2014-15 Financial Report

Virginia Tech
Invent the Future®

MESSAGE FROM VICE PRESIDENT FOR FINANCE AND CHIEF FINANCIAL OFFICER - M. DWIGHT SHELTON JR.

University in Action: Service through Solutions

On October 17th, 2014, Virginia Tech installed Dr. Timothy D. Sands as the 16th president of the university. In his installation speech, the new president recognized Virginia Tech's academic excellence, strength of community, and commitment to service, and he laid out a bold vision for Virginia Tech. This vision challenges the university community to be forward looking to the year 2047, the 175th anniversary of Virginia Tech. Dr. Sands' aspirations for Virginia Tech include being among the top 30 U.S. research institutions, a top-100 global research institution, and a global leader in addressing the challenges of the 21st century. His goals also include expanding opportunities for students to participate in internships and study abroad experience, promoting experiential learning programs, and maintaining affordability for a Virginia Tech education.

The university has embarked upon a strategic visioning project entitled "Beyond Boundaries". Building upon the 2012-2018 strategic plan, "A Plan for New Horizon", this project includes two interrelated goals: advancing our status as an internationally recognized, global land-grant institution; and strategically addressing the challenges and opportunities presented by the changing landscape of higher education. Organized under four thematic areas – advancing the land grant institution, preparing students for the world in which they live and work, discovering new funding models, and envisioning the campus of the future – the one-year visioning process will inform the university's long-range future and next strategic plan.

Virginia Tech is in an exciting period in its history as the university explores future opportunities and challenges. The university's financial and operational areas stand strong to support and invest in the vision and initiatives. In the past decade the funding model for public higher education has been evolving, with gradual reductions in state funding and corresponding increases in alternate sources of revenue – tuition and fees, private funding, external research support, etc. Virginia Tech has experienced a continual erosion in its General Fund appropriations, with the university receiving $242.8 million for its academic, Cooperative Extension and Agricultural Experiment Station programs in fiscal year 2015. After a mid-year budget reduction that reduced state funding of the university's instructional budget by $6.1 million on an ongoing basis, the 2015 General Assembly was able to partially restore that loss by providing $2.0 million in operating support for additional in-state student enrollment growth and university initiatives, enhancing funding for neurological disorder research by $1.25 million, and providing an additional $100,000 for undergraduate student financial aid. The university is appreciative of these efforts to support higher education and has addressed the remaining reduction through central resources in order to avoid adverse impacts on academic programs and initiatives.

A key initiative for the university is to reward, recognize, and retain the hard working employees of the university and to provide competitive compensation to our faculty and staff. In fiscal year 2015, the university successfully implemented a merit-based faculty salary program which enabled us to make incremental progress towards our goal of achieving an overall faculty compensation program equivalent to the 60th percentile of the faculty salaries at our SCHEV peer institutions. For fiscal year 2015, the university's faculty salary average is equivalent to the 33rd percentile of its peers' faculty salaries, as compared to the 28th percentile in fiscal year 2014. The university also implemented an across the board 2 percent increase for all staff employees. We are also very appreciative of the state for providing the state share of a 2 percent salary increase for faculty and staff employees in fiscal year 2016.

The university continues to work with state officials to support higher education through the Virginia Higher Education Opportunity Act of 2011. The six-year academic, enrollment, and financial planning process defined by this legislation has potential implications for future state support and tuition rates. As a part of this funding framework, the commonwealth has moved to an environment that seeks to incentivize certain activities in support of state goals such as increased undergraduate enrollment and enhanced STEM-H (science, technology, engineering, mathematics, and health) degree completion. The university experienced the largest number of applications and incoming class of freshman students in its history for the Fall 2015 semester, signaling increased demand from both resident and nonresident students across all colleges at the university. New undergraduate degrees in STEM-H areas, including neuroscience and nanoscience, are drawing new students and preparing them for careers in these exciting and growing fields of discovery. As the largest producer of STEM-H graduates in the commonwealth, Virginia Tech is well positioned to leverage its excellence to further advance this goal as well as other state higher education priorities. Virginia Tech's demonstrated strengths in STEM-H education and critical research programs will provide valuable opportunities to meet the growing demand for well-qualified graduates to support the new global economy.

Access and affordability to a Virginia Tech education continues to be a key commitment for the university. The total cost of education (including room and board) for a Virginia resident undergraduate at Virginia Tech for 2014-15 was $19,941. This placed the university as the 18th lowest cost among 24 peer SCHEV public institutions. The university is very deliberate about the allocation of its resources to the advancement of our academic, research and outreach missions. During fiscal year 2014-15, Virginia Tech allocated 85 percent of its tuition and mandatory fees revenues to instructional programs, with the remaining 15 percent going to support non-academic auxiliary units. This represents the highest percentage allocation of tuition and fees revenues to basic academic programs of all Virginia public colleges and universities.

While the university remains competitive with its peer group regarding the average cost of attendance (the stated price), opportunities can be found in managing the net price (the cost to the student after subtracting scholarships and grants) for middle- or low-income students. As a land-grant institution, an important mission of Virginia Tech is to offer an affordable education to middle- or low-income families. One avenue to reduce the net price is through the provision of competitive financial aid to students. Total financial aid provided to students increased from $413 million in fiscal year 2014 to $425 million in fiscal year 2015. The institutional funds allocated to student financial aid programs increased by $3.8 million to $111.4 million.

The university also monitors the amount of debt taken on by students, and we are pleased that our students continue to graduate with less debt than the national average. In 2014 (the latest national data available), 69 percent of students who graduated from all public and nonprofit four-year colleges had an average of $28,950 in student loans. By comparison, only 53 percent of Virginia Tech's students graduated with debt in 2014, and the average debt amount per graduate was $27,865. The university consistently evaluates its strategies to provide resources for financial aid to students and to maximize the utilization of private scholarships. While the university has been leveraging the unfunded scholarship authority to expand need-based aid, the use of unfunded scholarships has legal and practical limits. As a result, the university is focused on strategies that will expand funding from other sources in the future, especially by increasing private fundraising and working to expand other new innovative sources.

Our endowment continues to provide flexible financial support for university initiatives and expand financial aid resources to students. The value of the Virginia Tech Foundation's endowed assets as of June 30, 2015 was $817.8 million. This represents an increase of more than $21 million over the value of the endowment at June 30, 2014 of $796.4 million. As measured against the Cambridge Associates' peer group universe, the endowment's 4.4 percent return for 2014-15 outperformed its benchmark and ranked in the top 16th percentile. Over the previous five years, the endowment's return of 12.9 percent outperformed the benchmark and ranked in the top 2nd percentile.

The university continued its on-going efforts to provide resources for facilities to support its three-part mission through the successful execution of a comprehensive and forward-looking capital program. In fiscal year 2015, the university's portfolio of active capital outlay included 24 projects with a total budget of $592 million and $91.2 million in expenditures. This portfolio includes nine projects with a total budget of $382 million which were substantially complete at June 30, 2015. Major facility improvements include the refurbishment of Tech's most heavily scheduled general assignment classroom, continuing construction on a new 74,000 gross square foot classroom building, and completion of new instructional facilities for the Dairy Science program. Obtaining state General Fund support to begin comprehensive renovations of three older academic buildings in the core of main campus and to begin construction of new research facilities for the Dairy Science program was a major accomplishment during 2015.

Beyond improvements to facilities for academic programs, the university made significant progress on key auxiliary facilities including on-going construction on a 1,100 bed residential community that replaces four outdated residential facilities, installation of wireless service throughout the residential system, major improvements to outdoor recreation space, and completion of a newly opened Indoor Athletic Training Facility that provides multiple intercollegiate sports programs with state-of-the-art practice space.

The university's capital program is supported by careful management of debt resources to maintain a strong bond rating. The university reported a debt ratio of 4.35 percent for fiscal year 2015. The forward-looking capital and debt allocation planning process ensures capacity will be available for high priority projects in the future while managing the debt program within a 5 percent debt ratio.

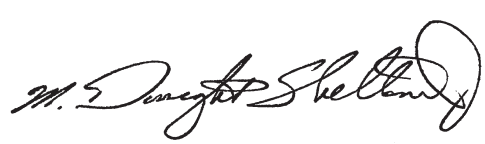
The university reported National Science Foundation research expenditures of $513.1 million for fiscal year 2014 (the most recent data available), which represents an increase of $16.9 million or 3.4 percent from fiscal year 2013. This increase ranks the university as 39th among research and development expenditures at academic institutions. Preliminary totals for fiscal year 2015 indicate a modest decline in research expenditures, which is still encouraging given the overall level of reductions in federal funding for research grants and contracts.

The 2012 Virginia General Assembly directed the Joint Legislative Audit and Review Commission (JLARC) to conduct a study on the cost efficiency of public higher education institutions and to identify opportunities to reduce the cost of public higher education. JLARC concluded the study in November 2014 through the issuance of five reports over a two-year review period. Overall, Virginia Tech's policies and procedures, as well as its administrative and academic performance, compared favorably to other state institutions and to national peer benchmarks and the reports recognized the university's performance. The 2015 Appropriation Act passed by the Virginia General Assembly included language proposing implementation of seven of the 17 JLARC recommendations. The university has already completed work on two of those recommendations, and is in the process of pursuing resolutions to the remaining five.

Traditionally, a key measure of the overall financial management of institutions of higher education is the enhancement of the unrestricted net position. This represents a measure of the institution's capacity to address future issues and opportunities. Virginia Tech recognizes the importance of this financial capacity, and has taken actions over the last several years to grow its unrestricted net assets. As a result, over the last 5 years, the university's unrestricted net assets have increased by $178 million, to a total of $314 million as of June 30, 2014.

However, the implementation of Governmental Accounting Standards Board's (GASB) Statement 68, *Accounting and Financial Reporting for Pensions*, in fiscal year 2015 has resulted in a significant negative impact on this measure. GASB 68 requires state and local government employers that participate in a state's defined benefit retirement plan to recognize their allocable portion of the state's net pension liability (unfunded accrued liability). Previously, the entire liability resided on the financial statements of the Commonwealth of Virginia. The university's share of this noncurrent obligation resulted in a $392.8 million restatement and net reduction in the beginning balance of unrestricted net position for fiscal year 2015. The results of operations for fiscal year 2015 increased unrestricted net position by $4.2 million; however, the implementation of GASB 68 resulted in an ending deficit balance of $74.3 million for unrestricted net position. The Commonwealth of Virginia has implemented steps in recent years such as requiring all employees to pay 5 percent of the retirement contribution and increasing the university's employer contribution rate. These steps, in addition to the improved financial returns on retirement plan investments, resulted in reductions to the unfunded liability. The university's share of the commonwealth's net pension liability at June 30, 2015 was $357.6 million, a decrease of $56.8 million from the beginning of the fiscal year. The university will continue its efforts to enhance liquidity and work with revised or adjusted measures developed by the bond rating agencies to measure liquidity which compensate for the implementation of GASB 68. With cash equivalents and investments in excess of $499 million at June 30, 2015, the university continues to maintain a strong financial position to meet ongoing operating needs.

As the university develops its vision for Virginia Tech on its 175th anniversary in 2047, the university's finance and business areas will continue to develop strategies to address the challenges and opportunities changing the landscape of higher education, particularly the shifting funding model. By embracing this evolving and changing environment, the university will be positioned to maintain its solid financial foundation and advance our status as an internationally recognized, global land-grant institution.



MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL REPORTING AND INTERNAL CONTROLS

The information in this *Annual Financial Report*, including the accompanying basic financial statements, notes, management's discussion and analysis, and other information is the responsibility of Virginia Tech executive management. Responsibility for the accuracy of the financial information and fairness of its presentation, including all disclosures, rests with the management of the university. Management believes the information is accurate in all material respects and fairly presents the university's revenues, expenses, and changes in net position as well as its overall financial condition. This report was prepared in accordance with generally accepted accounting principles for public colleges and universities in the United States of America as prescribed by the Governmental Accounting Standards Board. Management is responsible for the objectivity and integrity of all representations herein. The *Annual Financial Report* includes all disclosures necessary for the reader of this report to gain a broad understanding of the university's operations for the year ended June 30, 2015.

The administration is responsible for establishing and maintaining the university's system of internal controls. Key elements of the university's system of internal controls include: careful selection and training of administrative personnel; organizational structure that provides appropriate division of duties; thorough and continuous monitoring, control, and reporting of operating budgets versus actual operating results; well communicated written policies and procedures; annual self-assessments led by the Office of the University Controller; a growing management services segment; and an extensive internal audit function. Although there are inherent limitations to the effectiveness of any system of accounting controls, management believes that the university's system provides reasonable, but not absolute, assurances that assets are safeguarded from unauthorized use or disposition, and accounting records are sufficiently reliable to permit preparation of financial statements and appropriate accountability for assets and liabilities.

The Finance and Audit Committee of the Virginia Tech Board of Visitors reviews and monitors the university's financial reporting and accounting practices. The committee meets with external independent auditors annually to review the *Annual Financial Report* and results of audit examinations. The committee also meets with internal auditors and university financial officers at least quarterly. These meetings include a review of the scope, quality, and results of the internal audit program, and a review of issues related to internal controls and quality of financial reporting.

The Auditor of Public Accounts (APA), the office of the Commonwealth of Virginia's auditors, has examined these annual financial statements and the report thereon appears on the facing page. The APA examination includes a study and evaluation of the university's system of internal controls, financial systems, policies, and procedures, resulting in the issuance of a management letter describing various issues considered worthy of management's attention. The university has implemented policies and procedures for the adequate and timely resolution of such issues. No material weaknesses were found on internal control matters by the APA for the fiscal year ended June 30, 2015.

M. Dwight Shelton Jr.
Vice President for Finance and Chief Financial Officer

Commonwealth of Virginia

Auditor of Public Accounts

Martha S. Mavredes, CPA
Auditor of Public Accounts

P.O. Box 1295
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November 6, 2015

The Honorable Terence R. McAuliffe, Governor of Virginia

The Honorable John C. Watkins Chairman, Joint Legislative Audit and Review Commission

Board of Visitors, Virginia Polytechnic Institute and State University

INDEPENDENT AUDITOR'S REPORT

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component units of Virginia Polytechnic Institute and State University, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented component units of the University, which are discussed in Notes 1 and 25. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the component units of the University, is based on the reports of the other auditors.

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

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

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

Opinion

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and aggregate discretely presented component units of the Virginia Polytechnic Institute and State University as of June 30, 2015, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the University implemented Governmental Accounting Standards Board (GASB) Statements No. 68 and No. 71, related to pension accounting and financial reporting for employers. Our opinion is not modified with respect to this matter.

Correction of 2014 Financial Statements

As discussed in Note 1 of the financial statements, the fiscal year 2014 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Other Matters

Prior-Year Summarized Comparative Information

We have previously audited the University's 2014 financial statements, and we expressed an unmodified audit opinion on the respective financial statements in our report dated November 7, 2014. In our opinion, while the summarized comparative information presented herein as of and for the year ended June 30, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived, it does not include the necessary adjustments for the 2014 financial statements to be comparative with the 2015 financial statements as described in Note 1.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 7 through 15, the Schedule of Virginia Tech's Share of Net Pension Liability on page 46, the Schedule of Employer Contributions on page 46, and the Notes to Required Supplementary Information on page 46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Virginia Polytechnic Institute and State University's basic financial statements. The supplementary information such as the Virginia Tech Foundation, Inc. information, Affiliated Corporations Financial Highlights, and Consolidating Schedules are presented for the purpose of additional analysis and are not a required part of the basic financial statements.

The Virginia Tech Foundation, Inc. information, Affiliated Corporations Financial Highlights, and Consolidating Schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Virginia Tech Foundation, Inc. information, Affiliated Corporations Financial Highlights, and Consolidating Schedules are fairly stated, in all material respects, in relation to the basic financial statement taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated November 6, 2015, on our consideration of the Virginia Polytechnic Institute and State University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the University's internal control over financial reporting and compliance.

Martha S. Mavredes

AUDITOR OF PUBLIC ACCOUNTS

MANAGEMENT'S DISCUSSION AND ANALYSIS

(unaudited)

Virginia Polytechnic Institute and State University, popularly known as Virginia Tech, is a comprehensive, land-grant university located in Blacksburg, Virginia. The university offers 204 graduate, undergraduate, and professional degree programs through its eight academic colleges (Agriculture and Life Sciences, Architecture and Urban Studies, Engineering, Liberal Arts and Human Sciences, Natural Resources and Environment, Pamplin College of Business, Science and the Virginia-Maryland Regional College of Veterinary Medicine).

Virginia Tech has evolved into a position of increasing national prominence since its founding in 1872, consistently ranking among the nation's top universities for undergraduate and graduate programs. The university's research program was ranked 39th among the top research institutions in the United States by the National Science Foundation in its latest survey measuring annual research expenditures.

The university is an agency of the Commonwealth of Virginia, and therefore included as a component unit in the Commonwealth of Virginia's *Comprehensive Annual Financial Report*. The 14 members of the Virginia Tech Board of Visitors govern university operations. Members of the board are appointed by the Governor of Virginia.

Overview

This unaudited *Management's Discussion and Analysis* (MD&A) is required supplemental information under the Governmental Accounting Standards Board's (GASB) reporting model. It is designed to assist readers in understanding the accompanying financial statements and provides an overall view of the university's financial activities based on currently known facts, decisions and conditions. This discussion includes an analysis of the university's financial condition and results of operations for the fiscal year ended June 30, 2015. Comparative numbers are included for the fiscal year ended June 30, 2014. Since this presentation includes highly summarized data, it should be read in conjunction with the accompanying basic financial statements, including notes and other supplementary information. The university's management is responsible for all of the financial information presented, including this discussion and analysis.

The university's financial statements have been prepared in accordance with GASB Statement 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*, as amended by GASB Statements 37, 38 and 63. The three required financial statements are the *Statement of Net Position* (balance sheet), the *Statement of Revenues, Expenses, and Changes in Net Position* (operating statement) and the *Statement of Cash Flows*. These statements are summarized and analyzed in the following sections. Combining schedules included in *Supplementary Information* indicate how major fund groups were aggregated to arrive at the single column totals presented on the *Statement of Net Position* and the *Statement of Revenues, Expenses, and Changes in Net Position*.

Using criteria provided in GASB Statement 39, *Determining Whether Certain Organizations Are Component Units*, and GASB Statement 60, *The Financial Reporting Entity: Omnibus,* amendments of GASB Statement 14, the university's eight affiliated corporations were evaluated on the nature and significance of their relationship to the university. The Virginia Tech Foundation Inc. (VTF or 'the foundation') and Virginia Tech Services Inc. (VTS) were determined to be component units and are presented in a separate column on the university's financial statements. VTF serves the university by generating significant funding from private sources and aggressively managing its assets to provide supplemental funding to the university. VTS operates the university bookstores and provides other services for the use and benefit of students, faculty and staff. The foundation and VTS are not part of this MD&A, but details regarding their financial activities can be found in note 25 of the *Notes to Financial Statements*. Transactions between the university and these component units have not been eliminated in this year's financial statements.

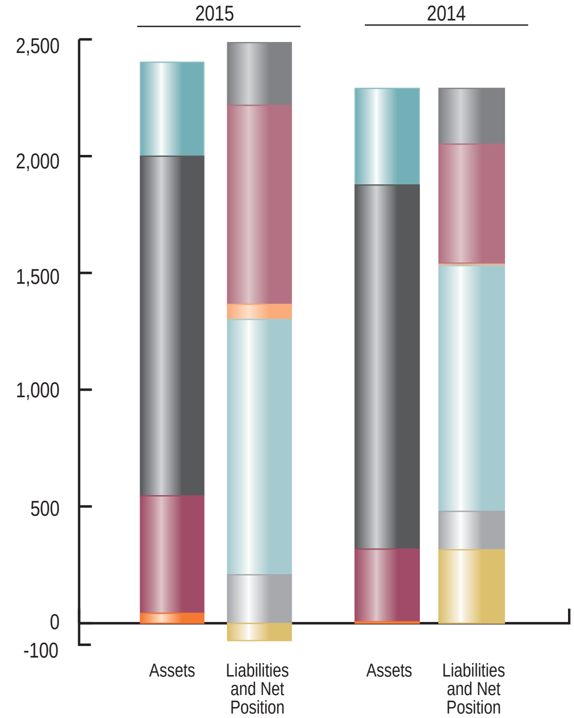
The following GASB statements of standards became effective in fiscal year 2015: Statement 68, *Accounting and Financial Reporting for Pensions – an amendment of Statement 27*, Statement 69, *Government Combinations and Disposals of Government Operations*, and Statement 71, *Pension Transition for Contributions made Subsequent to the Measurement Date – an amendment of Statement 68*. Statement 68 improves information provided by state and local governments whose employees are provided pensions. Statement 68 requires government employers that sponsor defined benefit plans to recognize a net pension liability (unfunded accrued liability) in their *Statement of Net Position*. Virginia Tech recognized its proportionate share of the Virginia Retirement System's net pension liability in the amount of $357.6 million for the fiscal year ending June 30, 2015. Additionally, Statement 68 resulted in a net reduction in

Assets, Liabilities and Net Position

For the years ended June 30, 2015 and 2014
(all dollars in millions)

	2015	2014	Change Amount	Change Percent
Current assets	$ 411.8	$ 413.7	$ (1.9)	(0.5)%
Capital assets, net	1,625.1	1,559.3	65.8	4.2 %
Other assets	332.3	311.1	21.2	6.8 %
Total assets	2,369.2	2,284.1	85.1	3.7 %
Deferred outflows of resources *(1)*	42.3	6.1	36.2	593.4 %
Current liabilities	278.1	238.9	39.2	16.4 %
Noncurrent liabilities	852.0	513.8	338.2	65.8 %
Total liabilities	1,130.1	752.7	377.4	50.1 %
Deferred inflows of resources *(2)*	64.7	1.3	63.4	4,876.9 %
Net investment in capital assets	1,112.1	1,056.9	55.2	5.2 %
Restricted	178.9	165.0	13.9	8.4 %
Unrestricted	(74.3)	314.3	(388.6)	(123.6)%
Total net position	$ 1,216.7	$ 1,536.2	$ (319.5)	(20.8)%

(1) Deferred outflows are included with assets in the adjacent graph.
(2) Deferred inflows are included with liabilities in the adjacent graph.



the unrestricted net position of $392.8 million. Statement 68 also established standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenditures related to pensions. Pension expense is now based on the net pension liability change between reporting dates, with some sources of the changes recognized immediately in expense and others amortized over years. Statement 71 amended Statement 68 to allow the reporting government to recognize a beginning deferred outflow of resources only for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability but before the start of the government's fiscal year when it is not practical to determine the amounts of all applicable deferred inflows of resources and deferred outflows of resources related to pensions. Virginia Tech recognized deferred outflows of $34.4 million and deferred inflows of $63.6 million for the Virginia Retirement System's Defined Benefit pension plan for the fiscal year ending June 30, 2015. Additionally, Statement 68 requires an extensive footnote disclosure as well as required Supplementary Information. See Note 18 for additional pension information. Statement 69 establishes accounting and financial reporting standards related to government combination and disposals of government operations. Virginia Tech had no activities that would be reportable under the conditions in this statement.

Statement of Net Position

The *Statement of Net Position* (SNP) presents the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of the university as of the end of the fiscal year. The purpose of the statement is to present a snapshot of the university's financial position to the readers of the financial statements.

The data presented aids readers in determining the assets available to continue operations of the university. It also allows readers to determine how much the university owes to vendors, investors, lending institutions, and employee retirement programs. Finally, the SNP provides a picture of the university's net position and the restrictions for expenditure of the components of net position. Sustained increase in net position over time is one indicator of the financial health of the organization.

The university's net position is classified as follows:

- **Net investment in capital assets** — Net investment in capital assets represents the university's total investment in capital assets, net of accumulated depreciation, amortization and outstanding debt obligations related to those capital assets. Debt incurred, but not yet expended for capital assets, is not included as a component of net investment in capital assets.
- **Restricted net position, expendable** — The expendable category of the restricted component of net position includes resources the university is legally or contractually obligated to expend, with restrictions imposed by external third parties. This category partially consists of quasi-endowments totaling $59.6 million. The investment of quasi-endowments is managed by VTF.
- **Restricted net position, nonexpendable** — The nonexpendable category of the restricted component of

net position consists of endowment and similar type funds where donors or other outside sources have stipulated, as a condition of the gift instrument, the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income to be expended or added to principal. The university's nonexpendable endowments of $0.4 million are included in its column on the SNP.

- **Unrestricted net position** — The unrestricted component of net position represents resources used for transactions relating to academic departments and general operations of the university, and may be used at the discretion of the university's board of visitors to meet current expenses for any lawful purpose in support of the university's primary missions of instruction, research and outreach. These resources are derived from student tuition and fees, state appropriations, recoveries of facilities and administrative (indirect) costs and sales and services of auxiliary enterprises and educational departments. The auxiliary enterprises are self-supporting entities that provide services for students, faculty and staff. Examples of the university's auxiliaries are intercollegiate athletics and student residential and dining programs. The unrestricted component of net position absorbed 100% of the beginning balance adjustment for the pension liability resulting from implementation of GASB Statement 68.

Total university assets increased by $85.1 million or 3.7% during fiscal year 2015, bringing the total to $2,369.2 million at year-end. Growth in the major components of noncurrent assets (capital assets and long-term investments) and other assets accounted for the majority of the rise in total assets. The increase in capital assets, net ($65.8 million) reflects the ongoing construction of university research and instructional facilities and the capitalization of completed facilities discussed in detail in the following section, Capital Asset and Debt Administration. The growth in other assets was mainly from the noncurrent cash and cash equivalents category ($23.8 million) and the noncurrent due from the commonwealth category ($1.0 million). These increases were partially offset by reductions of amounts in accounts receivable ($2.8 million) and long term investments ($0.8 million).

Total university liabilities increased by $377.4 million or 50.1% during fiscal year 2015. The current liabilities category rose by $39.2 million and the noncurrent liabilities category grew by $338.2 million. The rise in current liabilities was a result of increases in commercial paper ($18.6 million), funds held in custody for others ($8.0 million), accounts payable ($5.6 million), unearned revenue ($3.6 million), current portion of long-term debt ($2.7 million), and accrued compensated absences ($0.7 million). The growth in noncurrent liabilities was primarily due to the implementation of GASB Statement 68, which requires government employers that sponsor defined benefit plans to recognize a net pension liability (unfunded accrued liability) in their statement of net position. Virginia Tech recognized its proportionate share of the Virginia Retirement System's net pension liability in the amount of $357.6 million for the fiscal year ending June 30, 2015. Prior year amounts were not restated, resulting in the entire amount of $357.6 million being an increase over last year. This increase was partially offset by a decrease in long-term debt ($17.3 million) and minor decreases in other liabilities ($1.9 million). For more detailed debt information, see the Capital Asset and Debt Administration section.

The increase in total assets along with the increase in total liabilities is reflected in the year-over-year decrease of the university's net position of $319.5 million (20.8%). Net position in the categories of net investment in capital assets and restricted net position increased $55.2 million and $13.9 million, respectively. These reflect the university's continued investment in new facilities and equipment supporting the university's missions, as well as prudent management of the university's fiscal resources. The unrestricted net position decrease of $388.6 million is misleading because prior year amounts were not restated for the GASB Statement 68 beginning balance adjustment of $392.8 million.

Capital Asset and Debt Administration

One of the critical factors in ensuring the quality of the university's academic, research and residential life functions is the development and renewal of its capital assets. The university continues to maintain and upgrade current structures as well as pursue opportunities for additional facilities. Investment in new structures and the upgrade of current structures serve to enrich high-quality instructional programs, residential lifestyles and research activities.

Note 9 of the *Notes to Financial Statements* describes the university's significant investment in depreciable capital assets with gross additions of $100.4 million during fiscal year 2015. Major projects included the completion of Goodwin Hall ($11.4 million) and Moss Arts Center ($4.5 million), as well as the recording of capital leases for the Kentland Dairy complex ($14.6 million) and a jet propulsion facility ($3.4 million). Ongoing investments in instructional, research, and computer equipment totaled $44.3 million. Depreciation and amortization expense related to capital assets was $95.2 million with net asset retirements of $2.4 million. The net increase in depreciable capital assets for this period was $2.9 million. The net increase in nondepreciable capital assets ($63.0 million) was primarily due to additions in construction in progress expenses during the current year for major building projects to be completed after fiscal year 2015. The major projects remaining in the construction-in-progress category include the construction of the Upper Quad residential facilities ($41.5 million), the Indoor Practice Facility ($19.8 million), a new classroom building ($10.3 million), the Marching Virginians Center ($4.5 million), and on-going capital renovations throughout the university ($21.4 million). In addition, $2.8 million was withheld as retainage payable on the major projects under construction. This retainage amount will be moved to the building asset category once final payments are made to the construction contractors. Proceeds from the sale of commercial paper were used to provide temporary funding for some projects under construction. The majority of the temporary financing will be replaced with permanent debt through the issuance of long-term bonds and notes. Note 31 provides

Funding for Authorized Current and Future Capital Projects

As of June 30, 2015

(all dollars in millions)

	State Funds *(1)*	Other Funds *(2)*	University Debt Issued Before June 30, 2015	University Debt To Be Issued After June 30, 2015	Total Funding	Cash Basis Project-To-Date Expenses
Current education and general	$ 56.7	$ 2.8	$ -	$ -	$ 59.5	$ 17.0
Current auxiliary enterprise	-	53.6	-	81.0	134.6	58.8
Total current	56.7	56.4	-	81.0	194.1	75.8
Future education and general	-	6.9	-	-	6.9	2.1
Future auxiliary enterprise	-	5.0	-	68.6	73.6	0.3
Total future	-	11.9	-	68.6	80.5	2.4
Total authorized	$ 56.7	$ 68.3	$ -	$ 149.6	$ 274.6	$ 78.2

(1) Includes the general fund, capital appropriations, and the general obligation bonds of the Commonwealth of Virginia.

(2) Includes private gifts, auxiliary surpluses, student fees, and other customer revenues.

additional information about bonds issued by the university in October 2015.

Noncurrent liabilities related to debt sustained a net decrease of $17.3 million during fiscal year 2015. The major cause of this reduction is a result of the reclassification of long-term debt from the noncurrent to current liabilities category. See Note 12 of the *Notes to Financial Statements* for more details.

The educational and general (E&G) portion of the university's capital outlay program represents three projects currently under construction. These projects include a new classroom building ($42.7 million), a project to upgrade access and fire alarm systems in several E&G buildings ($4.9 million), and the renovation of a 560-seat classroom in McBryde Hall ($2.8 million). In addition to the capital projects underway, there were several new construction and renovation projects approved for instructional and research facilities. The new construction projects include renovations to Davidson Hall, Sandy Hall, and the Liberal Arts Building ($1.9 million), as well as a project to build three new facilities displaced by the airport expansion ($1.5 million). The Commonwealth of Virginia will provide partial funding for several of these E&G projects.

The university's auxiliary enterprises have approval for seven new capital projects. These future capital projects include the Lane electric substation expansion, health center improvements, a new hanger at the Virginia Tech/Montgomery Executive Airport, replacement of the south recreation field surface, a new residence hall, and the continued expansion of the Oak Lane Phase IV housing community. Since auxiliaries are required to be self-supporting, no state general funds or capital appropriations are provided for these projects. The projects have been or will be funded from a combination of private gifts, federal funds, student fees, other customer revenues and debt financing.

Virginia Tech had a total authorization of $274.6 million in capital building projects as of June 30, 2015, requiring approximately $149.6 million in additional debt financing.

Capital projects in progress carried commitments to construction contractors, architects, and engineers totaling $66.0 million at June 30, 2015. These obligations are for future effort and as such have not been accrued as expenses or liabilities on the university's financial statements. The majority of the financial commitment is attributed to two projects: the Upper Quad Residential Facilities ($37.4 million) and a new classroom building ($25.3 million). These commitments represent only a portion of the university's capital projects currently under construction or authorized by the commonwealth.

The university's bond ratings of Aa1 and AA from Moody's and Standard & Poor's, respectively, reflect strong student demand, balanced operating performance and adequate reserves to address unforeseen expenses.

Statement of Revenues, Expenses, and Changes in Net Position

Operating and non-operating activities creating changes in the university's total net position are presented in the *Statement of Revenues, Expenses, and Changes in Net Position*, found on page 17. The purpose of the statement is to present all revenues received and accrued, all expenses paid and accrued, and gains or losses from investments and capital assets.

Operating revenues are generally received through providing goods and services to the various customers and constituencies of the university. Operating expenses are expenditures made to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the missions of the university. Salaries and fringe benefits for faculty and staff are the largest type of operating expense. Non-operating revenues are revenues received for which goods and services are not directly provided. Included in this category are state appropriations and gifts which supplement the payment of operating expenses of the university and support student scholarships. Therefore, the university, like most public institutions, expects to show an operating loss.

Revenues, Expenses, and Changes in Net Position

For the years ended June 30, 2015 and 2014

(all dollars in millions)

	2015	2014	Change Amount	Change Percent
Operating revenues	$ 965.0	$ 937.5	$ 27.5	2.9 %
Operating expenses	1,259.5	1,227.2	32.3	2.6 %
Operating loss	(294.5)	(289.7)	(4.8)	1.7 %
Non-operating revenues and expenses	316.0	318.5	(2.5)	(0.8)%
Income (loss) before other revenues, expenses, gains or losses	21.5	28.8	(7.3)	(25.3)%
Other revenues, expenses, gains or losses	51.8	74.3	(22.5)	(30.3)%
Increase in net position	73.3	103.1	(29.8)	(28.9)%
Net position - beginning of year	1,143.4	1,433.1	(289.7)	(20.2)%
Net position - end of year	$ 1,216.7	$ 1,536.2	$ (319.5)	(20.8)%

Operating Revenues

Total operating revenues increased by $27.5 million or 2.9% from the prior fiscal year. The growth in operating revenues came predominantly from two categories: student tuition and fees, and auxiliary enterprise revenue. The increase in student tuition and fees ($27.6 million or 7.2%) was expected given an increasing student population and the rise in both in-state and out-of-state tuition and fees rates. The growth in auxiliary enterprise revenue ($11.4 million or 5.1%) follows the increasing student population and reflects the high level of satisfaction with the services provided by the auxiliaries. Additionally, other operating revenue, which includes sales and services of educational activities, decreased by $3.2 million. The decrease in this category is largely due to the receipt of property and casualty insurance recoveries in the prior year. Sponsored grants and contracts decreased by $8.3 million or 2.7%. The decrease in sponsored research grants and contracts awarded by federal sponsors ($12.4 million), and the continuing reduction of federal funds ($1.9 million) provided through the American Recovery and Reinvestment Act (ARRA) was partially offset by increases in federal appropriations supporting the university's land grant mission ($2.3 million) and increases in both funding from commercial sponsors ($1.8 million) and state and local sponsors ($1.9 million).

Overall, the university's operating revenues increased to $965.0 million in fiscal year 2015, compared to $937.5 million in fiscal year 2014.

SUMMARY OF REVENUES

Increase (Decrease) in Revenue

For the years ended June 30, 2015 and 2014

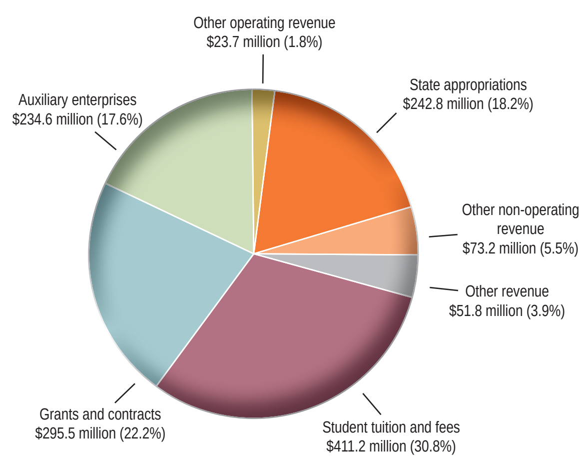
(all dollars in millions)

	2015	2014	Change Amount	Change Percent
Operating revenue				
Student tuition and fees, net	$ 411.2	$ 383.6	$ 27.6	7.2 %
Grants and contracts	295.5	303.8	(8.3)	(2.7)%
Auxiliary enterprises	234.6	223.2	11.4	5.1 %
Other operating revenue	23.7	26.9	(3.2)	(11.9)%
Total operating revenue	965.0	937.5	27.5	2.9 %
Non-operating revenue				
State appropriations	242.8	243.6	(0.8)	(0.3)%
Other non-operating revenue*	73.2	74.9	(1.7)	(2.3)%
Total non-operating revenue	316.0	318.5	(2.5)	(0.8)%
Other revenue				
Capital grants and gifts	52.8	75.9	(23.1)	(30.4)%
Gain (loss) on disposal of capital assets	(1.0)	(1.6)	0.6	37.5 %
Total other revenue	51.8	74.3	(22.5)	(30.3)%
Total revenue	$ 1,332.8	$ 1,330.3	$ 2.5	0.2%

* Includes gifts, investment income, interest expense on debt related to capital assets, federal Pell grants, and other non-operating revenue.

Total Revenue by Source

For the year ended June 30, 2015



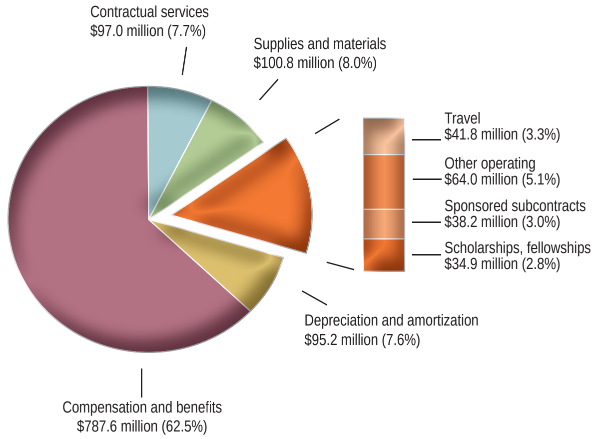
SUMMARY OF EXPENSES BY NATURAL CLASSIFICATION

Increase (Decrease) in Expenses by Natural Classification
For the years ended June 30, 2015 and 2014

(all dollars in millions)

	2015	2014	Change Amount	Change Percent
Compensation and benefits	$ 787.6	$ 750.4	$ 37.2	5.0 %
Contractual services	97.0	96.3	0.7	0.7 %
Supplies and materials	100.8	110.0	(9.2)	(8.4)%
Travel	41.8	43.0	(1.2)	(2.8)%
Other operating expenses	64.0	54.9	9.1	16.6 %
Scholarships and fellowships	34.9	33.0	1.9	5.8 %
Sponsored program subcontracts	38.2	48.0	(9.8)	(20.4)%
Depreciation and amortization	95.2	91.6	3.6	3.9 %
Total operating expenses	$ 1,259.5	$ 1,227.2	$ 32.3	2.6 %

Total Expenses by Natural Classification
For the year ended June 30, 2015



Non-operating and Other Revenues and Expenses

Non-operating revenue and expenses totaled $316.0 million, a decrease of $2.5 million from the previous year's total. Revenue decreases in this category resulted primarily from lower returns on investments ($9.6 million) with small decreases in state appropriations ($0.8 million), and in gifts from donors ($0.2 million). These decreases were offset by the increase of $8.2 million in other non-operating revenue due largely to the receipt of the student insurance lawsuit settlement described in Note 30 of the *Notes to Financial Statements*.

Total other revenue, expenses, gains and losses declined by $22.5 million compared to the prior year. The completion of several major capital projects under construction, funded in part from the 21st Century bond program, resulted in a significant decrease in this revenue stream ($26.3 million). This decrease was partially offset by additional funding for capital assets from private sources and a reduction in the year-over-year loss on the disposal of capital assets ($0.6 million).

Revenues from all sources (operating, non-operating, and other) for fiscal year 2015 totaled $1,332.8 million, increasing by $2.5 million from the prior year. Operating expenses (shown in the chart above and the chart on the facing page) totaled $1,259.5 million for fiscal year 2015, reflecting a year-over-year increase of $32.3 million. Total revenues, shown in the chart on the previous page, less total operating expenses resulted in an increase to net position of $73.3 million.

Total Expenses

The university is committed to recruiting and retaining outstanding faculty and staff. The personnel compensation package is one way to successfully compete with peer institutions and nonacademic employers. The natural expense category, compensation and benefits, comprises $787.6 million or 62.5% of the university's total operating expenses. This category increased by $37.2 million (5.0%) over the previous year. Generally, changes to expenses in this category come from three sources: increases or reductions in the number of personnel, annual salary increases, and the general trends in the costs of fringe benefits. The general salary increase funded by the commonwealth was the major contributor to the increase in this category along with the in-band adjustment process and growth in personnel. A second category with a significant increase over the prior year was other operating expenses ($9.1 million). Growth in building and equipment leases, as well as utility costs, contributed to the rise in this category.

Operating expenses for fiscal year 2015 totaled $1,259.5 million, up $32.3 million from fiscal year 2014. The net change mainly resulted from moderate increases to expenses in the functional categories of instruction ($19.9 million), and auxiliary enterprises ($14.7 million). The majority of the growth in the instruction category was in the compensation and benefits category which reflects the university's commitment to retaining an outstanding faculty. The rise in auxiliary expenses was spread across several categories including compensation and benefits ($6.1 million), contractual services ($5.1 million), and other operating expenses

SUMMARY OF EXPENSES BY FUNCTION

Increase (Decrease) in Expenses by Function

For the years ended June 30, 2015 and 2014

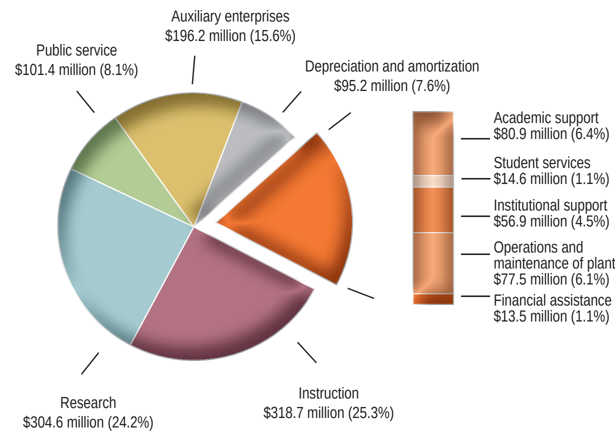
(all dollars in millions)

	2015	2014	Change Amount	Change Percent
Instruction	$ 318.7	$ 298.8	$ 19.9	6.7 %
Research	304.6	308.3	(3.7)	(1.2)%
Public service	101.4	102.7	(1.3)	(1.3)%
Auxiliary enterprises	196.2	181.5	14.7	8.1 %
Depreciation and amortization	95.2	91.6	3.6	3.9 %
Subtotal	1,016.1	982.9	33.2	3.4 %
Other expenses				
Academic support	80.9	79.4	1.5	1.9 %
Student services	14.6	14.9	(0.3)	(2.0)%
Institutional support	56.9	58.2	(1.3)	(2.2)%
Operations and maintenance of plant	77.5	79.5	(2.0)	(2.5)%
Student financial assistance*	13.5	12.3	1.2	9.8 %
Total other expenses	243.4	244.3	(0.9)	(0.4)%
Total operating expenses	$ 1,259.5	$ 1,227.2	$ 32.3	2.6 %

*Includes loan administrative fees and collection costs.

Total Expenses by Function

For the year ended June 30, 2015



($4.0 million), offset by a net decrease of $0.5 million in the remaining categories. It is also significant to note that research expenses declined by $3.7 million primarily due to a decrease in federally sponsored grants and contracts.

In the functional categories for support activities, there was a small increase in academic support support of $1.5 million while student services, institutional support and operations and maintenance of plant all had small decreases. The largest percentage growth in operating expenses was in the student financial assistance category (9.8%). The net student financial assistance expense represents the amount of institutional resources refunded to the student in excess of student tuition and fees, not the gross amount of financial aid provided by the university. This does not reflect the increase in waivers and scholarships provided to students, indicated by the $3.4 million growth in scholarship discounts and allowances (from $114.9 million to $118.3 million) which is netted against the gross total of financial aid expenses.

In summary, the university's operating revenues grew by $27.5 million or 2.9% over the preceding year, while operating expenses increased by $32.3 million or 2.6%. This resulted in an operating loss for the current fiscal year of $294.5 million in comparison to the operating loss of $289.7 million generated during the past year. The primary reason for the larger operating loss was the growth in expenses across most major operating areas with the largest increases occurring in the compensation and benefits category. State appropriations and other net non-operating revenues were used to meet operating expenses not offset by operating revenues.

Statement of Cash Flows

The *Statement of Cash Flows* presents detailed information about the cash activity of the university during the year. Cash flows from operating activities will always be different from the operating loss on the *Statement of Revenues, Expenses and Changes in Net Position* (SRECNP). This difference occurs because the SRECNP is prepared on the accrual basis of accounting and includes noncash items, such as depreciation expenses, whereas the *Statement of Cash Flows* presents cash inflows and outflows without regard to accrual items. The *Statement of Cash Flows* should help readers assess the ability of an institution to generate sufficient cash flows necessary to meet its obligations.

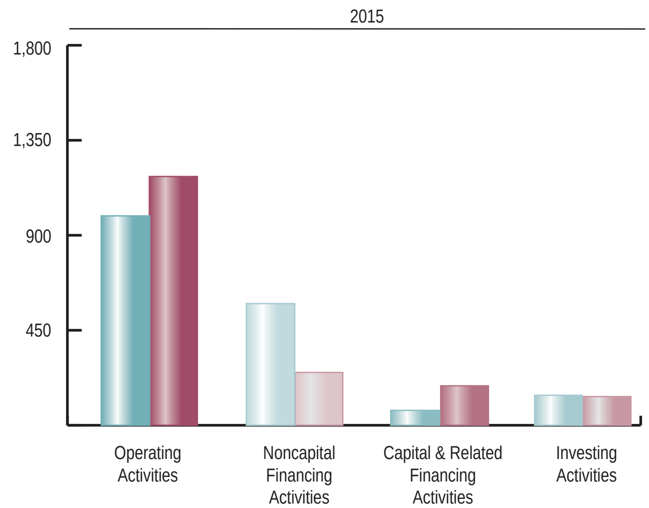
The statement is divided into five sections. The first section, *Cash flows from operating activities*, deals with operating cash flows and shows net cash used by operating activities of the university. The *Cash flows from noncapital financing activities* section reflects cash received and disbursed for purposes other than operating, investing and capital financing. GASB requires general appropriations from the commonwealth and noncapital gifts be shown as cash flows from noncapital financing activities. *Cash flows from capital and related financing activities* presents cash used for the acquisition and construction of capital and related items. Plant funds and related long-term debt activities (except

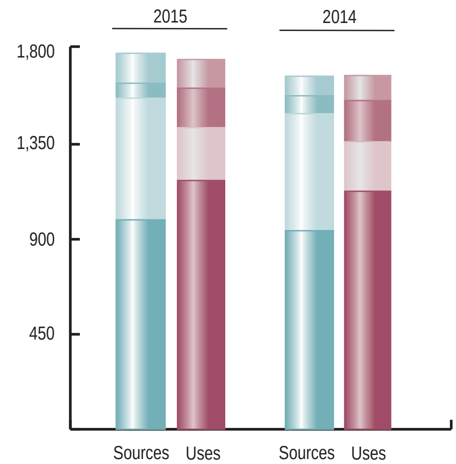
Summary of Cash Flows

For the years ended June 30, 2015 and 2014

(all dollars in millions)

	2015	2014	Change Amount	Change Percent
Net cash used by operating activities	$ (194.5)	$ (186.7)	$ (7.8)	4.2 %
Net cash provided by noncapital financing activities	343.6	319.6	24.0	7.5 %
Net cash used by capital and related financing activities	(116.5)	(110.3)	(6.2)	5.6 %
Net cash provided (used) by investing activities	6.1	(26.1)	32.2	123.4 %
Net increase (decrease) in cash and cash equivalents	38.7	(3.5)	42.2	1,205.7 %
Cash and cash equivalents - beginning of year	356.2	359.7	(3.5)	(1.0)%
Cash and cash equivalents - end of year	$ 394.9	$ 356.2	$ 38.7	10.9 %





The graphs above demonstrate the relationship between sources and uses of cash. The graph on the left shows activity for fiscal year 2015 only, grouped by related sources and uses of cash, while the graph on the right displays that same activity for fiscal years 2015 and 2014 in a stacked format.

depreciation and amortization), as well as gifts to endowments, are included in cash flows from capital financing activities. *Cash flows from investing activities* reflect the cash flows generated from investments which include purchases, proceeds, and interest. The last section reconciles the operating income or loss reflected on the *Statement of Revenues, Expenses, and Changes in Net Position* for fiscal year 2015 to net cash used by operating activities.

Major operating activity sources of cash for the university included student tuition and fees ($411.8 million), grants and contracts ($282.2 million), and auxiliary enterprise revenues ($241.0 million). Major operating activity uses of cash included compensation and benefits ($790.8 million) and operating expenses ($370.8 million). Operating activity uses of cash significantly exceeded operating activity sources of cash due to classification of state appropriations ($242.8 million) and gifts ($60.3 million) as noncapital financial activities.

Economic Outlook

As a public institution, the university is subject to many of the macro-economic conditions impacting the nation and the Commonwealth of Virginia. The commonwealth currently supports 18% of the university's budget through general fund appropriations. The *Virginia Higher Education Opportunity Act of 2011* marked the commonwealth's re-emphasis on positioning institutions of higher education for the future. While the Commonwealth of Virginia maintains the university's board of visitors' authority to establish tuition and fee rates, significant national and state emphasis has been focused on slowing the rate of tuition growth for undergraduate students, particularly state residents. Although the commonwealth has expressed interest in enhancing its investment in higher education, slow growth in state revenue has limited discretionary general fund resources available for higher education. While the commonwealth reduced its General Fund support of the university by $6.1 million (about 0.5% of the university's total budget) in September 2014, economic signals are positive that the state economy is growing and future investment in higher education may be possible. The commonwealth ended fiscal year 2014-15 with a surplus, and 2015-16 monthly revenues are currently trending above projections.

The university continues to work with state officials to support higher education through the *Virginia Higher Education Opportunity Act of 2011*. The six year academic, enrollment, and financial planning process defined by this legislation has potential implications for future state support and tuition rates. As a part of this funding framework, the commonwealth has moved to an environment that seeks to incentivize certain activities in support of state goals such as increased undergraduate enrollment and enhanced STEM-H (science, technology, engineering, mathematics, and health) degree completion. The university experienced the largest number of applications and incoming class of freshman students in its history in fall 2015, signaling demand from both resident and nonresident students, and across all colleges at the university. New undergraduate degrees in STEM-H areas, including neuroscience and nanoscience, are drawing new students and preparing them for careers in these exciting and growing fields of discovery. As the largest producer of STEM-H graduates in the commonwealth, Virginia Tech is well positioned to leverage its excellence to further advance this goal, as well as other state higher education priorities. Virginia Tech's demonstrated strengths in STEM-H education and critical research will provide valuable opportunities to accelerate development.

University administrators also carefully consider the federal budget process and review potential implications on the state and national economy, as well as university program funding including externally sponsored research, land grant activities, and student financial aid. The university continues to employ cost containment and innovative resource enhancement strategies which have helped to successfully advance the institution in the past. In addition, the university will continue to employ strategic planning processes to advance its core missions of instruction, research and public service.

Virginia Tech, along with all other Virginia institutions of higher education, continues to maintain significant decentralized authority from the Commonwealth of Virginia through the requested restructuring of higher education. Restructuring provides additional flexibility and authority to the participating institutions with the potential for increased efficiencies and cost savings. The university works to leverage existing authorities to drive efficiencies for cost savings. To build on the demonstrated success of restructuring, the university is working with state officials to explore opportunities to further expand and enhance the institution's authorities.

The university manages its exposure to risk through the implementation of its investment policy. The university's investment policy, established by the board of visitors and monitored by the board's Finance and Audit Committee, requires that its public funds be invested in accordance with the *Investment of Public Funds Act* (Section 2.2-4500 through 2.2-4516, et seq., *Code of Virginia)*. The university has limited its investment in securities outside the scope of the *Investment in Public Funds Act* to restricted gift funds, local funds, and nongeneral fund reserves and balances designated by management as quasi-endowments. These funds are invested in the Virginia Tech Foundation's consolidated endowment fund and managed in accordance with the provisions of the *Uniform Prudent Management of Institutional Funds Act* (Section 64.2-1100, et seq., *Code of Virginia*). At the end of the fiscal year, the value of the university's quasi-endowments invested in the foundation totaled $96.1 million, a decrease of $0.3 million over the preceding year.

The university continually monitors the valuation of its investments. At June 30, 2015, the market value for the university's non-endowed cash, cash equivalents, and investments totaled $492.8 million, including unrealized losses on investments of $0.5 million, compared to the market value of its investments at September 30, 2015, of $606.1 million and unrealized losses of $0.2 million.

Executive management believes that the university will maintain its solid financial foundation and is well positioned to continue to advance excellence in teaching, research, and public service. Management's policies of cost containment and investing in strategic initiatives will ensure the university is well prepared to manage the changing environment of higher education while continuing to advance the university's strategic plan. The financial position of the university is strong as evidenced by its diversified portfolio of research funding, National Science Foundation research ranking, strong student demand from increasingly talented students, auxiliary enterprises with high customer satisfaction, low total cost of attendance, growing contributions to endowments, increased liquidity, and quality debt ratings from Moody's (Aa1) and Standard and Poor's (AA). These debt ratings allow the university to obtain funding for capital projects with advantageous terms.

The university is grounded by an impressive community of students, faculty, and staff. Virginia Tech's future is bright as the commonwealth's largest university offering more career options than any other Virginia university.

The university's overall financial position remains strong. Management continues to maintain a close watch over resources to ensure the ability to react to unknown internal and external issues and sustain its current high quality financial position.

STATEMENT OF NET POSITION

As of June 30, 2015, with comparative financial information as of June 30, 2014
(all dollars in thousands)

	2015 Virginia Tech	2015 Component Units	2014 Virginia Tech *(restated)*	2014 Component Units
ASSETS				
Current assets				
Cash and cash equivalents *(Notes 4, 30)*	$ 311,531	$ 510	$ 296,663	$ (12,355)
Short-term investments *(Notes 4, 25)*	1,752	4,739	3,687	4,529
Accounts and contributions receivable, net *(Notes 1, 5, 25)*	53,938	35,418	71,079	32,685
Notes receivable, net *(Notes 1, 6)*	1,745	791	1,811	519
Due from the Commonwealth of Virginia *(Note 10)*	12,606	-	12,594	-
Inventories	11,941	7,457	11,203	6,129
Prepaid expenses	18,301	1,215	16,705	1,141
Other assets	-	4,867	-	6,309
Total current assets	411,814	54,997	413,742	38,957
Noncurrent assets				
Cash and cash equivalents *(Note 4)*	83,393	43,577	59,555	70,487
Due from the Commonwealth of Virginia *(Note 10)*	2,943	-	1,961	-
Accounts and contributions receivable, net *(Notes 1,5,25)*	4,218	66,902	7,018	54,676
Notes receivable, net *(Note 6)*	20,297	35,408	20,033	32,209
Net investments in direct financing leases	-	72,084	-	62,087
Irrevocable trusts held by others, net	-	10,901	-	8,117
Long-term investments *(Notes 4, 25)*	220,660	938,152	221,525	918,333
Depreciable capital assets, net *(Notes 9, 25)*	1,454,320	207,171	1,451,458	218,600
Nondepreciable capital assets *(Notes 9, 25)*	170,778	84,671	107,804	89,628
Intangible assets, net	-	562	-	580
Other assets	780	6,319	956	5,605
Total noncurrent assets	1,957,389	1,465,747	1,870,310	1,460,322
Total assets	2,369,203	1,520,744	2,284,052	1,499,279
DEFERRED OUTFLOWS OF RESOURCES				
Deferred loss on long-term debt defeasance *(Note 14)*	7,904	-	6,056	-
Deferred outflow for defined benefit pension plan *(Notes 1,18)*	34,384	-	-	-
Total deferred outflows	42,288	-	6,056	-
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities *(Note 7)*	130,702	15,645	125,127	17,550
Accrued compensated absences *(Notes 1, 15)*	23,862	862	23,172	988
Unearned revenue *(Notes 1, 8)*	38,857	3,834	35,195	3,765
Funds held in custody for others *(Note 30)*	23,206	-	15,187	-
Commercial paper *(Note 11)*	29,790	-	11,205	-
Long-term debt payable *(Notes 12, 13, 25)*	31,749	12,066	29,044	11,888
Other liabilities	-	3,725	-	8,285
Total current liabilities	278,166	36,132	238,930	42,476
Noncurrent liabilities				
Net pension liability *(Notes 1, 15, 18)*	357,622	-	-	-
Accrued compensated absences *(Notes 1, 15)*	19,136	186	19,337	137
Federal student loan program contributions refundable *(Note 15)*	13,679	-	13,659	-
Unearned revenue	-	1,708	-	6,315
Long-term debt payable *(Notes 12, 13, 25)*	459,748	261,491	477,069	267,613
Liabilities under trust agreements	-	26,009	-	27,148
Agency deposits held in trust *(Note 25)*	-	108,571	-	110,285
Other liabilities	1,752	10,372	3,687	10,507
Total noncurrent liabilities	851,937	408,337	513,752	422,005
Total liabilities	1,130,103	444,469	752,682	464,481
DEFERRED INFLOWS OF RESOURCES				
Deferred gain on long-term debt defeasance *(Note 14)*	1,134	-	1,260	-
Deferred inflow for defined benefit pension plan *(Notes 1,18)*	63,575	-	-	-
Total deferred inflows	64,709	-	1,260	-
NET POSITION				
Investment in capital assets	1,112,101	117,350	1,056,876	124,427
Restricted, nonexpendable	356	454,810	356	428,758
Restricted, expendable				
Scholarships, research, instruction, and other	108,468	420,327	102,319	359,203
Capital projects	6,046	-	2,895	57,868
Debt service and auxiliary operations	64,008	-	59,417	-
Unrestricted *(Note 1)*	(74,300)	83,788	314,303	64,542
Total net position	$ 1,216,679	$ 1,076,275	$ 1,536,166	$ 1,034,798

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

For the year ended June 30, 2015 with comparative financial information for the year ended June 30, 2014
(all dollars in thousands)

	2015		2014	
	Virginia Tech	Component Units	Virginia Tech *(restated)*	Component Units
OPERATING REVENUES				
Student tuition and fees, net *(Note 1)*	$ 411,207	$ -	$ 383,566	$ -
Gifts and contributions	-	58,598	-	51,692
Federal appropriations	17,439	-	15,123	-
Federal grants and contracts	210,332	-	222,708	-
Federal ARRA grants and contracts	1,467	-	3,399	-
State grants and contracts	14,214	-	12,670	-
Local grants and contracts *(Note 3)*	14,349	-	13,977	-
Nongovernmental grants and contracts	37,661	-	35,871	-
Sales and services of educational activities	17,345	-	16,279	-
Auxiliary enterprise revenue, net *(Note 1)*	234,640	45,682	223,228	44,827
Other operating revenues	6,368	60,584	10,640	60,535
Total operating revenues	965,022	164,864	937,461	157,054
OPERATING EXPENSES				
Instruction	318,725	4,920	298,752	2,920
Research	304,657	10,838	308,297	9,946
Public service	101,403	4,634	102,743	4,610
Academic support	80,852	16,219	79,381	14,746
Student services	14,628	-	14,852	-
Institutional support	56,917	40,795	58,143	39,339
Operation and maintenance of plant	77,482	13,008	79,567	12,294
Student financial assistance	13,474	25,036	12,242	25,110
Auxiliary enterprises	196,212	36,060	181,532	37,613
Depreciation and amortization *(Note 9)*	95,163	10,122	91,629	10,468
Other operating expenses	60	17,864	90	12,510
Total operating expenses	1,259,573	179,496	1,227,228	169,556
OPERATING LOSS	(294,551)	(14,632)	(289,767)	(12,502)
NON-OPERATING REVENUES (EXPENSES)				
State appropriations *(Note 21)*	242,831	-	243,593	-
Gifts	60,259	-	60,489	-
Non-operating grants and contracts	2,027	-	2,615	-
Federal student financial aid (Pell)	17,218	-	16,830	-
Investment income, net	3,271	18,858	12,858	11,411
Net gain on investments	-	11,979	-	98,796
Other non-operating revenue *(Note 30)*	8,856	-	684	-
Interest expense on debt related to capital assets	(18,424)	(9,815)	(18,605)	(9,751)
Net non-operating revenues (expenses)	316,038	21,022	318,464	100,456
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	21,487	6,390	28,697	87,954
Change in valuation of split interest agreements	-	(3,761)	-	3,297
Capital grants and gifts *(Note 10)*	52,761	10,611	75,927	11,796
Loss on disposal of capital assets	(967)	(1)	(1,581)	(10)
Additions to permanent endowments	-	29,330	-	17,610
Other expenses	-	(1,092)	-	(1,147)
Total other revenues, expenses, gains, and losses	51,794	35,087	74,346	31,546
INCREASE IN NET POSITION	73,281	41,477	103,043	119,500
Net position—beginning of year *(Note 1)*	1,143,398	1,034,798	1,433,123	915,298
Net position—end of year	$ 1,216,679	$ 1,076,275	$ 1,536,166	$ 1,034,798

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

STATEMENT OF CASH FLOWS

As of June 30, 2015, with comparative financial information as of June 30, 2014
(all dollars in thousands)

	2015	2014 (restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	$ 411,832	$ 382,342
Federal appropriations	21,781	15,271
Grants and contracts	282,227	289,253
Sales and services of educational activities	17,345	16,279
Auxiliary enterprises	241,040	221,233
Other operating receipts	6,368	10,748
Payments for compensation and fringe benefits	(790,798)	(742,360)
Payments for operating expenses	(370,807)	(364,489)
Payments for scholarships and fellowships	(13,234)	(12,024)
Loans issued to students	(3,576)	(8,573)
Collection of loans from students	3,338	5,604
Net cash used by operating activities	(194,484)	(186,716)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	242,831	243,593
Gifts received for other than capital purposes	60,269	60,133
Non-operating grants and contracts	2,027	2,615
Federal student financial aid (Pell)	17,218	16,830
Federal Direct Lending Program—receipts	128,877	125,925
Federal Direct Lending Program—disbursements	(128,903)	(125,919)
Funds held in custody for others—receipts	125,147	104,691
Funds held in custody for others—disbursements	(111,913)	(108,260)
Other non-operating receipts	7,997	-
Net cash provided by noncapital financing activities	343,550	319,608
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations	-	-
Capital grants and gifts	50,320	79,101
Proceeds from capital debt	-	-
Proceeds from the sale of capital assets and insurance recoveries	1,653	1,165
Acquisition and construction of capital assets	(133,547)	(144,791)
Principal paid on capital debt and leases	(32,402)	(27,432)
Short-term debt, commercial paper	18,585	4,810
Interest paid on capital debt and leases	(21,082)	(23,129)
Net cash used by capital and related financing activities	(116,473)	(110,276)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	139,972	91,515
Interest on investments	2,096	1,159
Purchase of investments and related fees	(135,955)	(118,794)
Net cash provided (used) by investing activities	6,113	(26,120)
Net increase (decrease) in cash and cash equivalents	38,706	(3,504)
Cash and cash equivalents—beginning of year	356,218	359,722
Cash and cash equivalents—end of year	$ 394,924	$ 356,218

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

STATEMENT OF CASH FLOWS (continued)

As of June 30, 2015 with comparative financial information as of June 30, 2014
(all dollars in thousands)

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

	2015	2014 *(restated)*
Operating loss	$ (294,551)	$ (289,767)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation and amortization expense	95,163	91,629
Changes in assets, liabilities, and deferred outflows		
Deferred outflows for defined benefit pension plans	(5,955)	-
Receivables, net of allowance for doubtful accounts	11,908	1,299
Inventories	(738)	2,118
Prepaid items	(1,420)	291
Notes receivable, net of allowance for doubtful accounts	(198)	(2,918)
Accounts payable and accrued liabilities	(5,196)	6,205
Accrued payroll and other liabilities	2,332	5,543
Compensated absences	489	2,479
Unearned revenue	3,662	(3,742)
Credit card rebate	-	108
Federal loan program contributions refundable	20	39
Total adjustments	100,067	103,051
Net cash used by operating activities	$ (194,484)	$ (186,716)

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

	2015	2014
Change in accounts receivable related to non-operating income	$ (2,843)	$ 766
Capital assets acquired through in-kind donations as a component of capital gifts and grants income	$ 4,238	$ 4,230
Change in fair value of investments recognized as a component of investment income	$ (3,727)	$ 7,076
Change in fair value of interest payable affecting interest paid	$ (289)	$ (310)
Capital assets acquired through assumption of a liability	$ 17,970	$ 2,950
Change in interest receivable affecting interest received	$ (42)	$ (86)

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

NOTES TO FINANCIAL STATEMENTS

CONTENTS

1. Summary of Significant Accounting Policies

Reporting Entity

Virginia Polytechnic Institute and State University is a public land-grant university serving the Commonwealth of Virginia, the nation, and the world community. The discovery and dissemination of new knowledge are central to its mission. Through its focus on teaching and learning, research, and discovery, outreach and engagement, the university creates, conveys, and applies knowledge to expand personal growth and opportunity, advance social and community development, foster economic competitiveness, and improve the quality of life.

The university includes all funds and entities over which the university exercises or has the ability to exercise oversight authority for financial reporting purposes.

Under Governmental Accounting Standards Board (GASB) Statement 39, Virginia Tech Foundation Inc. (VTF) and Virginia Tech Services Inc. (VTS) are included as component units of the university.

A separate report is prepared for the Commonwealth of Virginia that includes all agencies, boards, commissions, and authorities over which the commonwealth exercises or has the ability to exercise oversight authority. The university is a component unit of the Commonwealth of Virginia and is included in the basic financial statements of the commonwealth.

Virginia Tech Foundation Inc.

The foundation is a legally separate, tax-exempt organization established in 1948 to receive, manage, and disburse private gifts in support of Virginia Tech programs. The foundation is governed by a 35-member board of directors. The bylaws of the foundation provide that the rector of the board of visitors, the president of the alumni association, the president of the athletic fund, and the president of the university shall be members of the VTF board. The remainder of the board is composed of alumni and friends of the university who actively provide private support for university programs. Directors are elected by a vote of the membership of the foundation. Membership is obtained by making gifts at or above a specified level to the foundation.

The foundation serves the university by generating significant funding from private sources and aggressively managing its assets to provide funding which supplements state appropriations. It provides additional operating support to colleges and departments, assists in the funding of major building projects, and provides seed capital for new university initiatives. Although the university does not control the timing or amount of receipts from the foundation, the majority of resources, or income which the foundation holds and invests, is restricted to the activities of the university by the donors. Because these restricted resources held by the foundation can only be used by or for the benefit of the university, the foundation is considered a component unit of the university and is discretely presented in the financial statements. The administrative offices of Virginia Tech Foundation Inc. are located at University Gateway Center, 902 Prices Fork Road, Blacksburg, Virginia 24061.

During this fiscal year, the foundation distributed $83,075,000 to the university, for both restricted and unrestricted purposes.

Virginia Tech Services Inc.

Virginia Tech Services Inc. was formed as a separate nonprofit corporation to own and operate bookstores and provide other services for the use and benefit of the students, faculty, staff, and alumni of Virginia Tech. VTS transfers any surplus funds to the university or the foundation for allocation and use by the university as the president of the university and board of visitors deem appropriate. Although the university does not control the timing or amount of receipts from VTS, the majority of its resources or income is for the benefit of the university. Because these resources are for the benefit of the university, VTS is considered a component unit of the university and is discretely presented in the financial statements. The administrative offices of Virginia Tech Services Inc. are located at University Bookstore, Blacksburg, Virginia 24061.

During this fiscal year, VTS paid $963,000 to the university, primarily for the rental of facilities and sale of items benefiting the Student Government Association.

Financial Statement Presentation

GASB Statement 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*, issued November 1999, establishes accounting and financial reporting standards for public colleges and universities within the financial reporting guidelines of GASB Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. The standards are designed to provide financial information that responds to the needs of three groups of primary users of general-purpose external financial reports: the citizenry, legislative and oversight bodies, and investors and creditors. The university is required under this guidance to include *Management's Discussion and Analysis*, and basic financial statements, including notes, in its financial statement presentation.

The following GASB statements of standards became effective in fiscal year 2015: Statement 68, *Accounting and Financial Reporting for Pensions – an amendment of Statement 27*, Statement 69, *Government Combinations and Disposals of Government Operations*, and Statement 71, *Pension Transition for Contributions made Subsequent to the Measurement Date – an amendment of Statement 6*8. Statement 68 improves information provided by state and local governments whose employees are provided pensions. Statement 68 requires government employers that sponsor defined benefit plans to recognize a net pension liability (unfunded accrued liability) in their statement of net position. Virginia Tech recognized its proportionate share of the Virginia Retirement System's net pension liability in the amount of $357,622,000 for the fiscal year ending June 30, 2015. Additionally, Statement 68 resulted in a net reduction in the unrestricted net position of $392,768,000. Statement 68 also establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenditures related to pensions. Pension expense is now based on the net pension liability change between reporting dates, with some sources of the changes recognized immediately in expense and others amortized over years. Statement 71 amends Statement 68 to allow the reporting government to recognize a beginning deferred outflow of resources only for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability but before the start of the government's fiscal year when it is not practical to determine the amounts of all applicable deferred inflows of resources and deferred outflows of resources related to pensions. Virginia Tech recognized deferred outflows of $32,284,000 and deferred inflows of $63,575,000 for the Virginia Retirement System's Defined Contribution pension plan for the fiscal year ending June 30, 2015. Additionally Statement 68 mandates an extensive footnote disclosure as well as required Supplementary Information. See Note 18 for additional pension information. Statement 69 establishes accounting and financial reporting standards related to government combination and disposals of government operations. Virginia Tech had no activities that would be reportable under the conditions in this statement.

Basis of Accounting

For financial reporting purposes, the university is considered a special-purpose government engaged only in business-type activities. Accordingly, the university's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated.

Cash Equivalents

For purposes of the statements of net position and cash flows, the university considers all highly liquid investments with an original maturity of 90 days or less to be cash equivalents.

Short-term Investments

Short-term investments include securities that have an original maturity over 90 days but less than or equal to one year at the time of purchase.

Investments

GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as modified by GASB Statement 59, requires that purchased investments, interest-bearing temporary investments classified with cash and investments received as gifts be recorded at fair value (see Note 4). Changes in unrealized gain or loss on the carrying value of the investments are reported as a part of investment income in the *Statement of Revenues, Expenses, and Changes in Net Position*.

Accounts Receivable

Accounts receivable consists of tuition and fee charges to students, and auxiliary enterprise services provided to students, faculty and staff. Accounts receivable also include amounts due from federal, state and local governments and non-governmental sources, in connection with reimbursement of allowable expenses made pursuant to the university's grants and contracts. Accounts receivable are recorded net of allowance for doubtful accounts. See Note 5 for a detailed list of accounts receivable amounts by major categories.

Notes Receivable

Notes receivable consist of amounts due from the Federal Perkins Loan Program, the Health Professional Student Loan Program, other student loans, and loans to affiliated organizations. See Note 6 for a list of notes receivable amounts by major categories.

Inventories

Inventories are stated at the lower of cost or market (primarily first-in, first-out method) and consist mainly of expendable supplies for operations of auxiliary enterprises and fuel for the physical plant.

Noncurrent Cash and Investments

Noncurrent cash and investments are reported as restricted because restrictions change the nature or normal understanding of the availability of an asset. This includes resources restricted for the acquisition or construction of capital assets, resources legally segregated for payment of principal and interest as required by debt covenants, unspent debt proceeds and other restricted investments to make debt service payments or purchase other noncurrent assets.

Capital Assets

Capital assets consisting of land, buildings, infrastructure and equipment are stated at appraised historical cost or actual cost where determinable. Construction in progress, equipment in process and software in development are capitalized at actual cost as expenses are incurred. Library materials are valued using published average prices for library acquisitions, and livestock is stated at estimated market value. All gifts of capital assets are recorded at fair market value as of the date of donation.

Equipment is capitalized when the unit acquisition cost is $2,000 or greater and the estimated useful life is one year or more. Software is capitalized when the acquisition and/or development costs exceed $50,000. Renovation costs are capitalized when expenses total more than $100,000, the asset value significantly increases, or the useful life is significantly extended. Routine repairs and maintenance are charged to operating expense in the year the expense is incurred.

Depreciation is computed using the straight-line method over the useful life of the assets. The useful life is 40 to 60 years for buildings, 10 to 50 years for infrastructure and land improvements, 10 years for library books, and 3 to 30 years for fixed and movable equipment. Livestock is not depreciated, as it tends to appreciate over the university's normal holding period.

Special collections are not capitalized due to the collections being: (1) held for public exhibition, education, or research in the furtherance of public service rather than financial gain; (2) protected, kept unencumbered, cared for and preserved; and (3) subject to university policy requiring the proceeds from the sales of collection items to be used to acquire other items for collections.

Interest Capitalization

Interest expense incurred during the construction of capital assets is capitalized, if material, net of interest income earned on resources set aside for this purpose. The university did not capitalize any interest expense during this fiscal year.

Pensions

The university recognized its proportionate share of the total VRS pension liability for the year ending June 30th, 2015. For the purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Virginia State Employees Retirement Plan (SERP) and the Virginia Law Officers' System (VaLORS) Retirement Plan: the additions to and deductions from the SERP plan's and the VaLORS plan's net fiduciary position have been determined on the same basis as they were reported by VRS. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments held by VRS are reported at fair value. See Note 18 for more information about pension plans.

Accrued Compensated Absences

Certain salaried employees' attendance and leave regulations make provisions for the granting of a specified number of days of leave with pay each year. The amount reflects all unused vacation leave, sabbatical leave and the amount payable upon termination under the Commonwealth of Virginia's sick leave pay out policy. The applicable share of employer related taxes payable on the eventual termination payments is also included. The university's liability and expense for the amount of leave earned by employees but not taken, as of June 30, 2015, is recorded in the *Statement of Net Position*, and is included in the various functional categories of operating expenses in the *Statement of Revenues, Expenses, and Changes in Net Position*.

Unearned Revenues

Unearned revenue represents revenue collected but not earned as of June 30, 2015, primarily composed of revenue for grants and contracts, prepaid athletic ticket sales, and prepaid student tuition and fees. Summer Session I tuition and fees received during the fiscal year are considered earned at the end of the refund period, approximately June 15th of each year. Tuition and fees received prior to year end for Summer Session II are unearned and recognized as revenue in the next fiscal year. See Note 8 for a detailed list of unearned revenue amounts.

Noncurrent Liabilities

Noncurrent liabilities include: (1) the principal amounts of revenue bonds payable, notes payable and capital lease obligations with maturities greater than one year and (2) estimated amounts for accrued compensated absences, net pension liability, and other liabilities that will not be paid within the next fiscal year.

Deferred Outflows of Resources

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

Deferred Inflows of Resources

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

Net Position

The university's net position is classified as follows:

- Net investment in capital assets — Net investment in capital assets represents the university's total investment in capital assets, net of accumulated depreciation and outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets.
- Restricted component of net position, expendable — The expendable category of the restricted component of net position includes resources for which the university is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.
- Restricted component of net position, nonexpendable — The nonexpendable category of the restricted component of net position is comprised of endowment and similar type funds where donors or other external sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income to be expended or added to principal.
- Unrestricted component of net position — Unrestricted net position represents resources derived from student tuition and fees, state appropriations, recoveries of facilities and administrative (indirect) costs, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to educational departments and general operations of the university, and may be used at the discretion of the university's board of visitors to meet current expenses for any lawful purpose.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the university's policy is to apply the expense towards restricted resources before unrestricted resources.

Income Taxes

The university, as a political subdivision of the Commonwealth of Virginia, is excluded from federal income taxes under Section 115 (1) of the Internal Revenue Code, as amended.

Classifications of Revenues

The university has classified its revenues as either operating or non-operating revenues according to the following criteria:

- Operating revenues — Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship allowance; (2) sales and services of auxiliary enterprises, net of scholarship allowance; (3) most federal, state, local, and nongovernmental grants and contracts and federal appropriations; and (4) interest on institutional student loans.
- Non-operating revenues — Non-operating revenues are revenues received for which goods and services are not provided. State appropriations, gifts, and other revenue sources that are defined as non-operating revenues by GASB Statement 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement 34, *Basic Financial Statements-and Management's Discussion and Analysis—for State and Local Governments* are included in this category.

Scholarship Allowance

Student tuition and fees, certain auxiliary revenues and student financial assistance expenses are reported net of scholarship allowance in the *Statement of Revenues, Expenses, and Changes in Net Position*. Scholarship allowance is the difference between the stated charge for goods and services provided by the university and the amount paid by students and/or third parties making payments on the students' behalf. For the fiscal year ended June 30, 2015, the scholarship allowance for student tuition and fee revenue and auxiliary enterprise revenue totaled $96,017,000 and $22,258,000 respectively. Scholarship allowance to students is reported using the alternative method as prescribed by the National Association of College and University Business Officers (NACUBO). The alternative method is an algorithm that computes scholarship allowance on a university-wide basis rather than on an individual student basis.

Restatement of Prior Year Amounts

The university's prior year net position, as of June 30, 2014, has been restated. This restatement results from an increase in Depreciable Capital Assets due to the transfer of equipment from the foundation to the university. The restatement is as follows *(all dollars in thousands)*:

Net position, June 30, 2014	$	1,534,244
Depreciable capital assets		1,922
Restated net position, June 30, 2014	$	1,536,166

Beginning Balance Adjustment

The university's beginning net position, as of July 1, 2014 has been adjusted. The adjustment is due to the implementation of GASB Statement 68, *Accounting and Financial Reporting for Pensions*. Prior year balances were not restated for GASB Statement 68; only the beginning balances for fiscal year 2015 were adjusted. The adjustment is as follows *(all dollars in thousands)*:

Net position, July 1, 2015	$	1,536,166
Defined benefit pension liability		(414,457)
Deferred outflows of resources (GASB Statement 68)		21,689
Adjusted net position, July 1, 2015	$	1,143,398

Comparative Data

The university presents its financial information on a comparative basis. The basic financial statements include certain prior year summarized comparative information in total, but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, the prior year information should be read in conjunction with the university's financial statements for the year ended June 30, 2014, from which the summarized information was derived. Also the summarized comparative information presented does not include the necessary adjustments related to the implementation of GASB Statement 68 for the 2014 financial statements to be comparative with the 2015 financial statements. The information needed to make these adjustments is not available for prior years.

2. Related Parties

In addition to the component units discussed in Note 1, Virginia Tech also has related parties that were not considered significant. These financial statements do not include the assets, liabilities, and net position of the related parties that support university programs. The related parties of the university are: Virginia Tech Alumni Association, Virginia Tech Athletic Fund Inc., Virginia Tech Intellectual Properties Inc., Virginia Tech Corps of Cadets Alumni Inc., Virginia Tech Applied Research Corporation, Virginia Tech Innovation Corporation and any of the subsidiaries of these corporations.

The organizations are related to the university by affiliation agreements. These agreements require an annual audit to be performed by independent auditors. Affiliated organizations that hold no financial assets and certify all financial activities or transactions through the Virginia Tech Foundation Inc. may be exempt from the independent audit requirement. Exemption requirements are met by Virginia Tech Alumni Association, Virginia Tech Athletic Fund Inc., Virginia Tech Corp of Cadets Alumni Inc. and Virginia Tech Innovation Corporation. They are therefore not required to have an annual audit. Virginia Tech Intellectual Properties Inc. and Virginia Tech Applied Research Corporation are required to have an annual audit. Auditors have examined the financial records of these organizations and a copy of their audit reports have or will be provided to the university.

3. Local Government Support

The university, through the operation of its Cooperative Extension Service, maintains offices in numerous cities and counties throughout the Commonwealth of Virginia. Personnel assigned to these locations receive a portion of their compensation from local governments. Also included in the expenses of these extension offices are unit support services, which include such items as rent, telephone, supplies, equipment, and extension program expenses. The estimated amount contributed by the various local governments totaled $12,007,000 in 2015, and has been included in revenues and expenses of the accompanying financial statements. The university received other local government support of $2,342,000 in 2015.

4. Cash, Cash Equivalents, and Investments

The following information is provided with respect to the university's cash, cash equivalents and investments as of June 30, 2015. The following risk disclosures are required by GASB Statement 40, *Deposit and Investment Risk Disclosures*:

- Custodial credit risk (Category 3 deposits and investments) - The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The university had no category 3 deposits or investments for 2015.
- Credit risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. GASB Statement 40 requires the disclosure of the credit quality rating on any investments subject to credit risk.
- Concentration of credit risk – The risk of loss attributed to the magnitude of a government's investment in a single issuer is referred to as concentration of credit risk. GASB Statement 40 requires disclosure of any issuer with more than 5% of total investments. The university's investment policy requires its investment pools and sub-portfolios be diversified so that no more than 3% of the value of the respective portfolios is invested in securities of any single issuer. The university does not have investments subject to risks due to the concentration of credit.
- Interest rate risk – This is the risk that interest rate changes will adversely affect the fair value of an investment. GASB Statement 40 requires disclosure of maturities for any investments subject to interest rate risk. The university uses a duration methodology to measure the maturities of its investment portfolios. The university's *Statement of Policy Governing the Investment of University Funds* established two major allocations, Primary Liquidity and Extended Duration, managed by external investment firms. Asset allocations to Primary Liquidity are targeted at 75% of total investments with approximate maturities less than 90 days. The Extended Duration allocation may be structured into three sub-portfolios; a Short Duration Portfolio, an Intermediate Duration Portfolio and a Long Duration Portfolio.
- Foreign currency risk – This risk refers to the possibility that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The university had no foreign investments or deposits for 2015.

Cash and Cash Equivalents

Cash deposits held by the university are maintained in accounts that are collateralized in accordance with the *Virginia Security for Public Deposits Act (*Section 2.2-4400, et seq., *Code of Virginia)*. Cash and cash equivalents represent cash with the treasurer, cash on hand, certificates of deposit and temporary investments with original maturities of 90 days or less, and cash equivalents with the Virginia State Non-Arbitrage Program (SNAP). SNAP is an open-end management investment company registered with the Securities and Exchange Commission (SEC). Cash and cash equivalents reporting requirements are defined by GASB Statement 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting*.

Investments

A categorization of university investments follows. Short-term investments have an original maturity of over 90 days but less than or equal to one year. Long-term investments have an original maturity greater than one year.

Summary of investments

As of June 30, 2015

(all dollars in thousands)

	Current Assets	Noncurrent Assets	Total
Cash and cash equivalents	$ 311,531	$ 83,393	$ 394,924
Short-term investments	1,752	-	1,752
Long-term investments	-	220,660	220,660
Cash and investments	$ 313,283	$ 304,053	617,336
Less cash			117,911
Total cash equivalents and investments			$ 499,425

The investment policy of the university is established by the board of visitors and monitored by the board's Finance and Audit Committee. Authorized investments are set forth in the *Investment of Public Funds Act (*Section 2.2-4500 through 2.2-4516, et seq., *Code of Virginia)*. Authorized investments include: U.S. Treasury and agency securities, corporate debt securities, asset-backed securities, mortgage-backed securities, AAA rated obligations of foreign governments, bankers acceptances and bank notes, negotiable certificates of deposit, repurchase agreements and money market funds.

All gifts, local funds, and nongeneral fund reserves and balances the university determines appropriate and permitted by law may be invested in the VTF Consolidated Endowment Program. These funds are governed by the foundation's investment and spending policies, and managed in accordance with the provisions of the *Virginia Uniform Prudent Management of Institutional Funds Act.*

Categorization of credit quality and interest rate risk

Investments held on June 30, 2015

(all dollars in thousands)

	Credit Rating	Less than 1 Year	1-5 Years	6-10 Years	Fair Value
U.S. Treasury and Agency securities *(1)*	N/A	$ 8,980	$ 15,758	$ -	$ 24,738
Debt securities					
Corporate bonds & notes	A	-	3,026	-	3,026
Corporate bonds & notes *(2)*	A-	-	1,919	-	1,919
Corporate bonds & notes	A1	2,973	6,109	-	9,082
Corporate bonds & notes	A2	426	6,923	-	7,349
Corporate bonds & notes	A3	1,907	5,336	-	7,243
Corporate bonds & notes	Aa1	451	867	-	1,318
Corporate bonds & notes	Aa2	-	527	-	527
Corporate bonds & notes	Aaa	-	822	-	822
Repurchase agreements	N/A	5,076	-	-	5,076
Asset backed securities *(2)*	AAA	1,745	5,697	-	7,442
Asset backed securities	Aaa	6,922	13,680	-	20,602
Federal agency securities					
Unsecured bonds and notes	Aaa	256,335	10,737	-	267,072
Mortgage backed securities *(2)*	AAA	1,121	-	-	1,121
Mortgage backed securities	Aaa	3,354	22,970	-	26,324
Money market & mutual funds	Aaa	8,861	-	-	8,861
Commercial Paper	Aa	1,000	-	-	1,000
Other:					
Deposits with VTF	N/A	1,851	-	-	1,851
Dairymen's Equity	N/A	-	-	63	63
Short-term investment fund *(2)*	AAAm	168	-	-	168
SNAP *(2)*	AAAm	7,727	-	-	7,727
Subtotal		$ 308,897	$ 94,371	$ 63	403,331
Investments w/o specific maturities, held with VTF					96,094
Total					$ 499,425

(1) Credit quality ratings are not required for U.S. Government securities that are explicitly guaranteed by the U.S. Government.

(2) All ratings are from Moody's Investor Service except for these investments which are rated by Standard & Poors Financial Services.

5. Accounts Receivable

Accounts receivable consists of the following as of June 30, 2015 (*all dollars in thousands*):

Current receivables	
Grants and contracts	$ 46,859
Federal appropriations	596
Accrued investment interest	323
Student tuition and fees	2,166
Auxiliary enterprises and other operating activities	5,814
Total current receivables before allowance	55,758
Less allowance for doubtful accounts	1,820
Net current accounts receivable	53,938
Noncurrent receivables	
Capital gifts, grants and other receivables	3,953
Build America bonds interest receivable	150
Accrued investment interest	115
Total noncurrent receivables	4,218
Total receivables	$ 58,156

6. Notes Receivable

Notes receivable consists of the following as of June 30, 2015 (*all dollars in thousands*):

Current notes receivables		
Federal Perkins student loan program	$	1,547
Brookings student loan programs		150
Other short-term loans		121
Total current notes receivable		1,818
Less allowance for doubtful accounts		73
Net current notes receivable		1,745
Noncurrent notes receivables		
Federal Perkins student loan program		12,664
VTT LLC operating & equipment loan		4,000
VT-ARC operating loan		2,000
Brookings student loan programs		1,214
Health Professional student loan program		521
Other long-term notes receivable		312
Total noncurrent notes receivable		20,711
Less allowance for doubtful accounts		414
Net noncurrent notes receivable		20,297
Total notes receivable	$	22,042

7. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities at June 30, 2015, consist of the following *(all dollars in thousands):*

Accounts payable	$	41,006
Accounts payable, capital projects		20,361
Accrued salaries and wages payable		66,492
Retainage payable		2,843
Total current accounts payable and accrued liabilities	$	130,702

Retainage payable represents funds held by the university as retainage on various construction contracts for work performed. The funds retained will be remitted to the various contractors upon satisfactory completion of the construction projects.

8. Unearned Revenue

Unearned revenue consists of the following at June 30, 2015 *(all dollars in thousands):*

Grants and contracts	$	13,070
Prepaid athletic tickets		12,743
Prepaid tuition and fees		8,602
Other auxiliary enterprises		4,442
Total unearned revenue	$	38,857

9. Capital Assets

Changes in capital assets
For the year ending June 30, 2015 *(all dollars in thousands)*

	Beginning Balance *(restated)*	Additions	Retirements	Ending Balance
Depreciable capital assets				
Buildings*	$ 1,641,833	$ 48,740	$ 2,479	$ 1,688,094
Moveable equipment	474,083	44,300	17,920	500,463
Software and intangible assets	10,740	787	177	11,350
Fixed equipment	128,666	4,918	119	133,465
Infrastructure	120,448	749	20	121,177
Library books	76,099	937	735	76,301
Total depreciable capital assets, at cost	2,451,869	100,431	21,450	2,530,850
Less accumulated depreciation and amortization				
Buildings	443,044	43,621	1,661	485,004
Moveable equipment	331,275	40,788	16,392	355,671
Software and intangible assets	8,087	708	178	8,617
Fixed equipment	61,689	5,398	69	67,018
Infrastructure	91,211	2,565	7	93,769
Library books	65,104	2,083	736	66,451
Total accumulated depreciation and amortization	1,000,410	95,163	19,043	1,076,530
Total depreciable capital assets, less accumulated depreciation and amortization	1,451,459	5,269	2,408	1,454,320
Nondepreciable capital assets				
Land	46,184	-	2	46,182
Livestock	1,012	156	-	1,168
Construction in progress	54,025	93,682	31,644	116,063
Equipment in process	4,143	3,070	3,591	3,622
Software in development	2,440	1,303	-	3,743
Total nondepreciable capital assets	107,804	98,211	35,237	170,778
Total capital assets, less accumulated depreciation and amortization	$ 1,559,263	$ 103,480	$ 37,645	$ 1,625,098

*Includes capital leases.

10. Commonwealth Capital Reimbursement Programs and Capital Gifts

The commonwealth has established several programs to provide state-supported institutions of higher education with bond proceeds for financing the acquisition and replacement of instructional and research equipment and facilities. During fiscal year 2015, funding has been provided to the university from three programs (21st Century program, Central Maintenance Reserve program and the Equipment Trust Fund program) managed by the Virginia College Building Authority (VCBA). The VCBA issues bonds and uses the proceeds to reimburse the university and other institutions of higher education for expenses incurred in the acquisition of equipment and facilities. The university also receives capital funding for equipment and facilities from private gifts, grants, and contracts.

The *Statement of Revenues, Expenses, and Changes in Net Position* includes the amounts listed below for the year ended June 30, 2015, in "Capital Grants and Gifts" line item for equipment and facilities. Part of the funding for these programs is a receivable from the commonwealth at June 30, 2015 as shown in the subsequent paragraph (*all dollars in thousands*):

VCBA 21st Century program	$ 17,485
VCBA Central Maintenance Reserve program	6,543
VCBA Equipment Trust Fund program	12,619
Private gifts	9,749
Grants and contracts	6,365
	$ 52,761

The line items, "Due from the Commonwealth of Virginia", on the *Statement of Net Position* for the year ended June 30, 2015, represent pending reimbursements from the following programs (*all dollars in thousands*):

	Current	Noncurrent
VCBA Equipment Trust Fund program	$ 12,606	$ -
VCBA 21st Century program	-	2,943
	$ 12,606	$ 2,943

11. Short-term Debt

On March 31, 2008, the Virginia Tech Board of Visitors approved the short-term financing of capital projects with commercial paper issued through the Virginia Municipal League/Virginia Association of Counties (VML/VACo) commercial paper program. This tax-exempt commercial paper financing program gives the university access to a revolving facility to finance or refinance up to $50 million for capital projects under construction that have been previously approved for debt financing by either the board of visitors or the General Assembly of the Commonwealth of Virginia.

At June 30, 2015, the amount outstanding was $29,790,000. The average days-to-maturity was 27 days with a weighted average effective interest rate of 0.77%.

12. Summary of Long-term Indebtedness

Bonds Payable

The university has issued two categories of bonds pursuant to section 9 of Article X of the *Constitution of Virginia*.

Section 9(d) bonds are revenue bonds which are limited obligations of the university, payable exclusively from pledged general revenues, and which are not legal or moral debts of the Commonwealth of Virginia. Pledged general revenues include general fund appropriations, student tuition and fees, facilities and administrative (indirect) cost recoveries, auxiliary enterprise revenues, and other revenues not required by law to be used for another purpose. The university has issued section 9(d) bonds directly through underwriters and also participates in the Public Higher Education Financing Program (Pooled Bond Program) created by the Virginia General Assembly in 1996. Through the Pooled Bond Program, the Virginia College Building Authority issues section 9(d) bonds with the proceeds used to purchase debt obligations (notes) of the university and other institutions of higher education. The notes are secured by pledged general revenues of the university.

Section 9(c) bonds are general obligation revenue bonds issued by the Commonwealth of Virginia on behalf of the university and secured by the net revenues of the completed project and the full faith, credit, and taxing power of the Commonwealth of Virginia.

Bond covenants related to some of these bonds, both 9(c) and 9(d), established or continued groups of accounts called systems. The investment firms of Standish Mellon, Merganser, and Dana hold these systems in trust for managing the net revenues and debt service of certain university auxiliaries. The revenue bonds issued by the Dormitory and Dining Hall System, the University Services System (includes the Health Services, VT Rescue Squad, Career Services, Student Centers & Activities, Student Organizations, Recreational Sports, and the Center for the Arts auxiliaries), the Utility System (the Electric Service auxiliary), and the Athletic System are secured by a pledge of each system's net revenues generated from student or customer fees, and are further secured by the pledged general revenues of the university.

Notes Payable

Notes payable are debt obligations between the Virginia College Building Authority (VCBA) and the university. VCBA issues bonds through the Pooled Bond Program and uses the proceeds to purchase debt obligations (notes) of the university. The notes are secured by the pledged general revenues of the university.

Capital Leases

Capital leases represent the university's obligation primarily to the Virginia Tech Foundation Inc. for lease agreements related to facilities. The leased facilities include the Student Services building, the Public Safety building, the Hunter Andrews Information Systems building addition, the Integrated Life Sciences building (ILSB) which includes a separate lease for a Vivarium located in the ILSB, the North End Center building and parking garage, the Prince Street building in Alexandria, Virginia, Kentland Dairy complex, and a jet propulsion lab. The assets under capital lease are recorded at the net present value of the minimum lease payments during the lease term. Additions and retirements to capital leases include $3,358,000 for a jet propulsion lab since the university paid the leaseholder the for entire capital lease during fiscal year 2015.

Installment Purchase Obligations

The university has entered into various installment purchase contracts to finance the acquisition of equipment. The length of the purchase agreements ranges from two to five years with variable rates of interest. The outstanding principal is included in the "Long-term debt payable" line items on the *Statement of Net Position*.

Long-term Debt Payable Activity

As of June 30, 2015

(all dollars in thousands)

	Beginning Balance	Additions	Retirements	Ending Balance	Current Portion
Bonds payable					
Section 9(c) general obligation revenue bonds	$ 162,019	$ 14,277	$ 21,486	$ 154,810	$ 8,666
Section 9(d) revenue bonds	12,585	-	4,815	7,770	5,055
Notes payable	264,758	19,508	33,941	250,325	14,125
Capital lease obligations	66,718	17,970	6,107	78,581	3,892
Installment purchase obligations	33	-	22	11	11
Total long-term debt payable	$ 506,113	51,755	66,371	$ 491,497	$ 31,749
Current year debt defeasance		(33,785)	(30,961)		
Total additions/retirements, net of current year defeasance		$ 17,970	$ 35,410		

Future Principal Commitments

For fiscal years subsequent to 2015

(all dollars in thousands)

	Section 9(c) Bonds	Section 9(d) Bonds	Notes Payable	Capital Lease Obligations	Installment Purchase Obligations	Total Long-term Debt Payable
2016	$ 8,666	$ 5,055	$ 14,125	$ 3,892	$ 11	$ 31,749
2017	9,116	635	14,790	3,431	-	27,972
2018	7,972	665	15,340	3,608	-	27,585
2019	8,032	690	16,080	3,786	-	28,588
2020	8,203	725	16,090	3,971	-	28,989
2021 - 2025	46,118	-	70,740	18,318	-	135,176
2026 - 2030	43,673	-	62,980	18,776	-	125,429
2031 - 2035	7,860	-	17,245	17,219	-	42,324
2036 - 2038	-	-	3,626	5,580	-	9,206
Unamortized premium	15,170	-	19,309	-	-	34,479
Total future principal requirements	$ 154,810	$ 7,770	$ 250,325	$ 78,581	$ 11	$ 491,497

Future Interest Commitments

For fiscal years subsequent to 2015

(all dollars in thousands)

	Section 9(c) Bonds	Section 9(d) Bonds	Notes Payable	Capital Lease Obligations	Installment Purchase Obligations	Total Long-term Debt Payable
2016	$ 6,304	$ 356	$ 10,105	$ 3,716	$ -	$ 20,481
2017	5,949	122	9,408	3,405	-	18,884
2018	5,541	93	8,675	3,241	-	17,550
2019	5,195	64	7,911	3,072	-	16,242
2020	4,845	33	7,137	2,898	-	14,913
2021 - 2025	18,476	-	25,390	11,783	-	55,649
2026 - 2030	7,493	-	10,640	7,007	-	25,140
2031 - 2035	894	-	2,378	3,169	-	6,441
2036 - 2038	-	-	131	311	-	442
Total future interest requirements	$ 54,697	$ 668	$ 81,775	$ 38,602	$ -	$ 175,742

Future Principal Commitments by System
For fiscal years subsequent to 2015
(all dollars in thousands)

	Section 9(c) Bonds	Section 9(d) Bonds	Notes Payable	Capital Lease Obligations	Installment Purchase Obligations	Total Long-term Debt Payable
Athletic system						
Principal	$ -	$ 500	$ 49,240	$ -	$ -	$ 49,740
Unamortized premiums (discounts)	-	-	5,722	-	-	5,722
Total for athletic system	-	500	54,962	-	-	55,462
Dormitory and dining hall system						
Principal	115,067	675	16,850	-	-	132,592
Unamortized premiums (discounts)	12,090	-	951	-	-	13,041
Total for dormitory and dining hall system	127,157	675	17,801	-	-	145,633
University services system						
Principal	-	1,770	54,200	-	-	55,970
Unamortized premiums (discounts)	-	-	2,850	-	-	2,850
Total for university services system	-	1,770	57,050	-	-	58,820
Utility system						
Principal	-	-	2,710	-	-	2,710
Unamortized premiums (discounts)	-	-	133	-	-	133
Total for utility system	-	-	2,843	-	-	2,843
All systems						
Principal	115,067	2,945	123,000	-	-	241,012
Unamortized premiums (discounts)	12,090	-	9,656	-	-	21,746
Total for all systems	127,157	2,945	132,656	-	-	262,758
Other nonsystem debt						
Principal	24,573	4,825	108,016	78,581	11	216,006
Unamortized premiums (discounts)	3,080	-	9,653	-	-	12,733
Total for other nonsystem debt	27,653	4,825	117,669	78,581	11	228,739
Total future principal commitments	$ 154,810	$ 7,770	$ 250,325	$ 78,581	$ 11	$ 491,497

13. Detail of Long-term Indebtedness

As of June 30, 2015
(all dollars in thousands)

	Interest rates	Maturity	Principal Payable	Unamortized Premium (Discount)	Ending Balance
Bonds Payable					
Revenue bonds - Section 9(d)					
Athletic system					
Series 2004D, issued $4,155 - refunding series 1996A*	2.00% - 5.00%	2016	$ 500	$ -	$ 500
Total athletic system			500	-	500
Dormitory and dining hall system					
Series 2004A, issued $2,710 - refunded series 1996A*	2.00% - 5.00%	2016	325	-	325
Series 2004A, issued $1,665 - refunded series 1996A*	2.00% - 5.00%	2016	205	-	205
Series 2004B, issued $1,265 - refunded series 1996B*	2.00% - 4.00%	2016	145	-	145
Total dormitory and dining hall system			675	-	675
University services system					
Health Services auxiliary					
Series 2004C, issued $15,105 - refunding series 1996C*	2.00% - 5.00%	2016	1,770	-	1,770
Total university services system			1,770	-	1,770
Other nonsystem debt					
Burchard Hall					
Series 20041, issued $4,685 - refunding series 1996A*	2.00% - 5.00%	2016	570	-	570
Coal fired boiler facility					
Series 2004A, issued $6,005 - refunding series 1996A*	2.00% - 5.00%	2016	725	-	725
Series 2004A, issued $1,585 - refunding series 1996A*	2.00% - 5.00%	2016	195	-	195
Northern Virginia Graduate Center					
Series 2004A, issued $7,860 - refunding series 1996A*	2.00% - 5.00%	2020	3,335	-	3,335
Total other nonsystem debt			4,825	-	4,825
Total revenue bonds			$ 7,770	$ -	$ 7,770

General obligation revenue bonds - Section 9(c)					
Dormitory and dining hall system					
Series 2014B, issued $3,150 - partial refunding series 2004B*	2.00% - 5.00%	2017	$ 2,387	$ 178	$ 2,565
Series 2014B, issued $793 - partial refunding series 2004B*	2.00% - 5.00%	2018	663	64	727
Series 2014B, issued $587 - partial refundings series 2004B*	2.00% - 5.00%	2019	517	59	576
Series 2007A, issued $5,995	4.00% - 5.00%	2018	915	46	961
Series 2013B, issued $3,576 - partial refunding series 2007A*	4.00% - 5.00%	2027	3,576	567	4,143
Series 2009B, issued $3,720	4.00% - 5.00%	2029	3,145	442	3,587
Series 2009B, issued $39,005	4.00% - 5.00%	2022	32,980	4,637	37,617
Series 2011A, issued $18,860	4.34%	2031	16,685	1,451	18,136
Series 2007A, issued $13,130	4.00% - 5.00%	2018	2,000	100	2,100
Series 2013B, issued $7,842 - partial refunding series 2007A*	4.00% - 5.00%	2027	7,842	1,243	9,085
Series 2008B, issued $17,185	3.00% - 5.00%	2028	2,375	117	2,492
Series 2015B, issued $10,671 - partial refunding series 2008B*	4.00% - 5.00%	2028	10,671	2,295	12,966
Series 2009D, issued $1,891 - partial refunding series 2004A*	5.00%	2022	1,891	221	2,112
Series 2012A, issued $942 - partial refunding series 2004A*	5.00%	2024	705	177	882
Series 2010A, issued $34,650	3.00% - 5.00%	2030	28,715	493	29,208
Total dormitory and dining hall system			115,067	12,090	127,157
Other nonsystem general obligation revenue bonds					
Parking facilities					
Series 2014B, issued $300 - partial refunding series 2004B*	2.00% - 5.00%	2017	229	17	246
Series 2006B, issued $685	4.00% - 5.00%	2016	30	2	32
Series 2009D, issued $190 - partial refunding series 2006B*	5.00%	2022	190	22	212
Series 2013B, issued $218 - partial refunding series 2006B*	4.00% - 5.00%	2026	218	31	249
Series 2008B, issued $1,545	3.00% - 5.00%	2028	205	10	215
Series 2015B, issued $921 - partial refunding series 2008B*	4.00% - 5.00%	2028	921	198	1,119
Series 2009C, issued $276 - partial refunding series 2002*	3.00% - 4.00%	2017	170	9	179
Series 2009B, issued $24,590	4.00% - 5.00%	2034	22,010	2,781	24,791
Series 2010A, issued $745	2.00% - 5.00%	2030	600	10	610
Total other nonsystem general obligation revenue bonds			24,573	3,080	27,653
Total general obligation revenue bonds			139,640	15,170	154,810
Total bonds payable			$ 147,410	$ 15,170	$ 162,580

Notes Payable					
Athletic system					
Series 2007B, issued $2,860 - partial refunding series 2001A*	4.00% - 4.50%	2020	$ 2,795	$ -	$ 2,795
Series 2010B, issued $11,540 - partial refunding series 2001A*	4.00% - 5.00%	2027	9,285	748	10,033
Series 2009B, issued $8,705	2.00% - 5.00%	2030	7,260	617	7,877
Series 2012B, issued $32,365 - refunding series 2004D*	3.00% - 5.00%	2029	29,900	4,357	34,257
Total athletic system			49,240	5,722	54,962
Dormitory and dining hall system					
Series 2014B, issued $3,695 - refunding series 2004B*	3.00% - 5.00%	2019	3,695	341	4,036
Series 2005, issued $2,815	3.50% - 5.00%	2017	135	8	143
Series 2012A, issued $1,350 - partial refunding series 2005*	5.00%	2025	1,350	216	1,566
Series 2014B, issued $340 - partial refunding series 2005*	3.00% - 5.00%	2026	340	36	376
Series 2007B, issued $3,395 - partial refunding 1998A*	4.00% - 4.50%	2019	2,765	-	2,765
Series 2010A, issued $9,650	3.75% - 5.50%	2031	8,565	350	8,915
Total dormitory and dining hall system			16,850	951	17,801
University services system					
Career Services auxiliary					
Series 2007B, issued $1,621 - partial refunding series 2002A*	4.00% - 4.50%	2020	1,335	18	1,353
Series 2010B, issued $1,190 - partial refunding series 2002A*	5.25%	2023	975	129	1,104
Center for the Arts auxiliary					
Series 2010B, issued $19,445	3.75% - 5.60%	2036	17,880	531	18,411
Series 2011A, issued $19,375	3.00% - 5.00%	2037	18,435	828	19,263

Health Services auxiliary					
Series 2009A, issued $1,475	2.75% - 5.00%	2029	1,145	55	1,200
Series 2009B, issued $4,365	2.00% - 5.00%	2030	3,750	335	4,085
Series 2009B, issued $12,420	2.00% - 5.00%	2030	10,680	954	11,634
Total university services system			54,200	2,850	57,050
Utility system					
Series 2007B, issued $646 - partial refunding series 2000A*	4.00% - 5.00%	2020	637	-	637
Series 2010B, issued $345 - partial refunding series 2000A*	5.00% - 5.75%	2021	215	25	240
Series 2014B, issued $350 - refunding series 2004B*	3.00% - 5.00%	2017	350	12	362
Series 2007B, issued $1,060 - partial refunding series 2002A*	4.00% - 4.50%	2020	873	12	885
Series 2010B, issued $770 - partial refunding series 2002A*	5.25%	2023	635	84	719
Total utility system			2,710	133	2,843
Other nonsystem notes payable					
Campus heating plant					
Series 2007A, issued $3,880	4.50% - 5.00%	2028	1,135	47	1,182
Series 2014B, issued $1,790 - partial refunding series 2007A*	3.00% - 5.00%	2026	1,790	313	2,103
Series 2009B, issued $5,875	2.00% - 5.00%	2030	4,895	417	5,312
Chiller plant					
Series 2011A, issued $12,695	3.00% - 5.00%	2032	6,995	495	7,490
Infectious waste facility					
Series 2007B, issued $359 - partial refunding series 2000A*	4.00% - 4.50%	2020	354	-	354
Series 2010B, issued $190 - partial refunding series 2000A*	5.00% - 5.75%	2021	120	14	134
Series 2014B, issued $195 - refunding series 2004B*	3.00% - 5.00%	2017	195	7	202
Boiler pollution controls					
Series 2006A, issued $1,925	3.00% - 5.00%	2027	595	14	609
Series 2014B, issued $720 - partial refunding series 2006A*	3.00% - 5.00%	2024	720	119	839
Goodwin Hall					
Series 2011A, issued $13,410	5.00%	2020	10,045	1,127	11,172
Series 2011A, issued $12,695	3.00% - 5.00%	2032	11,815	835	12,650
Holtzman Alumni Center and Skelton Conference Center					
Series 2010B, issued $3,215 - partial refunding series 2003A*	4.38% - 5.00%	2021	3,215	366	3,581
Series 2012A, issued $12,320 - partial refunding series 2003A*	4.75%	2031	11,575	990	12,565
ICTAS-II					
Series 2009B, issued $13,045	2.00% - 5.00%	2030	11,220	1,002	12,222
Kelly Hall					
Series 2006A, issued $16,145	3.00% - 5.00%	2027	4,970	119	5,089
Series 2014B, issued $6,040 - partial refunding series 2006A*	3.00% - 5.00%	2024	6,040	1,001	7,041
Life Sciences-I					
Series 2005, issued $8,295	3.50% - 5.00%	2017	390	24	414
Series 2012A, issued $3,985 - partial refunding series 2005*	5.00%	2025	3,985	636	4,621
Series 2014B, issued $1,005 - partial refunding series 2005*	3.00% - 5.00%	2026	1,005	108	1,113
Surge space building					
Series 2006A, issued $7,025	4.00% - 5.00%	2022	985	70	1,055
Series 2014B, issued $2,730 - partial refunding series 2006A*	3.00% - 5.00%	2022	2,730	404	3,134
Veterinary medicine instruction addition					
Series 2012B, issued $9,820	3.00% - 5.00%	2033	9,185	1,027	10,212
Virginia Bioinformatics Institute					
Series 2007B, issued $5,649 - partial refunding series 2002A*	4.00% - 4.50%	2020	4,652	64	4,716
Series 2010B, issued $10,155 - partial refunding series 2002A*	4.00% - 5.25%	2028	9,405	454	9,859
Total other nonsystem notes payable			108,016	9,653	117,669
Total notes payable			$ 231,016	$ 19,309	$ 250,325

Other Long-term Debt			
Capital leases payable			
North End Center building and parking garage	$ 41,305	$ -	$ 41,305
Kentland Farm dairy complex	14,612	-	14,612
Integrated Life Sciences (ILSB) building and vivarium	13,736	-	13,736
Student Services building, Public Safety building, Hunter Andrews addition, and Prince Street building	8,928	-	8,928
Total capital leases payable	78,581	-	78,581
Installment purchase obligations for equipment purchases	11	-	11
Total other long-term debt	$ 78,592	$ -	$ 78,592

14. Long-term Debt Defeasance

Current Year

The Commonwealth of Virginia, on behalf of the university, issued $14,268,000 of section 9(c) general obligation revenue bonds and $19,434,000 of notes payable to refund $12,343,000 of section 9(c) general obligation revenue bonds and $18,503,000 of notes payable during fiscal year 2015. The resulting net loss of $2,856,000 will be amortized over the life of the new debt. For financial reporting purposes, these bonds are considered an in-substance defeasance and have therefore been removed from the long-term debt payable line item of the *Statement of Net Position*. The assets in escrow have similarly been excluded. The details of each refunded debt issue are presented below.

Long-term Debt Defeasance

Debt issues refunded as of June 30, 2015

(all dollars in thousands)

	Debt Refunded	Refunding Debt Issued	Accounting Gain (Loss)	True Interest Cost	Reduction in Debt Service	Reduction in Debt Service Discounted at TIC
Section 9(c) general obligation revenue bonds						
Series 2008B, issued $17,185*	$ 10,965	$ 10,671	$ 294	2.26%	$ 688	$ 626
Series 2008B, issued $1,545*	955	921	34	2.26%	72	65
Premiums (Discounts)	423	2,685	(2,262)			
Other accounting activity related to debt refunding	-	(9)	9			
Total for general obligation revenue bonds	12,343	14,268	(1,925)		760	691
Notes payable						
Series 2004B, issued $7,420	4,030	3,695	335	2.10%	342	320
Series 2004B, issued $870	362	350	12	2.10%	17	17
Series 2004B, issued $480	203	195	8	2.10%	14	14
Series 2005, issued $8,295*	1,045	1,005	40	2.10%	86	77
Series 2005, issued $2,815*	355	340	15	2.10%	32	28
Series 2006A, issued $16,145*	6,520	6,040	480	2.10%	691	621
Series 2006A, issued $1,925*	775	720	55	2.10%	80	72
Series 2006A, issued $7,025*	2,940	2,730	210	2.10%	291	266
Series 2007A, issued $3,880*	1,890	1,790	100	2.10%	157	138
Premiums (discounts)	498	2,643	(2,145)			
Other accounting activity related to debt refunding	(115)	(74)	(41)			
Total for notes payable	18,503	19,434	(931)		1,710	1,553
Total for all debt	$ 30,846	33,702	$ (2,856)		$ 2,470	$ 2,244
Other debt proceeds		(45)				
Debt issuance costs		128				
Total refunding debt issued		$ 33,785				

*Partial refunding

Previous Years

During previous fiscal years in accordance with GASB Statement 7, *Advance Refundings Resulting in the Defeasance of Debt*, the university has excluded from its financial statements the assets in escrow and the debt payable that was defeased in-substance. For the year ended June 30, 2015, bonds and notes payable considered defeased in previous years totaled $17,410,000.

Debt Defeasance – Gains (Losses)

Prior to fiscal year 2014, gains and losses from the defeasance of long-term debt were netted and included in the long-term debt payable (current and noncurrent) and depreciable capital assets, net categories on the *Statement of Net Position*. Beginning in fiscal year 2014, GASB 65, *Items Previously Reported as Assets and Liabilities*, reclassifies gains and losses on defeased debt to deferred outflows of resources or deferred inflows of resources. The tables below provide detail on the unamortized gains and losses included in the deferred outflows of resources and deferred inflows of resources by bond category for defeased outstanding debt from the current and prior years.

Deferred Outflows for Debt Defeasance
As of June 30, 2015
(all dollars in thousands)

	Beginning Balance	Additions	Retirements	Ending Balance
Bonds payable				
Section 9(c) general obligation revenue bonds	$ (1,667)	$ (1,925)	$ 273	$ (3,319)
Section 9(d) revenue bonds	(425)	-	166	(259)
Notes payable	(3,964)	(931)	569	(4,326)
Total deferred outflows for debt defeasance	$ (6,056)	$ (2,856)	$ 1,008	$ (7,904)

Deferred Inflows for Debt Defeasance
As of June 30, 2015
(all dollars in thousands)

	Beginning Balance	Additions	Retirements	Ending Balance
Bonds payable				
Section 9(c) general obligation revenue bonds	$ 236	$ -	$ (59)	$ 177
Section 9(d) revenue bonds	-	-	-	-
Notes payable	1,024	-	(67)	957
Total deferred inflows for debt defeasance	$ 1,260	$ -	$ (126)	$ 1,134

15. Change in Other Liabilities

A summary of the changes in other liabilities for the year ended June 30, 2015
(all dollars in thousands)

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Accrued compensated absences	$ 42,509	$ 32,642	$ 32,153	$ 42,998	$ 23,862
Federal student loan program contribution refundable	13,659	211	191	13,679	-
Net pension liability	-	357,622	-	357,622	-
Total other liabilities	$ 56,168	$ 390,475	$ 32,344	$ 414,299	$ 23,862

16. Lease Commitments

The university has entered into numerous agreements to lease land, buildings, and equipment. With some of these agreements, the university is committed under various operating leases for equipment and space. In general, the leases are for three- to ten-year terms with renewal options. The university expects similar leases to replace these leases during the normal course of business. The total lease expense was approximately $19,842,000 for the year ended June 30, 2015. This amount includes approximately $7,217,000 in lease payments to the Virginia Tech Foundation Inc. for office and laboratory space. In addition, the total lease expense includes approximately $1,918,000 of short-term equipment rentals that can be terminated at any time. The short-term equipment rental costs are not included in the summary of future lease payments listed in the table below.

A summary of future minimum lease payments under operating leases as of June 30, 2015, follows *(all dollars in thousands)*:

2016	$	18,709
2017		15,685
2018		12,297
2019		9,988
2020 – 2024		18,366
2025 – 2029		2,835
2030 – 2034		1,806
2035 – 2039		1,556
2040 – 2044		1,556
2045 – 2049		1,556
2050 – 2054		1,556
2055 – 2059		1,556
2060 – 2063		1,122
Total	$	88,588

17. Capital Improvement Commitments

The amounts listed in the following tables represent the value of obligations remaining on capital improvement project contracts. These obligations are for future effort and as such have not been accrued as expenses or liabilities on the university's financial statements. Outstanding contractual commitments for capital improvement projects at June 30, 2015, are listed below.

Capital Commitments by Project

(all dollars in thousands)

Upper quad residential facilities	$	37,388
New classroom building		25,267
Renovation of academic buildings		1,429
McBryde auditorium renovation		1,051
Other projects		889
Total	$	66,024

Capital Commitments by Funding Source

(all dollars in thousands)

Bonds and notes payable	$	28,131
Capital grants and gifts		23,995
Private funds		35
Education and general funds, and university cost recoveries		4,285
Auxiliary enterprise funds		9,578
Total	$	66,024

18. Pension Plan

Plan Description

All full-time, salaried permanent employees of state institutions are automatically covered by the VRS State Employee Retirement Plan (SERP) or the VaLORS Retirement Plan upon employment, unless they are eligible faculty and choose to enroll in the optional retirement program described in Note 19. These plans are single-employer plans treated as cost-sharing plans for financial reporting purposes. They are administered by the Virginia Retirement System (VRS, or the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer are pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the *Code of Virginia*, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

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

Retirement Plan Provisions by Plan Structure

About Plan 1

Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.

About Plan 2

Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.

About the Hybrid Retirement Plan

The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window (see "Eligible Members").

- The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.
- The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.
- In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.

Eligible Members

Eligible Members - Plan 1

Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.

VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.

The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.

If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.

Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.

Eligible Members - Plan 2

Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.

Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.

The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.

If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.

Eligible Members - Hybrid Plan

State employees, with some exceptions described in the next paragraph, are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. In addition, members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014

Some employees are not eligible to participate in the Hybrid Retirement Plan. They include members of the Virginia Law Officers' Retirement System (VaLORS), and employees eligible for an optional retirement plan (ORP) who have prior service under Plan 1 or Plan 2. These employees must select Plan 1 or Plan 2 (as applicable) or the ORP plan.

Retirement Contributions

Retirement Contributions - Plan 1

State employees, excluding state elected officials, and optional retirement plan participants, contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.

Retirement Contributions - Plan 2

State employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction.

Retirement Contributions - Hybrid Plan

A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.

Creditable Service

Creditable service - Plan 1

Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.

Creditable Service - Plan 2

Same as Plan 1.

Creditable Service - Hybrid Plan

Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.

Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.

Vesting

Vesting - Plan 1

Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.

Members are always 100% vested in the contributions that they make.

Vesting - Plan 2

Same as Plan 1.

Vesting - Hybrid Plan

Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.

Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.

Members are always 100% vested in the contributions that they make.

Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.

- After two years, a member is 50% vested and may withdraw 50% of employer contributions.
- After three years, a member is 75% vested and may withdraw 75% of employer contributions.
- After four or more years, a member is 100% vested and may withdraw 100% of employer contributions.

Distribution is not required by law until age 70½.

Calculating the Benefit

Calculating the Benefit - Plan 1

The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.

An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.

Calculating the Benefit - Plan 2

See definition under Plan 1.

Calculating the Benefit - Hybrid Plan

For the defined benefit component see definition under Plan 1

The benefit for the defined contribution component is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.

Average Final Compensation

Average Final Compensation - Plan 1
A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.

Average Final Compensation - Plan 2
A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.

Average Final Compensation - Hybrid Plan
Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.

Service Retirement Multiplier

Service Retirement Multiplier - Plan 1
For SERP, the retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%. For VaLORS, the retirement multiplier is 1.70% or 2.00%.

Service Retirement Multiplier - Plan 2
For SERP, same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013. For VaLORS, the retirement multiplier is 2.00%.

Service Retirement Multiplier - Hybrid Plan
For SERP, the multiplier for the defined benefit component is 1.00%.For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans. The service retirement multiplier is not applicable for the defined contribution component. For VaLORS, the hybrid plan service retirement multiplier is not applicable.

Normal Retirement Age

Normal Retirement Age - Plan 1
For SERP, the normal retirement age is 65. For VaLORS, the normal retirement age is 60.

Normal Retirement Age - Plan 2
For SERP, the normal retirement age is the same as the normal Social Security retirement age. For VaLORS, the normal retirement age is 60.

Normal Retirement Age - Hybrid Plan
For SERP, the normal retirement age for the defined benefit component is the same as plan 2, and members are eligible to receive distributions from the defined contribution component upon leaving employment, subject to restrictions. For VaLORS, the hybrid plan normal retirement ages is not applicable.

Earliest Unreduced Retirement Eligibility

Earliest Unreduced Retirement Eligibility - Plan 1
For SERP: age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service. For VaLORS: age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.

Earliest Unreduced Retirement Eligibility - Plan 2
For SERP: normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90. For VaLORS: same as Plan 1.

Earliest Unreduced Retirement Eligibility - Hybrid Plan
For SERP: normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.

Members are eligible to receive distributions from the defined contribution component upon leaving employment, subject to restrictions. For VaLORS, the earliest unreduced retirement age is not applicable.

Earliest Reduced Retirement Eligibility

Earliest Reduced Retirement Eligibility - Plan 1
For SERP: Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service. For VaLORS: 50 with at least five years of creditable service.

Earliest Reduced Retirement Eligibility - Plan 2
For SERP: Age 60 with at least five years (60 months) of creditable service. For VaLORS: Same as Plan 1.

Earliest Unreduced Retirement Eligibility - Hybrid Plan
For SERP: Age Members may retire with a reduced defined benefit as early as age 60 with at least five years (60 months) of creditable service. Members are eligible to receive defined contribution distributions upon leaving employment, subject to restrictions. For VaLORS: Not applicable.

Cost-of-Living Adjustment (COLA) in Retirement

Cost-of-Living Adjustment (COLA) in Retirement - Plan 1
The COLA matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.

For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.

For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.

The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:

- The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.
- The member retires on disability.
- The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).
- The member Is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.
- The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.

Cost-of-Living Adjustment (COLA) in Retirement - Plan 2
The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%. The eligibility rules and exceptions are the same as Plan 1.

Cost-of-Living Adjustment (COLA) in Retirement - Hybrid Plan
For the defined benefit component, the COLA is the same as Plan 2. For the defined contribution component, the COLA is not applicable. The eligibility rules and exceptions are the same as Plan 1.

Disability Coverage

Disability Coverage - Plan 1
Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.

Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.

VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.

Disability Coverage - Plan 2

Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.

Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.

VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

Disability Coverage - Hybrid Plan

State employees (including Plan 1 and Plan 2 opt-ins) participating in the Hybrid Retirement Plan are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.

Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VSDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.

Purchase of Prior Service

Purchase of Prior Service - Plan 1

Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.

Purchase of Prior Service - Plan 2

Same as Plan 1.

Purchase of Prior Service - Hybrid Plan

For the defined benefit component, the purchase of prior service is the same as Plan 1, with the following exceptions:

- Hybrid Retirement Plan members are ineligible for ported service.
- The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation.
- Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost.

For the defined contribution component, purchase of prior service is not applicable.

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, the 5.00% member contribution was paid by the employer. Beginning July 1, 2012 state employees were required to pay the 5.00% member contribution and the employer was required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. Each state agency's contractually required contribution rate for the year ended June 30, 2015 was 12.33% of covered employee compensation for employees in the VRS State Employee Retirement Plan and 17.67% of covered employee compensation for employees in the VaLORS Retirement Plan. These rates were based on an actuarially determined rate from an actuarial valuation as of June 30, 3013. The actuarial rate for the VRS State Employee Retirement Plan was 15.80% and the actuarial rate for VaLORS Retirement Plan was 21.06%. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employee during the year, with an additional amount to finance any unfunded accrued liability. Based on the provisions of §51.1-145 of the *Code of Virginia*, as amended, the contributions for the VRS State Employee Retirement Plan were funded at 78.02% of the actuarial rate and the contributions for the VaLORS Retirement Plan were funded at 83.88% of the actuarial rate for the year ended June 30, 2015. Contributions from Virginia Tech to the VRS State Employee Retirement Plan were $21,325,000 and $30,392,000 for the years ended June 30, 2014 and June 30, 2015, respectively. Contributions from Virginia Tech to the VaLORS Retirement Plan were $364,000 and $397,000 for the years ended June 30, 2014 and June 30, 2015, respectively.

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

At June 30, 2015, Virginia Tech reported a liability of $352,916,000 for its proportionate share of the VRS State Employee Retirement Plan Net Pension Liability and a liability of $4,706,000 for its proportionate share of the VaLORS Retirement Plan Net Pension Liability. The Net Pension Liability was measured as of June 30, 2014 and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. Virginia Tech's proportion of the Net Pension Liability was based on Virginia Tech's actuarially determined employer contributions to the pension plan for the year ended June 30, 2014 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2014, Virginia Tech's proportion of the VRS State Employee Retirement Plan was 6.304% as compared to 6.230% at June 30, 2013. At June 30, 2014, Virginia Tech's proportion of the VaLORS Retirement Plan was 0.698% as compared to 0.716% at June 30, 2013.

For the year ended June 30, 2015, Virginia Tech recognized pension expense of $24,550,000 for the VRS State Employee Retirement Plan and $284,000 for the VaLORS Retirement Plan. Since there was a change in proportionate share between June 30, 2013 and June 30, 2014, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

At June 30, 2015, Virginia Tech reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources *(all dollars in thousands):*

	SERP		VaLORS	
	Deferred Outflows	Deferred Inflows	Deferred Outflows	Deferred Inflows
Differences between expected and actual experience	$ -	$ -	$ -	$ -
Change in assumptions	-	-	-	-
Net difference between projected and actual earnings on pension plan investments	-	62,991	-	487
Changes in proportion and differences between employer contributions and proportionate share of contributions	3,595	-	-	97
Employer contributions subsequent to the measurement date	30,392	-	397	-
Total	$ 33,987	$ 62,991	$ 397	$ 584

A total of $30,789,000 ($30,392,000 for SERP and $397,000 for VaLORS) reported as deferred outflows of resources related to pensions resulting from Virginia Tech's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows *(all dollars in thousands):*

Year ended June 30	SERP	VaLORS	Total
2016	$ 14,500	$ 159	$ 14,659
2017	$ 14,500	$ 159	$ 14,659
2018	$ 14,649	$ 145	$ 14,794
2019	$ 15,747	$ 121	$ 15,868

Actuarial Assumptions

VRS State Employee Retirement Plan (SERP)

The total pension liability for the VRS State Employee Retirement Plan was based on an actuarial valuation as of June 30, 2013, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2014.

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

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

Mortality rates

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

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

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

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

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

VaLORS Retirement Plan

The total pension liability for the VaLORS Retirement Plan was based on an actuarial valuation as of June 30, 2013, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2014.

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

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

Mortality rates

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

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

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

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

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

Net Pension Liability

The net pension liability (NPL) is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB Statement 67, less that system's fiduciary net position. As of June 30, 2014, NPL amounts for the VRS State Employee Retirement Plan and the VaLORS Retirement Plan are as follows (*all dollars in thousands*):

	SERP	VaLORS
Total pension liability	$ 21,766,933	$ 1,824,577
Plan fiduciary net position	16,168,535	1,150,450
Employers' net pension liability (asset)	$ 5,598,398	$ 674,127
Plan fiduciary net position as a percentage of the total pension liability	74.28%	63.05%

The total pension liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net pension liability is disclosed in accordance with the requirements of GASB Statement 67 in the System's notes to the financial statements and required supplementary information.

Long-Term Expected Rate of Return

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

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

Asset Class (Strategy)	Target Allocation	Arithmetic Long-term Expected Rate of Return	Weighted Average Long-term Expected Rate of Return
U.S. Equity	19.5%	6.5%	1.3%
Developed Non-U.S. Equity	16.5%	6.3%	1.0%
Emerging Market Equity	6.0%	10.0%	0.6%
Fixed Income	15.0%	9.0%	0.0%
Emerging Debt	3.0%	3.5%	0.1%
Rate-sensitive Credit	4.5%	3.5%	0.2%
Non-rate-sensitive Credit	4.5%	5.0%	0.2%
Convertibles	3.0%	4.8%	0.1%
Public Real Estate	2.3%	6.1%	0.1%
Private Real Estate	12.8%	7.1%	0.9%
Private Equity	12.0%	10.4%	1.3%
Cash	1.0%	-1.5%	-0.0%
Total	100.0%		5.8%
Inflation			2.5%
Expected arithmetic nominal return*			8.3%

Discount Rate

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

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

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

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
Virginia Tech's proportionate share of the SERP net pension liability	$ 516,986	$ 352,916	$ 215,338
Virginia Tech's proportionate share of the VaLORS net pension liability	$ 6,431	$ 4,706	$ 3,288

Pension Plan Fiduciary Net Position

Detailed information about the VRS State Employee Retirement Plan's Fiduciary Net Position or the VaLORS Retirement Plan's Fiduciary Net Position is available in the separately issued VRS 2014 Comprehensive Annual Financial Report (CAFR). A copy of the 2014 VRS CAFR may be downloaded from the VRS web-site at http://www.varetire.org/Pdf/Publications/2014-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

19. Defined Contribution Plans

Optional Retirement Plan

Full-time faculty and certain administrative staff may participate in optional retirement plans as authorized by the *Code of Virginia* rather than the VRS retirement plan. These optional retirement plans are defined contribution plans offered through Teachers Insurance and Annuity Association – College Retirement Equities Fund (TIAA-CREF), and Fidelity Investments Tax-Exempt Services Company. There are two defined contribution plans. Plan 1 is for employees hired prior to July 1, 2010, and retirement benefits received are based upon the employer's 10.4 percent, plus net investment gains or losses. Plan 2 is for employees hired on or after July 1, 2010, and retirement benefits received are based upon the employer's 8.5 percent contribution and the employee's 5.0 percent contribution plus net investment gains or losses. Individual contracts issued under the plan provide for full and immediate vesting of both the university's and the employee's contributions. Total pension costs under this plan were approximately $22,693,000 for year ended June 30, 2015. Contributions to the optional retirement plan were calculated using the base salary amount of approximately $232,490,000 for this fiscal year.

Deferred Compensation Plan

Employees of the university are employees of the Commonwealth of Virginia. State employees may participate in the commonwealth's Deferred Compensation Plan. Participating employees can contribute to the plan each pay period with the commonwealth matching up to $20 per pay period. The dollar amount match can change depending on the funding available in the commonwealth's budget. The Deferred Compensation Plan is a qualified defined contribution plan under section 401(a) of the *Internal Revenue Code*. The university expense for matching contributions to this plan, which is an amount assessed by the commonwealth, was approximately $2,331,000 for the fiscal year 2015.

Federal Pension Plans

Certain Cooperative Extension Service (CES) professional employees are participants in either the Federal Employee Retirement System (FERS) or the Federal Civil Service Retirement System (CSRS). The FERS and CSRS are defined benefit plans in which benefits are based upon the highest base pay over any three consecutive years and the years of creditable service. The costs under these plans were approximately $144,000 for the year ended June 30, 2015. Contributions to the FERS and CSRS were calculated using the base salary amount of approximately $1,349,000 for the fiscal year 2015.

In addition, the university contributed $41,000 in employer contributions to the Thrift Savings Plan for the year ended June 30, 2015. The Thrift Savings Plan is a defined contribution plan in which the university matches employee contributions within certain limitations.

20. Postemployment Benefits

The commonwealth sponsors postemployment benefit programs that are administered by the VRS. These programs, a statewide group life insurance program and the Virginia Sickness and Disability Program's long-term care plan, provide postemployment benefits to eligible retired and terminated employees. Health care credits are also provided to offset the monthly health insurance premiums for retirees who have at least 15 years of service. Information related to these plans is available at the state-wide level in the commonwealth's *Comprehensive Annual Financial Report*.

21. Appropriations

The Appropriation Act specifies that unexpended general fund appropriations remaining on the last day of the current year, ending on June 30, 2015, shall be reappropriated for expenditure in the first month of the next year, beginning on July 1, 2015, except as may be specifically provided otherwise by the Virginia General Assembly. The governor may, at his discretion, unallot funds from the reappropriated balances that relate to unexpended appropriations for payments to individuals, aid to localities, or any pass-through grants.

Adjustments made to the university's original appropriation during this fiscal year are as follows (*all dollars in thousands*):

Original legislative appropriation

Education and general programs	$	216,366
Student financial assistance		19,706
Commonwealth research initiative		2,489
Unique military activities		2,084
Total appropriation		240,645

Adjustments

Budget reduction		(5,837)
Central appropriation		2,311
Commonwealth Research Commercialization Fund		661
Commonwealth Research Initiative and Federal Action Contingency Trust		2,894
Student financial assistance		393
Other adjustments		1,764
Total adjustments		2,186
Adjusted appropriation	$	242,831

22. Grants, Contracts, and Other Contingencies

The university has received federal grants for specific purposes that are subject to review and audit by the grantor agencies. Claims against these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the outlay of resources for allowable purposes. Any disallowance resulting from a federal audit may become a liability of the university.

In addition, the university is required to comply with various federal regulations issued by the Office of Management and Budget. Failure to comply with certain system requirements of these regulations may result in questions concerning the allowance of related direct and indirect charges pursuant to such agreements. As of June 30, 2015, the university estimates that no material liabilities will result from such audits or questions.

23. Federal Direct Lending Program

The university participates in the Federal Direct Lending Program. Under this program, the university receives funds from the U.S. Department of Education for Stafford and Parent PLUS Loan Programs and disburses these funds to eligible students. The funds can be applied to outstanding student tuition and fee charges or refunded directly to the student.

These loan proceeds are treated as student payments with the university acting as a fiduciary agent for the student. Therefore, the receipt of the funds from the federal government is not reflected in the federal government grants and contracts total on the *Statement of Revenues, Expenses, and Changes in Net Position*. The activity is included in the noncapital financing section of the *Statement of Cash Flows*. For the fiscal year ended June 30, 2015, cash provided by the program totaled $128,877,000 and cash used by the program totaled $128,903,000.

24. Expenses by Natural Classification within Functional Classification

The university's operating expenses by functional classification for the year ended June 30, 2015
(all dollars in thousands)

	Compensation and Benefits	Contractual Services	Other Supplies and Materials	Travel	Operating Expenses	Scholarships and Fellowships	Sponsored Program Subcontracts	Total
Instruction	$ 286,696	$ 11,895	$ 8,562	$ 6,623	$ 3,696	$ 1,172	$ 81	$ 318,725
Research	200,333	22,284	19,970	12,663	6,091	13,792	29,524	304,657
Public service	63,957	16,227	3,276	5,627	3,157	541	8,618	101,403
Academic support	55,335	5,647	16,793	1,478	1,297	299	3	80,852
Student services	10,865	1,978	744	789	118	130	4	14,628
Institutional support	49,854	291	2,537	2,517	979	729	10	56,917
Operation and maintenance of plant	25,851	7,233	13,144	357	30,874	23	-	77,482
Student financial assistance	240	-	11	177	2	13,044	-	13,474
Auxiliary enterprises	94,562	31,422	35,734	11,564	17,770	5,156	4	196,212
Subtotal before other costs	$ 787,693	$ 96,977	$ 100,771	$ 41,795	$ 63,984	$ 34,886	$ 38,244	$ 1,164,350
Depreciation and amortization expense								95,163
Loan administrative fees and collection costs								60
Total operating expenses								$ 1,259,573

25. Component Units

The component units' statements on the following pages, and subsequent notes, comply with the Governmental Accounting Standards Board (GASB) presentation format. Both Virginia Tech Foundation Inc. and Virginia Tech Services Inc. follow the Financial Accounting Standards Board (FASB) presentation format in their audited financial statements. Consequently, reclassifications have been made to convert their statements to the GASB format.

Consolidating Statement of Net Position

The financial position for the university's component units as of June 30, 2015

(all dollars in thousands)

	Virginia Tech Foundation	Virginia Tech Services	Total Component Units
ASSETS			
Current assets			
Cash and cash equivalents	$ (362)	$ 872	$ 510
Short-term investments	2,418	2,321	4,739
Accounts and contributions receivable, net	35,127	291	35,418
Notes receivable, net	791	-	791
Inventories	362	7,095	7,457
Prepaid expenses	886	329	1,215
Other assets	4,867	-	4,867
Total current assets	44,089	10,908	54,997
Noncurrent assets			
Cash and cash equivalents	43,577	-	43,577
Accounts and contributions receivable, net	66,902	-	66,902
Notes and deeds of trust receivable, net	35,408	-	35,408
Net investments in direct financing leases	72,084	-	72,084
Irrevocable trusts held by others, net	10,901	-	10,901
Long-term investments	938,152	-	938,152
Depreciable capital assets, net	205,293	1,878	207,171
Nondepreciable capital assets	84,671	-	84,671
Intangible assets, net	562	-	562
Other assets	6,319	-	6,319
Total noncurrent assets	1,463,869	1,878	1,465,747
Total assets	1,507,958	12,786	1,520,744
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	10,192	5,453	15,645
Accrued compensated absences	573	289	862
Deferred revenue	2,981	853	3,834
Long-term debt payable	11,867	199	12,066
Other liabilities	3,450	275	3,725
Total current liabilities	29,063	7,069	36,132
Noncurrent liabilities			
Accrued compensated absences	186	-	186
Deferred revenue	1,708	-	1,708
Long-term debt payable	260,335	1,156	261,491
Liabilities under trust agreements	26,009	-	26,009
Agency deposits held in trust	108,571	-	108,571
Other liabilities	10,239	133	10,372
Total noncurrent liabilities	407,048	1,289	408,337
Total liabilities	436,111	8,358	444,469
NET POSITION			
Invested in capital assets, net of related debt	115,472	1,878	117,350
Restricted, nonexpendable	454,810	-	454,810
Restricted, expendable			
Scholarships, research, instruction, and other	420,327	-	420,327
Capital projects	-	-	-
Unrestricted	81,238	2,550	83,788
Total net position	$ 1,071,847	$ 4,428	$ 1,076,275

Consolidating Statement of Revenues, Expenses, and Changes in Net Position

The university's component unit activity for the year ended June 30, 2015

(all dollars in thousands)

	Virginia Tech Foundation	Virginia Tech Services	Total Component Units
OPERATING REVENUES			
Gifts and contributions	$ 58,598	$ -	$ 58,598
Auxiliary enterprise revenue			
Hotel Roanoke	21,692	-	21,692
River Course	1,200	-	1,200
Bookstore	-	22,790	22,790
Other revenues			
Rental income	37,458	-	37,458
Other	23,126	-	23,126
Total operating revenues	142,074	22,790	164,864
OPERATING EXPENSES			
Instruction	4,920	-	4,920
Research	10,838	-	10,838
Public service	4,634	-	4,634
Academic support	16,219	-	16,219
Institutional support			
Other university programs	17,965	-	17,965
Fund-raising	7,955	-	7,955
Management and general	14,875	-	14,875
Operation and maintenance of plant			
Operation and maintenance of plant	6,465	-	6,465
Research cost centers	6,543	-	6,543
Student financial assistance	25,036	-	25,036
Auxiliary enterprises			
Hotel Roanoke	11,994	-	11,994
River Course	1,277	-	1,277
Bookstore	-	22,789	22,789
Depreciation expense	10,122	-	10,122
Other expenses	17,864	-	17,864
Total operating expenses	156,707	22,789	179,496
OPERATING INCOME (LOSS)	(14,633)	1	(14,632)
NON-OPERATING REVENUES (EXPENSES)			
Investment income, net	18,858	-	18,858
Net gains (losses) on investments	11,979	-	11,979
Interest expense on debt related to capital assets	(9,815)	-	(9,815)
Net non-operating revenues	21,022	-	21,022
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES	6,389	1	6,390
Change in valuation of split interest agreements	(3,761)	-	(3,761)
Capital grants and gifts	10,611	-	10,611
Gain on disposal of capital assets	(1)	-	(1)
Additions to permanent endowments	29,330	-	29,330
Other revenues (expenses)	(1,092)	-	(1,092)
Total other revenues, expenses, gains, or losses	35,087	-	35,087
INCREASE IN NET POSITION	41,476	1	41,477
Net position - beginning of year	1,030,371	4,427	1,034,798
Net position - end of year	$ 1,071,847	$ 4,428	$ 1,076,275

Notes to Component Units Statements

Contributions Receivable – Virginia Tech Foundation Inc.

The following summarizes unconditional promises to give at June 30, 2015 *(all dollars in thousands):*

Current receivables	
Receivable in less than one year	$ 34,176
Noncurrent receivables	
Receivable in one to five years	51,616
Receivable in more than five years	18,060
Total noncurrent receivables before allowance	69,676
Less allowance for uncollectible contributions	(4,737)
Net noncurrent contributions receivable	64,939
Total contributions receivable	$ 99,115

The discount rates ranged from 0.43% to 1.74% in 2015. As of June 30, 2015, there were no conditional promises to give.

Investments – Virginia Tech Foundation Inc.

Investments by type of security at June 30, 2015 *(all dollars in thousands)*:

	Cost	Fair value
Short-term investments		
Corporate debt securities	$ 1,395	$ 1,388
U.S. Government treasuries	809	809
U.S. Government agencies	232	221
Total short-term investments	2,436	2,418
Long-term investments		
Cash and cash equivalents	42,671	42,651
U. S. Government treasuries	5,150	5,091
U. S. Government agencies	29,461	29,741
State, county and municipal securities	110	107
Corporate debt securities	21,019	20,702
Common and preferred stock	195,053	234,158
Partnerships and other joint ventures	382,476	484,722
Foreign securities	64,314	77,057
Real estate	34,778	36,419
Other	7,504	7,504
Total long-term investments	782,536	938,152
Total investments	$ 784,972	$ 940,570

As of June 30, 2015, long-term investments include investment assets held in internally managed trust funds with a carrying value totaling $45,622,000. The foundation is required by Maryland state law to maintain segregated assets for all annuities issued in an amount at least equal to the sum of its outstanding deferred giving arrangements liability discounted to present value. As of June 30, 2015, the foundation had recorded annuity obligations of $6,214,000, separately invested cash reserves of $10,951,000, and met its minimum reserve requirement under Maryland state law.

The following tabulation summarizes changes in relationships between cost and fair value of investments *(all dollars in thousands)*:

	Fair Value	Cost	Net gains (losses)
June 30, 2015	$ 940,570	$ 784,972	$ 155,598
June 30, 2014	920,558	734,005	186,553
Unrealized net loss for the year, including net gain on agency deposits held in trust of $3,884			(30,955)
Realized net gain for the year, including net gain on agency deposits held in trust of $5,984			42,932
Total net gain for the year, including net gain on agency deposits held in trust of $2,100			$ 11,977

Investment management fees incurred in 2015 totaled $1,219.

Land, Buildings, and Equipment - Virginia Tech Foundation Inc.

A summary of land, buildings, and equipment at cost, less accumulated depreciation for the year ending June 30, 2015 is presented below *(all dollars in thousands)*:

Depreciable capital assets	
Buildings	$ 252,792
Equipment and other	30,207
Land improvements	21,527
Total depreciable capital assets, at cost	304,526
Less accumulated depreciation	(99,233)
Total depreciable capital assets, net	205,293
Nondepreciable capital assets	
Land	70,442
Vintage and other collection items	5,473
Livestock	1,900
Construction in progress	6,855
Total nondepreciable capital assets	84,670
Total capital assets, net	$ 289,963

As of June 30, 2015, outstanding contractual commitments for projects under construction approximated $1,500,000.

Long-Term Debt Payable - Virginia Tech Foundation Inc.

Notes payable

The following is a summary of outstanding notes payable at June 30, 2015: *(all dollars in thousands)*:

Unsecured line of credit note payable due August 1, 2016, plus variable interest at LIBOR plus 0.65% (0.836% as of June 30, 2015)	7,592
Unsecured note payable upon the sale of the hotel and repayment of all debt of the hotel and the Hotel Roanoke Foundation (HRF)	1,775
Secured fixed rate promissory note payable, due in monthly installments of $55 (including interest) with a lump sum payment of $7,602 due October 10, 2017,plus interest at 7.00%, collateralized by certain real properties by Virginia Tech Real Estate Foundation Inc. (VTREF)	7,788
Total notes payable	$ 17,155

The aggregate annual maturities of notes payable for each of the five years and thereafter subsequent to June 30, 2015, are *(all dollars in thousands)*:

2016	$ 103
2017	7,704
2018	7,573
Upon the sale of the Hotel and repayment of all debt of the Hotel and HRF	1,775
Total notes payable	$ 17,155

During 2003, the foundation used proceeds from borrowings on notes payable totaling $13,800,000 to provide a loan to an unrelated party through a promissory note receivable. The unrelated party used the proceeds to purchase the University Mall building located in Blacksburg, Virginia. The promissory note receivable, which requires interest payments only until maturity, earns interest at a fixed rate of 6.18% through June 30, 2013 and 6.96% thereafter through June 30, 2023, the maturity date. The promissory note receivable is secured by a first deed of trust in the real property of the University Mall building, as well as the assignment of leases and rents, security agreements and fixture filing statements.

Bonds payable

The foundation is obligated under Industrial Development Authority of Montgomery County, Virginia Variable Rate Revenue Bonds dated August 25, 2005 (Series 2005). Bond proceeds were used to refinance previously outstanding Series 2001A and Series 2002A bonds. The remainder was used to finance the construction of and equipment purchases for three facilities to be used in support of the university. The bonds, which mature June 1, 2035, bear a variable interest rate, which including remarketing and credit enhancement fees, was 0.465% at June 30, 2015.

The foundation previously issued Industrial Development Authority of Montgomery County, Virginia Revenue Bonds (Series 2009A) and Taxable Revenue Bonds (Series 2009B) dated February 12, 2009. The Series 2009B bonds, which originally matured on February 1, 2039, were paid off on June 27, 2013, but the Series 2009A bonds remain outstanding. Bond proceeds were used to refinance the previously outstanding Series 2007 bonds, the unsecured variable rate promissory note payable, and an unsecured variable rate commercial note payable, as well as finance the construction of several facilities, primarily for the National Capital Region facility, to be used in support of the university. The Series 2009A bonds, which mature on February 1, 2039, bear a variable interest rate, which including remarketing and liquidity fees, was 0.495% on June 30, 2015.

The foundation is obligated under the Economic Development Authority of Montgomery County, Virginia Revenue Refunding Bonds (Series 2010A) and Taxable Revenue Refunding Bonds (Series 2010B) dated August 3, 2010. Proceeds were used to refinance a portion of the outstanding Series 2009A, Series 2009B and Series 2005 bonds and to retire certain interest rate swaps. The bonds, which bear a weighted average fixed interest rate of 4.23% and 4.52%, have annual serial and sinking fund maturities beginning June 1. 2011 and concluding June 1, 2039 in varying amounts ranging from $1,320,000 to $3,450,000.

The foundation is obligated under the Economic Development Authority of Montgomery County, Virginia Revenue and Refunding Bonds (Series 2011A) and Taxable Revenue and Refunding Bonds (Series 2011B) dated November 17, 2011. Proceeds were used to refinance all or a portion of the outstanding Series 2000, Series 2005, Series 2009A and Series 2009B bonds, two notes payable, retire certain interest rate swaps, as well as finance the construction of several commercial facilities and several facilities to be used in support of the university. The bonds, which bear a weighted average fixed interest rate of 3.69% and 4.03%, have annual serial and sinking fund maturities beginning June 1, 2012 and concluding June 1, 2039 in varying amounts ranging from $1,505,000 to $5,200,000.

The foundation is obligated under the Economic Development Authority of Montgomery County, Virginia Tax-Exempt Revenue and Refunding Bonds (Series 2012A) and Taxable Revenue and Refunding Bonds (Series 2012B) dated December 1, 2012. Proceeds were used to refinance a portion of the outstanding Series 2009B bonds and to finance the construction of several facilities to be used in support of the University. During 2014, an additional $1,817 was borrowed on the Series 2012B bonds to finance the construction of a facility to be used in support of the University. The Series 2012A bonds, which bear a fixed interest rate of 1.99%, have monthly payments of principal and interest beginning February 1, 2013 and concluding June 1, 2022. The Series 2012B bonds, bore a variable interest rate of LIBOR plus 125 basis points (1.44% at June 30, 2013), until the final advance date of October 1, 2013, and thereafter bear a fixed interest rate of 3.05%, have monthly interest commencing on February 1, 2013 and have monthly payments of principal and interest beginning November 1, 2013 and concluding on January 1, 2033. The Series 2012B bonds are subject to mandatory tender on December 27, 2022 at the bondholder's option.

The foundation is obligated under the Economic Development Authority of Montgomery County, Virginia Revenue and Refunding Bonds (Series 2013A) and Taxable Revenue and Refunding Bonds (series 2013B) dated October 30, 2013. Proceeds were used to finance the construction of several commercial facilities and several facilities to be used in support of the University. The bonds, which bear a weighted average fixed interest rate of 3.95% and 3.87%, have annual serial and sinking fund maturities beginning June 1, 2014 and concluding June 1, 2038 in varying amounts ranging from $280,000 to $4,010,000.

Principal amounts outstanding for these bonds as of June 30, 2015, are as follows *(all dollars in thousands)*:

Bond Series:	
Series 2005	$ 15,820
Series 2009A	18,805
Series 2010A	47,905
Series 2010B	17,550
Series 2011A	49,405
Series 2011B	49,765
Series 2012A	3,266
Series 2012B	6,428
Series 2013A	17,020
Series 2013B	23,400
Premium on Series 2010A	2,981
Premium on Series 2011A	1,874
Premium on Series 2013A	779
Total bonds payable	$ 254,998

The aggregate annual maturities of bonds payable for each of the five years and thereafter subsequent to June 30, 2015, are as follows *(all dollars in thousands)*:

2016	$ 11,752
2017	12,480
2018	13,461
2019	13,950
2020	18,117
Later years	185,238
Total	$ 254,998

To comply with the terms of the Series 2005 bond agreement, the foundation maintains a letter of credit with a lender in the amount of $15,972,000 at annual fees equal to 0.35% of the total commitment. At June 30, 2015, no funds were outstanding under this commitment.

To comply with the terms of the Series 2009A bond agreement, the foundation maintains a revolving credit facility in the amount of $20,081,000 at annual fees equal to 0.35% of the total commitment. At June 30, 2015, no funds were outstanding under this commitment.

Total interest expense incurred in the aggregate related to notes payable and bonds payable in 2015 totaled $9,684,000.

Interest Rate Swaps

Effective September 1, 2005, the foundation entered into an interest rate swap agreement (Swap 1) with a lending institution. This agreement was based on the principal balances of the Series 2001A and Series 2002A bond issues, which were refinanced by the Series 2005 bonds. The foundation participates as a fixed rate payer, with a fixed rate of 3.265% for a 17-year term ending June 1, 2022. The lending institution participates as a floating rate payer, with a floating interest rate, which is calculated based on the weighted average of 70% of USD-LIBOR-BBA and was 0.13% at June 30, 2015.

Effective September 1, 2005, the foundation entered into an interest rate swap agreement (Swap 2) with a lending institution. This agreement was based on the principal balances of the Series 2005 bond issue and was effective September 1, 2006. The foundation participates as a fixed rate payer, with a fixed rate of 3.213% ending June 1, 2025. The lending institution participates as a floating rate payer, with a floating interest rate, which is calculated based on the weighted average of 70% of USD-LIBOR-BBA and was 0.13% at June 30, 2015.

Effective March 12, 2007, the foundation entered into an interest rate swap agreement (Swap 3) with a lending institution. This agreement was based on the principal balances of the Series 2007 bond issue, which was refinanced by the Series 2009 bonds. The foundation participates as a fixed rate payer, with a fixed rate of 3.737% ending June 1, 2027. The lending institution participates as a floating rate payer, with a floating interest rate, which is calculated based on the weighted average of SIFMA Municipal Swap Index and was 0.070% at June 30, 2015.

The following table summarizes the fair values of the foundation's interest rate swaps and changes in the fair values of the swaps (*all dollars in thousands*):

	Fair Values	Change in Fair Value
Swap 1	$ 672	$ 169
Swap 2	840	79
Swap 3	1,943	(55)
Total	$ 3,455	$ 193

Agency Deposits Held in Trust - Virginia Tech Foundation Inc.

Under an agreement between the university and the foundation, the foundation serves as agent in connection with the investment, management, and administration of the Pratt Estate. In addition, the foundation serves as agent and maintains investments for the Virginia Tech Alumni Association Inc., Virginia Tech Services Inc., and certain other associations.

A summary of agency deposits held in trust for the year ending June 30, 2015 is presented as follows *(all dollars in thousands)*:

University—Pratt Estate	$ 45,540
University—Other	52,066
Virginia Tech Alumni Association Inc.	4,395
Virginia Tech Services Inc.	2,321
Other	4,249
Total agency deposits held in trust	$ 108,571

26. Risk Management and Employee Health Care Plans

The university is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; nonperformance of duty; injuries to employees; and natural disasters. The university participates in insurance plans maintained by the Commonwealth of Virginia. The state employee health care and worker's compensation plans are administered by the Department of Human Resource Management and the risk management insurance plans are administered by the Department of Treasury, Division of Risk Management. Risk management insurance includes property, general liability, medical malpractice, faithful performance of duty bond, automobile, boiler and machinery, and air and watercraft plans. The university pays premiums to the Commonwealth of Virginia for the aforementioned insurance coverage. In addition, the university contracts with private insurers to provide additional fidelity bonding coverage, automobile physical damage coverage, business interruption coverage for the Equine Medical Center and overseas liability coverage. Information relating to the commonwealth's insurance plans is available in the Commonwealth of Virginia's *Comprehensive Annual Financial Report.*

27. Joint Ventures

The Hotel Roanoke Conference Center Commission was created by a joint resolution of the university and the City of Roanoke. The purpose of the commission is to establish and operate a publicly owned conference center in Roanoke adjacent to the renovated Hotel Roanoke. The powers of the commission are vested in commissioners. Each participating governing body appoints three commissioners for a total of six commissioners. The commission has the authority to issue debt, and such debt is the responsibility of the commission. The intention of the commission is to be self-supporting through its user fees. The university and the City of Roanoke equally share in any operating deficit or additional funding needed for capital expenditures. The university made contributions of $80,000 using private funds to the commission for the fiscal year ended June 30, 2015.

The Virginia Tech Carilion School of Medicine was established as a 501(c)(3) nonprofit organization. This joint venture receives oversight from a board of directors. Virginia Tech and Carilion Health System each appoint two members to the board of directors. The board then appoints six additional independent board members. The commonwealth provided the capital funds to construct a facility on land owned by Carilion Health System under a public-private partnership. This facility provides space for the Virginia Tech Carilion School of Medicine and the Virginia Tech Carilion Research Institute, a part of Virginia Tech. Approximately one-third of the facility is occupied by the school of medicine with the remaining space allocated to the research institute. The university contributed approximately $1,195,000 towards the expenses for this joint venture in fiscal year 2015.

The Virginia Biosciences Health Research Corporation was founded by Virginia Tech and four other state universities – Eastern Virginia Medical School, George Mason University, University of Virginia and Virginia Commonwealth University. This corporation was formed to foster collaborative scientific research innovation and to provide a new program for public/private partnering with Virginia universities. The board of directors for the Virginia Biosciences Health Research Corporation is comprised of one member appointed from each of the five founding universities; five members designated by the Virginia Secretary of Commerce and Trade, including one member from the Virginia Economic Development Partnership, one from the office of Commerce and Trade, two from major statewide health care system providers in Virginia and one from the U.S. Department of Veterans Affairs; one member from the private equity/venture capital community; and two members from life sciences companies. The university made contributions of $50,000 using private funds to the corporation for the fiscal year ended June 30, 2015.

The Virginia Tech MARG Swarnabhoomi – India Trust was founded to develop a university campus in MARG Swarnabhoomi, India. The trust has two members – Virginia Tech and New Chennai Township Private Limited, a wholly-owned subsidiary of MARG Limited. This trust will operate a university campus to deliver programs in India fostering graduate education as well as scientific and technological engagement through a model of collaborative research, education and outreach. The university made contributions of $90,000 to this trust in fiscal year 2015. This joint venture is in the process of being dissolved and a new organization is in the process of being formed.

28. Jointly Governed Organizations

NRV Regional Water Authority

Created by a concurrent resolution of the university, the towns of Blacksburg and Christiansburg and joined by the county of Montgomery in FY2013, the authority operates and maintains the water supply system for the university and the other participating governing bodies. A six-member board governs the authority with one member appointed by each governing body and two at-large members appointed by the joint resolution of each of the governing bodies. The authority's indebtedness is not an obligation of the university and is payable solely from the revenues of the authority. The university paid $1,052,000 to the authority for the purchase of water for the fiscal year ended June 30, 2015.

Blacksburg-VPI Sanitation Authority

Created by a concurrent resolution of the university and the town of Blacksburg, the authority operates and maintains the wastewater treatment system for the participating governing bodies. Each participating governing body appoints one member of the five-member board of directors. Three at-large members are appointed by the joint resolution of each of the governing bodies. The authority's indebtedness is not an obligation of the university and is payable solely from the revenues of the authority. The university paid $803,000 to the authority for the purchase of sewer services for the fiscal year ended June 30, 2015.

Montgomery Regional Solid Waste Authority

Created by a joint resolution of the university, the towns of Blacksburg and Christiansburg, and the county of Montgomery, the authority represents its members in solid waste and recycling issues as well as operating a recycling facility. The authority is governed by its board with each participating governing body appointing one board member, and all governing bodies jointly appointing the fifth at-large member. Each governing body provides collection of solid waste and recyclables from within its jurisdiction and delivers the collected materials to the authority for disposal of the waste, and the processing and marketing of the recyclables. All indebtedness is the obligation of the authority and payable from its revenues. The university paid $200,000 to the authority for tipping fees for the fiscal year ended June 30, 2015.

Virginia Tech/Montgomery Regional Airport Authority

Created by a joint resolution of the university, the towns of Blacksburg and Christiansburg, and the county of Montgomery, this authority serves to develop a regional airport based on the mission of servicing corporate executive markets and other general aviation markets; obtaining grants, loans and other funding for airport improvements and other activities; and in promoting and assisting in regional economic development. The authority is governed by its board, which consists of five members. Each participating governing body appoints one member of the board, and jointly all governing bodies appoint the fifth member. All indebtedness is the obligation of the authority and payable from its revenues. The university's funding commitment for fiscal year 2015 was $50,000, all of which Virginia Tech paid to the authority.

Additionally, in fiscal year 2015 the university completed an agreement to sell 26.4 acres of land to the Virginia Tech/Montgomery Regional Airport Authority for $9,400,000. The university accepted a grant anticipation note from the authority, but this note is solely payable from future years' federal and state grants (for fiscal years 2018 through 2020) from the Federal Aviation Administration and the Virginia Department of Aviation. Since these funds have not actually been appropriated, and at June 30, 2015 there is no way to ascertain with certainty if these funds will eventually be received or realized by the authority, the university did not accrue the receivable or the revenue for this sale in accordance with paragraph 112 of GASB Statement 62 related to gain contingencies. However, since the university has given up the rights to the property, a loss on the sale of the property was recognized for the book value of the land totaling $2,000.

29. Pending Litigation

The university has been named as a defendant in a number of lawsuits. The final outcome of the lawsuits cannot be determined at this time. However, management is of the opinion that any ultimate liability to which the university may be exposed will not have a material effect upon the university's financial position.

30. Lawsuit Settlement

In fiscal year 2011 the university detected discrepancies in the amounts reported by its student medical insurance program vendor related to premium revenues and claims expenses which resulted in the university and students enrolled in the program being inappropriately overcharged. Further investigation revealed that the overcharges related to fiscal years 2004 through 2011. The university filed suit against the insurance vendor and the insurance companies underwriting the medical insurance program during these years. The university negotiated settlements with the insurance companies underwriting the program and received restitution from several executives of the insurance program vendor. The negotiated settlements included amounts to be repaid to affected students enrolled in the program as well as others overcharged, such as federal agencies and private companies who sponsored research grants and contracts that paid for the cost of medical insurance provided to students working on these grants and contracts.

The total of settlements and restitution received was $20,225,000. Of this total, $9,973,000 is included in the *Statement of Net Position* in the "Current Assets – Cash and Cash Equivalents" and "Current Liabilities – Funds Held in Custody for Others" line items. This amount represents the amounts due to students, and federal and private sponsors of grants and contracts. Additionally, the university recognized revenues totaling $7,997,000 in the "Other Non-operating Revenues" line item in the *Statement of Revenues, Expenses and Changes in Net Position*. Finally, the university applied $2,255,000 of the settlement proceeds to reduce the net litigation expenses incurred in fiscal year 2015. This last item reduced the Institutional Support operating expense line item on the *Statement of Revenues, Expenses and Changes in Net Position*. The recognition of revenues and reduction of expenses is consistent with the guidance in GASB Statement 42, paragraphs 21 and 22, related to the treatment of insurance recoveries related to thefts or embezzlement of cash.

31. Subsequent Events

On October 20, 2015, the university issued Series 2015 Revenue Bonds totaling $62,240,000. The bonds consisted of the following: $51,425,000 Series 2015A Dormitory and Dining Hall Systems and General Revenue Pledge Bonds, $510,000 Series 2015B Athletic Facilities System and General Revenue Pledge Bonds, $3,280,000 Series 2015C University Services System and General Revenue Pledge Bonds, $4,390,000 Series 2015D Utility Systems and General Revenue Pledge Bonds, $2,635,000 Series 2015E General Revenue Pledge Refunding Bonds. The bond proceeds will be used for the following:

- Finance certain capital projects.
- Repay temporary financing provided through the Commercial Paper program.
- Refund the outstanding principal amount of the university's General Revenue Pledge Refunding Bonds, Series 2004A maturing, or subject to mandatory sinking fund redemption, in the years 2017 to 2020.
- Finance cost associated with the issuance of the bonds.

REQUIRED SUPPLEMENTARY INFORMATION

Virginia State Employee Retirement Plan and Virginia Law Officers Retirement Plan

Schedule of Virginia Tech's Employer Contributions
For the year ended June 30
(all dollars in thousands)

	2015	
	SERP	**VaLORS**
Contractually required contribution	$ 30,392	$ 397
Contributions in relation to contractually required contribution	$ 30,392	$ 397
Contribution deficiency (excess)	$ -	$ -
Covered-employee payroll	$ 246,488	$ 2,247
Contributions as a percentage of covered-employee payroll	12.33%	17.67%

Schedule of Virginia Tech's Share of Net Pension Liability*
For the year ended June 30
(all dollars in thousands)

	2015	
	SERP	**VaLORS**
Proportion of net pension liability	6.30%	0.70%
Proportionate share of net pension liability	$ 352,916	$ 4,706
Covered-employee payroll	$ 243,099	$ 2,461
Proportionate share of net pension liability as a percentage of covered-employee payroll	145.17%	191.22%
Plan fiduciary net position as a percentage of total pension liability	74.28%	63.05%

The schedules above are intended to show information for 10 years. Since 2015 is the first year for this presentation, no other data is available. Additional years will be included as they become available. *The amounts presented have a measurement date of the previous fiscal year end.

Notes to Required Supplementary Information for Virginia State Employee Retirement Plan and Virginia Law Officers Retirement Plan

There have been no significant changes to the System benefit provisions since the prior actuarial valuation. A hybrid plan with changes to the defined benefit plan structure and a new defined contribution component were adopted in 2012. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. The liabilities presented do not reflect the hybrid plan since it covers new members joining the system after the valuation date of June 30, 2013 and the impact on the liabilities as of the measurement date of June 30, 2014 are minimal. The following changes in actuarial assumptions were made for the retirement plans effective June 30, 2013 based on the most recent experience study of the system for the four-year period ending June 30, 2012:

VRS - State Employee Retirement Plan (SERP)

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

VaLORS Retirement Plan

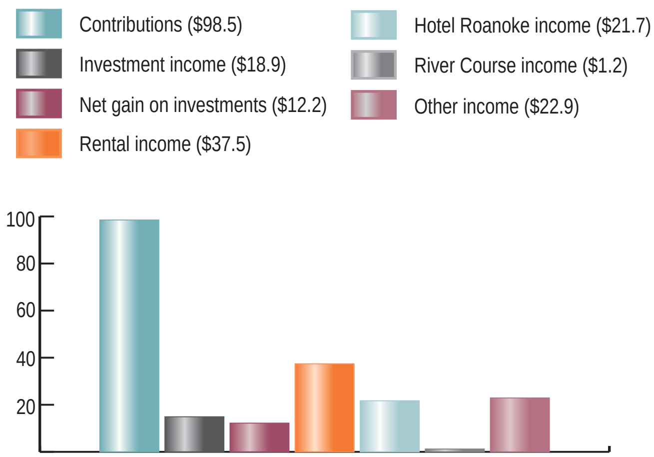
- Update mortality table
- Adjustments to the rates of service retirement
- Decrease in rates of withdrawals for females under 10 years of service
- Increase in rates of disability
- Decrease service related disability rate from 60% to 50%

OPTIONAL SUPPLEMENTARY INFORMATION

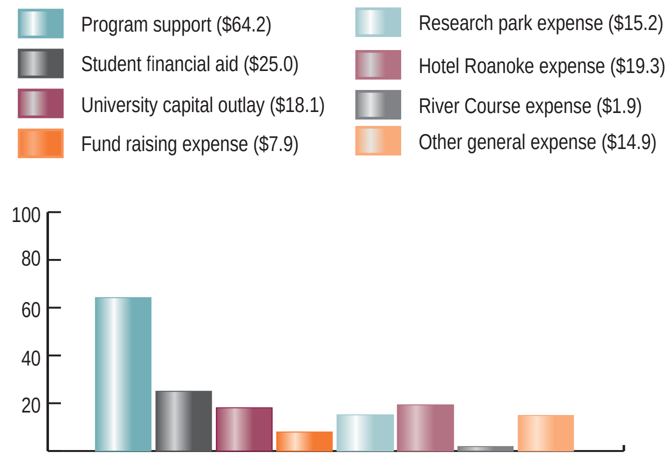
Virginia Tech Foundation Inc.

The purpose of Virginia Tech Foundation Inc. is to receive, invest, and manage private funds given for the support of programs at Virginia Tech and to foster and promote the growth, progress, and general welfare of the university. During the current fiscal year, the foundation recognized $98.5 million in contributions for support of the university. Investment income of $18.9 million, along with net gains on investments of $12.2 million, resulted in a $31.1 million net gain on investment activity. Property rental, hotel operating, and golf course income totaled $60.4 million. Other income accounted for $22.9 million. Total income of $212.9 million was offset by $166.5 million in expenses that supported the university and its programs. Direct support to various university programs aggregated $107.3 million, which included $25 million in scholarship support to students and faculty and $18.1 million towards university capital projects. Additional expenses such as fund-raising, management and general, research center, hotel operating, golf course, and other costs totaled $59.2 million. Total net position increased by $41.5 million over the previous year. The graphs on the next page are categorized as presented in the audited financial statements for the foundation which follows the Financial Accounting Standards Board (FASB) presentation requirements.

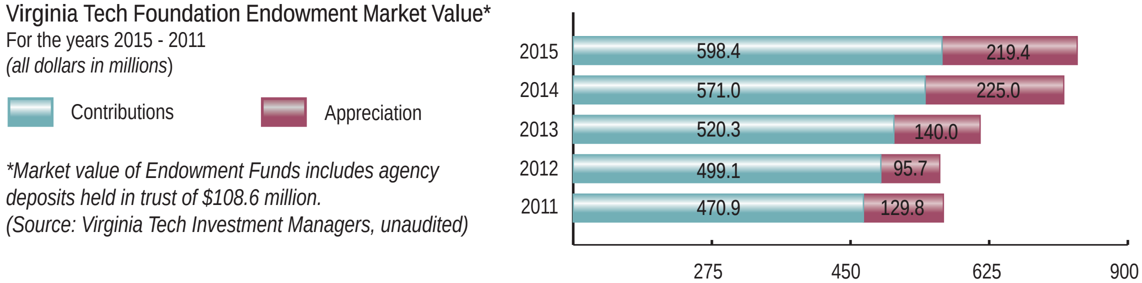
Virginia Tech Foundation Revenues and Investment Gains
For the year ended June 30, 2015
(all dollars in millions)



Virginia Tech Foundation Expenses
For the year ended June 30, 2015
(all dollars in millions)



Virginia Tech Foundation Endowment Market Value*
For the years 2015 - 2011
(all dollars in millions)



**Market value of Endowment Funds includes agency deposits held in trust of $108.6 million.*
(Source: Virginia Tech Investment Managers, unaudited)

Affiliated Corporations Financial Highlights
For the years ended June 30, 2015-2011
(all dollars in thousands)

	2015	2014	2013	2012	2011
Assets					
Virginia Tech Foundation Inc.	$ 1,507,958	$ 1,488,766	$ 1,302,619	$ 1,210,709	$ 1,155,100
Virginia Tech Services Inc.	12,786	10,513	12,416	11,101	11,815
Virginia Tech Applied Research Corporation	4,330	5,128	5,557	4,323	
Virginia Tech Intellectual Properties Inc.	1,297	1,894	1,795	2,073	1,053
Total Assets	$ 1,526,371	$ 1,506,301	$ 1,322,387	$ 1,228,206	$ 1,167,968
Revenues					
Virginia Tech Foundation Inc.	$ 212,851	$ 273,176	$ 225,897	$ 137,299	$ 242,235
Virginia Tech Services Inc.	22,791	23,481	24,139	25,717	27,523
Virginia Tech Applied Research Corporation	6,785	8,184	2,765	434	
Virginia Tech Intellectual Properties Inc.	2,280	2,280	2,202	1,998	2,058
Total Revenues	$ 244,707	$ 307,121	$ 255,003	$ 165,448	$ 271,816
Expenses					
Virginia Tech Foundation Inc.	$ 166,523	$ 155,857	$ 143,303	$ 134,916	$ 118,979
Virginia Tech Services Inc.	22,790	23,451	24,047	25,631	27,513
Virginia Tech Applied Research Corporation	8,844	10,187	7,638	4,654	
Virginia Tech Intellectual Properties Inc.	1,659	2,169	2,162	1,954	2,276
Total Expenses	$ 199,816	$ 191,664	$ 177,150	$ 167,155	$ 148,768

The organizations included above are related to the university by affiliation agreements. These agreements, approved by the Virginia Tech Board of Visitors, require an annual audit to be performed by independent auditors. These auditors have examined the financial records of the organizations presented in the table above and copies of their audit reports have been provided to the university, with the exception of VTARC whose audit report will be received in the near future. Values presented in this table are based solely upon these audit reports and do not include any consolidation entries to alter these amounts. Affiliated organizations that hold no financial assets and certify all financial activities or transactions through the Virginia Tech Foundation Inc. may be exempt from the independent audit requirement. Virginia Tech Athletic Fund Inc., Virginia Tech Corps of Cadets Alumni Inc., Virginia Tech Alumni Association, and Virginia Tech Innovation Corporation meet exemption requirements and are not presented in this table.

Consolidating Schedule of Net Position

As of June 30, 2015

(all dollars in thousands)

	Current Funds Unrestricted	Current Funds Restricted	Loan Funds	Endowment & Similar Funds	Plant Funds	Agency Funds	Total
ASSETS							
Current assets							
Cash and cash equivalents *(Note 4)*	$ 260,808	$ 21,049	$ 2,011	$ -	$ -	$ 27,663	$ 311,531
Short-term investments *(Notes 4, 25)*	1,752	-	-	-	-	-	1,752
Accounts and contributions receivable, net *(Notes 1, 5, 25)*	6,741	47,197	-	-	-	-	53,938
Notes receivable, net *(Note 1)*	-	-	1,745	-	-	-	1,745
Due from Commonwealth of Virginia *(Note 10)*	12,606	-	-	-	-	-	12,606
Inventories	11,941	-	-	-	-	-	11,941
Prepaid expenses	17,986	315	-	-	-	-	18,301
Due to (from) other funds	18,792	13,589	(70)	(542)	(27,312)	(4,457)	-
Total current assets	330,626	82,150	3,686	(542)	(27,312)	23,206	411,814
Noncurrent assets							
Cash and cash equivalents *(Note 4)*	-	-	-	-	83,393	-	83,393
Due from Commonwealth of Virginia *(Note 10)*	-	-	-	-	2,943	-	2,943
Accounts and contributions receivable, net *(Notes 1, 5, 25)*	-	-	-	-	4,218	-	4,218
Notes receivable, net *(Note 1)*	6,000	-	14,297	-	-	-	20,297
Long-term investments *(Notes 4, 25)*	128,860	-	-	60,489	31,311	-	220,660
Depreciable capital assets, net *(Notes 9, 25)*	-	-	-	-	1,454,320	-	1,454,320
Nondepreciable capital assets *(Notes 9, 25)*	-	-	-	-	170,778	-	170,778
Other assets	493	28	-	-	259	-	780
Total noncurrent assets	135,353	28	14,297	60,489	1,747,222	-	1,957,389
Total assets	465,979	82,178	17,983	59,947	1,719,910	23,206	2,369,203
DEFERRED OUTFLOWS OF RESOURCES							
Deferred loss on long-term debt defeasance *(Note 14)*	-	-	-	-	7,904	-	7,904
Deferred outflow for defined benefit pension plan *(Note 18)*	31,254	3,130	-	-	-	-	34,384
Total deferred outflows	31,254	3,130	-	-	7,904	-	42,288
LIABILITIES							
Current liabilities							
Accounts payable and accrued liabilities *(Note 7)*	92,275	15,227	-	-	23,200	-	130,702
Accrued compensated absences *(Notes 1, 15)*	19,626	4,236	-	-	-	-	23,862
Unearned revenue *(Notes 1, 8)*	23,427	15,392	-	-	38	-	38,857
Funds held in custody for others	-	-	-	-	-	23,206	23,206
Commercial paper *(Note 11)*	-	-	-	-	29,790	-	29,790
Long-term debt payable *(Notes 12, 13, 25)*	-	-	-	-	31,749	-	31,749
Total current liabilities	135,328	34,855	-	-	84,777	23,206	278,166
Noncurrent liabilities							
Defined benefit pension liability *(Notes 1,18)*	355,128	2,494	-	-	-	-	357,622
Accrued compensated absences *(Notes 1, 15)*	15,750	3,386	-	-	-	-	19,136
Federal student loan program contributions *(Note 15)*	-	-	13,679	-	-	-	13,679
Long-term debt payable *(Notes 12, 13, 25)*	-	-	-	-	459,748	-	459,748
Other liabilities	1,752	-	-	-	-	-	1,752
Total noncurrent liabilities	372,630	5,880	13,679	-	459,748	-	851,937
Total liabilities	507,958	40,735	13,679	-	544,525	23,206	1,130,103
DEFERRED INFLOWS OF RESOURCES							
Deferred gain on long-term debt defeasance *(Note 14)*	-	-	-	-	1,134	-	1,134
Deferred inflow for defined benefit pension plan *(Note 18)*	63,575	-	-	-	-	-	63,575
Total deferred outflows	63,575	-	-	-	1,134	-	64,709
NET POSITION							
Net investment in capital assets	-	-	-	-	1,112,101	-	1,112,101
Restricted, nonexpendable	-	-	-	356	-	-	356
Restricted, expendable							
Scholarships, research, instruction, and other	-	44,573	4,304	59,591	-	-	108,468
Capital projects	-	-	-	-	6,046	-	6,046
Debt service	-	-	-	-	64,008	-	64,008
Unrestricted and auxiliary operations *(Note 1)*	(74,300)	-	-	-	-	-	(74,300)
Total net position	$ (74,300)	$ 44,573	$ 4,304	$ 59,947	$ 1,182,155	$ -	$ 1,216,679

Consolidating Schedule of Revenues, Expenses, and Changes in Net Position

For the year ended June 30, 2015

(all dollars in thousands)

	Current Funds		Loan	Endowment &	Plant	
	Unrestricted	Restricted	Funds	Similar Funds	Funds	Total
OPERATING REVENUES						
Student tuition and fees, net *(Note 1)*	$ 407,894	$ 3,313	$ -	$ -	$ -	$ 411,207
Federal appropriations	-	17,439	-	-	-	17,439
Federal grants and contracts	48,447	161,183	-	-	702	210,332
Federal ARRA grants and contracts	-	1,467	-	-	-	1,467
State grants and contracts	1,124	13,090	-	-	-	14,214
Local grants and contracts *(Note 3)*	307	14,042	-	-	-	14,349
Nongovernmental grants and contracts	6,707	30,954	-	-	-	37,661
Sales and services of educational departments	17,343	2	-	-	-	17,345
Auxiliary enterprise revenue, net *(Note 1)*	234,640	-	-	-	-	234,640
Other operating revenues	4,451	1,874	80	-	(37)	6,368
Total operating revenues	720,913	243,364	80	-	665	965,022
OPERATING EXPENSES						
Instruction	310,146	8,579	-	-	-	318,725
Research	109,389	195,268	-	-	-	304,657
Public service	54,032	47,371	-	-	-	101,403
Academic support	78,818	2,034	-	-	-	80,852
Student services	13,342	1,286	-	-	-	14,628
Institutional support	48,882	8,010	-	-	25	56,917
Operation and maintenance of plant	73,648	6	-	-	3,828	77,482
Student financial assistance	78	13,396	-	-	-	13,474
Auxiliary enterprises	196,212	-	-	-	-	196,212
Depreciation and amortization *(Note 9)*	-	-	-	-	95,163	95,163
Other operating expenses	-	-	60	-	-	60
Total operating expenses	884,547	275,950	60	-	99,016	1,259,573
OPERATING LOSS	(163,634)	(32,586)	20	-	(98,351)	(294,551)
NON-OPERATING REVENUES (EXPENSES)						
State appropriations *(Note 21)*	214,604	28,227	-	-	-	242,831
Gifts	16,491	43,583	185	-	-	60,259
Non-operating grants and contracts	-	2,027	-	-	-	2,027
Federal student financial aid (PELL)	-	17,218	-	-	-	17,218
Investment income, net of investment expense	1,798	40	-	1,216	217	3,271
Other non-operating revenue	2,775	5,222	-	-	859	8,856
Nongeneral fund reversion	-	-	-	-	-	-
Interest expense on debt related to capital assets	-	-	-	-	(18,424)	(18,424)
Net non-operating revenues (expenses)	235,668	96,317	185	1,216	(17,348)	316,038
INCOME (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	72,034	63,731	205	1,216	(115,699)	21,487
Capital appropriations	-	-	-	-	-	-
Capital grants and gifts *(Note 10)*	11,301	2,127	-	-	39,333	52,761
Loss on disposal of capital assets	-	-	-	-	(967)	(967)
Total other revenues, expenses, gains, and losses	11,301	2,127	-	-	38,366	51,794
INCREASE IN NET POSITION	83,335	65,858	205	1,216	(77,333)	73,281
Mandatory transfers	(49,413)	(817)	-	-	50,230	-
Nonmandatory transfers	(53,022)	853	-	(1,811)	53,980	-
Equipment and library book transfers	(30,619)	(5,471)	-	-	36,090	-
Scholarship allowance transfer	53,884	(53,884)	-	-	-	-
Total transfers	(79,170)	(59,319)	-	(1,811)	140,300	-
INCREASE IN NET POSITION AFTER TRANSFERS	4,165	6,539	205	(595)	62,967	73,281
Net position - beginning of year *(Note 1)*	(78,465)	38,034	4,099	60,542	1,119,188	1,143,398
Net position - end of year	$ (74,300)	$ 44,573	$ 4,304	$ 59,947	$ 1,182,155	$ 1,216,679

Commonwealth of Virginia

Auditor of Public Accounts

Martha S. Mavredes, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

November 6, 2015

The Honorable Terence R. McAuliffe
Governor of Virginia

The Honorable John C. Watkins
Chairman, Joint Legislative Audit
and Review Commission

Board of Visitors
Virginia Polytechnic and State University

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

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 the business-type activities and aggregate discretely presented component units of **Virginia Polytechnic and State University** as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the University's basic financial statements and have issued our report thereon dated November 6, 2015. Our report includes a reference to other auditors. We did not consider internal controls over financial reporting or test compliance with certain provisions of laws, regulations, contracts, and grant agreements for the financial statements of the component units of University, which were audited by other auditors in accordance with auditing standards generally accepted in the United States of America, but not in accordance with Government Auditing Standards.

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

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 over financial reporting 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 financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Audit Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We discussed this report with management at an exit conference held on November 9, 2015.

Martha S. Mavredes

AUDITOR OF PUBLIC ACCOUNTS

JMR/cl

Business and Financial Leadership

M. Dwight Shelton Jr.	Vice President for Finance and Chief Financial Officer
John J. Cusimano	University Treasurer and Associate Vice President for Finance - VT Foundation
Sherwood G. Wilson	Vice President for Administration
Christopher H. Kiwus	Associate Vice President and Chief Facilities Officer
Kenneth E. Miller	Assistant Vice President for Finance and University Controller
Sharon M. Kurek	Director, University Internal Audit

Financial report prepared by the
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