



FINANCIAL REPORT

JUNE 30, 2017



FERRUM COLLEGE
FINANCIAL REPORT
June 30, 2017

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Ferrum College
Ferrum, Virginia

We have audited the accompanying financial statements of Ferrum College, which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

The College's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ferrum College as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Brown, Edwards & Company, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
October 12, 2017

FERRUM COLLEGE

STATEMENTS OF FINANCIAL POSITION

June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and cash equivalents	\$ 10,792,846	\$ 11,104,706
Student and grant receivables, less allowance for doubtful accounts 2017 \$313,000 and 2016 \$215,000	567,169	527,502
Inventories and supplies	359,370	388,139
Notes receivable and other assets (Note 2)	2,087,706	2,159,015
Contributions receivable (Note 3)	3,745,954	304,944
Investments (Note 4)	37,721,023	33,423,897
Funds restricted to investment in land, buildings, and equipment	114,907	56,412
Land, buildings, and equipment, net of accumulated depreciation (Note 5)	56,013,446	56,489,226
Funds held in trust by others (Note 13)	12,800,668	12,188,432
Total assets	<u><u>\$ 124,203,089</u></u>	<u><u>\$ 116,642,273</u></u>
LIABILITIES AND NET ASSETS		
Accounts payable and other liabilities	\$ 835,104	\$ 689,226
Accrued compensation	746,606	833,177
Student and other deposits	712,616	612,275
Amounts held on behalf of others	166,414	150,938
Annuity obligations	165,063	214,146
Other liabilities	430,798	416,901
U.S. government grants refundable	1,111,135	1,100,571
Debt (Note 6)	27,271,877	27,941,854
Total liabilities	<u>31,439,613</u>	<u>31,959,088</u>
Net assets (Note 7)		
Unrestricted	41,645,149	41,852,516
Temporarily restricted	14,591,158	8,100,011
Permanently restricted	36,527,169	34,730,658
Total net assets	<u>92,763,476</u>	<u>84,683,185</u>
Total liabilities and net assets	<u><u>\$ 124,203,089</u></u>	<u><u>\$ 116,642,273</u></u>

FERRUM COLLEGE

STATEMENT OF ACTIVITIES
Year Ended June 30, 2017

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUES				
Tuition and fees	\$ 37,689,063	\$ -	\$ -	\$ 37,689,063
Less financial aid	(21,062,420)	-	-	(21,062,420)
Net tuition and fees (Note 8)	16,626,643	-	-	16,626,643
Contributions	403,916	719,337	-	1,123,253
Investment income, endowment, and other (Note 4)	99,466	1,496,081	-	1,595,547
Income on funds held in trust	353,677	277,495	-	631,172
Investment income, temporary investments (Note 4)	25,943	-	-	25,943
Government and private grants	-	463,350	-	463,350
Auxiliary services	12,282,404	-	-	12,282,404
Other	186,076	-	-	186,076
Net assets released from restrictions and reclassifications (Note 9)	2,611,126	(2,611,126)	-	-
Total operating revenues	32,589,251	345,137	-	32,934,388
OPERATING EXPENSES				
Educational and general				
Instruction	8,175,402	-	-	8,175,402
Academic support	2,189,405	-	-	2,189,405
Student services	7,416,244	-	-	7,416,244
Institutional support	6,322,364	-	-	6,322,364
Auxiliary services	9,129,032	-	-	9,129,032
Total operating expenses (Note 10)	33,232,447	-	-	33,232,447
Change in net assets, operating	(643,196)	345,137	-	(298,059)
NON-OPERATING INCOME				
Contributions	33,330	2,905,366	1,140,877	4,079,573
Investment return, net of amount available to support current operations (Note 4)	451,504	3,360,350	-	3,811,854
Change in funds held in trust by others	-	-	612,236	612,236
Loss on disposals of land, buildings, and equipment	(43,140)	-	-	(43,140)
Other	(87,613)	5,382	58	(82,173)
Net assets released from restrictions and reclassifications (Note 9)	81,748	(125,088)	43,340	-
Change in net assets, non-operating	435,829	6,146,010	1,796,511	8,378,350
Change in net assets	(207,367)	6,491,147	1,796,511	8,080,291
NET ASSETS				
Beginning	41,852,516	8,100,011	34,730,658	84,683,185
Ending	\$ 41,645,149	\$ 14,591,158	\$ 36,527,169	\$ 92,763,476

The Notes to Financial Statements are
an integral part of these statements.

FERRUM COLLEGE

STATEMENT OF ACTIVITIES
Year Ended June 30, 2016

	2016		
	Unrestricted	Temporarily Restricted	Permanently Restricted
	Total		
OPERATING REVENUES			
Tuition and fees	\$ 38,478,782	\$ -	\$ -
Less financial aid	(20,870,285)	-	-
Net tuition and fees (Note 8)	17,608,497	-	-
Contributions	273,427	578,633	-
Investment income, endowment, and other (Note 4)	65,830	1,611,748	-
Income on funds held in trust	357,488	280,485	-
Investment income, temporary investments (Note 4)	23,345	-	-
Government and private grants	-	688,569	-
Auxiliary services	12,506,876	-	-
Other	252,994	-	-
Net assets released from restrictions and reclassifications (Note 9)	3,162,267	(3,162,267)	-
Total operating revenues	34,250,724	(2,832)	-
OPERATING EXPENSES			
Educational and general			
Instruction	8,671,721	-	-
Academic support	1,912,137	-	-
Student services	7,589,651	-	-
Institutional support	6,252,637	-	-
Auxiliary services	9,106,987	-	-
Total operating expenses (Note 10)	33,533,133	-	-
Change in net assets, operating	717,591	(2,832)	-
NON-OPERATING INCOME			
Contributions	11,947	141,080	341,232
Investment return, net of amount available to support current operations (Note 4)	(334,957)	(2,421,995)	-
Change in funds held in trust by others	-	-	(607,576)
Loss on disposals of land, buildings, and equipment	(9,370)	-	-
Other	(15,978)	(60,159)	3,232
Net assets released from restrictions and reclassifications (Note 9)	355,661	(355,661)	-
Change in net assets, non-operating	7,303	(2,696,735)	(263,112)
Change in net assets	724,894	(2,699,567)	(263,112)
NET ASSETS			
Beginning	41,127,622	10,799,578	34,993,770
Ending	<u>\$ 41,852,516</u>	<u>\$ 8,100,011</u>	<u>\$ 34,730,658</u>
			<u>\$ 84,683,185</u>

The Notes to Financial Statements are an integral part of these statements.

FERRUM COLLEGE

STATEMENTS OF CASH FLOWS
Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 8,080,291	\$ (2,237,785)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Non-operating and non-cash items:		
Contributions restricted for plant expansion and endowment	(638,393)	(653,533)
Net realized and unrealized losses (gains) on investments	(4,945,816)	1,584,705
Loss on disposal of land, buildings, and equipment	43,140	9,370
Change in funds held in trust	(612,236)	607,576
Depreciation	2,432,144	2,543,610
Deferred loan cost amortization	9,670	10,169
Write-off deferred loan costs on refinanced debt	93,638	-
Non-cash assets received as contributions	(34,330)	(7,400)
Change in certain operating assets and liabilities:		
(Increase) decrease in:		
Student and grant receivables	(39,667)	(85,399)
Inventories and supplies	28,769	14,816
Contributions receivable	(3,441,010)	165,310
(Decrease) increase in:		
Accounts payable, accrued and other liabilities	200,271	(4,910)
Annuity obligations, net of payments	(36,147)	12,688
U.S. government grants refundable	10,564	13,945
Other liabilities	13,897	13,897
Net cash provided by operating activities	<u>1,164,785</u>	<u>1,987,059</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in notes receivable and other assets	71,309	117,592
Purchases of land, buildings, and equipment, excluding non-cash assets received	(1,974,469)	(2,609,566)
Change in accounts payable incurred on purchases	(25,147)	(33,587)
Proceeds from the disposal of land, buildings, and equipment	9,295	108,547
Change in funds restricted to investment in land, buildings, and equipment	(58,495)	218,352
Change in investments, net of proceeds from sales	648,690	663,238
Net cash used in investing activities	<u>(1,328,817)</u>	<u>(1,535,424)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from contributions restricted for plant expansion and endowment	638,393	653,533
Payments of annuity obligations	(12,936)	(29,324)
Payments of debt	(893,460)	(1,236,133)
Proceeds from issuance of debt	9,617,646	-
Less debt incurred to refinance existing debt	(9,335,971)	-
Less debt incurred to pay deferred loan costs	(161,500)	-
Net cash used in financing activities	<u>(147,828)</u>	<u>(611,924)</u>
Decrease in cash and cash equivalents	<u>(311,860)</u>	<u>(160,289)</u>
CASH AND CASH EQUIVALENTS		
Beginning	11,104,706	11,264,995
Ending	<u>\$ 10,792,846</u>	<u>\$ 11,104,706</u>

(Continued)

FERRUM COLLEGE

STATEMENTS OF CASH FLOWS
Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash payments for interest	<u>\$ 1,155,371</u>	<u>\$ 1,208,539</u>
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Non-cash assets received as contributions	<u>\$ 34,330</u>	<u>\$ 7,400</u>
Purchases of land, buildings, and equipment included in accounts payable	<u>\$ 341</u>	<u>\$ 25,488</u>
Debt incurred to refinance existing debt	<u>\$ 9,335,971</u>	<u>\$ -</u>
Debt incurred to pay deferred loan costs	<u>\$ 161,500</u>	<u>\$ -</u>

FERRUM COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 1. Nature of Operations and Significant Accounting Policies

Nature of operations:

Ferrum College (the “College”) is a private, co-educational liberal arts college located in Ferrum, Virginia. Significant sources of revenue include tuition and fees, contributions, auxiliary services, and investment returns.

Basis of financial statement presentation and accounting:

The financial statements of the College have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The accompanying financial statements present information regarding the College’s financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. The three classes are differentiated based on the existence or absence of donor-imposed restrictions, as described below:

Unrestricted net assets are free of donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties. Revenues, gains, and losses that are not temporarily or permanently restricted by donors are included in this classification. Expenses are reported as decreases in this classification.

Temporarily restricted net assets are limited in use by donor-imposed stipulations that expire either by the passage of time or that can be fulfilled by action of the College pursuant to those stipulations.

Permanently restricted net assets are amounts required by donors to be held in perpetuity; however, generally, the income on these assets is available to meet various restricted and other operating needs. These net assets primarily include permanent endowment funds and funds held in trust by others.

Cash and cash equivalents:

The College considers all highly liquid investments with a maturity of three months or less when purchased to be cash and cash equivalents. Cash equivalents are stated at cost, which approximates market value. Cash held for long-term investment is classified as investments or funds restricted to investment in land, buildings, and equipment.

FERRUM COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 1. Nature of Operations and Significant Accounting Policies (Continued)

Cash and cash equivalents: (Continued)

The College follows the common cash management practice of consolidating certain operating cash and cash equivalent accounts into one account, which includes various designated and restricted current operating and plant accounts. As a result of this practice, cash and cash equivalents specifically associated with the original gift of certain designated and restricted monies can be spent from the consolidated account. When this occurs the activity is accounted for by maintaining receivables and payables between the net asset classes. This may also cause the individual fund cash balances to be shown as negative if monies are due from another fund. The College has sufficient unrestricted funds not included in the consolidated account to cover the designated or restricted monies spent.

Student receivables:

Student receivables are stated at the amount the College expects to collect from outstanding balances. The College provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its experience and other circumstances, which may affect the ability of students to meet their obligations. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

The College considers student receivable balances in excess of 90 days past due accounts. The College does not charge interest on past due balances.

Inventories:

Inventories are stated at the lower of cost or market, with cost determined primarily on the first-in, first-out method.

Investments:

Investments in marketable equity securities with readily determinable fair values and all investments in debt securities are reported at their fair values. The fair value of investments in equities, bonds, U.S. government securities, and short-term assets is determined by reference to quoted market prices and other relevant information generated by market transactions. Net unrealized and realized gains and losses are reflected in the statement of activities. Certain investments which are not readily marketable are carried at cost.

The estimated fair value of certain alternative investments, such as private capital and distressed debt, is determined by reference to the net asset values allocated to the College at the measurement date. The College believes the carrying amount of these financial instruments is a reasonable estimate of fair value. Because alternative investments are not readily marketable, their estimated value is subject to uncertainty and therefore, may differ from the value that would have been used had a ready market for such investments existed. Such differences could be material.

Gifts of investments are recorded at their fair value (based upon quotations or appraisals) at the date of gift. Purchases and sales of investments are recorded on the trade date.

FERRUM COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 1. Nature of Operations and Significant Accounting Policies (Continued)

Investments: (Continued)

Income and realized and unrealized net gains on investments of endowment and similar net asset classes are reported as follows:

- As increases in permanently restricted net assets if the terms of the gift require that they be added to the principal of a permanent endowment fund;
- As increases in temporarily restricted net assets if the terms of the gift impose restrictions on the use of the income, including income earned on donor restricted endowment funds;
- As increases in unrestricted net assets in all other cases.

Split-interest agreements:

The College participates in various split-interest agreements that are unconditional and irrevocable. These arrangements are established when a donor makes a gift to the College or a trust in which the College shares benefits with other beneficiaries. Generally, the College accounts for these agreements by recording its share of the related assets at fair value (which approximates the present value of the estimated future cash receipts). Liabilities are recorded for any portion of the assets held for donors or other beneficiaries equal to the present value of the expected future payments to be made. The liabilities are adjusted annually for changes in the value of the assets, accretion of the discount, and other changes in the estimates of future benefits. Contribution revenues are recognized at the dates the agreements are established for the difference between the assets and the liabilities.

If the College holds the assets or is the trustee, the assets are included in investments and the liabilities are included in annuity obligations. If the donor establishes a perpetual trust with a third party as trustee (the College will never receive the principal of the trust), the assets less related liabilities are included in funds held in trust by others. The fair value of funds held in trust by others is determined by the present value of estimated future cash flows.

Deferred loan costs:

Deferred loan costs are being amortized on the straight-line basis over the term of the related financing agreement. In 2017, the College retroactively adopted the requirements in FASB ASC 835-30 to present deferred loan costs as a reduction of the carrying amount of the debt rather than as an asset. Amortization of deferred loan costs is reported as interest expense in the statement of activities.

Land, buildings, and equipment:

Land, buildings, and equipment are stated at cost at the date of acquisition or at fair value at the date of gift, less accumulated depreciation and amortization. Depreciation and amortization are recorded using the straight-line method over the estimated useful lives of the assets. During 2016, the College changed the estimated useful lives of buildings from 50 to 75 years. This change was accounted for on a prospective basis and resulted in a decrease to depreciation expense, and an increase to unrestricted net assets of approximately \$487,000 for the year ended June 30, 2016.

Equipment is removed from the records and any gain or loss is recognized at the time of disposal. Expenditures for new construction, major renewals and replacements, and equipment exceeding \$1,000 are capitalized.

FERRUM COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 1. Nature of Operations and Significant Accounting Policies (Continued)

Accrued compensation:

The College accrues for salaries and all other compensation earned but not paid.

Student and other deposits:

Deposits and student fees applicable to academic sessions subsequent to the current year are deferred and recognized as revenues in subsequent periods.

Notes receivable and U.S. government grants refundable:

The College participates in the Federal Perkins Loan Program sponsored by the United States Government. Under this program, funds are loaned to qualified students and may be reloaned after collection. Student loan receivables related to this program are recorded as notes receivable. The portion of those funds contributed by the U.S. government (that is, exclusive of the College's match funds) is ultimately refundable to the government.

Asset retirement obligations (AROs):

An *asset retirement obligation* is a legal liability to the College for the cost of retiring a tangible long-lived asset (e.g., a building containing asbestos) that results from the acquisition, construction, or development and/or the normal operation of the long-lived asset. A conditional ARO is a legal obligation in which the timing and/or method of retirement are conditional on a future event that may or may not be within the control of the College. The College follows the policy of recording the fair value of such liabilities, if material. The ARO is included in other liabilities on the consolidated statements of financial position.

Net asset classifications of institutional funds:

The College holds institutional funds, principally endowment funds, subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA). "Endowment" is a commonly used term to refer to the resources, including trusts and annuities, that have been restricted by the donor or designated by the Board that will be invested to provide future revenue to support the College's activities. The College's endowment consists of approximately 300 individual funds established for a variety of purposes. As titled, UPMIFA provides guidance and applicable regulations relative to the management of applicable funds.

FERRUM COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 1. Nature of Operations and Significant Accounting Policies (Continued)

Net asset classifications of institutional funds: (Continued)

In response to UPMIFA, the College adopted the provisions of accounting guidance for the net asset classification of donor-restricted endowment funds for an organization that is subject to UPMIFA and also required related financial statement disclosures.

Interpretation of UPMIFA

The Board of Trustees of the College has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. Accordingly, the College classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations of investment returns to the permanent endowment made in accordance with the direction of the applicable donor gift instrument, when applicable, at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the College in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the College considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund, (2) the purposes of the College and the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the College, and (7) the investment policies of the College.

Return Objectives and Risk Parameters

The College has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those of donor-restricted funds that organizations must hold in perpetuity or for a donor-specified period as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of a benchmark composed of a total return. The College expects its endowment funds to provide an average annual rate of return of approximately 5.0% plus inflation (measured as the consumer price index). Actual returns in any given year may vary from this amount.

FERRUM COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 1. Nature of Operations and Significant Accounting Policies (Continued)

Net asset classifications of institutional funds: (Continued)

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the College relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The College targets a diversified asset allocation that places emphasis on investments to achieve its long-term return objectives within prudent risk constraints as follows:

	<u>Target Allocation</u>	<u>Range</u>
Asset class:		
Large cap equities	30%	25 - 35%
All cap equities	20%	20 - 30%
Small cap equities	5%	0 - 5%
International equities	10%	5 - 10%
Emerging markets	5%	0 - 5%
Hedged equity	2%	0 - 5%
Private capital	1%	0 - 3%
Commodities	1%	0 - 3%
Diversified fixed income	20%	15 - 25%
Distressed debt	0%	0 - 1%
Real estate	1%	0 - 3%
Low volatility hedge	5%	0 - 5%
Cash and equivalents	0%	0 - 2%

Spending Policy and How the Investment Objectives Relate to Spending Policy

On College-held investments, the College employs a total return endowment spending policy that establishes the amount of endowment investment return that is available to support current needs and restricted purposes. This policy is designed to insulate program spending from capital market fluctuations and to increase the amount of return that is reinvested in the corpus of the fund in order to enhance its long-term value. For the years ended June 30, 2017 and 2016, the Board-approved spending formula for the endowment provided for an annual spending rate of up to 5% of the average of the most recent three years' June 30 endowment market values. If cash yield (interest and dividends) is less than the spending rate, realized gains can be used to make up the deficiency. Any income in excess of the spending rate is to be reinvested in the endowment.

FERRUM COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 1. Nature of Operations and Significant Accounting Policies (Continued)

Contributions:

Contributions, including unconditional promises to give or contributions receivable, are recognized as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions, in the period the donor's commitment is received. Unrestricted, unconditional promises to give are recognized as temporarily restricted operating revenues unless the donor explicitly stipulates its use to support current period activities.

Conditional promises to give are not recognized until they become unconditional – that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is considered and provided, if necessary, based upon management's judgment including such factors as prior collection history, type of contribution, and nature of the fundraising activity.

Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues of the temporarily restricted net asset class, and a reclassification to unrestricted net assets is made to reflect the expiration of such restrictions.

Contributions of land, buildings, and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenues of the unrestricted net asset class. Contributions of cash or other assets to be used to acquire land, buildings, and equipment, with such donor stipulations, are reported as revenues of the temporarily restricted net asset class; the restrictions are considered to be released at the time of acquisition of such long-lived assets.

Operating results:

Operating activities in the statement of activities illustrate a measure of how the College is maintaining the resources available for its "current operations." Operations reflect all transactions increasing or decreasing unrestricted net assets except those of a capital or longer-term nature – that is, capitalized for long-term investment or as land, buildings, and equipment, or set aside for other long-term purposes such as quasi endowment. It is the Board's policy that all unrestricted bequests be placed into quasi endowment, so unless the Board specifically designates an unrestricted bequest to be used for operating purposes, such bequest receipts are shown as non-operating activity. Temporarily restricted net assets released from restrictions which satisfy an operating purpose are also classified as operating.

In accordance with the College's total return policy, only the portion of total investment return available under this policy to meet operating needs is included in operating revenues on the Statement of Activities. Additionally, the portion of total investment return available to support current operations under the College's total return policy is excluded from cash flows from operating activities; only the actual cash yield is included in cash flows from operating activities.

Costs related to the operation and maintenance of the physical plant, including depreciation of plant assets, are allocated to operating programs and supporting activities based upon periodic inventories of facilities. Interest expense on debt is allocated to the activities that have most directly benefited from the proceeds of the debt.

FERRUM COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 1. Nature of Operations and Significant Accounting Policies (Continued)

Advertising costs:

The College follows the policy of charging advertising costs to expense as incurred. Advertising expense was approximately \$10,000 and \$16,000 for the years ended June 30, 2017 and 2016, respectively.

Fair value measurements:

The College carries various assets and liabilities at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, a market-based approach is used which establishes that fair value is based on the “highest and best use”. Additionally, in accordance with accounting guidance, the College categorizes its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy as reflected below. The fair value hierarchy gives the highest priority to unadjusted quoted prices in active markets (Level 1) and the lowest priority to unobservable inputs (Level 3).

Level 1 – Fair values are based on unadjusted quoted prices in active markets for identical assets or liabilities that management has the ability to access at the measurement date.

Level 2 – Fair values are based on inputs other than quoted prices in Level 1 that are either for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that were observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Fair values are based on unobservable inputs for the asset or liability where there is little, if any, market activity for the asset or liability at the measurement date.

The estimated fair value for specific groups of financial instruments is presented within the notes applicable to such items. If not specifically presented, fair value is estimated to approximate the related carrying value. It was not considered practical to determine fair value of notes receivable from students under the U.S. government loan programs and related government advances because the notes receivable are non-marketable and can only be assigned to the U.S. government or its designees. These installment notes are due over terms of ten years and are carried at face value.

FERRUM COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 1. Nature of Operations and Significant Accounting Policies (Continued)

Credit risk concentrations:

Financial instruments which potentially subject the College to concentrations of credit risk consist principally of cash and cash equivalents, investments, and student accounts receivable and loans receivable. The College places its cash and cash equivalents with high credit quality financial institutions. A portion of the College's bank deposits are in excess of federally insured limits. Concentration of credit risk for investments is limited by the College's policy of diversification of investments. Concentration of credit risk for student accounts receivable and loans receivable are limited due to a large base and geographic dispersion.

Income taxes:

The College is exempt from federal income tax under Section 501(c)(3) of the *Internal Revenue Code*.

Reclassifications:

Certain reclassifications have been made to prior year amounts in order to conform to the current year presentation.

Subsequent events:

Subsequent events were considered through October 12, 2017, the date the financial statements were available to be issued.

Note 2. Notes Receivable and Other Assets

Notes receivable and other assets consist of the following as of June 30:

	<u>2017</u>	<u>2016</u>
U.S. government student loans receivable, less allowance for doubtful accounts \$143,000	\$ 1,373,609	\$ 1,296,343
Prepaid expenses	562,763	701,468
Other receivables and assets	<u>151,334</u>	<u>161,204</u>
	<u>\$ 2,087,706</u>	<u>\$ 2,159,015</u>

FERRUM COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 3. Contributions Receivable

Contributions receivable consists of the following as of June 30:

	<u>2017</u>	<u>2016</u>
Expected to be collected in:		
Less than one year	\$ 3,663,769	\$ 266,705
One to five years	118,546	56,950
Less:	3,782,315	323,655
Allowance for doubtful pledges	(32,800)	(10,500)
Discount to net present value at 0.75-1.6%	(3,561)	(8,211)
	<u>\$ 3,745,954</u>	<u>\$ 304,944</u>

The ownership of contributions receivable for each class of net assets as of June 30 is as follows:

	<u>2017</u>	<u>2016</u>
Temporarily restricted	\$ 3,074,881	\$ 269,162
Permanently restricted	671,073	35,782
	<u>\$ 3,745,954</u>	<u>\$ 304,944</u>

Note 4. Investments

Investments are comprised of the following as of June 30:

	<u>2017</u>		<u>2016</u>	
Equities:				
Large cap equities	\$ 21,022,475	55.7%	\$ 11,397,402	34.1%
All cap equities	-		7,324,383	21.9
International equities	3,559,114	9.4	2,983,548	8.9
Emerging markets	1,838,437	4.9	1,476,623	4.4
Private capital	1,439,504	3.9	1,432,194	4.3
Commodities	-	-	254,837	0.8
College-held stocks	839,635	2.2	685,251	2.1
Total equities	28,699,165	76.1	25,554,238	76.5
Diversified fixed income	7,318,638	19.4	5,386,879	16.1
Distressed debt	505,641	1.3	297,125	0.9
Low volatility hedge	404,713	1.1	1,384,289	4.1
Cash and equivalents	792,866	2.1	801,366	2.4
	<u>\$ 37,721,023</u>	<u>100.0%</u>	<u>\$ 33,423,897</u>	<u>100.0%</u>

(Continued)

FERRUM COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 4. Investments (Continued)

The ownership of investments for each class of net assets as of June 30 is as follows:

	2017	2016
Unrestricted	\$ 3,930,811	\$ 3,565,713
Temporarily restricted	10,716,783	7,304,757
Permanently restricted	23,073,429	22,553,427
	<u>\$ 37,721,023</u>	<u>\$ 33,423,897</u>

The market value of investment asset classifications is as follows as of June 30:

	2017	2016
Endowment and annuity	\$ 37,720,973	\$ 33,363,569
Plant	-	60,278
Current	50	50
	<u>\$ 37,721,023</u>	<u>\$ 33,423,897</u>

Long-term investments contain both pooled and non-pooled investments. Funds are pooled, when permissible, to facilitate achievement of investment goals. The pooled investments are accounted for under the unit market value method.

The College has various investment vehicles that the carrying value fluctuates with the financial markets. As a result, the value of such investments as of the date of this report may be materially different than year-end values.

Investment activity for the years ended June 30 is reflected in the table below:

	2017	2016
Investments, beginning	\$ 33,423,897	\$ 35,671,840
Gifts available for investment	515,088	527,424
	<u>33,938,985</u>	<u>36,199,264</u>
Investment returns		
Dividends and interest (net of expenses; 2017 \$81,188; 2016 \$81,015)	487,528	528,676
Investment return, net of amount available to support current operations per statement of activities	3,811,854	(2,756,952)
Add spending in excess of cash yield	1,133,962	1,172,247
Net realized and unrealized gains (losses)	4,945,816	(1,584,705)
Total return on investments	<u>5,433,344</u>	<u>(1,056,029)</u>
Amounts appropriated for operations and other activity	(1,651,306)	(1,719,338)
Investments, ending	<u>\$ 37,721,023</u>	<u>\$ 33,423,897</u>

FERRUM COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 4. Investments (Continued)

The following schedule summarizes total investment return and its classification in the statements of activities for the years ended June 30:

	<u>2017</u>	<u>2016</u>
Endowment investment income, net of expenses	\$ 455,928	\$ 483,423
Net realized and unrealized gain (loss) on investments	4,945,816	(1,584,705)
Other	<u>5,657</u>	<u>21,908</u>
Endowment total return	5,407,401	(1,079,374)
Other investment income, net of expenses	<u>25,943</u>	<u>23,345</u>
Total return on investments	<u><u>\$ 5,433,344</u></u>	<u><u>\$ (1,056,029)</u></u>
Included in statements of activities as follows:		
Operating revenues:		
Investment income, endowment, and other – amount distributed to support current operations pursuant to endowment spending policy	\$ 1,595,547	\$ 1,677,578
Non-operating income:		
Investment return, net of amount available to support current operations	<u>3,811,854</u>	<u>(2,756,952)</u>
Endowment total return	5,407,401	(1,079,374)
Other operating revenues:		
Investment income, temporary investments	<u>25,943</u>	<u>23,345</u>
	<u><u>\$ 5,433,344</u></u>	<u><u>\$ (1,056,029)</u></u>

FERRUM COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 5. Land, Buildings, and Equipment

Land, buildings, and equipment consist of the following as of June 30:

	Estimated Useful Life	2017	2016
Buildings	40-75 years	\$ 73,714,553	\$ 73,297,564
Furniture and equipment	5-10 years	13,203,985	12,669,698
Land improvements	10-20 years	6,488,280	4,565,542
		93,406,818	90,532,804
Less accumulated depreciation		(38,557,418)	(36,549,054)
		54,849,400	53,983,750
Land		675,003	675,003
Construction in progress		489,043	1,830,473
		<u>\$ 56,013,446</u>	<u>\$ 56,489,226</u>

Construction in progress at June 30, 2017 primarily represents athletic fields irrigation and renovations. Construction in progress at June 30, 2016 represents construction of an artificial turf playing field.

Note 6. Debt

Debt consists of the following as of June 30:

	2017	2016
Note payable for \$14.6 million to the United States Department of Agriculture. Loan proceeds were used for construction of a new residence hall, renovation of Franklin Hall with the addition of a conference center, renovation of Beckham Hall and Roberts Hall, and refinancing of one of the outstanding IDA notes. The fixed interest rate is 4.375% for a term of 40 years with interest only payments during the first two years. After the initial two years, the note calls for monthly payments of \$65,847 including interest through March 2045. The note is secured by all revenues, College's accounts, deposit accounts, general intangibles, investments (including endowment assets), and certain equipment.	\$ 12,649,870	\$ 12,881,060

FERRUM COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 6. Debt (Continued)

Debt consists of the following as of June 30: (Continued)

	<u>2017</u>	<u>2016</u>
Note payable for \$6.05 million to the United States Department of Agriculture. Loan proceeds were used for construction of a new residence hall, refinancing of one of the remaining outstanding IDA notes, and electrical upgrades. The fixed interest rate is 4.125% for a term of 40 years with interest only payments during the first two years. After the initial two years, the note calls for monthly payments of \$26,318 including interest through September 2047. The note is secured by all revenues, College's accounts, deposit accounts, general intangibles, investments (including endowment assets), and certain equipment.	5,444,763	5,533,967
Note payable to the Industrial Development Authority of Floyd County, Virginia in the amount of \$6.0 million for the construction of Clark Hall and renovations to East Bassett. This obligation was payable monthly in the amount of \$44,113 beginning September 1, 2008 and continuing until July 1, 2023 at a fixed annual interest rate of 3.85%. This note was refinanced in October 2016.	-	3,277,239
Note payable to the Industrial Development Authority of Franklin County, Virginia up to \$4.0 million for the construction of the Hank Norton Center. This obligation was payable monthly in the amount of \$29,588 beginning February 1, 2012 and continuing until January 1, 2027 at a fixed annual interest rate of 4.0%. This note was refinanced in October 2016.	-	3,059,454
Note payable to the Industrial Development Authority of Franklin County, Virginia up to \$4.0 million for the construction of Dyer Hall. This obligation was payable monthly in the amount of \$29,588 beginning February 1, 2013 and continuing until January 1, 2028 at a fixed annual interest rate of 4.0%. This note was refinanced in October 2016.	-	3,287,162

(Continued)

FERRUM COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 6. Debt (Continued)

Debt consists of the following as of June 30: (Continued)

	<u>2017</u>	<u>2016</u>
Note payable to the Industrial Development Authority of Prince Edward County, Virginia in the amount of \$9.6 million. Loan proceeds were used to refinance Industrial Development Authority of Franklin County and Floyd County bonds. This obligation is payable monthly in the amount of \$69,228 beginning December 1, 2016 and continuing until November 1, 2031 at a fixed annual interest rate of 3.6%. The note is secured by Bassett Hall, Hank Norton Center and Clark Hall.	9,332,463	-
	27,427,096	28,038,882
	(155,219)	(97,028)
Unamortized deferred loan costs	<u>\$ 27,271,877</u>	<u>\$ 27,941,854</u>

Debt matures as follows:

	<u>Debt</u>	<u>Amortization of Deferred Loan Costs</u>	<u>Net</u>
Year ending June 30:			
2018	\$ 835,534	\$ (10,767)	\$ 824,767
2019	868,546	(10,767)	857,779
2020	902,873	(10,767)	892,106
2021	938,568	(10,767)	927,801
2022	975,687	(10,767)	964,920
2023 and later years	22,905,888	(101,384)	22,804,504
	<u>\$ 27,427,096</u>	<u>\$ (155,219)</u>	<u>\$ 27,271,877</u>

Both of the notes payable to the United States Department of Agriculture require the College to establish and maintain a debt service reserve fund, which is pledged as security for payment of principal and interest on the loans. The debt service reserve fund is to be funded in monthly deposits equal to 10% of the combined monthly payments of principal and interest due under the loans. The College will make such deposits until the debt service reserve fund accumulates twelve times the combined monthly payments. These funds are invested with endowment funds. As of June 30, 2017 and 2016, the debt service reserve fund totaled \$1,054,676 and \$944,078, respectively.

In 2017, the College retroactively adopted the requirements in FASB ASC 835-30 to present deferred loan costs as a reduction of the carrying amount of the debt rather than as an asset. Debt as of June 30, 2016 was previously reported in the statement of financial position as \$28,038,882 with the associated \$97,028 unamortized deferred loan costs included in assets.

FERRUM COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 7. Net Assets

Net assets as of June 30 consist of the following:

	<u>2017</u>	<u>2016</u>
Unrestricted:		
Funds functioning as endowment		
Quasi endowment	\$ 3,238,358	\$ 2,861,400
Debt service reserve	1,054,676	944,078
Annuities	31,466	54,379
Investment in land, buildings, and equipment, net of debt	22,310,339	23,629,720
College contributions to student loan funds	195,812	195,817
Undesignated	14,814,498	14,167,122
	<u>41,645,149</u>	<u>41,852,516</u>
Temporarily restricted:		
Available for the following purposes or periods		
Financial aid, general operations, and maintenance or investment in land, building, and equipment	4,242,175	1,116,756
Accumulated endowment investment return, net of amounts spent – restricted primarily for financial aid	10,348,983	6,983,255
	<u>14,591,158</u>	<u>8,100,011</u>
Permanently restricted:		
Restricted in perpetuity, the income from which is expendable to support the following		
Financial aid, general operations, and maintenance or investment in land, building, and equipment	36,527,169	34,730,658
Total net assets	<u><u>\$ 92,763,476</u></u>	<u><u>\$ 84,683,185</u></u>

FERRUM COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 8. Tuition and Fees, Net of Financial Aid

Revenues received for student tuition and fees, net of financial aid, consists of the following for the years ended June 30:

	<u>2017</u>		<u>2016</u>	
Tuition and fees	\$ 37,689,063	100.0%	\$ 38,478,782	100.0%
Less financial aid				
Institutional scholarships, non-funded	(19,217,085)	(51.0)	(18,807,604)	(48.9)
Endowed scholarships, funded	(1,476,967)	(3.9)	(1,488,669)	(3.8)
External financial aid, funded	(368,368)	(1.0)	(574,012)	(1.5)
	<u>(21,062,420)</u>	<u>(55.9)</u>	<u>(20,870,285)</u>	<u>(54.2)</u>
	<u>\$ 16,626,643</u>	<u>44.1%</u>	<u>\$ 17,608,497</u>	<u>45.8%</u>

Financial aid is awarded to students based upon need and merit and is applied to billed tuition and fees, and room and board. Financial aid does not include payments made to students for services rendered to the College. However, the College does participate in work-study programs; these expenses, which totaled \$785,979 and \$869,291 for the years ended June 30, 2017 and 2016, respectively, are included in the appropriate functional expense categories on the statement of activities. Of these amounts, the federal government contributed \$166,671 for the years ended June 30, 2017 and 2016.

Note 9. Net Assets Released from Restrictions and Reclassifications

Net assets were released from donor restrictions when expenses were incurred to satisfy the restricted purposes or by occurrence of other events as specified by donors. Restrictions were satisfied as follows for the years ended June 30:

	<u>2017</u>	<u>2016</u>
Operating		
Financial aid	\$ 2,012,006	\$ 2,229,352
Operations and maintenance of land, buildings, and equipment	409,316	742,221
Expiration of time restrictions on contributions receivables	<u>189,804</u>	<u>190,694</u>
Total operating	<u>2,611,126</u>	<u>3,162,267</u>
Non-operating		
Buildings and equipment	<u>125,088</u>	<u>355,661</u>
Total non-operating	<u>125,088</u>	<u>355,661</u>
	<u>\$ 2,736,214</u>	<u>\$ 3,517,928</u>

FERRUM COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 10. Operating Expenses

Operating expenses incurred for the years ended June 30 are as follows:

	<u>2017</u>		<u>2016</u>	
Compensation	\$ 15,600,244	46.9%	\$ 16,092,413	48.0%
Employee benefits and payroll taxes	3,260,235	9.9	3,283,631	9.8
Tuition remission	796,316	2.4	826,450	2.5
	<u>19,656,795</u>	<u>59.1</u>	<u>20,202,494</u>	<u>60.3</u>
Program expenses	3,053,105	9.2	3,287,864	9.8
Depreciation	2,432,144	7.3	2,543,610	7.6
Utilities	1,850,612	5.6	1,318,702	3.9
Rentals and maintenance	1,357,822	4.1	1,411,483	4.2
Supplies	395,557	1.2	601,472	1.8
Contract services	753,217	2.3	645,342	1.9
Interest expense	1,252,223	3.8	1,218,708	3.6
Printing and publications	427,071	1.3	330,216	1.0
Travel	630,147	1.9	618,138	1.9
Telephone	120,162	0.4	131,286	0.4
Postage and shipping	113,952	0.3	110,750	0.4
Other	1,189,640	3.5	1,113,068	3.2
	<u>\$ 33,232,447</u>	<u>100.0%</u>	<u>\$ 33,533,133</u>	<u>100.0%</u>
Program services	\$ 29,410,716	88.5%	\$ 29,375,025	87.6%
Support services	<u>3,821,731</u>	<u>11.5</u>	<u>4,158,108</u>	<u>12.4</u>
	<u>\$ 33,232,447</u>	<u>100.0%</u>	<u>\$ 33,533,133</u>	<u>100.0%</u>

FERRUM COLLEGE

NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 10. Operating Expenses (Continued)

Costs related to the operations and maintenance of the physical plant, including depreciation and interest expense, are allocated to operating programs and supporting activities for June 30 as follows:

	2017			2016		
	Expenses Before Allocation	Total Expense Allocation	Final Allocated Expenses	Expenses Before Allocation	Total Expense Allocation	Final Allocated Expenses
Instruction	\$ 7,126,692	\$ 1,048,710	\$ 8,175,402	\$ 7,606,148	\$ 1,065,573	\$ 8,671,721
Academic support	1,770,521	418,884	2,189,405	1,519,453	392,684	1,912,137
Student services	6,136,443	1,279,801	7,416,244	6,324,162	1,265,489	7,589,651
Institutional support	5,926,789	395,575	6,322,364	5,805,176	447,461	6,252,637
Auxiliary services	5,182,342	3,946,690	9,129,032	5,379,562	3,727,425	9,106,987
Operations and maintenance of physical plant	3,405,293	(3,405,293)	-	3,136,314	(3,136,314)	-
Depreciation	2,432,144	(2,432,144)	-	2,543,610	(2,543,610)	-
Interest expense	1,252,223	(1,252,223)	-	1,218,708	(1,218,708)	-
	<u>\$ 33,232,447</u>	<u>\$ -</u>	<u>\$ 33,232,447</u>	<u>\$ 33,533,133</u>	<u>\$ -</u>	<u>\$ 33,533,133</u>

Allocation of costs related to the operation and maintenance of the physical plant, including depreciation and interest expense, to functional expense categories for the years ended June 30, 2017 and 2016 approximated:

	2017	2016
Instruction	14.8%	15.5%
Academic support	5.9	5.7
Student services	18.1	18.3
Institutional support	5.6	6.5
Auxiliary services	55.6	54.0
	<u>100.0%</u>	<u>100.0%</u>

Fundraising costs totaled approximately \$848,000 and \$933,000 for the years ended June 30, 2017 and 2016, respectively.

FERRUM COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 11. Employee Benefits

Retirement benefits are provided for substantially all full-time personnel, at their election, through a defined contribution retirement plan funded by direct payments to the Teacher's Insurance and Annuity Association – College Retirement Equities Fund. The College's annual contribution is between 2 - 7% of the participating employees' wages. During the years ended June 30, 2017 and 2016, the College provided contributions to the plan of approximately \$710,000 and \$733,000, respectively.

The College provides health insurance benefits to its employees through its membership in the Virginia Private Colleges Benefits Consortium (the "Consortium"). The Consortium includes a group of private colleges and universities in Virginia and has formed a self-funded plan to provide medical benefits to all plan members. Membership in the Consortium allows the member institutions to achieve more flexibility in plan design, greater cost control, enhanced benefit offerings, and increased negotiation power with the carrier community. The College makes monthly premium payments to the Consortium based on its claims history, with the monthly amount determined annually. The Consortium also has the right to make special assessments in addition to the monthly premiums. Premium payments to the Consortium for the years ended June 30 were funded as follows:

	2017 (millions)	2016 (millions)
College-paid share	\$ 1.3	\$ 1.3
Employee-paid share	0.8	0.7
	<u>\$ 2.1</u>	<u>\$ 2.0</u>

The College was instrumental in establishing the Consortium and a representative from the College is a member of the board of the Consortium.

Note 12. Commitments and Contingencies

The College's students receive a substantial amount of support from federal and state student financial assistance programs. A significant reduction in the level of this support, if it were to occur, might have an adverse effect on the College's programs and activities.

Final expenditure reports of grants and contracts submitted to certain granting agencies in current and prior years are subject to audit by such agencies. As a result, the reimbursed expenditures are subject to adjustment. The effect of such adjustments, if any, is not determinable at this time. Management is of the opinion that the liability, if any, would not have a material effect on the College's financial position.

At any given time, the College is involved in various lawsuits. Management believes that any financial responsibility that may be incurred in the administration and settlement of such lawsuits would typically be fully covered by the College's liability insurance. The College is involved in a lawsuit claiming breach of contract with a vendor. An unfavorable outcome could materially impact the College, and, in this case, would not be covered by insurance.

FERRUM COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 13. Endowment

A summary of assets, liabilities and net assets of the endowment including annuity funds is as follows as of June 30:

	<u>2017</u>	<u>2016</u>
ASSETS		
Contributions receivable	\$ 671,073	\$ 35,782
Investments	37,720,973	33,363,569
Funds held in trust by others	<u>12,800,668</u>	<u>12,188,432</u>
Total assets	<u>\$ 51,192,714</u>	<u>\$ 45,587,783</u>
LIABILITIES AND NET ASSETS		
Annuity obligations	<u>\$ 117,062</u>	<u>\$ 139,013</u>
Total liabilities	<u>117,062</u>	<u>139,013</u>
Net assets		
Unrestricted		
Quasi endowment	3,238,358	2,861,400
Debt service reserve	1,054,676	944,078
Annuities	<u>31,466</u>	<u>54,379</u>
	<u>4,324,500</u>	<u>3,859,857</u>
Temporarily restricted		
Accumulated endowment investment return, net of amounts spent	<u>10,348,983</u>	<u>6,983,255</u>
	<u>10,348,983</u>	<u>6,983,255</u>
Permanently restricted		
College held	23,601,501	22,417,226
Funds held in trust by others	<u>12,800,668</u>	<u>12,188,432</u>
	<u>36,402,169</u>	<u>34,605,658</u>
Total net assets	<u>51,075,652</u>	<u>45,448,770</u>
Total liabilities and net assets	<u>\$ 51,192,714</u>	<u>\$ 45,587,783</u>

FERRUM COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 13. Endowment (Continued)

Funds held in trust by others are comprised of the following as of June 30:

	<u>2017</u>		<u>2016</u>	
Equities	\$ 8,072,168	63.1%	\$ 6,311,489	51.8%
Bonds	3,571,921	27.9	3,086,823	25.3
Alternative strategies	457,118	3.6	2,488,550	20.4
Temporary and other investments	699,461	5.4	301,570	2.5
	<u>\$ 12,800,668</u>	<u>100.0%</u>	<u>\$ 12,188,432</u>	<u>100.0%</u>

The College's endowment consisted of the following net assets as of June 30:

	<u>2017</u>				<u>2016</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 10,348,983	\$ 36,402,169	\$ 46,751,152	\$ -	\$ 6,983,255	\$ 34,605,658	\$ 41,588,913
Board-designated endowment funds	4,324,500	-	-	4,324,500	3,859,857	-	-	3,859,857
Total endowment net assets	<u>\$ 4,324,500</u>	<u>\$ 10,348,983</u>	<u>\$ 36,402,169</u>	<u>\$ 51,075,652</u>	<u>\$ 3,859,857</u>	<u>\$ 6,983,255</u>	<u>\$ 34,605,658</u>	<u>\$ 45,448,770</u>

	<u>2017</u>				<u>2016</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning	\$ 3,859,857	\$ 6,983,255	\$ 34,605,658	\$ 45,448,770	\$ 4,187,275	\$ 9,409,315	\$ 34,868,771	\$ 48,465,361
Investment return:			-					
Investment income	48,964	412,621	-	461,585	51,223	454,108	-	505,331
Realized and unrealized gains (losses)	502,006	4,443,810	-	4,945,816	(320,350)	(1,264,355)	-	(1,584,705)
Total investment return	550,970	4,856,431	-	5,407,401	(269,127)	(810,247)	-	(1,079,374)
Change in funds held in trust by others	-	-	612,236	612,236	-	-	(607,576)	(607,576)
Contributions	-	-	1,140,877	1,140,877	4,547	-	341,232	345,779
Appropriation for expenditure	(99,466)	(1,496,081)	-	(1,595,547)	(65,830)	(1,611,748)	-	(1,677,578)
Other reclassifications and transfers	13,139	5,378	43,398	61,915	2,992	(4,065)	3,231	2,158
Endowment net assets, ending	<u>\$ 4,324,500</u>	<u>\$ 10,348,983</u>	<u>\$ 36,402,169</u>	<u>\$ 51,075,652</u>	<u>\$ 3,859,857</u>	<u>\$ 6,983,255</u>	<u>\$ 34,605,658</u>	<u>\$ 45,448,770</u>

(Continued)

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Note 14. Fair Value Measurements

The following is a summary of the inputs used to determine the fair value of financial assets and liabilities measured on a recurring basis as of June 30:

	2017				2016			
	Fair Value	Level 1	Level 2	Level 3	Fair Value	Level 1	Level 2	Level 3
Financial assets:								
Investments:								
Large cap equities	\$ 21,022,475	\$ -	\$ 21,022,475	\$ -	\$ 11,397,402	\$ -	\$ 11,397,402	\$ -
All cap equities	-	-	-	-	7,324,383	-	7,324,383	-
International equities	3,559,114	-	3,559,114	-	2,983,548	-	2,983,548	-
Emerging markets	1,838,437	-	1,838,437	-	1,476,623	-	1,476,623	-
Private capital	1,439,504	-	-	1,439,504	1,432,194	-	-	1,432,194
Commodities	-	-	-	-	254,837	-	254,837	-
College-held stocks	839,635	839,635	-	-	685,251	685,251	-	-
Diversified fixed income	7,318,638	-	7,318,638	-	5,386,879	-	5,386,879	-
Distressed debt	505,641	-	-	505,641	297,125	-	-	297,125
Low volatility hedge	404,713	-	404,713	-	1,384,289	-	1,384,289	-
Cash and equivalents	792,866	-	675,302	117,564	801,366	-	603,235	198,131
	37,721,023	839,635	34,818,679	2,062,709	33,423,897	685,251	30,811,196	1,927,450
Funds held in trust by others	12,800,668	-	-	12,800,668	12,188,432	-	-	12,188,432
	<u>\$ 50,521,691</u>	<u>\$ 839,635</u>	<u>\$ 34,818,679</u>	<u>\$ 14,863,377</u>	<u>\$ 45,612,329</u>	<u>\$ 685,251</u>	<u>\$ 30,811,196</u>	<u>\$ 14,115,182</u>

A reconciliation of the activity of financial assets valued using Level 3 (significant unobservable) inputs is as follows:

	2017				2016			
	Investments		Funds Held in Trust by Others	Total	Investments		Funds Held in Trust by Others	Total
	Alternatives	Temporary and Other			Alternatives	Temporary and Other		
Balance, beginning	\$ 1,729,319	\$ 198,131	\$ 12,188,432	\$ 14,115,882	\$ 1,701,210	\$ 178,740	\$ 12,796,008	\$ 14,675,958
Realized and unrealized gains (losses)	(276,048)	(20,289)	612,236	315,899	(84,391)	19,391	(607,576)	(672,576)
Purchases, sales, issuances, and settlements	491,874	(60,278)	-	431,596	112,500	-	-	112,500
Balance, ending	<u>\$ 1,945,145</u>	<u>\$ 117,564</u>	<u>\$ 12,800,668</u>	<u>\$ 14,863,377</u>	<u>\$ 1,729,319</u>	<u>\$ 198,131</u>	<u>\$ 12,188,432</u>	<u>\$ 14,115,882</u>

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Note 14. Fair Value Measurements (Continued)

The fair values of investments in cash and cash equivalents, publicly traded investments in equities, and certain College-held stocks are determined based upon quoted market prices. Investments in proprietary CommonFund vehicles do not have quoted market prices. The fair value of such investments is based upon the net asset value of the respective funds, as reported by the investment managers.

The following table summarizes by major category the alternative investments valued at net asset value per share:

<u>Major Category</u>	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
a) Private capital	\$ 1,439,504	\$ 448,000	-	12-15 years
b) Distressed debt	<u>505,641</u>	<u>152,600</u>	20%/year	1-5 years
	<u>\$ 1,945,145</u>	<u>\$ 600,600</u>		

- a) This category is invested in a CommonFund vehicle that invests in private equity funds. The fair values of the investments in this category have been estimated using the net asset value of the College's ownership interest in the fund's capital. The fund is valued as of March 31, 2017. The net asset value as of June 30, 2017 was not available prior to issuance of these financials. As a result, the net asset value of the fund may have declined between March 31, 2017 and June 30, 2017 and that decline could be material.
- b) This category is invested in a CommonFund vehicle that invests in various equity funds, hedge funds, and partnerships that deal primarily in different types of distressed debt in U.S. and international credit markets. The fair values of the investments in this category have been estimated using the net asset value of the College's ownership interest in the fund's capital. The fund is valued as of March 31, 2017. The net asset value as of June 30, 2017 was not available prior to issuance of these financials. As a result, the net asset value of the fund may have declined between March 31, 2017 and June 30, 2017 and that decline could be material.