



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

University in Action: Service through Solutions



On October 17th, 2014, Virginia Tech installed Dr. Timothy D. Sands as the 16th president of the university. In his installation speech, the new president recognized Virginia Tech's academic excellence, strength of community, and commitment to service, and he laid out a bold vision for Virginia Tech. This vision challenges the university community to be forward looking to the year 2047, the 175th anniversary of Virginia Tech. Dr. Sands' aspirations for Virginia Tech include being among the top 30 U.S. research institutions, a top-100 global research institution, and a global leader in addressing the

challenges of the 21st century. His goals also include expanding opportunities for students to participate in internships and study abroad experience, promoting experiential learning programs, and maintaining affordability for a Virginia Tech education.

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

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

A key initiative for the university is to reward, recognize, and retain the hard working employees of the university and to provide competitive compensation to our faculty and staff. In fiscal year 2015, the university successfully implemented

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

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

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

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

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

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

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

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

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

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

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

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

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

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



# MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING AND INTERNAL CONTROLS

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

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

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

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



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



Martha S. Mavredes, CPA  
Auditor of Public Accounts

# Commonwealth of Virginia

*Auditor of Public Accounts*

P.O. Box 1295  
Richmond, Virginia 23218

November 6, 2015

The Honorable Terence R. McAuliffe, Governor of Virginia

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

Board of Visitors, Virginia Polytechnic Institute and State University

## INDEPENDENT AUDITOR'S REPORT

### **Report on Financial Statements**

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

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditor's Responsibility*

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

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

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

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

#### *Opinion*

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

*Emphasis of Matter*

Change in Accounting Principle

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

Correction of 2014 Financial Statements

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

*Other Matters*

Prior-Year Summarized Comparative Information

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

Required Supplementary Information

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

Supplementary and Other Information

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

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

**Other Reporting Required by Government Auditing Standards**

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



AUDITOR OF PUBLIC ACCOUNTS

# MANAGEMENT'S DISCUSSION AND ANALYSIS

(unaudited)

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

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

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

## Overview

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

The university's financial statements have been prepared in accordance with GASB Statement 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*, as amended by GASB

Statements 37, 38 and 63. The three required financial statements are the *Statement of Net Position* (balance sheet), the *Statement of Revenues, Expenses, and Changes in Net Position* (operating statement) and the *Statement of Cash Flows*. These statements are summarized and analyzed in the following sections.

Combining schedules included in *Supplementary Information* indicate how major fund groups were aggregated to arrive at the single column totals presented on the *Statement of Net Position* and the *Statement of Revenues, Expenses, and Changes in Net Position*.

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

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

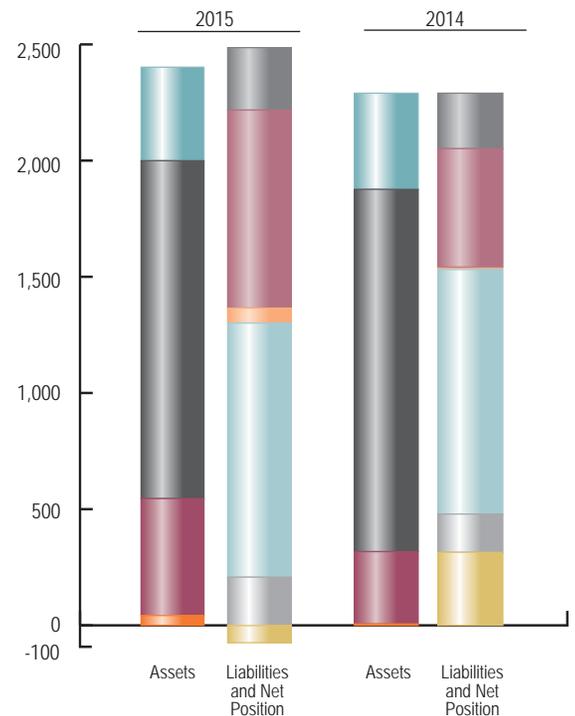
## Assets, Liabilities and Net Position

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

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

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

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



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

### Statement of Net Position

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

of the university's financial position to the readers of the financial statements.

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

The university's net position is classified as follows:

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

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

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

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

Total university liabilities increased by \$377.4 million or 50.1% during fiscal year 2015. The current liabilities category rose by \$39.2 million and the noncurrent liabilities category grew by \$338.2 million. The rise in current liabilities was a result of increases in commercial paper (\$18.6 million), funds held in custody for others (\$8.0 million), accounts payable (\$5.6 million), unearned revenue (\$3.6 million), current portion of long-term debt (\$2.7 million), and accrued compensated absences (\$0.7 million). The growth in noncurrent liabilities was primarily due to the implementation of GASB Statement 68, which requires government employers that sponsor defined benefit plans to recognize a net pension liability (unfunded accrued liability) in their statement of net position. Virginia Tech recognized its proportionate share of the Virginia Retirement System's net pension liability in the amount of \$357.6 million for the fiscal year ending June 30, 2015. Prior year amounts were not restated,

resulting in the entire amount of \$357.6 million being an increase over last year. This increase was partially offset by a decrease in long-term debt (\$17.3 million) and minor decreases in other liabilities (\$1.9 million). For more detailed debt information, see the Capital Asset and Debt Administration section.

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

### **Capital Asset and Debt Administration**

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

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

## Funding for Authorized Current and Future Capital Projects

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

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

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

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

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

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

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

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

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

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

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

### **Statement of Revenues, Expenses, and Changes in Net Position**

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

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

## Revenues, Expenses, and Changes in Net Position

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

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

### Operating Revenues

Total operating revenues increased by \$27.5 million or 2.9% from the prior fiscal year. The growth in operating revenues came predominantly from two categories: student tuition and fees, and auxiliary enterprise revenue. The increase in student tuition and fees (\$27.6 million or 7.2%) was expected given an increasing student population and the rise in both in-state and out-of-state tuition and fees rates. The growth in auxiliary enterprise revenue (\$11.4 million or 5.1%) follows the increasing student population and reflects the high level of satisfaction with the services provided by the auxiliaries. Additionally, other operating revenue, which includes sales and services of educational activities, decreased by \$3.2 million. The decrease in this category is largely due to the receipt of property and casualty insurance recoveries

in the prior year. Sponsored grants and contracts decreased by \$8.3 million or 2.7%. The decrease in sponsored research grants and contracts awarded by federal sponsors (\$12.4 million), and the continuing reduction of federal funds (\$1.9 million) provided through the American Recovery and Reinvestment Act (ARRA) was partially offset by increases in federal appropriations supporting the university's land grant mission (\$2.3 million) and increases in both funding from commercial sponsors (\$1.8 million) and state and local sponsors (\$1.9 million).

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

## SUMMARY OF REVENUES

### Increase (Decrease) in Revenue

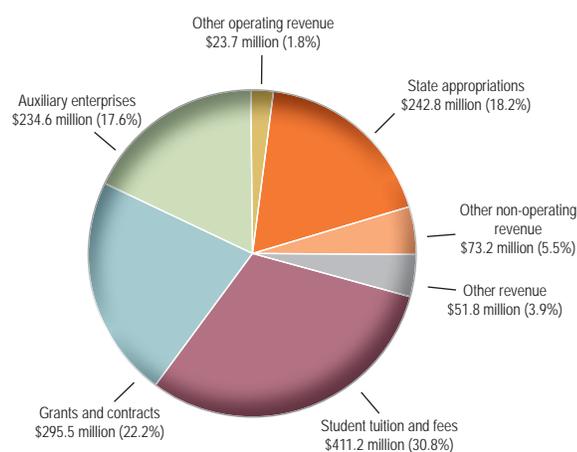
For the years ended June 30, 2015 and 2014  
(all dollars in millions)

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

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

### Total Revenue by Source

For the year ended June 30, 2015



## SUMMARY OF EXPENSES BY NATURAL CLASSIFICATION

### Increase (Decrease) in Expenses by Natural Classification

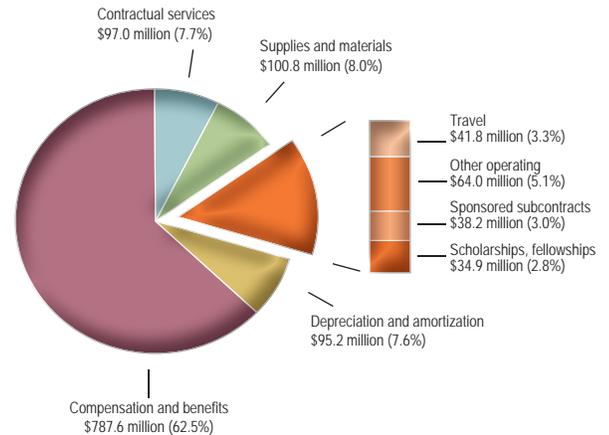
For the years ended June 30, 2015 and 2014

(all dollars in millions)

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

### Total Expenses by Natural Classification

For the year ended June 30, 2015



### Non-operating and Other Revenues and Expenses

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

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

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

### Total Expenses

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

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

## SUMMARY OF EXPENSES BY FUNCTION

### Increase (Decrease) in Expenses by Function

For the years ended June 30, 2015 and 2014

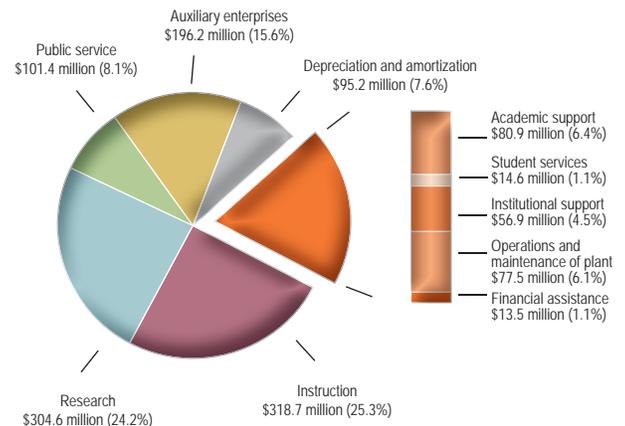
(all dollars in millions)

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

\*Includes loan administrative fees and collection costs.

### Total Expenses by Function

For the year ended June 30, 2015



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

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

In summary, the university's operating revenues grew by \$27.5 million or 2.9% over the preceding year, while operating expenses increased by \$32.3 million or 2.6%. This resulted in an operating loss for the current fiscal year of \$294.5 million in comparison to the operating loss of \$289.7 million generated during the past year. The primary reason for the larger operating loss was the growth in expenses across most major operating areas with the largest increases occurring in the compensation and benefits

category. State appropriations and other net non-operating revenues were used to meet operating expenses not offset by operating revenues.

### Statement of Cash Flows

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

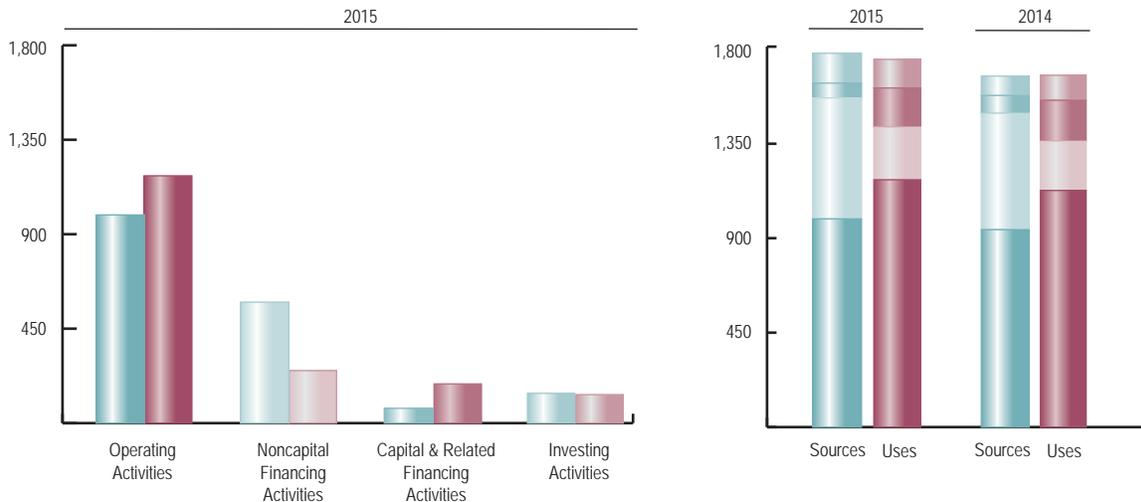
The statement is divided into five sections. The first section, *Cash flows from operating activities*, deals with operating cash flows and shows net cash used by operating activities of the university. The *Cash flows from noncapital financing activities* section reflects cash received and disbursed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

## Summary of Cash Flows

For the years ended June 30, 2015 and 2014

(all dollars in millions)

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



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

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

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

### Economic Outlook

As a public institution, the university is subject to many of the macro-economic conditions impacting the nation and the Commonwealth of Virginia. The commonwealth currently

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

The university continues to work with state officials to support higher education through the *Virginia Higher Education Opportunity Act of 2011*. The six year academic, enrollment, and

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

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

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

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

endowments invested in the foundation totaled \$96.1 million, a decrease of \$0.3 million over the preceding year.

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

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

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

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

## STATEMENT OF NET POSITION

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

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

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

# STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

For the year ended June 30, 2015 with comparative financial information for the year ended June 30, 2014

(all dollars in thousands)

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

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

## STATEMENT OF CASH FLOWS

As of June 30, 2015, with comparative financial information as of June 30, 2014

(all dollars in thousands)

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

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

## STATEMENT OF CASH FLOWS (continued)

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

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

## NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

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

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

# NOTES TO FINANCIAL STATEMENTS

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## 1. Summary of Significant Accounting Policies

### *Reporting Entity*

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

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

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

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

### *Virginia Tech Foundation Inc.*

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

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

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

### *Virginia Tech Services Inc.*

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

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

#### **Financial Statement Presentation**

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

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

#### **Basis of Accounting**

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

#### **Cash Equivalents**

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

#### **Short-term Investments**

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

#### **Investments**

GASB Statement 31, *Accounting and Financial Reporting for Certain Invest-*

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

#### **Accounts Receivable**

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

#### **Notes Receivable**

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

#### **Inventories**

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

#### **Noncurrent Cash and Investments**

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

#### **Capital Assets**

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

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

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

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

#### **Interest Capitalization**

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

#### **Pensions**

The university recognized its proportionate share of the total VRS pension liabil-

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

#### Accrued Compensated Absences

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

#### Unearned Revenues

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

#### Noncurrent Liabilities

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

#### Deferred Outflows of Resources

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

#### Deferred Inflows of Resources

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

#### Net Position

The university's net position is classified as follows:

- **Net investment in capital assets** — Net investment in capital assets represents the university's total investment in capital assets, net of accumulated depreciation and outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets.
- **Restricted component of net position, expendable** — The expendable category of the restricted component of net position includes resources for which the university is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.
- **Restricted component of net position, nonexpendable** — The nonexpendable category of the restricted component of net position is comprised of endowment and similar type funds where donors or other external sources have stipulated, as a condition of the gift instrument, that the principal is

to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income to be expended or added to principal.

- **Unrestricted component of net position** — Unrestricted net position represents resources derived from student tuition and fees, state appropriations, recoveries of facilities and administrative (indirect) costs, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to educational departments and general operations of the university, and may be used at the discretion of the university's board of visitors to meet current expenses for any lawful purpose.

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

#### Income Taxes

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

#### Classifications of Revenues

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

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

#### Scholarship Allowance

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

#### Restatement of Prior Year Amounts

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

|                                      |                     |
|--------------------------------------|---------------------|
| Net position, June 30, 2014          | \$ 1,534,244        |
| Depreciable capital assets           | 1,922               |
| Restated net position, June 30, 2014 | <u>\$ 1,536,166</u> |

#### Beginning Balance Adjustment

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

justed. The adjustment is as follows (*all dollars in thousands*):

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

#### Comparative Data

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

## 2. Related Parties

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

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

## 3. Local Government Support

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

## 4. Cash, Cash Equivalents, and Investments

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

- **Custodial credit risk** (Category 3 deposits and investments) - The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the

possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The university had no category 3 deposits or investments for 2015.

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

#### Cash and Cash Equivalents

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

#### Investments

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

#### Summary of investments

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

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

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

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

### Categorization of credit quality and interest rate risk

Investments held on June 30, 2015

(all dollars in thousands)

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

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

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

## 5. Accounts Receivable

Accounts receivable consists of the following as of June 30, 2015

(all dollars in thousands):

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

## 6. Notes Receivable

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

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

## 7. Accounts Payable and Accrued Liabilities

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

|  |                   |
|--|-------------------|
| Accounts payable                                       | \$ 41,006         |
| Accounts payable, capital projects                     | 20,361            |
| Accrued salaries and wages payable                     | 66,492            |
| Retainage payable                                      | 2,843             |
| Total current accounts payable and accrued liabilities | <u>\$ 130,702</u> |

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

## 8. Unearned Revenue

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

|                             |                  |
|-----------------------------|------------------|
| Grants and contracts        | \$ 13,070        |
| Prepaid athletic tickets    | 12,743           |
| Prepaid tuition and fees    | 8,602            |
| Other auxiliary enterprises | 4,442            |
| Total unearned revenue      | <u>\$ 38,857</u> |

## 9. Capital Assets

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

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

\*Includes capital leases.

## 10. Commonwealth Capital Reimbursement Programs and Capital Gifts

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

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

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

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

|                                   | <u>Current</u>   | <u>Noncurrent</u> |
|-----------------------------------|------------------|-------------------|
| VCBA Equipment Trust Fund program | \$ 12,606        | \$ -              |
| VCBA 21st Century program         | -                | 2,943             |
|                                   | <u>\$ 12,606</u> | <u>\$ 2,943</u>   |

## 11. Short-term Debt

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

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

## 12. Summary of Long-term Indebtedness

### Bonds Payable

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

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

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

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

### Notes Payable

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

### Capital Leases

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

### Installment Purchase Obligations

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

### Long-term Debt Payable Activity

As of June 30, 2015

(all dollars in thousands)

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

### Future Principal Commitments

For fiscal years subsequent to 2015

(all dollars in thousands)

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

### Future Interest Commitments

For fiscal years subsequent to 2015

(all dollars in thousands)

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

### Future Principal Commitments by System

For fiscal years subsequent to 2015

(all dollars in thousands)

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

### 13. Detail of Long-term Indebtedness

As of June 30, 2015

(all dollars in thousands)

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

General obligation revenue bonds - Section 9(c)

Dormitory and dining hall system

|   |               |      |                |               |                |
|---|---------------|------|----------------|---------------|----------------|
| Series 2014B, issued \$3,150 - partial refunding series 2004B*  | 2.00% - 5.00% | 2017 | \$ 2,387       | \$ 178        | \$ 2,565       |
| Series 2014B, issued \$793 - partial refunding series 2004B*    | 2.00% - 5.00% | 2018 | 663            | 64            | 727            |
| Series 2014B, issued \$587 - partial refundings series 2004B*   | 2.00% - 5.00% | 2019 | 517            | 59            | 576            |
| Series 2007A, issued \$5,995                                    | 4.00% - 5.00% | 2018 | 915            | 46            | 961            |
| Series 2013B, issued \$3,576 - partial refunding series 2007A*  | 4.00% - 5.00% | 2027 | 3,576          | 567           | 4,143          |
| Series 2009B, issued \$3,720                                    | 4.00% - 5.00% | 2029 | 3,145          | 442           | 3,587          |
| Series 2009B, issued \$39,005                                   | 4.00% - 5.00% | 2022 | 32,980         | 4,637         | 37,617         |
| Series 2011A, issued \$18,860                                   | 4.34%         | 2031 | 16,685         | 1,451         | 18,136         |
| Series 2007A, issued \$13,130                                   | 4.00% - 5.00% | 2018 | 2,000          | 100           | 2,100          |
| Series 2013B, issued \$7,842 - partial refunding series 2007A*  | 4.00% - 5.00% | 2027 | 7,842          | 1,243         | 9,085          |
| Series 2008B, issued \$17,185                                   | 3.00% - 5.00% | 2028 | 2,375          | 117           | 2,492          |
| Series 2015B, issued \$10,671 - partial refunding series 2008B* | 4.00% - 5.00% | 2028 | 10,671         | 2,295         | 12,966         |
| Series 2009D, issued \$1,891 - partial refunding series 2004A*  | 5.00%         | 2022 | 1,891          | 221           | 2,112          |
| Series 2012A, issued \$942 - partial refunding series 2004A*    | 5.00%         | 2024 | 705            | 177           | 882            |
| Series 2010A, issued \$34,650                                   | 3.00% - 5.00% | 2030 | 28,715         | 493           | 29,208         |
| Total dormitory and dining hall system                          |               |      | <u>115,067</u> | <u>12,090</u> | <u>127,157</u> |

Other nonsystem general obligation revenue bonds

Parking facilities

|  |               |      |               |              |               |
|--|---------------|------|---------------|--------------|---------------|
| Series 2014B, issued \$300 - partial refunding series 2004B* | 2.00% - 5.00% | 2017 | 229           | 17           | 246           |
| Series 2006B, issued \$685                                   | 4.00% - 5.00% | 2016 | 30            | 2            | 32            |
| Series 2009D, issued \$190 - partial refunding series 2006B* | 5.00%         | 2022 | 190           | 22           | 212           |
| Series 2013B, issued \$218 - partial refunding series 2006B* | 4.00% - 5.00% | 2026 | 218           | 31           | 249           |
| Series 2008B, issued \$1,545                                 | 3.00% - 5.00% | 2028 | 205           | 10           | 215           |
| Series 2015B, issued \$921 - partial refunding series 2008B* | 4.00% - 5.00% | 2028 | 921           | 198          | 1,119         |
| Series 2009C, issued \$276 - partial refunding series 2002*  | 3.00% - 4.00% | 2017 | 170           | 9            | 179           |
| Series 2009B, issued \$24,590                                | 4.00% - 5.00% | 2034 | 22,010        | 2,781        | 24,791        |
| Series 2010A, issued \$745                                   | 2.00% - 5.00% | 2030 | 600           | 10           | 610           |
| Total other nonsystem general obligation revenue bonds       |               |      | <u>24,573</u> | <u>3,080</u> | <u>27,653</u> |

Total general obligation revenue bonds

Total general obligation revenue bonds

Total bonds payable

|  |                   |                  |                   |
|--|-------------------|------------------|-------------------|
|  | <u>139,640</u>    | <u>15,170</u>    | <u>154,810</u>    |
|  | <u>\$ 147,410</u> | <u>\$ 15,170</u> | <u>\$ 162,580</u> |

Notes Payable

Athletic system

|   |               |      |               |              |               |
|---|---------------|------|---------------|--------------|---------------|
| Series 2007B, issued \$2,860 - partial refunding series 2001A*  | 4.00% - 4.50% | 2020 | \$ 2,795      | \$ -         | \$ 2,795      |
| Series 2010B, issued \$11,540 - partial refunding series 2001A* | 4.00% - 5.00% | 2027 | 9,285         | 748          | 10,033        |
| Series 2009B, issued \$8,705                                    | 2.00% - 5.00% | 2030 | 7,260         | 617          | 7,877         |
| Series 2012B, issued \$32,365 - refunding series 2004D*         | 3.00% - 5.00% | 2029 | 29,900        | 4,357        | 34,257        |
| Total athletic system   |               |      | <u>49,240</u> | <u>5,722</u> | <u>54,962</u> |

Dormitory and dining hall system

|   |               |      |               |            |               |
|---|---------------|------|---------------|------------|---------------|
| Series 2014B, issued \$3,695 - refunding series 2004B*        | 3.00% - 5.00% | 2019 | 3,695         | 341        | 4,036         |
| Series 2005, issued \$2,815                                   | 3.50% - 5.00% | 2017 | 135           | 8          | 143           |
| Series 2012A, issued \$1,350 - partial refunding series 2005* | 5.00%         | 2025 | 1,350         | 216        | 1,566         |
| Series 2014B, issued \$340 - partial refunding series 2005*   | 3.00% - 5.00% | 2026 | 340           | 36         | 376           |
| Series 2007B, issued \$3,395 - partial refunding 1998A*       | 4.00% - 4.50% | 2019 | 2,765         | -          | 2,765         |
| Series 2010A, issued \$9,650                                  | 3.75% - 5.50% | 2031 | 8,565         | 350        | 8,915         |
| Total dormitory and dining hall system                        |               |      | <u>16,850</u> | <u>951</u> | <u>17,801</u> |

University services system

Career Services auxiliary

|  |               |      |       |     |       |
|--|---------------|------|-------|-----|-------|
| Series 2007B, issued \$1,621 - partial refunding series 2002A* | 4.00% - 4.50% | 2020 | 1,335 | 18  | 1,353 |
| Series 2010B, issued \$1,190 - partial refunding series 2002A* | 5.25%         | 2023 | 975   | 129 | 1,104 |

Center for the Arts auxiliary

|                               |               |      |        |     |        |
|-------------------------------|---------------|------|--------|-----|--------|
| Series 2010B, issued \$19,445 | 3.75% - 5.60% | 2036 | 17,880 | 531 | 18,411 |
| Series 2011A, issued \$19,375 | 3.00% - 5.00% | 2037 | 18,435 | 828 | 19,263 |

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

## Other Long-term Debt

### Capital leases payable

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

## 14. Long-term Debt Defeasance

### Current Year

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

### Long-term Debt Defeasance

Debt issues refunded as of June 30, 2015

(all dollars in thousands)

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

\*Partial refunding

### Previous Years

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

### Debt Defeasance – Gains (Losses)

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

#### Deferred Outflows for Debt Defeasance

As of June 30, 2015

(all dollars in thousands)

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

#### Deferred Inflows for Debt Defeasance

As of June 30, 2015

(all dollars in thousands)

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

## 15. Change in Other Liabilities

A summary of the changes in other liabilities for the year ended June 30, 2015

(all dollars in thousands)

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

## 16. Lease Commitments

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

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

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

## 17. Capital Improvement Commitments

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

### Capital Commitments by Project (all dollars in thousands)

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

### Capital Commitments by Funding Source (all dollars in thousands)

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

## 18. Pension Plan

### PLAN DESCRIPTION

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

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

### Retirement Plan Provisions by Plan Structure

#### About Plan 1

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

#### About Plan 2

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

#### About the Hybrid Retirement Plan

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

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

### Eligible Members

#### Eligible Members - Plan 1

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

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

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

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

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

#### **Eligible Members - Plan 2**

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

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

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

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

#### **Eligible Members - Hybrid Plan**

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

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

### **Retirement Contributions**

#### **Retirement Contributions - Plan 1**

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

#### **Retirement Contributions - Plan 2**

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

#### **Retirement Contributions - Hybrid Plan**

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

### **Creditable Service**

#### **Creditable service - Plan 1**

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

#### **Creditable Service - Plan 2**

Same as Plan 1.

#### **Creditable Service - Hybrid Plan**

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

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

### **Vesting**

#### **Vesting - Plan 1**

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

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

#### **Vesting - Plan 2**

Same as Plan 1.

#### **Vesting - Hybrid Plan**

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

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

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

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

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

Distribution is not required by law until age 70½.

### **Calculating the Benefit**

#### **Calculating the Benefit - Plan 1**

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

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

#### **Calculating the Benefit - Plan 2**

See definition under Plan 1.

#### **Calculating the Benefit - Hybrid Plan**

For the defined benefit component see definition under Plan 1

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

### **Average Final Compensation**

#### **Average Final Compensation - Plan 1**

A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.

#### **Average Final Compensation - Plan 2**

A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.

#### **Average Final Compensation - Hybrid Plan**

Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.

### **Service Retirement Multiplier**

#### **Service Retirement Multiplier - Plan 1**

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

#### **Service Retirement Multiplier - Plan 2**

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

#### **Service Retirement Multiplier - Hybrid Plan**

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

### **Normal Retirement Age**

#### **Normal Retirement Age - Plan 1**

For SERP, the normal retirement age is 65. For VaLORS, the normal retirement age is 60.

#### **Normal Retirement Age - Plan 2**

For SERP, the normal retirement age is the same as the normal Social Security retirement age. For VaLORS, the normal retirement age is 60.

#### **Normal Retirement Age - Hybrid Plan**

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

### **Earliest Unreduced Retirement Eligibility**

#### **Earliest Unreduced Retirement Eligibility - Plan 1**

For SERP: age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service. For VaLORS: age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.

#### **Earliest Unreduced Retirement Eligibility - Plan 2**

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

#### **Earliest Unreduced Retirement Eligibility - Hybrid Plan**

For SERP: normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.

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

### **Earliest Reduced Retirement Eligibility**

#### **Earliest Reduced Retirement Eligibility - Plan 1**

For SERP: Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service. For VaLORS: 50 with at least five years of creditable service.

#### **Earliest Reduced Retirement Eligibility - Plan 2**

For SERP: Age 60 with at least five years (60 months) of creditable service. For VaLORS: Same as Plan 1.

#### **Earliest Unreduced Retirement Eligibility - Hybrid Plan**

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

### **Cost-of-Living Adjustment (COLA) in Retirement**

#### **Cost-of-Living Adjustment (COLA) in Retirement - Plan 1**

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

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

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

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

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

#### **Cost-of-Living Adjustment (COLA) in Retirement - Plan 2**

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

#### **Cost-of-Living Adjustment (COLA) in Retirement - Hybrid Plan**

For the defined benefit component, the COLA is the same as Plan 2. For the defined contribution component, the COLA is not applicable. The eligibility rules and exceptions are the same as Plan 1.

### **Disability Coverage**

#### **Disability Coverage - Plan 1**

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

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

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

#### Disability Coverage - Plan 2

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

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

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

#### Disability Coverage - Hybrid Plan

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

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

### Purchase of Prior Service

#### Purchase of Prior Service - Plan 1

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

#### Purchase of Prior Service - Plan 2

Same as Plan 1.

#### Purchase of Prior Service - Hybrid Plan

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

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

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

### CONTRIBUTIONS

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, the 5.00% member contribution was paid by the employer. Beginning July 1, 2012 state employees were required to pay the 5.00% member contribution and the employer was required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. Each state agency's contractually required contribution rate for the year ended June 30, 2015 was 12.33% of covered employee compensation for employees in the VRS State Employee Retirement Plan and 17.67% of covered employee compensation for employees in the VaLORS Retirement Plan. These rates were based on an actuarially determined rate from an actuarial valuation as of June 30, 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 employee during the year,

with an additional amount to finance any unfunded accrued liability. Based on the provisions of §51.1-145 of the *Code of Virginia*, as amended, the contributions for the VRS State Employee Retirement Plan were funded at 78.02% of the actuarial rate and the contributions for the VaLORS Retirement Plan were funded at 83.88% of the actuarial rate for the year ended June 30, 2015. Contributions from Virginia Tech to the VRS State Employee Retirement Plan were \$21,325,000 and \$30,392,000 for the years ended June 30, 2014 and June 30, 2015, respectively. Contributions from Virginia Tech to the VaLORS Retirement Plan were \$364,000 and \$397,000 for the years ended June 30, 2014 and June 30, 2015, respectively.

### PENSION LIABILITIES, PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS

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

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

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

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

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

inflows of resources related to pensions will be recognized in pension expense as follows (all dollars in thousands):

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

## ACTUARIAL ASSUMPTIONS

### VRS State Employee Retirement Plan (SERP)

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

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

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

#### Mortality rates

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

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

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

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

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

### VaLORS Retirement Plan

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

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

\* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets

for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

#### Mortality rates

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

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

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

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

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

## NET PENSION LIABILITY

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

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

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

## LONG-TERM EXPECTED RATE OF RETURN

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

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

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

## DISCOUNT RATE

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by Virginia Tech for the VRS State Employee Retirement Plan and the VaLORS Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 on, all agencies are assumed to contribute 100% of the actuarially determined contribution rates. Based on those

assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

## SENSITIVITY OF VIRGINIA TECH'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY TO CHANGES IN THE DISCOUNT RATE

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

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

## PENSION PLAN FIDUCIARY NET POSITION

Detailed information about the VRS State Employee Retirement Plan's Fiduciary Net Position or the VaLORS Retirement Plan's Fiduciary Net Position is available in the separately issued VRS 2014 Comprehensive Annual Financial Report (CAFR). A copy of the 2014 VRS CAFR may be downloaded from the VRS 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.

## 19. Defined Contribution Plans

### Optional Retirement Plan

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

### Deferred Compensation Plan

Employees of the university are employees of the Commonwealth of Virginia. State employees may participate in the commonwealth's Deferred Compensation Plan. Participating employees can contribute to the plan each pay period with the commonwealth matching up to \$20 per pay period. The dollar amount match can change depending on the funding available in the commonwealth's budget. The Deferred Compensation Plan is a qualified defined contribution plan under section 401(a) of the *Internal Revenue Code*. The university expense for

matching contributions to this plan, which is an amount assessed by the commonwealth, was approximately \$2,331,000 for the fiscal year 2015.

### Federal Pension Plans

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

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

## 20. Postemployment Benefits

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

## 21. Appropriations

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

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

### Original legislative appropriation

|                                  |                |
|----------------------------------|----------------|
| Education and general programs   | \$ 216,366     |
| Student financial assistance     | 19,706         |
| Commonwealth research initiative | 2,489          |
| Unique military activities       | 2,084          |
| Total appropriation              | <u>240,645</u> |

### Adjustments

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

## 22. Grants, Contracts, and Other Contingencies

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

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

## 23. Federal Direct Lending Program

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

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

## 24. Expenses by Natural Classification within Functional Classification

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

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

## 25. Component Units

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

## Consolidating Statement of Net Position

The financial position for the university's component units as of June 30, 2015  
(all dollars in thousands)

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

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

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

(all dollars in thousands)

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

## Notes to Component Units Statements

### Contributions Receivable – Virginia Tech Foundation Inc.

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

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

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

### Investments – Virginia Tech Foundation Inc.

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

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

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

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

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

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

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

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

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

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

### Long-Term Debt Payable - Virginia Tech Foundation Inc.

#### Notes payable

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

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

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

|   |                  |
|---|------------------|
| 2016  | \$ 103           |
| 2017  | 7,704            |
| 2018  | 7,573            |
| Upon the sale of the Hotel and repayment of all debt of the Hotel and HRF | <u>1,775</u>     |
| Total notes payable   | <u>\$ 17,155</u> |

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

## Notes to Component Units Statements (continued)

### Bonds payable

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

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

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

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

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

The foundation is obligated under the Economic Development Authority of Montgomery County, Virginia Revenue and Refunding Bonds (Series 2013A) and Taxable Revenue and Refunding Bonds (Series 2013B) dated October 30, 2013. Proceeds were used to finance the construction of several commercial facilities and several facilities to be used in support of the University. The bonds, which bear a weighted average fixed interest rate of 3.95% and 3.87%, have annual

serial and sinking fund maturities beginning June 1, 2014 and concluding June 1, 2038 in varying amounts ranging from \$280,000 to \$4,010,000.

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

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

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

|             |                   |
|-------------|-------------------|
| 2016        | \$ 11,752         |
| 2017        | 12,480            |
| 2018        | 13,461            |
| 2019        | 13,950            |
| 2020        | 18,117            |
| Later years | 185,238           |
| Total       | <u>\$ 254,998</u> |

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

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

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

### Interest Rate Swaps

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

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

Effective March 12, 2007, the foundation entered into an interest rate swap agreement (Swap 3) with a lending institution. This agreement was based on the principal balances of the Series 2007 bond issue, which was refinanced by

## Notes to Component Units Statements (continued)

the Series 2009 bonds. The foundation participates as a fixed rate payer, with a fixed rate of 3.737% ending June 1, 2027. The lending institution participates as a floating rate payer, with a floating interest rate, which is calculated based on the weighted average of SIFMA Municipal Swap Index and was 0.070% at June 30, 2015.

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

|        | Fair Values     | Change in Fair Value |
|--------|-----------------|----------------------|
| Swap 1 | \$ 672          | \$ 169               |
| Swap 2 | 840             | 79                   |
| Swap 3 | 1,943           | (55)                 |
| Total  | <u>\$ 3,455</u> | <u>\$ 193</u>        |

## Agency Deposits Held in Trust - Virginia Tech Foundation Inc.

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

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

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

## 26. Risk Management and Employee Health Care Plans

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

## 27. Joint Ventures

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

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

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

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

## 28. Jointly Governed Organizations

### *NRV Regional Water Authority*

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

### *Blacksburg-VPI Sanitation Authority*

Created by a concurrent resolution of the university and the town of Blacksburg, the authority operates and maintains the wastewater treatment system for the participating governing bodies. Each participating governing body appoints one member of the five-member board of directors. Three at-large members are appointed by the joint resolution of each of the governing bodies. The authority's

indebtedness is not an obligation of the university and is payable solely from the revenues of the authority. The university paid \$803,000 to the authority for the purchase of sewer services for the fiscal year ended June 30, 2015.

#### **Montgomery Regional Solid Waste Authority**

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

#### **Virginia Tech/Montgomery Regional Airport Authority**

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

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

### **29. Pending Litigation**

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

### **30. Lawsuit Settlement**

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

for the cost of medical insurance provided to students working on these grants and contracts.

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

### **31. Subsequent Events**

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

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

# REQUIRED SUPPLEMENTARY INFORMATION

## Virginia State Employee Retirement Plan and Virginia Law Officers Retirement Plan

### Schedule of Virginia Tech's Employer Contributions

For the year ended June 30  
(all dollars in thousands)

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

### Schedule of Virginia Tech's Share of Net Pension Liability\*

For the year ended June 30  
(all dollars in thousands)

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

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

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

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

#### VRS - State Employee Retirement Plan (SERP)

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

#### VaLORS Retirement Plan

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

# OPTIONAL SUPPLEMENTARY INFORMATION

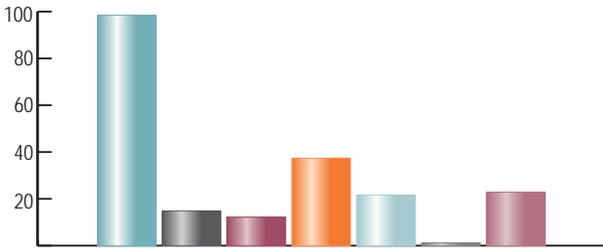
## Virginia Tech Foundation Inc.

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

### Virginia Tech Foundation Revenues and Investment Gains

For the year ended June 30, 2015

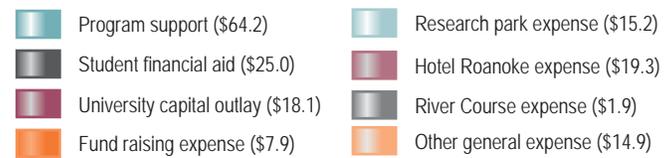
(all dollars in millions)



### Virginia Tech Foundation Expenses

For the year ended June 30, 2015

(all dollars in millions)



### Virginia Tech Foundation Endowment Market Value\*

For the years 2015 - 2011

(all dollars in millions)



\*Market value of Endowment Funds includes agency deposits held in trust of \$108.6 million.

(Source: Virginia Tech Investment Managers, unaudited)



### Affiliated Corporations Financial Highlights

For the years ended June 30, 2015-2011

(all dollars in thousands)

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

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

## Consolidating Schedule of Net Position

As of June 30, 2015

(all dollars in thousands)

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

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

For the year ended June 30, 2015

(all dollars in thousands)

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



# Commonwealth of Virginia

*Auditor of Public Accounts*

Martha S. Mavredes, CPA  
Auditor of Public Accounts

P.O. Box 1295  
Richmond, Virginia 23218

November 6, 2015

The Honorable Terence R. McAuliffe  
Governor of Virginia

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

Board of Visitors  
Virginia Polytechnic and State University

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

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

### **Internal Control Over Financial Reporting**

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

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

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

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

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

  
AUDITOR OF PUBLIC ACCOUNTS

JMR/cl

# Business and Financial Leadership

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

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*Financial report prepared by the*  
**Office of the University Controller**  
Virginia Tech, Blacksburg, VA 24061  
[www.co.vt.edu/Financial\\_Reporting/financial\\_reporting](http://www.co.vt.edu/Financial_Reporting/financial_reporting)

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