

The College of William & Mary Foundation

Consolidated Financial Statements as of and
for the Years Ended June 30, 2017 and 2016, and
Independent Auditors' Report

THE COLLEGE OF WILLIAM & MARY FOUNDATION

OFFICERS AND TRUSTEES

Officers

Chairperson of the Board
Vice Chairperson for Development
Vice Chairperson for Investments
Secretary
Assistant Secretary
Treasurer
Assistant Treasurer

Nancy B. Gofus
Michael P. Foradas
Craig W. Broderick
Martha F. Tack
Matthew T. Lambert
Scott M. Custer
William D. Copan, Jr.

Trustees

A. Marshall Acuff, Jr., ex officio
Dawn M. Arnall
Janet R. Atwater
Benjamin M. Berinstein
David A. Boor
Craig W. Broderick
Scott M. Custer
Maryellen Farmer Feeley
Clifford B. Fleet, III
Michael P. Foradas
Jody W. Forsyth
Melissa D. Friedery
Alvaro Garcia-Tunon, ex-officio
Nancy B. Gofus
Shelley Goode
Bruce C. Gottwald, Jr.
Michael R. Halleran, non-voting ex-officio
Alan D. Hilliker
Rhian L. Horgan
Andrew W. Horrocks
David J. Jallits
Shelley C. Jennings
Stephen A. Johnsen, ex-officio
Samuel E. Jones, non-voting ex-officio
David N. Kelley
Matthew T. Lambert, non-voting ex-officio
Matthew D. Lentz
Jill M. Lord
Jennifer T. Mackesy
Audra Lynn Mallow
Elizabeth McLeod
Penelope H. Meredith
John Struth Novogratz

Midlothian, Virginia
Aspen, Colorado
Chadds Ford, Pennsylvania
New York, New York
Jacksonville, Florida
Greenwich, Connecticut
Wilmington, North Carolina
Greenwich, Connecticut
Richmond, Virginia
Kenilworth, Illinois
Calgary, Canada
Lafayette, Colorado
Pittsburgh, Pennsylvania
Reston, Virginia
Arlington, Virginia
Richmond, Virginia
Williamsburg, Virginia
New York, New York
New York, New York
New York, New York
Great Falls, Virginia
McLean, Virginia
Onancock, Virginia
Williamsburg, Virginia
Sag Harbor, New York
Williamsburg, Virginia
New York, New York
Charlottesville, Virginia
Bronxville, New York
Pacific Palisades, California
Norfolk, Virginia
Norfolk, Virginia
Brooklyn, New York

Trustees (continued)

| | |
|--|-----------------------------|
| Mark R. Patterson | Short Hills, New Jersey |
| J. Scott Perkins | Palm Beach Gardens, Florida |
| Kevin M. Phillips | Oakton, Virginia |
| Michael K. Powell | Alexandria, Virginia |
| John T. Reilly | Winter Park, Florida |
| W. Taylor Reveley III, non-voting ex-officio | Williamsburg, Virginia |
| Michael C. Sapnar | New York, New York |
| Anne Pennewell Sharp | Fairfax Station, Virginia |
| John E. Simmons | Rye, New York |
| Craig P. Staub | Garden City, New York |
| Ellen Renee Stofan | The Plains, Virginia |
| David K. Stone | Menlo Park, California |
| Martha F. Tack | Williamsburg, Virginia |
| Raelene C. Wagoner | Ashburn, Virginia |
| Charles Andrew Waters | Los Angeles, California |
| Brooke Tribble Weinmann | Atlanta, Georgia |
| Dixie D. Wolf | Williamsburg, Virginia |

Trustees Emeriti

| | |
|------------------------------|---------------------------|
| A. Marshall Acuff, Jr. | Midlothian, Virginia |
| Garry M. Allen | Midlothian, Virginia |
| William C. Allison, IV | Naples, Florida |
| Robert S. Andrialis | New York, New York |
| Molly F. Ashby | New York, New York |
| Kendrick F. Ashton, Jr. | Laurel, Maryland |
| Peter W. Atwater | Chadds Ford, Pennsylvania |
| Michele Z. Ball | Williamsburg, Virginia |
| Stanley G. Barr, Jr. | Norfolk, Virginia |
| Randolph A. Beales | Richmond, Virginia |
| David L. Bernd | Virginia Beach, Virginia |
| David N. Bottoms, Jr. | Syosset, New York |
| Robert Friend Boyd | Norfolk, Virginia |
| W. Edward Bright | Falls Church, Virginia |
| James W. Brinkley | Towson, Maryland |
| K. Dane Brooksher | Elsberry, Missouri |
| Jean Canoles Bruce | Williamsburg, Virginia |
| Howard J. Busbee | Richmond, Virginia |
| Ming E. Chang | Fairfax, Virginia |
| Carl W. Cheek | Longboat Key, Florida |
| D. Bruce Christian | Lynchburg, Virginia |
| C. Lacey Compton, Jr. | Park City, Utah |
| Juan F. Conde | New Canaan, Connecticut |
| Patrick St. George Cousins | West Palm Beach, Florida |
| Clyde E. Culp III | Annapolis, Maryland |
| Michael W. Cummings | Ellicott City, Maryland |
| Patricia Demoff | Beverly Hills, California |
| Constance Warren Desaulniers | Williamsburg, Virginia |
| Thomas C. Dexter, Jr. | Wilton, Connecticut |

Trustees Emeriti (Continued)

| | |
|----------------------------|----------------------------|
| Lynn M. Dillon | McLean, Virginia |
| Ted R. Dintersmith | Earlsville, Virginia |
| Jonathan J. Doyle | Greenwich, Connecticut |
| Samuel E. Ebbesen | Springfield, Virginia |
| David A. Eklund | Naples, Florida |
| Randall R. Eley | Springfield, Virginia |
| Jean B. Estes | Richmond, Virginia |
| Keith S. Fimian | Oakton, Virginia |
| Julian W. Fore | Arlington, Virginia |
| David B. Forer | New York, New York |
| Henry H. George | Williamsburg, Virginia |
| John W. Gerdelman | Williamsburg, Virginia |
| Sue H. Gerdelman | Williamsburg, Virginia |
| Sarah Ives Gore | Newark, Delaware |
| Floyd D. Gottwald, Jr. | Richmond, Virginia |
| Dawn Fitzgerald Griggs | Williamsburg, Virginia |
| Margaret Divens Hauben | San Francisco, California |
| J. William Harrison, Jr. | Fairfax, Virginia |
| Bruce E. Hathaway | Charlottesville, Virginia |
| David A. Heenan | Honolulu, Hawaii |
| Michael P. Hennesey | Durham, North Carolina |
| Frederick H. Henritze | Atlanta, Georgia |
| Deborah Allen Hewitt | Williamsburg, Virginia |
| Janet G. Hirshberg | Pittsburgh, Pennsylvania |
| Thomas P. Hollowell | Charlotte, North Carolina |
| Lois Saunier Hornsby | Williamsburg, Virginia |
| Kristen S. Huntley | Seattle, Washington |
| Howard H. Hyle | Williamsburg, Virginia |
| G. Hartwell Hylton | Darien, Connecticut |
| Jerome E. Hyman | New York, New York |
| Cynthia Satterwhite Jarboe | Bonita Springs, Florida |
| Elizabeth Cabell Jennings | Richmond, Virginia |
| James R. Kaplan | Williamsburg, Virginia |
| Martha Ellis Kelley | Broad Run, Virginia |
| John H. Kerby II | Arlington, Virginia |
| Lawrence E. Kochard | Charlottesville, Virginia |
| Gale H. Kohlhagen | Charleston, South Carolina |
| Joseph R. Koons | McLean, Virginia |
| Fred T. Kovaleski | New York, New York |
| Richard C. Kraemer | Paradise Valley, Arizona |
| John F. Kuemmerle | Richmond, Virginia |
| Leanne Dorman Kurland | Glen Allen, Virginia |
| John P. Kyle | Bethesda, Maryland |
| J. Andrew Lark | Summit, New Jersey |
| Kay R. Lark | Summit, New Jersey |
| David C. Larson | Fort Myers, Florida |
| Sophie K. Lee | Gaithersburg, Maryland |
| Tracy A. Leinbach | Pinehurst, North Carolina |
| D. Scott Mackesy | Bronxville, New York |
| Raymond A. Mason | Naples, Florida |
| Hallett H. Mathews | Williamsburg, Virginia |

Trustees Emeriti (Continued)

| | |
|----------------------------|--|
| Leslie McCormack-Gathy | South Ascot, Berkshire, United Kingdom |
| Shepard W. McKenney | Drayden, Maryland |
| Kathryn B. McQuade | Mesquite, Nevada |
| Alan B. Miller | Gladwyne, Pennsylvania |
| Ronald J. Monark | Williamsburg, Virginia |
| Joseph W. Montgomery | Williamsburg, Virginia |
| Devin I. Murphy | Southport, Connecticut |
| James B. Murray, Jr. | Charlottesville, Virginia |
| Peter M. Nance | Jupiter, Florida |
| Cathy Gonzales O'Kelly | Oak Park, Illinois |
| Carroll W. Owens, Jr. | Alexandria, Virginia |
| Donald G. Owens | Richmond, Virginia |
| Patricia L. Pavey | Cleveland, Ohio |
| Robert D. Pavey | Cleveland, Ohio |
| David L. Peebles | Ordinary, Virginia |
| Samuel M. Peters | Baltimore, Maryland |
| George C. Pierides | Keswick, Virginia |
| Joseph J. Plumeri II | Far Hills, New Jersey |
| J. Matthews Pope | Richmond, Virginia |
| Michael K. Powell | Alexandria, Virginia |
| Peter J. Quinn, Jr. | Richmond, Virginia |
| Barbara L. Rambo | San Francisco, California |
| John P. Rathbone | Falls Church, Virginia |
| Todd B. Richter | New York, New York |
| Alfred F. Ritter, Jr. | Virginia Beach, Virginia |
| G. Elliott Schaubach, Jr. | Virginia Beach, Virginia |
| L. Clifford Schroeder, Sr. | Richmond, Virginia |
| Patricia K. Sell | LaJolla, California |
| Joyce L. Shields | Alexandria, Virginia |
| Joan F. Showalter | Moneta, Virginia |
| Richard E. Sikorski | Las Vegas, Nevada |
| Olinda E. Simon | Bronxville, New York |
| Nicholas J. St. George | Winter Park, Florida |
| Carlton A. Stockton | Williamsburg, Virginia |
| George A. Stohner | Indianapolis, Indiana |
| Ray C. Stoner | Fox Chapel, Pennsylvania |
| Martha L. Stout | Richmond, Virginia |
| Timothy J. Sullivan | Key West, Florida |
| Caroline B. Talbot | Williamsburg, Virginia |
| Michael Tang | Elk Grove Village, Illinois |
| Theresa Thompson | Arlington, Virginia |
| Spencer L. Timm | West Chesterfield, Massachusetts |
| Edward T. Tokar, Jr. | Summit, New Jersey |
| Kevin J. Tunick | Chapel Hill, North Carolina |
| Barbara B. Ukrop | Richmond, Virginia |
| James E. Ukrop | Richmond, Virginia |
| Thomas H. Waechter | Pleasanton, California |
| David D. Wakefield | Wilmington, Delaware |
| H. Thomas Watkins III | Lake Forest, Illinois |
| Virginia F. Wetter | Havre de Grace, Maryland |
| Henry D. Wilde | Houston, Texas |

Trustees Emeriti (Continued)

Bruce J. Williams
Donnan Chancellor Wintermute
Cornelia W. Wolf
Amy Wright

New York, New York
Alexandria, Virginia
Mount Wolf, Pennsylvania
Cinnaminson, New Jersey

Committees

Executive Committee

Nancy B. Gofus, Chairperson
Benjamin M. Berinstein
Craig W. Broderick
Scott M. Custer
Maryellen Farmer Feeley
Michael P. Foradas
Alan D. Hilliker
Audra Lynn Mallow
Michael K. Powell
Craig P. Staub
Ellen Renee Stofan
Martha F. Tack
Michael R. Halleran, non-voting ex-officio
Samuel E. Jones, non-voting ex-officio
Matthew T. Lambert, non-voting ex-officio
W. Taylor Reveley III, non-voting ex-officio

Investments Committee

Craig W. Broderick, Chairperson
Craig Staub, Vice Chairperson
Jody W. Forsyth
Nancy B. Gofus
Bruce C. Gottwald, Jr.
Rhian L. Horgan
Andrew W. Horrocks
David J. Jallits
J. Scott Perkins
A. Marshall Acuff, Jr., voting ex-officio
Scott M. Custer, non-voting ex-officio
Alvaro Garcia-Tunon, voting ex-officio
Michael R. Halleran, non-voting ex-officio
Stephen A. Johnsen, non-voting ex-officio
Samuel E. Jones, non-voting ex-officio
W. Taylor Reveley III, non-voting ex-officio

Development Committee

Michael P. Foradas, Chairperson
Dawn M. Arnall
Janet R. Atwater
Melissa D. Friedery
Shelley Goode
Rhian L. Horgan
Penelope H. Meredith
Devin I. Murphy
John Struth Novogratz
Mark R. Patterson
Michael K. Powell
Anne Pennewell Sharp
John E. Simmons
Craig P. Staub
Ellen Renee Stofan
Martha F. Tack
Raelene C. Wagoner
Brooke Tribble Weinmann
Dixie D. Wolf
Nancy B. Gofus, non-voting ex-officio
Matthew T. Lambert, non-voting ex-officio
W. Taylor Reveley III, non-voting ex-officio

Audit Committee

Benjamin M. Berinstein, Chairperson
Kevin M. Phillips, Vice Chairperson
David A. Boor
Craig W. Broderick
Shelley C. Jennings
Michael C. Sapnar
David K. Stone

Committees (Continued)

Budget and Finance Committee

Scott M. Custer, Chairperson
Audra Lynn Mallow, Vice Chairperson
David A. Boor
Clifford B. Fleet, III
Jody W. Forsyth
Nancy B. Gofus
Andrew W. Horrocks
David J. Jallits
Matthew D. Lentz
Kevin M. Phillips
David K. Stone
Michael R. Halleran, non-voting ex-officio
Samuel E. Jones, non-voting ex-officio
Matthew T. Lambert, non-voting ex-officio

Athletics Sub-Committee

Craig P. Staub, Chairperson
Maryellen Farmer Feeley, Vice Chairperson
Benjamin M. Berinstein
Scott M. Custer
Clifford B. Fleet, III
Michael P. Foradas
Melissa D. Friedery
Andrew W. Horrocks
David N. Kelley
Jennifer T. Mackesy
Audra Lynn Mallow
John Struth Novogratz
J. Scott Perkins
John T. Reilly
Michael C. Sapnar
John E. Simmons
Charles Andrew Waters
Nancy B. Gofus, non-voting ex-officio
Matthew T. Lambert, non-voting ex-officio

Committee on Trusteeship

Alan D. Hilliker, Chairperson
Brooke Tribble Weinmann, Vice Chairperson
Dawn M. Arnall
Craig W. Broderick
Maryellen Farmer Feeley
Michael P. Foradas
Nancy B. Gofus
David J. Jallits
David N. Kelley
Jill M. Lord
Elizabeth McLeod
Michael K. Powell
Ellen Renee Stofan
Martha F. Tack
Dixie D. Wolf
Matthew T. Lambert, non-voting ex-officio
W. Taylor Reveley III, non-voting ex-officio

Scholarship Subcommittee

Michael K. Powell, Chairperson
Elizabeth McLeod, Vice Chairperson
Janet R. Atwater
Michael P. Foradas
Jody W. Forsyth
Nancy B. Gofus, ex-officio
Shelley Goode
Alan D. Hilliker
Shelley C. Jennings
Matthew D. Lentz
Jill M. Lord
Jennifer T. Mackesy
Penelope H. Meredith
Mark R. Patterson
John T. Reilly
Anne Pennewell Sharp
Ellen Renee Stofan
Martha F. Tack
Raelene C. Wagoner
Charles Andrew Waters
Brooke Tribble Weinmann
Dixie D. Wolf

THE COLLEGE OF WILLIAM & MARY FOUNDATION

TABLE OF CONTENTS

| | Page |
|--|-------------|
| INDEPENDENT AUDITORS' REPORT | 1-2 |
| CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2017 AND 2016: | |
| Statements of Financial Position | 3 |
| Statements of Activities | 4-5 |
| Statements of Cash Flows | 6-7 |
| Notes to Financial Statements | 8-31 |

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
The College of William & Mary Foundation
Williamsburg, Virginia

We have audited the accompanying consolidated financial statements of The College of William & Mary Foundation (the "Foundation"), which comprise the consolidated statement of financial position as of June 30, 2017, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Foundation's preparation and fair presentation of the consolidated 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 Foundation'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of The College of William & Mary Foundation as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited The College of William & Mary Foundation's 2016 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated September 20, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Deloitte & Touche LLP

September 19, 2017

THE COLLEGE OF WILLIAM & MARY FOUNDATION

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF JUNE 30, 2017 AND 2016

| | 2017 | 2016 |
|--|-----------------------|-----------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 8,200,694 | \$ 8,074,329 |
| Short-term investments | 15,275,231 | 19,366,271 |
| Accounts receivable | 2,837,966 | 832,971 |
| Prepaid expenses | 578,209 | 813,500 |
| Notes receivable | 1,080,298 | 1,080,298 |
| Pledges receivable—net | 24,383,725 | 14,243,345 |
| Property and equipment—net | 9,856,888 | 10,261,880 |
| Collections | 6,032,340 | 5,937,740 |
| Investments | 543,928,714 | 490,652,717 |
| Receivable from remainder trusts | 6,144,399 | 6,234,988 |
| Assets held in charitable remainder trusts | 481,381 | 469,798 |
| Cash surrender value of life insurance policies | 1,586,204 | 1,529,598 |
| Funds held in trust by others | <u>149,685,545</u> | <u>149,908,314</u> |
| TOTAL | <u>\$ 770,071,594</u> | <u>\$ 709,405,749</u> |
| LIABILITIES AND NET ASSETS | | |
| LIABILITIES: | | |
| Accounts payable | \$ 250,671 | \$ 863,149 |
| Accrued expenses | 272,129 | 242,244 |
| Accrued interest payable | 65,564 | 66,690 |
| Notes payable and lines of credit | 1,210,234 | 1,750,258 |
| Deferred compensation liability | 592,917 | 442,427 |
| Deferred income | 97,228 | 35,811 |
| Life estates retained by donors | 1,198,200 | 1,215,706 |
| Obligations under split-interest agreements | 1,490,710 | 1,561,766 |
| Bonds payable (net of unamortized bond issuance costs) | 8,051,530 | 8,042,981 |
| Interest in New Town Associates, LLC | 296,383 | 270,130 |
| Funds held for others | <u>16,243,966</u> | <u>15,097,201</u> |
| Total liabilities | <u>29,769,532</u> | <u>29,588,363</u> |
| NET ASSETS: | | |
| Unrestricted | 29,994,611 | 28,889,846 |
| Temporarily restricted | 268,468,768 | 220,475,247 |
| Permanently restricted | <u>441,838,683</u> | <u>430,452,293</u> |
| Total net assets | <u>740,302,062</u> | <u>679,817,386</u> |
| TOTAL | <u>\$ 770,071,594</u> | <u>\$ 709,405,749</u> |

See notes to consolidated financial statements.

THE COLLEGE OF WILLIAM & MARY FOUNDATION

CONSOLIDATED STATEMENTS OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2017 (WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2016)

| | 2017 | | | Total | 2016 Total |
|---|--------------|---------------------------|---------------------------|---------------|---------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | | |
| OPERATING ACTIVITY: | | | | | |
| Revenue and support: | | | | | |
| Contributions | \$ 451,067 | \$ 22,055,211 | \$ 9,938,254 | \$ 32,444,532 | \$ 21,668,717 |
| Income on funds held by others | 4,491,846 | - | 186,400 | 4,678,246 | 4,409,016 |
| Investment return for current operations | 3,111,399 | 16,500,405 | - | 19,611,804 | 18,289,042 |
| CEI—technology fees from the College | 1,916,481 | - | - | 1,916,481 | 2,030,487 |
| CEI—revenue from special projects | 2,210,536 | - | - | 2,210,536 | 1,304,094 |
| Other | 916,209 | 30,501 | 42,380 | 989,090 | 1,000,425 |
| | 13,097,538 | 38,586,117 | 10,167,034 | 61,850,689 | 48,701,781 |
| Net assets released from restrictions— satisfaction of program and time restrictions | 24,835,320 | (24,835,320) | - | - | - |
| Total revenue and support | 37,932,858 | 13,750,797 | 10,167,034 | 61,850,689 | 48,701,781 |
| Expenses: | | | | | |
| Program services: | | | | | |
| Instruction | 5,177,446 | - | - | 5,177,446 | 4,578,263 |
| Research | 302,405 | - | - | 302,405 | 289,903 |
| Public service | 96,459 | - | - | 96,459 | 60,916 |
| Academic support | 2,488,104 | - | - | 2,488,104 | 1,784,740 |
| Institutional support | 1,113,812 | - | - | 1,113,812 | 951,095 |
| Athletic programs | 797,880 | - | - | 797,880 | 745,195 |
| Student life and other | 207,127 | - | - | 207,127 | 257,686 |
| Plant and facilities | 7,751,205 | - | - | 7,751,205 | 13,196,036 |
| Scholarships and fellowships | 8,409,223 | - | - | 8,409,223 | 7,858,544 |
| Technology—CEI | 2,835,724 | - | - | 2,835,724 | 4,236,612 |
| Total program services | 29,179,385 | - | - | 29,179,385 | 33,958,990 |
| Supporting services: | | | | | |
| Fundraising | 8,036,491 | - | - | 8,036,491 | 9,151,260 |
| Administrative and general: | | | | | |
| Board expenses | 62,815 | - | - | 62,815 | 70,047 |
| Office of Investment Administration | 988,783 | - | - | 988,783 | 889,080 |
| Expenses of the Real Estate Foundation | 59,435 | - | - | 59,435 | 65,497 |
| Expenses of Reliance Holdings, LLC | 3,455 | - | - | 3,455 | 20,750 |
| Other | 352,886 | - | - | 352,886 | 444,622 |
| | 1,467,374 | - | - | 1,467,374 | 1,489,996 |
| Total supporting services | 9,503,865 | - | - | 9,503,865 | 10,667,898 |
| Total expenses | 38,683,250 | - | - | 38,683,250 | 44,600,246 |

(Continued)

THE COLLEGE OF WILLIAM & MARY FOUNDATION

**CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017 (WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 2016)**

| | 2017 | | | Total | 2016 Total |
|---|---------------|---------------------------|---------------------------|----------------|----------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | | |
| CHANGE IN NET ASSETS FROM OPERATIONS | \$ (750,392) | \$ 13,750,797 | \$ 10,167,034 | \$ 23,167,439 | \$ 4,101,535 |
| NONOPERATING ACTIVITY: | | | | | |
| Investment return | 1,881,410 | 34,165,146 | 1,203,854 | 37,250,410 | (29,600,137) |
| Net unrealized gain (loss) on funds held in trust by others | - | - | (222,770) | (222,770) | 19,079,168 |
| Change in value of split-interest agreements | - | 77,578 | 238,272 | 315,850 | 663,909 |
| Change in value of interest in New Town Associates, LLC | (26,253) | - | - | (26,253) | (50,982) |
| Total nonoperating activity | 1,855,157 | 34,242,724 | 1,219,356 | 37,317,237 | (9,908,042) |
| CHANGE IN NET ASSETS | 1,104,765 | 47,993,521 | 11,386,390 | 60,484,676 | (5,806,507) |
| NET ASSETS—Beginning of year | 28,889,846 | 220,475,247 | 430,452,293 | 679,817,386 | 685,623,893 |
| NET ASSETS—End of year | \$ 29,994,611 | \$ 268,468,768 | \$ 441,838,683 | \$ 740,302,062 | \$ 679,817,386 |

See notes to consolidated financial statements.

(Concluded)

THE COLLEGE OF WILLIAM & MARY FOUNDATION

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2016 AND 2017

| | 2017 | 2016 |
|---|------------------------|------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Change in net assets | \$ 60,484,676 | \$ (5,806,507) |
| Adjustments to reconcile change in net assets to net cash used in operating activities: | | |
| Net unrealized (gain) loss on funds held in trust by others | 222,769 | (19,079,168) |
| Depreciation | 535,421 | 527,027 |
| Proceeds from sale of donated securities | 2,415,632 | 946,413 |
| Contribution of collection items | (4,600) | - |
| Net realized gain on investments sold | (771) | (487,528) |
| Net unrealized (gain) loss on investments and short-term investments | (389,072) | 446,655 |
| Change in value of investment in William and Mary Investment Trust | (56,172,204) | 11,559,770 |
| Change in value of investment in William and Mary Investment Trust in funds held for others | (1,729,893) | 408,525 |
| Change in value of interest in New Town Associates, LLC | 26,253 | 50,982 |
| Amortization of bond issuance costs | 8,549 | 8,549 |
| Contributions restricted for endowment | (6,742,835) | (8,841,844) |
| Contributions restricted for split-interest agreements | (58,101) | (33,010) |
| Noncash gifts | (5,968,091) | (3,580,510) |
| Investment return designated for long term investment | (2,220,731) | (1,829,008) |
| (Increase) decrease in assets: | | |
| Accounts receivable | (2,004,995) | 2,325,227 |
| Prepaid expenses | 235,291 | 709,470 |
| Pledges receivable | (10,140,380) | (1,149,718) |
| Receivable from remainder trusts | 90,589 | (232,366) |
| Assets held in charitable remainder trusts | (11,583) | 18,281 |
| Cash surrender value of life insurance policies | (56,606) | 35,770 |
| Increase (decrease) in liabilities: | | |
| Accounts payable | (612,478) | 645,697 |
| Accrued expenses | 29,885 | 6,648 |
| Accrued interest payable | (1,126) | (1,598) |
| Deferred compensation liability | 150,490 | 36,648 |
| Deferred income | 64,130 | (1,092) |
| Life estates retained by donors | (17,506) | (17,187) |
| Obligations under split-interest agreements | 91,004 | (116,389) |
| Funds held for others | <u>1,146,765</u> | <u>(1,007,604)</u> |
| Net cash used in operating activities | <u>\$ (20,629,518)</u> | <u>\$ (24,457,867)</u> |

(Continued)

THE COLLEGE OF WILLIAM & MARY FOUNDATION

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

| | 2017 | 2016 |
|--|---------------------|---------------------|
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of property and equipment | \$ (130,429) | \$ (273,123) |
| Purchase of collections | (90,000) | - |
| Loans repaid | - | 195,000 |
| Purchase of investments | (51,725,678) | (51,765,979) |
| Payments received on investment note receivable | 225,000 | 1,050,000 |
| Proceeds from investments sold | <u>60,635,259</u> | <u>63,480,523</u> |
| Net cash provided by investing activities | <u>8,914,152</u> | <u>12,686,421</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from contributions restricted for long-term investment: | | |
| Contributions restricted for endowment | 6,742,835 | 8,841,844 |
| Proceeds from sale of donated securities | 3,524,861 | 2,607,548 |
| Investment subject to split-interest agreements | 58,101 | 33,010 |
| Investment return designated for long-term investment | 2,220,731 | 1,829,008 |
| Other financing activities: | | |
| Receipts funding split-interest obligations | 66,900 | 41,990 |
| Payments of split-interest obligations | (231,673) | (251,317) |
| Payments on notes and lines of credit | <u>(540,024)</u> | <u>(1,542,770)</u> |
| Net cash provided by financing activities | <u>11,841,731</u> | <u>11,559,313</u> |
| NET INCREASE (DECREASE) IN CASH | 126,365 | (212,133) |
| CASH AND CASH EQUIVALENTS—Beginning of year | <u>8,074,329</u> | <u>8,286,462</u> |
| CASH AND CASH EQUIVALENTS—End of year | <u>\$ 8,200,694</u> | <u>\$ 8,074,329</u> |

SUPPLEMENTAL DATA—Noncash investing and financing activities:

Noncash gifts designated for endowment and other purposes consist of securities and other investments.

Cash paid for interest on bonds and notes for the years ended June 30, 2017 and 2016, was \$313,379 and \$345,139, respectively.

Cash paid for taxes for the years ended June 30, 2017 and 2016 was \$2,497 and \$2,210, respectively. Taxes resulted from unrelated business income in limited partnerships.

See notes to consolidated financial statements.

(Concluded)

THE COLLEGE OF WILLIAM & MARY FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

1. NATURE OF OPERATIONS

The College of William & Mary Foundation (the "Foundation") is a private corporation, established as a nonprofit public charity under Section 501(c)(3) of the Internal Revenue Code and organized under the laws of the Commonwealth of Virginia. The Foundation was chartered in 1939 to "aid, strengthen, and expand in every proper and useful way" the work of The College of William and Mary in Virginia (the "College"). Members of the Foundation raise funds for the benefit of the College and manage its privately held assets.

2. SUMMARY OF SIGNIFICANT OPERATIONS AND ACCOUNTING POLICIES

Basis of Presentation—The accompanying consolidated financial statements of the Foundation include the accounts of its affiliates, The College of William and Mary Real Estate Foundation, Inc., College Enterprises, Inc., Reliance Holdings, LLC, CWMF Ventures LLC and the Murray 1693 Scholars Foundation. Inter-company accounts and transactions have been eliminated in consolidation.

Accounting Standards Codification ("ASC") Topic 958, *Not-for-Profit Entities*, establishes standards for external financial reporting by not-for-profit organizations. Resources are reported for accounting purposes in separate classes of net assets based on the existence or absence of donor-imposed restrictions. In the accompanying consolidated financial statements, net assets that have similar characteristics have been combined into categories as follows:

Unrestricted Net Assets—Unrestricted net assets generally result from receiving unrestricted contributions, unrealized and realized gains and losses on board designated funds functioning as endowments with no donor-imposed or legal restrictions on income, income from funds held in trust by others with no restrictions as to use, and revenue from investing in income-producing assets.

Temporarily Restricted Net Assets—Temporarily restricted net assets generally result from contributions and other inflows of assets whose use by the organization is limited by donor-imposed stipulations that either expire by the passage of time or can be fulfilled and removed by actions of the Foundation pursuant to those stipulations.

Permanently Restricted Net Assets—Permanently restricted net assets generally represent the historical cost (market value at date of gift) of contributions and other inflows of assets whose use by the Foundation is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by the Foundation.

Basis of Accounting—The accompanying consolidated financial statements are prepared under accounting principles generally accepted in the United States of America ("GAAP"). Revenue and support are recognized in the accounting period in which it is realized or realizable and earned and expenses are recognized in the accounting period in which the related liability is incurred. Nonoperating activity is recognized in accordance with these same principles.

Cash Equivalents—Cash equivalents include highly-liquid investment instruments with an original maturity of three months or less when purchased.

Pledges Receivable—ASC Topic 958 requires that unconditional promises to give (pledges) be recorded as receivables and revenue and requires the Foundation to distinguish between contributions received for each net asset category in accordance with donor-imposed restrictions. The pledges receivable reflects management’s estimate of the funds to be received after an allowance for uncollectible pledges discounted to the net present value using an assumed risk free interest rate.

Fair Value Measurement—Certain assets and liabilities of the Foundation are reflected in the accompanying financial statements at fair value. The Foundation follows the provisions in ASC Topic 820, *Fair Value Measurement*. ASC Topic 820 establishes a fair value hierarchy and specifies that the valuation techniques used to measure fair value shall maximize the use of observable inputs and minimize the use of unobservable inputs. The objective of a fair value measurement is to determine 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 (an exit price). Accordingly, the fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy under ASC Topic 820 are described below:

Level 1—Unadjusted quoted prices in active markets for identical, unrestricted assets or liabilities that the Foundation has the ability to access at the measurement date;

Level 2—Quoted prices in markets which are not active, or inputs that are observable (either directly or indirectly) for substantially the full term of the asset or liability; and

Level 3—Prices, inputs or sophisticated modeling techniques, which are both significant to the fair value measurement and unobservable (supported by little or no market activity).

As required by ASC Topic 820, assets and liabilities are classified within the level of the lowest significant input considered in determining fair value.

As a practical expedient, ASC 820 permits an entity holding investments in certain entities that have the attributes described in ASC 946, *Financial Services—Investment Companies*, or have attributes similar to such entities, and which calculate Net Asset Value (“NAV”) per share or its equivalent for which the fair value is not readily determinable, to measure the fair value of such investments on the basis of that NAV per share, or its equivalent, without adjustment. The Foundation uses the practical expedient to value its investments in certain mutual funds, limited partnerships, limited liability companies, commingled investment funds and investment trusts. Investments valued using the practical expedient are not categorized within the fair value hierarchy, and are presented as Other in the tables in Note 11 for purposes of reconciling to the Consolidated Statements of Financial Position.

Investments—The Foundation’s investment activities expose it to a variety of risks, including but not limited to interest rate risk, liquidity risk, credit risk, concentration risk and overall market volatility. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the financial statements.

Investments (see note 10) are generally carried at fair value as described above. Securities traded on U.S. or foreign exchanges are valued at the last reported sales price or, if there are no sales, at the latest bid quotation. Mutual funds and exchange traded funds traded on U.S. or foreign exchanges are valued at the closing net asset value; mutual funds not traded on national exchanges are valued in good faith at the pro-rata interest in the net assets of these entities. Short-term investments held in the William and Mary Investment Trust (the "Trust") are valued at their net asset value at each valuation date. Short-term government and agency bonds and notes, included in Short-term investments in the Statements of Financial Position, are valued based on market driven observations and securities characteristics including ratings, coupons and redemptions. The values of limited partnerships, commingled investment funds and investment trusts are determined in good faith at the pro-rata interest in the net assets of these entities. Investments held by these entities are valued at amounts which approximate fair value. The estimated fair value of certain investments in the underlying entities, which may include private placements and other securities for which values are not readily available, are determined in good faith by the investment advisors or third party administrators of the respective entities and may not reflect amounts that could be realized upon immediate sale, nor amounts that ultimately may be realized. These investments are valued using valuation techniques included in ASC Topic 820, including the market approach, income approach, and cost approach. The estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments, and these differences could be material.

Short-term investments have maturities of one year or less as of June 30.

Investment transactions are accounted for on a trade date basis. Dividends are recognized on the ex-dividend date and interest income is recognized on the accrual basis. Net realized and unrealized gains and losses are reflected in the Consolidated Statements of Activities as increases or decreases in unrestricted or temporarily restricted net assets, unless permanently restricted by the donor, in accordance with the donor's stipulations concerning the purposes for which income may be used.

Investment Return—The Foundation segregates investment return into operating and nonoperating components. Operating investment return includes investment income, net of fees, that is available for current operations and payout on endowments and similar funds calculated in accordance with the Board-adopted payout policy. Non-operating investment return represents investment return in excess of or less than amounts available for current operations.

Endowments—The Foundation's endowment consists of funds established for a variety of purposes, and includes donor-restricted endowment funds, funds designated by donors as long-term in nature but allowing distributions from principal under certain circumstances, and funds designated by the Board of Trustees (the "Board") of the Foundation to function as endowments. As required by GAAP, net assets associated with endowments and funds functioning as endowments are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring preservation of the fair value, as of the gift date, of gifts to a donor-restricted endowment fund absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of all gifts donated to the permanent endowment, and (b) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument 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 is classified as temporarily restricted net assets until appropriated for expenditure in a manner consistent with the standards of prudence prescribed by UPMIFA, and, where income is designated by the donor for use for a specific purpose, when the funds are used for the purpose specified by the donor. In accordance with UPMIFA, the Foundation considers the following factors in making a determination, in the aggregate, to appropriate for expenditure or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the endowment fund;
- (2) The purposes of the institution and the endowment fund;
- (3) General economic conditions;
- (4) The possible effect of inflation or deflation;
- (5) The expected total return from income and the appreciation of investments;
- (6) Other resources of the institution; and
- (7) The investment policy of the institution

Generally, endowment assets are pooled on a market value basis. Each individual fund purchases or disposes of units on the basis of the market value per unit at the beginning of the calendar quarter within which the transaction takes place. Annual payout, including unrealized and realized net gains, as necessary, is distributed pro rata based upon the number of units owned by each fund. These amounts are either expendable at the discretion of the Board or according to donor restrictions.

Collections—Collections presented in the Consolidated Statements of Financial Position represent non-depreciable works of art and historical items reported at cost or fair market value at the time of donation. Contributions to collections were \$4,600 and \$0 for the years ended June 30, 2017 and 2016, respectively. Purchase of collections were \$90,000 and \$0 for the year ended June 30, 2017 and 2016.

Receivable from Remainder Trusts—Gifts in which the Foundation has an irrevocable remainder interest, but that are held in trust and administered by outside agents, have been recorded as gifts that are temporarily or permanently restricted based on donor stipulations and reported as a receivable from remainder trusts. Upon termination of life interests in the trusts, the remainder will be distributed to the Foundation. The receivables are valued using present value and actuarial techniques to estimate the present value of expected future cash flows.

Property and Equipment—Property and equipment used in operations are reported at cost or the current estimated value at the date of gift, if donated. Depreciation is computed by the straight-line method using the following estimated useful lives:

| | Useful Life |
|----------------------------|--------------------|
| Land improvements | 15 years |
| Buildings and improvements | 15–50 years |
| Equipment | 5–30 years |
| Furniture and fixtures | 12–30 years |
| Telecommunications system | 3–15 years |
| Other | 5–20 years |

Gains and losses arising from retirement or sale of property and equipment are recognized currently in the Consolidated Statements of Activities.

Property and equipment includes certain assets to which the Foundation has legal title, but are used and controlled by the College.

Funds Held for Others—The Foundation holds certain assets for the benefit of two organizations. In accordance with ASC Topic 958, *Not-for-Profit Entities*, contributions received by the Foundation which have been designated for the benefit of other organizations are recorded as liabilities unless the organization is financially interrelated with the Foundation or the Foundation has been granted variance power.

The Omohundro Institute of Early American History and Culture (the “Institute”) is not financially interrelated with the Foundation. Since assets held by the Foundation to benefit the Institute were either contributed by third parties without granting variance power or were transferred from the Institute, these funds are recorded as liabilities under funds held for others. The value of the liability is measured at the fair value of the assets, the majority of which are invested in the Trust.

The William & Mary Alumni Association (the “Association”) and the Foundation were established primarily to support the College. As such, the Association is considered a financially interrelated organization of the Foundation, and therefore, activities of assets held by the Foundation in support of its operations are included in the accompanying Consolidated Statements of Activities and are reflected in the net assets of the Foundation. Funds held for the benefit of the Association, included in net assets, were valued at \$4,947,111 and \$4,379,686 at June 30, 2017 and 2016, respectively.

Life Estates Retained by Donors—The Foundation owns land and buildings in which the donors have retained the right to occupy for their lifetime. The value of the land and buildings is reported in investments or in property and equipment, with the value of the life estate reported as a liability.

Split-Interest Agreements—Through planned giving agreements, donors have contributed assets to the Foundation or to trusts for which the Foundation serves as trustee. In exchange, the donor or other beneficiaries will receive a fixed amount or percentage of assets over their lifetime. The present values of these commitments are liabilities and are classified as obligations under split interest agreements in the Consolidated Statements of Financial Position. Discount rates of 1.2% to 10.2% were used in determining the actuarial liability for fiscal years 2017 and 2016. The related assets are classified in investments and assets held in charitable remainder trusts on the Consolidated Statements of Financial Position.

Contributions—Contributions, including unconditional promises to give, are recognized as revenue when the donor’s commitment is received. Gifts received by bequests are recognized as revenue when the will is declared valid by the respective probate court and when all conditions are substantially met. Contributions to the Foundation are either unrestricted as to use or carry specific restrictions imposed by the donors. Unrestricted gifts are reflected as contributions in unrestricted net assets. Restricted contributions are reflected as contributions in temporarily restricted net assets or in permanently restricted net assets based on the nature of the restriction. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the Consolidated Statements of Activities as net assets released from restrictions.

Estimates—The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Summarized Comparative Information—The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Foundation’s financial statements for the year ended June 30, 2016, from which the summarized information was derived.

Recent Accounting Pronouncements—In February 2016, the Financial Accounting Standards Board (“FASB”) adopted Accounting Standards Update (“ASU”) 2016-02 which amends the ASC by creating Topic 842, *Leases*. The ASU require that a lessee should recognize the assets and liabilities that arise from leases. The accounting applied by a lessor is largely unchanged from that applied under previous GAAP. Disclosures are required by lessees and lessors to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. The ASU is effective for the Foundation’s fiscal year ending June 30, 2020. Management is evaluating the impact this ASU will have on the financial statements.

In August 2016, the FASB adopted ASU 2016-14 to Not-for-Profit Entities (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. The ASU amends several requirements for financial statements and notes, including net asset classifications in the statement of financial position and statement of activities and enhanced disclosures in numerous areas. The ASU is effective for the Foundation’s fiscal year ending June 30, 2019. Management is evaluating the impact this ASU will have on the financial statements.

Reclassifications—Certain reclassifications have been made for the year ended June 30, 2016 to conform to the classifications adopted for the year ended June 30, 2017. Amounts reported as provided/conveyed to the College and provided to related organizations on the Consolidated Statement of Activities for the year ended June 30, 2016 have been reclassified to the applicable functional classifications for consistency with the presentation for the year ended June 30, 2017.

3. THE COLLEGE OF WILLIAM AND MARY REAL ESTATE FOUNDATION, INC.

The College of William and Mary Real Estate Foundation, Inc. (“REF”) was created in 1994 to hold title to real and personal property, collect income therefrom, and transfer the income to the Foundation, which is the sole stockholder of the corporation.

4. COLLEGE ENTERPRISES, INC.

In March 1996, the Board approved funding support by the Foundation for the installation of a campus-wide communications system. The Foundation received approval from the Attorney General’s Office of the Commonwealth of Virginia to use private funds to finance the telecommunications project for the College as it was not feasible to use state funds. The Foundation and the College created an entity under the name of College Enterprises, Inc. (“CEI”). In accordance with accounting guidance for reporting of related entities by not-for-profit organizations, the financial statements of the Foundation include the accounts of CEI because control of and economic interest in CEI rests with the

Foundation. CEI receives student technology fees, billed to the students by the College, and from this revenue pays for network maintenance, improvements and personnel costs related to operating the system. In addition, the College has agreed to pay CEI for its costs of various construction projects relating to the telecommunications network.

5. RELIANCE HOLDINGS, LLC

Reliance Holdings, LLC ("Reliance"), created in March 2000, holds a 50% interest in New Town Associates, LLC ("New Town Associates"), a real estate joint venture, and receives 50% of the associated gains and losses. Reliance, which is wholly owned by the REF and the Foundation, is considered a subsidiary of the Foundation for consolidation purposes.

Investment real estate which was owned by the REF and C.C. Casey, Limited Company ("Casey") was sold to New Town Associates in June 2000 in exchange for a \$26,789,834 note receivable, including accrued interest (the "Note"). Effective July 1, 2003, the note was restructured to decrease the aggregate balance due to the REF and Casey to \$12,000,000. Based on revised cash flow projections, the face amount of the note due to the REF and Casey was increased to \$13,600,000, including interest, during the year ended June 30, 2009, with an effective date of June 30, 2007.

Effective December 31, 2012, the due date of the note was extended to December 31, 2013, with automatic one year extensions unless the REF or Casey provide written notice by September 30 of any year stating that the note shall not be extended. All other terms of the note continued in full force and effect. Under the terms of the automatic extension, the current due date is December 31, 2017.

In accordance with the Intercreditor Agreement between the REF and Casey, the REF is entitled to receive 75% of the first \$12,000,000 of Note payments and 25% of Note payments in excess of \$12,000,000. During the fiscal year ended June 30, 2015, management determined that the realization of further interest was not probable. Therefore, no additional interest has been recorded. Based on analysis of financial results and cash flow projections of New Town Associates, the recorded value of the note was increased during the fiscal year ended June 30, 2015 to reflect the estimated amount to be received. Additional interest will be recognized as note payments are received in excess of the recorded value, or as new information indicates collection is likely. Payments of \$225,000 and \$1,050,000 were received on the Note in the fiscal years ended June 30, 2017 and 2016, respectively. The REF's interest in the Note is recorded at a value of \$1,650,000 and \$1,875,000 at June 30, 2017 and 2016, respectively, and is included in investments on the Consolidated Statements of Financial Position.

6. CWMF VENTURES, LLC

During the year ended June 30, 2007, the Foundation established CWMF Ventures, LLC ("CWMF Ventures"), a limited liability company, in which the Foundation is the sole member. The purpose of CWMF Ventures is to own the Discovery 1 Building, an office building which was completed and placed in service during the year ended June 30, 2008, and which is leased to the College. Together with the Foundation, CWMF Ventures is also a party to agreements relating to the issuance of certain revenue bonds issued to finance the Discovery Building 1 (see Note 17).

7. MURRAY 1693 SCHOLARS FOUNDATION

The Murray 1693 Scholars Foundation ("1693 Foundation") was created in 2013 to develop, expand, manage, oversee and strengthen in every proper and useful way the 1693 Scholars Program on behalf of the College and the Foundation. The Foundation is required to appoint a majority of the board of the 1693 Foundation, and as a result of this control, the accounts of the 1693 Foundation are included in the consolidated financial statements of the Foundation. With consent of donors, during the fiscal year ended June 30, 2016, the Foundation transferred endowments valued at \$11,618,707 to the 1693 Foundation, and these endowments are included in the total invested in the Trust. No additional transfers were made during the fiscal year ended June 30, 2017.

8. NOTES RECEIVABLE

In July 2009, the Foundation agreed to advance a total of \$250,000 as a loan to support legal costs associated with the defense of certain claims made against two estates by one plaintiff. The Foundation is a potential beneficiary of the estates. The Foundation is joined by other parties in the loan. The agreement provides that the loan will be repaid, with interest at 5% per year, with first priority from assets received from the estates in the same proportion as amounts loaned by each party. During fiscal years 2010–2013, additional loans were extended on similar terms committing total additional amounts of \$814,490 to support legal costs and to fund costs associated with maintenance of real estate constituting the primary asset of one of the estates. Interest was accrued on the notes receivable through June 30, 2015. The loans are recorded in notes receivable and had a carrying value of \$1,080,298 at both June 30, 2017 and 2016, including interest.

9. PROPERTY AND EQUIPMENT

The summary of property and equipment at June 30, 2017 and 2016, is as follows:

| | 2017 | 2016 |
|--------------------------------|---------------------|----------------------|
| Land and nondepreciable assets | \$ 2,280,527 | \$ 2,280,527 |
| Land improvements | 338,138 | 338,138 |
| Buildings and improvements | 8,506,255 | 8,506,255 |
| Equipment | 927,782 | 913,886 |
| Furniture and fixtures | 429,170 | 429,170 |
| Telecommunications system | 5,978,189 | 5,978,189 |
| Construction in progress | 116,533 | - |
| Other | <u>55,792</u> | <u>55,792</u> |
| Total | 18,632,386 | 18,501,957 |
| Less accumulated depreciation | <u>(8,775,498)</u> | <u>(8,240,077)</u> |
| Property and equipment—net | <u>\$ 9,856,888</u> | <u>\$ 10,261,880</u> |

10. INVESTMENTS

Investments, which are generally carried at fair value, at June 30, 2017 and 2016, were comprised of the following:

| | 2017 | 2016 |
|---|-----------------------|-----------------------|
| Cash pending investment | \$ 340,625 | \$ 314,610 |
| Common stock | 454,454 | 340,799 |
| Investment in William and Mary Investment Trust | 534,405,610 | 482,212,453 |
| Mutual funds and commingled funds—equity | 3,019,851 | 2,693,030 |
| Mutual funds and commingled funds—fixed income | 1,393,347 | 1,517,222 |
| U.S. government bonds | 995,095 | - |
| Real estate | 987,982 | 987,982 |
| Notes receivable (Note 5) | 1,650,000 | 1,875,000 |
| Private equity and other | <u>681,750</u> | <u>711,621</u> |
| Total investments | <u>\$ 543,928,714</u> | <u>\$ 490,652,717</u> |

The following schedule summarizes the investment return and its classification in the consolidated statements of activities:

| | 2017 | | | Total | 2016 Total |
|---|---------------------|---------------------------|---------------------------|----------------------|------------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | | |
| Interest and dividends (net of expenses of \$30,932 and \$32,844 for 2017 and 2016, respectively) | \$ 201,666 | \$ 67,501 | \$ 31,000 | \$ 300,167 | \$ 207,802 |
| Net realized gains (losses) | (102,869) | 85,499 | 18,141 | 771 | 487,528 |
| Net unrealized gains (losses) | 759 | 220,141 | 168,172 | 389,072 | (446,655) |
| Change in value of William and Mary Investment Trust | <u>4,893,253</u> | <u>50,292,410</u> | <u>986,541</u> | <u>56,172,204</u> | <u>(11,559,770)</u> |
| Total investment return | <u>\$ 4,992,809</u> | <u>\$ 50,665,551</u> | <u>\$ 1,203,854</u> | <u>\$ 56,862,214</u> | <u>\$ (11,311,095)</u> |
| Reported on Consolidated Statements of Activities | | | | | |
| Investment return from pooled investments budgeted for current operations | \$ 2,909,733 | \$ 16,456,155 | \$ - | \$ 19,365,888 | \$ 18,134,833 |
| Other investment return designated for current operations | <u>201,666</u> | <u>44,250</u> | <u>-</u> | <u>245,916</u> | <u>154,209</u> |
| Total for current operations | 3,111,399 | 16,500,405 | - | 19,611,804 | 18,289,042 |
| Investment return in excess of (less than) amounts for current operations | <u>1,881,410</u> | <u>34,165,146</u> | <u>1,203,854</u> | <u>37,250,410</u> | <u>(29,600,137)</u> |
| Total investment return | <u>\$ 4,992,809</u> | <u>\$ 50,665,551</u> | <u>\$ 1,203,854</u> | <u>\$ 56,862,214</u> | <u>\$ (11,311,095)</u> |

Effective July 1, 2004, the Foundation established The William and Mary Investment Trust, a grantor group trust. The purpose of the Trust is to provide a means by which tax-exempt organizations, including the Foundation, whose principal purpose is to support the functions and activities of the College, may take advantage of the investment strategies and opportunities developed, implemented, and monitored by the Foundation. The Foundation serves as trustee of the Trust, and The Northern Trust Company acts as custodian. Each grantor to the Trust owns an interest proportional to the value of the assets transferred to the Trust and is increased or decreased with subsequent contributions or distributions.

At June 30, 2017 and 2016, the investments in the Trust were composed of:

| | 2017 | 2016 |
|--|---------------------------|---------------------------|
| Common stocks | \$ 87,655,261 | \$ 59,396,217 |
| Investment in exchange listed funds | 9,493,552 | 4,213,730 |
| Investment in private investment funds | 490,038,849 | 478,878,681 |
| Short-term investments | <u>31,569,090</u> | <u>17,971,823</u> |
| Total investments | 618,756,752 | 560,460,451 |
| Subscription receivable | 7,500,000 | - |
| Receivables | 257,767 | 792,010 |
| Receivable for investments sold | 1,781,581 | 3,842,705 |
| Payables and accrued expenses | <u>(819,766)</u> | <u>(1,146,713)</u> |
| Net assets | <u>\$ 627,476,334</u> | <u>\$ 563,948,453</u> |

At June 30, 2017 and 2016, the Foundation, which includes the 1693 Foundation as a consolidated entity, owned 85.17% and 85.51% of the net assets of the Trust, respectively.

For the years ended June 30, 2017 and 2016, the investment return for the Trust consisted of:

| | 2017 | 2016 |
|--|--------------------------|----------------------------|
| Net investment income | \$ 4,836,772 | \$ 3,063,086 |
| Net realized gain on investments and foreign currency transactions | 42,427,748 | 7,156,997 |
| Net change in unrealized appreciation on investments | <u>20,534,273</u> | <u>(24,087,498)</u> |
| Total investment return | <u>\$ 67,798,793</u> | <u>\$ (13,867,415)</u> |

The Foundation, which includes the 1693 Foundation as a consolidated entity, received 85.4% and 86.3% of the total investment return of the Trust for the years ended June 30, 2017 and 2016, which includes amounts of \$1,729,893 and (\$408,525), respectively, for investment return on funds held for others.

The majority of the Foundation's financial assets are held in the Trust. Each year grantors may notify the Trust of the amount to be withdrawn quarterly representing spending rate distributions. At the discretion of the Trustee, providing sufficient liquidity exists in the portfolio such that special withdrawals will not adversely impact the asset allocation or expected return of the portfolio, special withdrawals may be made in accordance with the following schedule:

- First \$5 million within four months
- Next \$15 million within seven months
- Next \$30 million within ten months
- More than \$50 million within thirteen months

Disbursements may be made on a more accelerated basis if sufficient liquidity can be generated without affecting the Trust's investment strategy. However, disbursements may be delayed due to liquidation schedules affecting illiquid securities held in the portfolio.

The following table summarizes the liquidity provisions related to the Trust's investments in Other funds by investment strategy as of June 30, 2017:

| Private Investment Funds by Investment Strategy | Fair Value | Unfunded Commitments | Redemption Frequency | Redemption Notice Period | Estimated Remaining Holding Period |
|---|-----------------------|-----------------------|---|--------------------------|------------------------------------|
| Absolute Return ^(A) | | | | | |
| Redeemable ≤ 1 year ⁽¹⁾ | \$ 33,469,472 | \$ - | Quarterly, Annually | 45-95 days | 3-6 months |
| Redeemable > 1 year ⁽¹⁾ | 12,615,824 | - | Every 2 years | 90 days | 16 months |
| Illiquid ⁽²⁾ | 1,772,269 | - | Illiquid | NA | Termination of fund |
| Domestic Equity ^(B) | | | | | |
| Redeemable ≤ 1 year ⁽¹⁾ | 103,380,410 | - | Daily, Quarterly, Semi-annually, Annually | 30-90 days | 1 day-12 months |
| Redeemable > 1 year ⁽¹⁾ | 4,909,316 | - | Quarterly, Every 3 years | 60-90 days | 15-27 months |
| Illiquid ⁽²⁾ | 93,830 | - | Illiquid | NA | Termination of fund |
| Fixed Income ^(C) | | | | | |
| Redeemable ≤ 1 year ⁽¹⁾ | 25,874,967 | - | Daily, Weekly | 1-5 days | 1 day-1 month |
| Foreign Equity (Developed) ^(D) | | | | | |
| Redeemable ≤ 1 year ⁽¹⁾ | 66,110,395 | - | Daily, Monthly, Quarterly, Every 3 years | 5-90 days | 1 day-8 months |
| Redeemable > 1 year ⁽¹⁾ | 8,779,077 | - | Every 3 years | 90 days | 15-32 months |
| Foreign Equity (Emerging Markets) ^(E) | | | | | |
| Redeemable ≤ 1 year ⁽¹⁾ | 33,106,989 | - | Daily, Monthly | 20-90 days | 1 day-1 month |
| Private Equity ^(F) | | | | | |
| Illiquid ⁽²⁾ | 106,209,313 | 57,320,347 | Illiquid | NA | Termination of fund |
| Real Assets ^(G) | | | | | |
| Illiquid ⁽²⁾ | 49,550,257 | 53,356,062 | Illiquid | NA | Termination of fund |
| Special Situations ^(H) | | | | | |
| Redeemable ≤ 1 year ⁽¹⁾ | 11,346,041 | - | Quarterly | 65 days | 3-12 months |
| Illiquid ⁽²⁾ | 32,672,450 | 25,776,557 | Illiquid | NA | Termination of fund |
| Transitional Trading ^(I) | | | | | |
| Illiquid ⁽²⁾ | 148,239 | - | Illiquid | NA | Termination of fund |
| | <u>\$ 490,038,849</u> | <u>\$ 136,452,966</u> | | | |

The following table summarizes the liquidity provisions related to the Trust's investments in Other funds by investment strategy as of June 30, 2016:

| Private Investment Funds by Investment Strategy | Fair Value | Unfunded Commitments | Redemption Frequency | Redemption Notice Period | Estimated Remaining Holding Period |
|---|-----------------------|-----------------------|---|--------------------------|------------------------------------|
| Absolute Return ^(A) | | | | | |
| Redeemable ≤ 1 year ⁽¹⁾ | \$ 81,918,523 | \$ - | Monthly, Quarterly, Annually, Every 2 years | 14-95 days | 1 day-6 months |
| Illiquid ⁽²⁾ | 2,273,373 | - | Illiquid | NA | Termination of fund |
| Domestic Equity ^(B) | | | | | |
| Redeemable ≤ 1 year ⁽¹⁾ | 96,103,494 | - | Daily, Quarterly, Semi-annually, Annually | 1-90 days | 1 day-12 months |
| Redeemable > 1 year ⁽¹⁾ | 6,676,504 | - | Quarterly, Every 3 years | 60-90 days | 15-27 months |
| Illiquid ⁽²⁾ | 122,734 | - | Illiquid | NA | Termination of fund |
| Fixed Income ^(C) | | | | | |
| Redeemable ≤ 1 year ⁽¹⁾ | 25,871,496 | - | Daily, Weekly | 1-5 days | 1 day-1 month |
| Illiquid ⁽²⁾ | 3,320,955 | 6,696,314 | Illiquid | NA | Termination of fund |
| Foreign Equity (Developed) ^(D) | | | | | |
| Redeemable ≤ 1 year ⁽¹⁾ | 52,618,281 | - | Daily, Monthly, Quarterly, Every 3 years | 1-90 days | 1 day-8 months |
| Redeemable > 1 year ⁽¹⁾ | 5,608,725 | - | Every 3 years | 90 days | 15-32 months |
| Foreign Equity (Emerging Markets) ^(E) | | | | | |
| Redeemable ≤ 1 year ⁽¹⁾ | 35,907,929 | - | Daily, Monthly | 1-90 days | 1 day-1 month |
| Private Equity ^(F) | | | | | |
| Illiquid ⁽²⁾ | 90,187,573 | 76,403,600 | Illiquid | NA | Termination of fund |
| Real Assets ^(G) | | | | | |
| Redeemable ≤ 1 year ⁽¹⁾ | 972,084 | - | Quarterly | 90 days | 12 months |
| Illiquid ⁽²⁾ | 37,861,687 | 30,019,015 | Illiquid | NA | Termination of fund |
| Special Situations ^(H) | | | | | |
| Redeemable ≤ 1 year ⁽¹⁾ | 10,834,051 | - | Quarterly | 65 days | 3-12 months |
| Illiquid ⁽²⁾ | 28,439,152 | 12,725,000 | Illiquid | NA | Termination of fund |
| Transitional Trading ^(I) | | | | | |
| Illiquid ⁽²⁾ | 162,120 | - | Illiquid | NA | Termination of fund |
| | <u>\$ 478,878,681</u> | <u>\$ 125,843,929</u> | | | |

(1) Redeemable investments may be redeemed at the discretion of the Trust in accordance with the terms of the governing agreement, which may include restrictions that do not allow redemption for a specified period of time following an investment. Investments held at June 30, 2017 and June 30, 2016 that are available for redemption during the next fiscal year totaled \$273,288,274 and \$304,225,858, respectively. Investments held at June 30, 2017 and June 30, 2016 that are available for redemption in more than one year totaled \$26,304,217 and \$12,285,229, respectively. Estimated remaining holding period reflects the period until the next available redemption date subsequent to June 30, including expiration of lockup periods.

(2) Illiquid investments cannot be redeemed with the investment fund. This category includes investments from which distributions will be received as the underlying investments are liquidated, and may include investments on which redemption restrictions of unknown duration have been imposed. If allowed under the terms of the fund agreement, illiquid investments can be sold to other eligible investors through private placements arranged through the general partner. Illiquid investments at June 30, 2017 and June 30, 2016 totaled \$190,446,358 and \$162,367,594, respectively.

(A) Absolute Return represents miscellaneous types of equity and equity-like as well as fixed income securities held by managers that operate under broadly defined investment guidelines, indicative of the hedge fund industry. This category is populated by multi-strategy, credit-driven, event arbitrage and fund-of-fund hedge funds. Securities can be of all types, public and private, foreign and domestic, of all capitalization sizes, industry concentrations, including exposures to various long/short and option strategies, managed futures, global tactical asset allocation, currency, and various forms of real estate or other hard assets.

(B) Domestic Equity represents equity securities held by managers who primarily invest in securities listed on United States exchanges. This category comprises all capitalization sizes, industry sectors, and includes both long and short strategies.

- (C) Fixed Income represents various bond and bond-like securities that have an income stream as a component part of the security's total rate of return. These securities can either be traded through established bond markets, both foreign and domestic or privately negotiated lending facilities with public or private companies. In cases where there is no bid or established market, pricing can be determined through modeling and other means of comparative analysis. Fixed income strategies employed by the Trust can include the engagement of investment managers who use various derivative instruments as a component part of their commingled fund portfolios.
- (D) Foreign Equity (Developed) represents equity securities held by managers who primarily invest in securities listed on non-U.S. exchanges in those countries captured within the MSCI EAFE index. This category comprises all capitalization sizes, industry sectors, and includes both long and short strategies.
- (E) Foreign Equity (Emerging Markets) represents equity securities held by managers who primarily invest in securities listed on non-U.S. exchanges in those countries captured within the MSCI Emerging Markets index. This category comprises all capitalization sizes, industry sectors, and includes both long and short strategies.
- (F) Private Equity represents equity interests held primarily through various limited partnerships in asset categories of venture capital and private equity, foreign and domestic.
- (G) Real Assets include miscellaneous foreign and domestic partnership interests in various asset classes of real estate, managed futures (commodities), energy (oil and gas), and timber. Whereas most held securities are equity and equity-like interests, the engaged investment managers may employ various derivative instruments as a component part of their commingled fund portfolios.
- (H) Special Situations includes miscellaneous types of foreign and domestic equity and equity-like as well as fixed income securities held by managers who were hired to pursue specific opportunistic strategies. This category is populated by managers who were investing in distressed debt situations, specialized credit opportunities, event-driven arbitrage, and aviation assets.
- (I) Transitional Trading includes a variety of assets that have been distributed or redeemed from a manager's holdings in the portfolio. These assets include specific securities traded on major exchanges, mutual fund shares, and specific illiquid investments that are in the process of being liquidated during the wind down of a fund investment.

The Trust may invest in exchange traded funds in any of the above strategies in situations of investment manager transitions, portfolio rebalancing, or portfolio completion.

11. FAIR VALUE MEASUREMENTS

As required by ASC Topic 820, certain assets and liabilities are classified within the level of the lowest significant input considered in determining fair value. Assets and liabilities classified within Level 3 consider several inputs which may include Level 1 or Level 2 inputs as components of the overall fair value measurement.

At June 30, 2017, the Foundation's assets and liabilities carried at fair value were classified as follows:

| | Level 1 | Level 2 | Level 3 | Other | Total |
|---|----------------|---------------|--------------|----------------|----------------|
| Assets: | | | | | |
| Investments—Foundation investment in William and Mary Investment Trust: | | | | | |
| Common stock | \$ 74,653,753 | \$ - | \$ - | \$ - | \$ 74,653,753 |
| Exchange traded funds | 8,085,416 | - | - | - | 8,085,416 |
| Private investment funds | | | | | |
| Absolute return | - | - | - | 40,759,069 | 40,759,069 |
| Domestic equity | - | - | - | 92,307,514 | 92,307,514 |
| Fixed income | - | - | - | 22,037,050 | 22,037,050 |
| Foreign equity (developed) | - | - | - | 63,781,456 | 63,781,456 |
| Foreign equity (emerging markets) | - | - | - | 28,196,379 | 28,196,379 |
| Private equity | - | - | - | 90,455,767 | 90,455,767 |
| Real assets | - | - | - | 42,200,692 | 42,200,692 |
| Special situations | - | - | - | 37,489,428 | 37,489,428 |
| Transitional trading | - | - | - | 126,272 | 126,272 |
| Short-term investments | 34,312,814 | - | - | - | 34,312,814 |
| | | | | | |
| Total Foundation investment in William and Mary Investment Trust | 117,051,983 | - | - | 417,353,627 | 534,405,610 |
| | | | | | |
| Common and preferred stocks and corporate bonds | 454,454 | - | - | - | 454,454 |
| Government and agency bonds | - | 995,095 | - | - | 995,095 |
| Private equity and other | - | - | 34,823 | 646,927 | 681,750 |
| Mutual and commingled funds | 4,413,198 | - | - | - | 4,413,198 |
| Real estate | - | - | 987,982 | - | 987,982 |
| Notes receivable | - | - | 1,650,000 | - | 1,650,000 |
| Short-term government and agency bonds and notes | - | 15,275,231 | - | - | 15,275,231 |
| Funds held in trust by others: | | | | | |
| Equity securities | 147,494,457 | - | - | - | 147,494,457 |
| Mutual funds and other | 2,191,088 | - | - | - | 2,191,088 |
| Assets held in charitable remainder trusts | 481,381 | - | - | - | 481,381 |
| | | | | | |
| Fair value of assets | \$ 272,086,561 | \$ 16,270,326 | \$ 2,672,805 | \$ 418,000,554 | \$ 709,030,246 |
| | | | | | |
| Liabilities—funds held for others | \$ 3,777,062 | \$ - | \$ - | \$ 12,466,884 | \$ 16,243,946 |
| | | | | | |
| Fair value of liabilities | \$ 3,777,062 | \$ - | \$ - | \$ 12,466,884 | \$ 16,243,946 |

At June 30, 2016, the Foundation's assets and liabilities carried at fair value were classified as follows:

| | Level 1 | Level 2 | Level 3 | Other | Total |
|---|-----------------------|----------------------|---------------------|-----------------------|-----------------------|
| Assets: | | | | | |
| Investments—Foundation investment in William and Mary Investment Trust: | | | | | |
| Common stock | \$ 50,787,612 | \$ - | \$ - | \$ - | \$ 50,787,612 |
| Exchange traded funds | 3,603,012 | - | - | - | 3,603,012 |
| Private investment funds | | | | | |
| Absolute return | - | - | - | 71,989,524 | 71,989,524 |
| Domestic equity | - | - | - | 87,988,501 | 87,988,501 |
| Fixed income | - | - | - | 24,961,436 | 24,961,436 |
| Foreign equity (developed) | - | - | - | 49,787,861 | 49,787,861 |
| Foreign equity (emerging markets) | - | - | - | 30,703,605 | 30,703,605 |
| Private equity | - | - | - | 77,116,216 | 77,116,216 |
| Real assets | - | - | - | 33,205,389 | 33,205,389 |
| Special situations | - | - | - | 33,581,132 | 33,581,132 |
| Transitional trading | - | - | - | 138,632 | 138,632 |
| Short-term investments | <u>18,349,533</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>18,349,533</u> |
| | | | | | |
| Total Foundation investment in William and Mary Investment Trust | 72,740,157 | - | - | 409,472,296 | 482,212,453 |
| | | | | | |
| Common and preferred stocks and corporate bonds | 340,799 | - | - | - | 340,799 |
| Private equity and other | - | - | 34,823 | 676,798 | 711,621 |
| Mutual and commingled funds | 4,210,252 | - | - | - | 4,210,252 |
| Real estate | - | - | 987,982 | - | 987,982 |
| Notes receivable | - | - | 1,875,000 | - | 1,875,000 |
| Short-term government and agency bonds and notes | - | 19,366,271 | - | - | 19,366,271 |
| Funds held in trust by others: | | | | | |
| Equity securities | 146,659,979 | - | - | - | 146,659,979 |
| Mutual funds and other | 3,248,335 | - | - | - | 3,248,335 |
| Assets held in charitable remainder trusts | <u>469,798</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>469,798</u> |
| | | | | | |
| Fair value of assets | <u>\$ 227,669,320</u> | <u>\$ 19,366,271</u> | <u>\$ 2,897,805</u> | <u>\$ 410,149,094</u> | <u>\$ 660,082,490</u> |
| | | | | | |
| Liabilities—funds held for others | \$ 2,515,610 | \$ - | \$ - | \$ 12,581,591 | \$ 15,097,201 |
| | | | | | |
| Fair value of liabilities | <u>\$ 2,515,610</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 12,581,591</u> | <u>\$ 15,097,201</u> |

As required by ASC Topic 820, the following table presents a reconciliation of the beginning and ending balances of the fair value measurements using significant unobservable inputs (Level 3) as of June 30, 2017:

| Fair Value (Level 3) | | | | | | | | Change in Unrealized Gain or (Loss) on Assets Still Held at June 30, 2017 |
|---------------------------------|---------------------------|------------------|------------------|---------------------|-------------|----------------------------------|--------------------|--|
| 2017 | | | | | | | | |
| Balance July 1, 2016 | Gains (Losses) | Additions | Disposals | Transfers | | Balance June 30, 2017 | | |
| | | | | In | Out | | | |
| Private equity and other | \$ 34,823 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 34,823 | \$ - |
| Notes receivable | 1,875,000 | | | (225,000) | - | - | 1,650,000 | - |
| Real estate | <u>987,982</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>987,982</u> | <u>-</u> |
| Balance | <u>\$2,897,805</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (225,000)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$2,672,805</u> | <u>\$ -</u> |

As required by ASC Topic 820, the following table presents a reconciliation of the beginning and ending balances of the fair value measurements using significant unobservable inputs (Level 3) as of June 30, 2016:

| Fair Value (Level 3) | | | | | | | | Change in Unrealized Gain or (Loss) on Assets Still Held at June 30, 2016 |
|---------------------------------|---------------------------|------------------|------------------|-----------------------|-------------|----------------------------------|--------------------|--|
| 2016 | | | | | | | | |
| Balance July 1, 2015 | Gains (Losses) | Additions | Disposals | Transfers | | Balance June 30, 2016 | | |
| | | | | In | Out | | | |
| Private equity and other | \$ 34,881 | \$(58) | \$ - | \$ - | \$ - | \$ - | \$ 34,823 | \$(58) |
| Notes receivable | 2,925,000 | - | - | (1,050,000) | - | - | 1,875,000 | - |
| Real estate | <u>987,982</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>987,982</u> | <u>-</u> |
| Balance | <u>\$3,947,863</u> | <u>\$(58)</u> | <u>\$ -</u> | <u>\$ (1,050,000)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$2,897,805</u> | <u>\$(58)</u> |

There were no transfers between levels during the fiscal years ended June 30, 2017 or 2016. The Foundation determines the fair value of transfers between levels using the most recent valuation on or immediately before the investment qualifies for a change in hierarchy level.

12. ENDOWMENT

In accordance with ASC Topic 958 and UPMIFA, net assets associated with endowments and funds functioning as endowments are classified and reported based on the existence or absence of donor-imposed restrictions.

The following table presents endowment net asset composition by type of fund as of June 30, 2017:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|----------------------|-----------------------------------|-----------------------------------|-----------------------|
| Donor-restricted endowment funds | \$ (2,031) | \$ 151,162,739 | \$ 278,814,165 | \$ 429,974,873 |
| Donor-restricted funds that allow distribution of principal | 382,557 | 7,724,167 | - | 8,106,724 |
| Board designated endowment funds | <u>20,469,135</u> | <u>62,321,109</u> | <u>-</u> | <u>82,790,244</u> |
| Total endowment funds | <u>\$ 20,849,661</u> | <u>\$ 221,208,015</u> | <u>\$ 278,814,165</u> | <u>\$ 520,871,841</u> |

The negative unrestricted balance for donor-restricted endowments results from funds with deficiencies, which are described below.

The following table presents the change in endowment net assets for the fiscal year ended June 30, 2017:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|----------------------|-----------------------------------|-----------------------------------|-----------------------|
| Endowment net assets—beginning of year | <u>\$ 18,909,917</u> | <u>\$ 184,163,541</u> | <u>\$ 267,199,468</u> | <u>\$ 470,272,926</u> |
| Investment return: | | | | |
| Investment income | (372) | 4,943 | (44) | 4,527 |
| Net appreciation (realized and unrealized) | <u>4,390,959</u> | <u>50,831,746</u> | <u>986,541</u> | <u>56,209,246</u> |
| Total investment return | 4,390,587 | 50,836,689 | 986,497 | 56,213,773 |
| Contributions received | - | - | 10,628,200 | 10,628,200 |
| Appropriation of endowment assets for expenditure | (2,895,478) | (16,456,155) | - | (19,351,633) |
| Transfers to board-designated endowment funds | <u>444,635</u> | <u>2,663,940</u> | <u>-</u> | <u>3,108,575</u> |
| Endowment net assets—end of year | <u>\$ 20,849,661</u> | <u>\$ 221,208,015</u> | <u>\$ 278,814,165</u> | <u>\$ 520,871,841</u> |

The following table presents endowment net asset composition by type of fund as of June 30, 2016:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|----------------------|-------------------------------|-------------------------------|-----------------------|
| Donor-restricted endowment funds | \$ (444,230) | \$ 122,078,936 | \$ 267,199,468 | \$ 388,834,174 |
| Donor-restricted funds that allow distribution of principal | 355,090 | 7,120,185 | - | 7,475,275 |
| Board designated endowment funds | <u>18,999,057</u> | <u>54,964,420</u> | <u>-</u> | <u>73,963,477</u> |
| Total endowment funds | <u>\$ 18,909,917</u> | <u>\$ 184,163,541</u> | <u>\$ 267,199,468</u> | <u>\$ 470,272,926</u> |

The negative unrestricted balance for donor-restricted endowments results from funds with deficiencies, which are described below.

The following table presents the change in endowment net assets for the fiscal year ended June 30, 2016:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|----------------------|-------------------------------|-------------------------------|-----------------------|
| Endowment net assets—beginning of year | <u>\$ 20,586,847</u> | <u>\$ 210,078,393</u> | <u>\$ 255,053,129</u> | <u>\$ 485,718,369</u> |
| Investment return: | | | | |
| Investment income | (192) | 6,344 | - | 6,152 |
| Net appreciation (depreciation) (realized and unrealized) | <u>1,005,883</u> | <u>(12,345,134)</u> | <u>(237,552)</u> | <u>(11,576,803)</u> |
| Total investment return | 1,005,691 | (12,338,790) | (237,552) | (11,570,651) |
| Contributions received | - | - | 12,383,891 | 12,383,891 |
| Appropriation of endowment assets for expenditure | (2,684,138) | (15,437,542) | - | (18,121,680) |
| Transfers to board-designated endowment funds | <u>1,517</u> | <u>1,861,480</u> | <u>-</u> | <u>1,862,997</u> |
| Endowment net assets—end of year | <u>\$ 18,909,917</u> | <u>\$ 184,163,541</u> | <u>\$ 267,199,468</u> | <u>\$ 470,272,926</u> |

The above amounts exclude \$15,963,376 and \$14,816,632 of investments in funds held for others as of June 30, 2017 and 2016, respectively.

Funds with Deficiencies—From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets were \$2,031 and \$444,230 as of June 30, 2017 and 2016, respectively. These deficiencies resulted largely from unfavorable market fluctuations that occurred after the establishment of endowments.

Return Objectives and Risk Parameters—The Foundation 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 enhance the inflation-adjusted purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization 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 with an objective to achieve real growth of 2% over the long term (i.e., real total return less that of annual spending and management fees). The measure of inflation used in adjusting for real purchasing power is the Higher Education Price Index, a measure of college and university costs. The majority of the Foundation’s endowment funds are invested in the Trust, which follows an investment policy that is consistent with these objectives.

Strategies Employed in Achieving Objectives—To satisfy its long-term return objectives, the Trust follows a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Trust’s portfolio is highly diversified among asset classes, strategies, and investment managers. This diversification in holdings and manager relationships is intended as a means to consistently produce returns in excess of policy benchmarks with less concentration of risk. The Trust has established asset allocation ranges in each of its major asset classes within which policy targets are set and monitored against actual allocations.

Spending Policy—The Foundation sets a spending rate annually for its respective investment portfolios. For the years ended June 30, 2017 and 2016, the rate was applied to a trailing 20-quarter average market value through December 31 of the previous fiscal year to calculate the payout from investment pools available for current operations. For fiscal years ended June 30, 2017 and 2016, the spending rates for the Foundation’s three discrete investment portfolios, Pooled Investments, Eminent Scholars, and Virginia Assistance Program, were 4.75%, 5.00%, and 4.75%, respectively. Other investment returns for current operations include income on unrestricted and temporarily restricted funds.

13. INCOME TAXES

The Foundation, CEI and the 1693 Foundation are nonstock corporations which have been determined by the Internal Revenue Service to be exempt from taxes on income derived from activities related to its exempt purpose under Section 501(c)(3) of the Internal Revenue Code. The REF is a stock corporation, wholly owned by the Foundation, which has been determined by the Internal Revenue Service to be exempt from taxes on income derived from activities related to its exempt purpose under Section 501(c)(2) of the Internal Revenue Code. Reliance is a limited liability company which is not disregarded for tax purposes, and therefore is subject to tax. CWMF Ventures is a disregarded entity for income tax purposes, and all activity is reported on the Foundation’s tax return.

ASC Topic 740, *Income Taxes*, provides guidance for how uncertain tax positions should be recognized, measured, presented, and disclosed in financial statements. ASC Topic 740 requires the evaluation of tax positions taken or expected to be taken in the course of preparing tax returns of the Foundation, CEI, REF and Reliance to determine whether the tax positions will “more-likely-than-not” be sustained by the applicable tax authority. As a result, tax positions not meeting the more-likely-than-not threshold would result in a current year expense or the absence of a benefit, as appropriate for the tax position. The Foundation has concluded that no provision for income tax is required in the Foundation’s financial statements for the years ended June 30, 2017 and 2016.

As of June 30, 2016, the Foundation had net operating losses available for carryforward in the amount of \$829,157 as a result of unrelated business taxable income ("UBTI") resulting from investments in The William and Mary Investment Trust. These loss carryforwards begin to expire in 2028. Due to the uncertainty about whether these losses will result in a tax asset, no tax asset is recorded in the financial statements. Losses are available for carryforward for twenty years, and UBTI is taxed at the prevailing corporate rates. In addition to the fiscal year ended June 30, 2017, the years ended June 30, 2016, 2015, and 2014 are open for inspection by the taxing authorities.

14. FUNDS HELD IN TRUST BY OTHERS

Funds held in trust by others represent resources neither in the possession nor under the control of the Foundation but held and administered by outside fiscal agents, with the Foundation deriving income from such funds. The balance is comprised of three trusts, the most significant of which is derived from the bequest of Lettie Pate Evans, which provides a distribution of 5% of the annual net income of the Lettie Pate Evans Foundation, Inc. At June 30, 2017 and 2016, the fair value of the Foundation's interest was reported as \$145,339,093 and \$145,790,274, respectively. The Lettie Pate Evans Foundation, Inc. has specified that the annual income distributed to the Foundation may be used for the benefit of the College in such manner as the governing board of the Foundation may determine.

15. PLEDGES RECEIVABLE

Unconditional promises to give are recorded as receivables at their net present value in the year promised and are recognized as temporarily restricted or permanently restricted support, as appropriate. Pledges receivable include amounts due from trustees and officers of the Foundation, which are considered related party transactions. Pledges receivable at June 30, 2017 and 2016, have been discounted using a rate of 1.41% and 0.90%, respectively, for contributions expected to be collected in one to five years and a rate of 2.11% and 1.84%, respectively, for contributions expected to be collected beyond five years. Pledges receivable to be collected within one year have not been discounted. At June 30, 2017 and 2016, the net present value of pledges receivable was as follows:

| | 2017 | 2016 |
|---|----------------------|----------------------|
| Less than one year | \$ 5,121,690 | \$ 5,860,382 |
| One to five years | 7,365,868 | 7,651,803 |
| More than five years | <u>16,334,524</u> | <u>1,785,487</u> |
| Total pledges receivable—gross | 28,822,082 | 15,297,672 |
| Less allowance for uncollectible amounts | <u>(1,051,141)</u> | <u>(641,890)</u> |
| Total pledges receivable—net of allowance | 27,770,941 | 14,655,782 |
| Discount to reduce pledges to present value | <u>(3,387,216)</u> | <u>(412,437)</u> |
| Pledges receivable—net | <u>\$ 24,383,725</u> | <u>\$ 14,243,345</u> |

16. NOTES PAYABLE AND LINES OF CREDIT

On June 25, 2001, Reliance entered into a revolving line of credit agreement with First Union National Bank (now Wells Fargo Bank, NA), which the Foundation guaranteed. The purpose of the line of credit was to fund the initial purchase of the real estate sold to New Town Associates, and to provide working capital to Reliance. The amount outstanding was \$0 and \$272,541 at June 30, 2017 and 2016, respectively. Interest paid during the years ended June 30, 2017 and 2016, was \$277 and \$10,679, respectively.

During the fiscal year ended June 30, 2009, the Foundation entered into a borrowing arrangement with SunTrust Bank in the amount of \$2,636,140 for renovation of the College's Admissions Office. The terms of the loan were revised during the fiscal year ended June 30, 2011. Under the revised terms, interest accrues at a rate of 4.99% and is payable monthly. Principal is payable annually over a ten year term, with the final amount due on February 1, 2021. SunTrust is granted a security interest in all deposits and investments maintained with SunTrust and any of its affiliates. The terms of the note require the Foundation to maintain at all times unrestricted and temporarily restricted net assets in excess of 200% of the Foundation's total funded debt. The balance outstanding at June 30, 2017 and 2016, was \$1,210,234 and \$1,477,717, respectively. Interest paid during the fiscal years ended June 30, 2017 and 2016, on the loans was \$71,425 and \$83,618, respectively.

The Foundation and its affiliates are in compliance with all debt covenants.

The carrying value of the above debt approximates fair value.

The following represents principal amounts due for the notes payable for the years ending:

Fiscal Year Ending June 30

| | |
|---------------------|---------------------|
| 2018 | \$ 280,830 |
| 2019 | 294,844 |
| 2020 | 309,551 |
| 2021 | <u>325,009</u> |
| Total notes payable | <u>\$ 1,210,234</u> |

17. BONDS PAYABLE

In December 2011, the Economic Development Authority of James City County, Virginia ("Authority") issued a revenue refunding bond in the amount of \$8,090,000 ("Series 2011 Bond"), and loaned the proceeds to the Foundation and CWMF Ventures ("Obligors"). The Series 2011 Bond was acquired by SunTrust Bank, as Series 2011 Bondholder. Proceeds from the sale of the Series 2011 Bond were used to redeem bonds issued in December 2006 by the Authority to finance the cost of property acquisition, construction and equipping of a three-story building in New Town in James City County, Virginia, for use by the Foundation, CWMF Ventures or the College. The Series 2011 Bond bears interest at a fixed rate of 2.96% per annum, subject to the put rights of the Series 2011 Bondholder as described below, and interest payments are due quarterly on each January 1, April 1, July 1 and October 1. The Series 2011 Bondholder has the option to tender the Series 2011 Bond for payment on December 1, 2021, the first optional put date, unless

extended under the terms of the loan agreement to not earlier than December 1, 2026. An additional extension may be made to not earlier than December 1, 2031. The final maturity date is December 1, 2036. The Obligor is required to maintain assets so that on each June 30, unrestricted and temporarily restricted net assets shall exceed 200% of the total funded debt of the Obligor.

The following represents the face value of bonds and unamortized bond issuance costs as of June 30, 2017 and 2016:

| | 2017 | 2016 |
|---------------------------------|---------------------|---------------------|
| Face amount of bonds | \$ 8,090,000 | \$ 8,090,000 |
| Unamortized bond issuance costs | <u>(38,470)</u> | <u>(47,019)</u> |
| Bonds payable | <u>\$ 8,051,530</u> | <u>\$ 8,042,981</u> |

Interest expense, including amortization of bond issuance costs, on the Series 2011 Bond during the fiscal years ended June 30, 2017 and 2016, was \$242,790 and \$252,004, respectively.

The Foundation is in compliance with all bond covenants.

18. LEASE AND RENT EXPENSE

The Foundation leases office space in Washington, DC, New York, NY, and Arlington, VA, under non-cancelable agreements. Future minimum lease payments under these agreements are:

| | | |
|-----------------------------|-----------|------------------|
| 2018 | \$ | 296,400 |
| 2019 | | 301,909 |
| 2020 | | 215,215 |
| 2021 | | 202,580 |
| 2022 | | 196,753 |
| Due in more than five years | | <u>26,315</u> |
| Total | <u>\$</u> | <u>1,239,172</u> |

Total rent expense for all operating leases for the years ended June 30, 2017 and 2016, was \$318,050 and \$264,508, respectively.

19. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

At June 30, 2017 and 2016, net assets are temporarily restricted for the following:

| | 2017 | 2016 |
|------------------------------|-----------------------|-----------------------|
| Instruction | \$ 76,033,331 | \$ 64,627,222 |
| Research | 6,313,421 | 4,994,328 |
| Public service | 904,042 | 1,901,926 |
| Academic support | 26,141,597 | 23,537,609 |
| Student services | 12,633,697 | 10,498,774 |
| Institutional support | 6,166,966 | 5,428,609 |
| Plant and facilities | 26,541,403 | 15,015,919 |
| Scholarships and fellowships | 93,864,520 | 78,210,096 |
| Deferred gifts | 3,864,892 | 4,001,417 |
| General operations | <u>16,004,899</u> | <u>12,259,347</u> |
| Total | <u>\$ 268,468,768</u> | <u>\$ 220,475,247</u> |

At June 30, 2017 and 2016, net assets are permanently restricted for the following:

| | 2017 | 2016 |
|---|-----------------------|-----------------------|
| Instruction | \$ 70,702,238 | \$ 69,802,145 |
| Research | 8,807,717 | 6,827,554 |
| Public service | 772,645 | 1,265,304 |
| Academic support | 19,631,002 | 18,997,600 |
| Student services | 16,505,591 | 14,186,552 |
| Institutional support | 4,309,046 | 4,240,445 |
| Plant and facilities | 2,792,355 | 2,110,337 |
| Scholarships and fellowships | 115,418,219 | 111,452,971 |
| Deferred gifts | 7,365,548 | 7,023,014 |
| General operations (includes funds held in trust by others) | <u>185,891,056</u> | <u>185,896,292</u> |
| | 432,195,417 | 421,802,214 |
| Endowment requiring reinvestment of income until year 2076 | <u>9,643,266</u> | <u>8,650,079</u> |
| Total | <u>\$ 441,838,683</u> | <u>\$ 430,452,293</u> |

20. OTHER MATTERS

Concentration of Risk—Financial instruments, which potentially subject the Foundation to concentration of risk, consist primarily of an equity investment in a large U.S. company. This investment comprised 85.91% and 90.51% of total funds held in trust by others as of June 30, 2017 and 2016, respectively. The trustees of the Foundation have no control over this investment.

REF had approximately \$0 and \$104,382 on deposit with one federally insured financial institution in excess of the \$250,000 limit as of June 30, 2017 and 2016, respectively. CWMF Ventures had approximately \$216,319 and \$913,587 on deposit with one federally insured financial institution in excess of the \$250,000 limit as of June 30, 2017 and 2016, respectively. CEI had approximately \$1,894,301 and \$1,707,962 on deposit with one federally insured financial institution in excess of the \$250,000 limit as of June 30, 2017 and 2016, respectively.

21. DEFERRED COMPENSATION PLAN

During the fiscal year ended June 30, 2009, the Foundation entered into a deferred compensation agreement with the President of the College. The arrangement is unfunded and intended to comply with ERISA and Internal Revenue Code Sections 409A and 457(f). As of June 30, 2017 and 2016, a liability of \$592,917 and \$442,427, respectively, has been recorded.

22. RELATED PARTY TRANSACTIONS

Pledges receivable from trustees and officers of the Foundation at June 30, 2017 and 2016, totaled \$3,412,992 and \$5,093,810, respectively, and are considered related party transactions. Gift receipts from trustees and officers, including payments on pledges, totaled \$3,936,753 and \$3,589,218 for the years ended June 30, 2017 and 2016, respectively.

The Foundation leases certain property to the College for dormitories and office space. Total rent income during the years ended June 30, 2017 and 2016, was \$878,319 and \$865,554, respectively.

The Trust invests in certain private investment funds in which a member of the Board of Trustees and Investments Committee of the Foundation is an officer and a managing partner. The total invested in these private investment funds as of June 30, 2017 and 2016, was \$2,643,930 and \$1,708,570, respectively. Total outstanding commitment (uncalled capital) to the funds as of June 30, 2017 and 2016, was \$3,727,373 and \$4,765,855, respectively. Total management fees for the fiscal years ended June 30, 2017 and 2016, were \$107,510 and \$109,193, respectively. Before investing in these funds, management followed guidelines and procedures prescribed by the Foundation's Conflict of Interest Policy ensuring full disclosure of such relationships.

23. SUBSEQUENT EVENTS

Subsequent events have been evaluated through September 19, 2017, the date the consolidated financial statements were available to be issued. There are no subsequent events to report.

* * * * *