,342,707	-
Local grants and contracts	764,651	-
Nongovernmental grants and contracts	7,063,454	-
Sales and services of educational departments	-	-
Auxiliary enterprises, net of scholarship allowances of $5,873,850 (Note 12)	46,805,461	-
Other operating revenues	7,160,341	9,016,418
Total operating revenues	166,783,439	37,239,374
Operating expenses: (Note 13)		
Instruction	72,505,375	5,162,446
Research	47,712,026	67,984
Public service	16,883	246,624
Academic support	23,661,701	3,290,413
Student services	6,206,369	2,083,931
Institutional support	20,129,070	2,997,266
Operation and maintenance of plant	12,895,110	435,423
Student aid	6,761,461	7,380,052
Fundraising	-	3,919,335
Management and general	-	2,421,316
Auxiliary enterprises (Note 12)	49,422,591	298,078
Depreciation	11,178,852	560,953
Other operating expenses	224,642	5,394,817
Total operating expenses	250,714,080	34,258,638
Operating gain/(loss)	(83,930,641)	2,980,736
Nonoperating revenues/(expenses):		
State appropriations (Note 14)	63,155,599	-
Gifts	18,281,046	-
Investment income	3,679,060	23,168,757
Interest on capital asset related debt	(2,684,866)	(26,220)
Other nonoperating revenue	1,077,809	628,810
Other nonoperating expense	(1,231,009)	(14,730,156)
Net nonoperating revenues	82,277,639	9,041,191
Income before other revenues, expenses, gains or losses	(1,653,002)	12,021,927
Capital appropriations	9,106,199	-
Capital grants and contributions	8,742,103	7,299,753
Additions to permanent endowments	-	15,312,216
Net other revenues	17,848,302	22,611,969
Increase in net assets	16,195,300	34,633,896
Net assets - beginning of year	311,345,115	422,098,870
Net assets - end of year	$ 327,540,415	$ 456,732,766

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, 2005

Cash flows from operating activities:	
Student tuition and fees	$ 69,258,115
Research grants and contracts	44,554,847
Auxiliary enterprise charges	47,116,134
Payments to employees	(150,682,118)
Payments to suppliers	(82,231,014)
Payments for scholarships and fellowships	(3,579,694)
Loans issued to students and employees	(733,647)
Collection of loans from students	705,012
Other receipts	7,769,130
Net cash used by operating activities	(67,823,235)
Cash flows from noncapital financing activities:	
State appropriations	63,155,599
Gifts	18,281,045
Agency receipts	1,252,599
Agency payments	(3,449,045)
PLUS loans receipts	6,588,703
PLUS loans disbursements	(6,588,703)
Advance from Treasurer of Virginia	(230,500)
Other nonoperating revenue	1,077,808
Other nonoperating expenses	(1,231,009)
Net cash provided by noncapital financing activities	78,856,497
Cash flows from capital and related financing activities:	
Proceeds from capital appropriations available	10,702,917
Capital appropriations	9,106,199
Capital gifts and contributions	8,742,103
Proceeds from issuance of capital debt	21,133,093
Principal paid on capital-related debt	(4,680,716)
Interest paid on capital-related debt	(2,684,866)
Capital expenditures	(21,814,628)
Net cash provided by capital and related financing activities	20,504,102
Cash flows from investing activities:	
Investment income	4,235,739
Investment expense	(1,592,534)
Purchases of investments	(22,203,093)
Net cash used by investing activities	(19,559,888)
Net increase in cash	11,977,476
Cash and cash equivalents - beginning of year	39,406,569
Cash and cash equivalents - end of year	$ 51,384,045

THE COLLEGE OF WILLIAM AND MARY IN VIRGINIA
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2005

Reconciliation of net operating expenses to net cash used by operating activities:	
Operating loss	$ (83,930,641)
Adjustments to reconcile net loss to cash used by operating activities:	
Depreciation expense	11,178,852
Changes in assets and liabilities:	
Receivables, net	2,197,734
Accounts payable	2,042,722
Prepaid expenses	594,120
Other liabilities	250,317
Deferred revenue	(561,899)
Inventories	(18,729)
Compensated absences	424,289
Net cash used by operating activities	$ (67,823,235)
Noncash investing, noncapital financing, and capital related financing transactions:	
Equipment acquired by capital lease	$ 455,646
Donated infrastructure and historical treasures	$ 579,356

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

THE COLLEGE OF WILLIAM AND MARY IN VIRGINIA

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

The accompanying financial statements present all funds for which the College's Board of Visitors is financially accountable. Related foundations and similar nonprofit corporations for which the College is not financially accountable are also a part of the accompanying financial statements under Governmental Accounting Standards Board (GASB) Statement 39, *Determining Whether Certain Organizations are Component Units*. These entities are separately incorporated and the College exercises no control over them. These component units are described in Note 15.

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 of William and Mary, the chairperson of the Institute Council, and three individuals who are elected by OIEAHC's Executive Board. Prior to the beginning of each fiscal year, the sponsors determine the nature and extent of their responsibility for the financial support of OIEAHC in the upcoming year.

For financial reporting purposes, the assets of OIEAHC are not included in the accompanying financial statements. The following summarizes the unaudited financial position of OIEAHC at June 30, 2005:

Assets	$1,489,523
Liabilities and net assets:	
Liabilities	$ 90,917
Net assets	1,398,606
Total liabilities and net assets	$1,489,523

The total unaudited receipts and disbursements of OIEAHC were $1,124,046 and $1,246,187, respectively, for the year ended June 30, 2005. Separate financial statements for OIEAHC may be obtained by writing the Treasurer, Omohundro Institute of Early American History and Culture, P.O. Box 220, Williamsburg, Virginia 23187-0220.

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

In May 2002, GASB issued Statement 39, *Determining Whether Certain Organizations are Component Units.* Statement 39 amends GASB Statement 14, *The Financial Reporting Entity*, to provide additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with the primary government. Generally, it requires reporting, as a discretely presented component unit, an organization that raises and holds economic resources for the direct benefit of a government unit. Other entities, which are defined as component units, are reported based on the existing blended presentation display requirements of GASB Statement 14.

C. Basis of Accounting

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

D. 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.

E. 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 nonoperating revenue in the Statement of Revenues, Expenses, and Changes in Net Assets.

F. Receivables

Receivables consist of tuition and fees charges to students and auxiliary enterprises' sales and services. Receivables also include amounts due from federal, 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.

G. Inventories

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

H. 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 (VIMS) campuses capitalize all items with a unit price greater than or equal to $2,000. 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.

I. Deferred Revenue

Deferred revenue represents revenue collected, but not earned as of June 30, 2005. This is primarily comprised of revenue for student tuition accrued in advance of the semester, amounts received from grant and contract sponsors that have not yet been earned, and advance ticket sales for athletic events.

J. 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.

K. Noncurrent Liabilities

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

L. 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 College's 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.

M. 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 proportionality algorithm that computes scholarship discounts and allowances on a college-wide basis by allocating the cash payments to students, excluding payments for services, on the ratio of total aid to the aid not considered third party aid. Student financial assistance grants and other federal, state or nongovernmental programs are recorded as either operating or nonoperating 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 and fees and other charges, the College has recorded a scholarship allowance.

N. 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.

O. Classification of Revenues and Expenses

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

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

Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB Statements 9 and 34, such as state appropriations and investment income.

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

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

GASB Statement 40, *Deposit and Investment Risk Disclosures*, effective for fiscal periods beginning after June 15, 2004, amends GASB Statement 3, *Deposits with Financial Institutions*. This new disclosure requires more extensive disclosures for risks relating to investments and deposits. GASB Statement 40 requires specific disclosures for risks such as credit, concentration, custodial, interest rate, and foreign currency. For custodial risk, the new statement only requires disclosure of those amounts held as investment or deposits that are uncollateralized and held by the counter party or the counter party's trust department and not in the name of the agency.

A. Cash and Cash Equivalents

Cash held by the Treasurer of Virginia is maintained pursuant to Section 2.1-177, et. seq., Code of Virginia (1950), as amended, who is responsible for the collection, disbursement, custody, and investment of state funds. The carrying amount of cash not held by the Treasurer of Virginia is $3,945,948. The carrying amount consists of bank balances reported at June 30, 2005, in the amount of $10,758,515 adjusted for reconciling items, petty cash items, and change funds. The College has elected to have these amounts collateralized in accordance with the Virginia Securities for Public Deposits Act, Section 2.1-359 et. seq., Code of Virginia (1950). The Virginia Security for Public Deposits Act eliminates any custodial credit risk for the College.

B. 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, and convertible securities and equities.

C. 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, 2005, 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.

D. 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.

E. 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.

F. 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.

Credit Risk

	Fair Value	S&P Credit Quality Rating AAA	A	Unrated
Investments:				
U.S. Treasury and agency securities	$ 6,007,863	$5,509,654	$498,209	$ -
Mutual and money market funds	20,221,711	452,321	-	19,769,390
Commercial paper	170,000	-	-	170,000
Total	26,399,574	$5,961,975	$498,209	$19,939,390
Other investments:				
Common and preferred stock	29,972,984			
State nonarbitrage program investments (SNAP)	24,342,447			
Securities lending	2,398,365			
Rare coins	14			
Total	56,713,810			
Total investments	$83,113,384			

Interest Rate Risk Maturities

	Fair Value	0-3 Months	4-12 Months	1-5 years	6-10 years
Type of investments:					
U.S. Treasury and agency securities	$ 6,007,863	$ -	$2,737,645	$3,270,218	$ -
Mutual and money market funds	20,221,711	9,781,603	7,502	2,182,992	8,249,614
Commercial paper	170,000	-	10,000	160,000	-
Total	26,399,574	$9,781,603	$2,755,147	$5,613,210	$8,249,614
Other investments:					
Common and preferred stocks	29,972,984				
SNAP	24,342,447				
Securities lending	2,398,365				
Rare coins	14				
Total	56,713,810				
Total investments	$83,113,384				

G. 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 noncategorized as to credit risk. Details of the General Account securities lending program are included in the Commonwealth's Comprehensive Annual Financial Report.

3. DONOR-RESTRICTED ENDOWMENTS

Investments of the College's endowment funds are pooled and consist primarily of gifts and bequests, the use of which is restricted by donor-imposed limitations. The Uniform Management of Institutional Funds Act, Code of Virginia, Title 55, Chapter 15, sections 268.1-268.10, permits the spending policy adopted by the Board of Visitors to appropriate an amount of realized and unrealized endowment appreciation as the Board determines to be prudent. In determining the amount of appreciation to appropriate, the Board is required by the Act to consider such factors as long- and short-term needs of the institution, present and anticipated financial requirements, expected total return on investments, price level trends, and general economic conditions. The amount available for spending is determined by applying the payout percentage to the average market value of the investment portfolio for the three previous calendar yearends. The payout percentage is reviewed and adjusted annually as deemed prudent.

During fiscal year 2005, the College had a net appreciation of $10,746,641 which is available to be spent and is reported in the Statement of Net Assets in the following categories: Restricted for unexpendable departmental uses ($5,665,132); Restricted for expendable research ($27,472), Restricted for expendable capital projects ($157,843); Restricted for expendable departmental uses ($3,817,662); and Unrestricted ($1,078,532).

Investments of Endowment and Similar Funds

Marketable securities are reported at fair value in accordance with GASB Statement 31 as it does not apply to 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:

	Balance at June 30, 2005
The College of William and Mary:	
Cash equivalents and money market funds	$10,661,102
Equity investments	29,961,060
Total	$40,622,162
Richard Bland College:	
Cash equivalents and money market funds	$ 451,684

4. RECEIVABLES

Receivables include transactions related to accounts and notes receivable and are shown net of allowance for doubtful accounts for the year ending June 30, 2005, as follows:

Student tuition and fees	$ 779,587
Auxiliary enterprises	604,401
Federal, state, and nongovernmental grants and contracts	5,348,185
Other	4,112,844
Gross receivables	10,845,017
Less: Allowance for doubtful accounts	27,214
Net receivables	$10,817,803

5. CAPITAL ASSETS

A summary of changes in the various capital asset categories for the year ending June 30, 2005, consists of the following:

	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable capital assets:				
Land	$ 7,251,744	$ -	$ -	$ 7,251,744
Inexhaustible artwork and historical treasures	68,703,566	775,520	-	69,479,086
Construction-in-progress	52,393,946	19,200,863	772,384	70,822,425
Total nondepreciable capital assets	128,349,256	19,976,383	772,384	147,553,255
Depreciable assets:				
Land	215,599,866	599,707	91,172	216,108,401
Equipment	70,396,649	5,702,651	2,708,189	73,391,111
Infrastructure	19,357,301	70,460	-	19,427,761
Other improvements	3,736,120	142,179	-	3,878,299
Library materials	79,531,482	1,755,922	749,650	80,537,754
Total depreciable assets	388,621,418	8,270,919	3,549,011	393,343,326
Less accumulated depreciation for:				
Buildings	94,302,489	4,878,692	68,057	99,113,124
Equipment	38,971,494	4,120,718	1,670,599	41,421,613
Infrastructure	18,409,708	163,139	-	18,572,847
Other improvements	3,699,604	3,715	-	3,703,319
Library materials	66,736,222	2,012,591	749,650	67,999,163
Total accumulated depreciation	222,119,517	11,178,855	2,488,306	230,810,066
Depreciable capital assets, net	166,501,901	(2,907,936)	1,060,705	162,533,260
Total capital assets, net	$294,851,157	$17,068,447	$1,833,089	$310,086,515

Capitalization of Library Books

The methods employed to value the general collections of the Earl Gregg Swem, Marshall-Wythe Law, Virginia Institute of Marine Science (York River), and Richard Bland College libraries are based on average cost determined by each library. Special collections maintained by each library are valued at historical cost or acquisition value.

The average cost for book purchases for fiscal year 2005 were as follows:

Earl Gregg Swem Library	$43.83
Marshall-Wythe Law Library	84.65
Virginia Institute of Marine Science Library	76.23
Richard Bland College Library	40.76

6. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at June 30, 2005:

Employee salaries, wages, and fringe benefits payable	$13,985,265
Vendors and suppliers accounts payable	5,388,948
Capital project accounts and retainage payable	6,194,954
Total accounts payable and accrued expenses	$25,569,167

7. OTHER LIABILITIES

Other liabilities consisted of the following at June 30, 2005:

Perkins Federal Loan Fund – Federal contribution	$2,496,040
Obligations under securities lending program	2,398,365
Deposits pending distribution	612,360
Total other liabilities	$5,506,765

8. COMMITMENTS

At June 30, 2005, outstanding construction commitments totaled approximately $218,796,000 of which $29,210,000 has been incurred.

Commitments also exist under various operating leases for buildings, equipment, and computer software. In general, the leases are for one to three year terms with renewal options on the buildings, equipment, and certain computer software for additional one-year terms. In most cases, these leases will be replaced by similar leases. The College has also entered into one 20-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 for the fiscal year ending June 30, 2005, was $3,125,168.

As of June 30, 2005, the following total future minimum rental payments are due under the above leases:

Year ending June 30,	Operating Lease Obligation
2006	$3,157,337
2007	1,228,307
2008	960,999
2009	979,807
2010	936,637
2011 - 2015	1,324,984
2016 - 2020	823,085
Total	$9,431,156

9. ADVANCES FROM THE TREASURER OF VIRGINIA

Section 4-3.02 of the Appropriation Act describes the circumstances under which agencies and institutions may borrow funds from the state treasury, including prefunding for capital projects in anticipation of bond sale proceeds and operating funds in anticipation of federal revenues. As of June 30, 2005, the $769,500 in Advance from the Treasurer of Virginia represents advances from the Commonwealth of Virginia for working capital, pending the receipt of funds from bond sale proceeds.

10. LONG-TERM LIABILITIES

The College's long-term liabilities consist of long-term debt (further described in Note 11) and other long-term liabilities. A summary of changes in long-term liabilities for the year ended June 30, 2005, is presented as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Long-term debt:					
Bonds payable	$35,784,763	$10,231,139	$13,080,490	$32,935,412	$ 2,658,507
Notes payable	19,824,581	23,350,000	3,950,407	39,224,174	2,457,698
Capital leases	38,122	455,646	170,184	323,584	169,527
Installment purchases	8,588	88,419	9,635	87,372	19,533
Total long-term debt	55,656,054	34,125,204	17,210,716	72,570,542	5,305,265
Accrued compensated absences	7,036,249	5,638,510	5,214,221	7,460,538	4,867,447
Total long-term liabilities	$62,692,303	$39,763,714	$22,424,937	$80,031,080	$10,172,712

11. LONG-TERM DEBT

A. Bonds Payable

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

Description	Interest Rates (%)	Maturity	Balance as of June 30, 2005
Section 9(c) Bonds Payable:			
Dormitory, Series 1996A1	2.500 – 5.000	2016	$ 240,000
Dormitory, Series 1996R5	4.750 – 5.125	2014	110,220
Dormitory, Series 1996R6	4.750 – 5.125	2015	1,644,793
Dormitory, Series 1997A2	3.790 – 5.400	2007	70,000
Dormitory, Series 1997A3	3.790 – 5.400	2007	310,000
Dormitory, Series 1998A1	4.470 – 4.930	2008	855,000
Dormitory, Series 1998R2	3.500 – 5.000	2013	666,675
Dormitory, Series 1998R3	3.500 – 5.000	2008	30,570
Dormitory, Series 1998R4	3.500 – 5.000	2008	336,413
Dormitory, Series 2001A1	3.500 – 5.000	2021	1,600,000
Dormitory, Series 2002A1	2.500 – 5.000	2022	4,445,000
Dormitory, Series 2002R3	2.500 – 4.000	2006	76,128
Dormitory, Series 2002R4	2.500 – 5.000	2013	316,219
Dormitory, Series 2002R6	2.500 – 4.000	2006	10,000
Dormitory, Series 2002R7	2.500 – 4.000	2006	155,000
Dormitory, Series 2002R9	2.500 – 4.000	2006	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
Graduate Housing, Series 2003R5	3.500 – 5.000	2011	3,046,147
Randolph Residence, Series 2003R3	3.500 – 5.000	2009	608,773
Tyler Hall, Series 2003R1	3.750 – 5.200	2008	253,419
University Center, Series 1998R1	3.500 – 5.000	2013	5,712,766
University Center, Series 2002R5	2.500 – 5.000	2013	105,438
Underground Utility, Series 1995A1	3.500 – 5.600	2016	145,000
Underground Utility, Series 1997A1	3.790 – 5.400	2007	185,000
Underground Utility, Series 2002R8	3.500 – 5.600	2016	878,248
Underground Utility, Series 2004B	3.500 – 5.000	2017	1,200,554
Total bonds payable			32,673,661
Deferred gain on advance refundings			261,751
Net bonds payable			$32,935,412

B. 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 Project MAST (Mastering Administrative Systems and Technologies), 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 module is currently scheduled to convert on January 1, 2006. The following are notes outstanding at yearend:

Description	Interest Rates (%)	Maturity	Balance as of June 30, 2005
Section 9(d) Bonds:			
Barksdale Dormitory, Series 2003A	2.000 – 5.000	2024	$ 1,865,000
Barksdale Dormitory, Series 2004A	3.000 – 5.000	2025	10,945,000
William and Mary Hall, Series 1997A	3.750 – 5.000	2009	555,000
William and Mary Hall, Series 2004B	3.000 – 5.000	2016	1,030,000
Parking Deck, Series 2003A	2.000 – 5.000	2024	3,925,000
Parking Deck, Series 2004A	3.000 – 5.000	2025	2,380,000
Recreation Sports Center, Series 2003A	2.000 – 5.000	2024	935,000
Recreation Sports Center, Series 2004A	3.000 – 5.000	2025	7,755,000
Marshall-Wythe Library, Series 1999A	5.000 – 6.000	2010	390,000
Marshall-Wythe Library, Series 2004B	3.000 – 5.000	2019	1,240,000
Law School Library, Series 2003A	2.000 – 5.000	2024	1,120,000
Magnet Facility, Series 2003A	2.000 – 5.000	2024	2,340,000
Total Section 9(d) bonds			34,480,000
Commercial Notes:			
Enterprise Resource Planning System	5.820	2008	3,429,997
Enterprise Resource Planning System	3.750	2010	1,346,677
Total commercial notes			4,776,674
Total notes payable			39,256,674
Deferred gain on advance refundings			(32,500)
Net notes payable			$ 39,224,174

C. Installment Purchases and Capital Leases

At June 30, 2005, installment purchases and capital leases consist of the current and long-term portions of obligations resulting from various contracts used to finance the acquisition of equipment. The lengths of the purchase agreements range from two to five years, and the interest rate charges are from 2.92 to 5.65 percent.

Description	Interest Rate (%)	Maturity	Balance as of June 30, 2005
Installment purchases and capital leases payable	various	2005 - 2010	$410,956

Long-term debt matures as follows:

Fiscal Year	Principal	Interest
2006	$ 5,305,265	$ 3,325,659
2007	5,598,043	3,082,202
2008	5,715,432	2,797,485
2009	4,567,210	2,591,043
2010	4,579,679	2,390,407
2011 - 2015	19,957,015	8,854,576
2016 - 2020	15,383,647	4,389,340
2021 - 2025	11,235,000	1,228,978
Refunding gain	229,251	-
Total	$ 72,570,542	$28,659,690

D. Defeasance of Debt

During fiscal years 1993, 1994, 1996, 2003, and 2004, 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, 2005, $31,462,234 of the defeased bonds were outstanding.

12. AUXILIARY ACTIVITIES

Auxiliary operating revenues and expenses are distributed as shown in the following table for the year ended June 30, 2005. Additionally, the College used auxiliary revenues to pay for debt service and capital improvements of $5,220,707. Those amounts are not included in the following auxiliary operating expenses.

Revenues:	
Room contracts	$15,525,278
Food service contracts	9,400,913
Comprehensive fees	13,485,138
Other student fees, sales, and services	8,394,132
Total auxiliary enterprises revenues	$46,805,461
Expenses:	
Residential facilities	$13,388,460
Dining operations	8,976,636
Athletics	13,938,270
Other auxiliary activities	13,119,225
Total auxiliary enterprises expenses	$49,422,591

13. EXPENSES BY NATURAL CLASSIFICATIONS

The following table shows a classification of expenses both by function as listed in the Statement of Revenues, Expenses, and 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	$ 66,810,826	$ 6,393,233	$ 25,195	$ (723,879)	$ -	$ 72,505,375
Research	28,945,524	13,704,116	726,631	4,335,755	-	47,712,026
Public service	9,544	7,961	-	(622)	-	16,883
Academic support	16,330,764	3,259,571	1,000	4,070,366	-	23,661,701
Student services	4,681,021	1,623,385	90	(98,127)	-	6,206,369
Institutional support	14,555,176	5,559,461	8,335	6,098	-	20,129,070
Operation and maintenance of plant	4,600,544	8,111,387	-	183,179	-	12,895,110
Scholarships and related expenses	3,350,201	(4,386)	3,707,742	(292,096)	-	6,761,461
Auxiliary enterprises	13,545,555	33,483,619	(810,020)	3,203,437	-	49,422,591
Depreciation	-	-	-	-	11,178,852	11,178,852
Other	-	303,920	(79,278)	-	-	224,642
Total	$152,829,155	$72,442,267	$3,579,695	$10,684,111	$11,178,852	$250,714,080

14. 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.

Original legislative appropriation - Chapter 4:	
Education and general programs	$59,966,130
Higher education research	324,800
Student financial assistance	1,324,930
Total	61,615,860
Supplemental appropriations:	
Health insurance premium	588,996
Salary increases	391,681
Waterborne hazard research	355,250
VSDP rate increase	178,904
Other	649,228
Total	2,164,059
Appropriation reductions:	
VSDP rate reduction	36,998
Retirement health insurance credit	54,550
Group life rate suspension	272,412
Total	(363,960)
Reversions to the General Fund of the Commonwealth	(260,360)
Adjusted appropriations	$63,155,599

15. COMPONENT UNIT FINANCIAL INFORMATION

The College has seven component units:

Endowment Association of the College of William and Mary
Marshall-Wythe School of Law Foundation
Virginia Institute of Marine Science Foundation
Athletic Educational Foundation
School of Business Foundation
Richard Bland College Foundation
Society of the Alumni

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	Alumni Foundation	Athletic Educational Foundation
ASSETS					
Current assets:					
Cash and cash equivalents	$ 692,292	$ 514,858	$ 1,516,811	$ 638,957	$ 663,397
Short term investments	636,108	4,248,373	5,717,969	2,605,849	-
Receivables, net of allowance	693,645	95,581	534,923	74,356	107,376
Inventories	-	-	-	75,216	-
Pledges receivable - current portion	2,568,602	541,191	1,430,147	-	421,191
Other assets	-	40,831	80,458	57,791	-
Total current assets	4,590,647	5,440,834	9,280,308	3,452,169	1,191,964
Noncurrent assets:					
Restricted cash and cash equivalents	8,316,925	185,281	-	-	-
Restricted investments	270,041,326	16,179,906	24,430,335	-	1,382,764
Pledges receivable	6,500,821	1,182,600	5,622,376	-	789,894
Capital assets, nondepreciable	11,424,409	-	-	-	-
Capital assets, net of accumulated depreciation	1,289,190	36,829	30,731	149,090	20,853
Funds held in trust by others	6,297,872	-	-	2,602,270	-
Other assets	88,346,167	262,916	-	-	-
Total noncurrent assets	392,216,710	17,847,532	30,083,442	2,751,360	2,193,511
Total assets	396,807,357	23,288,366	39,363,750	6,203,529	3,385,475
LIABILITIES					
Current liabilities:					
Accounts payable and accrued expenses	816,440	114,841	467,457	279,828	48,425
Deferred revenue	-	301,350	99,419	43,391	14,547
Deposits held in custody for others	1,241,635	-	216,919	-	-
Long-term liabilities - current portion	6,085,000	18,584	-	-	8,256
Other liabilities	191,192	-	-	702,262	1,014
Total current liabilities	8,334,267	434,775	783,795	1,025,481	72,242
Noncurrent liabilities					
Long-term liabilities - noncurrent	7,192,329	314,139	-	-	12,930
Total liabilities	15,526,596	748,914	783,795	1,025,481	85,172
NET ASSETS					
Invested in capital assets, net of related debt	11,051,647	17,606	-	149,090	-
Restricted for:					
Nonexpendable:					
Scholarships and fellowships	52,669,609	2,888,733	288,157	-	-
Departmental uses	59,141,601	5,600,259	23,903,413	-	-
Other	114,189,011	-	327,873	2,001,849	-
Expendable:					
Scholarships and fellowships	40,958,357	2,681,272	221,207	745,496	1,820,010
Research	1,468,735	-	1,785	-	-
Capital projects	6,315,076	-	6,051,125	-	-
Loans	-	-	32,446	-	-
Departmental uses	71,391,516	5,776,830	3,769,457	-	-
Other	5,619,727	1,141,388	193,807	-	-
Unrestricted	18,475,482	4,433,364	3,790,685	2,281,613	1,480,293
Total net assets	$ 381,280,761	$ 22,539,452	$ 38,579,955	$ 5,178,048	$ 3,300,303

VIMS Foundation	Richard Bland College Foundation	Total
$ 117,424	$ 191,345	$ 4,335,084
32,637	2,266,873	15,507,809
-	122	1,506,003
-	-	75,216
543,500	-	5,504,631
30,000	1,209	210,289
723,561	2,459,549	27,139,032
-	-	8,502,206
2,231,120	-	314,265,451
444,213	-	14,539,904
-	-	11,424,409
-	-	1,526,693
-	-	8,900,142
-	-	88,609,083
2,675,333	-	447,767,888
3,398,894	2,459,549	474,906,920
-	4,196	1,731,187
-	-	458,707
-	-	1,458,554
-	-	6,111,840
-	-	894,468
-	4,196	10,654,756
-	-	7,519,398
-	4,196	18,174,154
-	-	11,218,343
530,244	2,088,065	58,464,808
-	-	88,645,273
-	-	116,518,733
-	-	46,426,342
-	-	1,470,520
-	-	12,366,201
-	-	32,446
-	-	80,937,803
869,595	-	7,824,517
1,999,055	367,288	32,827,780
$ 3,398,894	$ 2,455,353	$ 456,732,766

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

	Endowment Association	School of Law Foundation	Business School Foundation	Alumni Foundation	Athletic Educational Foundation
Operating revenues:					
Gifts and contributions	$ 3,513,754	$ 2,114,743	$ 5,072,817	$ 2,112,530	$ 3,465,792
Endowment income	9,834,565	735,531	390,132	121,390	-
Other	4,347,685	786,379	3,207,622	314,339	354,268
Total operating revenues	17,696,004	3,636,653	8,670,571	2,548,259	3,820,060
Operating expenses:					
Instruction	3,103,407	1,002,156	1,056,883	-	-
Research	67,984	-	-	-	-
Public service	49,217	65,905	131,502	-	-
Academic support	1,065,876	1,147,306	903,526	-	-
Student services	136,921	26,802	1,920,208	-	-
Institutional support	1,465,335	-	1,531,931	-	-
Operation and maintenance of plant	229,504	156,322	49,597	-	-
Student aid	3,675,445	353,699	36,364	-	3,169,480
Fundraising	3,261,926	514,923	98,774	-	38,814
Management and general	1,015,573	140,470	462,545	321,900	439,075
Auxiliary enterprises	298,078	-	-	-	-
Depreciation	479,249	26,340	12,985	34,123	8,256
Other	2,921,914	-	92,670	2,315,284	64,949
Total operating expenses	17,770,429	3,433,923	6,296,985	2,671,307	3,720,574
Operating gain/(loss)	(74,425)	202,730	2,373,586	(123,048)	99,486
Nonoperating revenues/(expenses):					
Net investment revenue	20,698,338	1,483,320	750,789	125,397	38,021
Interest on capital asset related debt	(22,884)	(3,336)	-	-	-
Other nonoperating revenue	56,034	-	-	529,005	-
Other nonoperating expenses	(14,658,667)	-	(51,315)	(20,174)	-
Net nonoperating revenues	6,072,821	1,479,984	699,474	634,228	38,021
Income before other revenues	5,998,396	1,682,714	3,073,060	511,180	137,507
Capital grants and contributions	2,428,728	-	4,871,025	-	-
Additions to permanent endowments	5,806,187	512,282	8,452,965	204,418	-
Total other revenues	8,234,915	512,282	13,323,990	204,418	-
Increase in net assets	14,233,311	2,194,996	16,397,050	715,598	137,507
Net Assets - Beginning of year	367,047,450	20,344,456	22,182,905	4,462,450	3,162,796
Net Assets - End of year	$ 381,280,761	$ 22,539,452	$ 38,579,955	$ 5,178,048	$ 3,300,303

VIMS Foundation	Richard Bland College Foundation	Total
$ 536,251	$ 147,950	$ 16,963,837
-	177,501	11,259,119
-	6,125	9,016,418
536,251	331,576	37,239,374
-	-	5,162,446
-	-	67,984
-	-	246,624
173,705	-	3,290,413
-	-	2,083,931
-	-	2,997,266
-	-	435,423
-	145,064	7,380,052
-	4,898	3,919,335
20,104	21,649	2,421,316
-	-	298,078
-	-	560,953
-	-	5,394,817
193,809	171,611	34,258,638
342,442	159,965	2,980,736
72,892	-	23,168,757
-	-	(26,220)
43,771	-	628,810
-	-	(14,730,156)
116,663	-	9,041,191
459,105	159,965	12,021,927
-	-	7,299,753
235,791	100,573	15,312,216
235,791	100,573	22,611,969
694,896	260,538	34,633,896
2,703,998	2,194,815	422,098,870
$3,398,894	$2,455,353	$ 456,732,766

A. 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	Society of the Alumni	Athletic Educational Foundation	Richard Bland College Foundation	Virginia Institute of Marine Science Foundation	Total
Certificates of deposit	$ 962,876	$ 1,100	$ 4,150,907	$ -	$1,161,695	$ -	$ 32,637	$ 6,309,215
U.S. gov't obligations	4,890,986	1,782,638	3,722,613	-	33,833	-	1,356,601	11,786,671
Equities and equity mutual funds	3,077,693	-	20,029,275	1,873,625	27,891	2,251,958	874,519	28,134,961
Fixed income funds	2,976,116	-	869,799	732,224	-	-	-	4,578,139
Real estate	1,376,409	-	635,787	-	71,200	-	-	2,083,396
Investment in grantor trust	249,001,940	-	-	-	-	-	-	249,001,940
Notes receivable	6,157,860	-	-	-	-	-	-	6,157,860
Other	134,185	18,644,541	739,923	-	88,145	14,915	-	19,621,709
Total	$268,578,065	$20,428,279	$30,148,304	$2,605,849	$1,382,764.	$2,266,873	$2,263,757	$327,673,891

B. 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. The William and Mary Alumni Association and the Richard Bland College Foundation did not have any pledges receivable at year end.

	Endowment Association	School of Law Foundation	Business School Foundation	Athletic Educational Foundation	VIMS Foundation	Total
Total pledges receivable	$12,158,207	$2,156,033	$8,705,278	$1,446,903	$1,034,500	$25,500,921
Less: Allowance for uncollectible accounts	1,877,038	255,615	-	152,359	-	2,285,012
Less: Discounting to present value	1,211,747	176,627	1,683,054	83,459	46,787	3,201,674
Net pledges receivable	9,069,422	1,723,791	7,022,224	1,211,085	987,713	20,014,235
Less: Current pledges receivable	2,568,602	541,191	1,399,847	421,191	543,500	5,474,331
Total noncurrent pledges receivable	$ 6,500,820	$1,182,600	$5,622,377	$ 789,894	$444,213	$14,539,904

C. Capital Assets

	Endowment Association	School of Law Foundation	Business School Foundation	Society of the Alumni	Athletic Educationa l Foundation	Total
Nondepreciable capital assets:						
Land, collections and other	$11,424,409	$ -	$ -	$ -	$ -	$11,424,409
Depreciable capital assets:						
Buildings and improvements	638,820	-	-	226,535	-	840,202
Equipment	336,491	239,466	70,602	-	1,970	648,529
Furniture and fixtures	30,562	-	16,553	384,657	-	471,175
Telecommunications system	7,255,120	-	-	-	-	7,255,120
Vehicles	-	-	-	14,250	41,278	41,278
Other	55,915	-	-	-	-	55,915
Total	8,316,908	239,466	87,155	625,442	43,248	9,312,219
Less: Accumulated depreciation	7,027,718	202,637	56,424	476,352	22,395	7,785,526
Depreciable capital assets, net	$ 1,289,190	$ 36,829	$ 30,731	$ 149,090	$ 20,853	$ 1,526,693

D. Long-term Liabilities

	Endowment Association	School of Law Foundation	Athletic Educational Foundation	Total
Notes payable	$ 224,583	$ -	$12,930	$ 237,513
Deferred compensation liability	1,220,208	313,500	-	1,533,708
Obligations under split interest agreements	2,370,889	-	-	2,370,889
Other long-term liabilities	3,376,649	639	-	3,377,288
Total noncurrent liabilities	$7,192,329	$314,139	$12,930	$7,519,398

Endowment Association

On June 23, 2000, the Association purchased an interest in investment real estate from C.C. Casey Limited Company for $1 million cash and a $5 million long-term note, payable in $1 million annual installments starting on July 1, 2001, with an interest rate of nine percent. The amount outstanding was $1 million at June 30, 2005.

On June 25, 2001, Reliance Holdings, LLC, entered into a revolving line of credit agreement with First Union National Bank (now Wachovia Bank) in the amount of $2 million, which the Association guaranteed. Interest only, which accrues daily at the LIBOR Market Index Rate plus .60 percent, is payable quarterly. This line of credit has been extended to $6 million with all principal and accrued interest due and payable on June 30, 2006. The amount outstanding was $4.7 million at June 30, 2005. Interest paid during the years ended June 30, 2005 was $140,713.

The Association had entered into a revolving line of credit agreement with SunTrust Bank in the amount of $5 million. Any interest due, which accrues at the rate of the 30 day LIBOR plus .50 percent, is to be paid monthly and principal will be repaid based on a term that matches the useful life of the projects financed. During the year ended June 30, 2003, $1,540,000 was drawn, and will be repaid over four years with principal payments beginning February 2003. The amount outstanding was $609,583 at June 30, 2005. Interest paid during the years ended June 30, 2005 was $22,885. These funds were used for upgrades to the telecommunications system and will be repaid from technology fees from the College.

	Balance at June 30, 2005
Notes payable:	
C.C. Casey note payable	$1,000,000
Reliance Holdings line of credit guarantee	4,700,000
SunTrust Bank line of credit	609,583
Total	6,309,583
Less portion due within one year	6,085,000
Total notes payable, long-term portion	$ 224,583

The Marshall-Wythe School of Law Foundation

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, 2005, amounted to $50,000.

Athletic Educational Foundation

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

	Balance at June 30, 2005
Notes payable:	
Ford Motor Company	$ 8,894
Chrysler Financial	12,292
Total	21,186
Less portion due within one year	8,256
Total notes payable, long-term portion	$ 12,930

E. Funds Held for Others

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

16. CONTRIBUTION TO PENSION PLAN

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

The College's payroll cost for employees covered by VRS was $55,091,991 for the year ended June 30, 2005. Total payroll cost was $127,012,620 for the year ended June 30, 2005.

Information regarding types of employees covered, benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions, as well as employer and employee obligations to contribute are established can be found in the Commonwealth's Comprehensive Annual Financial Report (CAFR).

The College's total VRS contributions was $4,978,805 for the year ended June 30, 2005, which included a five percent employee contribution assumed by the employer. These contributions represent approximately 8.91 percent of covered payroll for the year ended June 30, 2005.

The VRS does not measure assets and pension benefit obligations separately for individual state institutions. The CAFR provides disclosure of the Commonwealth's unfunded pension benefit obligation at June 30, 2005. The same report contains historical trend information showing VRS progress in accumulating sufficient assets to pay benefits when due.

Optional Retirement Plan

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

Individual contracts issued under the plan provide for full and immediate vesting of contributions of the College and its employees. Total pension costs under this plan were $5,417,764 for the year ended June 30, 2005. Contributions to the optional retirement plans were calculated using the base salary amount of $52,093,887 for fiscal year 2005. The College's total payrolls for fiscal years 2005 was $127,012,620.

17. 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.

18. CONTINGENCIES

A. Grants and Contracts

The College receives assistance from nonstate 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 becomes a liability. As of June 30, 2005, the College estimates that no material liabilities will result from such audits.

B. 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.

19. RISK MANAGEMENT

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

20. SUBSEQUENT EVENTS

In October 2005, the College issued 2005A, 9(d) revenue bonds through the Virginia College Building Authority (VCBA) Public Higher Education Financing Pooled Bonds Program in the amount of $27,565,000. Proceeds from the bonds will be used to construct a new dormitory, a parking deck, and a recreation sports center and improve athletics facilities. The bonds are anticipated to be issued with interest rates varying from three percent to five percent and will mature in 20 years.

THE COLLEGE OF WILLIAM AND MARY IN VIRGINIA
SCHEDULE OF AUXILIARY ENTERPRISES REVENUES AND EXPENDITURES
For the Year Ended June 30, 2005

	Food Services	Residential Facilities	Stores and Shops	Student Health
Operating revenues:				
Student fees	$ 9,392,513	$ 15,536,374	$ -	$ 2,184,723
Sales and services	238,016	680,562	2,217,065	509,320
Other sources	-	-	-	-
Gross operating revenues	9,630,529	16,216,936	2,217,065	2,694,043
Cost of sales	-	-	74,383	5,488
Net operating revenues	9,630,529	16,216,936	2,142,682	2,688,555
Operating expenditures:				
Personal services	-	2,888,828	607,268	2,040,803
Contractual services	8,057,295	3,445,715	871,787	155,591
Current charges and obligations	855,098	4,751,461	990,599	163,464
Supplies and materials	49,741	443,357	123,825	249,504
Equipment	8,769	479,190	135,960	10,300
Property and improvements	-	-	-	-
Plant and improvements	4,572	458,554	3,060	-
Scholarships	-	707,753	67,691	8,698
Other	1,000	-	-	-
Total operating expenditures	8,976,475	13,174,858	2,800,190	2,628,360
Excess/(deficiency) of revenues over/(under) operating expenditures	654,054	3,042,078	(657,508)	60,195
Nonoperating revenues:				
Private gifts	-	-	67,378	-
Transfers/(out) in:				
Mandatory:				
Debt service	(1,484)	(3,347,584)	(742)	-
Net increase/(decrease) for the year	652,570	(305,506)	(590,872)	60,195
Fund balances/(deficits) at beginning of year	4,375,961	825,254	(1,526,284)	1,158,212
Fund balances/(deficits) at end of year	$ 5,028,531	$ 519,748	$ (2,117,156)	$ 1,218,407

* 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.

Telecom-munications	Intercollegiate Athletics	Parking and Transportation	Other *	Total
$ 2,233,460	$ 6,374,773	$ 341,257	$ 1,416,837	$ 37,479,937
1,060,509	2,242,868	1,133,126	3,074,124	11,155,590
-	-	2,125	8,400	10,525
3,293,969	8,617,641	1,476,508	4,499,361	48,646,052
-	215	-	25,526	105,612
3,293,969	8,617,426	1,476,508	4,473,835	48,540,440
477,439	4,516,815	280,975	2,737,273	13,549,401
2,350,443	3,358,936	406,164	3,130,140	21,776,071
185,031	488,306	80,431	1,769,707	9,284,097
17,046	635,714	9,356	680,562	2,209,105
248,640	323,420	5,921	77,467	1,289,667
-	-	163,042	130	163,172
-	346,668	-	-	812,854
-	4,268,196	250	(5,792,773)	(740,185)
-	-	9,000	4,000	14,000
3,278,599	13,938,055	955,139	2,606,506	48,358,182
15,370	(5,320,629)	521,369	1,867,329	182,258
-	4,290,318	-	-	4,357,696
(39,048)	-	(320,897)	(1,850,880)	(5,560,635)
(23,678)	(1,030,311)	200,472	16,449	(1,020,681)
1,115,070	(654,843)	3,450,846	(6,267,660)	2,476,555
$ 1,091,392	$ (1,685,154)	$ 3,651,318	$ (6,251,211)	$ 1,455,874

Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

March 28, 2006

The Honorable Timothy M. Kaine
Governor of Virginia

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

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

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying basic financial statements of **the College of William and Mary in Virginia**, including the Virginia Institute of Marine Science and Richard Bland College, a component unit of the Commonwealth of Virginia, and its aggregate discretely presented component units as of and for the year ended June 30, 2005. 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, including the Virginia Institute of Marine Science and Richard Bland College, and of its aggregate discretely presented component units as of

June 30, 2005, 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 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 of Auxiliary Enterprises Revenues and Expenditures has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial 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, entitled "Test Financial Statement Preparation Process" and "Consolidate Lease Information into a Single System" 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.

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

EXIT CONFERENCE

We discussed this report with management at an exit conference held on March 29, 2006.

AUDITOR OF PUBLIC ACCOUNTS

JS/kva

The College Of
WILLIAM & MARY

CHARTERED 1693

THE COLLEGE OF WILLIAM AND MARY IN VIRGINIA
OFFICE OF FINANCE
POST OFFICE BOX 8795
WILLIAMSBURG, VIRGINIA 23187-8795

757/221-2740, FAX 757/221-2749

March 30, 2006

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 2005 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

Enclosure

cc: Thomas R. Morris, Secretary of Education
Richard D. Brown, Director of Planning and Budget
Walter J. Kucharski, Auditor of Public Accounts

The College of William and Mary
Corrective Action Plan
Fiscal Year 2005 Audit

1. Test Financial Statement Preparation Process

A. Auditor's Comment:

The College's implementation of the new Banner financial system completely changed how the College's financial reporting staff produced financial statements. Using the new financial accounting system to produce the financial statements for the first time, the College's financial reporting staff experienced significant problems in obtaining accurate information from the new accounting system. During the financial statement preparation process and since, College staff have worked with the financial system vendor to develop reports that will facilitate preparation of the financial statements. Management believes that these new system reports will provide sufficient accurate financial information that staff need to prepare the financial statements.

We recommend that College financial management test, in advance of year-end, the reliability of the new financial system reports to create the College's year-end financial statements. The College should continue to work with the financial system vendor, along with the other state universities using the Banner financial system, to improve reports from the financial system to streamline its financial statement preparation. With improved financial system information, the financial statement preparation process should take less time, meet all applicable deadlines, and allow staff to complete their regular work cycle while preparing the financial statements.

B. Management's Response:

Management agrees with the auditor's comment. Given our experience in developing the first financial statements from the new finance system, management initiated a multi-faceted program to improve the process in anticipation of the FY 2006 statements. Actions being taken include (1) continued training on our report writing software in combination with the reporting data base, (2) additional research and testing of the SungardSCT's financial statement reporting module with the vendor and other state universities and (3) training additional employees to assist in the financial reporting process. We expect to test and evaluate all programs used in developing the financial statements prior to year end. As a longer-term objective, the College will continue to work with other state universities and universities across the nation to provide the vendor with recommendations for a more comprehensive financial statement reporting module.

C. Implementation Date:

By July 2006, we will have tested and enhanced, as necessary, all current programs used to develop the FY 2005 statements in preparation for the FY 2006 statements. Additional programs, where necessary, will be developed and tested under this same methodology.

D. Responsible Position:

Director Financial Operations

2. Consolidate Lease Information into a Single System

A. Auditor's Comment:

The College does not have a central system to monitor its building and equipment leases and ensure that it properly accumulates and maintains all lease data for financial management so that they can make all the required disclosures for the Commonwealth's Comprehensive Annual Financial Report and the College's stand-alone financial statements. The College currently keeps information on its leases in six different spreadsheets maintained by different individuals throughout the College. The lack of a single lease system causes unnecessary work in accumulating information for financial statement disclosures and could cause omissions or errors in accumulating that information.

We recommend that the College consolidate its lease information into a single central system maintained by staff trained in lease accounting. The College could consider either using the statewide Lease Accounting System maintained by the Department of Accounts, the capital assets module of its new Banner financial accounting system, or another system that accurately maintains and reports lease information. Use of a single central system to maintain lease information will save staff time and better ensure that accurate lease accounting information is reported in the College's financial statements and to senior management.

B. Management's Response:

Management agrees with the auditor's comments. Management will initiate a review and redesign of our current lease accounting spreadsheets toward developing a comprehensive set of spreadsheets for the FY 2006 statements. In July 2006, we will begin evaluating the Banner fixed asset module and state lease accounting system to determine the benefits of adopting one of these systems prior to development of the FY 2007 financial statements.

C. Implementation Date:

By July 2006, we will have established a comprehensive set of lease accounting spreadsheets as the supporting information for the FY 2006 financial statements.

By July 2007, we will have evaluated and implemented a comprehensive lease accounting system in support of the FY 2007 financial statements.

D. Responsible Positions:

Director Financial Operations
Director of Procurement