Virginia Military Institute

Audited Financial Statements
For the year ended 30 June 2015

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview

The Virginia Military Institute (VMI or Institute) is pleased to present its financial statements for the fiscal year ended 30 June 2015, along with the financial statements of its affiliate component units. This management's discussion and analysis (MD&A) is designed to facilitate the reader's understanding of the accompanying financial statements and to provide an objective, easily readable analysis of the Institute's financial activities based on currently known facts, decisions and conditions. The discussion focuses primarily on VMI's fiscal year 2015 in comparison to the prior year and includes highly summarized data that should be read in conjunction with the accompanying financial statements, notes to the financial statements and other supplementary information.

VMI's financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) standards and include three basic statements: the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows. Using criteria provided in GASB Statement 39, *Determining Whether Certain Organizations are Component Units*, management determined that the VMI Alumni Agencies, Inc., and the VMI Research Laboratories, Inc., are both component units of the Institute. The affiliates' financial statements are prepared in accordance with Financial Accounting Standards Board (FASB) standards and include the Statement of Financial Condition and the Statement of Activities. They are presented discretely on a separate page within the Institute's financial statements. The following analysis discusses elements from VMI's statements and provides an overview of the Institute's activities. VMI's affiliated entities are excluded from this MD&A.

Effective for the fiscal year ended 30 June 2015, the GASB issued Statement 68, *Accounting and Financial Reporting for Pensions*, and Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* (an amendment of GASB Statement 68). These reporting changes require the Institute to record its proportionate share of the net pension liability, pension expense, deferred outflows and inflows of the Virginia Retirement System (VRS) State Employee and Virginia Law Officers' System (VaLORS) Retirement Plans. Prior to implementation, VRS and VaLORS did not measure assets and pension obligations separately for, nor were they recorded by, individual State agencies. Therefore, for the purpose of this MD&A, fiscal year 2014 comparative numbers have not been restated. Note 1 to the financial statements includes a summary of significant accounting policies for pensions. Note 13 and the Required Supplementary Information presents details of the pension plans available to all full-time permanent employees of the Institute, pension liability and expense amounts, and pension contributions made by the Institute.

Financial Highlights

VMI's overall financial position continued to improve during fiscal 2015 as the Institute's total net position, the residual interest in assets after liabilities are deducted, increased by $32.2 million to $262.3 million (as adjusted for GASB 68/71). The increase in net position was driven by $37.5 million in capital grants and contributions recognized during 2015 and the resultant $34.0 million increase in capital assets. VMI's operating revenues rose $1.84 million or 4.1%, while a corresponding increase in operating costs was contained to $1.77 million or 2.2%. Opening fall enrollment of the Corps of Cadets increased to 1,700 in fiscal 2015 from 1,675 in fiscal 2014, continuing an upward trend covering the past several years. The increase in the number of Cadets coupled with increases in the tuition rate of 6.2% (in-state) and 5.7% (out-of-state) contributed to the overall growth in operating revenues. State appropriations (non-capital) remained relatively flat at $13.0 million, below the $14.6 million received from the Commonwealth during fiscal 2008.

Construction efforts were well underway for development of VMI's Corps Physical Training Facilities (CPTF), the Institute's highest priority capital project. Phase one, which encompasses construction of the indoor training facility, commenced May 2014 and is expected to conclude in the fall of 2016. Phase two, which includes renovation of Cormack Hall and Cocke Hall, began during the summer of 2014 and is also scheduled for a fall 2016 completion. Cocke and Cormack Halls provide Cadet physical conditioning facilities and support the Institute's Physical Education department. The renovation of Cormack Hall was substantially completed as of June 2015. Project costs for both phases ($118 million) is funded through the Virginia College Building Authority's (VCBA) 21st Century bond issuance (an obligation of the State). Completion of the CPTF will provide state of the art facilities to support the rigorous physical training requirements unique to VMI.

Statement of Net Position

The Statement of Net Position presents the assets, liabilities, deferred outflows and net position of the Institute as of the end of the fiscal year. The difference between total assets and total liabilities — net position — is one indicator of the current financial condition of the Institute. The purpose of the statement is to present readers with a fiscal snapshot as of 30 June 2015. The data presented facilitates readers' determination of the asset values available to continue the Institute's operations and the amount owed to vendors, creditors and others.

The Institute's net position is classified as follows:

- **Net investment in capital assets** – Represents total investment in property, plant, and equipment, (net of accumulated depreciation) 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** – Consists of resources that must be expended by the Institute in accordance with donor or other external entity stipulations such as time or purpose restrictions on the use of the assets.

- **Restricted net position – nonexpendable** – Represents the corpus of endowments and similar type funds where donors or other external entities have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate, in perpetuity and invested for the purpose of producing present and future income to be expended or added to the principal.

- **Unrestricted net position** – Represents resources utilized for the general operations of the Institute and, at the discretion of the Board of Visitors, for any lawful purpose in support of the Institute and the fulfilment of its mission.

Statement of Net Position

	30 June 2015	30 June 2014	Variance	
Assets:				
Current assets	$ 33,016,722	$ 26,964,197	$ 6,052,525	22.45%
Capital assets, net	277,391,137	243,392,263	33,998,874	13.97%
Other noncurrent assets	19,269,568	18,571,157	698,411	3.76%
Total assets	329,677,427	288,927,617	40,749,810	14.10%
Deferred outflows	2,675,015	727,635	1,947,380	267.63%
Total assets and deferred outflows	$ 332,352,442	$ 289,655,252	$ 42,697,190	14.74%
Liabilities:				
Current liabilities	$ 16,401,888	$ 11,481,021	$ 4,920,867	42.86%
Noncurrent liabilities	49,258,555	21,101,603	28,156,952	133.44%
Total liabilities	65,660,443	32,582,624	33,077,819	101.52%
Deferred Inflows	4,351,000	-	4,351,000	100.00%
Total liabilities and deferred inflows	$ 70,011,443	$ 32,582,624	$ 37,428,819	114.87%
Net position:				
Net investment in capital assets	$ 259,975,328	$ 228,610,207	$ 31,365,121	13.72%
Restricted - expendable	10,733,426	10,519,342	214,084	2.04%
Restricted - nonexpendable	1,256,116	1,267,844	(11,728)	-0.93%
Unrestricted	(9,623,871)	16,675,235	(26,299,106)	-157.71%
Total net position	$ 262,340,999	$ 257,072,628	$ 5,268,371	2.05%

As of 30 June 2015, VMI's total assets increased by 40.7 million or 14.1% from the prior year to $329.7 million. The change was due to overall net increases within each asset category; current assets, net capital assets and other noncurrent assets. The considerable asset growth primarily relates to increases in capital assets ($34.0 million) and, within current assets, amounts due from the Commonwealth ($9.8 million) as a result of Corps Physical Training Facility (CPTF) construction activities.

The $9.8 million increase in the year-end receivable from the Commonwealth is offset by a $3.3 million decrease in current cash and equivalents, largely due to the timing of receipt of State funding for capital project expenditures (funds are expended by the Institute prior to State reimbursement). Additionally, private gift funds ($1.0 million) were received during 2015 for enhancements to the Military and Leadership Field Training Grounds that were committed but not yet paid as of 30 June 2014.

Net capital and other noncurrent assets increased by a total of $34.7 million to $296.7 million, a 13.3% difference from the previous year. The increase is almost entirely due to the $34.0 million growth in nondepreciable and depreciable capital assets ($27.4 and $6.6 respectively). Of the nondepreciable asset growth, specifically construction-in-progress, $25.9 million relates to the aforementioned multi-phased CPTF initiative. In terms of the increase in depreciable assets, $11.1 million was due to the substantial completion during 2015 of the Cormack Hall renovation portion of the CPTF project, which was offset by $5.7 million of additional accumulated depreciation. Deferred outflows of resources, a consumption of net assets applicable to a future reporting period, increased from $0.7 million to $2.7 million as a result of a $1.9 million GASB 68/71 reclassification. Current year VRS pension expense must be reclassified as a deferred outflow and subsequently recognized as a reduction of the net pension liability in the following year (30 June 2016) per GASB 68/71 implementation requirements.

The $4.9 million or 42.9% increase in total current liabilities was the result of an additional $5.7 million in accounts payable and accrued expenses ($5.5 due to construction costs incurred but unpaid as of year-end), offset by a decrease of $0.6 million or 54.4% in the State allocated obligations under securities lending (see Note 2 to the financial statements). Noncurrent liabilities increased $28.2 million or 133.4%, primarily due to inclusion of the Institute's proportionate share ($24.2 million) of the VRS and VaLORS Retirement Plans' net pension liability, which was recorded in the current year as a result of implementation of GASB 68/71. Additionally, long-term debt increased $3.3 million or 19.2% due to financing of continuation of the Improve Post Facilities Project ($4.2 million) through the Commonwealth's VCBA pooled bond funding, offset by principal payments made during the period. A deferred inflow (an acquisition of net assets applicable to future periods) of $4.4 million was recorded in the current year also due to implementation of GASB 68/71. The amount primarily relates to the Institute's proportionate share of the net difference between projected and actual investment earnings on VRS and VaLORS pension plan assets.

Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses and Changes in Net Position (SRECNP) presents the Institute's operating results, nonoperating revenues and expenses and gains or losses incurred during the period. Changes in total net position as represented on the Statement of Net Position are the result of the activity depicted in the Statement of Revenues, Expenses, and Changes in Net Position.

In general, operating revenues are recognized when goods and services are provided to Cadets and other constituencies of the Institute. Operating expenses are recognized when incurred in the acquisition or production of those goods and services.

Nonoperating revenues are revenues for which goods and services are not directly provided. Included in this category are State appropriations and gifts, which augment coverage of the Institute's operating expenses and support Cadet scholarships. As a result VMI, similar to other public higher-education institutions, is expected to show an operating loss.

Statement of Revenues, Expenses, and Changes in Net Position

	30 June 2015	30 June 2014	Variance	
Operating revenues:				
Tuition and fees	$ 22,491,805	$ 20,969,293	$ 1,522,512	7.3%
Grants and contracts	98,352	266,100	(167,748)	-63.0%
Auxiliary enterprises	19,836,375	19,237,680	598,695	3.1%
Unique military activities	3,103,502	2,897,045	206,457	7.1%
Other sources	1,566,292	1,889,982	(323,690)	-17.1%
Total operating revenues	47,096,326	45,260,100	1,836,226	4.1%
Operating expenses:				
Educational and general	48,694,663	48,359,797	334,866	0.7%
Auxiliary enterprises	25,523,898	23,903,532	1,620,366	6.8%
Unique military activity	8,232,638	8,393,656	(161,018)	-1.9%
Other expense	-	21,197	(21,197)	-100.0%
Total operating expenses	82,451,199	80,678,182	1,773,017	2.2%
Operating loss	(35,354,873)	(35,418,082)	63,209	-0.2%
Nonoperating revenues (expenses):				
State appropriations	12,951,012	13,077,597	(126,585)	-1.0%
Gifts, grants and contributions	17,339,846	17,440,911	(101,065)	-0.6%
Investments	547,366	1,971,767	(1,424,401)	-72.2%
Other	(790,478)	(493,196)	(297,282)	60.3%
Net nonoperating revenues	30,047,746	31,997,079	(1,949,333)	-6.1%
Income (loss) before other revenues	(5,307,127)	(3,421,003)	(1,886,124)	55.1%
Other revenues/reductions	37,531,499	12,388,080	25,143,419	203.0%
Increase (decrease) in net position	32,224,372	8,967,077	23,257,295	259.4%
Net position - beginning of year	230,116,627	248,105,551	(17,988,924)	-7.3%
Net position - end of year	$ 262,340,999	$ 257,072,628	$ 5,268,371	2.0%

As of 30 June 2015, operating revenues increased by $1.84 million or 4.1%, slightly above the $1.77 million or 2.2% increase in operating expenses. The rise in operating revenues is attributed to tuition and fee increases as well as an increase in year over year enrollment. Opening enrollment grew from the prior period by 25 Cadets to 1,700, while total tuition and fees per individual increased by 6.2% and 5.7% for in-state and out-of-state Cadets, respectively. The $1.77 million increase in operating expenses was driven by an additional $1.4 million or 6.8% in Instruction costs due to 4% increases in both health insurance and fringe benefits expense as well as funding for four new faculty positions.

Net non-operating revenues decreased by $1.9 million or 6.1% due to a $1.4 million decline in investment income as a result of market conditions and the performance of investments pooled with VMI affiliates, coupled with a $0.3 million loss on disposal of plant assets related to the renovation of Cormack Hall.

The $25.1 million increase in other revenues and reductions was due to recognition of $28.6 million in 2015 Commonwealth capital contributions received through the VCBA 21st Century pooled bond program (not considered a debt of the Institute) for construction of the Corps Physical Training Facility, offset by $4.3 million in State appropriations received in the prior year for construction costs related to the 2014 completion of the Maury-Brook Hall renovation (formerly the New Science Building).

Statement of Cash Flows

The Statement of Cash Flows presents detailed information about the Institute's cash activity during the year. Cash flows from operating activities will always differ from the operating loss on the SRECNP. The SRECNP is prepared using the accrual basis of accounting and includes noncash items such as depreciation, whereas the Statement of Cash Flows presents cash inflows and outflows as received or disbursed, without consideration of accruals. The Statement of Cash Flows should assist readers in assessing the Institute's ability to generate cash flows sufficient to meet its obligations. It is divided into five parts: operating activities, noncapital financing activities, capital and related financing activities, investing activities, and a reconciliation of net operating expenses as reflected on the SRECNP to net cash used by operating activities.

Statement of Cash Flows

	30 June 2015	30 June 2014	Variance	
Net cash used by operating activities	$ (26,791,073)	$ (26,257,303)	$ (533,770)	2.0%
Net cash provided by noncapital financing activities	31,447,604	29,872,940	1,574,664	5.3%
Net cash provided/(used) by capital and financing activities	(7,893,157)	979,489	(8,872,646)	-905.8%
Net cash provided by investing activities	1,043,845	970,672	73,173	7.5%
Net increase (decrease) in cash	(2,192,781)	5,565,798	(7,758,579)	-139.4%
Cash - beginning of year	14,528,934	8,963,135	5,565,799	62.1%
Cash - end of year	$ 12,336,153	$ 14,528,933	$ (2,192,780)	-15.1%

Net cash provided by or used in operating activities will always result in a net use for the Institute as all State appropriations and private gifts are treated as cash sources for noncapital or capital financing activities as opposed to operating activities. Tuition and fees ($22.5 million) and auxiliary charges ($19.9 million) represent the largest sources of operating cash, while compensation and benefits ($43.9 million) and payments for supplies and services ($29.1 million) account for the most significant uses of operating funds. Overall, net cash used for operations increased slightly by $0.5 million in fiscal 2015 compared to fiscal 2014. This resulted from the receipt of an additional $1.2 million in total operating revenues (tuition and fees, auxiliary charges, etc.), which was offset by a $1.7 million rise in total operating outlays The rise in operating outlays was driven by a combined $2.0 million increase in salaries and benefits and supplies and services payments.

Net cash provided by noncapital financing activities consists of private fund support ($17.8 million) and State appropriations ($13.0 million). The $1.6 million increase in cash from noncapital financing activities was primarily due to a $2.5 million increase in private fund support (driven by current year receipt of a $1.4 million prior year receivable), against a $0.6 million decrease in grants and contracts cash flow.

Net cash provided by capital and related financing activities consists largely of gifts and contributions from the Commonwealth's Virginia College Building Authority (VCBA) bond funding programs and the VMI Development Board ($27.9 million total). Current year gifts and contributions receipts were offset by $34.7 million of funds allocated towards the purchase and construction of capital assets primarily related to construction of the Corps Physical Training Facilities project ($26.7 million), which was substantially underway.

Capital Asset and Debt Administration

30 June 2015 represents the thirteenth year of the implementation of VMI's Vision 2039. Vision 2039 is a leadership plan rather than a construction plan; however, construction of new facilities and the renovation of older buildings on Post are essential components of Vision 2039. Since 2003, VMI has completed significant and comprehensive improvements to its facilities totaling approximately $244 million. This includes renovation of academic buildings, construction of a new Center for Leadership and Ethics, construction of new outdoor Military and Leadership Field Training Grounds, expansion and renovation of the Barracks and the Mess Hall, construction of a new Physical Plant facility, renovation of the Post Hospital and Cormack Hall, improvements to athletic facilities, and construction of parking facilities.

During fiscal year 2015 renovation and construction continued on a number of projects, including repairs to Barracks parapets, stoops, and windows, Moody Hall exterior, and Cabell house improvements. These projects were financed through VCBA pooled bonds that were sold in 2013 and 2014. The pooled bond funds are an obligation of the Institute and are reflected as a liability in the Institute's Statement of Net Position.

As previously highlighted, during fiscal year 2015 construction continued on the Corps Physical Training Facilities (CPTF) project. The CPTF initiative is currently VMI's highest priority project and consists of two phases: Phase I ($80 million) to construct a new Corps Physical Training Facility, and Phase II ($38 million) to renovate Cocke Hall and Cormack Hall which provide Cadet physical conditioning facilities and support VMI's physical education department, respectively. Both phases are funded by capital contributions from the Commonwealth of Virginia through the VCBA 21st Century bond funds which are an obligation of the State. The renovation of Cormack Hall was substantially completed in June 2015. Completion of the new Corps Physical Training Facility and the renovation of Cocke Hall are scheduled for completion in fall 2016.

All of the improvements noted above provide the most modernized and technologically advanced facilities in the long history of VMI. Since VMI began its Vision 2039 capital program, the Institute has incurred long-term debt only on Jackson Memorial Hall, the Cocke Hall Annex, Crozet Hall, South Institute Hill Parking, and several small repair and improvement projects. The remaining projects have been financed with State funds, auxiliary funds, or private gifts and contributions resulting in no debt obligations for the Institute. As of 30 June 2015, the debt outstanding on these projects totaled $21.2 million with annual debt service payments of $1.7 million. VMI's Board of Visitors adopted debt guidelines in August 2005 to help ensure sound management and control of debt and annually monitors the Institute's position relative to those guidelines.

The Institute's long-term debt consists of $7.6 million of bonds and $13.6 million of notes payable. The bonds payable were issued in August 2004 pursuant to Section 9(c) of Article X of the Constitution of Virginia by the Department of Treasury for the Commonwealth of Virginia on behalf of the Institute for renovation and expansion of Crozet Hall, the Institute dining facility, and parking. The bonds bear interest at an average coupon rate of 4.8% and are payable over 20 years through June 2025. The bonds are secured by the net revenues of the facilities, which are comprised primarily of Cadet fees.

The Institute's notes payable consists of debt obligations between VCBA and the Institute. VCBA issued bonds through its Pooled Bond Program and used the proceeds to purchase debt obligations (notes) of the Institute. Notes related to the Cocke Hall Annex and the Jackson Memorial Hall renovations, initially issued in 2002, have an average coupon rate of 4.3% and are payable over 20 years through 2023. Notes related to the South Institute Hill Parking project were issued in 2010 at an average coupon rate of 4.8%

and are payable over 20 years through 2031. Notes related to the Post Infrastructure Improvements project were issued in 2013 and 2014 at an average coupon rate of 3.9% and are payable over 20 years through 2035. The Cocke Hall Annex, South Institute Hill Parking, and Post Infrastructure Improvements project notes will be paid from Auxiliary Enterprises Program reserve funds, which consist primarily of Cadet fees. The Jackson Memorial Hall note is secured by funds paid by the VMI Foundation, Inc. on a year-to-year basis as a gift to the Institute. Should the gift be discontinued, repayment will be made from the general revenues of the Institute.

Economic Outlook

The Institute's economic outlook is generally favorable due to its continuing strong student demand and national reputation especially for its engineering programs. The Institute has consistently ranked high on the *U.S. News and World Report* list of public liberal arts colleges with a current ranking of #4 behind the three federal service academies. The magazine also ranks VMI's engineering programs as No. 22 nationally among colleges whose highest degree is a bachelor's or master's. *Money* magazine ranks VMI as the No. 3 college in Virginia and No. 48 overall among all colleges in the United States. The Brookings Institution ranks VMI No. 14 nationally in earnings value. As a public institution with significant private support, the Institute continues to be well positioned to provide excellent programs and services to its Cadets as it maintains a clear educational focus and a well-established niche in the higher education marketplace.

VMI received 1,905 student applications for its fall 2015 new Cadet class resulting in an average for the past three years of 2,026 applications. VMI accepted 52% of the applicants for fall 2015 with a yield of 50% or 495 new Cadets. VMI accepted 44% of the applicants for fall 2014 with a yield of 53% or 500 new Cadets. The academic credentials of the Cadets enrolled continue to be significantly above average with the fall 2015 new Cadet class consisting of 44% in the top quarter and 87% in the top half of their high school class.

VMI remains committed to an average Corps size of about 1,625 Cadets with an appropriate mix of in-state and out-of-state Cadets to help maintain financial stability. In-state Cadets totaled 58% of the Corps for fiscal 2014 and 59% for fiscal 2015. VMI continues to strive to keep its tuition and fees affordable and competitive while offering significant financial assistance for Cadets with demonstrated need. Operating revenues consisting mostly of Cadet tuition and fees provided about $47.1 million or 61% of total revenues and support in fiscal 2015 with this percentage expected to increase in the future.

State support provided $13.0 million or 17% of VMI's total revenues and support for operations in fiscal 2015 excluding funding for capital projects. State support provided $37.3 million for capital projects consisting primarily of Corps Physical Training Facilities. State support for operations is expected to total about $13.7 million in fiscal 2016 for an increase of 5.6% over fiscal 2015. State support for capital projects for fiscal 2016 is estimated to total about $66.1 million and consists primarily of funding of the $118 million Corps Physical Training Facilities capital project.

Because State support is significant, VMI is directly impacted by changes in the State's economic outlook. According to the Governor's Office, Virginia's economy is expected to continue to underperform the Nation due to continued sluggish job, wage, and salary growth. This reflects in part from Federal Government budget cuts that affect the Commonwealth through limited revenue growth and funding for higher education.

Private support provided $16.4 million or 21% of VMI's total revenues and support for operations in fiscal 2015 excluding funding for capital projects. Private support provided $187,000 for capital project debt service. Private support is derived mostly from VMI's alumni agencies and continues to remain strong due to ongoing fundraising efforts and the professional management of their diversified portfolio of endowment assets. The endowment had a market value of $380 million as of 30 June 2015 reflecting an increase of about 2% over fiscal 2014. The alumni agencies are currently engaged in a new fund-raising campaign that over the next several years is expected to significantly increase donations and endowments in support of new and existing programs.

VMI's executive management believes that growth in State and private support in the next few years will continue to be modest. However, VMI remains committed to on-going improvement of academic programs, cost containment, and the affordability and competitiveness of tuition and fees. These commitments, along with continuing major investments and improvements in facilities, are expected to bolster the favorable student demand for the VMI education and keep the Institute's overall financial position strong.

FINANCIAL STATEMENTS

VIRGINIA MILITARY INSTITUTE
Statement of Net Position
As of 30 June 2015

ASSETS	
Current assets	
Cash and cash equivalents (Note 2)	$ 11,641,319
Cash equivalent held by Treasurer of Virginia (Note 2)	503,033
Collateral held for securities lending (Note 2)	18,207
Accounts receivable, *Net of allowance for doubtful accounts of $96,789* (Note 3)	859,834
Due from the Commonwealth (Note 4)	11,460,091
Due from federal government	26,887
Prepaid expenditures	1,258,597
Inventories (Note 5)	6,917,307
Loans receivable	331,447
Total current assets	33,016,722
Noncurrent assets	
Cash and cash equivalents (Note 2)	694,834
Cash equivalent - restricted (Note 2)	3,276,857
Investments held with trustees (Note 2)	14,025,055
Accounts receivable (Note 3)	47,384
Loans receivable, *Net of allowance for doubtful accounts of $31,970*	1,225,438
Nondepreciable capital assets (Note 6)	41,665,251
Depreciable capital assets, *Net of accumulated depreciation* (Note 6)	235,725,886
Total noncurrent assets	296,660,705
Total assets	329,677,427
Deferred outflows	
Loss on refunding	651,082
Deferred outflows related to pensions	2,023,933
Total deferred outflows	2,675,015
Total assets and deferred outflows	332,352,442
LIABILITIES	
Current liabilities	
Accounts payable and accrued expenses (Note 7)	12,243,047
Unearned revenue	1,400,982
Obligations under securities lending	521,240
Deposits held for others	773,498
Long-term liabilities - current portion (Note 9)	646,261
Long-term debt - current portion (Note 9, Note 10)	816,860
Total current liabilities	16,401,888
Noncurrent liabilities	
Accrued liabilities (Note 7)	2,579,476
Federal loan program contributions refundable	1,346,734
Long-term liabilities - noncurrent portion (Note 9)	730,664
Long-term debt - noncurrent portion (Note 9, Note 10)	20,388,681
Net Pension Liability (Note 13)	24,213,000
Total noncurrent liabilities	49,258,555
Total liabilities	65,660,443

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

VIRGINIA MILITARY INSTITUTE
Statement of Net Position
As of 30 June 2015

Deferred inflows	
Deferred inflows related to pensions	4,351,000
Total deferred inflows	4,351,000
Total liabilities and deferred inflows	70,011,443
NET POSITION	
Net investment in capital assets	259,975,328
Restricted - nonexpendable	
Endowment	1,256,116
Restricted - expendable	
Scholarships and other	1,341,001
Loan funds	589,881
Quasi-endowment - restricted	8,802,544
	10,733,426
Unrestricted	(9,623,871)
Total net position	262,340,999
Total liabilities, deferred inflows and net position	$ 332,352,442

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

COMBINED STATEMENT OF FINANCIAL POSITION
Component Units of Virginia Military Institute
As of 30 June 2015

ASSETS	
Current assets:	
Cash and cash equivalents	$ 7,618,409
Contributions receivable (Note 19)	8,486,372
Accounts receivable	109,196
Note receivable	115,205
Other	90,263
Total current assets	16,419,445
Noncurrent assets:	
Contributions receivable (Note 19)	17,477,814
Note receivable	459,708
Investments held by trustees (Note 19)	362,165,534
Investments, other (Note 19)	17,223,802
Investment securities	188,779
Cash surrender of life insurance	5,572,039
Property and equipment, net of accumulated depreciation	255,927
Total noncurrent assets	403,343,603
Total assets	419,763,048
LIABILITIES	
Current liabilities:	
Accounts payable and accrued expenses	726,583
Unearned revenue	4,083
Long-term liabilities-current portion:	
Trust and annuity obligations	775,004
Total current liabilities	1,505,670
Noncurrent liabilities:	
Other liabilities	98,594
Long-term liabilities-noncurrent portion:	
Bonds payable (Note 19)	44,386,691
Trust and annuity obligations	5,227,752
Total noncurrent liabilities	49,713,037
Total liabilities	51,218,707
NET ASSETS	
Unrestricted	59,152,443
Temporarily restricted	157,823,776
Permanently restricted	151,568,122
Total net assets	368,544,341
Total liabilities and net assets	$ 419,763,048

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

VIRGINIA MILITARY INSTITUTE
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended 30 June 2015

Operating revenues:	
Tuition and fees, *Net of scholarships allowances of $6,991,343*	$ 22,491,805
Federal grants and contracts	96,602
State and private grants and contracts	1,750
Sales and services of educational departments	419,844
Auxiliary enterprise, *Net of scholarship allowances of $5,854,573*	19,836,375
Unique military activities, *Net of scholarships allowances of $1,034,058*	3,103,502
Other sources:	
Museum programs	611,865
Rents and commissions	405,675
Miscellaneous	128,908
Total operating revenues	47,096,326
Operating expenses:	
Educational and general	
Instruction	21,762,676
Research	243,418
Public service	1,344,040
Academic support	6,880,777
Student services	3,744,071
Institutional support	6,080,805
Operation and maintenance of physical plant	7,720,861
Scholarships and related expense	918,015
Auxiliary enterprises	25,523,898
Unique military activities	8,232,638
Total operating expenses (Note 11)	82,451,199
Net operating income/(loss)	(35,354,873)
Nonoperating revenues/(expenses):	
State appropriations (Note 12)	12,951,012
Gifts and contributions	16,355,253
Federal student financial aid (Pell)	952,329
Federal stabilization funds (ARRA)	32,264
Investment income (loss)	547,366
Interest on capital asset - related debt	(453,319)
Gain/(loss) on disposal of plant assets	(283,164)
Other nonoperating expense	(53,995)
Net nonoperating revenues	30,047,746
Income/(loss) before other revenues and extraordinary items	(5,307,127)
Other revenues and reductions:	
Grants and contributions - capital	37,526,836
Investment income - capital	4,663
Total other revenues and reductions	37,531,499
Increase/(decrease) in net position	32,224,372
Net position beginning of the year, restated (Note18)	230,116,627
Net position end of year	$ 262,340,999

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

COMBINED STATEMENT OF ACTIVITIES
Component Units of Virginia Military Institute
For the Year Ended 30 June 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES				
Amounts raised on behalf of VMI	$ 11,126,800	$ 5,906,213	$ 20,766,595	$ 37,799,608
Grants, contributions and contracts	261,477	53,709	-	315,186
Investment income	(86,701)	1,519	-	(85,182)
Actuarial gain/(loss) on trust and annuity obligations	(207,539)	419,959	9,615	222,035
Administrative fees	34,533	-	-	34,533
Other income	5,669	-	-	5,669
Net assets released from restrictions and reclassifications	9,254,042	(9,254,042)	-	-
Total revenues	20,388,281	(2,872,642)	20,776,210	38,291,849
EXPENSES				
Amounts remitted directly to or on behalf of VMI:				
Unrestricted	8,021,953	-	-	8,021,953
Designated	11,558,128	-	-	11,558,128
Cost of operations	6,636,720	-	-	6,636,720
Conference, research and education	212,651	-	-	212,651
Total expenses	26,429,452	-	-	26,429,452
Change in net assets before net realized and unrealized gain/(loss) on investments	(6,041,171)	(2,872,642)	20,776,210	11,862,397
Net realized and unrealized gain/(loss) on investments	1,931,553	3,308,250	-	5,239,803
Change in net assets	(4,109,618)	435,608	20,776,210	17,102,200
NET ASSETS				
Beginning	63,262,061	157,388,168	130,791,912	351,442,141
Ending	$ 59,152,443	$ 157,823,776	$ 151,568,122	$ 368,544,341

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

VIRGINIA MILITARY INSTITUTE
Statement of Cash Flows
For the Year Ended 30 June 2015

Cash provided/(used) by operating activities:	
Tuition and fees	$ 22,485,723
Federal grants and contracts	96,602
State and private grants and contracts	1,750
Sales and services - educational and general	404,572
Auxiliary charges	19,866,758
Unique military activity charges	3,102,734
Other operating receipts	1,109,510
Payments to employees for salaries and benefits	(43,854,529)
Payments for supplies and services	(29,165,449)
Payments for scholarships and fellowships	(912,434)
Loan funds issued to students	(179,543)
Collections of loans from students	253,233
Net cash provided/(used) by operating activities	(26,791,073)
Cash provided/(used) by noncapital financing activities:	
State appropriations	12,951,012
Nonoperating grants and contracts	802,829
Gifts and contributions for other than capital purposes	17,753,334
Federal Direct Lending Program - receipts	7,250,642
Federal Direct Lending Program - disbursements	(7,250,642)
Agency receipts	1,020,303
Agency disbursements	(1,079,874)
Net cash provided/(used) by noncapital financing activities	31,447,604
Cash provided/(used) by capital and related financing activities:	
Capital gifts and contributions	27,948,316
Proceeds from capital assets	7,054
Purchase and construction of capital assets	(34,703,324)
Principal paid on capital debt, leases and installments	(803,454)
Interest paid on capital debt, leases and installments	(341,749)
Net cash provided/(used) by capital and relating financing activities	(7,893,157)
Cash provided/(used) by investing activities:	
Interest on investments	84,455
Investment/Endowment income	320,107
Sale of investments	639,283
Net cash provided/(used) by investing activities	1,043,845
Net increase/(decrease) in cash	(2,192,781)
Cash - beginning of year	14,528,934
Cash - end of year	$ 12,336,153

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

VIRGINIA MILITARY INSTITUTE
Statement of Cash Flows
For the Year Ended 30 June 2015

Reconciliation of net operating expenses to net cash used by operating activities:

Operating loss	$ (35,354,873)
Adjustments to reconcile net operating expenses to cash used by operating activities:	
Depreciation expense	9,164,668
Changes in assets, deferred outflows, liabilities, and deferred inflows:	
Cash equivalent - SNAP - Bond issuance expense	31,410
Accounts receivable	60,760
Inventories	(776,918)
Prepaid expenditures	(223,172)
Loans receivable	58,787
Accounts payable and accrued liabilities	672,837
Unearned revenue	11,337
Compensated absences	(32,475)
Federal loan program contributions refundable	12,500
Pension Obligations	(415,934)
Net cash used in operating activities	$ (26,791,073)

Noncash investing, noncapital financing, and capital related financing transactions:

Change in fair value of investments recognized as a component of investment income	$ (510,273)
Capital assets purchased with SNAP Funds	$ (3,536,723)
	$ (4,046,996)

Reconciliation of cash and cash equivalents to the Statement of Net Position:

Cash and cash equivalents classified as current assets	$ 11,641,319
Cash and cash equivalents classified as noncurrent assets	694,834
	$ 12,336,153

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

- NOTES TO FINANCIAL STATEMENTS -

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed by the Virginia Military Institute (VMI or Institute) are as follows:

A. Reporting Entity

The Virginia Military Institute believes that the measure of a college lies in the quality and performance of its graduates and their contributions to society. Therefore, it is the mission of the Virginia Military Institute to produce educated, honorable men and women prepared for the varied work of civil life, imbued with love of learning, confident in the functions and attitudes of leadership, possessing a high sense of public service, advocates of the American Democracy and free enterprise system, and ready as citizen-soldiers to defend their country in time of national peril.

To accomplish this result, Virginia Military Institute shall provide to qualified young men and women undergraduate education of highest quality – embracing engineering, science, and the arts – conducted in, and facilitated by, the unique VMI system of military discipline.

The Institute is part of the Commonwealth of Virginia's statewide system of public higher education. The Board of Visitors, appointed by the Governor, is responsible for overseeing the Institute's governance. A comprehensive annual report is prepared for the Commonwealth of Virginia which includes all agencies, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority. The Institute, as a component unit of the Commonwealth of Virginia is included in the general purpose financial statements of the Commonwealth.

The Governmental Accounting Standards Board (GASB) Statement 39, *Determining Whether Certain Organizations Are Component Units,* provides guidance to determine whether certain organizations for which the Institute is not financially accountable should be reported as component units. Generally, it requires reporting as a component unit an organization that raises and holds economic resources for the direct benefit of the Institute.

The VMI Alumni Agencies is a legally separate, tax-exempt entity whose purpose is to organize the alumni of the Institute and to aid in the promotion of its welfare and the successful prosecution of its educational purposes. It accomplishes this through fund-raising to supplement tuition and fees charged to cadets and the support VMI receives from the Commonwealth of Virginia. Because the VMI Alumni Agencies' resources are held almost entirely for the benefit of the Institute and these resources are considered significant to the Institute, it has been determined that the Alumni Agencies should be included as a component unit.

The VMI Research Laboratories (VMIRL) is a legally separate, tax-exempt entity whose purpose is to administer contract and grant research at the Institute. Because of the relationship to the Institute, it also has been determined to be a component unit of the Institute. Both the VMI Alumni Agencies and the VMIRL have been discretely presented in these statements.

Because the VMI Alumni Agencies and the VMIRL report under a different reporting model, the Financial Accounting Standards Board (FASB) standards, the VMI Board of Visitors and the administration of the Institute believe the Institute's financial statements should be presented on a page separate from the Institute's component units as allowed by GASB Statement 39. Separate financial statements for the VMI Alumni Agencies may be obtained by writing the Chief

Financial Officer, VMI Foundation, Inc., P.O. Box 932, Lexington, Virginia 24450. Separate financial statements for the VMI Research Laboratories, Inc., may be obtained by writing the Treasurer, VMI Research Laboratories, Inc., Virginia Military Institute, Lexington, Virginia 24450.

B. Reporting Basis

The financial statements have been prepared in accordance with GASB standards, including GASB Statement 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and GASB Statement 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities.*

The VMI Alumni Agencies and the VMI Research Laboratories, Inc. are private, nonprofit organizations that report under FASB standards including FASB Statement 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the VMI Alumni Agencies' or the VMI Research Laboratories' financial information included in the Institute's financial report for these differences.

C. Basis of Accounting

For financial statement purposes, the Institute is considered a special-purpose government engaged only in business-type activities. Accordingly, the Institute'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.

D. Cash, Cash Equivalents and Investments

In accordance with GASB Statement 9, *Definition of Cash and Cash Equivalents*, cash represents cash with the Treasurer, cash on hand, and cash deposits, including certificate of deposits, and temporary investments with original maturities of three months or less.

In accordance with GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, purchased investments, interest-bearing temporary investments classified with cash, and investments received as gifts are recorded at fair value. All investment income, including changes in the fair value of investments (unrealized gains and losses), is reported as nonoperating revenue in the Statement of Revenues, Expenses, and Changes in Net Position.

E. Capital Assets

Capital assets include land, buildings and other improvements, library materials, equipment, infrastructure assets, such as sidewalks, steam tunnels, and electrical and computer network cabling systems, and intangible assets. The Institute capitalizes construction costs that have a value or cost in excess of $100,000 at the date of acquisition. Renovations in excess of $100,000 are capitalized if they significantly extend the useful life of the existing asset. Expenses for major capital assets and improvements are capitalized within construction in progress as projects are constructed. Interest expense relating to construction is capitalized, net of interest income earned on resources set aside for this purpose. The costs of normal maintenance and repairs that do not add to an asset's value or materially extend its useful life are expensed as incurred.

The Institute capitalizes moveable equipment that has a value or initial cost of $5,000 or more and an estimated useful life in excess of one year. Buildings and equipment are stated at cost, where determinable, or appraised value upon initial recognition. Land is stated at cost. Library materials are initially valued using published average prices for library acquisitions. Intangible assets are capitalized with an acquisition cost of $100,000 and a useful life of one or more years.

Depreciation is computed using the straight-line method over the estimated useful life of the asset. Average useful lives by asset categories are listed below:

Buildings	50 years
Other improvements	10-30 years
Equipment	5-25 years
Library materials	10 years
Intangible assets	5 years to indefinite

The Institute does not capitalize works of art, historical treasures and similar assets. Such items are held for public exhibition, education or research in the furtherance of public service rather than financial gain. Institute collections may be sold but the proceeds must be used for the acquisition of similar type Institute collections. Exceptions to this requirement must be pre-approved by the Deputy Superintendent for Finance, Administration and Support.

F. Inventories

The Institute maintains inventory in its military store, museums, post hospital and physical plant. The military store inventory is valued at cost using the first-in first-out method. Inventory for the museum, post hospital and physical plant are valued at cost determined by using the weighted average method.

G. 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.

H. Unearned Revenue

Unearned revenue represents revenues collected but not earned as of 30 June 2015. This is primarily composed of revenue for student tuition and fees received in advance of the next semester or term.

I. 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 Institute incurred interest expense totaling $772,171 for the fiscal year ended 30 June 2015, of which $318,853 was capitalized as construction period interest.

J. Accrued Compensated Absences

The amount of leave earned, but not taken by classified salaried employees is recorded as a liability on the Statement of Net Position. The amount reflects, as of 30 June 2015, all unused vacation leave, overtime leave, compensatory leave, and the amount payable upon termination under the Commonwealth's sick leave payout policy. The applicable share of employer-related taxes payable on the eventual termination payments is also included.

K. Federal Financial Assistance Programs

The Institute participates in federally funded Pell Grants, Supplemental Educational Opportunity Grants, Federal Work-Study and Perkins Loans programs. Federal programs are audited in accordance with the Single Audit Act Amendments of 1996, the Office of Management and Budget Revised Circular A-133, *Audit of States, Local Governments and Non-Profit Organizations,* and the Compliance Supplement.

L. 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.

M. Net Position

The Institute's net position is classified as follows:

Net investment in capital assets: This represents the Institute'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 invested in capital assets, net of related debt.

Restricted net position – nonexpendable: Nonexpendable restricted net position consists of endowment funds in which donors or other outside 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, which may either be expended or added to the principal.

Restricted net position – expendable: Restricted expendable net position includes resources for which the Institute is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Unrestricted net position: Unrestricted net position represents resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the Institute, and may be used at the discretion of the governing board to meet current expenses for any purpose. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for cadets, faculty and staff. Also included in unrestricted net position are funds that have been set aside by the Board of Visitors as quasi-endowments. These funds are treated similar to true endowment funds; however, unlike true endowments they may be expended.

The Institute's practice regarding flow assumption has been to allow Department Heads to determine which assets (restricted or unrestricted) will be used when both restricted and unrestricted assets are available for the same purpose. Historically, unrestricted assets have been spent prior to the expenditure of restricted assets.

N. Classification of Revenues

The Institute has classified its revenues as either operating or nonoperating 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 discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, (3) most federal, state and local grants and contracts, and (4) interest on student loans.

Nonoperating revenues: Nonoperating revenues are revenues received for which goods and services are not provided. State appropriations, gifts and other revenue sources that are defined as nonoperating 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 Discounts and Allowances: Student tuition and fee revenues are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the Institute and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as either operating or nonoperating revenues in the Institute's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees, the Institute has recorded a scholarship discount and allowance.

O. Pensions

For 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 Retirement System (VRS) State Employee Retirement Plan and the Virginia Law Officers' System (VaLORS) Retirement Plan; and the additions to/deductions from the VRS State Employee Retirement Plan's and the VaLORS Retirement Pan's net fiduciary position have been determined on the same basis as they were reported by VRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. See Note 13 for general information about the VRS and VaLORS pension plans and calculation of the net pension liability.

P. Recently Adopted Accounting Pronouncements

For fiscal year 2015, the Institute adopted GASB Statement 68, *Accounting and Financial Reporting for Pensions*, which was effective for fiscal years beginning after June 15, 2014. This Statement replaces the requirements of Statement 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. Statement 68 requires the Institute to recognize a pension liability, pension expense and report deferred outflows and inflows of resources for its proportionate share of the overall net pension liability, collective pension expense and collective deferred outflows and inflows of resources, respectively, as related to the VRS and VaLORS Plans. The related mandatory note disclosures and required supplementary information will improve the consistency and transparency of pension transactions and related pension plan information.

For fiscal year 2015, the Institute adopted GASB Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, an amendment of GASB Statement 68. The requirements of this Statement, which were applied concurrently with those of Statement 68, eliminate the source of a potential material understatement of restated beginning net position and expense in the first year of implementation when contributions were made after the measurement date of the government's beginning net pension liability.

NOTE 2: CASH AND CASH EQUIVALENTS AND INVESTMENTS

The following information is provided with respect to the Institute's cash, cash equivalents, and investments as of 30 June 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 risk for deposits is the risk that, in the event of a 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 possession of an outside party. The Institute had no category 3 deposits or investments for fiscal year 2015.

Credit risk – 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 ratings of all 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 a credit risk. GASB Statement Number 40 requires disclosure of any issuer with more than five percent of total investments.

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 Institute does not have an interest rate risk policy.

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 Institute's credit risk, concentration of credit risk, interest rate risk, and foreign currency risk are described in the Investments note below.

Cash and Cash Equivalents

Pursuant to Section 2.2-1800, et seq., Code of Virginia, all state funds of VMI are maintained by the Treasurer of Virginia, who is responsible for the collection, disbursement, custody, and investment of state funds. Cash deposits held by VMI 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 consist of the following balances as of 30 June 2015:

	Current	Noncurrent	Total
Cash with Treasurer of Virginia	$ 9,091,287	$ 471,716	$ 9,563,003
State Non-Arbitrage Program (SNAP)	-	3,276,857	3,276,857
BB&T public fund checking	2,512,382	223,118	2,735,500
Securities under Securities Lending/Treasurer VA	503,033	-	503,033
Petty cash	9,650	-	9,650
Wells Fargo time deposit	28,000	-	28,000
Total cash and cash equivalents	$ 12,144,352	$ 3,971,691	$ 16,116,043

Investments

Investments include endowment and similar funds pooled and invested with VMI affiliates and retirement fund investments for selected employees. It also includes VMI's allocated share of securities held for security lending transactions conducted by the Commonwealth. Investments consist of the following balances as of 30 June 2015:

	Current	Noncurrent	Total
Investments with the Treasurer of Virginia:			
Securities under securities lending	$ 18,207	$ -	$ 18,207
Investments with trustees:			
Investments pooled with VMI affiliates	-	11,829,670	$ 11,829,670
Mutual fund investments (retirement accounts)	-	2,195,385	$ 2,195,385
Total with trustees	-	14,025,055	$ 14,025,055
Total investments	$ 18,207	$ 14,025,055	$ 14,043,262

VMI's endowment, loan and similar funds are pooled for investment purposes with the endowment funds of its affiliate, the VMI Alumni Agencies (the VMI Foundation, Inc., the VMI Development Board, Inc., and the VMI Keydet Club) and the George C. Marshall Foundation. VMI owns units in the pooled fund (the "Fund") that operates similar to a mutual fund. VMI Investment Holdings, LLC (LLC) manages and operates the unitized investment pool with BNY Mellon serving as custodian. The VMI Foundation, Inc. is the sole member of the LLC and acts as an intermediary between the LLC and VMI and the other agencies. Deposits to and withdrawals from the pool by VMI and the other agencies are made through the LLC. A separate board of directors manages the LLC. The board has approved an investment policy that outlines the standards and disciplines adopted, and the investment objectives, principles, and guidelines for managing the Fund. Authorized investments are set forth in the Uniform Prudent Management of Institutional Funds Act, Section 55-268 et seq. of the Code of Virginia and may include any real or personal property, whether or not it produces a current return, including mortgages, stocks and bonds, debentures, and other securities of profit or nonprofit corporations, shares in or obligations of associations, partnerships, or individuals, and obligations of any government or subdivision.

The market value of the Fund as of 30 June 2015 was $380 million, of which, VMI owned $11.8 million or 3.1 percent of the Fund assets. The Fund annually approves an asset allocation which includes how assets are invested in major categories of investments. The Fund held $55.6 million in debt securities with an average maturity of 14.6 years. The average quality rating was AA- (Moody's). The Fund held $50.4 million in US equity investments. The Fund held $49.7 million in developed markets international funds with equities denominated primarily in the Euro, the Pound, and the Yen, and $36.2 million in emerging markets international funds with equities denominated in a variety of currencies. The Fund held $96 million in absolute return fund investments which may also hold fixed income and equity securities. The Fund held $61.2 million in private investments and $14.3 million in master limited partnerships. The remaining investments are held in cash and other diversifying investments. The custodians for the Fund are independently audited annually.

Funds Held In Trust By Others

Individual assets of funds held by trustees for the benefit of the Institute are not reflected in the accompanying Statement of Net Position. The Institute has irrevocable rights to all or a portion of the income of these funds. However, individual assets of the funds are not under the management discretion of the Institute according to the trust agreements. Income from funds held by trustees for the benefit of the Institute totaled $110,288 for fiscal year 2015 and is included in the endowment income.

Securities Lending Transactions

Collateral held for securities lending and the securities lending transactions reported on the financial statements represent the Institute's allocated share of securities received for securities lending transactions held in the General Account of the Commonwealth. Information related to the credit risk of these investments and securities lending transactions held in the General Account is available on a statewide level in the Commonwealth of Virginia's *Comprehensive Annual Financial Report.* The Commonwealth's policy is to record unrealized gains and losses in the General Fund in the Commonwealth's basic financial statements. When gains or losses are realized, the actual gains and losses are recorded by the affected agencies.

NOTE 3: ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at 30 June 2015:

	Current	Noncurrent	Total
Student tuition and fees	$ 497,374	$ -	$ 497,374
Other educational and general	73,066	-	73,066
Auxiliary enterprises	92,856	-	92,856
Unique military activity	3,945	-	3,945
Private gifts	191,000	-	191,000
Agency funds	21,547	-	21,547
Other operating	57,676	47,384	105,060
Retirement of indebtedness	19,159	-	19,159
	$ 956,623	$ 47,384	$ 1,004,007
Less: Allowance for doubtful accounts	(96,789)	-	(96,789)
Total accounts receivable, net	$ 859,834	$ 47,384	$ 907,218

NOTE 4: COMMONWEALTH REIMBURSEMENT PROGRAMS

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 the 2015 fiscal year, funding has been provided to the Institute from two programs (21^{st} Century program and the Equipment Trust Fund) managed by the Virginia College Building Authority (VCBA). The VCBA issues bonds and uses the proceeds to reimburse the Institute for expenses incurred in the acquisition of equipment and facilities.

The line item, "Due from the Commonwealth" on the Statement of Net Position for the year ended 30 June 2015 represents pending reimbursements from the following programs:

VCBA Equipment Trust Fund program	$ 495,833
VCBA 21st Century program	10,964,258
Total Due from Commonwealth	$ 11,460,091

NOTE 5: INVENTORIES

Inventories consisted of the following at 30 June 2015:

Military Store	$ 6,324,791
Physical Plant	353,490
Museums	218,203
VMI Hospital	20,823
Total	$ 6,917,307

NOTE 6: CAPITAL ASSETS

A summary of changes in the various capital asset categories is presented as follows:

	Beginning Balance 1 July 2014	Additions	Reductions	Ending Balance 30 June 2015
Nondepreciable capital assets:				
Land	$ 3,445,091	$ -	$ -	$ 3,445,091
Construction in progress	10,789,018	41,820,668	(14,389,526)	38,220,160
Total nondepreciable capital assets	14,234,109	41,820,668	(14,389,526)	41,665,251
Depreciable capital assets:				
Buildings	282,813,824	14,278,084	(670,346)	296,421,562
Improvements other than buildings	30,433,827	111,442	-	30,545,269
Equipment	16,532,865	1,299,248	(440,636)	17,391,477
Library books	11,682,794	333,844	(98,740)	11,917,898
Total depreciable capital assets	341,463,310	16,022,618	(1,209,722)	356,276,206
Less accumulated depreciation for:				
Buildings	82,205,697	6,154,612	(382,717)	87,977,592
Improvements other than buildings	7,582,381	1,462,905	-	9,045,286
Equipment	12,408,035	1,263,028	(438,047)	13,233,016
Library books	10,109,043	284,123	(98,740)	10,294,426
Total accumulated depreciation	112,305,156	9,164,668	(919,504)	120,550,320
Depreciable capital assets, net	229,158,154	6,857,950	(290,218)	235,725,886
Total capital assets, net	$ 243,392,263	$ 48,678,618	$ (14,679,744)	$ 277,391,137

NOTE 7: ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at 30 June 2015:

	Current	Noncurrent	Total
Employee salaries, wages and benefits payable	$ 3,900,445	$ -	$ 3,900,445
Vendors and supplies accounts payable	6,479,566	-	6,479,566
Accrued interest payable	225,296	-	225,296
Retainage payable	1,395,316	-	1,395,316
Contractual liability	242,424	384,091	626,515
Retirement annuities	-	2,195,385	2,195,385
Total accounts payable and accrued expenses	$ 12,243,047	$ 2,579,476	$ 14,822,523

NOTE 8: SHORT-TERM BORROWING

In July 2014, the Institute entered into a treasury loan authorization with the Commonwealth of Virginia Department of Planning & Budget in the amount of $1,000,000. The authorization was obtained for the purpose of providing cash for the design, planning and improvements to various Post facilities. As of 28 August 2014, the Institute had withdrawn $1,000,000 against this authorization. Interest is payable quarterly, at the primary liquidity portfolio rate, compiled by the Commonwealth of Virginia Department of Treasury. Borrowings under this treasury loan authorization were due on and fully reimbursed by 30 November 2014.

	Beginning Balance 1 July 2014	Additions	Reductions	Ending Balance 30 June 2015
Short-term debt:				
Commonwealth of Virginia Treasury loan	$ -	$ 1,000,000	$ (1,000,000)	$ -

NOTE 9: LONG-TERM LIABILITIES SUMMARY

The Institute's long-term liabilities primarily consist of long-term debt (further described in Note 10) and accrued compensated absences. A summary of changes in long-term liabilities for the year ending 30 June 2015 is presented as follows:

	Beginning Balance 1 July 2014	Additions	Reductions	Ending Balance 30 June 2015	Current Portion 30 June 2015
Long-term debt:					
Bonds payable	$ 8,227,351	$ -	$ (635,932)	$ 7,591,419	$ 296,860
Notes payable	9,758,302	4,261,438	(405,618)	13,614,122	520,000
Total long-term debt	$ 17,985,653	$ 4,261,438	$ (1,041,550)	$ 21,205,541	$ 816,860
Accrued compensated absences	1,409,399	844,472	(876,946)	1,376,925	646,261
Total long-term liabilities	$ 19,395,052	$ 5,105,910	$ (1,918,496)	$ 22,582,466	$ 1,463,121

NOTE 10: LONG-TERM INDEBTEDNESS DETAIL

Bonds payable:

In August 2004, pursuant to Section 9(c) of Article X of the Constitution of Virginia, $11,240,000 of revenue bonds, Series 2004A, were issued by the Department of Treasury for the Commonwealth of Virginia, on behalf of the Institute for renovation and expansion of Crozet Hall, the Institute dining facility, and parking. The bonds bear interest at an average coupon rate of 4.8% and are payable over 20 years through June 2025. Net proceeds after the cost of issuance totaled $11,889,591 and included a premium realized on the sale. The revenue bonds are secured by the net revenues of the facility, which is comprised primarily of cadet fees.

Bonds Payable:	**Interest Rates (%)**	**Maturity**	**Balance 30 June 2015**
Crozet Hall:			
Series 2009D, issued $4,241,860 - refunding Series 2004A *	2.50 - 5.00	2022	$ 4,670,281
Series 2012A, issued $3,018,620 - refunding Series 2004A *	2.00 - 5.00	2025	2,921,138
			$ 7,591,419

Notes payable:

Notes payable consists of debt obligations between the Virginia College Building Authority (VCBA) and the Institute. The VCBA issued bonds through the Pooled Bond Program and used the proceeds to purchase debt obligations (notes) of the Institute. The Cocke Hall Annex, South Institute Hill Parking and Post Infrastructure Improvement notes will be paid from auxiliary reserve funds, which consist predominantly of Cadet fees. The JM Hall Renovation note is secured by funds paid by the VMI Foundation, Inc. on a year-to-year basis as a gift to the Institute. Should the gift be discontinued, repayment will be made from the general revenues of the Institute.

Notes Payable:	**Interest Rates (%)**	**Maturity**	**Balance 30 June 2015**
Cocke Hall Annex:			
Series 2007B, issued $735,000 - refunding Series 2002A *	4.00 - 4.50	2020	$ 636,124
Series 2010B, issued $555,000 - refunding Series 2002A *	2.00 - 5.00	2023	509,571
Jackson Memorial Hall Renovation:			
Series 2007B, issued $850,000 - refunding Series 2002A *	4.00 - 4.50	2020	735,750
Series 2010B, issued $650,000 - refunding Series 2002A *	2.00 - 5.00	2023	593,793
South Institute Hill Parking:			
Series 2010A1/2, issued $2,850,000	3.75 - 5.00	2031	2,634,159
Improve Post Facilities I:			
Series 2013A, issued $4,085,000	2.00 - 4.00	2034	4,263,599
Improve Post Facilities II:			
Series 2014A, issued $3,565,000	2.00 - 5.00	2035	4,241,126
			$ 13,614,122

Maturities on notes and bonds payable for years succeeding 30 June 2015 are as follows:

Year	Bonds Payable	Notes Payable	Total
2016	$ 296,860	$ 520,000	$ 816,860
2017	580,000	660,000	1,240,000
2018	610,000	680,000	1,290,000
2019	640,000	715,000	1,355,000
2020	670,000	745,000	1,415,000
2021-2025	3,933,614	3,515,000	7,448,614
2026-2030	-	3,090,000	3,090,000
2031-2035	-	2,605,000	2,605,000
Total principal payments	6,730,474	12,530,000	19,260,474
Unamortized premium	860,945	1,084,122	1,945,067
Total long-term debt, net	$ 7,591,419	$ 13,614,122	$ 21,205,541

A summary of future interest commitments for fiscal years subsequent to 30 June 2015 is presented as follows:

Year	Bonds Payable	Notes Payable	Total
2016	$ 322,850	$ 556,147	$ 878,997
2017	306,907	529,904	836,811
2018	277,907	498,985	776,892
2019	247,407	467,522	714,929
2020	215,407	438,398	653,805
2021-2025	503,210	1,680,305	2,183,515
2026-2030	-	973,694	973,694
2031-2035	-	264,475	264,475
Total future interest requirements	$ 1,873,688	$ 5,409,430	$ 7,283,118

Operating Leases

VMI is committed under various operating leases for equipment. Operating leases do not give rise to property rights and are not reflected as obligations in the Institute's Statement of Net Position. In general, the leases have a three year term and the Institute has renewal options. In most cases, the Institute expects these leases will be replaced by similar leases in the normal course of business. Rental expense was approximately $2,474 for the year ended 30 June 2015. Minimum lease payments for subsequent fiscal years are as follows:

Year Ending 30 June	Amount
2016	$ 1,317
2017	1,317
2018	1,317
2019	
Total	$ 3,951

Capital Improvement Commitments

As of 30 June 2015, the Institute had outstanding construction contract commitments of $63,257,632. This amount represents the value of obligations remaining on capital improvement project contracts. These obligations are for future efforts and as such have not been accrued as expenses or liabilities on the Institute's financial statements.

NOTE 11: EXPENSES BY NATURAL CLASSIFICATIONS

The Institute's operating expenses by natural classification were as follows for the year ended 30 June 2015:

Program	Compensation and benefits	Supplies, Equipment, Utilities and Other Services	Student Aid	Other Expenses	Depreciation	Total
Instruction	$ 17,789,196	$ 1,172,866	$ -	$ 29,433	$ 2,771,180	$ 21,762,675
Research	77,574	48,146	-	117,698	-	243,418
Public service	624,873	388,187	-	7,832	323,148	1,344,040
Academic support	4,425,845	1,400,005	-	70,915	984,012	6,880,777
Student services	2,398,065	1,010,459	-	82,088	253,461	3,744,073
Institutional support	3,562,216	2,013,278	-	367,964	137,346	6,080,804
Operation of plant	3,333,060	3,370,417	-	428,007	589,378	7,720,862
Student aid	3,245	38,678	876,092	-	-	918,015
Auxiliary enterprises	6,155,998	10,752,968	36,342	5,541,265	3,037,325	25,523,898
Unique military activities	5,118,417	1,634,493	-	410,909	1,068,818	8,232,637
TOTAL	$ 43,488,489	$ 21,829,497	$ 912,434	$ 7,056,111	$ 9,164,668	$ 82,451,199

NOTE 12: STATE APPROPRIATIONS

Virginia Military Institute receives State appropriations from the General Fund of the Commonwealth of Virginia. The Appropriation Act specifies that such unexpended appropriations shall revert, as specifically provided by the General Assembly, at the end of the biennium. For years ending at the middle of the biennium, unexpended appropriations that have not been approved for reappropriation in the next year by the Governor become part of the General Fund of the Commonwealth and are, therefore, no longer available to VMI for disbursement. Fiscal year 2016 ends the biennium.

During the fiscal year ended 30 June 2015, the Institute received the following supplemental appropriations and reversions in accordance with the Appropriation Act:

Original legislative appropriation:	
Educational and general programs	$ 9,075,052
Unique military activity	3,569,904
Student financial assistance	870,928
Adjustments:	
Compensation adjustments	(160,595)
ETF lease payment – NGF portion	(88,844)
Student financial assistance	9,000
Debt service fee – Non-Virginia cadets	(370,260)
Appropriations transfers:	
SCHEV programs	6,251
Educational and general	39,576
Adjusted appropriations	$ 12,951,012

NOTE 13: RETIREMENT AND PENSION SYSTEMS

General Information about the Pension Plan

Plan Description

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

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

Retirement Plan Provisions by Plan Structure		
Plan 1	**Plan 2**	**Hybrid Retirement Plan**
About Plan 1 Plan 1 is a defined benefit plan. The retirement benefit is	**About Plan 2** Plan 2 is a defined benefit plan. The retirement benefit is	**About the Hybrid Retirement Plan** The Hybrid Retirement Plan

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.	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.	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 require fees.
Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010 and they were vested as of January 1,	**Eligible Members** Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before	**Eligible Members** Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This

2013. **Hybrid Opt-In Election** 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.	July 1, 2010, and they were not vested as of January 1, 2013. **Hybrid Opt-In Election** Eligible plan 2 members were allowed to make in 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.	includes: • State employees* • 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. ***Non Eligible Members** Some employees are not eligible to participate in the Hybrid Retirement Plan. They include: • Members of the Virginia Law Officers' Retirement System (VaLORS) Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.
Retirement Contributions 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	**Retirement Contributions** State employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction.	**Retirement Contributions** 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

VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.		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 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** Same as Plan 1.	**Creditable Service** **Defined Benefit Component:** 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. **Defined Contributions Component:** Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.
Vesting 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	**Vesting** Same as Plan 1.	**Vesting** **Defined Benefit Component:** 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

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 balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.		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. **<u>Defined Contributions Component</u>:** 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 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** See definition under Plan 1.	**Calculating the Benefit** **<u>Defined Benefit Component</u>:** See definition under Plan 1 **<u>Defined Contribution Component</u>:** The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.
Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
Service Retirement Multiplier **VRS:** The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70% **VaLORS:** The retirement multiplier for VaLORS employees is 1.70% or 2.00%	**Service Retirement Multiplier** **VRS:** Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013. **VaLORS:** The retirement multiplier for VaLORS employees is 2.00%.	**Service Retirement Multiplier** **<u>Defined Benefit Component</u>:** **VRS:** The retirement 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. **VaLORS:** Not applicable. **<u>Defined Contribution Component</u>:** Not applicable.

Normal Retirement Age **VRS:** Age 65 **VaLORS:** Age 60	**Normal Retirement Age** **VRS:** Normal Social Security retirement age. **VaLORS:** Same as Plan 1	**Normal Retirement Age** **<u>Defined Benefit Component</u>:** **VRS:** Same as Plan 2 **VaLORS:** Not applicable. **<u>Defined Contribution Component</u>:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Unreduced Retirement Eligibility **VRS:** Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service. **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** **VRS:** Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90. **VaLORS:** Same as Plan 1.	**Earliest Unreduced Retirement Eligibility** **<u>Defined Benefit Component</u>:** **VRS:** Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. **VaLORS:** Not applicable. **<u>Defined Contribution Component</u>:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Reduced Retirement Eligibility **VRS:** Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 year of creditable service. **VaLORS:** 50 with at least five years of creditable service.	**Earliest Reduced Retirement Eligibility** **VRS:** Age 60 with at least five years (60 months) of creditable service. **VaLORS:** Same as Plan 1.	**Earliest Unreduced Retirement Eligibility** **<u>Defined Benefit Component</u>:** **VRS:** Age Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service. **VaLORS:** Not applicable. **<u>Defined Contribution Component</u>:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.

Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%. **Eligibility:** 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. **Exceptions to COLA Effective Dates:** 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	**Cost-of-Living Adjustment (COLA) in Retirement** 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%. **Eligibility:** Same as Plan 1. **Exceptions to COLA Effective Dates:** Same as Plan 1.	**Cost-of-Living Adjustment (COLA) in Retirement** **Defined Benefit Component:** Same as Plan 2. **Defined Contribution Component:** Not applicable. **Eligibility:** Same as Plan 1 and Plan 2. **Exceptions to COLA Effective Dates:** Same as Plan 1 and Plan 2.

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.		
Disability Coverage 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	**Disability Coverage** 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	**Disability Coverage** 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.

benefits.	benefits.	
Purchase of Prior Service 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** Same as Plan 1.	**Purchase of Prior Service** **<u>Defined Benefit Component</u>:** 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 if 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. **<u>Defined Contribution Component</u>:** 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 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, 2013. 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 employees 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 the Institute to the VRS State Employee Retirement Plan were $1,968,153 and $1,413,558 for the years ended June 30, 2015 and June 30, 2014, respectively. Contributions from the Institute to the VaLORS Retirement Plan were $72,738 and $64,487 for the years ended June 30, 2015 and June 30, 2014, respectively.

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

At June 30, 2015, the Virginia Military Institute reported a liability of $23,380,000 for its proportionate share of the VRS State Employee Retirement Plan Net Pension Liability and a liability of $833,000 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. The Institute's proportion of the Net Pension Liability was based on the Institute'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, the Virginia Military Institute's proportion of the VRS State Employee Retirement Plan was 0.418% as compared to 0.419% at June 30, 2013. At June 30, 2014, the Institute's proportion of the VaLORS Retirement Plan was 0.123% compared to 0.124% at June 30, 2013.

For the year ended June 30, 2015, the Virginia Military Institute recognized pension expense of $1,533,000 for the VRS State Employee Retirement Plan and $75,000 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, the Institute reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ -
Change in assumptions	-	-
Net difference between projected and actual earnings on pension expense	-	4,259,000
Changes in proportion and differences between Employer contributions and proportionate share of contributions	-	92,000
Employer contributions subsequent to the measurement date	2,023,933	-
Total	$ 2,023,933	$ 4,351,000

$2,023,933 reported as deferred outflows of resources related to pensions resulting from the Institute'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:

Year ended June 30	
2016	$1,097,000
2017	$1,097,000
2018	$1,093,000
2019	$1,064,000
	$4,351,000

Actuarial Assumptions

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

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 No. 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 (amounts expressed in thousands):

	State Employee Retirement Plan	VaLORS Retirement Plan
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 No. 67 in the Commonwealth's notes to the Comprehensive Annual Financial Report (CAFR) and required supplementary information.

Long-Term Expected Rate of Return

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

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

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

Discount Rate

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

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

The following presents the Virginia Military Institute's proportionate share of the VRS State Employee Retirement Plan net pension liability using the discount rate of 7.00%, as well as what the Institute'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:

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
Virginia Military Institute's proportionate share of the VRS State Employee Retirement Plan Net Pension Liability	$34,249,000	$23,380,000	$14,265,000

The following presents the Virginia Military Institute's proportionate share of the VaLORS Retirement Plan net pension liability using the discount rate of 7.00%, as well as what the Institute'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:

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
Virginia Military Institute's proportionate share of the VaLORS Retirement Plan Net Pension Liability	$1,139,000	$833,000	$582,000

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 website 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.

Optional Retirement Plan

Some full-time faculty and contracted administrative staff participate in a defined contribution plan administered by two different providers other than VRS; TIAA/CREF Insurance Companies and Fidelity Investments Tax-Exempt Services Co. This is a fixed-contribution program where the retirement benefits received are based entirely upon the employer's (10.4%) contributions for employees enrolled prior to 1 July 2010, plus net investment gains, with the employer assuming the employee's contribution share. For employees enrolled after 1 July 2010, the employer provides a contribution of 8.5% while the employee must contribute 5%.

Individual contracts issued under the plan provide for full and immediate vesting of both the Institute's and the employees' contributions. Total pension costs under this plan were approximately $1,194,396 for the year ended 30 June 2015. Contributions to this defined contribution plan were calculated using the base salary amount of participants of approximately $12,321,953 for fiscal year 2015.

Deferred Compensation Plan

Employees of the Commonwealth 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 or $40 per month. 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. Employer contributions under the Deferred Compensation Plan were approximately $145,215 for the fiscal year 2015.

NOTE 14: POST-EMPLOYMENT BENEFITS

The Commonwealth participates in the VRS administered statewide group life insurance program which provides postemployment life insurance benefits to eligible retired and terminated employees. The Commonwealth also provides health care credits against the monthly health insurance premiums of its retirees who have at least 15 years of service and participate in the State's health plan. Information related to these plans is available at the statewide level in the Commonwealth's *Comprehensive Annual Financial Report*.

NOTE 15: RISK MANAGEMENT

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

NOTE 16: CONTINGENCIES

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

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

In August 2007, VMI entered into a new five year dining services contract with ARAMARK Educational Services (ARAMARK), VMI's contracted dining services vendor. The contract included an optional renewal term of five additional years. Under the agreement, ARAMARK committed to contribute $750,000 for food service facility renovations, the purchase and installation of food service equipment, area treatment, signage and marketing materials and other costs associated with the food service program on VMI's premises. In accordance with the agreement, the Institute received $500,000 in fiscal 2008 and the balance of $250,000 in fiscal 2012. The contract requires ARAMARK to amortize contributions on a straight-line basis over a ten-year period through 2017. Upon contract expiration or termination by either party prior to 2017, VMI agreed to pay ARAMARK the unamortized balance plus accrued but unbilled interest (prime rate plus two percentage points per annum, compounded monthly) within thirty days.

In July 2012, the Institute exercised the right to renew the 2007 contract with ARAMARK through 2017. In consideration for the renewal, ARAMARK agreed to contribute $350,000 for food service facility renovations and retail dining facility enhancements. In accordance with the agreement, $250,000 was received in fiscal 2013 and the balance of $100,000 in fiscal 2014. The agreement requires ARAMARK to amortize contributions on a straight-line basis through 2017 commencing with the complete expenditure of funds. Upon contract expiration or termination by either party prior to 2017, VMI agreed to pay ARAMARK the unamortized balance plus accrued but unbilled interest (prime rate plus two percentage points per annum, compounded monthly) within thirty days.

In July 2014, VMI entered into a contract amendment with ARAMARK. In accordance with the agreement, ARAMARK provided a financial commitment of $300,000 in fiscal 2015 to VMI for food service facility renovations and for the purchase and installation of equipment associated with upgrades to the main dining hall. The amendment requires the financial commitment to be amortized on a straight-line basis through 2017. Upon expiration or termination of the agreement by either party for any reason prior to complete amortization, VMI shall reimburse ARAMARK the unamortized balance as of the date of expiration or termination plus accrued but unbilled interest (prime rate plus two percentage points per annum) within thirty days.

In February 2015, VMI entered into a contract with Follett Higher Education Group (Follett) for service as VMI's bookstore management and operations provider under which VMI received a financial incentive of $250,000. The contract requires VMI to repay the unamortized balance of the financial incentive, using the straight-line method, in the event the contractual relationship is terminated prior to June 2020.

NOTE 17: SUBSEQUENT EVENTS

The 2015 General Assembly of the Commonwealth of Virginia approved VMI's request for $4.0 million of VCBA bond financing to make improvements to Post facilities. The bonds to support this project are expected to be issued by the Commonwealth of Virginia in November 2015 and will result in a note payable between VCBA and the Institute. Bond financing for this project is projected to total $4.0 million, plus bond issue costs and capitalized interest during construction. The bonds will be repaid over 20 years with an expected interest rate of approximately 4%. This new debt would increase the book value of VMI's total outstanding debt, including unamortized premiums and refunding losses, to approximately $26.0 million.

NOTE 18: RESTATEMENT OF NET POSITION

The following prior period adjustments were made to the beginning net position previously reported in the Institute's financial statements at June 30, 2014.

Net position as orginially stated at June 30, 2014	$	257,072,628
Change in reporting for the implentation of GASB No. 68, *Accounting and Financial Reporting for Pensions* and GASB No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date* :		
Net pension liability (measurement date)		(28,472,000)
Deferred outflows-Institute's contributions made during FY14		1,515,999
Total prior period adjustment		(26,956,001)
Net position restated at June 30, 2014	$	230,116,627

NOTE 19: VMI ALUMNI AGENCIES

The VMI Alumni Agencies (the "Agencies") are comprised of four organizations that share the common purpose of raising funds, investing funds, and performing other activities on behalf of VMI alumni and other donors in support of VMI. Significant sources of revenue consist of contributions and investment return. Due to their shared purpose, the Agencies have elected to present their financial statements on a combined basis. All significant interagency accounts and transactions have been eliminated in combination. The individual organizations comprising the Agencies and their purposes are as follows:

The VMI Alumni Association

The purpose of The VMI Alumni Association is to organize the alumni of VMI into one general body.

VMI Foundation, Incorporated and Subsidiary

The purpose of the VMI Foundation, Incorporated and Subsidiary is to solicit and to accept various funds and to disburse such funds, or income earned from those funds, for the advancement of VMI and the Alumni Association. The Foundation is the sole member of VMI Investment Holdings, LLC.

VMI Development Board, Incorporated
The purpose of the VMI Development Board, Incorporated is to support VMI by coordinating development and fundraising efforts conducted on behalf of VMI Alumni and other donors.

VMI Keydet Club, Incorporated
The purpose of the VMI Keydet Club, Incorporated is to support, strengthen, and develop the intercollegiate athletic program at VMI.

Contributions receivable

Contributions receivable consist of the following as of 30 June 2015:

Unconditional promises to give	$ 25,759,764
Charitable trusts held by others	204,422
Total contributions receivable	25,964,186
Less: current portion	(8,486,372)
Noncurrent contributions receivable	$ 17,477,814
Gross amounts expected to be collected in:	
Less than one year	$ 9,625,898
One to five years	19,078,255
More than five years	1,433,982
	30,138,135
Less:	
Discount	(1,180,578)
Allowance for uncollectible contributions	(2,993,371)
Fair value	$ 25,964,186

The distribution of contributions receivable for each class of net assets as of 30 June 2015 is as follows:

Temporarily restricted	$ 14,922,371
Permanently restricted	11,041,815
	$ 25,964,186

At 30 June 2015, the Agencies had also received bequest and other intentions of approximately $136.4 million. These intentions to give are not recognized as assets and, if they are received, they will generally be restricted for specific purposes stipulated by the donors.

For 2015 approximately 33% of the contributions receivable balance was from five donors.

Investments held by trustees

The Agencies participate in a combined investment fund (the "Fund") controlled by the VMI Investment Committee, a committee comprised of representatives from each agency. BNY Mellon, N.A. serves as custodian for the Fund's assets. The Fund's investments consist of the following as of 30 June 2015:

Equities	$ 142,172,301	39.2 %
Absolute return funds	91,529,688	25.3
Private equities	58,319,044	16.1
Fixed income	52,982,741	14.6
Master limited partnerships	13,653,353	3.8
Cash and cash equivalents	3,508,407	1.0
	$ 362,165,534	100.0 %

These investments, which comprise the majority of the Agencies' assets, are subject to market risk. However, the Agencies' investment funds are managed by a number of investment managers, which limits the amount of risk in any one fund. The Agencies' Investment Committee establishes investment guidelines and performance standards which further reduce its exposure to market risk.

Investments held by trustees activity for the year ended 30 June 2015 is reflected in the table below:

Investments, beginning	$ 352,420,957
Gifts and amounts available for investments	12,000,000
Investments returns:	
Dividends and interest	2,207,959
Net realized and unrealized losses	4,411,311
Less: investment fees	(2,574,693)
	4,044,577
Net disbursements used to fund operations	(6,300,000)
Investments, ending	$ 362,165,534

VMI Investment Holdings, LLC

On 29 April 2009, VMI Investment Holdings, LLC (LLC) was formed to manage the investments held by trustees. On 1 June 2009, all investments held by trustees and for which BNY Mellon, N.A. serves as custodian were transferred to the LLC. The Foundation is the sole member of the LLC, and acts as an intermediary between the LLC and the other agencies. As stated in the Deposit and Management Agreement, the LLC will operate the unitized investment pool and issue a number of units in the pool to each depositor based on the amount of its deposit divided by the then unit value. Each depositor is entitled to its pro rata share of the value, taking into account aggregate investment returns. Deposits to and withdrawals from the pool by the other agencies will be made through the Foundation. A separate board of directors was established to manage the LLC.

Investments, Other

Investments, other, as of 30 June 2015 consists of the following:

	Held by Agent	Held by Foundation	Held in Irrevocable Trusts*	Total at Fair Value**
Equities	$ 907,317	$ 9	$ 10,202,240	$ 11,109,566
Fixed income	4,233	5,891	2,885,929	2,896,053
Real estate	-	1,701,667	-	1,701,667
Alternative investments	-	-	1,048,601	1,048,601
Cash and cash equivalents	139,666	783	300,492	440,941
Limited partnerships	9,846	17,128	-	26,974
	$ 1,061,062	$ 1,725,478	$ 14,437,262	$ 17,223,802

*Investments held in irrevocable trusts are not available for use until the occurrence of a future event as noted in the applicable trust agreements.

**For certain components of these investments, primarily real estate, limited partnerships, and common stocks of closely held companies where fair values were not readily determinable, cost was used.

Long-term Debt

Long-term debt consists of bonds and notes payable at 30 June 2015 as follows:

Variable Rate Educational Facilities Revenue Bonds, Series 2006, payable in varying installments from $5,000,000 to $22,475,000, commencing 2021 through 2037	$ 42,475,000
Add: bond premium - net	1,911,691
	$ 44,386,691

Debt matures as follows for future years ending 30 June:

Year ending 30 June:	
2016	-
2017	-
2018	-
2019	-
2020	-
Thereafter	42,475,000
	$ 42,475,000

Effective 15 July 2010, the Industrial Development Authority of the City of Lexington, Virginia approved a request by the Agencies to remarket Variable Rate Educational Facilities Revenue Bonds, Series 2006. This remarketing superseded the original issuance, dated 13 July 2006. The

bonds were initially issued in a single series bearing interest at a variable rate. The bonds were remarketed at a premium of $2,525,000, net of expenses. The premium is being amortized over the life of the loan and amortization of the premium totaled $122,622 for 2015. The bonds were remarketed in three series, Series 2006A-1 ($5,000,000) and 2006A-2 ($5,000,000), 2006B ($10,000,000), and 2006C ($22,475,000), and interest was converted to a fixed rate on each series. Series 2006A-1 bears interest of 4.25%, the remainder each bear interest at 5.00%. Interest accrues at these rates and payments commenced on 1 December 2010. Payments are due each 1 June and 1 December. The first principal payment, of $10,000,000, is due in fiscal year 2021. Upon this conversion, the bonds are no longer collateralized by any credit or liquidity facility, nor are the bonds collateralized by any of the Agencies' assets.

Endowment Funds

The Agencies employ a total return spending policy that establishes the amount of investment return that is available to support current needs and restricted purposes. This policy is designed to insulate program spending from capital market fluctuations and increase the amount of return that is reinvested in the corpus of the fund in order to enhance its long-term value. For the year ended 30 June 2015, the Board-approved spending formula for the endowment provided for an annual spending rate of 4.8% of the average of the prior twelve quarters' market values adjusting these market values upward to reflect subsequent receipt of gifts, or downward to reflect extraordinary withdrawals. If cash yield (interest and dividends) is less than the spending rate, realized gains can be used to make up the deficiency. Any income in excess of the spending rate is to be reinvested in the endowment. The primary investment objective is long-term capital appreciation and total return. The Agencies utilize diversified investment classes that provide the opportunity to achieve the return objective without exposing the funds to unnecessary risk.

NOTE 20: COMPONENT UNITS

Condensed financial statements for the component units of the Institute are as follows:

CONDENSED STATEMENTS OF NET ASSETS As of 30 June 2014	VMI Research Laboratories Inc.	VMI Alumni Agencies	TOTAL
Assets:			
Current assets	$ 536,339	$ 15,883,106	$ 16,419,445
Noncurrent assets	314,630	403,028,973	403,343,603
Total assets	850,969	418,912,079	419,763,048
Liabilities:			
Current liabilities	35,544	1,470,126	1,505,670
Noncurrent liabilities	47,384	49,665,653	49,713,037
Total liabilities	82,928	51,135,779	51,218,707
Net Assets:			
Unrestricted	701,082	58,451,361	59,152,443
Temporarily restricted	56,959	157,766,817	157,823,776
Permanently restricted	10,000	151,558,122	151,568,122
Total net assets	768,041	367,776,300	368,544,341
Total net assets and liabilities	$ 850,969	$ 418,912,079	$ 419,763,048

CONDENSED STATEMENTS OF REVENUES EXPENSES AND CHANGES IN NET ASSETS As of 30 June 2014	VMI Research Laboratories Inc.	VMI Alumni Agencies	TOTAL
Total revenues	$ 332,144	$ 37,959,705	$ 38,291,849
Total expenses	(212,651)	(26,216,801)	(26,429,452)
Total net realized and unrealized losses on investments	-	5,239,803	5,239,803
Total change in net assets	119,493	16,982,707	17,102,200
Total beginning net assets	648,548	350,793,593	351,442,141
Total ending net assets	$ 768,041	$ 367,776,300	$ 368,544,341

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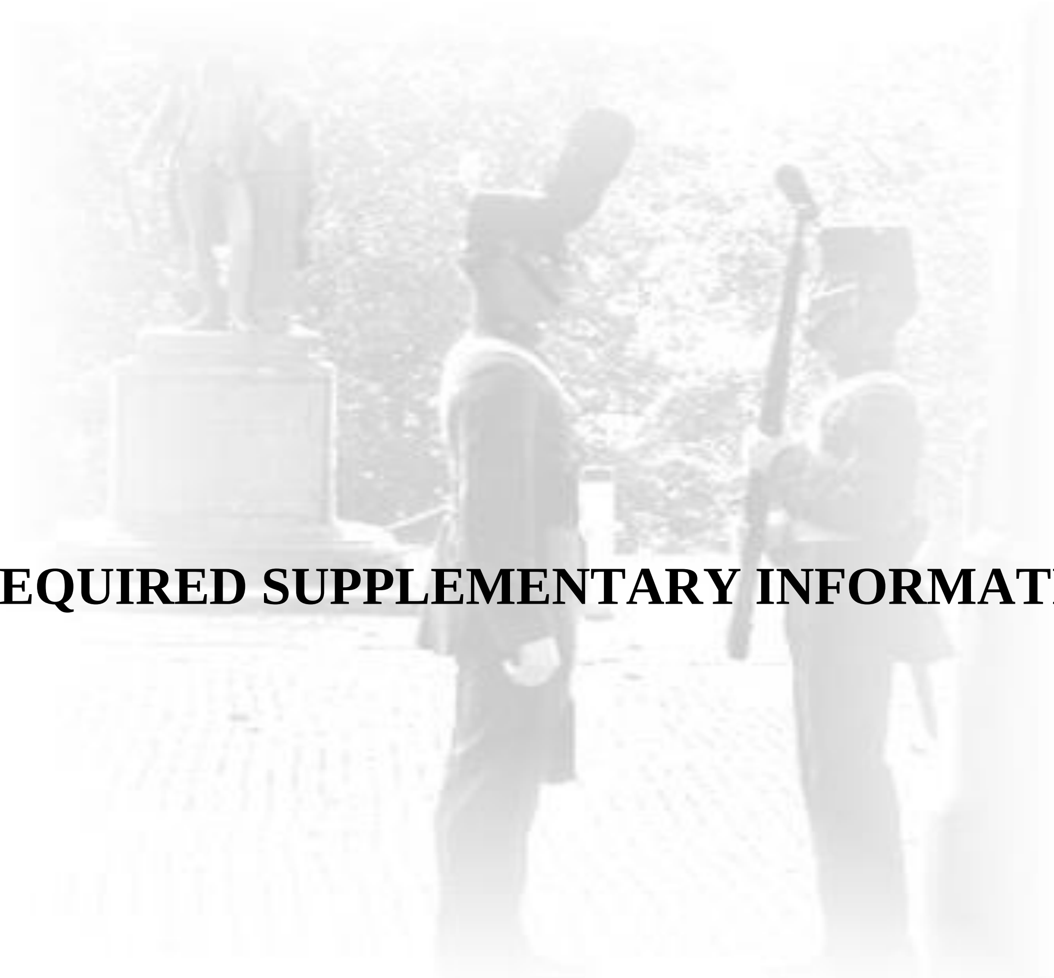

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Virginia Military Institute's (VMI) Share of Net Pension Liability
VRS State Employee Retirement Plan
For the Year Ended June 30, 2015*

	2015
VMI's Proportion of the Net Pension Liability (Asset)	0.4176%
VMI's Proportionate Share of Net Pension Liability (Asset)	$23,380,000
VMI's Covered-Employee Payroll	$16,113,410
VMI's Proportionate Share of Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	145.10%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	74.28%

Schedule is intended to show information for 10 years. Since 2015 is the first year for this presentation, no other data is available. However, additional years will be included as they become available.

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

Schedule of Virginia Military Institute's (VMI) Share of Net Pension Liability
VaLORS State Employee Retirement Plan
For the Year Ended June 30, 2015 *

	2015
VMI's Proportion of the Net Pension Liability (Asset)	0.1236%
VMI's Proportionate Share of Net Pension Liability (Asset)	$833,000
VMI's Covered-Employee Payroll	$435,721
VMI's Proportionate Share of Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	191.18%
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	63.05%

Schedule is intended to show information for 10 years. Since 2015 is the first year for this presentation, no other data is available. However, additional years will be included as they become available.

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

Schedule of Employer Contributions
For the Year Ended June 30, 2015

Plan	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Employee Payroll	Contributions as a % of Covered Employee Payroll
State Employee	$1,966,433	$1,968,153	($1,720)	$15,948,365	12.34%
VaLORS Employee	$72,738	$72,738	-	$411,648	17.67%

*Schedule is intended to show information for 10 years. Since 2015 is the first year for this presentation, no other data is available. However, additional years will be included as they become available.

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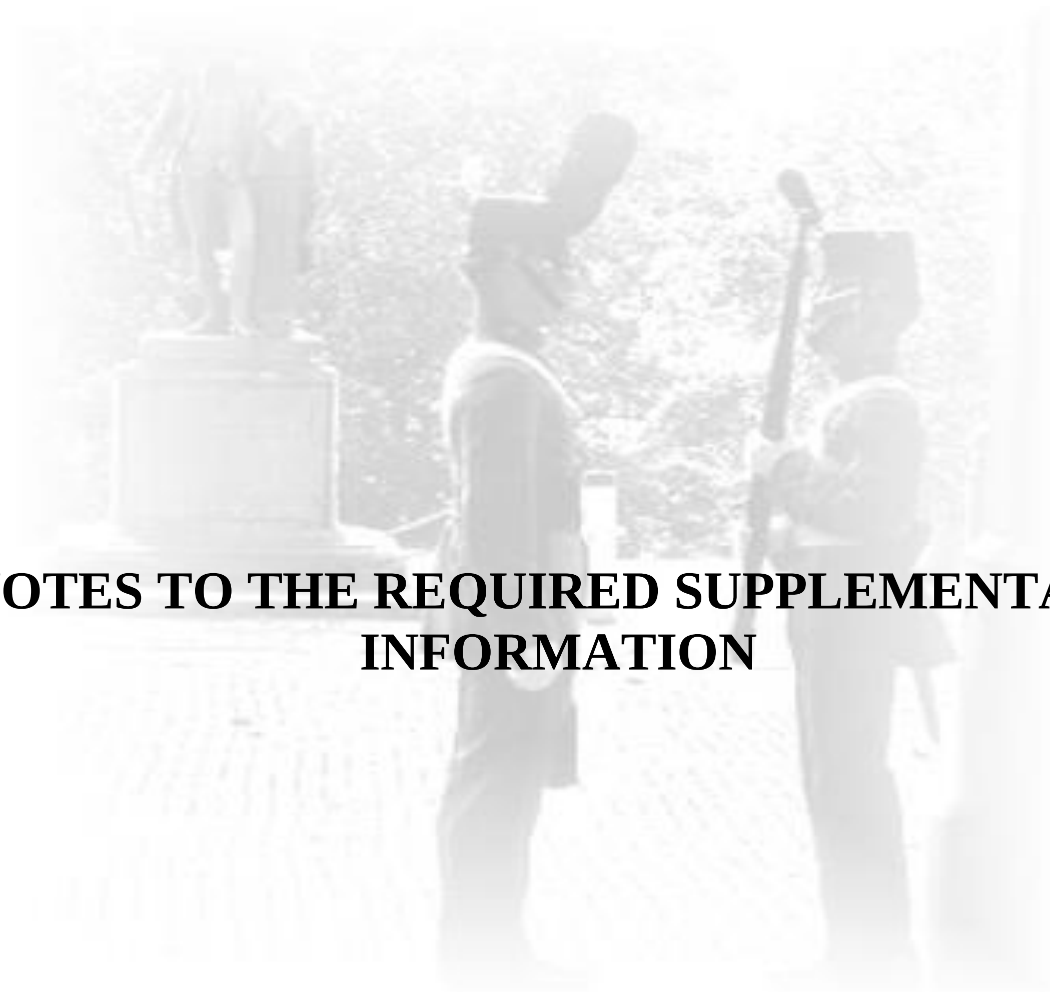

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

Changes of benefit terms – 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.

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

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

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

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

Commonwealth of Virginia

Auditor of Public Accounts

Martha S. Mavredes, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

April 12, 2016

The Honorable Terence R. McAuliffe
Governor of Virginia

The Honorable Robert D. Orrock, Sr.
Vice-Chairman, Joint Legislative Audit
and Review Commission

Board of Visitors
Virginia Military Institute

INDEPENDENT AUDITOR'S REPORT

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component units of the Virginia Military Institute, 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 Virginia Military Institute'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 Virginia Military Institute, which are discussed in Note 1.A. – Summary of Significant Accounting

Policies - Reporting Entity and Note 19 – VMI Alumni Agencies. 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 Virginia Military Institute, 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 Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the component units of the Virginia Military Institute that were audited by other auditors upon whose reports we are relying were audited in accordance with auditing standards generally accepted in the United States of America, but not in accordance with Government Auditing Standards.

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

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

Opinion

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and aggregate discretely presented component units of the Virginia Military Institute 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.O. and Note 18 to the financial statements, the Virginia Military Institute 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages one through nine, and the Schedules of Virginia Military Institute's Share of Net Pension Liability, the Schedule of Employer Contributions, and the Notes to the Required Supplementary Information on pages 56 through 58, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated April 12, 2016, on our consideration of the Virginia Military Institute'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 Virginia Military Institute's internal control over financial reporting and compliance.

Martha S. Mavredes

AUDITOR OF PUBLIC ACCOUNTS

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