



FINANCIAL REPORT

*(In Accordance with the Requirements of Title 2 U.S. Code
of Federal Regulations (CFR) Part 200, Uniform
Administrative Requirements, Cost Principles, and
Audit Requirements for Federal Awards)*

JUNE 30, 2018



BROWNEDWARDS
certified public accountants

FERRUM COLLEGE

FINANCIAL REPORT

*(In Accordance with the Requirements of Title 2 U.S. Code
of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost
Principles, and Audit Requirements for Federal Awards)*

June 30, 2018

EIN# 54-0506457

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**INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS
AND SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

To the Board of Trustees
Ferrum College
Ferrum, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of Ferrum College, which comprise the statements of financial position as of June 30, 2018 and 2017, 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

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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 opinions.

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, 2018 and 2017, 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.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated _____, 2018, on our consideration of Ferrum College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Ferrum College's internal control over financial reporting and compliance.

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
_____, 2018

PRELIMINARY DRAFT – OPEN FOR REVIEW AND DISCUSSION

FERRUM COLLEGE

STATEMENTS OF FINANCIAL POSITION

June 30, 2018 and 2017

	2018	2017
ASSETS		
Cash and cash equivalents	\$ 6,706,786	\$ 10,792,846
Certificates of deposit	4,716,198	-
Student and grant receivables, less allowance for doubtful accounts 2018 \$491,000 and 2017 \$313,000	656,711	567,169
Inventories and supplies	424,585	359,370
Notes receivable and other assets (Note 2)	2,148,896	2,087,706
Contributions receivable (Note 3)	402,724	3,745,954
Investments (Note 4)	39,540,095	37,721,023
Funds restricted to investment in land, buildings, and equipment	157,172	114,907
Land, buildings, and equipment, net of accumulated depreciation (Note 5)	57,019,090	56,013,446
Funds held in trust by others (Note 13)	13,302,600	12,800,668
Total assets	\$ 125,074,857	\$ 124,203,089
LIABILITIES AND NET ASSETS		
Accounts payable and other liabilities	\$ 1,473,315	\$ 835,104
Accrued compensation	584,543	746,606
Student and other deposits	640,933	712,616
Amounts held on behalf of others	174,311	166,414
Annuity obligations	146,342	165,063
Other liabilities	444,694	430,798
U.S. government grants refundable	1,139,686	1,111,135
Debt (Note 6)	27,986,036	27,271,877
Total liabilities	32,589,860	31,439,613
Net assets (Note 7)		
Unrestricted	42,309,701	41,645,149
Temporarily restricted	12,703,723	14,591,158
Permanently restricted	37,471,573	36,527,169
Total net assets	92,484,997	92,763,476
Total liabilities and net assets	\$ 125,074,857	\$ 124,203,089

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

PRELIMINARY DRAFT – OPEN FOR REVIEW AND DISCUSSION

FERRUM COLLEGE

STATEMENT OF ACTIVITIES
Year Ended June 30, 2018

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUES				
Tuition and fees	\$ 34,911,992	\$ -	\$ -	\$ 34,911,992
Less financial aid	(19,870,230)	-	-	(19,870,230)
Net tuition and fees (Note 8)	15,041,762	-	-	15,041,762
Contributions	157,231	1,150,623	-	1,307,854
Investment income, endowment, and other (Note 4)	112,284	2,045,209	-	2,157,493
Income on funds held in trust	347,739	272,836	-	620,575
Investment income, temporary investments (Note 4)	35,769	-	-	35,769
Government and private grants	-	595,108	-	595,108
Auxiliary services	11,430,085	-	-	11,430,085
Other	177,429	-	-	177,429
Net assets released from restrictions and reclassifications (Note 9)	6,810,902	(6,810,902)	-	-
Total operating revenues	34,113,201	(2,747,126)	-	31,366,075
OPERATING EXPENSES				
Educational and general				
Instruction	8,123,083	-	-	8,123,083
Academic support	2,153,992	-	-	2,153,992
Student services	8,128,315	-	-	8,128,315
Institutional support	6,342,887	-	-	6,342,887
Auxiliary services	8,858,985	-	-	8,858,985
Total operating expenses (Note 10)	33,607,262	-	-	33,607,262
Change in net assets, operating	505,939	(2,747,126)	-	(2,241,187)
NON-OPERATING INCOME				
Contributions	6,150	267,686	442,531	716,367
Investment return, net of amount available to support current operations (Note 4)	22,015	841,633	-	863,648
Change in funds held in trust by others	-	-	501,932	501,932
Loss on disposals of land, buildings, and equipment	(89,683)	-	-	(89,683)
Other	(32,518)	3,021	(59)	(29,556)
Net assets released from restrictions and reclassifications (Note 9)	252,649	(252,649)	-	-
Change in net assets, non-operating	158,613	859,691	944,404	1,962,708
Change in net assets	664,552	(1,887,435)	944,404	(278,479)
NET ASSETS				
Beginning	41,645,149	14,591,158	36,527,169	92,763,476
Ending	\$ 42,309,701	\$ 12,703,723	\$ 37,471,573	\$ 92,484,997

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

PRELIMINARY DRAFT – OPEN FOR REVIEW AND DISCUSSION

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.

STATEMENTS OF CASH FLOWS
Years Ended June 30, 2018 and 2017

	2018	2017
OPERATING ACTIVITIES		
Change in net assets	\$ (278,479)	\$ 8,080,291
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	(700,403)	(638,393)
Net realized and unrealized gains on investments	(2,242,606)	(4,945,816)
Loss on disposal of land, buildings, and equipment	89,683	43,140
Change in funds held in trust	(501,932)	(612,236)
Depreciation	2,684,331	2,432,144
Deferred loan cost amortization	10,767	9,670
Write-off deferred loan costs on refinanced debt	-	93,638
Non-cash assets received as contributions	(6,150)	(34,330)
Change in certain operating assets and liabilities:		
(Increase) decrease in:		
Student and grant receivables	(89,542)	(39,667)
Inventories and supplies	(65,215)	28,769
Contributions receivable	3,343,230	(3,441,010)
(Decrease) increase in:		
Accounts payable, accrued and other liabilities	11,040	200,271
Annuity obligations, net of payments	(8,217)	(36,147)
U.S. government grants refundable	28,551	10,564
Other liabilities	13,896	13,897
Net cash provided by operating activities	2,288,954	1,164,785
INVESTING ACTIVITIES		
Change in notes receivable and other assets	(61,190)	71,309
Purchase of certificates of deposits	(4,716,198)	-
Purchases of land, buildings, and equipment, excluding non-cash assets received	(3,777,007)	(1,974,469)
Less debt incurred to acquire land, buildings and equipment	1,540,871	-
Change in accounts payable incurred on purchases	401,320	(25,147)
Proceeds from the disposal of land, buildings, and equipment	3,500	9,295
Change in funds restricted to investment in land, buildings, and equipment	(42,265)	(58,495)
Change in investments, net of proceeds from sales	423,534	648,690
Net cash used in investing activities	(6,227,435)	(1,328,817)
FINANCING ACTIVITIES		
Proceeds from contributions restricted for plant expansion and endowment	700,403	638,393
Payments of annuity obligations	(10,504)	(12,936)
Payments of debt	(837,479)	(893,460)
Proceeds from issuance of debt	1,540,871	9,617,646
Less debt incurred to acquire land, buildings, and equipment	(1,540,871)	-
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	(147,580)	(147,828)
Decrease in cash and cash equivalents	(4,086,061)	(311,860)
CASH AND CASH EQUIVALENTS		
Beginning	10,792,846	11,104,706
Ending	\$ 6,706,785	\$ 10,792,846

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

PRELIMINARY DRAFT – OPEN FOR REVIEW AND DISCUSSION

STATEMENTS OF CASH FLOWS
Years Ended June 30, 2018 and 2017

	2018	2017
SUPPLEMENTAL DISCLOSURES		
Cash payments for interest	<u>\$ 1,108,482</u>	<u>\$ 1,155,371</u>
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Non-cash assets received as contributions	<u>\$ 6,150</u>	<u>\$ 34,330</u>
Purchases of land, buildings, and equipment included in accounts payable	<u>\$ 401,661</u>	<u>\$ 341</u>
Debt incurred to refinance existing debt	<u>\$ -</u>	<u>\$ 9,335,971</u>
Debt incurred to pay deferred loan costs	<u>\$ -</u>	<u>\$ 161,500</u>
Debt incurred to acquire land, buildings, and equipment	<u>\$ 1,540,871</u>	<u>\$ -</u>

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

PRELIMINARY DRAFT – OPEN FOR REVIEW AND DISCUSSION

FERRUM COLLEGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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.

PRELIMINARY DRAFT – OPEN FOR REVIEW AND DISCUSSION

FERRUM COLLEGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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.

Certificates of deposit

Certificates of deposit bear interest at rates ranging from 0.10% to 2.00% and have maturities ranging from one to twelve months, with penalties for early withdrawal. Any penalties for early withdrawal do not have a material effect on the financial statements. Certificates of deposit are carried at cost.

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 net realizable value, 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, and U.S. government securities 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.

(Continued)

NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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

Investments (Continued)

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.

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.

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.

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.

PRELIMINARY DRAFT – OPEN FOR REVIEW AND DISCUSSION

FERRUM COLLEGE

NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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.

Deferred loan costs

Deferred loan costs are being amortized on the straight-line basis over the term of the related financing agreement. Unamortized deferred loan costs are presented as a reduction of the carrying amount of the debt. Amortization of deferred loan costs is reported as interest expense in the statements of activities.

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.

PRELIMINARY DRAFT – OPEN FOR REVIEW AND DISCUSSION

FERRUM COLLEGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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.

(Continued)

PRELIMINARY DRAFT – OPEN FOR REVIEW AND DISCUSSION

FERRUM COLLEGE

NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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:

	Target Allocation	Range
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. The Board-approved spending formula for the endowment for the years ended June 30, 2018 and 2017 provided for an annual spending rate of up to 8% and 5%, respectively, 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.

NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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 \$8,000 and \$10,000 for the years ended June 30, 2018 and 2017, respectively.

Fair value measurements

The College carries various assets 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.

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.

PRELIMINARY DRAFT – OPEN FOR REVIEW AND DISCUSSION

FERRUM COLLEGE

NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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

Income taxes

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

Subsequent events

Subsequent events were considered through _____, 2018, 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:

	2018	2017
U.S. government student loans receivable, less allowance for doubtful accounts \$143,000	\$ 1,376,099	\$ 1,373,609
Prepaid expenses	621,312	562,763
Other receivables and assets	151,485	151,334
	<u>\$ 2,148,896</u>	<u>\$ 2,087,706</u>

Note 3. Contributions Receivable

Contributions receivable consists of the following as of June 30:

	2018	2017
Expected to be collected in:		
Less than one year	\$ 361,749	\$ 3,663,769
One to five years	<u>92,846</u>	<u>118,546</u>
Less:		
Allowance for doubtful pledges	454,595	3,782,315
Discount to net present value at 0.75% – 1.60%	<u>(32,600)</u>	<u>(32,800)</u>
	<u>(19,271)</u>	<u>(3,561)</u>
	<u>\$ 402,724</u>	<u>\$ 3,745,954</u>

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

	2018	2017
Temporarily restricted	\$ 267,648	\$ 3,074,881
Permanently restricted	<u>135,076</u>	<u>671,073</u>
	<u>\$ 402,724</u>	<u>\$ 3,745,954</u>

(Continued)

PRELIMINARY DRAFT – OPEN FOR REVIEW AND DISCUSSION

FERRUM COLLEGE

NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 4. Investments

Investments are comprised of the following as of June 30:

	2018		2017	
Equities:				
Large cap equities	\$ 21,112,326	53.4%	\$ 21,022,475	55.7%
International equities	3,514,050	8.9	3,559,114	9.4
Emerging markets	1,709,273	4.3	1,838,437	4.9
Private capital	1,596,971	4.0	1,439,504	3.9
College-held stocks	<u>972,893</u>	<u>2.5</u>	<u>839,635</u>	<u>2.2</u>
Total equities	28,905,513	73.1	28,699,165	76.1
Diversified fixed income	9,070,070	22.9	7,318,638	19.4
Distressed debt	394,517	1.0	505,641	1.3
Low volatility hedge	-	-	404,713	1.1
Cash and equivalents	<u>1,169,995</u>	<u>3.0</u>	<u>792,866</u>	<u>2.1</u>
\$ 39,540,095	<u>100.0%</u>		\$ 37,721,023	<u>100.0%</u>

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

	2018	2017
Unrestricted	\$ 3,964,166	\$ 3,930,811
Temporarily restricted	11,504,411	10,716,783
Permanently restricted	<u>24,071,518</u>	<u>23,073,429</u>
\$ 39,540,095	<u>\$ 37,721,023</u>	

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

	2018	2017
Endowment and annuity	\$ 39,540,095	\$ 37,720,973
Current	-	50
\$ 39,540,095	<u>\$ 37,721,023</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.

PRELIMINARY DRAFT – OPEN FOR REVIEW AND DISCUSSION

FERRUM COLLEGE

NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 4. Investments (Continued)

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

	2018	2017
Investments, beginning	\$ 37,721,023	\$ 33,423,897
Gifts available for investment	<u>969,026</u>	<u>515,088</u>
	<u>38,690,049</u>	<u>33,938,985</u>
Investment returns		
Dividends and interest (net of expenses; 2018 \$88,784; 2017 \$81,188)	<u>814,304</u>	<u>487,528</u>
Investment return, net of amount available to support current operations per statement of activities	863,648	3,811,854
Add spending in excess of cash yield	<u>1,378,958</u>	<u>1,133,962</u>
Net realized and unrealized gains	<u>2,242,606</u>	<u>4,945,816</u>
Total return on investments	<u>3,056,910</u>	<u>5,433,344</u>
Amounts appropriated for operations and other activity	<u>(2,206,864)</u>	<u>(1,651,306)</u>
Investments, ending	<u>\$ 39,540,095</u>	<u>\$ 37,721,023</u>

(Continued)

PRELIMINARY DRAFT – OPEN FOR REVIEW AND DISCUSSION

FERRUM COLLEGE

NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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:

	2018	2017
Endowment investment income, net of expenses	\$ 778,508	\$ 461,585
Net realized and unrealized gain on investments	<u>2,242,606</u>	<u>4,945,816</u>
Endowment total return	3,021,114	5,407,401
Other investment income, net of expenses	<u>35,769</u>	<u>25,943</u>
Total return on investments	<u><u>\$ 3,056,910</u></u>	<u><u>\$ 5,433,344</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	\$ 2,157,493

Non-operating income:

Investment return, net of amount available to	
support current operations	<u>863,648</u>
Endowment total return	3,021,141

Other operating revenues:

Investment income, temporary investments	<u>35,769</u>
	<u><u>\$ 3,056,910</u></u>

PRELIMINARY DRAFT – OPEN FOR REVIEW AND DISCUSSION

FERRUM COLLEGE

NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 5. Land, Buildings, and Equipment

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

	Estimated Useful Life	2018	2017
Buildings	40-75 years	\$ 74,305,413	\$ 73,714,553
Furniture and equipment	5-10 years	13,073,795	13,203,985
Land improvements	10-20 years	<u>7,147,917</u>	<u>6,488,280</u>
		94,527,125	93,406,818
Less accumulated depreciation		<u>(40,713,261)</u>	<u>(38,557,418)</u>
		53,813,864	54,849,400
Land		675,003	675,003
Construction in progress		<u>2,530,223</u>	<u>489,043</u>
		<u>\$ 57,019,090</u>	<u>\$ 56,013,446</u>

Construction in progress at June 30, 2018 primarily represents Riddick Hall and classroom renovations. Estimated costs to complete these projects approximated \$341,000 at June 30, 2018.

Note 6. Debt

Debt consists of the following as of June 30:

	2018	2017
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.	\$ 12,408,360	\$ 12,649,870

PRELIMINARY DRAFT – OPEN FOR REVIEW AND DISCUSSION

FERRUM COLLEGE

NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 6. Debt (Continued)

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

	2018	2017
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.	5,351,809	5,444,763
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.	8,829,448	9,332,463
Construction note payable to a bank for the renovation of Riddick Hall. The maximum outstanding balance is \$2.5 million, with draws permitted until August 15, 2018. Outstanding principal and accrued interest is due August 15, 2018. Interest is payable monthly at a rate of 4.1% and the note is secured by real property.	1,540,871	-
Unamortized deferred loan costs	<u>28,130,488</u> <u>(144,452)</u>	<u>27,427,096</u> <u>(155,219)</u>
	<u><u>\$ 27,986,036</u></u>	<u><u>\$ 27,271,877</u></u>

(Continued)

PRELIMINARY DRAFT – OPEN FOR REVIEW AND DISCUSSION

FERRUM COLLEGE

NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 6. Debt (Continued)

Debt matures as follows:

	Debt	Amortization of Deferred Loan Costs	Net
Year ending June 30:			
2019	\$ 2,409,417	\$ (10,767)	\$ 2,398,650
2020	902,873	(10,767)	892,106
2021	938,568	(10,767)	927,801
2022	975,687	(10,767)	964,920
2023	1,014,286	(10,767)	1,003,519
2024 and later years	<u>21,889,657</u>	<u>(90,617)</u>	<u>21,799,040</u>
	<u><u>\$ 28,130,488</u></u>	<u><u>\$ (144,452)</u></u>	<u><u>\$ 27,986,036</u></u>

The College has an uncollateralized revolving line of credit with a commercial bank, which provides for borrowings up to \$3.0 million. There were no borrowings on the line of credit as of June 30, 2018 and 2017. Interest is payable monthly at the Prime Rate as published in the Wall Street Journal (5.00% as of June 30, 2018). This line of credit expires January 2, 2019.

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, 2018 and 2017, the debt service reserve fund totaled \$1,104,624 and \$1,054,676, respectively.

PRELIMINARY DRAFT – OPEN FOR REVIEW AND DISCUSSION

FERRUM COLLEGE

NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 7. Net Assets

Net assets as of June 30 consist of the following:

	2018	2017
Unrestricted:		
Funds functioning as endowment		
Quasi endowment	\$ 3,215,536	\$ 3,238,358
Debt service reserve	1,104,624	1,054,676
Annuities	31,466	31,466
Investment in land, buildings, and equipment, net of debt	28,402,956	28,556,713
College contributions to student loan funds	195,812	195,812
Undesignated	<u>9,359,307</u>	<u>8,568,124</u>
	<u>42,309,701</u>	<u>41,645,149</u>
Temporarily restricted:		
Available for the following purposes or periods		
Financial aid, general operations, and maintenance or investment in land, building, and equipment	1,515,398	4,242,175
Accumulated endowment investment return, net of amounts spent – restricted primarily for financial aid	<u>11,188,325</u>	<u>10,348,983</u>
	<u>12,703,723</u>	<u>14,591,158</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	<u>37,471,573</u>	<u>36,527,169</u>
Total net assets	<u>\$ 92,484,997</u>	<u>\$ 92,763,476</u>

(Continued)

PRELIMINARY DRAFT – OPEN FOR REVIEW AND DISCUSSION

FERRUM COLLEGE

NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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:

	2018		2017	
Tuition and fees	\$ 34,911,992	100.0%	\$ 37,689,063	100.0%
Less financial aid				
Institutional scholarships, non-funded	(16,982,748)	(48.7)	(19,217,085)	(51.0)
Endowed scholarships, funded	(1,787,773)	(5.1)	(1,476,967)	(3.9)
External financial aid, funded	(1,099,709)	(3.1)	(368,368)	(1.0)
	<u>(19,870,230)</u>	<u>(56.9)</u>	<u>(21,062,420)</u>	<u>(55.9)</u>
	<u>\$ 15,041,762</u>	<u>43.1%</u>	<u>\$ 16,626,643</u>	<u>44.1%</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 \$746,255 and \$785,979 for the years ended June 30, 2018 and 2017, 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, 2018 and 2017.

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:

	2018	2017
Operating		
Financial aid	\$ 3,054,153	\$ 2,012,006
Operations and maintenance of land, buildings, and equipment	766,256	409,316
Expiration of time restrictions on contributions receivables	<u>2,990,493</u>	<u>189,804</u>
Total operating	<u>6,810,902</u>	<u>2,611,126</u>
Non-operating		
Buildings and equipment	252,649	125,088
Total non-operating	<u>252,649</u>	<u>125,088</u>
	<u>\$ 7,063,551</u>	<u>\$ 2,736,214</u>

(Continued)

PRELIMINARY DRAFT – OPEN FOR REVIEW AND DISCUSSION

FERRUM COLLEGE

NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 10. Operating Expenses

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

	2018		2017	
Compensation	\$ 15,714,415	46.8%	\$ 15,600,244	46.9%
Employee benefits and payroll taxes	3,474,638	10.3	3,260,235	9.9
Tuition remission	<u>754,645</u>	<u>2.2</u>	<u>796,316</u>	<u>2.4</u>
	19,943,698	59.3	19,656,795	59.2
Program expenses	3,035,469	9.0	3,053,105	9.2
Depreciation	2,684,331	8.0	2,432,144	7.3
Utilities	1,732,454	5.2	1,850,612	5.5
Rentals and maintenance	1,385,140	4.1	1,357,822	4.1
Supplies	439,111	1.3	395,557	1.2
Contract services	626,781	1.9	753,217	2.3
Interest expense	1,121,576	3.3	1,252,223	3.8
Printing and publications	400,823	1.2	427,071	1.3
Travel	725,297	2.2	630,147	1.9
Telephone	112,404	0.3	120,162	0.4
Postage and shipping	79,006	0.2	113,952	0.3
Other	<u>1,321,172</u>	<u>3.9</u>	<u>1,189,640</u>	<u>3.5</u>
	<u>\$ 33,607,262</u>	<u>100.0%</u>	<u>\$ 33,232,447</u>	<u>100.0%</u>
Program services	\$ 29,776,034	88.6%	\$ 29,410,716	88.5%
Support services	<u>3,831,228</u>	<u>11.4</u>	<u>3,821,731</u>	<u>11.5</u>
	<u>\$ 33,607,262</u>	<u>100.0%</u>	<u>\$ 33,232,447</u>	<u>100.0%</u>

(Continued)

PRELIMINARY DRAFT – OPEN FOR REVIEW AND DISCUSSION

FERRUM COLLEGE

NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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:

	2018			2017		
	Expenses Before Allocation	Total Expense Allocation	Final Allocated Expenses	Expenses Before Allocation	Total Expense Allocation	Final Allocated Expenses
Instruction	\$ 7,060,408	\$ 1,062,675	\$ 8,123,083	\$ 7,126,692	\$ 1,048,710	\$ 8,175,402
Academic support	1,735,952	418,040	2,153,992	1,770,521	418,884	2,189,405
Student services	6,708,114	1,420,201	8,128,315	6,136,443	1,279,801	7,416,244
Institutional support	5,936,306	406,581	6,342,887	5,926,789	395,575	6,322,364
Auxiliary services	4,963,925	3,895,060	8,858,985	5,182,342	3,946,690	9,129,032
Operations and maintenance of physical plant	3,396,650	(3,396,650)	-	3,405,293	(3,405,293)	-
Depreciation	2,684,331	(2,684,331)	-	2,432,144	(2,432,144)	-
Interest expense	1,121,576	(1,121,576)	-	1,252,223	(1,252,223)	-
	<u>\$ 33,607,262</u>	<u>\$ -</u>	<u>\$ 33,607,262</u>	<u>\$ 33,232,447</u>	<u>\$ -</u>	<u>\$ 33,232,447</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, 2018 and 2017 approximated:

	2018	2017
Instruction	14.8%	14.8%
Academic support	5.8	5.9
Student services	19.7	18.1
Institutional support	5.6	5.6
Auxiliary services	54.1	55.6
	<u>100.0%</u>	<u>100.0%</u>

Fundraising costs totaled approximately \$800,000 and \$848,000 for the years ended June 30, 2018 and 2017, respectively.

PRELIMINARY DRAFT – OPEN FOR REVIEW AND DISCUSSION

FERRUM COLLEGE

NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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, 2018 and 2017, the College provided contributions to the plan of approximately \$683,000 and \$710,000, respectively. Beginning in fiscal year 2019, the College changed its retirement plan sponsor by entering into a 403(b) Multiple Employer Plan (MEP) developed by the Virginia Private Colleges Benefits Consortium (the "Consortium").

The College provides health insurance benefits to its employees through its membership in 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:

	2018 (millions)	2017 (millions)
College-paid share	\$ 1.3	\$ 1.3
Employee-paid share	0.7	0.8
	\$ 2.0	\$ 2.1

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.

(Continued)

PRELIMINARY DRAFT – OPEN FOR REVIEW AND DISCUSSION

FERRUM COLLEGE

NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 13. Endowment

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

	2018	2017
ASSETS		
Contributions receivable	\$ 135,076	\$ 671,073
Investments	39,540,095	37,720,973
Funds held in trust by others	<u>13,302,600</u>	<u>12,800,668</u>
Total assets	<u><u>\$ 52,977,771</u></u>	<u><u>\$ 51,192,714</u></u>
LIABILITIES AND NET ASSETS		
Annuity obligations	<u>\$ 91,247</u>	<u>\$ 117,062</u>
Total liabilities	<u><u>91,247</u></u>	<u><u>117,062</u></u>
Net assets		
Unrestricted		
Quasi endowment	3,215,536	3,238,358
Debt service reserve	1,104,624	1,054,676
Annuities	<u>31,466</u>	<u>31,466</u>
	<u><u>4,351,626</u></u>	<u><u>4,324,500</u></u>
Temporarily restricted		
Accumulated endowment investment return, net of amounts spent	<u>11,188,325</u>	<u>10,348,983</u>
	<u><u>11,188,325</u></u>	<u><u>10,348,983</u></u>
Permanently restricted		
College held	24,043,973	23,601,501
Funds held in trust by others	<u>13,302,600</u>	<u>12,800,668</u>
	<u><u>37,346,573</u></u>	<u><u>36,402,169</u></u>
Total net assets	<u><u>52,886,524</u></u>	<u><u>51,075,652</u></u>
Total liabilities and net assets	<u><u>\$ 52,977,771</u></u>	<u><u>\$ 51,192,714</u></u>

(Continued)

PRELIMINARY DRAFT – OPEN FOR REVIEW AND DISCUSSION

FERRUM COLLEGE

NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 13. Endowment (Continued)

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

	2018			2017		
Equities	\$ 8,559,328	64.3%	\$ 8,072,168	63.1%		
Bonds	3,844,494	28.9	3,571,921	27.9		
Alternative strategies	468,532	3.5	457,118	3.6		
Temporary and other investments	430,246	3.2	699,461	5.4		
	\$ 13,302,600	100.0%	\$ 12,800,668	100.0%		

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

	2018				2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 11,188,325	\$ 37,346,573	\$ 48,534,898	\$ -	\$ 10,348,983	\$ 36,402,169	\$ 46,751,152
Board-designated endowment funds	4,351,626	-	-	4,351,626	4,324,500	-	-	4,324,500
Total endowment net assets	\$ 4,351,626	\$ 11,188,325	\$ 37,346,573	\$ 52,886,524	\$ 4,324,500	\$ 10,348,983	\$ 36,402,169	\$ 51,075,652
2018								
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning	\$ 4,324,500	\$ 10,348,983	\$ 36,402,169	\$ 51,075,652	\$ 3,859,857	\$ 6,983,255	\$ 34,605,658	\$ 45,448,770
Investment return:								
Investment income	81,764	696,771	-	778,535	48,964	412,621	-	461,585
Realized and unrealized gains	52,563	2,190,043	-	2,242,606	502,006	4,443,810	-	4,945,816
Total investment return	134,327	2,886,814	-	3,021,141	550,970	4,856,431	-	5,407,401
Change in funds held in trust by others	-	-	501,932	501,932	-	-	612,236	612,236
Contributions	-	-	442,531	442,531	-	-	1,140,877	1,140,877
Appropriation for expenditure	(112,284)	(2,045,209)	-	(2,157,493)	(99,466)	(1,496,081)	-	(1,595,547)
Other reclassifications and transfers	5,083	(2,263)	(59)	2,761	13,139	5,378	43,398	61,915
Endowment net assets, ending	\$ 4,351,626	\$ 11,188,325	\$ 37,346,573	\$ 52,886,524	\$ 4,324,500	\$ 10,348,983	\$ 36,402,169	\$ 51,075,652

(Continued)

PRELIMINARY DRAFT – OPEN FOR REVIEW AND DISCUSSION

FERRUM COLLEGE

NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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:

	2018				2017			
	Fair Value	Level 1	Level 2	Level 3	Fair Value	Level 1	Level 2	Level 3
Financial assets:								
Investments:								
Large cap equities	\$ 21,112,326	\$ -	\$ 21,112,326	\$ -	\$ 21,022,475	\$ -	\$ 21,022,475	\$ -
International equities	3,514,050	-	3,514,050	-	3,559,114	-	3,559,114	-
Emerging markets	1,709,273	-	1,709,273	-	1,838,437	-	1,838,437	-
Private capital (a)	1,596,971	-	-	-	1,439,504	-	-	-
College-held stocks	972,893	972,893	-	-	839,635	839,635	-	-
Diversified fixed income	9,070,070	-	9,070,070	-	7,318,638	-	7,318,638	-
Distressed debt (a)	394,517	-	-	-	505,641	-	-	-
Low volatility hedge	-	-	-	-	404,713	-	404,713	-
Cash and equivalents	1,169,995	-	1,050,933	119,062	792,866	-	675,302	117,564
	39,540,095	972,893	36,456,652	119,062	37,721,023	839,635	34,818,679	117,564
Funds held in trust by others	13,302,600	-	-	13,302,600	12,800,668	-	-	12,800,668
	\$ 52,842,695	\$ 972,893	\$ 36,456,652	\$ 13,421,662	\$ 50,521,691	\$ 839,635	\$ 34,818,679	\$ 12,918,232

(a) In accordance with ASU 2015-07 Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent), certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the Statements of Financial Position.

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

	2018			2017		
	Investments		Funds Held in Trust by Others	Investments		Funds Held in Trust by Others
	Temporary and Other	Total		Temporary and Other	Total	
Balance, beginning	\$ 117,564	\$ 12,800,668	\$ 12,918,232	\$ 198,131	\$ 12,188,432	\$ 12,386,563
Realized and unrealized gains (losses)	1,498	501,932	503,430	(20,289)	612,236	591,947
Purchases, sales, issuances, and settlements	-	-	-	(60,278)	-	(60,278)
Balance, ending	\$ 119,062	\$ 13,302,600	\$ 13,421,662	\$ 117,564	\$ 12,800,668	\$ 12,918,232

(Continued)

PRELIMINARY DRAFT – OPEN FOR REVIEW AND DISCUSSION

FERRUM COLLEGE

NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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:

Major Category	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
a) Private capital	\$ 1,596,971	\$ 278,000	-	12-15 years
b) Distressed debt	394,517	152,600	20%/year	1-5 years
	<u>\$ 1,991,488</u>	<u>\$ 430,600</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, 2018. The net asset value as of June 30, 2018 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, 2018 and June 30, 2018 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, 2018. The net asset value as of June 30, 2018 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, 2018 and June 30, 2018 and that decline could be material.

Note 15. Pending Pronouncements

Presentation of not-for-profit financial statements

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The new guidance simplifies and improves how not-for-profit entities classify net assets, as well as the information presented in financial statements and notes about liquidity, financial performance, and cash flows. The amendments in ASU 2016-14 will be effective for the College on July 1, 2018, and will be applied on a retrospective basis in the year that the update is first applied.

PRELIMINARY DRAFT – OPEN FOR REVIEW AND DISCUSSION

FERRUM COLLEGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 15. Pending Pronouncements (Continued)

Revenue from contracts with customers

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. ASU 2014-09 clarifies the principles for recognizing revenue and establishes a common revenue standard for U.S. financial reporting purposes. The guidance in ASU 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (for example, insurance contracts or lease contracts). ASU 2014-09 supersedes the revenue recognition requirements in Accounting Standards Codification (ASC) 605, *Revenue Recognition*, and most industry-specific accounting guidance. Additionally, ASU 2014-09 supersedes some guidance included in ASC 605-35, *Revenue Recognition – Construction-Type and Production-Type Contracts*. In addition, the existing requirements for the recognition of a gain or loss on the transfer of nonfinancial assets that are not in a contract with a customer (for example, assets within the scope of ASC 360, *Property, Plant, and Equipment*, and intangible assets within the scope of ASC 350, *Intangibles – Goodwill and Other*) are amended to be consistent with the guidance on recognition and measurement (including the constraint on revenue) in ASU 2014-09. In July 2015, the FASB approved to defer the effective date of ASU 2014-09 by one year. Accordingly, ASU 2014-09 will be effective for nonpublic entities for annual reporting periods beginning after December 15, 2018 and interim periods therein.

Lease accounting

On February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. ASU 2016-02 requires that lessees recognize all leases (other than leases with a term of twelve months or fewer) on the balance sheet as lease liabilities, based upon the present value of the lease payments, with corresponding right of use assets. ASU 2016-02 also makes targeted changes to other aspects of current guidance, including identifying a lease and lease classification criteria as well as the lessor accounting model, including guidance on separating components of a contract and consideration in the contract. The amendments in ASU 2016-02 will be effective for the College on July 1, 2020, and will require modified retrospective application as of the beginning of the earliest period presented in the financial statements. Early application is permitted.

Note 16. Subsequent Events

Subsequent to year end, the College received a Change in Terms agreement for the construction note payable at June 30, 2018. The agreement changed the note to a term loan with an interest rate of 4.1% and extended the maturity date from August 15, 2018 to May 15, 2028. The loan requires monthly interest payments beginning September 15, 2018, 10 annual principal payments of \$125,000 beginning September 15, 2018, and payment of remaining principal and interest May 15, 2028. The loan is secured by real property.

PRELIMINARY DRAFT – OPEN FOR REVIEW AND DISCUSSION

FERRUM COLLEGE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2018

Federal Grantor/Program Title	Number	Federal
<u>U.S. Department of Education</u>		
Student Financial Aid Programs:		
Federal Work-Study Program	84.033	\$ 166,671
Federal Pell Grant Program	84.063	3,237,829
Federal Supplemental Educational Opportunity Grant Program	84.007	130,492
Federal Perkins Loan Program	84.038	171,500
Federal Teach Program	84.379	3,736
Federal Direct Loan Program	84.268	<u>12,312,424</u>
Total Federal Awards		<u>\$ 16,022,652</u>

FERRUM COLLEGE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2018

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the College and is presented using the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. The College's major programs are as follows:

Student Financial Aid

Student Financial Aid includes certain awards to provide financial aid to students, primarily under the Federal Work-Study (FWS), Federal Pell Grant (Pell), Federal Teach Grant (TEACH), and Federal Supplemental Educational Opportunity Grant (FSEOG) programs of the U.S. Department of Education. The College also receives awards to make loans to eligible students under a federal student loan program (Federal Perkins Loan) and the Federal Direct Loan program.

Note 2. Summary of Significant Accounting Policies for Expenditures of Federal Awards

Expenditures for federal student financial aid programs are recognized as incurred. Pell Grant awards are recognized as agency transactions and are not recorded as expenditures in the financial statements.

The College has elected to not use the 10% de minimis indirect cost rate.

Note 3. Federal Direct Loan Program

The College is responsible only for the performance of certain administrative duties with respect to its Federal Direct Loan programs, and accordingly, these loans are not included in its financial statements. It is not practicable to determine the balance of loans outstanding to students and former students of the College under these programs as of June 30, 2018.

Note 4. Federal Perkins Loan Program

Cumulative loans outstanding (net of principal repayments and cancellations), including the \$171,500 of student loans advanced under the Federal Perkins Loan Program in 2018, total \$1,376,099. There was no federal capital contribution in 2018.



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Trustees
Ferrum College
Ferrum, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Ferrum College (the “College”), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 2, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the College’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College’s internal control. Accordingly, we do not express an opinion on the effectiveness of the College’s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the College's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
_____, 2018



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Trustees
Ferrum College
Ferrum, Virginia

Report on Compliance for Each Major Federal Program

We have audited Ferrum College's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Ferrum College's major federal programs for the year ended June 30, 2018. Ferrum College's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Ferrum College's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Ferrum College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Ferrum College's compliance.

Opinion on Each Major Federal Program

In our opinion, Ferrum College complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control over Compliance

Management of Ferrum College is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Ferrum College's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Ferrum College's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia

_____, 2018

FERRUM COLLEGE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2018

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an **unmodified opinion** on the financial statements of Ferrum College (the "College").
2. **No significant deficiencies** relating to the audit of the financial statements are reported in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. **No instances of noncompliance** material to the financial statements of the College were disclosed during the audit.
4. **No significant deficiencies** relating to the audit of the major federal award programs are reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance.
5. The auditor's report on compliance for the major federal award programs of the College expresses an **unmodified opinion**.
6. The audit disclosed **no audit findings relating to the major programs**.
7. The major federal award programs tested include:

Student Financial Aid Cluster:

Federal Work-Study Program	84.033
Federal Pell Grant Program	84.063
Federal Supplemental Educational Opportunity Grant Program	84.007
Federal Perkins Loan Program	84.038
Federal Teach Program	84.379
Federal Direct Loan Program	84.268

8. The **threshold** for distinguishing Types A and B programs was **\$750,000**.
9. **The College was determined to be a low-risk auditee.**

B. FINDINGS – FINANCIAL STATEMENT AUDIT

None.

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM AUDIT

None.