WILLIAM & MARY

CHARTERED 1693

# Audited Consolidated Financial Report
# For The Year Ended June 30, 2017

VIMS | WILLIAM & MARY
VIRGINIA INSTITUTE OF MARINE SCIENCE

RICHARD BLAND COLLEGE of WILLIAM & MARY

# THE COLLEGE OF WILLIAM AND MARY IN VIRGINIA, VIRGINIA INSTITUTE OF MARINE SCIENCE AND RICHARD BLAND COLLEGE

## ANNUAL FINANCIAL REPORT 2016 - 2017

## Contents

# The College of William & Mary in Virginia, Virginia Institute of Marine Science and Richard Bland College Consolidated Financial Statements

## MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

This Management's Discussion and Analysis (MD&A) is required supplemental information to the consolidated financial statements designed to assist readers in understanding the accompanying financial statements. The following information includes a comparative analysis between the current fiscal year ended June 30, 2017 and the prior year ended June 30, 2016. Significant changes between the two fiscal years and important management decisions are highlighted. The summarized information presented in the MD&A should be reviewed in conjunction with both the financial statements and associated footnotes in order for the reader to have a comprehensive understanding of the institution's financial status and results of operations for fiscal year ended June 30, 2017. William & Mary's management has prepared the MD&A, along with the financial statements and footnotes. W&M's management is responsible for all of the information presented for The College of William and Mary (W&M), the Virginia Institute of Marine Science (VIMS), and their affiliated foundations. Richard Bland College's (RBC) management is responsible for all of the information presented for RBC and its affiliated foundation.

The financial statements have been prepared in accordance with the Governmental Accounting Standards Board (GASB) Statement Number 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, as amended by GASB Statement Numbers 37 and 38, and 63. Accordingly, the three financial statements required are the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows. The aforementioned statements are summarized and analyzed in the MD&A.

These financial statements are consolidated statements that include The College of William and Mary in Virginia (W&M), the Virginia Institute of Marine Science (VIMS) and Richard Bland College (RBC). All three entities are agencies of the Commonwealth of Virginia reporting to the Board of Visitors of the College of William and Mary and are referred to collectively as the "University" within the MD&A as well as in the financial statements under the columns titled "University", unless otherwise indicated.

The institutions' affiliated foundations are also included in these statements consistent with *GASB Statement No. 61, The Financial Reporting Entity: Omnibus- An Amendment of GASB Statements No. 14 and 34,* however they are excluded from this MD&A, except where noted. The University has a total of nine foundations, of which the financial information for eight of the foundations is presented in the statements under the column titled "Component Units". While affiliated foundations are not under the direct control of the Board of Visitors, this presentation provides a more holistic view of resources available to support the University and its mission. Additional information and detail related to the foundations can be found in the Component Unit Financial Information footnote. The ninth foundation, Intellectual Properties, was established FY08 and is presented as blended in the University column as required by GASB 61, because W&M has a voting majority of the board.

Financial Summary

Statement of Net Position

The Statement of Net Position provides a snapshot of the University's financial position, specifically the assets, deferred outflows of resources, liabilities, deferred inflows of resources and resulting net position as of June 30, 2017. The information presented for FY 16 for comparative purposes has been restated for FY 16 beginning Net Position adjustments. The information allows the reader to determine the University's assets available for future operations, amounts owed by the University and the categorization of net position as follows:

(1) Net Investment in Capital Assets – reflects the University's capital assets net of accumulated depreciation and any debt attributable to their acquisition, construction or improvements.

(2) Restricted – reflects the University's endowment and similar funds whereby the donor has stipulated that the gift or the income from the principal, where the principal is to be preserved, is to be used to support specific programs. Donor restricted funds are grouped into generally descriptive categories of scholarships, research, departmental uses, etc.

(3) Unrestricted – reflects a broad range of assets available to the University that may be used at the discretion of the Board of Visitors for any lawful purpose in support of the University's primary mission of education, research and public service. These assets are derived from student tuition and fees, state appropriations, indirect cost recoveries from grants and contracts, auxiliary services sales and gifts.

Summary Statement of Net Position

| | FY 2017 | FY 2016 | Dollar Change | Percent Change |
|---|---|---|---|---|
| Assets: | | | | |
| Current | $ 72,170,786 | $ 70,530,880 | $ 1,639,906 | 2.33% |
| Capital, net of accumulated depreciation | 856,806,391 | 841,590,796 | 15,215,595 | 1.81% |
| Other non-current | 146,910,015 | 138,047,959 | 8,862,056 | 6.42% |
| Total assets | 1,075,887,192 | 1,050,169,635 | 25,717,557 | 2.45% |
| Deferred outflows of resources: | | | | |
| Pension related | 25,860,334 | 17,679,350 | 8,180,984 | 46.27% |
| Loss on refunding of debt | 6,402,817 | 5,005,962 | 1,396,855 | 27.90% |
| Total deferred outflows of resources | 32,263,151 | 22,685,312 | 9,577,839 | 42.22% |
| Liabilities: | | | | |
| Current | 90,454,817 | 89,193,866 | 1,260,951 | 1.41% |
| Non-current | 362,869,898 | 362,434,619 | 435,279 | 0.12% |
| Total liabilities | 453,324,715 | 451,628,485 | 1,696,230 | 0.38% |
| Deferred inflows of resources: | | | | |
| Pension related | 3,885,000 | 8,639,000 | (4,754,000) | -55.03% |
| Gain on refunding of debt | 667,347 | 545,484 | 121,863 | 22.34% |
| Total deferred inflows of resources | 4,552,347 | 9,184,484 | (4,632,137) | -50.43% |
| Net Position: | | | | |
| Net investment in capital assets | 629,439,340 | 603,595,005 | 25,844,335 | 4.28% |
| Restricted | 94,428,441 | 90,036,486 | 4,391,955 | 4.88% |
| Unrestricted | (73,594,500) | (81,589,513) | 7,995,013 | 9.80% |
| Total net position | $650,273,281 | $612,041,978 | $ 38,231,303 | 6.25% |

The overall result of the University's FY 17 operations was an increase in net position of approximately $38.2 million or 6.25 percent, bringing total net position to $650.3 million. The growth is due to an increase in the net investment in capital assets of $25.8 million along with an increase in restricted net assets of $4.4 million and an increase in unrestricted net assets of $8.0 million.

Total assets increased by $25.7 million. Capital assets, net of accumulated depreciation, increased by $15.2 million primarily as a result of ongoing construction projects for instruction, research and residential facilities offset by capitalization of completed projects. These projects are discussed in more detail under *Capital Asset and Debt Administration* below. Other non-current assets increased by 8.9 million as a result of an increase in restricted investments due to improvement in market conditions. The $9.6 million increase in deferred outflows of resources is due to the recording of pension liability obligations of $8.1 million.

Total liabilities increased by $1.7 million, which reflects a net increase in both current liabilities and non-current liabilities. The change in current liabilities was primarily attributable to an increase in the advance from the Treasury of Virginia for working capital used pending the receipt of funds from bond sale proceeds and deferred revenue offset by a decrease in accounts payable and accrued expenses. Non-current liabilities increased by $0.4 million due to decrease in Notes and Bonds payable as a result of normal payment of debt offset by an increase in net pension liability.

Statement of Revenues, Expenses and Changes in Net Position

The Statement of Revenues, Expenses and Changes in Net Position presents the results from operations for the fiscal year. Revenues for the daily operation of the University are presented in two categories: operating and non-operating. Operating revenues include the significant categories of tuition and fees, grants and contracts, and the sales of auxiliary enterprises representing exchange transactions. Non-operating revenues include the significant categories of state appropriations, gifts and investment income representing non-exchange transactions. Net other revenues include capital appropriations, grants and contributions.

Summary Statement of Revenues, Expenses and Changes in Net Position

| | FY 2017 | FY 2016 | Dollar Change | Percent Change |
|---|---|---|---|---|
| Operating revenues | $ 329,795,811 | $ 313,533,991 | $ 16,261,820 | 5.19% |
| Operating expenses | 457,435,383 | 437,611,625 | 19,823,758 | 4.53% |
| Operating gain/(loss) | (127,639,572) | (124,077,634) | (3,561,938) | 2.87% |
| Net Non-operating revenues | 124,156,152 | 103,368,379 | 20,787,773 | 20.11% |
| Income/(Loss) before other revenues | (3,483,420) | (20,709,255) | 17,225,835 | 83.18% |
| Net other revenues | 41,714,723 | 68,531,979 | (26,817,256) | -39.13% |
| Increase in net position | $ 38,231,303 | $ 47,822,724 | $ (9,591,421) | -20.06% |

Overall, the result from operations was an increase in net position of $38.2 million. This resulted in a net change year over year of negative $9.6 million. The decrease was due to a reduction in other revenues for capital appropriations and capital grants and contributions for capital projects. Overall there were increases in each of the other major revenue categories -- operating revenues and non-operating revenues with the exception of Other Revenues as described below.

Focusing only on operating revenues and expenses, an increase of $16.3 million in operating revenue was driven primarily by an increase in tuition and fees and growth in grants and contract revenue. See the following section of *Summary of Operating and Non-Operating Revenues net of Non-Operating Expenses* for further details. Operating expenses increased notably in instruction, student services, institutional support, auxiliary enterprises and student aid. See the following section of *Summary of Operating Expenses* for further details.

With the inclusion of state appropriations for the University in the non-operating category, the University will typically display an operating loss for the year. For FY 17, state appropriations contributed almost $76.5 million or 63% of non-operating revenue as shown in summary below.

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

Summary of Operating and Non-Operating Revenues net of Non-Operating Expenses

| | FY 2017 | FY 2016 | Dollar Change | Percent Change |
|---|---|---|---|---|
| Operating Revenues: | | | | |
| Student Tuition and Fees, net of scholarship allowances | $ 183,722,612 | $ 166,936,326 | $ 16,786,286 | 10.06% |
| Federal, State, Local and Non-governmental grants and contracts | 46,235,148 | 45,524,095 | 711,053 | 1.56% |
| Auxiliary Enterprise, net of scholarship allowances | 93,751,701 | 93,597,766 | 153,935 | 0.16% |
| Other | 6,086,350 | 7,475,804 | (1,389,454) | -18.59% |
| Total Operating Revenues | 329,795,811 | 313,533,991 | 16,261,820 | 5.19% |
| Non-Operating: | | | | |
| State Appropriations | 76,479,905 | 71,984,252 | 4,495,653 | 6.25% |
| Gifts, Investment Income and other income and expenses | 47,676,247 | 31,384,127 | 16,292,120 | 51.91% |
| Total Non-Operating | 124,156,152 | 103,368,379 | 20,787,773 | 20.11% |
| Other Revenues, Gains and (Losses): | | | | |
| Capital Appropriations | 28,540,554 | 46,394,308 | (17,853,754) | -38.48% |
| Capital Grants and Gifts | 14,272,718 | 22,137,671 | (7,864,953) | -35.53% |
| Loss on disposal of assets | (1,098,549) | - | (1,098,549) | 100.00% |
| Total Other Revenues, Gains and (Losses) | 41,714,723 | 68,531,979 | (26,817,256) | -39.13% |
| Total Revenues | $ 495,666,686 | $ 485,434,349 | $ 10,232,337 | 2.11% |

Within the operating revenue category, student tuition and fees increased $16.8 million, net of scholarship allowances. A slight increase in State, Local, and Non-governmental Grants and Auxiliary enterprise revenue was offset by the decrease in other revenue. Non-operating revenues grew significantly, with increases in both State Appropriations, Gifts, Investment Income and Other revenue. The University experienced a decrease in Total Other Revenues due to the timing of capital project funding and the completion of construction projects.

Details of the operating expenses of the University are summarized below:

Summary of Operating Expenses

| | FY 2017 | FY 2016 | Dollar Change | Percent Change |
|---|---|---|---|---|
| Operating Expenses: | | | | |
| Instruction | $ 125,405,482 | $ 121,411,787 | $ 3,993,695 | 3.29% |
| Research | 54,704,041 | 55,073,331 | (369,290) | -0.67% |
| Public Service | 32,481 | 25,571 | 6,910 | 27.02% |
| Academic Support | 35,845,132 | 36,115,938 | (270,806) | -0.75% |
| Student Services | 17,976,121 | 14,444,155 | 3,531,966 | 24.45% |
| Institutional Support | 47,133,319 | 42,362,163 | 4,771,156 | 11.26% |
| Operation and Maintenance of Plant | 26,411,278 | 25,457,297 | 953,981 | 3.75% |
| Student Aid | 32,661,886 | 31,531,887 | 1,129,999 | 3.58% |
| Auxiliary Enterprise | 84,582,694 | 80,677,846 | 3,904,848 | 4.84% |
| Depreciation | 32,254,322 | 30,043,967 | 2,210,355 | 7.36% |
| Other Operating Expenses | 428,627 | 467,683 | (39,056) | -8.35% |
| Total Operating Expenses | $ 457,435,383 | $ 437,611,625 | $ 19,823,758 | 4.53% |

For FY17, operating expenses increased most significantly in Instruction, Student Services, Institutional Support, and Auxiliary Enterprises. Student Aid remains a growth area year over year as financial need continues to rise.

Statement of Cash Flows

The Statement of Cash Flows provides detailed information about the University's sources and uses of cash during the fiscal year. Cash flow information is presented in four distinct categories: Operating, Non-capital Financing, Capital Financing and Investing Activities. This statement aids in the assessment of the University's ability to generate cash to meet current and future obligations.

Summary Statement of Cash Flows

| | FY 2017 | FY 2016 | Dollar Change | Percent Change |
|---|---|---|---|---|
| Cash Flows from: | | | | |
| Operating Activities | $ (87,799,812) | $ (89,790,944) | $ 1,991,132 | 2.22% |
| Non-capital Financing | 116,191,661 | 111,808,453 | 4,383,208 | 3.92% |
| Capital and related Financing | (25,593,486) | (21,566,155) | (4,027,331) | -18.67% |
| Investing Activities | (3,283,076) | 5,789,809 | (9,072,885) | -156.70% |
| Net Increase/(Decrease) in Cash | $ (484,713) | $ 6,241,163 | $ (6,725,876) | -107.77% |

Cash flow from operations and non-capital financing reflects the sources and uses of cash to support the core mission of the University. The primary sources of cash supporting the core mission of the University in FY17 were tuition and fees - $179.1 million, auxiliary enterprise revenues - $95.1 million, state appropriations - $76.5 million, and research grants and contracts - $45.4 million and gifts – $39.4 million.

The primary uses of operating cash in FY17 were payments to employees - $251.0 million representing salaries, wages and fringe benefits and payments to suppliers of goods and services - $116.2 million.

Cash flow from capital financing activities reflects the activities associated with the acquisition and construction of capital assets including related debt payments. The primary sources of cash in FY17 were capital appropriations - $31.8 million, capital grants and contributions - $13.9 million. The primary uses of cash were for capital expenditures - $54.5 million and debt payments - $22.3 million.

The change in cash flows from investing activities is due to investment income and purchase and sale of investments.

## Capital Asset and Debt Administration

### *The College of William & Mary*

The following list provides highlights of capital projects completed, in progress, or in design during FY17.

- ***Projects Completed in FY17*** – Seven projects were placed into service in FY17. Tyler Hall was returned to service following comprehensive renovation, construction was completed on Integrated Science Center Phase 3, and construction was completed on significant additions to the Law School, Zable Stadium, the School of Business - Entrepreneurship Center, Student Recreation Center restrooms, and the Kaplan Arena Ticket Booth. These projects will be closed out as soon as warranty inspections are completed.

- ***Projects in Progress*** – Including the seven projects above, there are 31 projects currently in progress, with seven in design, three in construction, and 21 in the process of being closed out.

  Projects in Design – A brief description of each project in design at the end of the fiscal year is provided below:

  - ***The Lake Matoaka Dam Spillway Improvement*** project addresses Virginia dam safety regulations, which require that high risk dams have the capacity to pass off 90% of the flow created by probable maximum precipitation. The capacity will be created by hardening the downstream face of the dam using roller compacted concrete to allow passage of flow by overtopping without damage to the earthen embankment.

  - ***The West Utility Plant*** project will create a new regional utility plant that will reduce the load on the existing Swem Plant and create sufficient chilled water/hot water capability to support the west side of South Campus, including a new Fine and Performing Arts Complex as part of W&M's Campus Master Plan.

  - ***The Alumni House expansion project*** will construct a significant addition to the existing Bright House and 1990's addition, enabling Advancement to significantly improve support to W&M alums.

  - The ***One Tribe Place stabilization project*** will preserve the 1984 addition for future renovation or repurposing of this portion of the residence hall.

  - ***The Fine and Performing Arts project*** will expand and renovate Phi Beta Kappa Hall (PBK), construct a new music building, and improve pedestrian and vehicular circulation in the immediate vicinity. PBK will house Theater, Dance, and Speech and feature a 100-seat student laboratory, a 250-seat studio (black box) theater and a 500-seat renovated main theater. The music building will feature a 125-seat recital hall and a 450-seat recital hall. Both facilities will be uniquely suited to the instructional and acoustic needs of the supported programs.

  - Design has been completed on an accessibility project that will install a ramp, elevator and accessible restrooms in ***Adair Hall*** and improve pathways on campus. Construction will commence in early FY18.

- Design has been completed on the ***stormwater improvement project*** and construction will commence in early FY18.

Construction - A brief description of each project in construction at the end of the fiscal year is provided below:

- ***The Integrative Wellness Center project*** will co-locate all campus physical and mental health resources (Health Center, Counseling Center, Center for Mindfulness and Authentic Excellence (CMAX) and selected recreational activities which promote relaxation (e.g., yoga, massage, etc.) The synergy of these activities is intended to stress prevention via intervention and to create an environment which promotes relaxation and healing.

- The renovation of ***Landrum Hall*** will bring over 200 beds up to current standards with all new rooms and restrooms, lounge and collaboration spaces, and support spaces.

- Upgrade of the ***Recreation Services swimming pool*** will improve water and air quality in the space and improve safety and comfort for swimmers, coaches, and visitors.

Looking ahead, W&M will shift its focus to design of the Integrated Science Complex (Phase 4), design of a significant addition to the Sadler Center, and design of an expanded Muscarelle Museum Briggs Center expansion project. The Residence Hall recapitalization program will continue with replacement or renovation of the Green and Gold Village facilities.

*Virginia Institute of Marine Science (VIMS)*

The following list provides highlights of property acquisitions completed in FY17 as well as capital projects in progress or in design during FY17.

- ***Property Acquisition Completed in FY17 -*** VIMS has authority from the Commonwealth of Virginia to purchase property adjacent to its Gloucester Point and Wachapreague campuses as well as to acquire property for the Virginia Estuarine & Coastal Research Reserve as privately-owned properties become available.

  - In December 2016, VIMS procured two parcels of land for its Wachapreague campus. No properties were acquired during this fiscal year for the Gloucester Point campus or for the Virginia Estuarine & Coastal Research Reserve.

- ***Projects in Progress.*** VIMS did not complete any capital projects in FY17, but had several projects either in design or under construction.

  Projects in Design

  - The Mechanical Systems and Repair Building Envelope of ***Chesapeake Bay Hall project*** involves the replacement of the heating and ventilation systems and repair of the exterior envelope of Chesapeake Bay Hall. The construction manager was selected in FY17 and the project is currently in schematic design. The final project completion date is planned for FY20.

  - The ***Facilities Management Building project*** will provide a new 15,000 square-foot modern building to relocate and house Facilities Management administrative offices, maintenance trades shops, automotive and equipment repair garage, grounds keeping, housekeeping, and central shipping and receiving units. Construction is expected to begin in FY18 with a final completion date anticipated for October 2018.

Construction

- VIMS contracted with a ship builder to construct a ***Research Vessel*** (to be named the R/V Virginia), which will replace the existing and outdated R/V Bay. The vessel's hull steel was nested, prepped and ready for welding by June 30, 2017. The vessel is expected to be completed by August 2018.

- The ***Consolidated Scientific Research Facility project*** will construct a new 32,000 square-foot building to provide research, study, office and technology space for the departments of Information Technology, Marine Advisory Services, Virginia Sea Grant, Center for Coastal Resources Management, and the Communications Center. The building foundation, steel structure, concrete floor slabs, and exterior sheathing were completed as of June 30, 2017. The mechanical, electrical, and plumbing contractors completed 50% of the interior utility installation. The exterior skin barrier was approximately 80% complete by the end of the fiscal year and roofing installation and masonry crews were 40% complete. The final project is expected to be complete in late FY18.

Future projects for VIMS will include replacing the Eastern Shore Laboratory Complex and the Oyster Research Hatchery. Once completed, both projects will provide new state-of-the-art facilities in marine research.

## *Richard Bland College*

The following list provides highlights of capital projects completed, in progress, or in design during FY17.

- ***Projects Completed in FY17*** – As part of a broader State authorization for maintenance projects, RBC completed the construction of a Consolidated Storage Building in FY17. The building, located on the west side of Johnson Road, will serve as a storage facility for facilities personnel, keeping tools and supplies closer to the heart of activity on campus and improving efficiency.

Construction

- The renovation of the former Humanities and Social Sciences into residential space was approved by the General Assembly in 2016 and funded by 9C bonds issued in FY17. This project aligns with RBC's strategic plan and will expand the residential population for RBC, providing a stronger student experience in preparation of successful transfer to a four-year institution and achievement of a bachelor's degree. The project is currently under construction and once complete will provide an additional 75 beds to the campus, bringing the residential population up to 475 students. The rooms are traditional residential space, with one to three beds per room and shared bathroom suites.

Debt Activity

The University's long-term debt is comprised of bonds payable, notes payable, capital lease payable and installment purchases. The bonds payable are Section 9(c) bonds which are general obligation bonds issued and backed by the Commonwealth of Virginia on behalf of the University. These bonds are used to finance capital projects which will produce revenue to repay the debt. The University's notes payable consists of Section 9(d) bonds, which are issued by the Virginia College Building Authority's (VCBA) Pooled Bond Program. These bonds are backed by pledges against the University's general revenues. As of June 30, 2017 the University has outstanding balances for Section 9(c) bonds and Section 9(d) bonds of $70.7 million and $148.5 million respectively.

The outstanding balance of 9(c) bonds can be summarized in five major categories as follows excluding unamortized premiums/discounts: (1) Renovation of Dormitories - $32.3 million, (2) Commons Dining Hall - $5.4 million, (3) Other housing/residence - $4.1 million, (4) New Dormitory - $20.5 million and (5) RBC Student Housing Conversion - $2.5 million. The majority of the 9(d) balance at June 30, 2017 is related to: One Tribe Place - $20.7 million, the Miller Hall School of Business - $15.1 million, the Barksdale dormitories - $14.7 million, Cooling Plant - $17.6 million, Integrated Science Center - $12.6 million, the Parking Deck -$6.5 million, Recreation Sports Center - $5.7 million, Marshall-Wythe Law School Library - $9.3 million, Expansion of the Sadler Center - $7.1 million, Integrative Wellness Center - $9.3, Athletic related projects – $8.0 million and various other projects – $7.4 million.

Economic Outlook

Our strong economic health continues to reflect W&M's ability to recruit students, its status as a public institution within the Commonwealth of Virginia's higher education system, our ability to raise revenue through tuition and fees, grants and contracts and private funds, and our ability to reallocate funds to support the University's highest priorities.

W&M continues to recruit, admit and retain top-caliber students even as we compete against the most selective public and private institutions in the country. Freshman applications to the University continue to be strong, with 14,921 students seeking admission for fall 2017. With an incoming class size of 1,534 students, W&M has almost 9.7 applicants for every student enrolled. Given its robust applicant pool, the credentials of admitted students remain strong, reflecting William & Mary's highly selective nature. These statistics, coupled with the University's academic reputation, suggest a strong continuing student demand for the future. Similarly, the Virginia Institute of Marine Science (VIMS) continues to see significant success in its academic, research and advisory programs, particularly in high profile areas such as coastal flooding, sea-level rise, and water quality. Richard Bland College (RBC) continues its growth trajectory as well, with steady increases in both headcount and full-time equivalent enrollments. In terms of student mix, RBC has successfully increased its efforts to draw students from outside of the area, with 42% of its students coming from outside the tri-cities region. RBC has formed a partnership with Navitas, a leader in global higher education, to increase their international population on campus by 100 students over the next two years. These continued efforts at growing both the RBC population, and increasing retention and graduation rates, speak to the focused effort by RBC administration on achieving its aspirational goal of 100% student success.

State support for operations is a function of general economic conditions and the priority assigned to higher education among competing demands for Commonwealth resources. After ending FY16 with a revenue shortfall, the Commonwealth announced budget reductions for all public colleges and universities as well as most state agencies. The actions resulted in both one-time reductions for W&M in FY17 and FY18, as well as base operating reductions in FY18 totaling approximately $2.2 million in state support at W&M. Despite those reductions, growth from other revenue sources remained strong in FY17 largely mitigating the impact to the University overall. In addition, the Commonwealth ended FY17 with a surplus alleviating concerns that additional reductions might extend into future fiscal years. However, given historical fluctuations in state support and competing demands, the University continues to exercise caution in budget commitments that assume State funding support.

The rebound in endowment value began in FY10 and continued through FY17, after a slight decline in FY16. As of June 30, 2017, the market value of W&M's Endowment was $874.1 million compared to $803.7 million in FY16 – a year over year increase of 8.75%. Growth in FY17 included both investment returns net of fees, new gifts and receivables, market changes in externally managed accounts, changes in property holdings and spending withdrawals. The Board of Visitors' endowment recognized a 13.0% one-year investment return as of June 30, 2017 with the William and Mary Investment Trust recognizing a 12.1% return. Together, these remain the largest of the investment portfolios and both remain highly diversified across asset classes.

Relative to private fund raising, William & Mary continued its success in FY17 raising over $134 million in gifts and commitments and exceeding over $100 million in gifts and commitments for each of the last five years. Gifts raised in FY17 are part of an eight-year, $1 billion fundraising campaign that was launched in FY13. As of June 30, 2017, W&M has raised $712.2 million. We fully anticipate meeting the campaign goal, with more than 45,000 total donors, including over 19,250 undergraduate alumni donors. At those levels, our undergraduate alumni donor giving rate is 29.9% -- the highest percentage of alumni giving of any public college or University in the country.

In addition to operating dollars, investments in our academic facilities and infrastructure remain strong. We saw significant improvements to our facilities with the completion of the Integrated Science Center, Phase 3 and the renovation of Tyler Hall. With significant support from the Commonwealth for additional construction and renovation, we have begun planning for a series of new projects that will provide state-of-the-art educational and performance facilities for our music, theater and dance programs, as well as expansions to our student health, residential, and recreational programs on the Williamsburg campus. Projects currently underway to construct a new research vessel, a new research facility and a new facilities management building will greatly enhance VIMS research and administrative capacities.

# Consolidated Financial Statements

**The College of William and Mary in Virginia, Virginia Institute of Marine Science**
**and Richard Bland College - Consolidated Report**
**Statement of Net Position**
**As of June 30, 2017**

| ASSETS | University | Component Units |
|---|---|---|
| Current assets: | | |
| Cash and cash equivalents (Note 3) | $ 25,345,077 | $ 26,845,503 |
| Investments (Note 3) | 24,743,463 | 15,275,231 |
| Appropriation available | 319,161 | - |
| Receivables, net of allowance for doubtful accounts (Note 5) | 14,153,153 | 6,923,778 |
| Notes receivable (Note 5) | 451,365 | |
| Due from commonwealth | 3,177,352 | |
| Inventories | 466,268 | 7,600 |
| Pledges receivable | - | 9,784,989 |
| Prepaid expenses | 3,383,245 | 725,993 |
| Other assets | 131,702 | 189,915 |
| Total current assets | 72,170,786 | 59,753,009 |
| Non-current assets: | | |
| Restricted cash and cash equivalents (Note 3) | 32,838,378 | 10,002,479 |
| Restricted investments (Note 3) | 91,733,748 | 385,723,074 |
| Investments (Note 3) | 20,100,175 | 267,568,047 |
| Receivables | - | 21,403,338 |
| Notes receivable, net of allowance for doubtful accounts (Note 5) | 2,237,714 | - |
| Pledges receivable | - | 26,829,748 |
| Capital assets, nondepreciable (Note 6) | 121,792,493 | 19,684,763 |
| Capital assets, depreciable net of accumulated depreciation of $432,541,331 (Note 6) | 735,013,898 | 15,478,346 |
| Other assets | - | 2,601,734 |
| Other restricted assets | - | 157,972,882 |
| Total non-current assets | 1,003,716,406 | 907,264,411 |
| Total assets | 1,075,887,192 | 967,017,420 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | |
| Pension related | 25,860,334 | |
| Loss on refunding of debt | 6,402,817 | |
| Total deferred outflows of resources | 32,263,151 | |
| Total assets and deferred outflows of resources | 1,108,150,343 | |
| **LIABILITIES** | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses (Note 7) | 43,767,980 | 2,081,615 |
| Unearned revenue | 15,049,469 | 698,768 |
| Deposits held in custody for others | 939,789 | 302,062 |
| Advance from the Treasurer of Virginia (Note 18) | 4,246,592 | |
| Long-term liabilities-current portion (Note 9) | 26,009,692 | 1,580,738 |
| Other liabilities | 441,295 | 49,669 |
| Total current liabilities | 90,454,817 | 4,712,852 |
| Long-term liabilities-non-current portion (Note 9) | 362,869,898 | 61,125,054 |
| Total liabilities | 453,324,715 | 65,837,906 |
| **DEFERRED INFLOWS OF RESOURCES** | | |
| Pension related | 3,885,000 | |
| Gain on refunding of debt | 667,347 | |
| Total deferred inflows of resources | 4,552,347 | |
| Total liabilities and deferred inflows of resources | 457,877,062 | |
| **NET POSITION** | | |
| Net investment in capital assets | 629,439,340 | 14,838,465 |
| Restricted for: | | |
| Nonexpendable: | | |
| Scholarships and fellowships | 10,207,511 | 131,248,904 |
| Research | - | 15,743,302 |
| Loans | - | 24,230 |
| Departmental uses | 46,154,485 | 159,130,741 |
| Other | - | 208,821,976 |
| Expendable: | | |
| Scholarships and fellowships | 11,416,351 | 106,825,319 |
| Research | - | 6,449,575 |
| Debt service | 2,312,331 | - |
| Capital projects | 6,332 | 13,324,414 |
| Loans | 615,359 | 81,181 |
| Departmental uses | 23,716,072 | 156,323,289 |
| Other | - | 41,350,635 |
| Unrestricted | (73,594,500) | 47,017,483 |
| Total net position | $ 650,273,281 | $ 901,179,514 |

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

**The College of William and Mary in Virginia, Virginia Institute of Marine Science**
**and Richard Bland College - Consolidated Report**
**Statement of Revenues, Expenses and Changes in Net Position**
**For the Year Ended June 30, 2017**

| | University | Component Units |
|---|---|---|
| Operating revenues: | | |
| Student tuition and fees, net of scholarship allowances of $35,823,448 | $ 183,722,612 | $ - |
| Gifts and contributions | - | 38,616,490 |
| Federal grants and contracts | 35,883,252 | - |
| State grants and contracts | 3,535,522 | - |
| Local grants and contracts | 275,759 | - |
| Nongovernmental grants and contracts | 6,540,615 | - |
| Auxiliary enterprises, net of scholarship allowances of $16,205,561 | 93,751,701 | - |
| Other | 6,086,350 | 13,613,602 |
| Total operating revenues | 329,795,811 | 52,230,092 |
| Operating expenses: (Note 11) | | |
| Instruction | 125,405,482 | 7,138,412 |
| Research | 54,704,041 | 690,010 |
| Public service | 32,481 | 694,868 |
| Academic support | 35,845,132 | 5,905,958 |
| Student services | 17,976,121 | 771,216 |
| Institutional support | 47,133,319 | 17,814,025 |
| Operation and maintenance of plant | 26,411,278 | 8,641,350 |
| Student aid | 32,661,886 | 9,699,271 |
| Auxiliary enterprises | 84,582,694 | 7,121,849 |
| Depreciation | 32,254,322 | 858,377 |
| Other | 428,627 | 3,670,513 |
| Total operating expenses | 457,435,383 | 63,005,849 |
| Operating loss | (127,639,572) | (10,775,757) |
| Non-operating revenues/(expenses): | | |
| State appropriations (Note 12) | 76,479,905 | - |
| Gifts | 39,431,724 | - |
| Net investment revenue | 10,030,146 | 67,414,648 |
| Pell grant revenue | 5,558,419 | - |
| Interest on capital asset related debt | (5,913,991) | (251,338) |
| Other non-operating revenue | 4,724,277 | 4,269,076 |
| Other non-operating expense | (6,154,328) | (248,568) |
| Net non-operating revenues | 124,156,152 | 71,183,818 |
| Income/(loss) before other revenues, expenses, gains or losses | (3,483,420) | 60,408,061 |
| Capital appropriations | 28,540,554 | - |
| Capital grants and contributions | 14,272,718 | 6,304,947 |
| Loss on disposal of assets | (1,098,549) | - |
| Additions to permanent endowments | - | 17,290,712 |
| Net other revenues, expenses, gains or losses | 41,714,723 | 23,595,659 |
| Increase/(Decrease) in net position | 38,231,303 | 84,003,720 |
| Net position - beginning of year, restated (Note 2) | 612,041,978 | 817,175,794 |
| Net position - end of year | $ 650,273,281 | $ 901,179,514 |

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

**The College of William and Mary in Virginia, Virginia Institute of Marine Science**
**and Richard Bland College - Consolidated Report**
**Statement of Cash Flows**
**For the Year Ended June 30, 2017**

| | |
|---|---|
| Cash flows from operating activities: | |
| Tuition and fees | $ 179,117,313 |
| Scholarships | (33,573,930) |
| Research grants and contracts | 45,376,340 |
| Auxiliary enterprise charges | 95,091,433 |
| Payments to suppliers | (116,154,156) |
| Payments to employees | (251,002,881) |
| Payments for operation and maintenance of facilities | (11,861,110) |
| Loans issued to students and employees | (545,954) |
| Collection of loans to students and employees | 448,414 |
| Other receipts | 5,750,964 |
| Other payments | (446,245) |
| Net cash used by operating activities | (87,799,812) |
| Cash flows from noncapital financing activities: | |
| State appropriations | 76,479,905 |
| Gifts | 39,431,724 |
| Agency receipts | 1,630,608 |
| Agency payments | (2,284,825) |
| Direct Loan receipts | 47,490,969 |
| Direct Loan disbursements | (47,490,969) |
| Other non-operating receipts | 4,479,836 |
| Other non-operating disbursements | (3,545,587) |
| Net cash provided by noncapital financing activities | 116,191,661 |
| Cash flows from capital financing activities: | |
| Proceeds from issuance of capital debt | 2,689,326 |
| Capital appropriations | 31,767,767 |
| Capital grants and contributions | 13,913,581 |
| Advance from the Treasurer of Virginia | 4,246,592 |
| Payment to the Treasurer of Virginia | (2,004,876) |
| Insurance payments | 393,774 |
| Capital expenditures | (54,545,653) |
| Principal paid on capital-related debt | (14,301,060) |
| Interest paid on capital-related debt | (8,025,553) |
| Proceeds from sale of capital assets | 272,616 |
| Net cash used by capital and related financing activities | (25,593,486) |
| Cash flows from investing activities: | |
| Investment income | 1,043,310 |
| Investment expense | (155,321) |
| Proceeds from sale of investments | 134,466,135 |
| Purchase of investments | (138,637,200) |
| Net cash provided by investing activities | (3,283,076) |
| Net increase/(decrease) in cash | (484,713) |
| Cash-beginning of year | 58,668,168 |
| Cash-end of year | $ 58,183,455 |

**The College of William and Mary in Virginia**
**and Richard Bland College - Consolidated Report**
**Statement of Cash Flows**
**For the Year Ended June 30, 2017**

| | | |
|---|---|---|
| Reconciliation of Cash-end of year-Cash Flow Statement, to Cash and Cash Equivalents-Statement of Net Position : | | |
| Statement of Net Position | | |
| Cash and cash equivalents | $ | 25,345,077 |
| Restricted cash and cash equivalents | | 32,838,378 |
| Net cash and cash equivalents | $ | 58,183,455 |
| Reconciliation of net operating expenses to net cash used by operating activities: | | |
| Net operating loss | $ | (127,639,572) |
| Adjustments to reconcile net operating expenses to cash used by operating activities: | | |
| Depreciation expense | | 32,254,322 |
| Changes in assets, deferred outflows of resources, liabilities and deferred inflows of resources: | | |
| Receivables-net | | 846,260 |
| Inventories | | 102,426 |
| Prepaid expense | | (2,328,447) |
| Accounts payable | | 4,882,668 |
| Unearned revenue | | 484,050 |
| Deposit held for others | | 260 |
| Compensated absences | | 446,696 |
| Pension liability | | 15,888,000 |
| Deferred outflows of resources related to pension obligations | | (8,180,984) |
| Deferred inflows of resources related to pension obligations | | (4,754,000) |
| Software licenses liability | | 216,127 |
| Other liability | | (17,618) |
| Net cash used in operating activities | $ | (87,799,812) |

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

| | | |
|---|---|---|
| Amortization of a deferred loss | $ | (695,867) |
| Donated capital assets | $ | 359,137 |
| Loss on disposal of assets | $ | (879,592) |
| Capitalization of interest expense | $ | 954,391 |
| Reduction/amortization of bond premium | $ | 2,837,875 |
| Net accumulated change in fair value of investments | $ | 6,649,848 |
| VRS Special Revenue Allocation | $ | 3,183,000 |

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

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# Notes to
# Financial Statements

# Year Ended June 30, 2017

# NOTES TO FINANCIAL STATEMENTS

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Reporting Entity

The consolidated financial statements of the College of William and Mary includes the financial statements of the College of William and Mary in Virginia (William and Mary or W&M) located in Williamsburg, Virginia, its York River campus at the Virginia Institute of Marine Science (VIMS) and Richard Bland College (RBC), collectively referred to as "the University". All three entities are recognized as distinct state agencies within the Commonwealth of Virginia's statewide system of public higher education with a shared governing board appointed by the Governor of Virginia. In this capacity, the University's Board of Visitors is responsible for overseeing governance of all three entities. The University is a component unit of the Commonwealth of Virginia and is included in the general purpose financial statements of the Commonwealth.

The accompanying financial statements present all funds for which the University's Board of Visitors is financially accountable. Related foundations and similar non-profit corporations for which the University is not financially accountable are also a part of the accompanying financial statements under Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*. These entities are legally separate and tax exempt organizations formed to promote the achievements and further the aims and purposes of the University. These component units are described in Note 13.

The University has nine component units as defined by GASB Statement 61 – the College of William and Mary Foundation, the Marshall-Wythe School of Law Foundation, the Alumni Association, the Athletic Educational Foundation, the School of Business Foundation, the Virginia Institute of Marine Science Foundation, the Richard Bland College Foundation, the Real Estate Foundation and the Intellectual Property Foundation. These organizations are separately incorporated tax-exempt entities and have been formed to promote the achievements and further the aims and purposes of the University. The Foundations are private, non-profit organizations, and as such the financial statement presentation follows the recommendation of accounting literature related to non-profits. As a result, reclassifications have been made to convert the Foundation's financial information to GASB format.

Although the University does not control the timing or amount of receipts from the Foundations, the majority of resources or income which the Foundations hold and invest are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundations can only be used by or for the benefit of the University, the Foundations are considered component units of the University and are discretely presented in the financial statements with the exception of the Intellectual Property Foundation. The Intellectual Property Foundation is presented blended in the University column because the University has a voting majority of the governing board of the Foundation.

The College of William and Mary Foundation is a private, not-for-profit corporation organized under the laws of the Commonwealth of Virginia to "aid, strengthen, and expand in every proper and useful way" the work of William and Mary. For additional information on the College of William and Mary Foundation, contact the Foundation at Post Office Box 8795, Williamsburg, Virginia 23187.

The Marshall-Wythe School of Law Foundation is a non-stock, not-for-profit corporation organized under the laws of the Commonwealth of Virginia, established for the purpose of soliciting and receiving gifts to support the W&M School of Law. The Foundation supports the Law School through the funding of scholarships and fellowships, instruction and research activities, and academic support. For additional information on the Marshall-Wythe School of Law Foundation, contact the Foundation Office at Post Office Box 8795, Williamsburg, Virginia 23187.

The William and Mary Alumni Association is a private, not-for-profit corporation organized under the laws of the Commonwealth of Virginia which provides aid to W&M in its work, and promotes and strengthens the bonds of interest between and among William and Mary and its alumni. For additional information on the Alumni Association, contact the Alumni Association Office at Post Office Box 2100, Williamsburg, Virginia 23187-2100.

The William and Mary Athletic Educational Foundation is a not-for-profit corporation organized under the laws of the Commonwealth of Virginia. The purpose of the Foundation is to promote, foster, encourage and further education, in all enterprises of all kinds at William and Mary, but it principally supports W&M’s Athletic Department. For additional information on the Athletic Educational Foundation, contact the Foundation Office at 751 Ukrop Drive, Williamsburg, Virginia 23187.

The William and Mary Business School Foundation is a non-stock, not-for-profit corporation organized under the laws of the Commonwealth of Virginia. The purpose of the Business School Foundation is to solicit and receive gifts to endow the W&M School of Business Administration and to support the School through the operations of the Foundation. For additional information on the William and Mary Business School Foundation, contact the Foundation Office at Post Office Box 2220, Williamsburg, Virginia, 23187.

The Virginia Institute of Marine Science Foundation is a not-for-profit corporation organized under the laws of the Commonwealth of Virginia. The purpose of the Foundation is to support the Virginia Institute of Marine Science primarily through contributions from the public. For additional information on the Virginia Institute of Marine Science Foundation, contact the Foundation Office at Post Office Box 1346, Gloucester Point, Virginia, 23062.

The Richard Bland College Foundation is a private, not-for-profit corporation organized under the laws of the Commonwealth of Virginia which provides scholarships, financial aid, and books to RBC’s students, along with support for faculty development and cultural activities. For additional information on the Richard Bland College Foundation, contact the Foundation Office at 11301 Johnson Road, South Prince George, Virginia 23805.

The William and Mary Real Estate Foundation is a nonprofit organization incorporated under the laws of the Commonwealth of Virginia in September 2006. Its purpose is to acquire, hold, manage, sell, lease and participate in the development of real properties in support of the educational goals of William and Mary and VIMS. For additional information on the William and Mary Real Estate Foundation, contact the Foundation Office at Post Office Box 8795, Williamsburg, Virginia, 23187-8795.

The Intellectual Property Foundation is a nonprofit organization incorporated under the laws of the Commonwealth of Virginia in September 2007. Its purpose is to handle all aspects of the intellectual property of William and Mary in support of the educational goals of the University. The Intellectual Property Foundation is presented blended with the University because the University has a voting majority of the board. For additional information on the William and Mary Intellectual Property Foundation, contact the Foundation Office at Post Office Box 8795, Williamsburg, Virginia, 23187-8795.

The Omohundro Institute of Early American History and Culture (OIEAHC), sponsored by William and Mary, is a separate non-profit entity organized exclusively for educational purposes. Its Executive Board determines matters of policy and has responsibility for financial and general management as well as resource development. The Executive Board consists of up to six members, including the chief academic officer of the University as an ex officio member. Given university representation on the board, the support to the Institute is blended in the University column on the financial statements. For FY17, the university contributed $905,912 to the Institute through direct payment of expenses.

The following summarizes the unaudited financial position of the OIEAHC at June 30, 2017:

| | |
|---|---|
| Assets | $ 17,595,601 |
| Liabilities | 26,193 |
| Net Assets | 17,569,408 |
| Liabilities and Net Assets | $ 17,595,601 |

The total unaudited receipts and disbursements of the OIEAHC were $3,242,656 and $2,107,527 respectively, for the year ended June 30, 2017. Separate financial statements for the OIEAHC may be obtained by writing the Treasurer, Omohundro Institute of Early American History and Culture, P.O. Box 8781, Williamsburg, Virginia 23187-8781.

Basis of Presentation

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), including all applicable GASB pronouncements. Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities.* The University follows accounting and reporting standards for reporting as a special-purpose government engaged in business-type activities and accordingly, is reported within a single column in the basic financial statements.

Basis of Accounting

The financial statements of the University have been prepared using the economic resources measurement focus and the accrual basis of accounting, including depreciation expense related to capitalized fixed assets. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Bond premiums and discounts are deferred and amortized over the life of the debt. All significant intra-agency transactions have been eliminated.

Cash and Cash Equivalents

In accordance with the GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, definition, cash and cash equivalents consist of cash on hand, money market funds, and temporary highly liquid investments with an original maturity of three months or less.

Investments

GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, requires that purchased investments, interest-bearing temporary investments classified with cash, and investments received as gifts be recorded at fair value, and reported in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. (See Note 3). Realized and unrealized gains and losses are reported in investment income as non-operating revenue in the Statement of Revenues, Expenses, and Changes in Net Position.

Receivables

Receivables consist of tuition and fee charges to students and auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to grants and contracts. Receivables are recorded net of estimated uncollectible amounts.

Inventories

Inventories at the Williamsburg and York River (Virginia Institute of Marine Science) campuses are reported using the consumption method, and valued at average cost. RBC does not report any inventory.

Prepaid Expenses

As of June 30, 2017, the University's prepaid expenses included items such as insurance premiums, membership dues, conference registrations and publication subscriptions for FY18 that were paid in advance.

Capital Assets

Capital assets are recorded at historical cost at the date of acquisition or acquisition value at the date of donation in the case of gifts. Construction expenses for capital assets and improvements are capitalized when expended. Interest expense of $954,391 relating to construction is capitalized net of interest income earned on resources set aside for this purpose for the year ended June 30, 2017. The University's capitalization policy on equipment includes all items with an estimated useful life of two years or more. All three campuses capitalize all items with a unit price greater than or equal to $5,000. The Williamsburg and York River campuses capitalize buildings and improvements other than buildings with a cost greater than or equal to $100,000. Richard Bland College capitalizes buildings and improvements other than buildings with a cost greater than or equal to $5,000. Library materials for the academic or research libraries are capitalized as a collection and are valued at cost. The Williamsburg and York River campuses capitalize intangible assets with a cost greater than or equal to $50,000 except for internally generated computer software which is capitalized at a cost of $100,000 or greater. Richard Bland College capitalizes intangible assets with a cost greater than or equal to $20,000.

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

| | |
|---|---|
| Buildings | 40-50 years |
| Infrastructure | 10-50 years |
| Equipment | 2-30 years |
| Library Books | 10 years |
| Intangible Assets – computer software | 3-20 years |

Collections of works of art and historical treasures are capitalized at cost or fair value at the date of donation. These collections, which include rare books, are considered inexhaustible and therefore are not depreciated.

Deferred Outflows of Resources

Deferred outflows of resources are defined as the consumption of net assets applicable to a future reporting period. The deferred outflows of resources have a positive effect on net position similar to assets.

Unearned Revenue

Unearned revenue represents revenue collected but not earned as of June 30, 2017. This is primarily comprised of revenue for student tuition and fees paid in advance of the semester, amounts received from grant and contract sponsors that have not yet been earned and advance ticket sales for athletic events.

Compensated Absences

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

Noncurrent Liabilities

Noncurrent liabilities include principal amounts of bonds payable, notes payable, capital lease payable and installment purchase agreements with contractual maturities greater than one year as well as estimated amounts for accrued compensated absences that will not be paid within the next fiscal year. Also included is pension liability for defined benefit plans administered through the Virginia Retirement System.

Pensions

The Virginia Retirement System (VRS) State Employee Retirement Plan and the Virginia Law Officers' System (VaLORS) Retirement Plan are single employer pension plans that are treated like cost-sharing plans. For the purposes of measuring the net pension liability, deferred outflows of resources and deferred inflow of resources related to pensions, pension expense, information about the fiduciary net position of the VRS State Employee Retirement Plan and the VaLORS Retirement Plan, as well as the additions to/deductions from the VRS State Retirement Plan's and the VaLORS Retirements Plan's net fiduciary position have been determined on the same basis as they were reported by VRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Inflows of Resources

Deferred inflows of resources are defined as the acquisition of net assets applicable to a future reporting period. The deferred inflows of resources have a negative effect on net position similar to liabilities.

Net Position

The University's net position is classified as follows:

Net Investment in Capital Assets – consists of total investment in capital assets, net of accumulated depreciation and outstanding debt obligations.

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

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

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

Scholarship Allowances

Student tuition and fee revenues and certain other revenues from charges to students are reported net of scholarship allowances in the Statement of Revenues, Expenses, and Changes in Net Position. Scholarship allowances are the difference between the actual charge for goods and services provided by the University and the amount that is paid by students and/or third parties on the students' behalf. Financial aid to students is reported in the financial statements under the alternative method as prescribed by the National Association of College and University Business Officers (NACUBO). The alternative method is a simple calculation that computes scholarship discounts and allowances on a college-wide basis by allocating the cash payments to students, excluding payments for services, on the ratio of total aid to the aid not considered to be third party aid. Student financial assistance grants and other Federal, State or nongovernmental programs are recorded as either operating or non-operating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the University has recorded a scholarship allowance.

Federal Financial Assistance Programs

The University participates in federally funded Pell Grants, Supplemental Educational Opportunity Grants (SEOG), Federal Work Study, Perkins Loans, and Direct Loans, which includes Stafford Loans, Parent Loans for Undergraduate Students (PLUS) and Graduate PLUS Loans. Federal programs are audited in accordance with 2 CFR 200, subpart F.

Classification of Revenues and Expenses

The University presents its revenues and expenses as operating or non-operating based on the following criteria:

Operating revenues - includes activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship allowances, (2) sales and services of auxiliary enterprises, (3) most Federal, State and Local grants and contracts and (4) interest on student loans.

Non-operating revenues - includes activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenue sources that are defined as non-operating revenues by GASB Statement No. 9, and GASB Statement No. 34, such as State appropriations and investment income.

Operating and Non-operating expenses - includes interest on debt related to the purchase of capital assets and losses on the disposal of capital assets. All other expenses are classified as operating expenses.

## 2. RESTATEMENT OF NET POSITION

| | |
|---|---|
| Net position as previously reported June 30, 2016 | $ 612,523,478 |
| Richard Bland College<br>Adjust Due from VCBA receivable | (481,500) |
| Net position at July 1, 2017 | $ 612,041,978 |

## 3. CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents

Pursuant to Section 2.2-1800, et. seq., Code of Virginia, all state funds of the University are maintained by the Treasurer of Virginia, who is responsible for the collection, disbursement, custody and investment of State funds. Cash held by the University is maintained in accounts that are collateralized in accordance with the Virginia Securities for Public Deposits Act, Section 2.2-4400, et. seq. Code of Virginia with the exception of cash held by the University in foreign currency. The Virginia Security for Public Deposits Act eliminates any custodial credit risk for the University.

Investments

The investment policy of the University is established by the Board of Visitors and monitored by the Board’s Financial Affairs Committee. In accordance with the Board of Visitors' Resolution 6(R), November 16, 2001, Resolution 12(R) November 21-22, 2002, and as updated by the Board in April 2015 investments can be made in the following instruments: cash, U.S. Treasury and Federal agency obligations, commercial bank certificates of deposit, commercial paper, bankers' acceptances, corporate notes and debentures, money market funds, mutual funds, convertible securities and equities. Money market funds are cash equivalents and can be withdrawn anytime so they are presented at amortized cost.

Credit Risk

The risk that an issuer or other counterparty to an investment will not fulfill its obligations. GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, requires the disclosure of the credit quality rating on any investments subject to credit risk.

Concentration of Credit Risk

Concentration of credit risk requires the disclosure by amount and issuer of any investments in any one issuer that represents five percent or more of total investments. Investments explicitly guaranteed by the U.S. government and investments in mutual funds or external investment pools and other pooled investments are excluded from this requirement. The University's investment policy does not limit the amount invested in U.S. Government or Agency Securities. As of June 30, 2017, none of the investments in stocks or bonds represents five percent or more of the total investments; therefore; the College did not have concentration of credit risk.

Custodial Credit Risk

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

Interest Rate Risk

The interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University limits its exposure to interest rate risk by limiting its maximum maturity lengths of investments and structuring its portfolio to maintain adequate liquidity to ensure the University's ability to meet its operating requirements.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The University had no investments in foreign currency but had foreign deposits in the amount of $227,099 in British pounds and $398,181in Euros as of June 30, 2017.

Fair Value Measurement

Certain assets and liabilities of the University are reflected in the accompanying financial statements at fair value. The University follows the provisions in GASB Statement 72, *Fair Value Measurement and Application*. Fair value is 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). GASB 72 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. 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 GASB 72 are described below:

*Level 1*—Quoted prices (unadjusted) in active markets for identical assets or liabilities that the University has the ability to access at the measurement date;

*Level 2*—Quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, or inputs other than quoted prices that are observable (directly or indirectly) for 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 GASB 72, assets and liabilities are classified within the level of the lowest significant input considered in determining fair value.

GASB 72 permits a governmental unit to establish the fair value of investments in non-governmental entities that do not have a readily determinable fair value by using the Net Asset Value ("NAV") per share (or its equivalent), such as member units or an ownership interest in partners' capital. The University uses the NAV or its equivalent as provided by the investment funds to value its investments in certain limited partnerships. Investments valued using the NAV or its equivalent are not categorized within the fair value hierarchy, and are presented in the table below.

The University categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The following table presents investments as of June 30, 2017:

Investments Measured at Fair Value

| | 6/30/2017 | Level 1 | Level 2 |
|---|---|---|---|
| Investments by Fair Value Level | | | |
| Debt Securities | | | |
| Corporate Bonds | $ 27,886,676 | $ - | $ 27,886,676 |
| Commercial Paper | 5,391,394 | - | 5,391,394 |
| Agency Unsecured Bonds and Notes | 15,404,089 | - | 15,404,089 |
| Agency Mortgage Backed Securities | 11,711,650 | - | 11,711,650 |
| Mutual Funds | 23,215,971 | 23,215,971 | - |
| Fixed Income and Comingled Funds | 94,729 | 94,729 | - |
| Total Debt Securities | 83,704,509 | 23,310,700 | 60,393,809 |
| Equity Securities | | | |
| Common and Preferred Stocks | 12,322,837 | 12,322,837 | - |
| Equity Index | 5,219,781 | 5,219,781 | - |
| Equity Index and Pooled Funds | 29,912,329 | 29,912,329 | - |
| Real Estate | 418,836 | 418,836 | - |
| Total Equity Securities | 47,873,783 | 47,873,783 | - |
| Total Investments by Fair Value level | 131,578,292 | 71,184,483 | 60,393,809 |
| Other - Rare Coin | 280 | | |
| Investments measured at the Net Asset Value (NAV) | | | |
| Equity Hedge Long/Short | 711,115 | | |
| Diversified Event Driven | 1,264,210 | | |
| Commodities | 153,621 | | |
| Managed Futures/Commodities | 772,407 | | |
| Multi Strategy | 2,071,389 | | |
| Relative Value | 880,354 | | |
| Private Equity | 487,656 | | |
| Funds in Liquidation | 42,942 | | |
| Total Investments measured at the NAV | 6,383,694 | | |
| Total Investments | $ 137,962,266 | | |

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 listed 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 government and agency bonds and notes are valued based on market driven observations and securities characteristics including ratings, coupons and redemptions. The values of limited partnerships 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 prices 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 such as 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.

The following table summarizes liquidity provisions related to the College's investments measured at Net Asset Value:

Investments Measured at NAV

| | Fair Value | Unfunded Commitments | Redemption Frequency | Redemption Notice Period |
|---|---|---|---|---|
| Equity Hedge Long/Short | $ 711,115 | $ - | Quarterly | 95 days |
| Diversified Event Driven | 1,264,210 | - | Quarterly | appropriate notice |
| Commodities | 153,621 | - | Monthly | 35 days |
| Managed Futures/Commodities | 772,407 | - | Monthly | 10-65 days |
| Multi Strategy | 2,071,389 | - | Quarterly | 100 days |
| Relative Value | 880,354 | - | Semi-Annual | 95 days |
| Private Equity | 487,656 | 83,519 | Illiquid | - |
| Funds in Liquidation | 42,942 | - | Illiquid | - |
| Total Investments measured at NAV | $ 6,383,694 | $ 83,519 | | |

Interest Rate Risk: Maturities

| Type of Investment | June 30, 2017 | Less than 1 year | 1-5 years | 6-10 years |
|---|---|---|---|---|
| Agency unsecured bonds and notes: | | | | |
| Federal Home Loan Bank | $ 4,495,095 | $ 4,495,095 | $ - | $ - |
| Federal Home Loan Mortgage Corp | 7,918,325 | - | 7,918,325 | - |
| Federal National Mortgage Assn | 2,990,669 | - | 2,990,669 | |
| Agency mortgage backed securities: | | | | |
| Federal Home Loan Mortgage Corp | 2,595,601 | - | 2,506,849 | 88,752 |
| Federal National Mortgage Assn | 9,116,049 | - | 2,915,274 | 6,200,775 |
| Commercial Paper | 5,391,394 | 5,391,394 | - | - |
| Corporate Bonds | 27,886,676 | 24,276,188 | 3,610,488 | - |
| Fixed Income and Commingled Funds | 94,729 | 94,729 | - | - |
| Mutual and money market funds: | | | | |
| Money market | 28,238,148 | 28,238,148 | - | - |
| Mutual funds - Investment Funds | 23,215,971 | 23,215,971 | - | |
| Mutual funds - Wells Fargo | 587,370 | 587,370 | - | - |
| State non-arbitrage program | 18,557,860 | 18,557,860 | - | - |
| | $ 131,087,887 | $ 104,856,755 | $ 19,941,605 | $ 6,289,527 |

Credit and Concentration of Credit Risks

| | June 30, 2017 | Moody's Credit Rating | S&P Credit Rating | Unrated |
|---|---|---|---|---|
| Cash Equivalents | | | | |
| Certificate of deposit | $ 120,075 | $ - | $ - | $ 120,075 |
| Money market | 28,238,148 | - | - | 28,238,148 |
| Commercial Paper | 1,997,850 | - | - | 1,997,850 |
| State non-arbitrage program - AAAm | 18,557,860 | - | 18,557,860 | - |
| Total cash equivalents | 48,913,933 | - | 18,557,860 | 30,356,073 |
| Investments | | | | |
| Agency unsecured bonds and notes: | | | | |
| Federal Home Loan Bank - AA+ | $ 4,495,095 | $ - | $ 4,495,095 | $ - |
| Federal Home Loan Mortgage Corp - AA+ | 7,918,324 | - | 7,918,324 | - |
| Federal National Mortgage Assn - AA+ | 2,990,670 | - | 2,990,670 | - |
| Agency mortgage backed securities: | | | | |
| Federal Home Loan Mortgage Corp | 2,595,601 | - | - | 2,595,601 |
| Federal National Mortgage Assn | 9,116,049 | - | - | 9,116,049 |
| Commercial Paper | 3,393,544 | - | - | 3,393,544 |
| Corporate Bonds: | | | | |
| Aa2 | 1,199,304 | 1,199,304 | - | - |
| Aa3 | 1,801,362 | 1,801,362 | - | - |
| A1 | 15,538,554 | 15,538,554 | - | - |
| A2 | 5,222,711 | 5,222,711 | - | - |
| A3 | 4,124,745 | 4,124,745 | - | - |
| Fixed Income and Commingled Funds | 94,729 | - | - | 94,729 |
| Mutual funds: | | | | |
| Investment Funds | 23,215,971 | - | - | 23,215,971 |
| Wells Fargo | 587,370 | - | - | 587,370 |
| Total investments | 82,294,029 | $ 27,886,676 | $ 15,404,089 | $ 39,003,264 |
| Other Investments | | | | |
| Other | 54,267,477 | | | |
| Rare coins | 280 | | | |
| Property held as investment for endowments | 15,600 | | | |
| Total other investments | 54,283,357 | | | |
| Total cash equivalents and investments | $ 185,491,319 | | | |

## 4. DONOR RESTRICTED ENDOWMENTS

Investments of the University's endowment funds are pooled and consist primarily of gifts and bequests, the use of which is restricted by donor imposed limitations. The Uniform Management of Institutional Funds Act, Code of Virginia Title 55, Chapter 15 sections 268.1-268.10, permits the spending policy adopted by the Board of Visitors to appropriate an amount of realized and unrealized endowment appreciation as the Board determines to be prudent. In determining the amount of appreciation to appropriate, the Board is required by the Act to consider such factors as long- and short-term needs of the institution, present and anticipated financial requirements, expected total return on investments, price level trends, and general economic conditions. The amount available for spending is determined by applying the payout percentage to the average market value of the investment portfolio for the three previous calendar year-ends. The payout percentage is reviewed and adjusted annually as deemed prudent.

The University, at FY17 year-end, had a net appreciation of $14,591,583 which is available to be spent and is reported in the Statement of Net Position in the following categories: Restricted Expendable for Scholarships and Fellowships - $7,929,579, Restricted Expendable for Capital Projects - $198,927, Restricted Expendable for Research - $14,913, Restricted Expendable for Departmental Uses - $5,132,789 and Unrestricted - $1,315,375. The amounts for Research and Capital Projects were reclassified to Unrestricted because the total net position for Restricted Expendable for Research and Restricted Expendable for Capital Projects were negative for the University.

## 5. ACCOUNTS AND NOTES RECEIVABLES

Receivables include transactions related to accounts and notes receivable and are shown net of allowance for doubtful accounts for the year ending June 30, 2017 as follows:

Accounts receivable consisted of the following at June 30, 2017:

| | |
|---|---|
| Student Tuition and Fees | $ 2,622,036 |
| Auxiliary Enterprises | 458,177 |
| Federal, State and Non-Governmental Grants & Contracts | 8,850,808 |
| Other Activities | 2,247,891 |
| Gross Receivables | 14,178,912 |
| Less: allowance for doubtful accounts | (25,759) |
| Net Receivables | $ 14,153,153 |

Notes receivable consisted of the following at June 30, 2017:

| | |
|---|---|
| Current portion: | |
| Federal student loans and promissory notes | $ 451,365 |
| Non-current portion: | |
| Federal student loans and promissory notes | $ 2,369,665 |
| Less: allowance for doubtful accounts | (131,951) |
| Net non-current notes receivable | $ 2,237,714 |

6. CAPITAL ASSETS

A summary of changes in the various capital asset categories for the year ending June 30, 2017 consists of the following:

| | Beginning Balance | Additions | Reductions | Ending Balance |
|---|---|---|---|---|
| Non-depreciable capital assets: | | | | |
| Land | $ 25,314,003 | $ 36,790 | $ - | $ 25,350,793 |
| Inexhaustible artwork and Historical treasures | 75,829,707 | 417,069 | (67,388) | 76,179,388 |
| Construction in Progress | 104,003,879 | 36,086,565 | (119,828,132) | 20,262,312 |
| Total non-depreciable capital assets | 205,147,589 | 36,540,424 | (119,895,520) | 121,792,493 |
| Depreciable capital assets: | | | | |
| Buildings | 797,069,860 | 118,347,189 | (3,845,790) | 911,571,259 |
| Equipment | 77,014,457 | 10,701,074 | (3,068,551) | 84,646,980 |
| Infrastructure | 82,318,596 | 34,941 | - | 82,353,537 |
| Other improvements | 13,142,056 | 1,445,642 | (878,738) | 13,708,960 |
| Library Materials | 90,054,957 | 1,119,499 | (22,020,050) | 69,154,406 |
| Computer software | 5,870,087 | 250,000 | - | 6,120,087 |
| Total depreciable capital assets | 1,065,470,013 | 131,898,345 | (29,813,129) | 1,167,555,229 |
| Less accumulated depreciation for: | | | | |
| Buildings | 248,085,223 | 22,723,515 | (3,711,512) | 267,097,226 |
| Equipment | 49,865,603 | 5,230,156 | (2,177,323) | 52,918,436 |
| Infrastructure | 35,940,880 | 2,224,847 | - | 38,165,727 |
| Other improvements | 6,656,799 | 623,598 | (878,175) | 6,402,222 |
| Library Materials | 83,375,755 | 1,318,079 | (21,972,787) | 62,721,047 |
| Computer software | 5,102,546 | 134,127 | - | 5,236,673 |
| Total accumulated depreciation | 429,026,806 | 32,254,322 | (28,739,797) | 432,541,331 |
| Depreciable capital assets, net | 636,443,207 | 99,644,023 | (1,073,332) | 735,013,898 |
| Total capital assets, net | $ 841,590,796 | $ 136,184,447 | $(120,968,852) | $ 856,806,391 |

Capitalization of Library Books

The methods employed to value the general collections of W&M's Earl Gregg Swem Library, W&M's Marshall-Wythe Law Library, VIMS' Hargis Library, and RBC Library are based on average cost determined by each library. The average cost of the Swem Library purchases of books was $43.41 for FY17. The average cost of the Law Library purchases of books was $88.80 for FY17. Special collections maintained by each library are valued at historical cost or acquisition value. The average cost of library books purchased for VIMS was $51.61 for FY17. The average cost of library books purchased for RBC was $32.77 for FY17. The changes reflected in the valuation are due to the recognition of depreciation in accordance with GASB Statements No. 34 and 35, as well as purchases, donations and disposals.

## 7. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at June 30, 2017:

| | |
|---|---|
| Current Liabilities: | |
| Employee salaries, wages, and fringe benefits payable | $ 26,366,390 |
| Vendors and supplies accounts payable | 10,773,925 |
| Capital projects accounts and retainage payable | 4,233,135 |
| Accrued interest payable | 2,394,530 |
| Total current liabilities-accounts payable and accrued liabilities | $ 43,767,980 |

## 8. COMMITMENTS

At June 30, 2017, outstanding construction commitments totaled approximately $105,318,003.

Commitments also exist under various operating leases for buildings, equipment and computer software. In general, the leases are for one to three year terms with renewal options on the buildings, equipment and certain computer software for additional one-year terms. In most cases, these leases will be replaced by similar leases. William and Mary has also entered into one twenty-year lease for space in the Applied Science Research Center Building at the Jefferson Center for Research and Technology in Newport News, Virginia. Rental expense for the fiscal year ending June 30, 2017, was $4,253,707.

As of June 30, 2017, the following total future minimum rental payments are due under the above leases:

| Year Ending June 30, 2017 | Amount |
|---|---|
| 2018 | $ 3,261,814 |
| 2019 | 1,351,173 |
| 2020 | 1,319,360 |
| 2021 | 1,192,062 |
| 2022 | 187,424 |
| 2023 | 12,567 |
| Total | $ 7,324,400 |

## 9. LONG-TERM LIABILITIES

The University's long-term liabilities consist of long-term debt (further described in Note 10), and other long-term liabilities. A summary of changes in long-term liabilities for the year ending June 30, 2017 is presented as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Current Portion |
|---|---|---|---|---|---|
| Installment Purchases | $ 3,494,500 | $ 6,046 | $ (463,681) | $ 3,036,865 | $ 491,534 |
| Capital Leases Payable | 22,201,937 | 124,548 | (806,891) | 21,519,594 | 607,600 |
| Other long-term obligations | 678,539 | | (19,771) | 658,768 | 16,668 |
| Notes Payable | 156,945,897 | 20,429,738 | (28,864,709) | 148,510,926 | 9,145,000 |
| Bonds Payable | 73,171,073 | 2,766,135 | (5,281,947) | 70,655,261 | 4,456,105 |
| Total long-term debt | 256,491,946 | 23,326,467 | (35,436,999) | 244,381,414 | 14,716,907 |
| Perkins Loan Fund Balance | 2,395,816 | - | - | 2,395,816 | - |
| Accrued compensated absences | 10,755,547 | 10,848,653 | (10,401,957) | 11,202,243 | 10,754,778 |
| Software licenses | 1,201,990 | 833,157 | (617,030) | 1,418,117 | 538,007 |
| Net Pension Liability | 116,777,000 | 12,705,000 * | - | 129,482,000 | - |
| Total long-term liabilities | $ 387,622,299 | $ 47,713,277 | $(46,455,986) | $ 388,879,590 | $ 26,009,692 |

* net increase is shown

## 10. LONG-TERM DEBT

### Bonds Payable

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

| Description | Interest Rates (%) | Fiscal year Maturity | Balance as of June 30, 2017 |
|---|---|---|---|
| Section 9(c) bonds payable: | | | |
| Dormitory, Series 2009C | 4.000 | 2021 | $ 376,440 |
| Dormitory, Series 2009C | 4.000 | 2022 | 1,674,855 |
| Dormitory, Series 2009D | 5.000 | 2022 | 1,655,000 |
| Renovate Residence Halls, Series 2010A2 | 2.750 - 4.400 | 2030 | 3,175,000 |
| Dormitory, Series 2012A | 5.000 | 2024 | 779,720 |
| Dormitory, Series 2013A | 2.000 - 5.000 | 2033 | 4,005,000 |
| Dormitory, Series 2013B | 4.000 | 2026 | 844,462 |
| Dormitory, Series 2014A | 3.000 - 5.000 | 2034 | 8,130,000 |
| Dormitory, Series 2014B | 5.000 | 2018 | 445,819 |
| Dormitory, Series 2014B | 5.000 | 2020 | 933,183 |
| Dormitory, Series 2015A | 3.000 - 5.000 | 2035 | 10,300,000 |
| Renovation of Dormitories | | | 32,319,479 |
| Graduate Housing, Series 2008B | 5.000 | 2018 | 115,000 |
| Graduate Housing, Series 2009D | 5.000 | 2022 | 1,270,000 |
| Graduate Housing, Series 2013B | 4.000 | 2026 | 1,200,361 |
| Graduate Housing, Series 2015B | 4.000 - 5.000 | 2028 | 1,482,414 |
| Graduate Housing | | | 4,067,775 |
| Construct New Dormitory, Series 2010A2 | 2.750 - 4.400 | 2030 | 1,440,000 |
| Construct New Dormitory, Series 2011A | 2.200 - 5.000 | 2031 | 11,515,000 |
| Construct New Dormitory, Series 2013A | 2.000 - 5.000 | 2033 | 7,530,000 |
| Construct New Dormitory | | | 20,485,000 |
| Renovate Commons Dining Hall, Series 2009D | 5.000 | 2022 | 2,730,000 |
| Renovate Commons Dining Hall, Series 2012A | 5.000 | 2024 | 1,289,537 |
| Renovate Commons Dining Hall, Series 2013B | 4.000 | 2026 | 1,389,450 |
| Commons Dining Hall | | | 5,408,987 |
| RBC Student Housing Conversion 2016A | 3.000 - 5.000 | 2036 | 2,465,000 |
| Total bonds payable | | | 64,746,241 |
| Unamortized premiums (discounts) | | | 5,909,020 |
| Net bonds payable | | | $ 70,655,261 |

Notes Payable

Section 9(d) bonds, issued through the Virginia College Building Authority's Pooled Bond Program, are backed by pledges against the general revenues of William and Mary and are issued to finance other capital projects. The principal and interest on bonds and notes are secured by the net income of specific auxiliary activities or from designated fee allocations. The following are notes outstanding at year-end:

| Description | Interest Rates (%) | Fiscal year Maturity | Outstanding Balance as of June 30, 2017 |
|---|---|---|---|
| Section 9(d) Bonds: | | | |
| Barksdale Dormitory, Series 2010B | 5.000 | 2021 | $ 450,000 |
| Barksdale Dormitory, Series 2012A | 5.000 | 2024 | 365,000 |
| Barksdale Dormitory, Series 2012A | 3.000 - 5.000 | 2025 | 5,435,000 |
| Barksdale Dormitory, Series 2012A | 3.000 - 5.000 | 2025 | 6,330,000 |
| Barksdale Dormitory, Series 2014B | 4.000 | 2026 | 980,000 |
| Barksdale Dormitory, Series 2014B | 5.000 | 2024 | 730,000 |
| Barksdale Dormitory, Series 2016A | 3.000 | 2027 | 375,000 |
| Barksdale Dormitory | | | 14,665,000 |
| | | | |
| William and Mary Hall, Series 2007B | 4.250 | 2018 | 165,000 |
| | | | |
| Parking Deck, Series 2010B | 5.000 | 2021 | 950,000 |
| Parking Deck, Series 2012A | 5.000 | 2024 | 770,000 |
| Parking Deck, Series 2012A | 3.000 - 5.000 | 2025 | 1,160,000 |
| Parking Deck, Series 2012A | 3.000 - 5.000 | 2025 | 3,140,000 |
| Parking Deck, Series 2014B | 4.000 | 2026 | 485,000 |
| Parking Deck | | | 6,505,000 |
| | | | |
| Recreation Sports Center, Series 2010B | 5.000 | 2021 | 220,000 |
| Recreation Sports Center, Series 2012A | 5.000 | 2024 | 180,000 |
| Recreation Sports Center, Series 2012A | 3.000 - 5.000 | 2025 | 3,840,000 |
| Recreation Sports Center, Series 2012A | 3.000 - 5.000 | 2025 | 1,225,000 |
| Recreation Sports Center, Series 2014B | 4.000 | 2026 | 190,000 |
| Recreation Sports Center | | | 5,655,000 |
| | | | |
| Improve Athletics Facilities, Series 2012A | 3.000 - 5.000 | 2025 | 1,655,000 |
| Improve Athletics Facilities, Series 2014B | 4.000 | 2026 | 260,000 |
| Improve Athletics Facilities, Series 2014B | 5.000 | 2024 | 280,000 |
| Improve Athletics Facilities, Series 2016A | 3.000 | 2027 | 150,000 |
| Improve Athletics Facilities II, Series 2013A&B | 2.000 - 5.000 | 2034 | 1,440,000 |
| Improve Athletics Facilities | | | 3,785,000 |
| | | | |
| Marshall-Wythe Library, Series 2014B | 5.000 | 2020 | 375,000 |
| Law School Library, Series 2007A | 5.000 | 2018 | 170,000 |
| Law School Library, Series 2010B | 5.000 | 2021 | 260,000 |
| Law School Library, Series 2012A | 5.000 | 2024 | 220,000 |
| Law School Library, Series 2014B | 4.000 - 5.000 | 2026 | 1,640,000 |
| Law School Renovations, Series 2013A&B | 2.000 - 5.000 | 2034 | 6,115,000 |
| Law School Library, Series 2016A | 3.000 - 5.000 | 2028 | 525,000 |
| Law School Library | | | 9,305,000 |
| | | | |
| Magnet Facility, Series 2010B | 5.000 | 2021 | 570,000 |
| Magnet Facility, Series 2012A | 5.000 | 2024 | 455,000 |
| Magnet Facility | | | 1,025,000 |

| Description | Interest Rates (%) | Fiscal year Maturity | Outstanding Balance as of June 30, 2017 |
|---|---|---|---|
| School of Business, Series 2007A | 5.000 | 2018 | 1,110,000 |
| School of Business, Series 2014B | 4.000 - 5.000 | 2026 | 10,575,000 |
| School of Business, Series 2016A | 3.000 - 5.000 | 2028 | 3,425,000 |
| School of Business | | | 15,110,000 |
| Integrated Science Center, Series 2007A | 5.000 | 2018 | 580,000 |
| Integrated Science Center, Series 2009A | 3.000 - 5.000 | 2021 | 960,000 |
| Integrated Science Center, Series 2014B | 4.000 - 5.000 | 2026 | 5,545,000 |
| Integrated Science Center, Series 2015B | 3.000 - 5.000 | 2029 | 3,755,000 |
| Integrated Science Center, Series 2016A | 3.000 - 5.000 | 2028 | 1,800,000 |
| Integrated Science Center | | | 12,640,000 |
| Cooling Plant & Utilities, Series 2009B | 5.000 | 2020 | 1,570,000 |
| Cooling Plant & Utilities, Series 2010A1&A2 | 3.750 - 5.500 | 2031 | 8,635,000 |
| Cooling Plant & Utilities, Series 2016A | 3.000 - 5.000 | 2030 | 7,360,000 |
| Cooling Plant & Utilities | | | 17,565,000 |
| Power Plant Renovations, Series 2007A | 5.000 | 2018 | 230,000 |
| Power Plant Renovations, Series 2014B | 4.000 - 5.000 | 2026 | 2,175,000 |
| Power Plant Renovations, Series 2016A | 3.000 - 5.000 | 2028 | 700,000 |
| Power Plant Renovations | | | 3,105,000 |
| Busch Field Astroturf Replacement, Series 2009B | 5.000 | 2020 | 190,000 |
| Busch Field Astroturf Replacement, Series 2016A | 3.000 - 5.000 | 2030 | 860,000 |
| Busch Field Astroturf | | | 1,050,000 |
| Williamsburg Hospital/School of Education 2014B | 5.000 | 2024 | 910,000 |
| Williamsburg Hospital/School of Education, 2016A | 3.000 | 2027 | 470,000 |
| Williamsburg Hospital/School of Education | | | 1,380,000 |
| J. Laycock Football Facility, Series 2014B | 5.000 | 2024 | 2,100,000 |
| J. Laycock Football Facility, Series 2016A | 3.000 | 2027 | 1,100,000 |
| J. Laycock Football Facility | | | 3,200,000 |
| Residence Hall Fire Safety Systems, Series 2014B | 5.000 | 2024 | 730,000 |
| Residence Hall Fire Safety Systems, Series 2016A | 3.000 | 2027 | 375,000 |
| Residence Hall Fire Safety Systems | | | 1,105,000 |
| Ash Lawn-Highland Barn, Series 2010A1&A2 | 3.750 - 5.500 | 2031 | 600,000 |
| Expand Sadler Center, Series 2012B | 3.000 - 5.000 | 2033 | 6,230,000 |
| Expand Sadler Center, Series 2013A&B | 2.000 - 5.000 | 2034 | 905,000 |
| Sadler Center | | | 7,135,000 |

| Description | Interest Rates (%) | Fiscal year Maturity | Outstanding Balance as of June 30, 2017 |
|---|---|---|---|
| One Tribe Place, Series 2013A&B | 2.000 - 5.000 | 2034 | 20,700,000 |
| Integrative Wellness Center 2015A | 3.000 - 5.000 | 2036 | 9,320,000 |
| Total 9(d) bonds | | | 134,015,000 |
| Unamortized premiums (discounts) | | | 14,495,926 |
| Net notes payable | | | $ 148,510,926 |

Installment Purchases

At June 30, 2017, installment purchases consist of the current and long-term portions of obligations resulting from various contracts used to finance energy performance contracts and the acquisition of equipment. The lengths of purchase agreements range from two to fifteen years, and the interest rate charges are from 3.1 to 4.7 percent. The outstanding balance of installment purchases as of June 30, 2017 is $3,036,865.

Capital Leases

Richard Bland College (RBC) has entered into a thirty year capital lease with Richard Bland College Foundation (RBCF) for the provision of a student housing complex with two dormitories on the RBC campus. RBC has accounted for the acquisition of the complex and its furniture and equipment as a capital lease, and therefore has recorded the facility and furnishings as depreciable capital assets and has also recorded a corresponding lease liability in long-term debt on the Statement of Net Position. The RBC student housing complex is included in depreciable capital assets in the amount of $24,148,380. Accumulated amortization on the assets acquired under the capital lease is included with depreciation expense in the Statement of Revenues, Expenses and Changes in Net Position. The outstanding balance of the lease liability as of June 30, 2017 is $21,300,159. RBC has also recorded an Other Long-Term Obligation which is payable to RBCF for repayment of the bonds for the dormitories for the amount due on the bonds which is greater than the total fair value of assets received. The outstanding balance as of June 30, 2017 is $658,768. William and Mary has entered into Capital Lease agreements for the purchase of printers and copiers. The outstanding balance of these agreements as of June 30, 2017 is $219,435.

Long-term debt matures as follows:

| Fiscal Year | Principal | Interest | BAB Interest Subsidy | Net Interest |
|---|---|---|---|---|
| 2018 | $ 14,716,905 | $ 9,088,412 | $ 199,877 | $ 8,888,535 |
| 2019 | 14,707,629 | 8,263,582 | 196,894 | 8,066,688 |
| 2020 | 15,348,186 | 7,600,624 | 189,953 | 7,410,671 |
| 2021 | 15,766,403 | 6,924,581 | 178,665 | 6,745,916 |
| 2022 | 15,986,200 | 6,189,516 | 166,559 | 6,022,957 |
| 2023-2027 | 79,674,327 | 20,020,053 | 617,627 | 19,402,426 |
| 2028-2032 | 47,028,530 | 7,372,263 | 159,630 | 7,212,633 |
| 2033-2037 | 19,571,355 | 1,267,238 | - | 1,267,238 |
| 2038-2042 | 1,176,933 | 24,865 | - | 24,865 |
| Unamortized premiums | 20,404,946 | | | |
| Total | $244,381,414 | $ 66,751,134 | $ 1,709,205 | $ 65,041,929 |

The interest subsidies for the Build America Bonds (BAB) being paid to the University by the Federal Government are subject to change in future years. In the event of a reduction or elimination of the subsidies, the University would be responsible for paying the full interest due on the BAB bonds.

Defeasance of Debt

In July of 2016, the Virginia College Building Authority (VCBA) issued Educational Facilities Revenue Refunding Bonds Series 2016A. The original bonds were used to finance part of the Integrated Science Center, Barksdale Dormitory, Athletics Facilities Improvements, Sentara Hospital Acquisition (now the School of Education), Dormitory Fire Safety, Laycock Football Facility, Power Plant, Law Library, Mason School of Business, Busch Field and Cooling Plant projects. The net proceeds from the sale of the Refunding Bonds were deposited into irrevocable trusts with escrow agents to provide for all future debt service payments on the refunded bonds. As a result, these bonds are considered defeased and the trust account assets and the related liability have been removed from the financial statements.

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

| Series | Type | Debt Outstanding | Amount Defeased | Percentage Defeased |
|---|---|---|---|---|
| 2006A | VCBA Pooled | 510,000 | 420,000 | 82% |
| 2006A | VCBA Pooled | 205,000 | 170,000 | 83% |
| 2006A | VCBA Pooled | 640,000 | 525,000 | 82% |
| 2006A | VCBA Pooled | 515,000 | 420,000 | 82% |
| 2006A | VCBA Pooled | 1,475,000 | 1,210,000 | 82% |
| 2007A | VCBA Pooled | 2,980,000 | 1,845,000 | 62% |
| 2007A | VCBA Pooled | 5,680,000 | 3,515,000 | 62% |
| 2007A | VCBA Pooled | 1,165,000 | 720,000 | 62% |
| 2007A | VCBA Pooled | 880,000 | 545,000 | 62% |
| 2009B | VCBA Pooled | 1,135,000 | 885,000 | 78% |
| 2009B | VCBA Pooled | 9,330,000 | 7,285,000 | 78% |
| | | $24,515,000 | $17,540,000 | 72% |

The University's portion of the accounting loss recognized in the financial statements was $1,970,859. The net economic gain attributable to the University was $1,449,153 and will result in a decreased cash flow requirement of $1,607,865 over the remaining life of the debt.

Prior Year Defeasance of Debt

The Commonwealth of Virginia, on behalf of the University, issued bonds in previous and current fiscal years for which the proceeds were deposited into irrevocable trusts with escrow agents to provide for all future debt service on the refunded bonds. Accordingly, the trust account assets and the related liability for the defeased bonds are not included in the University's financial statements. At June 30, 2017, $41,150,000 of the defeased bonds was outstanding.

## 11. EXPENSES BY NATURAL CLASSIFICATIONS

The following table shows a classification of expenses both by function as listed in the Statement of Revenues, Expenses, and Change in Net Position and by natural classification which is the basis for amounts shown in the Statement of Cash Flow.

| | Salaries, Wages and Fringe Benefits | Services and Supplies | Scholarships and Fellowships | Plant and Equipment | Depreciation | Total |
|---|---|---|---|---|---|---|
| Instruction | 114,270,818 | 8,088,444 | 1,420,823 | 1,625,397 | - | 125,405,482 |
| Research | 38,512,016 | 14,201,011 | 1,075,287 | 915,727 | - | 54,704,041 |
| Public service | 8,065 | 20,783 | 2,650 | 983 | - | 32,481 |
| Academic support | 26,959,851 | 3,468,770 | 792,819 | 4,623,692 | - | 35,845,132 |
| Student services | 11,724,629 | 5,877,364 | 252,140 | 121,988 | - | 17,976,121 |
| Institutional support | 38,908,067 | 7,786,960 | 172,861 | 265,431 | - | 47,133,319 |
| Operation and maintenance of plant | 4,965,604 | 20,722,332 | 2,976 | 720,366 | - | 26,411,278 |
| Scholarships and related expenses | 2,717,585 | 42,705 | 29,894,773 | 6,823 | - | 32,661,886 |
| Auxiliary enterprises | 25,215,664 | 56,882,860 | - | 2,484,170 | - | 84,582,694 |
| Depreciation | - | - | - | - | 32,254,322 | 32,254,322 |
| Other | 183,140 | 15,243 | 229,925 | 319 | - | 428,627 |
| Total | 263,465,439 | 117,106,472 | 33,844,254 | 10,764,896 | 32,254,322 | 457,435,383 |

12. STATE APPROPRIATIONS

The following is a summary of state appropriations received by W&M, VIMS and RBC including all supplemental appropriations and reversions from the General Fund of the Commonwealth.

| | | |
|---|---|---|
| Chapter 836 - 2017 Acts of Assembly (Educational and General Programs) | | $ 70,642,075 |
| Student financial assistance | | 5,135,840 |
| Supplemental appropriations: | | |
| Prior Year Reappropriations | 130,228 | |
| VIVA libraries | 27,390 | |
| Central appropriation distributions for health and VITA | 13,795 | |
| Marine Science Resources and Environmental Research | 159,226 | |
| Central Appropriations transfer | 801,618 | |
| Biomedical research | 75,000 | |
| VMSDEP | 31,725 | 1,238,982 |
| Reversions to the General Fund of the Commonwealth | | (536,992) |
| Appropriations as adjusted | | $ 76,479,905 |

13. COMPONENT UNIT FINANCIAL INFORMATION

The University has nine component units – The College of William and Mary Foundation, the Marshall-Wythe School of Law Foundation, the Alumni Association, the William and Mary Athletic Educational Foundation, the William and Mary School of Business Foundation, the Virginia Institute of Marine Science Foundation, the William and Mary Real Estate Foundation, the Richard Bland College Foundation and the Intellectual Property Foundation. These organizations are separately incorporated entities and other auditors examine the related financial statements. Summary financial statements and related disclosures follow for eight of the component units. As stated in Note 1, the activity of the Intellectual Property Foundation is blended with the University beginning in FY13; therefore, it is not included in the presentation of component unit financial information.

Summary of Statement of Net Position - Component Units

| | The College of William & Mary Foundation | Marshall-Wythe School of Law Foundation | William & Mary Business School Foundation | William & Mary Alumni Association |
|---|---|---|---|---|
| ASSETS | | | | |
| Current assets | | | | |
| Cash and cash equivalents | $ 8,200,694 | $ 4,457,228 | $ 5,054,125 | $ 775,928 |
| Investments | 15,275,231 | - | - | - |
| Pledges receivable, net - current portion | 4,934,902 | 2,200,327 | 1,110,136 | 68,597 |
| Receivables, net | 2,445,360 | 7,394 | 275,399 | 48,463 |
| Inventories | - | - | - | 7,600 |
| Prepaids | 578,209 | 5,132 | 119,714 | 12,270 |
| Due from the University | 392,606 | 2,500,000 | - | - |
| Other assets | - | - | - | - |
| Total current assets | 31,827,002 | 9,170,081 | 6,559,374 | 912,858 |
| Non-current assets | | | | |
| Restricted cash and cash equivalents | 340,625 | 5,710,490 | 2,747,740 | - |
| Restricted investments | 290,464,539 | 34,186,045 | 42,706,421 | 887,445 |
| Restricted other assets | 155,991,821 | 462,078 | 1,474,244 | - |
| Investments | 253,604,931 | 4,086,138 | - | 6,756,207 |
| Pledges receivable, net | 19,448,823 | 1,756,585 | 948,135 | 73,300 |
| Capital assets, nondepreciable | 9,514,800 | 325,127 | - | - |
| Capital assets, net of accumulated depreciation | 6,374,428 | 4,517 | 7,434 | 88,357 |
| Due from the University | - | - | - | - |
| Other assets | 2,504,625 | - | - | - |
| Total non-current assets | 738,244,592 | 46,530,980 | 47,883,974 | 7,805,309 |
| Total assets | 770,071,594 | 55,701,061 | 54,443,348 | 8,718,167 |
| LIABILITIES | | | | |
| Current liabilities | | | | |
| Accounts payable and accrued expenses | 452,371 | 66,749 | 133,452 | 104,210 |
| Deferred revenue | 97,228 | 66,709 | 260,001 | 104,829 |
| Deposits held in custody for others | 282,915 | - | 19,147 | - |
| Long-term liabilities - current portion | 619,818 | - | - | - |
| Due to the University | - | 119,206 | - | 1,390 |
| Other liabilities | - | - | - | 49,669 |
| Total current liabilities | 1,452,332 | 252,664 | 412,600 | 260,098 |
| Non-current liabilities | | | | |
| Other long-term liabilities | 592,918 | 438,458 | - | - |
| Long-term liabilities | 27,724,282 | - | - | - |
| Total liabilities | 29,769,532 | 691,122 | 412,600 | 260,098 |
| NET POSITION | | | | |
| Restricted for: | | | | |
| Nonexpendable: | | | | |
| Scholarships and fellowships | 115,418,219 | 7,538,997 | 1,733,991 | - |
| Research | 8,807,717 | - | 880,900 | - |
| Loans | - | - | 24,230 | - |
| Departmental uses | 111,218,695 | 8,165,007 | 38,647,639 | - |
| Other | 205,590,179 | - | 127,448 | - |
| Expendable: | | | | |
| Scholarships and fellowships | 93,864,520 | 8,962,175 | 2,435,887 | - |
| Research | 5,335,090 | - | 160,910 | - |
| Capital projects | 7,808,018 | 4,919,597 | 596,799 | - |
| Loans | - | - | 81,181 | - |
| Departmental uses | 120,349,722 | 13,761,001 | 11,655,688 | 960,745 |
| Other | 38,598,176 | 820,139 | 58,176 | - |
| Net investment in capital assets | 6,925,526 | 329,644 | 7,434 | 88,357 |
| Unrestricted | 26,386,200 | 10,513,379 | (2,379,535) | 7,408,967 |
| Total net position | $ 740,302,062 | $ 55,009,939 | $ 54,030,748 | $ 8,458,069 |

| William & Mary Athletic Educational Foundation | Virginia Institute of Marine Science Foundation | Richard Bland College Foundation | William & Mary Real Estate Foundation | Total Component Units |
|---|---|---|---|---|
| $ 5,162,588 | $ 369,939 | $ 41,660 | $ 2,783,341 | $ 26,845,503 |
| - | - | - | - | 15,275,231 |
| 1,045,076 | 415,951 | 10,000 | - | 9,784,989 |
| - | - | - | 44,426 | 2,821,042 |
| - | - | - | - | 7,600 |
| - | - | - | 10,668 | 725,993 |
| - | - | 1,210,130 | - | 4,102,736 |
| - | - | 18,915 | 171,000 | 189,915 |
| 6,207,664 | 785,890 | 1,280,705 | 3,009,435 | 59,753,009 |
| - | 750,049 | 453,575 | - | 10,002,479 |
| - | 12,527,375 | 4,951,249 | - | 385,723,074 |
| - | - | - | 44,739 | 157,972,882 |
| 1,907,685 | 1,213,086 | - | - | 267,568,047 |
| 744,079 | 3,828,826 | 30,000 | - | 26,829,748 |
| - | - | - | 9,844,836 | 19,684,763 |
| 2,005 | - | - | 9,001,605 | 15,478,346 |
| - | - | 21,403,338 | - | 21,403,338 |
| - | - | - | 97,109 | 2,601,734 |
| 2,653,769 | 18,319,336 | 26,838,162 | 18,988,289 | 907,264,411 |
| 8,861,433 | 19,105,226 | 28,118,867 | 21,997,724 | 967,017,420 |
| - | | | | |
| - | 3 | 670,041 | 534,193 | 1,961,019 |
| 85,000 | - | 85,001 | - | 698,768 |
| - | - | - | - | 302,062 |
| - | - | 555,588 | 405,332 | 1,580,738 |
| - | - | - | - | 120,596 |
| - | - | - | - | 49,669 |
| 85,000 | 3 | 1,310,630 | 939,525 | 4,712,852 |
| - | - | - | 10,448 | 1,041,824 |
| - | - | 21,403,338 | 10,955,610 | 60,083,230 |
| 85,000 | 3 | 22,713,968 | 11,905,583 | 65,837,906 |
| - | 2,778,017 | 3,779,680 | - | 131,248,904 |
| - | 6,054,685 | - | - | 15,743,302 |
| - | - | - | - | 24,230 |
| - | 1,099,400 | - | - | 159,130,741 |
| - | 3,104,349 | - | - | 208,821,976 |
| 610,977 | 951,760 | - | - | 106,825,319 |
| - | 953,575 | - | - | 6,449,575 |
| - | - | - | - | 13,324,414 |
| - | - | - | - | 81,181 |
| 7,218,305 | 2,377,828 | - | - | 156,323,289 |
| - | 78,263 | 1,580,142 | 215,739 | 41,350,635 |
| 2,005 | - | - | 7,485,499 | 14,838,465 |
| 945,146 | 1,707,346 | 45,077 | 2,390,903 | 47,017,483 |
| $ 8,776,433 | $ 19,105,223 | $ 5,404,899 | $ 10,092,141 | $ 901,179,514 |

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

| | The College of William & Mary Foundation | Marshall-Wythe School of Law Foundation | William & Mary Business School Foundation | William & Mary Alumni Association |
|---|---|---|---|---|
| Operating revenues: | | | | |
| Gifts and contributions | $ 16,202,826 | $ 10,110,733 | $ 4,024,449 | $ 981,603 |
| Other | 5,363,323 | 599,544 | 4,257,108 | 1,001,228 |
| Total operating revenues | 21,566,149 | 10,710,277 | 8,281,557 | 1,982,831 |
| Operating expenses: | | | | |
| Instruction | 5,177,446 | 1,249,276 | 584,316 | - |
| Research | 302,405 | - | - | - |
| Public service | 96,459 | 62,570 | 482,836 | - |
| Academic support | 2,488,104 | 834,092 | 2,378,748 | - |
| Student services | 207,127 | 45,719 | 518,370 | - |
| Institutional support | 11,986,027 | 664,994 | 2,885,299 | 278,858 |
| Operation and maintenance of plant | 7,751,205 | 816,459 | 53,891 | - |
| Scholarships & fellowships | 8,409,223 | 1,009,889 | 23,189 | - |
| Auxiliary enterprises | 797,880 | - | 25,184 | - |
| Depreciation | 535,421 | 7,333 | 2,944 | 13,510 |
| Independent operations | - | - | - | - |
| Other | 473,161 | - | 103,693 | 1,632,532 |
| Total operating expenses | 38,224,458 | 4,690,332 | 7,058,470 | 1,924,900 |
| Operating gain/(loss) | (16,658,309) | 6,019,945 | 1,223,087 | 57,931 |
| Non-operating revenues and expenses: | | | | |
| Net investment revenue (expense) | 55,658,360 | 4,160,114 | 4,566,616 | 834,742 |
| Interest on capital asset related debt | (251,338) | - | - | - |
| Other non-operating revenue | 4,269,076 | - | - | - |
| Other non-operating expense | - | - | (248,568) | - |
| Net non-operating revenues | 59,676,098 | 4,160,114 | 4,318,048 | 834,742 |
| Income before other revenues | 43,017,789 | 10,180,059 | 5,541,135 | 892,673 |
| Other revenues: | | | | |
| Capital grants and contributions | 6,288,247 | - | 16,700 | - |
| Additions to permanent endowments | 11,136,258 | 870,915 | 1,489,871 | - |
| Net other revenues | 17,424,505 | 870,915 | 1,506,571 | - |
| Change in net position, before transfers | 60,442,294 | 11,050,974 | 7,047,706 | 892,673 |
| Transfers | 42,382 | 41,424 | 2,341 | 149,622 |
| Change in net position | 60,484,676 | 11,092,398 | 7,050,047 | 1,042,295 |
| Net position - beginning of year | 679,817,386 | 43,917,541 | 46,980,701 | 7,415,774 |
| Net position - end of year | $ 740,302,062 | $ 55,009,939 | $ 54,030,748 | $ 8,458,069 |

| William & Mary Athletic Educational Foundation | Virginia Institute of Marine Science Foundation | Richard Bland College Foundation | William & Mary Real Estate Foundation | Total Component Units |
|---|---|---|---|---|
| $ 5,625,231 | $ 1,239,258 | $ 201,390 | $ 231,000 | $ 38,616,490 |
| 420,701 | - | 952,247 | 1,019,451 | 13,613,602 |
| 6,045,932 | 1,239,258 | 1,153,637 | 1,250,451 | 52,230,092 |
| - | 127,374 | - | - | 7,138,412 |
| - | 387,605 | - | - | 690,010 |
| - | 53,003 | - | - | 694,868 |
| - | 205,014 | - | - | 5,905,958 |
| - | - | - | - | 771,216 |
| 740,636 | 441,111 | 220,656 | 596,444 | 17,814,025 |
| - | 8,203 | 11,592 | - | 8,641,350 |
| - | 109,720 | 147,250 | - | 9,699,271 |
| 5,998,280 | - | - | 300,505 | 7,121,849 |
| 15,623 | - | - | 283,546 | 858,377 |
| - | - | - | 315,643 | 315,643 |
| - | 190,494 | 954,990 | - | 3,354,870 |
| 6,754,539 | 1,522,524 | 1,334,488 | 1,496,138 | 63,005,849 |
| (708,607) | (283,266) | (180,851) | (245,687) | (10,775,757) |
| 53,417 | 1,456,386 | 674,518 | 10,495 | 67,414,648 |
| - | - | - | - | (251,338) |
| - | - | - | - | 4,269,076 |
| - | - | - | - | (248,568) |
| 53,417 | 1,456,386 | 674,518 | 10,495 | 71,183,818 |
| (655,190) | 1,173,120 | 493,667 | (235,192) | 60,408,061 |
| - | - | - | - | 6,304,947 |
| - | 3,775,443 | 18,225 | - | 17,290,712 |
| - | 3,775,443 | 18,225 | - | 23,595,659 |
| (655,190) | 4,948,563 | 511,892 | (235,192) | 84,003,720 |
| (128,084) | - | - | (107,685) | - |
| (783,274) | 4,948,563 | 511,892 | (342,877) | 84,003,720 |
| 9,559,707 | 14,156,660 | 4,893,007 | 10,435,018 | 817,175,794 |
| $ 8,776,433 | $ 19,105,223 | $ 5,404,899 | $ 10,092,141 | $ 901,179,514 |

Investments

Each component unit holds various investments based on the investment policies established by the governing board of the individual foundation. The following table shows the various investment types held by each component unit.

| | The College of William & Mary Foundation | Marshall-Wythe School of Law Foundation | William & Mary Business School Foundation | William & Mary Alumni Association | William & Mary Athletic Educational Foundation | Virginia Institute of Marine Science Foundation | Richard Bland College Foundation | Total |
|---|---|---|---|---|---|---|---|---|
| Mutual and money market funds | $ 4,894,579 | $ 282,026 | $ - | $ - | $ 18,823 | $ - | $ 4,951,249 | $ 10,146,677 |
| U.S. treasury and agency securities | 16,270,326 | - | - | - | - | - | - | 16,270,326 |
| Common and preferred stocks | 454,454 | - | 621,910 | - | - | - | - | 1,076,364 |
| Notes receivable | 1,650,000 | - | - | - | - | - | - | 1,650,000 |
| Pooled investments | 534,405,610 | 37,990,157 | 41,340,105 | 7,643,652 | - | 13,740,461 | - | 635,119,985 |
| Real estate | 987,982 | - | | | - | - | - | 987,982 |
| Other | 681,750 | - | 744,406 | - | 1,888,862 | - | - | 3,315,018 |
| Total Investments | $ 559,344,701 | $ 38,272,183 | $ 42,706,421 | $ 7,643,652 | $ 1,907,685 | $ 13,740,461 | $ 4,951,249 | $ 668,566,352 |

Pledges Receivable

Unconditional promises to give (pledges) are recorded as receivables and revenues and are assigned net asset categories in accordance with donor imposed restrictions. Pledges expected to be collected within one year are recorded at net realizable value. Pledges that are expected to be collected in future years are recorded at net present value of their estimated future cash flows. The discounts on these amounts are computed using risk free interest rates applicable to the years in which the payments will be received. The foundations record an allowance against pledges receivable for estimated uncollectible amounts. The William & Mary Real Estate Foundation did not have any pledges receivable at year end.

| | The College of William & Mary Foundation | Marshall-Wythe School of Law Foundation | William & Mary Business School Foundation | William & Mary Alumni Association Foundation | William & Mary Athletic Educational Foundation | Virginia Institute of Marine Science Foundation | Richard Bland College Foundation | Total |
|---|---|---|---|---|---|---|---|---|
| Total pledges receivable | $ 28,822,082 | $ 4,289,541 | $ 2,139,130 | $ 141,897 | $ 2,361,438 | $ 4,685,255 | $ 40,000 | $ 42,479,343 |
| Less: | | | | | | | | |
| Allowance for uncollectibles | (1,051,141) | (260,906) | (22,450) | - | (455,063) | - | - | (1,789,560) |
| Discounting to present value | (3,387,216) | (71,723) | (58,409) | - | (117,220) | (440,478) | - | (4,075,046) |
| Net pledges receivable | 24,383,725 | 3,956,912 | 2,058,271 | 141,897 | 1,789,155 | 4,244,777 | 40,000 | 36,614,737 |
| Less: | | | | | | | | |
| Current pledges receivable | (4,934,902) | (2,200,327) | (1,110,136) | (68,597) | (1,045,076) | (415,951) | (10,000) | (9,784,989) |
| Total non-current pledges receivable | $ 19,448,823 | $ 1,756,585 | $ 948,135 | $ 73,300 | $ 744,079 | $ 3,828,826 | $ 30,000 | $ 26,829,748 |

Capital Assets

| | The College of William & Mary Foundation | Marshall-Wythe School of Law Foundation | William & Mary Business School Foundation | William & Mary Alumni Association | William & Mary Athletic Educational Foundation | William & Mary Real Estate Foundation | Total |
|---|---|---|---|---|---|---|---|
| Nondepreciable: | | | | | | | |
| Land | $ 3,365,927 | $ 262,916 | $ - | $ - | $ - | $ 5,009,919 | $ 8,638,762 |
| Construction in progress | 116,533 | | | | | 4,834,917 | 4,951,450 |
| Historical treasures and inexhaustable works of art | 6,032,340 | 62,211 | - | - | - | - | 6,094,551 |
| Total nondepreciable capital assets | $ 9,514,800 | $ 325,127 | $ - | $ - | $ - | $ 9,844,836 | $ 19,684,763 |
| Depreciable: | | | | | | | |
| Building | $ 7,420,855 | $ - | $ - | $ 384,914 | $ - | $ 10,360,462 | $ 18,166,231 |
| Equipment, vehicles and furniture | 7,390,933 | 84,722 | 38,828 | 394,643 | 108,056 | 180,184 | 8,197,366 |
| Improvements, other than building | 338,138 | - | - | - | - | - | 338,138 |
| | 15,149,926 | 84,722 | 38,828 | 779,557 | 108,056 | 10,540,646 | 26,701,735 |
| Less accumulated depreciation | (8,775,498) | (80,205) | (31,394) | (691,200) | (106,051) | (1,539,041) | (11,223,389) |
| Total depreciable capital assets | $ 6,374,428 | $ 4,517 | $ 7,434 | $ 88,357 | $ 2,005 | $ 9,001,605 | $ 15,478,346 |

Long-term Liabilities

| | The College of William & Mary Foundation | Richard Bland College Foundation | William & Mary Real Estate Foundation | Total |
|---|---|---|---|---|
| Compensated absences | $ 135,992 | $ - | $ - | $ 135,992 |
| Notes payable | 1,210,234 | - | 7,268,015 | 8,478,249 |
| Bonds payable | 8,051,530 | 21,958,926 | 4,092,927 | 34,103,383 |
| Trust & Annuity Obligations | 2,688,910 | - | - | 2,688,910 |
| Other liabilities | 16,257,434 | - | - | 16,257,434 |
| Total long-term liabilities | 28,344,100 | 21,958,926 | 11,360,942 | 61,663,968 |
| Less current portion | (619,818) | (555,588) | (405,332) | (1,580,738) |
| Total long-term liabilities | $ 27,724,282 | $ 21,403,338 | $ 10,955,610 | $ 60,083,230 |

## THE COLLEGE OF WILLIAM AND MARY FOUNDATION

### Long-term Liabilities

On June 25, 2001, Reliance Holdings, LLC, a subsidiary of the College of William and Mary Foundation, 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.

### 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 College of William and Mary Foundation Ventures ("Obligors"). The Series 2011 Bond was acquired by SunTrust Bank, as Series 2011 Bondholder. Proceeds from sale of the Series 2011 Bond were used to redeem 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, 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 Obligors are required to maintain assets so that on each June 30, unrestricted and temporarily restricted net assets shall exceed 200% of the total funded debt of the Obligors.

The Foundation is in compliance with all bond covenants.

## MARSHALL-WYTHE SCHOOL OF LAW FOUNDATION

### Law Library Bond Issuance

The construction and renovations of the Wolf Law Library at the Marshall-Wythe School of Law were funded by proceeds allocated to the Marshall-Wythe School of Law from the College of William & Mary's 2007A(9D) Bond Issue ("Bond"). The Foundation makes principal and interest payments to the College on the Bond using private contributions restricted for the Law Library addition. However, the Bond was issued to and in the name of the College, and the Foundation is not obligated to make these debt service payments.

Bond payments made to the College totaled $816,459, including principal and interest, in 2017 and are included in law school bond payments on the Foundation's statement of activities.

WILLIAM AND MARY BUSINESS SCHOOL FOUNDATION

Commitments and Contingencies

On January 31, 2007, the Foundation entered into a Development Agreement and a Reimbursement Agreement (Agreements) with the College of William and Mary (College), in connection with the issuance of bonds to finance the construction and equipping of a new academic building, Alan B. Miller Hall, for the College's Raymond A. Mason School of Business.

By the terms of the Reimbursement Agreement, the Foundation reimbursed the College for all debt service due on certain bonds and all related fees agreed to with respect to the bonds after their issuance. These bonds and the related obligation to the College have been fully paid. However, the Foundation has certain inter-fund obligations still outstanding related to this debt.

A donor agreed to allow up to $5,000,000 of permanently restricted net assets to be used to pay the obligation to the College on the condition that this money would be repaid to the permanently restricted funds. This money was borrowed in 2016 and is still owed to the permanently restricted funds. Additionally, the Executive Committee authorized the borrowing of temporarily restricted funds held in William and Mary Investment Trust in the amount of $1,330,000 on July 8, 2015 in order to provide the necessary liquidity to make the final payment to the College in August of 2015 related to the construction of Alan B. Miller Hall. These funds will be repaid to the temporarily restricted funds as related pledge payments are collected. As of the year ended June 30, 2017, $1,005,859 of this amount has been repaid and a remaining balance due of $324,141 will be repaid in future years as pledges are collected.

RICHARD BLAND COLLEGE FOUNDATION, INC.

Bonds Payable

During December 2006, the Foundation entered into loan agreements with the Industrial Development Authorities ("Authorities") of Dinwiddie County, Virginia, Isle of Wight, Virginia, Prince George County, Virginia and Sussex County, Virginia to borrow the proceeds of the Authorities' $27,000,000 Series 2006 Revenue Bonds (Richard Bland College Foundation Student Housing Facilities). The loan was refinanced in October 2012 to lower the interest rate charged to the Foundation. The loan agreement interest rate was 4.23% and refinanced to 2.40%. The interest rate will adjust at the ten year anniversary of the refinancing and every 5 years thereafter at 70% of the 5-year U. S. Treasury Note plus 120 basis points. The bonds are due November 5, 2038. The primary purpose of this loan is to refund and redeem in full the outstanding principal amount of the Authorities' $27,000,000 Series 2006 Revenue Bonds (Richard Bland College Foundation Student Housing Facilities), the proceeds of which were used to finance the costs of construction and equipping of a student housing facility located in Dinwiddie, Virginia.

In 2017 the Foundation amended the bond notes with Towne Bank to adjust the payments from February and August to May and October to better align with revenue streams.

Investment in Direct Financing Lease

The Foundation has an investment in a direct financing lease in connection with its long-term leasing arrangement with the College. The terms of the lease include the leasing of a student housing facility located in Dinwiddie, Virginia originally constructed by the Foundation for the College. The lease is due in semi-annual installments and expires in August 2038.

## WILLIAM & MARY REAL ESTATE FOUNDATION

### Tribe Square

The William and Mary Real Estate Foundation develops and owns a mixed use property known as Tribe Square, which consists of one floor retail space and two floors student housing. Construction was completed and the building was put into service during 2012. The Foundation is party to a commercial management agreement dated December 6, 2010 with an agent to manage the property on behalf of Tribe Square, LLC. The agreement is for a one-year term ending July 31, 2012, and continuing on an annual basis unless and until terminated by either party. The services to be provided by the agent include the operation and maintenance of the property, as well as financial duties as defined in the agreement. The management fee paid to the agent will be $20,940 per annum. At June 30, 2017, the Foundation has one lease agreement for a tenant in the first floor retail area expiring at fiscal year 2019. Subsequent to June 30, 2017 the tenant broke the lease agreement and vacated the space. Management is negotiating the lease termination penalty amount with the tenant. The student housing space is being leased to the College.

The Foundation leases the Tribe Square student housing to the College pursuant to a lease agreement dated August 1, 2011 for a five-year term ending June 30, 2016, with an automatic renewal for an additional five-year term ending on June 30, 2021. Annual base rent is $459,816, payable in two equal installments, with the first installment due on the commencement date, and each semi-annual installment thereafter due on September 1 and March 1 of each lease year. The base rent may be increased annually by a percentage equal to the increase in the Consumer Price Index. In no event shall the base rent be less than the base rent payable for the preceding year. Rental income received under this lease was $491,399 and $486,533 for 2017 and 2016, respectively.

### Discovery II

During 2013, the Foundation purchased property held and referred to as Discovery II. The property is being leased to the College for use as office space under an agreement with an initial lease term ending June 30, 2018.

The Foundation entered into a commercial management agreement dated April 11, 2013 with an agent to manage the property on behalf of the Foundation. The agreement is for a one-year term ending on March 31, 2014, and continuing on an annual basis unless and until terminated by either party. The services to be provided by the agent include the operation and maintenance of the property, as well as financial duties as defined in the agreement. The management fee paid to the agent will be $10,800 per annum.

Future minimum rental payments to be received under existing non-cancelable commercial operating leases at Discovery II for future years ending June 30, 2018 are $413,706.

Beginning in 2013, the Foundation began leasing the Discovery II office space to the College. The Foundation entered into a lease agreement with the College dated May 18, 2013 for a sixty-two month term commencing May 1, 2013 and ending June 30, 2018 with the right to renew the lease for up to five additional consecutive one-year terms. Annual base rent is $382,200, payable in 12 equal installments, with the first installment due on the commencement date, and each monthly installment thereafter due on the first business day of the month. The base rent may be increased annually by two percent. Rental income received under this lease was $405,594 and $397,641 for 2017 and 2016, respectively.

### Richmond Road

The Foundation leases office space at 327 Richmond Road in Williamsburg, Virginia to the College under a five-year lease through December 31, 2021. Rental income under this lease agreement was $33,452 during both 2017 and 2016. The rate remains the same throughout the lease term.

Student Housing Construction Project

The Foundation entered into a construction project in April 2017 for the renovation and remodeling of a building to be used for student housing. The contract sum is $3,235,638, of which $2,382,874 has been paid as of June 30, 2017. Substantial completion is expected no later than September 2017.

Bonds Payable

The Foundation obtained a tax-exempt student housing facilities revenue bond, dated September 16, 2011, twenty-five (25) year term. The bond bears interest at a fixed rate of 3.75%. Required monthly payments of principal and interest total $25,855. The outstanding principal balance is $4,229,815 at June 30, 2017.

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

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

Promissory Note

The Foundation obtained a promissory note, dated June 3, 2013, ten (10) year term. The note bears interest at a fixed rate of 3.22%. Required monthly payments of principal and interest total $18,007. The outstanding principal balance is $3,280,480 at June 30, 2017.

The promissory note was issued through a private lender for a principal amount of $3,689,000. The proceeds of this note were used to finance the costs to acquire Discovery II, and pay certain expenses of issuing the note. The note is secured by the rents and revenues of Discovery II, and substantially all of the assets of WMREF ventures, a subsidiary of the Foundation. A balloon payment in the amount of $2,570,410 is due at note maturity on June 1, 2023.

Subsequent Event

In May 2017, the Foundation entered into a line of credit promissory note in the principal amount of $4,000,000, all of which was outstanding at June 30, 2017. The agreement calls for monthly payments of interest, to be calculated based on loan advances, commencing June 2017 and continuing until paid in full or May 2018. The interest rate is equal to the one-month LIBOR plus 1.0% (2.22% at June 30, 2017). Advances are collateralized by cash, receivables, and future gross receipts. The foundation also has access to letters of credit under the agreement, none of which were issued or outstanding as of June 30, 2017.

On August 4, 2017, the Foundation refinanced the line of credit by entering into a separate promissory note agreement in the principal sum of $6,000,000. The agreement requires consecutive monthly installments of $27,373 through July 4, 2022 with interest fixed at a rate of 2.65%. The note matures on August 4, 2022, when a balloon installment is due.

## 14. RETIREMENT PLANS

Optional Retirement Plan

Full-time faculty and certain administrative staff may participate in a retirement annuity program through various optional retirement plans other than the Virginia Retirement System. This is a fixed-contribution program where the retirement benefits received are based upon the employer's contributions of approximately 10.4 percent or 8.5 percent depending on whether the employee is in Plan 1 or Plan 2, plus interest and dividends. Plan 1 consists of employees who became a member prior to July 1, 2010. Plan 2 consists of employees who became a member on or after July 1, 2010.

Individual contracts issued under the plan provide for full and immediate vesting of contributions of the College of William and Mary, including the Virginia Institute of Marine Science, and Richard Bland College and their employees. Total pension costs under this plan were $9,474,216 for the year ended June 30, 2017. Contributions to the optional retirement plans were calculated using the base salary amount of $96,926,016 for fiscal year 2017. The College of William and Mary, which includes the Virginia Institute of Marine Science, and Richard Bland College's total payroll for fiscal year 2017 was $197,410,307.

Deferred Compensation

Employees of the University are employees of the Commonwealth of Virginia. State employees may participate in the Commonwealth’s Deferred Compensation Plan. Participating employees can contribute to the plan each pay period with the Commonwealth matching up to $20 per pay period. The dollar amount of the match can change depending on the funding available in the Commonwealth’s budget. The Deferred Compensation Plan is a qualified defined contribution plan under Section 401(a) of the Internal Revenue Code. Employer contributions under the Deferred Compensation Plan were approximately $745,556 for fiscal year 2017.

General Information about the Pension Plan

Plan Description

All full-time, salaried permanent employees of state agencies are automatically covered by the VRS State Employee Retirement Plan or the VaLORS Retirement Plan upon employment. These plans are administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the *Code of Virginia*, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

The System administers three different benefit structures for covered employees in the VRS State Employee Retirement Plan – Plan 1, Plan 2, and, Hybrid and two different benefit structures for covered employees in the VaLORS Retirement Plan – Plan 1 and Plan 2. Each of these benefit structures has different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are set out in the table below:

| RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE | | |
|---|---|---|
| **PLAN 1** | **PLAN 2** | **HYBRID RETIREMENT PLAN** |
| **About Plan 1**<br>Plan 1 is a defined benefit plan. The retirement benefit is based on a member’s age, creditable service and average final compensation at retirement using a formula. Employees are | **About Plan 2**<br>Plan 2 is a defined benefit plan. The retirement benefit is based on a member’s age, creditable service and average final compensation at retirement using a formula. Employees are | **About the Hybrid Retirement Plan**<br>The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after |

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| eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013. | eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013. | January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. (see "Eligible Members")<br>• The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.<br>• The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.<br>• In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees. |
| **Eligible Members**<br>Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.<br><br>**Hybrid Opt-In Election**<br>VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.<br><br>The Hybrid Retirement Plan's | **Eligible Members**<br>Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.<br><br>**Hybrid Opt-In Election**<br>Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.<br><br>The Hybrid Retirement Plan's effective date for eligible Plan 2 | **Eligible Members**<br>Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:<br>• State employees*<br>• Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014<br><br>***Non-Eligible Members**<br>Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:<br>• Members of the Virginia |

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| effective date for eligible Plan 1 members who opted in was July 1, 2014.<br><br>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.<br><br>Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP. | members who opted in was July 1, 2014.<br><br>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.<br><br>Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP. | Law Officers' Retirement System (VaLORS)<br><br>Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP. |
| **Retirement Contributions**<br>State employees, excluding state elected officials, and optional retirement plan participants, contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment. | **Retirement Contributions**<br>State employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. | **Retirement Contributions**<br>A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages. |
| **Creditable Service**<br>Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the | **Creditable Service**<br>Same as Plan 1. | **Creditable Service**<br>**<u>Defined Benefit Component:</u>**<br>Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may |

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| member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit. | | include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.<br><br>**<u>Defined Contributions Component:</u>**<br>Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan. |
| **Vesting**<br>Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.<br><br>Members are always 100% vested in the contributions that they make. | **Vesting**<br>Same as Plan 1. | **Vesting**<br>**<u>Defined Benefit Component:</u>**<br>Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.<br><br>**<u>Defined Contributions Component:</u>**<br>Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. |

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| | | Members are always 100% vested in the contributions that they make.<br><br>Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.<br>• After two years, a member is 50% vested and may withdraw 50% of employer contributions.<br>• After three years, a member is 75% vested and may withdraw 75% of employer contributions.<br>• After four or more years, a member is 100% vested and may withdraw 100% of employer contributions.<br><br>Distribution is not required by law until age 70½. |
| **Calculating the Benefit**<br>The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.<br><br>An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit. | **Calculating the Benefit**<br>See definition under Plan 1. | **Calculating the Benefit**<br>**Defined Benefit Component:**<br>See definition under Plan 1<br><br>**Defined Contribution Component:**<br>The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions. |
| **Average Final Compensation**<br>A member's average final compensation is the average of | **Average Final Compensation**<br>A member's average final compensation is the average of | **Average Final Compensation**<br>Same as Plan 2. It is used in the retirement formula for the |

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| the 36 consecutive months of highest compensation as a covered employee. | their 60 consecutive months of highest compensation as a covered employee. | defined benefit component of the plan. |
| **Service Retirement Multiplier**<br>**VRS:** The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%.<br><br>**VaLORS:** The retirement multiplier for VaLORS employees is 1.70% or 2.00%. | **Service Retirement Multiplier**<br>**VRS:** Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.<br><br>**VaLORS:** The retirement multiplier for VaLORS employees is 2.00%. | **Service Retirement Multiplier**<br>**Defined Benefit Component:**<br>**VRS:** The retirement multiplier for the defined benefit component is 1.00%.<br><br>For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.<br><br>**VaLORS:** Not applicable.<br><br>**Defined Contribution Component:**<br>Not applicable. |
| **Normal Retirement Age**<br>**VRS:** Age 65.<br><br>**VaLORS:** Age 60. | **Normal Retirement Age**<br>**VRS:** Normal Social Security retirement age.<br><br>**VaLORS:** Same as Plan 1. | **Normal Retirement Age**<br>**Defined Benefit Component:**<br>**VRS:** Same as Plan 2.<br><br>**VaLORS:** Not applicable.<br><br>**Defined Contribution Component:**<br>Members are eligible to receive distributions upon leaving employment, subject to restrictions. |
| **Earliest Unreduced Retirement Eligibility**<br>**VRS:** Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service. | **Earliest Unreduced Retirement Eligibility**<br>**VRS:** Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90. | **Earliest Unreduced Retirement Eligibility**<br>**Defined Benefit Component:**<br>**VRS:** Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. |

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| **VaLORS:** Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service. | **VaLORS:** Same as Plan 1. | **VaLORS:** Not applicable.<br><br>**<u>Defined Contribution Component:</u>**<br>Members are eligible to receive distributions upon leaving employment, subject to restrictions. |
| **Earliest Reduced Retirement Eligibility**<br>**VRS:** Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.<br><br>**VaLORS:** 50 with at least five years of creditable service. | **Earliest Reduced Retirement Eligibility**<br>**VRS:** Age 60 with at least five years (60 months) of creditable service.<br><br>**VaLORS:** Same as Plan 1. | **Earliest Reduced Retirement Eligibility**<br>**<u>Defined Benefit Component:</u>**<br>**VRS:** Age Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.<br><br>**VaLORS:** Not applicable.<br><br>**<u>Defined Contribution Component:</u>**<br>Members are eligible to receive distributions upon leaving employment, subject to restrictions. |
| **Cost-of-Living Adjustment (COLA) in Retirement**<br>The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.<br><br>**<u>Eligibility:</u>**<br>For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from | **Cost-of-Living Adjustment (COLA) in Retirement**<br>The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.<br><br>**<u>Eligibility:</u>**<br>Same as Plan 1 | **Cost-of-Living Adjustment (COLA) in Retirement**<br>**<u>Defined Benefit Component:</u>**<br>Same as Plan 2.<br><br>**<u>Defined Contribution Component:</u>**<br>Not applicable.<br><br>**<u>Eligibility:</u>**<br>Same as Plan 1 and Plan 2. |

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| the retirement date.<br><br>For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.<br><br>**<u>Exceptions to COLA Effective Dates:</u>**<br>The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:<br>• The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.<br>• The member retires on disability.<br>• The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).<br>• The member Is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.<br>• The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins. | **<u>Exceptions to COLA Effective Dates:</u>**<br>Same as Plan 1 | **<u>Exceptions to COLA Effective Dates:</u>**<br>Same as Plan 1 and Plan 2. |
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| | | |
|---|---|---|
| **Disability Coverage**<br>Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.<br><br>Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.<br><br>VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits. | **Disability Coverage**<br>Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.<br><br>Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.<br><br>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits. | **Disability Coverage**<br>State employees (including Plan 1 and Plan 2 opt-ins) participating in the Hybrid Retirement Plan are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.<br><br>Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VSDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits. |
| **Purchase of Prior Service**<br>Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay. | **Purchase of Prior Service**<br>Same as Plan 1. | **Purchase of Prior Service**<br>**<u>Defined Benefit Component:</u>**<br>Same as Plan 1, with the following exceptions:<br>• Hybrid Retirement Plan members are ineligible for ported service.<br>• The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation.<br>• Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost.<br><br>**<u>Defined Contribution Component:</u>**<br>Not applicable. |

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, the 5.00% member contribution was paid by the employer. Beginning July 1, 2012 state employees were required to pay the 5.00% member contribution and the employer was required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. Each state agency's contractually required contribution rate for the year ended June 30, 2017 was 13.49% of covered employee compensation for employees in the VRS State Employee Retirement Plan. For employees in the VaLORS Retirement Plan, the contribution rate was 21.05% of covered employee compensation. These rates were based on actuarially determined rates from an actuarial valuation as of June 30, 2015. The contribution rate for the VRS State Employee Retirement Plan also reflects the transfer in June 2016 of $162,406,273 as an accelerated payback of the deferred contribution in the 2010-12 biennium. The contribution rate for the VaLORS Retirement Plan also reflects the transfer in June 2016 of $16,491,559 as an accelerated payback of the deferred contribution in the 2010-12 biennium. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the University to the VRS State Employee Retirement Plan were $10,154,884 and $10,242,923 for the years ended June 30, 2017 and June 30, 2016, respectively. Contributions from the University to the VaLORS Retirement Plan were $241,450 and $196,427 for the years ended June 30, 2017 and June 30, 2016, respectively.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, the University reported a liability of $127,302,000 for its proportionate share of the VRS State Employee Retirement Plan Net Pension Liability and a liability of $2,180,000 for its proportionate share of the VaLORS Retirement Plan Net Pension Liability. The Net Pension Liability was measured as of June 30, 2016 and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. The University's proportion of the Net Pension Liability was based on the University's actuarially determined employer contributions to the pension plan for the year ended June 30, 2016 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2016, the University's proportion of the VRS State Employee Retirement Plan was 1.49% for William and Mary, 0.33% for VIMS, and 0.11% for RBC as compared to 1.43% for William and Mary, 0.33% for VIMS, and 0.11% for RBC at June 30, 2015. At June 30, 2016, the University's proportion of the VaLORS Retirement Plan was 0.25% for William and Mary and 0.03% for RBC as compared to 0.24% for William and Mary and 0.04% for RBC at June 30, 2015.

For the year ended June 30, 2017, the University recognized pension expense of $13,754,000 for the VRS State Employee Retirement Plan and $153,000 for the VaLORS Retirement Plan. Since there was a change in proportionate share between June 30, 2015 and June 30, 2016, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

At June 30, 2017, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**VRS Retirement Plan**

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | 545,000 | 3,467,000 |
| Net difference between projected and actual earnings on pension plan investments | 8,115,000 | - |
| Change in assumptions | - | - |
| Changes in proportion and differences between Employer contributions and proportionate share of contributions | 6,638,000 | 281,000 |
| Employer contributions subsequent to the measurement date | 10,154,884 | - |
| Total | $ 25,452,884 | $ 3,748,000 |

**VaLORS Retirement Plan**

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | 10,000 | 7,000 |
| Net difference between projected and actual earnings on pension plan investments | 90,000 | - |
| Change in assumptions | - | - |
| Changes in proportion and differences between Employer contributions and proportionate share of contributions | 66,000 | 130,000 |
| Employer contributions subsequent to the measurement date | 241,450 | - |
| Total | $ 407,450 | $ 137,000 |

The College of William and Mary had $10,396,334 reported as deferred outflows of resources related to pensions resulting from the University's contributions subsequent to the measurement date that will be recognized as a reduction of the Net Pension Liability in the Fiscal Year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

**Year ended June 30**

($ thousands)

| | VRS Retirement Plan | | VaLORS Retirement Plan | |
|---|---|---|---|---|
| FY 2018 | $ | 2,488 | $ | (51) |
| FY 2019 | $ | 1,130 | $ | (11) |
| FY 2020 | $ | 4,610 | $ | 56 |
| FY 2021 | $ | 3,322 | $ | 35 |
| FY 2022 | $ | - | $ | - |

Actuarial Assumptions

The total pension liability for the VRS State Employee Retirement Plan was based on an actuarial valuation as of June 30, 2015, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.

| | |
|---|---|
| Inflation | 2.5 percent |
| Salary increases, including Inflation | 3.5 percent – 5.35 percent |
| Investment rate of return expense, including inflation* | 7.0 percent, net of pension plan investment |

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

Mortality rates:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 2 years and females were set back 3 years.

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with females set back 1 year.

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of withdrawals for less than 10 years of service
- Decrease in rates of male disability retirement
- Reduce rates of salary increase by 0.25% per year

The total pension liability for the VaLORS Retirement Plan was based on an actuarial valuation as of June 30, 2015, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.

| | |
|---|---|
| Inflation | 2.5 percent |
| Salary increases, including Inflation | 3.5 percent – 4.75 percent |
| Investment rate of return expense, including inflation* | 7.0 percent, net of pension plan investment |

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

Mortality rates:

Pre-Retirement:
RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 5 years and females were set back 3 years.

Post-Retirement:
RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with females set back 1 year.

Post-Disablement:
RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

- Update mortality table
- Adjustments to the rates of service retirement
- Decrease in rates of withdrawals for females under 10 years of service
- Increase in rates of disability
- Decrease service related disability rate from 60% to 50%

Net Pension Liability

The net pension liability (NPL) is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB Statement No. 67, less that system's fiduciary net position. As of June 30, 2016, NPL amounts for the VRS State Employee Retirement Plan and the VaLORS Retirement Plan are as follows (amounts expressed in thousands):

| | **State Employee Retirement Plan** | **VaLORS Retirement Plan** |
|---|---|---|
| Total Pension Liability | $ 22,958,593 | $ 1,985,618 |
| Plan Fiduciary Net Position | 16,367,842 | 1,211,446 |
| Employers' Net Pension Liability (Asset) | $ 6,590,751 | $ 774,172 |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 71.29% | 61.01% |

The total pension liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net pension liability is disclosed in accordance with the requirements of GASB Statement No. 67 in the System's notes to the financial statements and required supplementary information.

Long-Term Expected Rate of Return

The long-term expected rate of return on pension System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

| Asset Class (Strategy) | Target Allocation | Arithmetic Long-Term Expected Rate of Return | Weighted Average Long-Term Expected Rate of Return |
|---|---|---|---|
| U.S. Equity | 19.50% | 6.46% | 1.26% |
| Developed Non U.S Equity | 16.50% | 6.28% | 1.04% |
| Emerging Market Equity | 6.00% | 10.00% | 0.60% |
| Fixed Income | 15.00% | 0.09% | 0.01% |
| Emerging Debt | 3.00% | 3.51% | 0.11% |
| Rate Sensitive Credit | 4.50% | 3.51% | 0.16% |
| Non Rate Sensitive Credit | 4.50% | 5.00% | 0.23% |
| Convertibles | 3.00% | 4.81% | 0.14% |
| Public Real Estate | 2.25% | 6.12% | 0.14% |
| Private Real Estate | 12.75% | 7.10% | 0.91% |
| Private Equity | 12.00% | 10.41% | 1.25% |
| Cash | 1.00% | -1.50% | -0.02% |
| Total | 100.00% | | 5.83% |
| | Inflation | | 2.50% |
| | * Expected arithmetic nominal return | | 8.33% |

* Using stochastic projection results provides an expected range of real rates of return over various time horizons. Looking at one year results produces an expected real return of 8.33% but also has a high standard deviation, which means there is high volatility. Over larger time horizons the volatility declines significantly and provides a median return of 7.44%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the University for the VRS State Employee Retirement Plan and the VaLORS Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 on, all agencies are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the University's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the University's proportionate share of the VRS State Employee Retirement Plan net pension liability using the discount rate of 7.00%, as well as what the University's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

| ($ thousands) | | 1.00% Decrease (6.00%) | | Current Discount Rate (7.00%) | | 1.00% Increase (8.00%) |
|---|---|---|---|---|---|---|
| The College of William and Mary's proportionate share of the VRS State Employee Retirement Plan Net Pension Liability | $ | 179,157 | $ | 127,302 | $ | 83,769 |

The following presents the University's proportionate share of the VaLORS Retirement Plan net pension liability using the discount rate of 7.00%, as well as what the University's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

| ($ thousands) | | 1.00% Decrease (6.00%) | | Current Discount Rate (7.00%) | | 1.00% Increase (8.00%) |
|---|---|---|---|---|---|---|
| The College of William and Mary's share of the VaLORS Retirement Plan Net Pension Liability | $ | 2,918 | $ | 2,180 | $ | 1,572 |

Pension Plan Fiduciary Net Position

Detailed information about the VRS State Employee Retirement Plan's Fiduciary Net Position or the VaLORS Retirement Plan's Fiduciary Net Position is available in the separately issued VRS 2016 Comprehensive Annual Financial Report (CAFR). A copy of the 2016 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2016-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Payables to the Pension Plan

The College reported $528,524 in payables to VRS.

## 15. OTHER POST-EMPLOYMENT BENEFITS

The University participates in post-employment benefit programs that are sponsored by the Commonwealth and administered by the Virginia Retirement System. These programs include the Group Life Insurance Program, Virginia Sickness and Disability Program, Retiree Health Insurance Credit Program, and the Line of Duty Act Program.

The Group Life Insurance Program provides members basic group life insurance upon employment. In addition to benefits provided to active members during employment, the Virginia Sickness and Disability Program provides inactive members with long-term disability and long-term care benefits. The Retiree Health Insurance Credit Program provides members health insurance credits to offset the monthly health insurance premiums for retirees who have at least 15 years of service. The Line of Duty Act Program provides death and health insurance reimbursement benefits to eligible state employees, such as campus police, who die or become disabled as a result of the performance of their duties as a public safety officer. The University is required to contribute to the costs of participating in these programs.

The University also participates in the Pre-Medicare Retiree Healthcare Plan, which is sponsored by the Commonwealth and administered by the Department of Human Resources Management. The plan provides the option for retirees who are not yet eligible to participate in Medicare to participate in the Commonwealth's healthcare plan for its active employees. The University does not pay a portion of the retirees' healthcare premium; however, since both active employees and retirees are included in the same pool for purposes of determining health insurance rates, this generally results in a higher rate for active employees. Therefore, the University effectively subsidizes the costs of the participating retirees' healthcare through payment of the employer's portion of premiums for active employees.

Additional information related to all of these plans is available at the state-wide level in the Commonwealth's Comprehensive Annual Financial Report.

## 16. CONTINGENCIES

### Grants and Contracts

The University receives assistance from non-state grantor agencies in the form of grants and contracts. Entitlement to these resources is conditional upon compliance with the terms and conditions of the agreements, including the expenditure of resources for eligible purposes. Substantially all grants and contracts are subject to financial and compliance audits by the grantors. Any disallowances as a result of these audits become a liability. As of June 30, 2017, the University estimates that no material liabilities will result from such audits.

### Litigation

The University is not involved in any litigation at this time.

## 17. RISK MANAGEMENT

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

## 18. ADVANCE FROM THE TREASURER OF VIRGINIA

Section 4-3.02 of the Appropriation Act describes the circumstances under which agencies and institutions may borrow funds from the state treasury, including prefunding for capital projects in anticipation of bond sale proceeds and operating funds in anticipation of federal revenues. As of June 30, 2017, there was $4,246,592 in outstanding Advances from the Treasurer. These funds represents an advance to William and Mary from the Commonwealth of Virginia for working capital pending the receipt of funds from bond sale proceeds. These funds were used to renovate Zable Stadium and Busch Field.

| | Beginning Balance | Additions | Reductions | Ending Balance |
|---|---|---|---|---|
| Zable Stadium | $ 2,004,876 | $ 1,550,050 | | $ 3,554,926 |
| Busch Field | - | 691,666 | - | 691,666 |
| Total anticipation loans | $ 2,004,876 | $ 2,241,716 | $ - | $ 4,246,592 |

## 19. SUBSEQUENT EVENTS

In December of 2017, the Virginia College Building Authority (VCBA) issued Series 2017A Educational Facilities Revenue Bonds and 2017B Federally Taxable Revenue Bonds in which the College of William and Mary was a participating institution. The College received $7,030,000 in proceeds to finance improvements to the Student Recreation Center Pool, Zable Stadium, Blow Hall Data Center and Busch Field Turf. Also received was $16,985,000 in proceeds to finance the construction of the West Utilities Plant and the Integrative Wellness Center. The bonds were issued with interest rates varying from 2.125 percent to 5 percent and will mature in 20 years.

**Required Supplementary Information (RSI)**
**Cost-Sharing Employer Plans – VRS State Employee Retirement Plan**
**And VaLORS Retirement Plan**
**For the Fiscal Year Ended June 30, 2017**

**Schedule of Employer's Share of Net Pension Liability**
**VRS State Employee Retirement Plan**
**For the Years Ended June 30, 2017, 2016 and 2015***

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Employer's Proportion of the Net Pension Liability (Asset) | 1.93% | 1.87% | 1.78% |
| Employer's Proportionate Share of the Net Pension Liability (Asset) | $ 127,302,000 | $ 114,809,000 | $ 99,411,000 |
| Employer's Covered Payroll | $ 73,645,076 | $ 70,307,029 | $ 66,605,228 |
| Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll | 172.86% | 163.30% | 149.25% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 71.29% | 72.81% | 74.28% |

*Schedule is intended to show information for 10 years. Since 2017 is the third year for this presentation, only two additional years of data are available. However, additional years will be included as they become available.*

* The amounts presented have a measurement date of the previous fiscal year end.

**Schedule of Employer's Share of Net Pension Liability**
**VaLORS Retirement Plan**
**For the Years Ended June 30, 2017, 2016 and 2015***

| | **2017** | **2016** | **2015** |
|---|---|---|---|
| Employer's Proportion of the Net Pension Liability (Asset) | 0.28% | 0.28% | 0.30% |
| Employer's Proportionate Share of the Net Pension Liability (Asset) | $ 2,180,000 | $ 1,968,000 | $ 2,024,000 |
| Employer's Covered Payroll | $ 1,048,421 | $ 989,861 | $ 1,101,243 |
| Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll | 207.93% | 198.82% | 183.79% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 61.01% | 62.64% | 63.05% |

*Schedule is intended to show information for 10 years. Since 2017 is the third year for this presentation, only two additional years of data is available. However, additional years will be included as they become available.*

* The amounts presented have a measurement date of the previous fiscal year end.

Schedule of Employer Contributions

**Schedule of Employer Contributions**
**VRS State Employee Retirement Plan**
**For the Years Ended June 30, 2015 through 2017**

| Date | Contractually Required Contribution (1) | Contributions in Relation to Contractually Required Contribution (2) | Contribution Deficiency (Excess) (3) | Employer's Covered Payroll (4) | Contributions as a % of Covered Payroll (5) |
|---|---|---|---|---|---|
| 2017 | $ 9,624,802 | $ 9,624,802 | $ - | $ 69,557,841 | 13.84% |
| 2016 | $ 10,163,204 | $ 10,163,204 | $ - | $ 73,645,076 | 13.80% |
| 2015 | $ 8,668,857 | $ 8,668,857 | $ - | $ 70,307,029 | 12.33% |

**Schedule of Employer Contributions**
**VaLORS Retirement Plan**
**For the Years Ended June 30, 2015 through 2017**

| Date | Contractually Required Contribution (1) | Contributions in Relation to Contractually Required Contribution (2) | Contribution Deficiency (Excess) (3) | Employer's Covered Payroll (4) | Contributions as a % of Covered Payroll (5) |
|---|---|---|---|---|---|
| 2017 | $ 241,450 | $ 241,450 | $ - | $ 1,147,028 | 21.05% |
| 2016 | $ 196,427 | $ 196,427 | $ - | $ 1,048,421 | 18.74% |
| 2015 | $ 174,908 | $ 174,908 | $ - | $ 989,861 | 17.67% |

*Schedule is intended to show information for 10 years. Since 2017 is the third year for this presentation, only two additional years of data is available. However, additional years will be included as they become available.*

**Notes to Required Supplementary Information**
**For the Year Ended June 30, 2017**

**Changes of benefit terms –** There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this is still a fairly new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2016 are not material.

**Changes of assumptions –** The following changes in actuarial assumptions were made for the VRS - State Employee Retirement Plan effective June 30, 2013 based on the most recent experience study of the System for the four-year period ending June 30, 2012:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of withdrawals for less than 10 years of service
- Decrease in rates of male disability retirement
- Reduce rates of salary increase by 0.25% per year

The following changes in actuarial assumptions were made for the VaLORS Retirement Plan effective June 30, 2013 based on the most recent experience study of the System for the four-year period ending June 30, 2012:

- Update mortality table
- Adjustments to the rates of service retirement
- Decrease in rates of withdrawals for females under 10 years of service
- Increase in rates of disability
- Decrease service related disability rate from 60% to 50%

Commonwealth of Virginia

*Auditor of Public Accounts*

Martha S. Mavredes, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

April 17, 2018

The Honorable Ralph S. Northam
Governor of Virginia

The Honorable Thomas K. Norment, Jr.
Chairman, Joint Legislative Audit
and Review Commission

Board of Visitors
The College of William and Mary in Virginia

## INDEPENDENT AUDITOR'S REPORT

**Report on Financial Statements**

We have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component units of the College of William and Mary in Virginia, including the Virginia Institute of Marine Science and Richard Bland College (the University), a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

*Management's Responsibility for the Financial Statements*

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

*Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented component units of the

University, which are discussed in Note 1. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the component units of the University, is based on the reports of the other auditors. We did not obtain audited financial statements for the Richard Bland College Foundation, which represents 2.9 percent, 2.9 percent, and 2.2 percent of assets, net position, and revenues, respectively, of the University's aggregate discretely presented component units, as the audit as of and for the year ended June 30, 2017, was not complete as of the date of this report. Our opinion is not modified with respect to this matter.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the component units of the University that were audited by other auditors upon whose reports we are relying were audited in accordance with auditing standards generally accepted in the United States of America, but not in accordance with Government Auditing Standards.

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

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

*Opinion*

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and aggregate discretely presented component units of the College of William and Mary in Virginia as of June 30, 2017, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

*Other Matters*

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages one through ten, Schedules of Employer's Share of Net Pension Liability on pages 69 and 70, the Schedules of Employer Contributions on page 71, and Notes to Required Supplementary Information on page 72 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by *Government Auditing Standards***

In accordance with Government Auditing Standards, we have also issued our report dated April 17, 2018, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the University's internal control over financial reporting and compliance.

Martha S. Mavredes

AUDITOR OF PUBLIC ACCOUNTS

EMS/clj

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

**June 30, 2017**

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**Richard Bland College**

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