

COLLEGE OF WILLIAM AND MARY IN VIRGINIA

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2007**

APA

**Auditor of
Public Accounts**

COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of The College of William and Mary in Virginia, including the Virginia Institute of Marine Science and Richard Bland College, for the year ended June 30, 2007, found:

- the financial statements are presented fairly, in all material respects, in accordance with generally accepted accounting principles;
- internal control matters that we consider to be significant deficiencies; however, we do not consider them to be material weaknesses;
- an instance of noncompliance that is required to be reported under Government Auditing Standards; and
- the College has not completed adequate corrective action with respect to the previously reported issues “Improve Financial Statement Preparation Process” and “Develop Checkout List for Terminated Employees.”

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INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

Improve Financial Reporting

During the audit process, College staff and the auditors identified an \$8 million duplicate accounting error and a number of other misstatements, reclassifications, and disclosure items that required adjustment from amounts previously reported to management and state central agencies. The staff had difficulties explaining financial statement variances from the prior year, providing support for year end adjustments, and preparing the Statement of Cash Flows. The Statement of Cash Flows is an essential statement within the financial statements and auditors did not receive a copy of the final statement until the end of March 2008, nine months after year end.

Over the last three years, the College of William and Mary has experienced extensive employee turnover in the financial reporting area while continuing to fully implement its new financial accounting and reporting system. While the College works diligently to keep its financial reporting positions filled and employees trained, the current staff have experienced increased workload and responsibility in areas where they are inexperienced and not fully trained. Turnover in the office has delayed revising written financial statement procedures as well as hindering the financial reporting process.

College senior management must prioritize the addition of sufficient qualified staff to the financial reporting area and provide for cross training such that more than one staff person understands each aspect of the financial statement preparation process. Financial reporting staff should fully document detailed procedures to prepare the financial statements. In the financial statement preparation process, staff must ensure that they prepare and document all adjustments to the financial statements and understand and can explain significant changes in the financial statement accounts between years. Implementation of these recommendations will improve the accuracy of the College's financial reporting and leave the College better prepared if and when financial reporting staff leave the College.

Improve Information Systems Security Program

The College's Information Systems Security Program does not follow industry best practices, and as such, the College has not minimized the risk of potential data breach, lack of system availability, and poor integrity of its sensitive and mission critical information. We recommend that the College improve the following information security areas to comply with industry best practices.

- Institute a Security Awareness Training Program

An Information Security Awareness Training Program enables an organization to consistently train its employees on current information security policies, procedures, and best practices.

- Include threat probabilities, vulnerabilities, and loss impacts in the Risk Assessment

Thoroughly evaluating risk enables management to make well-informed risk management decisions to eliminate or minimize those risks and better secure data and Information Technology systems.

- Identify the primary and secondary business functions, data and system classifications, and maximum allowable downtime for critical systems in the Business Impact Analysis

During disruption, it is important to identify those functions that are mission critical, so staff can ensure the use of limited resources are appropriate. Classification of data and systems reduces the risk and cost of over or under protecting resources and should consider the data sensitivity and critical nature to operations. Identifying the maximum allowable downtime for critical systems will ensure that resources are properly allocated to continue essential business functions until normal operations are restored.

- Detail recovery requirements for critical systems in the Continuity of Operations Plan and annually test the Information Technology Continuity of Operations Plan

Identifying the systems that support essential business functions and detailing their recovery requirements facilitate the resumption of essential business functions after disruption and while returning to normal operations. Periodic testing ensures the Plan's continued effectiveness

- Add recovery time objectives and manual processes for essential business functions to the Disaster Recovery Plan

To develop adequate recovery strategies and identify disaster tolerance, the College should indicate the earliest point in time in which essential business functions must resume after disaster. Developing detailed manual procedures is crucial to successfully maintaining essential functions in the absence of mission critical Information Technology systems

- Develop formally approved security policies and procedures regarding:

Logical and physical access	Systems hardening
Data/System backup and restoration	Data stored on mobile media
Threat management	Encryption
Remote access	IT asset management

Formally documented and approved Information Technology security policies provide the framework for the security requirements needed to maintain proper operation and control of the Information Technology system, and delineate the responsibilities and expected behavior of all individuals who access the system.

We commend the College for its efforts to strengthen components of its Information Systems Security Program, which includes a comprehensive system monitoring program developed by College staff. The College has already demonstrated its willingness and desire to comply with industry best practices by the enhancement of its Continuity of Operations and Disaster Recovery Plans currently in progress. Their corrective action plan includes development of a Security Awareness Training Program, improvements to its Risk Assessment/Business Impact Analysis, and the formalization of IT policies and procedures by September 2008. We recommend that management continue to dedicate the necessary resources to improve its Information Systems Security Program.

Improve Contingency Plans

Richard Bland College's contingency plans are inadequate, which places its mission critical systems at risk and hinders the continuity of essential business functions during and after disruption. A Continuity of Operations Plan (COOP) uses the information from the Business Impact Analysis and Risk Assessment. The COOP helps to develop the Disaster Recovery Plan. Richard Bland College does not have a Business Impact Analysis and its Risk Assessment lacks certain information, resulting in ineffective contingency plans.

Richard Bland College does not document specific information required by Commonwealth of Virginia standards that help protect critical Information Technology systems and sustain essential functionality. Information technology management and staff should identify:

- Sensitivity levels of its data and systems;
- Essential business functions that must continue to meet its mission;
- Maximum allowable downtimes for each essential function;
- Natural, human, and environmental threats;
- Vulnerabilities, threat probabilities, and loss impacts;
- How essential business functions will continue in the event of disaster; and
- Manual processing procedures for essential functions where applicable.

Richard Bland College should maintain sufficient documentation to protect its systems and continue the essential business functions needed to meet its overall mission in the event of a disaster or service disruption. We recommend that management dedicate the necessary resources to improving its contingency plans.

Improve Capital Asset Management

Property Control staff did not verify capital asset listings as required by College and state policies. College policies do not adequately address reassessing useful lives when assets are in use longer than their initial assigned useful life. Additionally, Property Control and departmental staff do not always adequately document equipment disposals.

During our detailed audit testwork we noted the following conditions that indicate deficiencies in internal control policies and practices:

- Property Control staff have not verified capital asset listings within the past two years as required by College policies and the Commonwealth's Accounting Policies and Procedures Manual;
- Five of twenty-one assets that the auditor selected from the capital asset system could not be located;
- Three of fourteen assets that the auditor selected from the capital asset system and did locate, did not have a tag to identify the asset number and that it was College property;
- Property Control does not have a policy that requires staff to reassess the useful lives of assets still in use beyond the end of their initially assigned useful lives; and
- Virginia Institute for Marine Science campus staff did not properly document the deletion of four assets. College policy requires the completion of a formal disposal form before deleting assets from the capital asset records.

The College must develop and follow policies and procedures regarding the management of their capital assets in order to avoid the improper use of assets and the misstatement of the College's assets on their financial statements. We understand that as a part of implementing a capital asset component of the new financial accounting system, the College plans to inventory its capital assets to ensure complete and accurate capital asset information will be recorded.

Implement Separation Procedures for Terminated Employees

Our previous audit report noted that the College did not have standard procedures to properly recover all College property from employees when they leave employment. While the College has implemented separation procedures, individual departments are not following the faculty and contract employee procedures to document that property (such as identification cards, charge cards, keys, portable computers, and cell phones) is recovered when faculty and contract employees terminate.

As noted in the prior year report, by failing to implement standard separation procedures, there is a risk that the College could lose equipment or fail to cancel system access, leading to unauthorized transactions and inappropriate access to College buildings. In order to make sure all departments consider these issues when an employee terminates, the College should enforce standard policies and procedures for department personnel to follow during the terminated employee's exit conference. Furthermore, the College should require the completion and signature of both the employee and the supervisor of the standard separation checklist to show all steps are complete.

Properly Complete Employment Eligibility Verification Forms

The College is not properly completing Employment Eligibility Verification forms (I-9) in accordance with guidance issued by the US Citizenship and Immigration Services of the US Department of Homeland Security. The guidance requires the employee to complete, sign, and date Section 1 of the I-9 form on the first day of employment. Additionally, the employer or designated representative must complete, sign, and date Section 2 of the I-9 form within three business days of employment.

In our sample of twelve I-9 forms completed, we found one or more errors on ten of the forms as follows:

- Employees did not sign and date two forms before or on their first day of employment;
- On one form, the employee did not check one of the options for citizenship in the section 1;
- Five forms failed to list the first day of employment in Section 2 and it could not be determined whether the form was completed within three days of the first day of employment; and
- Five forms failed to properly fill out the information regarding the verification documents, such as document title, issuing authority, document number, and expiration date.

We recommend that the Human Resources Division review the process to complete the I-9 forms, train human resources staff on the requirements of completing these forms, and develop procedures to continuously review all or a sample of forms for compliance with federal regulations. The federal government has increased its enforcement efforts requiring employers to ensure all new employees are legally entitled to work in the United States. Their increased enforcement makes having a good process in place to complete I-9 forms even more important.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(unaudited)

The College of William and Mary in Virginia (the College) is the second oldest institution of higher education in North America, its royal charter dating to 1693. Building on its history, William and Mary is one of the premier universities in the nation. The College, beginning with its designation as a "Public Ivy" nearly 20 years ago, has witnessed remarkable growth in its national reputation such that it is now routinely considered among the top national universities in surveys of every kind. Whether seen as the sixth best public university or the 33rd best university, public or private (U.S. News and World Report), the "Hottest Small Public University" (Newsweek), the "3rd best value in higher education" (Kiplinger's), or being known for having the 2nd highest percentage of students who go on to serve in the Peace Corps (Washington Monthly), the College has national status as a highly selective public university. Additionally, during 2007, two faculty members and 11 of 24 student applicants were selected for Fulbright Awards. That reputation reflects the College's size, its commitment to high quality undergraduate and selected graduate and professional education, and a dedication to teaching seldom seen in a public research university. This commitment to quality education has generated steadily increasing numbers of applications for undergraduate enrollment, topping out with approximately 10,860 applications for 1,350 slots for the class of 2011.

William and Mary's stature allows it to recruit superlative faculty and staff as essential ingredients to a community of the best teachers, students, researchers, scholars, creative artists, and professionals. The faculty win international awards, obtain external resources at several times the national average, and consistently demonstrate their commitment to teaching and learning. The College's graduate and professional programs increase in stature annually. External research has more than tripled since 1997, and private giving provides those "margin of excellence" funds that allow the College to be unique in public higher education. The College is a national leader in engaging undergraduate students in research, scholarship, and creative endeavor. Both undergraduate research and an ever expanding study abroad program are hallmarks of the William and Mary experience. As a result, student retention, graduation, and placement rates are comparable to only the most elite institutions of higher education in the country, public or private.

The College continues its intent to be both "Great and Public." Great in quality of program and public in terms of being accessible to all, committed to public service and outreach, and conscious of the needs of the Commonwealth and its citizens. Under the on-going restructuring of higher education in the Commonwealth, the College is receiving greater fiscal and managerial flexibility while establishing specific goals as it moves to meet the educational and economic needs of the Commonwealth.

Overview

This Management's Discussion and Analysis (MD&A) is a required supplement to the College's financial statements. MD&A is designed to assist readers in understanding the financial statement information presented for fiscal year 2007. The accompanying statements include a comparative analysis between the current fiscal year ending June 30, 2007 and the prior year, ending June 30, 2006. Significant changes between the two fiscal years and important management decisions are highlighted. The summarized information presented in the MD&A should be reviewed in conjunction with both the financial statements, including the associated footnotes, and other supplementary information in order for the reader to have a comprehensive understanding to the College's financial status and results of operations for fiscal year 2007. College management has prepared the MD&A, along with the financial statements and footnotes, and is responsible for all of the information presented.

The College's financial statements have been prepared in accordance with the Governmental Accounting Standards Board (GASB) Statement 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, as amended by GASB Statement 37 and 38.

Accordingly, the three financial statements required are the Statement of Net Assets (balance sheet), the Statement of Revenues, Expenses, and Changes in Net Assets (operation/income statement), and the Statement of Cash Flows. The aforementioned statements are summarized and analyzed in the pages that follow.

It should be noted that the financial statements of the College of William and Mary include the financial operations of the College's Williamsburg 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 reporting to the Board of Visitors of the College of William and Mary and are referred to collectively as the "College" within the MD&A as well as in the financial statements under the columns titled "College," unless otherwise indicated.

The College's affiliated foundations are also included in these statements consistent with GASB Statement 39, *Determining Whether Certain Organizations are Component Units* – an amendment of GASB Statement 14. The College has a total of eight foundations, whose financial information is presented in the statements under the column titled "Component Units." While affiliated foundations are not under the direct control of College's Board of Visitors, this presentation provides a more holistic view of all resources available to support the College and its mission. Additional information and detail related to the foundations can be found in Note 13 of the Notes to the Financial Statements.

Financial Summary: Statement of Net Assets

The Statement of Net Assets provides a snapshot of the College's financial position, specifically the assets, liabilities, and resulting net assets as of June 30, 2007. The information allows the reader to determine the College's assets available for future operations, amounts owed by the College and the categorization of net assets as follows:

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

Summary Statement of Net Assets

	As of June 30,		Dollar	Percent
	<u>2007</u>	<u>2006</u>	<u>Change</u>	<u>Change</u>
Assets:				
Current	\$ 43,195,789	\$ 50,535,089	\$ (7,339,300)	(14.52%)
Capital, net of accumulated depreciation	458,112,470	379,037,775	79,074,695	20.86%
Other non-current	<u>112,282,846</u>	<u>84,409,476</u>	<u>27,873,370</u>	33.02%
Total assets	<u>613,591,105</u>	<u>513,982,340</u>	<u>99,608,765</u>	19.38%
Liabilities:				
Current	62,224,112	52,107,308	10,116,808	19.42%
Non-current	<u>121,035,392</u>	<u>110,083,756</u>	<u>10,951,636</u>	9.95%
Total liabilities	<u>183,259,504</u>	<u>162,191,064</u>	<u>21,068,444</u>	12.99%
Net Assets:				
Invested in capital assets, net of related debt	349,290,856	283,445,376	65,845,480	23.23%
Restricted	72,562,554	43,717,463	28,845,091	65.98%
Unrestricted	<u>8,478,191</u>	<u>24,628,437</u>	<u>(16,150,246)</u>	(65.58%)
Total net assets	<u>\$430,331,601</u>	<u>\$351,791,276</u>	<u>\$78,540,325</u>	22.33%

The overall result of the College's fiscal year 2007 operations was an increase in net assets of approximately \$78.5 million, to \$430.3 million, a 22% increase. The increase in net assets occurred primarily in the categories of capital and restricted net assets and is an overall indicator of the College's positive growth and financial health. In addition to the growth in the College's net assets as shown above, net assets for the College's affiliated foundations grew by \$94 million to \$609.6 million, an increase of approximately 18 percent.

The \$65.8 million increase in capital assets, net of related debt, reflects the significant capital construction activity at the College. In general, the increase reflects the completion of four facilities including the Barksdale Dormitories, the addition and renovation of the Recreation Sports Center, the construction of a parking garage, and the renovation of the former College bookstore, which is now the College Admission Office. Additionally, the College received a donation of the facility formerly known as the Williamsburg Community Hospital during fiscal year 2007 equivalent to approximately \$7.5 million. This facility is currently being demolished and the site will be used to construct the new School of Education. The specifics of the extensive capital construction and renovation activity are detailed in the Capital Asset and Debt Administration section of the MD&A.

The decrease in unrestricted net assets of \$16.2 million reflects management's intended use of accumulated fund balances to supplement capital construction, renovation activities, and operations. The supplemental uses in the current fiscal year included, but were not limited to, salaries and wages and notes payable related to debt issued for capital projects. The increase in restricted assets of \$28.8 million consists of the addition of a scholarship and fellowship fund, increased investment earnings attributable to changes in investment management and net unrealized gains, an increase in restricted expendable gift funds, and unspent bond proceeds for capital projects.

Statement of Revenues, Expenses and Changes in Net Assets

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

Summary Statement of Revenues, Expenses and Changes in Net Assets

	<u>For the year ended June 30,</u> <u>2007</u>	<u>2006</u>	<u>Dollar</u> <u>Change</u>	<u>Percent</u> <u>Change</u>
Operating revenues	\$188,224,738	\$178,422,490	\$ 9,802,248	5.49%
Operating expenses	<u>298,247,896</u>	<u>274,800,432</u>	<u>23,447,464</u>	8.53%
Operating loss	(110,023,158)	(96,377,942)	(13,645,216)	(14.16%)
Net non-operating revenues	<u>100,419,172</u>	<u>88,293,662</u>	<u>12,125,510</u>	13.73%
Loss before other revenues	(9,603,986)	(8,084,280)	(1,519,706)	(18.80%)
Net other revenues	<u>95,320,938</u>	<u>40,122,799</u>	<u>55,198,139</u>	137.57%
Increase in net assets	<u>\$ 85,716,952</u>	<u>\$ 32,038,519</u>	<u>\$53,678,433</u>	167.54%

Overall, the result from operations was an increase in net assets over the prior fiscal year of \$32 million to \$85.7 million, a 167.5 percent increase attributable largely to the state appropriations for capital projects. Tuition and fee increases accounted for the other significant increases in revenue for the year as described in the revenue summary table that follows.

Operating expenses also increased during the year. These changes are reflected in the summary of operating expenses table below.

With the inclusion of state general fund appropriations for the College in the non-operating category, the College will routinely display an operating loss for the year. This operating loss is primarily covered by the state appropriations included in the non-operating category as well as private and auxiliary fund balances.

The following table provides additional details of the operating, non-operating, and other revenues of the College.

Summary of Revenues

	<u>For the year ended June 30,</u> <u>2007</u>	<u>2006</u>	<u>Dollar</u> <u>Change</u>	<u>Percent</u> <u>Change</u>
Operating revenues:				
Student tuition and fees, net of scholarship allowances	\$ 80,037,813	\$ 73,151,909	\$ 6,885,904	9.41%
Federal, state, local and non-governmental grants and contracts	47,081,539	47,765,440	(683,901)	(1.43%)
Auxiliary enterprise, net of scholarship allowances	56,867,490	51,491,253	5,376,237	10.44%
Other	<u>4,237,896</u>	<u>6,013,888</u>	<u>(1,775,992)</u>	(29.53%)
Total operating revenues	<u>188,224,738</u>	<u>178,422,490</u>	<u>9,802,248</u>	5.49%
Non-operating revenues:				
State appropriations	75,374,540	71,874,284	3,500,256	4.87%
Gifts, investment income, and other income and expenses	<u>25,044,632</u>	<u>16,419,378</u>	<u>8,625,254</u>	52.53%
Total non-operating revenues	<u>100,419,172</u>	<u>88,293,662</u>	<u>12,125,510</u>	13.73%
Other revenues, gains and losses:				
Capital appropriations	74,857,867	30,174,491	44,683,376	148.08%
Capital grants and gifts	20,463,071	8,910,200	11,552,871	129.66%
Extraordinary gain	<u>-</u>	<u>1,038,108</u>	<u>(1,038,108)</u>	(100%)
Net other revenues	<u>95,320,938</u>	<u>40,122,799</u>	<u>55,198,139</u>	137.57%
Total revenues	<u>\$383,964,848</u>	<u>\$306,838,951</u>	<u>\$77,125,897</u>	25.14%

Within the operating revenue category, student tuition and fees increased \$6.9 million, net of scholarship allowances, reflecting the increase approved by the Board of Visitors in May 2006. The increase in auxiliary enterprise revenues reflects both the increase in student comprehensive fee, as well as increases in room and board charges.

Within the non-operating revenue category, the state appropriation increase was primarily attributable to the increase in the overall operating appropriation for the year by the general assembly (\$3.5 million). The \$8.6 million increase in the category of gifts, investment income, and other income and expense was primarily the result of increases in restricted expendable gifts and quasi-endowment restricted gifts.

The other revenue and loss section reflects the significant capital construction activity of the College including construction of the Integrated Science Center, construction of the Mason School of Business, construction of the new Laycock Football Center, continued construction of the Marine Research Building Complex at VIMS, and the new construction of a Field Support Center and Concrete Pier at VIMS.

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

Summary of Operating Expenses

	For the year ended June 30, 2007	2006	Dollar Change	Percent Change
Operating expenses:				
Instruction	\$ 87,942,282	\$ 77,494,893	\$10,447,389	13.48%
Research	53,129,550	49,977,482	3,152,068	6.31%
Public service	17,845	10,500	7,345	69.95%
Academic services	24,497,933	24,423,350	74,583	0.31%
Student services	8,025,545	7,151,605	873,940	12.22%
Institutional support	24,827,168	23,565,056	1,262,112	5.36%
Operation and maintenance of plant	19,653,814	16,824,671	2,829,143	16.82%
Student aid	9,311,819	7,362,082	1,949,737	26.48%
Auxiliary enterprises	54,630,182	54,598,384	31,798	0.06%
Depreciation	15,940,114	13,094,770	2,845,344	21.73%
Other	<u>271,644</u>	<u>297,639</u>	<u>(25,995)</u>	(8.73)%
Total operating expenses	<u>\$298,247,896</u>	<u>\$274,800,432</u>	<u>\$23,447,464</u>	8.53%

For fiscal year 2007, operating expenses increased in response to various factors including an overall increase in operating revenues, state-approved salary increases for faculty and staff, and increased operational costs most notably in the operation and maintenance of plant. The plant increases primarily relate to the cost associated with petroleum products along with contractual services for repair and maintenance. The increase in depreciation expense is primarily attributable to new buildings.

Statement of Cash Flows

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

Summary Statement of Cash Flows

	For the year ended June 30, 2007	2006	Dollar Change	Percent Change
Cash flows from:				
Operating activities	\$(84,008,797)	\$(91,849,988)	\$ 7,841,191	(8.54%)
Non-capital financing activities	94,350,120	84,722,754	9,627,366	11.36%
Capital financing activities	(769,452)	(6,100,357)	5,330,905	87.39%
Investing activities	<u>8,723,802</u>	<u>6,593,153</u>	<u>2,130,650</u>	32.32%
Net increase in cash	<u>\$ 18,295,673</u>	<u>\$ (6,634,438)</u>	<u>\$24,930,111</u>	(375.77%)

Cash flows from operations and non-capital financing reflects the sources and uses of cash to support the core mission of the College. The primary sources of cash supporting the core mission of the College in fiscal year 2007 were tuition and fees (\$74.3 million), state appropriations (\$75.4 million), auxiliary enterprise revenues (\$57.4 million) and research grants and contracts (\$55.4 million).

The primary uses of operating cash in fiscal year 2007 were payments to employees (\$171.6 million) representing salaries, wages, and fringe benefits and payments to suppliers of goods and services (\$82.2 million). Other categories of cash flow from operations 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 2007 were proceeds from bond sales (\$19.1 million), capital appropriations (\$74.9 million), grants and gifts for capital construction (\$12.9 million). The primary use of cash was a significant increase in capital expenditures (\$95.5 million) and capital debt payments (\$7.4 million).

Capital Asset and Debt Administration

College of William and Mary

General

The College completed \$88.8 million in capital construction during fiscal year 2007. At June 30, 2007, the College has \$150.9 million in construction, an additional \$38.8 million in design and another \$58.6 approved for design and construction subject to the availability of funding.

Completed Work

Thirteen projects were completed and occupied during fiscal year 2007:

- Admissions Office (Old Bookstore) Renovation
- Barksdale North and South Dormitories
- Emergency Generators, Phase 1 (Adair, Grad Housing, Facilities Management, and Jones Hall)
- Graduate Housing, Phase 2 (Buildings 1 and 4)
- Recreation Sports Center Addition/Renovation
- Heating and Cooling Phase III (East Loop – South Campus)
- Lake Matoaka Amphitheater Renovation
- Marshall Wythe Law Library Addition/Renovation
- President's House Renovation
- Resident Life Fire Safety, Phase 1 (three dormitories)
- Ukrop Way Parking Garage
- Zable Stadium Track Replacement, Phase 2 (resurfacing)
- Zable Stadium Field Turf Installation

Significant among these are the completion four facilities which significantly enhance the quality of student life - the \$29.6 million Barksdale Dormitories which provided 363 beds in less than 18 months, a \$12.4 million state of the art addition/renovation for the Recreation Sports Center, the construction of 500 parking spaces at the Ukrop Way Parking Garage, and renovation of the former College bookstore as the new College Admission Office, which began hosting students and their families in June 2007, as the official gateway to the College.

Construction

Eight projects are currently under construction. Of these eight, two provide new academic centers, one creates a new intercollegiate athletic team facility, three renew supporting infrastructure, and two upgrade dormitories. The academic centers are a new Integrated Science Center, Phases 1 and 2, to provide state of

the art teaching/research laboratory space for Biology, Chemistry, and Psychology and a new Mason School of Business for undergraduate and graduate programs. These projects will be delivered in quick succession in the spring and fall, 2009, respectively. Also under construction is the new Laycock Football Center which will provide new team facilities to replace those located under the east stands of 1935 era Zable Stadium. In order to support the new space, campus infrastructure is being simultaneously upgraded to include provision of new utility distribution on the South Campus from the new Swem District Plant, and emergency power is being provided to critical research, computing, and crisis management facilities in response to shortfalls identified during Hurricane Isabel. Dormitory work includes installation of new fire alarm systems in student housing and the third of seven phases to re clad the Graduate Housing Complex.

Design

Four major designs are in progress. Premier among these is the final phases of the fast track design to deliver the School of Business in the fall of 2009. Following close behind is a parallel infrastructure project which will renovate the main power plant to provide district utility support to the North Campus based on the recent Swem District Plant model for South Campus. Design is complete and a construction manager is being selected for a fall 2007 start of renovation for the fifty-five year old plant. Schematic design is underway for an addition to and renovation of Small Hall, home to the Physics Department and elements of the rapidly emerging, interdisciplinary Applied Science Department. Design is scheduled to enable a fall 2008 start of construction. Similarly, programming is underway for a new School of Education on the recently acquired site of the former Williamsburg Sentara Hospital. This project will be delivered in spring 2010 to remedy a long standing facilities issue that can potentially impact accreditation of the School of Education.

Future Projects

Funds have been requested from the 2007 General Assembly to enable construction of the School of Education (current funds enable real estate acquisition, design, and demolition of the old hospital), funding of required furniture and fixed equipment for the Integrated Science Center Phases 1 and 2, the balance of the full authorization for the Small Hall project, and additional funding for Andrews Hall to enable at least a basic building systems overhaul. Appropriations are also being sought to enable design and construction of the final phase (Phase 3) of the Integrated Science Center Complex and required utility support. Tucker Hall renovation is the first in a sequence of renovation projects to upgrade space vacated by moves into newly constructed facilities to standards that are excellent, efficient, environmentally friendly, and code compliant. On a parallel track is the continuing upgrade of utility infrastructure to ensure reliable and energy efficient replacement of aging plant facilities. Finally, a feasibility study is underway to enable design of a new Career Services Center.

Virginia Institute of Marine Science

	<u>Expenditures to Date</u>	<u>Project Budget</u>
Major projects in progress as of June 30, 2007:		
Handicapped access	\$ 476,000	\$ 480,000
New construction: Marine Research Building Complex	27,639,000	29,325,000
Replace Gloucester Point Bulkhead	1,078,000	1,102,000
Acquisition: Master Plan Properties	433,000	1,100,000
Acquisition: Wachapreague Property	91,000	308,000
Property acquisition: Virginia. Estuarine and Coastal Research Reserve	195,000	350,000
Information technology infrastructure	698,000	1,200,000
New construction: Field Support Center	93,000	2,000,000
New construction: Research Storage Facility	-	641,000
New construction: Construct Concrete Pier	-	1,450,000
Electrical upgrades	-	268,000
	<u> </u>	<u> </u>
Total	<u>\$30,703,000</u>	<u>\$38,224,000</u>

The Handicapped Access project is complete and the project is awaiting final closeout.

The Marine Research Building Complex was bid in April 2005 and construction started in August 2005 with completion scheduled for Fall 2007. The Gloucester Point bulkhead replacement construction contract is 100 percent complete and the project is awaiting final closeout.

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

The information technology infrastructure project involves the modernizing of VIMS' aging information technology infrastructure to meet increasing demands for information exchange including systems to carry voice, data, and video. Currently, approximately 100 percent of the existing copper network has been replaced with the new high speed fiber optics. Construction to improve the air conditioning and power requirements in the Watermen's Hall network server room was completed and new servers were purchased. Along with networking Andrews Hall and the Seawater Research Laboratory, VIMS will extend networking capability to existing campus buildings such as Chesapeake Bay Hall and the Fisheries Science Laboratory. New redundant fiber installations will result in a highly available modern campus information technology network system infrastructure.

The Field Support Center project involves the construction of a 10,000 square foot field support center on the Gloucester Point Campus. This building will replace vessel operation's facilities and field support infrastructure that was severely damaged as a result of Hurricane Isabel. The preliminary design is complete and the project is scheduled for completion in early 2008.

The Research Storage Facility project involves the construction of a 4,600 square foot facility that is needed to secure research equipment and instruments that are currently stored outdoors. The project is currently on hold.

The Concrete Pier project replaces a damaged wooden pier with a new concrete pier on the VIMS Gloucester Point shoreline. Running seawater is the lifeblood of a marine science laboratory and this pier contains the pumps and intake lines for running seawater at VIMS. Successful use of the new 41,000 square foot Seawater Lab is dependent on a sustainable and uninterrupted seawater supply. The VIMS campus suffered extensive damage during the passage of Hurricane Isabel in September 2003. The piers were especially devastated by a combination of wind, rising waves, and storm-surge energy. Costing over \$400,000 in State insurance funds, the piers were rebuilt and the pumps were replaced—only to be damaged again in September 2006 by Hurricane Ernesto. The resulting repairs are expected to cost more than \$200,000 and is not covered by the new State insurance plan. The cost of lost research and downtime cannot be calculated. A concrete pier will ensure that VIMS’ seawater supply is safe from most hurricane force storms. The height of the pier would be set at 10 feet above the mean low water. The US Navy uses a ten foot level as a standard for single level piers in the Hampton Roads area. The length of the pier would be approximately 450 feet long with an additional head length of 60 feet which would provide deep enough water for a continuous seawater supply to the pumps at extreme low tides.

Improvements

Electrical Upgrades - this project involves upgrading the electrical system in Chesapeake Bay Hall. The building’s present electrical system does not provide the type of clean power needed by some of the sensitive electronic lab equipment and instrumentation used in modern research. The project will install transient voltage surge suppression and other improvements to the grounding system, the neutrals, branch circuit balancing, power quality monitoring and installation of a central UPS system for critical emergency power loads. The A/E is under contract and design is scheduled to begin in September 2007.

Richard Bland College

	<u>Expenditures To Date</u>
Major projects in progress as of June 30, 2007	
Pecan Grove Hall (President’s House)	\$ 33,750
Elevated water storage tank	198,743
Renovation of the Library	<u>1,564,110</u>
Total	<u>\$ 1,796,603</u>

The College has received an appropriation for renovation/expansion of Pecan Grove Hall, the President’s House. This project will include the addition of a room to be used for official College functions scheduled at the President’s house and the construction of a carport. Bids will be received in late fall 2007 with construction and completion during 2008.

The College is currently constructing a 500,000 gallon elevated water storage tank to provide fire protection and suppression for the campus. Current water pressure and volume is not sufficient to operate sprinkler systems or to suppress a major fire. This tank will initially provide additional water pressure campus-wide and sprinkler protection to the renovated and expanded Library and student housing.

Initial plans for this project were for a 250,000 gallon tank. The County of Prince George requested to participate in the project in order to provide fire protection to the local county residents. The County has paid the cost differential of increasing the tank to 500,000 gallons, has waived connection fees for the student housing project and will assume responsibility for operation and maintenance of the tank. Completion is scheduled for June 2008.

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

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

Debt Activity

The College's long-term debt is comprised of bonds payable, notes payable, installment purchases and capital leases. The bonds payable are Section 9(c) bonds which are general obligation bonds issued and backed by the Commonwealth of Virginia on behalf of the College. These bonds are used to finance capital projects which will produce revenue to repay the debt upon their completion. The College's notes payable consist of Section 9(d) bonds, which are issued by the Virginia College Building Authority's (VCBA) Pooled Bond Program. These bonds are backed by pledges against the College's general revenues. As of June 30, 2007, the College has outstanding balances for Section 9(c) bonds and Section 9(d) bonds of \$47.4 million and \$70 million, respectively.

The College issued bonds for six projects between July 1, 2006 and June 30, 2007. Five of the projects used VCBA bonds and are as follows: 1) Barksdale Dormitory (\$1.9 million), 2) Laycock Football Facility (\$5.6 million), 3) Acquisition of Williamsburg Community Hospital (\$ 2.4 million), 4) Improvements to Athletic Facilities (\$780 thousand), 5) Dormitory Fire Safety Systems (\$1.9 million). 9(c) bonds were issued for the renovation of Graduate Student Housing (\$4.5 million).

The outstanding balance of 9(c) bonds can be broken down into five major categories as follows: 1) Renovation of dormitories (\$27.9 million), 2) Other housing/residence (\$2.5 million), 3) University Center (\$4.5 million), 4) Underground utility (\$2 million), and 5) Commons Dining Hall (\$9.2 million). A majority of the 9(d) balance at June 30, 2007 is related to the Barksdale dormitories (approximately \$27 million), the new parking deck (\$12.3 Million), and renovations of the recreation sports center (\$10.5 million). The College also has two seven-year commercial notes. Those notes are being used to help finance an enterprise resource planning system and increase long-term debt by approximately \$2 million. For more information on the College's long-term debt, see Note 10 of the Notes to the Financial Statements.

The Virginia Institute of Marine Science and Richard Bland College do not have capital related long-term debt.

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 tuition and fees, 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 10,860 for fall 2007. The credentials of admitted students including SAT scores and the number of students within the top 10 percent of their graduating class remains stable reflecting the highly selective nature of the College. These statistics, coupled with the College's academic reputation and projected increases in the number of high school graduates, suggest a strong continuing student demand for the future.

As a 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 fiscal year 2008 operating budget as approved by the Governor and General Assembly includes incremental support for faculty and staff salaries, base operations, faculty research, and undergraduate and graduate student financial aid. Due to slower than anticipated revenue growth, the Commonwealth has reduced current year appropriations by 6.25 percent or \$3.03 million. The College anticipates some portion of this reduction will continue into the 2008-10 biennium. The College anticipates addressing this reduction through a combination of expenditure reductions and revenue offsets. Supplementing state funds with additional tuition and private fund support, the College continues to protect its core academic programs' quality and integrity while providing incremental support for student financial assistance to ensure access for all qualified students. In this regard, implementation of "Gateway William and Mary," a financial aid program that guarantees that in-state undergraduate students whose families have income of less than \$40,000 will be able to graduate from the College without taking out loans, expands access to the College for this socio-economic group.

The College's overall financial and managerial strength was most recently independently verified as it went through the bond rating process with Standard and Poor's in August 2005. This independent evaluation of the College considered all aspects of its operations and resulted in Standard and Poor's assigning the College 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 passage of the Restructured Higher Education and Administrative Operation Act of 2005 and the Management Agreement by and Between the Commonwealth of Virginia and the College of William and Mary (Chapter 943, 2006 Acts of Assembly), the College continues to move forward with the restructuring of its financial, administrative, and managerial relationship with the Commonwealth. This renewed partnership between the College and the Commonwealth confirms a stable, long-term funding relationship with the Commonwealth, allowing the College to strengthen its long-term planning efforts while meeting the most critical needs of the Commonwealth in a variety of areas.

Incremental capital construction funding for the College is now available through various bond funded initiatives as well as direct cash investment by the Commonwealth. These investments include construction of a 120,000 square foot Integrated Science Center and a 56,000 square foot School of Business. The College also continues design for a new School of Education on the site of the recently vacated Williamsburg Community Hospital. This planning is on-going for a 100,000+ square foot facility to support the School's instruction and educational outreach activities. This state funding continues to be supplemented by additional College and private investment in other academic and student support facilities.

Through the efforts of its faculty, grant and contract activity at the College continues to increase, supporting faculty research while providing educational and research opportunities for our students. At the same time, the College recently completed the Campaign for William and Mary raising in excess of \$500 million in the process. Overall, endowments held for the benefit of the College now total \$586 million, a 19.2 percent increase over the June 30, 2006 value.

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FINANCIAL STATEMENTS

THE COLLEGE OF WILLIAM AND MARY IN VIRGINIA
STATEMENT OF NET ASSETS
As of June 30, 2007

	<u>College</u>	<u>Component Units</u>
ASSETS		
Current assets:		
Cash and cash equivalents (Note 3)	\$ 26,099,103	\$ 10,661,015
Investments (Note 3)	803,597	20,848,878
Receivables, net of allowance for doubtful accounts (Note 5)	6,785,326	1,941,658
Notes receivable (Note 5)	6,810	-
Due from Commonwealth	6,434,548	-
Inventories	584,585	48,946
Pledges receivable - current portion	-	6,470,716
Prepaid expenses	1,783,272	-
Other	<u>698,548</u>	<u>154,242</u>
Total current assets	<u>43,195,789</u>	<u>40,125,455</u>
Non-current assets:		
Restricted cash and cash equivalents	36,333,374	11,532,695
Restricted investments (Note 3)	73,228,450	465,776,112
Notes receivable, net of allowance for doubtful accounts (Note 5)	2,721,022	-
Pledges receivable	-	22,453,861
Capital assets, nondepreciable (Note 6)	152,206,775	16,691,359
Capital assets, depreciable net of accumulated depreciation (Note 6)	305,905,695	2,526,923
Funds held in trust by others	-	90,860,595
Other assets	<u>-</u>	<u>13,609,092</u>
Total non-current assets	<u>570,395,316</u>	<u>623,450,637</u>
Total assets	<u>613,591,105</u>	<u>663,576,092</u>
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses (Note 7)	35,071,957	2,258,439
Deferred revenue	9,093,821	645,422
Deposits held in custody for others	2,187,742	369,716
Long-term liabilities-current portion (Note 9)	14,039,479	3,168,331
Obligations under securities lending	1,831,113	-
Other	<u>-</u>	<u>1,811,481</u>
Total current liabilities	<u>62,224,112</u>	<u>8,253,389</u>
Non-current liabilities		
Long-term liabilities (Note 9)	<u>121,035,392</u>	<u>45,676,153</u>
Total liabilities	<u>183,259,504</u>	<u>53,929,542</u>

THE COLLEGE OF WILLIAM AND MARY IN VIRGINIA
STATEMENT OF NET ASSETS
As of June 30, 2007

NET ASSETS		
Invested in capital assets, net of related debt	349,290,856	13,228,229
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	5,960,071	69,143,662
Departmental uses	33,936,971	104,229,208
Other	-	139,868,306
Expendable:		
Scholarships and fellowships	12,279,858	80,207,730
Research	(2,460,005)	2,733,320
Debt service	366,528	-
Capital projects	18,505,303	35,149,250
Loans	454,871	44,274
Departmental uses	3,518,957	114,194,906
Other	-	9,912,057
Unrestricted	<u>8,478,191</u>	<u>40,935,608</u>
 Total net assets	 <u>\$430,331,601</u>	 <u>\$ 609,646,550</u>

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

THE COLLEGE OF WILLIAM AND MARY IN VIRGINIA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2007

	College	Component Units
Operating revenues:		
Student tuition and fees, net of scholarship allowances of \$11,435,878	\$ 80,037,813	\$ -
Gifts and contributions	-	15,707,796
Endowment income	-	13,813,188
Federal grants and contracts	37,124,917	-
State grants and contracts	3,296,479	-
Local grants and contracts	402,671	-
Nongovernmental grants and contracts	6,257,472	-
Auxiliary enterprises, net of scholarship allowances of \$6,106,028	56,867,490	-
Other	4,237,896	13,885,667
	<u>188,224,738</u>	<u>43,406,651</u>
Total operating revenues		
Operating expenses: (Note 11)		
Instruction	87,942,282	5,312,647
Research	53,129,550	119,898
Public service	17,845	219,984
Academic support	24,497,933	2,877,655
Student services	8,025,545	2,450,993
Institutional support	24,827,168	3,229,120
Operation and maintenance of plant	19,653,814	1,516,758
Student aid	9,311,819	8,350,654
Fundraising	-	2,711,655
Management and general	-	3,169,629
Auxiliary enterprises	54,630,182	369,679
Depreciation	15,940,114	586,402
Other	271,644	13,286,314
	<u>298,247,896</u>	<u>44,201,388</u>
Total operating expenses		
Operating loss	<u>(110,023,158)</u>	<u>(794,737)</u>

THE COLLEGE OF WILLIAM AND MARY IN VIRGINIA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2007

Non-operating revenues/(expenses):		
State appropriations (Note 12)	75,374,540	-
Gifts	19,006,735	-
Net investment revenue	8,466,717	55,641,064
Interest on capital asset related debt	(5,278,390)	(151,106)
Other non-operating revenue	5,057,490	18,701,599
Other non-operating expense	(2,207,920)	(1,460,414)
	<hr/>	<hr/>
Net non-operating revenues	100,419,172	72,731,143
	<hr/>	<hr/>
Income/(loss) before other revenues, expenses, gains or losses	(9,603,986)	71,936,406
	<hr/>	<hr/>
Capital appropriations	74,857,867	-
Capital grants and contributions	20,463,071	9,141,190
Additions to permanent endowments	-	12,976,915
	<hr/>	<hr/>
Net other revenues	95,320,938	22,118,105
	<hr/>	<hr/>
Increase in net assets	85,716,952	94,054,511
	<hr/>	<hr/>
Net assets - beginning of year; restated (Note 2)	344,614,649	515,592,039
	<hr/>	<hr/>
Net assets - end of year	<u>\$ 430,331,601</u>	<u>\$ 609,646,550</u>

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

THE COLLEGE OF WILLIAM AND MARY IN VIRGINIA
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2007

Cash flows from operating activities:	
Tuition and fees	\$ 74,329,700
Scholarships	(1,327,693)
Research grants and contracts	55,377,892
Auxiliary enterprise charges	57,407,997
Payments to suppliers	(82,223,384)
Payments for operating and maintenance of facilities	(12,643,804)
Payments to employees	(171,593,800)
Loans issued to students and employees	(543,712)
Collection of loans to students	608,401
Other receipts	<u>(3,400,394)</u>
Net cash used by operating activities	<u>(84,008,797)</u>
Cash flows from noncapital financing activities:	
State appropriations	75,374,540
Gifts	19,006,735
Agency receipts	4,693,488
Agency payments	(4,391,551)
PLUS loans receipts	6,754,752
PLUS loans disbursements	(6,754,752)
Other non-operating revenues	4,363,178
Other non-operating expenses	<u>(4,696,270)</u>
Net cash provided by noncapital financing activities	<u>94,350,120</u>
Cash flows from capital and related financing activities:	
Proceeds from issuance of capital debt	19,139,003
Capital appropriations	74,857,867
Capital gifts and contributions	12,956,455
Insurance proceeds	438,126
Principal paid on capital-related debt	(7,357,760)
Interest paid on capital-related debt	(5,278,390)
Capital expenditures	<u>(95,524,753)</u>
Net cash used by capital and related financing activities	<u>(769,452)</u>
Cash flows from investing activities:	
Investment income	8,466,717
Proceeds from sale of investments	<u>257,085</u>
Net cash provided by investing activities	<u>8,723,802</u>
Net increase in cash	18,295,673
Cash-beginning of year	<u>43,766,101</u>
Cash-end of year	<u>\$ 62,061,774</u>

THE COLLEGE OF WILLIAM AND MARY IN VIRGINIA
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2007

Reconciliation of Cash - Cash Flow Statement, to Cash and Cash Equivalents - Statement of Net Assets :

Statement of Net Assets

Cash and cash equivalents	\$ 26,099,103
Restricted cash and cash equivalents	36,333,374
Less: Securities lending -Treasurer of Virginia	<u>(370,703)</u>

Net cash and cash equivalents \$ 62,061,774

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

Net operating loss \$ (110,023,158)

Adjustments to reconcile net operating expenses

to cash used by operating activities:

Depreciation expense	15,940,114
Changes in assets and liabilities:	
Receivables-net	(771,968)
Accounts payable	8,525,991
Prepaid expenses	(551,146)
Deposits held for others	(629,589)
Deferred revenue	3,203,181
Inventories	(49,388)
Other assets	(256,185)
Compensated absences	<u>603,351</u>

Net cash used in operating activities \$ (84,008,797)

NONCASH INVESTING, NONCAPITAL FINANCING, AND CAPITAL
AND RELATED FINANCING TRANSACTIONS

Amortization of a deferred loss	\$ 56,109
Donated capital assets	\$ 7,506,616
Reduction/amortization of bond premium and debt issuance costs	\$ 146,966

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

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NOTES TO FINANCIAL STATEMENTS

THE COLLEGE OF WILLIAM AND MARY IN VIRGINIA

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

The accompanying financial statements present all funds for which the College's Board of Visitors is financially accountable. Related foundations and similar non-profit corporations for which the College is not financially accountable are also a part of the accompanying financial statements under Governmental Accounting Standards Board (GASB) issued 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 13.

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

Although the University does not control the timing or amount of receipts from the Foundations, the majority of resources or income thereon that the Foundations hold and invest are restricted to the activities of the College by the donors. Because these restricted resources are held by the Foundations and can only be used by or for the benefit of the College, the Foundations are considered component units of the College and are discretely presented in the financial statements.

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

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

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

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

The William and Mary Business School Foundation is a non-stock, not-for-profit Corporation organized under the laws of the Commonwealth of Virginia. The purpose of the Business School Foundation is to solicit and receive gifts to endow the College of William and Mary School of Business Administration and to support the School through the operations of the Foundation. For additional information on the William and Mary Business School Foundation, contact the Foundation Office at Post Office Box 3023, Williamsburg, Virginia, 23187.

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

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

The William and Mary Real Estate Foundation is a nonprofit organization incorporated under the laws of the Commonwealth of Virginia in September 2006. Its purpose is to acquire, hold, manage, sell, lease, and participate in the development of real properties in support of the educational goals of the College of William and Mary in Virginia. For additional information on the William and Mary Real Estate Foundation, contact the Foundation Office at Post Office Box 8795, Williamsburg, Virginia, 23187-8795.

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

For financial reporting purposes, assets of the OIEAHC are not included in the accompanying financial statements. The following summarizes the unaudited financial position of the OIEAHC at June 30, 2007:

Assets	<u>\$ 1,511,136</u>
Liabilities	\$ 189,597
Net assets	<u>1,321,539</u>
Liabilities and net assets	<u>\$ 1,511,136</u>

The total unaudited receipts and disbursements of the OIEAHC were \$1,822,463 and \$1,773,519, respectively, for the year ended June 30, 2007. Separate financial statements for the OIEAHC may be obtained by writing the Treasurer, Omohundro Institute of Early American History and Culture, P. O. Box 8781, Williamsburg, Virginia 23187-8781.

Basis of Presentation

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

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

Basis of Accounting

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

Cash and Cash Equivalents

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

Investments

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

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

Receivables

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

Inventories

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

Capital Assets

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

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

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

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

Deferred Revenue

Deferred revenue represents revenue collected but not earned as of June 30, 2007. This is primarily comprised of revenue for student tuition accrued in advance of the semester, amounts received from grant and contract sponsors that have not yet been earned, and advance ticket sales for athletic events.

Compensated Absences

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.

Noncurrent Liabilities

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

Net Assets

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

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

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

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

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

Scholarship Allowances

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

Federal Financial Assistance Programs

The College participates in federally funded Pell Grants, Supplemental Educational Opportunity Grants (SEOG), Federal Work Study, Perkins Loans, and the Federal Family Education Loan Program (FFELP), which includes Stafford Loans and Parent Loans for Undergraduate Students (PLUS). Federal programs are audited in accordance with the Single Audit Act Amendments of

1996, the U.S. Office of Management and Budget Revised Circular A-133, Audit of States, Local Governments and Non-Profit Organizations, and the Compliance Supplement.

Classification of Revenues and Expenses

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

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

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

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

2. RESTATEMENT OF NET ASSETS

Certain net assets originally reported in the College's financial statements as of June 30, 2006, have been restated to reflect further evaluation of assets and liabilities.

Net assets as previously reported on June 30, 2006	\$351,791,279
Reporting change for Treasury's Reimbursement Programs	(7,425,243)
VIMS equipment not previously recorded	225,255
Tennis Center revenue not previously recorded	<u>23,358</u>
Net assets at July 1, 2006	<u>\$344,614,649</u>

3. CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents

Pursuant to Section 2.2-1800, et seq., Code of Virginia, all state funds of the College are maintained by the Treasurer of Virginia, who is responsible for the collection, disbursement, custody, and investment of state funds. Certain deposits held by the College are maintained in accounts that are collateralized in accordance with the Virginia Securities for Public Deposits Act, Section 2.2-4400, et seq., Code of Virginia, or covered by depository insurance. Under this Act, banks holding public deposits in excess of amounts insured by FDIC must pledge collateral in the amount of 50 percent of excess deposits to a collateral pool in the name of the State Treasury board. Savings institutions are required to collateralize 100 percent of deposits in excess of FSLIC limits. In accordance with the GASB Statement 9 definition of cash and cash equivalents, cash represents cash with the Treasurer, cash on hand, and cash deposits including certificates of deposit, and temporary investments with original maturities of three months or less.

The carrying amount of cash not held by the Treasurer of Virginia is \$4,992,132. The carrying amount consists of bank balances reports at June 30, 2007, in the amount of \$3,951,193 adjusted for reconciling items, petty cash items, and change funds. The Virginia Security for Public Deposits Act eliminates any custodial credit risk for the College.

Investments

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

Concentration of Credit Risk

Concentration of credit risk requires the disclosure by amount and issuer of any investments in any one issuer that represents five percent or more of total investments. Investments explicitly guaranteed by the U. S. government and investments in mutual funds or external investment pools and other pooled investments are excluded from this requirement. As of June 30, 2007, none of the investments in stocks or bonds represents five percent or more of the total investments, and therefore, the College does not have concentration of credit risk.

Custodial Credit Risk

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

Interest Rate Risk

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

Foreign Currency Risk

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

Security Lending Transactions

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

Credit Risk

	<u>S&P Credit Quality Rating</u>			
	<u>Fair Value</u>	<u>AAA</u>	<u>AA2</u>	<u>Unrated</u>
Cash and cash equivalents:				
Mutual and money market funds	<u>\$ 6,272,002</u>			<u>\$6,272,002</u>
Investments:				
U.S. Treasury and agency securities	4,865,441	\$499,220	\$ -	4,366,221
Mutual and money market funds	10,653,662	-	8,401,531	2,252,131
Commercial paper	<u>170,000</u>	<u>-</u>	<u>-</u>	<u>170,000</u>
Total	<u>15,689,103</u>	<u>\$499,220</u>	<u>\$8,401,531</u>	<u>\$6,788,352</u>
Other investments:				
Common and preferred stock	40,203,072			
State non-arbitrage program investments	15,991,335			
Securities lending	1,831,113			
Rare coins	<u>280</u>			
Total	<u>58,025,800</u>			
Total investments	<u>\$73,714,903</u>			

Interest Rate Maturities

	<u>Fair Value</u>	<u>0-3 Months</u>	<u>4-12 Months</u>	<u>1-5 Years</u>	<u>6-10 Years</u>
	Cash and cash equivalents:				
Mutual and money market funds	<u>\$ 6,272,002</u>	<u>\$6,272,002</u>			
Investments:					
U.S. Treasury and agency securities	\$ 4,865,441	\$ -	\$4,865,441	\$ -	\$ -
Mutual and money market funds	10,653,662	141,798	-	4,013,672	6,498,192
Commercial Paper	<u>170,000</u>	<u>170,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>15,689,103</u>	<u>\$ 311,798</u>	<u>\$4,865,441</u>	<u>\$4,013,672</u>	<u>\$6,498,192</u>
Other investments:					
Common and preferred stock	40,203,072				
State non-arbitrage program investments	15,991,335				
Securities lending	1,831,113				
Rare coins	<u>280</u>				
Total	<u>58,025,800</u>				
Total investments	<u>\$73,714,903</u>				

4. DONOR RESTRICTED ENDOWMENTS

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

The College, during fiscal year 2007, had a net appreciation of \$14,283,231 which is available to be spent and is reported in the Statement of Net Assets in the following categories: Restricted for Expendable Scholarships and Fellowships - \$7,291,414, Restricted for Expendable Research - \$35,025, Restricted for Expendable Capital Projects - \$202,097, Restricted for Expendable Departmental Uses - \$5,356,920 and Unrestricted - \$1,397,775.

Investments of Endowment and Similar Funds:

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

	<u>Balance at June 30, 2007</u>
College of William and Mary:	
Equity investments	\$40,159,689
Bond investments	10,653,663
Cash equivalents/money market	<u>93,053</u>
Total	<u>\$50,906,405</u>
Richard Bland College:	
Cash equivalents and money market funds	<u>\$ 571,984</u>

5. ACCOUNTS AND NOTES RECEIVABLES

Accounts receivable consisted of the following at June 30, 2007:

Student tuition and fees	\$1,414,882
Auxiliary enterprises	680,620
Federal, state, and nongovernmental grants and contracts	<u>4,690,389</u>
Gross receivables	<u>6,785,891</u>
Less: allowance for doubtful accounts	<u>(565)</u>
Net accounts receivable	<u>\$6,785,326</u>

Notes receivable consisted of the following at June 30, 2007:

Current portion	
Federal student loans	<u>\$ 6,810</u>
Non-current portion	\$2,748,507
Less: allowance for doubtful accounts	<u>(27,485)</u>
Net non-current notes receivable	<u>\$2,721,022</u>

6. CAPITAL ASSETS

A summary of changes in the various capital asset categories for the year ending June 30, 2007 consists of the following:

	Beginning Balance	Beginning Balance Adjustments	Additions	Reductions	Ending Balance
Non-depreciable capital assets:					
Land	\$ 7,251,744	\$ -	\$ 6,723,682	\$ -	\$ 13,975,426
Inexhaustible artwork and historical treasures	69,840,751	-	233,275	-	70,074,026
Construction in progress	<u>91,575,216</u>	<u>-</u>	<u>75,283,948</u>	<u>(98,701,841)</u>	<u>68,157,323</u>
Total non-depreciable capital assets	<u>168,667,711</u>	<u>-</u>	<u>82,240,905</u>	<u>(98,701,841)</u>	<u>152,206,775</u>
Depreciable capital assets:					
Buildings	267,016,885	-	93,365,924	(619,994)	359,762,815
Equipment	74,694,420	374,555	9,959,792	(2,229,404)	82,799,363
Infrastructure	28,515,708	-	6,666,327	-	35,182,035
Other improvements	4,657,675	-	459,692	-	5,117,367
Library materials	<u>81,120,915</u>	<u>-</u>	<u>1,657,227</u>	<u>(266,360)</u>	<u>82,511,782</u>
Total depreciable capital assets	<u>456,005,603</u>	<u>374,555</u>	<u>112,108,962</u>	<u>(3,115,758)</u>	<u>565,373,362</u>

Less accumulated depreciation for:					
Buildings	(104,723,724)	-	(6,933,464)	14,284	(111,642,904)
Equipment	(49,950,365)	(149,300)	(4,981,004)	1,976,642	(53,104,027)
Infrastructure	(18,160,626)	-	(939,002)	-	(19,099,628)
Other improvements	(3,861,674)	-	(151,465)	-	(4,013,139)
Library materials	<u>(68,939,150)</u>	<u>-</u>	<u>(2,935,179)</u>	<u>266,360</u>	<u>(71,607,969)</u>
Total accumulated depreciation	<u>(245,635,539)</u>	<u>(149,300)</u>	<u>(15,940,114)</u>	<u>2,257,286</u>	<u>(259,467,667)</u>
Depreciable capital assets, net	<u>210,370,064</u>	<u>225,255</u>	<u>96,168,848</u>	<u>858,472</u>	<u>305,905,695</u>
Total capital assets, net	<u>\$379,037,775</u>	<u>\$225,255</u>	<u>\$178,409,753</u>	<u>\$99,560,313</u>	<u>\$458,112,470</u>

7. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at June 30, 2007:

Employee salaries, wages and fringe benefits payable	\$ 17,743,601
Vendors and suppliers accounts payable	5,726,562
Capital project accounts and retainage payable	<u>11,601,794</u>
Total accounts payable and accrued expenses	<u>\$ 35,071,957</u>

8. COMMITMENTS

At June 30, 2007, outstanding construction commitments totaled approximately \$66,499,035.

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 a twenty-year lease for space in the Applied Science Research Center Building at the Jefferson Center for Research and Technology in Newport News, Virginia. Rental expense for the fiscal year ending June 30, 2007, was \$3,435,843.

As of June 30, 2007, the following total future minimum rental payments are due under the operating leases:

<u>Year Ending June 30, 2007</u>	<u>Amount</u>
2008	\$2,023,265
2009	1,630,683
2010	1,224,580
2011	541,155
2012	564,457
2013-2017	2,357,525
2018-2022	<u>247,503</u>
Total	<u>\$8,589,168</u>

9. LONG-TERM LIABILITIES

The College's long-term liabilities consist of long-term debt (further described in Note 10), and other long-term liabilities. A summary of changes in long-term liabilities for the year ending June 30, 2007 is presented as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Bonds payable	\$ 46,231,628	\$ 4,784,114	\$ 3,588,886	\$ 47,426,856	\$ 3,525,463
Notes payable	64,157,044	13,124,802	3,424,485	73,857,361	4,019,442
Installment purchases	1,998,758	648,124	207,208	2,439,674	235,288
Capital leases	<u>154,056</u>	<u>-</u>	<u>137,181</u>	<u>16,875</u>	<u>16,875</u>
Total long-term debt	<u>112,541,486</u>	<u>18,557,040</u>	<u>7,357,760</u>	<u>123,740,766</u>	<u>7,797,068</u>
Federal loan program contribution	2,571,555	-	-	2,571,555	-
Accrued compensated absences	<u>8,159,199</u>	<u>8,037,048</u>	<u>7,433,697</u>	<u>8,762,550</u>	<u>6,242,411</u>
Total long-term liabilities	<u>\$123,272,240</u>	<u>\$26,594,086</u>	<u>\$14,791,457</u>	<u>\$135,074,871</u>	<u>\$14,039,479</u>

10. LONG-TERM DEBT

Bonds Payable

The College issues bonds pursuant to Section 9 of Article X of the Constitution of Virginia. Section 9(c) bonds are general obligation bonds issued by the Commonwealth 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, 2007
Section 9(c) bonds payable:			
Dormitory, Series 1998A1	4.470-4.930	2008	\$ 300,000
Dormitory, Series 1998R2	3.500-5.000	2013	576,878
Dormitory, Series 1998R3	3.500-5.000	2008	15,000
Dormitory, Series 1998R4	3.500-5.000	2008	170,000
Dormitory, Series 2001A1	3.500-5.000	2021	1,220,000
Dormitory, Series 2002A1	2.500-5.000	2022	4,080,000
Dormitory, Series 2002R4	2.500-5.000	2013	245,022
Dormitory, Series 2002R9	2.500-4.000	2016	894,497
Dormitory, Series 2004B2	3.000-5.000	2017	458,977
Dormitory, Series 2004B3	3.000-5.000	2017	2,033,823
Dormitory, Series 2004B4	3.000-5.000	2018	3,705,414
Dormitory, Series 2004B5	3.000-5.000	2020	2,575,816
Dormitory, Series 2005A1	3.500-5.000	2026	5,620,000
Dormitory, Series 2006A1	4.000-5.000	2008	100,000
Dormitory, Series 2006A2	4.000-5.000	2014	1,525,000
Dormitory, Series 2006A3	4.000-5.000	2014	85,000
Dormitory, Series 2006B1	4.000-5.000	2026	<u>4,290,000</u>
Renovation of dormitories			27,895,427
Graduate Housing, Series 2003R5	3.500-5.000	2011	2,103,742
Randolph Residence, Series 2003R3	3.500-5.000	2009	316,803
Tyler Hall, Series 2003R1	3.750-5.200	2008	<u>90,093</u>
Total			2,510,638
University Center, Series 1998R1	3.500-5.000	2013	4,467,172
University Center, Series 2002R5	2.500-5.000	2013	<u>85,037</u>
University Center			4,552,209
Underground Utility, Series 2002R8	3.500-5.600	2016	878,248
Underground Utility, Series 2004B1	3.000-5.000	2017	<u>1,200,554</u>
Underground utility			2,078,802
Renovate Commons Dinning Hall, Series 2005A2	3.500-5.000	2026	<u>9,255,000</u>
Total bonds payable			46,292,076
Deferred gain on advance refunding			109,786
Unamortized premiums			<u>1,024,994</u>
Net bonds payables			<u>\$47,426,856</u>

Notes Payable

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

In addition, the College entered into two seven-year commercial notes with SunTrust Bank to partially finance the multi-year implementation of a new administrative and financial system, described as an enterprise resource planning system. The annual debt service on these notes are payable from a specific annual appropriation of funds from the Commonwealth and other discretionary funds of the College. The following are notes outstanding at year-end:

<u>Description</u>	<u>Interest Rate %</u>	<u>Maturity</u>	<u>Outstanding</u>
Section 9(d) Bonds:			
Barksdale Dormitory, Series 2003A	2.000-5.000	2024	\$ 1,735,000
Barksdale Dormitory, Series 2004A	3.000-5.000	2025	10,265,000
Barksdale Dormitory, Series 2005A	3.500-5.000	2026	12,905,000
Barksdale Dormitory, Series 2006A	3.000-5.000	2027	1,950,000
William and Mary Hall, Series 1997A	3.750-5.000	2009	370,000
William and Mary Hall Series 2004B	3.000-5.000	2016	1,020,000
Parking Deck, Series 2003A	2.000-5.000	2024	3,645,000
Parking Deck, Series 2004A	3.000-5.000	2025	2,235,000
Parking Deck, Series 2005A	3.500-5.000	2026	6,405,000
Recreation Sports Center, Series 2003A	2.000-5.000	2024	865,000
Recreation Sports Center, Series 2004A	3.500-5.000	2025	7,270,000
Recreation Sports Center, Series 2005A	3.500-5.000	2026	2,500,000
Improve Athletic Facilities, Series 2005A	3.500-5.000	2026	3,420,000
Improve Athletic Facilities, Series 2006A	3.000-5.000	2027	780,000
Marshall-Wythe Library, Series 1999A	5.000-6.000	2010	244,999
Marshall-Wythe Library, Series 2004B	3.000-5.000	2019	1,220,000
Law School Library, Series 2003A	2.000-5.000	2024	1,040,000
Magnet Facility, Series 2003A	2.000-5.000	2024	2,175,000
Williamsburg Hospital/School of Education	3.000-5.000	2027	2,435,000
Laycock Football Facility	3.000-5.000	2027	5,610,000
Residence Hall Fire Safety Systems	3.000-5.000	2027	<u>1,970,000</u>
Total 9(d) bonds			70,059,999
Commercial notes:			
Enterprise Resources Planning System	5.82	2008	1,210,318
Enterprise Resources Planning System	3.75	2010	<u>847,192</u>
Total commercial notes			2,057,510
Total notes payable:			72,117,509
Deferred loss on advance refunding			(27,500)
Unamortized premiums			<u>1,767,352</u>
Net notes payable			<u>\$73,857,361</u>

Installment Purchases and Capital Leases

At June 30, 2007, installment purchases and capital leases consist of the current and long-term portions of obligations resulting from various contracts used to finance the acquisition of equipment. The lengths of the purchase agreements range from two to fifteen years, and the interest rate charges are from 2.92 to 4.7 percent.

<u>Description</u>	<u>Maturity</u>	<u>Outstanding Balance</u>
Installment purchases and capital leases payable	2007-2020	<u>\$ 2,456,549</u>

Long-term debt matures as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 7,797,068	\$ 5,460,150
2009	6,633,317	5,096,530
2010	6,827,285	4,894,255
2011	6,835,833	4,594,891
2012	6,546,490	4,274,990
2013-2017	32,115,330	16,603,462
2018-2022	30,675,811	9,027,661
2023-2027	23,435,000	2,094,801
Refunding gain	82,286	-
Unamortized premiums	<u>2,792,346</u>	<u>-</u>
Total	<u>\$123,740,766</u>	<u>\$52,046,740</u>

Defeasance of Debt

During fiscal years 1993, 1994, 1996, 2003, 2004 and 2006, the College defeased certain General Obligation Revenue Bonds. The proceeds from these refunding bonds were deposited into irrevocable trusts with escrow agents to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the College's financial statements. At June 30, 2007, \$24,278,040 of the defeased bonds remained outstanding.

11. EXPENSES BY NATURAL CLASSIFICATIONS

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

	Salaries, Wages and Fringe Benefits	Services and Supplies	Scholarships and Fellowships	Plant and Equipment	Depreciation	Total
Instruction	\$79,441,174	\$ 6,932,007	\$ 174,093	\$ 1,395,008	\$ -	\$ 87,942,282
Research	33,034,696	15,235,994	1,382,392	3,476,468	-	53,129,550
Public service	12,509	4,696	(157)	797	-	17,845
Academic support	19,059,877	2,851,163	84,340	2,502,553	-	24,497,933
Student services	5,550,981	2,372,187	58,429	43,948	-	8,025,545
Institutional support	19,006,098	5,539,111	23,663	258,296	-	24,827,168
Operation and maintenance of plant	5,229,635	12,139,997	6,677	2,277,505	-	19,653,814
Depreciation					15,940,114	15,940,114
Scholarships and related expenses	3,392,515	9,325	5,909,945	34	-	9,311,819
Auxiliary enterprises	15,931,747	36,011,868	(315,946)	3,002,513	-	54,630,182
Other	(63,975)	381,526	(5,451)	(40,456)	-	271,644
Total	<u>\$180,595,257</u>	<u>\$81,477,874</u>	<u>\$7,317,985</u>	<u>\$12,916,666</u>	<u>\$15,940,114</u>	<u>\$298,247,896</u>

12. STATE APPROPRIATIONS

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

Chapter 3 - 2006 Appropriation Act (Educational and General Programs)	\$71,127,500
Transfer FY07 Appropriation to FY06 for June 30, 2006 payroll	(2,541,073)
Student financial assistance	3,634,764
Supplemental appropriations:	
VIVA Libraries	\$ 215
Prior year reappropriations	152,264
VITA Transfer	33,434
Amended Legislated Appropriation, Chapter 547, 2007	50,081
Rapa Whelk research	40,000
Retirement rate increase	367,301
VSDP rate increase	54,652
Group life contribution rate increase	138,730
Health insurance premium increase	723,053
Pay practices funding	59,921
Retiree Health Credit contribution rate increase	12,611

Supplemental appropriations, continued:		
Eminent Scholars	1,524,930	
Mold remediation	50,000	
Increased employee mileage reimbursement	10,957	
Salary increases	<u>520,642</u>	3,738,791
Appropriation reductions:		
Retirement rate decrease	4,377	
Higher Education Equipment Trust Fund debt payments	<u>393,257</u>	(397,634)
Reversions to the General Fund of the Commonwealth		<u>(187,808)</u>
Appropriations, as adjusted		<u>\$75,374,540</u>

13. COMPONENT UNIT INFORMATION

The College has eight component units, The College of William and Mary Foundation, the Marshall-Wythe School of Law Foundation, the Alumni Association, the William and Mary Athletic Educational Foundation, the William and Mary Business School Foundation, the Virginia Institute of Marine Science Foundation, the William and Mary Real Estate Foundation, and the Richard Bland College Foundation. These organizations are separately incorporated entities and other auditors examine the related financial statements. Summary financial statements and related disclosures follow.

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THE COLLEGE OF WILLIAM AND MARY IN VIRGINIA
SUMMARY OF STATEMENT OF NET ASSETS - COMPONENT UNITS
For the Year Ended June 30, 2007

	The College of William and Mary Foundation	Marshall- Wythe School of Law Foundation	William and Mary Business School Foundation	William and Mary Alumni Association	William and Mary Athletic Educational Foundation
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 1,735,831	\$ 1,527,820	\$ 1,259,318	\$ 356,729	\$ 2,404,121
Short term investments	1,191,103	4,155,244	8,102,542	4,332,168	-
Receivables, net of allowance	925,496	205,766	558,024	21,762	-
Inventories	-	-	-	48,946	-
Pledges receivable - current portion	1,344,335	700,721	3,203,440	-	680,237
Other assets	-	44,685	8,947	56,013	-
	<u>5,196,765</u>	<u>6,634,236</u>	<u>13,132,271</u>	<u>4,815,618</u>	<u>3,084,358</u>
Total current assets					
Non-current assets:					
Restricted cash and cash equivalents	7,786,763	1,741,018	2,004,914	-	-
Restricted investments	378,616,536	21,008,733	37,519,007	-	1,645,099
Pledges receivable	3,348,425	1,314,076	16,037,892	-	976,382
Receivable from remainder trusts	7,856,981	-	-	-	-
Capital assets, nondepreciable	12,131,683	262,916	-	31,800	-
Capital assets, net of accumulated depreciation	2,278,416	22,801	43,756	175,550	3,987
Funds held in trust by others	90,860,595	-	-	-	-
Other assets	2,080,365	139,697	-	3,532,049	-
	<u>504,959,764</u>	<u>24,489,241</u>	<u>55,605,569</u>	<u>3,739,399</u>	<u>2,625,468</u>
Total non-current assets					
Total assets	<u>510,156,529</u>	<u>31,123,477</u>	<u>68,737,840</u>	<u>8,555,017</u>	<u>5,709,826</u>
LIABILITIES					
Current liabilities:					
Accounts payable and accrued expenses	557,125	124,885	825,116	237,984	131,808
Deferred revenue	66,924	338,485	129,407	97,022	13,584
Deposits held in custody for others	329,049	-	40,667	-	-
Long-term liabilities-current portion	3,164,344	-	-	-	3,987
Other	221,265	1,414,763	-	-	80,278
	<u>4,338,707</u>	<u>1,878,133</u>	<u>995,190</u>	<u>335,006</u>	<u>229,657</u>
Total current liabilities					
Non-current liabilities:					
Long-term liabilities-non-current	18,675,820	-	-	-	333
	<u>23,014,527</u>	<u>1,878,133</u>	<u>995,190</u>	<u>335,006</u>	<u>229,990</u>
Total liabilities					

Virginia Institute of Marine Science Foundation	William and Mary Real Estate Foundation	Richard Bland College Foundation	Total Component Units
\$ 462,584	\$2,386,562	\$ 528,050	\$ 10,661,015
3,067,821	-	-	20,848,878
-	-	230,610	1,941,658
-	-	-	48,946
260,961	-	281,022	6,470,716
-	39,597	5,000	154,242
<u>3,791,366</u>	<u>2,426,159</u>	<u>1,044,682</u>	<u>40,125,455</u>
-	-	-	11,532,695
-	-	26,986,737	465,776,112
402,362	-	374,724	22,453,861
-	-	-	7,856,981
-	-	4,264,960	16,691,359
-	-	2,413	2,526,923
-	-	-	90,860,595
-	-	-	5,752,111
<u>402,362</u>	<u>-</u>	<u>31,628,834</u>	<u>623,450,637</u>
<u>4,193,728</u>	<u>2,426,159</u>	<u>32,673,516</u>	<u>663,576,092</u>
-	20,740	360,781	2,258,439
-	-	-	645,422
-	-	-	369,716
-	-	-	3,168,331
-	-	95,175	1,811,481
<u>-</u>	<u>20,740</u>	<u>455,956</u>	<u>8,253,389</u>
<u>-</u>	<u>-</u>	<u>27,000,000</u>	<u>45,676,153</u>
<u>-</u>	<u>20,740</u>	<u>27,455,956</u>	<u>53,929,542</u>

THE COLLEGE OF WILLIAM AND MARY IN VIRGINIA
SUMMARY OF STATEMENT OF NET ASSETS - COMPONENT UNITS
For the Year Ended June 30, 2007

NET ASSETS					
Invested in capital assets, net of related debt	11,611,082	285,717	43,756	207,350	-
Restricted for:					
Nonexpendable:					
Scholarships and fellowships	59,218,968	3,662,750	313,860	-	-
Departmental uses	64,914,459	5,678,805	33,635,944	-	-
Other	136,853,613	-	360,823	2,653,870	-
Expendable:					
Scholarships and fellowships	71,972,148	4,455,092	291,038	-	3,431,752
Research	2,632,739	-	50,581	-	-
Capital projects	8,126,953	-	24,239,931	-	-
Loans	-	-	44,274	-	-
Departmental uses	98,527,463	8,438,980	7,221,662	-	-
Other	6,332,439	1,666,180	238,728	1,124,546	-
Unrestricted	<u>26,952,138</u>	<u>5,057,820</u>	<u>1,302,053</u>	<u>4,234,245</u>	<u>2,048,084</u>
 Total net assets	 <u>\$ 487,142,002</u>	 <u>\$29,245,344</u>	 <u>\$ 67,742,650</u>	 <u>\$ 8,220,011</u>	 <u>\$ 5,479,836</u>

-	-	1,080,324	13,228,229
2,855,984	-	3,092,100	69,143,662
-	-	-	104,229,208
-	-	-	139,868,306
57,700	-	-	80,207,730
50,000	-	-	2,733,320
407,366	2,375,000	-	35,149,250
-	-	-	44,274
6,801	-	-	114,194,906
317,251	-	232,913	9,912,057
<u>498,626</u>	<u>30,419</u>	<u>812,223</u>	<u>40,935,608</u>
<u>\$ 4,193,728</u>	<u>\$2,405,419</u>	<u>\$ 5,217,560</u>	<u>\$ 609,646,550</u>

THE COLLEGE OF WILLIAM AND MARY IN VIRGINIA
SUMMARY OF STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS - COMPONENT UNITS
For the Year Ended June 30, 2007

	The College of William and Mary Foundation	Marshall- Wythe School of Law Foundation	William and Mary Business School Foundation	William and Mary Alumni Association	William and Mary Athletic Educational Foundation
Operating revenues:					
Gifts and contributions	\$ 1,914,691	\$ 1,953,499	\$ 1,386,614	\$ -	\$ 5,378,811
Endowment income	12,212,248	-	1,600,940	-	-
Other	<u>4,823,266</u>	<u>1,194,932</u>	<u>3,307,735</u>	<u>4,232,546</u>	<u>321,832</u>
Total operating revenues	<u>18,950,205</u>	<u>3,148,431</u>	<u>6,295,289</u>	<u>4,232,546</u>	<u>5,700,643</u>
Operating expenses:					
Instruction	3,176,701	749,752	1,386,194	-	-
Research	94,144	-	25,754	-	-
Public service	60,449	34,183	125,352	-	-
Academic support	771,944	1,133,226	870,107	-	-
Student services	115,761	33,245	2,301,987	-	-
Institutional support	994,948	-	2,219,220	-	-
Operation and maintenance of plant	207,844	1,256,418	52,496	-	-
Student aid	4,294,346	255,901	4,312	-	3,573,810
Fundraising	1,895,458	517,752	252,245	-	40,730
Management and general	1,276,408	182,016	785,281	262,231	481,099
Auxiliary enterprises	369,679	-	-	-	-
Depreciation	524,449	11,243	14,427	31,715	3,986
Other	<u>7,117,917</u>	<u>-</u>	<u>3,566,608</u>	<u>2,391,583</u>	<u>93,842</u>
Total operating expenses	<u>20,900,048</u>	<u>4,173,736</u>	<u>11,603,983</u>	<u>2,685,529</u>	<u>4,193,467</u>
Operating gain/(loss)	<u>(1,949,843)</u>	<u>(1,025,305)</u>	<u>(5,308,694)</u>	<u>1,547,017</u>	<u>1,507,176</u>
Non-operating revenues and expenses:					
Net investment revenue	46,833,370	4,200,452	4,042,868	-	123,559
Interest on capital asset related debt	(146,581)	(4,525)	-	-	-
Other non-operating revenue	18,142,950	-	640	558,009	-
Other non-operating expense	<u>(1,451,692)</u>	<u>-</u>	<u>(8,722)</u>	<u>-</u>	<u>-</u>
Net non-operating revenues	<u>63,378,047</u>	<u>4,195,927</u>	<u>4,034,786</u>	<u>558,009</u>	<u>123,559</u>
Income before other revenues	61,428,204	3,170,622	(1,273,908)	2,105,026	1,630,735
Capital grants and contributions	1,862,481	-	7,278,709	-	-
Additions to permanent endowments	<u>8,396,215</u>	<u>441,071</u>	<u>3,715,250</u>	<u>-</u>	<u>-</u>
Net other revenues	<u>10,258,696</u>	<u>441,071</u>	<u>10,993,959</u>	<u>-</u>	<u>-</u>
Increase in net assets	71,686,900	3,611,693	9,720,051	2,105,026	1,630,735
Net assets - beginning of year	<u>415,594,420</u>	<u>25,633,651</u>	<u>58,022,599</u>	<u>6,114,985</u>	<u>3,849,101</u>
Net assets - end of year	<u>\$ 487,281,320</u>	<u>\$ 29,245,344</u>	<u>\$ 67,742,650</u>	<u>\$ 8,220,011</u>	<u>\$ 5,479,836</u>

Virginia Institute of Marine Science Foundation	William and Mary Real Estate Foundation	Richard Bland College Foundation	Total Component Units
\$ 348,525	\$ 2,375,000	\$ 2,350,656	\$ 15,707,796
-	-	-	13,813,188
-	-	5,356	13,885,667
<u>348,525</u>	<u>2,375,000</u>	<u>2,356,012</u>	<u>43,406,651</u>
-	-	-	5,312,647
-	-	-	119,898
-	-	-	219,984
102,378	-	-	2,877,655
-	-	-	2,450,993
-	14,952	-	3,229,120
-	-	-	1,516,758
-	-	222,285	8,350,654
-	-	5,470	2,711,655
38,316	98,011	46,267	3,169,629
-	-	-	369,679
-	-	582	586,402
-	-	116,364	13,286,314
<u>140,694</u>	<u>112,963</u>	<u>390,968</u>	<u>44,201,388</u>
<u>207,831</u>	<u>2,262,037</u>	<u>1,965,044</u>	<u>(794,737)</u>
308,826	4,064	127,925	55,641,064
-	-	-	(151,106)
-	-	-	18,701,599
-	-	-	(1,460,414)
<u>308,826</u>	<u>4,064</u>	<u>127,925</u>	<u>72,731,143</u>
516,657	2,266,101	2,092,969	71,936,406
-	-	-	9,141,190
<u>116,708</u>	<u>-</u>	<u>307,671</u>	<u>12,976,915</u>
<u>116,708</u>	<u>-</u>	<u>307,671</u>	<u>22,118,105</u>
633,365	2,266,101	2,400,640	94,054,511
<u>3,560,363</u>	<u>-</u>	<u>2,816,920</u>	<u>515,592,039</u>
<u>\$ 4,193,728</u>	<u>\$ 2,266,101</u>	<u>\$ 5,217,560</u>	<u>\$609,646,550</u>

Investments

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

	<u>The College of William and Mary Foundation</u>	<u>Marshall-Wythe School of Law Foundation</u>	<u>William and Mary Business School Foundation</u>	<u>William and Mary Alumni Association</u>	<u>William and Mary Athletic Educational Foundation</u>	<u>Virginia Institute of Marine Science Foundation</u>	<u>Richard Bland College Foundation</u>	<u>Totals</u>
Certificates of deposit	\$ 553,182	\$ 14,708	\$39,468,587	\$ 180,519	\$1,478,550	\$3,067,821	\$ -	\$ 44,763,367
US government obligations	-	-	-	-	-	-	-	-
Equities and equity mutual fund	3,236,127	-	2,157,875	4,151,649	16,548	-	26,971,822	36,534,021
Fixed income funds	2,495,615	-	-	-	-	-	-	2,495,615
Real estate	1,582,157	-	6,000,000	-	71,200	-	-	7,653,357
Investment in grantor trust	357,913,760	-	-	-	-	-	-	357,913,760
Notes receivable	1,432,860	-	-	-	-	-	-	1,432,860
Other	<u>51,210</u>	<u>25,149,269</u>	<u>-</u>	<u>-</u>	<u>78,801</u>	<u>-</u>	<u>14,915</u>	<u>25,294,195</u>
Total	<u>\$367,264,911</u>	<u>\$25,163,977</u>	<u>\$47,626,462</u>	<u>\$4,332,168</u>	<u>\$1,645,099</u>	<u>\$3,067,821</u>	<u>\$26,986,737</u>	<u>\$476,087,175</u>

Pledges Receivable

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

	The College of William and Mary Foundation	Marshall- Wythe School of Law Foundation	William and Mary Business School Foundation	William and Mary Athletic Educational Foundation	Virginia Institute of Marine Science Foundation	Richard Bland College Foundation	Totals
Total pledges receivable	\$5,989,426	\$2,453,888	\$21,408,804	\$2,369,312	\$692,961	\$739,582	\$33,653,973
Less: allowance for undoubtful accounts	(639,671)	(287,491)	-	(224,131)	-	(20,312)	(1,171,605)
Less: present value discounting	<u>(656,995)</u>	<u>(151,601)</u>	<u>(2,224,518)</u>	<u>(488,562)</u>	<u>(27,227)</u>	<u>(63,524)</u>	<u>(3,612,427)</u>
Net pledges receivable	4,692,760	2,014,797	19,184,286	1,656,619	665,734	655,746	28,869,942
Less: current pledges	<u>-</u>	<u>(700,721)</u>	<u>-</u>	<u>(680,237)</u>	<u>(280,961)</u>	<u>(281,022)</u>	<u>(1,942,941)</u>
Total non-current pledges receivable	<u>\$4,692,760</u>	<u>\$1,314,076</u>	<u>\$19,184,286</u>	<u>\$ 976,382</u>	<u>\$ 384,773</u>	<u>\$374,724</u>	<u>\$26,927,001</u>

Capital Assets

	The College of William and Mary Foundation	Marshall- Wythe School of Law Foundation	William and Mary Business School Foundation	William and Mary Alumni Association	William and Mary Athletic Educational Foundation	Richard Bland College Foundation	Totals
Nondepreciable capital assets:							
Land	\$8,591,212	\$262,916	\$ -	\$ 31,800	\$ -	\$ -	\$8,885,928
Historical collections and other	<u>3,540,471</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,264,960</u>	<u>7,805,431</u>
Total nondepreciable capital assets	12,131,683	262,916	-	31,800	-	4,264,960	16,691,359
Depreciable capital assets:							
Buildings and improvements	1,996,299	-	-	255,679	-	-	2,251,978
Equipment	467,395	122,883	99,022	368,316	1,970	2,995	1,062,581
Furniture and fixtures	30,562	-	28,539	-	-	-	59,101
Telecommunications system	7,831,925	-	-	-	-	-	7,831,925
Vehicles	-	-	-	14,250	19,933	-	34,183
Other	<u>55,915</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>55,915</u>
Depreciable capital assets, gross	10,382,096	122,883	127,561	638,245	21,903	2,995	11,295,683
Less: Accumulated depreciation	<u>(8,103,680)</u>	<u>(100,082)</u>	<u>(83,805)</u>	<u>(462,695)</u>	<u>(17,916)</u>	<u>(582)</u>	<u>(8,768,760)</u>
Depreciable capital assets, net	<u>\$2,278,416</u>	<u>\$ 22,801</u>	<u>\$43,756</u>	<u>\$175,550</u>	<u>\$ 3,987</u>	<u>\$ 2,413</u>	<u>\$2,526,923</u>

Long-term Liabilities

	<u>The College of William and Mary Foundation</u>	<u>Marshall- Wythe School of Law Foundation</u>	<u>William and Mary Athletic Educational Foundation</u>	<u>Richard Bland College Foundation</u>	<u>Totals</u>
Deferred compensation liability	\$ 7,189	\$413,500	\$ -	\$ -	\$ 420,689
Obligations under split interest agreements	2,995,460	-	-	-	2,995,460
Other long-term liabilities	<u>15,653,827</u>	<u>-</u>	<u>333</u>	<u>27,000,000</u>	<u>42,654,160</u>
Total noncurrent liabilities	<u>\$18,656,476</u>	<u>\$413,500</u>	<u>\$333</u>	<u>\$27,000,000</u>	<u>\$46,070,309</u>

The College of William and Mary Foundation

Funds Held for Others

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

Long-Term Debt

On June 25, 2001, Reliance Holdings, LLC entered into a revolving line of credit agreement with First Union National Bank (now Wachovia Bank) in the amount of \$2,000,000, which the Foundation guaranteed. The purpose of the line of credit was to fund the initial purchase of the real estate sold to New Town, and to provide working capital to Reliance. As such, most of the loan proceeds have in turn been advanced to Real Estate Foundation, and the majority of the interest on the note is reflected as expenses of the Real Estate Foundation. Interest only, which accrues daily at the LIBOR Market Index Rate plus 0.60 percent, is payable quarterly. This line of credit has been extended to \$3,200,000 with all principal and accrued interest due and payable on June 30, 2008. The amount outstanding at June 30, 2007, was \$3,145,000. Interest paid during the year ended June 30, 2007, was \$263,151.

The Foundation entered into a revolving line of credit agreement with SunTrust Bank in the amount of \$5,000,000. 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 was repaid over four years, with principal payments beginning February 2003. These funds were used for upgrades to the telecommunications system and will be repaid from technology fees from the College. This line of credit has terminated, the balance has been repaid under the terms noted above, and no additional draws may be made. Interest paid during the year ended June 30, 2007 was \$4,085.

During the fiscal year ended June 30, 2007, the Foundation entered into a revolving line of credit agreement with SunTrust Bank in the amount of \$2,800,000. Interest accrues at a rate of the one month LIBOR plus 0.50 percent. SunTrust is granted a security interest in and a lien upon all deposits and investments maintained with SunTrust. The terms of the note require the Foundation to maintain at all times unrestricted and temporarily restricted net assets in excess of 200 percent of the

Foundation's total funded debt. The note matures on December 12, 2008. The balance outstanding at June 30, 2007 was \$1,954,539. Interest paid during the fiscal year ending June 30, 2007 was \$28,840.

	<u>Outstanding Balance</u>
Line of credit for Reliance Holdings, LLC	\$ 3,145,000
Line of credit with SunTrust Bank	1,954,539
Bonds	<u>9,025,445</u>
 Total	 <u>14,124,984</u>
 Less: Portion Due within one year	 <u>(3,145,000)</u>
 Total long term debt, net of current portion	 <u>\$10,979,984</u>

Commitments and Contingencies

On August 21, 2002, New Town entered into a borrowing agreement with SunTrust Bank with a limit of \$5,000,000 and bearing interest at the rate of the 30 day LIBOR plus 0.60 percent. Interest only is payable monthly. The facility was revised in December 2006, and the total available is now \$5,000,000, which may be used for borrowing or for letters of credit. The Foundation guarantees up to \$2,500,000, and members of the C.C. Casey Limited Company guarantee up to \$2,500,000. The outstanding loan balance as of June 30, 2007, was \$150,000. Letters of credit outstanding under this facility at June 30, 2007, were \$2,024,720. The balance is due on demand. The letters of credit are issued to guarantee the completion of site improvements as required by James City County. Upon completion of those improvements, these letters of credit are to be terminated, with no residual liability.

Bonds

In December 2006, the Economic Development Authority of James City County, Virginia issued 2006 series revenue bonds in the amount of \$9,070,000 (Bonds) and lent the proceeds from the sale of the Bonds to the Foundation and CWMF Ventures. The purpose of the Bonds is to finance the cost of land acquisition, construction, furnishing, and equipping of a three-story building in New Town in James City County, Virginia, for use by the Foundation, CWMF Ventures or the College of William and Mary. In their current mode, interest on the Bonds is calculated weekly at a rate equal to the interest rate per annum that, in the sole judgment of the remarketing agent, SunTrust Capital Markets, Inc., taking into account prevailing financial market conditions, would be the minimum interest rate required to sell the Bonds at a price of par on such date. The Bonds mature, subject to prior redemption, on December 1, 2036. The discounted value of the Bonds outstanding at June 30, 2007, was \$9,025,445, based on their original purchase price to the underwriter of the Bonds. Face value of Bonds outstanding at June 30, 2007, was \$9,070,000. Interest paid to bondholders for the year ended June 30, 2007, was \$153,882. In addition to payments under the loan agreement in respect of the Bonds, the Bonds are further secured by an irrevocable letter of credit in

the initial amount of \$9,170,778 issued by SunTrust Bank, which letter of credit expires in December 2009, unless extended, renewed or otherwise terminated under the applicable letter of credit documents among SunTrust Bank, the Foundation, and CWMF Ventures. The terms of the letter of credit require the Foundation at all times to maintain unrestricted and temporarily restricted net assets equal to at least 200 percent of the Foundation's total indebtedness, or such lesser amount as may be agreed to by SunTrust Bank. Draws on the letter of credit for the purpose of purchasing any of the Bonds will be secured by the pledge of all right, title, and interest in those Bonds. Unreimbursed draws under the letter of credit bear interest at the rate of LIBOR plus 1.50 percent per annum. During the year, draws were made on the letter of credit per the bond and letter of credit documents in order to pay interest to bondholders. Since the Foundation immediately reimbursed the bank under the letter of credit documents for such draws, there was no interest paid on the letter of credit during the year. As of June 30, 2007, there were no unreimbursed draws under the letter of credit.

Subsequent Events

Subsequent to June 30, 2007, an additional \$1,000,000 was paid on short term debt.

During July 2007, an investment in a hedge fund held in the William and Mary Investment Trust announced that due to losses in the credit market, the fund has lost more than half its fair value since June 30, 2007. Therefore, the manager sold its portfolio to another investment fund and will return the Trust's remaining investment upon an orderly liquidation. The Foundation's share of the value of the Trust's investment in the hedge fund represented approximately 2.5 percent of the Foundation's net assets at June 30, 2007. It is management's current belief that the Foundation will recover approximately 40 percent of the June 30, 2007 fair value of this investment. An initial distribution, representing approximately 65 percent of the remaining value, was made to the Trust in September 2007.

Marshall-Wythe School of Law Foundation – Deferred Compensation Liability

A key administrator of the Law School has a deferred compensation arrangement with the Foundation. The net cost of the arrangement charged to expense amounted to \$50,000 for 2007.

Athletic Educational Foundation – Notes Payable

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

Chrysler Financial Collateralized Note Payable	\$8,305
Less: Portion Due within one year	<u>(3,986)</u>
Long-term debt net of current portion	<u>\$4,319</u>

14. RETIREMENT PLANS

Virginia Retirement System

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

The VRS does not measure assets and pension benefit obligations separately for individual state institutions. Information related to this plan is available at the statewide level only and can be found in the Commonwealth of Virginia's Comprehensive Annual Financial Report (CAFR). The Commonwealth, not the College, has the overall responsibility for contributions to this plan. The CAFR provides disclosure of the Commonwealth's unfunded pension benefit obligation at June 30, 2007. The same report contains historical trend information showing VRS progress in accumulating sufficient assets to pay benefits when due.

The College's expenses include the amount assessed by the Commonwealth for contributions to VRS, which totaled approximately \$6,234,932 for the year ended June 30, 2007. Contributions to VRS were calculated using the base salary amount of approximately \$69,128,786 for the year ended June 30, 2007. The College's total payroll was approximately \$148,866,769 for the fiscal year ended June 30, 2007.

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 both the College's and the employee's contributions. Total pension costs under this plan were \$6,242,016 for the year ended June 30, 2007. Contributions to the optional retirement plans were calculated using the base salary amount of \$60,019,388 for fiscal year 2007.

15. POST-RETIREMENT BENEFITS

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

16. CONTINGENCIES

Grants and Contracts

The College receives assistance from non-state grantor agencies in the form of grants and contracts. Entitlement to these resources is conditional upon compliance with the terms and

conditions of the agreements, including the expenditure of resources for eligible purposes. Substantially all grants and contracts are subject to financial and compliance audits by the grantors. Any disallowances as a result of these audits become a liability. As of June 30, 2007, the College estimates that no material liabilities will result from such audits.

Litigation

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

17. RISK MANAGEMENT

The College is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; non-performance of duty; injuries to employees; and natural disasters. The College participates in insurance plans maintained by the Commonwealth of Virginia. The state employee health care 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.

18. SUBSEQUENT EVENTS

The College participated in the VCBA 9(d) bond sale which closed on October 31, 2007. Projects and issues are as follows: Renovate/Construct Law Library - \$3,655,000; Construct Integrated Science center Phases 1 and 2 - \$12,395,000; Planning and Construction for School of Business - \$23,635,000; and improve underground utilities - \$4,855,000. The bonds were issued with a true interest cost of 4.4 percent and will mature in 20 years.



Commonwealth of Virginia

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

Walter J. Kucharski, Auditor

April 11, 2008

The Honorable Timothy M. Kaine
Governor of Virginia

The Honorable Thomas K. Norment, Jr.
Chairman, Joint Legislative Audit
and Review Commission

Board of Visitors
The College of William and Mary in Virginia

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component units of **The College of William and Mary in Virginia**, including Richard Bland College and the Virginia Institute of Marine Science, as of and for the year ended June 30, 2007, which collectively comprise the College's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the component units of the College, which are discussed in Note 1. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to 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 opinion.

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 business-type activities and

discretely presented component units of The College of William and Mary in Virginia, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages five through seventeen 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.

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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies entitled "Improve Financial Reporting," "Improve Information Systems Security Program," "Improve Contingency Plans," "Improve Capital Asset Management," and "Implement Separation Procedures for Terminated Employees," which are described in the section titled "Internal Control and Compliance Findings and Recommendations", to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards. The instance of noncompliance, entitled "Properly Complete Employment Eligibility Verification Forms," is described in the section titled "Internal Control and Compliance Findings and Recommendations."

The College's response to the findings identified in our audit is included in the section titled "College Response." We did not audit the College's response and, accordingly, we express no opinion on it.

Status of Prior Findings

The College has not completed adequate corrective action with respect to the previously reported findings "Improve Financial Statement Preparation Process" and "Develop Checkout List for Terminated Employees." Accordingly, we included these findings in the section entitled "Internal Control and Compliance Findings and Recommendations."

Report Distribution and Exit Conference

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.

We discussed this report with management at an exit conference held on April 15, 2008.

AUDITOR OF PUBLIC ACCOUNTS

JHS/wdh



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

May 14, 2008

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 2007 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: The Honorable Thomas R. Morris, Secretary of Education
Richard D. Brown, Director of Planning and Budget
Walter J. Kucharski, Auditor of Public Accounts

College of William and Mary
Audit Corrective Action Plan
Fiscal year 2007

1. Management Letter Comment: Improve Financial Reporting

During the audit process, College staff and the auditors identified an \$8 million duplicate accounting error and a number of other misstatements, reclassifications, and disclosure items that required adjustment from amounts previously reported to management and state central agencies. The staff had difficulties explaining financial statement variances from prior year, providing support for year end adjustments, and preparing the Statement of Cash Flows. The Statement of Cash Flows is an essential statement within the financial statements and auditors did not receive a copy of the final statement until the end of March 2008, nine months after year end.

Over the last three years, the College of William and Mary has experienced extensive employee turnover in the financial reporting area while continuing to fully implement its new financial accounting and reporting system. While the College works diligently to keep its financial reporting positions filled and employees trained, the current staff have experienced increased workload and responsibility in areas where they are inexperienced and not fully trained. Turnover in the office has delayed revising written financial statement procedures as well as hindering the financial reporting process.

College senior management must prioritize the addition of sufficient qualified staff to the financial reporting area and provide for cross training such that more than one staff person understands each aspect of the financial statement preparation process. Financial reporting staff should fully document detailed procedures to prepare the financial statements. In the financial statement preparation process, staff must ensure that they prepare and document all adjustments to the financial statements and understand and can explain significant changes in the financial statement accounts between years. Implementation of these recommendations will improve the accuracy of the College's financial reporting and leave the College better prepared if, and when financial reporting staff leave the College.

Management's Response:

Management agrees with the underlying concerns of the auditor's findings impacting the timeliness of the financial information. The resignation of the senior level employee responsible for developing the financial statements had the impact of delaying the completion of the statements, shifting responsibilities to less experienced staff members and hindering the timely explanation of variances. Management will continue its full commitment to the staffing of this office and training of the employees.

Corrective Action Completion Dates:

- May 2008 - Fill assistant director for financial reporting position
- November 2008 – significant progress on enhancing detailed procedures for preparing the financial statements
- June 2009 – significant progress on cross-training financial reporting staff
- November 2009 – fully documented detailed procedures for preparing the financial statements completed
- June 2010 – comprehensive cross-training of financial reporting employees completed

Responsible Position: Director, Financial Operations

College of William and Mary
Audit Corrective Action Plan
Fiscal year 2007

2. Management Letter Comment: Improve Information Systems Security Program

The College's Information Systems Security Program does not follow industry best practices, and as such, the College has not minimized the risk of potential data breach, lack of system availability, and poor integrity of its sensitive and mission critical information. We recommend that the College improve the following information security areas to comply with industry best practices.

- Institute a Security Awareness Training Program

An Information Security Awareness Training Program enables an organization to consistently train its employees on current information security policies, procedures, and best practices.

- Include threat probabilities, vulnerabilities, and loss impacts in the Risk Assessment

Thoroughly evaluating risk enables management to make well-informed risk management decisions to eliminate or minimize those risks and better secure data and IT systems.

- Identify the primary and secondary business functions, data and system classifications, and maximum allowable downtime for critical systems in the Business Impact Analysis

During disruption, it is important to identify those functions that are mission critical, so staff can ensure the use of limited resources are appropriate. Classification of data and systems reduces the risk and cost of over or under protecting resources and should consider the data sensitivity and critical nature to operations. Identifying the maximum allowable downtime for critical systems will ensure that resources are properly allocated to continue essential business functions until normal operations are restored.

- Detail recovery requirements for critical systems in the Continuity of Operations Plan and annually test the IT Continuity of Operations Plan

Identifying the systems that support essential business functions and detailing their recovery requirements facilitate the resumption of essential business functions after disruption and while returning to normal operations. Periodic testing ensures the Plan's continued effectiveness.

- Add recovery time objectives and manual processes for essential business functions to the Disaster Recovery Plan.

To develop adequate recovery strategies and identify disaster tolerance, the College should indicate the earliest point in time in which essential business functions must resume after disaster. Developing detailed manual procedures is crucial to successfully maintaining essential functions in the absence of mission critical IT systems.

- Develop formally approved security policies and procedures regarding:

College of William and Mary
Audit Corrective Action Plan
Fiscal year 2007

- Logical and physical access
- Data/System backup and restoration
- Threat management
- Remote access
- Systems hardening
- Data stored on mobile media
- Encryption
- IT asset management

Formally documented and approved IT security policies provide the framework for the security requirements needed to maintain proper operation and control of the IT system, and delineate the responsibilities and expected behavior of all individuals who access the system.

We commend the College for its efforts to strengthen components of its Information Systems Security Program, which includes a comprehensive system monitoring program developed by College staff. The College has already demonstrated its willingness and desire to comply with industry best practice by the enhancement of its Continuity of Operations and Disaster Recovery Plans currently in progress. Their corrective action plan includes development of a Security Awareness Training Program, improvements to its Risk Assessment/Business Impact Analysis, and the formalization of IT policies and procedures by September 2008. We recommend that management continue to dedicate the necessary resources to improve its Information Systems Security Program.

Management's Response:

Management concurs. The Information Technology (IT) department has appointed a new individual within the department as director of the Information Security Program at the College. This individual, unlike the previous Information Security Officer, is a senior member of the IT Management team. The new information security officer has launched a project to re-assess and improve the current security program with particular attention focused on the areas identified as deficient and/or lacking in the 2007 APA report.

Corrective Action Completion Dates: September 2008

Responsible Position: Vice Provost for Information Technology/Chief Information Officer

3. Management Letter Comment: Improve Contingency Plans

Richard Bland College's contingency plans are inadequate, which places its mission critical systems at risk and hinders the continuity of essential business functions during and after disruption. A Continuity of Operations Plan (COOP) uses the information from the Business Impact Analysis and Risk Assessment. The COOP helps to develop the Disaster Recovery Plan. The College does not have a Business Impact Analysis and its Risk Assessment lacks certain information, resulting in ineffective contingency plans.

Richard Bland College does not document specific information required by Commonwealth of Virginia standards that help protect critical IT systems and sustain essential functionality. Information technology management and staff should identify:

College of William and Mary
Audit Corrective Action Plan
Fiscal year 2007

- Sensitivity levels of its data and systems;
- Essential business functions that must continue to meet its mission;
- Maximum allowable downtimes for each essential function;
- Natural, human, and environmental threats;
- Vulnerabilities, threat probabilities, and loss impacts;
- How essential business functions will continue in the event of disaster; and
- Manual processing procedures for essential functions where applicable.

Richard Bland College should maintain sufficient documentation to protect its systems and continue the essential business functions needed to meet its overall mission in the event of a disaster or service disruption. We recommend that management dedicate the necessary resources to improving its contingency plans.

Management's Response:

Management concurs. Issues will be addressed by the Richard Bland College Continuity of Operations Plan, which will include specific information required by the Commonwealth of Virginia standards.

Corrective Action Completion Dates: September 30, 2008

Responsible Position: Dean of Administration and Finance, Richard Bland College

4. Management Letter Comment: Improve Capital Asset Management

Property Control staff did not verify capital asset listings as required by College and state policies. College policies do not adequately address reassessing useful lives when assets are in use longer than their initial assigned useful life. Additionally, Property Control and departmental staff do not always adequately document equipment disposals.

During our detailed audit testwork we noted the following conditions that indicate deficiencies in internal control policies and practices.

- Property Control staff have not verified capital asset listings within the past two years as required by College policies and the Commonwealth's Accounting Policies and Procedures Manual.
- Five of twenty-one assets that the auditor selected from the capital asset system could not be located.
- Three of fourteen assets that the auditor selected from the capital asset system and did locate, did not have a tag to identify the asset number and that it was College property.
- Property Control does not have a policy that requires staff to reassess the useful lives of assets still in use beyond the end of their initially assigned useful lives.

College of William and Mary
Audit Corrective Action Plan
Fiscal year 2007

- Virginia Institute for Marine Science campus staff did not properly document the deletion of four assets. College policy requires the completion of a formal disposal form before deleting assets from the capital asset records.

The College must develop and follow policies and procedures regarding the management of their capital assets in order to avoid the improper use of assets and the misstatement of the College's assets on their financial statements. We understand that as a part of implementing a capital asset component of the new financial accounting system, the College plans to inventory its capital assets to ensure complete and accurate capital asset information will be recorded.

Management's Response:

Management concurs. The College is in the final stage of implementing the fixed asset module of our central financial and administrative system that will address the auditor's concerns. As part of the implementation process, the College has contracted with an outside firm to conduct a comprehensive inventory of assets.

Corrective Action Completion Dates: September 2008

Responsible Position: Director of Procurement

5. Management Letter Comment: Implement Separation Procedures for Terminated Employees

Our previous audit report noted that the College did not have standard procedures to properly recover all College property from employees when they leave employment. While the College has implemented separation procedures, individual departments are not following the faculty and contract employee procedures to document that property (such as identification cards, charge cards, keys, portable computers, and cell phones) is recovered when faculty and contract employees terminate.

As noted in the prior year report, by failing to implement standard separation procedures, there is a risk that the College could lose equipment or fail to cancel system access, leading to unauthorized transactions and inappropriate access to College buildings. In order to make sure all departments consider these issues when an employee terminates, the College should enforce standard policies and procedures for department personnel to follow during the terminated employee's exit conference. Furthermore, the College should require the completion and signature of both the employee and the supervisor of the standard separation checklist to show all steps are complete.

Management's Response:

Management concurs. The Provost's office is making every effort to ensure academic departments recognize and adhere to the faculty clearance procedures.

Corrective Action Completion Dates: May 2008

Responsible Position: Provost

College of William and Mary
Audit Corrective Action Plan
Fiscal year 2007

6. Management Letter Comment: Properly Complete Employment Eligibility Verification Forms

The College is not properly completing Employment Eligibility Verification forms (I-9) in accordance with guidance issued by the US Citizenship and Immigration Services of the US Department of Homeland Security. The guidance requires the employee to complete, sign and date Section 1 of the I-9 form on the first day of employment. Additionally, the employer or designated representative must complete, sign and date Section 2 of the I-9 form within three business days of employment.

In our sample of twelve I-9 forms completed, we found one or more errors on ten of the forms as follows:

- a. Employees did not sign and date two forms before or on their first day of employment.
- b. On one form, the employee did not check one of the options for citizenship in the section 1.
- c. Five forms failed to list the first day of employment in Section 2 and it could not be determined whether the form was completed within three days of the first day of employment.
- d. Five forms failed to properly fill out the information regarding the verification documents, such as document title, issuing authority, document number, and expiration date.

We recommend that the Human Resources Division review the process to complete the I-9 forms, train human resources staff on the requirements of completing these forms, and develop procedures to continuously review all or a sample of forms for compliance with federal regulations. The federal government has increased its enforcement efforts requiring employers to ensure all new employees are legally entitled to work in the United States. Their increased enforcement makes having a good process in place to complete I-9 forms even more important.

Management's Response:

Management concurs. Upon receipt of the possible management letter comment, management immediately initiated corrective actions by seeking professional guidance on I-9 processes, revising internal procedures appropriately, training departments and establishing a 100% review of all I-9 forms.

Corrective Action Completion Dates: November 2007

Responsible Position: Director Human Resources

THE COLLEGE OF WILLIAM AND MARY IN VIRGINIA

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COLLEGE OFFICIALS

THE COLLEGE OF WILLIAM AND MARY IN VIRGINIA

W. Taylor Reveley, III, Interim President

P. Geoffrey Feiss, Provost

Sean M. Pieri, Vice President for Development

Stewart H. Garnage, Vice President for Public Affairs

Samuel E. Jones, Vice President for Finance

Anna B. Martin, Vice President for Administration

W. Samuel Sadler, Vice President for Student Affairs

RICHARD BLAND COLLEGE

James B. McNeer, President

Vernon R. Linqvist, Provost and Dean of Faculty

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