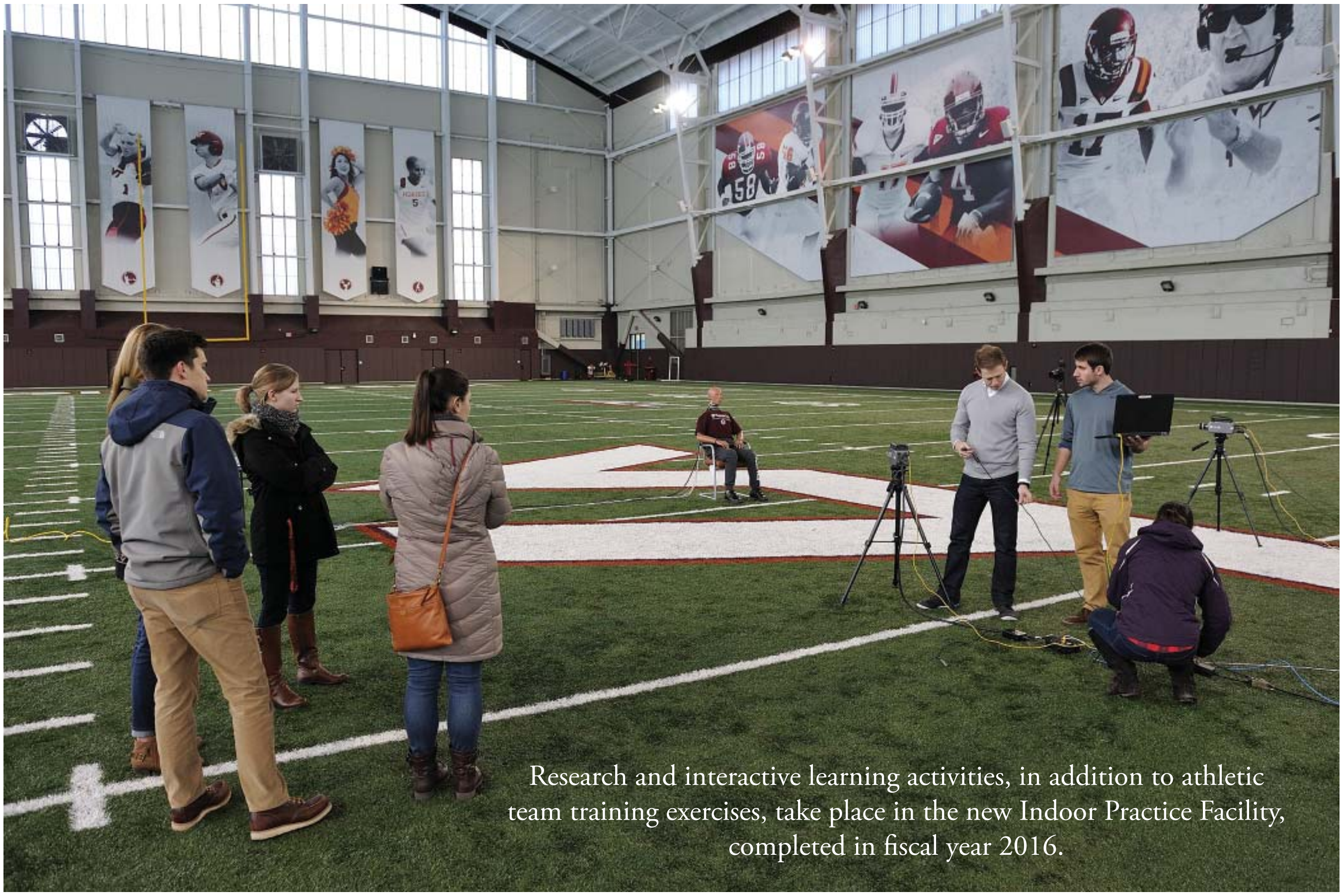
FINANCIAL REPORT 2015-16



Research and interactive learning activities, in addition to athletic team training exercises, take place in the new Indoor Practice Facility, completed in fiscal year 2016.

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UNIVERSITY HIGHLIGHTS For the years ended June 30, 2009—2016

	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Student admissions								
Total applications received (includes transfers)								
Undergraduate	23,351	23,781	22,942	23,736	23,101	21,738	23,504	25,095
Graduate	8,457	9,397	9,190	9,465	9,544	9,622	9,474	8,916
Offers as a percentage of applications								
Undergraduate	64.0	65.3	65.1	64.8	69.0	69.6	70.2	70.9
Graduate	37.3	34.1	33.4	33.3	31.2	31.1	29.4	33.1
New enrollment as a perentage of offers								
Undergraduate	43.1	38.5	41.6	40.1	40.7	42.0	39.1	41.0
Graduate	62.9	63.6	60.9	61.1	62.5	60.9	60.3	67.3
Total student enrollment (head count)								
Enrollment by classification								
Undergraduate	23,567	23,558	23,690	23,700	23,859	24,034	24,247	25,384
Graduate and first professional	7,172	7,312	7,316	7,236	7,228	7,171	6,977	7,279
Enrollment by campus								
Blacksburg campus	28,259	28,432	28,687	28,650	28,836	29,071	29,173	30,598
Northern Virginia Center	1,107	1,077	1,078	1,040	1,018	925	884	861
Other off-campus locations	1,373	1,361	1,241	1,246	1,233	1,209	1,167	1,204
Enrollment by residence								
Virginia	21,337	21,557	21,475	21,371	21,478	21,319	21,145	21,583
Other states	7,168	7,047	7,198	7,198	6,975	7,038	7,066	7,521
Other countries	2,234	2,266	2,333	2,367	2,634	2,848	3,013	3,559
Degrees conferred								
Undergraduate	5,308	5,523	5,705	5,825	5,604	5,722	5,890	5,940
Graduate and first professional	1,940	2,038	2,045	2,163	2,041	2,163	2,021	1,973
Faculty and staff								
Full-time instructional faculty	1,369	1,364	1.306	1,368	1,422	1,427	1,443	1,479
Other faculty and research associates	1,761	1,913	1,826	1,954	2,083	2,263	2,418	2,505
Part-time/temporary faculty	229	224	273	264	249	238	218	236
Support staff	3,816	3,603	3,461	3,449	3,509	3,519	3,467	3,425
Total faculty and support staff	7,175	7,104	6,866	7,035	7,263	7,447	7,546	7,645
Percent of instructional faculty tenured	61.9%	62.8%	61.9%	61.7%	61.1%	62.0%	60.9%	59.8%

FINANCIAL HIGHLIGHTS For the years ended June 30, 2012—2016 (all dollars are in millions; square feet in thousands)

	2011-12	2012-13	2013-14	2014-15	2015-16
Revenues, Expenses, and Changes in Net Position					
Operating revenues	$ 832.4	$ 900.0	$ 937.5	$ 965.0	$ 1,020.6
Operating expenses	1,076.3	1,157.6	1,227.2	1,259.5	1,315.4
Operating loss (1)	(243.9)	(257.6)	(289.7)	(294.5)	(294.8)
Non-operating revenues and expenses (1)	279.3	296.0	318.4	316.0	318.0
Other revenues, expenses, gains or losses	76.6	105.8	74.3	51.8	98.4
Net increase in net position	$ 112.0	$ 144.2	$ 103.0	$ 73.3	$ 121.6
University Net Position					
Net investment in capital assets	$ 867.3	$ 992.2	$ 1,056.9	$ 1,112.1	$ 1,163.8
Restricted	$ 156.0	$ 158.3	$ 164.9	$ 178.9	$ 209.8
Unrestricted (2)	$ 265.6	$ 282.6	$ 314.3	$ (74.3)	$ (35.3)
Assets and Facilities					
Total university assets	$ 2,046.0	$ 2,209.1	$ 2,284.1	$ 2,369.2	$ 2,503.3
Capital assets, net of accumulated depreciation	$ 1,339.5	$ 1,517.0	$ 1,559.3	$ 1,625.1	$ 1,666.9
Facilities—owned gross square feet	9,276	10,078	11,139	11,209	11,394
Facilities—leased square feet	871	1,183	1,805	1,913	1,922
Sponsored Programs					
Number of awards received	2,589	2,272	2,443	2,189	2,291
Value of awards received	$ 294.1	$ 271.1	$ 303.6	$ 296.6	$ 278.1
Research expenditures reported to NSF (3)	$ 454.4	$ 496.2	$ 513.1	$ 504.3	N/A
Virginia Tech Foundation					
Gifts and bequests received	$ 67.9	$ 77.0	$ 81.1	$ 98.5	$ 93.2
Expended in support of the university	$ 135.5	$ 146.0	$ 155.9	$ 166.5	$ 184.9
Total assets and managed funds	$ 1,210.7	$ 1,302.7	$ 1,488.7	$ 1,508.0	$ 1510.6
Endowments (at market value)					
Owned by Virginia Tech Foundation (VTF)	$ 536.7	$ 594.1	$ 692.0	$ 713.7	$ 705.6
Owned by Virginia Tech	51.6	59.6	96.8	96.5	130.2
Managed by VTF under agency agreements	6.5	7.0	8.0	7.9	7.5
Total endowments supporting the university	$ 594.8	$ 660.7	$ 796.8	$ 818.1	$ 843.3
Student Financial Aid					
Number of students receiving selected types of financial aid					
Loans	13,081	12,506	12,279	12,253	12,282
Grants, scholarships and waivers (4)	18,115	18,353	18,305	18,242	18,409
Employment opportunities	9,331	9,935	10,329	10,437	10,934
Total amounts by major category					
Loans	$ 157.2	$ 154.5	$ 155.5	$ 161.5	$ 165.9
Grants, scholarships and waivers (4)	163.2	168.7	177.4	182.0	194.8
Employment opportunities	71.2	76.7	80.3	81.3	85.5
Total financial aid	$ 391.6	$ 399.9	$ 413.2	$ 424.8	$ 446.2

(1) The university will always be expected to show an operating loss since significant recurring revenues are shown as non-operating. Major revenue sources reported as non-operating include state appropriations, gifts, and investment income. These revenue sources are used for general operations in support of the learning, discovery, and engagement missions of the university.
(2) Beginning in 2014-15, Unrestricted Net Position is negative due to the implementation of GASB 68.
(3) Total research expenditures reported to the National Science Foundation for the current year were not available at publication date.
(4) Periods prior to 2014-15 have been restated to remove prepaid awards from the scholarships total.

FROM THE VICE PRESIDENT FOR FINANCE AND CHIEF FINANCIAL OFFICER

In August, 2015 President Sands challenged and empowered the Virginia Tech community to participate in "*Envisioning Virginia Tech: Beyond Boundaries*", a year-long visioning process to rethink the university of tomorrow. Thousands of faculty, students, staff, alumni, and partners participated in shaping a vision for Virginia Tech a generation into the future. Led by a steering committee, these faculty-led groups collaborated to develop a vision for advancing the university's status as an internationally recognized global land-grant institution, and to strategically address the challenges and opportunities of the transitioning landscape of higher education.

Beyond Boundaries identified the need to create a more dynamic university structure – one that would allow faculty, students, staff, and partners to work on complex projects that would normally be impeded by the traditional university organization around disciplines. The visioning process generated a multitude of ideas, including: developing and graduating a VT-shaped student – a holistic approach to educating our students, equipped with disciplinary depth coupled with interdisciplinary capabilities driven by engagement and purpose; strengthening cross sector partnerships with external organizations including establishing a Health Sciences and Technology corridor in Roanoke with our strategic partner, Carilion Clinic; and advancing our research efforts in the National Capital Region.

Accomplishing this vision will require a university that is VT-shaped as well. Evolving into a VT-shaped university will require developing and implementing innovative and agile financial models dedicated to academic excellence, world-class research, and *Ut Prosim*, while advancing access and affordability. A history of diligent work has well-positioned the university to develop creative solutions and build partnerships that will sustain Virginia Tech in the long-term and address the challenges and opportunities to evolve into a VT-shaped university. This will require adapting and responding positively to fast-changing external economic conditions. Virginia Tech's financial systems have evolved over the years and stood the test of time in response to fast-changing external economic conditions.

In fiscal year 2016, Virginia Tech received approximately $250.6 million in General Fund appropriations for its academic, cooperative extension and agricultural experiment station programs, student financial assistance, research, and Corps of Cadet programs. The university worked closely with the General Assembly to communicate and justify the need for additional state investment, Ultimately, the 2016 General Assembly provided the university with additional resources for 2016-17 in several categories: $5.1 million in operating support for additional in-state student enrollment growth and university

M. Dwight Shelton Jr.

instructional initiatives; the state's share of a 3 percent faculty and staff salary increase in fiscal year 2016-17; $2 million to support the development of a cybersecurity test range; as well as support for the university's Corps of Cadets, student financial aid, and equipment needs.

However, recent news that the state fell short of the 2015-16 revenue target triggered the elimination of the state share of the aforementioned salary increase, and led the state to reforecast revenues for 2016-17 and 2017-18. This process resulted in a $4.5 million reduction to the university in 2016-17 on a one-time basis along with the potential for a base budget reduction in 2017-18. The university is working to mitigate the impact of any such reduction on academic programs through thoughtful planning, enhanced resource generation including private philanthropy, and strategic cost containment. A strong institutional foundation coupled with strategic planning and increasing student demand is expected to result in continued progress towards university objectives.

As a land grant institution, access and affordability continues to be a key commitment for the university. The university continues to expand resident undergraduate enrollment and increase focus on providing financial aid to students from low- and middle-income families. The total cost of education (including room and board) for a Virginia resident undergraduate at Virginia Tech for 2015-16 was $20,711. This placed the university as the 17th lowest cost among a its peer group of 24 public institutions in Virginia. The university continues to assess the lowest non-instructional mandatory charge of any public four-year institution in the commonwealth, directing 85 percent of a resident undergraduate's mandatory charges to the instructional mission.

The university is committed to increasing financial aid for students with need. In fiscal year 2016, the university provided institutional funds of $45.3 million in student financial aid to 10,235 undergraduate students, an average of $4,426 per student. The university's undergraduate financial aid program, *Funds for the Future*, is designed to assist returning students with financial need by mitigating all or a portion of increases in tuition and fees based on level of family income. This program provided grant assistance to 3,586 students in 2016. In fiscal year 2017, the university will enhance this program by increasing the amount of aid available to returning students with family income levels up to $100,000. This action will provide greater protection from tuition increase for those students and families.

To pursue the vision set by President Sands, the university is rigorously exploring flexible revenue streams while maintaining the affordability of a Virginia Tech education. To proactively address changing revenue streams, the university implemented a new advancement model for fundraising in fiscal year 2016. Between July 1, 2015 and June 30, 2016, philanthropy provided $101.45 million to the university, an increase of 13 percent over the amount received in fiscal year 2015. Private support is necessary and critical for building the university's endowment for the attainment of its goals and mission. Virginia Tech's endowment continues to provide flexible financial support for university initiatives and expand financial aid resources to students. The value of the Virginia Tech Foundation's endowed assets as of June 30, 2016 was $843.0 million. This represents an increase of more than $25.2 million over the value of the endowment at June 30, 2015 of $817.8 million. Despite a difficult investment market in 2016, the university's investment performance was 0.0, resulting in neither gain nor loss. Over the previous five years the endowment's average growth of 7.3 percent ranked in the top 4th percentile of the Cambridge Associates' peer group universe.

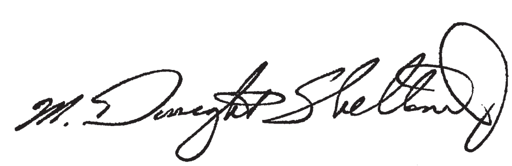
Over the past decade, Virginia Tech has made significant investments to maintain intellectually stimulating academic and physical environments conducive to attracting talented and motivated students and faculty. In fiscal year 2016, the university continued its ongoing facility support of the tri-part mission through the successful execution of a comprehensive and forward-looking capital program. The General Assembly expressed interest in supporting the university's capital outlay needs during the 2016 General Assembly session. The university supported a strong state capital outlay program and advocated for the inclusion of several university projects within the state's program. Ultimately, the General Assembly approved a $1.3 billion capital bond program for higher education and Virginia Tech received support for five major projects from the program for a total allocation of $185 million, the largest allocation received from the state. As a result, the university is planning for the construction of phase one of a health sciences and technology building and an undergraduate science instruction laboratory, as well as renovations to Holden Hall, refurbishment of livestock and poultry facilities, updates to the centralized campus chiller plant, and funds for major facility repairs to address deferred maintenance.

The university's portfolio of active capital outlay during the fiscal year included $91 million in expenditures on 27 projects which have a combined total budget of $549 million. Major facility improvements during the year included the completion of a new general assignment classroom building, a new 550-bed residence hall that replaced two outdated dorms, a new athletic training facility, renovation of a residence hall, implementation of an electronic access system in the residence halls, a new power substation, and pervasive wireless service throughout the residence halls. The university has several projects in the design phase to improve facilities in the future, including refurbishments of three instruction buildings, expansion of a high-performance data center, modernization of science instruction laboratories, enlargement of student clinical and counseling services space, expansion of recreation areas, and renovations to a residence hall.

The university's capital program is supported by strategic state investments for academic buildings, self-generated revenues from auxiliary enterprises, private support, judicious use of fees, and careful management of debt resources. The university reported a debt ratio of 4.18 percent for fiscal year 2016. The university's forward looking capital outlay planning and debt allocation planning processes ensure capacity will be available for high priority projects in the future while managing the debt program within a 5 percent debt ratio and maintaining a target credit rating of AA.

The university reported National Science Foundation research expenditures of $504.3 million for fiscal year 2015 (the most recent data available). This ranks the university as 44th in research expenditures among the nation's top research institutions. Based on preliminary analysis, total research expenditures are expected to experience modest growth for 2016.

The university's financial position remains strong through allocation of resources to the university's education, research, and outreach mission, implementation of cost containment strategies, and diversification of revenue streams. Innovative financial and administrative strategies and forward-thinking leadership will serve as the infrastructure to enable the university to advance as the premier land-grant institution in the country.



MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING AND INTERNAL CONTROLS

The information in this *Annual Financial Report*, including the accompanying basic financial statements, notes, management's discussion and analysis, and other information is the responsibility of Virginia Tech executive management. Responsibility for the accuracy of the financial information and fairness of its presentation, including all disclosures, rests with the management of the university. Management believes the information is accurate in all material respects and fairly presents the university's revenues, expenses, and changes in net position as well as its overall financial condition. This report was prepared in accordance with generally accepted accounting principles for public colleges and universities in the United States of America as prescribed by the Governmental Accounting Standards Board. Management is responsible for the objectivity and integrity of all representations herein. The *Annual Financial Report* includes all disclosures necessary for the reader of this report to gain a broad understanding of the university's operations for the year ended June 30, 2016.

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

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

The Auditor of Public Accounts (APA), the office of the Commonwealth of Virginia's auditors, has examined these annual financial statements and the report thereon appears on the facing page. The APA examination includes a study and evaluation of the university's system of internal controls, financial systems, policies, and procedures, resulting in the issuance of a management letter describing various issues considered worthy of management's attention. The university has implemented policies and procedures for the adequate and timely resolution of such issues. No material weaknesses were found on internal control matters by the APA for the fiscal year ended June 30, 2016.

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

Commonwealth of Virginia

Auditor of Public Accounts

Martha S. Mavredes, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

October 28, 2016

The Honorable Terence R. McAuliffe, Governor of Virginia

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

Board of Visitors, Virginia Polytechnic Institute and State University

INDEPENDENT AUDITOR'S REPORT

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component units of Virginia Polytechnic Institute and State University, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented component units of the University, which are discussed in Notes 1 and 26. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the component units of the University, is based on the reports of the other auditors.

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

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

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

Opinion

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and aggregate discretely presented component units of Virginia Polytechnic Institute and State University as of June 30, 2016, 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.

Other Matters

Prior-Year Summarized Comparative Information

We have previously audited the University's 2015 financial statements, and we expressed an unmodified audit opinion on the respective financial statements in our report dated November 6, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

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

Supplementary and Other Information

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

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

The University Highlights and Financial Highlights have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 28, 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

JMR/alh

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Virginia Polytechnic Institute and State University, popularly known as Virginia Tech, is a comprehensive, land-grant university located in Blacksburg, Virginia. The university offers 201 graduate, undergraduate, and professional degree programs through its eight academic colleges (Agriculture and Life Sciences, Architecture and Urban Studies, Engineering, Liberal Arts and Human Sciences, Natural Resources and Environment, Pamplin College of Business, Science, and the Virginia-Maryland College of Veterinary Medicine).

Virginia Tech has evolved into a position of increasing national prominence since its founding in 1872, consistently ranking among the nation's top universities for undergraduate and graduate programs. The university's research program was ranked 44th among research institutions in the United States by the National Science Foundation in its latest survey measuring annual research expenditures.

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

Overview

This unaudited Management's Discussion and Analysis (MD&A) is required supplemental information under the Governmental Accounting Standards Board's (GASB) reporting model. It is designed to assist readers in understanding the accompanying financial statements and provides an overall view of the university's financial activities based on currently known facts, decisions, and conditions. This discussion includes an analysis of the university's financial condition and results of operations for the fiscal year ended June 30, 2016. Comparative numbers are included for the fiscal year ended June 30, 2015. Since this presentation includes highly summarized data, it should be read in conjunction with the accompanying basic financial statements, including notes and other supplementary information. The university's management is responsible for all of the financial information presented, including this discussion and analysis.

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

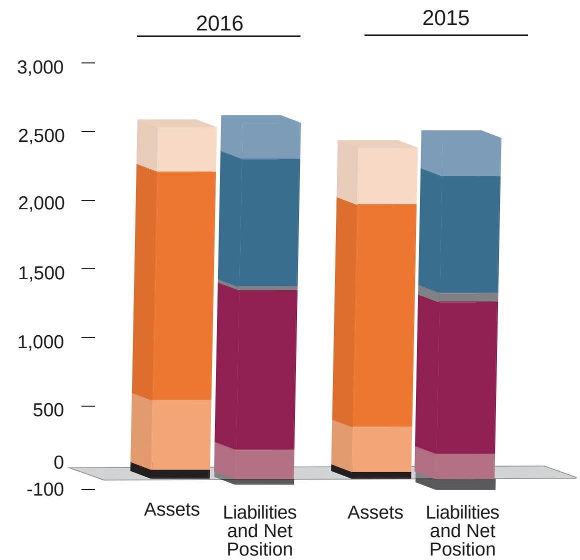
Using criteria provided in GASB Statement 39, *Determining Whether Certain Organizations Are Component Units*, and GASB Statement 60, *The Financial Reporting Entity: Omnibus, amendments of GASB Statement 14*, the university's eight affiliated corporations were evaluated on the nature and significance of their relationship to the university. The Virginia Tech Foundation Inc. (VTF or 'the foundation') and Virginia Tech Services Inc. (VTS) were determined to be component units and are presented in a separate column on the university's financial statements. VTF serves the university by generating significant funding from private sources and aggressively managing its assets to provide supplemental funding to the university. VTS operates the university bookstores and provides other services for the use and benefit of students, faculty, and staff. The foundation and VTS are not part of this MD&A, but detail regarding their financial activities can be found in note 26 of the *Notes to Financial Statements*. Transactions between the university and these component units have not been eliminated in this year's financial statements.

In fiscal year 2016, the following GASB statements of standards became effective: Statement 72, *Fair Value Measurement and Application;* and Statement 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. Portions of GASB Statement 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68 and Amendments to Certain Provisions of GASB Statements 67 and 68*, portions of GASB Statement 79, *Certain External Investment Pools and Pool Participants*, and GASB Statement 82, P*ension Issues*, were effective in fiscal year 2016. GASB Statement 72 establishes general principles for measuring fair value for financial reporting purposes and provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. GASB Statement 76 establishes the hierarchy of generally accepted accounting principles for state and local governments. GASB 73 sets requirements for defined benefits pension that are not within the scope of GASB Statement 68 as well as for the assets accumulated for the purposes of providing those pensions. GASB 79 addresses, for certain external investment pools and their participants, the accounting and financial reporting implications that result from changes in the regulatory provisions referenced by previous accounting and financial reporting standards. GASB 82 defines the measure of covered payroll to be presented in schedules of required supplementary information as the payroll on which pension contributions are based. Neither GASB 73 nor GASB 79 had an effect upon the university's financial statements for the current fiscal year.

Assets, Liabilities and Net Position

For the years ended June 30, 2016 and 2015
(all dollars in millions)

	2016	2015	Change Amount	Change Percent
Current assets	$ 324.7	$ 411.8	$ (87.1)	(21.2)%
Capital assets, net	1,666.9	1,625.1	41.8	2.3 %
Other assets	511.7	332.3	179.4	54.0 %
Total assets	2,503.3	2,369.2	134.1	5.7 %
Deferred outflows (1)	58.1	42.3	15.8	37.4 %
Current liabilities	262.3	278.1	(15.8)	(5.7)%
Noncurrent liabilities	930.6	852.0	78.6	9.2 %
Total liabilities	1,192.9	1,130.1	62.8	5.6 %
Deferred inflows (2)	30.2	64.7	(34.5)	(53.3)%
Net investment in capital assets	1,163.8	1,112.1	51.7	4.6 %
Restricted	209.8	178.9	30.9	17.3 %
Unrestricted	(35.3)	(74.3)	39.0	52.5 %
Total net position	$ 1,338.3	$ 1,216.7	$ 121.6	10.0%



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

Statement of Net Position

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

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

The university's net position is classified as follows:

Net investment in capital assets — Net investment in capital assets represents the university's total investment in capital assets, net of accumulated depreciation, amortization and outstanding debt obligations related to those capital assets. Debt incurred, but not yet expended, for capital assets is not included as a component of net investment in capital assets.

Restricted component of net position, expendable — The expendable category of the restricted component of net position includes resources the university is legally or contractually obligated to expend, with restrictions imposed by external third parties. This category partially consists of quasi-endowments totaling $131.9 million. The investment of quasi-endowments is managed by VTF.

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

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

Total university assets increased by $134.1 million or 5.7% during fiscal year 2016, bringing the total to $2,503.3 million at year-end. Growth in the major components of noncurrent assets (capital assets and long-term investments) and other assets accounted for the majority of the rise in total assets. The increase in capital assets, net ($41.8 million) reflects the ongoing construction of university research and instructional facilities and the capitalization of completed facilities discussed in detail in the following section, Capital Asset and Debt Administration. The growth in other assets was mainly from long term investments ($188.0 million) and the due from the commonwealth category ($38.1 million). These increases were partially offset by reductions of amounts in inventories ($1.3 million) and prepaid expenses ($0.9 million).

Total university liabilities increased by $62.8 million or 5.6% during fiscal year 2016. The current liabilities category decreased by $15.8 million and the noncurrent liabilities category grew by $78.6 million. The change in current liabilities was a result of reductions in commercial paper ($24.4 million), funds held in custody for others ($4.2 million), and the current portion of long-term debt ($0.9 million), offset by increases in accounts payable ($9.8 million), accrued compensated absences ($2.2 million), and unearned revenue ($1.7 million). The growth in noncurrent liabilities was the result of increases in pension liability ($46.0 million) and long term debt payable ($35.0 million), offset by small reductions in accrued compensated absences ($2.1 million) and other liabilities ($0.3 million).

The rise in total assets along with the rise in total liabilities is reflected in the year-over-year increase of the university's net position of $121.6 million (10.0%). Net position in the categories of net investment in capital assets, restricted, and unrestricted net position increased by $51.7 million, $30.9 million, and $39.0 million, respectively. This reflects the university's continued investment in new facilities and equipment supporting the university's missions as well as prudent management of the university's fiscal resources.

Capital Asset and Debt Administration

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

Note 9 of the *Notes to Financial Statements* describes the university's significant investment in depreciable capital assets with gross additions of $118.5 million during fiscal year 2016. Major projects included the completion of the Indoor Practice Facility ($20.1 million) and the Marching Virginians Center ($4.6 million), replacement of the South Recreation field surface ($3.2 million), and the renovation of a 560-seat classroom in McBryde Hall ($2.4 million). Ongoing investments in instructional, research, and computer equipment totaled $41.7 million. Depreciation and amortization expense related to capital assets was $100.1 million with net asset retirements of $5.2 million. The net increase in depreciable capital assets for this period was $13.2 million. The net increase in nondepreciable capital assets ($28.6 million) was primarily due to additions in construction in progress expenses during the current year for major building projects to be completed after fiscal year 2016. The major projects remaining in the construction in progress category include the construction of the Upper Quad residential facilities ($69.9 million) and a new classroom building ($34.9 million), an upgrade to the university's unified communications system ($4.0 million), improvement of door access in residence halls ($3.9 million), and on-going capital renovations throughout the university ($18.7 million). In addition, $4.4 million was withheld as retainage payable on the major projects under construction. This retainage amount will be moved to the building asset category once final payments are made to the construction contractors. Noncurrent liabilities related to debt experienced a net increase of $35.0 million during fiscal year 2016. The major cause of this increase is a result of the issuance of long-term debt ($74.0 million), offset by the refunding of long-term debt ($3.5 million) and the reclassification of long-term debt from the noncurrent to current liabilities category ($30.8 million). See Notes 12 and 14 of the *Notes to Financial Statements* for more details.

Funding for Authorized Current and Future Capital Projects

As of June 30, 2016

(all dollars in millions)

	State Funds (1)	Other Funds (2)	University Debt Issued Before June 30, 2016	University Debt To Be Issued After June 30, 2016	Total Funding	Cash Basis Project-To-Date Expenses
Current education and general	$ 65.3	$ -	$ -	$ -	$ 65.3	$ 50.2
Current auxiliary enterprise	-	66.7	69.3	-	136.0	87.9
Total current	65.3	66.7	69.3	-	201.3	138.1
Future education and general	36.0	8.6	-	-	44.6	4.2
Future auxiliary enterprise	-	7.3	4.5	64.1	75.9	1.5
Total future	36.0	15.9	4.5	64.1	120.5	5.7
Total authorized	$ 101.3	$ 82.6	$ 73.8	$ 64.1	$ 321.8	$ 143.8

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

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

The educational and general (E&G) portion of the university's capital outlay program represents two projects currently under construction. These projects include a new classroom building ($42.7 million) and upgrades to fire alarm systems and electronic door access systems in several E&G buildings ($4.9 million). In addition to the capital projects underway, several new construction and renovation projects are approved for instructional and research facilities. The new construction projects include renovations to Davidson Hall, Sandy Hall, and the Liberal Arts Building ($27.4 million); construction of a metabolism research laboratory, an applied reproduction facility, and a building for animal demonstration, handling, and holding at Kentland Farm ($8.6 million); and a data center expansion at the Biocomplexity Institute of Virginia Tech ($5.9 million). The Commonwealth of Virginia will provide partial funding for several of these E&G projects.

The university's auxiliary enterprises have approval for seven new capital projects. These future capital projects include the Lane electric substation expansion, health center improvements, several athletic facility improvements, renovation of O'Shaughnessy Hall, a new residence hall, continued expansion of the Oak Lane Phase IV housing community, and maintenance of the university's parking system. Since auxiliaries are required to be self-supporting, no state general funds or capital appropriations are provided for these projects. The projects have been or will be funded from a combination of private gifts, student fees, other customer revenues, and debt financing.

Virginia Tech has a total authorization of $321.8 million in capital building projects as of June 30, 2016, requiring approximately $64.1 million in additional debt financing. Capital projects in progress carry commitments to construction contractors, architects, and engineers totaling $29.5 million at June 30, 2016. These obligations are for future effort and as such have not been accrued as expenses or liabilities on the university's financial statements. The majority of the financial commitment is attributed to three projects: the Upper Quad Residential Facilities ($14.3 million), the data center expansion in the Biocomplexity Institute of Virginia Tech ($4.1 million), and improvement in electronic door access in residence halls ($2.4 million). These commitments represent only a portion of the university's capital projects currently under construction or authorized by the commonwealth.

In the spring of 2016, the governor signed legislation to provide $2.2 billion in bond funding for research and economic development projects in the commonwealth. The legislation authorizes the Virginia College Building Authority to issue bonds as part of the 21st Century College Program. The university has four projects which will receive funding from these bonds. The projects include renovations to Holden Hall, construction of a biosciences addition to the Virginia Tech Carilion Research Institute, construction of a central chiller plant, and construction of a livestock and poultry research facility. These projects may be funded from a combination of private gifts, federal funds, student fees, other customer revenues, and debt financing.

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

Statement of Revenues, Expenses, and Changes in Net Position

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

Operating revenues are generally received through providing goods and services to the various customers and constituencies of the university. Operating expenses are expenditures made to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the missions of the university. Salaries

Revenues, Expenses, and Changes in Net Position
For the years ended June 30, 2016 and 2015
(all dollars in millions)

	2016	2015	Change Amount	Change Percent
Operating revenues	$ 1,020.6	$ 965.0	$ 55.6	5.8%
Operating expenses	1,315.4	1,259.5	55.9	4.4%
Operating loss	(294.8)	(294.5)	(0.3)	0.1%
Non-operating revenues and expenses	318.0	316.0	2.0	0.6%
Income (loss) before other revenues, expenses, gains, or losses	23.2	21.5	1.7	7.9%
Other revenues, expenses, gains, or losses	98.4	51.8	46.6	90.0%
Increase in net position	121.6	73.3	48.3	65.9%
Net position - beginning of year	1,216.7	1,143.4	73.3	6.4%
Net position - end of year	$ 1,338.3	$ 1,216.7	$ 121.6	10.0%

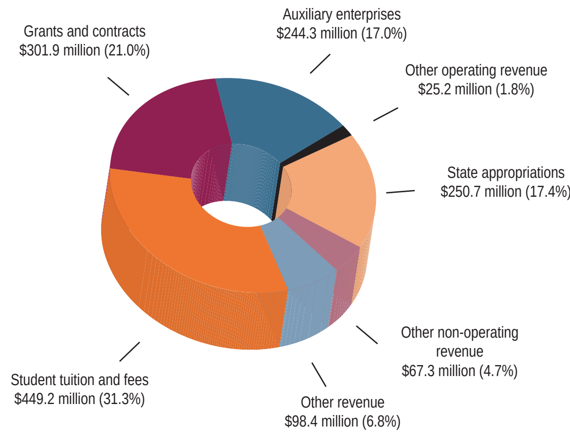
SUMMARY OF REVENUES

Increase (Decrease) in Revenue
For the years ended June 30, 2016 and 2015
(all dollars in millions)

	2016	2015	Change Amount	Change Percent
Operating revenue				
Student tuition and fees, net	$ 449.2	$ 411.2	$ 38.0	9.2 %
Grants and contracts	301.9	295.5	6.4	2.2 %
Auxiliary enterprises	244.3	234.6	9.7	4.1 %
Other operating revenue	25.2	23.7	1.5	6.3 %
Total operating revenue	1,020.6	965.0	55.6	5.8 %
Non-operating revenue				
State appropriations	250.7	242.8	7.9	3.3 %
Other non-operating revenue*	67.3	73.2	(5.9)	(8.1)%
Total non-operating revenue	318.0	316.0	2.0	0.6 %
Other revenue				
Capital appropriations	36.9	-	36.9	100 %
Capital grants and gifts	65.9	52.8	13.1	24.8 %
Loss on disposal of capital assets	(4.4)	(1.0)	(3.4)	(340.0)%
Total other revenue	98.4	51.8	46.6	90.0 %
Total revenue	$ 1,437.0	$ 1,332.8	$ 104.2	7.8 %

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

Total Revenue by Source
For the year ended June 30, 2016



and fringe benefits for faculty and staff are the largest type of operating expense. Non-operating revenues are revenues received for which goods and services are not directly provided. Included in this category are state appropriations and gifts which supplement the payment of operating expenses of the university and support student scholarships. Therefore, the university, like most public institutions, expects to show an operating loss.

Operating Revenues
Total operating revenues increased by $55.6 million or 5.8% from the prior fiscal year. The growth in operating revenues came predominantly from two categories: student tuition and fees, and auxiliary enterprise revenue. The increase in student tuition and fees ($38.0 million or 9.2%) was expected given an increasing student population and the rise in both in-state and out-of-state tuition and fees rates. The growth in auxiliary enterprise revenue ($9.7 million or 4.1%) follows the growing student population and reflects the high level of satisfaction with the services provided by the auxiliaries. Sponsored grants and contracts rose by $6.4 million or 2.2%. The increase in sponsored grants and contracts funded from commercial sponsors ($7.3 million) and federal sponsors ($2.6 million), was partially offset by the continuing reduction in federal funds ($1.1 million) provided through the American Recovery and Reinvestment Act (ARRA), the decrease of federal appropriations supporting the university's land grant mission ($0.6 million), and declining state and local sponsored awards ($1.8 million).

Overall, the university's operating revenues increased to $1,020.6 million in fiscal year 2016, compared to $965.0 million in fiscal year 2015.

Non-operating and Other Revenues and Expenses
Non-operating revenue and expenses totaled $318.0 million, an increase of $2.0 million from the previous year's total. Revenue increases in this category resulted primarily from larger state appropriations ($7.9 million) and gifts from donors ($4.9 million), offset by a decrease in other additions ($8.1 million) and lower returns on investments ($2.4 million). The prior year's other additions included revenue from a lawsuit settlement related to student insurance which was not repeated in fiscal year 2016.

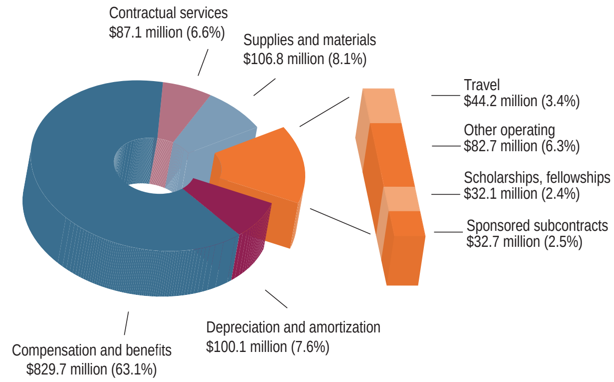
Total other revenue, expenses, gains, and losses rose by $46.6 million compared to the prior year. For the first time in many years, capital appropriations were received from the state ($36.9 million) for the renovation of academic buildings, additional Kentland Farm facilities, and maintenance reserve projects. Additionally, there was an increase of $13.1 million in capital grants and gifts, largely due to revenue from the 21st Century bond program and a small increase in the Equipment Trust Fund program. These increases were partially offset by a larger year-over-year loss on the disposal of capital assets ($3.4 million) related to the relocation of the dairy complex.

SUMMARY OF EXPENSES BY NATURAL CLASSIFICATION

Increase (Decrease) in Expenses by Natural Classification
For the years ended June 30, 2016 and 2015
(all dollars in thousands)

	2016	2015	Change Amount	Change Percent
Compensation and benefits	$ 829.7	$ 787.6	$ 42.1	5.3 %
Contractual services	87.1	97.0	(9.9)	(10.2)%
Supplies and materials	106.8	100.8	6.0	6.0 %
Travel	44.2	41.8	2.4	5.7 %
Other operating expenses	82.7	64.0	18.7	29.2 %
Scholarships and fellowships	32.1	34.9	(2.8)	(8.0)%
Sponsored program subcontracts	32.7	38.2	(5.5)	(14.4)%
Depreciation and amortization	100.1	95.2	4.9	5.1%
Total operating expenses	$ 1,315.4	$ 1,259.5	$ 55.9	4.4%

Total Expenses by Natural Classification
For the year ended June 30, 2016



Revenues from all sources (operating, non-operating, and other) for fiscal year 2016 totaled $1,437.0 million, increasing by $104.2 million from the prior year. Operating expenses (shown in the charts on this page) totaled $1,315.4 million for fiscal year 2016, reflecting a year-over-year increase of $55.9 million. Total revenues, shown in the chart on the previous page, less total operating expenses resulted in an increase to net position of $121.6 million.

Total Expenses

The university is committed to recruiting and retaining outstanding faculty and staff. The personnel compensation package is one way to successfully compete with peer institutions and nonacademic employers. The compensation and benefits category comprised $829.7 million or 63.1% of the university's total operating expenses. This category increased by $42.1 million (5.3%) over the previous year. Generally, changes to expenses in this category come from three sources: increases or reductions in the number of personnel, annual salary increases, and general trends in the costs of fringe benefits. The general salary increase funded by the commonwealth was the major contributor to the increase in this category, along with the in-band adjustment process and growth in personnel. A second category with a significant increase over the prior year was other operating expenses ($18.7 million). A change in the

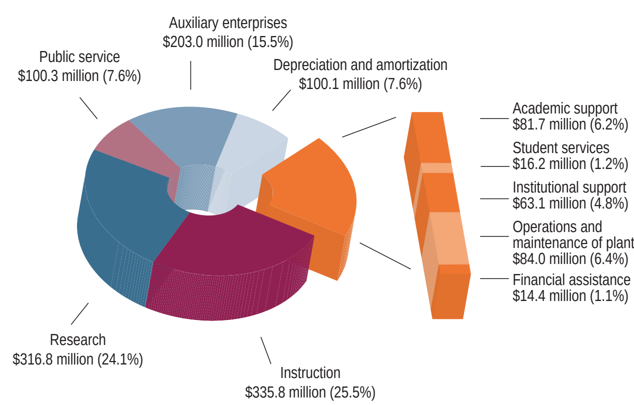
SUMMARY OF EXPENSES BY FUNCTION

Increase (Decrease) in Expenses by Function
For the years ended June 30, 2016 and 2015
(all dollars in millions)

	2016	2015	Change Amount	Change Percent
Instruction	$ 335.8	$ 318.7	$ 17.1	5.4 %
Research	316.8	304.6	12.2	4.0 %
Public service	100.3	101.4	(1.1)	(1.1)%
Auxiliary enterprises	203.0	196.2	6.8	3.5 %
Depreciation and amortization	100.1	95.2	4.9	5.1 %
Subtotal	1,056.0	1,016.1	39.9	3.9 %
Other expenses				
Academic support	81.7	80.9	0.8	1.0 %
Student services	16.2	14.6	1.6	11.0 %
Institutional support	63.1	56.9	6.2	10.9 %
Operations and maintenance of plant	84.0	77.5	6.5	8.4 %
Student financial assistance*	14.4	13.5	0.9	6.7 %
Total other expenses	259.4	243.4	16.0	6.6 %
Total operating expenses	$ 1,315.4	$ 1,259.5	$ 55.9	4.4 %

*Includes loan administrative fees and collection costs.

Total Expenses by Function
For the year ended June 30, 2016



method of allocation of recoveries to more accurately reflect the correct classification of expenses resulted in an overall decrease in contractual services and an overall increase in other operating expenses.

Operating expenses for fiscal year 2016 totaled $1,315.4 million, up $55.9 million from fiscal year 2015. The instruction category had the largest increase ($17.1 million), of which the majority occurred in the compensation and benefits category, reflecting the university's commitment to maintaining a high quality teaching staff. The research category also saw significant growth ($12.2 million) spread across several categories including compensation and benefits ($6.5 million) and contractual services ($6.0 million), offset by small reductions among various other categories.

In the functional categories for support activities, institutional support and operations and maintenance of plant showed moderate rises in expenses ($6.2 million and $6.5 million, respectively). The increase in institutional support was mostly due to larger compensation and benefit costs, while the increase in operations and maintenance of plant was a combination of increases in both compensation and benefits, and other operating expenses.

In summary, the university's operating revenues grew by $55.6 million or 5.8% over the preceding year, while operating expenses increased by $55.9 million or 4.4%. This resulted in an operating loss for the current fiscal year of $294.8 million, which is flat when compared to the operating loss of $294.5 million generated during the prior year. State appropriations and other net non-operating revenues were used to meet operating expenses not offset by operating revenues.

Statement of Cash Flows

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

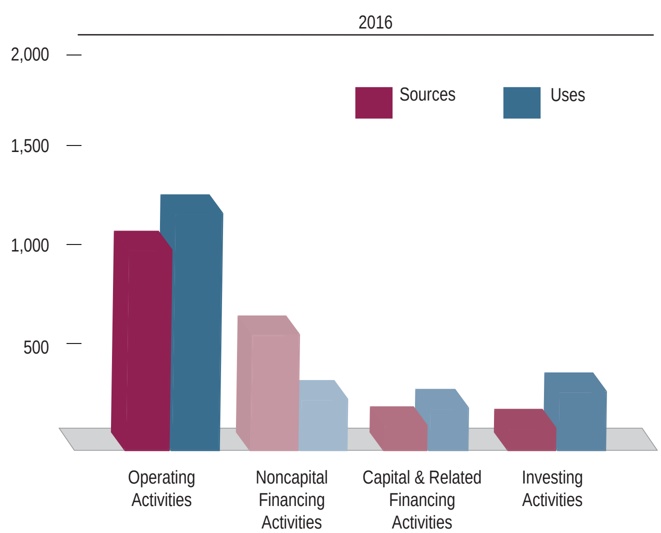
SUMMARY OF CASH FLOWS

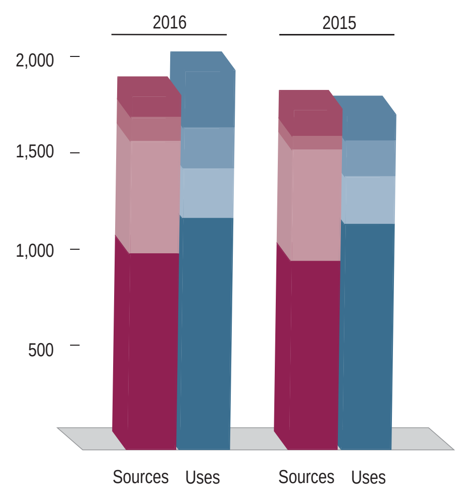
Increase (Decrease) in Cash Flows

For the years ended June 30, 2016 and 2015

(all dollars in millions)

	2016	2015	Change Amount	Change Percent
Net cash used by operating activities	$ (186.2)	$ (194.5)	$ 8.3	(4.3)%
Net cash provided by noncapital activities	330.4	343.6	(13.2)	(3.8)%
Net cash provided (used) by capital and related financing activities	(89.4)	(116.5)	27.1	(23.2)%
Net cash provided (used) by investing activities	(185.6)	6.1	(191.7)	3,142.6 %
Net increase (decrease) in cash and cash equivalents	(130.8)	38.7	(169.5)	(437.7)%
Cash and cash equivalents - beginning of year	394.9	356.2	38.7	10.9 %
Cash and cash equivalents - end of year	$ 264.1	$ 394.9	$ (130.8)	(33.1)%





The graphs above demonstrate the relationship between sources and uses of cash. The graph on the left shows activity for fiscal year 2016 only, grouped by related sources and uses of cash, while the graph on the right displays that same activity for fiscal years 2016 and 2015 in a stacked format.

The statement is divided into five sections. The first section, *Cash flows from operating activities*, deals with operating cash flows and shows net cash used by operating activities of the university. The *Cash flows from noncapital financing activities* section reflects cash received and disbursed for purposes other than operating, investing, and capital financing. GASB requires general appropriations from the commonwealth and noncapital gifts be shown as cash flows from noncapital financing activities. *Cash flows from capital and related financing activities* presents cash used for the acquisition and construction of capital and related items. Plant funds and related long-term debt activities (except depreciation and amortization), as well as gifts to endowments, are included in cash flows from capital financing activities. *Cash flows from investing activities* reflect the cash flows generated from investments which include purchases, proceeds, and interest. The last section reconciles the operating income or loss reflected on the *Statement of Revenues, Expenses, and Changes in Net Position* for fiscal year 2016 to net cash used by operating activities.

Major operating activity sources of cash for the university included student tuition and fees ($450.1 million), grants and contracts ($289.9 million), and auxiliary enterprise revenues ($240.7 million). Major operating activity uses of cash included compensation and benefits ($829.5 million) and operating expenses ($361.6 million). Operating activity uses of cash significantly exceeded operating activity sources of cash due to classification of state appropriations ($250.5 million) and gifts ($64.9 million) as noncapital financial activities.

There was a significant increase ($191.7 million) in cash used by investing activities when compared to the prior year. This increase was due to the transfer of cash and cash equivalents to longer term investments.

Economic Outlook

As a public institution, the university is subject to many of the macro-economic conditions impacting the nation and the Commonwealth of Virginia. The commonwealth currently supports 18% of the university's budget through general fund appropriations. After significant reductions in state support as a result of the national recession from 2008-2010, the commonwealth has begun to reinvest in higher education. The Virginia Higher Education Opportunity Act of 2011 marked the commonwealth's re-emphasis on positioning institutions of higher education for the future with a focus on base funding needs, enrollment growth support, student financial aid investment, and incentive-based support for the advancement of state priorities. While the Commonwealth of Virginia maintains the university's Board of Visitors' authority to establish tuition and fee rates, significant national, state, and institutional emphasis continues to focus on slowing the rate of tuition growth for undergraduate students, particularly state residents.

To that end, the commonwealth made significant investments in higher education in the spring of 2016 that benefited Virginia Tech, including an additional $7.5 million in operating support for the university's instructional division, $1.0 million in undergraduate and graduate financial aid, $2.4 million in equipment funding, and $0.3 million for non-instructional activities in the university's military activities and land-grant extension division. The state also made significant investments in the university's capital projects during the 2016 session. Since the completion of that budget process, the commonwealth has faced slower revenue growth in 2015-16 so revenue forecasts for 2016-17 and 2017-18 have been adjusted accordingly. Agency budget adjustments are under consideration to address the slower growth, and final decisions have not been made, but higher education was exempted from initial reduction planning for 2015-16. Higher education has been prioritized by the administration, and the university is hopeful that the trend of investment in higher education to spur the commonwealth's economic growth will continue. However, the state's slower revenue growth tempers the university's expected reliance upon general fund investment, and bolsters the continued thoughtful planning of cost containment and enrollment growth to support the needs of the university.

The university continues to work with state officials to support higher education through the Virginia Higher Education Opportunity Act of 2011. The six year academic, enrollment, and financial planning process defined by this legislation has potential implications for future state support and tuition rates. As a part of this funding framework, the commonwealth has moved to an environment that seeks to incentivize certain activities in support of state goals such as increased undergraduate enrollment and enhanced STEM-H (science, technology, engineering, mathematics, and health) degree completion. Once again, the university experienced the largest number of applications and incoming class of first-year students in its history in the Fall 2016 semester, signaling demand from both resident and nonresident students, and across all colleges at the university. New undergraduate degrees in STEM-H areas, including neuroscience and nanoscience, are drawing new students and preparing them for careers in these exciting and growing fields of discovery. As the largest producer of STEM-H graduates in the commonwealth, Virginia Tech is well positioned to leverage its excellence to further advance this goal, as well as other state higher education priorities. Virginia Tech's demonstrated strengths in STEM-H education and critical research will provide valuable opportunities to accelerate development.

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

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

The university manages its exposure to risk through the implementation of its investment policy. The university's investment policy, established by the Board of Visitors and monitored by the board's Finance and Audit Committee, requires that its public funds be invested in accordance with the *Investment of Public Funds Act* (Section 2.2-4500 through 2.2-4516, et seq., *Code of Virginia*). The university has limited its investment in securities outside the scope of the *Investment in Public Funds Act* to restricted gift funds, local funds, and nongeneral fund reserves and balances designated by management as quasi-endowments. These funds are invested in the Virginia Tech Foundation's consolidated endowment fund and managed in accordance with the provisions of the *Uniform Prudent Management of Institutional Funds Act* (Section 64.2-1100, et seq., *Code of Virginia*). At the end of the fiscal year, the value of the university's quasi-endowments invested in the foundation totaled $131.9 million, an increase of 35.8 million over the preceding year.

The university continually monitors the valuation of its investments. At June 30, 2016, the market value for the university's non-endowed cash, cash equivalents, and investments totaled $455.1 million, including unrealized gains on investments of $0.4 million, compared to the market value of its investments at September 30, 2016, of $596.2 million and unrealized gains of $0.3 million.

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

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

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

Renovations to the McBryde Hall 100 auditorium included upgraded seating, enhanced technology and acoustics, and increased accessibility.

STATEMENT OF NET POSITION

As of June 30, 2016, with comparative financial information as of June 30, 2015
(*all dollars in thousands*)

	2016		2015	
ASSETS	Virginia Tech	Component Units	Virginia Tech	Component Units
Current assets				
Cash and cash equivalents *(Note 4)*	$ 224,757	$ 2,650	$ 311,531	$ 510
Short-term investments *(Note 4, 26)*	-	11,056	1,752	4,739
Accounts and contributions receivable, net *(Notes 1, 5, 26)*	56,598	40,949	53,938	35,418
Notes receivable, net *(Notes 1, 6)*	1,215	1,659	1,745	791
Due from Commonwealth of Virginia *(Note 10)*	14,080	-	12,606	-
Inventories	10,681	5,848	11,941	7,457
Prepaid expenses	17,407	1,170	18,301	1,215
Other assets	-	4,021	-	4,867
Total current assets	324,738	67,353	411,814	54,997
Noncurrent assets				
Cash and cash equivalents *(Note 4)*	39,380	33,369	83,393	43,577
Due from Commonwealth of Virginia *(Note 10)*	39,645	-	2,943	-
Accounts and contributions receivable, net *(Notes 1, 5, 26)*	3,875	59,743	4,218	66,902
Notes receivable, net *(Notes 1, 6)*	19,813	21,782	20,297	35,408
Net investments in direct financing leases	-	69,792	-	72,084
Irrevocable trusts held by others, net	-	10,497	-	10,901
Long-term investments *(Notes 4, 26)*	408,691	959,668	220,660	938,152
Depreciable capital assets, net *(Notes 9, 26)*	1,467,502	211,382	1,454,320	207,171
Nondepreciable capital assets *(Notes 9, 26)*	199,354	80,945	170,778	84,671
Intangible assets, net	-	558	-	562
Other assets	290	6,892	780	6,319
Total noncurrent assets	2,178,550	1,454,628	1,957,389	1,465,747
Total assets	2,503,288	1,521,981	2,369,203	1,520,744
DEFERRED OUTFLOWS OF RESOURCES				
Deferred loss on long-term debt defeasance *(Note 14)*	7,137	-	7,904	-
Deferred outflow for VRS pension *(Notes 1, 18)*	50,941	-	34,384	-
Total deferred outflows	58,078	-	42,288	-
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities *(Note 7)*	140,462	13,512	130,702	15,645
Accrued compensated absences *(Notes 1, 15)*	26,021	660	23,862	862
Unearned revenue *(Notes 1, 8)*	40,545	2,387	38,857	3,834
Funds held in custody for others	18,965	-	23,206	-
Commercial paper *(Note 11)*	5,425	-	29,790	-
Long-term debt payable *(Notes 12, 13, 26)*	30,832	12,813	31,749	12,066
Other liabilities	-	4,505	-	3,725
Total current liabilities	262,250	33,877	278,166	36,132
Noncurrent liabilities				
Pension liability	403,696	-	357,622	-
Accrued compensated absences *(Notes 1, 15)*	17,056	221	19,136	186
Federal student loan program contributions refundable *(Note 15)*	13,691	-	13,679	-
Unearned revenue *(Notes 1, 8)*	-	1,716	-	1,708
Long-term debt payable *(Notes 12, 13, 26)*	494,721	247,548	459,748	261,491
Liabilities under trust agreements	-	25,521	-	26,009
Agency deposits held in trust *(Note 26)*	-	142,709	-	108,571
Other liabilities	1,459	10,346	1,752	10,372
Total noncurrent liabilities	930,623	428,061	851,937	408,337
Total liabilities	1,192,873	461,938	1,130,103	444,469
DEFERRED INFLOWS OF RESOURCES				
Deferred gain on long-term debt defeasance *(Note 14)*	1,008	-	1,134	-
Deferred inflow for VRS pension *(Notes 1, 18)*	29,165	-	63,575	-
Total deferred inflows	30,173	-	64,709	-
NET POSITION				
Investment in capital assets	1,163,773	124,679	1,112,101	117,350
Restricted, nonexpendable	357	479,190	356	454,810
Restricted, expendable				
Scholarships, research, instruction, and other	106,495	381,811	108,468	420,327
Capital projects	36,442	-	6,046	-
Debt service	66,557	-	64,008	-
Unrestricted and auxiliary operations	(35,304)	74,363	(74,300)	83,788
Total net position	$ 1,338,320	$ 1,060,043	$ 1,216,679	$ 1,076,275

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

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the year ended June 30, 2016 with comparative financial information for the year ended June 30, 2015
(*all dollars in thousands*)

	2016		2015	
	Virginia Tech	Component Units	Virginia Tech	Component Units
OPERATING REVENUES				
Student tuition and fees, net (Note 1)	$ 449,176	$ -	$ 411,207	$ -
Gifts and contributions	-	50,288	-	58,598
Federal appropriations	16,793	-	17,439	-
Federal grants and contracts	212,966	-	210,332	-
Federal ARRA grants and contracts	333	-	1,467	-
State grants and contracts	12,757	-	14,214	-
Local grants and contracts (Note 3)	14,045	-	14,349	-
Nongovernmental grants and contracts	45,006	-	37,661	-
Sales and services of educational activities	18,069	-	17,345	-
Auxiliary enterprise revenue, net (Note 1)	244,312	46,849	234,640	45,682
Other operating revenues	7,156	52,843	6,368	60,584
Total operating revenues	1,020,613	149,980	965,022	164,864
OPERATING EXPENSES				
Instruction	335,793	5,023	318,725	4,920
Research	316,826	11,536	304,657	10,838
Public service	100,302	4,717	101,403	4,634
Academic support	81,731	28,735	80,852	16,219
Student services	16,203	-	14,628	-
Institutional support	63,085	47,439	56,917	40,795
Operation and maintenance of plant	83,931	13,512	77,482	13,008
Student financial assistance	14,287	26,715	13,474	25,036
Auxiliary enterprises	203,014	38,870	196,212	36,060
Depreciation and amortization (Note 9)	100,093	10,032	95,163	10,122
Other operating expenses	112	12,600	60	17,864
Total operating expenses	1,315,377	199,179	1,259,573	179,496
OPERATING LOSS	(294,764)	(49,199)	(294,551)	(14,632)
NON-OPERATING REVENUES (EXPENSES)				
State appropriations (Note 22)	250,649	-	242,831	-
Gifts	65,156	-	60,259	-
Non-operating grants and contracts	2,009	-	2,027	-
Federal student financial aid (Pell)	17,214	-	17,218	-
Investment income, net	858	10,657	3,271	18,858
Net gain (loss) on investments	-	(7,072)	-	11,979
Other additions	747	-	8,856	-
Interest expense on debt related to capital assets	(18,664)	(10,106)	(18,424)	(9,815)
Net non-operating revenues (expenses)	317,969	(6,521)	316,038	21,022
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, AND LOSSES	23,205	(55,720)	21,487	6,390
Change in valuation of split interest agreements	-	(2,767)	-	(3,761)
Capital appropriations (Note 21)	36,966	-	-	-
Capital grants and gifts (Note 10)	65,910	16,480	52,761	10,611
Gain (loss) on disposal of capital assets	(4,440)	(1)	(967)	(1)
Additions to permanent endowments	-	26,482	-	29,330
Other expenses	-	(706)	-	(1,092)
Total other revenues, expenses, gains, and losses	98,436	39,488	51,794	35,087
INCREASE IN NET POSITION	121,641	(16,232)	73,281	41,477
NET POSITION—BEGINNING OF YEAR	1,216,679	1,076,275	1,143,398	1,034,798
NET POSITION—END OF YEAR	$ 1,338,320	$ 1,060,043	$ 1,216,679	$ 1,076,275

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

STATEMENT OF CASH FLOWS

As of June 30, 2016, with comparative financial information as of June 30, 2015
(*all dollars in thousands*)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	$ 450,065	$ 411,832
Federal appropriations	13,999	21,781
Grants and contracts	289,818	282,227
Sales and services of educational activities	18,069	17,345
Auxiliary enterprises	240,734	241,040
Other operating receipts	7,156	6,368
Payments for compensation and fringe benefits	(829,465)	(790,798)
Payments for operating expenses	(361,630)	(370,807)
Payments for scholarships and fellowships	(14,068)	(13,234)
Loans issued to students	(4,182)	(3,576)
Collection of loans from students	3,266	3,338
Net cash used by operating activities	(186,238)	(194,484)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	250,510	242,831
Gifts received for other than capital purposes	64,927	60,269
Non-operating grants and contracts	2,009	2,027
Federal student financial aid (Pell)	17,214	17,218
Federal Direct Lending Program—receipts	130,464	128,877
Federal Direct Lending Program—disbursements	(130,438)	(128,903)
Funds held in custody for others—receipts	125,336	125,147
Funds held in custody for others—disbursements	(129,603)	(111,913)
Other non-operating receipts	-	7,997
Net cash provided by noncapital financing activities	330,419	343,550
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations	3,111	-
Capital grants and gifts	50,865	50,320
Proceeds from capital debt	70,242	-
Proceeds from the sale of capital assets and insurance recoveries	1,502	1,653
Acquisition and construction of capital assets	(136,343)	(133,547)
Principal paid on capital debt and leases	(33,015)	(32,402)
Short-term debt, commercial paper	(24,365)	18,585
Interest paid on capital debt and leases	(21,366)	(21,082)
Net cash used by capital and related financing activities	(89,369)	(116,473)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	112,298	139,972
Interest on investments	861	2,096
Purchase of investments and related fees	(298,758)	(135,955)
Net cash provided (used) by investing activities	(185,599)	6,113
Net increase (decrease) in cash and cash equivalents	(130,787)	38,706
CASH AND CASH EQUIVALENTS—BEGINNING OF YEAR	394,924	356,218
CASH AND CASH EQUIVALENTS—END OF YEAR	$ 264,137	$ 394,924

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

	2016	2015
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	$ (294,764)	$ (294,551)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation and amortization expense	100,093	95,163
Changes in assets, liabilities, and deferred outflows		
Deferred outflows for defined benefit pension plans	(4,893)	(5,955)
Receivables, net of allowance for doubtful accounts	(2,290)	11,908
Inventories	1,260	(738)
Prepaid expenses and other assets	1,384	(1,420)
Notes receivable, net of allowance for doubtful accounts	1,014	(198)
Accounts payable and accrued liabilities	5,167	(5,196)
Accrued payroll and other liabilities	5,012	2,332
Compensated absences	79	489
Unearned revenue	1,688	3,662
Federal loan program contributions refundable	12	20
Total adjustments	108,526	100,067
Net cash used by operating activities	$ (186,238)	$ (194,484)

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Change in accounts receivable related to non-operating income	$ 27	$ (2,843)
Capital assets acquired through in-kind donations as a component of capital gifts and grants income	$ 11,243	$ 4,238
Change in fair value of investments recognized as a component of investment income	$ (2,582)	$ (3,727)
Change in fair value of interest payable affecting interest paid	$ 1,098	$ (289)
Capital assets acquired through assumption of a liability	$ -	$ 17,970
Change in interest receivable affecting interest received	$ 178	$ (42)

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

NOTES TO FINANCIAL STATEMENTS

Contents

NOTE 1

Summary of Significant Accounting Policies

Reporting Entity

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

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

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

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

Virginia Tech Foundation Inc.

The foundation is a legally separate, tax-exempt organization established in 1948 to receive, manage, and disburse private gifts in support of Virginia Tech programs. The foundation is governed by a 34-member board of directors. The bylaws of the foundation provide that the rector of the Board of Visitors, the president of the alumni association, the president of the athletic fund, and the president of the university shall serve as ex-officio members of the VTF board. The remainder of the board is composed of alumni and friends of the university who actively provide private support for university programs. Directors are elected by a vote of the membership of the foundation. Membership is obtained by making gifts at or above a specified level to the foundation.

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

During this fiscal year, the foundation distributed $82,695,000 to the university, for both restricted and unrestricted purposes.

Virginia Tech Services Inc.

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

During this fiscal year, VTS paid $931,000 to the university, primarily for the rental of facilities and sale of items benefiting the Student Government Association.

Financial Statement Presentation

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

In fiscal year 2016 the following GASB statements of standards were effective: Statement 72, *Fair Value Measurement and Application* and Statement 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.* Additionally, portions of Statement 73*, Accounting and Financial Reporting for Pensions and Related Assets that are Not Within the Scope of GASB Statement 68 and Amendments to Certain Provisions of GASB Statements 67 and 68*, Statement 79, *Certain External Investment Pools and Pool Participants*, and Statement 82, *Pension Issues*, were effective for fiscal year 2016. GASB Statement 72 establishes general principles for measuring fair value for financial reporting purposes and provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. GASB Statement 76 defines the hierarchy of generally accepted accounting principles for state and local governments. GASB 73 sets requirements for defined benefit pensions that are not within the scope of GASB statement 68, as well as requirements for the asset accumulated for the purposes of providing those pensions. GASB 79 addresses, for certain external investment pools and their participants, the accounting and financial reporting implications that result from changes in the regulatory provisions referenced by previous accounting and financial reporting standards. GASB 82 defines the measure of covered payroll to be presented in schedules of required supplementary information as the payroll on which pension contributions are based. Neither GASB 73 nor GASB 79 had an effect upon the university's financial statements this fiscal year.

Basis of Accounting

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

Cash Equivalents

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

Short-term Investments

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

Investments

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

Accounts Receivable

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

Notes Receivable

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

Inventories

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

Noncurrent Cash and Investments

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

Capital Assets

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

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

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

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

Interest Capitalization

Interest expense incurred during the construction of capital assets is capitalized, if material, net of interest income earned on resources set aside for this purpose. The university capitalized $1,150,000 in interest expense during this fiscal year.

Pensions

The Virginia Retirement System (VRS) State Employee Retirement Plan and the Virginia Law Officers' System (VaLORS) Retirement Plan are single employer pension plans that are treated like cost-sharing plans. For the purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position of the VRS State Employee Retirement Plan and the VaLORS Retirement Plan, as well as 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.

Accrued Compensated Absences

Certain salaried employees' attendance and leave regulations make provisions for the granting of a specified number of days of leave with pay each year. The amount reflects all unused vacation leave, sabbatical leave, and the amount payable upon termination under the Commonwealth of Virginia's sick leave pay out policy. The applicable share of employer related taxes payable on the eventual termination payments is also included. The university's liability and expense for the amount of leave earned by employees but not taken, as of June 30, 2016, is recorded in the *Statement of Net Position*, and is included in the various functional categories of operating expenses in the *Statement of Revenues, Expenses, and Changes in Net Position*.

Unearned Revenue

Unearned revenue represents revenue collected but not earned as of June 30, 2016, primarily composed of revenue for grants and contracts, prepaid athletic ticket sales, and prepaid student tuition and fees. Summer Session I tuition and fees received during the fiscal year are considered earned at the end of the refund period, approximately June 15th of each year. Tuition and fees received prior to year end for Summer Session II are unearned and recognized as revenue in the next fiscal year. See Note 8 for a detailed list of unearned revenue amounts.

Noncurrent Liabilities

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

Deferred Outflows of Resources

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

Deferred Inflows of Resources

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

Net Position

The university's net position is classified as follows:

Net investment in capital assets — Net investment in capital assets represents the university's total investment in capital assets, net of accumulated depreciation and outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets.

Restricted component of net position, expendable — The expendable category of the restricted component of net position includes resources for which the university is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Restricted component of net position, nonexpendable — The nonexpendable category of the restricted component of net position is comprised of endowment and similar type funds where donors or other external sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income to be expended or added to principal.

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

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

Income Taxes

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

Classifications of Revenues and Expenses

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

Operating revenues — Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship allowance; (2) sales and services of auxiliary enterprises, net of scholarship allowance; (3) most federal, state, local, and nongovernmental grants and contracts and federal appropriations; and (4) interest on institutional student loans.

Non-operating revenues — Non-operating revenues are revenues received for which goods and services are not provided. State appropriations, gifts, and other revenue sources that are defined as non-operating revenues by GASB Statement 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement 34, *Basic Financial Statements-and Management's Discussion and Analysis—for State and Local Governments* are included in this category.

Operating and Non-operating Expenses – Non-operating expenses include interest on debt related to the purchase of capital assets and losses on disposal of capital assets. All other expenses are classified as operating expenses.

Scholarship Allowance

Student tuition and fees, certain auxiliary revenues, and student financial assistance expenses are reported net of scholarship allowance in the *Statement of Revenues, Expenses, and Changes in Net Position*. Scholarship allowance is the difference between the stated charge for goods and services provided by the university and the amount paid by students and/or third parties making payments on the students' behalf. For the fiscal year ended June 30, 2016, the scholarship allowance for student tuition and fee revenue and auxiliary enterprise revenue totaled $103,491,000 and $23,504,000, respectively. Scholarship allowance to students is reported using the alternative method as prescribed by the National Association of College and University Business Officers (NACUBO). The alternative method is an algorithm that computes scholarship allowance on a university-wide basis rather than on an individual student basis.

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, 2015, from which the summarized information was derived.

NOTE 2

Related Parties

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

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

NOTE 3

Local Government Support

The university, through the operation of its Cooperative Extension programs, maintains offices in numerous cities and counties throughout the Commonwealth of Virginia. Personnel assigned to these locations receive a portion of their compensation from local governments. Also included in the expenses of these extension offices are unit support services, which include such items as rent, telephone, supplies, equipment, and extension program expenses. The estimated amount contributed by the various local governments totaled $11,669,000 in 2016, and has been included in revenues and expenses of the accompanying financial statements. The university received other local government support of $2,376,000 in 2016.

NOTE 4

Cash, Cash Equivalents, and Investments

The following information is provided with respect to the university's cash, cash equivalents, and investments as of June 30, 2016. The following risk disclosures are required by GASB Statement 40, *Deposit and Investment Risk Disclosures*:

- **Custodial credit risk** for Category 3 deposits and investments is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The university had no category 3 deposits or investments for 2016.
- **Credit risk** is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. GASB Statement 40 requires the disclosure of the credit quality rating on any investments subject to credit risk.
- **Concentration of credit risk** is the risk of loss attributed to the magnitude of a government's investment in a single issuer. GASB Statement 40 requires disclosure of any issuer with more than 5% of total investments. The university's investment policy requires its investment pools and sub-portfolios be diversified so that no more than 3% of the value of the respective portfolios is invested in securities of any single issuer. The university does not have investments subject to risks due to the concentration of credit.
- **Interest rate risk** is the risk that interest rate changes will adversely affect the fair value of an investment. GASB Statement 40 requires disclosure of maturities for any investments subject to interest rate risk. The university uses a duration methodology to measure the maturities of its investment portfolios. The university's *Statement of Policy Governing the Investment of University Funds* established two major allocations, Primary Liquidity and Extended Duration, managed by external investment firms. Asset allocations to Primary Liquidity are targeted at 50% of total investments with approximate maturities less than 60 days. The Extended Duration allocation may be structured into three sub-portfolios; a Short Duration Portfolio, an Intermediate Duration Portfolio and a Long Duration Portfolio.
- **Foreign currency risk** refers to the possibility that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The university had no foreign investments or deposits for 2016.

Cash and Cash Equivalents

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

Investments

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

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

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

Summary of investments

As of June 30, 2016

(all dollars in thousands)	Current Assets	Noncurrent Assets	Total
Cash and cash equivalents	$ 224,757	$ 39,380	$ 264,137
Long-term investments	-	408,691	408,691
Cash and investments	$ 224,757	$ 448,071	672,828
Less cash			61,366
Total investments			$ 611,462

NOTE 4 (CONTINUED)

Investments Measured at Fair Value including categorizaton of credit quality and interest rate risk

Investments held on June 30, 2016

(all dollars in thousands)

	Credit Rating	Less than 1 Year	1-5 Years	6-10 Years	6/30/2016	Fair Value Measurement Level 1 (3)	Level 2 (4)
Investments by fair value level							
U.S. Treasury and Agency securities (1)	N/A	$ 8,224	$ 23,791	$ -	$ 32,015	$ 23,219	$ 8,796
Debt securities							
Corporate bonds & notes	A1	7,177	22,257	-	29,434	-	29,434
Corporate bonds & notes	A2	2,501	15,521	-	18,022	-	18,022
Corporate bonds & notes	A3	766	5,969	-	6,735	-	6,735
Corporate bonds & notes	Aa1	-	6,200	-	6,200	-	6,200
Corporate bonds & notes	Aa2	527	14,270	-	14,797	-	14,797
Corporate bonds & notes	Aa3	4,997	8,989	-	13,986	-	13,986
Corporate bonds & notes	Aaa	-	12,538	-	12,538	-	12,538
Repurchase agreements	N/A	25,286	-	-	25,286	-	25,286
Asset backed securities (2)	AAA	11,237	13,838	-	25,075	-	25,075
Asset backed securities	Aaa	2,561	4,095	-	6,656	-	6,656
Federal agency securities							
Unsecured bonds and notes	Aaa	120,794	78,507	-	199,301	-	199,301
Mortgage backed securities (2)	AAA	928	868	-	1,796	-	1,796
Mortgage backed securities	Aaa	5,817	24,169	-	29,986	-	29,986
Money market & mutual funds	Aa2	186	-	-	186	186	-
Money market & mutual funds	Aaa	12,823	-	-	12,823	12,823	-
Commercial Paper	P-1	19,868	-	-	19,868	-	19,868
Short-term investment fund (2)	AAAm	168	-	-	168	-	168
Total investments by fair value level		223,860	231,012	-	454,872	$ 36,228	$ 418,644
Investments measured at net asset value (NAV)							
SNAP		23,131	-	-	23,131		
Deposits with VTF	N/A	2,011	-	-	2,011		
Mutual funds	Aa1	1,459	-	-	1,459		
Dairymen's Equity	N/A	-	-	63	63		
Investments w/o specific maturities, held with VTF		-	-	-	129,926		
Total investments measured at the NAV		26,601	-	63	156,590		
Total investments measured at fair value		$ 250,461	$ 231,012	$ 63	$ 611,462		

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

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

(3) Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for identical assets.

(4) Debt securities listed in Level 2 of the fair value hierarchy are valued using a matrix pricing technique, based on the securities' relationship to benchmark quoted prices.

NOTE 5

Accounts Receivable

Accounts receivable as of June 30, 2016

(all dollars in thousands)

Current receivables	
Grants and contracts	$ 44,299
Federal appropriations	3,390
Accrued investment interest	464
Student tuition and fees	1,941
Auxiliary enterprises and other operating activities	8,147
Total current receivables before allowance	58,241
Less allowance for doubtful accounts	1,643
Net current accounts receivable	56,598
Noncurrent receivables	
Capital gifts, grants, and other receivables	3,573
Build America bonds interest receivable	150
Accrued investment interest	152
Total noncurrent receivables	3,875
Total receivables	$ 60,473

The Dairy Science Complex at Kentland Farm opened in fiscal year 2016.

NOTE 6

Notes Receivable

Notes receivable as of June 30, 2016
(*all dollars in thousands*)

Current notes receivable		
Federal Perkins student loan program	$	1,071
Brookings student loan programs		124
Other short-term loans		82
Total current notes receivable		1,277
Less allowance for doubtful accounts		62
Net current notes receivable		1,215
Noncurrent notes receivable		
Federal Perkins student loan program		13,790
VTT LLC operating & equipment loan		4,000
VTARC operating loan		2,000
Brookings student loan programs		1,487
Health Professional student loan program		551
Other long-term notes receivable		604
Total noncurrent notes receivable		22,432
Less allowance for doubtful accounts		2,619
Net noncurrent notes receivable		19,813
Total notes receivable	$	21,028

The VTARC operating loan was fully reserved in the allowance for doubtful accounts as of June 30, 2016 and was subsequently written-off during fiscal year 2017.

NOTE 7

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities at June 30, 2016
(all dollars in thousands)

Accounts payable	$	46,173
Accounts payable, capital projects		18,115
Accrued salaries and wages payable		71,797
Retainage payable		4,377
Total current accounts payable and accrued liabilities	$	140,462

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

NOTE 8

Unearned Revenue

Unearned revenue at June 30, 2016
(all dollars in thousands)

Grants and contracts	$	13,992
Prepaid athletic tickets		12,406
Prepaid tuition and fees		9,443
Other auxiliary enterprises		4,704
Total unearned revenue	$	40,545

NOTE 9

Capital Assets

Changes in capital assets
For the year ending June 30, 2016
(*all dollars in thousands*)

	Beginning Balance	Additions	Retirements	Ending Balance
Depreciable capital assets				
Buildings*	$ 1,688,094	$ 54,474	$ 5,289	$ 1,737,279
Moveable equipment	500,463	41,707	23,803	518,367
Software and intangible assets	11,350	11,511	565	22,296
Fixed equipment	133,465	5,656	6,658	132,463
Infrastructure	121,177	3,379	35	124,521
Library books	76,301	1,761	536	77,526
Total depreciable capital assets, at cost	2,530,850	118,488	36,886	2,612,452
Less accumulated depreciation and amortization				
Buildings	485,004	44,733	2,022	527,715
Moveable equipment	355,671	40,956	22,230	374,397
Software and intangible assets	8,617	4,242	565	12,294
Fixed equipment	67,018	5,570	6,300	66,288
Infrastructure	93,769	2,631	20	96,380
Library books	66,451	1,961	536	67,876
Total accumulated depreciation and amortization	1,076,530	100,093	31,673	1,144,950
Total depreciable capital assets, net of accumulated depreciation and amortization	1,454,320	18,395	5,213	1,467,502
Nondepreciable capital assets				
Land	46,182	275	5	46,452
Livestock	1,168	-	571	597
Construction in progress	116,063	92,008	59,689	148,382
Equipment in process	3,622	2,762	3,311	3,073
Software in development	3,743	633	3,526	850
Total nondepreciable capital assets	170,778	95,678	67,102	199,354
Total capital assets, net of accumulated depreciation and amortization	$ 1,625,098	$ 114,073	$ 72,315	$ 1,666,856

*Includes capital leases.

NOTE 10

Commonwealth Capital Reimbursement Programs and Capital Gifts

The commonwealth has established several programs to provide state-supported institutions of higher education with bond proceeds for financing the acquisition and replacement of instructional and research equipment and facilities. During fiscal year 2016, funding has been provided to the university from three programs (21st Century program, Central Maintenance Reserve program and the Equipment Trust Fund program) managed by the Virginia College Building Authority (VCBA). The VCBA issues bonds and uses the proceeds to reimburse the university and other institutions of higher education for expenses incurred in the acquisition of equipment and facilities. The university also receives capital funding for equipment and facilities from private gifts, grants, and contracts.

The *Statement of Revenues, Expenses, and Changes in Net Position* includes the amounts listed below for the year ended June 30, 2016, in "Capital Grants and Gifts" line item for equipment and facilities. Part of the funding for these programs is a receivable from the commonwealth at June 30, 2016 as shown in the subsequent paragraph *(all dollars in thousands)*:

VCBA 21st Century program	$	26,595
VCBA Central Maintenance Reserve program		9,827
VCBA Equipment Trust Fund program		13,941
Private gifts		3,162
Grants and contracts		12,385
	$	65,910

The line items, "Due from the Commonwealth of Virginia", on the *Statement of Net Position* for the year ended June 30, 2016, represent pending reimbursements from the following programs *(all dollars in thousands)*

	Current	Noncurrent
Capital appropriations receivable	$ -	$ 33,855
VCBA Equipment Trust Fund program	13,941	-
VCBA 21st Century program	-	5,790
Commonwealth Technology Research Fund	139	-
	$ 14,080	$ 39,645

NOTE 11

Short-term Debt

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

At June 30, 2016, the amount outstanding was $5,425,000. The average days-to-maturity was 26 days with a weighted average effective interest rate of 0.81%.

NOTE 12

Summary of Long-term Indebtedness

Bonds Payable

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

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

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

Notes Payable

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

Capital Leases

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

Installment Purchase Obligations

The university has entered into various installment purchase contracts to finance the acquisition of equipment. The length of the purchase agreements ranges from two to five years with variable rates of interest.

Long-term Debt Payable Activity

As of June 30, 2016

(all dollars in thousands)

	Beginning Balance	Additions	Retirements	Ending Balance	Current Portion
Bonds payable					
Section 9(c) general obligation revenue bonds	$ 154,810	$ -	$ 9,931	$ 144,879	$ 9,116
Section 9(d) revenue bonds	7,770	66,040	9,247	64,563	2,740
Notes payable	250,325	7,930	16,833	241,422	15,545
Capital lease obligations	78,581	-	3,892	74,689	3,431
Installment purchase obligations	11	-	11	-	-
Total long-term debt payable	$ 491,497	73,970	39,914	$ 525,553	$ 30,832
Current year debt defeasance		(3,728)	(3,566)		
Total additions/retirements, net of current year defeasance		$ 70,242	$ 36,348		

Future Principal Commitments

For fiscal years subsequent to 2016

(all dollars in thousands)

	Section 9(c) Bonds	Section 9(d) Bonds	Notes Payable	Capital Lease Obligations	Total Long-term Debt Payable
2017	$ 9,116	$ 2,740	$ 15,545	$ 3,431	$ 30,832
2018	7,972	2,810	16,130	3,608	30,520
2019	8,032	2,910	16,915	3,786	31,643
2020	8,203	3,050	16,965	3,972	32,190
2021	8,542	2,440	14,665	4,236	29,883
2022 - 2026	47,751	14,125	74,115	18,017	154,008
2027 - 2031	36,398	16,880	53,555	18,087	124,920
2032 - 2036	4,960	16,020	13,900	17,732	52,612
2037 - 2038	-	-	1,245	1,820	3,065
Unamortized premiums (discounts)	13,905	3,588	18,387	-	35,880
Total future principal requirements	$ 144,879	$ 64,563	$ 241,422	$ 74,689	$ 525,553

Future Interest Commitments

For fiscal years subsequent to 2016

(all dollars in thousands)

	Section 9(c) Bonds	Section 9(d) Bonds	Notes Payable	Capital Lease Obligations	Total Long-term Debt Payable
2017	$ 5,949	$ 2,304	$ 9,695	$ 3,405	$ 21,353
2018	5,541	2,223	8,923	3,241	19,928
2019	5,195	2,121	8,119	3,072	18,507
2020	4,845	1,994	7,302	2,898	17,039
2021	4,491	1,890	6,604	2,764	15,749
2022 - 2026	16,395	7,764	22,738	10,816	57,713
2027 - 2031	5,473	4,729	8,494	6,129	24,825
2032 - 2036	504	1,527	1,684	2,437	6,152
2037 - 2038	-	-	25	124	149
Total future interest requirements	$ 48,393	$ 24,552	$ 73,584	$ 34,886	$ 181,415

Future Principal Commitments by System

For fiscal years subsequent to 2016

(all dollars in thousands)

	Section 9(c) Bonds	Section 9(d) Bonds	Notes Payable	Capital Lease Obligations	Total Long-term Debt Payable
Athletic system					
Principal	$ -	$ 510	$ 46,545	$ -	$ 47,055
Unamortized premiums (discounts)	-	(4)	5,308	-	5,304
Total for athletic system	-	506	51,853	-	52,359
Dormitory and dining hall system					
Principal	107,449	50,340	14,955	-	172,744
Unamortized premiums (discounts)	11,012	3,282	828	-	15,122
Total for dormitory and dining hall system	118,461	53,622	15,783	-	187,866

NOTE 12 (CONTINUED)

Future Principal Commitments by System, continued

University services system					
Principal	-	3,200	52,140	-	55,340
Unamortized premiums (discounts)	-	46	2,775	-	2,821
Total for university services system	-	3,246	54,915	-	58,161
Utility system					
Principal	-	4,290	2,376	-	6,666
Unamortized premiums (discounts)	-	145	110	-	255
Total for utility system	-	4,435	2,486	-	6,921
All systems					
Principal	107,449	58,340	116,016	-	281,805
Unamortized premiums (discounts)	11,012	3,469	9,021	-	23,502
Total for all systems	118,461	61,809	125,037	-	305,307
Other nonsystem debt					
Principal	23,525	2,635	107,019	74,689	207,868
Unamortized premiums (discounts)	2,893	119	9,366	-	12,378
Total for other nonsystem debt	26,418	2,754	116,385	74,689	220,246
Total future principal requirements	$ 144,879	$ 64,563	$ 241,422	$ 74,689	$ 525,553

NOTE 13

Detail of Long-term Indebtedness

As of June 30, 2016
(all dollars in thousands)

	Interest rates	Maturity	Principal Payable	Unamortized Premium (Discount)	Ending Balance
Bonds Payable					
Revenue bonds - Section 9(d)					
Athletic system					
Series 2015B, issued $510	2.50% - 3.50%	2035	$ 510	$ (4)	$ 506
Dormitory and dining hall system					
Series 2015A, issued $51,425	2.00% - 5.00%	2035	50,340	3,282	53,622
University services system					
Recreational Sports auxiliary					
Series 2015C, issued $3,280	2.00% - 4.00%	2035	3,200	46	3,246
Utility system					
Series 2015D, issued $4,390	2.75% - 4.00%	2035	4,290	145	4,435
Other nonsystem debt					
Northern Virginia Graduate Center					
Series 2015E, issued $2,635 - refunding series 2004A*	3.00%	2020	2,635	119	2,754
Total revenue bonds			60,975	3,588	64,563
General obligation revenue bonds - Section 9(c)					
Dormitory and dining hall system					
Series 2014B, issued $3,150 - partial refunding series 2004B*	2.00% - 5.00%	2017	1,217	89	1,306
Series 2007A, issued $5,995	4.00% - 5.00%	2018	625	30	655
Series 2007A, issued $13,130	4.00% - 5.00%	2018	1,365	67	1,432
Series 2008B, issued $17,185	3.00% - 5.00%	2018	1,620	78	1,698
Series 2014B, issued $793 - partial refunding series 2004B*	2.00% - 5.00%	2018	450	43	493
Series 2014B, issued $587 - partial refundings series 2004B*	2.00% - 5.00%	2019	393	44	437
Series 2009B, issued $39,005	4.00% - 5.00%	2022	31,295	4,306	35,601
Series 2009D, issued $1,891 - partial refunding series 2004A*	5.00%	2022	1,760	190	1,950
Series 2012A, issued $942 - partial refunding series 2004A*	5.00%	2024	705	157	862
Series 2013B, issued $3,576 - partial refunding series 2007A*	4.00% - 5.00%	2027	3,576	519	4,095
Series 2013B, issued $7,842 - partial refunding series 2007A*	4.00% - 5.00%	2027	7,842	1,139	8,981
Series 2015B, issued $10,671 - partial refunding series 2008B*	4.00% - 5.00%	2028	10,671	2,119	12,790
Series 2009B, issued $3,720	4.00% - 5.00%	2029	2,985	411	3,396
Series 2010A, issued $34,650	3.00% - 5.00%	2030	27,055	460	27,515
Series 2011A, issued $18,860	4.34%	2031	15,890	1,360	17,250
Total dormitory and dining hall system general obligation revenue bonds			107,449	11,012	118,461

General obligation revenue bonds - Section 9(c), continued					
Parking facilities					
Series 2009C, issued $276 - partial refunding series 2002*	3.00% - 4.00%	2017	85	4	89
Series 2014B, issued $300 - partial refunding series 2004B*	2.00% - 5.00%	2017	116	9	125
Series 2008B, issued $1,545	3.00% - 5.00%	2018	140	7	147
Series 2009D, issued $190 - partial refunding series 2006B*	5.0%	2022	190	19	209
Series 2013B, issued $218 - partial refunding series 2006B*	4.00% - 5.00%	2026	218	27	245
Series 2015B, issued $921 - partial refunding series 2008B*	4.00% - 5.00%	2028	921	183	1,104
Series 2010A, issued $745	2.00% - 5.00%	2030	565	9	574
Series 2009B, issued $24,590	4.00% - 5.00%	2034	21,290	2,635	23,925
Total other nonsystem general obligation revenue bonds			23,525	2,893	26,418
Total general obligation revenue bonds			130,974	13,905	144,879
Total bonds payable			$ 191,949	$ 17,493	$ 209,442
Notes Payable					
Athletic system					
Series 2007B, issued $2,860 - partial refunding series 2001A*	4.00% - 4.50%	2020	$ 2,785	$ -	$ 2,785
Series 2010B, issued $11,540 - partial refunding series 2001A*	4.00% - 5.00%	2027	8,475	686	9,161
Series 2012B, issued $32,365 - refunding series 2004D*	3.00% - 5.00%	2029	28,360	4,046	32,406
Series 2009B, issued $8,705	2.00% - 5.00%	2030	6,925	576	7,501
Total athletic system			46,545	5,308	51,853
Dormitory and dining hall system					
Series 2007B, issued $3,395 - partial refunding 1998A*	4.00% - 4.50%	2019	2,120	-	2,120
Series 2014B, issued $3,695 - refunding series 2004B*	3.00% - 5.00%	2019	2,980	273	3,253
Series 2012A, issued $1,350 - partial refunding series 2005*	5.0%	2025	1,350	194	1,544
Series 2014B, issued $340 - partial refunding series 2005*	3.00% - 5.00%	2026	340	33	373
Series 2010A, issued $9,650	3.75% - 5.50%	2031	8,165	328	8,493
Total dormitory and dining hall system			14,955	828	15,783
University services system					
Career Services auxiliary					
Series 2007B, issued $1,621 - partial refunding series 2002A*	4.00% - 4.50%	2020	1,090	15	1,105
Series 2010B, issued $1,190 - partial refunding series 2002A*	5.3%	2023	975	113	1,088
Center for the Arts auxiliary					
Series 2010B, issued $19,445	3.75% - 5.60%	2036	17,305	505	17,810
Series 2011A, issued $19,375	3.00% - 5.00%	2037	17,930	790	18,720
Health Services auxiliary					
Series 2009A, issued $1,475	2.75% - 5.00%	2021	270	16	286
Series 20015B, issued $800 - partial refunding series 2009A*	3.00% - 5.00%	2029	800	134	934
Series 2009B, issued $4,365	2.00% - 5.00%	2030	3,580	312	3,892
Series 2009B, issued $12,420	2.00% - 5.00%	2030	10,190	890	11,080
Total university services system			52,140	2,775	54,915
Utility system					
Series 2014B, issued $350 - refunding series 2004B*	3.00% - 5.00%	2017	180	6	186
Series 2007B, issued $646 - partial refunding series 2000A*	4.00% - 5.00%	2020	633	-	633
Series 2007B, issued $1,060 - partial refunding series 2002A*	4.00% - 4.50%	2020	713	10	723
Series 2010B, issued $345 - partial refunding series 2000A*	5.00% - 5.75%	2021	215	21	236
Series 2010B, issued $770 - partial refunding series 2002A*	5.3%	2023	635	73	708
Total utility system			2,376	110	2,486
Other nonsystem notes payable					
Biocomplexity Institute					
Series 2007B, issued $5,649 - partial refunding series 2002A*	4.00% - 4.50%	2020	3,797	52	3,849
Series 2010B, issued $10,155 - partial refunding series 2002A*	4.00% - 5.25%	2028	9,405	419	9,824
Boiler pollution controls					
Series 2014B, issued $720 - partial refunding series 2006A*	3.00% - 5.00%	2024	720	106	826
Series 2006A, issued $1,925	3.00% - 5.00%	2027	510	11	521
Campus heating plant					
Series 2014B, issued $1,790 - partial refunding series 2007A*	3.00% - 5.00%	2026	1,790	285	2,075
Series 2007A, issued $3,880	4.50% - 5.00%	2028	965	37	1,002
Series 2009B, issued $5,875	2.00% - 5.00%	2030	4,670	389	5,059
Chiller plant					
Series 2011A, issued $12,695	3.00% - 5.00%	2032	6,715	466	7,181

NOTE 13 (CONTINUED)

Other nonsystem notes payable, continued					
Infectious waste facility					
Series 2014B, issued $195 - refunding series 2004B*	3.00% - 5.00%	2017	100	3	103
Series 2007B, issued $359 - partial refunding series 2000A*	4.00% - 4.50%	2020	352	-	352
Series 2010B, issued $190 - partial refunding series 2000A*	5.00% - 5.75%	2021	120	12	132
Goodwin Hall					
Series 2011A, issued $13,410	5.0%	2020	8,230	902	9,132
Series 2011A, issued $12,695	3.00% - 5.00%	2032	11,345	786	12,131
Holtzman Alumni Center and Skelton Conference Center					
Series 2010B, issued $3,215 - partial refunding series 2003A*	4.38% - 5.00%	2021	3,215	305	3,520
Series 2012A, issued $12,320 - partial refunding series 2003A*	4.8%	2031	10,860	929	11,789
ICTAS-II					
Series 2009B, issued $13,045	2.00% - 5.00%	2030	10,705	935	11,640
Kelly Hall					
Series 2014B, issued $6,040 - partial refunding series 2006A*	3.00% - 5.00%	2024	6,040	890	6,930
Series 2006A, issued $16,145	3.00% - 5.00%	2027	4,250	95	4,345
Life Sciences-I					
Series 2012A, issued $3,985 - partial refunding series 2005*	5.0%	2025	3,985	572	4,557
Series 2014B, issued $1,005 - partial refunding series 2005*	3.00% - 5.00%	2026	1,005	98	1,103
Surge space building					
Series 2006A, issued $7,025	4.00% - 5.00%	2017	505	35	540
Series 2014B, issued $2,730 - partial refunding series 2006A*	3.00% - 5.00%	2022	2,730	346	3,076
Unified Communications					
Series 2015A, issued $6,160	5.0%	2023	6,160	723	6,883
Veterinary medicine instruction addition					
Series 2012B, issued $9,820	3.00% - 5.00%	2033	8,845	970	9,815
Total other nonsystem notes payable			107,019	9,366	116,385
Total notes payable			$ 223,035	$ 18,387	$ 241,422

Capital Leases Payable

North End Center building and parking garage	$ 40,056	$ -	$ 40,056
Kentland Farm dairy complex	13,615	-	13,615
Integrated Life Sciences (ILSB) building and vivarium	13,059	-	13,059
Student Services building, Public Safety building, Hunter Andrews addition, Prince St. building	7,959	-	7,959
Total capital leases payable	$ 74,689	$ -	$ 74,689

Features of the new classroom building, opened for classes in the Fall 2016 semester, include state-of-the-art technology, flexible classrooms, and moveable group study spaces.

Long-term Debt Defeasance

Current Year

During fiscal year 2016, the university and the Commonwealth of Virginia, on behalf of the university, issued $2,762,000 of 9(d) revenue bonds and $940,000 of notes payable to refund $2,622,000 of 9(d) revenue bonds and $851,000 of notes payable, respectively. The resulting net loss of $229,000 will be amortized over the life of the new debt. For financial reporting purposes, these bonds are considered an in-substance defeasance and have therefore been removed from the long-term debt payable line item of the *Statement of Net Position*. The assets in escrow have similarly been excluded. The details of each refunded debt issue are presented below.

Long-term Debt Defeasance

Debt issues refunded as of June 30, 2016

(all dollars in thousands)

	Debt Refunded	Refunding Debt Issued	Accounting Gain (Loss)	Present Value Savings	Reduction in Debt Service	Reduction in Debt Service Discounted at Present Value
Section 9(D) general revenue bonds						
Series 2004A, issued $7,860	$ 2,715	$ 2,635	$ 80	3.0%	$ 265	$ 249
Premiums (Discounts)	-	149	(149)			
Other accounting activity related to debt refunding	(93)	(22)	(71)			
Total for general obligation revenue bonds	2,622	2,762	(140)		265	249
Notes payable						
Series 2009A, issued $1,475*	815	800	15	2.7%	51	43
Premiums (Discounts)	36	144	(108)			
Other accounting activity related to debt refunding	-	(4)	4			
Total for notes payable	851	940	(89)		51	43
Total for all debt	$ 3,473	3,702	$ (229)		$ 316	$ 292
Debt issuance costs		26				
Total refunding debt issued		$ 3,728				

*Partial refunding

Previous Years

During previous fiscal years in accordance with GASB Statement 7, *Advance Refundings Resulting in the Defeasance of Debt*, the university has excluded from its financial statements the assets in escrow and the debt payable that was defeased in-substance. For the year ended June 30, 2016, bonds and notes payable considered defeased in previous years totaled $35,540,000.

Debt Defeasance – Gains (Losses)

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

Deferred Outflows for Debt Defeasance

As of June 30, 2016

(all dollars in thousands)

	Beginning Balance	Additions	Retirements	Ending Balance
Bonds payable				
Section 9(c) general obligation revenue bonds	$ (3,319)	$ -	$ 273	$ (3,046)
Section 9(d) revenue bonds	(259)	(140)	287	(112)
Notes payable	(4,326)	(89)	436	(3,979)
Total deferred outflows for debt defeasance	$ (7,904)	$ (229)	$ 996	$ (7,137)

Deferred Inflows for Debt Defeasance

As of June 30, 2016

(all dollars in thousands)

	Beginning Balance	Additions	Retirements	Ending Balance
Bonds payable				
Section 9(c) general obligation revenue bonds	$ 177	$ -	$ (59)	$ 118
Notes payable	957	-	(67)	890
Total deferred inflows for debt defeasance	$ 1,134	$ -	$ (126)	$ 1,008

NOTE 15

Change in Other Liabilities

A summary of the change in other liabilities for the year ended June 30, 2016
(all dollars in thousands)

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Accrued compensated absences	$ 42,998	$ 34,250	$ 34,171	$ 43,077	$ 26,021
Federal student loan program contribution refundable	13,679	228	216	13,691	-
Net pension liability	357,622	46,074	-	403,696	-
Total other liabilities	$ 414,299	$ 80,552	$ 34,387	$ 460,464	$ 26,021

NOTE 16

Lease Commitments

The university has entered into numerous agreements to lease land, buildings, and equipment. With some of these agreements, the university is committed under various operating leases for equipment and space. In general, the leases are for three- to ten-year terms with renewal options. The university expects similar leases to replace these leases during the normal course of business. The total lease expense was approximately $21,775,000 for the year ended June 30, 2016. This amount includes approximately $15,753,000 in lease payments to the Virginia Tech Foundation Inc. for office and laboratory space. In addition, the total lease expense includes approximately $3,974,000 of short-term equipment rentals that can be terminated at any time. The short-term equipment rental costs are not included in the summary of future lease payments listed in the table below.

A summary of future minimum lease payments under operating leases as of June 30, 2016, follows *(all dollars in thousands)*.

2017	$ 18,150
2018	14,153
2019	11,297
2020	9,151
2021	7,083
2022 – 2026	6,168
2027 – 2031	2,875
2032 – 2036	1,624
2037 – 2041	1,595
2042 – 2046	1,595
2047 – 2051	1,595
2052 – 2056	1,595
2057 – 2061	1,571
2062 – 2063	512
Total	$ 78,964

NOTE 17

Capital Improvement Commitments

The amounts listed in the following tables represent the value of obligations remaining on capital improvement project contracts. These obligations are for future effort and as such have not been accrued as expenses or liabilities on the university's financial statements. Outstanding contractual commitments for capital improvement projects at June 30, 2016, are listed below.

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

Upper Quad Residential Facilities	$ 14,267
Biocomplexity Institute Data Center Expansion	4,100
Residential Door Access Improvements	2,411
Corps Leadership and Military	2,252
Classroom Building	2,055
Other projects	4,403
Total	$ 29,488

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

Bonds and notes payable	$ 14,267
Capital appropriations	2,055
Private funds	2,252
Education and general funds, university cost recoveries	5,142
Auxiliary enterprise funds	5,772
Total	$ 29,488

Pension Plan

Plan Description

All full-time, salaried permanent employees of state institutions are automatically covered by the VRS State Employee Retirement Plan (SERP) or the VaLORS Retirement Plan upon employment, unless they are eligible faculty members and choose to enroll in the optional retirement program described in Note 19. These plans are administered by the Virginia Retirement System (VRS or the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer 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 described below.

Retirement Plan Provisions by Plan Structure

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

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

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

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

Eligible Members

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

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

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

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

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

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

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

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

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

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

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

Retirement Contributions

Retirement Contributions - Plan 1
State employees, excluding state elected officials, and optional retirement plan participants, contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.

Retirement Contributions - Plan 2
State employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction.

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

Creditable Service

Creditable Service - Plan 1
Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable

service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.

Creditable Service - Plan 2
Same as Plan 1.

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

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

Vesting

Vesting - Plan 1
Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.

Vesting - Plan 2
Same as Plan 1.

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

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

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

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

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

Distribution is not required by law until age 70½.

Calculating the Benefit

Calculating the Benefit - Plan 1
The basic benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier, and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.

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

Calculating the Benefit - Plan 2
See definition under Plan 1.

Calculating the Benefit - Hybrid Plan
For the defined benefit component, see definition under Plan 1

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

Average Final Compensation

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

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

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

Service Retirement Multiplier

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

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

Service Retirement Multiplier - Hybrid Plan
For SERP, the 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. For VaLORS. the service retirement multiplier is not applicable.

The retirement multiplier is not applicable for the defined contribution component.

Normal Retirement Age

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

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

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

Earliest Unreduced Retirement Eligibility

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

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

Earliest Unreduced Retirement Eligibility - Hybrid Plan
Defined benefit component for SERP: normal Social Security retirement age and have at least five years (60 months) of creditable service or when age and service equal 90. Defined benefit component for VaLORS: the earliest unreduced retirement age is not applicable. Members in the defined contribution component are eligible to receive distributions upon leaving employment, subject to restrictions.

Earliest Reduced Retirement Eligibility

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

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

Earliest Reduced Retirement Eligibility - Hybrid Plan
Defined benefit component for SERP: members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service. Defined benefit component for VaLORS: not applicable. Members in the defined contribution component are eligible to receive distributions upon leaving employment, subject to restrictions.

Cost-of-Living Adjustment (COLA) in Retirement

Cost-of-Living Adjustment in Retirement - Plan 1
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 rules:

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

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

Exceptions to COLA effective dates:

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

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

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

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

Disability Coverage

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

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

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

Disability Coverage - Plan 2
Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.

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

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

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

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

Purchase of Prior Service

Purchase of Prior Service - Plan 1
Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement, and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.

Purchase of Prior Service - Plan 2
Same as Plan 1.

Purchase of Prior Service - Hybrid Plan
For the defined benefit component, the purchase of prior service is the same as Plan 1, with the following exceptions:

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

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

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, the 5.00% member contribution was paid by the employer. Beginning July 1, 2012 state employees were required to pay the 5.00% member contribution and the employer was required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. Each state agency's contractually required contribution rate for the year end. Each state agency's contractually required contribution rate for the year ended June 30, 2016 was 12.33% of covered employee compensation for employees in the VRS State Employee Retirement Plan for July 2015, 13.28% for August 2015, and 14.22% for September 2015 through June 2016. For employees in the VaLORS Retirement Plan, the contribution rate was 17.67% of covered employee compensation for July 2015, 18.34% for August 2015, and 19.00% for September 2015 through June 2016. These rates were based on an actuarially determined rate from an actuarial valuation as of June 30, 3013. The actuarial rate for the VRS State Employee Retirement Plan was 15.80% and the actuarial rate for VaLORS Retirement Plan was 21.06%. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employee during the year, with an additional amount to finance any unfunded accrued liability. Based on the provisions of §51.1-145 of the *Code of Virginia*, as amended, the contributions for the VRS State Employee Retirement Plan were funded at 78.02% of the actuarial rate and the contributions for the VaLORS Retirement Plan were funded at 83.88% of the actuarial rate for the year ended June 30, 2016. Additional funding provided by the General Assembly moved the contribution rates to 90% of the actuarial rate by September 2015 and for the remainder of FY 2016. Contributions from Virginia Tech to the VRS State Employee Retirement Plan were $36,931,000 and $30,392,000 for the years ended June 30, 2016 and June 30, 2015, respectively. Contributions from Virginia Tech to the VaLORS Retirement Plan were $439,000 and $397,000 for the years ended June 30, 2016 and June 30, 2015, respectively.

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

At June 30, 2016, Virginia Tech reported a liability of $398,980,000 for its proportionate share of the VRS State Employee Retirement Plan Net Pension Liability and a liability of $4,716,000 for its proportionate share of the VaLORS Retirement Plan Net Pension Liability. The Net Pension Liability was measured as of June 30, 2015 and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. Virginia Tech's proportion of the Net Pension Liability was based on Virginia Tech's actuarially determined employer contributions to the pension plan for the year ended June 30, 2015 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2015, Virginia Tech's proportion of the VRS State Employee Retirement Plan was 6.517% as compared to 6.304% at June 30, 2014. At June 30, 2015, Virginia Tech's proportion of the VaLORS Retirement Plan was 0.664% as compared to 0.698% at June 30, 2014.

For the year ended June 30, 2016, Virginia Tech recognized pension expense of $30,452,000 for the VRS State Employee Retirement Plan and $303,000 for the VaLORS Retirement Plan. Since there was a change in proportionate share between June 30, 2014 and June 30, 2015, 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, 2016, Virginia Tech reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	SERP		VaLORS	
	Deferred Outflows	Deferred Inflows	Deferred Outflows	Deferred Inflows
Differences between expected and actual experience	$ 2,872	$ -	$ -	$ 23
Change in assumptions	-	-	-	-
Net difference between projected and actual earnings on pension plan investments	-	28,699	-	200
Changes in proportion and differences between employer contributions and proportionate share of contributions	10,699	-	-	243
Employer contributions subsequent to the measurement date	36,931	-	439	-
Total	$ 50,502	$ 28,699	$ 439	$ 466

A total of $37,370,000 ($36,931,000 for SERP and $439,000 for VaLORS) reported as deferred outflows of resources related to pensions resulting from Virginia Tech's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the fiscal year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30	SERP	VaLORS	Total
2017	$ 5,950	$ 199	$ 6,149
2018	6,102	185	6,287
2019	8,112	118	8,230
2020	(5,036)	(36)	(5,072)
2021	-	-	-

Actuarial Assumptions

VRS State Employee Retirement Plan

The total pension liability for the VRS State Employee Retirement Plan was based on an actuarial valuation as of June 30, 2014, 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, 2015.

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

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more

conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

Mortality rates
Pre-Retirement - RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 2 years and females 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, 2014 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

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

VaLORs Retirement Plan

The total pension liability for the VaLORS Retirement Plan was based on an actuarial valuation as of June 30, 2014, 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, 2015.

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

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

Mortality rates
Pre-Retirement - RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 5 years and females 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, 2014 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

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

Net Pension Liability

The net pension liability (NPL) is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB Statement 67, less that system's fiduciary net position. As of June 30, 2015, NPL amounts for the VRS State Employee Retirement Plan and the VaLORS Retirement Plan are as follows (amounts expressed in thousands):

	SERP	VaLORS
Total pension liability	$ 22,521,130	$ 1,902,051
Plan fiduciary net position	16,398,575	1,191,353
Employers' net pension liability (asset)	$ 6,122,555	$ 710,698
Plan fiduciary net Position as a percentage of the total pension liability	72.81 %	62.64%

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

Long-Term Expected Rate of Return

The long-term expected rate of return on pension System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the 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	19.5 %	6.5 %	1.3 %
Developed Non-U.S. Equity	16.5 %	6.3 %	1.0 %
Emerging Market Equity	6.0 %	10.0 %	0.6 %
Fixed Income	15.0 %	0.1 %	0.0 %
Emerging Debt	3.0 %	3.5 %	0.1 %
Rate-sensitive Credit	4.5 %	3.5 %	0.2 %
Non-rate-sensitive Credit	4.5 %	5.0 %	0.2 %
Convertibles	3.0 %	4.8 %	0.1 %
Public Real Estate	2.3 %	6.1 %	0.1 %
Private Real Estate	12.7 %	7.1 %	0.9 %
Private Equity	12.0 %	10.4 %	1.3 %
Cash	1.0 %	(1.5)%	0.0 %
Total	100.0 %		5.8 %
Inflation			2.5 %
*Expected arithmetic nominal return			8.3 %

*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 Virginia Tech for the VRS State Employee Retirement Plan and the VaLORS Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 on, all agencies are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

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

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

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
Virginia Tech's proportionate share of the SERP net pension liability	$ 573,056	$ 398,980	$ 253,004
Virginia Tech's proportionate share of the VaLORS net pension liability	$ 6,411	$ 4,716	$ 3,320

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 2015 Comprehensive Annual Financial Report (CAFR). A copy of the 2015 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2015-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

NOTE 19

Defined Contribution Plans

Optional Retirement Plan

Full-time faculty and certain administrative staff may participate in optional retirement plans as authorized by the Code of Virginia rather than the VRS retirement plan. These optional retirement plans are defined contribution plans offered through Teachers Insurance and Annuity Association – College Retirement Equities Fund (TIAA-CREF), and Fidelity Investments Tax-Exempt Services Company. There are two defined contribution plans. Plan 1 is for employees hired prior to July 1, 2010, and retirement benefits received are based upon the employer's 10.4 percent, plus net investment gains or losses. Plan 2 is for employees hired on or after July 1, 2010, and retirement benefits received are based upon the employer's 8.5 percent contribution and the employee's 5.0 percent contribution plus net investment gains or losses. Individual contracts issued under the plan provide for full and immediate vesting of both the university's and the employees' contributions. Total pension costs under this plan were approximately $24,232,000 for year ended June 30, 2016. Contributions to the optional retirement plan were calculated using the base salary amount of approximately $267,012,000 for this fiscal year.

Deferred Compensation Plan

Employees of the university are employees of the Commonwealth of Virginia. State employees may participate in the commonwealth's Deferred Compensation Plan. Participating employees can contribute to the plan each pay period with the commonwealth matching up to $20 per pay period. The dollar amount match can change depending on the funding available in the commonwealth's budget. The Deferred Compensation Plan is a qualified defined contribution plan under section 401(a) of the *Internal Revenue Code*. The university expense for matching contributions to this plan, which is an amount assessed by the commonwealth, was approximately $2,330,000 for the fiscal year 2016.

Federal Pension Plans

Certain employees of Virginia Cooperative Extension are participants in either the Federal Employee Retirement System (FERS) or the Federal Civil Service Retirement System (CSRS). The FERS and CSRS are defined benefit plans in which benefits are based upon the highest base pay over any three consecutive years and the years of creditable service. The costs under these plans were approximately $143,000 for the year ended June 30, 2016. Contributions to the FERS and CSRS were calculated using the base salary amount of approximately $1,303,000 for the fiscal year 2016.

In addition, the university contributed $39,000 in employer contributions to the Thrift Savings Plan for the year ended June 30, 2016. The Thrift Savings Plan is a defined contribution plan in which the university matches employee contributions within certain limitations.

NOTE 20

Postemployment Benefits

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

NOTE 21

Capital Appropriations

Capital project general fund appropriations were recognized by the university from the commonwealth for the year ended June 30, 2016. These capital appropriations have been allocated to the following projects (*all dollars in thousands*):

Renovate academic buildings	$ 27,389
Kentland facilities, phase II	8,618
E&G maintenance reserve projects	959
	$ 36,966

NOTE 22

Appropriations

The Appropriation Act specifies that unexpended general fund appropriations remaining on the last day of the current year, ending on June 30, 2016, shall be re-appropriated for expenditure in the first month of the next year, beginning on July 1, 2016, except as may be specifically provided otherwise by the Virginia General Assembly. The governor may, at his discretion, unallot funds from the re-appropriated balances that relate to unexpended appropriations for payments to individuals, aid to localities, or any pass-through grants.

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

Original legislative appropriation	
(per Chapter 806)	
Education and general programs	$ 214,633
Student financial assistance	19,806
Commonwealth research initiative	3,739
Unique military activities	2,084
Commonwealth technology and research	140
Total appropriation	240,402
Adjustments	
Central appropriation	5,865
Commonwealth Research Initiative and Federal Action Contingency Trust	2,145
Student financial assistance	476
Chesapeake Bay Restoration reversion	(43)
Other adjustments	1,804
Total adjustments	10,247
Adjusted appropriation	$ 250,649

NOTE 23

Grants, Contracts, and Other Contingencies

The university has received federal grants for specific purposes that are subject to review and audit by the grantor agencies. Claims against these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the outlay of resources for allowable purposes. Any disallowance resulting from a federal audit may become a liability of the university. In addition, the university is required to comply with various federal regulations issued by the Office of Management and Budget. Failure to comply with certain system requirements of these regulations may result in questions concerning the allowance of related direct and indirect charges pursuant to such agreements. As of June 30, 2016, the university estimates that no material liabilities will result from such audits or questions.

NOTE 24

Federal Direct Lending Program

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

These loan proceeds are treated as student payments with the university acting as a fiduciary agent for the student. Therefore, the receipt of the funds from the federal government is not reflected in the federal government grants and contracts total on the *Statement of Revenues, Expenses, and Changes in Net Position*. The activity is included in the noncapital financing section of the *Statement of Cash Flows*. For the fiscal year ended June 30, 2016, cash provided by the program totaled $130,464,000 and cash used by the program totaled $130,438,000.

NOTE 25

Expenses by Natural Classification within Functional Classification

The university's operating expenses by functional classification for the year ended June 30, 2016 (*all dollars in thousands*)

	Compensation and Benefits	Contractual Services	Other Supplies and Materials	Travel	Operating Expenses	Scholarships and Fellowships	Sponsored Program Subcontracts	Total
Instruction	$ 304,980	$ 12,253	$ 8,291	$ 6,812	$ 2,115	$ 1,177	$ 165	$ 335,793
Research	206,836	28,584	22,710	13,058	4,397	14,799	26,442	316,826
Public service	63,523	16,928	3,046	6,683	3,495	529	6,098	100,302
Academic support	58,762	5,203	12,225	1,611	3,634	290	6	81,731
Student services	11,763	2,481	866	826	149	118	-	16,203
Institutional support	55,002	417	3,498	1,951	1,566	651	-	63,085
Operation and maintenance of plant	26,744	7,582	16,456	237	32,898	13	1	83,931
Student financial assistance	219	-	4	190	31	13,843	-	14,287
Auxiliary enterprises	101,834	13,664	39,703	12,767	34,429	614	3	203,014
Subtotal before other costs	$ 829,663	$ 87,112	$ 106,799	$ 44,135	$ 82,714	$ 32,034	$ 32,715	$ 1,215,172
Depreciation and amortization expense								100,093
Loan administrative fees and collection costs								112
Total operating expenses								$ 1,315,377

Component Units

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

Consolidating Statement of Net Position
Financial position of university component units as of June 30, 2016
(all dollars in thousands)

	Virginia Tech Foundation	Virginia Tech Services	Total Component Units
Assets			
Current Assets			
Cash and cash equivalents	$ 1,716	$ 934	$ 2,650
Short-term investments	8,645	2,411	11,056
Accounts and contributions receivable, net	40,568	381	40,949
Notes receivable, net	1,659	-	1,659
Inventories	349	5,499	5,848
Prepaid expenses	674	496	1,170
Other assets	4,021	-	4,021
Total current assets	57,632	9,721	67,353
Noncurrent assets			
Cash and cash equivalents	33,369	-	33,369
Accounts and contributions receivable, net	59,743	-	59,743
Notes and deeds of trust receivable, net	21,782	-	21,782
Net investments in direct financing leases	69,792	-	69,792
Irrevocable trusts held by others, net	10,497	-	10,497
Long-term investments	959,668	-	959,668
Depreciable capital assets, net	209,769	1,613	211,382
Nondepreciable capital assets	80,945	-	80,945
Intangible assets, net	558	-	558
Other assets	6,892	-	6,892
Total noncurrent assets	1,453,015	1,613	1,454,628
Total assets	1,510,647	11,334	1,521,981
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	9,658	3,854	13,512
Accrued compensated absences	369	291	660
Deferred revenue	1,641	746	2,387
Long-term debt payable	12,607	206	12,813
Other liabilities	3,778	727	4,505
Total current liabilities	28,053	5,824	33,877
Noncurrent liabilities			
Accrued compensated absences	221	-	221
Deferred revenue	1,716	-	1,716
Long-term debt payable	246,598	950	247,548
Liabilities under trust agreements	25,521	-	25,521
Agency deposits held in trust	142,709	-	142,709
Other liabilities	10,229	117	10,346
Total noncurrent liabilities	426,994	1,067	428,061
Total liabilities	455,047	6,891	461,938
Net position			
Invested in capital assets, net of related debt	123,066	1,613	124,679
Restricted, nonexpendable	479,190	-	479,190
Restricted, expendable			
Scholarships, research, instruction, and other	381,811	-	381,811
Capital projects	-	-	-
Unrestricted	71,533	2,830	74,363
Total net position	$ 1,055,600	$ 4,443	$ 1,060,043

Consolidating Statement of Revenues, Expenses, and Changes in Net Position
Activity of university component units for the year ended June 30, 2016
(all dollars in thousands)

	Virginia Tech Foundation	Virginia Tech Services	Total Component Units
Operating Revenues			
Gifts and contributions	$ 50,288	$ -	$ 50,288
Auxiliary enterprise revenue			
Hotel Roanoke & Conference Center	21,005	-	21,005
River Course	1,446	-	1,446
Bookstore	-	24,398	24,398
Other revenues			
Rental income	37,296	-	37,296
Other	15,547	-	15,547
Total operating revenues	125,582	24,398	149,980
Operating Expenses			
Instruction	5,023	-	5,023
Research	11,536	-	11,536
Public service	4,717	-	4,717
Academic support	28,735	-	28,735
Institutional support			
Other university programs	32,336	-	32,336
Fund-raising	8,802	-	8,802
Management and general	6,301	-	6,301
Operation and maintenance of plant			
Operation and maintenance of plant	6,599	-	6,599
Research cost centers	6,913	-	6,913
Student financial assistance	26,715	-	26,715
Auxiliary enterprises			
Hotel Roanoke & Conference Center	12,682	-	12,682
River Course	1,805	-	1,805
Bookstore	-	24,383	24,383
Depreciation expense	10,032	-	10,032
Other expenses	12,600	-	12,600
Total operating expenses	174,796	24,383	199,179
Operating income (loss)	(49,214)	15	(49,199)
Non-operating revenues (expenses)			
Investment income, net	10,657	-	10,657
Net losses on investments	(7,072)	-	(7,072)
Interest expense on debt related to capital assets	(10,106)	-	(10,106)
Net non-operating revenues	(6,521)	-	(6,521)
Income before other revenues, expenses, gains, or losses	(55,735)	15	(55,720)
Change in valuation of split interest agreements	(2,767)	-	(2,767)
Capital grants and gifts	16,480	-	16,480
Loss on disposal of capital assets	(1)	-	(1)
Additions to permanent endowments	26,482	-	26,482
Other revenues (expenses)	(706)	-	(706)
Total other revenues, expenses, gains, or losses	39,488	-	39,488
Increase (decrease) in net position	(16,247)	15	(16,232)
Net position - beginning of year	1,071,847	4,428	1,076,275
Net position - end of year	$ $1,055,600	$ 4,443	$ 1,060,043

Notes to Component Units Statements

Contributions Receivable – Virginia Tech Foundation Inc.
The following summarizes unconditional promises to give at June 30, 2016 (*all dollars in thousands*)

Current receivables		
Receivable in less than one year	$	34,495
Noncurrent receivables		
Receivable in one to five years		49,443
Receivable in more than five years		14,560
Noncurrent receivables before allowance		64,003
Allowance for uncollectible contributions		(5,070)
Net noncurrent contributions receivable		58,933
Total contributions receivable	$	93,428

The discount rates ranged from 0.73% to 2.07% in 2016. As of June 30, 2016, there were no conditional promises to give.

Investments – Virginia Tech Foundation Inc.
The following tabulation summarizes changes in relationships between cost and fair value of investments (*all dollars in thousands*):

	Fair Value	Cost	Net gains (losses)
June 30, 2016	$ 968,313	$ 843,549	$ 124,764
June 30, 2015	940,570	784,972	155,598

Unrealized net loss for the year, including net gain on agency deposits held in trust of $3,878	(30,834)
Realized net gain for the year, including net gain on agency deposits held in trust of $3,415	23,762
Total net loss for the year, including net gain on agency deposits held in trust of $463.	$ (7,072)

Investment management fees incurred in 2016 totaled $1,219.

As of June 30, 2016, long-term investments include assets held in internally managed trust funds with a carrying value totaling $43,729.

The foundation is required by Maryland state law to maintain segregated assets for all annuities issued in an amount at least equal to the sum of its outstanding deferred giving arrangements liability discounted to present value. As of June 30, 2016, the foundation had recorded annuity obligations of $6,421. As of June 30, 2016, the foundation had separately invested cash reserves of $10,814, and has met its minimum reserve requirement under Maryland state law.

Fair Value Hierarchy – Virginia Tech Foundation Inc.
ASC Topic 820 established a three-tier fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 – Inputs that utilize unadjusted quoted prices in active markets for identical assets or liabilities that the Foundation has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

The fair values of the Foundation's corporate debt securities and state, county and municipal securities are obtained from a third-party pricing service provider. The fair values provided by the pricing service provider are estimated using pricing models, where the inputs to those models are based on observable market inputs including credit spreads and broker-dealer quotes, among other inputs. The Foundation classifies the prices obtained from the pricing services with Level 2 of the fair value hierarchy because the underlying inputs are directly observable from active markets. However, the pricing models used do entail a certain amount of subjectivity and therefore differing judgments in how the underlying inputs are modeled could result in different estimates of fair value.

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

In instances where the determination of fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

Assets Measured at Fair Value - Virginia Tech Foundation Inc.
At June 30, 2016

		Fair value measurements at reporting date using			
	Total	Level 1	Level 2	Level 3	NAV [1]
Contributions Receivable	$ 93,428	$ -	$ -	$ 93,428	$ -
Short-term investments					
Corporate debt securities	5,059	5,059	-	-	-
U.S. government treasuries	3,136	3,136	-	-	-
U.S. government agencies	450	450	-	-	-
Total short-term investments	8,645	8,645	-	-	-
Long-term investments					
Cash and cash equivalents	59,796	59,796	-	-	-
U.S. government treasuries	68,005	68,005	-	-	-
U.S. government agencies	31,382	31,382	-	-	-
State, county, and municipal securities	113	-	113	-	-
Corporate debt securities	53,448	14,090	39,358	-	-
Equity securities	233,212	72,793	-	1,522	158,897
Partnerships and other joint ventures	453,714	3,869	-	-	449,845
Foreign securities	19,811	11,927	-	-	7,884
Real Estate	32,683	-	-	30,240	2,443
Other	7,504	-	-	7,504	-
Total long-term investments	959,668	261,862	39,471	39,266	619,069
Irrevocable trusts held by others	10,497	-	-	10,497	-
Total assets	$ 1,072,238	$ 270,507	$ 39,471	$ 143,191	$ 619,069

[1] Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconcilation of the fair value hierarchy to the amounts presented in the consolidated financial statements.

Land, Buildings, and Equipment - Virginia Tech Foundation Inc.
A summary of land, buildings, and equipment at cost, less accumulated depreciation for the year ending June 30, 2016 is presented as follows (*all dollars in thousands*):

Depreciable capital assets	
Buildings	$ 256,611
Equipment and other	19,602
Land improvements	36,015
Total depreciable capital assets, at cost	312,228
Less accumulated depreciation	(102,459)
Total depreciable capital assets, net of accumulated depreciation	209,769
Nondepreciable capital assets	
Land	70,573
Vintage and other collection items	5,638
Livestock	2,065
Construction in progress	2,669
Total nondepreciable capital assets	80,945
Total capital assets, net of accumulated depreciation	$ 290,714

As of June 30, 2016, outstanding contractual commitments for projects under construction approximated $500.

Long-Term Debt Payable - Virginia Tech Foundation Inc.

Notes payable
Outstanding notes payable at June 30, 2016
(all dollars in thousands)

Unsecured line of credit note payable due August 1, 2016, plus variable interest at LIBOR plus 0.65% (0.84% as of June 30, 2016)	$ 7,592
Unsecured note payable upon the sale of the hotel and repayment of all debt of the hotel and the Hotel Roanoke Foundation (HRF)	1,775
Secured fixed rate promissory note payable, due in monthly installments of $55 (including interest) with a lump sum payment of $7,602 due October 10, 2017, plus interest at 7.00%, collateralized by certain real properties by Virginia Tech Real Estate Foundation Inc. (VTREF)	7,684
Total notes payable	$ 17,051

Aggregate annual maturities of notes payable for each of the five years and thereafter subsequent to June 30, 2016
(all dollars in thousands)

2017	$ 113
2018	15,163
Upon the sale of the Hotel and repayment of all debt of the Hotel and HRF	1,775
Total notes payable	$ 17,051

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

Bonds payable
The foundation is obligated under Industrial Development Authority of Montgomery County, Virginia Variable Rate Revenue Bonds dated August 25, 2005 (Series 2005). Bond proceeds were used to refinance previously outstanding Series 2001A and Series 2002A bonds. The remainder was used to finance the construction of and equipment purchases for three facilities to be used in support of the university. The bonds, which mature June 1, 2035, bear a variable interest rate, which including remarketing and credit enhancement fees, was 0.815% at June 30, 2016.

The foundation previously issued Industrial Development Authority of Montgomery County, Virginia Revenue Bonds (Series 2009A) and Taxable Revenue Bonds (Series 2009B) dated February 12, 2009. The Series 2009B bonds, which originally matured on February 1, 2039, were paid off on June 27, 2013, but the Series 2009A bonds remain outstanding. Bond proceeds were used to refinance the previously outstanding Series 2007 bonds, the unsecured variable rate promissory note payable, and an unsecured variable rate commercial note payable, as well as finance the construction of several facilities, primarily for the National Capital Region facility, to be used in support of the university. The Series 2009A bonds, which mature on February 1, 2039, bear a variable interest rate, which including remarketing and liquidity fees, was 0.845% on June 30, 2016.

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

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

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

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

Principal amounts outstanding for these bonds as of June 30, 2016, are listed in the table on the following page *(all dollars in thousands).*

Bond Series		
Series 2005	$	13,985
Series 2009A		17,675
Series 2010A		46,640
Series 2010B		16,095
Series 2011A		48,830
Series 2011B		45,855
Series 2012A		2,796
Series 2012B		6,164
Series 2013A		16,425
Series 2013B		22,455
Premium on Series 2010A		2,786
Premium on Series 2011A		1,705
Premium on Series 2013A		707
Total bonds payable	$	242,118

The aggregate annual maturities of bonds payable for each of the five years and thereafter subsequent to June 30, 2016, are as follows (*all dollars in thousands*):

2017	$	12,480
2018		13,461
2019		13,950
2020		14,505
2021		14,671
Later years		173,051
Total	$	242,118

To comply with the terms of the Series 2005 bond agreement, the foundation maintains a letter of credit with a lender in the amount of $14,119 at annual fees equal to 0.35% of the total commitment. At June 30, 2016, no funds were outstanding under this commitment.

To comply with the terms of the Series 2009A bond agreement, the foundation maintains a revolving credit facility in the amount of $17,844 at annual fees equal to 0.35% of the total commitment. At June 30, 2016, no funds were outstanding under this commitment.

Total interest expense incurred in the aggregate related to notes payable and bonds payable in 2016 totaled $9,954.

Interest Rate Swaps

Effective September 1, 2005, the foundation entered into an interest rate swap agreement (Swap 1) with a lending institution. This agreement was based on the principal balances of the Series 2001A and Series 2002A bond issues, which were refinanced by the Series 2005 bonds. The foundation participates as a fixed rate payer, with a fixed rate of 3.265% for a 17-year term ending June 1, 2022. The lending institution participates as a floating rate payer, with a floating interest rate, which is calculated based on the weighted average of 70% of USD-LIBOR-BBA and was 0.326% at June 30, 2016.

Effective September 1, 2005, the foundation entered into an interest rate swap agreement (Swap 2) with a lending institution. This agreement was based on the principal balances of the Series 2005 bond issue and was effective September 1, 2006. The foundation participates as a fixed rate payer, with a fixed rate of 3.213% ending June 1, 2025. The lending institution participates as a floating rate payer, with a floating interest rate, which is calculated based on the weighted average of 70% of USD-LIBOR-BBA and was 0.326% at June 30, 2016.

Effective March 12, 2007, the foundation entered into an interest rate swap agreement (Swap 3) with a lending institution. This agreement was based on the principal balances of the Series 2007 bond issue, which was refinanced by the Series 2009 bonds. The foundation participates as a fixed rate payer, with a fixed rate of 3.737% ending June 1, 2027. The lending institution participates as a floating rate payer, with a floating interest rate, which is calculated based on the weighted average of SIFMA Municipal Swap Index and was 0.410% at June 30, 2016.

The following table summarizes the fair values of the foundation's interest rate swaps and changes in the fair values of the swaps - measured using Level 3 of the fair value hierarchy described previously *(all dollars in thousands):*

	Fair Values	Change in Fair Value
Swap 1	$ 595	$ 77
Swap 2	946	(106)
Swap 3	2,242	(299)
Total	$ 3,783	$ (328)

Agency Deposits Held in Trust - Virginia Tech Foundation Inc.

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

A summary of agency deposits held in trust for the year ending June 30, 2016 is presented as follows (*all dollars in thousands*):

University—Pratt Estate	$	43,059
University—Other		88,828
Virginia Tech Alumni Association Inc.		4,158
Virginia Tech Services Inc.		2,403
Other		4,261
Total agency deposits held in trust	$	142,709

NOTE 27

Joint Ventures

The Hotel Roanoke Conference Center Commission was created by a joint resolution of the university and the City of Roanoke. The purpose of the commission is to establish and operate a publicly owned conference center in Roanoke adjacent to the renovated Hotel Roanoke. The powers of the commission are vested in commissioners. Each participating governing body appoints three commissioners for a total of six commissioners. The commission has the authority to issue debt, and such debt is the responsibility of the commission. The intention of the commission is to be self-supporting through its user fees. The university and the City of Roanoke equally share in any operating deficit or additional funding needed for capital expenditures. The university made contributions of $80,000 using private funds to the commission for the fiscal year ended June 30, 2016. Financial statements may be obtained at The Hotel Roanoke and Conference Center, 110 Shenandoah Ave. NE, Roanoke, VA, 24016.

The Virginia Tech Carilion School of Medicine was established as a 501(c)(3) nonprofit organization. This joint venture receives oversight from a board of directors. Virginia Tech and Carilion Health System each appoint two members to the board of directors. The board then appoints six additional independent board members. The commonwealth provided the capital funds to construct a facility on land owned by Carilion Health System under a public-private partnership. This facility provides space for the Virginia Tech Carilion School of Medicine and the Virginia Tech Carilion Research Institute, a part of Virginia Tech. Approximately one-third of the facility is occupied by the school of medicine with the remaining space allocated to the research institute. The university contributed approximately $2.6 million towards the expenses for this joint venture in fiscal year 2016.

The Virginia Tech MARG Swarnabhoomi – India Trust was founded to develop a university campus in MARG Swarnabhoomi, India. The trust had two members - Virginia Tech and New Chennai Township Private Limited, a wholly-owned subsidiary of MARG Limited. This trust was formed to operate a university campus to deliver programs in India fostering graduate education as well as scientific and technological engagement through a model of collaborative research, education and outreach. The university made contributions of $203,000 to this trust prior to dissolution in fiscal year 2016.

NOTE 28

Jointly Governed Organizations

NRV Regional Water Authority

Created by a concurrent resolution of the university, the towns of Blacksburg and Christiansburg and joined by the county of Montgomery in fiscal year 2013, the authority operates and maintains the water supply system for the university and the other participating governing bodies. A six-member board governs the authority with one member appointed by each governing body and two at-large members appointed by the joint resolution of each of the governing bodies. The authority's indebtedness is not an obligation of the university and is payable solely from the revenues of the authority. The university paid $1,101,000 to the authority for the purchase of water for the fiscal year ended June 30, 2016.

Blacksburg-VPI Sanitation Authority

Created by a concurrent resolution of the university and the town of Blacksburg, the authority operates and maintains the wastewater treatment system for the participating governing bodies. Each participating governing body appoints one member of the five-member board of directors. Three at-large members are appointed by the joint resolution of each of the governing bodies. The authority's indebtedness is not an obligation of the university and is payable solely from the revenues of the authority. The university paid $904,000 to the authority for the purchase of sewer services for the fiscal year ended June 30, 2016.

Montgomery Regional Solid Waste Authority

Created by a joint resolution of the university, the towns of Blacksburg and Christiansburg, and the county of Montgomery, the authority represents its members in solid waste and recycling issues as well as operating a recycling facility. The authority is governed by its board with each participating governing body appointing one board member, and all governing bodies jointly appointing the fifth at-large member. Each governing body provides collection of solid waste and recyclables from within its jurisdiction and delivers the collected materials to the authority for disposal of the waste, and the processing and marketing of the recyclables. All indebtedness is the obligation of the authority and payable from its revenues. The university paid $231,000 to the authority for tipping fees for the fiscal year ended June 30, 2016.

Virginia Tech/Montgomery Regional Airport Authority

Created by a joint resolution of the university, the towns of Blacksburg and Christiansburg, and the county of Montgomery, this authority serves to develop a regional airport based on the mission of servicing corporate executive markets and other general aviation markets; obtaining grants, loans, and other funding for airport improvements and other activities; and in promoting and assisting in regional economic development. The authority is governed by its board, which consists of five members. Each participating governing body appoints one member of the board, and jointly all governing bodies appoint the fifth member. All indebtedness is the obligation of the authority and payable from its revenues. The university's funding commitment for fiscal year 2016 was $50,000, all of which Virginia Tech paid to the authority.

New River Valley Emergency Communications Regional Authority

Created by a joint resolution of the university, the towns of Blacksburg and Christiansburg, and the county of Montgomery, this authority supports the formation of a regional authority to provide 911 dispatch and emergency communication services to the people of each jurisdiction and campus. The authority is governed by its board, which consists of five members. Each participating governing body appoints one member of the board, and jointly all governing bodies appoint the fifth member. The university paid $420,000 to the authority as its 25% Operating Budget contribution for the fiscal year ended June 30, 2016.

NOTE 29

Risk Management and Employee Health Care Plans

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

NOTE 30

Pending Litigation

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

NOTE 31

Subsequent Events

In July 2016, the Commonwealth of Virginia, on behalf of the university, issued $32,210,000 of notes payable to refund $32,690,000 of notes payable. The following is listing of the notes refunded *(all dollars in thousands)*:

	Debt Refunded	Refunding Debt Issued
Athletics system		
Series 2009B, issued $8,705	$ 5,415	$ 5,385
University services system		
Series 2009B, issued $4,365	2,800	2,780
Series 2009B, issued $12,420	7,960	7,945
Other nonsystem notes payable		
Boiler pollution controls		
Series 2006A, issued $1,925	420	375
Campus heat plant		
Series 2007A, issued $3,880	595	575
Series 2009B, issued $5,875	3,650	3,625
ICTAS-II		
Series 2009B, issued $13,045	8,360	8,345
Kelly Hall		
Series 2006A, issued $16,145	3,490	3,180
	$ 32,690	$ 32,210

REQUIRED SUPPLEMENTARY INFORMATION

Virginia State Employee Retirement Plan and Virginia Law Officers Retirement Plan

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

	2016		2015	
	SERP	**VaLORS**	**SERP**	**VaLORs**
Proportion of net pension liability	6.52%	0.66%	6.30%	0.70%
Proportionate share of net pension liability	$ 398,980	$ 4,716	$ 352,916	$ 4,706
Covered payroll	$ 246,888	$ 2,247	$ 243,099	$ 2,461
Proportionate share of net pension liability as a percentage of covered payroll	161.60%	209.88%	145.17%	191.22%
Plan fiduciary net position as a percentage of total pension liability	72.81%	62.64%	74.28%	63.05%

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

Schedule of Virginia Tech's Employer Contributions (SERP)
For the years ended June 30, 2015 - 2016
(all dollars in thousands)

	Contractually required contribution	Contributions in relation to contractually required contribution	Contribution deficiency (excess)	Employer's covered payroll	Contributions as a percentage of covered payroll
2016	$ 36,931	$ 36,931	$ -	$ 263,416	14.0%
2015	30,392	30,392	-	246,488	12.3%

Schedule of Virginia Tech's Employer Contributions (VaLORs)
For the years ended June 30, 2015 - 2016
(all dollars in thousands)

	Contractually required contribution	Contributions in relation to contractually required contribution	Contribution deficiency (excess)	Employer's covered payroll	Contributions as a percentage of covered payroll
2016	$ 439	$ 439	$ -	$ 2,328	18.9%
2015	397	397	-	2,247	17.7%

The schedules above are intended to show information for 10 years. Since 2016 is the second year for this presentation, only one additional year of data is available. Additional years will be included as they become available.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Virginia State Employee Retirement Plan and Virginia Law Officers Retirement Plan

There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this was a new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2015 are not material. The following changes in actuarial assumptions were made for the retirement plans effective June 30, 2013 based on the most recent experience study of the system for the four-year period ending June 30, 2012:

VRS - State Employee Retirement Plan (SERP)

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

VaLORS Retirement Plan

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

OPTIONAL SUPPLEMENTARY INFORMATION

Virginia Tech Foundation Inc.

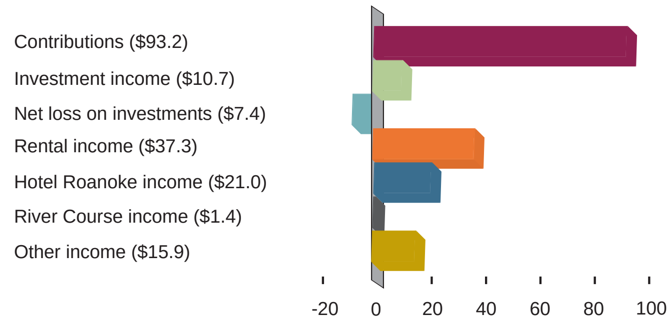
The purpose of Virginia Tech Foundation Inc. is to receive, invest, and manage private funds given for the support of programs at Virginia Tech and to foster and promote the growth, progress, and general welfare of the university.

During the current fiscal year, the foundation recognized $93.2 million in contributions for support of the university. Investment income of $10.7 million, along with net loss on investments of $7.4 million, resulted in a $3.3 million net gain on investment activity. Property rental, hotel operating, and golf course income totaled $59.7 million. Other income accounted for $15.9 million.

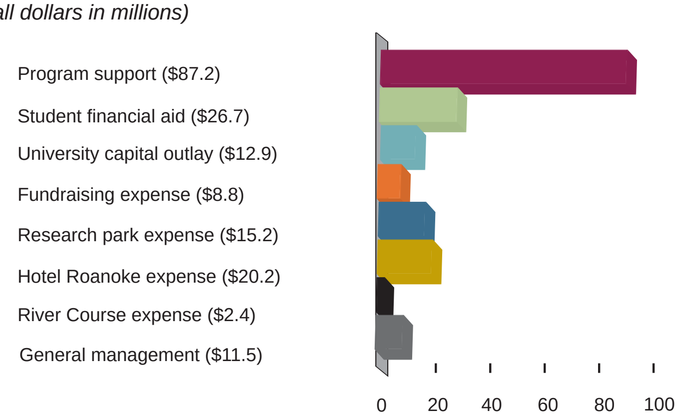
Total income of $172.1 million was offset by $184.9 million in expenses that supported the university and its programs. Direct support to various university programs aggregated $126.8 million, which included $26.7 million in scholarship support to students and faculty and $12.9 million towards university capital projects. Additional expenses such as fundraising, management and general, research center, hotel operating, golf course, and other costs totaled $58.1 million. Total net position decreased by $16.2 million over the previous year.

The adjacent graphs are categorized as presented in the audited financial statements for the foundation which follows the Financial Accounting Standards Board (FASB) presentation requirements.

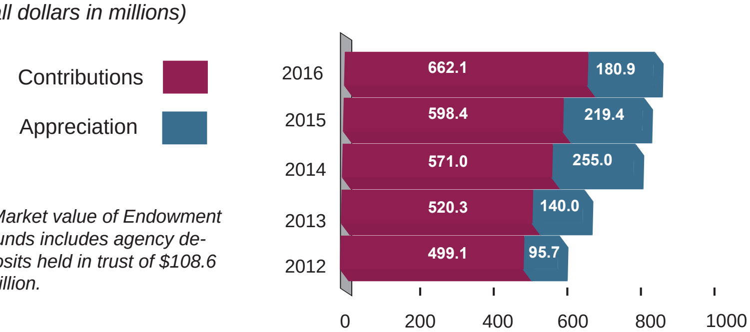
Virginia Tech Foundation Revenues and Investment Gains
For the year ended June 30, 2016
(all dollars in millions)



Virginia Tech Foundation Expenses
For the year ended June 30, 2016
(all dollars in millions)



Virginia Tech Foundation Endowment Market Value*
For the year ended June 30, 2016
(all dollars in millions)



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

Consolidating Schedule of Net Position

As of June 30, 2016

(all dollars in thousands)

	Current Funds		Loan	Endowment &	Plant	Agency	
	Unrestricted	Restricted	Funds	Similar Funds	Funds	Funds	Total
Assets							
Current assets							
Cash and cash equivalents *(Note 4)*	$ 178,894	$ 24,697	$ 1,269	$ -	$ -	$ 19,897	$ 224,757
Short-term investments *(Notes 4, 26)*	-	-	-	-	-	-	-
Accounts and contributions receivable *(Notes 1, 5, 26)*	9,284	47,313	-	-	-	1	56,598
Notes receivable, net *(Notes 1, 6)*	-	-	1,215	-	-	-	1,215
Due from Commonwealth of Virginia *(Note 10)*	13,940	140	-	-	-	-	14,080
Inventories	10,681	-	-	-	-	-	10,681
Prepaid expenses	17,237	170	-	-	-	-	17,407
Due from (to) other funds	(17,465)	8,223	(70)	(542)	9,854	-	-
Total current assets	212,571	80,543	2,414	(542)	9,854	19,898	324,738
Noncurrent assets							
Cash and cash equivalents *(Note 4)*	-	-	-	6	39,374	-	39,380
Due from Commonwealth of Virginia *(Note 10)*	-	-	-	-	39,645	-	39,645
Accounts and contributions receivable *(Notes 1, 5, 26)*	-	-	-	-	3,875	-	3,875
Notes receivable, net *(Notes 1, 6)*	4,171	-	15,642	-	-	-	19,813
Net investments in direct financing leases	-	-	-	-	-	-	-
Irrevocable trusts held by others, net	-	-	-	-	-	-	-
Long-term investments *(Notes 4, 26)*	291,563	58	-	62,548	54,522	-	408,691
Depreciable capital assets, net *(Notes 9, 26)*	-	-	-	-	1,467,502	-	1,467,502
Nondepreciable capital assets *(Notes 9, 26)*	-	-	-	-	199,354	-	199,354
Other assets	290	-	-	-	-	-	290
Total noncurrent assets	296,024	58	15,642	62,554	1,804,272	-	2,178,550
Total assets	508,595	80,601	18,056	62,012	1,814,126	19,898	2,503,288
Deferred outflows of resources							
Deferred loss on long-term debt defeasance *(Note 14)*	-	-	-	-	7,137	-	7,137
Deferred outflow for VRS pension *(Notes 1, 18)*	47,212	3,729	-	-	-	-	50,941
Total deferred outflows	47,212	3,729	-	-	7,137	-	58,078
Liabilities							
Current liabilities							
Accounts payable and accrued liabilities *(Note 7)*	100,685	16,339	-	-	22,505	933	140,462
Accrued compensated absences *(Notes 1, 15)*	21,275	4,746	-	-	-	-	26,021
Unearned revenue *(Notes 1, 8)*	23,567	16,978	-	-	-	-	40,545
Funds held in custody for others	-	-	-	-	-	18,965	18,965
Commercial paper *(Note 11)*	-	-	-	-	5,425	-	5,425
Long-term debt payable *(Notes 12, 13, 26)*	-	-	-	-	30,832	-	30,832
Total current liabilities	145,527	38,063	-	-	58,762	19,898	262,250
Noncurrent liabilities							
Pension liability	401,015	2,681	-	-	-	-	403,696
Accrued compensated absences *(Notes 1, 15)*	13,945	3,111	-	-	-	-	17,056
Federal student loan program contributions *(Note 15)*	-	-	13,691	-	-	-	13,691
Unearned revenue *(Notes 1, 8)*	-	-	-	-	-	-	-
Long-term debt payable *(Notes 12, 13, 26)*	-	-	-	-	494,721	-	494,721
Other liabilities	1,459	-	-	-	-	-	1,459
Total noncurrent liabilities	416,419	5,792	13,691	-	494,721	-	930,623
Total liabilities	561,946	43,855	13,691	-	553,483	19,898	1,192,873
Deferred inflows of resources							
Deferred gain on long-term debt defeasance *(Note 14)*	-	-	-	-	1,008	-	1,008
Deferred inflow for VRS pension *(Notes 1, 18)*	29,165	-	-	-	-	-	29,165
Total deferred outflows	29,165	-	-	-	1,008	-	30,173
Net position							
Net investment in capital assets	-	-	-	-	1,163,773	-	1,163,773
Restricted, nonexpendable	-	-	-	357	-	-	357
Restricted, expendable							
Scholarships, research, instruction, and other	-	40,475	4,365	61,655	-	-	106,495
Capital projects	-	-	-	-	36,442	-	36,442
Debt service	-	-	-	-	66,557	-	66,557
Unrestricted and auxiliary operations	(35,304)	-	-	-	-	-	(35,304)
Total net position	$ (35,304)	$ 40,475	$ 4,365	$ 62,012	$ 1,266,772	$ -	$ 1,338,320

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

As of June 30, 2016

(all dollars in thousands)

	Current Funds Unrestricted	Current Funds Restricted	Loan Funds	Endowment & Similar Funds	Plant Funds	Total
Operating revenues						
Student tuition and fees *(Note 1)*	$ 446,530	$ 2,646	$ -	$ -	$ -	$ 449,176
Federal appropriations	-	16,793	-	-	-	16,793
Federal grants and contracts	48,442	163,819	-	-	705	212,966
Federal ARRA grants and contracts	-	333	-	-	-	333
State grants and contracts	840	11,917	-	-	-	12,757
Local grants and contracts *(Note 3)*	359	13,686	-	-	-	14,045
Nongovernmental grants and contracts	8,431	35,734	-	-	841	45,006
Sales and services of educational departments	17,947	122	-	-	-	18,069
Auxiliary enterprise revenue *(Note 1)*	244,312	-	-	-	-	244,312
Other operating revenues	5,044	1,974	69	-	69	7,156
Total operating revenues	771,905	247,024	69	-	1,615	1,020,613
Operating expenses						
Instruction	327,686	8,107	-	-	-	335,793
Research	115,146	201,680	-	-	-	316,826
Public service	54,027	46,275	-	-	-	100,302
Academic support	79,584	2,147	-	-	-	81,731
Student services	15,043	1,160	-	-	-	16,203
Institutional support	54,471	8,786	-	-	(172)	63,085
Operation and maintenance of plant	78,680	(63)	-	-	5,314	83,931
Student financial assistance	1,420	12,867	-	-	-	14,287
Auxiliary enterprises	203,014	-	-	-	-	203,014
Depreciation and amortization *(Note 9)*	-	-	-	-	100,093	100,093
Other operating expenses	-	-	112	-	-	112
Total operating expenses	929,071	280,959	112	-	105,235	1,315,377
Operating loss	(157,166)	(33,935)	(43)	-	(103,620)	(294,764)
Non-operating revenues (expenses)						
State appropriations *(Note 21)*	222,303	28,346	-	-	-	250,649
Gifts	19,179	45,873	104	-	-	65,156
Non-operating grants and contracts	-	2,009	-	-	-	2,009
Federal student financial aid (Pell)	-	17,214	-	-	-	17,214
Investment income, net of investment expense	598	(1,376)	-	944	692	858
Other additions	-	-	-	-	747	747
Nongeneral fund reversion	-	-	-	-	-	-
Interest expense on debt related to capital assets	-	-	-	-	(18,664)	(18,664)
Net non-operating revenues (expenses)	242,080	92,066	104	944	(17,225)	317,969
Income (loss) before other revenues, expenses, gains, or losses	84,914	58,131	61	944	(120,845)	23,205
Capital appropriations *(Note 21)*	-	-	-	-	36,966	36,966
Capital grants and gifts *(Note 10)*	13,308	1,143	-	-	51,459	65,910
Loss on disposal of capital assets	-	-	-	-	(4,440)	(4,440)
Total other revenues, expenses, gains, and losses	13,308	1,143	-	-	83,985	98,436
Increase in net position	98,222	59,274	61	944	(36,860)	121,641
Mandatory transfers	(59,073)	(688)	-	-	59,761	-
Nonmandatory transfers	(22,640)	(1,539)	-	1,121	23,058	-
Equipment and library book transfers	(34,816)	(3,842)	-	-	38,658	-
Scholarship allowance transfer	57,303	(57,303)	-	-	-	-
Total transfers	(59,226)	(63,372)	-	1,121	121,477	-
Increase in net position after transfers	38,996	(4,098)	61	2,065	84,617	121,641
Net position - beginning of year	(74,300)	44,573	4,304	59,947	1,182,155	1,216,679
Net position - end of year	$ (35,304)	$ 40,475	$ 4,365	$ 62,012	$ 1,266,772	$ 1,338,320

Affiliated Corporations Financial Highlights

For the years ended June 30, 2016-2012

(all dollars in thousands)

	2016	2015	2014	2013	2012
Assets					
Virginia Tech Foundation Inc.	$ 1,510,647	$ 1,507,958	$ 1,488,766	$ 1,302,619	$ 1,210,709
Virginia Tech Services Inc.	11,334	12,786	10,513	12,416	11,101
Virginia Tech Applied Research Corporation	3,357	4,318	5,128	5,557	4,323
Virginia Tech Intellectual Properties Inc.	1,405	1,384	1,894	1,795	2,073
Total Assets	$ 1,526,743	$ 1,526,446	$ 1,506,301	$ 1,322,387	$ 1,228,206
Revenues					
Virginia Tech Foundation Inc.	$ 172,130	$ 212,851	$ 273,176	$ 225,897	$ 137,299
Virginia Tech Services Inc.	24,398	22,791	23,481	24,139	25,717
Virginia Tech Applied Research Corporation	6,284	6,785	8,184	2,765	434
Virginia Tech Intellectual Properties Inc.	2,366	2,190	2,280	2,202	1,998
Total Revenues	$ 205,178	$ 244,617	$ 307,121	$ 255,003	$ 165,448
Expenses					
Virginia Tech Foundation Inc.	$ 184,904	$ 166,523	$ 155,857	$ 143,303	$ 134,916
Virginia Tech Services Inc.	24,383	22,790	23,451	24,047	25,631
Virginia Tech Applied Research Corporation	7,919	8,856	10,187	7,638	4,654
Virginia Tech Intellectual Properties Inc.	2,389	2,481	2,169	2,162	1,954
Total Expenses	$ 219,595	$ 200,650	$ 191,664	$ 177,150	$ 167,155

The organizations included above are related to the university by affiliation agreements. These agreements, approved by the Virginia Tech Board of Visitors, require an annual audit to be performed by independent auditors. These auditors have examined the financial records of the organizations presented in the table above and copies of their audit reports have been provided to the university. Values presented in this table are based solely upon these audit reports and do not include any consolidation entries to alter these amounts. Affiliated organizations that hold no financial assets and certify all financial activities or transactions through the Virginia Tech Foundation Inc. may be exempt from the independent audit requirement. Virginia Tech Athletic Fund Inc., Virginia Tech Corps of Cadets Alumni Inc., Virginia Tech Alumni Association, and Virginia Tech Innovation Corporation meet exemption requirements and are not presented separately in this table. Additionally, Virginia Tech India Research and Education Forum (VTIREF) is not presented in this table due to the immateriality of its financial figures in comparison with organizations included.

The new classroom building constructed during fiscal year 2016 incorporated a traditional Hokie Stone exterior with modern design to support interactive learning experiences and meet LEED standards.

Commonwealth of Virginia

Auditor of Public Accounts

Martha S. Mavredes, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

October 28, 2016

The Honorable Terence R. McAuliffe
Governor of Virginia

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

Board of Visitors
Virginia Polytechnic Institute and State University

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the business-type activities and aggregate discretely presented component units of Virginia Polytechnic Institute and State University as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the University's basic financial statements and have issued our report thereon dated October 28, 2016. Our report includes a reference to other auditors. We did not consider internal controls over financial reporting or test compliance with certain provisions of laws, regulations, contracts, and grant agreements for the financial statements of the component units of the University, which were audited by other auditors in accordance with auditing standards generally accepted in the United States of America, but not in accordance with Government Auditing Standards.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

We discussed this report with management at an exit conference held on November 7, 2016.

AUDITOR OF PUBLIC ACCOUNTS

JMR/alh

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* As of June 30, 2016

Prepared by the Virginia Tech Office of the University Controller, Blacksburg, VA 24061. Published January 2017.
This report and reports from prior years are available at www.controller.vt.edu/resources/financialreporting.html.
For more information, contact the Financial Reporting department at 540.231.6418

Office of the University Controller
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Blacksburg, VA 24061

Members of the Virginia Tech Corps of Cadets sign beams that became part of Pearson Hall, the new upper quad residence hall built in fiscal year 2016.