MARYMOUNT UNIVERSITY

CONSOLIDATED FINANCIAL REPORT

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

JUNE 30, 2017

BROWN EDWARDS

certified public accountants

MARYMOUNT UNIVERSITY

CONSOLIDATED FINANCIAL REPORT

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

June 30, 2017

EIN# 54-0573801

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

To the Board of Trustees
Marymount University
Arlington, Virginia

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

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Opinion

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

Other Matters

Other Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 6, 2017, on our consideration of Marymount University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
September 6, 2017

MARYMOUNT UNIVERSITY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2017 and 2016

	2017	2016
ASSETS		
Cash and cash equivalents		
Cash and cash equivalents, other	$ 20,061,726	$ 14,925,160
Comprehensive campaign, restricted	813,071	2,577,845
Restricted by debt agreement (Note 7)	10,671,412	14,046,165
Total cash and cash equivalents	31,546,209	31,549,170
Receivables and other assets (Note 2)	8,329,190	7,431,621
Notes receivable, University and government student loans, net of allowance for doubtful accounts 2017 $6,198; 2016 $6,256	791,861	890,739
Contributions receivable (Note 3)	3,758,649	334,277
Funds held in reserve by debt agreement (Note 7)	5,983,798	8,268,000
Bond proceeds held for investment in physical plant	6,457,483	47,460,386
Investments and funds held in trust by others (Note 4)	43,114,700	37,455,898
Land, buildings, and equipment, net of accumulated depreciation (Notes 5 and 7)	181,276,322	141,388,785
Ground lease receivable (Note 16)	4,848,330	2,402,290
Total assets	$ 286,106,542	$ 277,181,166
LIABILITIES AND NET ASSETS		
Accounts payable, accruals, and other liabilities (Note 6)	$ 5,920,222	$ 6,538,804
Accrued interest payable	3,307,794	3,335,294
Accrued salaries and payroll taxes	4,382,917	4,231,839
Deposits and deferred revenue	5,554,148	5,128,127
U.S. government grants refundable	1,083,759	1,128,555
Debt (Note 7)	152,168,623	153,091,457
Total liabilities	172,417,463	173,454,076
Net assets (Note 8)		
Unrestricted	72,900,028	67,946,350
Temporarily restricted	31,318,345	26,860,689
Permanently restricted	9,470,706	8,920,051
Total net assets	113,689,079	103,727,090
Total liabilities and net assets	$ 286,106,542	$ 277,181,166

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

MARYMOUNT UNIVERSITY

CONSOLIDATED STATEMENT OF ACTIVITIES
Year Ended June 30, 2017

	2017			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
REVENUES				
Tuition and fees	$ 86,638,823	$ -	$ -	$ 86,638,823
Less financial aid	(20,727,221)	-	-	(20,727,221)
Net tuition and fees (Note 9)	65,911,602	-	-	65,911,602
Contributions and grants	361,751	6,754,583	(2,925)	7,113,409
Endowment income, available to support current operations (Note 4)	-	543,344	-	543,344
Investment income, other	222,496	-	-	222,496
Loss on uncollectible contributions receivable	-	-	-	-
Auxiliary services	12,438,818	-	-	12,438,818
Ground lease rental income	2,971,040	-	-	2,971,040
Other and miscellaneous fees	2,459,023	-	-	2,459,023
Net assets released from restrictions and reclassifications (Note 10)	2,504,610	(2,504,610)	-	-
Total revenues	86,869,340	4,793,317	(2,925)	91,659,732
EXPENSES				
Educational and general:				
Instruction	32,864,082	-	-	32,864,082
Academic support	13,641,632	-	-	13,641,632
Student services	10,413,300	-	-	10,413,300
Institutional support	16,179,144	-	-	16,179,144
Auxiliary services	12,078,525	-	-	12,078,525
Total expenses (Note 11)	85,176,683	-	-	85,176,683
Change in net assets, operating	1,692,657	4,793,317	(2,925)	6,483,049
NON-OPERATING				
Investment return, net of amount available to support current operations (Note 4)	1,461,021	1,464,339	553,580	3,478,940
Loss on accounts in collections attributable to prior year	-	-	-	-
Net assets released from restrictions and reclassifications (Note 10)	1,800,000	(1,800,000)	-	-
Change in net assets	4,953,678	4,457,656	550,655	9,961,989
NET ASSETS				
Beginning	67,946,350	26,860,689	8,920,051	103,727,090
Ending	$ 72,900,028	$ 31,318,345	$ 9,470,706	$ 113,689,079

MARYMOUNT UNIVERSITY

CONSOLIDATED STATEMENT OF ACTIVITIES
Year Ended June 30, 2016

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES				
Tuition and fees	$ 82,532,913	$ -	$ -	$ 82,532,913
Less financial aid	(19,264,017)	-	-	(19,264,017)
Net tuition and fees (Note 9)	63,268,896	-	-	63,268,896
Contributions and grants	401,064	2,836,775	1,200	3,239,039
Endowment income, available to support current operations (Note 4)	209,900	965,416	-	1,175,316
Investment income, other	184,371	-	-	184,371
Loss on uncollectible contributions receivable	-	(80,000)	-	(80,000)
Auxiliary services	12,456,936	-	-	12,456,936
Ground lease rental income	2,971,040	-	-	2,971,040
Other and miscellaneous fees	3,332,753	-	-	3,332,753
Net assets released from restrictions and reclassifications (Note 10)	2,976,214	(2,976,214)	-	-
Total revenues	85,801,174	745,977	1,200	86,548,351
EXPENSES				
Educational and general:				
Instruction	31,870,841	-	-	31,870,841
Academic support	13,532,002	-	-	13,532,002
Student services	10,019,148	-	-	10,019,148
Institutional support	15,266,506	-	-	15,266,506
Auxiliary services	11,273,278	-	-	11,273,278
Total expenses (Note 11)	81,961,775	-	-	81,961,775
Change in net assets, operating	3,839,399	745,977	1,200	4,586,576
NON-OPERATING				
Investment return, net of amount available to support current operations (Note 4)	(412,154)	(852,139)	(730,242)	(1,994,535)
Loss on accounts in collections attributable to prior year	(800,000)	-	-	(800,000)
Net assets released from restrictions and reclassifications (Note 10)	-	63,851	(63,851)	-
Change in net assets	2,627,245	(42,311)	(792,893)	1,792,041
NET ASSETS				
Beginning	65,319,105	26,903,000	9,712,944	101,935,049
Ending	$ 67,946,350	$ 26,860,689	$ 8,920,051	$ 103,727,090

MARYMOUNT UNIVERSITY

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

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 9,961,989	$ 1,792,041
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Non-operating and noncash items:		
Contributions and investment income restricted for plant expansion and endowment	(251,519)	(1,966,989)
Net realized and unrealized (gains) losses on investments	(2,941,186)	2,087,918
Increase in cash surrender value of life insurance	(22,766)	(7,064)
Deferred loan costs amortization	98,583	98,583
Bond premium amortization	(152,504)	(151,183)
Loss on disposal of fixed assets	19,592	-
Depreciation and amortization	6,054,477	4,692,827
Change in certain operating assets and liabilities		
(Increase) decrease in:		
Receivables and other assets	(874,803)	111,582
Contributions receivable	(3,424,372)	581,793
Ground lease receivable	(2,446,040)	(2,402,290)
(Decrease) increase in:		
Accounts payable, accruals, and other liabilities	(593,120)	2,621,275
Deposits and deferred revenue	426,021	(462,458)
Net cash provided by operating activities	5,854,352	6,996,035
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in notes receivable, net	98,878	217,288
Change in U.S. government grants refundable	(44,796)	-
Purchases of land, buildings, and equipment, net of debt and accounts payable incurred	(45,303,157)	(25,115,203)
Change in bond proceeds held for investment in physical plant	41,002,903	23,029,858
Change in investments, net of proceeds from sales	(2,717,616)	(1,988,837)
Net cash used in investing activities	(6,963,788)	(3,856,894)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from contributions restricted for plant expansion and endowment	251,519	1,966,989
Additions to deferred loan costs	-	(1,381,185)
Change in funds held in reserve by debt agreement	2,284,202	1,150,000
Payments of debt	(1,429,246)	(1,549,147)
Proceeds from issuance of new debt		
VCBA 2015B debt	-	66,815,000
Bond premium	-	237,609
Capital leases	-	721,050
Less funds held in reserves and bond proceeds for investment in physical plant	-	(54,446,965)
Less debt incurred to finance equipment	-	(721,050)
Net cash provided by financing activities	1,106,475	12,792,301
Increase (decrease) in cash and cash equivalents	(2,961)	15,931,442
CASH AND CASH EQUIVALENTS, including cash restricted by debt agreement		
Beginning	31,549,170	15,617,728
Ending	$ 31,546,209	$ 31,549,170

(Continued)

MARYMOUNT UNIVERSITY

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

	2017	2016
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash payments for interest, net of amounts capitalized 2017 $942,403; 2016 $495,390	$ 6,255,287	$ 3,665,518
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Purchases of land, buildings, and equipment included in accounts payable	$ 4,463,189	$ 4,365,073
Capital lease obligation (included in debt) incurred for use of equipment	$ 560,333	$ 721,050
Debt incurred to establish funds held in reserve and funds held for investment in land, buildings, and equipment	$ -	$ 54,446,965

Note 1. Reporting Entity and Significant Accounting Policies

Reporting entity:

Marymount University (the "University"), an independent, comprehensive Catholic university, combines the liberal arts tradition with career preparation. The University was founded in 1950 and is associated with the Religious of the Sacred Heart of Mary. The University is located in Arlington, Virginia, minutes from Washington, D.C., and serves approximately 3,400 students through its main campus, its Ballston campus, the Reston Center, and through outreach activities in Northern Virginia. The University's charter allows up to a 35-member Board of Trustees, who are appointed for three-year terms. The University offers a wide range of graduate and undergraduate degree programs.

In 2015, the University formed Marymount NBG Ground Lessor LLC (the "LLC"), a limited liability company. The LLC was formed for the purpose of holding the residential parcel of the Ballston property that is subject to a ground lease and all the activities related to the ground lease. The University owns a 100% membership interest in the LLC. As a result of this ownership interest, financial accounting standards require the LLC to be consolidated by the University for financial reporting purposes. All transactions between the University and the LLC were eliminated upon consolidation.

The significant accounting policies followed by the University are described below:

Basis of financial statement presentation and accounting:

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

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

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

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

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

(Continued)

Note 1. Reporting Entity and Significant Accounting Policies (Continued)

Cash and cash equivalents:

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

The University follows the common cash management practice of consolidating certain operating cash and cash equivalent accounts, which includes various designated and restricted current operating and plant accounts. As a result of this practice, cash and cash equivalents specifically associated with the original gift of certain designated and restricted monies can be spent from the consolidated account. When this occurs, the activity is accounted for by maintaining receivables and payables between the net asset classes. The University has sufficient unrestricted funds to cover the receivables and payables, as applicable, of the designated or restricted net assets.

Student, grant, and other receivables:

Student receivables are stated at the amount the University expects to collect from outstanding balances. The University provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its experience and other circumstances, which may affect the ability of students to meet their obligations. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Changes in the valuation allowance have not been material to the financial statements.

The University considers student receivable balances in excess of 90 days past due accounts. The University does not charge interest on past due balances. At June 30, 2017 and 2016, the University had balances in excess of 90 days of approximately $3,900,000 and $3,500,000, respectively.

Investments:

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

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

Note 1. Reporting Entity and Significant Accounting Policies (Continued)

Investments: (Continued)

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

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

Land, buildings, and equipment:

Land, buildings, and equipment are stated at cost at the date of acquisition or at fair value at the date of gift, less accumulated depreciation and amortization. Depreciation and amortization are recorded using the straight-line method over the estimated useful lives of the assets. During 2017, the University changed the estimated useful lives of certain building improvements from 50 to 25 years and certain furniture and equipment from 4, 5, and 7 to 5, 7, and 10 years, respectively. This change was accounted for on a prospective basis and resulted in an increase to depreciation expense, and a decrease to unrestricted net assets of approximately $1.4 million for the year end June 30, 2017.

Equipment is removed from the records and any gain or loss is recognized at the time of disposal. Expenditures for new construction, major renewals, replacements, and equipment exceeding $5,000 are capitalized.

Collections are recorded at cost if purchased and at fair value at date of accession if donated. Gains and losses from deaccessions are reported as changes in net assets based on the absence or existence and nature of donor-imposed restrictions. Collection items are protected, kept unencumbered, cared for, and preserved.

The University recognizes costs related to planned major maintenance activities as costs are incurred.

Asset retirement obligations (AROs):

An *asset retirement obligation* is a legal liability to the University for the cost of retiring a tangible long-lived asset (e.g., building containing asbestos) that results from the acquisition, construction, or development and/or the normal operation of the long-lived asset. A conditional ARO is a legal obligation in which the timing and/or method of retirement are conditional on a future event that may or may not be within the control of the University. To reasonably estimate these liabilities, the University must be able to determine (1) the settlement date – the estimated date or range of dates that disposal is anticipated or legally required, and (2) the settlement method – how the disposal will take place. The University follows the policy of recording the fair value of such liabilities when they can be reasonably estimated.

Accrued compensation:

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

Student and other deposits:

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

Note 1. Reporting Entity and Significant Accounting Policies (Continued)

Notes receivable, government student loans, and U.S. government grants refundable:

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

Split-interest agreements:

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

The related assets are included in the statement of financial position as investments and the related liabilities are included in accounts payable, accruals, and other liabilities. The fair value of funds held in trust by others is determined by the present value of estimated future cash flows.

Net asset classifications of institutional funds:

The University holds institutional funds, principally endowment funds, subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA). "Endowment" is a commonly used term to refer to the resources, including trusts and annuities, that have been restricted by the donor or designated by the Board that will be invested to provide future revenue to support the University's activities. The University's endowment consists of approximately 75-85 individual funds established for a variety of purposes. As titled, UPMIFA provides guidance and applicable regulations relative to the management of applicable funds.

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

Interpretation of UPMIFA

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

Note 1. Reporting Entity and Significant Accounting Policies (Continued)

Net asset classifications of institutional funds: (Continued)

Interpretation of UPMIFA (Continued)

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

Return Objectives and Risk Parameters

The University has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those of donor-restricted funds that organizations must hold in perpetuity or for a donor-specified period as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of a benchmark in excess of the CPI plus 4.0% while assuming a moderate level of investment risk. The University expects its endowment funds to provide an average annual rate of return of approximately 4.0% plus inflation (measured as the consumer price index). Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The University targets a diversified asset allocation on its endowment investments that places emphasis on global equities, global fixed income securities, real assets, and diversifying assets in the following ranges to achieve its long-term return objectives within prudent risk constraints.

	Minimum	Target	Maximum
Global equity	50%	60%	70%
Global fixed income	5%	20%	40%
Real assets	- %	10%	20%
Diversifying strategies	- %	10%	20%
Cash and cash equivalents	- %	- %	10%

Note 1. Reporting Entity and Significant Accounting Policies (Continued)

Net asset classifications of institutional funds: (Continued)

Spending Policy and How the Investment Objectives Relate to Spending Policy

On University-held investments, the University employs a total return endowment spending policy that establishes the amount of endowment investment return that is available to support current needs and restricted purposes. This policy is designed to insulate program spending from capital market fluctuations and to increase the amount of return that is reinvested in the corpus of the fund in order to enhance its long-term value. For the years ended June 30, 2017 and 2016, the Board-approved spending formula for the endowment provided for an annual spending rate of not more than 4.0% of the average of the prior three years' June 30 endowment market values, except on those funds that were "underwater." If cash yield (interest and dividends) is less than the spending rate, realized gains can be used to make up the deficiency. Any income in excess of the spending rate is to be reinvested in the endowment. The spending rate on funds held in trust by others is determined by the respective trust document or trust administrator.

***Funds with Deficiencies* ("Underwater" Funds)**

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the University to retain as a fund of perpetual duration. Deficiencies of this nature are reported in unrestricted net assets. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level are classified as an increase in unrestricted net assets. There were no such deficiencies as of June 30, 2017 and 2016.

Contributions:

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

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

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

Note 1. Reporting Entity and Significant Accounting Policies (Continued)

Contributions: (Continued)

Contributions of land, buildings, and equipment, without donor stipulations concerning the use of such long-lived assets, are reported as revenues of the unrestricted net asset class. Contributions of cash or other assets to be used to acquire land, buildings, and equipment with such donor stipulations are reported as revenues of the temporarily restricted net asset class; the restrictions are considered to be released over the estimated useful lives of the long-lived assets using the University's depreciation policies.

Operations:

Operating activities in the statements of activities illustrate a measure of how the University is maintaining the resources available for its "current operations." Operations reflect all transactions increasing or decreasing unrestricted net assets. Temporarily restricted net assets released from restrictions which satisfy an operating purpose are also classified as operating.

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

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

Advertising costs:

The University follows the policy of charging advertising costs to expense as incurred.

Fair value measurements:

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

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

Note 1. Reporting Entity and Significant Accounting Policies (Continued)

Fair value measurements: (Continued)

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

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

The estimated fair value for specific groups of financial instruments is presented within the notes applicable to such items. If not specifically presented, fair value is estimated to approximate the related carrying value. It was not considered practical to determine fair value of notes receivable, from students under the U.S. government loan programs and related government advances because the notes receivable are non-marketable and can only be assigned to the U.S. government or its designees. These installment notes are due over terms of ten years, with interest at 5% per annum, and are carried at face value. Based upon current borrowing rates available to the University for similar borrowings, the carrying value of long-term debt approximates fair value.

Credit risk concentrations:

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

Income taxes:

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

Reclassifications:

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

Subsequent events:

Subsequent events were considered through September 6, 2017, the date the financial statements were available to be issued.

Note 2. Receivables and Other Assets

Receivables and other assets consist of the following as of June 30:

	2017	2016
Student receivables	$ 7,147,428	$ 6,233,560
Less allowance for doubtful accounts	(1,532,153)	(1,434,035)
	5,615,275	4,799,525
Prepaid expenses	1,636,069	1,415,899
Amounts due from various government agencies	389,975	565,714
Conference center receivable	90,179	88,939
Miscellaneous receivables	247,332	233,950
Cash value of life insurance	339,360	316,594
Timeshare	11,000	11,000
	$ 8,329,190	$ 7,431,621

Note 3. Contributions Receivable

Contributions receivable consist of the following as of June 30:

	2017	2016
Expected to be collected in:		
Less than one year	$ 1,037,341	$ 456,613
One to five years	1,677,443	18,500
More than five years	1,401,000	-
	4,115,784	475,113
Less:		
Discount to net present value at 1.55% – 1.60%	(257,135)	(40,836)
Allowance for uncollectible contributions	(100,000)	(100,000)
	$ 3,758,649	$ 334,277

All contributions are classified in the temporarily restricted net asset class.

Contributions received from two donors comprised 61% and 54% of total contributions for the year ended June 30, 2017 and 2016, respectively, as reported on the statement of activities. Additionally, gross contributions receivable from one donor and three donors accounted for 78% and 44% of total gross contributions receivable as of June 30, 2017 and 2016, respectively.

Note 4. Investments and Funds Held in Trust by Others

Investments and funds held in trust by others are comprised of the following as of June 30:

	2017		2016	
Equity securities:				
Mutual funds:				
U.S. small to large cap	$ 8,399,442	23.4%	$ 6,748,129	21.9%
International - developed and emerging markets	12,883,983	35.9	6,394,811	20.8
Other investments in common stock	-	-	5,062,180	16.5
Total equity securities	21,283,425	59.3	18,205,120	59.2
Fixed income securities:				
U.S. treasuries/government agencies securities	2,262,928	6.3	3,297,225	10.7
Corporate obligations	6,463,655	18.0	3,244,675	10.5
Mutual funds	428,153	1.2	2,937,920	9.6
Total fixed income securities	9,154,736	25.5	9,479,820	30.8
Other:				
Mutual funds, various asset allocation classes	-	-	989,730	3.2
Alternatives – REIT and commodities	2,255,679	6.3	1,330,360	4.4
Cash and cash equivalents	3,168,104	8.9	751,692	2.4
Total other	5,423,783	15.2	3,071,782	10.0
	35,861,944	100.0%	30,756,722	100.0%
Clare Boothe Luce – funds held in trust by others	7,252,756		6,699,176	
	$ 43,114,700		$ 37,455,898	

Note 4. Investments and Funds Held in Trust by Others (Continued)

The ownership of investments and funds held in trust by others for each class of net assets as of June 30 is as follows:

	2017	2016
Unrestricted	$ 16,636,798	$ 13,371,091
Temporarily restricted	17,007,196	15,164,756
Permanently restricted	9,470,706	8,920,051
	$ 43,114,700	$ 37,455,898

The market values of investment asset classifications are as follows as of June 30:

	2017	2016
Endowment	$ 43,041,471	$ 37,387,355
Operating and plant	73,229	68,543
	$ 43,114,700	$ 37,455,898

The University has various investment vehicles that have carrying values that fluctuate with the financial markets. As a result, the value of such investments may have declined from year end values and that decline could be material.

Investments and funds held in trust by others activity for the years ended June 30 are reflected in the table below:

	2017	2016
Investments and funds held in trust by others, beginning	$ 37,455,898	$ 37,554,979
Gifts available for investment and investment income reinvestment	380,086	1,918,112
	37,835,984	39,473,091
Investment returns		
Dividends and interest	1,088,536	1,263,514
Investment return, net of amount available to support current operations per statements of activities	3,478,940	(1,994,535)
Less cash yield in excess of spending	(537,754)	(93,383)
Net realized and unrealized gains (losses)	2,941,186	(2,087,918)
Total return on investments	4,029,722	(824,404)
Transfer of cash into quasi endowment	1,800,000	-
Amounts appropriated for operations, net transfers to operational accounts and other activity	(551,006)	(1,192,789)
Investments and funds held in trust by others, ending	$ 43,114,700	$ 37,455,898

Investment returns for the years ended June 30, 2017 and 2016 are net of related management and custodial expenses of $99,646 and $92,992, respectively.

Note 4. Investments and Funds Held in Trust by Others (Continued)

The following summarizes long-term investment return and its classification in the statement of activities for the years ended June 30:

	2017	2016
Endowment investment income, net of expenses	$ 1,087,131	$ 1,259,542
Net realized and unrealized gains (losses) on investments	2,935,153	(2,078,761)
Endowment total return	4,022,284	(819,219)
Other investment income, net of expenses	1,405	3,972
Other net realized and unrealized gains (losses) on investments	6,033	(9,157)
Total return on investments	$ 4,029,722	$ (824,404)

Included in the statements of activities as follows:

	2017	2016
Amount available to support current operations in accordance with the University's and the Henry Luce Foundation, Inc.'s spending policies	$ 543,344	$ 1,175,316
Other amounts available to support current operations included in investment income, other	7,438	(5,185)
Investment return, net of amount available to support current operations	3,478,940	(1,994,535)
	$ 4,029,722	$ (824,404)

<u>Clare Boothe Luce Fund</u>:

The University is the beneficiary of an original endowment bequest of a $3 million share of the Clare Boothe Luce Fund. The share remains in a trust, administered by the Henry Luce Foundation, Inc. (the "Foundation"), subject to normal prudent investment standards. Accordingly, the original share of the bequest and unrealized gains are included in permanently restricted net assets, and income thereon is included in temporarily restricted net assets. Under the endowment terms, the income distribution is to be used to encourage women to enter, study, graduate, and teach in certain scientific and technological fields in which they have been historically underrepresented.

Note 4. Investments and Funds Held in Trust by Others (Continued)

Clare Boothe Luce Fund: (Continued)

According to the will, each designated participating institution (14 in total), including the University, is to receive the income due to it in each calendar year. The income distribution received is placed in an interest-bearing escrow account by the University. Transactions in the escrow account included in investments as cash and cash equivalents during the years ended June 30 are summarized below:

	2017	2016
Opening balance, beginning	$ 191,712	$ 270,910
Investment earnings on escrow account	(81)	18
Cash received	303,000	335,000
Approved expenditures	(324,198)	(414,216)
Closing balance, ending	$ 170,433	$ 191,712

Note 5. Land, Buildings, and Equipment

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

	Estimated Useful Life	2017	2016
Land improvements	10-20 years	$ 3,583,957	$ 3,583,957
Buildings and improvements	10-50 years	131,228,102	124,723,063
Furniture and equipment	4-10 years	27,725,343	27,812,883
Library collection	10 years	17,063,083	16,611,579
Donated assets	4-10 years	61,396	61,396
Collections	50 years	219,140	219,140
Leased equipment	1-5 years	2,378,249	1,817,915
		182,259,270	174,829,933
Accumulated depreciation and amortization		(77,030,753)	(71,740,167)
		105,228,517	103,089,766
Land		7,408,448	7,408,448
Construction in progress		68,639,357	30,890,571
		$ 181,276,322	$ 141,388,785

As of June 30, 2017 and 2016, construction in progress was primarily for the Ballston project, estimated to have total cost of approximately $75.0 million. The project is funded with debt totaling approximately $69.6 million and contributions and accumulated funds from prior surpluses. As of June 30, 2017, the University has remaining a commitment of approximately $2.4 million under the original contracts.

Note 6. Obligation to Arlington County

In 2010, the University entered into a 15 year agreement with Arlington County that allows the University the use of an athletic field for games and practices for its intercollegiate teams in exchange for capital and operating contributions. Total capital contributions due to Arlington County, included in accounts payable, accruals, and other liabilities on the statement of financial position as of June 30, 2017 and 2016, totaled $-0- and $170,000, respectively.

Also, beginning July 2010, annual operating contributions of $14,000, adjusted annually for the Consumer Price Index, are required for the duration of the agreement.

Note 7. Debt

The University's debt consists of the following as of June 30:

	2017	2016
The University borrowed funds by issuing tax-exempt bonds through the Virginia College Building Authority Educational Facilities Revenue and Refunding Bonds (the "Authority") (Series 2015A), interest is payable semi-annually with rates ranging from 4.0% to 5.0% over the term of the bond (5.0% and 4.0% at June 30, 2017 and 2016, respectively). Principal maturities range from $1,100,000 to $3,865,000 through July 2045. The University has a promissory note with the Authority in the principal amount of the bonds. Secured by a deed of trust on certain real property.	$ 62,595,000	$ 63,695,000
The University borrowed funds by issuing tax-exempt bonds through the Virginia College Building Authority Educational Facilities Revenue Bonds (the "Authority") (Series 2015B)(Green Bonds), interest is payable semi-annually with rates ranging from 5.0% to 5.25% over the term of the bond (5.0% to 5.25% at June 30, 2017 and 2016). Principal maturities range from $1,030,000 to $35,915,000 beginning July 2019 through July 2045. The University has a promissory note with the Authority in the principal amount of the bonds. Secured by a deed of trust on certain real property.	66,815,000	66,815,000
Note payable with a bank payable with monthly payments of interest-only at 3.75% through June 2020. Beginning July 2020, monthly payments will be $70,995 including interest of 4.15% through June 2025. The note is secured by a Deed of Trust on property located at 1008 N. Glebe Road and was obtained by the LLC.	18,200,000	18,200,000

Note 7. Debt (Continued)

	2017	2016
Note payable with a bank payable with monthly payments of interest-only at 4.75% through June 2018. Beginning June 2018, monthly payments will be $11,112 including interest of 4.75% through June 2044. The note is secured by a Deed of Trust on a house.	2,000,000	2,000,000
Capital lease obligations, due in monthly and quarterly installments with total annual payments of approximately $380,000 including interest at rates ranging up to 5.61%, maturing through January 2022, collateralized by equipment with a net book value of $1,159,700 and $889,172 at June 30, 2017 and 2016, respectively.	1,092,387	861,299
	150,702,387	151,571,299
Original issue premium on Authority debt	4,271,432	4,423,936
Unamortized deferred loan costs	(2,805,196)	(2,903,778)
	$ 152,168,623	$ 153,091,457

Debt matures as follows:

	Debt	Amortization of Premium	Amortization of Deferred Loan Costs	Total
Year ending June 30:				
2018	$ 1,496,454	$ 152,504	$ (100,111)	$ 1,548,847
2019	1,601,306	152,504	(100,111)	1,653,699
2020	2,637,058	152,504	(100,111)	2,689,451
2021	2,805,776	152,504	(100,111)	2,858,169
2022	2,862,866	152,504	(100,111)	2,915,259
2023 and thereafter	139,298,927	3,508,912	(2,304,641)	140,503,198
	$ 150,702,387	$ 4,271,432	$ (2,805,196)	$ 152,168,623

Note 7. Debt (Continued)

In 2017, the University retroactively adopted the requirements in FASB ASC 835-30 to present deferred loan costs as a reduction of the carrying amount of the debt rather than as an asset. Debt as of June 30, 2016 was previously reported in the statement of financial position as $155,995,235 with the associated $2,903,778 unamortized deferred loan costs included in assets. Amortization of the deferred loan costs is reported as interest expense in the statement of activities. Amortization is calculated on the straight-line basis over the term of the related financing agreement.

The Authority's debt along with the LLC's note payable includes various covenants comprised of certain financial ratios and benchmarks. As of June 30, 2017, the University is not aware of any violations of the covenants.

As part of the note payable obtained by the LLC in 2015, a certain portion of the proceeds are being held in reserve. A total of $2,283,798 and $4,568,000 at June 30, 2017 and 2016, respectively, is being held in escrow and is released directly to Arlington County to cover certain joint construction costs associated with the Ballston development including the Ballston Pond improvement project and the entrance to the Ballston-MU Metrorail station. In addition, $3,700,000 has been held for the initial earn-out funding and interest reserve in case of default. The total of these funds at June 30, 2017 and 2016 is $5,983,798 and $8,268,000, respectively, and is included in funds held in reserves by debt agreement.

Under the terms of the Series 2015A and Series 2015B bond agreements, the University is required to set aside funds for principal and interest payments. The total amount set aside at June 30, 2017 and 2016 for the Series 2015A bond is $4,290,891 and $4,286,865, respectively. The total amount set aside at June 30, 2017 and 2016 for the Series 2015B bond is $6,380,521 and $9,759,300, respectively. These amounts are included in cash and cash equivalents.

Interest expense for the years ended June 30 is as follows:

	2017	2016
Expensed	$ 6,227,787	$ 6,200,048
Capitalized, excluding interest income netted	942,403	495,390
	$ 7,170,190	$ 6,695,438

The University has a $2.5 million unsecured line of credit with a local bank. This line of credit bears interest at the 30-day London Interbank Offered Rate (LIBOR) plus 2.25% (3.42% and 2.72% at June 30, 2017 and 2016, respectively). There were no outstanding borrowings under this arrangement as of June 30, 2017 and 2016. The line expires in May 2018.

Note 8. Net Assets

Net assets as of June 30 consist of the following:

	2017	2016
Unrestricted		
Funds functioning as endowment	$ 16,563,569	$ 13,302,548
Investment in land, buildings, and equipment, net of debt	33,991,470	38,474,318
University contributions to student loan funds	1,083,027	837,436
Undesignated	21,261,962	15,332,048
	72,900,028	67,946,350
Temporarily restricted		
Available for the following purposes or periods:		
Financial aid, general operations, and maintenance or investment in land, buildings, and equipment*	14,303,014	11,689,963
Term endowments	15,020,623	13,419,195
Accumulated endowment investment return, net of amounts spent – restricted for financial aid and operations	1,994,708	1,751,531
	31,318,345	26,860,689
Permanently restricted		
Restricted in perpetuity, the income from which is expendable to support the following:		
Financial aid	2,217,950	2,220,875
Programs and operations	7,252,756	6,699,176
	9,470,706	8,920,051
Total net assets	$ 113,689,079	$ 103,727,090

* Contributions for investment in the physical plant totaling $9,819,146 and $11,461,875 as of June 30, 2017 and 2016, respectively, are being released over the depreciable life of the related plant asset. There is an amount due to unrestricted from temporarily restricted totaling $(474,000) and $2.6 million at June 30, 2017 and 2016, respectively.

Note 9. Tuition and Fees, Net of Scholarship Allowances

Tuition and fees include regular session tuition for the University's undergraduate and graduate regular and summer sessions, as well as miscellaneous fees such as lab fees and instructional materials fees directly related to instruction for the years ended June 30:

	2017		2016	
Tuition and fees, undergraduate	$ 67,959,075	100.0%	$ 64,848,537	100.0%
Less scholarship allowances:				
Non-funded	(19,595,704)	(28.8)	(18,126,315)	(28.0)
Funded	(791,722)	(1.2)	(781,083)	(1.2)
	(20,387,426)	(30.0)	(18,907,398)	(29.2)
Tuition and fees, undergraduate, net	47,571,649	70.0%	45,941,139	70.8%
Tuition and fees, graduate	18,679,748		17,684,376	
Less scholarship allowances, non-funded	(339,795)		(356,619)	
Tuition and fees, graduate, net	18,339,953		17,327,757	
Total tuition and fees, net	$ 65,911,602		$ 63,268,896	

	2017		2016	
Tuition and fees:				
Undergraduate	$ 67,959,075	78.4%	$ 64,848,537	78.6%
Graduate	18,679,748	21.6	17,684,376	21.4
Total tuition and fees	$ 86,638,823	100.0%	$ 82,532,913	100.0%
Scholarship allowances:				
Undergraduate	$ (20,387,426)		$ (18,907,398)	
Graduate	(339,795)		(356,619)	
Total scholarship allowances	$ (20,727,221)		$ (19,264,017)	

Financial aid is awarded to students based upon need and merit and is applied to billed tuition and fees. Financial aid does not include payments made to students for services rendered to the University. However, the University does participate in work study programs; these expenses, which totaled $357,779 and $306,406 for the years ended June 30, 2017 and 2016, respectively, are included in the appropriate functional expense categories on the statement of activities. Of these amounts, the federal government contributed $268,334 and $269,515 for the years ended June 30, 2017 and 2016, respectively.

Note 10. Net Assets Released from Restrictions and Reclassifications

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

	2017	2016
Operating:		
Financial aid and scholarships (funded)	$ 693,576	$ 804,216
General operations and maintenance	1,322,226	1,878,169
Buildings and equipment	324,808	293,829
Expiration of time restrictions	164,000	-
	2,504,610	2,976,214
Non-operating:		
Reclassification	1,800,000	(63,851)
	$ 4,304,610	$ 2,912,363

Note 11. Expenses

Expenses incurred for the years ended June 30 are as follows:

	2017		2016	
Salaries and wages	$ 36,804,727	43.2%	$ 37,480,714	45.7%
Employee benefits, including payroll taxes	8,011,745	9.4	8,630,376	10.5
	44,816,472	52.6	46,111,090	56.2
Depreciation and amortization	6,054,477	7.1	4,692,827	5.7
Interest	6,227,787	7.3	6,200,048	7.6
Dining	4,082,923	4.8	3,819,648	4.7
Maintenance and repairs	2,645,108	3.1	2,902,296	3.5
Utilities	1,177,123	1.4	1,210,185	1.5
Housekeeping	1,154,956	1.4	1,176,675	1.4
Supplies	709,441	0.8	690,517	0.8
Postage and printing	829,036	1.0	653,457	0.8
Rent	2,809,077	3.3	2,583,521	3.2
Dues, subscriptions, and books	1,948,643	2.3	1,877,326	2.3
Insurance	505,487	0.6	574,216	0.7
Advertising	741,651	0.9	386,823	0.5
Travel	2,046,716	2.4	1,920,603	2.3
Other	9,427,786	11.0	7,162,543	8.8
	$ 85,176,683	100.0%	$ 81,961,775	100.0%
Program services	$ 68,997,539	81.0%	$ 66,695,269	81.4%
Support services	16,179,144	19.0	15,266,506	18.6
	$ 85,176,683	100.0%	$ 81,961,775	100.0%

Note 11. Expenses (Continued)

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

	2017			2016		
	Expenses Before Allocation	Total Expense Allocation	Final Allocated Expenses	Expenses Before Allocation	Total Expense Allocation	Final Allocated Expenses
Instruction	$ 27,070,058	$ 5,794,024	$ 32,864,082	$ 26,284,622	$ 5,586,219	$ 31,870,841
Academic support	11,902,030	1,739,602	13,641,632	12,159,025	1,372,977	13,532,002
Student services	6,090,155	4,323,145	10,413,300	5,955,333	4,063,815	10,019,148
Institutional support	14,808,540	1,370,604	16,179,144	13,771,968	1,494,538	15,266,506
Auxiliary services	9,377,240	2,701,285	12,078,525	9,104,469	2,168,809	11,273,278
Operations and maintenance of physical plant	3,646,396	(3,646,396)	-	3,793,483	(3,793,483)	-
Depreciation and amortization	6,054,477	(6,054,477)	-	4,692,827	(4,692,827)	-
Interest expense	6,227,787	(6,227,787)	-	6,200,048	(6,200,048)	-
	$ 85,176,683	$ -	$ 85,176,683	$ 81,961,775	$ -	$ 81,961,775

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

	2017	2016
Instruction	36.4%	38.0%
Academic support	10.9	9.3
Student services	27.1	27.7
Institutional support	8.6	10.2
Auxiliary services	17.0	14.8
	100.0%	100.0%

Fundraising costs totaled $1,087,215 and $911,782 for the years ended June 30, 2017 and 2016, respectively.

Note 12. Employee Benefits

Employees of the University are eligible to participate in the contributory pension and retirement plans administered by the Teachers Insurance and Annuity Association and College Retirement Equities Fund. Under these defined contribution plans, contributions are fully vested, and there are no unfunded past service costs. Participating employees under 50 may voluntarily contribute up to a maximum of $18,000 of their base salary. Participating employees over 49 may voluntarily contribute up to a maximum of $24,000 of their base salary. Eligible employees may also voluntarily contribute certain catch-up contributions. The University contributed 8.0% for the years ended June 30, 2017 and 2016 of the participant's base salary. The University's contributions to the plans were $2,058,703 and $2,177,404 for the years ended June 30, 2017 and 2016, respectively. The University does not provide any other postretirement benefits to its employees.

Note 12. Employee Benefits (Continued)

Social Security and Medicare taxes expensed by the University were $2,444,138 and $2,493,885 for the years ended June 30, 2017 and 2016, respectively.

The University established an unfunded and unsecured, nonelective, nonqualified deferred compensation plan for a key employee. In order to defer compensation, the employee is required to perform five years of continuous service for the University extending through September 30, 2018. The deferral amount is the greater of $31,500 or an annually deferred amount based on a percentage of salary. For the years ended June 30, 2017 and 2016, $32,300 and $31,815, respectively, were deferred under this plan.

Note 13. Commitments and Contingencies

Ballston Center Campus Redevelopment:

The University has undertaken the renovation and redevelopment of its Ballston Center Campus. The redevelopment has included: 1) demolishing the existing building on this property, 2) subdividing the property, 3) establishing a ground lease for part of the property where a residential building will be built by an unrelated third-party consisting of 15 stories, 267 apartments, 3000 square foot of retail space and 286 parking spaces, and 4) building an academic building on the remaining property consisting of 9 stories, 3 leased to third-party tenants and 6 used by the University for classrooms, conference space, offices, computer labs, and other academic purposes. During 2017 and 2016, the University and/or the LLC had several transactions related to the redevelopment included in the financial statements as summarized below.

- In 2015, the University executed a 99-year ground lease agreement with an unrelated third-party for the portion of the Ballston land where the residential building is being built. Details of the lease are in Note 16, Ground Lease Agreement. A new entity, Marymount NBG Ground Lessor LLC (the "LLC") was formed and assigned all the ground lease activity. The LLC's activities are consolidated with the University's activities for financial reporting purposes.

- In 2015, the University entered a development agreement with the unrelated third-party to provide development management services to the University for construction of the academic building.

- In 2015, the University borrowed funds under a bond financing arrangement with the Virginia College Building Authority (Series 2015A) totaling $65.01 million to refinance other debt arrangements (which cleared various debt covenants) and provided funds for various plant projects and deferred maintenance.

- In 2015, the University sold the land subject to the ground lease to the LLC. The LLC then borrowed funds from a bank totaling $18.20 million with the land and the ground lease as collateral. Of these funds, $9.42 million was set up in accordance with the debt arrangement as reserves for joint construction costs on the residential building and in case of default; $349,972 was for deferred loan costs; and, the remaining $8.43 million is to be used for construction of the residential building. See Note 7, Debt, for other details.

Note 13. Commitments and Contingencies (Continued)

Ballston Center Campus Redevelopment: (Continued)

- In 2015, the University entered into a contract for the original contract sum of $39.60 million plus current change orders of $786,000 (the base building cost) with a construction company to build the academic building. In 2017, the University entered into a contract for the original contract sum of $9.168 million plus current change orders of $33,000 with an interior contractor to outfit the interior of the academic building. The academic building has a total estimated cost of $75.00 million, consisting of the base building cost plus other improvements, environmental remediation and utilities/undergrounding, $41.98 million; University and tenant improvements, $15.89 million; other soft costs, $14.80 million; and, pre-development and site plan costs, $2.33 million. See Note 5, Land, Buildings, and Equipment for other details.

- In 2016, the University borrowed funds under a bond financing arrangement with the Virginia College Building Authority (Series 2015B)(Green Bonds) totaling $66.82 million to finance the construction and equipping of the 9 story academic building to be owned by the University, to finance the debt service for and capitalized interest on the bonds, and to finance the issuance costs associated with the bonds.

Operating leases:

The University leased office and classroom space in Reston, Virginia, under a lease that expired February 28, 2017. In 2017, this lease was extended for an additional 18 months expiring August 31, 2018. The total expense for these leases was $352,542 and $361,050 for years ended June 30, 2017 and 2016, respectively.

The University also leases office and classroom space in Arlington, Virginia, under a lease that extends for a period of 36 months expiring December 31, 2017 for a portion of the space. The lease on the remaining space expires June 30, 2027. The total amount paid for this lease was $3,233,300 and $3,034,617 for the years ended June 30, 2017 and 2016, respectively. Of these amounts, $1,851,000 and $1,801,459 for the years ended June 30, 2017 and 2016, respectively, have been included in the Ballston construction in process with the remaining amounts being expensed.

The University also has agreements for office equipment, computer and equipment maintenance, and automobiles. Total expense related to these agreements was $557,240 and $474,604 for the years ended June 30, 2017 and 2016, respectively.

The University has entered into a lease agreement with a local high school for the redevelopment and use of a baseball stadium. Under this agreement, the University made two upfront lease installments of $200,000 each. These payments have been recorded as an asset and are amortized over the 15 year lease term which began during the year ended June 30, 2013.

Note 13. Commitments and Contingencies (Continued)

Operating leases: (Continued)

The total future minimum rental payments under operating leases as of June 30, 2017, are as follows:

Year ending June 30:	
2018	$ 2,734,619
2019	1,520,985
2020	1,499,393
2021	1,540,918
2022	1,583,191
2023 and thereafter	8,593,451
	$ 17,472,557

Other commitments and contingencies:

Effective July 1, 2016, the University entered into a new management agreement with its food service provider expiring June 30, 2026. As part of this agreement, the University will receive investments for renovations from the food service provider not to exceed $2,500,000 in the following installments: fiscal year 2017, $750,000; fiscal year 2018, $1,250,000; and fiscal year 2022, $500,000. The investments will be recognized as revenue and amortized on a straight-line basis through June 30, 2026 with the University required to repay any unamortized amounts if the agreement is terminated. The agreement also resets the amortization period of previous investments received from the food service provider. The unamortized amounts as of June 30, 2017 and 2016 are $564,013 and $609,629, respectively, and are included in deposits and deferred revenue on the statement of financial position.

Also included in the management agreement with the food service provider is a termination fee clause that states, if the agreement is terminated for any reason prior to June 30, 2026, the University will pay the food service provider a fee of $17,000 for each month remaining in the term through June 30, 2026 as of the effective date of the termination.

The University has entered into a contract through June 30, 2018, to operate and provide services for the bookstore of the University. The contract can be cancelled at any time with proper written notice before the agreement expires with a reimbursement by the University of up to $75,000 of unamortized capital expenditures. In the event of the cancellation of the contract, the University, or its successor contractor, will be required to purchase the rental inventory outstanding at the time of the transition at 50% of the retail price. On an annual basis, the University will receive the greater of $185,000 or the applicable percentage of gross sales, as provided in the contract agreement, for the bookstore services.

The University has a self-insurance plan for losses related to employee health benefits. The University is obligated for claims and payments; however, a portion of the cost is recovered from participating employees. Stop loss provisions cover individual claims in excess of $125,000 and aggregate claims in excess of 125% of expected claims. Expense related to this self-insurance plan were approximately $2,220,000 and $1,301,000 in claims, reinsurance charges, and related fees for 2017 and 2016, respectively. At June 30, 2017 and 2016, the University accrued approximately $185,000 and $211,000, respectively, for estimated incurred but not reported claims.

Note 13. Commitments and Contingencies (Continued)

Other commitments and contingencies: (Continued)

The University is unable to estimate the range of settlement dates and the related probabilities for certain asbestos remediation asset retirement obligations (AROs). These conditional AROs are primarily related to encapsulated asbestos that is not subject to abatement unless the buildings containing them are demolished and non-encapsulated asbestos that the University would remediate only if it performed major renovations of the applicable buildings. Because these conditional obligations have indeterminate settlement dates, the University could not develop a reasonable estimate of their fair values. The University will continue to assess its ability to estimate fair values at each future reporting date. The related liability, if any, will be recognized once sufficient additional information becomes available.

From time to time, the University is named as a party in litigation arising in the normal course of business. Management believes that the outcome of any such litigation will not result in a material impact on the financial position or the change in net assets of the University.

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

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

Note 14. Endowment

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

	2017	2016
Assets:		
Investments	$ 35,788,714	$ 30,688,179
Funds held in trust by others	7,252,757	6,699,176
Due from other funds	8,135	5,970
Total assets	$ 43,049,606	$ 37,393,325
Net assets:		
Unrestricted:		
Quasi endowment	$ 16,563,569	$ 13,302,548
Temporarily restricted:		
Term endowments	15,020,623	13,419,195
Accumulated endowment investment return, net of amounts spent restricted for financial aid and operations	1,994,708	1,751,531
	17,015,331	15,170,726
Permanently restricted:		
Endowment – college held	2,217,950	2,220,875
Funds held in trust by others	7,252,756	6,699,176
	9,470,706	8,920,051
Total net assets	$ 43,049,606	$ 37,393,325

The University's endowment consists of the following net assets as of June 30:

	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Funds held by the University								
Donor-restricted	$ -	$ 17,015,331	$ 2,217,950	$ 19,233,281	$ -	$ 15,170,726	$ 2,220,875	$ 17,391,601
Board-designated	16,563,569	-	-	16,563,569	13,302,548	-	-	13,302,548
Donor-restricted funds held in trust by others	-	-	7,252,756	7,252,756	-	-	6,699,176	6,699,176
Total	$ 16,563,569	$ 17,015,331	$ 9,470,706	$ 43,049,606	$ 13,302,548	$ 15,170,726	$ 8,920,051	$ 37,393,325

Note 14. Endowment (Continued)

Changes in the University's endowment as of June 30 are as follows:

	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning	$ 13,302,548	$ 15,170,726	$ 8,920,051	$ 37,393,325	$ 13,717,800	$ 14,044,766	$ 9,712,944	$ 37,475,510
Investment return:								
Investment income	485,238	601,893	-	1,087,131	441,141	818,401	-	1,259,542
Realized and unrealized gains (losses)	975,783	1,405,790	553,580	2,935,153	(643,395)	(705,124)	(730,242)	(2,078,761)
Total investment return	1,461,021	2,007,683	553,580	4,022,284	(202,254)	113,277	(730,242)	(819,219)
Contributions	-	380,266	(2,925)	377,341	-	1,914,248	1,200	1,915,448
Miscellaneous	-	-	-	-	(3,098)	-	-	(3,098)
Appropriation for expenditure	-	(543,344)	-	(543,344)	(209,900)	(965,416)	-	(1,175,316)
Reclassifications	1,800,000	-	-	1,800,000	-	63,851	(63,851)	-
Endowment net assets, ending	$ 16,563,569	$ 17,015,331	$ 9,470,706	$ 43,049,606	$ 13,302,548	$ 15,170,726	$ 8,920,051	$ 37,393,325

Note 15. Fair Value Measurements

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

	2017				2016			
	Fair Value	Level 1	Level 2	Level 3	Fair Value	Level 1	Level 2	Level 3
Financial assets:								
Investments:								
Equity securities	$ 21,283,425	$ 21,283,425	$ -	$ -	$ 18,205,120	$ 18,205,120	$ -	$ -
Fixed income	9,154,736	9,154,736	-	-	9,479,820	9,479,820	-	-
Mutual funds	-	-	-	-	989,730	989,730	-	-
Alternative investments	2,255,679	2,255,679	-	-	1,330,360	1,330,360	-	-
Cash and cash equivalents	3,168,104	3,168,104	-	-	751,692	751,692	-	-
Funds held in trust by others	7,252,756	-	-	7,252,756	6,699,176	-	-	6,699,176
Total financial assets	$ 43,114,700	$ 35,861,944	$ -	$ 7,252,756	$ 37,455,898	$ 30,756,722	$ -	$ 6,699,176

Note 15. Fair Value Measurements (Continued)

The following is a reconciliation of Level 3 investments for which significant unobservable inputs were used to determine fair value for the year ended June 30:

	2017	2016
Balance, beginning	$ 6,699,176	$ 7,429,418
Change in unrealized appreciation (depreciation)	553,580	(730,242)
Balance, ending	$ 7,252,756	$ 6,699,176

The fair values of investments in cash and cash equivalents and publicly traded investments in equities are determined based upon quoted market prices. The fair value of funds held in trust by others is determined by the University's percentage of the estimated market value of the assets held in trust by others.

Note 16. Ground Lease Agreement

The University entered into a ground lease agreement in 2015 with an unrelated third-party for the portion of the Ballston land to be used for a residential building. The lease will expire 99 years after the commencement date.

The lease calls for reduced rent for the first four years calculated as 50% of the annual rate of $1,050,000, or $525,000. After the first four years, the annual rent will be $1,050,000 adjusted annually through the expiration of the lease. The total rent payments received on this lease for the year ended June 30, 2017 and 2016 are $525,000 and $568,750, respectively; however, in accordance with accounting standards, rental income is recognized on a straight-line basis over the term of the lease. Rental income of $2,971,040 is included in ground lease rental income in the consolidated statement of activities for year ended June 30, 2017 and 2016.

The accumulated difference between rent payments received and rental income recorded in the consolidated statement of activities is included in ground lease receivable in the consolidated statement of financial position.

Note 17. Subsequent Events

The University has entered into an agreement to lease space in the new building on the Ballston campus to Starbucks Corporation. The lease became effective subsequent to year end with the completion of the construction of the building. The initial lease term is for ten years with the tenant having the option to extend the agreement for two consecutive five year periods. Base annual rent will be as follows:

Years 1-5	$	107,702
Years 6-10	$	118,472
Years 11-15 (extension term)	$	130,319
Years 16-20 (extension term)	$	143,351

As part of this lease agreement, the University will provide the tenant an improvement allowance of $135,000 after the tenant has satisfied certain conditions.

MARYMOUNT UNIVERSITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2017

Federal Grantor/Program Title	Federal CFDA Number	Total Federal Financial Assistance/ Student Loans Advanced
U.S. Department of Education:		
Student Financial Aid Programs:		
Federal Work-Study Program	84.033	$ 268,334
Federal Pell Grant Program	84.063	2,742,977
Federal Supplemental Educational Opportunity Grant Program	84.007	123,982
Federal Perkins Loan Program	84.038	73,700
Federal Direct Loan Program	84.268	33,735,628
Total U.S. Department of Education		36,944,621
National Science Foundation:		
NSF Cybersecurity Grant	47.076	533,081
Total National Science Foundation		533,081
Total Federal Awards		$ 37,477,702

(Continued)

MARYMOUNT UNIVERSITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2017

Note 1. Basis of Presentation

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

Student Financial Aid

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

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

Expenditures for federal student financial aid programs are recognized as incurred and include the federal share of students' FSEOG program grants and FWS program earnings, certain other federal financial aid for students, and administrative cost allowances, where applicable. Federal Pell grants as well as Direct Loans are recognized as agency transactions and are not recorded as expenditures in the financial statements. The College did not elect to use the 10% de minimis indirect cost rate.

Note 3. Federal Direct Loan Program

The University is responsible only for the performance of certain administrative duties with respect to its Federal Direct Loan program and, accordingly, these loans are not included in its financial statements. It is not practicable to determine the balance of loans outstanding to students and former students of the University under this program as of June 30, 2017.

Note 4. Federal Perkins Loan Program

Cumulative loans outstanding (net of principal repayments and cancellations), including the $73,700 of student loans advanced under the Federal Perkins Loan Program in 2017, total $746,975. There was no federal capital contribution for 2017.

BROWNEDWARDS
certified public accountants

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

To the Board of Trustees
Marymount University
Arlington, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Marymount University, which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 6, 2017.

Internal Control Over Financial Reporting

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

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

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

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Compliance and Other Matters

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

Purpose of this Report

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

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
September 6, 2017

BROWN EDWARDS
certified public accountants

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

To the Board of Trustees
Marymount University
Arlington, Virginia

Report on Compliance for a Major Federal Program

We have audited Marymount University's compliance with the types of compliance requirements described in *OMB Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017. The University's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

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

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

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<u>Report on Compliance for a Major Federal Program</u> (Continued)

Opinion on a Major Federal Program

In our opinion, Marymount University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2017.

<u>Report on Internal Control Over Compliance</u>

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

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

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

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

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
September 6, 2017

MARYMOUNT UNIVERSITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2017

A. SUMMARY OF AUDITOR'S RESULTS

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

   Student Financial Cluster

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

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

B. FINDINGS – FINANCIAL STATEMENT AUDIT

None.

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

None.

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

2016 C-1. <u>Incorrect Calculation of Title IV Funds Refunds</u> (Significant Deficiency), Department of Education, SFA Cluster

Criteria: The total number of calendar days in a payment period or period of enrollment includes all days within the period that a student was scheduled to complete, except that scheduled breaks of at least five consecutive days are excluded from the total number of calendar days in a payment period or period of enrollment and the number of calendar days completed in that period (34 CFR Section 668.22(f)(2)(i)).

Cause: The University's spring break was for the period March 5, 2016 through March 13, 2016, a nine consecutive calendar day period. However, the University did not consider one of the weekends and, thus, considered the break seven days instead of nine. Additionally, the University's Easter Holiday for the period March 24, 2016 through March 28, 2016 (a five consecutive calendar day period) was inadvertently not considered. Due to these errors, the University used seven days break for spring semester instead of fourteen.

Effect: Refunds were calculated incorrectly for the three students tested that withdrew during the spring 2016 semester. These students required refunds and, due to the incorrect number of days used for the calculation, the College refunded more than it should have.

Recommendation: We recommend that the number of calendar days in a period of enrollment be calculated by a staff member in the Financial Aid Department and then reviewed and approved by the Director of Financial Aid.

Management's Response: *The University catalog publishes the dates for both the fall and spring breaks. As pointed out by the auditor, these dates were published differently for spring vs. fall and as a result, it did not include the weekend dates for spring. We will no longer use the published dates in the University catalog. We, as recommended, will have one staff member always manually count the days involved, and the Director will review and approve the calculation effective immediately from the auditor notification.*

Current Status: *Condition corrected in the current year.*