Virginia Military Institute

Audited Financial Statements

For the year ended 30 June 2014

- T A B L E O F C O N T E N T S -

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview

Virginia Military Institute (VMI or Institute) is pleased to present its financial statements for the fiscal year ended 30 June 2014, along with the financial statements of its affiliate component units. This management's discussion and analysis is designed to facilitate the reader's understanding of the accompanying financial statements and to provide an objective, easily readable analysis of the Institute's financial activities based on currently known facts, decisions and conditions. The discussion focuses primarily on VMI's fiscal year 2014 as compared to the prior year and includes highly summarized data that should be read in conjunction with the accompanying financial statements, notes to the financial statements and other supplementary information.

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

Financial Highlights

VMI's overall financial position continued to improve during fiscal 2014 as the total net position (the residual interest in assets after liabilities are deducted) increased by $9.0 million to $257.1 million. Growth in net nonoperating revenues of $4.5 million or 16.3% contributed largely to the net position increase. Of the $4.5 million in additional revenues, $2.4 million was the result of increased gifts and contributions to the Institute attributed to continued financial market strength and the resultant increase in spendable endowment income. State appropriations also increased $0.8 million to $13.1 million. Appropriations from the Commonwealth, however, remain below the $14.6 million received during fiscal 2008 and are expected to decrease in the foreseeable future. VMI continued to recognize net investment gains, the amount of which increased from $1.6 million during fiscal 2013 to $2.0 million in the current year.

The Institute's opening fall enrollment of the Corps of Cadets increased to 1,675 in fiscal 2014 from 1,664 in fiscal 2013, continuing the trend from the past several years. The increase in the number of Cadets and an increase in the tuition rate of 4.3% (in-state) and 4.7% (out-of-state) contributed to a $1.4 million or 3.2% increase in operating revenues, which offset the $1.0 million or 1.3% increase in operating expenses.

The renovation of Maury-Brooke Hall ($19.6 million), formerly the New Science Building, began in fiscal 2012 and was completed during the current year. Construction for phase one of the Corps Physical Training Facilities (CPTF) project commenced May 2014 and is expected to conclude July 2016. Phase two of the CPTF project, funding for which was authorized in fiscal 2014, is scheduled to begin during the summer of 2014 and also has a July 2016 expected completion date. Total project costs for both phases is $118 million. Phase one encompasses construction of the new Corps Physical Training Facility and phase two includes the renovation of Cocke Hall and Cormack Hall, which support VMI's physical education department and provide Cadet physical conditioning facilities.

Statement of Net Position

The Statement of Net Position presents the assets, liabilities, deferred outflows and net position of the Institute as of the end of the fiscal year. The difference between total assets and total liabilities—net position—is one indicator of the current financial condition of the Institute. The purpose of the statement is to present readers with a fiscal snapshot as of 30 June 2014. The data presented facilitates readers' determination of the asset values available to continue the Institute's operations and the amount owed to vendors, creditors and others.

The Institute's net position is classified as follows:

- **Net investment in capital assets** – Represents total investment in property, plant, and equipment, (net of accumulated depreciation) and outstanding debt obligations related to those capital assets. Debt incurred, but not yet expended for capital assets, is not included as a component of net investment in capital assets.

- **Restricted net position – expendable** – Consists of resources that must be expended by the Institute in accordance with donor or other external entity stipulations such as time or purpose restrictions on the use of the assets.

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

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

Statement of Net Position

	30 June 2014	30 June 2013	Variance	
Assets:				
Current assets	$ 26,964,197	$ 20,552,570	$ 6,411,627	31.20%
Capital assets, net	243,392,263	241,222,530	2,169,733	0.90%
Other noncurrent assets	18,571,157	14,635,439	3,935,718	26.89%
Total assets	288,927,617	276,410,539	12,517,078	4.53%
Deferred outflows	727,635	804,187	(76,552)	-9.52%
Total assets and deferred outflows	$ 289,655,252	$ 277,214,726	$ 12,440,526	4.49%
Liabilities:				
Current liabilities	$ 11,481,021	$ 11,611,124	$ (130,103)	-1.12%
Noncurrent liabilities	21,101,603	17,498,050	3,603,553	20.59%
Total liabilities	$ 32,582,624	$ 29,109,174	$ 3,473,450	11.93%

Net position:				
Net investment in capital assets	$ 228,610,207	$ 227,315,348	$ 1,294,859	0.57%
Restricted - expendable	10,519,342	9,059,342	1,460,000	16.12%
Restricted - nonexpendable	1,267,844	1,267,844	-	0.00%
Unrestricted	16,675,235	10,463,017	6,212,218	59.37%
Total net position	$ 257,072,628	$ 248,105,551	$ 8,967,077	3.61%

As of 30 June 2014 VMI's total assets increased by $12.5 million or 4.5% from the prior year to $288.9 million. The change in total assets was due to overall increases in each asset category; current assets, net capital assets and other noncurrent assets. The Institute's asset growth primarily relates to increases in current cash and equivalents ($6.2 million), noncurrent restricted cash ($2.8 million) and capital assets ($2.2 million).

The $6.4 million increase in the Institute's current assets as of 30 June 2014 was substantially due to a $5.8 million increase in cash and cash equivalents. The majority of the cash increase resulted from Commonwealth reimbursements for prior fiscal year Corps Physical Training Facilities detail planning expenditures and certain equipment purchases initially incurred by the Institute ($3.3 million and $0.5 million respectively). Additionally, the Institute received a $1.0 million private gift earmarked for enhancements to the Military and Leadership Field Training Grounds located on North Post.

Noncurrent assets increased by $6.1 million to $262 million, a 2.4% increase from the previous year. Restricted cash, which is comprised of proceeds held through the Commonwealth's State Non-Arbitrage Program (SNAP), increased $2.8 million. The additional SNAP funds were received through the initial financing of the Post Infrastructure Improvements project. Capital assets, net of depreciation, increased $2.2 million to $243 million. This increase is primarily attributable to capitalized project costs associated with the completion of the Maury-Brooke Hall renovation and construction of the Corps Physical Training Facilities (CPTF). Additionally, investments held with trustees increased by $1.5 million as a result of net investment gains in excess of distributions of funds for use in current operations.

The Institute's total liabilities increased by $3.5 million to $32.6 million, primarily due to a $3.3 million increase in long-term debt. Through the Commonwealth's VCBA pooled bond funding, the Institute received an additional $4.1 million in financing to support phase one of the Post Infrastructure Improvements project. The additional financing was offset by scheduled debt repayments of $1.0 million. Current liabilities remained relatively consisted year over year, with the total of decreases in accounts payable and accrued expenses and repayment of the amount due to the Commonwealth ($1.0 million) being largely offset by a combined $0.7 million increase in securities lending obligations and unearned revenue.

Statement of Revenues, Expenses, and Changes in Net Position

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

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

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

Statement of Revenues, Expenses, and Changes in Net Position

	30 June 2014	30 June 2013	Variance	
Operating revenues:				
Tuition and fees	$ 20,969,293	$ 20,736,302	$ 232,991	1.1%
Grants and contracts	266,100	315,950	(49,850)	-15.8%
Auxiliary enterprises	19,237,680	18,050,564	1,187,116	6.6%
Unique military activities	2,897,045	2,915,038	(17,993)	-0.6%
Other sources	1,889,982	1,858,285	31,697	1.7%
Total operating revenues	45,260,100	43,876,139	1,383,961	3.2%
Operating expenses:				
Educational and general	48,359,797	48,067,197	292,600	0.6%
Auxiliary enterprises	23,903,532	23,459,150	444,382	1.9%
Unique military activity	8,393,656	8,095,396	298,260	3.7%
Other expense	21,197	19,003	2,194	11.5%
Total operating expenses	80,678,182	79,640,746	1,037,436	1.3%
Operating loss	(35,418,082)	(35,764,607)	346,525	-1.0%
Nonoperating revenues (expenses):				
State appropriations	13,077,597	12,231,459	846,138	6.9%
Gifts, grants and contributions	17,440,911	15,078,386	2,362,525	15.7%
Investments	1,971,767	1,583,789	387,978	24.5%
Other	(493,196)	(1,369,244)	876,048	-64.0%
Net nonoperating revenues	31,997,079	27,524,390	4,472,689	16.2%
Income (loss) before other revenues	(3,421,003)	(8,240,217)	4,819,214	-58.5%
Other revenues/reductions	12,388,080	13,528,568	(1,140,488)	-8.4%
Increase (decrease) in net position	8,967,077	5,288,351	3,678,726	69.6%
Net position - beginning of year	248,105,551	242,817,200	5,288,351	2.2%
Net position - end of year	$ 257,072,628	$ 248,105,551	$ 8,967,077	3.6%

As of 30 June 2014 operating revenues increased by $1.4 million or 3.2%, slightly above the $1.0 million or 1.3% increase in operating expenses. The increase in operating revenues is attributable to tuition and fee increases as well as an increase in enrollment year over year. Opening enrollment for fiscal 2014 increased by 11 Cadets from fiscal 2013 to 1,675, while total tuition and fees increased by 4.3% and 4.7% for in-state and out-of-state Cadets respectively. Within educational and general expenses, instruction costs increased by $1.4 million or 7.2% largely due to an 18% increase in health insurance premiums and a State appropriated salary increase of 3% for teaching faculty. Additional increases in educational and general expenses were offset by a $1.7 million or 18.4% decrease in physical plant operating and maintenance expenses. This was primarily due to fiscal 2013 final phase equipment and contractual services costs ($1.3 million) associated with the Post Hospital and Maury-Brooke Hall renovations which did not apply to the current year due to project completion.

Non-operating revenues increased $4.5 million or 16.2%, largely driven by a $2.4 million increase in gifts and contributions during fiscal 2014. The increase in gifts and contributions was the result of continued financial market strength and the resultant increase in spendable endowment income. State appropriations were $0.8 million greater than fiscal 2013 and disposal of plant assets resulted in a nominal current year gain versus a prior year loss on disposal of $0.8 million. Additionally, net investment gains increased $0.4 million in comparison to fiscal 2013.

Other revenues and reductions decreased $1.1 million or 8.4% due to slightly lower capital funding for State projects based on project timing and the respective phase of construction.

Statement of Cash Flows

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

Statement of Cash Flows

	30 June 2014	30 June 2013	Variance	
Net cash used by operating activities	$ (26,257,303)	$ (28,329,341)	$ 2,072,038	-7.3%
Net cash provided by noncapital financing activities	29,872,940	27,251,329	2,621,611	9.6%
Net cash provided/(used) by capital and financing activities	979,489	(1,364,419)	2,343,908	-171.8%
Net cash provided by investing activities	970,672	980,418	(9,746)	-1.0%
Net increase (decrease) in cash	5,565,798	(1,462,013)	7,027,811	-480.7%
Cash - beginning of year	8,963,135	10,425,148	(1,462,013)	-14.0%
Cash - end of year	$ 14,528,933	$ 8,963,135	$ 5,565,798	62.1%

Net cash provided by or used in operating activities will always result in a net use for the Institute as all State appropriations and private gifts are treated as cash sources for noncapital or capital financing activities rather than cash sources for operating activities. Tuition and fees ($21.5 million) and auxiliary charges ($19.3 million) represent the largest sources of operating cash, while compensation and benefits ($42.7 million) and payments for supplies and services ($28.4 million) are the most significant uses of operating cash. Overall, net cash used for operations decreased $2.1 million for fiscal 2014 compared to the prior year. This was primarily a result of greater operating revenues ($2.7 million) and a decrease in payments for supplies and services ($1.2 million), the combination of which was partially offset by an increase in payments to employees for salaries and benefits ($1.7 million).

Net cash provided by noncapital financing activities consists largely of private fund support ($15.3 million) and State appropriations ($13.1 million). A total increase from fiscal 2013 in gifts and contributions ($1.0 million), nonoperating grants and contracts ($0.9 million) and State appropriations ($0.8 million) accounted for the overall increase in net cash provided.

Net cash provided by capital and related financing activities consists primarily of gifts and contributions from the Commonwealth VCBA bond funding and the VMI Development Board ($12.4 million). The purchase and construction of capital assets ($10.0 million) and principal and interest paid on capital debt ($1.4 million) account for the largest uses of cash for capital and related financing activities.

Capital Asset and Debt Administration

30 June 2014 represents the twelfth year of the implementation of VMI's Vision 2039. Vision 2039 is a leadership plan rather than a construction plan; however, construction of new facilities and the renovation of older buildings on Post are essential components of Vision 2039. Since 2003, VMI has made significant and comprehensive improvements to its facilities totaling approximately $233 million. This includes renovation of academic buildings, construction of a new Center for Leadership and Ethics, construction of new outdoor Military and Leadership Field Training Grounds, expansion and renovation of the Barracks and the Mess Hall, construction of a new Physical Plant facility, renovation of the Post Hospital, improvements to athletic facilities, and construction of parking facilities.

During fiscal year 2014 renovation and construction continued on a number of projects, including repairs to Barracks parapets, stoops, and windows, Cocke Hall swimming pool, and Foster Stadium Slope Stabilization. These projects were financed through VCBA pooled bonds that were sold in 2013. The pooled bond funds are an obligation of the Institute and are reflected as a liability in the Institute's Statement of Net Position.

Also during fiscal year 2014 construction began on the Corps Physical Training Facilities (CPTF) project. The CPTF project is currently VMI's highest priority project and consists of two phases: Phase I ($80 million) to construct a new Corps Physical Training Facility, and Phase II ($38 million) to renovate Cocke Hall and Cormack Hall which support VMI's physical education department and provide Cadet physical conditioning facilities. Both phases of the project will be funded by capital contributions from the Commonwealth of Virginia through the VCBA 21st Century bond funds which are an obligation of the State.

All of the improvements noted above provide the most modernized and technologically advanced facilities in the long history of VMI. Since VMI began its Vision 2039 capital program, the Institute has incurred long-term debt only on Jackson Memorial Hall, the Cocke Hall Annex, Crozet Hall, South Institute Hill Parking, and several small repair and improvement projects. The remaining projects have been financed with State funds, auxiliary funds, or private gifts and contributions resulting in no debt obligations for the Institute. As of 30 June 2014, the debt outstanding on these projects totaled $18 million with annual debt service payments of $1.6 million. VMI's Board of Visitors adopted debt guidelines in August 2005 to help ensure sound management and control of debt and annually monitors the Institute's position relative to those guidelines.

The Institute's long-term debt consists of $8.2 million of bonds and $9.8 million of notes payable. The bonds payable were issued in August 2004 pursuant to Section 9(c) of Article X of the Constitution of Virginia by the Department of Treasury for the Commonwealth of Virginia on behalf of the Institute for renovation and expansion of Crozet Hall, the Institute dining facility, and parking. The bonds bear interest at an average coupon rate of 4.8% and are payable over 20 years through June 2025. The bonds are secured by the net revenues of the facilities, which are comprised primarily of Cadet fees.

The Institute's notes payable consists of debt obligations between VCBA and the Institute. VCBA issued bonds through its Pooled Bond Program and used the proceeds to purchase debt obligations (notes) of the Institute. Notes related to the Cocke Hall Annex and the Jackson Memorial Hall renovations, initially issued in 2002, have an average coupon rate of 4.3% and are payable over 20 years through 2023. Notes related to the South Institute Hill Parking project were issued in 2010 at an average coupon rate of 4.8% and are payable over 20 years through 2031. Notes related to the Post Infrastructure Improvements project were issued in 2013 at an average coupon rate of 3.9% and are payable over 20 years through 2034. The Cocke Hall Annex, South Institute Hill Parking, and Post Infrastructure Improvements project notes will be paid from Auxiliary Enterprises Program reserve funds, which consist primarily of Cadet fees. The Jackson Memorial Hall note is secured by funds paid by the VMI Foundation, Inc. on a year-to-year basis as a gift to the Institute. Should the gift be discontinued, repayment will be made from the general revenues of the Institute.

In July 2014, the Institute entered into a treasury loan authorization with the Commonwealth of Virginia Department of Planning & Budget in the amount of $1,000,000. The authorization provides temporary funding for the design, planning, and improvements to various Post facilities. Interest is payable quarterly at the primary liquidity portfolio rate as compiled by the Commonwealth of Virginia Department of Treasury. Borrowings under the treasury loan will be repaid from the proceeds of the Institute's $4.0 million financing through the VCBA Pooled Bond Program expected to occur in November 2014.

Economic Outlook

The Institute's economic outlook is generally favorable due to its continuing strong student demand and national reputation especially for its engineering programs. The Institute has consistently ranked high on the U.S. News and World Reports list of public liberal arts colleges with a current ranking of #4 behind the three federal service academies. VMI is also currently ranked #64 on the list of liberal arts colleges nationally (both public and private) and #22 for its engineering programs among bachelor's and master's level institutions nationally. Money Magazine currently lists VMI 4th among liberal arts colleges nationally, 8th among the best value liberal arts colleges nationally, and 18th among colleges and universities nationally. As a public institution with significant private support, the Institute continues to be well positioned to provide excellent programs and services to its Cadets as it maintains a clear educational focus and a well-established niche in the higher education marketplace.

VMI received 2,160 student applications for its fall 2014 new Cadet class resulting in an average for the past three years of 2,106 applications. VMI accepted 44% of the applicants for fall 2014 with a yield of 53% or 500 new Cadets. VMI accepted 47% of the applicants for fall 2013 with a yield of 53% or 504 new Cadets. The academic credentials of the Cadets enrolled continue to be significantly above average with the fall 2014 new Cadet class consisting of 52% in the top quarter and 92% in the top half of their high school class.

VMI remains committed to an average Corps size of about 1,625 Cadets with an appropriate mix of in-state and out-of-state Cadets to help maintain financial stability. In-state Cadets totaled 59% of the Corps for fiscal 2014 and 58% for fiscal 2015. VMI also continues to keep its tuition and fees affordable and competitive while offering significant financial assistance for Cadets with demonstrated need. Operating revenues consisting mostly of Cadet tuition and fees provided about $45.3 million or 58% of total revenues and support in fiscal 2014 with this percentage expected to increase in the future.

State support provided $13.1 million or 17% of VMI's total revenues and support for operations in fiscal 2014 excluding funding for capital projects. State support provided $11.1 million for capital projects consisting primarily of the renovation of Maury-Brooke Hall (sciences) and the Corps Physical Training Facilities (construction of an Indoor Training Facility and renovation of Cormack Hall and Cocke Hall). State support for operations is expected to total about $13.2 million in fiscal 2015 for an increase of about

1% over fiscal 2014. State support for capital projects for fiscal 2015 is estimated to total about $53 million and consists primarily of funding of VMI's $118 million Corps Physical Training Facilities capital project.

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

Private support provided $16.5 million or 21% of VMI's total revenues and support for operations in fiscal 2014 excluding funding for capital projects. Private support provided $1.3 million for capital projects to include debt service. Private support is derived mostly from VMI's alumni agencies and continues to remain strong due to on-going fund-raising efforts and the professional management of their diversified portfolio of endowment assets. The endowment had a market value of $371 million as of 30 June 2014 reflecting an increase of about 13% over fiscal 2013. The alumni agencies are currently engaged in a new fund-raising campaign that over the next several years is expected to significantly increase donations and endowments in support of new and existing programs.

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

FINANCIAL STATEMENTS

VIRGINIA MILITARY INSTITUTE
Statement of Net Position
As of 30 June 2014

ASSETS	
Current assets	
Cash and cash equivalents (Note 2)	$ 14,317,113
Cash equivalent held by Treasurer of Virginia (Note 2)	1,107,494
Collateral held for securities lending (Note 2)	35,857
Accounts receivable, *Net of allowance for doubtful accounts of $101,340* (Note 3)	2,324,081
Due from the Commonwealth (Note 4)	1,698,090
Due from federal government	26,887
Prepaid expenditures	1,035,425
Inventories (Note 5)	6,140,389
Loans receivable	278,861
Total current assets	26,964,197
Noncurrent assets	
Cash and cash equivalents (Note 2)	211,820
Cash equivalent-restricted (Note 2)	2,790,533
Investments held with trustees (Note 2)	14,183,637
Accounts receivable (Note 3)	48,357
Loans receivable, *Net of allowance for doubtful accounts of $32,979*	1,336,810
Nondepreciable capital assets (Note 6)	14,234,109
Depreciable capital assets, *Net of accumulated depreciation* (Note 6)	229,158,154
Total noncurrent assets	261,963,420
Total assets	288,927,617
Deferred outflows	
Loss on refunding	727,635
Total deferred outflows	727,635
Total assets and deferred outflows	289,655,252
LIABILITIES	
Current liabilities	
Accounts payable and accrued expenses (Note 7)	6,579,718
Unearned revenue	1,389,645
Obligations under securities lending	1,143,351
Deposits held for others	837,732
Long-term liabilities-current portion (Note 9)	650,569
Long-term debt-current portion (Note 9, Note 10)	880,006
Total current liabilities	11,481,021
Noncurrent liabilities	
Accrued liabilities (Note 7)	1,902,892
Federal loan program contributions refundable	1,334,234
Long-term liabilities-noncurrent portion (Note 9)	758,830
Long-term debt-noncurrent portion (Note 9, Note 10)	17,105,647
Total noncurrent liabilities	21,101,603
Total liabilities	32,582,624

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

VIRGINIA MILITARY INSTITUTE
Statement of Net Position
As of 30 June 2014

NET POSITION	
Net investment in capital assets	228,610,207
Restricted-nonexpendable	
Endowment	1,267,844
Restricted-expendable	
Scholarships and other	661,254
Loan funds	590,661
Quasi-endowment-restricted	9,267,427
	10,519,342
Unrestricted	16,675,235
Total net position	257,072,628
Total liabilities and net position	$ 289,655,252

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

COMBINED STATEMENT OF FINANCIAL POSITION
Component Units of Virginia Military Institute
As of 30 June 2014

ASSETS	
Current assets:	
Cash and cash equivalents	$ 5,627,823
Contributions receivable (Note 18)	8,160,700
Accounts receivable	98,622
Note receivable	114,838
Other	46,471
Total current assets	14,048,454
Noncurrent assets:	
Contributions receivable (Note 18)	12,240,253
Note receivable	577,136
Investments held by trustees (Note 18)	352,420,957
Investments, other (Note 18)	16,299,191
Investment securities	177,884
Cash surrender of life insurance	5,821,805
Property and equipment, net of accumulated depreciation	153,341
Total noncurrent assets	387,690,567
Total assets	401,739,021
LIABILITIES	
Current liabilities:	
Accounts payable and accrued expenses	712,320
Unearned revenue	3,493
Long-term liabilities-current portion:	
Trust and annuity obligations	674,124
Total current liabilities	1,389,937
Noncurrent liabilities:	
Other liabilities	129,333
Long-term liabilities-noncurrent portion:	
Bonds payable (Note 18)	44,509,353
Trust and annuity obligations	4,268,257
Total noncurrent liabilities	48,906,943
Total liabilities	50,296,880
NET ASSETS	
Unrestricted	63,262,061
Temporarily restricted	157,388,168
Permanently restricted	130,791,912
Total net assets	351,442,141
Total liabilities and net assets	401,739,021

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

VIRGINIA MILITARY INSTITUTE
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended 30 June 2014

Operating revenues:	
Tuition and fees, *Net of scholarships allowances of $6,369,359*	$ 20,969,293
Federal grants and contracts	254,100
State and private grants and contracts	12,000
Sales and services of educational departments	349,664
Auxiliary enterprise, *Net of scholarship allowances of $5,363,804*	19,237,680
Unique military activities, *Net of scholarships allowances of $947,225*	2,897,045
Other sources:	
Museum programs	694,442
Rents and commissions	391,913
Miscellaneous	453,963
Total operating revenues	45,260,100
Operating expenses:	
Educational and general	
Instruction	20,382,872
Research	316,252
Public service	1,531,216
Academic support	7,685,225
Student services	4,355,614
Institutional support	5,466,004
Operation and maintenance of physical plant	7,520,423
Scholarships and related expense	1,102,191
Auxiliary enterprises	23,903,532
Unique military activities	8,393,656
Loan cancellations and write-offs bad debt expense	21,197
Total operating expenses (Note 11)	80,678,182
Net operating loss	(35,418,082)
Nonoperating revenues/(expenses):	
State appropriations (Note 12)	13,077,597
Gifts and contributions	16,463,803
Federal student financial aid (Pell)	945,939
Federal stabilization funds (ARRA)	31,169
Investment income (loss)	1,971,767
Interest on capital asset - related debt	(531,489)
Gain/(loss) on disposal of plant assets	38,293
Net nonoperating revenues	31,997,079
Income (loss) before other revenues and extraordinary items	(3,421,003)
Other revenues and reductions:	
Grants and contributions-capital	12,385,502
Investment income-capital	2,578
Total other revenues and reductions	12,388,080
Increase/(Decrease) in net position	8,967,077
Net position beginning of the year	248,105,551
Net position end of year	$ 257,072,628

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

COMBINED STATEMENT OF ACTIVITIES
Component Units of Virginia Military Institute
For the Year Ended 30 June 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES				
Amounts raised on behalf of VMI	$ 9,724,923	$ 1,771,133	$ 8,826,172	$ 20,322,228
Grants, contributions and contracts	426,470	104,166	-	530,636
Investment income	(1,573,219)	3,779	-	(1,569,440)
Actuarial gain/(loss) on trust and annuity obligations	(244,754)	(96,446)	(36,585)	(377,785)
Administrative fees	40,000	-	-	40,000
Other income	28,190	-	-	28,190
Net assets released from restrictions and reclassifications	10,636,739	(10,636,739)	-	-
Total revenues	19,038,349	(8,854,107)	8,789,587	18,973,829
EXPENSES				
Amounts remitted directly to or on behalf of VMI:				
Unrestricted	7,490,421	-	-	7,490,421
Designated	12,204,455	-	-	12,204,455
Cost of operations	6,257,367	-	-	6,257,367
Conference, research and education	598,490	-	-	598,490
Total expenses	26,550,733	-	-	26,550,733
Change in net assets before net realized and unrealized gain/(loss) on investments	(7,512,384)	(8,854,107)	8,789,587	(7,576,904)
Net realized and unrealized gain/(loss) on investments	18,181,550	32,798,435	-	50,979,985
Change in net assets	10,669,166	23,944,328	8,789,587	43,403,081
NET ASSETS				
Beginning	52,592,895	133,443,840	122,002,325	308,039,060
Ending	$ 63,262,061	$ 157,388,168	$ 130,791,912	$ 351,442,141

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

VIRGINIA MILITARY INSTITUTE
Statement of Cash Flows
For the Year Ended 30 June 2014

Cash provided/(used) by operating activities:	
Tuition and fees	$ 21,483,031
Federal grants and contracts	254,100
State and private grants and contracts	12,000
Sales and services-educational and general	344,322
Auxiliary charges	19,304,840
Unique military activity charges	2,898,131
Other operating receipts	1,619,221
Payments to employees for salaries and benefits	(42,675,387)
Payments for supplies and services	(28,391,866)
Payments for scholarships and fellowships	(1,124,474)
Loan funds issued to students	(174,359)
Collections of loans from students	193,138
Net cash provided/(used) by operating activities	(26,257,303)
Cash provided/(used) by noncapital financing activities:	
State appropriations	13,077,597
Nonoperating grants and contracts	1,435,040
Gifts and contributions for other than capital purposes	15,282,426
Federal Direct Lending Program-receipts	7,193,457
Federal Direct Lending Program-disbursements	(7,193,457)
Agency receipts	1,256,319
Agency disbursements	(1,178,442)
Net cash provided/(used) by noncapital financing activities	29,872,940
Cash provided/(used) by capital and related financing activities:	
Capital gifts and contributions	12,400,880
Proceeds from capital assets	82,851
Purchase and construction of capital assets	(9,894,325)
Proceeds from capital debt	(240,000)
Principal paid on capital debt, leases and installments	(758,448)
Interest paid on capital debt, leases and installments	(611,469)
Net cash provided/(used) by capital and relating financing activities	979,489
Cash provided/(used) by investing activities:	
Interest on investments	102,760
Investment/Endowment income	175,786
Sale of investments	692,126
Net cash provided/(used) by investing activities	970,672
Net increase/(decrease) in cash	5,565,798
Cash-beginning of year	8,963,135
Cash-end of year	$ 14,528,933

VIRGINIA MILITARY INSTITUTE
Statement of Cash Flows
For the Year Ended 30 June 2014

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

Operating loss	$	(35,418,082)
Adjustments to reconcile net operating expenses to cash used by operating activities:		
Depreciation expense		8,713,451
Changes in assets and liabilities:		
Cash equivalent-SNAP-Bond issuance expense		75,705
Accounts receivable		441,849
Inventories		(157,638)
Prepaid expenditures		22,513
Due from Commonwealth		63,845
Loans receivable		30,196
Accounts payable and accrued liabilities		(399,835)
Unearned revenue		302,429
Compensated absences		60,062
Federal loan program contributions refundable		8,202
Net cash used in operating activities	$	(26,257,303)

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

Change in fair value of investments recognized as a component of investment income	$	1,071,326
Capital assets purchased with SNAP Funds	$	(1,383,566)
Capital assets acquired through in-kind donations as a component of capital gifts and contributions income		123,388
	$	(188,852)

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

Cash and cash equivalents classified as current assets	$	14,317,113
Cash and cash equivalents classified as noncurrent assets		211,820
	$	14,528,933

- NOTES TO FINANCIAL STATEMENTS -

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

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

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

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

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

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

B. Reporting Basis

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

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

C. Basis of Accounting

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

D. Cash, Cash Equivalents and Investments

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

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

E. Capital Assets

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

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

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

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

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

F. Inventories

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

G. Unearned Revenue

Unearned revenue represents revenues collected but not earned as of 30 June 2014. This is primarily composed of revenue for student tuition and fees received in advance of the next semester or term.

H. Interest Capitalization

Interest expense incurred during the construction of capital assets is capitalized, if material, net of interest income earned on resources set aside for this purpose. The Institute incurred interest expense totaling $626,674 for the fiscal year ended 30 June 2014, of which $95,185 was capitalized as construction period interest.

I. Accrued Compensated Absences

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

J. Federal Financial Assistance Programs

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

K. Net Position

The Institute's net position is classified as follows:

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

Restricted net position – nonexpendable: Nonexpendable restricted net position consists of endowment funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to the principal.

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

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

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

L. Classification of Revenues

The Institute has classified its revenues as either operating or nonoperating revenues according to the following criteria:

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

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

Scholarship Discounts and Allowances: Student tuition and fee revenues are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the Institute and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as either operating or nonoperating revenues in the Institute's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees, the Institute has recorded a scholarship discount and allowance.

M. Recently Adopted Accounting Pronouncements

In fiscal year 2014, the Institute adopted GASB Statement 65 – *Items Previously Reported as Assets and Liabilities.* This statement amends or supersedes the accounting and financial reporting guidance for certain items previously required to be reported as assets or liabilities. The objective of this statement is to properly classify certain items that were previously reported as assets or liabilities as either deferred outflows of resources (expenses) or deferred inflows (revenues).

NOTE 2: CASH AND CASH EQUIVALENTS AND INVESTMENTS

The following information is provided with respect to the Institute's cash, cash equivalents, and investments as of 30 June 2014. The following risk disclosures are required by GASB Statement 40, *Deposit and Investment Risk Disclosures*.

Custodial credit risk (Category 3 deposits and investments) – The custodial risk for deposits is the risk that, in the event of a failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in possession of an outside party. The Institute had no category 3 deposits or investments for fiscal year 2014.

Credit risk – The risk that an issuer or other counterparty to an investment will not fulfill its obligations. GASB Statement 40 requires the disclosure of the credit quality ratings of all investments subject to credit risk.

Concentration of credit risk – The risk of loss attributed to the magnitude of a government's investment in a single issuer is referred to as a credit risk. GASB Statement Number 40 requires disclosure of any issuer with more than five percent of total investments.

Interest rate risk - This is the risk that interest rate changes will adversely affect the fair value of an investment. GASB Statement 40 requires disclosure of maturities for any investments subject to interest rate risk. The Institute does not have an interest rate risk policy.

Foreign currency risk – This risk refers to the possibility that changes in exchange rates will adversely affect the fair value of an investment or a deposit.

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

Cash and Cash Equivalents

Pursuant to Section 2.2-1800, et seq., Code of Virginia, all state funds of VMI are maintained by the Treasurer of Virginia, who is responsible for the collection, disbursement, custody, and investment of state funds. Cash deposits held by VMI are maintained in accounts that are collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400, et seq., Code of Virginia.

Cash and cash equivalents consist of the following balances as of 30 June 2014:

	Current	Noncurrent	Total
Cash with Treasurer of Virginia	$ 12,906,986	$ 65,545	$ 12,972,531
State Non-Arbitrage Program (SNAP)	-	2,790,533	2,790,533
BB&T public fund checking	1,374,977	146,275	1,521,252
Securities under Securities Lending/Treasurer VA	1,107,494	-	1,107,494
Petty cash	7,150	-	7,150
Wells Fargo time deposit	28,000	-	28,000
Total cash and cash equivalents	$ 15,424,607	$ 3,002,353	$ 18,426,960

Investments

Investments include endowment and similar funds pooled and invested with VMI affiliates and retirement fund investments for selected employees. It also includes VMI's allocated share of securities held for security lending transactions conducted by the Commonwealth. Investments consist of the following balances as of 30 June 2014:

	Current	Noncurrent	Total
Investments with the Treasurer of Virginia:			
Securities under securities lending	$ 35,857	$ -	$ 35,857
Investments with trustees:			
Investments pooled with VMI affiliates	-	12,380,144	$ 12,380,144
Mutual fund investments (retirement accounts)	-	1,803,493	$ 1,803,493
Total with trustees	-	14,183,637	$ 14,183,637
Total investments	$ 35,857	$ 14,183,637	$ 14,219,494

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

The market value of the Fund as of 30 June 2014 was $371.1 million, of which, VMI owned $12.4 million or 3.3 percent of the Fund assets. The Fund annually approves an asset allocation which includes how assets are invested in major categories of investments. The Fund held $37.7 million in debt securities with an average maturity of 10.2 years. The average quality rating was AA- (Moody's). The Fund held $57.99 million in US equity investments. The Fund held $52.44 million in developed markets international funds with equities denominated primarily in the Euro, the Pound, and the Yen, and $38.79 million in emerging markets international funds with equities denominated in a variety of currencies. The Fund held $91.1 million in absolute return fund investments which may also hold fixed income and equity securities. The Fund held $50.1 million in private investments and $17.25 million in master limited partnerships. The remaining investments are held in cash and other diversifying investments. The custodians for the Fund are independently audited annually.

Funds Held In Trust By Others

Individual assets of funds held by trustees for the benefit of the Institute are not reflected in the accompanying Statement of Net Position. The Institute has irrevocable rights to all or a portion of the income of these funds. However, individual assets of the funds are not under the management discretion of the Institute according to the trust agreements. Income from funds held by trustees for the benefit of the Institute totaled $61,431 for fiscal year 2014 and is included in the endowment income.

Securities Lending Transactions

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

NOTE 3: ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at 30 June 2014:

	Current	Noncurrent	Total
Student tuition and fees	$ 514,200	$ -	$ 514,200
Other educational and general	59,482	-	59,482
Auxiliary enterprises	190,317	-	190,317
Unique military activity	3,178	-	3,178
Private gifts	1,589,081	-	1,589,081
Agency funds	26,720	-	26,720
Other operating	21,568	48,357	69,925
Retirement of indebtedness	20,875	-	20,875
	$ 2,425,421	$ 48,357	$ 2,473,778
Less: Allowance for doubtful accounts	(101,340)	-	(101,340)
Total accounts receivable, net	$ 2,324,081	$ 48,357	$ 2,372,438

NOTE 4: COMMONWEALTH REIMBURSEMENT PROGRAMS

The Commonwealth has established several programs to provide state-supported institutions of higher education with bond proceeds for financing the acquisition and replacement of instructional and research equipment and facilities. During the 2014 fiscal year, funding has been provided to the Institute from two programs (21st Century program and the Equipment Trust Fund) managed by the Virginia College Building Authority (VCBA). The VCBA issues bonds and uses the proceeds to reimburse the Institute for expenses incurred in the acquisition of equipment and facilities.

The line item, "Due from the Commonwealth" on the Statement of Net Position for the year ended 30 June 2014 represents pending reimbursements from the following programs:

VCBA Equipment Trust Fund program	$ 18,695
VCBA 21st Century program	1,679,395
Total Due from Commonwealth	$ 1,698,090

NOTE 5: INVENTORIES

Inventories consisted of the following at 30 June 2014:

Military Store	$ 5,558,287
Physical Plant	334,433
Museums	225,236
VMI Hospital	22,433
Total	$ 6,140,389

NOTE 6: CAPITAL ASSETS

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

	Beginning Balance 1 July 2013	Additions	Reductions	Ending Balance 30 June 2014
Nondepreciable capital assets:				
Land	$ 3,445,091	$ -	$ -	$ 3,445,091
Construction in progress	20,600,009	8,858,988	(18,669,979)	10,789,018
Total nondepreciable capital assets	24,045,100	8,858,988	(18,669,979)	14,234,109
Depreciable capital assets:				
Buildings	264,224,930	18,654,798	(65,904)	282,813,824
Improvements other than buildings	30,433,827	-	-	30,433,827
Equipment	15,569,179	1,736,505	(772,819)	16,532,865
Library books	11,766,112	347,430	(430,748)	11,682,794
Total depreciable capital assets	321,994,048	20,738,733	(1,269,471)	341,463,310
Less accumulated depreciation for:				
Buildings	76,497,410	5,732,451	(24,164)	82,205,697
Improvements other than buildings	6,121,333	1,461,048	-	7,582,381
Equipment	11,929,463	1,248,573	(770,001)	12,408,035
Library books	10,268,412	271,379	(430,748)	10,109,043
Total accumulated depreciation	104,816,618	8,713,451	(1,224,913)	112,305,156
Depreciable capital assets, net	217,177,430	12,025,282	(44,558)	229,158,154
Total capital assets, net	$ 241,222,530	$ 20,884,270	$ (18,714,537)	$ 243,392,263

NOTE 7: ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at 30 June 2014:

	Current	Noncurrent	Total
Employee salaries, wages and benefits payable	$ 3,818,076	$ -	$ 3,818,076
Vendors and supplies accounts payable	2,482,484	-	2,482,484
Accrued interest payable	163,824	-	163,824
Retainage payable	65,334	-	65,334
Contractual liability	50,000	99,400	149,400
Retirement annuities	-	1,803,492	1,803,492
Total accounts payable and accrued expenses	$ 6,579,718	$ 1,902,892	$ 8,482,610

NOTE 8: SHORT-TERM BORROWING

In May 2013, the Institute entered into a treasury loan authorization with the Commonwealth of Virginia Department of Planning & Budget in the amount of $1,436,969. The authorization was obtained for the purpose of providing cash for the design, planning and improvements to various Post facilities. As of 30 June 2013, the Institute had withdrawn $240,000 against this authorization, which was reflected in the Statement of Net Position as a short-term borrowing. Interest is payable quarterly, at the primary liquidity portfolio rate, compiled by the Commonwealth of Virginia Department of Treasury. Borrowings under this treasury loan authorization were due on and fully reimbursed by 31 October 2013.

	Beginning Balance 1 July 2013	Additions	Reductions	Ending Balance 30 June 2014
Short-term debt:				
Commonwealth of Virginia Treasury loan	$ 240,000	$ 940,000	$ (1,180,000)	$ -

NOTE 9: LONG-TERM LIABILITIES SUMMARY

The Institute's long-term liabilities primarily consist of long-term debt (further described in Note 9) and accrued compensated absences. A summary of changes in long-term liabilities for the year ending 30 June 2014 is presented as follows:

	Beginning Balance 1 July 2013*	Additions	Reductions	Ending Balance 30 June 2014	Current Portion 30 June 2014
Long-term debt:					
Bonds payable	$ 8,865,757	$ -	$ (638,406)	$ 8,227,351	$ 530,006
Notes payable	5,845,613	4,278,954	(366,265)	9,758,302	350,000
Total long-term debt	$ 14,711,370	$ 4,278,954	$ (1,004,671)	$ 17,985,653	$ 880,006
Accrued compensated absences	1,349,337	856,345	(796,283)	1,409,399	650,569
Total long-term liabilities	$ 16,060,707	$ 5,135,299	$ (1,800,954)	$ 19,395,052	$ 1,530,575

*With the adoption of GASB Statement 65, the remaining difference between the acquisition price and the net carrying amount of the debt at 1 July 2013 was reclassified as a loss on refunding within deferred outflows on the Statement of Net Position. The beginning balance amount reclassified for bonds payable and notes payable was $687,637 and $116,550 respectively.

NOTE 10: LONG-TERM INDEBTEDNESS DETAIL

Bonds payable:

In August 2004, pursuant to Section 9(c) of Article X of the Constitution of Virginia, $11,240,000 of revenue bonds, Series 2004A, were issued by the Department of Treasury for the Commonwealth of Virginia, on behalf of the Institute for renovation and expansion of Crozet Hall, the Institute dining facility, and parking. The bonds bear interest at an average coupon rate of 4.8% and are payable over 20 years through June 2025. Net proceeds after the cost of issuance totaled $11,889,591 and included a premium realized on the sale. The revenue bonds are secured by the net revenues of the facility, which is comprised primarily of cadet fees. With the adoption of GASB 65, $687,637 of the remaining difference between the acquisition price and the net carrying amount of the debt at 1 July 2013 was reclassified as a loss on refunding within deferred outflows on the Statement of Net Position.

Bonds Payable:	Interest Rates (%)	Maturity	Balance 30 June 2014
Crozet Hall:			
Series 2009D, issued $4,241,860 - refunding Series 2004A *	2.50 - 5.00	2022	$ 4,732,222
Series 2012A, issued $3,018,620 - refunding Series 2004A *	2.00 - 5.00	2025	3,495,129
			$ 8,227,351

Notes payable:

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

Institute. Should the gift be discontinued, repayment will be made from the general revenues of the Institute. With the adoption of GASB 65, $116,550 of the remaining difference between the acquisition price and the net carrying amount of the debt at 1 July 2013 was reclassified as a loss on refunding within deferred outflows on the Statement of Net Position.

Notes Payable:	**Interest Rates (%)**	**Maturity**	**Balance 30 June 2014**
Cocke Hall Annex:			
Series 2007B, issued $735,000 - refunding Series 2002A *	4.00 - 4.50	2020	$ 748,728
Series 2010B, issued $555,000 - refunding Series 2002A *	2.00 - 5.00	2023	517,098
Jackson Memorial Hall Renovation:			
Series 2007B, issued $850,000 - refunding Series 2002A *	4.00 - 4.50	2020	865,996
Series 2010B, issued $650,000 - refunding Series 2002A *	2.00 - 5.00	2023	602,592
South Institute Hill Parking:			
Series 2010A1/2, issued $2,850,000	3.75 - 5.00	2031	2,750,591
Improve Post Facilities I:			
Series 2013A, issued $4,085,000	2.00 - 4.00	2034	4,273,297
			$ 9,758,302

Maturities on notes and bonds payable for years succeeding 30 June 2014 are as follows:

Year	**Bonds Payable**	**Notes Payable**	**Total**
2015	$ 530,006	$ 350,000	$ 880,006
2016	296,860	520,000	816,860
2017	580,000	545,000	1,125,000
2018	610,000	560,000	1,170,000
2019	640,000	585,000	1,225,000
2020-2024	3,738,614	2,965,000	6,703,614
2025-2029	865,000	2,020,000	2,885,000
2030-2034	-	1,770,000	1,770,000
Total principal payments	7,260,480	9,315,000	16,575,480
Unamortized premium	966,871	443,302	1,410,173
Total long-term debt, net	$ 8,227,351	$ 9,758,302	$ 17,985,653

A summary of future interest commitments for fiscal years subsequent to 30 June 2014 is presented as follows:

Year	Bonds Payable	Notes Payable	Total
2015	$ 344,050	$ 397,910	$ 741,960
2016	322,850	379,047	701,897
2017	306,907	355,104	662,011
2018	277,907	329,485	607,392
2019	247,407	304,272	551,679
2020-2024	701,317	1,135,021	1,836,338
2025-2029	17,300	610,738	628,038
2030-2034	-	163,363	163,363
Total future interest requirements	$ 2,217,738	$ 3,674,940	$ 5,892,678

Operating Leases

VMI is committed under various operating leases for equipment. Operating leases do not give rise to property rights and are not reflected as obligations in the Institute's Statement of Net Position. In general, the leases have a three year term and the Institute has renewal options. In most cases, the Institute expects these leases will be replaced by similar leases in the normal course of business. Rental expense was approximately $2,868 for the year ended 30 June 2014. Minimum lease payments for subsequent fiscal years are as follows:

Year Ending 30 June	Amount
2015	$ 2,474
2016	1,317
2017	1,317
2018	1,317
Total	$ 6,425

Capital Improvement Commitments

As of 30 June 2014, the Institute had outstanding construction contract commitments of $4,009,480. This amount represents the value of obligations remaining on capital improvement project contracts. These obligations are for future efforts and as such have not been accrued as expenses or liabilities on the Institute's financial statements.

NOTE 11: EXPENSES BY NATURAL CLASSIFICATIONS

The Institute's operating expenses by natural classification were as follows for the year ended 30 June 2014:

Program	Compensation and benefits	Supplies, Equipment, Utilities and Other Services	Student Aid	Other Expenses	Depreciation	Total
Instruction	$ 16,593,650	$ 1,211,555	$ -	$ 62,804	$ 2,514,863	$ 20,382,872
Research	87,324	92,855	-	136,073	-	316,252
Public service	650,421	544,508	-	9,344	326,943	1,531,216
Academic support	4,754,005	1,953,043	-	58,717	919,460	7,685,225
Student services	3,048,883	987,505	-	71,407	247,819	4,355,614
Institutional support	3,788,044	1,291,116	-	253,168	133,676	5,466,004
Operation of plant	3,559,797	2,953,840	-	417,246	589,540	7,520,423
Student aid	13,024	30,452	1,058,715	-	-	1,102,191
Auxiliary enterprises	5,299,739	10,094,450	60,000	5,502,735	2,946,608	23,903,532
Unique military activities	4,792,473	1,684,896	-	881,745	1,034,542	8,393,656
Other	-	-	-	21,197	-	21,197
TOTAL	$ 42,587,360	$ 20,844,220	$ 1,118,715	$ 7,414,436	$ 8,713,451	$ 80,678,182

NOTE 12: STATE APPROPRIATIONS

Virginia Military Institute receives State appropriations from the General Fund of the Commonwealth of Virginia. The Appropriation Act specifies that such unexpended appropriations shall revert, as specifically provided by the General Assembly, at the end of the biennium. For years ending at the middle of the biennium, unexpended appropriations that have not been approved for reappropriation in the next year by the Governor become part of the General Fund of the Commonwealth and are, therefore, no longer available to VMI for disbursement. Fiscal year 2014 ends the biennium.

During the fiscal year ended 30 June 2014, the Institute received the following supplemental appropriations and reversions in accordance with the Appropriation Act:

Original legislative appropriation:	
Educational and general programs	$ 8,332,004
Unique military activity	3,569,904
Student financial assistance	870,928
Adjustments:	
Compensation adjustments	693,989
ETF lease payment - NGF portion	(88,844)
Student financial assistance	4,275
Debt service fee - Non-Virginia cadets	(370,260)
Appropriations transfers:	
SCHEV programs	5,601
Educational and general	60,000
Adjusted appropriations	$ 13,077,597

NOTE 13: RETIREMENT AND PENSION SYSTEMS

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

Information regarding types of employees covered, benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions as well as employer and employee obligations to contribute are established, can be found in the Commonwealth's Comprehensive Annual Financial Report (CAFR).

VRS does not measure assets and pension benefit obligations separately for individual state institutions. The CAFR provides disclosure of the Commonwealth's unfunded pension benefit obligation at 30 June 2014. The Commonwealth, not the Institute, has overall responsibility for contributions to this plan. The same report contains historical trend information showing VRS's progress in accumulating sufficient assets to pay benefits when due.

The Institute's total VRS contribution was $1,478,045 for the year ended 30 June 2014. This contribution was calculated based on total base salary of participants of approximately $16,549,131. The Institute's total payroll costs were $34,120,053 for the year ended 30 June 2014.

Optional Retirement Plan

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

Individual contracts issued under the plan provide for full and immediate vesting of both the Institute's and the employees' contributions. Total pension costs under this plan were approximately $1,143,049 for the year ended 30 June 2014. Contributions to this defined contribution plan were calculated using the base salary amount of participants of approximately $11,504,163 for fiscal year 2014.

Deferred Compensation Plan

Employees of the Commonwealth may participate in the Commonwealth's Deferred Compensation Plan. Participating employees can contribute to the plan each pay period with the Commonwealth matching up to $20 per pay period or $40 per month. The dollar amount match can change depending on the funding available in the Commonwealth's budget. The Deferred Compensation Plan is a qualified defined contribution plan under Section 401(a) of the Internal Revenue Code. Employer contributions under the Deferred Compensation Plan were approximately $142,570 for the fiscal year 2014.

NOTE 14: POST-EMPLOYMENT BENEFITS

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

NOTE 15: RISK MANAGEMENT

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

NOTE 16: CONTINGENCIES

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

In addition, the Institute is required to comply with various federal regulations issued by the Office of Management and Budget. Failure to comply with certain systems requirements of these regulations may result in questions concerning the allowance of related direct and indirect charges pursuant to such agreements. As of 30 June 2014 the Institute estimates that no material liabilities will result from such audits or questions.

In October 2003, VMI entered into a contract amendment with ARAMARK Educational Services (ARAMARK), VMI's contracted dining services vendor. In accordance with the agreement, ARAMARK provided $200,000 in fiscal 2005 to VMI to support the expansion and renovation of the Crozet Hall dining facility. The agreement requires ARAMARK to amortize the contribution on a straight-line basis over a ten-year period commencing with the disbursement of funds. In the event that VMI or ARAMARK terminates the relationship prior to the end of the amortization period, VMI must reimburse any unamortized balance to ARAMARK within ninety days of termination.

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

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

NOTE 17: SUBSEQUENT EVENTS

The 2014 General Assembly of the Commonwealth of Virginia approved VMI's request for $4.0 million of VCBA bond financing to make improvements to Post facilities. The bonds to support this project are expected to be issued by the Commonwealth of Virginia in November 2014 and will result in a note payable between VCBA and the Institute. Bond financing for this project is projected to total $4.0 million, plus bond issue costs and capitalized interest during construction. The bonds will be repaid over 20 years with an expected interest rate of approximately 4%. This new debt would increase the book value of VMI's total outstanding debt, including unamortized premiums and refunding losses, to approximately $22.0 million.

In July 2014, the Institute entered into a treasury loan authorization with the Commonwealth of Virginia Department of Planning & Budget in the amount of $1,000,000. The authorization provides temporary funding for the design, planning, and improvements to various Post facilities. Interest is payable quarterly at the primary liquidity portfolio rate as compiled by the Commonwealth of Virginia Department of Treasury. As of 31 August 2014, the Institute had withdrawn the full amount against the authorization. Borrowings under the treasury loan were repaid from the proceeds of the Institute's $4.0 million financing through the VCBA Pooled Bond Program which occurred in November 2014.

NOTE 18: VMI ALUMNI AGENCIES

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

The VMI Alumni Association

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

VMI Foundation, Incorporated and Subsidiary

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

VMI Development Board, Incorporated

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

VMI Keydet Club, Incorporated

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

Contributions receivable

Contributions receivable consist of the following as of 30 June 2014:

Unconditional promises to give	$ 20,189,018
Charitable trusts held by others	211,935
Total contributions receivable	20,400,953
Less: current portion	(8,160,700)
Noncurrent contributions receivable	$ 12,240,253
Gross amounts expected to be collected in:	
Less than one year	$ 9,307,001
One to five years	12,037,470
More than five years	2,578,118
	23,922,589
Less:	
Discount	(1,150,571)
Allowance for uncollectible contributions	(2,371,065)
Fair value	$ 20,400,953

The distribution of contributions receivable for each class of net assets as of 30 June 2014 is as follows:

Temporarily restricted	$ 12,519,343
Permanently restricted	7,881,610
	$ 20,400,953

At 30 June 2014, the Agencies had also received bequest and other intentions of approximately $136.7 million. These intentions to give are not recognized as assets and, if they are received, they will generally be restricted for specific purposes stipulated by the donors.

For 2014 approximately 42% of the contributions receivable balance was from five donors.

Investments held by trustees

The Agencies participate in a combined investment fund (the "Fund") controlled by the VMI Investment Committee, a committee comprised of representatives from each agency. BNY Mellon, N.A. serves as custodian for the Fund's assets. The Fund's investments consist of the following as of 30 June 2014:

Equities	$ 156,929,698	44.5 %
Absolute return funds	86,559,135	24.6
Private equities	47,610,903	13.5
Fixed income	35,823,569	10.2
Master limited partnerships	16,381,041	4.6
Commodities	5,935,956	1.7
Cash and cash equivalents	3,180,655	0.9
	$ 352,420,957	100.0 %

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

Investments held by trustees activity for the year ended 30 June 2014 is reflected in the table below:

Investments, beginning	$ 311,151,283
Investments returns:	
Dividends and interest	783,371
Net realized and unrealized losses	48,635,820
Less: investment fees	(2,689,517)
	46,729,674
Net disbursements used to fund operations	(5,460,000)
Investments, ending	$ 352,420,957

VMI Investment Holdings, LLC

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

Investments, Other

Investments, other, as of 30 June 2014 consists of the following:

	Held by Agent	Held by Foundation	Held in Irrevocable Trusts*	Total at Fair Value**
Equities	$ 1,873,791	$ 9	$ 7,965,285	$ 9,839,085
Fixed income	4,193	5,891	2,781,261	2,791,345
Real estate	-	1,701,667	-	1,701,667
Alternative investments	-	-	709,695	709,695
Cash and cash equivalents	204,559	783	1,034,929	1,240,271
Limited partnerships	-	17,128	-	17,128
	$ 2,082,543	$ 1,725,478	$ 12,491,170	$ 16,299,191

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

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

Long-term Debt

Long-term debt consists of bonds and notes payable at 30 June 2014 as follows:

Variable Rate Educational Facilities Revenue Bonds, Series 2006, payable in varying installments from $5,000,000 to $22,475,000, commencing 2021 through 2037	$	42,475,000
Add: bond premium - net		2,034,353
	$	44,509,353

Debt matures as follows for future years ending 30 June:

Year ending 30 June:	
2015	-
2016	-
1017	-
2018	-
2019	-
Thereafter	42,475,000
	$ 42,475,000

Effective 15 July 2010, the Industrial Development Authority of the City of Lexington, Virginia approved a request by the Agencies to remarket Variable Rate Educational Facilities Revenue Bonds, Series 2006. This remarketing superseded the original issuance, dated 13 July 2006. The bonds were initially issued in a single series bearing interest at a variable rate. The bonds were remarketed at a premium of $2,525,000, net of expenses. The premium is being amortized over the life of the loan and amortization of the premium totaled $122,622 for 2014. The bonds were remarketed in three series, Series 2006A-1 ($5,000,000) and 2006A-2 ($5,000,000), 2006B ($10,000,000), and 2006C ($22,475,000), and interest was converted to a fixed rate on each series. Series 2006A-1 bears interest of 4.25%, the remainder each bear interest at 5.00%. Interest accrues at these rates and payments commenced on 1 December 2010. Payments are due each 1 June and 1 December. The first principal payment, of $10,000,000, is due in fiscal year 2021. Upon this conversion, the bonds are no longer collateralized by any credit or liquidity facility, nor are the bonds collateralized by any of the Agencies' assets.

Endowment Funds

The Agencies employ a total return spending policy that establishes the amount of investment return that is available to support current needs and restricted purposes. This policy is designed to insulate program spending from capital market fluctuations and increase the amount of return that is reinvested in the corpus of the fund in order to enhance its long-term value. For the year ended 30 June 2014, the Board-approved spending formula for the endowment provided for an annual spending rate of 4.8% of the average of the prior twelve quarters' market values adjusting these market values upward to reflect subsequent receipt of gifts, or downward to reflect extraordinary withdrawals. If cash yield (interest and dividends) is less than the spending rate, realized gains can be used to make up the deficiency. Any income in excess of the spending rate is to be reinvested in the endowment. The primary investment objective is long-term capital appreciation and total return. The Agencies utilize diversified investment classes that provide the opportunity to achieve the return objective without exposing the funds to unnecessary risk.

NOTE 19: COMPONENT UNITS

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

CONDENSED STATEMENTS OF NET ASSETS As of 30 June 2014	VMI Research Laboratories Inc.	VMI Alumni Agencies	TOTAL
Assets:			
Current assets	$ 526,549	$ 13,521,905	$ 14,048,454
Noncurrent assets	183,733	387,506,834	387,690,567
Total assets	710,282	401,028,739	401,739,021
Liabilities:			
Current liabilities	13,377	1,376,560	1,389,937
Noncurrent liabilities	48,357	48,858,586	48,906,943
Total liabilities	61,734	50,235,146	50,296,880
Net Assets:			
Unrestricted	533,100	62,728,961	63,262,061
Temporarily restricted	105,448	157,282,720	157,388,168
Permanently restricted	10,000	130,781,912	130,791,912
Total net assets	648,548	350,793,593	351,442,141
Total net assets and liabilities	$ 710,282	$ 401,028,739	$ 401,739,021

CONDENSED STATEMENTS OF REVENUES EXPENSES AND CHANGES IN NET ASSETS As of 30 June 2014	VMI Research Laboratories Inc.	VMI Alumni Agencies	TOTAL
Total revenues	$ 586,277	$ 18,387,552	$ 18,973,829
Total expenses	(598,490)	(25,952,243)	(26,550,733)
Total net realized and unrealized losses on investments	-	50,979,985	50,979,985
Total change in net assets	(12,213)	43,415,294	43,403,081
Total beginning net assets	660,761	307,378,299	308,039,060
Total ending net assets	$ 648,548	$ 350,793,593	$ 351,442,141

Commonwealth of Virginia

Auditor of Public Accounts

Martha S. Mavredes, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

June 22, 2015

The Honorable Terence R. McAuliffe
Governor of Virginia

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

Board of Visitors
Virginia Military Institute

INDEPENDENT AUDITOR'S REPORT

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component units of the Virginia Military Institute, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Virginia Military Institute's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented component units of the Virginia Military Institute, which are discussed in Note 1 – Summary of Significant Accounting Policies and Note 19 – Component Units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the component units of the Virginia Military Institute, is based on the reports of the other auditors.

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

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

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

Opinion

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and aggregate discretely presented component units of the Virginia Military Institute as of June 30, 2014, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Notes 1 M., 9, and 10 to the financial statements, the Virginia Military Institute adopted Governmental Accounting Standards Board Statement 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 1 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated June 22, 2015, on our consideration of the Virginia Military Institute's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Virginia Military Institute's internal control over financial reporting and compliance.

Martha S. Mavredes

AUDITOR OF PUBLIC ACCOUNTS

GDS/clj

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Patricia P. Hickerson
Janice G. Igou
Daniel E. Long, Jr., Ex Officio
W. Gregory Robertson
Ernesto V. Sampson
H. George White, Jr.
Frances C. Wilson

Weston S. Hitchcock, Cadet Representative

Jeffrey H. Curtis
Secretary of the Board of Visitors

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Superintendent

Robert L. Green
Deputy Superintendent, Finance, Administration and Support

Kevin A. Ryan
Comptroller