COMMITTEE ON FINANCIAL AFFAIRS
November 30, 2012
8:45 – 10:00 a.m.
Board Room - Blow Memorial Hall

Todd A. Stottlemyer, Chair
Charles A. Banks III, Vice Chair
Edward L. Flippen, Vice Chair

I. Introductory Remarks - Mr. Stottlemyer

II. Approval of Minutes - September 21, 2012

III. Closed Session (if necessary)

IV. Open Session – Certification of Closed Session **Resolution**

Chair should review topics discussed during closed session for benefit of observers, then move adoption of **Resolution** certifying closed session was held in compliance with Freedom of Information Act. Motion will be seconded and Chair or designee will conduct roll call vote of the committee members for adoption. Upon passage, Chair should sign the resolution and direct that it be appended to the official minutes of this meeting.

V. Report from Vice President for Finance Samuel E. Jones

A. State Budget Development.

B. Receipt of the Consolidated Financial Report of The College of William and Mary in Virginia and Richard Bland College for the Fiscal Year Ended June 30, 2012 (*joint with Richard Bland College*). **Resolution 14**.

C. Receipt of the Financial Report of the Intercollegiate Athletic Department for the Fiscal Year Ended June 30, 2012. **Resolution 15.**

D. Peer Comparison: Tuition and Fees.

E. FY 2012-2013 Operating Budget Summary. Enclosure I.

VI. Report from Virginia Institute of Marine Science Dean John T. Wells

A. FY 2012-13 Operating Budget Summary. Enclosure J.

VII. Investment Portfolio Evaluation Overview - Joseph W. Montgomery, Wells Fargo Advisors

A. Investment Update for Period Ending September 30, 2012.
Enclosure __K__. *(see separate booklet)*

VIII. Discussion

IX. Adjourn

# COMMITTEE ON FINANCIAL AFFAIRS

## MINUTES – SEPTEMBER 21, 2012

**MINUTES**
**Committee on Financial Affairs**
**September 21, 2012**
**Board Room - Blow Memorial Hall**

Attendees: Todd A. Stottlemyer, Chair; Charles A. Banks III, Vice Chair; Edward L. Flippen, Vice Chair; Kendrick F. Ashton, Jr.; Thomas R. Frantz; and Robert E. Scott. Board members present: Rector Jeffrey B. Trammell; Ann Green Baise; Dennis H. Liberson; John E. Littel; Leigh A. Pence; L. Clifford Schroeder, Sr.; Michael Tang; John C. Thomas; faculty representative William Hausman; and staff liaison Lydia Whitaker. Others in attendance: Assistant Attorney General Deborah Love; President W. Taylor Reveley III; Provost Michael R. Halleran; Virginia M. Ambler; James R. Golden; Samuel E. Jones; Anna B Martin; Michael L. Stump; Michael J. Fox; Richard Bland College President Debbie L. Sydow; Virginia Institute of Marine Science Dean and Director John T. Wells; other College and VIMS staff; and staff from Wells Fargo Advisors, the Board of Visitors' investment consultant.

Chair Todd Stottlemyer convened the Committee on Financial Affairs in the Board Room at 9:40 a.m. Recognizing that a quorum was present, Mr. Stottlemyer requested a motion to approve the minutes of the April 27, 2012 meeting. Motion was made by Mr. Scott, seconded by Mr. Flippen and approved by voice vote of the Committee.

Mr. Stottlemyer called on Joseph Montgomery and staff from Wells Fargo Advisors, the College's investment consultants, to report on investment performance. For the fiscal year ending June 30, 2012, the Board of Visitors portfolio was down 2.7%. Since June, the endowment has shown a good recovery and, with the addition of new funds, is valued at $68.8 million as of September 14, 2012. Due to underperformance, the Investments Subcommittee elected to terminate Alethia, the large cap manager, in May 2012. A Request For Proposals was issued and fifteen managers responded. Wells Fargo Advisors completed their review and assessment of proposals submitted and, with the concurrence of the Investments Subcommittee, recommended that the previous large cap growth manager be replaced with Goldman Sachs as stated in **Resolution 18**, Appointment of Investment Manager, distributed during the Committee meeting. Mr. Stottlemyer requested a motion to approve **Resolution 18**. Motion was made by Mr. Banks, seconded by Mr. Scott and approved by voice vote of the Committee. (**Resolution 18** is appended.)

Vice President Samuel E. Jones presented to the Committee the College's annual update to the Six-Year Plan. The priorities of the Six-Year Plan have not changed since last year, with the funding of merit-based raises for faculty and staff remaining at the top of the list. The updated Plan incorporates funding actions reflected in the FY 2013 budget approved by the Board of Visitors and FY 2014 expenditures as proposed in the original Six-Year Plan, adjusted to include $3,721,000 to support faculty salary increases as a first step in achieving the 60$^{th}$ percentile of the College's peer institutions. Planned FY 2014 expenditures include $9,016,700 in College support supplemented by incremental state funding and further reallocation of funds within the College's overall operating budget.

John Wells, Dean and Director of the Virginia Institute of Marine Science, presented to the Committee the updated Six-Year Plan for VIMS which reflected FY 2013 expenditures consistent with the Institute's FY 2013 operating budget as approved by the Board, and FY 2014 expenditures as proposed in the Institute's original Six-Year Plan adjusted to reflect the impact of any state funding actions.

Mr. Jones reviewed **Resolution 16**, FY 2014 Operating and Capital Budget Amendments for the College to be submitted to the Governor for consideration; these include:

| | |
|---|---|
| Operating | Enrollment Growth |
| | Center for Energy and the Environment |
| Capital | Renovation: Tyler Hall |
| | Renovation: Residence Life Facilities |

Dean Wells reviewed **Resolution 17**, FY 2014 Operating and Capital Amendments for the Virginia Institute of Marine Science to be submitted to the Governor for consideration; these include:

| | |
|---|---|
| Operating | Establish Two Faculty Positions |
| | Enhance Coastal Modeling & Simulation Activities |
| | Improve Longevity of Highly-Sophisticated Instrumentation |
| Capital | Replace and Relocate Oyster Hatchery |
| | Replace and Relocate Facilities Management Complex |
| | Construct ESL Education and Administration Complex |

Following brief discussion, Mr. Stottlemyer requested a motion to approve as a block **Resolution 16**, College of William and Mary FY 2014 Operating and Capital Budget Amendments; **Resolution 17**, Virginia Institute of Marine Science FY 2014 Operating and Capital Budget Amendments; and handout **Resolution 19**, Six-Year Plan Update, which was distributed during the Committee meeting. Motion was made by Mr. Scott, seconded by Mr. Banks and approved by voice vote of the Committee. (**Resolution 19** is appended.)

There being no further business, the Committee adjourned at 10:53 a.m.

COLLEGE OF WILLIAM AND MARY
APPOINTMENT OF INVESTMENT MANAGER

At the May, 2012 meeting of the Investments Subcommittee of the Committee on Financial Affairs, Wells Fargo Advisors, financial advisor to the Board of Visitors for investment of private funds, recommended that the Board replace its current large cap growth manager. This recommendation resulted from the Investment Subcommittee's request that Wells Fargo evaluate the performance of the Board's existing manager in this area relative to other manager options. As a result, the Subcommittee authorized Wells Fargo Advisors to work with the College to issue a request for proposals (RFP).

On September 13, 2012, Wells Fargo Advisors presented the results of the RFP process to the Investments Subcommittee. After review and discussion, the Investments Subcommittee recommends to the Committee on Financial Affairs and the Board of Visitors that the Board replace its previous large cap growth manager with Goldman Sachs Asset Management.

THEREFORE, BE IT RESOLVED that the Board of Visitors of the College of William and Mary in Virginia accepts the recommendation of the Committee on Financial Affairs that its previous large cap growth manager be replaced and that Goldman Sachs Asset Management be retained as the College's large cap growth manager.

**COLLEGE OF WILLIAM AND MARY**

**SIX-YEAR PLAN UPDATE**

WHEREAS, the College of William & Mary has a long tradition of providing an excellent liberal arts education to the citizens of the Commonwealth and the nation; and

WHEREAS, the Governor's Commission on Higher Education has indicated "the Commonwealth's commitment . . . to having a distinctive 'public ivy' at William & Mary;" and

WHEREAS, consistent with the requirement of the Higher Education Opportunity Act (the Act), the College developed its initial Six-Year Plan rooted in this commitment, the goals set out in its Strategic Plan, and the objectives of the Act; and

WHEREAS, the Commonwealth's planning process requires an update to the six year-plan on an annual basis, incorporating funding actions by the Commonwealth as reflected in the final FY 2013 budget approved by each institution's Board of Visitors.

WHEREAS, the College has reviewed those expenditures necessary to support and enhance its instructional, research, student service, and administrative operations, prioritized those expenditures, and recommended funding through a combination of Commonwealth, College, and reallocated revenue; and

WHEREAS, the College continues to evaluate opportunities to improve the effectiveness and efficiency of its academic and administrative programs and activities;

THEREFORE, BE IT RESOLVED, That upon recommendation of the President, the Board of Visitors of the College of William and Mary, approves the College's Six-year Plan Update to reflect FY 2013 expenditures and tuition and fee charges consistent with the College's FY 2013 operating budgets as approved by the Board, and FY 2014 expenditures as proposed in the College's original Six-Year Plan adjusted to include $3,721,000 supporting faculty salary increases as a <u>first step</u> to achieve the 60$^{th}$ percentile of the State Council of Higher Education in Virginia's (SCHEV) approved faculty salary peer group for the College. Planned FY 2014 expenditures include $9,016,700 in College support supplemented by incremental state funding and further reallocation of funds within the College's overall operating budget.

BE IT FURTHER RESOLVED, That the Board defers setting tuition rates for FY 2014 pending consideration of tuition options that more fully address the Higher Education Commission's goal of improved affordability for lower and middle-income families consistent with Higher Education Advisory Committee income guidelines while providing the resources necessary to implement the College's Six-Year Plan.

BE IT FURTHER RESOLVED, That in response to the Commonwealth's direction that the Virginia Institute of Marine Science prepare a separate Six-Year Plan, the Board of Visitors of the College of William and Mary approves the Institute's Six-Year Plan Update to reflect FY 2013 expenditures consistent with the Institute's FY 2013 operating budget as approved by the Board, and FY 2014 expenditures as proposed in the Institute's original Six-Year Plan adjusted to reflect the impact of any state funding actions.

*College of William and Mary*

***SIX YEAR PLAN UPDATE***

## Incremental Expense by Priority

| | PRIORITY | FY 2014 |
|---|---|---|
| 1. | Faculty and Staff Salaries | $ 5,725,000 |
| 2. | Undergraduate Financial Aid | $ 1,840,000 |
| 3. | Enrollment | $ 356,000 |
| 4. | Marine Science Minor | Funded in FY 2013 |
| 5. | Graduate Financial Aid | $ 500,000 |
| 6. | Instructional Technology | $ 80,000 |
| 7. | Campus Security | $ 159,000 |
| 8. | Sustainability | Funded in FY 2013 |
| 9. | Business Process Improvement | $ 300,000 |
| 10. | Operating Funds | $ 217,000 |
| 11. | Library | $ 328,000 |
| 12. | B & G Maintenance | $ 300,000 |
| 13. | Utilities | $ 245,000 |
| 14. | Center for Energy & Environment | $ 400,000 |
| 15. | Research Opportunity Fund | $ 200,000 |
| 16. | Undergraduate Research | $ 250,000 |
| 17. | International Programs | $ 347,700 |
| | | $ 11,247,700 |

*Virginia Institute of Marine Science*

*SIX YEAR PLAN UPDATE*

## Incremental Expense by Priority

| | PRIORITY | FY 2014 |
|---|---|---|
| 1. | Increase Graduate Financial Aid | $ 496,987 |
| 2. | Establish Faculty Positions | $ 251,411 |
| 3. | Enhance Coastal Model & Simulation Activities | $ 409,302 |
| 4. | Improve Longevity of Highly-Sophisticated Instrumentation | $ 300,000 |
| 5. | Establish a Stable and Centralized Funding Base for Fish Surveys | $ 604,000 |
| 6. | Implement a Post-Graduate Commonwealth Coastal & Marine Fellowship Program | $ 250,000 |
| 7. | Establish a Commonwealth Chesapeake Bay Observing System | $ 215,000 |
| 8. | Develop and Support New Management & Policy Approaches through the CCRM | $ 383,000 |
| | | $ 2,909,700 |

**COLLEGE OF WILLIAM AND MARY**
**RECEIPT OF THE CONSOLIDATED FINANCIAL REPORT OF THE COLLEGE OF WILLIAM AND MARY IN VIRGINIA AND RICHARD BLAND COLLEGE FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

The Consolidated Financial Report of The College of William and Mary in Virginia and Richard Bland College for the fiscal year ended June 30, 2012, has been presented by the Vice President for Finance and the Vice President of Administration and Finance to the Presidents of the Colleges, who have approved it for presentation to the Rector and the Board of Visitors.

The statements included in this consolidated Financial Report provide a concise analysis of the College's financial affairs for fiscal year 2011-2012. The report is subject, of course, to a detailed audit to be directed by the Auditor of Public Accounts.

RESOLVED, That the Unaudited Consolidated Financial Report for the Year Ended June 30, 2012 *(see separate booklet)* for The College of William and Mary in Virginia and Richard Bland College is hereby received by the Board of Visitors.

RESOLUTION 14

# UNAUDITED
# CONSOLIDATED FINANCIAL REPORT
# FOR THE YEAR ENDED
# JUNE 30, 2012

2011-2012 CONSOLIDATED FINANCIAL REPORT
FOR
THE COLLEGE OF WILLIAM AND MARY IN VIRGINIA
AND
RICHARD BLAND COLLEGE

November 9, 2012

To the Board of Visitors of The College of William and Mary and Richard Bland College:

We are pleased to submit the following consolidated annual financial report for The College of William and Mary and Richard Bland College for the fiscal year ended June 30, 2012. Financial management has prepared and is responsible for the consolidated financial statements and all information in the financial report. The financial statements have been prepared in conformity with generally accepted accounting principles consistently applied.

The statements contained in this report are intended to provide a picture of the flow of financial resources during the fiscal year 2011-12 and the balances available for the future.

Management believes that the current internal control systems provide reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition, and that the financial records are reliable for preparing financial statements and maintaining accountability for assets. These statements are augmented by written policies and organizational structure providing division of responsibilities, careful selection and training of the financial staff, and a program of internal audits.

The financial statements remain subject to audit by the State Auditor of Public Accounts.

Respectfully submitted,

Samuel E. Jones
Vice President for Finance
The College of William and Mary

Beverly P. Morris
Interim Director of Financial Management
Richard Bland College

**The College of William and Mary in Virginia**
**Richard Bland College**

**June 30, 2012**

## The Board of Visitors



## OFFICERS OF ADMINISTRATION

### The College of William and Mary in Virginia



### Richard Bland College

# THE COLLEGE OF WILLIAM AND MARY IN VIRGINIA
# RICHARD BLAND COLLEGE

## ANNUAL FINANCIAL REPORT 2011 - 2012

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# The College of William and Mary in Virginia
# and Richard Bland College

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis (MD&A) is a supplement to the College's financial statement designed to assist readers in understanding the financial statement information presented. The following information includes a comparative analysis between the current fiscal year ending June 30, 2012 and the prior year ending June 30, 2011. 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 and associated footnotes in order for the reader to have a comprehensive understanding of the College's financial status and results of operations for fiscal year 2012. 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 Number 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, as amended by GASB Statement Numbers 37 and 38. Accordingly, the three financial statements required are the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows. The aforementioned statements are summarized and analyzed in the MD&A.

The financial statements of the College of William and Mary are consolidated statements that include the College, the Virginia Institute of Marine Science (VIMS) and Richard Bland College (RBC). 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 "Colleges" 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 No. 39, *Determining Whether Certain Organizations are Component Units* – an amendment of GASB Statement No. 14. The College has a total of nine foundations, of which the financial information for eight of the foundations is presented in the statements under the column titled "Component Units". The ninth foundation, Intellectual Properties, was established in fiscal year 2008 and did not have significant financial activity during the year. While affiliated foundations are not under the direct control of the College's Board of Visitors, this presentation provides a more holistic view of resources available to support the College and its mission. Additional information and detail related to the foundations can be found in the Component Unit Financial Information footnote.

<u>Financial Summary</u>

<u>Statement of Net Assets</u>

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, 2012. 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:

(1) Invested in Capital Assets – reflects the College's capital assets net of accumulated depreciation and any debt attributable to their acquisition, construction or improvements.
(2) 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, research, departmental uses, etc.

(3) 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

| | FY 2012 | FY 2011 | Dollar Change | Percent Change |
|---|---|---|---|---|
| Assets: | | | | |
| Current | $ 70,873,133 | $ 58,698,066 | $12,175,067 | 20.74% |
| Capital, net of accumulated depreciation | 699,630,341 | 701,308,876 | (1,678,535) | -0.24% |
| Other non-current | 120,267,473 | 110,252,618 | 10,014,855 | 9.08% |
| Total assets | 890,770,947 | 870,259,560 | 20,511,387 | 2.36% |
| Liabilities: | | | | |
| Current | 75,172,877 | 72,306,301 | 2,866,576 | 3.96% |
| Non-current | 221,944,706 | 222,179,900 | (235,194) | -0.11% |
| Total liabilities | 297,117,583 | 294,486,201 | 2,631,382 | 0.89% |
| Net Assets: | | | | |
| Invested in capital assets, net of related debt | 483,765,246 | 485,065,444 | (1,300,198) | -0.27% |
| Restricted | 79,651,407 | 70,630,862 | 9,020,545 | 12.77% |
| Unrestricted | 30,236,711 | 20,077,053 | 10,159,658 | 50.60% |
| Total net assets | $593,653,364 | $575,773,359 | $17,880,005 | 3.11% |

The overall result of the College's fiscal year 2012 operations was an increase in net assets of approximately $17.9 million or 3.1 percent to $593.7 million. The increase in net assets occurred in the categories of restricted ($9.0 million) and unrestricted ($10.2 million) net assets. In addition to the College's net assets as shown above, net assets for the College's affiliated foundations totaled $634.4 million.

The $1.3million decrease in capital net assets, net of related debt, reflects the College and VIMS' change in capitalization threshold for capital assets from $2,000 to $5,000. The specifics of the College's capital construction and renovation activity are detailed in the Capital Asset and Debt Administration section of the MD&A.

Current Assets increased by $12.2 million primarily as a result of an overall increase in cash and cash equivalents offset by a decrease in investments and amounts due from the Commonwealth of Virginia. The amounts due from the Commonwealth reflect routine and recurring requests for bond proceeds for capital construction. The increase in Other Non-Current Assets reflects the net increase in cash, cash equivalents and restricted investments.

Total liabilities increased slightly driven by increases in deferred revenue, deposits held in custody for others and the current portion of long-term liabilities. See footnote 7 for the details of the accounts payable and accrued expenses and footnote 10 for the long-term debt details.

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 categories: operating and non-operating. Operating revenues include the significant categories of tuition and fees, grants and contracts and the sales of auxiliary enterprises representing exchange transactions. Non-operating revenues include the significant categories of state appropriations, gifts and investment income representing non-exchange transactions. Net other revenues include capital appropriations, grants and contributions.

Summary Statement of Revenues, Expenses and Changes in Net Assets

| | FY 2012 | FY 2011 | Dollar Change | Percent Change |
|---|---|---|---|---|
| Operating revenues | $ 270,401,471 | $ 242,417,920 | $27,983,551 | 11.54% |
| Operating expenses | 356,429,081 | 337,426,850 | 19,002,231 | 5.63% |
| Operating gain/(loss) | (86,027,610) | (95,008,930) | 8,981,320 | 9.45% |
| Net Non-operating revenues | 86,811,719 | 101,912,686 | (15,100,967) | -14.82% |
| Income/(Loss) before other revenues | 784,109 | 6,903,756 | (6,119,647) | 88.64% |
| Net other revenues | 20,555,531 | 42,231,642 | (21,676,111) | -51.33% |
| Increase in net assets | $21,339,640 | $49,135,398 | ($27,795,758) | -56.57% |

Overall, the result from operations was an increase in net assets of $21.3 million. This increase was attributable to increases in Operating Revenues offset by an increase in operating expenses and a decrease in Non-Operating and Net Other Revenues.

The increase in operating revenues was driven by primarily by an increase in tuition and fees, grant and contract as well as auxiliary enterprise. See the following section of Summary of Revenues for further details.

Operating expenses increased notably in the four programs of Student Aid, Instruction, Academic Support and Student Services. See the following section of Summary of Expenses for further details.

With the inclusion of state appropriations for the College in the non-operating category, the College will typically display an operating loss for the year.

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

Summary of Revenues

| | FY2012 | FY2011 | Dollar Change | Percent Change |
|---|---|---|---|---|
| Operating Revenues: | | | | |
| Student Tuition and Fees, net of scholarship allowances | $ 139,365,551 | $ 122,740,797 | $ 16,624,754 | 13.54% |
| Federal, State, Local and Non-governmental grants and contracts | 45,702,027 | 44,115,237 | 1,586,790 | 3.60% |
| Auxiliary Enterprise, net of scholarship allowances | 79,401,760 | 71,794,030 | 7,607,730 | 10.60% |
| Other | 5,932,133 | 3,767,856 | 2,164,277 | 57.44% |
| Total Operating Revenues | 270,401,471 | 242,417,920 | 27,983,551 | 11.54% |
| Non-Operating: | | | | |
| State Appropriations | 61,101,776 | 67,058,280 | (5,956,504) | -8.88% |
| Gifts, Investment Income and other income and expenses | 25,709,943 | 34,854,406 | (9,144,463) | -26.24% |
| Total Non-Operating | 86,811,719 | 101,912,686 | (15,100,967) | -14.82% |
| Capital Revenues, Gains and (Losses): | | | | |
| Capital Appropriations | 9,902,380 | 29,139,531 | (19,237,151) | -66.02% |
| Capital Grants and Gifts | 10,653,151 | 13,092,111 | (2,438,960) | -18.63% |
| Total Capital Revenues, Gains and (Losses) | 20,555,531 | 42,231,642 | (21,676,111) | -51.33% |
| Total Revenues | $ 377,768,721 | $ 386,562,248 | $ (8,793,527) | -2.27% |

Within the operating revenue category, student tuition and fees increased $13.2 million, net of scholarship allowances, reflecting the increase approved by the Board of Visitors in the Spring of 2011. An increase in Federal, State and Local grants was offset by a reduction in non-governmental funding for research for a slight overall increase in revenues. The increase in Auxiliary Enterprise revenues is attributable to the Board approved fee increases and increased sales.

The Capital Revenues decrease reflects a decrease in capital appropriations given the completion of the capital construction projects.

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

Summary of Operating Expenses

| | FY 2012 | FY 2011 | Dollar Change | Percent Change |
|---|---|---|---|---|
| Operating Expenses: | | | | |
| Instruction | $97,989,332 | $94,581,663 | $3,407,669 | 3.60% |
| Research | 48,221,990 | 47,796,508 | 425,482 | 0.89% |
| Public Service | 68,442 | 52,740 | 15,702 | 29.77% |
| Academic Support | 29,626,975 | 27,596,836 | 2,030,139 | 7.36% |
| Student Services | 13,994,086 | 11,017,209 | 2,976,877 | 27.02% |
| Institutional Support | 27,166,785 | 26,503,476 | 663,309 | 2.50% |
| Operation and Maintenance of Plant | 23,472,575 | 27,551,256 | -4,078,681 | -14.80% |
| Student Aid | 33,246,613 | 14,875,398 | 18,371,215 | 123.50% |
| Auxiliary Enterprise | 57,826,571 | 63,901,228 | -6,074,657 | -9.51% |
| Depreciation | 23,761,878 | 22,951,758 | 810,120 | 3.53% |
| Other Operating Expenses | 1,053,834 | 598,778 | 455,056 | 76.00% |
| Total Operating Expenses | $356,429,081 | $337,426,850 | $19,002,231 | 5.63% |

For fiscal year 2011, operating expenses increased notably in the four programs; Student Aid, Instruction, Academic Support and Student Services.

Statement of Cash Flows

The Statement of Cash Flows provides detailed information about the College's sources and uses of cash during the fiscal year. Cash flow information is presented in four distinct categories: Operating, 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

| | FY2012 | FY 2011 | Dollar Change | Percent Change |
|---|---|---|---|---|
| Cash Flows from: | | | | |
| Operating Activities | $ (59,927,275) | $ (72,253,252) | $12,325,977 | 17.06% |
| Non-capital Financing | 96,759,485.00 | 99,232,682 | (2,473,197) | -2.49% |
| Capital Financing | (11,021,124.00) | (15,332,663) | 4,311,539 | 28.12% |
| Investing Activities | 6,265,688.00 | 10,492,973 | (4,227,285) | 40.29% |
| Net Increase in Cash | $ 32,076,774 | $ 22,139,740 | $ 9,937,034 | -44.88% |

Cash flow from operations and non-capital financing reflects the sources and uses of cash to support the core mission of the College. The primary sources of cash supporting the core mission of the College in fiscal year 2012 were tuition and fees - $133.7 million, auxiliary enterprise revenues $78.9 million, state appropriations - $61.1 million, and research grants and contracts - $45.4 million.

The primary uses of operating cash in fiscal year 2012 were payments to employees - $194.3 million representing salaries, wages and fringe benefits and payments to suppliers of goods and services - $96.9 million.

Cash flow from capital financing activities reflects the activities associated with the acquisition and construction of capital assets including related debt payments. The primary sources of cash in fiscal year 2012 were proceeds from capital appropriations - $11.3 million, bond sales - $25.6 million and capital grants and gifts - $9.8 million. The primary uses of cash were for debt payments - $29.3 million and capital expenditures - $29.2 million.

Capital Asset and Debt Administration

The College of William & Mary

General –The impact of the national recession continues to ripple down to College level as the total volume of work has declined significantly. FY 2012 marks the low point of College construction placement and project delivery since the 2001 bond issue ignited higher education construction in the Commonwealth. Support for construction of primary academic facilities (education and general) has dropped to the point that only one of five projects delivered in the last two years has included state funds – a ratio which is a direct reflection of the continuing fiscal climate.

Completed Projects – Twenty-three projects listed as "placed into service" were completed prior to FY 2012, and residual funds in each budget have been used to restore items deleted from project scopes during design to reduce estimated costs prior to contract bid/negotiation and/or to purchase equipment required to optimize facility functionality. These projects will be closed as rapidly as possible.

Projects in Progress - Fourteen projects are currently in design (3) and construction (11)

Design – Three projects have elements in design. Two are the final phases of utility infrastructure projects, Emergency Generators and Power Plant Utilities Improvements, which will design an emergency power automatic transfer switch for the campus museum and offices for Power Plant maintenance staff within the renovated plant, respectively. The third is design of additional kitchen space within the Commons Dining Facility.

Construction - Eleven projects are in construction. Five are for residence hall construction and improvement, four renovate academic/academic administration facilities, one supports intercollegiate athletic facility repairs and a final project renews/augments critical infrastructure.

Residence Life - The residence life projects consist of construction of a new 187 bed fraternity complex and four dormitory repair umbrella projects focused on envelope repairs, structural improvements, HVAC upgrades and fire safety. The fraternity complex consists of 11 two story, 17 bed houses and a community building. The complex provides additional beds to accommodate an expanding undergraduate population and places the Greek community in the heart of student residential housing.

Academic/Academic Administration – The four academic/academic administration projects provide final adjustments to the addition and renovation of the Physics building, final adjustments to the renovation of the Art and Art History building, renovation of the 1909 home of the English department, and an upgrade for building systems within the historic Brafferton. Small Hall, the home to Physics, provides vibration free, "heavy" labs with sufficient power and associated cooling to support graduate level research featuring cutting edge laser technology in partnership with private industry. Final steps in the renovation include installation of lab entry security for laser labs, laser curtain installation, incorporation of radiation security features and lecture hall seating modifications. The second project is a basic building systems renewal of Andrews Hall, home to Art and Art History which repairs structural masonry defects and brings mechanical, electrical, fire sprinkler and associated controls into compliance with current building codes to ensure systems operability and occupant safety. A major fire alarm and fire sprinkler installation in the previously unprotected foundry area has been added per the direction of the Building Code Official to ensure fire safety during foundry pours. The English Department project will renovate the 1909 era Tucker Hall. The project will re-program interior space to house the current staff, reconfigure instructional space to support seminar size classes and equip all instructional space with state of the art audio/visual equipment and data connectivity to support modern pedagogy. The building systems in this century old hall will be simultaneously replaced to meet current code standards and to ensure full accessibility, LEED Silver sustainability and state of the art life safety provisions. Design was paused in 2010 but is now complete. Project costs have been submitted to the Bureau of Capital Outlay Management for review and approval of construction funds. The final project is renovation of the Brafferton, a former 18th century Indian School, which now houses the offices of the President, the Provost and their staffs. The proposed scope will upgrade building systems with minimal disruption to existing programming and virtually no destruction of historic fabric.

Intercollegiate Athletics - An intercollegiate umbrella will address long standing deficiencies at existing facilities by reroofing the campus arena, providing new lighting for an athletic field complex and replacing deteriorating windows in Zable Stadium.

Utilities/Infrastructure - The final infrastructure project provides a cooling addition to the existing steam plant and constructs the first phase of chilled water/steam distribution to ten of twenty seven supported buildings. The creation of a district plant significantly increases energy efficiency as it simultaneously replaces sixty year plant and piping with geometrically increasing failure/repair rates.

A new Six Year Plan for the 2014-2020 period will be submitted in May, 2013. The plan will mark a significant transition functionally and fiscally. New construction will include a shift in focus to support the arts, technology and renovation of older academic facilities and dormitories. Funding support will continue to rely heavily on College and donor support during this period of fiscal recession and recovery.

<u>Virginia Institute of Marine Science</u>

The Marine Research Building Complex is comprised of two buildings, a seawater laboratory and a scientific building. Construction started in August 2005; a final certificate of use and occupancy was issued for the Seawater Research Laboratory on April 2, 2007 and for Andrews Hall on July 17, 2009. Installation of a second seawater line was completed in July 2012 and the project is now closed.

The Property Acquisitions have four appropriations for property at the Gloucester Point and Wachapreague campuses, the Virginia Estuarine & Coastal Research Reserve and the Chesapeake Bay National Estuarine Research Reserve in Virginia programs. The appropriation for “Acquisition: Master Plan Properties” involves the purchase of properties contiguous to the Gloucester Point campus. VIMS is currently in the process to acquire property which should be complete by Fall 2012. VIMS purchased two properties for its Wachapreague campus in May and June 2011, respectively. The “Acquisition: Wachapreague Property” appropriation remains open in the event other property becomes available. Two parcels of land were purchased for the Virginia Estuarine & Coastal Research Reserve program in 2002-03 and that appropriation remains open in the event other property becomes available. As of August 2006, an authorization to purchase additional property was granted under capital project entitled “Acquire Additional Property for the CBNERRVA Program”. VIMS purchased the Catlett Islands from Timberneck, L.L.C. for the Chesapeake Bay National Estuarine Research Reserve in Virginia Program in May 2012 and the appropriation remains open for future properties to become available.

The Improvement Project of Electrical Upgrades involves upgrading the electrical distribution 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 and a second emergency generator. The project is substantially complete. VIMS will purchase and install UPS systems in various laboratories with the remaining funds.

The Maury Hall Renovation project will be supported by the raising of private funds to renovate a 50-year old 6,400 square foot outdated laboratory into functional meeting and conference space for the campus. The project is on hold.

The Research Storage Facility project involves the construction of a 4,900 square foot facility that is needed to secure research equipment and instruments that are currently stored outdoors. The project was completed in December 2011.

Eastern Shore Seawater Laboratory Replacement project involves construction of a new laboratory building with running seawater for research on coastal marine ecology and aquaculture in a high salinity environment.
The research had been conducted in former oyster shucking houses from the late 1800's. Substantial completion was on February 3, 2012. VIMS has moved into the new facility and the contractor is completing the punch list items.

Richard Bland College

Major Projects in Progress at June 30, 2012:

| | Expenditures to Date |
|---|---|
| Student Center Renovation | $ 1,035,652 |
| Total | $ 1,035,652 |

The Student Center Renovation construction is on-going. The anticipated date of completion is during FY 2013.

Debt Activity

The College's long-term debt is comprised of bonds payable, notes payable and installment purchases. 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. The College's notes payable consists 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, 2011 the College has outstanding balances for Section 9(c) bonds and Section 9(d) bonds of $53.7 million and $150.8 million respectively.

The outstanding balance of 9(c) bonds can be summarized in four major categories as follows: (1) Renovation of Dormitories - $19.4 million, (2) Commons Dining Hall - $7.6 million, (3) Other housing / residence - $5.7 million, (4) New Dormitory - $16.3 million, and (5) University Center -$1.6 million. The majority of the 9(d) balance at June 30, 2011 is related to the new school of business building, Miller Hall, - $39.7 million, the Barksdale dormitories - $21.2 million, Cooling Plant - $21.8 million, Integrated Science Center - $16.9 million and the Parking Deck -$9.5 million.

Economic Outlook

The College's economic health reflects our ability to recruit students, our status as a public institution within the Commonwealth of Virginia's higher education system, our ability to raise revenue through tuition and fees, grants and contracts and private funds, and our ability to reallocate funds in support of higher priorities.

Our ability to recruit, admit and retain top-caliber students remains excellent even as we compete against the most selective public and private institutions in the country. Freshman applications to the College reached a new high of 13,660 for Fall 2012. The credentials of our admitted students remain strong, reflecting the highly selective nature of the College. These statistics, coupled with the College's academic reputation, suggest a strong continuing student demand for the future.

The rebound in endowment value that began in FY 2010 continued through FY 2012. By June 30, 2012, the consolidated value of endowments held by all of the various entities supporting the College and its programs totaled $644.2 million, an increase of 30.2% since FY 2008, and a record high for the College. While investment performance reflected the challenge of investing in sometimes turbulent national and global markets, strong gift flow and significant growth in assets held in external trusts more than compensated. The Board of Visitors' endowment and the William and Mary Investment Trust, the largest of the College's investment portfolios, remain highly diversified across asset classes.

With the opening of the School of Education and the Sherman and Gloria Cohen Career Center, the facilities focus shifts to planning for the final phase of the Integrated Science Center and the renovation of both Tucker and Tyler Halls. Since the ISC 3 and Tucker Hall projects had been previously authorized by the State, the College requested and received permission to move forward with Tyler Hall planning. On the non-academic side, the William and Mary Real Estate Foundation opened Tribe Square for Fall, 2011. Located just across Richmond Road from campus, Tribe Square provided 56 apartment-style beds as well as four commercial spaces. On-campus, construction of the new fraternity houses is underway. When complete in Summer, 2013, these houses will not only dramatically improve fraternity housing, but add an additional 187 beds to our on-campus inventory, reaffirming once again the College's residential commitment.

In the short-term, fiscal year 2013 budgets continue our progress. Within available resources the budgets reflect priorities included in the College's Strategic Plan and the Six-Year Plan approved by the Board of Visitors in response to the recently passed Higher Education Opportunity Act. This Act reaffirmed "the Commonwealth's commitment…to having a distinctive 'public ivy' at William and Mary".

Long-term, the Board of Visitors and the administration are focused on how best to attract and retain the very best students, faculty and staff while enhancing quality, affordability, and access. Well into its strategic planning process, the College will this year assess progress to date and identify more intentional investments to move the College forward. Under the general theme of "Breaking Boundaries", possible initiatives include enhancing the "360 degree" nature of a William and Mary education, leadership development, expanding technology-based instructional methods, interdisciplinary opportunities, applied learning, and global education and awareness. These investments will occur even as the College continues to address the six original "grand challenges" that have driven recent funding decisions.

All of the College's constituencies will need to contribute to this effort. While we do not expect the state to restore those funds lost since 2008, the Commonwealth will continue to play an important role in the College's future, providing both operating and facilities support. We can expect state resources to be targeted to support the various initiatives highlighted in the Higher Education Opportunity Act. Internally, the deans and vice presidents remain focused on ways to improve the efficiency and effectiveness of program delivery, allowing for the reallocation of funds to higher priority needs. Tuition and fees remain a part of the funding solution, recognizing that any action increasing the cost to students must address access and affordability issues. Finally, private fund raising, both annual giving and endowment, remains crucial to both the short- and long-term financial health of the institution. The Board of Visitors, in partnership with the College of William and Mary Foundation, the William and Mary Alumni Association, and the various other foundations and boards supporting the College, continues to invest those resources necessary to grow the College's giving profile and endowment.

As noted above, recent state funding action has cleared a variety of capital needs. As a result, the College is able to shift its facility focus to the programmatic and spaces needs of its various arts programs. Prior studies have more than adequately documented the condition and space needs in theatre, speech, dance, music, art and art history, and the Muscarelle Museum of Art. To be funded with both state and private funds, planning is underway for an "Arts Quarter" that will provide quality instructional, performance, and exhibition space for our students, faculty, and visitors.

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# Consolidated Financial Statements

**The College of William and Mary in Virginia**
**and Richard Bland College - Consolidated Report**
**Statement of Net Assets**
**As of June 30, 2012**

| **ASSETS** | **Colleges** | **Component Units** |
|---|---|---|
| Current assets: | | |
| Cash and cash equivalents (Note 3) | $ 49,896,351 | $ 21,967,908 |
| Investments (Note 3) | 2,459,080 | 955,692 |
| Appropriation available | 281,686 | - |
| Receivables, net of allowance for doubtful accounts (Note 5) | 13,827,647 | 1,906,293 |
| Notes receivable (Note 5) | 20,941 | - |
| Due from commonwealth | 2,068,744 | - |
| Inventories | 807,924 | 40,319 |
| Pledges receivable | - | 7,948,925 |
| Prepaid expenses | 1,427,924 | 615,819 |
| Other assets | 82,836 | 14,915 |
| Total current assets | 70,873,133 | 33,449,871 |
| Non-current assets: | | |
| Restricted cash and cash equivalents (Note 3) | 43,549,934 | 19,715,256 |
| Restricted investments (Note 3) | 64,537,738 | 435,044,383 |
| Investments (Note 3) | 9,091,673 | 11,995,721 |
| Receivables | - | 23,673,342 |
| Notes receivable, net of allowance for doubtful accounts (Note 5) | 3,088,128 | - |
| Pledges receivable | - | 12,750,259 |
| Capital assets, nondepreciable (Note 6) | 133,307,189 | 11,849,287 |
| Capital assets, depreciable net of accumulated depreciation of $335,526,543 (Note 6) | 566,323,152 | 15,143,635 |
| Other assets | - | 1,506,592 |
| Other restricted assets | - | 136,883,891 |
| Total non-current assets | 819,897,814 | 668,562,366 |
| Total assets | 890,770,947 | 702,012,237 |
| **LIABILITIES** | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses (Note 7) | 34,263,442 | 1,795,345 |
| Deferred revenue | 13,684,090 | 1,691,693 |
| Deposits held in custody for others | 3,078,155 | 19,655 |
| Obligations under securities lending program | 139,525 | - |
| Long-term liabilities-current portion (Note 9) | 23,664,491 | 1,884,316 |
| Short term debt | - | 2,635,000 |
| Other liabilities | 343,174 | 33,043 |
| Total current liabilities | 75,172,877 | 8,059,052 |
| Long-term liabilities-non-current portion (Note 9) | 221,944,706 | 59,536,120 |
| Total liabilities | 297,117,583 | 67,595,172 |
| **NET ASSETS** | | |
| Invested in capital assets, net of related debt | 483,765,246 | 11,601,830 |
| Restricted for: | | |
| Nonexpendable: | | |
| Scholarships and fellowships | 14,437,880 | 90,124,469 |
| Research | - | 5,861,795 |
| Loans | - | 24,230 |
| Departmental uses | 27,195,681 | 124,633,047 |
| Other | - | 182,488,048 |
| Expendable: | | |
| Scholarships and fellowships | 7,693,609 | 62,936,460 |
| Research | - | 2,318,540 |
| Debt service | 599,510 | - |
| Capital projects | 3,422,586 | 7,076,090 |
| Loans | 721,043 | 49,945 |
| Departmental uses | 25,581,098 | 101,268,589 |
| Other | - | 13,945,100 |
| Unrestricted | 30,236,711 | 32,088,922 |
| Total net assets | $ 593,653,364 | $ 634,417,065 |

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

**The College of William and Mary in Virginia**
**and Richard Bland College - Consolidated Report**
**Statement of Revenues, Expenses and Changes in Net Assets**
**For the Year Ended June 30, 2012**

| | **Colleges** | **Component Units** |
|---|---|---|
| Operating revenues: | | |
| Student tuition and fees, net of scholarship allowances of $24,602,458 | $ 139,365,551 | $ - |
| Gifts and contributions | - | 15,988,737 |
| Federal grants and contracts | 39,125,012 | - |
| State grants and contracts | 2,203,945 | - |
| Local grants and contracts | 401,159 | - |
| Nongovernmental grants and contracts | 3,971,911 | - |
| Auxiliary enterprises, net of scholarship allowances of $10,876,628 | 79,401,760 | - |
| Other | 5,932,133 | 11,604,268 |
| Total operating revenues | 270,401,471 | 27,593,005 |
| Operating expenses: (Note 11) | | |
| Instruction | 97,989,332 | 3,958,874 |
| Research | 48,221,990 | 526,022 |
| Public service | 68,442 | 948,439 |
| Academic support | 29,626,975 | 5,365,409 |
| Student services | 13,994,086 | 1,286,177 |
| Institutional support | 27,166,785 | 12,686,923 |
| Operation and maintenance of plant | 23,472,575 | 1,094,897 |
| Student aid | 33,246,613 | 6,143,259 |
| Auxiliary enterprises | 57,826,571 | 831,101 |
| Depreciation | 23,761,878 | 819,088 |
| Other | 1,053,834 | 6,916,956 |
| Total operating expenses | 356,429,081 | 40,577,145 |
| Operating loss | (86,027,610) | (12,984,140) |
| Non-operating revenues/(expenses): | | |
| State appropriations (Note 12) | 61,101,776 | - |
| Gifts | 17,177,812 | - |
| Net investment revenue | (1,926,708) | (5,546,231) |
| Pell grant revenue | 5,183,669 | - |
| ARRA State Fiscal Stabilization Funds | 940,873 | - |
| Interest on capital asset related debt | (7,631,176) | (147,454) |
| Other non-operating revenue | 12,392,152 | 19,722,074 |
| Other non-operating expense | (426,679) | (5,318,495) |
| Net non-operating revenues | 86,811,719 | 8,709,894 |
| Income/(loss) before other revenues, expenses, gains or losses | 784,109 | (4,274,246) |
| Capital appropriations | 9,902,380 | - |
| Capital grants and contributions | 10,653,151 | 184,212 |
| Additions to permanent endowments | - | 18,322,449 |
| Net other revenues, expenses, gains or losses | 20,555,531 | 18,506,661 |
| Increase in net assets | 21,339,640 | 14,232,415 |
| Net assets - beginning of year, restated (Note 2) | 572,313,724 | 620,184,650 |
| Net assets - end of year | $ 593,653,364 | $ 634,417,065 |

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

**The College of William and Mary in Virginia**
**and Richard Bland College - Consolidated Report**
**Statement of Cash Flows**
**For the Year Ended June 30, 2012**

| | |
|---|---|
| Cash flows from operating activities: | |
| Tuition and fees | $ 133,696,948 |
| Scholarships | (21,356,891) |
| Research grants and contracts | 45,383,644 |
| Auxiliary enterprise charges | 78,942,364 |
| Payments to suppliers | (96,912,996) |
| Payments to employees | (194,299,574) |
| Payments for operation and maintenance of facilities | (12,559,399) |
| Loans issued to students and employees | (392,299) |
| Collection of loans to students and employees | 467,829 |
| Other receipts | 7,627,775 |
| Other payments | (524,676) |
| Net cash used by operating activities | (59,927,275) |
| Cash flows from noncapital financing activities: | |
| State appropriations | 61,101,776 |
| Gifts | 17,177,812 |
| Agency receipts | 5,874,486 |
| Agency payments | (5,190,190) |
| Direct Loan receipts | 47,405,825 |
| Direct Loan disbursements | (47,405,825) |
| Other non-operating receipts | 18,222,280 |
| Other non-operating disbursements | (426,679) |
| Net cash provided by noncapital financing activities | 96,759,485 |
| Cash flows from capital financing activities: | |
| Proceeds from issuance of capital debt | 25,640,084 |
| Capital appropriations | 11,293,309 |
| Capital grants and contributions | 9,774,795 |
| Insurance payments | 680,113 |
| Capital expenditures | (29,214,049) |
| Principal paid on capital-related debt | (20,612,944) |
| Interest paid on capital-related debt | (8,648,289) |
| Proceeds from sale of capital assets | 65,857 |
| Net cash used by capital and related financing activities | (11,021,124) |
| Cash flows from investing activities: | |
| Investment income | (1,871,737) |
| Investments | 8,137,425 |
| Net cash provided by investing activities | 6,265,688 |
| Net increase/(decrease) in cash | 32,076,774 |
| Cash-beginning of year* | 61,234,170 |
| Cash-end of year | $ 93,310,944 |

**The College of William and Mary in Virginia**
**and Richard Bland College - Consolidated Report**
**Statement of Cash Flows**
**For the Year Ended June 30, 2012**

| | | |
|---|---|---|
| Reconciliation of Cash-end of year-Cash Flow Statement, to Cash and Cash Equivalents-Statement of Net Assets : | | |
| Statement of Net Assets | | |
| Cash and cash equivalents | $ | 49,896,351 |
| Restricted cash and cash equivalents | | 43,549,934 |
| Less: Securities lending -Treasurer of Virginia | | (135,341) |
| Net cash and cash equivalents | $ | 93,310,944 |
| Reconciliation of net operating expenses to net cash used by operating activities: | | |
| Net operating loss | $ | (86,027,610) |
| Adjustments to reconcile net operating expenses to cash used by operating activities: | | |
| Depreciation expense | | 23,761,878 |
| Changes in assets and liabilities: | | |
| Receivables-net | | 864,788 |
| Inventories | | (330,087) |
| Prepaid expense | | (152,549) |
| Accounts payable | | 2,140,612 |
| Deferred revenue | | 469,360 |
| Deposit held for others | | (223,064) |
| Compensated absences | | 94,073 |
| Other liability | | (524,676) |
| Net cash used in operating activities | $ | (59,927,275) |

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

| | | |
|---|---|---|
| Amortization of a deferred loss | $ | 1,326,362 |
| Donated capital assets | $ | 878,356 |
| Reduction/amortization of bond premium and debt issuance costs | $ | 309,249 |

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

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# Notes to Financial Statements

# Year Ended June 30, 2012

# NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The College of William and Mary, which includes the Williamsburg campus and the York River campus (Virginia Institute of Marine Science), and Richard Bland College are a part of the Commonwealth 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 No. 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 nine 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 School of Business Foundation, the Virginia Institute of Marine Science Foundation, the Richard Bland College Foundation, the Real Estate Foundation and the Intellectual Property 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 which the Foundations hold and invest are restricted to the activities of the College by the donors. Because these restricted resources held by the Foundations can only be used by or for the benefit of the College, the Foundations are considered component units of the College and are discretely presented in the financial statements.

The 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 Alumni 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 Intellectual Property Foundation is a nonprofit organization incorporated under the laws of the Commonwealth of Virginia in September 2007. Its purpose is to handle all aspects of the intellectual property of the College of William and Mary in Virginia in support of the educational goals of the College. The Foundation had no significant financial activity to report; therefore, it is not included in the component unit financial information reported in the financial statements. For additional information on the William and Mary Intellectual Property 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, 2012:

| | |
|---|---|
| Assets | $ 616,655 |
| Liabilities | 139,602 |
| Net Assets | 477,053 |
| Liabilities and Net Assets | $ 616,655 |

The total unaudited receipts and disbursements of the OIEAHC were $1,896,364 and $1,936,994 respectively, for the year ended June 30, 2012. 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 College's policy not to follow FASB standards issued after that date.

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, effective for the years ending on or after June 30, 2002, the full scope of the College's activities is considered to be a single business-type activity (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 No. 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 No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. (See Note 3.)

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

Prepaid Expenses

As of June 30, 2012, the Colleges' prepaid expenses included items such as insurance premiums, membership dues, conference registrations for fiscal year 2013 that were paid in advance, and publications subscriptions which include initial and renewal annual subscriptions for technical and professional publications.

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. All three campuses capitalize 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. GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets for financial statement periods beginning after June 15, 2009. The Williamsburg and York River campuses capitalize intangible assets with a cost greater than or equal to $50,000 except for internally generated computer software which is capitalized at a cost of $100,000 or greater. Richard Bland College capitalizes intangible assets with a cost greater than or equal to $20,000.

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 |
| Intangible Assets – computer software | 3-20 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, 2012. This is primarily comprised of revenue for student tuition paid in advance of the semester, amounts received from grant and contract sponsors that have not yet been earned and advance ticket sales for athletic events.

Compensated Absences

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

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 No. 34 requires that the Statement of Net Assets report the difference between assets and liabilities as net assets rather than fund balance. Accordingly, the College's net assets are classified as follows:

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

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

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

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

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 Direct Loans, which includes Stafford Loans, Parent Loans for Undergraduate Students (PLUS) and Graduate PLUS Loans. 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 No. 9, and GASB Statement No. 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, 2011 have been restated to reflect further evaluation of assets and liabilities.

| | | |
|---|---|---|
| Net assets as previously reported June 30, 2011 | $ | 575,773,359 |
| Reduction in assets due to increase in capital asset capitalization threshold | | (5,291,475) |
| Adjustment to fund balance for grant transactions | | 1,831,840 |
| Net asset balance at July 1, 2011 | $ | 572,313,724 |

## 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. Cash held by the College is 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. 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, Resolution 12(R) November 21-22, 2002, and as updated by the Board in April 2012 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, mutual 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. The College's investment policy does not limit the amount invested in U.S. Government or Agency Securities. As of June 30, 2012, none of the investments in stocks or bonds represents five percent or more of the total investments; therefore, the College does not have concentration of credit risk.

### Custodial Credit Risk

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

### Interest Rate Risk

The interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The College limits its exposure to interest rate risk by limiting 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 had no investments in foreign currency but had foreign deposits in the amount of $280,499 as of June 30, 2012.

Security Lending Transactions

Securities lending transactions represent Richard Bland 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.

Interest Rate Risk: Maturities

| Type of Investment | Fair Value | Less than 1 year | 1-5 years | 6-10 years | Greater than 10 years |
|---|---|---|---|---|---|
| Agency unsecured bonds and notes: | | | | | |
| Federal Home Loan Bank | $ 2,000,360 | $ 2,000,360 | $ - | $ - | $ - |
| Federal Farm Credit Bank | 998,804 | 998,804 | - | - | - |
| Ridgeworth Fund - U.S. Government Sec | 9,091,673 | - | 9,091,673 | - | - |
| Mutual and money market funds: | | | | | |
| Money market | 61,659,339 | 61,659,339 | - | - | - |
| Mutual funds - Investment Funds | 6,097,658 | - | - | 3,021,772 | 3,075,886 |
| Mutual funds - PIMCO Funds | 9,988,437 | - | - | 9,988,437 | - |
| Mutual funds - PIONEER Strategic Income | 9,725,688 | - | - | - | 9,725,688 |
| Mutual funds - Calvert Social Investment Fund | 44,467 | - | - | 44,467 | - |
| Mutual funds - Wells Fargo | 169,973 | 169,973 | - | - | - |
| State non-arbitrage program | 24,082,548 | 24,082,548 | - | - | - |
| Securities lending | 135,341 | 135,341 | - | - | - |
| | $ 123,994,288 | $ 89,046,365 | $ 9,091,673 | $ 13,054,676 | $ 12,801,574 |

Credit & Concentration of Credit Risks

| | Fair Value | S&P Credit Quality Rating AA+ | Unrated |
|---|---|---|---|
| Cash Equivalents | | | |
| Certificate of deposit | $ 170,000 | $ - | $ 170,000 |
| Money market | 61,659,339 | - | 61,659,339 |
| State non-arbitrage program | 24,082,548 | - | 24,082,548 |
| Securities lending | 135,341 | - | 135,341 |
| Total cash equivalents | 86,047,228 | - | 86,047,228 |
| Investments | | | |
| Agency unsecured bonds and notes: | | | |
| Federal Home Loan Bank | $ 2,000,360 | $ 2,000,360 | $ - |
| Federal Farm Credit Bank | 998,804 | - | 998,804 |
| Ridgeworth Fund - U.S. Government Securities | 9,091,673 | - | 9,091,673 |
| Mutual funds: | | | |
| Investment Funds | 6,097,658 | - | 6,097,658 |
| PIMCO Funds | 9,988,437 | - | 9,988,437 |
| PIONEER Strategic Income Fund | 9,725,688 | - | 9,725,688 |
| Calvert Social Investment Fund | 44,467 | - | 44,467 |
| Wells Fargo | 169,973 | - | 169,973 |
| Total investments | 38,117,060 | $ 2,000,360 | $ 36,116,700 |
| Other Investments | | | |
| Other | 37,521,366 | | |
| Securities lending | 4,184 | | |
| Rare coins | 280 | | |
| Property held as investment for endowments | 445,600 | | |
| Total other investments | 37,971,430 | | |
| Total cash equivalents and investments | $ 162,135,718 | | |

## 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 2012, had a net appreciation of $8,633,049 which is available to be spent and is reported in the Statement of Net Assets in the following categories: Restricted for Expendable Scholarships and Fellowships - $4,100,878, Restricted for Expendable Research - $21,073, Restricted for Expendable Capital Projects - $147,232, Restricted for Expendable Departmental Uses - $3,368,186 and Unrestricted - $995,680. The amount for Research was reclassified to unrestricted because the total net assets Restricted Expendable Research was negative.

5. ACCOUNTS AND NOTES RECEIVABLES

Receivables include transactions related to accounts and notes receivable and are shown net of allowance for doubtful accounts for the year ending June 30, 2012 as follows:

Accounts receivable consisted of the following at June 30, 2012:

| | | |
|---|---|---|
| Student Tuition and Fees | $ | 3,644,535 |
| Auxiliary Enterprises | | 1,274,706 |
| Federal, State and Non-Governemental Grants & Contracts | | 6,272,627 |
| Other Activities | | 2,683,571 |
| Gross Receivables | | 13,875,439 |
| Less: allowance for doubtful accounts | | (47,792) |
| Net Receivables | $ | 13,827,647 |

Notes receivable consisted of the following at June 30, 2012:

| | | |
|---|---|---|
| Current portion: | | |
| Federal student loans and promissory notes | $ | 20,941 |
| Non-current portion: | | |
| Federal student loans and promissory notes | $ | 3,157,944 |
| Less: allowance for doubtful accounts | | (69,816) |
| Net non-current notes receivable | $ | 3,088,128 |

6. CAPITAL ASSETS

A summary of changes in the various capital asset categories for the year ending June 30, 2012 consists of the following:

| | Beginning Balance | Beginning Balance Adjustments | Additions | Reductions | Ending Balance |
|---|---|---|---|---|---|
| Non-depreciable capital assets: | | | | | |
| Land | $ 14,257,770 | $ (7,055) | $ 807,703 | $ - | $ 15,058,418 |
| Inexhaustible artwork and Historical treasures | 72,478,892 | - | 902,373 | (12,310) | 73,368,955 |
| Construction in Progress | 44,755,691 | - | 19,563,636 | (19,439,511) | 44,879,816 |
| Total non-depreciable capital assets | 131,492,353 | (7,055) | 21,273,712 | (19,451,821) | 133,307,189 |
| Depreciable capital assets: | | | | | |
| Buildings | 667,691,019 | (42,700) | 16,186,031 | (974,241) | 682,860,109 |
| Equipment | 85,796,508 | (13,989,610) | 4,942,303 | (1,730,066) | 75,019,135 |
| Infrastructure | 42,532,130 | (17,459) | 235,768 | - | 42,750,439 |
| Other improvements | 5,895,056 | (4,004) | 2,863,443 | - | 8,754,495 |
| Library Materials | 85,811,533 | - | 1,455,783 | (227,871) | 87,039,445 |
| Computer software | 5,121,258 | - | 304,814 | - | 5,426,072 |
| Total depreciable capital assets | 892,847,504 | (14,053,773) | 25,988,142 | (2,932,178) | 901,849,695 |
| Less accumulated depreciation for: | | | | | |
| Buildings | 156,934,862 | (35,865) | 15,295,011 | (820,951) | 171,373,057 |
| Equipment | 54,248,498 | (8,718,182) | 5,026,013 | (1,448,713) | 49,107,616 |
| Infrastructure | 25,494,132 | (11,302) | 1,378,542 | - | 26,861,372 |
| Other improvements | 3,879,253 | (4,004) | 432,866 | - | 4,308,115 |
| Library Materials | 77,877,634 | - | 1,535,181 | (227,871) | 79,184,944 |
| Computer software | 4,596,602 | - | 94,837 | - | 4,691,439 |
| Total accumulated depreciation | 323,030,981 | (8,769,353) | 23,762,450 | (2,497,535) | 335,526,543 |
| Depreciable capital assets, net | 569,816,523 | (5,284,420) | 2,225,692 | (434,643) | 566,323,152 |
| Total capital assets, net | $ 701,308,876 | $ (5,291,475) | $ 23,499,404 | $ (19,886,464) | $ 699,630,341 |

Capitalization of Library Books

The methods employed to value the general collections of the Earl Gregg Swem Library and the Marshall-Wythe Law Library, York River Library, and Richard Bland College Library are based on average cost determined by each library. The average cost of the Swem Library for purchases of books was $33.99 for fiscal year 2012. The average cost of the Law Library purchases of books was $105.43 for fiscal year 2012. Special collections maintained by each library are valued at historical cost or acquisition value. The average cost of library books purchased for the Virginia Institute of Marine Science was $79.30 for fiscal year 2012. The average cost of library books purchased for Richard Bland College was $14.68 for fiscal year 2012. The changes reflected in the valuation are due to the recognition of depreciation in accordance with GASB Statements No. 34 and 35, as well as purchases, donations and disposals.

Impairment of Capital Assets

GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, was issued effective for the fiscal year ended June 30, 2006. Statement No. 42 requires an evaluation of prominent events or changes in circumstances to determine whether an impairment loss should be recorded and whether any insurance recoveries should be offset against the impairment loss. There was a fire on November 18, 2010 at the VIMS Wachapreague campus which completely destroyed a laboratory and its contents. The impairment loss was recognized in the FY11 financial statements. During FY12, $500,000 of insurance recoveries for this loss was received by the Institute. VIMS does plan to rebuild the facility.

Proceeds from other insurance recoveries attributable to capital assets are reported as a capital related financing activity in the Statement of Cash Flows. Accordingly, $180,113 of proceeds from insurance recoveries are classified as a capital related financing activity.

GASB 42 also requires the disclosure of idle assets at the close of each fiscal year. As of June 30, 2012 there were several vacant or unused buildings on the main William and Mary campus and at the Dillard Complex. The carrying value of these unused buildings at year-end was $1,895,515.

## 7. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at June 30, 2012:

| | |
|---|---|
| Current Liabilities: | |
| Employee salaries, wages, and fringe benefits payable | $ 18,801,024 |
| Vendors and supplies accounts payable | 8,468,962 |
| Capital projects accounts and retainage payable | 6,993,456 |
| Total current liabilities-accounts payable and accrued liabilities | $ 34,263,442 |

## 8. COMMITMENTS

At June 30, 2012, outstanding construction commitments totaled approximately $44,929,652.

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 of William and Mary has also entered into one twenty-year lease for space in the Applied Science Research Center Building at the Jefferson Center for Research and Technology in Newport News, Virginia. Rental expense for the fiscal year ending June 30, 2012, was $4,672,628.

As of June 30, 2012, the following total future minimum rental payments are due under the above leases:

| Year Ending June 30, 2012 | Amount |
|---|---|
| 2013 | $ 4,280,354 |
| 2014 | 1,501,335 |
| 2015 | 1,418,966 |
| 2016 | 1,154,853 |
| 2017 | 650,232 |
| Total | $ 9,005,740 |

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, 2012 is presented as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Current Portion |
|---|---|---|---|---|---|
| Installment Purchases | $ 5,979,315 | $ 26,797 | $ (522,519) | $ 5,483,593 | $ 561,072 |
| Capital Lease Payable | 24,593,595 | - | (449,359) | 24,144,236 | 470,894 |
| Notes Payable | 159,955,401 | 35,469,723 | (44,661,650) | 150,763,474 | 10,345,000 |
| Bonds Payable | 41,437,379 | 20,214,630 | (7,938,265) | 53,713,744 | 4,126,146 |
| Total long-term debt | 231,965,690 | 55,711,150 | (53,571,793) | 234,105,047 | 15,503,112 |
| Perkins Loan Fund Balance | 2,498,565 | - | - | 2,498,565 | - |
| Accrued compensated absences | 8,911,512 | 9,022,898 | (8,928,825) | 9,005,585 | 8,161,379 |
| Total long-term liabilities | $243,375,767 | $ 64,734,048 | $ (62,500,618) | $245,609,197 | $ 23,664,491 |

10. LONG-TERM DEBT

Bonds Payable

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

| Description | Interest Rates(%) | Maturity | Balance as of June 30, 2012 |
|---|---|---|---|
| Section 9(c) bonds payable: | | | |
| Dormitory, Series 2004B2 | 3.000 - 5.000 | 2017 | 256,943 |
| Dormitory, Series 2004B3 | 3.000 - 5.000 | 2017 | 1,144,123 |
| Dormitory, Series 2004B4 | 3.000 - 5.000 | 2018 | 2,443,250 |
| Dormitory, Series 2004B5 | 3.000 - 5.000 | 2020 | 2,323,816 |
| Dormitory, Series 2005A1 | 3.500 - 5.000 | 2026 | 1,870,000 |
| Dormitory, Series 2006A1 | 4.000 - 5.000 | 2014 | 40,000 |
| Dormitory, Series 2006A2 | 4.000 - 5.000 | 2015 | 760,000 |
| Dormitory, Series 2008B | 3.000 - 5.000 | 2013 | 106,203 |
| Dormitory, Series 2009C | 3.000 - 4.000 | 2021 | 383,984 |
| Dormitory, Series 2009C | 3.000 - 4.000 | 2022 | 2,582,213 |
| Dormitory, Series 2009D | 2.500 - 5.000 | 2022 | 1,940,000 |
| Renovate Residence Halls, Series 2010A2 | 2.000 - 5.000 | 2030 | 4,160,000 |
| Dormitory, Series 2012A | 3.000 - 5.000 | 2013 | 21,031 |
| Dormitory, Series 2012A | 3.000 - 5.000 | 2016 | 429,179 |
| Dormitory, Series 2012A | 3.000 - 5.000 | 2013 | 136,598 |
| Dormitory, Series 2012A | 3.000 - 5.000 | 2024 | 779,720 |
| Renovation of Dormitories | | | 19,377,060 |
| Graduate Housing, Series 2006B | 4.000 - 5.000 | 2026 | 2,240,000 |
| Graduate Housing, Series 2008B | 3.000 - 5.000 | 2028 | 2,145,000 |
| Graduate Housing, Series 2009D | 2.500 - 5.000 | 2022 | 1,270,000 |
| Graduate Housing | | | 5,655,000 |
| Construct New Dormitory, Series 2010A2 | 2.000 - 5.000 | 2030 | 1,885,000 |
| Construct New Dormitory, Series 2011A | 3.000 - 5.000 | 2031 | 14,400,000 |
| Construct New Dormitory | | | 16,285,000 |
| University Center, Series 2008B | 3.000 - 5.000 | 2013 | 806,998 |
| University Center, Series 2012A | 3.000 - 5.000 | 2013 | 7,010 |
| University Center | | | 814,008 |
| Underground Utility, Series 2004B1 | 3.000 - 5.000 | 2017 | 669,021 |
| Underground Utility, Series 2012A | 3.000 - 5.000 | 2016 | 388,481 |
| Underground Utility | | | 1,057,502 |
| Renovate Commons Dining Hall, Series 2005A2 | 3.500 - 5.000 | 2026 | 3,075,000 |
| Renovate Commons Dining Hall, Series 2009D | 2.500 - 5.000 | 2022 | 3,200,000 |
| Renovate Commons Dining Hall, Series 2012A | 3.000 - 5.000 | 2024 | 1,289,537 |
| Commons Dining Hall | | | 7,564,537 |
| Total bonds payable | | | 50,753,107 |
| Deferred Gain/(Loss) on Advance Refundings | | | (917,613) |
| Unamortized premiums (discounts) | | | 3,878,250 |
| Net bonds payable | | | $ 53,713,744 |

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. The following are notes outstanding at year-end:

| Description | Interest Rates (%) | Maturity | Outstanding Balance as of June 30, 2012 |
|---|---|---|---|
| Section 9(d) Bonds: | | | |
| Barksdale Dormitory, Series 2003A | 2.000 - 5.000 | 2024 | $ 175,000 |
| Barksdale Dormitory, Series 2004A | 3.000 - 5.000 | 2025 | 1,470,000 |
| Barksdale Dormitory, Series 2005A | 3.500 - 5.000 | 2026 | 3,995,000 |
| Barksdale Dormitory, Series 2006A | 3.000 - 5.000 | 2027 | 1,620,000 |
| Barksdale Dormitory, Series 2010B | 2.000 - 5.000 | 2021 | 450,000 |
| Barksdale Dormitory, Series 2012A | 3.000 - 5.000 | 2024 | 640,000 |
| Barksdale Dormitory, Series 2012A | 3.000 - 5.000 | 2025 | 6,495,000 |
| Barksdale Dormitory, Series 2012A | 3.000 - 5.000 | 2025 | 6,330,000 |
| William and Mary Hall, Series 2004B | 3.000 - 5.000 | 2016 | 685,000 |
| William and Mary Hall, Series 2007B | 4.000- 4.250 | 2018 | 165,000 |
| Parking Deck, Series 2003A | 2.000 - 5.000 | 2024 | 370,000 |
| Parking Deck, Series 2004A | 3.000 - 5.000 | 2025 | 315,000 |
| Parking Deck, Series 2005A | 3.500 - 5.000 | 2026 | 1,975,000 |
| Parking Deck, Series 2010B | 2.000 - 5.000 | 2021 | 950,000 |
| Parking Deck, Series 2012A | 3.000 - 5.000 | 2024 | 1,355,000 |
| Parking Deck, Series 2012A | 3.000 - 5.000 | 2025 | 1,385,000 |
| Parking Deck, Series 2012A | 3.000 - 5.000 | 2025 | 3,140,000 |
| Recreation Sports Center, Series 2003A | 2.000 - 5.000 | 2024 | 90,000 |
| Recreation Sports Center, Series 2004A | 3.500 - 5.000 | 2025 | 1,040,000 |
| Recreation Sports Center, Series 2005A | 3.500 - 5.000 | 2026 | 770,000 |
| Recreation Sports Center, Series 2010B | 2.000 - 5.000 | 2021 | 220,000 |
| Recreation Sports Center, Series 2012A | 3.000 - 5.000 | 2024 | 315,000 |
| Recreation Sports Center, Series 2012A | 3.000 - 5.000 | 2025 | 4,585,000 |
| Recreation Sports Center, Series 2012A | 3.000 - 5.000 | 2025 | 1,225,000 |
| Improve Athletics Facilities, Series 2005A | 3.500 - 5.000 | 2026 | 1,065,000 |
| Improve Athletics Facilities, Series 2006A | 3.000 - 5.000 | 2027 | 650,000 |
| Improve Athletics Facilities, Series 2012A | 3.000 - 5.000 | 2025 | 1,655,000 |
| Marshall-Wythe Library, Series 2004B | 3.000 - 5.000 | 2019 | 1,010,000 |
| Law School Library, Series 2003A | 2.000 - 5.000 | 2024 | 105,000 |
| Law School Library, Series 2007A | 4.500 - 5.000 | 2027 | 3,185,000 |
| Law School Library, Series 2010B | 2.000 - 5.000 | 2021 | 260,000 |
| Law School Library, Series 2012A | 3.000 - 5.000 | 2024 | 385,000 |
| Magnet Facility, Series 2003A | 2.000 - 5.000 | 2024 | 225,000 |
| Magnet Facility, Series 2010B | 2.000 - 5.000 | 2021 | 570,000 |
| Magnet Facility, Series 2012A | 3.000 - 5.000 | 2024 | 805,000 |
| Williamsburg Hospital/School of Education, 2006A | 3.000 - 5.000 | 2027 | 2,030,000 |
| J. Laycock Football Facility, Series 2006A | 3.000 - 5.000 | 2027 | 4,675,000 |

| | | | |
|---|---|---|---|
| Residence Hall Fire Safety Systems, Series 2006A | 3.000 - 5.000 | 2027 | 1,640,000 |
| School of Business, Series 2007A | 4.500 - 5.000 | 2027 | 20,585,000 |
| School of Business, Series 2009A | 2.750 - 4.000 | 2016 | 19,070,000 |
| Integrated Science Center, Series 2007A | 4.500 - 5.000 | 2027 | 10,795,000 |
| Integrated Science Center, Series 2009A | 2.750 - 5.000 | 2029 | 6,060,000 |
| Power Plant Renovations, Series 2007A | 4.500 - 5.000 | 2027 | 4,225,000 |
| Busch Field Astroturf Replacement, Series 2009B | 2.000 - 5.000 | 2029 | 1,335,000 |
| Cooling Plant & Utilities, Series 2009B | 2.000 - 5.000 | 2029 | 11,000,000 |
| Cooling Plant & Utilities, Series 2010A1&A2 | 2.000 - 5.500 | 2031 | 10,765,000 |
| AshLawn Barn, Series 2010A1&A2 | 2.000 - 5.500 | 2031 | 750,000 |
| Total 9 (d) bonds | | | 142,605,000 |
| | | | |
| Deferred Gain/(Loss) on Advance Refundings | | | (3,082,644) |
| Unamortized premiums (discounts) | | | 11,241,118 |
| | | | |
| Net notes payable | | | $150,763,474 |

Installment Purchases

At June 30, 2012, installment purchases consist of the current and long-term portions of obligations resulting from various contracts used to finance energy performance contracts and the acquisition of equipment. The lengths of purchase agreements range from two to fifteen years, and the interest rate charges are from 1.3 to 4.7 percent. The outstanding balance of installment purchases as of June 30, 2012 is $5,483,593.

Capital Lease

Richard Bland College (RBC) has entered into a thirty year capital lease with Richard Bland College Foundation (RBCF) for the provision of a student housing complex with two dormitories on the RBC campus. RBC has accounted for the acquisition of the complex and its furniture and equipment as a capital lease, and therefore has recorded the facility and furnishings as depreciable capital assets and has also recorded a corresponding lease liability in long-term debt on the Statement of Net Assets. The outstanding balance as of June 30, 2012 is $24,144,236.

Long-term debt matures as follows:

| Fiscal Year | Principal | Interest | BAB Interest Subsidy | Net Interest |
|---|---|---|---|---|
| 2013 | $ 15,503,112 | $ 9,929,376 | $ 204,644 | $ 9,724,732 |
| 2014 | 15,146,995 | 9,352,038 | 204,644 | 9,147,394 |
| 2015 | 15,974,671 | 8,667,395 | 204,644 | 8,462,751 |
| 2016 | 16,333,480 | 7,944,467 | 204,644 | 7,739,823 |
| 2017 | 11,599,122 | 7,295,362 | 202,439 | 7,092,923 |
| 2018-2022 | 59,539,029 | 28,070,907 | 931,946 | 27,138,961 |
| 2023-2027 | 58,988,959 | 13,582,930 | 617,628 | 12,965,302 |
| 2028-2032 | 20,989,147 | 4,095,790 | 159,631 | 3,936,159 |
| 2033-2037 | 6,608,060 | 1,436,270 | - | 1,436,270 |
| 2038-2042 | 2,303,361 | 109,938 | - | 109,938 |
| Refunding gains/(losses) | (4,000,257) | - | - | - |
| Unamortized premiums | 15,119,368 | - | - | - |
| Total | $ 234,105,047 | $ 90,484,473 | $ 2,730,220 | $ 87,754,253 |

Defeasance of Debt

In March 2012, the Treasury Board and VCBA issued Educational Facilities Revenue Refunding Bonds, Series 2012A with a true interest cost (TIC) of 1.5829 percent. The sale of these bonds enabled the College to advance refund certain 9(c) and 9(d) bonds issued from 2002 through 2005 with interest rates ranging from 4.0 percent to 5.0 percent. The original bonds were used to finance the construction of a dormitory, parking deck and nuclear magnet facility, and renovation of the student recreation center and law library and various dormitories. The net proceeds from the sale of the Refunding Bonds were deposited into irrevocable trusts with escrow agents to provide for all future debt service payments on the refunded bonds. As a result, these bonds are considered defeased and the College's portion of the liability has been removed from the financial statements.

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

| Series | Type | Debt Outstanding | Amount Defeased | Percentage Defeased |
|---|---|---|---|---|
| 2002 | 9C | $ 1,233,849 | $ 1,233,849 | 100% |
| 2005 | 9C | 7,610,000 | 2,070,000 | 27% |
| | | $ 8,843,849 | $ 3,303,849 | 37% |
| | | | | |
| 2003 | 9D | $ 4,845,000 | $ 3,880,000 | 80% |
| 2004 | 9D | 15,790,000 | 12,965,000 | 82% |
| 2005 | 9D | 20,615,000 | 12,810,000 | 62% |
| | | $ 41,250,000 | $ 29,655,000 | 72% |

The College's portion of the accounting loss recognized in the financial statements was $3,529,302. The net economic gain attributable to the College was $2,472,817 and will result in a decreased cash flow requirement of $2,813,420 over the remaining life of the debt.

Prior Year Defeasance of Debt

The Commonwealth of Virginia, on behalf of the College, issued bonds in previous and current fiscal years for which the proceeds were deposited into irrevocable trusts with escrow agents to provide for all future debt service on the refunded bonds. Accordingly, the trust account assets and the related liability for the defeased bonds are not included in the College's financial statements. At June 30, 2012, $41,933,849 of the defeased bonds was 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 Flow.

| | Salaries, Wages and Fringe Benefits | Services and Supplies | Scholarships and Fellowships | Plant and Equipment | Depreciation | Total |
|---|---|---|---|---|---|---|
| Instruction | $ 89,049,629 | $ 7,102,690 | $ 1,312,961 | $ 524,052 | $ - | $ 97,989,332 |
| Research | 32,066,175 | 12,234,996 | 1,335,762 | 2,585,057 | - | 48,221,990 |
| Public service | 17,371 | 51,060 | - | 11 | - | 68,442 |
| Academic support | 21,282,778 | 3,291,632 | 153,601 | 4,898,964 | - | 29,626,975 |
| Student services | 9,012,830 | 4,747,388 | 68,228 | 165,640 | - | 13,994,086 |
| Institutional support | 21,702,436 | 5,168,617 | 196,724 | 99,008 | - | 27,166,785 |
| Operation and maintenance of plant | 6,961,725 | 15,960,573 | 9,062 | 541,215 | - | 23,472,575 |
| Depreciation | - | - | - | - | 23,761,878 | 23,761,878 |
| Scholarships and related expenses | 1,552,662 | 3,698,084 | 27,988,771 | 7,096 | - | 33,246,613 |
| Auxiliary enterprises | 18,901,507 | 44,901,855 | (9,683,157) | 3,706,366 | - | 57,826,571 |
| Other | 17,552 | 1,036,282 | - | - | - | 1,053,834 |
| Total | $ 200,564,665 | $ 98,193,177 | $ 21,381,952 | $ 12,527,409 | $ 23,761,878 | $ 356,429,081 |

## 12. 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 from the General Fund of the Commonwealth.

| | | |
|---|---|---|
| Chapter 890 - 2011 Acts of Assembly (Educational and General Programs) | | $ 56,750,947 |
| Student financial assistance | | 4,167,642 |
| Supplemental appropriations: | | |
| Prior year reappropriations | 177,533 | |
| VIVA libraries | 32,811 | |
| Salary, benefit, and other changes per Chapter 890 | 883,384 | |
| Marine research graduate assistantships | 238,527 | |
| Commonwealth Technology Research award | 80,000 | |
| Interest earnings and credit card rebates | (98) | |
| Eminent Scholars/Biomedical research | 435,865 | 1,848,022 |
| Appropriation reductions: | | |
| Appropriation Act Part 3 transfers | 16,950 | |
| School efficiency review | 1,350 | |
| HEETF debt payments | 261,334 | |
| Out of state building fee | 1,289,070 | (1,568,704) |
| Reversions to the General Fund of the Commonwealth | | (96,131) |
| Appropriations as adjusted | | $ 61,101,776 |

## 13. COMPONENT UNIT FINANCIAL INFORMATION

The College has nine component units – The College of William & Mary Foundation, the Marshall-Wythe School of Law Foundation, the Alumni Association, the William and Mary Athletic Educational Foundation, the William & Mary School of Business Foundation, the Virginia Institute of Marine Science Foundation, the William and Mary Real Estate Foundation, the Richard Bland College Foundation and the Intellectual Property Foundation. These organizations are separately incorporated entities and other auditors examine the related financial statements. Summary financial statements and related disclosures follow for eight of the component units. As stated in Note 1, the activity of the Intellectual Property Foundation was not material to the College in fiscal year 2012; therefore, it is not included in the presentation of component unit financial information.

Summary of Statement of Net Assets - Component Units

| | The College of William & Mary Foundation | Marshall-Wythe School of Law Foundation | William & Mary Business School Foundation | William & Mary Alumni Association |
|---|---|---|---|---|
| ASSETS | | | | |
| Current Assets | | | | |
| Cash and cash equivalents | $ 3,016,900 | $ 3,975,797 | $ 2,833,444 | $ 622,598 |
| Investments | 955,692 | - | - | - |
| Pledges receivable, net - current portion | 2,203,754 | 829,277 | 3,889,807 | - |
| Receivables, net | 596,034 | 82,711 | 149,189 | 71,556 |
| Inventories | - | - | - | 40,319 |
| Prepaids | 383,354 | 53,355 | 132,345 | 39,233 |
| Due from the College | 383 | - | - | - |
| Other assets | - | - | - | - |
| Total Current Assets | 7,156,117 | 4,941,140 | 7,004,785 | 773,706 |
| Non-current Assets | | | | |
| Restricted cash and cash equivalents | 3,667,778 | 2,484,854 | 12,723,040 | - |
| Restricted investments | 378,953,670 | 24,122,943 | 21,058,569 | - |
| Restricted other assets | 136,062,700 | 342,277 | 308,702 | - |
| Investments | 671,770 | 3,537,330 | (747,888) | 5,430,527 |
| Pledges receivable, net | 5,050,807 | 775,685 | 5,374,657 | - |
| Capital assets, nondepreciable | 9,193,722 | 321,627 | - | 31,800 |
| Capital assets, net of accumulated depreciation | 8,268,213 | 27,971 | 13,376 | 195,565 |
| Due from the College | - | - | - | - |
| Other assets | 907,244 | - | - | - |
| Total non-current assets | 542,775,904 | 31,612,687 | 38,730,456 | 5,657,892 |
| Total Assets | 549,932,021 | 36,553,827 | 45,735,241 | 6,431,598 |
| LIABILITIES | | | | |
| Current Liabilities | | | | |
| Accounts payable and accrued expenses | 495,470 | 100,829 | 277,241 | 346,416 |
| Deferred revenue | 50,280 | 260,523 | 34,701 | 1,346,189 |
| Deposits held in custody for others | - | - | 19,655 | - |
| Long-term liabilities - current portion | 1,201,111 | - | - | - |
| Due to the College | - | - | - | - |
| Short-term debt | 2,145,000 | - | - | - |
| Other liabilities | - | - | - | - |
| Total Current Liabilities | 3,891,861 | 361,352 | 331,597 | 1,692,605 |
| Non-current Liabilities | | | | |
| Other long-term liabilities | 179,632 | 394,750 | - | - |
| Long-term liabilities | 29,722,512 | - | - | - |
| Total Liabilities | 33,794,005 | 756,102 | 331,597 | 1,692,605 |
| NET ASSETS | | | | |
| Restricted for: | | | | |
| Nonexpendable: | | | | |
| Scholarships and Fellowships | 79,939,205 | 5,386,737 | 437,684 | - |
| Research | 4,646,550 | - | - | - |
| Loans | - | - | 24,230 | - |
| Departmental Uses | 80,935,281 | 7,251,602 | 36,396,164 | - |
| Other | 178,988,556 | - | 148,698 | - |
| Expendable: | | | | |
| Scholarships and Fellowships | 56,489,448 | 4,984,643 | 527,559 | - |
| Research | 1,967,179 | - | 11,007 | - |
| Capital Projects | 2,633,497 | 2,023,547 | 2,419,046 | - |
| Loans | - | - | 49,945 | - |
| Departmental Uses | 80,577,838 | 8,328,287 | 3,863,432 | 1,101,660 |
| Other | 11,753,519 | 622,069 | 47,344 | - |
| Invested in Capital Assets, net of related debt | 7,297,105 | 349,598 | 13,376 | 227,365 |
| Unrestricted | 10,909,838 | 6,851,242 | 1,465,159 | 3,409,968 |
| Total Net Assets | $ 516,138,016 | $ 35,797,725 | $ 45,403,644 | $ 4,738,993 |

| William & Mary Athletic Educational Foundation | Virginia Institute of Marine Science Foundation | Richard Bland College Foundation | William & Mary Real Estate Foundation | Total Component Units |
|---|---|---|---|---|
| $ 4,791,218 | $ 270,004 | $ 281,674 | $ 6,176,273 | $ 21,967,908 |
| - | - | - | - | 955,692 |
| 729,250 | 276,908 | 19,929 | - | 7,948,925 |
| 8,481 | - | 455,495 | 71,550 | 1,435,016 |
| - | - | - | - | 40,319 |
| - | - | - | 7,532 | 615,819 |
| - | - | 470,894 | - | 471,277 |
| - | - | 14,915 | - | 14,915 |
| 5,528,949 | 546,912 | 1,242,907 | 6,255,355 | 33,449,871 |
| - | 250,410 | 589,174 | - | 19,715,256 |
| - | 7,615,739 | 3,293,462 | - | 435,044,383 |
| - | - | 29,686 | 140,526 | 136,883,891 |
| 2,537,243 | 566,739 | - | - | 11,995,721 |
| 1,092,673 | 451,290 | 5,147 | - | 12,750,259 |
| - | - | - | 2,302,138 | 11,849,287 |
| 66,069 | - | - | 6,572,441 | 15,143,635 |
| - | - | 23,673,342 | - | 23,673,342 |
| - | - | - | 599,348 | 1,506,592 |
| 3,695,985 | 8,884,178 | 27,590,811 | 9,614,453 | 668,562,366 |
| 9,224,934 | 9,431,090 | 28,833,718 | 15,869,808 | 702,012,237 |
| - | 33,712 | 433,981 | 107,696 | 1,795,345 |
| - | - | - | - | 1,691,693 |
| - | - | - | - | 19,655 |
| - | - | 557,411 | 125,794 | 1,884,316 |
| - | - | - | 3,357 | 3,357 |
| - | - | - | 490,000 | 2,635,000 |
| - | - | 29,686 | - | 29,686 |
| - | 33,712 | 1,021,078 | 726,847 | 8,059,052 |
| - | - | - | 18,860 | 593,242 |
| - | - | 24,437,300 | 4,783,066 | 58,942,878 |
| - | 33,712 | 25,458,378 | 5,528,773 | 67,595,172 |
| - | 1,445,720 | 2,915,123 | - | 90,124,469 |
| - | 1,215,245 | - | - | 5,861,795 |
| - | - | - | - | 24,230 |
| - | 50,000 | - | - | 124,633,047 |
| - | 3,350,794 | - | - | 182,488,048 |
| 609,249 | 325,561 | - | - | 62,936,460 |
| - | 340,354 | - | - | 2,318,540 |
| - | - | - | - | 7,076,090 |
| - | - | - | - | 49,945 |
| 5,940,401 | 1,456,971 | - | - | 101,268,589 |
| - | 395,584 | 986,058 | 140,526 | 13,945,100 |
| 66,069 | - | - | 3,648,317 | 11,601,830 |
| 2,609,215 | 817,149 | (525,841) | 6,552,192 | 32,088,922 |
| $ 9,224,934 | $ 9,397,378 | $ 3,375,340 | $ 10,341,035 | $ 634,417,065 |

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

| | The College of William & Mary Foundation | Marshall-Wythe School of Law Foundation | William & Mary Business School Foundation | William & Mary Alumni Association |
|---|---|---|---|---|
| Operating revenues: | | | | |
| Gifts and contributions | $ 2,912,434 | $ 2,089,530 | $ 3,520,113 | $ 2,378,562 |
| Other | 2,405,563 | 961,976 | 4,720,066 | 1,123,680 |
| Total operating revenues | 5,317,997 | 3,051,506 | 8,240,179 | 3,502,242 |
| Operating expenses: | | | | |
| Instruction | 3,245,416 | 395,117 | 229,699 | - |
| Research | 170,319 | - | 59,952 | - |
| Public service | 78,268 | 89,909 | 779,262 | - |
| Academic support | 1,234,662 | 1,364,168 | 2,756,259 | - |
| Student services | 93,160 | 18,855 | 1,174,162 | - |
| Institutional support | 5,290,817 | 647,107 | 1,225,310 | 768,218 |
| Operation and maintenance of plant | 806,614 | 282,150 | - | - |
| Scholarships & fellowships | 5,816,450 | 34,125 | 26,462 | - |
| Auxiliary enterprises | 620,288 | - | 45,082 | - |
| Depreciation | 540,059 | 23,356 | 6,423 | 57,859 |
| Independent operations | - | - | - | - |
| Other | 2,618,781 | - | - | 2,915,182 |
| Total operating expenses | 20,514,834 | 2,854,787 | 6,302,611 | 3,741,259 |
| Operating gain/(loss) | (15,196,837) | 196,719 | 1,937,568 | (239,017) |
| Non-operating revenues and expenses: | | | | |
| Net investment revenue (expense) | (4,535,571) | (391,170) | (260,125) | (172,231) |
| Interest on capital asset related debt | (147,454) | - | - | - |
| Other non-operating revenue | 19,722,074 | - | - | - |
| Other non-operating expense | - | - | (5,318,495) | - |
| Net non-operating revenues | 15,039,049 | (391,170) | (5,578,620) | (172,231) |
| Income before other revenues | (157,788) | (194,451) | (3,641,052) | (411,248) |
| Other revenues: | | | | |
| Capital grants and contributions | 1,087,530 | - | (1,028,318) | - |
| Additions to permanent endowments | 13,569,475 | 421,075 | 3,008,353 | - |
| Net other revenues | 14,657,005 | 421,075 | 1,980,035 | - |
| Change in net assets, before transfers | 14,499,217 | 226,624 | (1,661,017) | (411,248) |
| Contribution between Foundations | 28,033 | - | - | 124,646 |
| Transfers | 28,033 | - | - | 124,646 |
| Change in net assets | 14,527,250 | 226,624 | (1,661,017) | (286,602) |
| Net assets - beginning of year | 501,610,766 | 35,571,101 | 47,064,661 | 5,025,595 |
| Net assets - end of year | $ 516,138,016 | $ 35,797,725 | $ 45,403,644 | $ 4,738,993 |

| William & Mary Athletic Educational Foundation | Virginia Institute of Marine Science Foundation | Richard Bland College Foundation | William & Mary Real Estate Foundation | Total Component Units |
|---|---|---|---|---|
| $ 4,593,659 | $ 260,612 | $ 92,088 | $ 141,739 | $ 15,988,737 |
| 685,929 | - | 1,114,032 | 593,022 | 11,604,268 |
| 5,279,588 | 260,612 | 1,206,120 | 734,761 | 27,593,005 |
| - | 88,642 | - | - | 3,958,874 |
| - | 295,751 | - | - | 526,022 |
| - | 1,000 | - | - | 948,439 |
| - | 10,320 | - | - | 5,365,409 |
| - | - | - | - | 1,286,177 |
| 4,283,030 | 169,144 | 52,620 | 250,677 | 12,686,923 |
| - | 6,133 | - | - | 1,094,897 |
| - | 52,422 | 213,800 | - | 6,143,259 |
| - | - | - | 165,731 | 831,101 |
| 20,257 | - | - | 171,134 | 819,088 |
| - | - | - | 139,391 | 139,391 |
| - | 22,623 | 1,220,979 | - | 6,777,565 |
| 4,303,287 | 646,035 | 1,487,399 | 726,933 | 40,577,145 |
| 976,301 | (385,423) | (281,279) | 7,828 | (12,984,140) |
| 18,868 | (83,424) | (131,150) | 8,572 | (5,546,231) |
| - | - | - | - | (147,454) |
| - | - | - | - | 19,722,074 |
| - | - | - | - | (5,318,495) |
| 18,868 | (83,424) | (131,150) | 8,572 | 8,709,894 |
| 995,169 | (468,847) | (412,429) | 16,400 | (4,274,246) |
| - | - | - | 125,000 | 184,212 |
| - | 1,243,308 | 80,238 | - | 18,322,449 |
| - | 1,243,308 | 80,238 | 125,000 | 18,506,661 |
| 995,169 | 774,461 | (332,191) | 141,400 | 14,232,415 |
| (277,679) | - | - | 125,000 | - |
| (277,679) | - | - | 125,000 | - |
| 717,490 | 774,461 | (332,191) | 266,400 | 14,232,415 |
| 8,507,444 | 8,622,917 | 3,707,531 | 10,074,635 | 620,184,650 |
| $ 9,224,934 | $ 9,397,378 | $ 3,375,340 | $ 10,341,035 | $ 634,417,065 |

## 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.

| | The College of William & Mary Foundation | Marshall-Wythe School of Law Foundation | William & Mary Business School Foundation | William & Mary Alumni Association | William & Mary Athletic Educational Foundation | Virginia Institute of Marine Science Foundation | Richard Bland College Foundation | Total |
|---|---|---|---|---|---|---|---|---|
| Mutual and money market funds | $ 4,978,259 | $ 511,558 | $ - | $ 4,361,702 | $ 5,649 | $ - | $ 2,630,619 | $ 12,487,787 |
| U.S. treasury and agency securities | 7,795,200 | - | - | - | - | - | - | 7,795,200 |
| Common and preferred stocks | 187,550 | - | 658,894 | 1,068,825 | - | - | 662,843 | 2,578,112 |
| Notes receivable | 1,432,860 | - | - | - | - | - | - | 1,432,860 |
| Pooled investments | 364,498,655 | 27,148,715 | 19,572,249 | - | - | 8,182,478 | - | 419,402,097 |
| Real estate | 1,202,424 | - | - | - | 106,000 | - | - | 1,308,424 |
| Other | 486,184 | - | 79,538 | - | 2,425,594 | - | - | 2,991,316 |
| Total Investments | $ 380,581,132 | $ 27,660,273 | $ 20,310,681 | $ 5,430,527 | $ 2,537,243 | $ 8,182,478 | $ 3,293,462 | $ 447,995,796 |

## 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 & Mary Real Estate Foundation did not have any pledges receivable at year end.

| | The College of William & Mary Foundation | Marshall-Wythe School of Law Foundation | William & Mary Business School Foundation | William & Mary Athletic Educational Foundation | Virginia Institute of Marine Science Foundation | Richard Bland College Foundation | Total |
|---|---|---|---|---|---|---|---|
| Total pledges receivable | $ 8,087,933 | $ 1,866,941 | $ 10,939,790 | $ 2,265,150 | $ 735,225 | $ 28,428 | $ 23,923,467 |
| Less: | | | | | | | |
| Allowance for uncollectibles | (654,637) | (207,517) | (819,459) | (328,220) | - | (776) | (2,010,609) |
| Discounting to present value | (178,735) | (54,462) | (855,867) | (115,007) | (7,027) | (2,576) | (1,213,674) |
| Net pledges receivable | 7,254,561 | 1,604,962 | 9,264,464 | 1,821,923 | 728,198 | 25,076 | 20,699,184 |
| Less: | | | | | | | |
| Current pledges receivable | (2,203,754) | (829,277) | (3,889,807) | (729,250) | (276,908) | (19,929) | (7,948,925) |
| Total non-current pledges receivable | $ 5,050,807 | $ 775,685 | $ 5,374,657 | $ 1,092,673 | $ 451,290 | $ 5,147 | $ 12,750,259 |

Capital Assets

| | The College of William & Mary Foundation | Marshall-Wythe School of Law Foundation | William & Mary Business School Foundation | William & Mary Alumni Association | William & Mary Athletic Educational Foundation | Richard Bland College Foundation | William & Mary Real Estate Foundation | Total |
|---|---|---|---|---|---|---|---|---|
| Nondepreciable: | | | | | | | | |
| Land | $ 3,365,927 | $ 262,916 | $ - | $ - | $ - | $ - | $ 2,302,138 | $ 5,930,981 |
| Historical treasures and inexhaustable works of art | 5,827,795 | 58,711 | - | 31,800 | - | - | - | 5,918,306 |
| Total nondepreciable capital assets | $ 9,193,722 | $ 321,627 | $ - | $ 31,800 | $ - | $ - | $ 2,302,138 | $ 11,849,287 |
| Depreciable: | | | | | | | | |
| Building | $ 7,553,333 | $ - | $ - | $ - | $ - | $ - | $ 6,597,322 | $ 14,150,655 |
| Equipment, vehicles and furniture | 7,355,979 | 142,811 | 93,752 | 494,661 | 102,996 | 2,995 | 170,126 | 8,363,320 |
| Improvements, other than building | 338,138 | - | - | 388,658 | - | - | - | 726,796 |
| | 15,247,450 | 142,811 | 93,752 | 883,319 | 102,996 | 2,995 | 6,767,448 | 23,240,771 |
| Less accumulated depreciation | (6,979,237) | (114,840) | (80,376) | (687,754) | (36,927) | (2,995) | (195,007) | (8,097,136) |
| Total depreciable capital assets | $ 8,268,213 | $ 27,971 | $ 13,376 | $ 195,565 | $ 66,069 | $ - | $ 6,572,441 | $ 15,143,635 |

Long-term Liabilities

| | The College of William & Mary Foundation | Richard Bland College Foundation | William & Mary Real Estate Foundation | Total |
|---|---|---|---|---|
| Compensated absences | $ 124,615 | $ - | $ - | $ 124,615 |
| Notes payable | 4,222,623 | - | - | 4,222,623 |
| Bonds payable | 8,090,000 | 24,994,711 | 4,908,860 | 37,993,571 |
| Other liabilities | 18,486,385 | - | - | 18,486,385 |
| Total long-term liabilities | 30,923,623 | 24,994,711 | 4,908,860 | 60,827,194 |
| Less current portion | (1,201,111) | (557,411) | (125,794) | (1,884,316) |
| Total long-term liabilities | $ 29,722,512 | $ 24,437,300 | $ 4,783,066 | $ 58,942,878 |

## Long-term Liabilities

On June 25, 2001, Reliance Holdings, LLC entered into a revolving line of credit agreement with First Union National Bank (now Wells Fargo Bank, NA) 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 Associates, and to provide working capital to Reliance. As such, most of the loan proceeds have in turn been advanced to the REF, and the majority of the interest on the note is reflected as expenses of the Real Estate Foundation. This line of credit has been increased to $3,000,000 with all principal and accrued interest due and payable on June 29, 2013. Interest only, which accrues daily at the LIBOR market index rate plus 1.35% is payable monthly. The amount outstanding was $2,145,000 at June 30, 2012 and 2011. Interest paid during the years ended June 30, 2012 and 2011, was $34,623 and $34,846, respectively.

During the fiscal year ended June 30, 2009, the Foundation entered into a borrowing arrangement with SunTrust Bank in the amount of $2,636,140 for renovation of the College's Admissions Office. The terms of the loan were revised during the fiscal year ended June 30, 2011. Under the original terms, interest was payable monthly at a fixed rate of 4.43% and principal was payable in two equal annual installments on February 28, 2011 and 2012. Under the revised terms, interest accrues at a rate of 4.99% and is payable monthly. Principal is payable annually over a ten year term, with the final amount due on February 1, 2021. SunTrust is granted a security interest in all deposits and investments maintained with SunTrust and any affiliates. The balance outstanding on the loan at June 30, 2012 and 2011 was $2,426,419 and $2,636,098, respectively. Interest paid during the fiscal years ending June 30, 2012 and 2011, on the loans was $130,217 and $113,628, respectively.

During the year ended June 30, 2011 the Foundation and CEI entered into a joint borrowing arrangement with SunTrust Bank to fund expansion of the telecommunications system. The agreement provided for loan draws up to the amount of $1,450,000 through August 7, 2011. The terms of the note require the Foundation to maintain at all times unrestricted and temporarily restricted net assets in excess of 200% of the Foundation's total funded debt. Interest at a rate of 3.97% is payable monthly. Principal is payable annually over a five year term, with the final amount due January 15, 2016. SunTrust is granted a security interest in all deposits and investments maintained with SunTrust and any affiliates. The amount outstanding at June 30, 2012 and 2011 was $1,182,000 and $1,000,000, respectively. Interest paid during the fiscal years ended June 30, 2012 and 2011, on the loans was $52,196 and $6,948, respectively.

In December 2011, the Foundation and CWMF Ventures entered into a joint borrowing arrangement with SunTrust Bank to fund certain costs of unwinding the interest rate swap and various costs associated with refinancing the variable rate bonds. Interest accrues at a rate of 3.73%. Payments of interest and principal are due quarterly, with the final payment due December 23, 2021. SunTrust is granted a security interest in all deposits and investments maintained with SunTrust and any affiliates. The balance outstanding at June 30, 2012 was $614,205. Interest paid during the fiscal year ended June 30, 2012 was $12,025.

## Bonds Payable

In December 2006, the Economic Development Authority of James City County, Virginia issued variable rate revenue bonds in the amount of $9,070,000 ("Series 2006 Bonds") and loaned the proceeds from the sale of the Series 2006 Bonds to the Foundation and CWMF Ventures. The Series 2006 Bonds financed the cost of property acquisition, construction 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. Interest on the Series 2006 Bonds was 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, was the minimum interest rate required to sell the Series 2006 Bonds at a price of par on the applicable date. During the term of the bonds, the Foundation and CWMF Ventures had the option to direct a change in the type of interest period by delivering written notice to the trustee and remarketing agent.

The Series 2006 Bonds bore a stated maturity date, subject to prior redemption or purchase, of December 1, 2036. The Foundation and CWMF Ventures redeemed in full the Series 2006 Bonds on January 16, 2012 with the proceeds from a revenue refunding bond as described below. The remaining unamortized discount on the original sale of the Series 2006 Bonds in the amount of $34,350 was expensed. The recorded amount of the Series 2006 Bonds outstanding at June 30, 2012 and 2011, was $0 and $8,055,650, respectively, based on the original purchase price to the underwriter of the Series 2006 Bonds. The face value of Series 2006 Bonds outstanding at June 30, 2012 and 2011, was $0 and $8,090,000, respectively. As the Series 2006 Bonds bore interest at a floating rate which was reset weekly, fair value of the Series

2006 Bonds was approximately their face value. Interest paid to bondholders for the years ended June 30, 2012 and 2011, was $22,253 and $57,561, respectively.

The Series 2006 Bonds were also secured by an irrevocable direct pay letter of credit issued by SunTrust Bank. The initial expiration date of the letter of credit was December 31, 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 provided for automatic one-year extensions through December 31, 2036, unless SunTrust provided at least two years notice of its intent to terminate. SunTrust provided such notice that the letter of credit would expire December 31, 2011. The expiration date was subsequently extended to April 1, 2012. The terms of the letter of credit also required the Foundation at all times to maintain unrestricted and temporarily restricted net assets equal to at least 200% of the Foundation's total indebtedness, or such lesser amount as may be agreed by SunTrust Bank. Draws on the letter of credit for the purpose of purchasing any of the Series 2006 Bonds were secured by the pledge of all right, title and interest in those Series 2006 Bonds. Unreimbursed draws under the letter of credit bore interest at the rate of LIBOR plus 1.50% per annum. During the years ended June 30, 2012 and 2011, draws were made, in the normal course, on the letter of credit per the bond and letter of credit documents in order to pay interest to Series 2006 Bondholders. The letter of credit and related documents were terminated in January 2012 in connection with the redemption of the Series 2006 Bonds. The total interest paid on the letter of credit during the fiscal years ended June 30, 2012 and 2011, was $0. As of June 30, 2012 and 2011, there was no amount outstanding under the letter of credit. The total available under the letter of credit was based on the amount of Bonds outstanding, plus 40 days interest at 10%. The total amount of the letter credit was $0 and $8,179,889 as of June 30, 2012 and 2011, respectively, and the entire amount was available to draw.

In December 2011, the Authority issued a revenue refunding bond in the amount of $8,090,000 ("Series 2011 Bond"), and loaned the proceeds to the Foundation and CWMF Ventures ("Obligors"). The Series 2011 Bond was acquired by SunTrust Bank, as Series 2011 Bondholder. Proceeds from sale of the Series 2011 Bond were used to redeem the Series 2006 Bonds. The Series 2011 Bond bears interest at a fixed rate of 2.96% per annum, subject to the put rights of the Series 2011 Bondholder as described below, and interest payments are due quarterly on each January 1, April 1, July 1 and October 1. The Series 2011 Bondholder has the option to tender the Series 2011 Bond for payment on December 1, 2021, the first optional put date, unless extended under the terms of the loan agreement to not earlier than December 1, 2026. An additional extension may be made to not earlier than December 1, 2031. The Obligors are required to maintain assets so that on each June 30, unrestricted and temporarily restricted net assets shall exceed 200% of the total funded debt.

During the fiscal year ended June 30, 2009, the Foundation executed an interest rate swap on a $7,000,000 notional amount. The Foundation used this interest-rate derivative instrument to manage its interest rate exposure on a portion of the Series 2006 Bonds. The Foundation does not enter into derivative instruments for any purpose other than to mitigate the impact of changes in interest rates on its cash flows. The Foundation made monthly payments at a fixed annual rate of 2.05%, and received monthly payments at a floating rate based on 67% of the one month LIBOR. The interest rate swap was terminated in December 2011 at a cost of $534,580. The fair value of the interest rate swap was $0 and $671,976 at June 30, 2012 and 2011, respectively.

Commitments and Contingencies

On August 21, 2002, New Town Associates entered into a borrowing agreement with SunTrust Bank with a limit of $5,000,000. The facility was revised in September 2004, December 2006, and October 2009 and was replaced in November 2011. The amount available under the agreement could be used for loans and for letters of credit. Interest rate on the facility was of the 30-day LIBOR plus 2.50%, with a minimum of 3%. The Foundation guaranteed up to $2,500,000, and members of the C.C. Casey Limited Company (the "Casey Group") guaranteed up to $2,500,000. Outstanding loan balances of $0 and $2,300,000 existed as of June 30, 2012 and 2011, respectively. Letters of credit outstanding under this facility at June 30, 2012 and 2011, were $0 and $1,623,750, respectively. The letters of credit were issued to guarantee the completion of site improvements as required by James City County. Upon completion of those improvements, these letters of credit were terminated, with no residual liability. No draws had been made on the letters of credit as of June 30, 2012 and 2011.

During the fiscal year ended June 30, 2012 New Town Associates entered into two financing arrangements, with Chesapeake Bank and SunTrust Bank, to replace its borrowing agreement with SunTrust. The Chesapeake Bank agreement is a $3,000,000 line of credit available for the issuance of loans and letters of credit, and is secured by a lien on New Town Associates' commercial land and improvements, as well as the assignment of rents, profits and leases. This facility bears an interest rate of 5.5%, and matures November 22, 2015. The Foundation guarantees 50% of the balance of the Chesapeake facility, not to exceed $1,500,000. As of June 30, 2012 the principal amount outstanding under this note was $2,192,526. Letters of credit outstanding under this facility totaled $606,000 at June 30, 2012. The SunTrust Bank agreement is a $2,000,000 unsecured line of credit available for the issuance of loans and letters of credit. The SunTrust facility bears an interest rate equal to the three-month LIBOR Rate plus 2.50% with a minimum of 3%, and matures on October 31, 2013. Each of the Foundation and the Casey Group guarantees the full amount outstanding under the facility. However, a separate mutual indemnity agreement has been executed between the guarantors whereby each of the Foundation and the Casey Group will reimburse the other should the amount paid by a guarantor group in connection with the guaranty exceed 50%. As a result the Foundation's ultimate liability under the guaranty is limited to 50%. As of June 30, 2012 the principal amount of loans outstanding under the SunTrust agreement was $129,911. Letters of credit outstanding under this agreement totaled $1,398,950 at June 30, 2012.

## WILLIAM AND MARY BUSINESS SCHOOL FOUNDATION

### Commitments and Contingencies

On January 31, 2007, the Foundation entered into a Development Agreement and a Reimbursement Agreement (Agreements) with the College of William and Mary (College), in connection with the construction and equipping of a new academic building, Alan B. Miller Hall, for the College's Mason School of Business (Project). The total cost of the Project was approximately $75 million. In order to finance the cost of construction and equipping the building, two bond series were issued by the College – 2008 Series A bonds for $23,6050,000, and 2009 Series A bonds for $23,650,000.

By the terms of the Reimbursement Agreement, the Foundation must reimburse the College for all debt service due on the 2009 Series A bonds and all periodic fees due and payable with respect to the 2009 Series A bonds after their issuance, including fees and expenses of the bond trustee, fees of the remarketing agent and fees of any financial institution providing credit support. In addition, the Foundation has pledged as security for the payments all of its assets that are not subject to donor or other legal restrictions, as defined in the Reimbursement Agreement.

By the terms of the bond issue, the Foundation has no direct obligation for payment of the 2008 Series A bonds.

The 2009 Series A bonds have a seven-year term, with principal payments due annually beginning in 2012 and interest payments due biannually. The Foundation paid to the College $864,608 in interest payments and $4,280,000 in principal during 2012.

## RICHARD BLAND COLLEGE FOUNDATION, INC.

### Bonds Payable

During December 2006, the Foundation entered into loan agreements with the Industrial Development Authorities of Dinwiddie County, Virginia, Isle of Wight, Virginia, Prince George, Virginia and Sussex County, Virginia to borrow the proceeds of the Authorities' $27,000,000 Series 2006 Revenue Bonds (Richard Bland College Foundation Student Housing Facilities). The loan agreement provides for rates of interest of 4.23% with adjustments beginning in 2016 and every 5 years thereafter at 70% of the 5-year U.S. Treasury Note, and 60 equal semi-annual principal and interest payments commencing on February 5, 2009. The bonds are due August 5, 2038. The primary purpose of this loan is to refund and redeem in full the outstanding principal amount of the Authorities' $27,000,000 Series 2006 Revenue Bonds (Richard Bland College Foundation Student Housing Facilities), the proceeds of which were used to finance the costs of construction and equipping of a student housing facility located in Dinwiddie, Virginia.

## WILLIAM & MARY REAL ESTATE FOUNDATION

### Tribe Square

During 2010, the Foundation began development of properties held and referred to as Tribe Square. The development consists of two properties already held by the foundation, and three properties that were transferred to the Foundation from the College on July 16, 2010. This transfer is included in the statement of activities as transfers from the College of William & Mary in the amount of $245,000.

The properties are being developed into a mixed use property known as Tribe Square, which consists of one floor retail space and two floors student housing. Construction was completed during 2012 and the building was put into service. The Foundation entered into a commercial management agreement dated December 6, 2010 with an agent to manage the property on behalf of the Foundation. The agreement is for one-year term beginning on August 1, 2011 and ending on July 31, 2012, and continuing on an annual basis unless and until terminated by either party. The services to be provided by the agent include the operation and maintenance of the property, as well as financial duties as defined in the agreement. The management fee paid to the agent will be $ 20,940 per annum. At year-end, the Foundation has executed four lease agreements for tenants in the first floor retail area. The student housing space is being leased to the College.

Bonds Payable

The Foundation closed a tax-exempt student housing facilities revenue bond, dated September 16, 2011. The bond was issued through the Economic Development Authority of the City of Williamsburg for a principal amount of $5 million. The proceeds of this bond were used to finance the costs to acquire, construct, and equip the student apartment portion of Tribe Square, and pay certain expenses of issuing the bond. The bond is secured by the rents and revenues of Tribe Square, and the property itself.

The rate of interest on this bond is 3.75% per annum. The principal balance of this bond is being amortized over the twenty-five year term of the bond, with equal payments of principal and interest in the amount of $25,855.44 due monthly, commencing on October 16, 2011. The outstanding principal balance is $4,908,860 at June 30, 2012.

The bond, which is bank held, has an option for the bank to require the Foundation to repurchase the bond once the bond is 10 years past the issuance date. If this option is exercised the Foundation would pay the aggregate unpaid principal plus accrued interest through the date of such payment. The bank must give the Foundation 120 days' notice prior to the tender date if this option is exercised.

## 14. CONTRIBUTION TO PENSION PLAN

### Virginia Retirement System

Employees of the College 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 that acts as a common investment and administrative agency for the Commonwealth of Virginia and its political subdivisions.

The College of William and Mary and Richard Bland College's payroll costs for employees covered by VRS were $35,556,293 for the year ended June 30, 2012. Total payroll costs were $131,779,152 for the year ended June 30, 2012.

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

The College of William and Mary and Richard Bland College's total VRS contributions were $2,401,553 for the year ended June 30, 2012. These contributions represent approximately 6.75 percent of covered payroll for the period July 2011 to June 2012.

The VRS does not measure assets and pension benefit obligations separately for individual state institutions. The Comprehensive Annual Financial Report provides disclosure of the Commonwealth's unfunded pension benefit obligation at June 30, 2012. The same report contains historical trend information showing VRS progress in accumulating sufficient assets to pay benefits when due.

### Optional Retirement Plan

Full-time faculty and certain administrative staff may participate in a retirement annuity program through various optional retirement plans other than the VRS. This is a fixed-contribution program where the retirement benefits received are based upon the employer's contributions of approximately 10.4 percent or 8.50 percent depending on whether the employee is in Plan 1 or Plan 2, plus interest and dividends. Plan 1 consists of employees who became a member prior to July 1, 2010. Plan 2 consists of employees who became a member on or after July 1, 2010.

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 $7,302,997 for the year ended June 30, 2012. Contributions to the optional retirement plans were calculated using the base salary amount of $71,310,597 for fiscal year 2012. The College of William and Mary and Richard Bland College's total payroll for fiscal year 2012 was $131,779,152.

### Deferred Compensation

Employees of the College are employees of the Commonwealth of Virginia. State employees may participate in the Commonwealth's Deferred Compensation Plan. Participating employees can contribute to the plan each pay period with the Commonwealth matching up to $10 per pay period. The dollar amount of the match can change depending on the funding available in the Commonwealth's budget. The Deferred Compensation Plan is a qualified defined contribution plan under Section 401(a) of the Internal Revenue Code. Employer contributions under the Deferred Compensation Plan were approximately $755,359 for fiscal year 2012.

## 15. POST-RETIREMENT BENEFITS

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

## 16. CONTINGENCIES

### 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, 2012, the College estimates that no material liabilities will result from such audits.

### Litigation

The College is currently involved in litigation which could result in a judgment against the College. The final outcome of this lawsuit 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.

**COLLEGE OF WILLIAM AND MARY**
**RECEIPT OF THE FINANCIAL REPORT OF**
**THE INTERCOLLEGIATE ATHLETIC DEPARTMENT**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

The summarized Financial Report of the Intercollegiate Athletic Department for the fiscal year ended June 30, 2012, has been presented by the Vice President for Finance to the President of the College, who has approved it for presentation to the Rector and the Board of Visitors.

RESOLVED, That the Unaudited Financial Report of Intercollegiate Athletics for the Year Ended June 30, 2012 *(see separate booklet)*, is hereby received by the Board of Visitors.

RESOLUTION 15

The College of WILLIAM & MARY IN VIRGINIA

**UNAUDITED**
**FINANCIAL REPORT OF INTERCOLLEGIATE ATHLETICS**
**FOR THE YEAR ENDED**
**JUNE 30, 2012**

# THE COLLEGE OF WILLIAM AND MARY IN VIRGINIA
Williamsburg, VA

**June 30, 2012**

## THE BOARD OF VISITORS



## ADMINISTRATIVE OFFICERS

W. Taylor Reveley III, President

Edward C. Driscoll, Athletic Director

Daniel D. Wakely, Assistant Athletic Director
for Business Affairs

# THE COLLEGE OF WILLIAM AND MARY IN VIRGINIA

# FINANCIAL REPORT OF INTERCOLLEGIATE ATHLETICS

For the Year Ended June 30, 2012

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**THE COLLEGE OF WILLIAM AND MARY IN VIRGINIA**
**SCHEDULE OF REVENUES AND EXPENSES OF**
**INTERCOLLEGIATE ATHLETIC PROGRAMS**
**For the Year Ended June 30, 2012**

| | Football | Men's Basketball | Women's Basketball | Other* Sports | Non-Program Specific | Total |
|---|---|---|---|---|---|---|
| Operating revenues: | | | | | | |
| Student fees | | | | | $ 10,910,040 | $ 10,910,040 |
| Contributions (Note 2) | $ 1,945,660 | $ 552,657 | $ 118,373 | $ 645,249 | 245,675 | 3,507,614 |
| Endowment and investment income (Note 3) | 676,762 | 180,907 | 127,282 | 799,465 | 82,744 | 1,867,160 |
| Ticket sales | 693,617 | 142,802 | 11,449 | 39,629 | 116 | 887,613 |
| Guarantees | 267,318 | 150,000 | - | 18,250 | - | 435,568 |
| Direct institutional support | 846 | - | - | 55,000 | 1,557 | 57,403 |
| Indirect facilities and administrative support | 56,550 | 29,233 | 20,207 | 344,083 | 77,191 | 527,264 |
| NCAA/conference distributions | 185,652 | 234,963 | 52,660 | 588,766 | 152,987 | 1,215,028 |
| Broadcast, television, radio & internet rights | - | - | - | - | 9,440 | 9,440 |
| Program sales, concessions, novelty sales & parking | 55,315 | 2,100 | 200 | 502 | - | 58,117 |
| Royalties, advertisements and sponsorships | 281,515 | 66,722 | 43,349 | 95,697 | 142,769 | 630,052 |
| Sports camp revenues | - | - | - | 1,009 | 35,179 | 36,188 |
| Other | 11,329 | 620 | 660 | 181,057 | 147,917 | 341,583 |
| Subtotal operating revenues | 4,174,564 | 1,360,004 | 374,180 | 2,768,707 | 11,805,615 | 20,483,070 |
| Operating expenses: | | | | | | |
| Athletics student aid | 2,219,265 | 525,351 | 612,542 | 3,607,799 | 23,500 | 6,988,457 |
| Guarantees | 50,000 | 4,479 | 3,892 | 8,187 | - | 66,558 |
| Coaching salaries, benefits, & bonuses paid by the College and related entities | 972,024 | 580,261 | 286,782 | 1,693,404 | - | 3,532,471 |
| Support staff/administrative salaries, benefits, and bonuses paid by the College and related entities | 51,858 | 58,760 | 51,905 | 5,419 | 2,643,258 | 2,811,200 |
| Severance payments | - | - | - | 20,988 | 4,044 | 25,032 |
| Recruiting | 131,210 | 76,827 | 42,429 | 144,115 | - | 394,581 |
| Team travel | 271,591 | 174,237 | 123,193 | 958,790 | - | 1,527,811 |
| Equipment, uniforms and supplies | 108,986 | 39,410 | 32,489 | 269,423 | 58,725 | 509,033 |
| Game expenses | 171,745 | 116,084 | 83,334 | 262,994 | - | 634,157 |
| Fund raising, marketing and promotion | 78 | - | - | - | 419,964 | 420,042 |
| Direct facilities, maintenance and rental | 878,574 | 4,960 | 119 | 679,690 | 77,243 | 1,640,586 |
| Spirit groups | - | - | - | - | 30,229 | 30,229 |
| Indirect facilities and administrative support | 56,550 | 29,233 | 20,207 | 344,083 | 77,191 | 527,264 |
| Medical expenses and medical insurance | 15,990 | 902 | 873 | 13,192 | 306,662 | 337,619 |
| Memberships and dues | - | 795 | 667 | 6,901 | 90,874 | 99,237 |
| Other operating expenses | 55,284 | 24,544 | 21,688 | 71,094 | 668,010 | 840,620 |
| Subtotal operating expenses | $ 4,983,155 | $ 1,635,843 | $ 1,280,120 | $ 8,086,079 | $ 4,399,700 | $ 20,384,897 |
| Excess (deficiency) of revenues over (under) expenses | | | | | | 98,173 |

* Other sports include baseball, field hockey, golf, gymnastics, lacrosse, soccer, swimming, tennis, track and field, and volleyball.

The accompanying notes are an integral part of this schedule.

# THE COLLEGE OF WILLIAM AND MARY
# NOTES TO SCHEDULE OF REVENUES AND EXPENSES OF INTERCOLLEGIATE ATHLETIC PROGRAMS
# AS OF JUNE 30, 2012

## 1. BASIS OF PRESENTATION

The accompanying Schedule of Revenues and Expenses of Intercollegiate Athletic Programs has been prepared on the accrual basis of accounting. The purpose of the schedule is to present a summary of current fund revenues and expenses of the intercollegiate athletic programs of the College for the year ended June 30, 2012. The schedule presents only a selected portion of the activities of the College and it is not intended to nor does it present either the financial position, changes in fund balances, or current funds revenues and other additions, expenses, transfers and other deductions for the year ended. Revenues and expenses are directly identifiable with each category presented and reported accordingly.

## 2. CONTRIBUTIONS

The Athletic Educational Foundation (AEF) of the College of William and Mary in Virginia, Incorporated, also referred to as the Tribe Club, raises funds and collects contributions for the benefit of the Intercollegiate Athletics Department. The College received $ 3,075,219 from the AEF during the year ended June 30, 2012.

The AEF receives directly from various individuals and businesses donations in the form of goods or services for the athletic program. The College received $432,395 from individuals and businesses in donations during the year ended June 30, 2012.

## 3. ENDOWMENT AND INVESTMENT INCOME

The College of William and Mary Foundation is authorized to receive and administer gifts and bequests of all kinds. The Foundation makes such resources available to the College, which may be drawn as needed by the College within the Foundation's budgetary restrictions. The College received $1,867,160 of endowment and investment income from the Foundation for the benefit of the Intercollegiate Athletics Department for the year ended June 30, 2012.

## 4. 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 William and Mary campus capitalizes all items with a unit price greater than or equal to $5,000.

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

| | |
|---|---|
| Buildings | 40-50 years |
| Improvements other than Buildings | 10-50 years |
| Infrastructure | 10-50 years |
| Equipment | 2-30 years |
| Library Books | 10 years |

A summary of the capital asset ending balances net of accumulated depreciation for the year ending June 30, 2012 is as follows:

| | |
|---|---|
| Depreciable capital assets: | |
| Buildings | $27,514,143 |
| Improvements other than Buildings | 799,483 |
| Infrastructure | 2,628,105 |
| Equipment | 2,679,156 |
| Total depreciable capital assets | 33,620,887 |
| Less Accumulated depreciation for: | |
| Buildings | 9,539,158 |
| Improvements other than Buildings | 240,957 |
| Infrastructure | 1,802,725 |
| Equipment | 1,455,339 |
| Total accumulated depreciation | 13,038,179 |
| Total capital assets, net | $20,582,708 |

## 5. LONG-TERM DEBT

Long-term debt relating to intercollegiate athletics is shown below.

| Description<br>Section 9(d) Bonds: | Interest Rates (%) | Maturity | Balance as of June 30, 2012 | % used by Athletics | Athletics Balance June 30, 2012 |
|---|---|---|---|---|---|
| William and Mary Hall, Series 2004B | 3.000-5.000 | 2016 | 685,000 | 85% | $ 582,250 |
| William and Mary Hall, Series 2007B | 4.000-4.250 | 2018 | 165,000 | 85% | 140,250 |
| Recreation Sports Center, Series 2003A | 2.000-5.000 | 2024 | 90,000 | 15% | 13,500 |
| Recreation Sports Center, Series 2004A | 3.500-5.000 | 2025 | 1,040,000 | 15% | 156,000 |
| Recreation Sports Center, Series 2005A | 3.500-5.000 | 2026 | 770,000 | 15% | 115,500 |
| Recreation Sports Center, Series 2010B | 2.000-5.000 | 2021 | 220,000 | 15% | 33,000 |
| Recreation Sports Center, Series 2012A | 3.000-5.000 | 2024 | 315,000 | 15% | 47,250 |
| Recreation Sports Center, Series 2012A | 3.000-5.000 | 2025 | 4,585,000 | 15% | 687,750 |
| Recreation Sports Center, Series 2012A | 3.000-5.000 | 2025 | 1,225,000 | 15% | 183,750 |
| Improve Athletics Facilities, Series 2005A | 3.500-5.000 | 2026 | 1,065,000 | 100% | 1,065,000 |
| Improve Athletics Facilities, Series 2006A | 3.000-5.000 | 2027 | 650,000 | 100% | 650,000 |
| Improve Athletics Facilities, Series 2012A | 3.000-5.000 | 2025 | 1,655,000 | 100% | 1,655,000 |
| J. Laycock Football Facility, Series 2006A | 3.000-5.000 | 2027 | 4,675,000 | 100% | 4,675,000 |
| Busch Field Astroturf Replacement 2009B | 3.000-5.000 | 2030 | 1,335,000 | 100% | 1,335,000 |
| Total | | | | | $ 11,339,250 |

Long-term debt matures as follows:

| Year Ended | Principal | Interest |
|---|---|---|
| 2013 | $ 613,250 | $ 508,401 |
| 2014 | 640,500 | 486,520 |
| 2015 | 678,500 | 453,545 |
| 2016 | 707,000 | 418,908 |
| 2017 | 745,750 | 382,589 |
| 2018-2022 | 3,671,750 | 1,368,254 |
| 2023-2027 | 3,967,500 | 438,804 |
| 2028-2032 | 315,000 | 23,750 |
| Total | $ 11,339,250 | $ 4,080,771 |

## 6. INDIRECT COSTS

The College recovers a percentage of each auxiliary enterprise's expenses, including athletics, to cover overhead costs such as utilities and custodial services. In the fiscal year ended June 30, 2012 the overhead rate charged to athletics and other auxiliary enterprise was 22.39% percent. This amount is included in direct facilities, maintenance, and rental expenses, under the category "Administrative and General."

# THE COLLEGE OF WILLIAM AND MARY
## FY 2012-2013 OPERATING BUDGET SUMMARY

| | 2010-2011 Actual | 2011-2012 Actual | Approved 2012-2013 Budget | Year to Date Through 9/30/12 |
|---|---|---|---|---|
| **CARRYOVER BALANCE** | | | | |
| **REVENUE** | | | | |
| Federal Stimulus Funds | $ 6,943,426 | $ 0 | $ 0 | $ 0 |
| General Funds | | | | |
| Educational/General | 40,468,124 | 36,086,016 | 38,146,486 | 9,210,824 |
| Student Aid | 3,620,227 | 3,801,479 | 3,870,482 | 3,870,482 |
| Sponsored Programs | 414,000 | 414,000 | 1,800,000 | 18,806 |
| Nongeneral Funds | | | | |
| Educational/General | 104,833,567 | 114,126,476 | 118,453,744 | 59,971,104 |
| Student Aid | 11,669,617 | 16,473,331 | 17,827,565 | 17,827,565 |
| Auxiliary Enterprise | 81,120,439 | 85,844,824 | 87,561,134 | 33,618,600 |
| Sponsored Programs | 31,484,073 | 27,815,177 | 28,850,000 | 9,810,790 |
| Private Funds | 11,822,623 | 11,980,923 | 11,444,953 | 1,524,266 |
| **Total Revenue** | $ 292,376,096 | $ 296,542,226 | $ 307,954,364 | $ 135,852,437 |
| **EXPENDITURES** | | | | |
| Instruction | $ 84,125,717 | $ 83,738,512 | $ 89,608,192 | $ 24,681,557 |
| Research | 1,057,239 | 1,211,472 | 1,363,488 | 519,031 |
| Public Service | 51,929 | 57,936 | 53,139 | 19,287 |
| Academic Support | 25,007,397 | 24,459,412 | 25,465,377 | 6,961,286 |
| Student Services | 8,430,764 | 8,844,961 | 8,306,806 | 2,120,685 |
| Institutional Support | 21,428,918 | 21,571,241 | 23,679,023 | 7,143,803 |
| Plant Operations | 17,660,001 | 16,366,345 | 17,451,663 | 4,695,684 |
| Student Aid | 17,982,111 | 23,280,397 | 25,367,150 | 23,442,416 |
| Auxiliary Enterprise | 76,226,174 | 82,083,973 | 85,712,359 | 22,555,525 |
| Sponsored Programs | 31,898,073 | 28,229,177 | 30,650,000 | 9,829,596 |
| **Total Expenditures** | $ 283,868,323 | $ 289,843,426 | $ 307,657,197 | $ 101,968,870 |

The College of William and Mary
Education and General
2012-2013 Operating Budget Summary

| | 2010-2011 Actual | 2011-2012 Actual | Approved 2012-2013 Budget | Year to Date Through 9/30/12 |
|---|---|---|---|---|
| REVENUE: | | | | |
| Federal Stimulus Funds | $6,943,426 | $0 | $0 | $0 |
| General Funds | 40,468,124 | 36,086,016 | 38,146,486 | 9,210,824 |
| Nongeneral Funds | $104,833,567 | $114,126,476 | 118,453,744 | $59,971,104 |
| Total Revenue | $152,245,117 | $150,212,492 | $156,600,230 | $69,181,928 |
| EXPENDITURES: | | | | |
| Instruction | $83,314,623 | $82,924,339 | $88,424,697 | $24,508,454 |
| Research | 853,270 | 955,879 | 948,413 | 436,472 |
| Public Service | 8,306 | 8,277 | 8,021 | 1,798 |
| Academic Support | 24,448,507 | 23,978,107 | 24,483,797 | 6,714,886 |
| Student Services | 8,116,604 | 8,686,997 | 8,185,060 | 2,093,427 |
| Institutional Support | 18,198,069 | 16,680,484 | 17,166,899 | 4,832,780 |
| Plant Operations | 17,265,065 | 16,318,181 | 17,383,343 | 4,674,723 |
| Total Expenditures | $152,204,444 | $149,552,264 | $156,600,230 | $43,262,540 |

The College of William and Mary
Student Financial Assistance*
2012-2013 Operating Budget Summary

| | 2010-2011 Actual | 2011-2012 Actual | Board Approved 2012-2013 Budget | Year to Date Through 9/30/12 |
|---|---|---|---|---|
| REVENUE: | | | | |
| General Funds | $3,620,227 | $3,801,479 | $3,870,482 | $3,870,482 |
| Nongeneral Funds | 11,669,617 | 16,473,331 | 17,827,565 | 17,827,565 |
| Auxilary Enterprises | | | 247,807 | 247,807 |
| Total Revenue | $15,289,844 | $20,274,810 | $21,945,854 | $21,945,854 |
| EXPENDITURES: | $15,257,056 | $20,274,810 | $21,945,854 | $21,945,854 |

* Excludes student financial assistance support included in Board of Visitors private fund budget.

The College of William and Mary
Education and General
2012-2013 Operating Budget Summary

| | 2010-2011 Actual | 2011-2012 Actual | Approved 2012-2013 Budget | Year to Date Through 9/30/12 |
|---|---|---|---|---|
| **REVENUE** | | | | |
| Federal Stimulus Funds | $6,943,426 | $0 | $0 | $0 |
| General Funds | 40,468,124 | 36,086,016 | 38,146,484 | 9,210,824 |
| Nongeneral Funds | 104,833,567 | 114,126,476 | 118,453,744 | $59,971,104 |
| TOTAL REVENUE | $152,245,117 | $150,212,492 | $156,600,228 | $69,181,928 |
| **EXPENDITURES** | | | | |
| **Instruction** | | | | |
| Personal Services | $73,629,791 | $77,055,642 | $81,215,009 | $22,862,972 |
| Contractual Services | 3,938,195 | 2,988,256 | 3,380,566 | 584,641 |
| Supplies and Materials | 648,368 | 699,638 | 818,075 | 152,389 |
| Transfer Payments | 2,960,258 | 1,152,384 | 1,184,728 | 112,070 |
| Continuous Charges | 474,432 | 383,655 | 477,757 | 82,186 |
| Property & Improvements | 58,849 | 99,456 | 100,000 | 2 |
| Equipment | 1,602,847 | 545,307 | 1,248,562 | 714,194 |
| Indirect Costs | 1,885 | 0 | 0 | 0 |
| TOTAL | **$83,314,623** | **$82,924,339** | **$88,424,697** | **$24,508,454** |

| | 2010-2011 Actual | 2011-2012 Actual | Approved 2012-2013 Budget | Year to Date Through 9/30/12 |
|---|---|---|---|---|
| **Research** | | | | |
| Personal Services | $495,040 | $649,918 | $645,882 | $180,683 |
| Contractual Services | 61,076 | 55,457 | 51,746 | 7,277 |
| Supplies and Materials | 1,258 | 1,944 | 520 | 621 |
| Transfer Payments | 284,965 | 246,465 | 244,965 | 244,965 |
| Continuous Charges | 592 | 556 | 300 | 0 |
| Property & Improvements | 0 | 6 | 0 | 0 |
| Equipment | 10,339 | 1,533 | 5,000 | 2,926 |
| TOTAL | **$853,270** | **$955,879** | **$948,413** | **$436,472** |
| **Public Service** | | | | |
| Personal Services | $1,543 | $0 | $760 | $0 |
| Contractual Services | 6,649 | 7,171 | 5,784 | 1,798 |
| Supplies and Materials | 0 | 105 | 477 | 0 |
| Continuous Charges | 0 | 1,000 | 1000 | 0 |
| Equipment | 115 | 0 | 0 | 0 |
| TOTAL | **$8,306** | **$8,277** | **$8,021** | **$1,798** |
| **Academic Support** | | | | |
| LIBRARIES: | | | | |
| Personal Services | $5,179,592 | $5,289,202 | $5,627,678 | $1,565,938 |
| Contractual Services | 712,663 | 1,292,468 | 926,061 | 20,302 |

| | 2010-2011 Actual | 2011-2012 Actual | Approved 2012-2013 Budget | Year to Date Through 9/30/12 |
|---|---|---|---|---|
| Supplies and Materials | 58,873 | 37,542 | 38,658 | 10,058 |
| Transfer Payments | 0 | 0 | 0 | 0 |
| Continuous Charges | 4 | 8,020 | 5,000 | 0 |
| Property & Improvements | 0 | 0 | 0 | 0 |
| Equipment | 3,694,597 | 3,119,663 | 3,495,809 | 510,350 |
| TOTAL | **$9,645,729** | **$9,746,895** | **$10,093,206** | **$2,147,830** |
| OTHER ACAD. SUPPORT: | | | | |
| Personal Services | $11,709,868 | $11,556,501 | $11,641,659 | $3,425,354 |
| Contractual Services | 1,917,972 | 1,720,289 | 1,790,395 | 818,705 |
| Supplies and Materials | 59,840 | 117,588 | 91,701 | 22,656 |
| Transfer Payments | 112,599 | 140,491 | 123,506 | 99,168 |
| Continuous Charges | 114,436 | 157,112 | 140,167 | 59,840 |
| Property & Improvements | 36,532 | 3,045 | 0 | 1,720 |
| Equipment | 837,501 | 536,186 | 603,163 | 180,795 |
| Obligations | 14,029 | 0 | 0 | 0 |
| TOTAL | **$14,802,778** | **$14,231,211** | **$14,390,591** | **$4,608,238** |
| TOTAL ACADEMIC SUPPORT | **$24,448,507** | **$23,978,107** | **$24,483,797** | **$6,756,068** |

| | 2010-2011 Actual | 2011-2012 Actual | Approved 2012-2013 Budget | Year to Date Through 9/30/12 |
|---|---|---|---|---|
| **Student Services** | | | | |
| Personal Services | $6,895,763 | $7,372,765 | $6,955,581 | $1,796,758 |
| Contractual Services | 925,352 | 1,022,977 | 912,655 | 226,795 |
| Supplies and Materials | 145,673 | 162,449 | 154,059 | 18,655 |
| Transfer Payments | 68,344 | 65,654 | 69,039 | 25,014 |
| Continuous Charges | 3,857 | 13,953 | 4,150 | 301 |
| Property & Improvements | 9,589 | 415 | 0 | 0 |
| Equipment | 68,026 | 48,784 | 89,576 | 25,904 |
| TOTAL | **$8,116,604** | **$8,686,997** | **$8,185,060** | **$2,093,427** |
| **Institutional Support** | | | | |
| Personal Services | $15,577,617 | $13,569,653 | $14,354,987 | $4,238,278 |
| Contractual Services | 1,500,147 | 1,614,527 | 1,778,916 | 461,651 |
| Supplies and Materials | 197,259 | 168,925 | 168,216 | 43,901 |
| Transfer Payments | 142,676 | 80,088 | 72,490 | 27,389 |
| Continuous Charges | 484,182 | 1,016,519 | 569,319 | 22,187 |
| Property & Improvements | 14,699 | 3,651 | 0 | 0 |
| Equipment | 276,560 | 227,097 | 222,971 | 38,850 |
| VIMS Service Centers | 0 | 25 | 0 | 524 |
| Obligations | 4,929 | 0 | 0 | 0 |
| TOTAL | **$18,198,069** | **$16,680,484** | **$17,166,899** | **$4,832,780** |

| | 2010-2011 Actual | 2011-2012 Actual | Approved 2012-2013 Budget | Year to Date Through 9/30/12 |
|---|---|---|---|---|
| **Plant Operations** | | | | |
| Personal Services | $5,191,152 | $4,342,843 | $4,932,970 | $670,520 |
| Contractual Services | 5,876,269 | 5,315,745 | 5,374,687 | 2,009,019 |
| Supplies and Materials | 1,810,488 | 1,762,157 | 1,631,635 | 317,076 |
| Transfer Payments | 0 | 1,713 | 0 | 0 |
| Continuous Charges | 4,061,056 | 4,844,830 | 4,969,592 | 1,644,627 |
| Property & Improvements | 205,268 | 51,419 | 144,575 | 4,444 |
| Equipment | 120,832 | (525) | 329,884 | 29,037 |
| TOTAL | **$17,265,065** | **$16,318,181** | **$17,383,343** | **$4,674,723** |
| **E&G PROGRAM TOTAL** | **$152,204,444** | **$149,552,264** | **$156,600,230** | **$43,303,722** |

## The College of William and Mary
## Auxiliary Enterprise
## 2012-2013 Operating Budget Summary

| | 2010-2011 Actual | 2011-2012 Actual | Approved 2012-2013 Budget | Year to Date Through 9/30/2012 |
|---|---|---|---|---|
| REVENUE | | | | |
| Residence Life | $23,860,980 | $24,293,056 | $25,071,000 | $10,641,647 |
| Food Service | 13,906,637 | 14,806,373 | 14,961,390 | 5,963,637 |
| Telecom/Network | 3,664,668 | 3,584,150 | 3,515,230 | 1,383,963 |
| Student Unions | 2,899,844 | 2,898,509 | 2,901,000 | 1,321,074 |
| W&M Hall | 2,172,942 | 2,363,126 | 2,325,250 | 1,105,198 |
| Athletics | 18,755,845 | 19,452,717 | 20,370,090 | 6,071,251 |
| Other | 15,859,523 | 18,446,893 | 18,417,174 | 7,131,830 |
| Total Revenue | $81,120,439 | $85,844,824 | $87,561,134 | $33,618,600 |
| EXPENDITURES | | | | |
| Residence Life | $22,235,788 | $22,958,496 | $24,967,000 | $7,756,229 |
| Food Service | 12,191,866 | 13,595,181 | 14,280,004 | 1,228,626 |
| Telecom/Network | 3,509,928 | 3,569,041 | 3,411,615 | 469,455 |
| Student Unions | 2,714,689 | 2,925,710 | 2,789,800 | 764,738 |
| W&M Hall | 2,109,104 | 2,075,466 | 2,039,400 | 504,506 |
| Athletics | 18,744,923 | 19,367,785 | 20,370,090 | 6,441,825 |
| Other | 14,719,876 | 17,592,294 | 17,854,450 | 5,390,146 |
| Total Expenditures | $76,226,174 | $82,083,973 | $85,712,359 | $22,555,525 |

## The College of William and Mary
## Sponsored Programs
## 2012-2013 Operating Budget Summary

| | 2010-2011 Actual | 2011-2012 Actual | Approved 2012-2013 Budget | Year to Date Through 9/30/2012 |
|---|---|---|---|---|
| REVENUE | | | | |
| General Fund | $414,000 | $414,000 | $1,800,000 | $18,806 |
| Nongeneral Fund | 31,484,073 | 27,815,177 | 28,850,000 | 9,810,790 |
| Total Revenue | $31,898,073 | $28,229,177 | $30,650,000 | $9,829,596 |
| EXPENDITURES | $31,898,073 | $28,229,177 | $30,650,000 | $9,829,596 |

## THE COLLEGE OF WILLIAM & MARY
## PRIVATE FUNDS BUDGET SUMMARY

| | 2010-2011 Actual | 2011-2012 Actual | Approved 2012-2013 Budget | Year to Date Through 9/30/12 |
|---|---|---|---|---|
| REVENUE: | | | | |
| Distributed Endowment Income | $2,017,708 | $2,102,696 | $2,334,953 | $582,518 |
| Administrative Overhead Allocation | 200,000 | 200,000 | 200,000 | 50,000 |
| Transfers from Other Sources | 102,084 | 518,021 | 173,000 | 0 |
| Interest on Cash Balances | 153,395 | 90,444 | 125,000 | 6,735 |
| Annual Gifts | 8,451,745 | 7,397,505 | 7,300,000 | 795,729 |
| Drawdown from BOV Quasi Endowment | 0 | 1,000,000 | 775,000 | 0 |
| Distribution from External Trusts | 34,328 | 21,210 | 17,000 | 0 |
| Other Revenue | 863,363 | 651,047 | 520,000 | 89,284 |
| Total Revenue | $11,822,623 | $11,980,923 | $11,444,953 | $1,524,266 |
| EXPENDITURES: | | | | |
| Instruction | $811,094 | $814,173 | $1,183,495 | 173,103 |
| Research | 203,969 | 255,593 | 415,075 | 82,559 |
| Public Service | 43,623 | 49,659 | 45,118 | 17,489 |
| Academic Support | 558,890 | 481,305 | 981,580 | 246,400 |
| Student Services | 314,160 | 157,964 | 121,746 | 27,258 |
| Institutional Support | 3,230,849 | 4,890,757 | 6,512,124 | 2,311,023 |
| Plant: Operations & Capital Improvements | 394,936 | 48,164 | 68,320 | 20,961 |
| Student Aid | 2,725,055 | 3,005,587 | 3,421,296 | 1,496,562 |
| Total Expenditures | $8,282,576 | $9,703,202 | $12,748,754 | $4,375,355 |

# VIRGINIA INSTITUTE OF MARINE SCIENCE
# FY 2012-2013 OPERATING BUDGET SUMMARY

| | 2010-2011 Actual | 2011-2012 Actual | Approved 2012-13 Budget | Year to Date Through 9/30/12 |
|---|---|---|---|---|
| **REVENUE** | | | | |
| General Fund | $18,576,281 | $16,941,420 | $18,205,067 | $5,040,927 |
| Nongeneral Funds | | | | |
| Educational/General | $1,759,741 | 2,464,708 | 1,852,132 | $307,869 |
| Federal Stimulus | $2,704,790 | 420,304 | 0 | $0 |
| Eminent Scholars | $0 | 0 | 75,000 | |
| Sponsored Programs | $18,609,523 | 20,281,919 | 21,500,000 | $6,343,824 |
| Total Revenue | $41,650,335 | $40,108,351 | $41,632,199 | $11,692,620 |
| **EXPENDITURES** | | | | |
| Instruction | $1,394,266 | $1,393,923 | $1,804,997 | $415,709 |
| Research and Advisory Services | $9,431,887 | 7,992,794 | 8,513,433 | $2,113,806 |
| Academic Support | $4,580,226 | 4,279,554 | 3,839,488 | $1,176,464 |
| Institutional Support | $3,159,290 | 1,895,487 | 1,630,036 | $1,049,320 |
| Plant Operations | $3,721,015 | 3,972,685 | 4,104,718 | $1,031,759 |
| Student Financial Assistance | $715,798 | 238,527 | 238,527 | $34,212 |
| Sponsored Programs | $18,609,523 | 20,281,919 | 21,500,000 | $6,343,824 |
| Total Expenditures | $41,612,005 | $40,054,889 | $41,631,199 | $12,165,094 |

Enclosure K

THE OPTIMAL SERVICE GROUP
of Wells Fargo Advisors

WELLS FARGO ADVISORS

# Investment Portfolio Evaluation For Periods Ending September 30, 2012

W&M

## Board of Visitors Endowment

Together we'll go far

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| IV. | Capital Markets Review |
| V. | Green Fund Update |

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# Capital Markets Review

For Periods Ending September 30, 2012

| Index Name | 3Q12 | YTD | 1 year | 3 years | 5 years | 10 years |
|---|---|---|---|---|---|---|
| Dow Jones Industrial Average | 5.0 | 12.2 | 26.5 | 14.5 | 2.2 | 8.6 |
| NASDAQ Composite | 6.5 | 20.7 | 30.6 | 14.8 | 3.9 | 11.2 |
| S&P 500 | 6.4 | 16.4 | 30.2 | 13.2 | 1.1 | 8.0 |
| S&P 500 Value | 6.3 | 15.8 | 30.8 | 11.4 | (1.6) | 7.8 |
| S&P 500 Growth | 6.4 | 17.0 | 29.7 | 14.9 | 3.6 | 8.1 |
| Russell 1000 | 6.3 | 16.3 | 30.1 | 13.3 | 1.2 | 8.4 |
| Russell 1000 Value | 6.5 | 15.8 | 30.9 | 11.8 | (0.9) | 8.2 |
| Russell 1000 Growth | 6.1 | 16.8 | 29.2 | 14.7 | 3.2 | 8.4 |
| Russell Midcap | 5.6 | 14.0 | 28.0 | 14.3 | 2.2 | 11.2 |
| Russell Midcap Value | 5.8 | 14.0 | 29.3 | 13.9 | 1.7 | 11.0 |
| Russell Midcap Growth | 5.4 | 13.9 | 26.7 | 14.7 | 2.5 | 11.1 |
| Russell 2000 | 5.3 | 14.2 | 31.9 | 13.0 | 2.2 | 10.2 |
| Russell 2000 Value | 5.7 | 14.4 | 32.6 | 11.7 | 1.4 | 9.7 |
| Russell 2000 Growth | 4.8 | 14.1 | 31.2 | 14.2 | 3.0 | 10.6 |
| Russell 3000 | 6.2 | 16.1 | 30.2 | 13.3 | 1.3 | 8.5 |
| | | | | | | |
| MSCI EAFE Index | 7.0 | 10.6 | 14.3 | 2.6 | (4.8) | 8.7 |
| MSCI World Index | 6.8 | 13.6 | 22.3 | 8.1 | (1.6) | 8.6 |
| MSCI World Ex. US Index | 7.4 | 10.4 | 14.4 | 3.0 | (4.4) | 9.2 |
| MSCI ACWI | 7.0 | 13.4 | 21.7 | 7.8 | (1.5) | 9.2 |
| MSCI ACWI ex USA | 7.5 | 10.9 | 15.0 | 3.6 | (3.7) | 10.3 |
| MSCI EM (EMERGING MARKETS) | 7.9 | 12.3 | 17.3 | 6.0 | (1.0) | 17.4 |
| MSCI FM (FRONTIER MARKETS) | 7.4 | 6.0 | 4.0 | (1.0) | N/A | N/A |
| | | | | | | |
| Barclays Capital U.S. Aggregate | 1.6 | 4.0 | 5.2 | 6.2 | 6.5 | 5.3 |
| Barclays Capital U.S. Government/Credit | 1.7 | 4.4 | 5.7 | 6.5 | 6.6 | 5.4 |
| Barclays Capital Intermediate U.S. Government/Credit | 1.4 | 3.5 | 4.4 | 5.2 | 5.7 | 4.8 |
| Barclays Capital Municipal Bond | 2.3 | 6.1 | 8.3 | 6.0 | 6.1 | 5.0 |
| BofA Merrill Lynch Convertible Securities | 4.5 | 11.7 | 16.5 | 9.9 | 3.7 | 7.9 |
| BofA Merrill Lynch High Yield Master | 4.6 | 11.9 | 18.8 | 12.6 | 9.0 | 10.6 |
| Citigroup World Government Bond Index | 3.0 | 3.4 | 3.3 | 4.3 | 6.5 | 6.7 |
| JPM EMBI Global Diversified | 6.6 | 14.2 | 19.6 | 11.8 | 10.1 | 11.7 |
| Citigroup 3-month T-bill | 0.0 | 0.1 | 0.1 | 0.1 | 0.6 | 1.7 |
| | | | | | | |
| HFRI Fund of Funds Composite Index | 2.4 | 3.4 | 2.9 | 1.5 | (1.6) | 3.6 |
| CS Tremont Managed Futures Index | 1.7 | 0.1 | (4.0) | 1.6 | 4.2 | 4.9 |
| Wilshire REIT | (0.2) | 14.7 | 32.4 | 20.7 | 1.7 | 11.4 |
| Dow UBS Commodity Index | 9.7 | 5.6 | 6.0 | 5.3 | (3.0) | 5.2 |

Data Sources: Zephyr StyleAdvisor & Barclay's Capital

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**Market Summary:** Equity markets surged forward during the 3rd quarter on the back of strong earnings despite an economic environment that includes sluggish growth, unimpressive economic indicators, fast approaching spending cuts and tax increases, a presidential election, and ongoing fiscal concerns in Europe. Second quarter GDP had been revised by the Commerce Department to 1.3% annualized growth from 1.7%. Estimates for the third quarter are within this range. In its latest reading, the unemployment rate dropped from 8.1% to 7.8% as a result of a spike in the household survey which is a smaller and more volatile component of the overall employment measure. Based on this and other economic data, the Federal Reserve announced another round of quantitative easing that would begin immediately and run until economic data improves. The program calls for the Fed to purchase up to $40 billion dollars of mortgage-related securities per month.

Domestic equity indices finished the quarter with gains between 5.0% and 6.5%. Year-to-date, gains are now in the mid-teens with the NASDAQ Composite leading with a gain of 20.7% through quarter-end. Large-cap stocks have outperformed slightly compared to small and mid-cap stocks. Energy was the top performing sector within the S&P 500 followed closely by the telecommunications sector. International equities also performed well during the quarter with gains around 7.0%. These markets trail slightly the domestic markets for the year-to-date period.

The bond market registered small but steady gains during the quarter. Following in the trend of the past several quarters, non-traditional sectors such as high yield, convertibles, and emerging market debt have been the leaders. Corporate (+3.8% for the quarter) and municipal (+2.3%) bonds have lead all investment grade sectors. The Fed's announcement of QE3 sent Treasury yields higher though it was short lived. Along with the announcement of QE3, the Fed also stated that short-term rates would remain at exceptionally low levels through mid-2015.

**Total Portfolio:** ***The William & Mary Board of Visitors (BOV) Endowment*** gained 4.5% for the quarter, 0.3% better than the Policy Benchmark. Overall portfolio asset allocation was in compliance with policy targets at quarter-end.

**Domestic Equity**: The large cap growth portfolio remained invested in the SPY Exchange Traded Fund until a suitable active manager is found. We anticipate the account will transition in December of 2012.

***Blackrock's Large Cap Value*** portfolio posted a gain of 6.0% for the 3rd quarter, trailing the Russell 1000 Value's gain of 6.5%. Our Manager Strategy Group has placed this manager on "Watch" after Chief Equity Strategist and Lead Portfolio Manager Bob Doll suddenly announced his retirement effective July 1, 2012. The abruptness of this decision is cause for some concern but the portfolio's core process and philosophy will remain intact. Chris Leavy has served as the CIO for the Fundamental Equities group at BlackRock since 2010. Peter Stournaras joined the team in 2010 and has implemented a few quantitative process enhancements that are intended to reduce the model's sensitivity to the changing risk on/off dynamics of the market.

The ***Wells Fargo Advantage Discovery Fund*** (Mid Cap Growth) underperformed its benchmark, the Russell MidCap Growth Index, for the quarter, but has outperformed over all historical time periods ending September 30, 2012. Stock selection in Information Technology was the main driver of the fund's recent underperformance.

The ***Artisan Mid Cap Value*** portfolio was up 3.9% for the quarter, but lagged the Russell Mid Cap Value index by 190 bps. The underperformance is in part due to Artisan's bottom-up decision making which has led them to have more exposure to the semiconductor and IT distributor stocks (these were among the weaker returners in the quarter). Since the early June lows, stocks have climbed steadily higher and pullbacks have been somewhat scarce. In this type of market environment, the opportunities for great values are generally fewer.

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**International Equity:** ***Artio International*** added 4.3% for the quarter, but underperformed the MSCI EAFE which returned 7.0%. While allocation decisions between emerging and developed markets (including Japan) had a slightly positive impact on returns, they were offset by stock selection. In the developed markets, the financial and materials sectors were the largest detractors. Over the course of the quarter, the financial sector was the benchmark's best performer and was helped in large part by the ECB's announcement that they would purchase unlimited amounts of government debt. As a result, the portfolio's underweight was a significant detractor. Artio believes there will be a longer term decoupling of emerging markets. As a result, they continue to hold direct investments within local emerging markets as well as global franchises within the developed world.

**Domestic Fixed Income:** The ***PIMCO Total Return Fund*** posted a 160 bps advantage over the benchmark for the quarter (3.2% vs. 1.6%). The fund was recently the subject of Manager Strategy Group (MSG) due diligence. The fund is a core bond holding, focusing on high-quality, intermediate-term bonds, while attempting to be sensitive to risk. It is also able to invest in non-index holdings such as emerging market debt and currencies. The fund's investment team has managed to navigate both difficult markets and economic downturns with skill and results. MSG reiterated the recommended rating for the fund.

The ***Pioneer Strategic Income Fund*** had a strong quarter, outperforming the Barclays Aggregate by 250 bps (4.1% vs. 2.5%). Asset allocation, relative lower quality, security selection, and non-dollar currency positions drove the Fund's strong outperformance.

**International Fixed Income**: The ***GMO Global Bond Strategy*** returned 5.4% for the 3rd quarter, outpacing the Citigroup World Government Bond Index's gain of 3.0%. The U.S. Dollar's decline versus key developed currencies drove positive results followed by the 11 basis points drop in the index yield. The dollar was weak during the quarter as the Fed expanded its QE policy and Congress took no action on the fiscal cliff.

The ***GMO Emerging Country Debt Strategy*** returned a notable gain of 10.3% in the quarter, well ahead of the J.P. Morgan EMBI Global Diversified Index return of 6.6%. Overweights to Argentina, Venezuela, and Iraq were additive for the quarter. The droughts in the U.S. and other countries raised prices of soybeans, Argentina's main source of foreign exchange.

**Alternatives:** The alternative portfolio includes managed futures, hedge funds, and private equity. The overall alternative portfolio was positive for the three months ending August 31, 2012 (+1.3% compared to +1.2% for the HFRI Fund of Funds Index). Gresham Commodities trailed its respective benchmark but added significant absolute returns with a gain of 11.9% for the same three month period. After a challenging year for commodities, the strategy has performed relatively better than its benchmark. Managed futures have also had a difficult time gaining traction as the market has not followed a steady trend. The low volatility fund, Aurora, has eked out meager gains for the three-month period as have the diversified strategies Dorchester and Corbin Pinehurst. The K2 Long/Short fund was the second-best performing strategy for the period with value added over the one-year period.

**October Update:** Global growth remained slow in October but there was good news as jobless claims dropped from 8.1% to 7.8%. Still on investors' minds though was the pending election and, more importantly, how the year-end fiscal cliff was going to be addressed. There was a flight to quality as bonds outperformed stocks for the month. Net of fees, the BOV Portfolio declined just 0.1% in October bringing the Fiscal-Year-To-Date return to +4.4%. These results compare favorably to the policy benchmark returns of +0.6% and +3.7%, respectively.

# Executive Summary

## Total Fund Performance Through September 30, 2012

| | 3q12 | FYTD | One Year | Three Years[1] | Five Years[1] | Changes (1/1/03) | Incept (Mgr)[2] | Incept Bench[2] |
|---|---|---|---|---|---|---|---|---|
| ***Total BOV Account*** | *4.5* | *4.5* | *16.5* | *8.4* | *1.4* | *8.0* | *7.0* | *6.6* |
| ***Target Benchmark[3]*** | *4.2* | *4.2* | *16.6* | *9.4* | *1.7* | *7.4* | | |
| ***Blackrock: Large Cap Value*** | ***6.0*** | ***6.0*** | ***25.7*** | ***8.6*** | ***(2.1)*** | ***--*** | ***0.8*** | ***2.4*** |
| Russell 1000 Value | 6.5 | 6.5 | 30.9 | 11.8 | (0.9) | -- | | |
| ***SPY (Aletheia prior to June 2012)*** | ***5.3*** | ***5.3*** | ***10.8*** | ***3.6*** | ***--*** | ***--*** | ***(5.1)*** | ***3.6*** |
| Russell 1000 Growth | 6.1 | 6.1 | 29.2 | 14.7 | -- | -- | | |
| ***Wells Fargo: Mid Cap Growth*** | ***4.3*** | ***4.3*** | ***32.1*** | ***19.0*** | ***4.1*** | ***--*** | ***7.0*** | ***4.4*** |
| Russell MidCap Growth | 5.4 | 5.4 | 26.7 | 14.7 | 2.5 | -- | | |
| ***Artisan Mid Cap Value*** | ***3.9*** | ***3.9*** | ***21.4*** | ***11.8*** | ***--*** | ***--*** | ***21.4*** | ***25.4*** |
| Russell MidCap Value | 5.8 | 5.8 | 29.3 | 13.9 | -- | -- | | |
| ***Royce: Small-Cap*** | ***4.2*** | ***4.2*** | ***36.7*** | ***11.7*** | ***2.0*** | ***11.8*** | ***11.8*** | ***9.8*** |
| Russell 2000 | 5.3 | 5.3 | 31.9 | 13.0 | 2.2 | 9.8 | | |
| ***Dodge & Cox (Delaware prior to Feb 2012)*** | ***7.4*** | ***7.4*** | ***9.0*** | ***1.6*** | ***(5.0)*** | ***8.1*** | ***6.2*** | ***4.2*** |
| ***Artio Int'l Growth*** | ***4.3*** | ***4.3*** | ***9.8*** | ***(2.2)*** | ***--*** | ***--*** | ***9.2*** | ***14.9*** |
| MSCI EAFE | 7.0 | 7.0 | 14.3 | 2.6 | (4.8) | 8.2 | | |
| ***State Street: Emerging Markets*** | ***6.2*** | ***6.2*** | ***16.7*** | ***4.9*** | ***(3.8)*** | ***15.3*** | ***15.3*** | ***16.7*** |
| MSCI EM (Emerging Markets) | 7.9 | 7.9 | 17.3 | 6.0 | (1.0) | 16.7 | | |
| ***PIMCO Total Return Fund*** | ***3.2*** | ***3.2*** | ***11.5*** | ***--*** | ***--*** | ***--*** | ***8.0*** | ***6.7*** |
| ***Pioneer Strategic Income*** | ***4.1*** | ***4.1*** | ***12.1*** | ***--*** | ***--*** | ***--*** | ***9.0*** | ***6.7*** |
| Barclays Capital U.S. Aggregate | 1.6 | 1.6 | 5.2 | 6.2 | 6.5 | -- | | |
| ***GMO: Global Fixed Inc*** | ***5.4*** | ***5.4*** | ***8.1*** | ***10.3*** | ***6.1*** | ***7.1*** | ***7.1*** | ***6.4*** |
| Citigroup World Govt Bond Index | 3.0 | 3.0 | 3.3 | 4.3 | 6.5 | 6.4 | | |
| ***GMO: Emerging Mkt Fixed Inc*** | ***10.3*** | ***10.3*** | ***28.4*** | ***19.4*** | ***10.9*** | ***14.8*** | ***14.8*** | ***11.0*** |
| JPM EMBI Global Diversified | 6.6 | 6.6 | 19.6 | 11.8 | 10.1 | 11.0 | | |
| ***Combined Alternatives (1 mo lag)*** | ***1.3*** | ***1.3*** | ***(0.7)*** | ***--*** | ***--*** | ***--*** | ***1.3*** | ***0.4*** |
| HFRI FOFs Index (1 mo lag) | 1.2 | 1.2 | (0.8) | -- | -- | -- | | |

1 Annualized

2 Total BOV Account (7/1/96) = Target Benchmark; Blackrock Large Cap Value (5/1/06) = Russell 1000 Value; Wells Fargo MidCap (4/1/06) = Russell MidCap Growth; Artisan Mid Cap 5/26/09 = Russell MidCap Value; Royce (1/8/03) = Russell 2000; Delaware Int'l (7/1/96) = MSCI EAFE; Artio Int'l (6/4/09) = MSCI EAFE; State Street Emerging Mkts (1/24/03) = MSCI Emerging Markets Free; PIMCO Total Return Fund and Pioneer Strategic Income Fund (11/3/09) = Barclays Capital US Aggregate; GMO Global Fixed (2/11/03) = Citi World Govt Bond Index; GMO Emerging Mkt Fixed (2/11/03) = JPM EMBI Global Diversified.

3 44% Russell 3000, 35% Barclays Aggregate, 11% MSCI World Ex-US, 10% HFRI Fund-of-Funds (one-month lag) from 3/1/12; 44% Russell 3000, 40% Barclays Aggregate, 11% MSCI World Ex-US, 5% HFRI Fund-of-Funds (one-month lag) from 1/1/10 – 2/29/12; 60% Russell 3000, 20% Barclays Aggregate, 15% MSCI World Ex-US from 1/1/96-12/31/09

+ Quarterly performance results prior to the third quarter of 2002, were provided by Delaware Investments Advisors and Lazard Asset Management. There were no calculations by Wells Fargo Advisors to ensure the accuracy of the results. Based on information provided by SunTrust, Wells Fargo Advisors began calculating quarterly results starting in the 4th quarter of 2002. There is no guarantee as to the accuracy of our calculations for the managers or the Total BOV Account.

*Performance is net of investment management fees*

**BOV Current Fiscal YTD (7/1/12 – 9/30/12)**

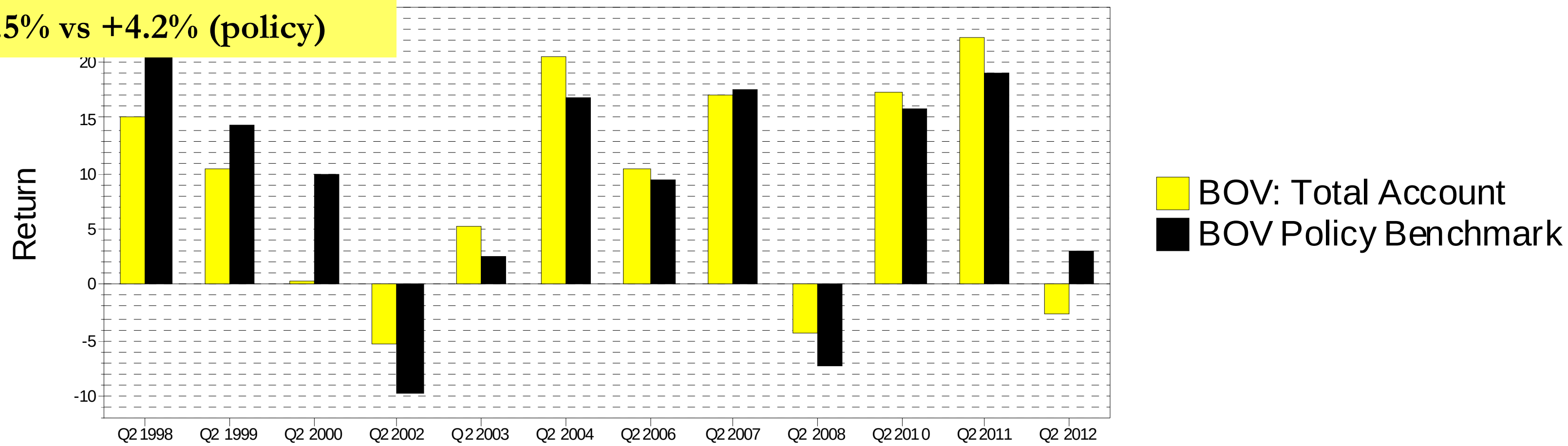
**+4.5% vs +4.2% (policy)**

# W&M BOV: Total Account

Zephyr StyleADVISOR: Wells Fargo Advisors

## Manager vs Benchmark: Return

4-Quarter Moving Windows, Computed Yearly




## Manager vs Benchmark: Return

4-Quarter Moving Windows, Computed Yearly

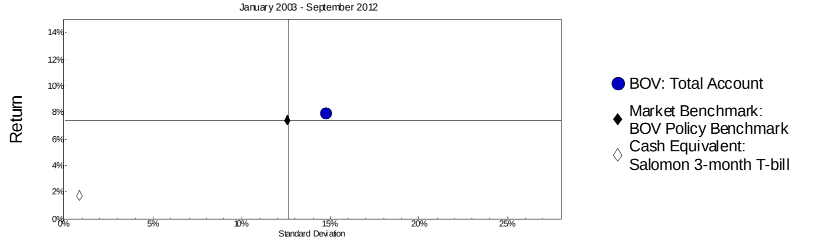
| | Jun 1998 | Jun 1999 | Jun 2000 | Jun 2001 | Jun 2002 | Jun 2003 | Jun 2004 | Jun 2005 | Jun 2006 | Jun 2007 | Jun 2008 | Jun 2009 | Jun 2010 | Jun 2011 | Jun 2012 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| BOV: Total Account | 15.20% | 10.35% | 0.37% | 3.89% | -5.38% | 5.38% | 20.46% | 9.20% | 10.56% | 17.01% | -4.38% | -21.82% | 17.37% | 22.25% | -2.70% |
| BOV Policy Benchmark | 20.77% | 14.38% | 9.91% | -9.45% | -9.78% | 2.66% | 16.87% | 8.88% | 9.45% | 17.57% | -7.18% | -19.53% | 15.97% | 19.14% | 3.16% |

+ *see footnote on previous page*

### W&M BOV: Total Account

Zephyr StyleADVISOR: Wells Fargo Advisors

Manager Risk/Return
Single Computation
January 2003 - September 2012



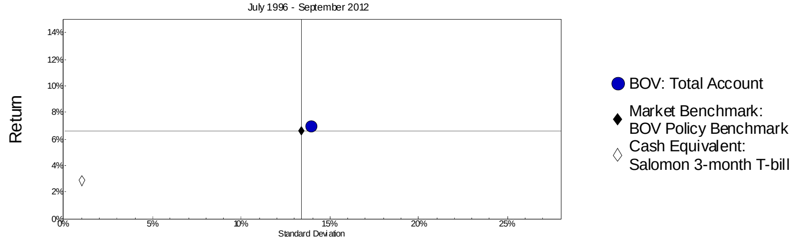

Risk-Return Table
January 2003 - September 2012: Annualized Summary Statistics

| | Return (%) | Std Dev (%) | Beta vs. Market | Alpha vs. Market (%) | R-Squared vs. Market (%) | Sharpe Ratio | Observs. |
|---|---|---|---|---|---|---|---|
| BOV: Total Account | 7.95 | 14.70 | 1.1465 | -0.35 | 96.83 | 0.4231 | 39 |
| BOV Policy Benchmark | 7.38 | 12.61 | 1.0000 | 0.00 | 100.00 | 0.4481 | 39 |

### W&M BOV: Total Account

Zephyr StyleADVISOR: Wells Fargo Advisors

Manager Risk/Return
Single Computation
July 1996 - September 2012

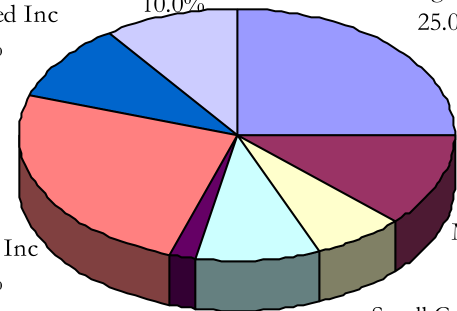


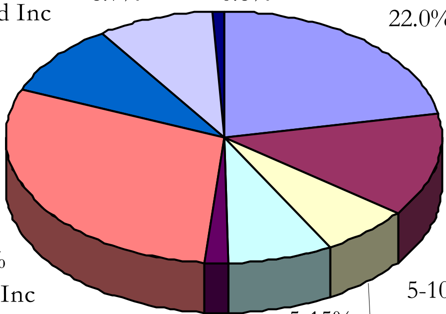

Risk-Return Table
July 1996 - September 2012: Annualized Summary Statistics

| | Return (%) | Std Dev (%) | Beta vs. Market | Alpha vs. Market (%) | R-Squared vs. Market (%) | Sharpe Ratio | Observs. |
|---|---|---|---|---|---|---|---|
| BOV: Total Account | 6.97 | 13.92 | 0.9990 | 0.43 | 92.07 | 0.2970 | 65 |
| BOV Policy Benchmark | 6.61 | 13.37 | 1.0000 | 0.00 | 100.00 | 0.2820 | 65 |

* Policy Benchmark = 44% Russell 3000, 35% Barclays Aggregate, 11% MSCI World Ex-US, 10% HFRI Fund-of-Funds (one-month lag) from 3/1/12; 44% Russell 3000, 40% Barclays Aggregate, 11% MSCI World Ex-US, 5% HFRI Fund-of-Funds (one-month lag) from 1/1/10 – 2/29/12; 60% Russell 3000, 20% Barclays Aggregate, 15% MSCI World Ex-US from 1/1/96-12/31/09

**Policy** *As of September 30, 2012* **BOV Portfolio**



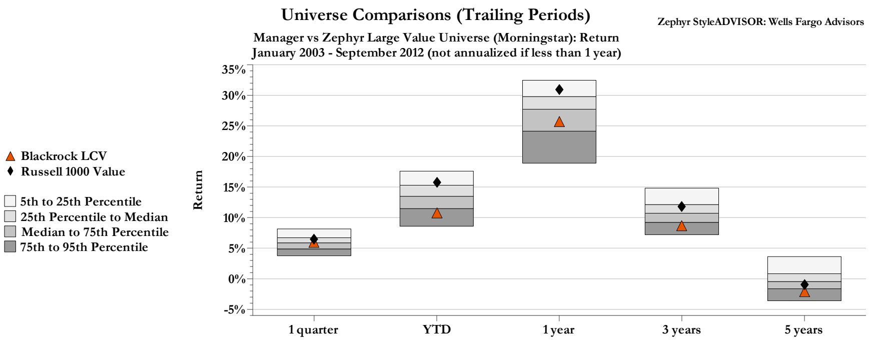

| Manager | Domestic Fixed Income | Global Fixed Income | Domestic Equity | Non-US Equity | Alternative | Cash Equiv. | Total |
|---|---|---|---|---|---|---|---|
| SPY | 0 | 0 | 6,760,131 | 0 | 0 | 0 | 6,760,131 |
| Blackrock | 0 | 0 | 8,273,366 | 0 | 0 | 0 | 8,273,366 |
| Dodge & Cox | 0 | 0 | 0 | 2,701,640 | 0 | 0 | 2,701,640 |
| Grantham, Mayo | 0 | 6,468,634 | 0 | 0 | 0 | 0 | 6,468,634 |
| Artisan MC | 0 | 0 | 4,178,172 | 0 | 0 | 0 | 4,178,172 |
| Artio Int'l | 0 | 0 | 0 | 2,642,802 | 0 | 0 | 2,642,802 |
| Royce & Associates | 0 | 0 | 4,537,537 | 0 | 0 | 0 | 4,537,537 |
| State Street Global Advisors | 0 | 0 | 0 | 1,094,016 | 0 | 0 | 1,094,016 |
| Pimco Total Return Fund | 10,235,938 | 0 | 0 | 0 | 0 | 0 | 10,235,938 |
| Pioneer Strategic Income | 10,041,175 | 0 | 0 | 0 | 0 | 0 | 10,041,175 |
| Wells Capital | 0 | 0 | 4,829,722 | 0 | 0 | 0 | 4,829,722 |
| Cash & Equivalents | 0 | 0 | 0 | 0 | 0 | 543,235 | 543,235 |
| Private Equity Partners II | 0 | 0 | 0 | 0 | 6,607 | 0 | 6,607 |
| Combined Alternatives | 0 | 0 | 0 | 0 | 5,942,962 | | 5,942,962 |
| **Total BOV Account** | **20,277,113** | **6,468,634** | **28,578,929** | **6,438,458** | **5,949,569** | **543,235** | **68,255,937** |
| **% of Total Fund** | **29.7%** | **9.5%** | **41.9%** | **9.4%** | **8.7%** | **0.8%** | |

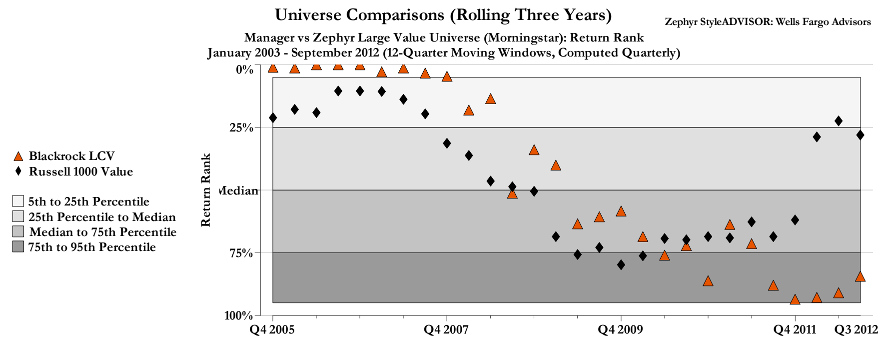
** Values (except "Alternatives") are reflected at market as reported by SunTrust; Alternatives are reported by Wells Fargo Advisors; beginning and ending market values include accrued income on fixed income assets only. Private Equity Partners II values were reported by W&M.*

| | William & Mary BOV Endowment |
|---|---|
| **6/30/12 Market Value** | **65,304,433** |
| | |
| Net Additions/Withdrawals | 5,875 |
| Expenses | (20,830) |
| *Net Cash Flow* | *(14,956)* |
| | |
| Net Income | 348,870 |
| Net Realized Gain/(Loss) | (28,621) |
| Change Unrealized Gain/(Loss) | 2,639,602 |
| *Total Investment Gain/(Loss)* | *2,959,850* |
| | |
| **9/30/12 Market Value** | **68,249,328** |

•*All account values (excluding "Alternatives") are reported by SunTrust; "Alternative values are reported by Wells Fargo Advisors; to comply with GIPS Performance reporting standards, beginning and ending market values include fixed income accruals.*

•*Ending value excludes PEP II.*




Manager vs Zephyr Large Value Universe (Morningstar): Return
January 2003 - September 2012 (not annualized if less than 1 year)

| | 1 quarter<br>308 mng | YTD<br>308 mng | 1 year<br>306 mng | 3 years<br>274 mng | 5 years<br>254 mng |
|---|---|---|---|---|---|
| Median | 5.88% | 13.49% | 27.74% | 10.72% | -0.45% |
| Blackrock LCV | 5.99% | 10.75% | 25.73% | 8.62% | -2.14% |
| Russell 1000 Value | 6.51% | 15.75% | 30.92% | 11.84% | -0.90% |

Manager vs Zephyr Large Value Universe (Morningstar): Return
January 2003 - September 2012 (12-Quarter Moving Windows, Computed Quarterly)

| | Jun 2006<br>212 mng | Dec 2006<br>220 mng | Sep 2007<br>225 mng | Mar 2008<br>231 mng | Sep 2008<br>239 mng | Jun 2009<br>248 mng | Dec 2009<br>249 mng | Jun 2010<br>258 mng | Mar 2011<br>267 mng | Sep 2011<br>271 mng | Mar 2012<br>276 mng | Sep 2012<br>274 mng |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Median | 13.3% | 12.6% | 13.6% | 5.4% | -0.0% | -9.4% | -6.6% | -10.9% | 1.5% | -0.3% | 21.8% | 10.7% |
| Blackrock LCV | 21.9% | 18.0% | 17.5% | 7.2% | -0.1% | -10.3% | -7.4% | -12.9% | 0.9% | -3.2% | 17.8% | 8.6% |
| Russell 1000 Value | 15.7% | 15.1% | 15.2% | 6.0% | 0.1% | -11.1% | -9.0% | -12.3% | 0.6% | -1.5% | 22.8% | 11.8% |

* Please note that we have linked Blackrock's composite historical returns for periods prior to 5/1/06 with BOV actual results starting on May 1, 2006.

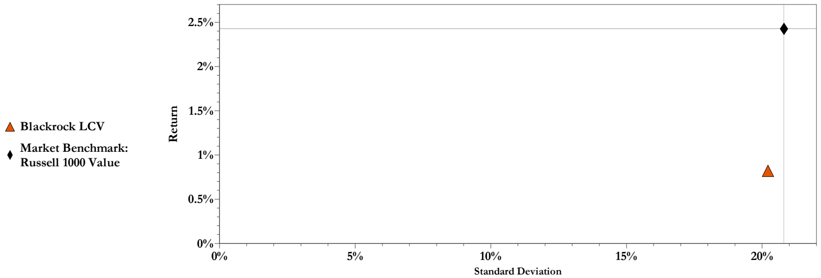
# Equity Sector (Large-Cap Value*)

## Period Ending September 30, 2012– Risk Measures

### Return/Risk (April 2006 - September 2012)

Zephyr StyleADVISOR: Wells Fargo Advisors

April 2006 - September 2012 (Single Computation)



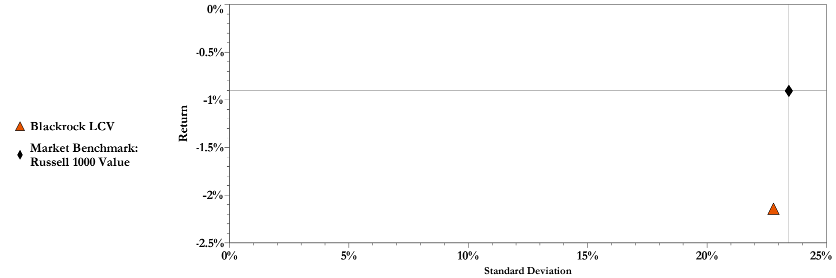

Annualized Summary Statistics: April 2006 - September 2012

| | Return (%) | Std Dev (%) | Beta vs. Market | Alpha vs. Market | R-Squared vs. Market | Sharpe Ratio | Observs. |
|---|---|---|---|---|---|---|---|
| Blackrock LCV | 0.82 | 20.22 | 0.93 | -1.36 | 92.01 | -0.04 | 26.00 |
| Russell 1000 Value | 2.43 | 20.80 | 1.00 | 0.00 | 100.00 | 0.04 | 26.00 |

### Return/Risk (Five Years Ending September 2012)

Zephyr StyleADVISOR: Wells Fargo Advisors

October 2007 - September 2012 (Single Computation)



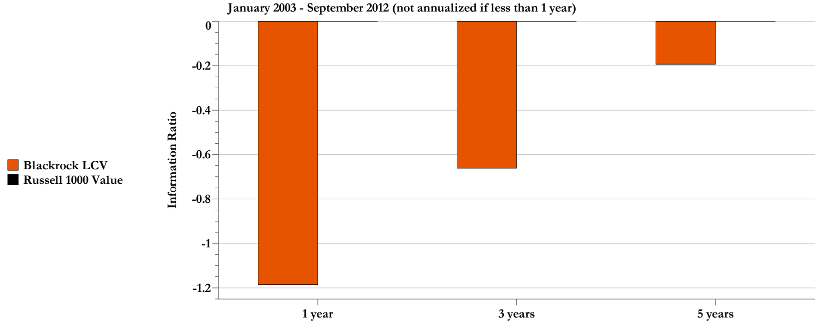

Annualized Summary Statistics: October 2007 - September 2012

| | Return (%) | Std Dev (%) | Beta vs. Market | Alpha vs. Market | R-Squared vs. Market | Sharpe Ratio | Observs. |
|---|---|---|---|---|---|---|---|
| Blackrock LCV | -2.14 | 22.79 | 0.94 | -1.23 | 92.52 | -0.12 | 20.00 |
| Russell 1000 Value | -0.90 | 23.42 | 1.00 | 0.00 | 100.00 | -0.07 | 20.00 |

### Information Ratio (Periods Ending September 2012)

Zephyr StyleADVISOR: Wells Fargo Advisors

Manager vs Benchmark: Information Ratio
January 2003 - September 2012 (not annualized if less than 1 year)



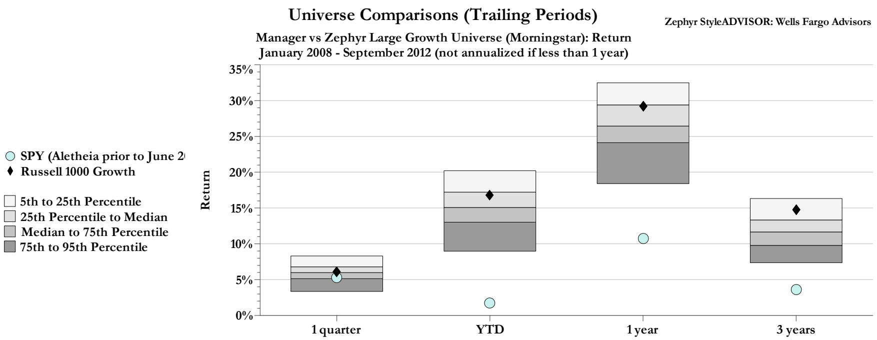

Manager vs Benchmark: Information Ratio
January 2003 - September 2012 (not annualized if less than 1 year)

| | 1 year | 3 years | 5 years |
|---|---|---|---|
| Blackrock LCV | -1.19 | -0.66 | -0.19 |

* Please note that we have linked Blackrock's composite historical returns for periods prior to 5/1/06 with BOV actual results starting on May 1, 2006.

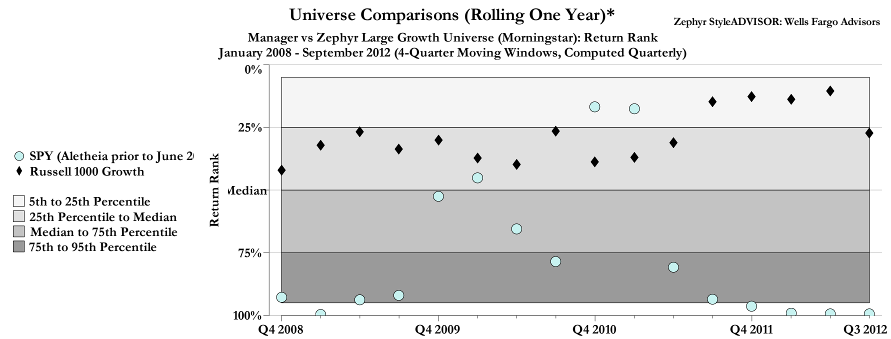
# Equity Sector (Large-Cap Growth)

## Periods Ending September 30, 2012 - Performance




Manager vs Zephyr Large Growth Universe (Morningstar): Return
January 2008 - September 2012 (not annualized if less than 1 year)

| | 1 quarter<br>609 mng | YTD<br>609 mng | 1 year<br>606 mng | 3 years<br>572 mng |
|---|---|---|---|---|
| Median | 5.99% | 15.07% | 26.44% | 11.65% |
| SPY (Aletheia prior to June 2012) | 5.29% | 1.72% | 10.75% | 3.62% |
| Russell 1000 Growth | 6.11% | 16.80% | 29.19% | 14.73% |



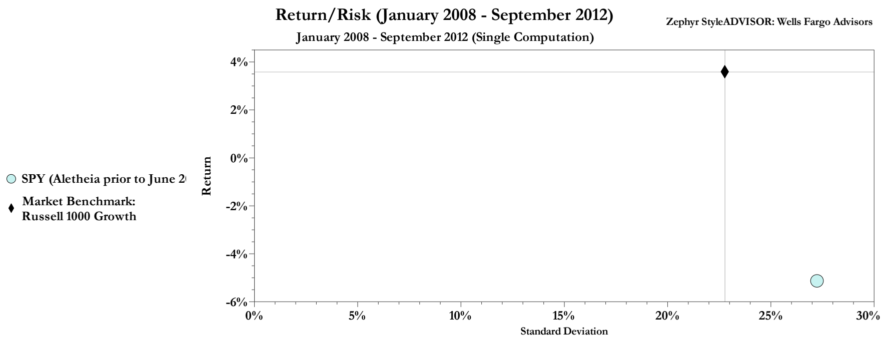

Manager vs Zephyr Large Growth Universe (Morningstar): Return
January 2008 - September 2012 (4-Quarter Moving Windows, Computed Quarterly)

| | Mar 2009<br>562 mng | Jun 2009<br>569 mng | Sep 2009<br>570 mng | Mar 2010<br>577 mng | Jun 2010<br>579 mng | Sep 2010<br>585 mng | Mar 2011<br>594 mng | Jun 2011<br>597 mng | Sep 2011<br>607 mng | Mar 2012<br>612 mng | Jun 2012<br>618 mng | Sep 2012<br>606 mng |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Median | -36.1% | -27.0% | -3.6% | 47.7% | 12.6% | 10.2% | 16.9% | 32.8% | -0.5% | 6.4% | 0.7% | 26.4% |
| SPY (Aletheia prior to June 2012) | -47.0% | -37.7% | -11.5% | 48.5% | 11.0% | 7.6% | 21.4% | 28.0% | -6.6% | -6.4% | -13.8% | 10.8% |
| Russell 1000 Growth | -34.3% | -24.5% | -1.9% | 49.8% | 13.6% | 12.7% | 18.3% | 35.0% | 3.8% | 11.0% | 5.8% | 29.2% |

*Longer time periods are shown for illustrative purposes. Aletheia's actual performance began on 12/1/07

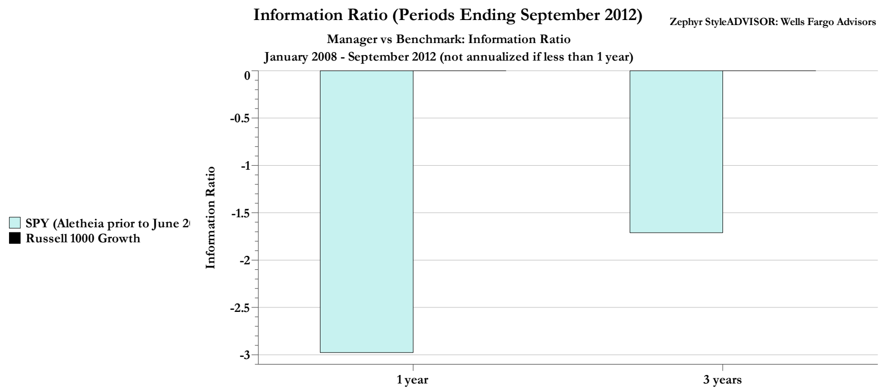
# Equity Sector (Large-Cap Growth)

## Periods Ending September 30, 2012 - Performance




Annualized Summary Statistics: January 2008 - September 2012

| | Return (%) | Std Dev (%) | Beta vs. Market | Alpha vs. Market | R-Squared vs. Market | Sharpe Ratio | Observs. |
|---|---|---|---|---|---|---|---|
| SPY (Aletheia prior to June 2012) | -5.13 | 27.25 | 1.14 | -8.13 | 91.36 | -0.21 | 19.00 |
| Russell 1000 Growth | 3.58 | 22.77 | 1.00 | 0.00 | 100.00 | 0.14 | 19.00 |




Manager vs Benchmark: Information Ratio
January 2008 - September 2012 (not annualized if less than 1 year)

| | 1 year | 3 years |
|---|---|---|
| SPY (Aletheia prior to June 2012) | -2.98 | -1.71 |

# Equity Sector (Large-Cap Combined)

## Characteristics - As of September 30, 2012

| Characteristic | Blackrock | SPDR's SPY | Combined BOV Large-Cap | S&P 500 | Over/(Under) Weight |
|---|---|---|---|---|---|
| Median Cap ($MM) | 18,470 | 12,280 | 15,687 | 12,280 | 3,407 |
| Avg Cap ($MM) | 100,990 | 122,281 | 110,564 | 118,730 | (8,166) |
| Yield (%) | 2.05 | 2.20 | 2.12 | 2.21 | (0.09) |
| P/E Ratio | 14.03 | 13.83 | 13.94 | 18.35 | (4.41) |
| Price / Book | 1.90 | 2.17 | 2.02 | 3.78 | (1.76) |
| # of Stocks | 70 | 502 | | 500 | |

### Blackrock

| Top Ten Equity Holdings | % of Portfolio |
|---|---|
| EXXON MOBIL | 5.4 |
| CHEVRON | 4.6 |
| PFIZER | 4.0 |
| JP MORGAN CHASE | 3.6 |
| MERCK & CO | 2.9 |
| CITIGROUP | 2.7 |
| UNITEDHEALTH | 2.0 |
| MARATHON PETROLEUM | 1.8 |
| GOLDMAN SACHS | 1.7 |
| TYCO INTERNATIONAL | 1.6 |

### SPY

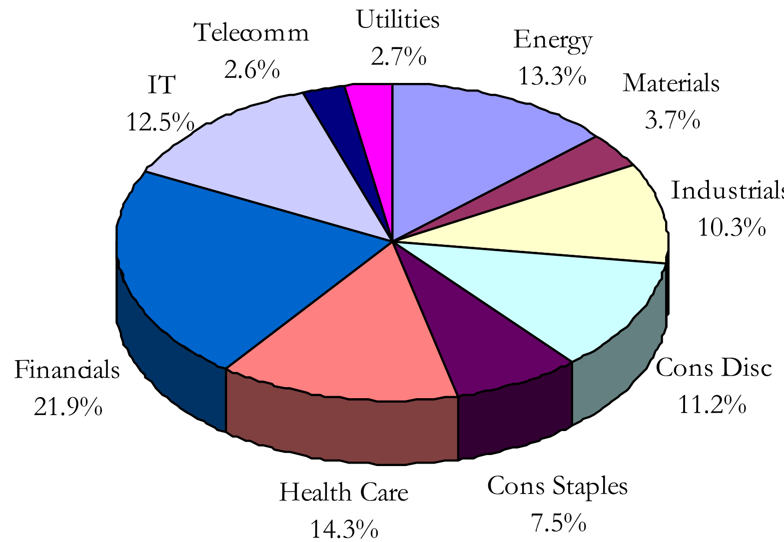
| Top Ten Equity Holdings | % of Portfolio |
|---|---|
| APPLE | 4.9 |
| EXXON MOBIL | 3.3 |
| GENERAL ELECTRIC CO | 1.9 |
| CHEVRON | 1.8 |
| MICROSOFT CORP | 1.7 |
| INTERNATIONAL BUSINESS MACH | 1.7 |
| AT&T INC | 1.7 |
| GOOGLE INC | 1.6 |
| PROCTOR & GAMBLE CO | 1.5 |
| JOHNSON & JOHNSON | 1.5 |

Data Source: Blackrock, InvestorForce

# Equity Sector (Large-Cap Combined)

## Characteristics - As of September 30, 2012

### Combined BOV Large-Cap Sector Distribution




| | Blackrock Weight | SPY Weight | Combined BOV Large-Cap | S&P 500 Weight | Over / (Under) Weight |
|---|---|---|---|---|---|
| Energy | 14.9% | 11.3% | 13.3% | 11.3% | 2.0% |
| Materials | 3.9% | 3.5% | 3.7% | 3.5% | 0.2% |
| Industrials | 10.6% | 9.8% | 10.2% | 9.8% | 0.4% |
| Consumer Discretionary | 11.4% | 11.0% | 11.2% | 11.0% | 0.2% |
| Consumer Staples | 4.8% | 10.9% | 7.5% | 10.9% | -3.4% |
| Health Care | 16.1% | 12.0% | 14.3% | 12.0% | 2.3% |
| Financials | 27.9% | 14.6% | 21.9% | 14.6% | 7.3% |
| Information Technology | 6.2% | 20.1% | 12.5% | 20.1% | -7.6% |
| Telecomm Service | 2.0% | 3.3% | 2.6% | 3.3% | -0.7% |
| Utilities | 2.1% | 3.5% | 2.7% | 3.5% | -0.8% |

Data Source: Blackrock, InvestorForce

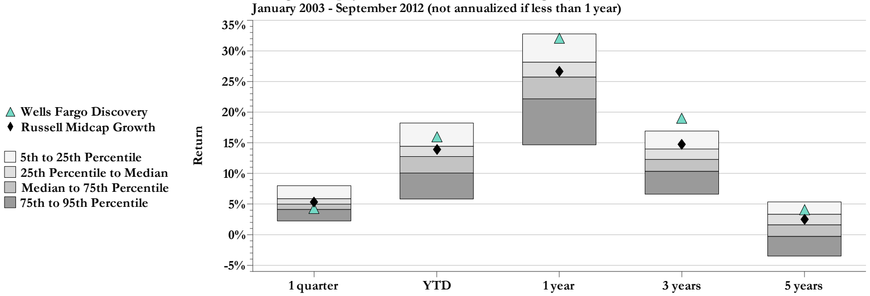
# Equity Sector (Mid-Cap Growth*)

## Periods Ending September 30, 2012 - Performance

### Universe Comparisons (Trailing Periods)

Zephyr StyleADVISOR: Wells Fargo Advisors

Manager vs Zephyr Mid Growth Universe (Morningstar): Return
January 2003 - September 2012 (not annualized if less than 1 year)



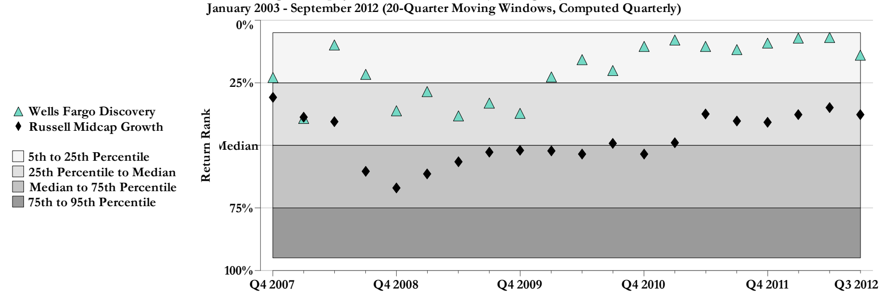

Manager vs Zephyr Mid Growth Universe (Morningstar): Return
January 2003 - September 2012 (not annualized if less than 1 year)

| | 1 quarter<br>318 mng | YTD<br>318 mng | 1 year<br>318 mng | 3 years<br>288 mng | 5 years<br>265 mng |
|---|---|---|---|---|---|
| Median | 4.99% | 12.76% | 25.72% | 12.29% | 1.60% |
| Wells Fargo Discovery | 4.28% | 16.02% | 32.12% | 19.02% | 4.06% |
| Russell Midcap Growth | 5.35% | 13.88% | 26.69% | 14.73% | 2.54% |

### Universe Comparisons (Rolling Three Years)

Zephyr StyleADVISOR: Wells Fargo Advisors

Manager vs Zephyr Mid Growth Universe (Morningstar): Return Rank
January 2003 - September 2012 (20-Quarter Moving Windows, Computed Quarterly)




Manager vs Zephyr Mid Growth Universe (Morningstar): Return
January 2003 - September 2012 (20-Quarter Moving Windows, Computed Quarterly)

| | Mar 2008<br>217 mng | Sep 2008<br>222 mng | Dec 2008<br>224 mng | Jun 2009<br>227 mng | Dec 2009<br>236 mng | Mar 2010<br>239 mng | Sep 2010<br>244 mng | Mar 2011<br>253 mng | Jun 2011<br>259 mng | Dec 2011<br>264 mng | Jun 2012<br>265 mng | Sep 2012<br>265 mng |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Median | 14.6% | 7.1% | -1.2% | -0.1% | 2.6% | 4.4% | 2.8% | 4.9% | 5.6% | 1.9% | 1.0% | 1.6% |
| Wells Fargo Discovery | 15.1% | 8.9% | -0.5% | 0.4% | 3.1% | 6.2% | 4.8% | 8.0% | 8.8% | 5.5% | 4.6% | 4.1% |
| Russell Midcap Growth | 15.2% | 6.5% | -2.3% | -0.4% | 2.4% | 4.3% | 2.9% | 4.9% | 6.3% | 2.4% | 1.9% | 2.5% |

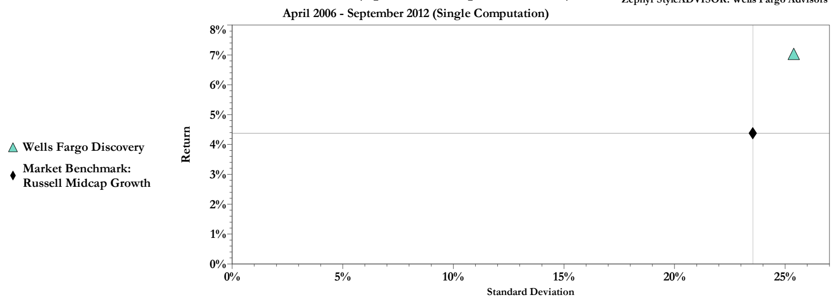
* Please note that we have linked Wells' composite historical returns for periods prior to 4/1/06 with BOV actual results starting with the 2nd quarter of 2006.

# Equity Sector (Mid-Cap Growth*)

## Periods Ending September 30, 2012– Risk Measures

### Return/Risk (April 2006 - September 2012)

Zephyr StyleADVISOR: Wells Fargo Advisors

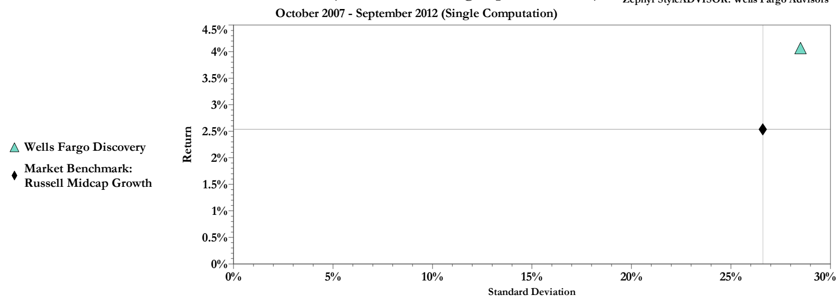



Annualized Summary Statistics: April 2006 - September 2012

| | Return (%) | Std Dev (%) | Beta vs. Market | Alpha vs. Market | R-Squared vs. Market | Sharpe Ratio | Observs. |
|---|---|---|---|---|---|---|---|
| Wells Fargo Discovery | 7.03 | 25.39 | 1.04 | 2.81 | 92.20 | 0.21 | 26.00 |
| Russell Midcap Growth | 4.38 | 23.54 | 1.00 | 0.00 | 100.00 | 0.12 | 26.00 |

### Return/Risk (Five Years Ending September 2012)

Zephyr StyleADVISOR: Wells Fargo Advisors

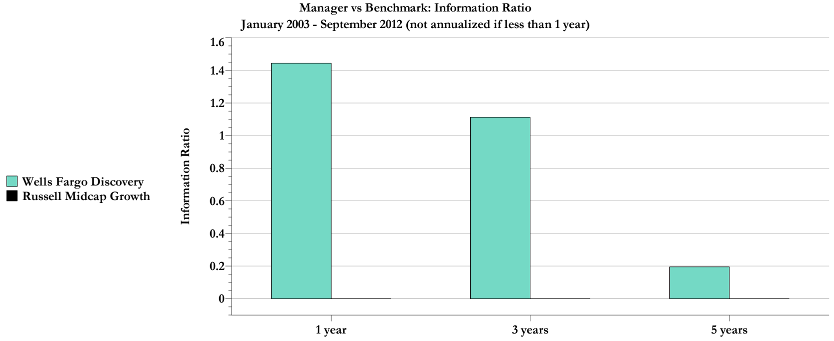



Annualized Summary Statistics: October 2007 - September 2012

| | Return (%) | Std Dev (%) | Beta vs. Market | Alpha vs. Market | R-Squared vs. Market | Sharpe Ratio | Observs. |
|---|---|---|---|---|---|---|---|
| Wells Fargo Discovery | 4.06 | 28.51 | 1.03 | 1.88 | 92.57 | 0.12 | 20.00 |
| Russell Midcap Growth | 2.54 | 26.61 | 1.00 | 0.00 | 100.00 | 0.07 | 20.00 |

### Information Ratio (Periods Ending September 2012)

Zephyr StyleADVISOR: Wells Fargo Advisors



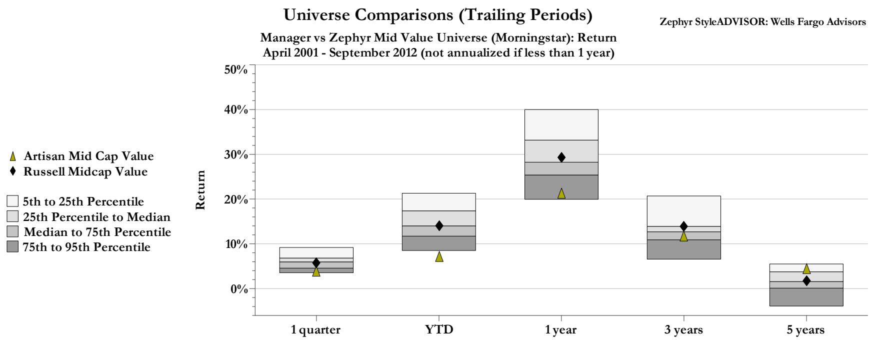

Manager vs Benchmark: Information Ratio
January 2003 - September 2012 (not annualized if less than 1 year)

| | 1 year | 3 years | 5 years |
|---|---|---|---|
| Wells Fargo Discovery | 1.44 | 1.11 | 0.20 |

* Please note that we have linked Wells' composite historical returns for periods prior to 4/1/06 with BOV actual results starting with the 2nd quarter of 2006.

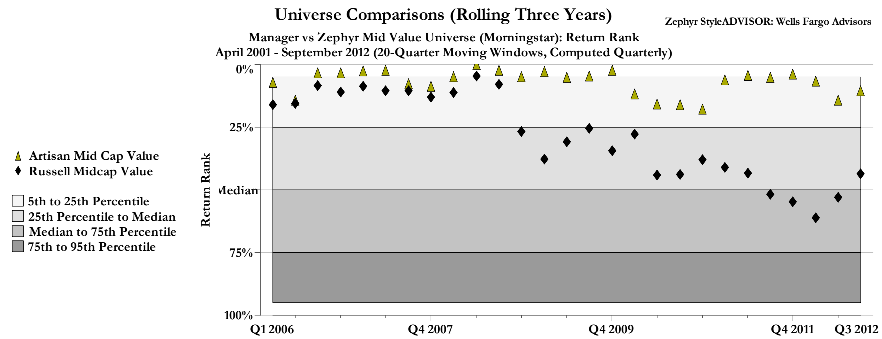
# Equity Sector (Mid-Cap Value*)

## Periods Ending September 30, 2012 - Performance




Manager vs Zephyr Mid Value Universe (Morningstar): Return
April 2001 - September 2012 (not annualized if less than 1 year)

| | 1 quarter<br>59 mng | YTD<br>59 mng | 1 year<br>59 mng | 3 years<br>54 mng | 5 years<br>49 mng |
|---|---|---|---|---|---|
| Median | 5.96% | 14.01% | 28.23% | 12.69% | 1.58% |
| Artisan Mid Cap Value | 3.94% | 7.21% | 21.35% | 11.80% | 4.47% |
| Russell Midcap Value | 5.80% | 14.03% | 29.28% | 13.86% | 1.73% |




Manager vs Zephyr Mid Value Universe (Morningstar): Return
April 2001 - September 2012 (20-Quarter Moving Windows, Computed Quarterly)

| | Sep 2006<br>29 mng | Mar 2007<br>30 mng | Sep 2007<br>33 mng | Mar 2008<br>33 mng | Dec 2008<br>35 mng | Jun 2009<br>38 mng | Dec 2009<br>38 mng | Jun 2010<br>40 mng | Mar 2011<br>44 mng | Sep 2011<br>46 mng | Mar 2012<br>47 mng | Sep 2012<br>49 mng |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Median | 12.3% | 10.8% | 17.9% | 13.5% | -1.8% | -2.1% | 0.6% | -0.5% | 3.2% | -0.8% | 1.7% | 1.6% |
| Artisan Mid Cap Value | 18.9% | 16.7% | 22.0% | 18.0% | 4.1% | 4.4% | 6.2% | 2.9% | 6.9% | 3.5% | 5.4% | 4.5% |
| Russell Midcap Value | 16.6% | 15.2% | 21.0% | 16.8% | 0.3% | -0.4% | 2.0% | 0.7% | 4.0% | -0.8% | 1.3% | 1.7% |

* Please note that we have linked Artisan's composite historical returns for periods prior to 6/1/09 with BOV actual results starting with June 2009.

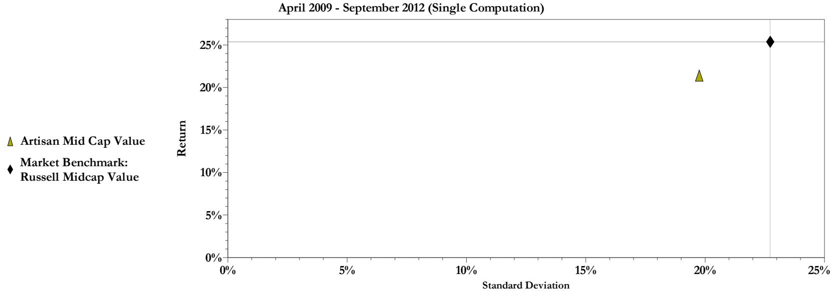
# Equity Sector (Mid-Cap Value*)

## Periods Ending September 30, 2012– Risk Measures

### Return/Risk (June 2009 - September 2012)

Zephyr StyleADVISOR: Wells Fargo Advisors

April 2009 - September 2012 (Single Computation)



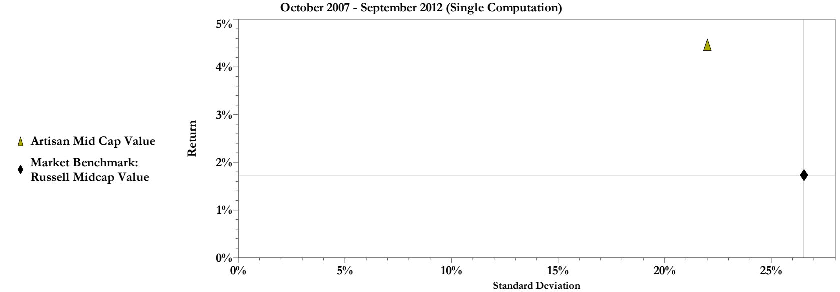

Annualized Summary Statistics: April 2009 - September 2012

| | Return (%) | Std Dev (%) | Beta vs. Market | Alpha vs. Market | R-Squared vs. Market | Sharpe Ratio | Observs. |
|---|---|---|---|---|---|---|---|
| Artisan Mid Cap Value | 21.39 | 19.76 | 0.84 | 0.08 | 93.54 | 1.08 | 14.00 |
| Russell Midcap Value | 25.37 | 22.73 | 1.00 | 0.00 | 100.00 | 1.11 | 14.00 |

### Return/Risk (Five Years Ending September 2012)

Zephyr StyleADVISOR: Wells Fargo Advisors

October 2007 - September 2012 (Single Computation)



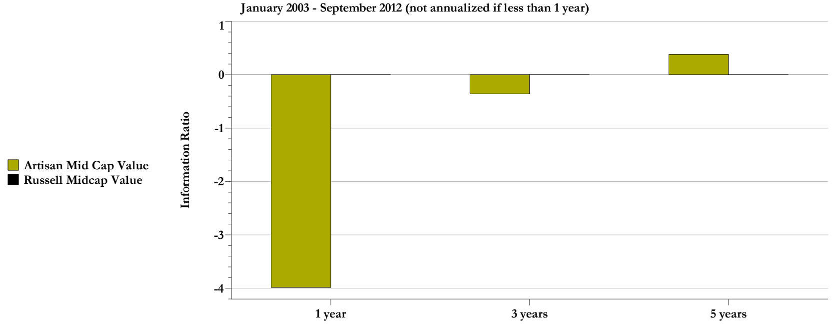

Annualized Summary Statistics: October 2007 - September 2012

| | Return (%) | Std Dev (%) | Beta vs. Market | Alpha vs. Market | R-Squared vs. Market | Sharpe Ratio | Observs. |
|---|---|---|---|---|---|---|---|
| Artisan Mid Cap Value | 4.47 | 22.00 | 0.81 | 2.59 | 94.73 | 0.17 | 20.00 |
| Russell Midcap Value | 1.73 | 26.53 | 1.00 | 0.00 | 100.00 | 0.04 | 20.00 |

### Information Ratio (Periods Ending September 2012)

Zephyr StyleADVISOR: Wells Fargo Advisors

Manager vs Benchmark: Information Ratio
January 2003 - September 2012 (not annualized if less than 1 year)




Manager vs Benchmark: Information Ratio
January 2003 - September 2012 (not annualized if less than 1 year)

| | 1 year | 3 years | 5 years |
|---|---|---|---|
| Artisan Mid Cap Value | -3.98 | -0.36 | 0.38 |

* Please note that we have linked Artisan's composite historical returns for periods prior to 6/1/09 with BOV actual results starting with June 2009.

# Equity Sector (Mid-Cap Combined)

## Characteristics - As of September 30, 2012

| Characteristic | Wells | Artisan | Combined BOV Mid-Cap | Russell Mid-Cap | Over/(Under) Weight |
|---|---|---|---|---|---|
| Avg Cap ($MM) | 2,980 | 8,200 | 5,401 | 4,270 | 1131 |
| Yield (%) | 0.32 | 0.57 | 0.44 | 1.60 | (1.16) |
| P/E Ratio | 25.23 | 11.53 | 18.88 | 18.88 | (0.00) |
| Price / Book | 3.90 | 1.60 | 2.83 | 3.16 | (0.33) |
| 5 yr EPS Growth (%) | 10.83 | 10.60 | 10.72 | 6.44 | 4.28 |
| # of Stocks | 89 | 57 | 146 | 795 | |

### Wells Fargo

| Top Ten Equity Holdings | % of Portfolio |
|---|---|
| Kansas City Southern | 3.0 |
| SBA Communications Corp | 2.6 |
| TransDigm Group Incorporated | 2.5 |
| Aspen Technologies | 2.0 |
| Alliance Data Systems | 1.9 |
| CommVault Systems Incorporated | 1.9 |
| Tibco Software | 1.8 |
| Affiliated Managers Group | 1.8 |
| BroadSoft Incorporated | 1.8 |
| GNC Holdings Incorporated | 1.7 |

### Artisan Partners

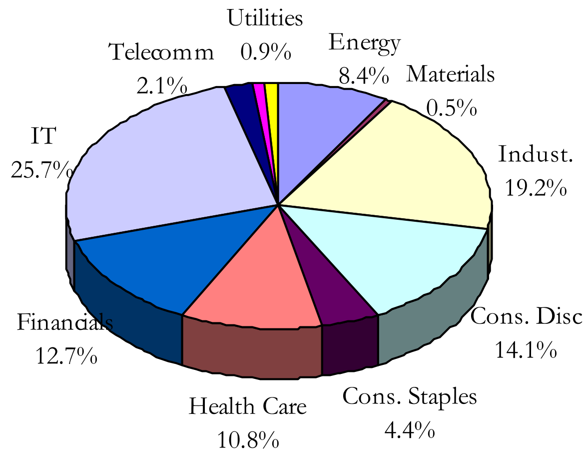
| Top Ten Equity Holdings | % of Portfolio |
|---|---|
| Alleghany Corp | 2.7 |
| The Western Union Co | 2.7 |
| Analog Devices Inc | 2.5 |
| The Progressive Corp | 2.5 |
| Avnet Inc | 2.4 |
| The Kroger Co | 2.4 |
| Rockwell Collins Inc | 2.4 |
| The Allstate Corp | 2.4 |
| Cimarex Energy Co | 2.3 |
| Cigna Corp | 2.3 |

Data Source: Wells Fargo, Artisan, VESTEK

# Equity Sector (Mid-Cap Combined)

## Characteristics - As of September 30, 2012

### BOV Mid-Cap Sector Distribution




| | Wells Fargo Weight | Artisan Weight | Combined BOV Mid-Cap | Russ Mid-Cap Weight | Over / (Under) Weight |
|---|---|---|---|---|---|
| Energy | 5.0 | 12.3 | 8.4 | 6.7 | 1.7 |
| Materials | 1.0 | 0.0 | 0.5 | 6.2 | (5.6) |
| Industrials | 19.0 | 19.5 | 19.2 | 11.9 | 7.3 |
| Consumer Discretionary | 19.0 | 8.5 | 14.1 | 15.6 | (1.5) |
| Consumer Staples | 5.0 | 3.6 | 4.4 | 6.2 | (1.8) |
| Health Care | 16.0 | 4.8 | 10.8 | 9.7 | 1.1 |
| Financials | 5.0 | 21.6 | 12.7 | 19.1 | (6.4) |
| Information Technology | 24.0 | 27.7 | 25.7 | 13.3 | 12.4 |
| Telecomm Service | 4.0 | 0.0 | 2.1 | 1.6 | 0.5 |
| Utilities | 0.0 | 2.0 | 0.9 | 5.9 | (5.0) |

Data Source: Wells Fargo, Artisan, VESTEK

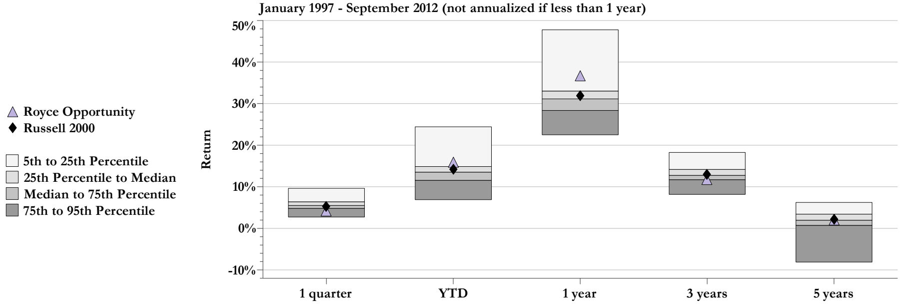
# Equity Sector (Small-Cap)

## Periods Ending September 30, 2012 - Performance

### Universe Comparisons (Trailing Periods)

Zephyr StyleADVISOR: Wells Fargo Advisors

Manager vs Zephyr Small Core Universe (Morningstar): Return
January 1997 - September 2012 (not annualized if less than 1 year)



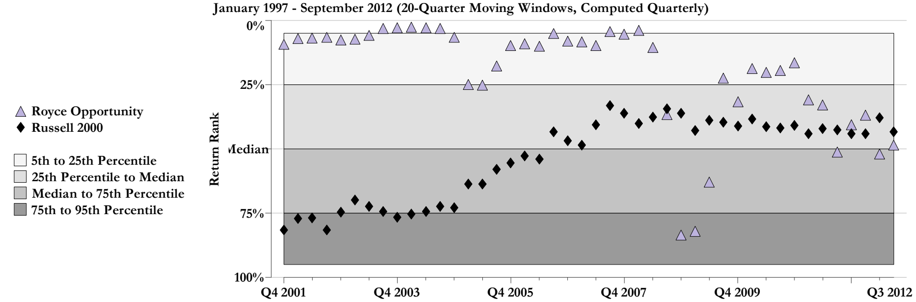

Manager vs Zephyr Small Core Universe (Morningstar): Return
January 1997 - September 2012 (not annualized if less than 1 year)

| | 1 quarter<br>126 mng | YTD<br>126 mng | 1 year<br>126 mng | 3 years<br>118 mng | 5 years<br>104 mng |
|---|---|---|---|---|---|
| Median | 5.51% | 13.52% | 31.14% | 12.77% | 1.94% |
| Royce Opportunity | 4.24% | 15.96% | 36.67% | 11.70% | 1.99% |
| Russell 2000 | 5.25% | 14.23% | 31.91% | 12.99% | 2.21% |

### Universe Comparisons (Rolling Three Years)

Zephyr StyleADVISOR: Wells Fargo Advisors

Manager vs Zephyr Small Core Universe (Morningstar): Return Rank
January 1997 - September 2012 (20-Quarter Moving Windows, Computed Quarterly)

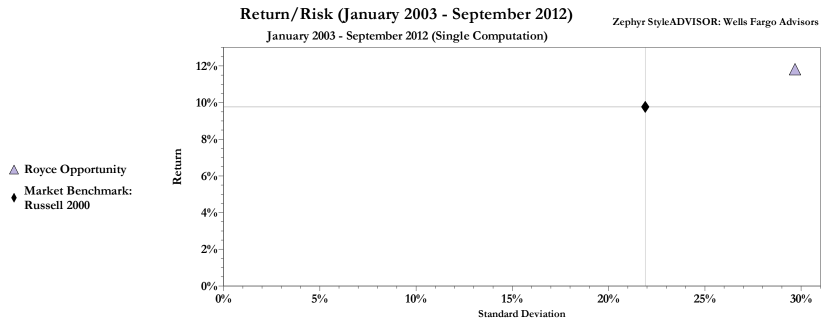



Manager vs Zephyr Small Core Universe (Morningstar): Return
January 1997 - September 2012 (20-Quarter Moving Windows, Computed Quarterly)

| | Sep 2002<br>43 mng | Sep 2003<br>50 mng | Sep 2004<br>56 mng | Jun 2005<br>61 mng | Jun 2006<br>68 mng | Jun 2007<br>75 mng | Mar 2008<br>80 mng | Mar 2009<br>86 mng | Mar 2010<br>91 mng | Dec 2010<br>94 mng | Dec 2011<br>100 mng | Sep 2012<br>104 mng |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Median | 0.1% | 10.1% | 10.7% | 7.9% | 8.9% | 13.5% | 14.4% | -5.7% | 2.9% | 4.2% | -0.2% | 1.9% |
| Royce Opportunity | 6.8% | 22.2% | 19.0% | 14.2% | 13.8% | 18.1% | 19.1% | -8.5% | 4.9% | 6.6% | 0.2% | 2.0% |
| Russell 2000 | -3.2% | 7.5% | 7.4% | 5.7% | 8.5% | 13.9% | 14.9% | -5.2% | 3.4% | 4.5% | 0.2% | 2.2% |

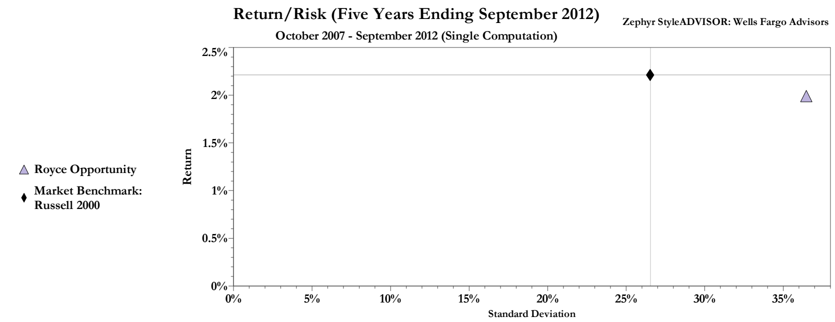
# Equity Sector (Small-Cap)

## Periods Ending September 30, 2012– Risk Measures



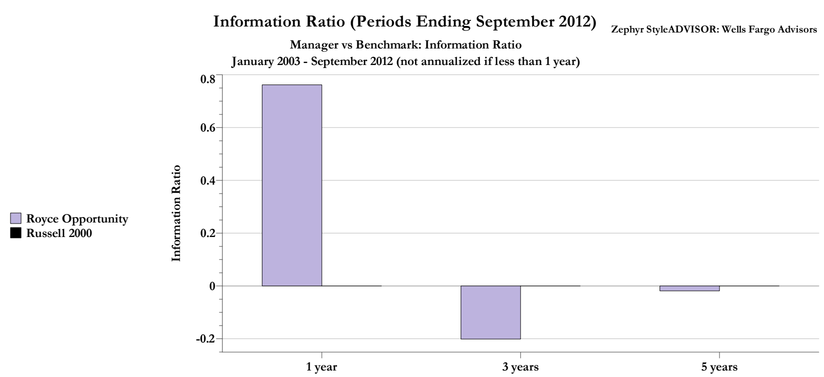

Annualized Summary Statistics: January 2003 - September 2012

| | Return (%) | Std Dev (%) | Beta vs. Market | Alpha vs. Market | R-Squared vs. Market | Sharpe Ratio | Observs. |
|---|---|---|---|---|---|---|---|
| Royce Opportunity | 11.81 | 29.69 | 1.33 | -0.01 | 95.64 | 0.34 | 39.00 |
| Russell 2000 | 9.77 | 21.90 | 1.00 | 0.00 | 100.00 | 0.37 | 39.00 |




Annualized Summary Statistics: October 2007 - September 2012

| | Return (%) | Std Dev (%) | Beta vs. Market | Alpha vs. Market | R-Squared vs. Market | Sharpe Ratio | Observs. |
|---|---|---|---|---|---|---|---|
| Royce Opportunity | 1.99 | 36.48 | 1.35 | 0.83 | 95.82 | 0.04 | 20.00 |
| Russell 2000 | 2.21 | 26.54 | 1.00 | 0.00 | 100.00 | 0.06 | 20.00 |




Manager vs Benchmark: Information Ratio
January 2003 - September 2012 (not annualized if less than 1 year)

| | 1 year | 3 years | 5 years |
|---|---|---|---|
| Royce Opportunity | 0.76 | -0.20 | -0.02 |

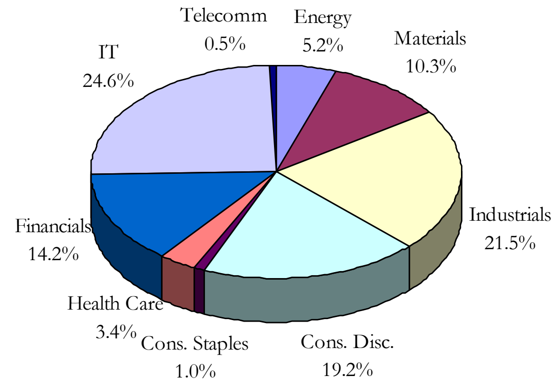
### Royce

| Top Ten Equity Holdings | % of Portfolio |
|---|---|
| Apogee Enterprises | 0.8% |
| Jones Group | 0.8% |
| Trex Company | 0.8% |
| Kaiser Aluminum | 0.7% |
| Unifi | 0.7% |
| Cambrex Corporation | 0.7% |
| Quanex Building | 0.7% |
| TRC Companies | 0.7% |
| PolyOne Corporation | 0.7% |
| LaSalle Hotel Properties | 0.7% |

| Characteristic | Royce | Russell 2000 |
|---|---|---|
| Average Capitalization ($MM) | 608 | 1,280 |
| Yield | 0.0 | 1.3 |
| P/E Ratio | 14.0 | 15.2 |
| Price/Book | 1.2 | 2.8 |
| # Holdings | 312 | 1975 |

| Sector Allocation | % of Portfolio | Russell 2000 | Difference |
|---|---|---|---|
| Energy | 4.9 | 6.1 | (1.2) |
| Materials | 9.7 | 5.0 | 4.7 |
| Industrials | 20.2 | 14.7 | 5.5 |
| Consumer Discretionary | 18.0 | 13.9 | 4.1 |
| Consumer Staples | 0.9 | 3.6 | (2.7) |
| Health Care | 3.2 | 13.4 | (10.2) |
| Financials | 13.3 | 21.7 | (8.4) |
| Information Technology | 23.1 | 17.1 | 6.0 |
| Telecomm Service | 0.5 | 0.8 | (0.3) |
| Utilities | 0.0 | 3.6 | (3.6) |

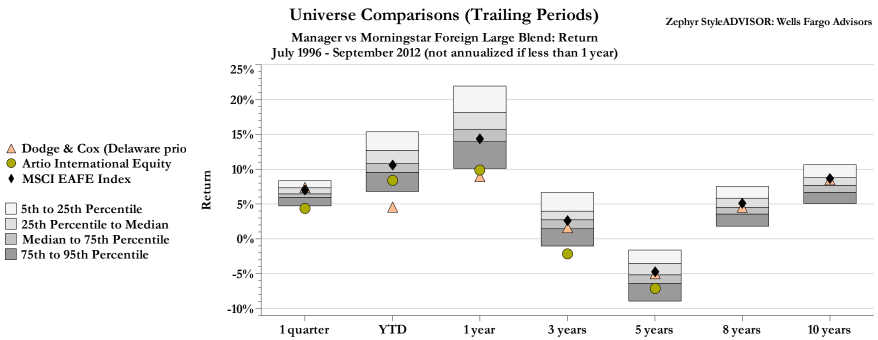
### Sector Distribution




* Source: Royce, VESTEK

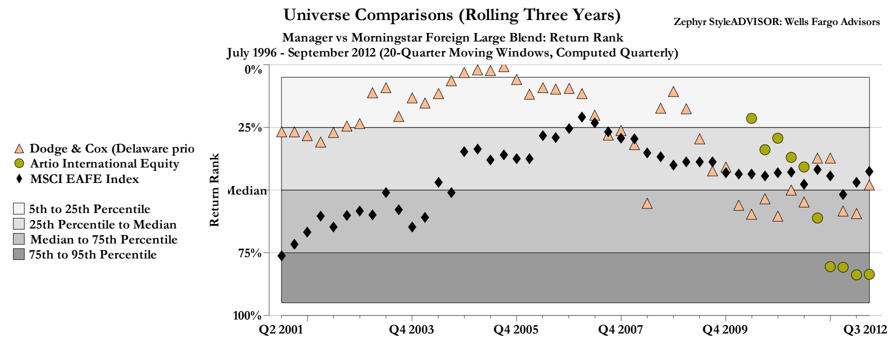
# Equity Sector (International Developed)

## Periods Ending September 30, 2012– Performance*




Manager vs Morningstar Foreign Large Blend: Return
July 1996 - September 2012 (not annualized if less than 1 year)

| | 1 quarter<br>851 mng | YTD<br>840 mng | 1 year<br>838 mng | 3 years<br>798 mng | 5 years<br>708 mng | 8 years<br>563 mng | 10 years<br>519 mng |
|---|---|---|---|---|---|---|---|
| Median | 6.45% | 10.80% | 15.74% | 2.73% | -5.16% | 4.52% | 7.68% |
| Dodge & Cox (Delaware prior to Fek | 7.41% | 4.57% | 8.97% | 1.60% | -5.04% | 4.51% | 8.47% |
| Artio International Equity | 4.33% | 8.38% | 9.83% | -2.20% | -7.10% | N/A | N/A |
| MSCI EAFE Index | 6.98% | 10.59% | 14.33% | 2.59% | -4.77% | 5.06% | 8.69% |




Manager vs Morningstar Foreign Large Blend: Return
July 1996 - September 2012 (20-Quarter Moving Windows, Computed Quarterly)

| | Mar 2002<br>310 mng | Mar 2003<br>356 mng | Mar 2004<br>394 mng | Mar 2005<br>424 mng | Mar 2006<br>472 mng | Dec 2006<br>515 mng | Dec 2007<br>526 mng | Dec 2008<br>551 mng | Dec 2009<br>571 mng | Dec 2010<br>616 mng | Dec 2011<br>671 mng | Sep 2012<br>708 mng |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Median | 2.5% | -6.4% | 1.4% | -1.9% | 9.3% | 14.0% | 20.9% | 1.6% | 3.6% | 2.6% | -4.5% | -5.2% |
| Dodge & Cox (Delaware prior to Fek | 4.6% | -2.0% | 6.3% | 8.4% | 12.9% | 17.6% | 22.4% | 4.1% | 4.1% | 2.1% | -3.8% | -5.0% |
| Artio International Equity | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | 3.9% | -6.0% | -7.1% |
| MSCI EAFE Index | 1.6% | -6.9% | 0.8% | -0.8% | 10.0% | 15.4% | 22.1% | 2.1% | 4.0% | 2.9% | -4.3% | -4.8% |

* Please note that we have linked Artio's composite historical returns for periods prior to 6/1/09 with BOV actual results starting with June 2009.

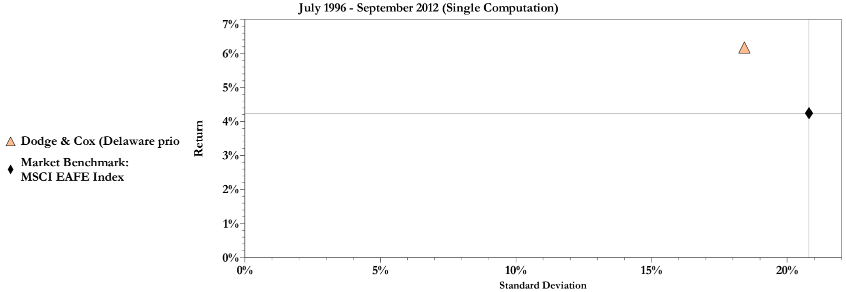
# Equity Sector (International Developed)

## Periods Ending September 30, 2012– Risk Measures

### Return/Risk (July 1996 - September 2012)

Zephyr StyleADVISOR: Wells Fargo Advisors

July 1996 - September 2012 (Single Computation)



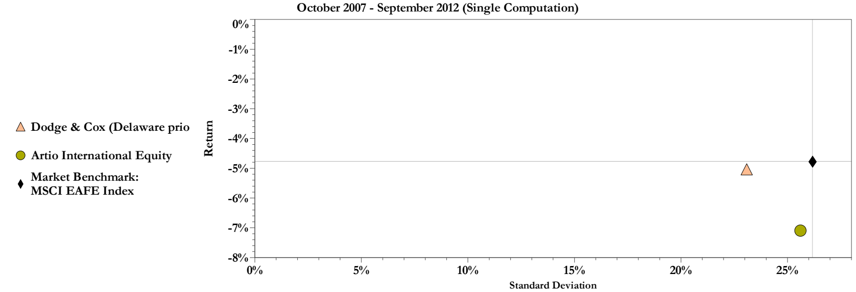

Annualized Summary Statistics: July 1996 - September 2012

| | Return (%) | Std Dev (%) | Beta vs. Market | Alpha vs. Market | R-Squared vs. Market | Sharpe Ratio | Observs. |
|---|---|---|---|---|---|---|---|
| Dodge & Cox (Delaware prior to Feb | 6.18 | 18.43 | 0.84 | 2.47 | 88.91 | 0.18 | 65.00 |
| MSCI EAFE Index | 4.24 | 20.80 | 1.00 | 0.00 | 100.00 | 0.07 | 65.00 |

### Return/Risk (Five Years Ending September 2012)

Zephyr StyleADVISOR: Wells Fargo Advisors

October 2007 - September 2012 (Single Computation)



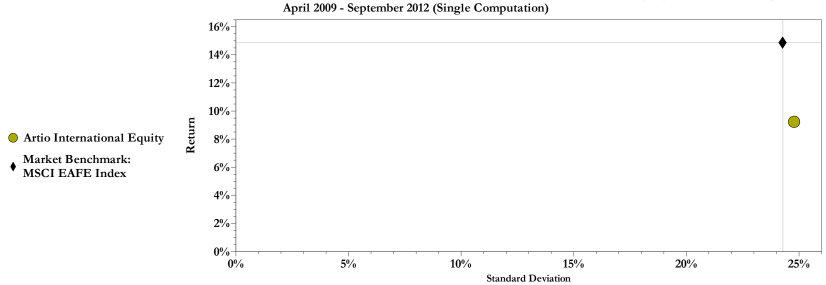

Annualized Summary Statistics: October 2007 - September 2012

| | Return (%) | Std Dev (%) | Beta vs. Market | Alpha vs. Market | R-Squared vs. Market | Sharpe Ratio | Observs. |
|---|---|---|---|---|---|---|---|
| Dodge & Cox (Delaware prior to Feb | -5.04 | 23.08 | 0.86 | -1.23 | 95.86 | -0.25 | 20.00 |
| Artio International Equity | -7.10 | 25.62 | 0.97 | -2.54 | 97.47 | -0.30 | 20.00 |
| MSCI EAFE Index | -4.77 | 26.17 | 1.00 | 0.00 | 100.00 | -0.21 | 20.00 |

### Return/Risk (June 2009 - September 2012)

Zephyr StyleADVISOR: Wells Fargo Advisors

April 2009 - September 2012 (Single Computation)



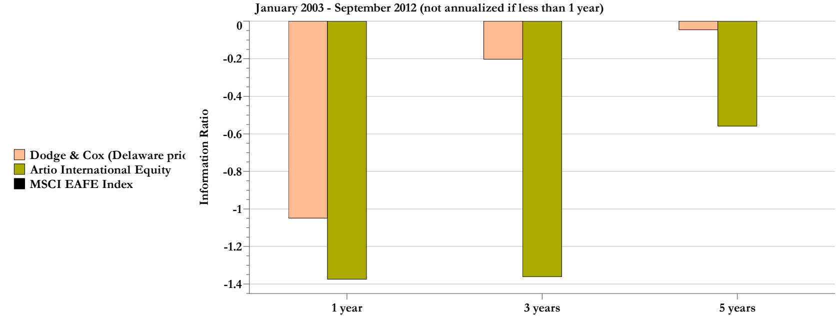

Annualized Summary Statistics: April 2009 - September 2012

| | Return (%) | Std Dev (%) | Beta vs. Market | Alpha vs. Market | R-Squared vs. Market | Sharpe Ratio | Observs. |
|---|---|---|---|---|---|---|---|
| Artio International Equity | 9.22 | 24.79 | 1.01 | -5.03 | 97.87 | 0.37 | 14.00 |
| MSCI EAFE Index | 14.86 | 24.29 | 1.00 | 0.00 | 100.00 | 0.61 | 14.00 |

### Information Ratio (Periods Ending September 2012)

Zephyr StyleADVISOR: Wells Fargo Advisors

Manager vs Benchmark: Information Ratio
January 2003 - September 2012 (not annualized if less than 1 year)




Manager vs Benchmark: Information Ratio
January 2003 - September 2012 (not annualized if less than 1 year)

| | 1 year | 3 years | 5 years |
|---|---|---|---|
| Dodge & Cox (Delaware prior to Fel | -1.05 | -0.20 | -0.05 |
| Artio International Equity | -1.37 | -1.36 | -0.56 |

# Equity Sector (International Developed)

## Characteristics - As of September 30, 2012

### Characteristics

| Characteristic | Dodge & Cox | Artio | Combined BOV Intl | MSCI EAFE | Over/Under Weight |
|---|---|---|---|---|---|
| Avg. Capitalization ($MM) | 59,000 | 64,690 | 61,814 | 50,250 | 11,564 |
| Price/Book Ratio (x) | 1.0 | 1.6 | 1.3 | 2.4 | (1.1) |
| P/E Ratio (x) | 10.2 | 12.7 | 11.5 | 15.0 | (3.6) |
| Dividend Yield (%) | 2.1 | 3.4 | 2.7 | 3.5 | (0.8) |
| # of Holdings | 90 | 178 | 268 | 920 | (652) |

### Dodge & Cox Top Ten

| Top Ten Equity Holdings | % of Portfolio |
|---|---|
| Naspers, Ltd. | 4.1 |
| Sanofi | 3.6 |
| Roche Holding AG | 3.5 |
| GlaxoSmithKline | 3.1 |
| Lafarge SA | 3.0 |
| Vodafone Group | 3.0 |
| Bayer AG | 2.9 |
| Koninklijke Philips Electronics | 2.8 |
| Novartis AG | 2.8 |
| HSBC Holdings | 2.7 |

### Sector Distribution

| Sector | Dodge & Cox | Artio | Combined BOV Weight | EAFE Weight | Over / (Under) |
|---|---|---|---|---|---|
| Consumer Discret. | 13.1 | 13.0 | 13.0 | 10.1 | 2.9 |
| Consumer Staples | 2.6 | 11.7 | 7.1 | 12.0 | (4.9) |
| Energy | 6.2 | 7.9 | 7.0 | 8.3 | (1.3) |
| Financials | 24.0 | 16.1 | 20.1 | 23.5 | (3.4) |
| Health Care | 15.9 | 14.2 | 15.1 | 10.3 | 4.8 |
| Industrials | 8.5 | 8.3 | 8.4 | 12.4 | (4.0) |
| Info. Technology | 10.9 | 4.0 | 7.5 | 4.3 | 3.2 |
| Materials | 8.0 | 7.8 | 7.9 | 9.6 | (1.7) |
| Telecomm | 9.8 | 6.9 | 8.3 | 5.4 | 2.9 |
| Utilities | 0.0 | 4.5 | 2.2 | 4.1 | (1.9) |

### Artio Top Ten

| Top Ten Equity Holdings | % of Portfolio |
|---|---|
| Novartis AG | 2.9 |
| Royal Dutch Shell | 2.4 |
| Diageo PLC | 2.3 |
| Sanofi | 2.2 |
| GlaxoSmithKline PLC | 2.2 |
| Vodafone Group | 2.2 |
| Nestle SA | 2.0 |
| Roche Holding | 1.9 |
| Suncor Energy | 1.7 |
| Fresenius SE | 1.7 |

Data Source: Delaware, Artio, MSCI EAFE

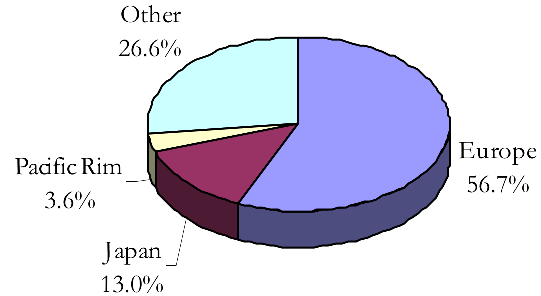
# Equity Sector (International Developed)

Characteristics - As of September 30, 2012

## Country Distribution

| Country | Dodge & Cox Weight | Artio Weight | Combined BOV Weight | EAFE Weight | Over / (Under) |
|---|---|---|---|---|---|
| Australia | 1.5 | 2.4 | 2.0 | 8.7 | (6.7) |
| Austria | 0.7 | 0.0 | 0.3 | 0.3 | 0.0 |
| Belgium | 0.0 | 0.0 | 0.0 | 1.1 | (1.1) |
| Denmark | 0.0 | 1.2 | 0.6 | 1.1 | (0.5) |
| Finland | 0.9 | 0.4 | 0.7 | 0.7 | (0.0) |
| France | 9.6 | 8.3 | 9.0 | 9.2 | (0.2) |
| Germany | 7.1 | 9.4 | 8.3 | 8.0 | 0.3 |
| Greece | 0.0 | 0.0 | 0.0 | 0.1 | (0.1) |
| Hong Kong | 1.7 | 1.6 | 1.7 | 3.0 | (1.3) |
| Ireland | 0.0 | 0.8 | 0.4 | 0.3 | 0.1 |
| Italy | 2.4 | 0.4 | 1.4 | 2.2 | (0.8) |
| Japan | 11.3 | 14.7 | 13.0 | 21.8 | (8.8) |
| Netherlands | 4.7 | 2.5 | 3.6 | 2.4 | 1.2 |
| New Zealand | 0.0 | 0.0 | 0.0 | 0.1 | (0.1) |
| Norway | 0.4 | 0.0 | 0.2 | 0.9 | (0.7) |
| Portugal | 0.0 | 0.0 | 0.0 | 0.2 | (0.2) |
| Singapore/Malaysia | 0.0 | 0.0 | 0.0 | 1.9 | (1.9) |
| Spain | 1.2 | 0.8 | 1.0 | 2.7 | (1.7) |
| Sweden | 1.5 | 1.2 | 1.4 | 3.1 | (1.7) |
| Switzerland | 13.1 | 10.6 | 11.9 | 8.5 | 3.4 |
| United Kingdom | 17.1 | 18.9 | 18.0 | 23.2 | (5.2) |
| Other | 26.6 | 26.7 | 26.6 | 0.5 | 26.1 |

## Regional Distribution
## BOV Developed International




Data Source: Delaware, Artio, MSCI EAFE

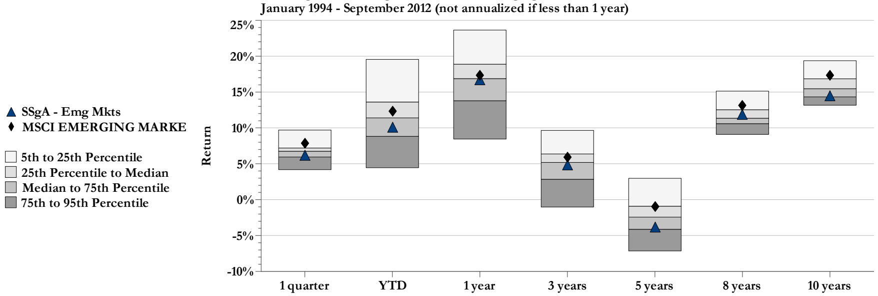
# Equity Sector (Emerging Markets)

## Periods Ending September 30, 2012 - Performance

### Universe Comparisons (Trailing Periods)

Zephyr StyleADVISOR: Wells Fargo Advisors

Manager vs Morningstar Diversified Emerging Mkts: Return
January 1994 - September 2012 (not annualized if less than 1 year)



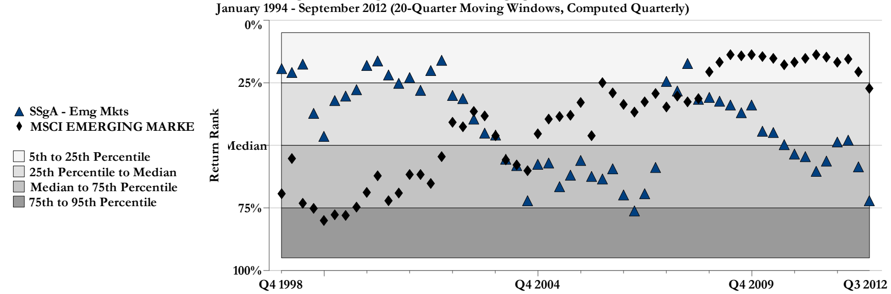

Manager vs Morningstar Diversified Emerging Mkts: Return
January 1994 - September 2012 (not annualized if less than 1 year)

| | 1 quarter<br>613 mng | YTD<br>584 mng | 1 year<br>540 mng | 3 years<br>401 mng | 5 years<br>307 mng | 8 years<br>237 mng | 10 years<br>224 mng |
|---|---|---|---|---|---|---|---|
| Median | 6.75% | 11.40% | 16.88% | 5.18% | -2.43% | 11.36% | 15.47% |
| SSgA - Emg Mkts | 6.19% | 10.12% | 16.74% | 4.88% | -3.83% | 11.87% | 14.44% |
| MSCI EMERGING MARKETS | 7.89% | 12.33% | 17.33% | 5.96% | -0.98% | 13.14% | 17.37% |

### Universe Comparisons (Rolling Three Years)

Zephyr StyleADVISOR: Wells Fargo Advisors

Manager vs Morningstar Diversified Emerging Mkts: Return Rank
January 1994 - September 2012 (20-Quarter Moving Windows, Computed Quarterly)




Manager vs Morningstar Diversified Emerging Mkts: Return
January 1994 - September 2012 (20-Quarter Moving Windows, Computed Quarterly)

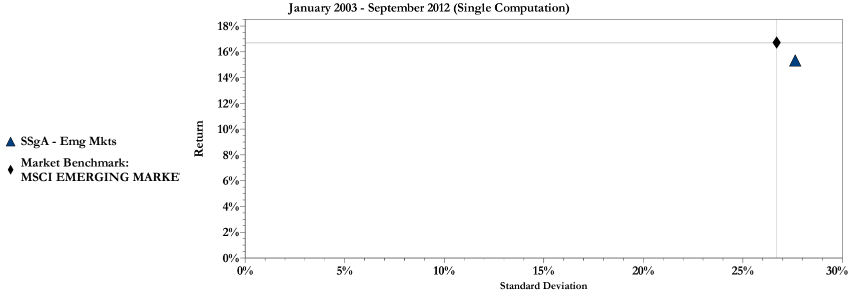
| | Dec 1999<br>81 mng | Mar 2001<br>102 mng | Jun 2002<br>152 mng | Jun 2003<br>188 mng | Sep 2004<br>207 mng | Dec 2005<br>232 mng | Dec 2006<br>232 mng | Mar 2008<br>233 mng | Jun 2009<br>245 mng | Jun 2010<br>259 mng | Sep 2011<br>289 mng | Sep 2012<br>307 mng |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Median | 5.1% | -4.7% | -7.0% | 0.4% | 6.7% | 18.5% | 26.2% | 34.7% | 12.9% | 10.7% | 2.9% | -2.4% |
| SSgA - Emg Mkts | 5.6% | -1.3% | -4.7% | 1.8% | 5.3% | 18.3% | 24.8% | 36.1% | 13.7% | 11.1% | 2.8% | -3.8% |
| MSCI EMERGING MARKETS | 2.0% | -6.4% | -8.4% | 2.5% | 6.0% | 19.4% | 27.0% | 36.0% | 15.1% | 13.1% | 5.2% | -1.0% |

# Equity Sector (Emerging Markets)

## Periods Ending September 30, 2012– Risk Measures

### Return/Risk (January 2003 - September 2012)

Zephyr StyleADVISOR: Wells Fargo Advisors

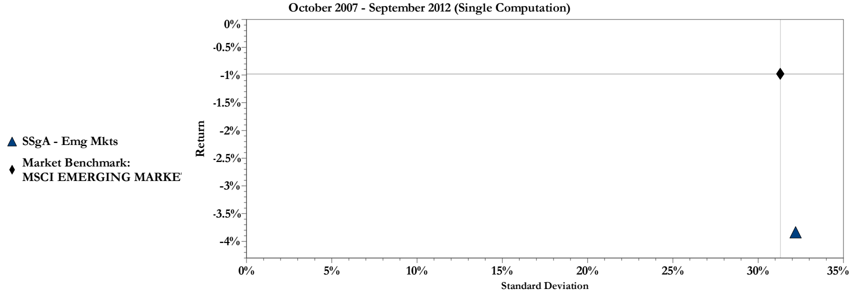



Annualized Summary Statistics: January 2003 - September 2012

| | Return (%) | Std Dev (%) | Beta vs. Market | Alpha vs. Market | R-Squared vs. Market | Sharpe Ratio | Observs. |
|---|---|---|---|---|---|---|---|
| SSgA - Emg Mkts | 15.33 | 27.62 | 1.03 | -1.48 | 99.23 | 0.49 | 39.00 |
| MSCI EMERGING MARKETS | 16.70 | 26.68 | 1.00 | 0.00 | 100.00 | 0.56 | 39.00 |

### Return/Risk (Five Years Ending September 2012)

Zephyr StyleADVISOR: Wells Fargo Advisors

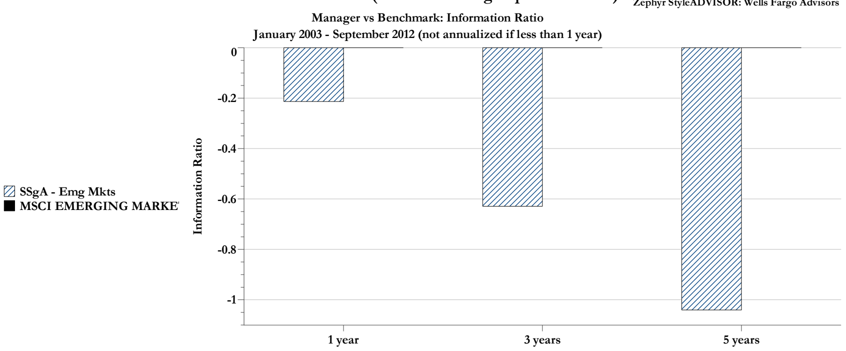



Annualized Summary Statistics: October 2007 - September 2012

| | Return (%) | Std Dev (%) | Beta vs. Market | Alpha vs. Market | R-Squared vs. Market | Sharpe Ratio | Observs. |
|---|---|---|---|---|---|---|---|
| SSgA - Emg Mkts | -3.83 | 32.19 | 1.02 | -2.56 | 99.33 | -0.14 | 20.00 |
| MSCI EMERGING MARKETS | -0.98 | 31.30 | 1.00 | 0.00 | 100.00 | -0.05 | 20.00 |

### Information Ratio (Periods Ending September 2012)

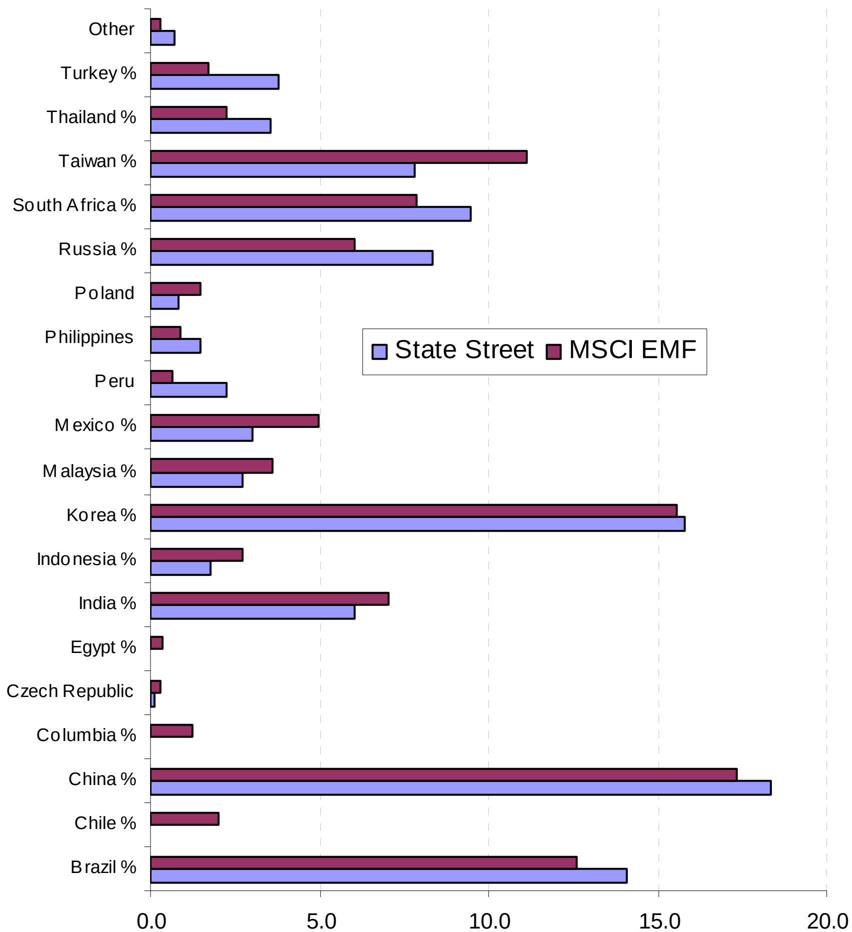
Zephyr StyleADVISOR: Wells Fargo Advisors




Manager vs Benchmark: Information Ratio
January 2003 - September 2012 (not annualized if less than 1 year)

| | 1 year | 3 years | 5 years |
|---|---|---|---|
| SSgA - Emg Mkts | -0.21 | -0.63 | -1.04 |

## Country Distribution




## Top Ten

| Top Ten Equity Holdings | % of Portfolio |
|---|---|
| SAMSUNG ELECTRONICS CO LTD | 4.3% |
| VALE SA-SP ADR | 2.5% |
| GAZPROM OAO-SPON ADR | 2.2% |
| CHINA MOBILE LTD | 2.2% |
| HYUNDAI MOTOR CO | 2.0% |
| TAIWAN SEMICONDUCTOR MANUFAC | 1.8% |
| COMPANHIA DE BEBIDAS-PRF ADR | 1.3% |
| SBERBANK | 1.3% |
| LUKOIL OAO | 1.3% |
| TENCENT HOLDINGS LTD | 1.3% |

Data Source: State Street, MSCI

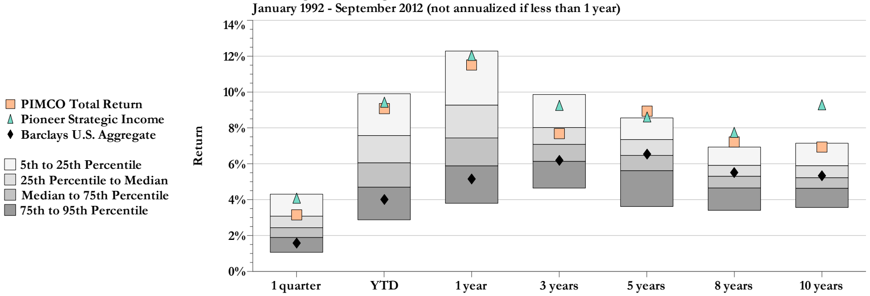
# III. Fixed Income Sector (US Bonds)

## Periods Ending September 30, 2012- Performance

### Universe Comparisons (Trailing Periods)

Zephyr StyleADVISOR: Wells Fargo Advisors

Manager vs Morningstar Intermediate-Term Bond: Return
January 1992 - September 2012 (not annualized if less than 1 year)



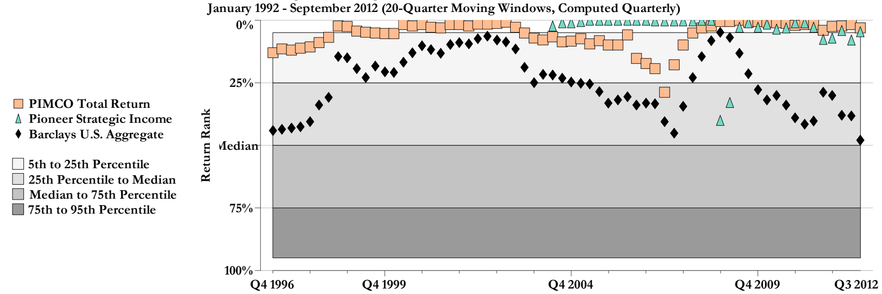

Manager vs Morningstar Intermediate-Term Bond: Return
January 1992 - September 2012 (not annualized if less than 1 year)

| | 1 quarter<br>1264 mng | YTD<br>1243 mng | 1 year<br>1227 mng | 3 years<br>1133 mng | 5 years<br>1073 mng | 8 years<br>993 mng | 10 years<br>948 mng |
|---|---|---|---|---|---|---|---|
| Median | 2.44% | 6.06% | 7.44% | 7.09% | 6.47% | 5.31% | 5.22% |
| PIMCO Total Return | 3.15% | 9.08% | 11.51% | 7.69% | 8.92% | 7.21% | 6.95% |
| Pioneer Strategic Income | 4.06% | 9.42% | 12.05% | 9.27% | 8.60% | 7.75% | 9.29% |
| Barclays U.S. Aggregate | 1.58% | 3.99% | 5.16% | 6.19% | 6.53% | 5.52% | 5.32% |

### Universe Comparisons (Rolling Three Years)

Zephyr StyleADVISOR: Wells Fargo Advisors

Manager vs Morningstar Intermediate-Term Bond: Return Rank
January 1992 - September 2012 (20-Quarter Moving Windows, Computed Quarterly)



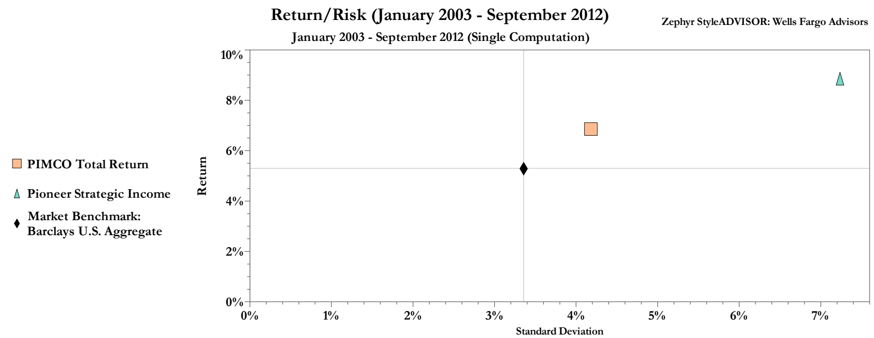

Manager vs Morningstar Intermediate-Term Bond: Return
January 1992 - September 2012 (20-Quarter Moving Windows, Computed Quarterly)

| | Mar 1998<br>477 mng | Jun 1999<br>528 mng | Sep 2000<br>587 mng | Mar 2002<br>656 mng | Jun 2003<br>721 mng | Sep 2004<br>832 mng | Mar 2006<br>926 mng | Jun 2007<br>963 mng | Sep 2008<br>998 mng | Mar 2010<br>1028 mng | Jun 2011<br>1058 mng | Sep 2012<br>1073 mng |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Median | 6.5% | 7.2% | 5.6% | 6.5% | 6.5% | 6.9% | 4.7% | 4.3% | 2.6% | 5.0% | 6.2% | 6.5% |
| PIMCO Total Return | 7.8% | 8.6% | 7.4% | 8.4% | 8.3% | 8.2% | 5.9% | 4.8% | 4.3% | 7.5% | 8.9% | 8.9% |
| Pioneer Strategic Income | N/A | N/A | N/A | N/A | N/A | 9.7% | 9.7% | 9.4% | 5.7% | 7.4% | 8.7% | 8.6% |
| Barclays U.S. Aggregate | 6.9% | 7.8% | 6.5% | 7.6% | 7.5% | 7.5% | 5.1% | 4.5% | 3.8% | 5.4% | 6.5% | 6.5% |

*Longer time periods are shown for illustrative purposes. PIMCO Total Return Fund and Pioneer Strategic Income Fund actual performance began on 11/3/09.

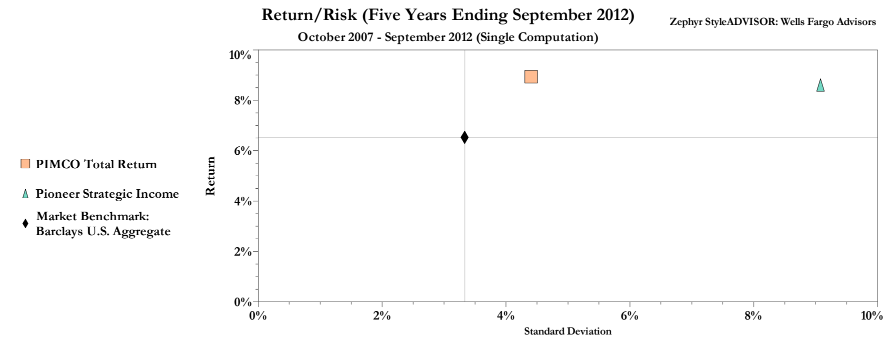
# Fixed Income Sector (US Bonds)

## Periods Ending September 30, 2012– Risk Measures




Annualized Summary Statistics: January 2003 - September 2012

| | Return (%) | Std Dev (%) | Beta vs. Market | Alpha vs. Market | R-Squared vs. Market | Sharpe Ratio | Observs. |
|---|---|---|---|---|---|---|---|
| PIMCO Total Return | 6.87 | 4.18 | 0.99 | 1.57 | 63.90 | 1.23 | 39.00 |
| Pioneer Strategic Income | 8.87 | 7.24 | 0.36 | 7.11 | 2.85 | 0.99 | 39.00 |
| Barclays U.S. Aggregate | 5.30 | 3.36 | 1.00 | 0.00 | 100.00 | 1.06 | 39.00 |




Annualized Summary Statistics: October 2007 - September 2012

| | Return (%) | Std Dev (%) | Beta vs. Market | Alpha vs. Market | R-Squared vs. Market | Sharpe Ratio | Observs. |
|---|---|---|---|---|---|---|---|
| PIMCO Total Return | 8.92 | 4.41 | 0.86 | 3.22 | 42.69 | 1.88 | 20.00 |
| Pioneer Strategic Income | 8.60 | 9.08 | -0.19 | 10.33 | 0.50 | 0.88 | 20.00 |
| Barclays U.S. Aggregate | 6.53 | 3.34 | 1.00 | 0.00 | 100.00 | 1.77 | 20.00 |

*Longer time periods are shown for illustrative purposes. PIMCO Total Return Fund and Pioneer Strategic Income Fund actual performance began on 11/3/09.

## As of September 30, 2012

| | PIMCO Total Return | Pioneer Strategic Income | Fixed Combined | Barclays Aggregate | Over/(Under) Weight |
|---|---|---|---|---|---|
| Modified Adj. Duration | 4.02 | 4.13 | 4.08 | 4.85 | (0.8) |
| Average Maturity | 5.93 | 10.11 | 8.04 | 6.73 | 1.3 |

## Sector Distribution

| Sector Allocation | PIMCO Total Return | Pioneer Strategic Income | Fixed Combined | Barclays Aggregate | Over/(Under) Weight |
|---|---|---|---|---|---|
| U.S. Treasury/Agency | 23.0 | 2.4 | 12.6 | 42.6 | (30.0) |
| Corporate | 14.0 | 55.3 | 34.8 | 25.2 | 9.6 |
| Mortgage | 49.0 | 10.7 | 29.7 | 31.9 | (2.2) |
| Asset-Backed | 0.0 | 4.9 | 2.5 | 0.3 | 2.2 |
| Other | 20.0 | 24.7 | 22.4 | 0.0 | 22.4 |
| Cash & Equivalents | (6.0) | 2.0 | (2.0) | 0.0 | (2.0) |

Data Source: PIMCO, Pioneer, Barclays

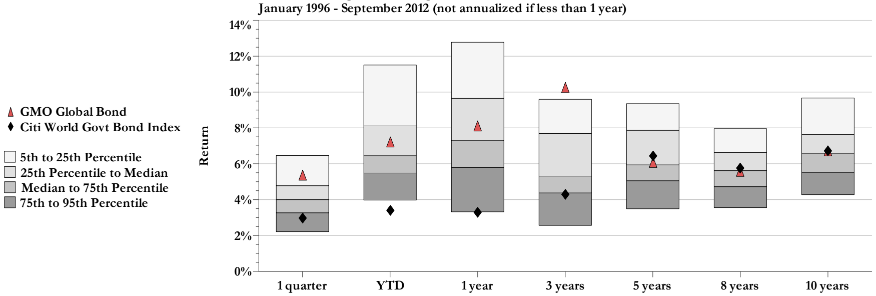
# Fixed Income Sector (Global Bonds)

## Periods Ending September 30, 2012 - Performance

### Universe Comparisons (Trailing Periods)

Zephyr StyleADVISOR: Wells Fargo Advisors

Manager vs Morningstar World Bond: Return
January 1996 - September 2012 (not annualized if less than 1 year)



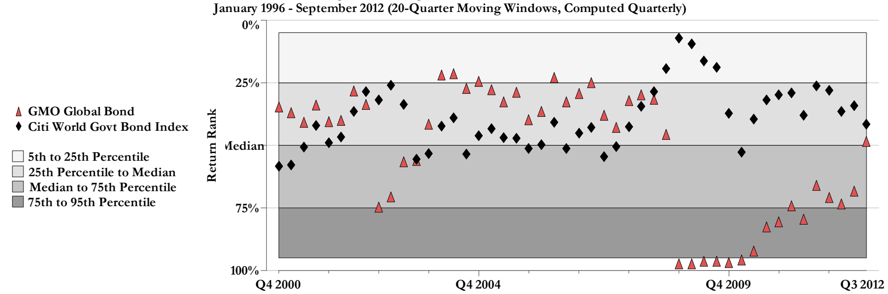

Manager vs Morningstar World Bond: Return
January 1996 - September 2012 (not annualized if less than 1 year)

| | 1 quarter 367 mng | YTD 341 mng | 1 year 331 mng | 3 years 288 mng | 5 years 236 mng | 8 years 191 mng | 10 years 184 mng |
|---|---|---|---|---|---|---|---|
| Median | 4.00% | 6.45% | 7.29% | 5.32% | 5.94% | 5.61% | 6.59% |
| GMO Global Bond | 5.36% | 7.21% | 8.13% | 10.25% | 6.06% | 5.58% | 6.73% |
| Citi World Govt Bond Index | 2.99% | 3.41% | 3.29% | 4.29% | 6.45% | 5.76% | 6.71% |

### Universe Comparisons (Rolling Three Years)

Zephyr StyleADVISOR: Wells Fargo Advisors

Manager vs Morningstar World Bond: Return Rank
January 1996 - September 2012 (20-Quarter Moving Windows, Computed Quarterly)

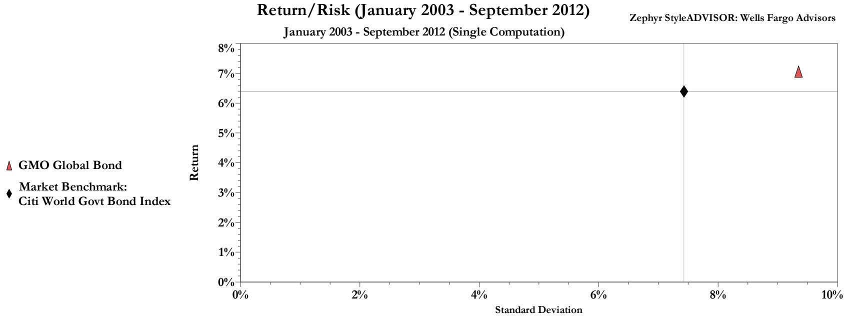



Manager vs Morningstar World Bond: Return
January 1996 - September 2012 (20-Quarter Moving Windows, Computed Quarterly)

| | Sep 2001 169 mng | Sep 2002 174 mng | Sep 2003 179 mng | Sep 2004 181 mng | Sep 2005 185 mng | Sep 2006 185 mng | Sep 2007 185 mng | Sep 2008 185 mng | Sep 2009 192 mng | Sep 2010 195 mng | Sep 2011 221 mng | Sep 2012 236 mng |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Median | 3.0% | 3.5% | 5.7% | 7.0% | 8.1% | 7.4% | 7.0% | 3.9% | 5.7% | 6.3% | 6.2% | 5.9% |
| GMO Global Bond | 4.3% | 4.7% | 5.4% | 8.1% | 9.3% | 8.5% | 7.4% | 4.0% | 2.9% | 5.2% | 5.8% | 6.1% |
| Citi World Govt Bond Index | 3.3% | 4.9% | 5.4% | 6.7% | 8.2% | 7.3% | 7.0% | 5.3% | 6.6% | 7.0% | 7.5% | 6.5% |

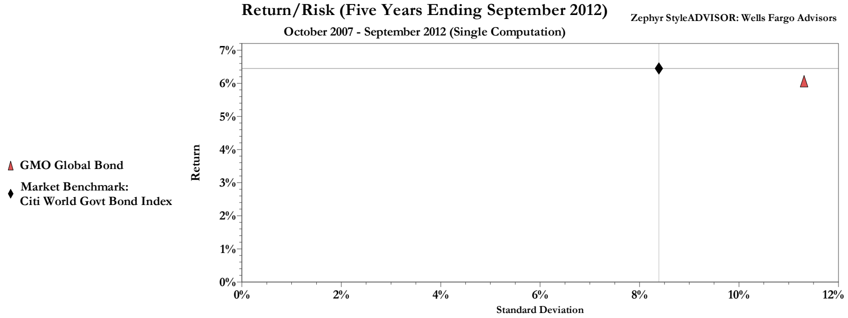
# Fixed Income Sector (Global Bonds)

## Periods Ending September 30, 2012– Risk Measures



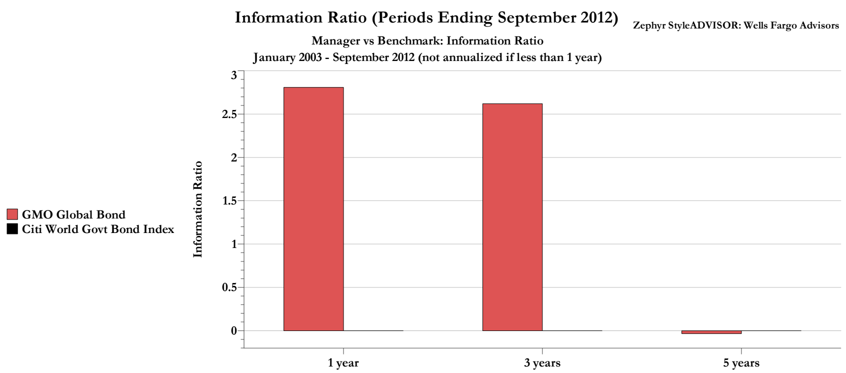

Annualized Summary Statistics: January 2003 - September 2012

| | Return (%) | Std Dev (%) | Beta vs. Market | Alpha vs. Market | R-Squared vs. Market | Sharpe Ratio | Observs. |
|---|---|---|---|---|---|---|---|
| GMO Global Bond | 7.06 | 9.35 | 0.67 | 2.96 | 28.71 | 0.57 | 39.00 |
| Citi World Govt Bond Index | 6.39 | 7.43 | 1.00 | 0.00 | 100.00 | 0.63 | 39.00 |




Annualized Summary Statistics: October 2007 - September 2012

| | Return (%) | Std Dev (%) | Beta vs. Market | Alpha vs. Market | R-Squared vs. Market | Sharpe Ratio | Observs. |
|---|---|---|---|---|---|---|---|
| GMO Global Bond | 6.06 | 11.31 | 0.50 | 3.30 | 13.52 | 0.48 | 20.00 |
| Citi World Govt Bond Index | 6.45 | 8.39 | 1.00 | 0.00 | 100.00 | 0.69 | 20.00 |




Manager vs Benchmark: Information Ratio
January 2003 - September 2012 (not annualized if less than 1 year)

| | 1 year | 3 years | 5 years |
|---|---|---|---|
| GMO Global Bond | 2.81 | 2.62 | -0.03 |

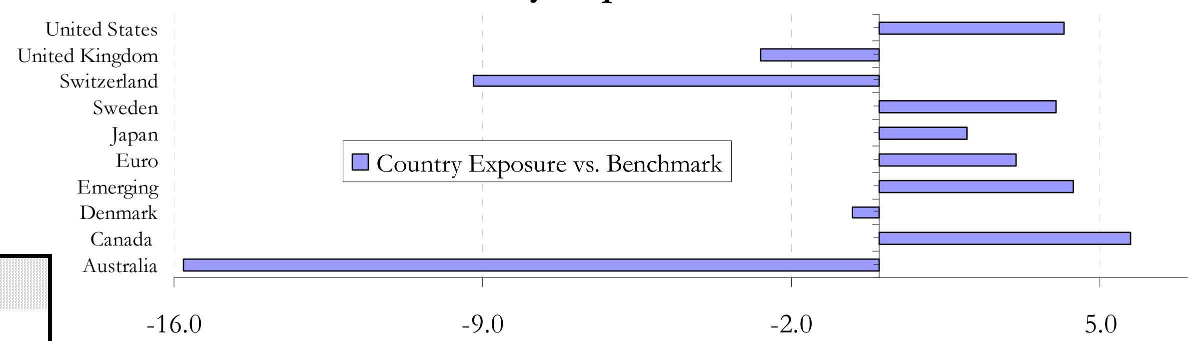
# Fixed Income Sector (Global Bonds)

Characteristics - As of September 30, 2012

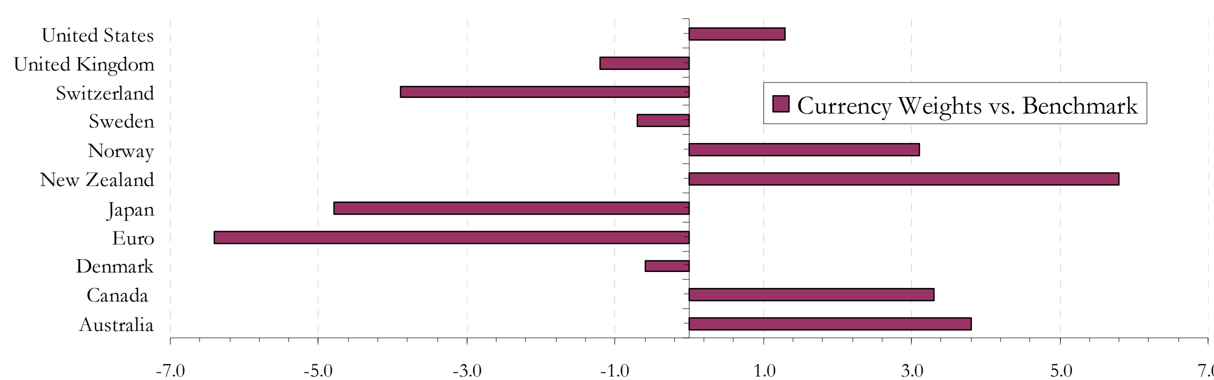
## Basic Characteristics

| Characteristic | Portfolio |
|---|---|
| Modified Duration | 7.2 |
| Average Coupon | 2.9% |
| Average Maturity | 8.5 |
| Average Yield | 2.6% |
| EM Country Exposure | 4.4% |

## Country Exposure



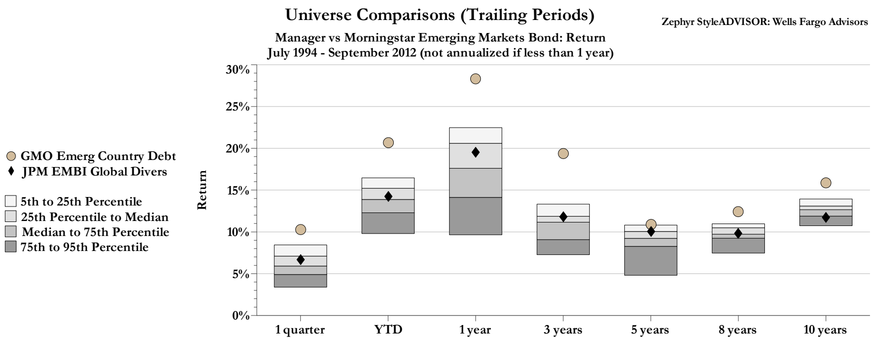

## Currency Exposure




Data Source: GMO

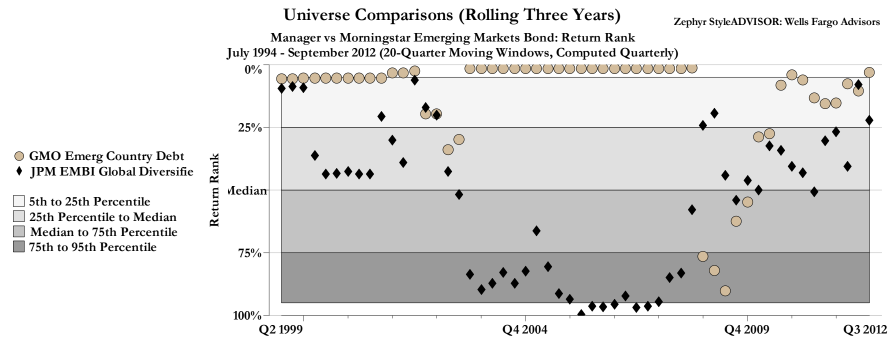
# Fixed Income Sector (Emerging Market)

## Periods Ending September 30, 2012 - Performance




Manager vs Morningstar Emerging Markets Bond: Return
July 1994 - September 2012 (not annualized if less than 1 year)

| | 1 quarter 246 mng | YTD 217 mng | 1 year 211 mng | 3 years 119 mng | 5 years 96 mng | 8 years 73 mng | 10 years 68 mng |
|---|---|---|---|---|---|---|---|
| Median | 5.92% | 13.87% | 17.60% | 11.15% | 9.22% | 9.71% | 12.66% |
| GMO Emerg Country Debt | 10.29% | 20.65% | 28.35% | 19.36% | 10.89% | 12.41% | 15.83% |
| JPM EMBI Global Divers | 6.64% | 14.24% | 19.55% | 11.83% | 10.08% | 9.81% | 11.74% |




Manager vs Morningstar Emerging Markets Bond: Return
July 1994 - September 2012 (20-Quarter Moving Windows, Computed Quarterly)

| | Jun 2000 20 mng | Jun 2001 20 mng | Sep 2002 47 mng | Sep 2003 65 mng | Dec 2004 68 mng | Dec 2005 68 mng | Mar 2007 68 mng | Mar 2008 68 mng | Jun 2009 73 mng | Jun 2010 74 mng | Sep 2011 84 mng | Sep 2012 96 mng |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Median | 13.0% | 9.6% | 3.4% | 20.4% | 15.4% | 15.6% | 14.1% | 11.8% | 8.0% | 7.8% | 7.2% | 9.2% |
| GMO Emerg Country Debt | 23.4% | 16.6% | 5.7% | 26.5% | 22.4% | 20.7% | 19.5% | 16.1% | 6.8% | 8.3% | 8.0% | 10.9% |
| JPM EMBI Global Diversified | 15.25 | 12.08 | 5.90 | 17.29 | 13.89 | 13.40 | 12.87 | 11.00 | 8.25 | 8.14 | 7.70 | 10.08 |

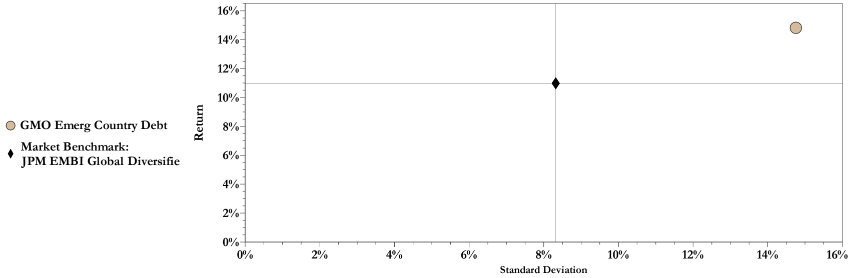
# Fixed Income Sector (Emerging Market)

## Periods Ending September 30, 2012– Risk Measures

### Return/Risk (January 2003 - September 2012)

Zephyr StyleADVISOR: Wells Fargo Advisors

January 2003 - September 2012 (Single Computation)



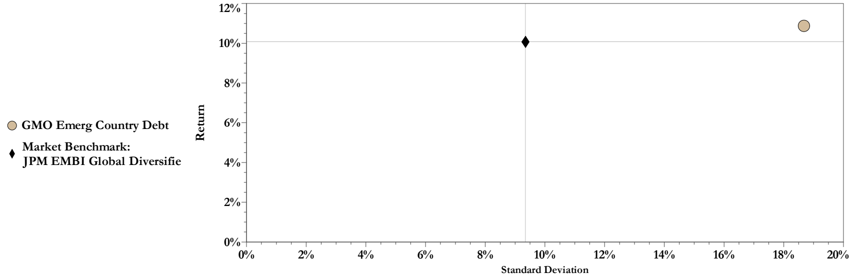

Annualized Summary Statistics: January 2003 - September 2012

| | Return (%) | Std Dev (%) | Beta vs. Market | Alpha vs. Market | R-Squared vs. Market | Sharpe Ratio | Observs. |
|---|---|---|---|---|---|---|---|
| GMO Emerg Country Debt | 14.82 | 14.75 | 1.63 | -2.58 | 84.77 | 0.89 | 39.00 |
| JPM EMBI Global Diversified | 10.96 | 8.32 | 1.00 | 0.00 | 100.00 | 1.11 | 39.00 |

### Return/Risk (Five Years Ending September 2012)

Zephyr StyleADVISOR: Wells Fargo Advisors

October 2007 - September 2012 (Single Computation)




Annualized Summary Statistics: October 2007 - September 2012

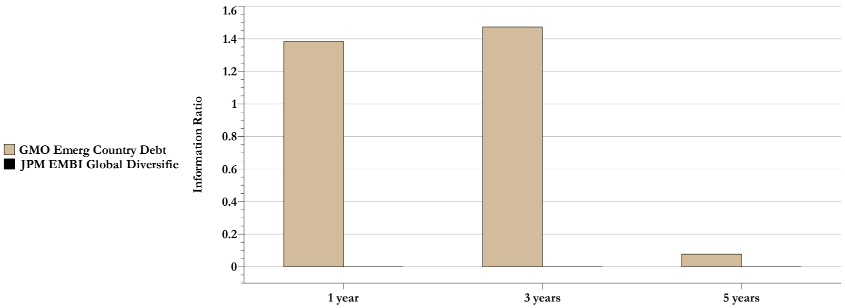
| | Return (%) | Std Dev (%) | Beta vs. Market | Alpha vs. Market | R-Squared vs. Market | Sharpe Ratio | Observs. |
|---|---|---|---|---|---|---|---|
| GMO Emerg Country Debt | 10.89 | 18.67 | 1.87 | -6.53 | 87.20 | 0.55 | 20.00 |
| JPM EMBI Global Diversified | 10.08 | 9.34 | 1.00 | 0.00 | 100.00 | 1.01 | 20.00 |

### Information Ratio (Periods Ending September 2012)

Zephyr StyleADVISOR: Wells Fargo Advisors

Manager vs Benchmark: Information Ratio

January 2003 - September 2012 (not annualized if less than 1 year)




Manager vs Benchmark: Information Ratio
January 2003 - September 2012 (not annualized if less than 1 year)

| | 1 year | 3 years | 5 years |
|---|---|---|---|
| GMO Emerg Country Debt | 1.38 | 1.47 | 0.08 |

# Fixed Income Sector (Emerging Market)

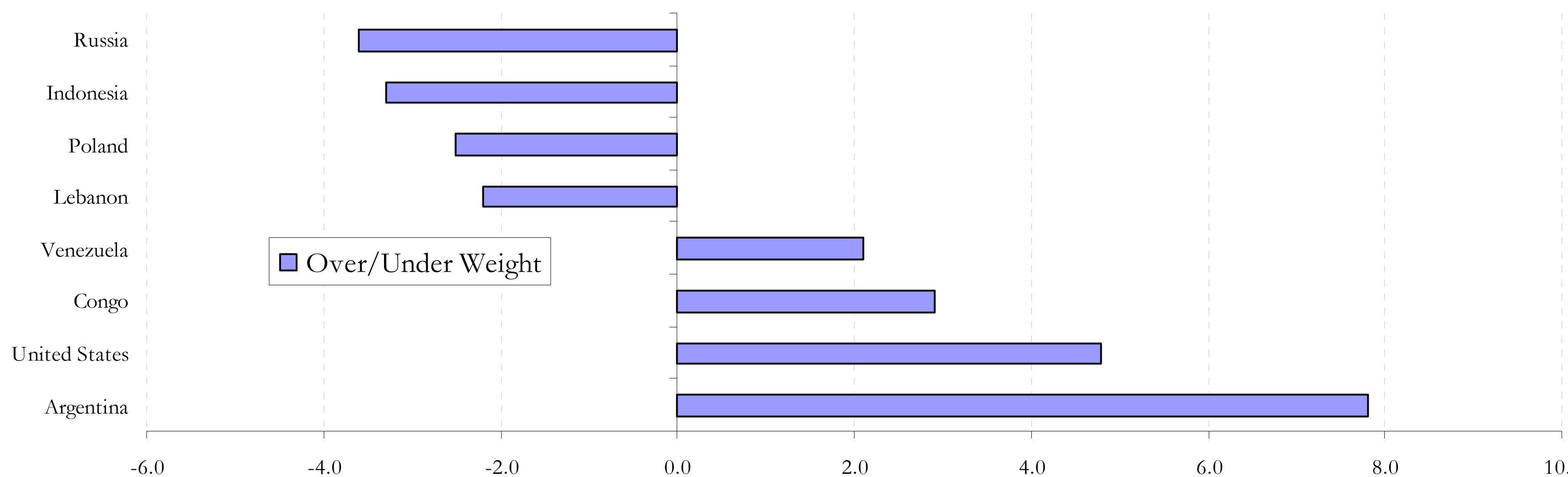
## Characteristics - As of September 30, 2012

| Currency Exposure | % of Fund |
|---|---|
| US Dollar | 95.9 |
| Euro | 1.0 |
| Japanese Yen | 0.1 |
| Malaysion Ringgits | 0.8 |
| Swiss Francs | 0.1 |
| Argentina Peso | 1.6 |
| British Pounds Sterling | 0.2 |
| S. African Unitary Rand | 0.3 |

| Characteristic | Portfolio |
|---|---|
| YTM | 6.3% |
| Maturity | 12.7 |
| Modified Duration | 7.1 |

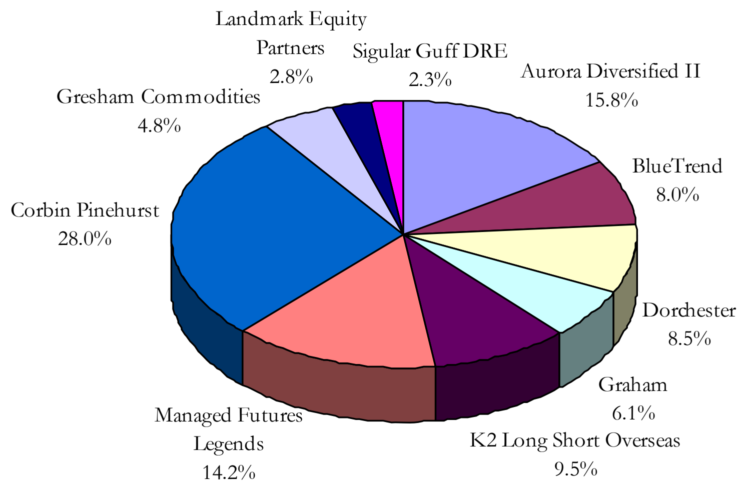
| Quality Distribution | % of Fund | % of Index |
|---|---|---|
| Investment Grade | 41.2 | 55.1 |
| BB | 22.8 | 25.9 |
| B | 29.0 | 17.8 |
| <B | 0.5 | 0.0 |
| Not Rated | 6.5 | 1.2 |

### Country Overweights/Underweights




Data Source: GMO

## Alternative Breakdown (%)




| Manager | % of Account | Estimated Market Value | Verified Values | Verified As Of |
|---|---|---|---|---|
| Aurora Diversified II | 15.8% | $938,682 | $947,107 | 9/30/2012 |
| BlueTrend | 8.0% | $473,310 | $472,706 | 9/30/2012 |
| Dorchester | 8.5% | $508,094 | $510,508 | 9/30/2012 |
| Graham | 6.1% | $360,127 | $347,575 | 9/30/2012 |
| K2 Long Short Overseas | 9.5% | $566,748 | $566,503 | 8/31/2012 |
| Managed Futures Legends | 14.2% | $845,252 | $820,825 | 9/30/2012 |
| Corbin Pinehurst | 28.0% | $1,664,282 | $1,670,664 | 8/31/2012 |
| Gresham Commodities | 4.8% | $283,177 | $284,404 | 9/30/2012 |
| Landmark Equity Partners | 2.8% | $165,995 | $157,561 | 6/30/2012 |
| Sigular Guff DRE | 2.3% | $137,295 | $137,295 | not recently verified |
| **Total** | **100.0%** | **$5,942,962** | **$5,915,148** | |

Data Source: Wells Fargo Advisors

# Alternatives

## Performance - As of August 31, 2012

| | 3q12 | FYTD | One Year | Incept (Mgr)[2] | Incept Bench[2] | Performance Inception |
|---|---|---|---|---|---|---|
| ***Combined Alternatives (1 mo lag)*** | ***1.3*** | ***1.3*** | ***(0.7)*** | ***1.3*** | *0.4* | Jan-10 |
| ***HFRI FoF Index (1 mo lag)*** | ***1.2*** | ***1.2*** | ***(0.8)*** | | | |
| Lower Volatility | | | | | | |
| **Aurora Diversified II** | **0.8** | **0.8** | **(0.5)** | **(2.7)** | (1.4) | Feb-11 |
| *HFRI Conservative Index* | *1.1* | *1.1* | *0.0* | | | |
| Diversified | | | | | | |
| **Corbin Pinehurst** | **1.0** | **1.0** | **3.5** | **4.5** | 0.8 | Jan-10 |
| **Dorchester** | **1.3** | **1.3** | **1.0** | **3.3** | 0.8 | Jan-10 |
| *HFRI Fund of Funds* | *1.2* | *1.2* | *(0.8)* | | | |
| Hedged Equity | | | | | | |
| **K2 Long Short Overseas** | **2.3** | **2.3** | **2.6** | **0.9** | 1.7 | Jan-10 |
| *HFRI Equity Hedge* | *2.4* | *2.4* | *(1.0)* | | | |
| Managed Futures | | | | | | |
| **BlueTrend** | **0.3** | **0.3** | **(1.8)** | **0.8** | (1.2) | Feb-11 |
| **Graham** | **(3.2)** | **(3.2)** | **(9.0)** | **(4.9)** | 3.3 | Jan-10 |
| **Managed Futures Legends** | **(1.6)** | **(1.6)** | **(6.1)** | **(3.4)** | (1.2) | Feb-11 |
| *CS Tremont Managed Futures Index* | *(0.6)* | *(0.6)* | *(3.4)* | | | |
| Commodities | | | | | | |
| **Gresham Commodities** | **11.9** | **11.9** | **(8.1)** | **(2.8)** | (7.0) | Feb-11 |
| *Dow UBS Commodity Index* | *13.8* | *13.8* | *(11.1)* | | | |
| Private Equity | | | | | | |
| **Landmark Equity Partners** | | | | **13.5** | | Jan-10 |
| **Sigular Guff DRE** | | | | **(0.9)** | | Mar-11 |

All returns are on a one-month lag. Performance greater than 1 year is annualized.

Data Source: Wells Fargo Advisors

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## Capital Markets Overview

Following a disappointing second quarter, the U.S. markets rebounded and returned to positive performance. The major averages closed out the quarter by posting positive returns for the fourth consecutive month. The averages moved higher despite poor investor sentiment, lackluster earnings, modest GDP expansion coupled with below average job growth, high unemployment, and uncertainty surrounding the impending elections.

Investors received Quantitative Easing III (QE3), announced in mid-September, with apprehension. Many question the effectiveness of the Federal Reserve to make any meaningful impact on the economy through another round of easing. This program is, however, different than the previous two bond buying programs. QE3 will see smaller open-ended purchases. Despite investor caution, this announcement did have an immediate positive effect on the markets.

The NASDAQ Composite led the popular indices with a 6.5% return for the quarter, and is up 20.7% for the year. The S&P 500 Index added 2.6% in September, raising its third quarter return to 6.4%, and year-to-date return to 16.4%. The Dow Jones Industrial Average added 2.8% in September and 5.0% in the third quarter, to bring its year-to-date return to 12.2%. Small and mid-cap stocks underperformed large-cap stocks this quarter. The S&P 600 Small- Cap Index gained 5.4% and the S&P 400 Mid-Cap was up 5.4% as well.

In Europe, concern over the region's debt crisis continued to fade, but most major economies remained sluggish. New ECB stimulus commentary aided Germany's DAX Index and the U.K.'s FTSE (100) as investors speculated that the central bank may implement more aggressive stimulus measures.

Treasury yields ended the third quarter little changed. All sectors of the bond market posted positive returns during the third quarter, with high yield, corporate bonds and preferred securities leading the way. The ten-year Treasury reached an all-time yield low of 1.39% during the quarter, and spreads tightened as investors searched for better yield opportunities.

On the commodity front, precious and industrial metals led within this asset class. A weakened U.S. dollar and the promise of additional liquidity from the Federal Reserve and European Central Bank drove prices higher.

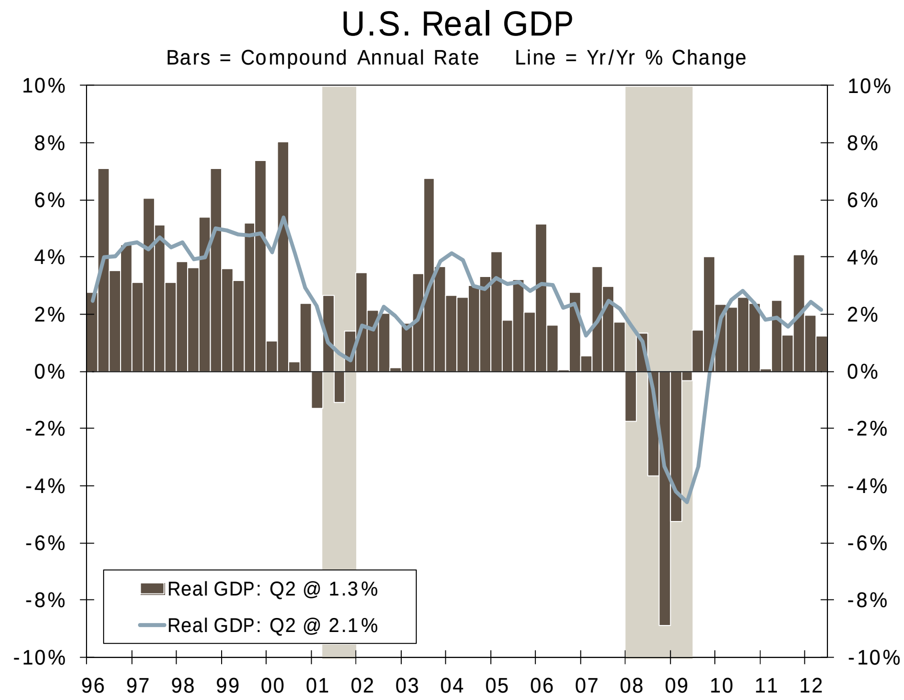
## U.S. markets continue sluggish growth

- The U.S. economy continues to grow, but at a below average pace. Job growth has not been supported by expansion in the economy.

- GDP is growing at only half the rate of the past ten recoveries.

- The Federal Reserve announced new stimulus measures during the third quarter.

- Investors and retail consumers share a general lack of confidence in any new measure's effectiveness to stimulate the economy.



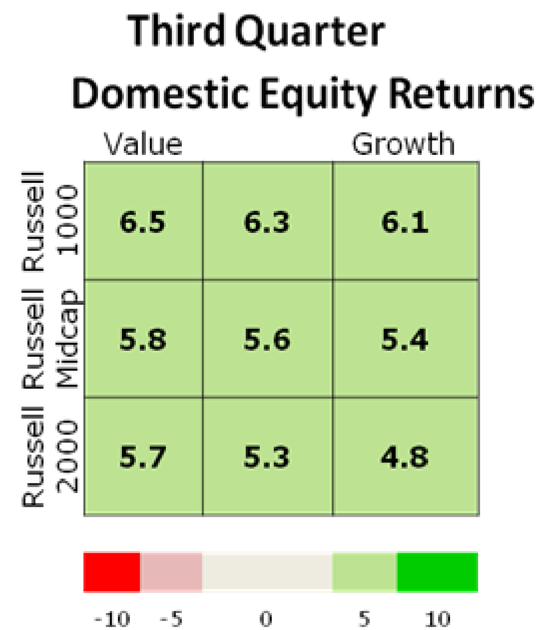

Data Source: U.S. Department of Commerce, Bloomberg LP, Wells Fargo Securities, LLC, Haver Analytics

## A strong September left nearly all sectors positive for the quarter

- Energy and Telecom were the big winners of the quarter as subsectors in oil and gas refineries and wireless carriers enjoyed double digit gains.

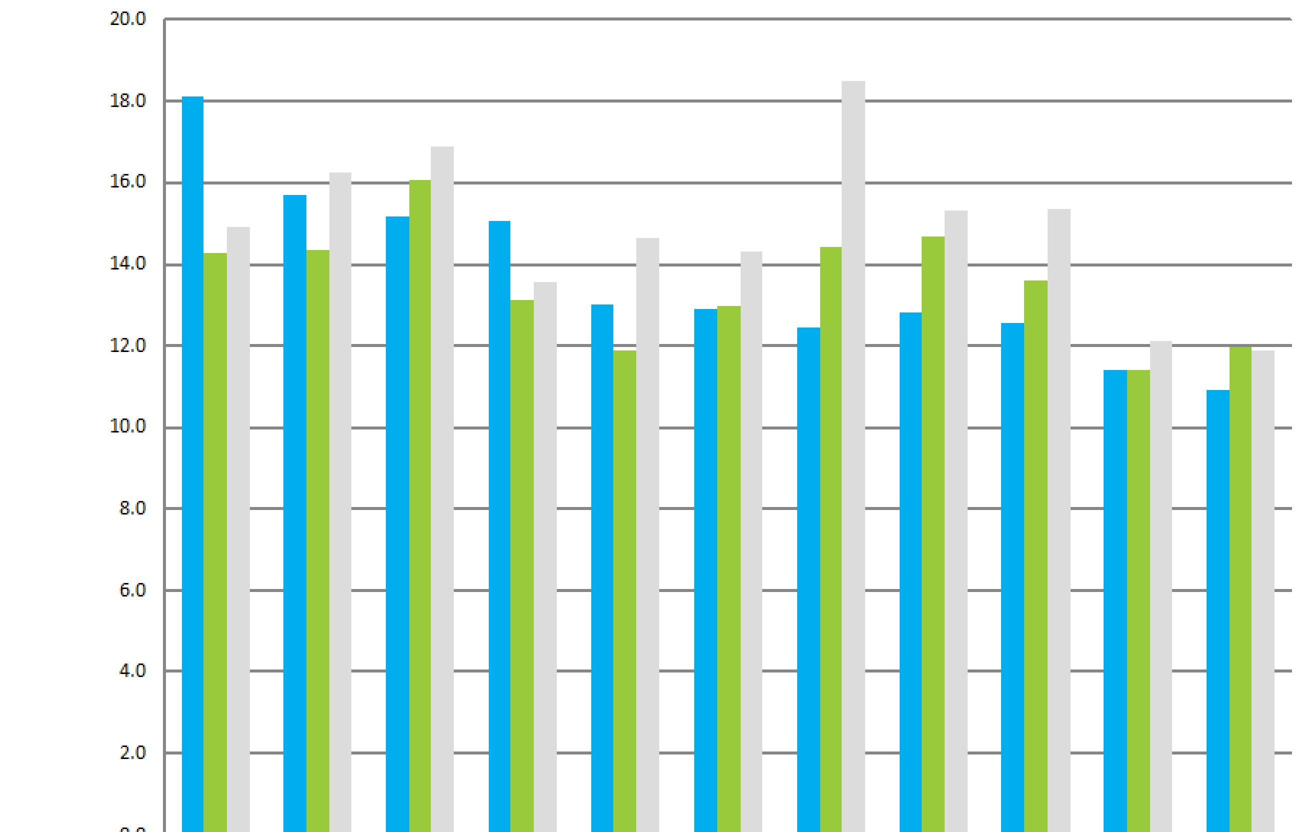
- Utilities were the only negative sector for the quarter as a 4.1% decline in August led to softer performance for the quarter.

- Value outperformed growth as continued concern over the financial sectors in Europe and a slowdown in China tempered investors appetites for growth strategies.


Data Sources: FactSet, Zephyr StyleAdvisor, Barclay's Capital, MSCI Barra, Standard & Poor's

## Sector Level Price/ Earnings Ratio



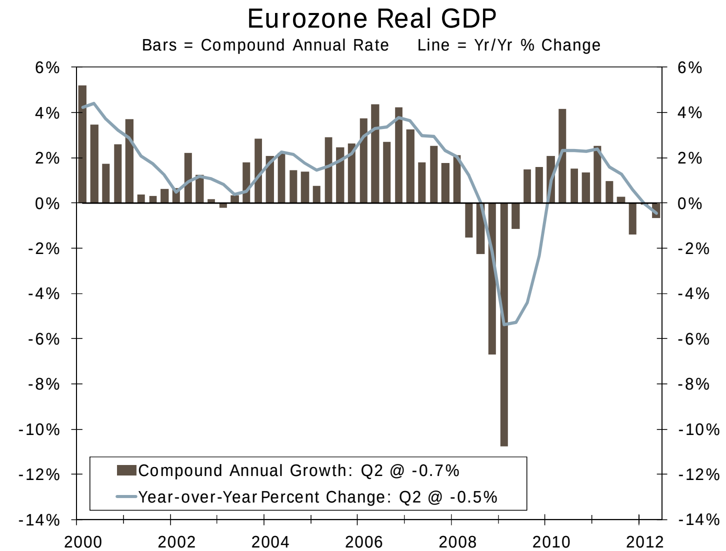

| | Telecom Services | Consumer Staples | Consumer Disc. | Utilities | Health Care | S&P 500 | Info. Technology | Materials | Industrials | Energy | Financials |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Fwd 12M P/E | 18.1 | 15.7 | 15.1 | 15.1 | 13.0 | 12.9 | 12.4 | 12.8 | 12.6 | 11.4 | 10.9 |
| 5-Yr Avg. | 14.3 | 14.4 | 16.1 | 13.1 | 11.9 | 13.0 | 14.4 | 14.7 | 13.6 | 11.4 | 12.0 |
| 10-Yr Avg. | 14.9 | 16.2 | 16.9 | 13.6 | 14.6 | 14.3 | 18.5 | 15.3 | 15.3 | 12.1 | 11.9 |

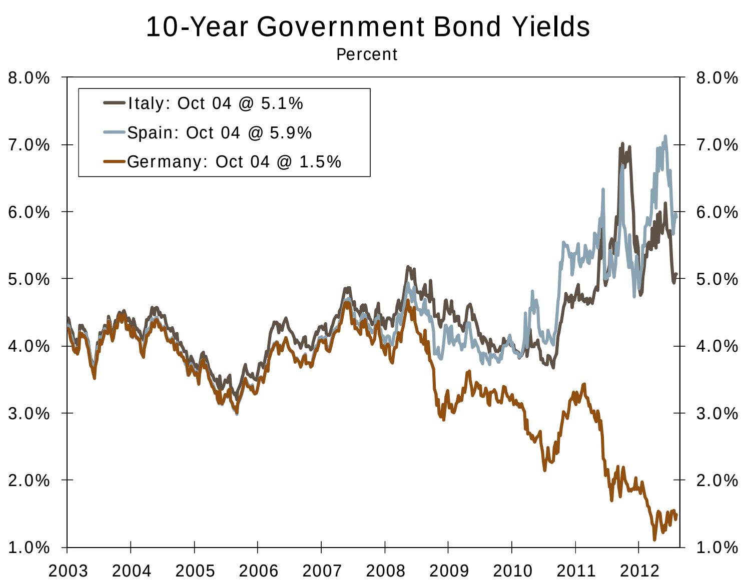
- Forward Price/Earnings Ratios for Telecom and Utilities are currently above historical 5 and 10-year averages.
- Consumer Discretionary, Information Technology, Materials, Industrials, Energy and Financials forward P/E ratios remain below historical levels, as does the S&P 500 Composite.

Data Sources: FactSet, Zephyr StyleAdvisor, Barclay's Capital, MSCI Barra, Standard & Poor's

## International markets present a mixed bag of news

- European problems persist. European Union economies remain in recession. Spain is on the verge of joining the list of EU countries that have asked for a bailout.




- ECB moves toward the direct purchase of sovereign debt. This will lower borrowing costs. However, this assistance is not unconditional. In return for ECB support, countries in need will have to commit to even deeper cuts and substantial fiscal reforms.

- A German constitutional court upheld the validity of the proposed European Stability Mechanism (ESM – provides emergency lending). This signals that stronger support from Bundesbank (the German central bank) for ESM's next course of action is forthcoming.

Data source: U.S. Department of Commerce, Bloomberg LP and Wells Fargo Securities, LLC

## International markets improving despite continued slowdown in China

➢ Policymakers in China believe that their long-term economic success is likely to come from consumer spending rather than investment spending. Therefore, China did not indicate a willingness to provide additional stimulus measures.

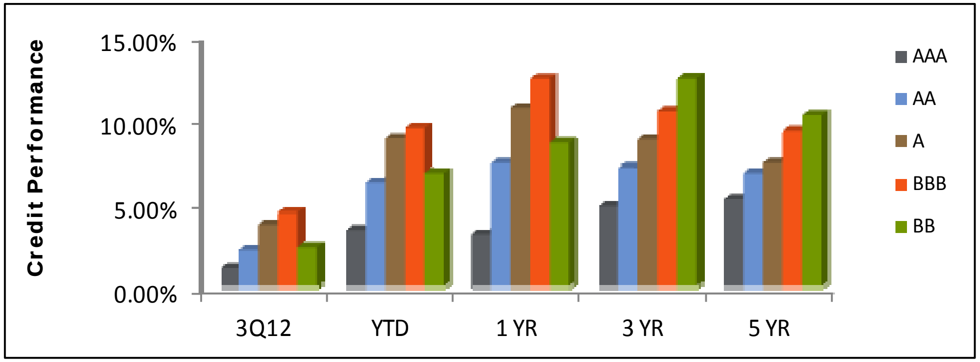
➢ International markets have rallied in the past four months on positive catalysts such as stimulative actions undertaken by U.S., European and Japanese central banks.

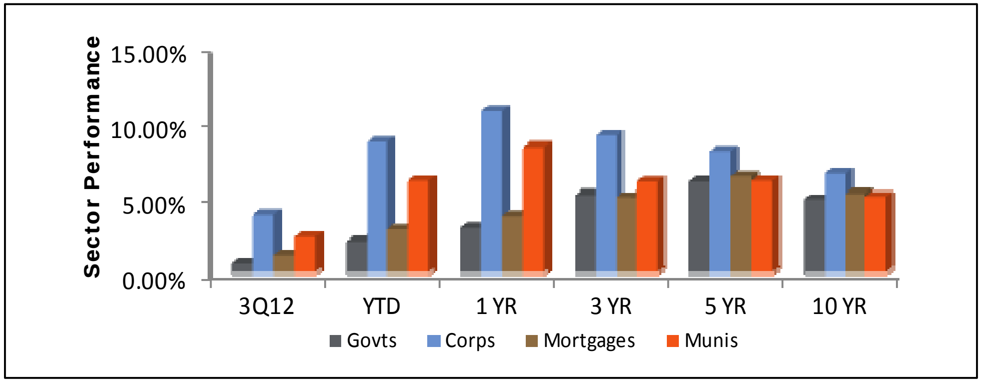


Data Sources: Zephyr StyleAdvisor, Barclays, FactSet

## Active monetary policy introduces volatility to fixed income markets

➢ Despite the ups and downs, all sectors of the bond market posted positive returns during the third quarter, with high yield, corporate bonds and preferred securities leading the way.




➢ Corporate bonds led fixed income sectors with a 3.8% return for the quarter followed by municipal bonds with a 2.3% return, compared to the Barclays Aggregate return of 1.6%.

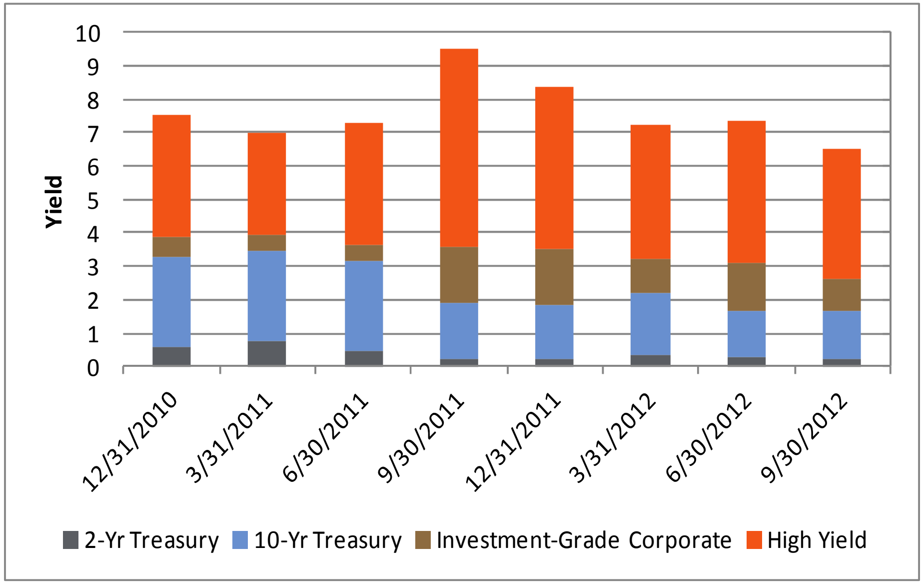
Data Sources: Bloomberg LP, Wells Fargo Securities, LLC, FactSet, Zephyr StyleAdvisor, Barclays

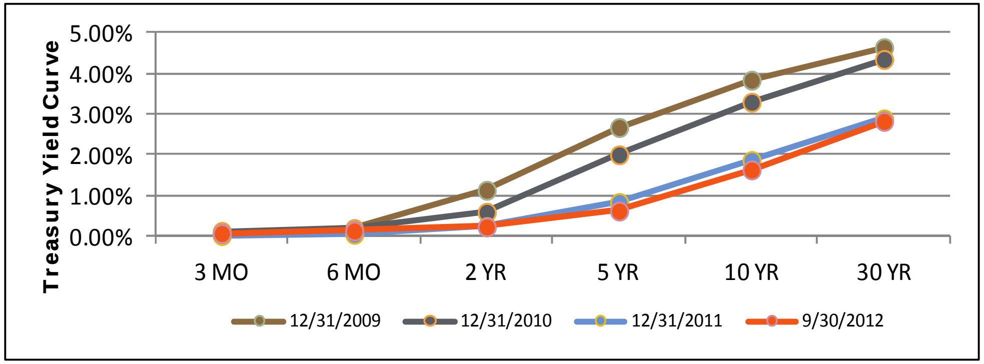
## Treasury yields end third quarter little changed

- The Fed announcement of QE3 sent Treasury yields immediately higher, although they quickly returned to near previous levels.

- Investment grade credit spreads, or the excess yield investors demand over Treasuries, were 46 basis points tighter for intermediate term securities from the previous quarter.

- The biggest recent development for fixed income investors was the expansion of the Fed's balance sheet and the Fed statement that they would keep the federal funds rate at exceptionally low levels through mid-2015.




Data Sources: Zephyr StyleAdvisor, Barclays, FactSet

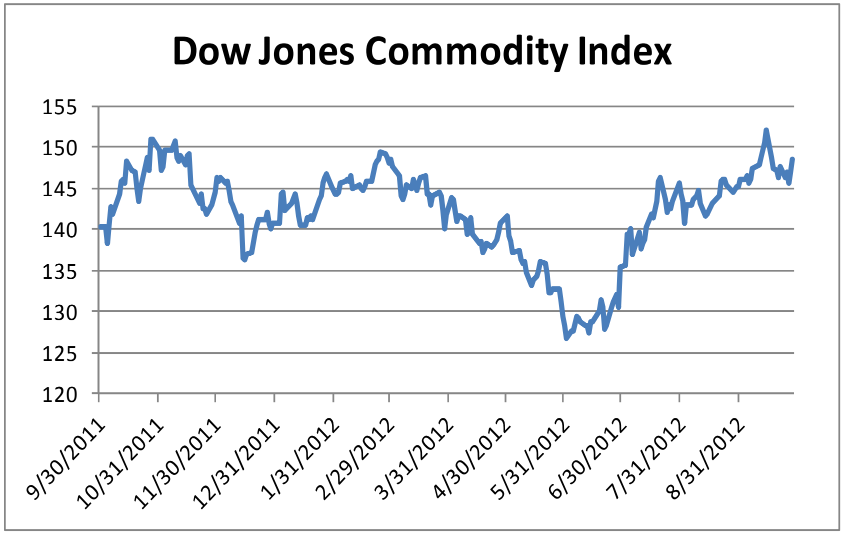
## New demand seen for commodities

- Precious and industrial metals rebounded sharply to the promise of additional liquidity from the ECB.
- Perceived stabilization in Europe led to a decline in the U.S. dollar and aided in the broad rise in commodities this quarter.

| | Current | 3 Mth Ago* | 1 Yr Ago** |
|---|---|---|---|
| United States Dollar Index | 79.94 | 81.63 | 78.55 |
| U.S. Dollar per Euro | 1.29 | 1.27 | 1.34 |
| Japanese Yen per U.S. Dollar | 77.80 | 79.79 | 77.08 |
| U.S. Dollar per British Pounds | 1.61 | 1.57 | 1.56 |

| | Current | 3 Mth Ago* | 1 Yr Ago** |
|---|---|---|---|
| NY Gold (NYM $/ozt) | 1771.10 | 1603.50 | 1620.40 |
| WTI Crude Oil ($/bbl) | 92.19 | 84.96 | 79.20 |
| Copper (NYM $/lbs) | 3.77 | 3.49 | 3.15 |
| *Source: FactSet, Wells Fargo Advisors* | | | |

*3 month ago as of June 30, 2012 **1 year ago as of September 28, 2011




Source: Bloomberg LP, Wells Fargo Securities, LLC, Factset

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**ASSET CLASS SUITABILITY:** Stocks of small companies are typically more volatile than stocks of larger companies. They often involve higher risks because they may lack the management expertise, financial resources, product diversification and competitive strengths to endure adverse economic conditions. High-yield, non-investment grade bonds are only suitable for aggressive investors willing to take greater risks, which could result in loss of principal and interest payments. Global/International investing involves risks not typically associated with US investing, including currency fluctuations, political instability, uncertain economic conditions and different accounting standards.

**PAST PERFORMANCE:** Past performance is not an indication of future results.

**ASSET CLASS PERFORMANCE REPRESENTATIONS:** Long Term Treasuries = BC Treasury Long; Municipals = BC Municipal; Foreign Bonds = Salomon World BIG – IB; US Govt/Credit = BC Govt/Credit; Mtge Backed Securities = ML Mortgage Master; Corporate Bonds = Salomon Corporate; 90 Day T-Bills = Salomon; Japanese Stocks = Salomon Japan BMI; High Yield Bonds = ML High Yield Master; Small Cap US Value = RU 2000 Value; MidCap US Stocks = RU Midcap; Large Cap US Value = RU 1000 Value; European Stocks = Salomon Europe BMI; Small Cap US Stocks = RU 2000; Lg Cap US Growth = RU 1000 Growth; Latin American Stocks = Salomon Latin America BMI; Sm Cap US Growth = RU 2000 Growth

**BROAD EQUITY MARKET & SECTOR PERFORMANCE REPRESENTATIONS**: Large-Cap = S&P 500 or Russell 1000; Mid-Cap = RU Midcap; Small-Cap = RU 2000; International = MSCI EAFE

**DATA SOURCES:** Information found in this document was derived from the following sources: Zephyr Associates StyleAdvisor, Informa M-Watch, Investor Force, Barclays Capital, MSCI Barra, and Standard & Poor's.

**Dow Jones Industrial Average** - This index is comprised of 30 "blue-chip" US stocks selected for their history of successful growth and wide interest among investors. The DJIA represents about 20% of the total market value of all US stocks and about 25% of the NYSE market capitalization. It is a price-weighted arithmetic average, with the divisor adjusted to reflect stock splits and the occasional stock switches in the index.

**NASDAQ Composite** - A cap-weighted index comprised of all common stocks that are listed on the NASDAQ Stock Market (National Association of Securities Dealers Automated Quotation system).

**S&P 500** - A broad-based measurement of changes in stock market conditions based on the average performance of 500 widely held common stocks. This index does not contain the 500 largest companies nor the most expensive stocks traded in the U.S. While many of the stocks are among the largest, this index also includes many relatively small companies. This index consists of approximately 380 industrial, 40 utility, 10 transportation and 70 financial companies listed on U.S. market exchanges. It is a capitalization-weighted index (stock price times number of shares outstanding), calculated on a total return basis with dividends reinvested.

**S&P 500/Citigroup Growth** - The S&P/Citigroup Growth tracks the performance of those stocks in the S&P 500 with lower book-to-price ratios. A cap-weighted index, it is rebalanced semi-annually, based on its price-to-book ratios and market capitalizations at the close of trading one month prior. The index is adjusted each month to reflect changes in the S&P 500. This index is more heavily weighted in the consumer non-cyclical, health care, and technology sectors than the S&P 500.

**S&P 500/Citigroup Value** - The S&P Citigroup/Value tracks the performance of those stocks in the S&P 500 with higher book-to-price ratios. A cap-weighted index, it is rebalanced semi-annually on January 1 and July 1, based on its book-to-price ratios and market capitalizations at the close of trading one month prior. The index is adjusted each month to reflect changes in the S&P 500. This index tends to be more heavily concentrated in the energy and financial sectors than the S&P 500.

**Russell 1000** - The 1000 largest companies in the Russell 3000 index, based on market capitalization.

**Russell 1000 Growth** - A segment of the Russell 1000 with a greater-than-average growth orientation. Companies in this index have higher price-to-book and price-earnings ratios, lower dividend yields and higher forecasted growth values than the Russell 1000 Value index.

**Russell 1000 Value** - Represents a segment of the Russell 1000 with a less-than-average growth orientation. Companies in this index have low price-to-book and price-earnings ratios, higher dividend yields and lower forecasted growth values than the Russell 1000 Growth Index.

**Russell Mid Cap** - The index consisting of the bottom 800 securities in the Russell 1000 as ranked by total market capitalization, and it represents over 35% of the Russell 1000 total market cap.

**Russell 2000** - The 2000 smallest companies in the Russell 3000 index.

**Russell 2000 Growth** - A segment of the Russell 2000 with a greater-than-average growth orientation. Companies in this index have higher price-to-book and price-earnings ratios, lower dividend yields and higher forecasted growth values than the Russell 2000 Value index.

**Russell 2000 Value** - A segment of the Russell 2000 with a less-than-average growth orientation. Companies in this index have low price-to-book and price-earnings ratios, higher dividend yields and lower forecasted growth values than the Russell 2000 Growth index.

**Russell 2500** - The index consisting of the bottom 500 stocks in the Russell 1000(as ranked by market capitalization) and all of the stocks in the Russell 2000. This index is intended to be used as a measure of small to medium/small stock performance, and it represents over 22% of the Russell 3000 total market cap.

**MSCI EAFE** - A market capitalization-weighted index representing all of the MSCI developed markets outside North America. It comprises 20 of the 22 countries in the MSCI World. These 20 countries include the 14 European countries in the MSCI Europe and the 6 Pacific countries in the MSCI Pacific. This index is created by aggregating the 20 different country indexes, all if which are created separately.

**MSCI World** - This market capitalization-weighted index represents all 22 of the MSCI developed markets in the world. It is created by aggregating the 22 different country indexes, all if which are created separately.

**MSCI Emerging Markets Free (EMF)** - A market capitalization-weighted index representing 26 of the emerging markets in the world. Several factors are used to designate whether a country is considered to be emerging vs. developed, the most common of which is Gross Domestic Product Per Capita. The "Free" aspect indicates that this index includes only securities that are allowed to be purchased by global investors. This index is created by aggregating the 26 different country indexes, all if which are created separately.

**Barclays Capital Government/Credit** - This index includes all bonds that are in the Barclays Capital Government Bond and the Barclays Capital Credit Bond indices.

**Barclays Capital Government Intermediate** - All bonds covered by the Barclays Capital Government Bond index with maturities of 1 and 10 years.

**Barclays Capital Aggregate Bond** - This index is made up of the Barclays Capital Government/Credit, the Mortgage-Backed Securities, and the Asset-Backed Securities indices. All issues in the index are rated investment grade or higher, have at least one year to maturity, and have an outstanding par value of at least $100 million.

**Barclays Capital Government Long Term** - All bonds covered by the Barclays Capital Government Bond index with maturities of 10 years or greater.

**Barclays Capital Municipal Bond** - This market cap weighted index includes investment grade tax-exempt bonds and is classified into four main sectors: General Obligation, Revenue, Insured, and Pre-refunded. To be included in this index, the original transaction size of a bond must have been greater than $50 million.

**Merrill Lynch Convertibles** - The convertible securities used in this index span all corporate sectors and must have a par amount outstanding of $25 million or more. The maturity must be at least one year. The coupon range must be equal to or greater than zero and all quality of bonds are included. Excluded from this index are preferred equity redemption stocks. When the component bonds of this index convert into common stock, the converted securities are dropped from the index.

**Merrill Lynch High Yield Master** - Market-cap weighted index providing a broad-based measure of bonds in the US domestic bond market rated below investment grade but not in default. Includes only issues with a credit rating of BB1 or below as rated by Moody's and/or S&P, at least $100 million in face value outstanding and a remaining term to final maturity equal to or greater than one year.

**Dow Jones Wilshire REIT Index** - A measurement of equity REIT's and Real Estate Operating Companies. No special-purpose or health care REIT's are included. It is a market capitalization-weighted index for which returns are calculated monthly using buy and hold methodology; it is rebalanced monthly.

**Citigroup 3 Month Treasury Bill** - Representing the monthly return equivalents of yield averages that are not marked to market, this index is an average of the last three three-month Treasury bill issues.

**50/50 Blend (S&P 500/BCIGC)** – A blended benchmark consisting of 50% S&P 500 and 50% Barclays Capital Government/Credit Intermediate indices.