THE COLLEGE OF WILLIAM AND MARY

WILLIAMSBURG, VIRGINIA

REPORT ON AUDIT

FOR THE YEAR ENDED

JUNE 30, 2001

Auditor of Public Accounts
COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of The College of William and Mary for the year ended June 30, 2001 found:

- the financial statements are presented fairly, in all material respects;
- internal control matters that we consider to be reportable conditions; however, we do not consider any of these to be material weaknesses;
- no instances of noncompliance that are required to be reported; and
- corrective action of prior audit findings, except for the findings listed on page 4 and detailed in the section entitled, "Internal Control Findings and Recommendations."

STATUS REPORT ON SYSTEM DEVELOPMENT PROJECT

In July 2001, the College's Project Management Team recommended procuring and implementing Systems and Computer Technology's (SCT) Banner suite of products for higher education. The Project Management Team estimated that implementing all modules of the SCT Banner product would be significantly less expensive than implementing SAP Finance alone. The College finalized a contract to obtain SCT Banner in late December 2001.

The College will implement the SCT Banner Student Information System between January 2002 and September 2003 with funds already in place. Contingent upon additional support from the Commonwealth, the College plans to implement the Banner Finance and Human Resource systems in the subsequent two-year period.

The Internal Control Findings and Recommendations section of this report has a more detailed discussion of this system's development effort.

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Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

May 23, 2002

The Honorable Mark R. Warner
Governor of Virginia

The Honorable Kevin G. Miller
Chairman, Joint Legislative Audit
and Review Commission

Board of Visitors
The College of William and Mary

We have audited the accounts and records of **The College of William and Mary** as of and for the year ended June 30, 2001, and submit herewith our complete reports on financial statements and compliance and internal control over financial reporting.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the balance sheet of The College of William and Mary, a component unit of the Commonwealth of Virginia as of June 30, 2001, and the related statements of changes in fund balances and current fund revenues, expenditures, and other changes for the year then ended. The financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The College of William and Mary as of June 30, 2001, and the changes in fund balances and current funds revenues, expenditures, and other changes for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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

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

In planning and performing our audit of the financial statements of The College of William and Mary as of and for the year ended June 30, 2001, we considered internal controls over financial reporting and tested compliance with certain provisions of laws, regulations, contracts, and grants in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards.

Compliance

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

Internal Control Over Financial Reporting

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

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

Status of Prior Findings

The College has not taken adequate corrective action with respect to the previously reported findings, "Develop an Information Technology Security Program," and "Properly Account for Fixed Assets on the Fixed Asset Accounting System." Accordingly, we included these findings in the section entitled, "Internal Control Findings and Recommendations." The College has taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this report.

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

EXIT CONFERENCE

We discussed this report with management at an exit conference held on May 23, 2002.

AUDITOR OF PUBLIC ACCOUNTS

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INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

Status Report On System Development Project

In February 1999, the College issued a Request for Proposal (RFP) for the implementation of an integrated information system. This system would replace three core systems: Finance, Human Resources, and Student Systems, and numerous subsystems. In December 1999, the College awarded Systems, Applications, and Products (SAP) the contract for the system and Align Consulting, Inc. an implementation services contract. In the Spring of 2000, the College began the accelerated development and implementation of its Enterprise Resource Planning (ERP) System (SAP R/3), called Project ARIA. The College identified resource requirements of $9.5 million for purchasing software, hardware, and consulting costs.

In August 2000, the College appointed the current project manager to lead Project ARIA. This project manager identified many of the problems noted in our prior year report, and recommended a slower, more methodical rate of implementation and the termination of Align Consulting due to funding limitations. More importantly, he recognized that the Project would not succeed unless the College re-assessed SAP Finance functionality and addressed immediate problems with Student Systems. In November 2000, the College suspended the implementation of SAP.

In July 2001, based on its major re-assessment of SAP and available alternatives, the College's Project Management Team (PMT) recommended procuring and implementing Systems and Computer Technology's (SCT) Banner suite of products for higher education. The PMT estimated that implementing all modules of the SCT Banner product would be significantly less expensive than implementing SAP Finance alone. The College finalized a contract to obtain SCT Banner in late December 2001.

The College will implement the SCT Banner Student Information System (SIS) between January 2002 and September 2003 with funds already in place. Contingent upon additional support from the Commonwealth, the College will implement the Banner Finance and Human Resource systems in the subsequent two-year period. Should the College not obtain additional funding during the current biennium, the College plans to implement Banner's SIS on a client server platform in conjunction with its current SCT Plus Finance and Human Resource System on their mainframe. College Management considers this approach an interim solution only. Obtaining additional funding to achieve a single integrated ERP system remains a priority of the College's Board and senior management.

In addition to the above changes, the College has taken the following steps to address our prior year findings.

- Identified and committed funding sources of approximately $4.6 million to support the full implementation of Banner SIS.
- Included internal, external, and incremental costs in the budgeting process.
- Adopted a more reasonable implementation methodology spanning eighteen months, including sufficient time for planning.
- Reorganized project management at all levels and taken steps to provide additional stability in project management.
- Developed a thorough project management plan addressing the above issues and listing milestones with firm target dates.

To date, the College has completed its business process analyses, installed portions of SCT Banner SIS in a test environment, and begun technical training. The College has also taken measures to ensure that adequate staff and funding resources are available to complete this project successfully.

Evaluate the Allowance For Doubtful Account

The College continues to calculate the Allowance for Doubtful Accounts using a percentage developed in October 1993. The Allowance For Doubtful Accounts should reasonably estimate the amount of student accounts that the College does not expect to collect of the year-end account balances. Changes in this amount over time reflect the College's efforts to collect amount owed it. The Auditor reviewed collections and found the amount dropped from the 1993 estimate of .17 percent to a current loss of .05 percent.

While the College has a low percentage of uncollectible accounts, monitoring this percentage allows management to determine if this performance continues. The College should annually compare the percentage estimated with actual write offs.

Develop an Information Technology Security Program

The College needs to complete its Information Technology Security Program. This program should include a business impact analysis, risk assessment, contingency plan and security awareness, and training programs. Additionally, it should include policies and procedures governing change controls, physical security, logical security, and environmental issues. The development of a comprehensive Information Technology Security Program is even more essential due to the increased risk of failure of aging existing systems and the implementation of a new financial system. Management has begun to develop a business impact analysis and risk assessment in response to the prior year management point. Further, the College is awaiting approval of a web based, "living document" that contains the policies and procedures discussed above.

Management should continue to develop, document, and execute an Information Technology Security Program in accordance with the Information Technology Resource Management Standard Security Architecture 2001-01.1.

Properly Account for Fixed Assets on the Fixed Asset Accounting System

The College did not properly account for and monitor its equipment. The auditor found that the College deleted missing fixed assets, from FAACS, without properly investigating the reason for the asset's disappearance. Additionally, the physical inventory process is not thorough enough to accurately locate all of the fixed assets in use by the College.

Proper control over fixed assets includes maintaining accurate accounting records, which requires periodic inventories and proper investigation of missing assets. Automatically deleting missing assets may hide the fact of their movement to other locations or their loss due to theft. Management should emphasize to the departments the importance of appropriate record keeping and compliance with College and state regulations. Failure to implement proper controls could result in the loss of College assets or improper recording of assets.

Improve Procedures and Strengthen Controls for Small Purchase Charge Card Program

The College's procedures do not address training requirements, card sharing, unauthorized purchases, deactivation of charge card accounts, certifying receipt of goods, or supervisory approval of the charge card statement. In addition, the College does not maintain cardholder agreements, provide adequate training for new cardholders, and adequately monitor transaction and monthly purchases. The College of William and Mary must strengthen its small purchase charge card policies and procedures, since it had purchases of over $1.6 million in fiscal 2001 by more than 117 small purchase charge card holders.

- Eight of the twelve (67 percent) employees tested did not have a cardholder agreement on file. The College must ensure that all cardholders have completed and signed a cardholder agreement, which acknowledges the employees' liability for misusing the card.

- Many cardholders have small purchase cards that do not restrict their purchase limits considering the employee's lack of purchasing knowledge, job responsibilities and there is no increase in internal control to compensate for this risk. Program administrators and supervisors should evaluate an employee's job and responsibilities when setting Charge Card purchasing limits and only issue cards with the maximum transaction limit to trained and properly supervised staff.

- Cardholders are sharing their cards. Six out of 18 (33 percent) month's reconciliation reviewed revealed that persons other than the cardholder used the charge card. State and College guidelines specifically prohibit loaning or sharing of a card. Guidelines require that only the person, whose name appears on the card may use it. Allowing unauthorized individuals use of the card increases the risk for fraudulent and misappropriation of assets.

- Two of the 10 employees tested had terminated their employment but their Charge Cards remained active. In one instance, unauthorized employees made $30,000 in purchases with the terminated employee's card. Without proper and timely deactivation of the charge card accounts, fraudulent transactions could occur and go undetected.

- Cardholders are not reconciling the monthly SPCC card holder statement to the purchasing log. Five of the 16 (28 percent) purchasing logs tested were not reconciled to the card member statements. In addition, cardholders do not retain adequate documentation to support the purchases made with the small purchase charge card. Three of the 12 (25 percent) purchasing logs tested did not include adequate receipts for purchases made.

- Management is not reviewing the purchasing logs and supporting receipts to ensure that purchases are appropriate. Cardholder supervisors did not review and approve cardholder purchase logs and reconciliations in 4 out of 16 (22 percent) statements tested. In addition, our review revealed unreasonable purchases with state funds such as flowers to a deceased employees family and a fruit basket to an ill faculty member.

Without complete policies and procedures and the statement review and approval and its reconciliation process, unauthorized purchases will go undetected. This lack of internal control could lead to fraudulent charges and improper payments; however, our testwork found no such transactions. The college needs to revise its policies and procedures and develop a training program for all cardholders. It is important to communicate cardholder responsibilities. Strengthening the internal controls over the Small Purchase Charge Card Program will reduce the risk of fraudulent charges and ensure purchases are proper.

FINANCIAL STATEMENTS

THE COLLEGE OF WILLIAM AND MARY
CONSOLIDATED REPORT
BALANCE SHEET
As of June 30, 2001
With Comparative Figures for 2000

	Current Funds			
	Unrestricted	Restricted	Loan Funds	Endowment and Similar Funds
Assets				
Cash and cash equivalents (Note 2)	$ 19,041,371	$ 4,337,155	$ 330,462	$ 18,311
Investments (Note 2)	3,285,844	5,961,357	22,684	35,868,719
Appropriations available	-	-	-	-
Accounts receivable (Net of allowance for accounts of $42,403 in 2001 and $40,656 in 2000)	1,202,530	2,957,597	225	67,767
Notes receivable	-	-	2,666,206	-
Due from other funds	1,964,235	1,325,871	-	-
Inventories (Note 1)	376,717	-	-	-
Other assets	202,199	10,000	-	-
Investment in plant (Note 8)	-	-	-	-
Total assets	$ 26,072,896	$ 14,591,980	$ 3,019,577	$ 35,954,797
Liabilities and Fund Balances				
Liabilities:				
Accounts payable and accrued expenses	$ 13,590,743	$ 2,404,983	$ -	$ -
Retainage payable (Note 5)	-	-	-	-
Deposits and deferred revenues (Note 1)	2,656,363	-	-	-
Deposits held in custody for others	-	-	-	-
Due to other funds	-	1,800,000	-	1,490,106
Advance from the Treasurer of Virginia	-	700,000	-	-
Accrued leave (Note 7)	5,775,533	435,464	-	-
Bonds payable (Note 6)	-	-	-	-
Notes payable (Note 6)	-	-	-	-
Leases payable (Note 6)	-	-	-	-
Installment purchases (Note 6)	-	-	-	-
Obligations under securities lending program	1,127,506	-	-	-
Other liabilities (Note 6)	-	-	-	-
Total liabilities	23,150,145	5,340,447	-	1,490,106
Fund balances:				
Unrestricted current funds (Note 10)	2,922,751	-	-	-
Restricted current funds	-	9,251,533	-	-
Loan funds, U.S. government grants	-	-	2,493,013	-
Loan funds, College	-	-	526,564	-
Endowment funds	-	-	-	26,788,747
Quasi-Endowment funds - Unrestricted	-	-	-	3,122,321
Quasi-Endowment funds - Restricted	-	-	-	4,553,623
Unexpended plant funds	-	-	-	-
Renewal and replacement funds	-	-	-	-
Retirement of debt funds	-	-	-	-
Net investment in plant	-	-	-	-
Total fund balances	2,922,751	9,251,533	3,019,577	34,464,691
Total liabilities and fund balances	$ 26,072,896	$ 14,591,980	$ 3,019,577	$ 35,954,797

The accompanying notes to the financial statements are an integral part of this statement.

Plant Funds					
Unexpended	Retirement of Debt	Investment in Plant	Agency Funds	Total 2001	Total 2000*
$ 3,627,157	$ 323,464	$ -	$ 1,100,939	$ 28,778,859	$ 24,027,940
3,375,230	-	-	1,329,619	49,843,453	51,396,156
13,417,104	-	-	-	13,417,104	30,020,890
-	-	-	145,587	4,373,706	3,832,591
-	-	-	-	2,666,206	2,566,511
-	-	-	-	3,290,106	3,137,917
-	-	-	-	376,717	561,508
15,256	-	-	-	227,455	167,286
-	-	381,620,246	-	381,620,246	361,770,462
$ 20,434,747	$ 323,464	$ 381,620,246	$ 2,576,145	$ 484,593,852	$ 477,481,261
$ 3,294,635	$ -	$ -	$ 278,118	$ 19,568,479	$ 20,284,583
954,809	-	-	-	954,809	1,126,752
-	-	-	379,904	3,036,267	2,821,614
-	-	-	1,846,475	1,846,475	532,957
-	-	-	-	3,290,106	3,137,917
600,000	-	-	-	1,300,000	700,000
-	-	-	71,648	6,282,645	5,949,203
1,472,352	-	32,351,267	-	33,823,619	36,310,569
4,002,494	-	6,928,506	-	10,931,000	3,885,000
-	-	1,187,850	-	1,187,850	3,140,496
-	-	388,299	-	388,299	425,677
-	-	-	-	1,127,506	749,654
15,256	-	-	-	15,256	14,310
10,339,546	-	40,855,922	2,576,145	83,752,311	79,078,732
-	-	-	-	2,922,751	1,322,573
-	-	-	-	9,251,533	7,939,737
-	-	-	-	2,493,013	2,412,589
-	-	-	-	526,564	522,897
-	-	-	-	26,788,747	27,289,581
-	-	-	-	3,122,321	2,539,874
-	-	-	-	4,553,623	4,537,289
10,095,201	-	-	-	10,095,201	27,858,259
-	-	-	-	-	345,130
-	323,464	-	-	323,464	272,568
-	-	340,764,324	-	340,764,324	323,362,032
10,095,201	323,464	340,764,324	-	400,841,541	398,402,529
$ 20,434,747	$ 323,464	$ 381,620,246	$ 2,576,145	$ 484,593,852	$ 477,481,261

THE COLLEGE OF WILLIAM AND MARY
CONSOLIDATED REPORT
STATEMENT OF CHANGES IN FUND BALANCES
For the Year Ended June 30, 2001

	Current Funds		
	Unrestricted	Restricted	Loan Funds
Revenues and other additions:			
Unrestricted current fund revenues	$ 185,926,639	$ -	$ -
State appropriations - Restricted	-	4,675,879	-
Federal grants and contracts - Restricted	-	20,963,212	-
State grants and contracts - Restricted	-	3,530,703	-
Local grants and contracts - Restricted	-	255,273	12,085
Private gifts, grants and contracts - Restricted	-	15,069,326	-
Endowment income	-	683,859	-
Investment income	-	112,002	94,950
Realized gains on investments	-	-	-
Unrealized gain on investments	-	50,105	203
Interest on loans receivable	-	-	75,586
U.S. government advances	-	-	36,254
Expended for plant facilities (Including $8,147,484 charged to current funds)	-	-	-
Retirement of debt (Including $259,647 charged to current funds)	-	-	-
Other sources	-	-	9,693
Total revenues and other additions	185,926,639	45,340,359	228,771
Expenditures and other deductions:			
Educational and general	135,131,433	37,272,779	-
Auxiliary enterprises	43,881,369	2,440,522	-
Indirect costs recovered	-	4,356,395	-
Realized losses	3,428	8,152	-
Unrealized losses	-	-	-
Refunded to grantors	-	246,000	-
Loan cancellations and write-offs	-	-	20,180
Administrative and collection costs	-	-	123,474
Expended for plant facilities (Including $3,847,805 not capitalized)	-	-	-
Retirement of debt	-	-	-
Interest on debt	-	-	-
Disposal of plant assets	-	-	-
Other	-	-	1,026
Total expenditures and other deductions	179,016,230	44,323,848	144,680
Transfers among funds - additions (deductions):			
Mandatory	(5,523,902)	-	-
Non-mandatory	213,671	295,285	-
Total transfers among funds	(5,310,231)	295,285	-
Net increase (decrease) for the year	1,600,178	1,311,796	84,091
Fund balance at beginning of year (Note 10)	1,322,573	7,939,737	2,935,486
Fund balance at end of year	$ 2,922,751	$ 9,251,533	$ 3,019,577

The accompanying notes to the financial statements are an integral part of this statement.

	Plant Funds			
Endowment and Similar Funds	Unexpended	Renewals and Replacements	Retirement of Debt	Investment in Plant
$ -	$ -	$ -	$ -	$ -
-	(5,527,028)	-	986,781	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
319,636	1,265,430	-	-	132,084
-	-	-	-	-
123,793	313,923	-	-	-
4,072,010	-	-	-	-
5,007	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	18,611,319
-	-	-	-	4,819,242
-	105,310	-	198,151	-
4,520,446	(3,842,365)	-	1,184,932	23,562,645
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
3,697,430	-	-	-	-
-	-	-	-	-
-	-	-	-	-
167,832	-	-	-	-
-	13,965,447	346,193	-	-
-	-	-	4,559,595	-
-	-	-	2,098,961	-
-	-	-	-	6,063,967
1,846	-	-	-	-
3,867,108	13,965,447	346,193	6,658,556	6,063,967
-	(618)	-	5,524,520	-
(555,391)	45,372	1,063	-	-
(555,391)	44,754	1,063	5,524,520	-
97,947	(17,763,058)	(345,130)	50,896	17,498,678
34,366,744	27,858,259	345,130	272,568	323,362,032
$ 34,464,691	$ 10,095,201	$ -	$ 323,464	$ 340,764,324

THE COLLEGE OF WILLIAM AND MARY
CONSOLIDATED REPORT
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
For the Year Ended June 30, 2001
With Comparative Figures for 2000

	Unrestricted	Restricted	Total 2001	Total 2000
Revenues:				
Student tuition and fees	$ 55,918,117	$ -	$ 55,918,117	$ 54,557,522
State appropriations (Note 9)	71,018,393	4,665,324	75,683,717	68,874,123
Federal grants and contracts	3,554,958	17,234,706	20,789,664	17,545,775
State grants and contracts	433,686	2,870,944	3,304,630	3,076,250
Local grants and contracts	3,882	246,258	250,140	163,825
Private gifts, grants and contracts	4,688,205	13,954,859	18,643,064	17,999,132
Endowment income	206,114	741,210	947,324	890,219
Investment income	620,459	-	620,459	576,001
Auxiliary enterprises	47,662,350	-	47,662,350	45,985,968
Sales and services of educational departments	17,002	-	17,002	17,281
Other sources	1,803,473	-	1,803,473	2,155,588
Total revenues	185,926,639	39,713,301	225,639,940	211,841,684
Expenditures and mandatory transfers:				
Educational and general:				
Instruction	62,175,779	4,582,775	66,758,554	62,403,557
Organized research	11,811,718	22,157,639	33,969,357	30,374,445
Public service	6,053	518	6,571	6,780
Academic support	20,135,807	303,473	20,439,280	22,176,367
Student services	5,181,048	97,899	5,278,947	4,673,416
Institutional support	15,805,934	27,398	15,833,332	17,144,573
Operations and maintenance of plant	10,844,855	144,663	10,989,518	9,640,039
Student aid	9,170,239	9,958,414	19,128,653	17,777,978
Educational and general expenditures	135,131,433	37,272,779	172,404,212	164,197,155
Mandatory transfers for debt service and other	136,087	-	136,087	136,087
Total educational and general	135,267,520	37,272,779	172,540,299	164,333,242
Auxiliary enterprises:				
Expenditures	43,881,369	2,440,522	46,321,891	44,474,365
Mandatory transfers for debt service	5,387,815	-	5,387,815	5,436,441
Total auxiliary enterprises	49,269,184	2,440,522	51,709,706	49,910,806
Total expenditures and mandatory transfers	184,536,704	39,713,301	224,250,005	214,244,048
Other transfers and additions (deductions):				
Excess of restricted receipts over transfers to revenue	-	1,270,663	1,270,663	(401,501)
Realized loss on investments	(3,428)	(8,152)	(11,580)	(4,841)
Refunded to grantors	-	(246,000)	(246,000)	(34,137)
Other deductions	-	-	-	-
Non-mandatory transfers	213,671	295,285	508,956	259,245
Total other transfers and additions (deductions)	210,243	1,311,796	1,522,039	(181,234)
Net increase (decrease) in fund balances	$ 1,600,178	$ 1,311,796	$ 2,911,974	$ (2,583,598)

The accompanying notes to the financial statements are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

THE COLLEGE OF WILLIAM AND MARY IN VIRGINIA

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of The College of William and Mary have been prepared in accordance with generally accepted accounting principles foe colleges and universities. The significant accounting policies followed by the College are as follows:

A. Reporting Entity

The accompanying financial statements include the accounts of The College of William and Mary and Richard Bland College. The College of William and Mary includes the Williamsburg campus and the York River campus (Virginia Institute of Marine Science).

A separate report is prepared for the Commonwealth of Virginia that includes all agencies, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority. The Institute is a component unit of the Commonwealth of Virginia and is included in the general-purpose financial statements of the Commonwealth.

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, and the chairperson of the Institute Council, and three who are elected by OIEAHC's Executive Board. The three members are elected by the remaining five members on a tri-annual basis. 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, 2001:

Assets	$1,225,849
Liabilities	$ 3,680
Fund balances	1,222,169
Liabilities and fund balances	$1,225,849

The total unaudited receipts and disbursements of the OIEAHC were $1,385,943 and $1,339,040, respectively, for the year ended June 30, 2001. Separate financial statements for the OIEAHC may be obtained by writing the Treasurer, Omohundro Institute of Early American History and Culture, P.O. Box 220, Williamsburg, Virginia 23187-0220.

The College also benefits form a number of organizations that exist mainly to support the various purposes and activities of the College. The assets of these affiliated organizations, which are separately incorporated and managed by their own Boards, are not included in these statements. The affiliated organizations are described in Note 13.

B. Basis of Accounting

The accrual basis of accounting is used in accordance with the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants' Audit Guide for Colleges and Universities. Depreciation expense related to capitalized fixed assets is not recorded.

C. Fund Accounting

To ensure observance of limitations and restrictions placed on the use of resources, the accounts are maintained in accordance with the principles of fund accounting. Resources are classified for accounting and reporting purposes into funds that may be used for activities or objectives specified. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds allocated to specific purposes by action of the Board of Visitors. Externally restricted funds may only be utilized in accordance with the purposes established by the source of such funds and are in contrast with unrestricted funds over which the Board of Visitors retains full control and use in achieving any of its institutional purposes.

All gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets are accounted for in the fund, which owned such assets. Ordinary income derived from investments, receivables, and the like is accounted for in the fund which owned the assets, except for income derived from investments of Endowment and Similar Funds, which is accounted for in the fund to which it is restricted or, if unrestricted, as revenues in Unrestricted Current Funds. Unrestricted revenue is accounted for in the Current Unrestricted Fund. Restricted gifts, grants, appropriations, and other restricted resources are accounted for in the appropriate Restricted Funds. Restricted Current Funds are reported as revenues and expenditures when expended for current operating purposes.

A summary of fund group definitions is as follows:

Current Funds - Current Fund balances are separated into those which are restricted by donors and those which are unrestricted. Restricted funds may only be expended for the purpose indicated by the donor or grantor, whereas unrestricted funds are available for current operations at the discretion of the Colleges.

Loan Funds - Loan Funds represent funds which are limited by the terms of their donors or by action of the Board of Visitors for the purpose of making loans to students.

Endowment and Similar Funds - Endowment and Similar Funds are divided into appropriate classifications. Endowment funds have been received from benefactors who, by the terms of their conveying instruments, have stipulated that the principal of their gifts may never be expended. Funds functioning as quasi-endowments are funds, which the Board of Visitors of the College, rather than the donor, has determined are to be retained and invested until the Board, at its discretion, authorizes their expenditure. The principal of such funds may be either restricted or unrestricted as to use.

Plant Funds - Plant Funds are divided into four groups: Unexpended, Renewal and Replacement, Retirement of Debt, and Net Investment in Plant. Unexpended Plant Funds represent funds, which were specified by external sources and designated by the Board of Visitors for the acquisition, construction, renovation, and replacement of physical properties. Renewal and Replacement Funds are used to provide for the necessary repairs and replacements of plant facilities. Retirement of Debt Funds include resources held for the retirement of both principal and interest on debt established under bond indentures and capital lease agreements. Net Investment in Plant represents the capitalized value of physical property, less associated long-term debt.

Agency Funds - Agency Funds consist of funds held in trust by the Colleges.

D. Investments

Investments are recorded at cost, if purchased, or fair market value at the date of receipt, if received as a gift, and reported in accordance with Governmental Accounting Standards Board Statement No. 31 (GASB 31) (See Note 2).

E. Inventories

Inventories at the Williamsburg and York River (Virginia Institute of Marine Science) campuses are valued at average cost. The inventories at Richard Bland College are valued at the lower of cost (first-in, first-out) or market.

F. Investment in Plant

Fixed assets are recorded in Investment in Plant at historical cost or fair market value at the date of acquisition. Construction is capitalized when expended and reflected in Investment in Plant.

Current Fund expenditures for furniture, fixtures, and equipment are capitalized when the unit price is greater than or equal to $2,000 and has an estimated useful life of two years or more. Library books, other than those rare books and special collections specifically valued, are capitalized based on average acquisition cost. Portions of the assets include inexhaustible art and historical collections. In conformity with Commonwealth policies, the value of these collections is not reflected in the balance sheet.

The accompanying financial statements make no provision for depreciation of plant assets.

G. Deferred Revenue

Deferred revenue represents revenue collected, but not earned as of June 30, 2001. This is primarily composed of revenue for student tuition accrued in advance of the semester.

H. Gifts

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

2. CASH AND INVESTMENTS

A. Cash

Cash held by the Treasurer of Virginia is maintained pursuant to Section 2.1-177, et. seq., Code of Virginia (1950), as amended, who is responsible for the collection, disbursement, custody, and investment of state funds. Each fund's equity in pooled state funds is reported as "Cash and cash equivalents" on the balance sheet and is not categorized as to credit risk. Richard Bland College has received a petty cash advance in the amount of $3,000 from the Treasurer of Virginia. This advance is also included in "Cash and cash equivalents" on the balance sheet.

Securities lending transactions are reported as investments on the College's financial statements. These amounts 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 balance sheet, are non-categorized as to credit risk. Details of the General Account securities lending program are included in the Commonwealth's Annual Financial Report (CAFR).

The carrying amount of cash not held by the Treasurer of Virginia is $7,535,269. The carrying amount consists of bank balances reported at June 30, 2001, in the amount of $11,592,000, which is adjusted for reconciling items, petty cash items, and change funds. The Colleges have elected to have these amounts collateralized in accordance with the Virginia Securities for Public Deposits Act, Section 2.1-359 et. seq. of the Code of Virginia (1950), and the cash is, therefore, considered insured or collateralized and reportable as Category 1 as defined by Governmental Accounting Standards Board Statement No. 3.

B. Investments

In accordance with Governmental Accounting Standards Board Statement No. 31, certain investments have been reported at fair market value.

In accordance with the Board of Visitors' Resolution 17, April 29-30, 1999, and Resolution 13, April 24, 1998, investments can be made in the following instruments: cash, U.S. Treasury and federal agency obligations, commercial bank certificates of deposit, commercial paper, bankers' acceptances, corporate notes and debentures, money market funds, convertible securities, and equities. Investments at June 30, 2001 and 2000, are categorized below by credit risk.

The three categories of risk are:

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

Category 2 - Uninsured or unregistered, with securities held by the counterparties' trust departments or agents in the name of the respective college.

Category 3 - Uninsured and unregistered, with securities held by the counterparties, or by their trust departments or agents, but not in the institutions' name. (This includes the portion of the carrying amount of any repurchase agreement that exceeds the market value of the underlying securities).

	Category 1	Reported Amount	Fair Value
U.S. Treasury and agency securities	$ 455,275	$ 455,275	$ 455,275
Common and preferred stocks	26,906,542	26,906,542	27,007,541
Corporate bonds	13,943,238	13,943,238	13,943,238
Commercial paper	170,000	170,000	170,000
		41,475,055	41,576,054
Mutual and money market funds		3,865,648	3,865,648
State non-arbitrage program investments (SNAP)		3,375,230	3,375,230
Securities lending transactions		1,127,506	1,127,506
Stone Mountain half-dollars		14	280
Total investments	$ 41,475,055	$49,843,453	$49,944,718

3. ENDOWMENT AND SIMILAR FUNDS

Investments of Endowment and Similar Funds of The College of William and Mary are composed of the following:

	June 30, 2001		June 30, 2000	
	Fair Value	Reported	Fair Value	Reported
Equity investments	$26,840,306	$26,739,308	$27,062,181	$26,867,445
Bond investments	8,111,150	8,111,150	7,621,365	7,621,365
Cash equivalents/ Money market	622,356	622,356	665,715	665,715
Total	$35,573,812	$35,472,814	$35,349,261	$35,154,525

Investments of Endowment and Similar Funds of Richard Bland College are composed of the following:

	June 30, 2001		June 30, 2000	
	Fair Value	Reported	Fair Value	Reported
Cash equivalents/ Money market	$395,891	$395,891	$390,884	$390,884

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

4. COMMITMENTS

At June 30, 2001, outstanding construction commitments totaled approximately $101,729,000 of which $41,413,000 has been incurred.

Commitments also exist under various operating leases for buildings and computer software. In general, the leases are for one to three year terms with renewal options on the buildings and certain computer software for additional one-year terms. In most cases, these leases will be replaced by similar leases. The College of William and Mary has also entered into one 20-year lease for space in the Applied Science Research Center Building at the Jefferson Center for Research and Technology in Newport News, Virginia. Rental expense for the fiscal year ending June 30, 2001, was $2,552,390. As of June 30, 2001, the following total future minimum rental payments are due under the above leases:

2002	$2,302,367
2003	1,652,419
2004	1,264,019
2005	1,225,716
2006 and later	2,478,164
Total	$8,922,685

5. RETAINAGE PAYABLE

At June 30, 2001 and 2000, $954,809 and $1,126,752, respectively, was held as retainage on various construction contracts for work which had been performed. The retainage will be remitted to the various contractors upon satisfactory completion of the construction projects.

6. LONG-TERM DEBT

A. Bonds Payable

The College of William and Mary's bonds are issued pursuant to Section 9 of Article X of the Constitution of Virginia. Section 9(c) bonds are 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.

		Balance as of June 30, 2001
Renovation of Dormitories:		
4.500%-5.900% Higher Education 9(c), Series 1992D1, matures 2006	$ 335,000	
3.500%-5.000% Higher Education 9(c), Series 1993B1, matures 2013	430,000	
6.000%-6.400% Higher Education 9(c), Series 1994A1, matures 2006	50,000	
6.000%-6.400% Higher Education 9(c), Series 1994A2, matures 2008	685,000	
3.560%-5.650% Higher Education 9(c), Series 1996A1, matures 2016	1,380,000	
4.750%-5.125% Higher Education 9(c), Series 1996R5, matures 2014	113,512	
4.750%-5.125% Higher Education 9(c), Series 1996R6, matures 2015	1,691,718	
3.790%-5.400% Higher Education 9(c), Series 1997A2, matures 2017	660,000	
3.790%-5.400% Higher Education 9(c), Series 1997A3, matures 2017	2,950,000	
4.470%-4.930% Higher Education 9(c), Series 1998A1, matures 2018	5,700,000	
3.500%-5.000% Higher Education 9(c), Series 1998R2, matures 2013	683,907	
3.500%-5.000% Higher Education 9(c), Series 1998R3, matures 2013	31,723	
3.500%-5.000% Higher Education 9(c), Series 1998R4, matures 2013	349,234	15,060,094
Graduate Housing:		
5.600%-7.600% Higher Education 9(c), Series 1991A1, matures 2002	350,000	
3.750%-4.800% Higher Education 9(c), Series 1993A1, matures 2003	50,000	
3.500%-5.000% Higher Education 9(c), Series 1993R8, matures 2011	4,199,962	
4.750%-4.750% Higher Education 9(c), Series 1996R4, matures 2003	377,307	4,977,269
Randolph Residences:		
3.500%-5.000% Higher Education 9(c), Series 1993R6, matures 2009	1,209,321	1,209,321
Tyler Hall:		
3.750%-5.200% Higher Education 9(c), Series 1993R1, matures 2008	583,129	583,129
Telecommunications:		
3.500%-4.600% Higher Education 9(c), Series 1993R5, matures 2004	810,679	
3.500%-4.625% Higher Education 9(c), Series 1993R7, matures 2005	149,525	960,204
University Center:		
5.000%-6.000% Higher Education 9(c), Series 1992C1, matures 2004	1,435,000	
3.500%-5.000% Higher Education 9(c), Series 1993B2, matures 2013	145,000	
3.500%-5.000% Higher Education 9(c), Series 1998R1, matures 2013	6,438,602	8,018,602
Underground Utility:		
3.500%-5.600% Higher Education 9(c), Series 1995A1, matures 2014	1,275,000	
3.790%-5.400% Higher Education 9(c), Series 1997A1, matures 2017	1,740,000	3,015,000
Total bonds payable		$33,823,619

B. Notes Payable

Section 9(d) bonds, issued through the Virginia College Building Authority's Pooled Bond Program, are backed by pledges against the general revenues of the College and are issued to finance other capital projects. In addition, the College entered into a seven-year commercial note with SunTrust Bank to partially finance the multi-year implementation of a new administrative and financial system, described as the enterprise resource planning system. The annual debt service on this note is payable from a specific annual appropriation of funds from the Commonwealth and other discretionary funds of the College. Listed below are the notes outstanding at year-end.

William and Mary Hall:	
3.750 percent-5.00 percent Higher Education 9(d), Series 1997A, matures 2018	$ 1,940,000
Marshall-Wythe Library Addition:	
5.000 percent-6.00 percent Higher Education 9(d), Series 1999A, matures 2019	1,825,000
Enterprise Resource Planning System:	
5.280 percent Commercial Note, matures 2008	7,166,000
Total notes payable	$10,931,000

The principal and interest on bonds and notes are payable only from net income and specific auxiliary activities or from designated fee allocations. Other Liabilities of $15,256 represent interest earnings to be rebated to the Internal Revenue Service for both 9(c) and 9(d) debt.

C. Capital Leases

The College of William and Mary and Richard Bland College participate in the Higher Education Equipment Trust Fund (HEETF) of the Virginia College Building Authority (VCBA). Through 1998, for accounting purposes, this financing arrangement was considered to represent a capital lease. Assets acquired under this arrangement are institutional assets with related liabilities to the VCBA. In fiscal year 1999, changes were made to the HEETF program. Assets acquired under the new arrangement are owned immediately by the institution and no liability is recorded.

The transactions described here relate to the pre-1999 financing arrangement. No equity or prior year allocations remain unused for The College of William and Mary, Virginia Institute of Marine Science, or Richard Bland College. At June 30, 2001, the remaining liability to VCBA is $1,187,850. Payments are due through 2003.

D. Installment Purchases

At June 30, 2001, installment purchases consist of the current and long-term portions of obligations resulting from various contracts used to finance the acquisition of equipment. The lengths of the purchase agreements range from two to five years, and the interest rate charges are from 4.63 percent to 5.65 percent.

Long-term debt as of June 30, 2001 matures as follows:

Fiscal Year	Notes and Bonds	Capital Leases HEETF	Installment Purchases	Total
2002	$ 3,221,542	$ 842,739	$252,464	$ 4,316,745
2003	3,396,964	345,111	91,091	3,833,166
2004	3,547,379	-	36,156	3,583,535
2005	3,430,065	-	8,588	3,438,653
2006	3,558,309	-	-	3,558,309
2007 and later	27,600,360	-	-	27,600,360
Total	$44,754,619	$1,187,850	$388,299	$46,330,768

E. Prior Year Defeasance of Debt

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

Current year payments and future obligations for the defeased bonds are as follows:

Series	Retired in Fiscal 2001	Outstanding at June 30, 2001
1982A	$ 380,000	$ -
1988A	60,000	565,000
1989B	710,574	1,995,000
1990B	35,000	150,000
1991A	-	4,365,000
1992C	-	6,130,000
1992D	-	645,000
1994A	-	2,025,000
Total	$1,185,574	$15,875,000

F. Advances from Treasurer of Virginia

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

	Balance as of June 30, 2001
Anticipation of Federal Revenues	$ 700,000
Dormitory Renovation Project, 9(c) Bond Anticipation	400,000
Parking Deck Construction Project, 9(d) Bond Anticipation	200,000
Total Advances Payable	$ 1,300,000

7. ACCRUED LEAVE

In accordance with Financial Accounting Standards Board (FASB) Statement No. 43, a liability of $6,282,645 at June 30, 2001, and $5,949,203 at June 30, 2000, is recognized for vacation, sick, and compensatory leave earned, but not taken as of June 30 of each year for its faculty, professional, and classified employees. The current liability, representing termination-type payments to employees associated with the amounts noted above is $57,306 for 2001 and $129,140 for 2000. For faculty and professional employees, the liability reflects accumulated vacation leave balances up to a maximum of 30 days. For classified employees, the liability reflects earned vacation, sick and compensatory leave as prescribed by the Commonwealth of Virginia's leave policies. Vacation leave is earned, along with maximum accumulated balances, based on years of service. Sick leave is earned based on years of service with an unlimited accumulated sick leave balance; however, upon termination under the traditional sick leave program, the liability is limited to the lesser of 25 percent of the employee's accumulated sick leave balance or $5,000 for employees with a minimum of five years employment with the state. For full-time and part-time classified employees hired on or after January 1, 1999, sick leave and personal family leave is allotted at the beginning of each calendar year and is based on length of service and percentage of time worked under the Virginia Sickness and Disability Program (VSDP). Compensatory leave is earned in accordance with the Federal Fair Labor Standards Act with the liability limited to the employees' actual balances earned within the last 12 months.

In accordance with GASB Statement No. 16, an additional liability amount, including the applicable FICA taxes, has been included for those employees with less than five years of service based on the probability that they will eventually become vested.

8. INVESTMENT IN PLANT

	2001	2000
Investment in plant:		
Land and improvements	$ 15,466,679	$ 15,466,679
Buildings	188,394,622	186,211,164
Furniture, fixtures, and equipment	63,754,797	59,321,433
Library books	72,609,750	70,749,053
Construction in progress	41,394,398	30,022,133
Total investment in plant	$381,620,246	$ 361,770,462

The methods employed to value the general collections of the Earl Gregg Swem Library and the Marshall-Wythe Law Library, York River Library and Richard Bland College are based on average cost determined by each library. The average cost of the Swem Library for purchases of books was $47.07 and

$60.69 for fiscal years 2001 and 2000, respectively. The average cost of the law library books was $138.21 and $107.66 for fiscal years 2001 and 2000, respectively. Special collections maintained by each library are valued at historical cost or replacement value. The average cost of library books purchased for the York River Campus was $71.70 and $81.10 for fiscal years 2001 and 2000, respectively. (The $81.10 average cost for fiscal year 2000 represents a restatement of $45.00 average cost presented in prior fiscal year.) The average cost of library books purchased for Richard Bland College was $40.00 and $44.00 for fiscal years 2001 and 2000, respectively. The effects of the net change in value of the collections of the libraries have been included as additions to current year operations.

9. STATE APPROPRIATIONS

The following is a summary of state appropriations received by The College of William and Mary and Richard Bland College, including all supplemental appropriations and reversions.

Original Appropriation - Appropriation Act		$70,636,380
Supplemental appropriation:		
VIVA libraries	21,457	
Applied Research Center Partnership	61,250	
Deferred Compensation	318,291	
Reappropriate of FY 00 Unexpended Appropriation	392,152	
Salary regrade	442,714	
Health insurance premium	452,143	1,688,007
Appropriation reductions:		
Performance Indemity Bond Premium	2,578	
Deregulation of Natural Gas/Electric Power Industries	22,645	
Automobile Premium Savings	30,757	
Retirement of Health Insurance Credit	311,631	
Higher Education Retirement Contribution	424,856	
Department of Technology Loan Repayment	1,498	793,965
Reversions to the General Fund to the Commonwealth		512,029
Appropriations as adjusted		$71,018,393

10. RESTATEMENT OF FUND BALANCES AT JUNE 30, 2000

Certain fund balances originally reported in the College's financial statements as of June 30, 2000, have been restated to reflect further evaluation of assets and liabilities.

Current funds:	
Unrestricted:	
Fund balance June 30, 2000	$ 471,837
Adjustment: Deferred revenue	850,736
Fund balance as restated June 30, 2000	$ 1,322,573

Investment in Plant:	
Fund balance June 30, 2000	$323,606,023
Adjustment: Equipment	(594,932)
Adjustment: Library Books	350,941
Fund balance as restated, June 30, 2000	$323,362,032

11. CONTRIBUTION TO PENSION PLAN

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

The VRS does not measure assets and pension benefit obligations separately for individual state institutions. Therefore, all information related to this plan is available at the statewide level only and can be found in the Commonwealth's Comprehensive Annual Financial Report (CAFR). The Commonwealth of Virginia, not the Colleges, has the overall responsibility for contributions to these plans.

The College of William and Mary and Richard Bland College's payroll costs for employees covered by VRS were $53,034,456 and $50,503,862 for the years ended June 30, 2001 and 2000, respectively. Total payroll costs were $110,966,656 and $103,056,298 for the years ended June 30, 2001 and 2000, respectively.

The College of William and Mary and Richard Bland College's total VRS contributions were $5,420,121 and $5,591,394 for the years ended June 30, 2001 and 2000, respectively, which included a five percent employee contribution assumed by the employer. These contributions represent approximately 10.22 percent and 11.07 percent of covered payroll for fiscal years 2001 and 2000, respectively.

Optional Retirement Plan

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

Individual contracts issued under the plan provide for full and immediate vesting of contributions of the College of William and Mary and Richard Bland College and their employees. Total pension costs under this plan were $4,307,878 and $3,867,705 for the years ended June 30, 2001 and 2000, respectively. Contributions to the optional retirement plans were calculated using the base salary amount of $41,421,909 and $37,189,477 for fiscal years 2001 and 2000. The College of William and Mary and Richard Bland College's total payrolls for fiscal years 2001 and 2000 were $110,966,656 and $103,056,298 respectively.

12. POST-RETIREMENT BENEFITS

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

13. AFFILIATED ORGANIZATIONS

The financial statements do not include the assets, liabilities, or fund balances of the Athletic Educational Foundation of The College of William and Mary, Incorporated; The Endowment Association for The College of William and Mary in Virginia, Incorporated; The Society of the Alumni of the College of William and Mary, Incorporated; The College of William and Mary, School of Business Administration Sponsors, Incorporated; The Marshall-Wythe School of Law Foundation, Incorporated; or Richard Bland College Foundation. The purpose of these organizations is to operate for the benefit of the College. In exchange, the College provides varying levels of support to these organizations such as use of property and equipment, office supplies, accounting services, clerical staff, and data processing. College employees or committees may be responsible for awarding scholarships, soliciting donations, investing funds, and managing other day-to-day operations. Some of the organizations reimburse the College for an agreed upon portion of expenses.

These organizations were examined by other auditors, whose reports thereon have been furnished to the College. Amounts included for the organizations are based solely on the reports of the other auditors. Following is a condensed summary of the June 30, 2001, financial position of the above organizations:

Assets	$385,973,441
Liabilities	$ 17,514,907
Fund balances	368,458,534
Total liabilities and fund balances	$385,973,441

The aggregate revenues and expenditures of the foundations were $33,280,937 and 24,868,881, respectively, for the year ended June 30, 2001. The College and the above-named organizations are parties to the following transactions:

Athletic Educational Foundation of The College of William and Mary, Incorporated -The Foundation was organized to promote and further education of all kinds at the College; however, it principally supports the College's Athletic Department. The College received $1,430,380 from the Foundation during the year ended June 30, 2001.

The Endowment Association for The College of William and Mary in Virginia, Incorporated- The Association is authorized to receive and administer gifts and bequests of all kinds. The Endowment Association makes cash resources available to the College that may be drawn as needed by the College within the Association's budgetary restrictions. For the year ended June 30, 2001, the Endowment Association transferred $1,999,596 to the College.

The Society of the Alumni of the College of William and Mary, Incorporated - The Society is organized to cultivate alumni relations in order to benefit the Foundations' fund-raising efforts. The College provides direct financial support to the Society. The College disbursed $1,429,541 to the Society during the year ended June 30, 2001.

The College of William and Mary, School of Business Administration Sponsors, Incorporated - The Sponsors was established for the purposes of soliciting and receiving gifts to endow the College of William and Mary School of Business Administration and to administer and manage the Executive MBA program. The College received $776,288 from the Sponsors during the year ended June 30, 2001. Of this amount, $563,707 was for the College's share of tuition revenue from the Executive MBA Program.

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

Richard Bland College Foundation - The Foundation is organized as a fund-raising organization to support the College. The College received $117,872 from the Foundation during the year ended June 30, 2001.

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

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

14. CONTINGENCIES

A. Grants and Contracts

The College of William and Mary and Richard Bland College receive 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, 2001, the Colleges estimate that no material liabilities will result from such audits.

B. Litigation

The College of William and Mary and Virginia Institute of Marine Science are currently involved in litigation, which could result in judgments against the institutions. Per the Attorney General of the Commonwealth of Virginia, the litigations are a result of two different lawsuits, both alleging personal injury. At the present time, it is not reasonably possible to estimate the outcome or liability to the Colleges with respect to these proceedings. Total damages sought in these lawsuits are approximately $2,135,000.

15. RISK MANAGEMENT

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

16. PENDING GASB STATEMENT

Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities,* issued November 1999, will be effective for The College of William and Mary, Virginia Institute of Marine Science, and Richard Bland College for the fiscal year ending June 30, 2002. This Statement imposes new standards for financial reporting. The titles and formats of the financial statements will change significantly as a result of this Statement. In addition, management will be required to provide a management's discussion and analysis that gives readers an analysis of the University's overall financial position and results of operations including a comparison of current year results with the prior year. The College of William and Mary, Virginia Institute of Marine Science, and Richard Bland College have completed its assessment of the changes required by this Statement and is preparing for implementation.

SUPPLEMENTARY INFORMATION

THE COLLEGE OF WILLIAM AND MARY
CONSOLIDATED REPORT
SCHEDULE OF AUXILIARY ENTERPRISES REVENUES AND EXPENDITURES
For The Year Ended June 30, 2001

	Food Services	Residential Facilities	Stores and Shops	Student Health	Telecom-munications
Operating revenues:					
Student fees	$7,539,844	$12,622,242	$ -	$1,865,944	$1,350,705
Sales and services	177,451	408,023	562,293	329,455	1,271,004
Other sources	-	375,000	8,074	-	-
Gross operating revenues	$7,717,295	$13,405,265	$570,367	$2,195,399	$2,621,709
Cost of sales	-	-	645	-	-
Net operating revenues	7,717,295	13,405,265	569,722	2,195,399	2,621,709
Operating expenditures:					
Personal services	40,581	2,283,426	278,696	1,699,532	792,417
Contractual services	6,945,859	2,789,982	115,857	103,164	977,618
Current charges and obligations	806,198	4,039,015	510,257	160,629	378,373
Supplies and materials	73,386	436,260	20,100	148,871	63,334
Equipment	5,840	649,063	551,867	33,661	213,503
Property and improvements	-	-	-	-	-
Plant and improvements	-	7,380	-	-	5,195
Scholarships	250	539,677	33,082	357	-
Miscellaneous	1,700	-	616	-	-
Total operating expenditures	7,873,814	10,744,803	1,510,475	2,146,214	2,430,440
Excess (deficiency) of revenues over (under) operating expenditures	(156,519)	2,660,462	(940,753)	49,185	191,269
Nonoperating revenues: Private gifts	-	-	-	-	-
Transfers in (out):					
Mandatory:					
Debt service	-	(2,644,163)	-	-	(349,546)
Nonmandatory	-	(432)	(1,063)	-	-
Total transfers	-	(2,644,595)	(1,063)	-	(349,546)
Net increase (decrease) for the year	(156,519)	15,867	(941,816)	49,185	(158,277)
Fund balances (deficits) at beginning of year	3,761,733	898,508	58,111	852,480	162,375
Fund balances (deficits) at end of year	3,605,214	914,375	(883,705)	901,665	4,098

* Other includes the following: Ash Lawn, Auxiliary Enterprise Administration, Auxiliary Enterprise Licensing Royalties, Campus Center, College Enterprises, Inc., Colonial Echo, Concerts, Conference Services, Elderhostel, Facilities Management, Facilities Planning, Faculty Housing, Fine Arts Museum, Flat Hat, General Auxiliary Enterprise Fee, ID Office, National Planning & Giving Institute, Recreational Sports, Shakespeare Festival, Student Information Network, Student Recreation Center, Tennis Center, Underground Untility Fee, University Center, William and Mary Hall, Zable Stadium.

Intercollegiate Athletics	Parking and Transportation	Extramural Programs	Other *	Total
$5,519,300	$326,573	$ -	$7,214,223	$36,438,831
1,690,978	895,160	867,432	4,333,361	$10,535,157
-	2,200	5,000	298,088	$688,362
$7,210,278	$1,223,933	$872,432	$11,845,672	$47,662,350
-	-	-	162,756	163,401
7,210,278	1,223,933	872,432	11,682,916	47,498,949
3,576,429	469,479	194,098	3,015,345	12,350,003
2,326,226	95,454	508,030	4,050,502	17,912,692
443,691	91,921	11,095	1,850,045	8,291,224
287,233	46,238	13,743	517,859	1,607,024
213,851	67,104	2,969	208,941	1,946,799
-	18,650	-	58	18,708
-	-	20,001	197,076	229,652
3,066,717	250	75,472	48,553	3,764,358
-	-	-	35,714	38,030
9,914,147	789,096	825,408	9,924,093	46,158,490
(2,703,869)	434,837	47,024	1,758,823	1,340,459
2,584,614	-	-	-	2,584,614
-	-	-	(2,394,106)	(5,387,815)
-	(5,688)	-	(56,217)	(63,400)
-	(5,688)	-	(2,450,323)	(5,451,215)
(119,255)	429,149	47,024	(691,500)	(1,526,142)
(340,460)	1,483,230	1,093,378	(2,408,165)	5,561,190
(459,715)	1,912,379	1,140,402	(3,099,665)	4,035,048