

Virginia State University



Annual Financial Report for Fiscal Year Ended June 30, 2014

**VIRGINIA STATE UNIVERSITY
ANNUAL FINANCIAL REPORT 2013 - 2014**

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MANAGEMENT'S RESPONSIBILITY FOR 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 State University 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 position. 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, 2014.

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 Controller's Office; and an 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, Audit and Facilities Committee of the Virginia State University Board of Visitors reviews the University's accounting practices. The Board 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 quarterly. These meetings include a review of the scope, quality, and results of the internal audit program.

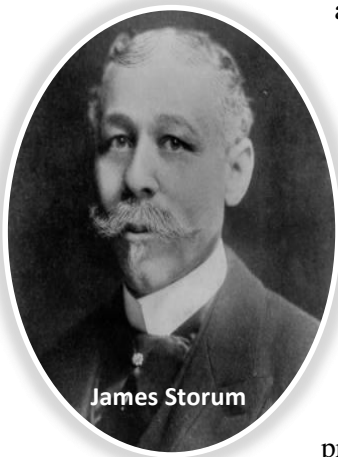
The Auditor of Public Accounts (APA), the office of the Commonwealth of Virginia's auditors, has examined these annual financial statements and their report appears on pages 39 through 41. Their examination includes a study and evaluation of the University's system of internal controls, financial systems, policies, and procedures, resulting in the issuance of a management letter describing various issues they consider 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, 2014.

MANAGEMENT DISCUSSION AND ANALYSIS

(Unaudited)

INTRODUCTION

Virginia State University (VSU) is an agency of the Commonwealth of Virginia and is governed by a fifteen member Board of Visitors. The Commonwealth has the authority to exercise oversight over the University. The University has two major divisions, the Academic Colleges and the Cooperative Extension and Agricultural Research Services. The University is a component unit of the Commonwealth and is included in the Commonwealth's Comprehensive Annual Financial Report (CAFR).



Through a bill sponsored by local attorney Delegate Alfred W. Harris, Virginia Normal and College Institute was founded in 1882. From 1883 to 1885, James Storum served as the institute's first principal. VSU was designated a land grant institution in 1920, and attained university status in 1979. Today, the University continues as one of two land grant institutions in the Commonwealth. As a land grant institution, the University engages in natural resource related research projects and agriculture extension services. Its mission is to promote and sustain academic programs that integrate instruction, research, and extension/public service in a design most responsive to the needs and endeavors of individuals and groups within its scope of influence. The University consists of seven colleges namely: College of Agriculture, Reginald F. Lewis College of Business, College of Engineering and Technology, College of Education, College of Graduate Studies, College of Humanities and Social Sciences, and College of Natural and Health Sciences.

These colleges provide 35 undergraduate degree programs, 20 graduate degree programs, 2 doctoral degree programs and 2 certificate programs. Students in the engineering program are doing research on robotics and unmanned vehicles that will eventually enhance the Commonwealth of Virginia's economy by creating jobs in those areas. In addition, the University has partnerships with Fort Lee, Commonwealth Center for Advanced Manufacturing, and dual enrollment programs with public schools throughout the Commonwealth of Virginia. Virginia State University offers services through its land grant programs to small farmers mainly in central and southern Virginia. The University is dedicated to "Building a Better World" for tomorrow.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis provides an overview of the financial position and results of activities of Virginia State University for the fiscal year ended June 30, 2014. Prepared by management, the overview should be read in conjunction with the financial statements and footnotes that follow this section. Comparative information for the fiscal year ended June 30, 2013 has been provided where applicable. The financial statements were prepared in accordance with applicable pronouncements and statements of the Governmental Accounting Standards Board (GASB), which establishes principles and standards for external reporting for colleges and universities.

The University's financial report includes three financial statements and related notes:

1. The Statement of Net Position (SNP)
2. The Statement of Revenues, Expenses, and Changes in Net Position (SRECNP)
3. The Statement of Cash Flows (SCF)

These principles require the financial statements be prepared with resources classified for accounting and reporting purposes into the following net position categories: Current Assets, Noncurrent Assets, and Deferred Outflows or Resources; Current Liabilities, Noncurrent Liabilities and Deferred Inflows of Resources. Please note, although the University's foundations identified under GASB Statement 39, *Determining Whether Certain Organizations are Component Units*, are reported in the component unit financial statements, this Management Discussion and Analysis excludes reference to the foundations except where specifically noted.

STATEMENT OF NET POSITION

The Statement of Net Position (SNP) presents the financial position of the University at the end of the fiscal year and includes all assets, deferred outflows of resources, liabilities and deferred inflows of resources of the University. Net position is the difference between the total assets and deferred outflows of resources less liabilities and deferred inflows of resources. It is one indicator of the current financial condition of the University, while the changes in net position suggest whether the overall financial condition of the University has improved or worsened during the year. Categories of the SNP are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less an allowance for depreciation.

For FY2014, the University's total net position increased by \$16.3 million or 9.1% over the previous fiscal year.

Total assets and deferred outflows of resources increased by \$10.6 million or 3.3% as compared to last year. Currents assets increased by \$7.3 million during FY2014 or 28.0%. Current assets are comprised of cash and cash equivalents, short term investments, accounts, notes and loans receivable, due from the commonwealth and affiliates, prepaid expenses, and securities lending. The change is largely attributed to the \$1.8 million increase in cash and cash equivalents, a \$4.7 million increase in due from the Commonwealth, and an \$805 thousand increase in prepaid expenses.

Noncurrent assets increased by \$3.6 million during FY2014, or 1.2%. Noncurrent assets are comprised of restricted cash and cash equivalents, state appropriations available, investments, notes receivable, and capital assets net of depreciation. There was a decrease in restricted cash and cash equivalents of \$7.6 million attributable to the spending of bond proceeds for the construction of Gateway II and Howard Quad II residence halls, in addition to the Multipurpose Center Project. This decrease was offset by an increase in capital assets of \$7.0 million and an overall increase in investments of \$4.7 million.

In FY2014, the implementation of the Governmental Accounting Standards Board (GASB) Statement Number 65 *Items Previously Reported as Assets and Liabilities* resulted in the reclassification of certain asset and liability categories to be reported as deferred inflows of resources or deferred outflows of resources in accordance with its guidelines. This resulted in a \$3.2 million reclassification of losses on advanced refundings that were once recorded in the net total of long term liabilities to an increase in the deferred outflows of resources category for FY14 and a \$3.5 million reclassification for FY13.

Compared to the previous fiscal year, total liabilities and deferred inflows of resources decreased by \$5.7 million or 4.0%. Total liabilities are comprised of current and noncurrent liabilities. Overall, current liabilities increased by \$35 thousand in FY2014. Current liabilities are comprised of accounts payable and other accrued liabilities, unearned revenues, obligations under securities lending, deposits held in custody, the current portion of long-term liabilities, and retainage payable. Noncurrent liabilities decreased by \$5.8 million or 4.7% during FY2014. Noncurrent liabilities are comprised primarily of the noncurrent portion of long-term debt (bonds, notes payable, and installment purchase obligations). The decrease in noncurrent liabilities was the net result of making scheduled debt service payments

A summary of the University's assets, deferred outflows of resources, liabilities, and deferred inflows of resources and net position at June 30, 2014 and 2013 follows:

Summary of the Statement of Net Position	Year Ended June 30,		Increase/(Decrease)	
	2014	2013	Amount	Percent
Assets:				
Current assets:	\$ 33,558,785	\$ 26,222,272	\$ 7,336,513	28.0%
Noncurrent assets:				
Restricted cash and cash equivalents	12,857,122	20,500,941	(7,643,819)	(37.3)%
State appropriations available	404,189	894,349	(490,160)	(54.8)%
Investments	32,337,992	27,658,146	4,679,846	16.9%
Capital assets, net	250,127,280	243,098,474	7,028,806	2.9%
Other	1,624,550	1,642,649	(18,099)	(1.1)%
Total noncurrent assets	297,351,133	293,794,559	3,556,574	1.2%
Deferred outflows of resources	3,207,574	3,525,444	317,890	9.0%
Total assets & deferred outflows of resources	334,117,492	323,542,275	10,575,217	3.3%
Liabilities:				
Current liabilities	23,129,188	23,094,486	34,702	0.2%
Noncurrent liabilities	115,969,528	121,747,554	(5,778,026)	(4.7)%
Deferred inflows of resources	22,535	26,978	(4,443)	(16.5)%
Total liabilities & deferred inflows of resources	139,121,251	144,869,018	(5,747,767)	(4.0)%
Net position:				
Net investment in capital assets	144,222,711	135,493,028	8,729,683	6.4%
Restricted:				
Nonexpendable	8,463,750	8,340,859	122,891	1.5%
Expendable	25,126,993	20,440,750	4,686,243	22.9%
Unrestricted	17,182,787	14,398,620	2,784,167	19.3%
Total net position	\$ 194,996,241	\$ 178,673,257	\$ 16,322,984	9.1%

Certain 2013 amounts have been restated to conform to GASB 65 reclassifications.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

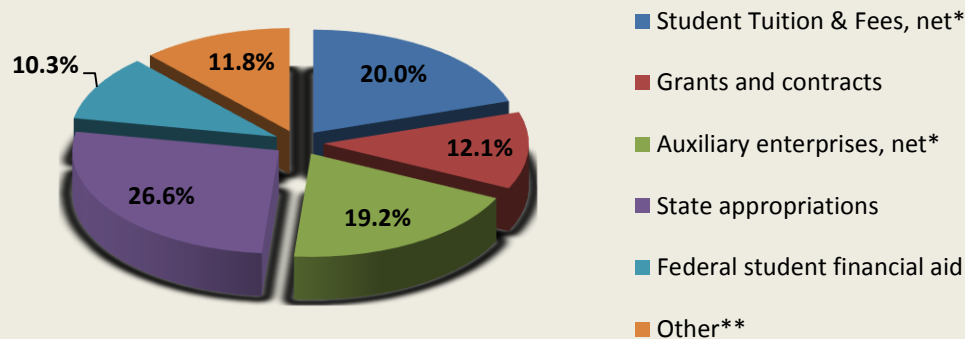
The Statement of Revenues, Expenses, and Changes in Net Position present the University's results of activities for the fiscal year. Presented below is a summarized statement of the University's Revenues, Expenses, and Changes in Net Position for the years ended June 30, 2014 and 2013.

Summary of the Statement of Revenues, Expenses, and Changes in Net Position	Year Ended June 30,		Increase/(Decrease)	
	2014	2013	Amount	Percent
Operating revenues	\$77,594,600	\$78,188,624	\$(594,024)	(0.8)%
Operating expenses	134,001,525	138,771,540	(4,770,015)	(3.4)%
Operating income/(loss)	(56,406,925)	(60,582,916)	4,175,991	6.9%
Nonoperating revenues/(expenses):				
State appropriations	39,947,404	43,895,543	(3,948,139)	(9.0)%
Federal student financial aid	15,455,682	16,143,069	(687,387)	(4.3)%
Other nonoperating revenues/ (expenses)	1,655,196	(1,354,051)	3,009,247	222.2%
Net nonoperating revenues and expenses	57,058,282	58,684,561	(1,626,279)	(2.8)%
Income/(loss) before other revenues and reductions	651,357	(1,898,355)	2,549,712	134.3%
Other revenues:				
Capital grants and gifts	467,585	1,159,215	(691,630)	(59.7)%
Additions/(reductions) to permanent endowments	398,250	499,074	(100,824)	(20.2)%
VCBA 21st Century bond reimbursement program	14,805,792	10,126,777	4,679,015	46.2%
Total other revenues	15,671,627	11,785,066	3,886,561	33.0%
Total increase/(decrease) in net position	16,322,984	9,886,711	6,436,273	65.1%
Net position, beginning of year, as restated	178,673,257	168,786,546	9,886,711	5.9%
Net position, end of year	\$194,996,241	\$178,673,257	\$16,322,984	9.1%

Certain 2013 amounts have been restated to conform to GASB 65 reclassifications.

As shown in the table above, there was an increase in net position of \$16.3 million or 9.1% in FY2014 as opposed to an increase of \$9.9 million in the previous year's statement. The net operating loss decreased by \$4.2 million or 6.9%, over FY2013. Net nonoperating revenues and expenses decreased by \$1.6 million or 2.8% and total other revenues increased by \$3.9 million or 33.0%, in FY2014. Revenues and expenses will be discussed in further detail in the following sections.

A summary of the University's revenues for the years ended June 30, 2014 and 2013 appears below:



Summary of Revenues
For the years ended June 30, 2014 and 2013

	2014	2013	<u>Increase/(Decrease)</u>	
			Amount	Percent
Operating revenues:				
Student tuition and fees, net*	\$ 30,133,099	\$ 30,903,430	\$ (770,331)	(2.5)%
Grants and contracts	18,161,322	17,652,859	508,463	2.9%
Auxiliary enterprises, net*	28,849,210	29,011,197	(161,987)	(0.6)%
Other operating revenue**	450,969	621,138	(170,169)	(27.4)%
Total operating revenues	77,594,600	78,188,624	(594,024)	(0.8)%
Nonoperating revenues/(expenses):				
State appropriations	39,947,404	43,895,543	(3,948,139)	(9.0)%
Federal student financial aid	15,455,682	16,143,069	(687,387)	(4.3)%
Other nonoperating revenues, net**	1,655,196	(1,354,051)	3,009,247	222.2%
Total nonoperating revenues	57,058,282	58,684,561	(1,626,279)	(2.8)%
Other revenues:				
Capital grants and gifts**	467,585	1,159,215	(691,630)	(59.7)%
Additions to permanent endowment**	398,250	499,074	(100,824)	(20.2)%
Other capital revenues**	14,805,792	10,126,777	4,679,015	46.2%
Total other revenues	15,671,627	11,785,066	3,886,561	33.0%
Total revenues	\$ 150,324,509	\$ 148,658,251	\$ 1,666,258	1.1%

* Net of scholarship allowance

** Other includes: other operating revenues; other nonoperating revenues, net of nonoperating expenses; capital grants and gifts; additions to permanent endowment; other capital revenues.

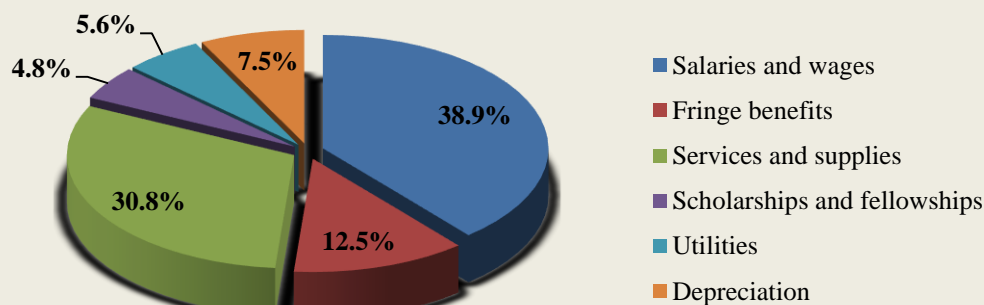
Total operating revenues decreased by \$594 thousand in FY2014 to \$77.6 million from \$78.2 million in the previous year, a decrease of 0.8%. As reflected in the chart above, there were decreases in operating revenues from student tuition and fees and auxiliary enterprises due to a decline in enrollment. These were partially offset by an increase in revenues from grants and contracts.

For the fiscal year, total nonoperating revenues decreased by \$1.6 million. This was primarily a result of decreased state appropriations of \$3.9 million, which was partially offset by a growth in investment income of \$1.5 million.

Other revenues increased by \$3.9 million. Reimbursements from the 21st Century bond program of \$4.7 million are the major reason for the increase. The increase was offset by a decrease in capital grants and gifts of \$692 thousand, due to a reduction in revenues from the Equipment Trust Fund.

SUMMARY OF EXPENSES

Total operating expenses dropped by \$4.8 million in FY2014 compared to the previous fiscal year. This represents a 3.4% decrease. Comparative summaries of the University's operating expenses by both natural classification and function for the years ended June 30, 2014 and 2013 appear below.

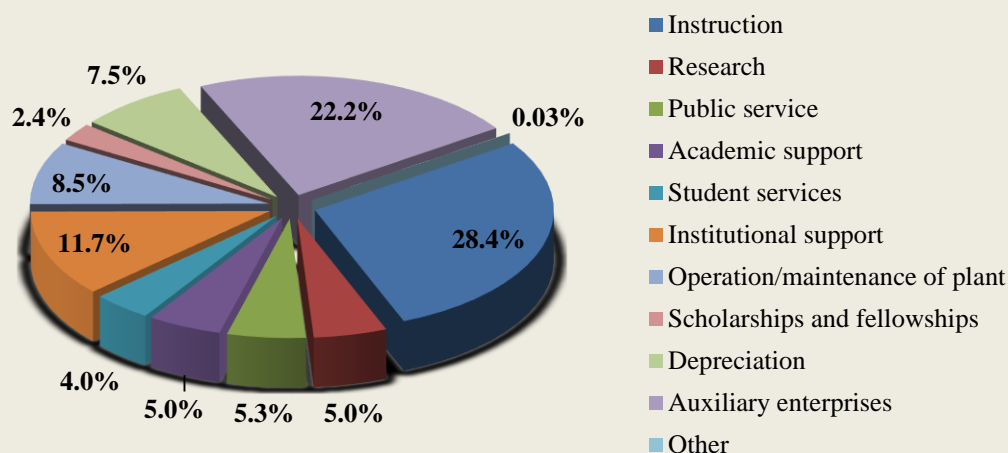


**Summary of Expenses by Natural Classification
For the years ended June 30, 2014 and 2013**

	2014	2013	<u>Increase/(Decrease)</u>	
			Amount	Percent
Salaries and wages	\$ 52,091,335	\$ 52,984,370	\$ (893,035)	(1.7)%
Fringe benefits	16,693,819	15,588,081	1,105,738	7.1%
Services and supplies	41,252,050	45,071,053	(3,819,003)	(8.5)%
Scholarships and fellowships	6,492,730	6,722,640	(229,910)	(3.4)%
Utilities	7,478,061	7,233,338	244,723	3.4%
Depreciation	9,993,530	11,172,058	(1,178,528)	(10.5)%
Total operating expenses	\$ 134,001,525	\$ 138,771,540	\$ (4,770,015)	(3.4)%

The total decrease in operating expenses of \$4.8 million was mostly due to a decline in salaries and wages of \$893 thousand, a reduction of \$3.8 million in services and supplies and a decrease in depreciation of \$1.2 million. Additionally, these were offset by an increase in fringe benefits of \$1.1million.

The decrease in salaries and wages was a result of a reduction in wage expenses, partially offset by an increase in salaries. The decrease in expenses for services and supplies was primarily due to a decline in expenses for maintenance reserve. Depreciation expenses declined as a result of decreases in equipment and library books. Fringe benefits changed due to the rise in health care costs.



**Summary of Expenses by Function
For the years ended June 30, 2014 and 2013**

	2014	2013	<u>Increase/(Decrease)</u>	
			Amount	Percent
Operating expenses:				
Instruction	\$38,029,693	\$ 40,996,898	\$ (2,967,205)	(7.2)%
Research	6,657,507	7,654,684	(997,177)	(13.0)%
Public service	7,127,168	6,715,936	411,232	6.1%
Academic support	6,710,123	5,734,486	975,637	17.0%
Student services	5,355,114	4,923,043	432,071	8.8%
Institutional support	15,674,454	15,154,621	519,833	3.4%
Operation/maintenance of plant	11,341,166	14,314,006	(2,972,840)	(20.8)%
Scholarships and fellowships	3,270,558	3,704,836	(434,278)	(11.7)%
Depreciation	9,993,530	11,172,058	(1,178,528)	(10.5)%
Auxiliary enterprises	29,798,511	28,011,412	1,787,099	6.4%
Other	43,701	389,560	(345,859)	(88.8)%
Total operating expenses	<u>\$ 134,001,525</u>	<u>\$ 138,771,540</u>	<u>\$ (4,770,015)</u>	<u>(3.4)%</u>

By function, expenses for instruction decreased by \$3.0 million. This was caused by a reduction in salaries and wages of \$1.1 million and a decrease in services and supplies of \$2.0 million. In addition, expenses for operation and maintenance of plant declined by \$3.0 million, which was the result of a reduction in maintenance reserve. These reductions were offset by an increase in expenses for auxiliary enterprises of \$1.8 million, mostly due to services and supplies.

STATEMENT OF CASH FLOWS

The Statement of Cash Flows (SCF) is concerned with the flow of cash in and out of the University. The SCF shows changes in the Statement of Net Position (SNP) accounts and the income affect for cash and cash equivalents. GASB principles define four major categories of cash flows: cash flows from operating activities, cash flows from noncapital financing activities, cash flows from capital and related financing activities, and cash flows from investing activities. In addition, it captures both the current operating results and the accompanying changes in the SNP. These cash flows are crucial to funding the operation of the University. From FY13 to FY14 the University's SCF shows a \$5.8 million decrease in cash and cash equivalents.

Statement of Cash Flows	Year Ended June 30,		Increase/(Decrease)	
	2014	2013	Amount	Percent
Cash flows from:				
Operating activities	\$(45,538,356)	\$(52,521,714)	\$ 6,983,358	13.3%
Noncapital financing activities	56,889,083	60,760,582	(3,871,499)	(6.4)%
Capital and related financing activities	(16,836,901)	(24,551,118)	7,714,217	31.4%
Investing activities	(310,501)	(744,851)	434,350	58.3%
Net increase/(decrease) in cash and cash equivalents	(5,796,675)	(17,057,101)	11,260,426	66.0%
Cash and cash equivalents, beginning of year	35,905,313	52,962,414	(17,057,101)	(32.2)%
Cash and cash equivalents, end of year	\$ 30,108,638	\$ 35,905,313	\$(5,796,675)	(16.1)%

Overall, there was a \$7.0 million decrease in net cash used by operating activities in FY2014 compared to FY2013. This was primarily a result of a \$9.1million decrease in cash used for payables to suppliers, offset by a reduction in cash received of \$817 thousand for grants and contracts, \$577 thousand for tuition and fees, and \$544 thousand in other receipts.

Cash flows from noncapital financing activities declined \$3.9 million. There were decreases in state appropriations of \$3.9 million and federal student financial aid of \$687 thousand. Federal direct lending program of \$248 thousand, gifts of \$180 thousand and funds held in custody of \$168 thousand offset the reductions.

There was an increase in net cash for capital financing activities of \$7.7 million in FY2014 and is explained as follows. In FY2013, the University spent \$9.4 million more in capital assets than in FY2014. This was offset by a decrease in cash received by \$2.4 million from the VCBA 21st Century bond reimbursement program in FY2014 versus FY2013.

The last major category on the statement of cash flow is investing activities. In total, net cash used for investing activities declined by \$434 thousand. There was an increase in investment income from the prior year of \$1.5 million and a decrease in the purchase of investments of \$446 thousand. This was offset by a reduction in proceeds from the sale and maturities of investments of \$1.5 million.

CAPITAL AND DEBT ACTIVITIES

The renewal and replacement of the University's capital assets is crucial to sustaining the quality of its academic, research and public service programs. The University continues to invest in capital assets in accordance

with its master plan, modernizing its current and older facilities, purchasing new equipment and building new facilities.

Capital assets, net of depreciation, increased by \$7.0 million in FY2014. VSU had a \$1.1 million net increase in construction in progress primarily due to activity on two construction projects: Howard Quad Residence Hall II and the Multipurpose Center. Buildings increased by \$12.9 million, mainly from the capitalization of Howard Quad Residence Hall II. There was also an increase of \$1.1 million in infrastructure due to the capitalization of the Sanitary and Storm Sewer Project. Depreciation expense for the year totaled \$10.0 million.

Proper management of University resources and the replacement and renewal of capital assets requires the prudent use of debt to finance projects. University bonds are issued pursuant to Section 9(c) of Article X of the Constitution of Virginia. These bonds are backed by the full faith, credit and taxing power of the Commonwealth. The use of debt to finance capital projects is managed in accordance with the University's debt policy.

As of June 30, 2014, the University had \$117.3 million in outstanding long-term debt. This debt consists of \$106.8 million of general obligation bonds, \$7.9 million of notes payable, and \$2.6 million of installment purchase obligations. Long-term debt decreased by \$3.0 million. This is the result of making debt payments throughout the year, as well as the effects of the new GASB 65 standard.

FUTURE ECONOMIC OUTLOOK

The "2014-15 Tuition and Fees at Virginia's State-Supported Colleges and Universities" report published by the State Council of Higher Education for Virginia (SCHEV) in July 2014, indicates that over much of the last decade, VSU continues to make college education extremely affordable for our students. As this SCHEV report indicates, the Governor and General Assembly have made strides to reverse the downward trend in state support for higher education. The reinvestment in higher education will continue to help public institutions meet the requirements of the Virginia Education Opportunity Act of 2011, also known as TJ21. This landmark legislation calls for an additional 100,000 college graduates by the year 2025 to help ensure that the Commonwealth has the resources it needs to compete successfully in the marketplace of the future.

A large percentage of the University's students depend on some form of financial aid, such as scholarships, grants or student loans, to be able to attend. As a result of less aid being available, it is increasingly difficult for these students to be able to afford a college education. To address this concern, Virginia State University has held tuition and fees increases to a minimum. For the 2014-15 academic year Virginia State University will have one of the lowest tuition and mandatory E&G fees for both full-time, in-state and out-of-state undergraduate students at four-year institutions in Virginia.

Public financial support has allowed the University to make great achievements. However, with the uncertainty associated with public support, the University has been forced to be proactive in searching for additional private financial support to help VSU take the next step toward success. This additional financial assistance will help provide the competitive edge that assists in attracting quality faculty, recruiting the brightest students and in developing mutually beneficial relationships with business and industry. Since the needs of the university change frequently, the University will actively seek unrestricted gifts which provide the greatest flexibility in channeling resources to the areas of greatest need.

As evident in the accompanying financial statements, the University's finances remain strong. However, the impact of changes in federal regulations regarding Satisfactory Academic Performance (SAP) and the Parent Plus Loan program, have created significant challenges throughout higher education, particularly among those institutions whose mission is to provide educational opportunities to students of lower socio-economic means.

To address these issues, the University is taking proactive steps to improve in a number of areas including: student retention, first-year experience, advising, teaching pedagogy and technology among others.

VSU's successful economic outlook is tied to various factors that include: the ability to recruit students, the university's status as a public institution within the higher education system and the ability to raise revenue through other sources. As knowledge and skills become the source of this nation's competitive strength, education is becoming one of our more important national resources. The strong correlation between the level of education and lifetime income emphasizes that higher education is one of the best strategies to "Building a Better World," our motto.

VSU will continue to make significant investments in launching new initiatives to enhance the competitiveness of its academic programs. With the peaks and valleys of Virginia's economic cycle, it is clear that VSU must be aggressive and innovative in pursuing financial resources so that the University can accommodate the expected additional enrollment. Certainly, a quality education will remain our cornerstone principle, as the University addresses issues of preparation, affordability and accessibility.

Virginia State University

FINANCIAL STATEMENTS



STATEMENT OF NET POSITION

As of June 30, 2014 with comparative financial information as of June 30, 2013

	2014		2013	
ASSETS	Virginia State University	Component Units	Virginia State University	Component Units
Current assets:				
Cash and cash equivalents (Note 2)	\$ 17,251,516	\$ 4,231,420	\$ 15,404,372	\$ 3,956,406
Cash and cash equivalents - Securities Lending	1,454,739	-	1,284,210	-
Short-term investments (Note 2)	47,100	-	69,242	-
Accounts and loans receivable, net of allowance (Note 3)	5,158,095	325,710	5,395,608	80,533
Pledges receivable, net of allowance (Note 3)	-	206,880	-	248,717
Due from the Commonwealth (Note 3)	6,532,529	-	1,803,967	37,533
Due from affiliates (Note 3)	86,742	-	39,613	-
Prepaid expenses	2,988,391	4,919	2,183,802	4,796
Notes receivable, net of allowance (Note 3)	39,673	-	41,458	-
Total current assets	33,558,785	4,768,929	26,222,272	4,327,985
Noncurrent assets:				
Restricted cash and cash equivalents (Note 2)	12,857,122	2,452,945	20,500,941	2,260,939
Restricted investments (Note 2)	2,748,308	26,100	1,406,881	56,200
Endowment investments (Note 2)	26,008,982	12,547,236	23,894,913	10,553,828
State appropriation available	404,189	-	894,349	-
Pledges receivable, net of allowance	-	-	-	195,369
Notes receivable, net of allowance (Note 3)	1,624,550	-	1,642,649	-
Other long-term investments (Note 2)	3,580,702	-	2,356,352	-
Other noncurrent	-	91,205	-	93,914
Non depreciable capital assets (Note 4)	37,522,711	542,828	36,266,887	542,828
Depreciable capital assets, net (Note 4)	212,604,569	8,703,891	206,831,587	9,293,788
Total noncurrent assets	297,351,133	24,364,205	293,794,559	22,996,866
Deferred outflows of resources (Note 1)	3,207,574	-	3,525,444	-
Total assets and deferred outflows of resources	334,117,492	29,133,134	323,542,275	27,324,851
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities (Note 5)	9,720,727	90,049	7,717,015	121,350
Due to affiliates	-	86,742	37,533	39,613
Unearned revenue	2,601,666	70,225	3,398,442	24,518
Retainage payable	296,852	-	1,129,926	-
Obligations under securities lending	1,501,839	-	1,353,452	-
Deposits held in custody of others	1,368,905	74,095	1,290,886	88,734
Long-term liabilities-current portion (Notes 6 and 7)	7,460,764	700,000	8,122,320	590,000
Other current liabilities	178,435	62,373	44,912	63,741
Total current liabilities	23,129,188	1,083,484	23,094,486	927,956
Noncurrent liabilities:				
Long-term liabilities - noncurrent (Notes 6 and 7)	115,969,528	20,757,679	121,747,554	23,175,045
Deferred inflows of resources	22,535	-	26,978	-
Total liabilities and deferred inflows of resources	\$ 139,121,251	\$ 21,841,163	\$ 144,869,018	\$ 24,103,001

STATEMENT OF NET POSITION

As of June 30, 2014 with comparative financial information as of June 30, 2013 (continued)

	2014		2013	
NET POSITION	Virginia State University	Component Units	Virginia State University	Component Units
Net investment in capital assets	\$ 144,222,711	\$ (8,912,076)	\$ 135,493,028	\$ (8,909,470)
Restricted for:				
Nonexpendable:				
Scholarships and fellowships	4,662,903	9,761,674	4,556,835	9,177,822
Instruction	3,242,011	-	3,228,604	-
Other	558,836	-	555,420	-
Expendable:				
Scholarships and fellowships	19,135,805	4,518,960	16,293,516	2,997,350
Instruction	1,028,645	-	579,392	-
Loans	891,335	-	890,996	-
Capital projects	2,744,190	-	1,336,583	-
Other	1,327,018	-	1,340,263	-
Unrestricted	17,182,787	1,923,413	14,398,620	(43,852)
Total net position	\$ 194,996,241	\$ 7,291,971	\$ 178,673,257	\$ 3,221,850

Certain 2013 amounts have been restated to confirm to GASB 65 reclassifications.

The accompanying notes to the financial statements are an integral part of this statement.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

As of June 30, 2014 with comparative financial information as of June 30, 2013

	2014		2013	
	Virginia State University	Component Units	Virginia State University	Component Units
Operating revenues:				
Student tuition and fees (net of scholarship allowance of \$11,982,820)	\$ 30,133,099	\$ -	\$ 30,903,430	\$ -
Federal grants and contracts	17,482,936	-	17,012,745	-
State and local grants and contracts	678,386	-	640,114	-
Auxiliary enterprises (net of scholarship allowance of \$14,364,630)	28,849,210	-	29,011,197	-
Other operating revenues	450,969	3,503,467	621,138	3,529,260
Total operating revenues	77,594,600	3,503,467	78,188,624	3,529,260
Operating expenses: (Note 9)				
Education and general:				
Instruction	38,029,693	-	40,996,898	-
Research	6,657,507	-	7,654,684	-
Public service	7,127,168	-	6,715,936	-
Academic support	6,710,123	-	5,734,486	-
Student services	5,355,114	-	4,923,043	-
Institutional support	15,674,454	2,381,775	15,154,621	2,320,760
Operation and maintenance of plant	11,341,166	-	14,314,006	-
Scholarships and fellowships	3,270,558	275,133	3,704,836	192,115
Depreciation	9,993,530	615,486	11,172,058	620,195
Auxiliary enterprises	29,798,511	-	28,011,412	-
Other	43,701	-	389,560	-
Total operating expenses	134,001,525	3,272,394	138,771,540	3,133,070
Operating income/(loss)	(56,406,925)	231,073	(60,582,916)	396,190
Nonoperating revenues/(expenses):				
State appropriations (Note 8)	39,947,404	-	43,895,543	-
Gifts	748,506	1,357,445	467,202	1,727,657
Investment income	4,369,345	3,724,735	2,843,010	865,434
Interest on indebtedness	(3,648,782)	(954,739)	(4,235,544)	(971,798)
Loss on disposal of assets	(30,586)	-	(24,860)	-
Federal student financial aid	15,455,682	-	16,143,069	-
Other nonoperating revenues	773,582	73,676	574,690	176,267
Other nonoperating expenses	(556,869)	(362,069)	(978,549)	(287,055)
Net nonoperating revenues/(expenses)	57,058,282	3,839,048	58,684,561	1,510,505
Income/(loss) before other revenues	651,357	4,070,121	(1,898,355)	1,906,695
Other revenues:				
Capital grants and gifts	467,585	-	1,159,215	-
Additions to permanent endowments	398,250	-	499,074	-
VCBA 21st Century bond reimbursement program	14,805,792	-	10,126,777	-
Total other revenues	15,671,627	-	11,785,066	-
Increase/(decrease) in net position	16,322,984	4,070,121	9,886,711	1,906,695
Net position, beginning of year as restated (Note 1.0)	178,673,257	3,221,850	168,786,546	1,315,155
Net position, end of year	\$ 194,996,241	\$ 7,291,971	\$ 178,673,257	\$ 3,221,850

Certain 2013 amounts have been restated to confirm to GASB 65 reclassifications.

The accompanying notes to the financial statements are an integral part of this statement.

STATEMENT OF CASH FLOWS

As of June 30, 2014 with comparative financial information as of June 30, 2013

	2014	2013
Cash flows from operating activities:		
Tuition and fees	\$ 30,065,541	\$ 30,642,198
Grants and contracts	17,915,003	18,732,368
Auxiliary enterprises	28,841,927	28,929,660
Departmental sales and services, and other revenues	249,852	794,094
Payments of employees	(68,638,153)	(68,512,581)
Payments to suppliers	(40,211,938)	(49,285,965)
Payments for utilities	(7,478,062)	(7,233,338)
Payments for scholarships and fellowships	(6,492,729)	(6,722,640)
Loans issued to students	(194,910)	(171,874)
Collection of loans from students	214,794	250,587
Other payments	190,319	55,777
Net cash provided/(used) by operating activities	(45,538,356)	(52,521,714)
Cash flows from noncapital financing activities:		
State appropriations	39,991,912	43,862,296
Gifts	1,146,757	966,276
Federal student financial aid	15,455,683	16,143,069
Other nonoperating revenue	216,712	127,605
Funds held in custody of others - receipts	5,759,097	6,183,522
Funds held in custody of others - disbursements	(5,680,657)	(6,273,311)
Federal direct lending program disbursements	(421)	(248,875)
Net cash provided/(used) by noncapital financing activities	56,889,083	60,760,582
Cash flows from capital financing activities:		
Capital appropriations	445,652	(648,151)
Capital gifts and grants	1,201,420	179,202
VCBA 21st Century bond reimbursement program	9,259,282	11,613,256
Interest paid on capital debt, leases, and installments	(3,674,306)	(4,257,150)
Principal paid on capital debt, leases, and installments	(6,638,056)	(29,802,551)
Principal received on capital debt, leases, and installments	455,103	25,663,364
Purchase of capital assets	(17,885,996)	(27,299,088)
Net cash provided/(used) by capital financing activities	(16,836,901)	(24,551,118)
Cash flows from investing activities:		
Investment income	4,369,345	2,843,010
Proceeds from sales and maturities of investments	(3,738,168)	(2,200,307)
Purchase of investments	(941,678)	(1,387,554)
Net cash provided/(used) by investing activities	(310,501)	(744,851)
Net increase/(decrease) in cash	(5,796,675)	(17,057,101)
Cash and cash equivalents - beginning of the year	35,905,313	52,962,414
Cash and cash equivalents - end of year	\$ 30,108,638	\$ 35,905,313

STATEMENT OF CASH FLOWS

As of June 30, 2014 with comparative financial information as of June 30, 2013 (continued)

	2014	2013
Reconciliation of Net Operating Loss to Net cash used by Operating Activities:		
Operating income/(loss)	\$ (56,406,925)	\$ (60,582,916)
Adjustments to reconcile net cash used by operating activities:		
Depreciation expense	9,993,530	11,172,058
Changes in assets and liabilities:		
Receivables	274,498	820,277
Prepaid items	(804,589)	(140,219)
Other assets	-	(25,306)
Accounts payable	1,966,179	(4,036,429)
Less: Interest payable	25,524	21,606
Unearned revenue	(796,776)	89,420
Other liabilities	190,319	81,083
Net loans	19,884	78,712
Net cash provided/(used) by operating activities	\$ (45,538,356)	\$ (52,521,714)

Certain 2013 amounts have been restated to confirm to GASB 65 reclassifications.

The accompanying notes to the financial statements are an integral part of this statement.

Virginia State University

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The University is a component unit of the Commonwealth of Virginia and is included in the Comprehensive Annual Financial Report (CAFR) of the Commonwealth. These basic financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) applicable to colleges and universities. They are prepared for and at the direction of the Commonwealth of Virginia for inclusion in the Commonwealth's CAFR, which includes all agencies, boards, commissions, and authorities associated with the Commonwealth and over which the Commonwealth exercises or has the ability to exercise oversight authority.

The Virginia State University Foundation (VSUF) is a legally separate component unit of the University and was organized as a tax-exempt charitable and educational organization in 1968. The purpose of this foundation is to accept contributions from individual donors and to safeguard, invest, and distribute the funds as designated by the donors or the Foundation's Board of Trustees for the benefit of the University, its students, alumni, and educational community in support of the University's mission.

The Virginia State University Real Estate Foundation (VSUREF) is a legally separate component unit of the University and was organized as a tax-exempt charitable and educational organization in 2002. Operations began in August 2003. The purpose of the Real Estate Foundation is to construct and manage the University Apartments at Ettrick (UAE), a 504-bedroom dormitory facility for the University, in support of the University's mission.

Although the University does not control the timing or amount of receipts from either the VSUF or the VSUREF, the majority of the resources or income thereof that both foundations hold and invest is restricted to the activities of the University by the donors. Because these restricted resources held by the foundations can only be used by, or for the benefit of the University, the VSUF and the VSUREF are considered component units of the University and are discretely presented in the University's financial statements.

During the year ended June 30, 2014, the VSUF distributed \$683,459 to the University for both restricted and unrestricted purposes. Separate financial statements for the VSUF can be obtained by writing Virginia State University Foundation c/o Vice President of Development, Storum Hall, P.O. box 9027, Petersburg, VA 23806. Separate financial statements for the VSUREF can be obtained by writing Virginia State University Real Estate Foundation c/o Vice President of Development, Storum Hall, P.O. Box 9027, Petersburg, VA 23806.

B. Basis of Presentation

The University's accounting policies conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB).

GASB issued Statement 65, *Items Previously Reported as Assets and Liabilities*, in March of 2012, and it is effective for the University's fiscal year ending June 30, 2014. This statement establishes accounting and financial reporting standards that reclassify certain items that were previously reported as assets and liabilities to deferred outflows of resources and deferred inflows of resources respectively. Deferred outflows of resources are defined as the consumption of net assets applicable to a future period, and have a positive effect on net position. Conversely, deferred inflows of resources are described as the acquisition of net assets related to a future reporting cycle, with a negative effect on net position.

For the University, GASB 65 changed the rules for reporting advance refunding gains and losses associated with the debt for bonds and notes payable used to finance capital projects. Prior to FY14, these gains and losses were included as part of the debt, and shown accordingly on the financial statements. The rules now state the gains and losses are reported separately as deferred inflows and deferred outflows of resources. The reclassifications on the University's fiscal year 2014 financial statements, regarding the reporting of these gains and losses, due to the implementation of GASB 65, are highlighted below.

Advance Refunding Gains:	2014 Balance Before Changes	Changes	2014 Ending Balance After Changes
Current liabilities	\$23,129,188	\$ -	\$23,129,188
Noncurrent liabilities	115,992,063	(22,535)	115,969,528
Total liabilities	139,121,251	(22,535)	139,098,716
Deferred inflows of resources	-	22,535	22,535
Total liabilities and deferred inflows of resources	\$139,121,251	-	\$139,121,251

Advance Refunding Losses:	2014 Balance Before Changes	Changes	2014 Ending Balance After Changes
Current assets	\$33,558,785	\$ -	\$33,558,785
Noncurrent assets	300,558,707	(3,207,574)	297,351,133
Total assets	334,117,492	(3,207,574)	330,909,918
Deferred outflows of resources	-	3,207,574	3,207,574
Total assets & deferred outflows of resources	\$334,117,492	-	\$334,117,492

Effective for fiscal year 2013, GASB Statement 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position amends the financial statement presentation of Net Assets to Net Position. This standard supersedes the Net Assets designation in GASB Statement 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, by modifying the terminology used in the applicable titles and line items of the financial statements to Net Position. GASB Statement 35, Basic Financial Statements and Management's Discussion and Analysis of Public Colleges and Universities also establish financial reporting standards for public colleges and universities within, and/or in addition (where not superseded) to the financial reporting guidelines mentioned above in GASB Statements 34 and 63. Financial reporting and disclosure requirements in GASBS 37 and 38 make changes to certain sections of GASB 35, which are relevant to University's financial statements.

C. Basis of Accounting

The University's financial statements have been prepared 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 a liability has been incurred, regardless of the timing of related cash flows. All significant intra-agency transactions have been eliminated, as well.

D. Cash Equivalents

The University considers all highly liquid investments with an original maturity of ninety days or less to be cash equivalents. Funds invested through the State Non-Arbitrage Program (SNAP) and portions of the funds invested in the State Securities Lending Program are considered cash equivalents.

E. Investments

In accordance with GASB Statement 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools, investments are recorded at fair market value at June 30, 2014. All investment income, including changes in the fair value of investments (unrealized gains and losses), is reported as nonoperating revenue in the Statement of Revenues, Expenses, and Changes in Net Position.

F. Prepaid Expenses

Prepaid expenses represent university library books, memberships, subscriptions, postage, system maintenance agreements, service agreements and licenses that were paid in advance as of June 30, 2014.

G. Capital Assets

Capital assets consisting of land, buildings, equipment, infrastructure assets, improvements other than buildings, inexhaustible works of art, intangible assets, and construction-in-progress are stated at appraised historical cost or actual cost, where determinable. Purchased or constructed capital assets are reported at actual cost or estimated historical cost. Donated capital assets are reported at fair value on the date of acquisition. Library materials are valued using purchase price for library acquisitions. Equipment is capitalized when the acquisition cost is \$5,000 or greater and the estimated useful life is two years or more. Expenses for construction-in-progress are capitalized as they are incurred. Intangible assets are capitalized when the acquisition cost is \$100,000 or greater. Interest expenses relating to construction are capitalized, net of interest income earned on resources set aside for this purpose. For the year ended June 30, 2014, interest expenses exceeded interest earned by \$194,048 and was capitalized. Infrastructure assets are recorded at cost.

Depreciation is calculated using the straight-line method over the estimated useful life as follows:

Buildings	30-60 years
Infrastructure assets	15-20 years
Equipment	2-10 years
Intangible assets – computer software	5-10 years
Library books	5 years
Other improvements	20 years

H. Restricted and Unrestricted Net Position

Resources restricted by outside sources are distinguished from unrestricted resources allocated for specific purposes by action of the Board of Visitors. Externally restricted resources may be utilized only in accordance with the purposes established by the source of such resources and are in contrast with unrestricted resources, of which the governing board retains full control to use in achieving the institutional purpose.

Restricted net assets can be expendable or nonexpendable. Nonexpendable restricted net assets are endowments and similar type funds where the donor(s) or some other outside source has stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal. Expendable restricted net assets are resources which the University is legally or contractually obligated to spend in accordance with the restrictions imposed by external parties.

Unrestricted net assets are resources derived primarily from state appropriations, sales and services of educational departments, student tuition and fees, auxiliary enterprises fees and revenues, and gifts. Auxiliary enterprises are self-supporting activities that provide services for students, faculty, and staff. These unrestricted resources are used for transactions relating to the educational and general operations of the University and at the discretion of the governing board to meet current expenses.

When an expense has been incurred that can be paid using either restricted or unrestricted resources, the University's policy is first to apply the expense toward restricted resources and then toward unrestricted. Restricted funds remain classified as such until restrictions have been satisfied.

I. Unearned Revenue

Unearned revenue represents revenues collected, but not earned as of June 30, 2014. This consists primarily of student tuition and fees received in advance of the academic term and advance payments from grant and contract sponsors.

J. Accrued Compensated Absences

The amount of leave earned, but not taken by 12-month faculty and salaried employees is recorded as a liability on the Statement of Net Position. The amount reflects all unused vacation leave, overtime leave, compensatory leave, and the amount payable upon termination under the Commonwealth of Virginia's sick leave payout policy as of June 30, 2014. The applicable share of employer-related taxes payable on eventual termination payments is also included.

K. Revenue and Expense Classifications

Operating revenues include activities that have the characteristics of exchange transactions, such as: (1) student tuition and fees, net of scholarship allowance; (2) federal, state, and nongovernmental grants and contracts; and (3) sales and services of auxiliary enterprises, net of scholarship allowance.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions such as gifts and other revenue sources that are defined as nonoperating 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, such as state appropriations, investment income, and federal student financial aid.

Nonoperating expenses include interest on debt related to the purchase of capital assets and investment expenses. All other expenses are classified as operating expenses.

L. Discounts, Premiums, and Bond Issuance Costs

Bonds payable on the Statement of Net Position are reported net of related premiums and discounts, which are amortized as revenue or expense over the life of the bond. Bond issuance costs are expensed as incurred, due to the implementation of GASB Statement 65, Items Previously Reported as Assets and Liabilities, in FY14. While in the past the amounts were expensed over the life of the bonds. The effect of the change in accounting methods, in FY 2014, results in a restatement of Beginning Net Position, and is discussed in Note 1.O.

M. Scholarship Allowances

Student tuition and fee revenues, and certain other revenues from students, 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. The scholarship allowance is reported using the alternative method as recommended by the National Association of College and University Business Officers (NACUBO). The alternative method is a simple proportionality algorithm that computes scholarship allowance on a University-wide basis by allocating the amounts applied to student accounts and the cash payment to students, excluding payments for services, on the ratio of total aid to the aid not considered third-party aid.

N. Title IV Federal Financial Assistance Programs

The University participates in the following federally funded programs: Federal Pell Grant (PELL) and Teacher Education Assistance for College and Higher Education (TEACH) Grant; Federal Supplemental Educational Opportunity Grant (SEOG); Federal Direct Subsidized and Unsubsidized; Federal Parent Loan for Undergraduate and Graduate Students (PLUS), Federal Perkins Loan and Federal College Work Study (CWS). Federal programs are audited in accordance with the Single Audit Act Amendments of 1996, the Office of Management and Budget Revised Circular A-133, *Audit of States, Local Governments and Non-Profit Organizations*, and the *Compliance Supplement*.

O. Restatement of Beginning Net Position

Effective for FY14, GASB 65 - *Items Previously Reported as Assets and Liabilities* amends the University's reporting for unamortized issuance costs related to debt for bonds and notes payable associated with capital projects. In the past, unamortized issuance cost was classified as an asset and amortized over the life of the bond or note. The new requirements call for a restatement of the FY14 beginning fund balance, and the complete expense write off of the asset. The effect of this reporting change to net position is as follow:

Net Position as reported at June 30, 2013	\$179,204,721
Less: Decrease due to GASB 65 implementation regarding unamortized issuance costs	<u>(531,464)</u>
Net Position at July 1, 2013, as restated	<u>\$178,673,257</u>

P. Comparative Data

The University presents its financial information on a comparative basis. The basic financial statement 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, 2013, from which the summarized information was derived.

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS

A. Cash and Cash Equivalents

Pursuant to Section 2.2-1800, et seq., Code of Virginia, all State funds of the University are held by the Treasurer of Virginia, who is responsible for the collection, disbursement, custody, and investment of State funds. Cash deposits held by the University are maintained in accounts that are covered by federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 of the Code of Virginia. In accordance with the GASB Statement 9 Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds, definition of cash and cash equivalents, cash represents cash with the Treasurer of Virginia, cash on hand, and cash deposits including certificates of deposit and temporary investments with original maturities of three months or less. At June 30, 2014, the carrying amount of cash and cash equivalents was \$31,563,377.

B. Investments - Credit Risk, Custodial Credit Risk, and Interest Rate Risk

The University evaluates common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. The following disclosures are made in accordance with GASB Statement 40, Deposit and Investment Risk Disclosures. As an element of interest rate risk, this statement requires certain disclosures of investments with fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified in this statement must be disclosed. GASB Statement 40 also modifies disclosures required by GASB Statement 3, Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements.

As of June 30, 2014, the University had the following investments:

Spider Management Group	\$ 32,337,992
Treasurer of Virginia	47,100
Total investments	<u>\$32,385,092</u>

Investments held by the Treasurer of Virginia include the University's allocated share of securities totaling \$47,100 received for securities lending transactions and held in the General Account of the Commonwealth. The Commonwealth's policy is to record unrealized gains and losses in the General Fund in the Commonwealth's basic financial statements. When gains or losses are realized, the actual gains and losses are recorded by the affected agencies. Information related to the credit risk of these investments and securities lending transactions held in the General Account is available on a statewide level in the Commonwealth of Virginia's CAFR.

C. Interest Rate Risk

The following information is provided with respect to the credit risk associated with the University's cash and cash equivalents and investments at June 30, 2014. Interest rate risk is the risk that changes in interest rates will adversely affect the fair market value of an investment. The University's policy for investment of endowment fund assets requires that the investments be allocated as follows as of June 30, 2014:

This asset allocation helps limit the University's exposure to interest rate risk.

<u>Asset Class</u>	<u>Desired Range</u>	<u>Allocation</u>
Domestic Equity	5 - 25%	23.4 %
International Equity	5 - 25%	17.0 %
Global Equity	5 - 25%	11.5 %
Opportunistic (P/E, Venture)	10 - 25%	15.9 %
Multi Strategy	5 - 20%	9.5 %
Credit	0 - 15%	8.2 %
Real Estate	0 - 10%	2.6 %
Real Assets	0 - 10%	7.5 %
Cash	0 - 10%	4.4 %

D. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. Statutes authorize the investment of local funds held by the University in obligations of the Commonwealth; federal government; other states or political subdivisions thereof; Virginia political subdivisions; the International Bank for Reconstruction and Development; the Asian Development Bank; and the African Development Bank. In addition, the University may invest in prime quality commercial paper rated Prime 1 by Moody's Investment Service or A-1 by Standard and Poor's, Incorporated. The University may also invest in overnight term or open repurchase agreements and money market funds.

E. Custodial Credit Risk

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty, the endowment funds will not be able to recover the value of the investments that are in possession of an outside party. The University does not have a formal investment policy for custodial arrangements. At June 30, 2014, the University endowment funds were held at the custodial banks and the Spider Management Group.

F. Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government or university in a single issuer. The University does not have a formal policy to reduce concentration of credit risk; however, all of the University's investments were held in various instruments and stocks and were not exposed to this risk.

G. VSUF – Cash and Investments

The investments of the VSUF consist primarily of equity securities and mutual funds. All investments are stated at fair value as reported by investment managers and reflect readily determinable market prices. All investments are considered available for sale. Realized gains are calculated based on the difference between the costs and selling price of the security. The amount of cash and investments held by the VSUF at June 30, 2014, was \$14,694,206.

H. VSUREF - Cash and Investments

The investments of the VSUREF consist primarily of U.S. government money market funds. All investments are stated at fair value as reported by investment managers and reflect readily determinable market prices. All investments are considered available for sale. Realized gains are calculated based on the difference between the costs and selling price of the security. Cost is determined based on the initial purchase price of each individual investment. The amount of cash and investments held by the VSUREF at December 31, 2013 was \$4,563,495.

3. ACCOUNTS AND NOTES RECEIVABLE

A. Accounts Receivable

Accounts receivable is shown net of allowance for doubtful accounts in the accompanying Statement of Net Position.

Accounts Receivable at June 30, 2014:	
Student tuition and fees	\$ 1,627,326
Federal, state and private grants and contracts	4,343,672
Auxiliary enterprises	199,582
Third party receivables - students	104,130
Other receivables	73,100
	<hr/>
Gross accounts receivable	6,347,810
Less: Allowance for doubtful accounts	(1,189,715)
Net accounts receivable	<hr/> <hr/>
	\$ 5,158,095

B. Due from Affiliates

Due from VSUF	\$ 86,742
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C. Due from the Commonwealth

Receivables due from the Commonwealth represent reimbursements due for equipment purchases made by the University under the Equipment Trust Fund and bond reimbursement programs. On a reimbursement basis, the Equipment Trust Fund program provides State-supported institutions of higher education with bond proceeds for financing the acquisition and replacement of instructional and research equipment.

Due from the Commonwealth at June 30, 2014:	
Equipment Trust Fund Reimbursement	\$ 348,070
21 st Century Bond Reimbursement – Multipurpose Center Project	5,830,586
21 st Century Bond Reimbursement – Maintenance Reserve	159,898
21 st Century Bond Reimbursement – Hunter McDaniel	66,440
21 st Century Bond Reimbursement – Erosion & Sediment Control	51,524
21 st Century Bond Reimbursement – Lockett Hall	42,650
21 st Century Bond Reimbursement – Water Storage Tank and Campus Water	18,568
21 st Century Bond Reimbursement – Renovate Heating Plant	14,793
Total due from the Commonwealth	<u>\$ 6,532,529</u>

D. Notes Receivable

Notes receivable are shown net of an allowance for doubtful accounts in the accompanying Statement of Net Position.

At June 30, 2014, notes receivable consisted of the following:

Current notes receivable:	
Federal student loans	\$ 42,240
State student loans	326
Local student loans	1,467
Less: Allowance for doubtful accounts	<u>(4,360)</u>
Net current notes receivable	<u>39,673</u>
Noncurrent notes receivables:	
Federal student loans	1,875,953
Local student loans	1,785
Less: Allowance for doubtful accounts	<u>(253,188)</u>
Net noncurrent notes receivables	<u>1,624,550</u>
Total notes receivable	<u><u>\$ 1,664,223</u></u>

4. CAPITAL ASSETS

A summary of changes in the various capital asset categories for the year ending June 30, 2014, is presented as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Nondepreciable capital assets:				
Land	\$ 19,117,761	\$ 738,472	\$ -	\$ 19,856,233
Inexhaustible works of art and historical treasures	119,000	-	-	119,000
Construction in progress	16,434,679	15,157,130	(14,044,331)	17,547,478
Equipment in progress	595,447	-	(595,447)	-
Total nondepreciable capital assets	36,266,887	15,895,602	(14,639,778)	37,522,711
Depreciable capital assets:				
Buildings	297,388,778	12,935,108	-	310,323,886
Equipment	36,244,366	1,531,582	(1,444,400)	36,331,548
Intangible assets - computer software	3,878,256	-	-	3,878,256
Infrastructure (includes improvements other than buildings)	16,203,642	1,135,348	-	17,338,990
Library books	20,485,473	195,061	(89,578)	20,590,956
Total depreciable capital assets	374,200,515	15,797,099	(1,533,978)	388,463,636
Less accumulated depreciation for:				
Buildings	104,605,944	6,842,853	-	111,448,797
Equipment	27,791,734	1,946,155	(1,413,814)	28,324,075
Intangible assets - computer software	3,559,506	106,250	-	3,665,756
Infrastructure (includes improvements other than buildings)	12,103,478	439,599	-	12,543,077
Library books	19,308,266	658,674	(89,578)	19,877,362
Total accumulated depreciation	167,368,928	9,993,531	(1,503,392)	175,859,067
Net depreciable capital assets	206,831,587	5,803,568	(30,586)	212,604,569
Total	\$ 243,098,474	\$ 21,699,170	\$ (14,670,364)	\$ 250,127,280

Net capital assets of the VSUREF consist of \$542,828 for Land and \$8,703,891, (net of accumulated depreciation of \$6,680,564) for buildings, land improvements, and equipment as of December 31, 2013.

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following at June 30, 2014:

Employee salaries, wages, and fringe benefits payable	\$ 3,950,459
Matured interest payable	455,337
Vendor and supplier accounts payable	<u>5,314,931</u>
Total	<u>\$ 9,720,727</u>

6. LONG-TERM LIABILITIES

The University's noncurrent liabilities consist of long-term debt (further described in Note 7) and other noncurrent liabilities. A summary of changes in noncurrent liabilities for the year ending June 30, 2014 is presented as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current	Noncurrent
Long-term debt:						
General obligation revenue bonds	\$ 109,310,477	\$ 3,118,360	\$ (5,659,099)	\$ 106,769,738	\$ 5,092,296	\$ 101,677,442
Notes payable	8,202,117	364,148	(628,679)	7,937,586	636,126	7,301,460
Installment purchases	2,790,037	180,169	(372,813)	2,597,393	410,488	2,186,905
Total long-term debt	120,302,631	3,662,677	(6,660,591)	117,304,717	6,138,910	111,165,807
Other noncurrent liabilities:						
Accrued compensated absences	4,286,706	2,438,485	(2,316,071)	4,409,120	1,215,604	3,193,516
Federal Perkins Loan contributions	1,463,321	66,183	(25,549)	1,503,955	-	1,503,955
Software license agreements	318,750		(106,250)	212,500	106,250	106,250
Total long-term liabilities	\$ 126,371,408	\$ 6,167,345	\$ (9,108,461)	\$ 123,430,292	\$ 7,460,764	\$ 115,969,528

7. LONG-TERM INDEBTEDNESS

A. Bonds Payable

The University's bonds are issued pursuant to Section 9 of Article X of the Constitution of Virginia. All of the bonds at the University are Section 9(c) bonds. These bonds are backed by the full faith, credit and taxing power of the Commonwealth, and are issued to finance capital projects which, when completed, will generate revenue to repay the debt.

A summary of future principal and interest requirement of bonds payable for fiscal year as of June 30, 2014, are as follows:

	Interest Rate	Maturity	Total
General obligation revenue bonds:			
Construct Dining Hall, Series 2006B	5.0%	2016	\$ 410,000
Construct Residence Halls, Series 2006B	5.0%	2016	1,590,000
Jones Hall 96 - 2002 Ref Portion, Series 2012A	4.1% - 4.8%	2016	384,013
98 Ref of Jones Dining Hall- 2004B Ref Portion, Series 2014B	4.7% - 5.0%	2018	255,039
Construct Residence Halls, Series 2007A	4.0% - 4.7%	2018	370,000
VSU Const Residence Hall 2006B Refunded Portion, Series 2009D	5.0%	2022	4,965,000
VSU Construct Dining Hall Refunded Portion 2006B, Series 2009D	5.0%	2022	1,280,000
Constr Two Res Halls - 2007B Ref Portion, Series 2013B	4.0% - 4.4%	2025	11,231,552
Constr Dining Hall - 2006B Ref Portion, Series 2013B	4.0% - 4.2%	2026	1,431,242
Constr Residence Halls - 2006B Ref Portion, Series 2013B	4.0% - 4.2%	2026	5,541,181
Constr Res Halls - 2007A Ref Portion, Series 2013B	4.0% - 4.3%	2027	1,132,216
Construct Two Residence Halls, Series 2007B	4.4% - 4.6%	2027	9,265,000
Construct Gateway Residence Hall Phase, Series 2011A	4.2% - 4.9%	2031	31,460,000
Construct Quad Phase II, Series 2011A	4.2% - 4.9%	2031	27,470,000
Add unamortized premium			9,984,495
Total bonds payable			<u>\$ 106,769,738</u>

Aggregate annual maturities of bonds payable for fiscal years after 2014 are:

<u>Maturity</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 5,092,296	\$ 4,249,663	\$ 9,341,959
2016	5,323,180	4,030,209	9,353,389
2017	5,295,990	3,800,045	9,096,035
2018	5,511,141	3,543,145	9,054,286
2019	5,549,127	3,294,840	8,843,967
2020 - 2024	31,464,553	12,566,939	44,031,492
2025 - 2029	29,333,956	5,440,028	34,773,984
2030 - 2031	9,215,000	677,000	9,892,000
Add unamortized premium (net of discount)	9,984,495	-	9,984,495
Total	<u>\$ 106,769,738</u>	<u>\$ 37,601,869</u>	<u>\$ 144,371,607</u>

B. New Refunded Debt

On April 16, 2014 the Treasury Board completed the sale of \$64,830,000 in General Obligation Refunding Bonds, Series 2014B. The sale of these bonds enabled the University to advance refund \$280,592 of Series 2004B VSU Jones Dining Hall 9(c) bonds.

The net proceeds of \$281,591 (after payment of underwriter's fees and other issuance costs) were deposited into an irrevocable escrow account and will be used to pay interest, redemption premium and maturity value of the refunded bonds to their call date. This defeasance reduced total combined debt

service payments over the next four years by \$32,101 resulting in an economic gain of \$31,384 discounted at the rate of 2.45 percent.

C. Notes Payable

The University entered into a loan agreement with the Department of Housing and Urban Development (HUD) in 1989 and closed the agreement in 1992 to borrow funds to repair seven dormitories. The loan is to be repaid over 30 years at three percent interest and is secured by a lien on the net revenues from the ownership, operation, and use of the seven dormitories under repair. In prior years, the University participated in the Virginia College Building Authority (VCBA) Pooled Bond Program to fund the renovation of Rogers Stadium and the Student Village Housing Renovation Project. At June 30, 2014, the outstanding principal balances were \$1,226,586 for the HUD loan and \$6,145,000 for the VCBA notes payable.

A summary of future principal and interest requirements of the VCBA notes and HUD loan payable as of June 30, 2014, are as follows:

	Interest Rate	Maturity	Total
Virginia College Building Authority and HUD Notes Payable:			
VSU Pooled Bonds-2002A Rogers Stadium Ref Portion, Series 2007D	2.0 - 3.9%	9/1/2019	\$ 2,140,000
VSU 2002A Rogers Stadium Ref Portion, Series 2010B	2.5 - 5.0%	9/1/2022	1,320,000
VSU Roger's Stadium Project-2005 A Ref Portion, Series 2013A	1.5 - 4.7%	9/1/2024	1,215,000
VSU Student Village Housing-2005 A Ref Portion, Series 2012A	1.5 - 4.7%	9/1/2024	630,000
VSU Pooled Bonds-Roger's Stadium, Series 2005A	2.2 - 4.4%	9/1/2025	555,000
VSU Pooled Bonds-Student Village Housing, Series 2005A	2.2 - 4.4%	9/1/2025	285,000
Department of Housing and Urban Development	3.0%	2022	1,226,586
Add unamortized premium (net of discount)			566,000
Total notes payable			<u>\$ 7,937,586</u>

Aggregate annual maturities of notes payable for fiscal years after 2014 are:

<u>Maturity</u>	Principal	Interest	Total
2015	\$ 636,126	\$ 307,991	\$ 944,117
2016	660,392	281,331	941,723
2017	689,786	253,131	942,917
2018	709,314	223,891	933,205
2019	733,978	193,277	927,255
2020 - 2024	3,371,990	457,579	3,829,569
2025 - 2029	570,000	23,484	593,484
Add unamortized premium (net of discount)	566,000	-	566,000
Total	<u>\$ 7,937,586</u>	<u>\$ 1,740,684</u>	<u>\$ 9,678,270</u>

D. Installment Purchases

Installment purchase obligations in FY2014 consisted of the Energy Performance Leasing Program with \$1,659,722 in principal remaining, and six vehicles through the Commonwealth's Master Equipment Leasing Program (MELP) with \$182,816 in principal remaining. In addition, the University incurred an additional \$180,169 through MELP for Phase III of the Voiceover Internet Protocol (VoIP) telephone system bringing the grand total in principal to \$754,855.

Principal and interest payment commitments as of June 30, 2014, are as follows:

Installment purchase obligations:	Interest Rate	Maturity Date	Total
Master Equipment Leasing Program - Bus Fleet	2.0%	2017	\$ 182,816
Master Equipment Leasing Program - VoIP Phone System Phase I	1.21%	2018	86,018
Master Equipment Leasing Program - VoIP Phone System Phase II	1.21%	2019	488,668
Master Equipment Leasing Program - VoIP Phone System Phase III	2.08%	2019	180,169
Energy Performance Leasing Program	1.08%	2022	<u>1,659,722</u>
Total installment purchase obligations			<u>\$ 2,597,393</u>

The aggregate maturity of installment purchase obligations for fiscal years after 2014 is:

<u>Maturity</u>	Principal	Interest	Total
2015	\$ 410,488	\$ 31,418	\$ 441,906
2016	416,207	25,474	441,681
2017	421,185	20,497	441,682
2018	364,050	15,614	379,664
2019	346,368	11,138	357,506
2020 - 2022	<u>639,095</u>	<u>13,793</u>	<u>652,888</u>
	<u>\$ 2,597,393</u>	<u>\$ 117,934</u>	<u>\$ 2,715,327</u>

E. Foundation Debt

The VSUREF refinanced and paid off the Series 2006 bonds and obtained \$20,330,000 in Series 2008 bonds of which \$18,250,000 in principal remains at December 31, 2013. The Series 2008 bonds are collateralized by the rental property and equipment. Also, the VSUREF is required to maintain a debt service reserve. The contractual interest rates are variable.

The Series 2008 bonds mature on July 1, 2031, and the VSUREF has agreed to prepayment terms of the principal to the Trustee with payments remaining due as follows:

Maturity	Principal
2014	700,000
2015	800,000
2016	850,000
2017	900,000
2018	915,000
2019 and Thereafter	14,085,000
Total	18,250,000

In conjunction with the refinancing of the bonds, loan costs of \$124,371 were incurred and are being amortized over the life of the debt. Amortization expense for the year ended December 31, 2013 and 2012 was \$2,709 and \$8,348 respectively.

The VSUREF had entered in to an interest rate swap agreement as part of the provisions of the Series 2006 bond agreement. When the VSUREF issued the 2008 Series bonds the original swap contract was satisfied and a new interest rate swap agreement was obtained. Per the terms of the 2008 swap agreement, the VSUREF pays a fixed rate of interest of 4.12%. The interest rate swap agreements qualify as derivative financial instruments and are used to mitigate the effect of interest rate fluctuations. The VSUREF accounts for the interest rate swaps as fair value hedges whereby other liabilities in the accompanying statements of financial position with the offsets recorded as expenses.

The fair value of these contracts was a negative \$3,207,679 and \$4,925,045 at December 31, 2013 and 2012 respectively. This is the amount the VSUREF would have to pay to settle the interest rate swaps as of these respective dates.

In conjunction with the bond issuance, the University signed a support agreement with the VSUREF stating that the project will be an equal part of the student housing program, provide preferential treatment to provide 95% occupancy if the debt service coverage ratio is less than 1.2 to 1, and limit additional housing projects.

8. STATE APPROPRIATIONS

The University receives state appropriations from the General Fund of the Commonwealth. The Appropriations Act specifies that such unexpended appropriations shall revert, as specifically provided by the General Assembly, at the end of a biennium.

The following is a summary of state appropriations received by the University for the year ended June 30, 2014:

Virginia State University:	
Original legislative appropriation:	
Education and general programs	\$ 30,167,239
Higher education student financial assistance	6,263,234
Supplemental adjustments:	
State grants and scholarships	140,449
VIVA interlibrary loan allocation	4,188
SPCC rebate and interest earnings	26,008
FY13 reappropriation/cash transfer-in	1,524,667
Out-of-state student debt service	(845,856)
VCBA debt service appropriations	(108,886)
Year-end cash reversion	(2,294,962)
FY14 transfer out	(464,000)
	<u>34,412,081</u>
Cooperative Extension and Agricultural Research Services:	
Original legislative appropriation:	
Education and general programs	5,313,900
Supplemental adjustments:	
Specialty Crop Funding	50,000
FY13 reappropriation/cash transfer-in	237,763
Year-end cash reversion	(66,340)
	<u>5,535,323</u>
Total state appropriations	<u>\$ 39,947,404</u>

9. EXPENSES BY NATURAL CLASSIFICATION

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

	Salaries and Wages	Fringe Benefits	Services and Supplies	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$22,479,324	\$6,844,394	\$8,345,064	\$194,844	\$166,067		\$38,029,693
Research	3,345,912	903,358	2,136,508	141,508	130,221		6,657,507
Public Service	3,533,039	968,231	2,317,523	170,456	137,919		7,127,168
Academic Support	3,740,187	1,091,924	1,736,638	97,693	43,681		6,710,123
Student Services	2,933,964	1,013,647	1,349,481	8,840	49,182		5,355,114
Institutional Support	10,230,516	3,857,168	1,135,203	16,610	434,957		15,674,454
Operation and Maintenance of Plant	786,829	409,311	6,299,144		3,845,882		11,341,166
Scholarships and Fellowships				3,270,558			3,270,558
Depreciation						9,993,530	9,993,530
Auxiliary Enterprises	5,041,564	1,605,786	17,888,788	2,592,221	2,670,152		29,798,511
Other			43,701				43,701
Total	\$52,091,335	\$16,693,819	\$41,252,050	\$6,492,730	\$7,478,061	\$9,993,530	\$134,001,525

10. COMMITMENTS

A. Construction Commitments

As of June 30, 2014, the University was a party to construction contracts totaling \$120,496,357 of which \$55,336,240 was still outstanding, at June 30, 2014.

B. Operating Leases

In FY12, Virginia State University entered into two operating lease agreements. The University is leasing office space from the Cameron Building, LLC for administrative operations. The initial terms of this lease is ten years beginning August 15, 2012 through August 14, 2022. Rent payments for this lease were \$274,547 in FY2014.

The second lease is with Midway Avenue, LLC which is being used for storage. Rent payments for FY2014 were \$52,788. In FY2014 this lease was renewed for an additional three years ending July 31, 2017 at a renegotiated monthly rent of \$2,250, down from \$4,399 per month in prior years.

The schedule of combined future rental payments is as follows:

2015	\$	287,065
2016		292,266
2017		297,572
2018		275,983
2019		281,503
2020-2022		878,742
Total	\$	<u>2,313,131</u>

11. RETIREMENT PLANS

A. Virginia Retirement System

Employees of the University are employees of the Commonwealth of Virginia. Substantially all full-time classified salaried employees of the University participate in a defined benefit retirement plan administered by the Virginia Retirement System (VRS). VRS is an agent multiple-employer Public Employee Retirement System (PERS) that acts as a common investment and administrative agency for the Commonwealth of Virginia and its political subdivisions.

The VRS does not measure assets and pension benefit obligations separately for individual State institutions. Therefore, all information relating to this plan is available at the statewide level in the Commonwealth's Comprehensive Annual Financial Report. The Commonwealth, not the University, has the overall responsibility for contributions to this plan. The CAFR discloses the unfunded pension benefit obligation at June 30, 2014, as well as the ten-year historical trend information showing VRS's progress in accumulating sufficient assets to pay benefits when due.

As of June 25, 2011, employees are required to make a 5 percent contribution that was previously part of the employer's retirement contributions. The University's total VRS contributions were \$3,327,327 for the year ended June 30, 2014, which does not include the 5 percent employee contribution. The employer contributions represent 8.6 percent of eligible payroll total of \$38,710,563 for the year ended June 30, 2014. The University's total payroll costs for the year ended was \$52,091,335.

B. Optional Retirement Plans

Full-time faculty and certain administrative staff may participate in one of two other retirement plans: 1) Fidelity Investments Institutional Services and 2) Teacher Insurance and Annuity Association/College Retirement Equity Fund. These are fixed-contribution programs where the retirement benefits received are based upon the net of employer and employee contributions, plus interest and dividends. Individual contracts issued under these plans provide full and immediate vesting of both the University and the participants' contributions.

For employees who became members of the respective plans prior to July 1, 2010, there is an employer required contribution of 10.4 percent. Annual pension costs under these plans totaled \$738,866

for the year ended June 30, 2014. Contributions to these retirement programs were calculated using the base salary amount of \$7,104,481.

For employees who became members of the respective plans on or after July 1, 2010, there is an employer required contribution of 8.5 percent and an employee required contribution of 5 percent. Annual pension costs under these plans totaled \$157,217 for the year ended June 30, 2014. Contributions to these retirement programs were calculated using the base salary amount of \$1,849,612.

C. Deferred Compensation

University employees may also voluntarily 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 matched dollar amount 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 contributions under the Deferred Compensation Plan, which is an amount assessed by the Commonwealth, was \$188,994 for FY2014.

12. POST-EMPLOYMENT BENEFITS

The Commonwealth participates in the VRS administered statewide group life insurance programs, which provides post-employment life insurance benefits to eligible retired and terminated employees. The Commonwealth also provides health care credits against the monthly health insurance premiums for its retirees who have at least 15 years of state service and participate in the State's health plan. Information relating to these plans is available at the statewide level in the Commonwealth of Virginia's CAFR.

The University in compliance with GASB Statement No. 47 – Accounting for Termination Benefits did not have any voluntary termination benefits and/or involuntary termination benefit liabilities outstanding as of June 30, 2014 that was recognized in accordance with this statement.

13. CONTINGENCIES

On July 29, 2014 the University received a proposed penalty notice from the Internal Revenue Service (IRS) in the amount of \$317,760 for the late filing of 5,394 information returns for the 2011 calendar year. The University has received several notices from the IRS stating that our appeal for the late filing of the 2011 information returns is under review. However to date, the University has not received a final decision on this proposed penalty.

14. RISK MANAGEMENT

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

15. SUBSEQUENT EVENTS

Land Transferred to and Accounts Receivable from the VSU Trojan Development Company, LLC:

Pursuant to a Board of Visitors (BOV) resolution signed and dated April 29, 2014, the Virginia State University Foundation (VSUF) and the Virginia State University Real Estate Foundation (VSUREF) collectively had previously created a joint venture entity known as the VSU Trojan Development Company, LLC, also known as the “Trojan Development Company”. The purpose of this entity is to develop mixed use retail, commercial and residential development along Chesterfield Avenue adjacent to the University. In pursuit of this development and in concert with the Ettrick economic development plan of Chesterfield County, this BOV resolution deemed it to be in the best interest of the University to authorize the conveyance of 11 parcels comprising the Chesterfield Avenue Property to the Trojan Development Company in consideration of the sum of \$328,000 representing the 2014 appraised value of said property. Pursuant to the land conveyance, the properties were recorded in the name of the Trojan LLC on January 30, 2015.

These properties were conveyed and “sold” for the land value of each parcel. However, the University’s acquisition cost of the properties was based on the parcels with existing houses and other structures and included closing, demolition, maintenance and other miscellaneous costs exceeding \$1.6 million. This will result in a write down of land on the University’s books of approximately \$1.3 million in FY 2015. Also, a receivable will be recorded for \$328,000 in FY15. The receivable is to be paid by the Trojan Development Company to the University upon their settlement of financing for the purpose of development and construction of the property. If the Trojan Development Company fails to settle the financing for the project and make the receivable payment in full by October 31, 2016, all right, title and interest in the property, including any improvements, will immediately terminate and automatically revert back to the University.

University Interim President Appointed in January, 2015:

Dr. Pamela V. Hammond became Virginia State University's interim president in January, 2015. Since that time, she has made it a top priority to establish VSU as a catalyst for innovation in higher education. “Virginia State University has a remarkable history and a compelling story,” said Dr. Hammond in her introduction. “We must communicate our message with clarity and consistency. We will communicate with our constituencies at each step. We cannot expect buy-in of our plan from our community if we do not offer input into that plan.”

Prior to VSU, Dr. Hammond served as Provost, as well as the dean of the School of Nursing at Hampton University. In her role as Provost, Dr. Hammond played an integral role in the transformation of academic affairs including the creation of a new faculty mentorship program and the establishment of a new online educational enterprise, Hampton U Online. As dean, Dr. Hammond increased student enrollment by 60% and assumed major responsibilities for the research, development, and grantsmanship activities that directly impacted faculty productivity. She is an astute fundraiser and was involved in securing over \$12 million for the School of Nursing. Hampton University implemented the first PhD program in nursing at a historically black college or university as the result of Dr. Hammond’s efforts.

Virginia State University Research Foundation:

During fiscal year 2015, the Virginia State University Research Foundation (VSURF) commenced operations, and thus will be included as a component unit in the University's financial statements. The Foundation, like the University, operates on a June 30th year end, and the same twelve months of financial information will be reported by both entities each fiscal year. The purpose of the VSURF is to support the University's objectives for research, public service, economic and technological development. As a representative of the University, VSURF exemplifies the same spirit of entrepreneurship and focuses on the applications of engineering, science and technology to develop new ideas, methods and opportunities. In its capacity, the Foundation will provide several services related to Intellectual Property management, Technology Transfer and Commercialization, and the Office of Sponsored Research & Programs.

Reginald F. Lewis College of Business Foundation:

The Reginald F. Lewis College of Business Foundation (RFLCBF) began operations, during the University's 2015 fiscal year. Therefore, the Foundation's financial data will be included as a component unit in the University's financial statements. Although the Foundation functions on a calendar year end, the financial data will be reported with the University's data at June 30th of each year. Similar in the mission of most foundations, the RFLCBF is committed to the objective of benefiting and supporting the Virginia State University's Reginald F. Lewis College of Business. It is organized exclusively for charitable, education and scientific purposes, to be precise. In addition, the RFLCBF is established to further stimulate voluntary financial support for the Reginald F. Lewis College of Business at the University.

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Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

April 27, 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 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 the Virginia State University, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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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 State University as of June 30, 2014, 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

As discussed in Note 1 to the financial statements, the University adopted Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Prior-Year Summarized Comparative Information

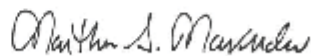
We have previously audited the University's June 30, 2013, financial statements, and we expressed an unmodified audit opinion on the respective financial statements in our report dated April 3, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 2 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated April 27, 2015, on our consideration of the Virginia 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

KKH/alh

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