ANNUAL FINANCIAL REPORT

For Fiscal Year Ended
June 30, 2015

Virginia State University

VIRGINIA STATE UNIVERSITY
ANNUAL FINANCIAL REPORT 2014 - 2015

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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, 2015.

The administration is responsible for establishing and maintaining the University's system of internal controls. Key elements of the University's system of internal controls include: careful selection and training of administrative personnel; organizational structure that provides appropriate division of duties; thorough and continuous monitoring, control, and reporting of operating budgets versus actual operating results; well communicated written policies and procedures; annual self-assessments led by the 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.

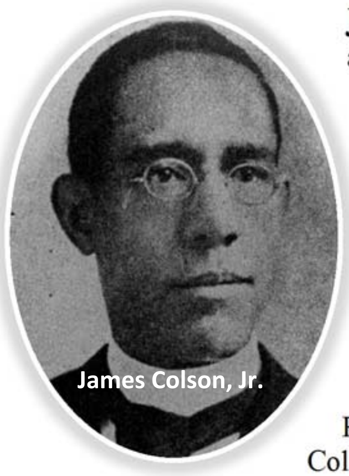
The Finance, Audit and Facilities Committee of the Virginia State University Board of Visitors reviews the University's accounting practices. The Board meets with external independent auditors annually to review the Annual Financial Report and results of audit examinations. The Committee also meets with 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 58 through 60. 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, 2015.

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).



James Major Colson Jr., a graduate of Dartmouth College, joined the faculty in 1883 as the first science teacher and served as the second Principal of the Virginia Normal and Collegiate Institute from 1885-1886. In 1902, the name of the school changed to Virginia Normal and Industrial Institute. Later, in 1920, the Institute was designated a land grant institution, and after nearly sixty years of progress, became Virginia State University 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: the College of Agriculture, the Reginald F. Lewis College of Business, the College of Engineering and Technology, the College of Education, College of Graduate Studies, the College of Humanities and Social Sciences, and the College of Natural and Health Sciences. These colleges provide 32 undergraduate degree programs, 15 master's degree programs, two doctoral degree programs, and three certificate programs. Students in the engineering programs conduct 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 numerous other articulation agreements with industry, institutions of higher education, and other international entities. Virginia State University offers services through its land grant programs to small farmers across the Commonwealth of Virginia.

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, 2015. 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, 2014 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 of Resources; Current Liabilities, Noncurrent Liabilities and Deferred Inflows of Resources. Please note, the University's foundations identified as discrete component units under GASB Statement 39, *Determining Whether Certain Organizations are Component Units* and GASB 61 *The Financial Reporting Entity: Omnibus*, are reported in the component unit column of the financial statements, and this Management Discussion and Analysis excludes reference to the discrete foundations, except where specifically noted. Alternately, the amounts reported by the foundation identified as blended are included with the amounts reported by the University. See Note 1.A. for details regarding the University's foundations.

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 FY2015, the University's total net position decreased by $19.1 million or 9.8% over the previous fiscal year.

Total assets and deferred outflows of resources increased by $40.6 million or 12.2% as compared to last year. Currents assets decreased by $800 thousand during FY2015 or 2.4%. 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. Cash and cash equivalents increased by $3.1 million. This was offset by decreases in accounts receivable of $1.9 million, prepaid expenses of $924 thousand, cash and cash equivalents related to securities lending of $775 thousand, and due from the Commonwealth of $214 thousand.

Noncurrent assets increased by $35.9 million during FY2015, or 12.1%. Noncurrent assets are comprised of restricted cash and cash equivalents, state appropriations available, investments, notes receivable, and capital assets net of depreciation. There was an increase in nondepreciable capital assets of $39.5 million, primarily as a result of construction on the Multipurpose Center Project. This was offset by a decrease in depreciable capital assets of $3.6 million. In FY2015, the implementation of the Governmental Accounting Standards Board (GASB) Statement Number 68 *Accounting & Reporting for Pensions* and 71 *Pension Transition for Contributions Made Subsequent to Measurement Date.* As a result, there was also a $5.5 million increase in deferred outflows of resources due primarily to the recording of entries related to unfunded pension liability.

Compared to the previous fiscal year, total liabilities and deferred inflows of resources increased by $59.7 million or 42.9%. Total liabilities are comprised of current and noncurrent liabilities. Overall, current liabilities increased by $210 thousand in FY2015. Current liabilities include 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. There were increases in retainage payable of $2.0 million and current log-term liabilities $245 thousand. These were partially offset by declines in accounts payable of $1.3 million and obligations under securities lending of $798 thousand.

Noncurrent liabilities increased by $49.3 million or 42.5% during FY2015. Noncurrent liabilities consist of noncurrent portion of long-term liabilities (bonds, notes payable, installment purchase obligations, pension, compensated absences, federal Perkins loans, and software license agreements). The increase in noncurrent liabilities was mostly the result of the recording of unfunded pension liability of $56.3 million, partially offset by a decrease as a result of making scheduled debt service payments. The recording of entries related to unfunded pension liability also resulted in a $10.2 million increase in deferred inflows of resources.

A summary of the University's assets, deferred outflows of resources, liabilities, and deferred inflows of resources and net position at June 30, 2015 and 2014 follows:

Summary of the Statement of Net Position	Year Ended June 30,		Increase/(Decrease)	
	2015	2014	Amount	Percent
Assets:				
Current assets:	$ 32,759,262	$ 33,558,785	$ (799,523)	(2.4)%
Noncurrent assets:				
Restricted cash and cash equivalents	11,052,351	12,857,122	(1,804,771)	(14.0)%
State appropriations available	56,280	404,189	(347,909)	(86.1)%
Investments	34,045,667	32,337,992	1,707,675	5.3%
Capital assets, net	286,071,509	250,127,280	35,944,229	14.4%
Other	2,018,118	1,624,550	393,568	24.2%
Total noncurrent assets	333,243,925	297,351,133	35,892,792	12.1%
Deferred outflows of resources	8,737,348	3,207,574	5,529,774	172.4%
Total assets & deferred outflows of resources	374,740,535	334,117,492	40,623,043	12.2%
Liabilities:				
Current liabilities	23,339,096	23,129,188	209,908	0.9%
Noncurrent liabilities	165,304,014	115,969,528	49,334,486	42.5%
Deferred inflows of resources	10,227,093	22,535	10,204,558	45,283.2%
Total liabilities & deferred inflows of resources	198,870,203	139,121,251	59,748,952	42.9%
Net position:				
Net investment in capital assets	185,567,320	144,222,711	41,344,609	28.7%
Restricted:				
Nonexpendable	8,686,314	8,463,750	222,564	2.6%
Expendable	20,090,077	25,126,993	(5,036,916)	(20.0)%
Unrestricted	(38,473,379)	17,182,787	(55,656,166)	(323.9)%
Total net position	$ 175,870,332	$ 194,996,241	$ (19,125,909)	(9.8)%

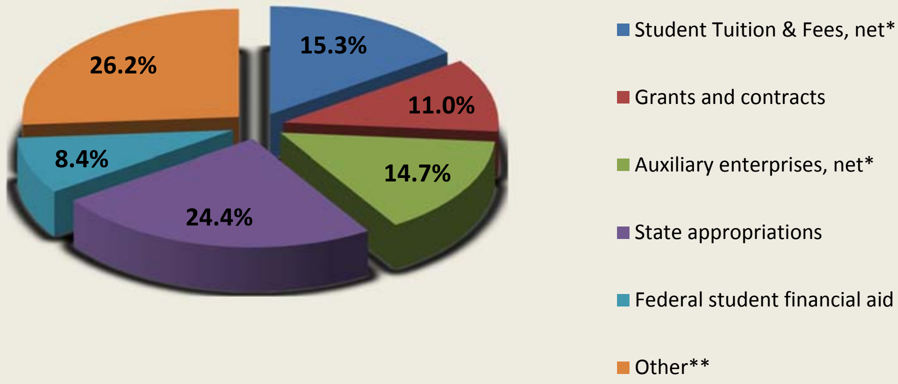
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

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, 2015 and 2014.

Summary of the Statement of Revenues, Expenses, and Changes in Net Position	Year Ended June 30,		Increase/(Decrease)	
	2015	2014	Amount	Percent
Operating revenues	$71,184,012	$77,594,600	$(6,410,588)	(8.3)%
Operating expenses	127,471,647	134,001,525	(6,529,878)	(4.9)%
Operating income/(loss)	(56,287,635)	(56,406,925)	119,290	0.2%
Nonoperating revenues/(expenses):				
State appropriations	41,531,909	39,947,404	1,584,505	4.0%
Federal student financial aid	14,277,288	15,455,682	(1,178,394)	(7.6)%
Other nonoperating revenues/(expenses)	(269,713)	1,655,196	(1,924,909)	(116.3)%
Net nonoperating revenues/(expenses)	55,539,484	57,058,282	(1,518,798)	(2.7)%
Income/(loss) before other revenues and reductions	(748,151)	651,357	(1,399,508)	(214.9)%
Other revenues:				
Capital grants and gifts	749,270	467,585	281,685	60.2%
Additions/(reductions) to permanent endowments	708,024	398,250	309,774	77.8%
VCBA 21st Century bond reimbursement program	43,373,593	14,805,792	28,567,801	193.0%
Special Item-land conveyed to Trojan, LLC	(1,276,645)	-	(1,276,645)	(100.0)%
Total other revenues	43,554,242	15,671,627	27,882,615	177.9%
Total increase/(decrease) in net position	42,806,091	16,322,984	26,483,107	162.2%
Net position, beginning of year, as restated	133,064,241	178,673,257	(45,609,016)	(25.5)%
Net position, end of year	$175,870,332	$194,996,241	$(19,125,909)	(9.8)%

As shown in the table above, there was a decrease in net position of $19.1 million or 9.8% in FY2015 as opposed to an increase of $16.3 million in the previous year's statement. The net operating loss decreased by $119 thousand or 0.2%, over FY2014. Net nonoperating revenues and expenses decreased by $1.5 million or 2.7% and total other revenues increased by $27.9 million or 177.9%, in FY2015. 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, 2015 and 2014 appears below:



Summary of Revenues
For the years ended June 30, 2015 and 2014

	2015	2014	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Operating revenues:				
Student tuition and fees, net*	$ 26,111,597	$ 30,133,099	$ (4,021,502)	(13.3)%
Grants and contracts	18,736,363	18,161,322	575,041	3.2%
Auxiliary enterprises, net*	25,106,918	28,849,210	(3,742,292)	(13.0)%
Other operating revenue**	1,229,134	450,969	778,165	172.6%
Total operating revenues	71,184,012	77,594,600	(6,410,588)	(8.3)%
Nonoperating revenues/(expenses):				
State appropriations	41,531,909	39,947,404	1,584,505	4.0%
Federal student financial aid	14,277,288	15,455,682	(1,178,394)	(7.6)%
Other revenues/(expenses) net**	(269,713)	1,655,196	(1,924,909)	(116.3)%
Total nonoperating revenues	55,539,484	57,058,282	(1,518,798)	(2.7)%
Other revenues/(expenses):				
Capital grants and gifts**	749,270	467,585	281,685	60.2%
Additions to permanent endowment**	708,024	398,250	309,774	77.8%
Other capital revenues**	43,373,593	14,805,792	28,567,801	193.0%
Special item-land conveyed	(1,276,645)	-	(1,276,645)	(100.0)%
Total other revenues/(expenses)	43,554,242	15,671,627	27,882,615	177.9%
Total revenues	$ 170,277,738	$ 150,324,509	$ 19,953,229	13.3%

* 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.

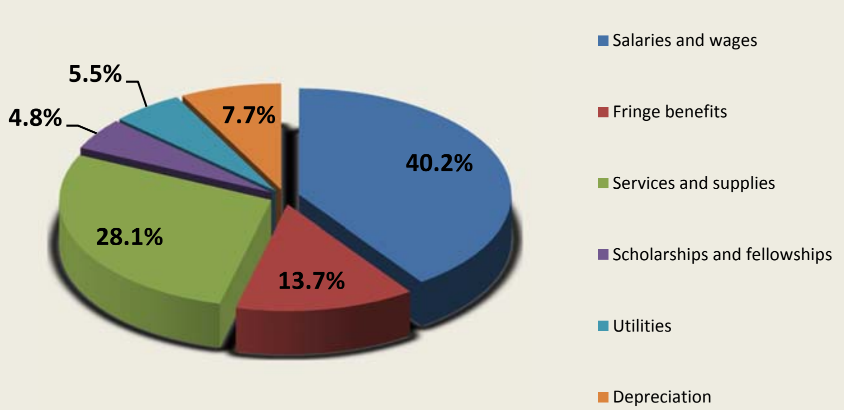
Total operating revenues decreased by $6.4 million in FY2015 to $71.2 million from $77.6 million in the previous year, a decrease of 8.3%. As reflected in the chart above, there were decreases in operating revenues from student tuition and fees and auxiliary enterprises due to a decline in enrollment. These were partially offset by increases in revenues from grants and contracts and other operating revenues.

For the fiscal year, total nonoperating revenues decreased by $1.5 million. This was primarily a result of decreases in federal student financial aid of $1.2 million and other nonoperating revenues, net, of $1.9 million, partially offset by an increase in state appropriations of $1.6 million.

Other revenues increased by $27.9 million. The 21st Century bond program reimbursements increased by $28.6 million, which was partially offset by land conveyed to the Trojan Development Company, LLC. This resulted in a $1.3 million write down of land on the University's SRECNP.

SUMMARY OF EXPENSES

Total operating expenses dropped by $6.5 million in FY2015 compared to the previous fiscal year. This represents a 4.9% decrease. Comparative summaries of the University's operating expenses by both natural classification and function for the years ended June 30, 2015 and 2014 appear below.

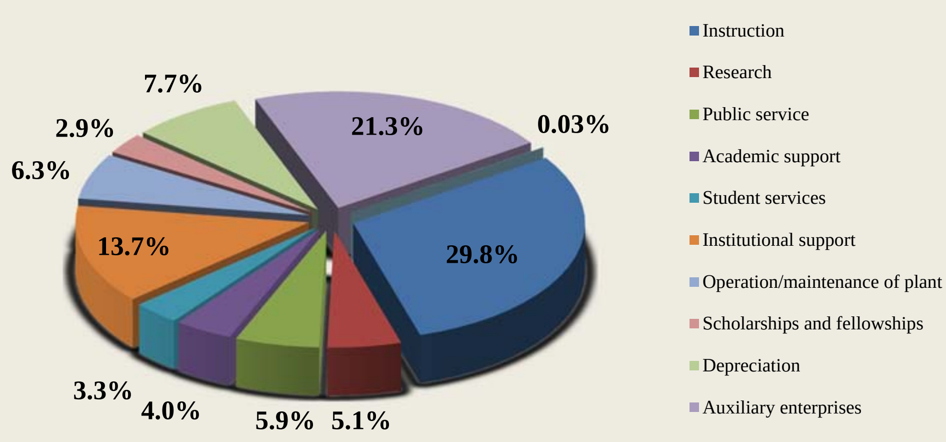


Summary of Expenses by Natural Classification
For the years ended June 30, 2015 and 2014

			Increase/(Decrease)	
	2015	2014	Amount	Percent
Salaries and wages	$ 51,251,345	$ 52,091,335	$ (839,990)	(1.6)%
Fringe benefits	17,466,082	16,693,819	772,263	4.6%
Services and supplies	35,776,493	41,252,050	(5,475,557)	(13.3)%
Scholarships and fellowships	6,164,057	6,492,730	(328,673)	(5.1)%
Utilities	6,968,457	7,478,061	(509,604)	(6.8)%
Depreciation	9,845,213	9,993,530	(148,317)	(1.5)%
Total operating expenses	$ 127,471,647	$ 134,001,525	$ (6,529,878)	(4.9)%

The total decrease in operating expenses of $6.5 million was mostly due to a decline in salaries and wages of $840 thousand, a reduction of $5.5 million in services and supplies and a decrease in utilities of $510 thousand. Additionally, these were offset by an increase in fringe benefits of $ 772 thousand.

The decrease in salaries and wages was the result of a reduction in staff. The decrease in expenses for services and supplies was primarily due to a decline in expenses for architectural and engineering services, computer services, food and dietary services, skilled services, site preparation, and employee training and consulting services. Fringe benefits grew due to an increase in employer retirement contributions.



Summary of Expenses by Function
For the years ended June 30, 2015 and 2014

			Increase/(Decrease)	
	2015	2014	Amount	Percent
Operating expenses:				
Instruction	$38,008,115	$ 38,029,693	$ (21,578)	(0.1)%
Research	6,513,642	6,657,507	(143,865)	(2.2)%
Public service	7,421,527	7,127,168	294,359	4.1%
Academic support	5,130,314	6,710,123	(1,579,809)	(23.5)%
Student services	4,159,884	5,355,114	(1,195,230)	(22.3)%
Institutional support	17,451,754	15,674,454	1,777,300	11.3%
Operation/maintenance of plant	8,081,071	11,341,166	(3,260,095)	(28.7)%
Scholarships and fellowships	3,653,544	3,270,558	382,986	11.7%
Depreciation	9,845,213	9,993,530	(148,317)	(1.5)%
Auxiliary enterprises	27,172,736	29,798,511	(2,625,775)	(8.8)%
Other	33,847	43,701	(9,854)	(22.5)%
Total operating expenses	$ 127,471,647	$ 134,001,525	$ (6,529,878)	(4.9)%

By function, expenses for academic support decreased by $1.6 million. This was caused by a reduction in salaries and wages of $505 thousand and a decrease in services and supplies of $971 thousand. Expenses for student services dropped by $1.2 million as a result of salaries and wages falling $347 thousand and services and supplies went down $823 thousand. Expenses for operation and maintenance of plant declined by $3.3 million from decreases in salaries and wages of $301 thousand and services and supplies of $2.8 million. In addition, expenses for auxiliary enterprises declined by $2.6 million, as expenses for salaries and wages were down by $352 thousand, and services and supplies were down by $1.1 million. These reductions were offset by an increase in expenses for institutional support of $1.8 million. This was mostly due higher salaries and wages of $1.3 million, fringe benefits of $245 thousand, and services and supplies of $207 thousand. Also, expenses for scholarships and fellowships were up by $383 thousand.

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 FY14 to FY15 the University's SCF shows a $1.3 million increase in cash and cash equivalents.

Statement of Cash Flows	Year Ended June 30,		Increase/(Decrease)	
	2015	2014	Amount	Percent
Cash flows from:				
Operating activities	$(46,106,702)	$(45,538,356)	$ (568,346)	(1.2)%
Noncapital financing activities	58,024,289	56,889,083	1,135,206	2.0%
Capital and related financing activities	(10,622,541)	(16,836,901)	6,214,359	36.9%
Investing activities	(11,697)	(310,501)	298,804	96.2%
Net increase/(decrease) in cash and cash equivalents	1,283,349	(5,796,675)	7,080,024	122.1%
Cash and cash equivalents, beginning of year	30,108,638	35,905,313	(5,796,675)	(16.1)%
Cash and cash equivalents, end of year	$ 31,391,987	$ 30,108,638	$1,283,349	4.3%

Overall, there was a $568 thousand decrease in net cash used by operating activities in FY2015 compared to FY2014. This was primarily the result of decreases in cash collected for tuition and fees of $5.4 million and auxiliary enterprises of $3.1 million, as well as an increase in payments to employees of $1.0 million. These were offset by increases in cash received for grants and contracts of $3.1 million, other receipts of $1.6 million, and a decrease in payments to suppliers of $4.3 million.

Cash flows from noncapital financing activities increased by $1.1 million. The major reason for the change were increases in state appropriations of $1.5 million and gifts of $745 thousand. Federal student financial aid declined by $1.2 million.

There was a decrease in net cash for capital financing activities of $6.2 million in FY2015. The two predominant factors were a $34.0 million increase in cash received from the 21st Century Bond Program, offset by a $27.1 million increase in cash used for the purchase of capital assets.

The last major category on the statement of cash flow is investing activities. In total, net cash used for investing activities declined by $299 thousand. There was an increase in proceeds from sales and maturities of investments from the prior year of $2.7 million and a decrease in the purchase of investments of $231 thousand. This was offset by a reduction in investment income of $2.7 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 $35.9 million in FY2015.


Multipurpose Center

VSU had a $40.6 million net increase in construction in progress primarily due to activity on three construction projects: Multipurpose Center, Erosion and Sediment Control, and Water Storage Tank. There was a reduction in buildings, net of accumulated depreciation, of $4.4 million. Overall, buildings increased by $2.5 million, mainly from continued work on Howard Quad Residence Hall II, Gateway Residence Hall II, and Hunter McDaniel Hall. This was offset by a $6.9 million increase in accumulated depreciation for buildings. There was also a net decrease of $1.1 million in land, primarily due to a $1.6 million reduction for properties conveyed to the Trojan, LLC. Depreciation expense for the year totaled $9.9 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, 2015, the University had $110.8 million in outstanding long-term debt. This debt consists of $101.4 million of general obligation bonds, $7.3 million of notes payable, and $2.2 million of installment purchase obligations. Long-term debt decreased by $6.5 million. This is the result of making debt payments throughout the year, GOB and VCBA debt refinancings. Although there were bond/note refinancings in FY2015, no new debt was issued.

FUTURE ECONOMIC OUTLOOK:

The University plans to continue its efforts towards making college affordable for its students. 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 plans to continue to hold its tuition and fee increases to a minimum. The University has 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, VSU 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.

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

	2015		2014	
ASSETS	Virginia State University	Component Units	Virginia State University	Component Units
Current assets:				
Cash and cash equivalents (Note 2)	$ 20,339,636	$ 3,954,537	$ 17,251,516	$ 4,231,420
Cash and cash equivalents - Securities Lending (Note 2)	679,690	-	1,454,739	-
Short-term investments (Note 2)	24,601	-	47,100	-
Accounts and loans receivable, net of allowance (Note 3)	3,244,725	601,630	5,158,095	325,710
Pledges receivable, net of allowance (Note 3)	-	-	-	206,880
Due from the Commonwealth (Note 3)	6,318,289	-	6,532,529	-
Due from affiliates (Note 3)	88,123	-	86,742	-
Prepaid expenses	2,064,198	6,017	2,988,391	4,919
Notes receivable, net of allowance (Note 3)	-	-	39,673	-
Total current assets	32,759,262	4,562,184	33,558,785	4,768,929
Noncurrent assets:				
Restricted cash and cash equivalents (Note 2)	11,052,351	3,020,394	12,857,122	2,452,945
Restricted investments (Note 2)	3,186,802	27,100	2,748,308	26,100
Endowment investments (Note 2)	27,257,148	12,455,944	26,008,982	12,547,236
State appropriation available	56,280	-	404,189	-
Notes receivable, net of allowance (Note 3)	2,018,118	-	1,624,550	-
Other long-term investments (Note 2)	3,601,717	-	3,580,702	-
Other noncurrent	-	85,678	-	91,205
Non depreciable capital assets (Note 4)	77,054,517	542,828	37,522,711	542,828
Depreciable capital assets, net (Note 4)	209,016,992	8,120,667	212,604,569	8,703,891
Total noncurrent assets	333,243,925	24,252,611	297,351,133	24,364,205
Deferred outflows of resources (Note 1Q)	8,737,348	-	3,207,574	-
Total assets and deferred outflows of resources	374,740,535	28,814,795	334,117,492	29,133,134
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities (Note 5)	8,412,787	72,415	9,720,727	90,049
Due to affiliates	-	88,123	-	86,742
Unearned revenue	2,711,514	53,371	2,601,666	70,225
Retainage payable	2,343,808	-	296,852	-
Obligations under securities lending	704,291	-	1,501,839	-
Deposits held in custody of others	1,352,988	63,625	1,368,905	74,095
Long-term liabilities-current portion (Notes 6 and 7)	7,705,960	800,000	7,460,764	700,000
Other current liabilities	107,748	307,834	178,435	62,373
Total current liabilities	23,339,096	1,385,368	23,129,188	1,083,484
Noncurrent liabilities:				
Long-term liabilities - noncurrent (Notes 6 and 7)	165,304,014	20,488,074	115,969,528	20,757,679
Deferred inflows of resources (Note 1Q)	10,227,093	-	22,535	-
Total liabilities and deferred inflows of resources	$ 198,870,203	$ 21,873,442	$ 139,121,251	$ 21,841,163

STATEMENT OF NET POSITION

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

	2015		2014	
NET POSITION	Virginia State University	Component Units	Virginia State University	Component Units
Net investment in capital assets	$ 185,567,320	$ (8,800,827)	$ 144,222,711	$ (8,912,076)
Restricted for:				
Nonexpendable:				
Scholarships and fellowships	4,875,076	10,298,297	4,662,903	9,761,674
Instruction	3,251,108	-	3,242,011	-
Other	560,130	-	558,836	-
Expendable:				
Scholarships and fellowships	17,606,922	4,451,078	19,135,805	4,518,960
Instruction	1,012,762	-	1,028,645	-
Loans	980,286	-	891,335	-
Capital projects	165,107	-	2,744,190	-
Other	325,000	-	1,327,018	-
Unrestricted	(38,473,379)	992,805	17,182,787	1,923,413
Total net position	$ 175,870,332	$ 6,941,353	$ 194,996,241	$ 7,291,971

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

	2015		2014	
	Virginia State University	Component Units	Virginia State University	Component Units
Operating revenues:				
Student tuition and fees (net of scholarship allowance of $11,791,584)	$ 26,111,597	$ -	$ 30,133,099	$ -
Federal grants and contracts	18,031,237	-	17,482,936	-
State and local grants and contracts	705,126	-	678,386	-
Auxiliary enterprises (net of scholarship allowance of $14,493,713)	25,106,918	-	28,849,210	-
Other operating revenues	1,229,134	3,498,024	450,969	3,503,467
Total operating revenues	71,184,012	3,498,024	77,594,600	3,503,467
Operating expenses: (Note 9)				
Education and general:				
Instruction	38,008,115	-	38,029,693	-
Research	6,513,642	-	6,657,507	-
Public service	7,421,527	-	7,127,168	-
Academic support	5,130,314	-	6,710,123	-
Student services	4,159,884	-	5,355,114	-
Institutional support	17,451,754	2,827,549	15,674,454	2,381,775
Operation and maintenance of plant	8,081,071	-	11,341,166	-
Scholarships and fellowships	3,653,544	704,188	3,270,558	275,133
Depreciation	9,845,213	612,864	9,993,530	615,486
Auxiliary enterprises	27,172,736	-	29,798,511	-
Other	33,847	-	43,701	-
Total operating expenses	127,471,647	4,144,601	134,001,525	3,272,394
Operating income/(loss)	(56,287,635)	(646,577)	(56,406,925)	231,073
Nonoperating revenues/(expenses):				
State appropriations (Note 8)	41,531,909	-	39,947,404	-
Gifts	1,184,217	1,655,129	748,506	1,357,445
Investment income	1,695,983	(150,914)	4,369,345	3,724,735
Interest on indebtedness	(3,507,572)	(962,857)	(3,648,782)	(954,739)
Loss on disposal of assets	(37,388)	-	(30,586)	-
Federal student financial aid	14,277,288	-	15,455,682	-
Other nonoperating revenues	736,107	18,360	773,582	73,676
Other nonoperating expenses	(341,060)	(263,761)	(556,869)	(362,069)
Net nonoperating revenues/(expenses)	55,539,484	295,957	57,058,282	3,839,048
Income/(loss) before other revenues	(748,151)	(350,620)	651,357	4,070,121
Other revenues/(expenses):				
Capital grants and gifts	749,270	-	467,585	-
Additions to permanent endowments	708,024	-	398,250	-
VCBA 21st Century bond reimbursement program	43,373,593	-	14,805,792	-
Special item - land conveyed to Trojan, LLC (Note 15)	(1,276,645)	-	-	-
Total other revenues/(expenses)	43,554,242	-	15,671,627	-
Increase/(decrease) in net position	42,806,091	(350,620)	16,322,984	4,070,121
Net position, beginning of year as restated (Note 1.O)	133,064,241	7,291,973	178,673,257	3,221,850
Net position, end of year	$ 175,870,332	$ 6,941,353	$ 194,996,241	$ 7,291,971

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

STATEMENT OF CASH FLOWS

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

	2015	2014
Cash flows from operating activities:		
Tuition and fees	$ 24,638,957	$ 30,065,541
Grants and contracts	21,026,230	17,915,003
Auxiliary enterprises	25,700,932	28,841,927
Departmental sales and services, and other revenues	1,839,732	249,852
Payments of employees	(69,654,132)	(68,638,153)
Payments to suppliers	(35,908,062)	(40,211,938)
Payments for utilities	(6,968,457)	(7,478,062)
Payments for scholarships and fellowships	(6,164,057)	(6,492,729)
Loans issued to students	(578,563)	(194,910)
Collection of loans from students	224,668	214,794
Other payments	(263,950)	190,319
Net cash provided/(used) by operating activities	(46,106,702)	(45,538,356)
Cash flows from noncapital financing activities:		
State appropriations	41,475,629	39,991,912
Gifts	1,892,241	1,146,757
Federal student financial aid	14,277,288	15,455,683
Other nonoperating revenue	395,047	216,712
Funds held in custody of others - receipts	5,001,191	5,759,097
Funds held in custody of others - disbursements	(5,017,107)	(5,680,657)
Federal direct lending program disbursements	-	(421)
Net cash provided/(used) by noncapital financing activities	58,024,289	56,889,083
Cash flows from capital financing activities:		
Capital appropriations	404,189	445,652
Capital gifts and grants	1,097,340	1,201,420
VCBA 21st Century bond reimbursement program	43,239,762	9,259,282
Interest paid on caital debt, leases, and installments	(3,551,924)	(3,674,306)
Principal paid on capital debt, leases, and installments	(13,084,746)	(6,638,056)
Principal received on capital debt, leases, and installments	6,329,357	455,103
Purchase of capital assets	(45,056,519)	(17,885,996)
Net cash provided/(used) by capital financing activities	(10,622,541)	(16,836,901)
Cash flows from investing activities:		
Investment income	1,695,983	4,369,345
Proceeds from sales and maturities of investments	(996,708)	(3,738,168)
Purchase of investments	(710,972)	(941,678)
Net cash provided/(used) by investing activities	(11,697)	(310,501)
Net increase/(decrease) in cash	1,283,349	(5,796,675)
Cash and cash equivalents - beginning of the year	30,108,638	35,905,313
Cash and cash equivalents - end of year	$ 31,391,987	$ 30,108,638

STATEMENT OF CASH FLOWS

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

	2015	2014
Reconciliation of Net Operating Loss to Net cash used by Operating Activities:		
Operating income/(loss)	$ (56,287,635)	$ (56,406,925)
Adjustments to reconcile net cash used by operating activities:		
Depreciation expense	9,845,213	9,993,530
Changes in assets and liabitities:		
Receivables	1,911,990	274,498
Prepaid items	924,193	(804,589)
Other assets	-	-
Deferred outflows of resources	(5,259,879)	-
Accounts payable	(1,307,940)	1,966,179
Less: Interest payable	44,352	25,524
Unearned revenue	109,848	(796,776)
Other liabilities	(5,941,949)	190,319
Net loans	(353,895)	19,884
Deferred inflows od resources	10,209,000	-
Net cash provided/(used) by operating activities	$ (46,106,702)	$ (45,538,356)

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

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. In addition, the University has two discrete components units and a blended component unit included in the basic financial statements.

The Virginia State University Foundation (VSUF) is a legally separate discrete 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. For the year ended June 30, 2015, the VSUF distributed $1,159,539 to the University for both restricted and unrestricted purposes.

Additionally, the Virginia State University Real Estate Foundation (VSUREF) is a legally separate, discrete 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 fiscal year 2015, the Virginia State University Research Foundation (VSURF) commenced operations, and is included as a blended component unit in the University's financial statements. 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.

The VSURF, like the University, operates on a June 30th year end, and as a blended component unit, their financial information is combined with the University's and reported in the financial statements in one column.

Because the reporting entities' financial information is combined in the financial statements, a financial summary for each entity, and in total, is shown below.

Condensed Statement of Net Assets
As of June 30, 2015

	Virginia State University	VSU Research Foundation	Total
Assets:			
Current assets:	$ 32,164,640	$ 594,622	$ 32,759,262
Noncurrent assets:			
Restricted cash and cash equivalents	11,052,351	-	11,052,351
State appropriations available	56,280	-	56,280
Investments	34,045,667	-	34,045,667
Capital assets, net	286,071,509	-	286,071,509
Other	2,018,118	-	2,018,118
Total noncurrent assets	333,243,925	-	333,243,925
Deferred outflow of resources	8,737,348	-	8,737,348
Total assets & deferred outflows of resources	374,145,913	594,622	374,740,535
Liabilities:			
Current liabilities	23,336,443	2,653	23,339,096
Noncurrent liabilities	165,304,014	-	165,304,014
Deferred inflow of resources	10,227,093	-	10,227,093
Total liabilities & deferred inflows of resources	198,867,550	2,653	198,870,203
Net position:			
Net investment in capital assets	185,567,320	-	185,567,320
Restricted:			
Nonexpendable	8,686,314	-	8,686,314
Expendable	19,765,077	325,000	20,090,077
Unrestricted	(38,740,348)	266,969	(38,473,379)
Total net position	$ 175,278,363	$ 591,969	$ 175,870,332

Condensed Statement of Revenues, Expenses and Changes in Net Position
As of June 30, 2015

	Virginia State University	VSU Research Foundation	Total
Operating revenues	$ 70,441,388	$ 742,624	$ 71,184,012
Operating expenses	127,320,992	150,655	127,471,647
Operating income/(loss)	(56,879,604)	591,969	(56,287,635)
Nonoperating revenues/(expenses):			
State appropriations	41,531,909	-	41,531,909
Federal student financial aid	14,277,288	-	14,277,288
Other nonoperating revenues/(expenses)	(269,713)	-	(269,713)
Net nonoperating revenues/(expenses)	55,539,484	-	55,539,484
Income/(loss) before other revenues and reductions	(1,340,120)	591,969	(748,151)
Other revenues:			
Capital grants and gifts	749,270	-	749,270
Additions/(reductions) to permanent endowments	708,024	-	708,024
21st Century Bonds Reimbursement Program	43,373,593	-	43,373,593
Special item-land conveyed to Trojan, LLC	(1,276,645)	-	(1,276,645)
Total other revenues	43,554,242	-	43,554,242
Total increase/(decrease) in net position	42,214,122	591,969	42,806,091
Net position, beginning of year as restated (Note1.O)	133,064,241	-	133,064,241
Net position, end of year	$ 175,278,363	$ 591,969	$ 175,870,332

Condensed Statement of Cash Flows
As of June 30, 2015

	Virginia State University	VSU Research Foundation	Total
Cash flows from:			
Operating activities	$ (45,052,150)	$ (1,054,552)	$ (46,106,702)
Noncapital financing activities	58,024,289	-	58,024,289
Capital and related financing activities	(10,622,541)	-	(10,622,541)
Investing activities	(11,697)	-	(11,697)
Net increase/(decrease) in cash and cash equivalents	2,337,901	(1,054,552)	1,283,349
Cash and cash equivalents, beginning of year	30,108,638	-	30,108,638
Cash and cash equivalents, end of year	$ 32,446,539	$ (1,054,552)	$ 31,391,987

B. Basis of Presentation

The University's accounting policies conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). For the fiscal year ending June 30, 2015 two new GASB standards are applicable and have been implemented during this reporting cycle.

GASB 68 *Accounting and Financial Reporting for Pensions* sets new accounting and financial reporting requirements for government employer pensions administered through irrevocable trusts. For agencies in the Commonwealth of Virginia, with defined benefit plans, this standard replaces GASB 27 *Accounting for Pensions by State and Local Governmental Employees*, as well as the requirements of Statement No. 50 Pension Disclosures. Cost Sharing Government employers, like VSU, which sponsor defined benefit plans will now recognize a proportionate share of the net pension liability on the Statement of Net Position (SNP). This unfunded accrued liability is the difference between total pension liability, or actuarial accrued liability, and the fair value of the plan assets.

One effect of this change is a more variable pension expense. A proportionate share of pension expense is now recognized in the Statement of Revenues, Expenses and Changes in Net Position (SRECNP) and is based on the net pension liability change between reporting dates, with some elements of the change recognized immediately in expense and others amortized over years.

Service costs, interest on net pension liability, and expected investment earnings, as well as, costs for any plan benefit change related to past service since the last reporting period, will be expensed immediately. Other changes, such as those related to actuarial assumptions, and experience gains and losses, must be amortized over a closed period equal to the average remaining service of active and inactive plan members, who provide no future service. Typically, this is a much shorter time period under the new standard. Amortization of investment gains and losses must be recognized in pension expense over a closed 5-year period. More extensive note disclosures and supplementary information is also required. The types of benefits provided, the covered employees, how plan contributions are determined, and assumptions/methods used to calculate the pension liability are components of the new GASB 68 standard.

Furthermore, GASB 71 *Pension Transition for Contributions Made Subsequent to Measurement Date* is effective for the year ended June 20, 2015. This standard was issued to address and improve the transition provisions of GASB 68. In the year of transition to the new standards, the net pension liability is measured as of a date up to one year prior to the government's fiscal year end. As a result, the University has recognized a beginning deferred outflow of resources for pension contributions, made after the measurement date of the beginning net pension liability.

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Virginia Retirement System (VRS) State Employee Retirement Plan and the Virginia Law Officers' System (VaLORS) Retirement Plan; and the additions to/deductions from the VRS State Employee Retirement Plan's and the VaLORS Retirement Plan's net fiduciary position have been determined on the same basis as they were reported by VRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. See Note 11 for detailed pension information related to the University.

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, 2015. 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, 2015.

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, 2015, no interest associated with construction 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, 2015. 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, 2015. 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*. While prior to FY2014, issuance costs were expensed over the life of the bonds.

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

As discussed in Notes 1.B. and 11, GASBs 68 *Accounting and Financial Reporting for Pensions* and 71 *Pension Transition for Contributions Made Subsequent to Measurement Date* require a restatement of the beginning net pension liability for FY15, less FY14 employer contributions made after the measurement date of the pension plan assets. The effect of the reporting changes to net position of the University is as follow:

Net Position as reported at June 30, 2014 (FY14)	$194,996,241
Less: Decrease due to GASB 68 & 71 implementation regarding pension liability and related deferred outflows of resources	(61,932,000)
Net Position at July 1, 2014, as restated (FY15)	$133,064,242

P. Comparative Data

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

Q. Deferred Outflows and Deferred Inflows of Resources

For the University, gains on retirement of debt are classified as deferred inflows of resources and losses are reported as deferred outflows of resources. Each year these amounts are amortized and included as a component of interest expense based on the life of the debt. Changes in net pension liability not included in pension expense are reported as deferred outflows of resources or deferred inflows of resources. In addition, employer contributions subsequent to the measurement date of the net pension liability are also reported as deferred outflows of resources.

Summarized below is the compilation of deferred outflows and inflows of resources at June 30, 2015:

At June 30, 2015	Pension Related	Gain/Loss on Debt Refunding	Total
Deferred outflows of resources	$ 5,259,879	$ 3,477,469	$ 8,737,348
Deferred inflows of resources	$ 10,209,000	$ 18,093	$ 10,227,093

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, 2015, the carrying amount of cash and cash equivalents was $32,071,677.

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, 2015, the University had the following investments:

Spider Management Group	$ 34,045,667
Treasurer of Virginia	24,601
Total investments	$34,070,268

Investments held by the Treasurer of Virginia include the University's allocated share of securities totaling $24,601 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, 2015. 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, 2015:

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

Asset Class	Desired Range	Allocation
Domestic Equity	5 - 25%	20.2 %
International Equity	5 - 25%	18.1 %
Global Equity	5 - 25%	11.8 %
Opportunistic (P/E, Venture)	10 - 25%	16.7 %
Multi Strategy	5 - 20%	9.6 %
Credit	0 - 15%	11.2 %
Real Estate	0 - 10%	3.3 %
Real Assets	0 - 10%	7.0 %
Cash	0 - 10%	2.1 %

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, 2015, 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, 2015, was $14,830,971.

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, 2014 was $4,627,004.

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, 2015	
University:	
Student tuition and fees	$ 1,244,413
Federal, state and private grants and contracts	1,898,242
Auxiliary enterprises	214,968
Third party receivables - students	66,938
Other receivables	175,483
Gross accounts receivable	3.600.044
Less: Allowance for doubtful accounts	(820,555)
Net accounts receivable	2,779,489
Research Foundation:	
Gross accounts receivable	490,657
Less: Allowance for doubtful accounts	(25,421)
Net accounts receivable	465,236
Total net accounts receivable	$ 3,244,725

B. Due from Affiliates

Due from VSUF	$ 88,123

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.

The details for the receivables due from the Commonwealth are as follows:

Due from the Commonwealth at June 30, 2015:	
21st Century Bond Reimbursement – Multipurpose Center Project	$ 4,986,526
21st Century Bond Reimbursement – Water Storage Tank and Campus Water	519,108
21st Century Bond Reimbursement – Lockett Hall	503,168
21st Century Bond Reimbursement – Erosion & Sediment Control	106,868
21st Century Bond Reimbursement – Maintenance Reserve	100,758
21st Century Bond Reimbursement – Singleton Hall	60,728
21st Century Bond Reimbursement – Renovate Heating Plant	21,237
21st Century Bond Reimbursement – Hunter McDaniel	19,896
Total due from the Commonwealth	$ 6,318,289

D. Notes Receivable

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

At June 30, 2015, notes receivable consisted of the following:

Current notes receivable:		
Federal student loans	$	200
Less: Allowance for doubtful accounts		(200)
Net current notes receivable		-
Noncurrent notes receivables:		
Federal student loans		1,922,786
Local student loans		21
Trojan Development, LLC		328,000
Less: Allowance for doubtful accounts		(232,689)
Net noncurrent notes receivables		2,018,118
Total notes receivable	$	2,018,118

4. CAPITAL ASSETS

A summary of changes in the various capital asset categories for the year ending June 30, 2015, is presented as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Nondepreciable capital assets:				
Land	$ 19,856,233	$ 546,512	$ (1,604,645)	$ 18,798,100
Inexhaustible works of art and historical treasures	119,000	-	-	119,000
Construction in progress	17,547,478	45,351,728	(4,761,789)	58,137,417
Total nondepreciable capital assets	37,522,711	45,898,240	(6,366,434)	77,054,517
Depreciable capital assets:				
Buildings	310,323,886	2,502,317	-	312,826,203
Equipment	36,331,548	1,373,525	(1,848,924)	35,856,149
Infrastructure (includes Improvements	17,338,990	2,259,473	-	19,598,463
other than buildings)				-
Intangible Assets-Computer Software	3,878,256	-	-	3,878,256
Library books	20,590,956	159,709	(40,868)	20,709,797
Total depreciable capital assets	388,463,636	6,295,024	(1,889,792)	392,868,868
Less accumulated depreciation for:				
Buildings	111,448,797	6,937,721	-	118,386,518
Equipment	28,324,075	2,012,447	(1,811,536)	28,524,986
Infrastructure (includes Improvements				-
other than buildings)	12,543,077	455,226	-	12,998,303
Intangible Assets-Computer Software	3,665,756	106,250	-	3,772,006
Library books	19,877,362	333,569	(40,868)	20,170,063
Total accumulated depreciation	175,859,067	9,845,213	(1,852,404)	183,851,876
Net depreciable capital assets	212,604,569	(3,550,189)	(37,388)	209,016,992
Total	$ 250,127,280	$ 42,348,051	$ (6,403,822)	$ 286,071,509

Net capital assets of the VSUREF consist of $542,828 for land and $8,120,667, (net of accumulated depreciation of $7,287,900) for buildings, land improvements, and equipment as of December 31, 2014.

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following at June 30, 2015:

Employee salaries, wages, and fringe benefits payable	$	3,742,633
Matured interest payable		410,985
Vendor and supplier accounts payable (VSURF $2,653)		4,259,169
Total	$	8,412,787

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, 2015 is presented as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current	Noncurrent
Long-term debt:						
General obligations revenue bonds	$ 106,769,738	$ 6,079,851	$ (11,474,787)	$ 101,374,802	$ 5,323,180	$ 96,051,622
Notes payable	7,937,586	519,400	(1,195,028)	7,261,958	660,392	6,601,566
Installment purchases	2,597,393	-	(410,489)	2,186,904	416,207	1,770,697
Total long-term debt	117,304,717	6,599,251	(13,080,304)	110,823,664	6,399,779	104,423,885
Other noncurrent liabilities:						
Net pension liability	61,932,000	4,531,000	(10,209,000)	56,254,000	-	56,254,000
Accrued compensated absences	4,409,120	2,396,969	(2,501,911)	4,304,178	1,199,931	3,104,247
Federal Perkins loan contributions	1,503,955	56,240	(38,313)	1,521,882	-	1,521,882
Software license agreements	212,500	-	(106,250)	106,250	106,250	-
Total other noncurrent liabilities	68,057,575	6,984,209	(12,855,474)	62,186,310	1,306,181	60,880,129
Total long-term liabilities	$ 185,362,292	$ 13,583,460	$ (25,935,778)	$ 173,009,974	$ 7,705,960	$ 165,304,014

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, 2015, are as follows:

	Interest Rate	Maturity	Total
General obligation revenue bonds:			
Construct Dining Hall, Series 2006B	5.0%	2016	$ 210,000
Construct Residence Halls, Series 2006B	5.0%	2016	815,000
Jones Hall 96 - 2002 Ref Portion, Series 2012A	4.8%	2016	195,233
Construct Two Residence Halls Series 2007B	5.0%	2017	2,615,000
98 Ref of Jones Dining Hall- 2004B Ref Portion, Series 2014B	4.7% - 5.0%	2018	211,523
Construct Residence Halls, Series 2007A	4.0% - 4.7%	2018	285,000
VSU Constr 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-2007B Ref Portion, Series 2015B	4.7% - 5.0%	2027	4,994,735
Construct Gateway Residence Hall Phase, Series 2011A	4.2% - 4.9%	2031	30,075,000
Construct Quad Phase II, Series 2011A	4.2% - 4.9%	2031	26,270,000
Add unamortized premium			10,122,120
Total bonds payable			$ 101,374,802

Aggregate annual maturities of bonds payable for fiscal years after 2015 are:

Maturity	Principal	Interest	Total
2016	$ 5,323,180	$ 4,028,675	$ 9,351,855
2017	5,295,990	3,798,510	9,094,500
2018	5,478,258	3,541,611	9,019,869
2019	5,549,127	3,294,621	8,843,748
2020	5,785,600	3,038,864	8,824,464
2021 - 2025	32,828,767	11,178,918	44,007,685
2026 - 2030	26,266,760	4,238,738	30,505,498
2031	4,725,000	226,250	4,951,250
Add unamortized premium (net of discount)	10,122,120	-	10,122,120
Total	$ 101,374,802	$ 33,346,187	$134,720,989

B. New Refunded Debt - Bonds

On May 6, 2015 the Treasury Board completed the sale of $214,285,000 in General Obligation Refunding Bonds, Series 2015B. The sale of these bonds enabled the University to advance refund $5,435,000 of Series 2007B VSU Construct Two Residence Halls 9(c) bonds.

The net proceeds of $6,075,436 (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 remaining years of the debt by $529,477 resulting in an economic gain of $529,477 discounted at the rate of 2.13 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, 2015, the outstanding principal balances were $1,085,460 for the HUD loan and $5,630,000 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, 2015, are as follows:

	Interest Rate	Maturity	Total
Virginia College Building Authority and HUD Notes Payable:			
VSU Pooled Bonds-Roger's Stadium,2005A	2.5%	9/1/2015	$ 120,000
VSU Pooled Bonds-Student Village Housing, Series 2005A	2.5%	9/1/2015	60,000
VSU Pooled Bonds-2002A Roger's Stadium Ref Portion, Series 2007B	2.0 – 3.9%	9/1/2019	1,820,000
VSU 2002A Roger's Stadium Ref Portion, Series 2010B	2.5 – 5.0%	9/1/2022	1,320,000
VSU Roger's Stadium Proj.- 2005A Ref Portion, Series 2012A	1.5 – 4.7%	9/1/2024	1,215,000
VSU Student Village Hsg.-2005A Ref Portion, Series 2012A	1.5 - 4.7%	9/1/2024	630,000
VSU Pooled Bonds-Roger's Stadium 2005A Ref Portion, Series 2014B	2.0 - 4.4%	9/1/2025	310,000
VSU Pooled Bonds-Student Village Hsg. 2005A Ref Portion, Series 2014B	2.0 - 4.4%	9/1/2025	155,000
Department of Housing and Urban Development	3.0%	2022	1,085,460
Add unamortized premium (net of discount)			546,498
Total notes payable			$ 7,261,958

Aggregate annual maturities of notes payable for fiscal years after 2015 are:

Maturity	Principal	Interest	Total
2016	$ 660,392	$ 279,325	$ 939,717
2017	679,786	251,374	931,160
2018	709,314	222,385	931,699
2019	733,978	191,771	925,749
2020	768,783	160,390	929,173
2021 - 2025	2,878,207	305,183	3,183,390
2026	285,000	5,700	290,700
Add unamortized premium (net of discount)	546,498	-	546,498
Total	$ 7,261,958	$ 1,416,128	$ 8,678,086

D. New Refunded Debt – Notes

On October 22, 2014, the Virginia College Building Authority completed the sale of $186,035,000 in Educational Facilities Revenue Refunding Bonds (Public Higher Education Financing Program), Series 2014B. The sale of these bonds enabled the University to advance refund $320,000 of Series 2005A VSU Roger's Stadium and $165,000 of Series 2005A VSU Student Village Housing 9(d) bonds.

The net proceeds of $344,856 and $172,428 (after payment of underwriter's fees and other issuance costs) were deposited into an irrevocable escrow to defease, pay and redeem the refunded bonds. This defeasance reduced total combined debt service payments over the remaining years of the debt by $23,464, resulting in an economic gain of $21,062 for Roger's Stadium and $18,185 resulting in an economic gain of $16,228 for Student Village Housing. Both were discounted at the rate of 2.18 percent.

E. Installment Purchases

Installment purchase obligations in FY2015 consisted of the Energy Performance Leasing Program with $1,459,938 in principal remaining, and six vehicles through the Commonwealth's Master Equipment Leasing Program (MELP) with $122,489 in principal remaining. In addition, the University has outstanding principal of $604,477 through MELP for the Voiceover Internet Protocol (VoIP) telephone system.

Principal and interest payment commitments as of June 30, 2015, are as follows:

Installment purchase obligations:	Interest Rate	Maturity Date	Total
Master Equipment Leasing Program - Bus Fleet	2.0%	2017	$ 122,489
Master Equipment Leasing Program - VoIP Phone System Phase I	1.21%	2018	64,899
Master Equipment Leasing Program - VoIP Phone System Phase II	1.24%	2019	393,727
Master Equipment Leasing Program - VoIP Phone System Phase III	2.08%	2019	145,851
Energy Performance Leasing Program	1.08%	2022	1,459,938
Total installment purchase obligations			$ 2,186,904

The aggregate maturity of installment purchase obligations for fiscal years after 2015 is:

Maturity	Principal	Interest	Total
2016	$ 416,207	$ 25,474	$ 441,681
2017	421,184	20,497	441,681
2018	364,050	15,614	379,664
2019	346,368	11,138	357,506
2020	210,757	6,872	217,629
2021 - 2022	428,338	6,921	435,259
	$ 2,186,904	$ 86,516	$ 2,273,420

F. Foundation Debt

The VSUREF refinanced and paid off the Series 2006 bonds and obtained $20,330,000 in Series 2008 bonds of which $17,550,000 in principal remains at December 31, 2014. 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
2015	$ 800,000
2016	850,000
2017	900,000
2018	915,000
2019	960,000
Thereafter	13,125,000
Total	$ 17,550,000

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, 2014 and 2013 was $5,528 and $2,709 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 $3,738,074 and $3,207,679 at December 31, 2014 and 2013 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, 2015:

Virginia State University:		
Original legislative appropriation:		
Education and general programs	$	30,700,481
Higher education student financial assistance		6,263,234
Supplemental adjustments:		
State grants and scholarships		90,307
VIVA interlibrary loan allocation		4,919
FY2015 central appropriation distribution		576,371
Capital outlay fee – FY2015		(845,856)
VCBA debt service appropriations		(108,886)
Year-end cash reversion		(1,899,774)
Reappropriation of FY2014 carry forward		2,294,962
FY2015 transfer out		(653,900)
		36,421,858
Cooperative Extension and Agricultural Research Services:		
Original legislative appropriation:		
Education and general programs		5,430,442
Supplemental adjustments:		
FY2015 central appropriation distribution		33,572
FY2014 reappropriation of carry forward		66,339
Year-end cash reversion		(420,302)
		5,110,051
Total state appropriations	$	41,531,909

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	$21,901,711	$7,339,733	$8,252,549	$337,926	$176,196		$38,008,115
Research	3,163,082	904,553	2,120,437	216,079	109,491		6,513,642
Public Service	3,641,096	1,122,855	2,434,819	101,048	121,709		7,421,527
Academic Support	3,235,671	1,030,455	765,257	70,274	28,657		5,130,314
Student Services	2,586,646	976,975	526,481	17,892	51,890		4,159,884
Institutional Support	11,547,606	4,102,206	1,342,414	11,304	448,224		17,451,754
Operation and Maintenance of Plant	486,293	344,978	3,477,710		3,772,090		8,081,071
Scholarships and Fellowships				3,653,544			3,653,544
Depreciation						9,845,213	9,845,213
Auxiliary Enterprises	4,689,240	1,644,327	16,822,979	1,755,990	2,260,200		27,172,736
Other			33,847				33,847
Total	$51,251,345	$17,466,082	$35,776,493	$6,164,057	$6,968,457	$9,845,213	$127,471,647

10. COMMITMENTS

A. Construction Commitments

As of June 30, 2015, the University was a party to construction contracts totaling $125,289,917 of which $22,817,290 was still outstanding, at June 30, 2015.

B. Operating Leases

In FY12, Virginia State University entered into an operating lease agreement Cameron Building, LLC. 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 $258,365 in FY2015.

A second lease, with Midway Avenue, LLC was for warehouse storage. This lease expired on July 31, 2014. Rent payments for FY2015 were $8,798.

A third lease, with Radcliffe Warehouse, LLC is for warehouse storage. Rent payments for FY2015 were $27,000. The lease is for a period of three years beginning on July 1, 2014 and ending on June 30, 2017.

A fourth lease, with the City of Petersburg, is to lease space related to a federal grant with the Department of Agriculture. The lease began on October 1, 2014 and ends December 31, 2015. No payments were made in FY2015.

The schedule of combined future rental payments is as follows:

2016	$ 292,033
2017	295,803
2018	274,179
2019	279,663
2020	285,256
2021-2023	687,320
Total	$ 2,114,254

11. RETIREMENT PLANS

A. Virginia Retirement System – General Information about the Pension Plan

Plan Description

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

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

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
About Plan 1 Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.	**About Plan 2** Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.	**About the Hybrid Retirement Plan** The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. (see "Eligible Members") • The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. • In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.
Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.	**Eligible Members** Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.	**Eligible Members** Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes: • State employees* • Members in Plan 1 or Plan 2 who elected to opt into the plan

Hybrid Opt-In Election VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.	**Hybrid Opt-In Election** Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.	during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014 ***Non-Eligible Members** Some employees are not eligible to participate in the Hybrid Retirement Plan. They include: • Members of the Virginia Law Officers' Retirement System (VaLORS) Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.
Retirement Contributions State employees, excluding state elected officials, and optional retirement plan participants, contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.	**Retirement Contributions** State employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction.	**Retirement Contributions** A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.

Creditable Service Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.	**Creditable Service** Same as Plan 1.	**Creditable Service** **Defined Benefit Component:** Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit. **Defined Contributions Component:** Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.
Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.	**Vesting** Same as Plan 1.	**Vesting** **Defined Benefit Component:** Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.

Members are always 100% vested in the contributions that they make.		**<u>Defined Contributions Component:</u>** Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions that they make. Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service. • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. Distribution is not required by law until age 70½.
Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement. An early retirement reduction factor is applied to the Basic	**Calculating the Benefit** See definition under Plan 1.	**Calculating the Benefit** **<u>Defined Benefit Component:</u>** See definition under Plan 1 **<u>Defined Contribution Component:</u>** The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.

Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.		
Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
Service Retirement Multiplier **VRS:** The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%. **VaLORS:** The retirement multiplier for VaLORS employees is 1.70% or 2.00%.	**Service Retirement Multiplier** **VRS:** Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013. **VaLORS:** The retirement multiplier for VaLORS employees is 2.00%.	**Service Retirement Multiplier** **<u>Defined Benefit Component:</u>** **VRS:** The retirement multiplier for the defined benefit component is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans. **VaLORS:** Not applicable. **<u>Defined Contribution Component:</u>** Not applicable.
Normal Retirement Age **VRS:** Age 65. **VaLORS:** Age 60.	**Normal Retirement Age** **VRS:** Normal Social Security retirement age. **VaLORS:** Same as Plan 1.	**Normal Retirement Age** **<u>Defined Benefit Component:</u>** **VRS:** Same as Plan 2. **VaLORS:** Not applicable. **<u>Defined Contribution Component:</u>** Members are eligible to receive distributions upon leaving employment, subject to restrictions.

Earliest Unreduced Retirement Eligibility **VRS:** Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service. **VaLORS:** Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.	**Earliest Unreduced Retirement Eligibility** **VRS:** Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90. **VaLORS:** Same as Plan 1.	**Earliest Unreduced Retirement Eligibility** **Defined Benefit Component:** **VRS:** Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. **VaLORS:** Not applicable. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Reduced Retirement Eligibility **VRS:** Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service. **VaLORS:** 50 with at least five years of creditable service.	**Earliest Reduced Retirement Eligibility** **VRS:** Age 60 with at least five years (60 months) of creditable service. **VaLORS:** Same as Plan 1.	**Earliest Unreduced Retirement Eligibility** **Defined Benefit Component:** **VRS:** Age Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service. **VaLORS:** Not applicable. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%. **Eligibility:** For members who retire with an unreduced benefit or with a	**Cost-of-Living Adjustment (COLA) in Retirement** The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%. **Eligibility:** Same as Plan 1	**Cost-of-Living Adjustment (COLA) in Retirement** **Defined Benefit Component:** Same as Plan 2. **Defined Contribution Component:** Not applicable. **Eligibility:** Same as Plan 1 and Plan 2.

reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date. For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date. **<u>Exceptions to COLA Effective Dates:</u>** The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances: • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member Is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.	**<u>Exceptions to COLA Effective Dates:</u>** Same as Plan 1	**<u>Exceptions to COLA Effective Dates:</u>** Same as Plan 1 and Plan 2.

Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted. Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.	**Disability Coverage** Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted. Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.	**Disability Coverage** State employees (including Plan 1 and Plan 2 opt-ins) participating in the Hybrid Retirement Plan are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VSDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.
Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.	**Purchase of Prior Service** Same as Plan 1.	**Purchase of Prior Service** **<u>Defined Benefit Component:</u>** Same as Plan 1, with the following exceptions: • Hybrid Retirement Plan members are ineligible for ported service. • The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation. • Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost./ After that on-year period, the rate for most categories of service will change to actuarial cost. **<u>Defined Contribution Component:</u>** Not applicable.

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, the 5.00% member contribution was paid by the employer. Beginning July 1, 2012 state employees were required to pay the 5.00% member contribution and the employer was required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. Each state agency's contractually required contribution rate for the year ended June 30, 2015 was 12.33% of covered employee compensation for employees in the VRS State Employee Retirement Plan and 17.67% of covered employee compensation for employees in the VaLORS Retirement Plan. These rates were based on an actuarially determined rate from an actuarial valuation as of June 30, 2013.

The actuarial rate for the VRS State Employee Retirement Plan was 15.80% and the actuarial rate for VaLORS Retirement Plan was 21.06%. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits earned by the employees during the year, with an additional amount to finance any unfunded accrued liability. Based on the provisions of §51.1-145 of the Code of Virginia, as amended, the contributions for the VRS State Employee Retirement Plan were funded at 78.02% of the actuarial rate and the contributions for the VaLORS Retirement Plan were funded at 83.88% of the actuarial rate for the year ended June 30, 2015. Contributions from the University to the VRS State Employee Retirement Plan were $4,509,880 and $3,209,136 for the years ended June 30, 2015 and June 30, 2014, respectively. Contributions from VSU to the VaLORS Retirement Plan were $126,999 and $118,190 for the years ended June 30, 2015 and June 30, 2014, respectively.

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

At June 30, 2015, VSU reported a liability of $54,719,000 for its proportionate share of the VRS State Employee Retirement Plan Net Pension Liability, and a liability of $1,535,000 for its proportionate share of the VaLORS Retirement Plan Net Pension Liability. The Net Pension Liability was measured as of June 30, 2014 and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. The University's proportion of the Net Pension Liability was based on the state agency's actuarially determined employer contributions to the pension plan for the year ended June 30, 2014 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2014, VSU's proportion of the VRS State Employee Retirement Plan was 0.97741% as compared to 0.96462% at June 30, 2013. At June 30, 2014, the University's proportion of the VaLORS Retirement Plan was 0.22780% as compared to 0.28010% at June 30, 2013.

For the year ended June 30, 2015, the state agency recognized pension expense of $3,877,000 for the VRS State Employee Retirement Plan and $31,000 for the VaLORS Retirement Plan. Since there was a change in proportionate share between June 30, 2013 and June 30, 2014, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

At June 30, 2015, Virginia State University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

State Employee Retirement Plan	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ -
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	9,767,000
Changes in proportion and differences between employer contributions and proportionate share of contributions	623,000	-
Employer contributions subsequent to the measurement date	4,509,880	-
Total	$ 5,132,880	$ 9,767,000

VaLORS Retirement Plan	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ -
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	159,000
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	283,000
Employer contributions subsequent to the measurement date	126,999	-
Total	$ 126,999	$ 442,000

$4,509,880 for the State Retirement Plan and $126,999 for the VaLORS Plan was reported as deferred outflows of resources related to pensions resulting from VSU's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

State Retirement Plan **Year Ended June 30:**	**VaLORS Retirement Plan** **Year Ended June 30:**
2016 $2,224,000	2016 $149,000
2017 $2,224,000	2017 $149,000
2018 $2,252,000	2018 $105,000
2019 $2,444,000	2019 $ 39,000

Actuarial Assumptions

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

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

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

Mortality rates:

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

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

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

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012.

Changes to the actuarial assumptions as a result of the experience study are as follows:

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

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

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

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

Mortality rates:

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

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

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

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

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

Net Pension Liability

The net pension liability (NPL) is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB Statement No. 67, less that system's fiduciary net position.

As of June 30, 2014, NPL amounts for the VRS State Employee Retirement Plan and the VaLORS Retirement Plan are as follows:

	State Employee Retirement Plan	VaLORS Retirement Plan
Total Pension Liability	$ 21,766,933	$ 1,824,577
Plan Fiduciary Net Pension	16,168,535	1,150,450
Employers' Net Pension Liability (Asset)	$ 5,598,398	$ 674,127
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	74.28%	63.05%

The total pension liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net pension liability is disclosed in accordance with the requirements of GASB Statement No. 67 in the System's notes to the financial statements and required supplementary information.

Long-Term Expected Rate of Return

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

The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

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

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

Discount Rate

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

Sensitivity of the State Agency's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

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

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
Virginia State University's proportionate share of the VRS State Employee Retirement Plan Net Pension Liability	\$80,159,000	\$54,719,000	\$33,388,000

The following presents the state agency's proportionate share of the VaLORS Retirement Plan net pension liability using the discount rate of 7.00%, as well as what the state agency's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
Virginia State University's proportionate share of the VaLORS Retirement Plan Net Pension Liability	\$2,098,000	\$1,535,000	\$1,073,000

Pension Plan Fiduciary Net Position

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

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 \$693,653 for the year ended June 30, 2015. Contributions to these retirement programs were calculated using the base salary amount of \$6,669,745.

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 $159,461 for the year ended June 30, 2015. Contributions to these retirement programs were calculated using the base salary amount of $1,876,015.

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 $305,927 for FY2015.

12. OTHER 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, 2015 to recognize in accordance with this standard.

13. CONTINGENCIES

The University is a party to various legal actions and other claims in the normal course of business. For example, at the 6/30/15 year end there was ongoing litigation for a case involving a contract dispute against the University, and a Family Education and Rights Act (FERPA) violation issue was under investigation.

In early July, 2015 the Court ruled in favor of the plaintiff in the contract dispute case against the University. As a result of the Courts decision, VSU paid the plaintiff $77,996.42 (including interest) in July, 2015. Therefore, an accrued liability of $77,996.42 was recorded at June 30, 2015. The liability is included within the accounts payable line item of the SNP.

While the final outcomes cannot be determined for the remaining legal issues at this time, management is of the opinion that the liability, if any, for these legal actions will not have a material effect on the University's financial position.

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. SPECIAL ITEM

Land Conveyed to Trojan, 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 resulted in a write down of land on the University's books of approximately $1,276,645 in FY 2015. Also, a receivable was 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.

16. SUBSEQUENT EVENTS

University Interim President Pamela V. Hammond:

On October 19, 2015 Virginia State University Interim President Pamela V. Hammond notified the University's Board of Visitors of her intent not to renew her contract, and to withdraw from further consideration as a candidate for president. The contract will expire on December 31, 2015.

In December 2014, the VSU Board of Visitors formed a Presidential Search Committee, with representation from a cross section of VSU constituencies, including members of the Board and representatives from VSU's faculty, staff, national alumni association, student body and foundation. In January 2015, the Board enlisted the firm of Isaacson, Miller to conduct a nationwide search for qualified candidates for the presidency. This firm has worked closely with the search committee to vet candidates to become Virginia State University's 14th President.

Rector Black said the Search Committee will continue reviewing candidates and the Board of Visitors, at its November meeting, will address the issue of selecting a successor to Dr. Hammond to serve as Interim President until such time as a permanent President takes office.

New University President Appointed:

On December 11, 2015, Makola M. Abdullah, PhD, was appointed by the VSU Board of Visitors as the next President of the University. Dr. Abdullah is the former Provost and Chief Academic Officer at Bethune-Cookman University (B-CU) in Florida. As Provost and Chief Academic Officer, Dr. Abdullah led all academic and research programs at the institution. Prior to his appointment at Bethune-Cookman University, Dr. Abdullah served as the

Provost and Vice President for Academic Affairs at Florida Memorial University (FMU). Before his FMU appointment, Dr. Abdullah enjoyed a distinguished 15-year tenure at Florida A&M University where he most recently served as the Dean and Director of 1890 Land Grant Programs in the College of Engineering Sciences, Technology and Agriculture.

Move Title III Endowment Funds:

On January 13, 2016, Virginia State University moved its Title III endowment funds to the investment advisor Morgan Stanley. The total value of the funds deposited with Morgan Stanley was $14,305,171.

Required Supplementary Information (RSI)

Schedule of Virginia State University's (VSU) Share of Net Pension Liability:

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

Schedule of VSU's Share of Net Pension Liability
VRS State Employee Retirement Plan
For the Year Ended June 30, 2015*

	2015
VSU's Proportion of the Net Pension Liability (Asset)	0.97741%
VSU's Proportionate Share of the Net Pension Liability (Asset)	$ 54,719,000
VSU's Covered-Employee Payroll (FY2014)	$ 46,847,249
VSU's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	116.80%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	74.28%

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

Schedule of VSU's Share of Net Pension Liability
VaLORS Retirement Plan
For the Year Ended June 30, 2015*

	2015
VSU's Proportion of the Net Pension Liability (Asset)	0.22780%
VSU's Proportionate Share of the Net Pension Liability (Asset)	$ 1,535,000
VSU's Covered-Employee Payroll (FY2014)	$ 985,254
VSU's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	155.80%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	63.05%

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

Schedule of Employer Contributions:

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

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

Plan	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Defiency (Excess)	Employer's Covered Employee Payroll (FY2015)	Contributions as a % of Covered Employee Payroll
State Employee	$4,509,880	$ 4,509,880	$ -	$ 46,066,157	10%
VaLORS Employee	$ 126,999	$ 126,999	$ -	$ 852,391	15%

Changes of benefit terms – There have been no significant changes to the System benefit provisions since the prior actuarial valuation. A hybrid plan with changes to the defined benefit plan structure and a new defined contribution component were adopted in 2012. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. The liabilities presented do not reflect the hybrid plan since it covers new members joining the System after the valuation date of June 30, 2013.and the impact on the liabilities as of the measurement date of June 30, 2014 are minimal.

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

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

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

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

Commonwealth of Virginia

Auditor of Public Accounts

Martha S. Mavredes, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

February 24, 2016

The Honorable Terence R. McAuliffe
Governor of Virginia

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

Board of Visitors
Virginia State University

INDEPENDENT AUDITOR'S REPORT

Report on Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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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 University as of June 30, 2015, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change in Accounting Principle

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

Other Matters

Prior-Year Summarized Comparative Information

We have previously audited the University's June 30, 2014, financial statements and we expressed an unmodified opinion on the respective financial statements in our report dated April 27,

2015. In our opinion, while the summarized comparative information presented herein as of and for the year ended June 30, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived, it does not include the necessary adjustments for the 2014 financial statements to be comparative with the 2015 financial statements as described in Note 1.P.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages one through ten, and the Schedule of VSU's Share of Net Pension Liability, the Schedule of Employer Contributions, and the Notes to Required Supplementary Information on pages 54 through 55, 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 February 24, 2016, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the University's internal control over financial reporting and compliance.

Martha S. Mavredes

AUDITOR OF PUBLIC ACCOUNTS

KKH/alh

VIRGINIA STATE UNIVERSITY BOARD OF VISITORS
As of June 30, 2015

Mr. Harry Black
Rector

Mr. Willie C. Randall
Vice Rector

Ms. Daphne M. Reid
Secretary

Mr. George K. Anas, II

Ms. Thursa Crittenden

Dr. Daryl C. Dance

Mr. Felix Davis, Jr.

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Mr. Charlie Hill

Dr. Alma Hobbs

Mr. Frederick S. Humphries, Jr.

Ms. Jennifer Hunter

Ms. Xavier Richardson

Mr. Huron F. Winstead

Dr. Milton O. Faison, Faculty Representative

Mr. Hyisheem Calier, Student Representative

VIRGINIA STATE UNIVERSITY ADMINISTRATIVE OFFICERS
As of June 30, 2015

Dr. Pamela V. Hammond
Interim President

Dr. W. Weldon Hill
Vice President for Academic Affairs

Kevin Davenport
Vice President for Administration and Finance

Dr. Letizia Gambrell-Boone
Vice President of Student Affairs

Hubert D. Harris
Chief of Staff