2013-14

FINANCIAL REPORT

Virginia Tech
Invent the Future®

Message from the Vice President for Finance and Chief Financial Officer

Fiscal year 2014 was a landmark year for Virginia Tech; on June 1, 2014 the university welcomed Dr. Timothy D. Sands as the 16th president of Virginia Tech. We are excited to start a new chapter in Virginia Tech's history and stand with the new president to build on the successes and strengths of Virginia Tech and to work with our president on new opportunities. As we welcome the new president, we are pleased to report a strong and stable financial and operational environment for the university. This stable environment will provide the foundation for pursuit of the vision and initiatives of the new president. The university has been able to sustain and even grow over the last several years, despite a challenging financial environment, in part due to its balanced and diversified portfolio of revenue streams. This growth continued during fiscal year 2014. General fund appropriations from the commonwealth represent a smaller portion of the total university budget, but continue to be a significant source of revenue. In fiscal year 2014, the university received $243.6 million in general funds for academic programs as well as Cooperative Extension and Agricultural Experiment Station programs. This allocation was an increase of $ 11.2 million, 4.8 percent, over the previous fiscal year.

While the state demonstrated in fiscal year 2014 its commitment to invest in higher education through incremental increases in general fund appropriations, the retrenchment of federal government spending had a negative impact on the commonwealth's revenues. As a result, the state subsequently scaled back appropriations for higher education. Virginia Tech was assigned a $6.1 million general fund budget reduction in August 2014 for fiscal year 2015. The university is managing the reduction centrally to minimize the impact on academic programs and initiatives.

The university's ability to withstand reductions in general fund allocations over the years is due to strong student demand, enhanced research expenditures, strong endowment performance, and strong demand for auxiliary services, along with a financial and managerial culture that has promptly and fully adjusted to reductions in resources when required.

Access and affordability to a Virginia Tech education continues to be a key commitment for the university. The total cost of education (including room and board) at Virginia Tech for 2013-14 was $19,105. This placed the university as the 18th lowest cost among 24 peer SCHEV public institutions. The university is very deliberate about the allocation of its resources to the advancement of our academic, research and outreach missions. During fiscal year 2014 Virginia Tech allocated 85 percent of its tuition and mandatory fees revenues to instructional programs, with the remaining 15 percent going to support non-academic auxiliary units. This represents the highest percentage allocation of revenues to basic academic programs of all Virginia public colleges and universities.

The deliberate resource allocation towards the university's highest priority initiatives has resulted in significant strides in its strategic plan. In spring 2013, Tech was recognized as one of the nation's top 25 public universities, according to *US News and World Report* in its annual survey of undergraduate programs. In addition, several programs have been ranked in the top 20 category for multiple disciplines. These rankings are a testament to the university's focus on providing quality education to students at reasonable cost.

Provision of competitive financial aid to students is an element of the university's efforts to enhance the affordability of education. Virginia Tech financial aid programs are comprised of grants, scholarships, waivers, and loans. Total financial aid provided to students increased from $423 million in fiscal year 2013 to $439 million in fiscal year 2014. The institutional funds allocated to need-based aid programs increased by $6.4 million to $107.6 million. The university monitors the amount of debt taken on by students and we are pleased that our students continue to graduate with less debt than the national average. In 2013 (the latest national data available), 69 percent of students who graduated from all public and nonprofit four-year colleges had an average of $28,400 in student loans. By comparison, only 55 percent of Virginia Tech's students graduated with debt in 2013 and the average debt amount per graduating student was $26,925.

To support our academic and research mission, the university has made significant investments in physical facilities in the past decade. The university's capital program continues to be a robust, forward-looking plan which reflects balanced improvements across the enterprise. In fiscal year 2014, the university's portfolio of active capital outlay included 22 projects with a total budget of $573 million and $100.1 million in expenditures. The university opened three new major buildings in 2014 – the Signature Engineering building (renamed Goodwin Hall), the Human and Agricultural Biosciences building, and the renovation of Davidson Hall. Construction is underway on several high priority projects including a 1,100 bed residential community that will replace outdated residential facilities; a new 74,000 gross square foot state-of-the-art classroom building; a complete refurbishment of the university's most intensely scheduled instruction auditorium; installation of a state-of-the-art communications network to replace an aging system; and a new athletic training facility.

The three major buildings opened during fiscal year 2014 were the culmination of a series of capital projects focused on building the university's research capacity and providing state-of-the-art facilities and equipment to our faculty, staff, and students for research and instructional programs. These three buildings provide approximately 300,000 gross square feet of new facilities and were funded by a combination of state funding, university debt, and private gifts. The Signature Engineering Building (now Goodwin Hall) benefitted from a $25 million gift from Alice and Bill Goodwin, the largest donation in Virginia Tech history.

The university reported National Science Foundation research expenditures of $496.2 million for fiscal year 2013 (the most recent data available), which represents an increase of $41.8 million or 9 percent from fiscal year 2012. The national research rankings for fiscal year 2013 are not yet available; however, we anticipate the $41.8 million increase in research expenditures in fiscal year 2013 over fiscal year 2012 will result in the university either maintaining or increasing its ranking, which was 40th for fiscal year 2012. Preliminary totals for fiscal year 2014 indicate more modest growth in research expenditures, which is still encouraging given the overall level of reductions in federal funding for research grants and contracts.

Our endowment continues to provide flexible financial support for university initiatives and expand financial aid resources to students. The value of the Virginia Tech Foundation's endowed assets as of June 30, 2014 was $796.4 million. This represents an increase of more than $136 million over the value of the endowment at June 30, 2013 of $660 million. As measured against the Cambridge Associates' peer group universe, the endowment's 19.4 percent return for 2013-14 outperformed its benchmark and ranked in the top 3rd percentile. Over the previous five years, the endowment's return of 12.6 percent outperformed the benchmark and ranked in the top 18th percentile.

The 2012 Virginia General Assembly directed the Joint Legislative Audit and Review Commission (JLARC) to conduct a study on cost efficiency of public higher education institutions and to identify opportunities to reduce the cost of public higher education. This comprehensive study was conducted over a period of two years and was completed in November 2014. JLARC issued a total of five reports as part of the study. JLARC issued three reports periodically between June 2013 and December, 2013. Overall, Virginia Tech fared very positively in these reports, in terms of academic and administrative performance as well as in recommendations for improvement.

The fourth JLARC report covered support costs and staffing, organizational structure, procurement costs, and other support functions. Virginia Tech was listed as the lowest among all Virginia institutions in support cost spending per full-time equivalent student when compared with similar public institutions in their respective Carnegie groups. The report also stated that Virginia Tech is one among three research and doctoral institutions in Virginia to achieve a decrease in overall support spending relative to student enrollment between 2000 and 2010. In comparison, during this same time period support costs grew by 38 percent for the median public institutions in this Carnegie group.

The final JLARC report made significant recommendations for Virginia higher education institutions. Some of these recommendations, if implemented, could impact the levels of autonomy provided through the commonwealth's Restructuring Act of 2005. Virginia Tech has made significant progress under the Restructuring Act in terms of enhanced and streamlined business practices and the resulting cost containment benefits. We believe that the overall positive evaluation of the university, relative to other institutions in Virginia and compared to median values for all public universities in our Carnegie group, indicates that we have effectively leveraged the increased operating authorities granted by the Restructuring Act to enhance our delivery of quality academic programs with efficient, effective processes, and minimal academic and administrative support costs. We plan to work closely with the commonwealth during the evaluation of the JLARC reports to ensure that actions taken result in further improvement of our business practices and cost structure.

A key measure of overall financial management of institutions of higher education is the maintenance or enhancement of unrestricted net assets. This represents a measure of the institution's ability to address future issues and opportunities. The university is continuing a multi-year effort focused on improving this important financial measure. For fiscal year 2014, the careful management of university finances resulted in a $32 million, 11 percent, increase in unrestricted net assets, which totaled $314.3 million as of June 30, 2014. This result reflects the overall growing financial health of the university.

As Virginia Tech embarks on a new phase in its history, we will continue our commitment to be responsible stewards of university resources and to deploy them towards the achievement of our strategic goals.

M. Dwight Shelton Jr.

Contents

Management's Responsibility for Financial Reporting and Internal Controls

The information in this *Annual Financial Report*, including the accompanying basic financial statements, notes, management's discussion and analysis, and other information is the responsibility of Virginia Tech executive management. Responsibility for the accuracy of the financial information and fairness of its presentation, including all disclosures, rests with the management of the university. Management believes the information is accurate in all material respects and fairly presents the university's revenues, expenses, and changes in net position as well as its overall financial condition. This report was prepared in accordance with generally accepted accounting principles for public colleges and universities in the United States of America as prescribed by the Governmental Accounting Standards Board. Management is responsible for the objectivity and integrity of all representations herein. The *Annual Financial Report* includes all disclosures necessary for the reader of this report to gain a broad understanding of the university's operations for the year ended June 30, 2014.

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

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

The Auditor of Public Accounts (APA), the office of the Commonwealth of Virginia's auditors, has examined these annual financial statements and the report thereon appears on the facing page. The APA examination includes a study and evaluation of the university's system of internal controls, financial systems, policies, and procedures, resulting in the issuance of a management letter describing various issues considered worthy of management's attention. The university has implemented policies and procedures for the adequate and timely resolution of such issues. No material weaknesses were found on internal control matters by the APA for the fiscal year ended June 30, 2014.

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

Commonwealth of Virginia

Auditor of Public Accounts

Martha S. Mavredes, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

November 7, 2014

The Honorable Terence R. McAuliffe, Governor of Virginia

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

Board of Visitors, Virginia Polytechnic Institute and State University

INDEPENDENT AUDITOR'S REPORT

Report on Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented component units of the University, which are discussed in Notes 1 and 24. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the component units of the University, is based on the reports of the other auditors.

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

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

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

Opinion

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

Emphasis of Matter

As discussed in Note 1 to the financial statements, the 2013 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Other Matters

Prior-Year Summarized Comparative Information

We have previously audited the University's 2013 financial statements, and we expressed an unmodified audit opinion on the respective financial statements in our report dated October 31, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

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

Supplementary Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated November 7, 2014, on our consideration of Virginia Polytechnic Institute and State University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the University's internal control over financial reporting and compliance.

Martha S. Mavredes

AUDITOR OF PUBLIC ACCOUNTS

Management's Discussion and Analysis (Unaudited)

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

Virginia Tech has evolved into a position of increasing national prominence since its founding in 1872, consistently ranking among the nation's top universities for undergraduate and graduate programs. The university's research program was ranked 40th among the top research institutions in the United States by the National Science Foundation in its latest survey measuring annual research expenditures.

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

Overview

This unaudited *Management's Discussion and Analysis* (MD&A) is required supplemental information under the Governmental Accounting Standards Board's (GASB) reporting model. It is designed to assist readers in understanding the accompanying financial statements and provides an overall view of the university's financial activities based on currently known facts, decisions and conditions. This discussion includes an analysis of the university's financial condition and results of operations for the fiscal year ended June 30, 2014. Comparative numbers are included for the fiscal year ended June 30, 2013. Since this presentation includes highly summarized data, it should be read in conjunction with the accompanying basic financial statements, including notes and other supplementary information. The university's management is responsible for all of the financial information presented, including this discussion and analysis.

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

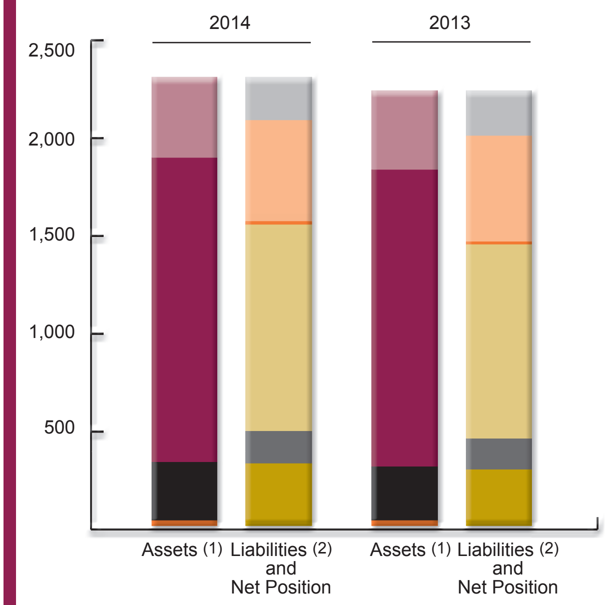
Using criteria provided in GASB Statement 39, *Determining Whether Certain Organizations Are Component Units*, and GASB Statement 60, *The Financial Reporting Entity: Omnibus,* amendments of GASB Statement 14, the university's eight affiliated corporations were evaluated on the nature and significance of their relationship to the university. The Virginia Tech Foundation Inc. (VTF or 'the foundation') and Virginia Tech Services Inc. (VTS) were determined to be component units and are presented in a separate column on the university's financial statements. VTF serves the university by generating significant funding from private sources and aggressively managing its assets to provide supplemental funding to the university. VTS operates the university bookstores and provides other services for the use and benefit of students, faculty and staff. The foundation and VTS are not part of this MD&A, but detail regarding their financial activities can be found in note 24 of the *Notes to Financial Statements*. Transactions between the university and these component units have not been eliminated in this year's financial statements.

The following GASB statements of standards became effective in fiscal year 2014: Statement 65, *Items Previously Reported as Assets and Liabilities*; Statement 66, *Technical Correction—2012—an amendment of GASB Statements 10 and 62*; Statement 67, *Financial Reporting for Pension Plans*; Statement 69, *Government Combinations and Disposals of Government Operations;* and Statement 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. Statement 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously recorded as assets and liabilities. Statement 66 provides a technical correction to previously issued statements 10 and 62. The technical correction did not affect the financial information in Virginia Tech's current and prior financial reports. Statement 69 establishes financial reporting standards for mergers, acquisitions and transfers of government operations and guidance on disclosures to be made for the disposals of government operations. Virginia Tech was not engaged in activity covered by this statement. Statement 70 provides guidance on reporting of guarantees of obligations of a legally separate entity or individual which requires the guarantor

Assets, Liabilities and Net Position
For the years ended June 30, 2014 and 2013
(all dollars in millions)

	2014	2013	Change Amount	Change Percent
Current assets	$ 413.7	$ 404.9	$ 8.8	2.2 %
Capital assets, net	1,557.3	1,517.0	40.3	2.7 %
Other assets	311.1	287.1	24.0	8.4 %
	2,282.1	2,209.0	73.1	3.3 %
Deferred outflow of resources (1)	6.1	6.7	(0.6)	(9.0)%
Current liabilities	238.9	238.1	0.8	0.3 %
Noncurrent liabilities	513.8	543.2	(29.4)	(5.4)%
	752.7	781.3	(28.6)	(3.7)%
Deferred inflow of resources (2)	1.3	1.3	0.0	0.0 %
Net investment in capital assets	1,055.0	992.2	62.8	6.3 %
Restricted	164.9	158.3	6.6	4.2 %
Unrestricted	314.3	282.6	31.7	11.2 %
	$ 1,534.2	$ 1,433.1	$ 101.1	7.1 %

(1) Deferred outflows are included with assets
(2) Deferred inflows are included with liabilities



to indemnify a third-party obligation holder under specified conditions. Virginia Tech had no activities that would be reportable under the conditions in this statement.

Statement of Net Position

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

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

The university's net position is classified as follows:

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

Restricted component of net position, expendable — The expendable category of the restricted component of net position includes resources the university is legally or contractually obligated to expend, with restrictions imposed by external third parties. This category partially consists of quasi-endowments totaling $96.4 million. The investment of quasi-endowments is managed by VTF.

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

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

Total university assets increased by $73.1 million or 3.3% during fiscal year 2014, bringing the total to $2,282.1 million at year-end. Growth in the major components of noncurrent assets (capital assets and long-term investments) and other assets accounted for the majority of the increase to total assets. The increase in capital assets, net ($40.3 million) reflects the ongoing construction of university research and instructional facilities and the capitalization of completed facilities discussed in detail in the following section, Capital Asset and Debt Administration. The increase in other assets was mainly from the long-term investment category ($38.6 million) and noncurrent notes receivable ($2.9 million). These increases were partially offset by reductions in amounts due from the commonwealth ($8.1 million) and noncurrent cash and cash equivalents ($9.6 million).

Total university liabilities declined by $28.6 million or 3.7% during fiscal year 2014. The current liabilities category increased $0.8 million and the noncurrent liabilities category decreased $29.4 million. The change in current liabilities was a result of decreases in the accounts payable ($6.8 million) and unearned revenue ($3.7 million) categories, offset by increases in commercial paper ($4.8 million), accrued compensated absences ($3.8 million), funds held in custody for others ($1.6 million), and the current portion of long-term debt ($1.1 million) categories. The decline in noncurrent liabilities was primarily due to net reductions in long-term debt ($28.7 million) and accrued compensated absences ($1.4 million), partially offset by minor increases in other liabilities ($0.7 million). For more detailed debt information, see the Capital Asset and Debt Administration section.

The increase in total assets along with the net decrease in total liabilities is reflected in the year-over-year improvement of the university's net position by $101.1 million (7.1%). Net position in the categories of net investment in capital assets, unrestricted and restricted, increased $62.8 million, $31.7 million and $6.6 million respectively. This reflects the university's continued investment in new facilities and equipment supporting the university's missions as well as prudent management of the university's fiscal resources.

Capital Asset and Debt Administration

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

Note 9 of the *Notes to Financial Statements* describes the university's significant investment in depreciable capital assets with gross additions of $344.1 million during fiscal year 2014. Major projects included the completion of the Moss Arts Center ($94.8 million), Goodwin Hall ($74.4 million), the Human Agriculture Biosciences Building 1 ($50.3 million), the Davidson Hall renovation ($29.6 million), and the Prince Street building capital lease. Ongoing investments in instructional, research, and computer equipment totaled $41.7 million. Depreciation and amortization expense related to capital assets was $91.6 million with net asset retirements of $2.0 million. The net increase in depreciable capital assets for this period was $250.4 million. The decrease in nondepreciable capital assets ($210.1 million) was largely due to the transfer out of construction in progress prior year expenses for the major building projects completed in fiscal year 2014. The major projects remaining in the construction-in-progress category represent on-going capital renovations throughout the university ($15.9 million), current construction of the Upper Quad residential facilities ($10.5

Funding for Authorized Current and Future Capital Projects
As of June 30, 2014
(all dollars in millions)

	State Funds (1)	Other Funds (2)	University Debt Issued Before June 30, 2014	University Debt To Be Issued After June 30, 2014	Total Funding	Cash Basis Project-To-Date Expenses
Current education and general	$ 13.4	$ 4.8	$ -	$ -	$ 18.2	$ 12.4
Current auxiliary enterprise	-	60.6	-	88.0	148.6	28.4
Total current	13.4	65.4	-	88.0	166.8	40.8
Future education and general	42.7	9.7	-	-	52.4	5.0
Future auxiliary enterprise	-	-	-	61.5	61.5	0.2
Total future	42.7	9.7	-	61.5	113.9	5.2
Total authorized	$ 56.1	$ 75.1	$ -	$ 149.5	$ 280.7	$ 46.0

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

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

million), the athletic indoor practice facility ($2.7 million) and planning for a new classroom building and academic building renovations ($3.1 million). In addition, significant amounts were withheld (retainage payable of $3.9 million) on the major projects completed this year. These amounts will be moved to the building asset category once final payments are made to the construction contractors. Proceeds from the sale of commercial paper were used to provide temporary funding for some projects under construction. The majority of the temporary financing will be replaced with permanent debt through the issuance of long-term bonds and notes.

Noncurrent liabilities sustained a net decrease of $29.4 million during fiscal year 2014. The majority of the net decrease in noncurrent liabilities resulted from the reclassification of long-term debt from the noncurrent to current liabilities category. See note 12 of the *Notes to Financial Statements* for more details.

The educational and general (E&G) portion of the university's capital outlay program represents one project currently under construction. This building will be used by the Marching Virginians as a practice facility ($4.8 million). In addition to the capital projects underway, there were several new construction and renovation projects approved for instructional and research facilities. The new construction projects are: a new classroom building ($37.2 million), improving fire alarm systems and accessibility in a number of existing E&G buildings ($5.5 million), renovations in McBryde Hall and several academic core buildings around the Drillfield ($4.7 million) and relocating to Kentland Farm the agriculture programs displaced by the airport expansion ($1.5 million). The Commonwealth of Virginia will provide partial funding for several of these E&G projects.

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

Virginia Tech had a total authorization of $280.7 million in capital building projects as of June 30, 2014, requiring approximately $149.5 million in additional debt financing.

Capital projects in progress carried commitments to construction contractors, architects and engineers totaling $34.7 million at June 30, 2014. These obligations are for future effort and as such have not been accrued as expenses or liabilities on the university's financial statements. The majority of the financial commitment is attributed to two projects: the Indoor Athletic Facility ($16.0 million) and the Upper Quad Residential Facilities ($14.2 million). These commitments represent only a portion of the university's capital projects currently under construction or authorized by the commonwealth.

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

Summary of Revenues, Expenses, and Changes in Net Position
For the years ended June 30, 2014 and 2013
(all dollars in millions)

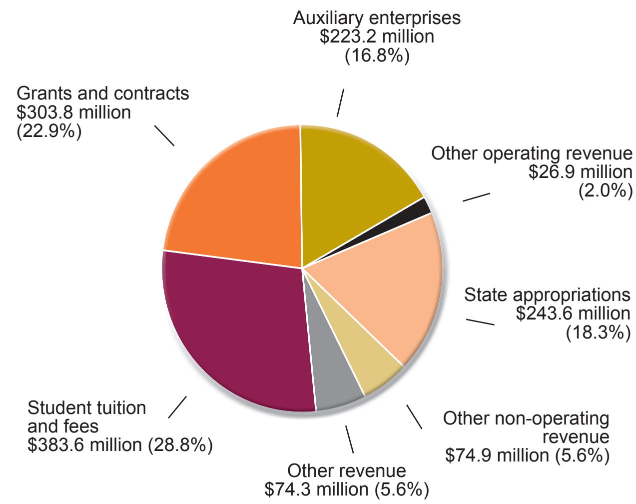
	2014	2013	Change: Amount	Change: Percent
Operating revenues	$ 937.5	$ 900.0	$ 37.5	4.2 %
Operating expenses	1,229.2	1,157.6	71.6	6.2 %
Operating loss	(291.7)	(257.6)	(34.1)	13.2 %
Non-operating revenues and expenses	318.5	296.0	22.5	7.6 %
Income (loss) before other revenues, expenses, gains or losses	26.8	38.4	(11.6)	(30.2)%
Other revenues, expenses, gains or losses	74.3	105.8	(31.5)	(29.8)%
Increase in net position	101.1	144.2	(43.1)	(29.9)%
Net position - beginning of year	1,433.1	1,288.9	144.2	11.2 %
Net position - end of year	$ 1,534.2	$ 1,433.1	$ 101.1	7.1 %

Increase (Decrease) in Revenues
For the years ended June 30, 2014 and 2013
(all dollars in millions)

	2014	2013	Change Amount	Change Percent
Operating revenue				
Student tuition and fees, net	$ 383.6	$ 360.8	$ 22.8	6.3 %
Grants and contracts	303.8	303.6	0.2	0.1 %
Auxiliary enterprises	223.2	213.7	9.5	4.4 %
Other operating revenue	26.9	21.9	5.0	22.8 %
Total operating revenue	937.5	900.0	37.5	4.2 %
Non-operating revenue				
State appropriations	243.6	232.4	11.2	4.8 %
Other non-operating revenue*	74.9	63.6	11.3	17.8 %
Total non-operating revenue	318.5	296.0	22.5	7.6 %
Other revenue				
Capital grants and gifts	75.9	109.0	(33.1)	(30.4)%
Loss on disposal of capital assets	(1.6)	(3.2)	1.6	(50.0)%
Total other revenue	74.3	105.8	(31.5)	(29.7)%
Total revenue	$ 1,330.3	$ 1,301.8	$ 28.5	2.2 %

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

Total Revenue by Source
For the year ended June 30, 2014



Statement of Revenues, Expenses, and Changes in Net Position

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

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

Operating Revenues

Total operating revenues increased by $37.5 million or 4.2% from the prior fiscal year. The growth in operating revenues came predominantly from two categories: student tuition and fees, and auxiliary enterprise revenue. The increase in student tuition and fees ($22.8 million or 6.3%) was expected given an increasing student population and the rise in both in-state and out-of-state tuition and fees rates. The growth in auxiliary enterprise revenue ($9.5 million or 4.4%) follows the increasing student population and reflects the high level of satisfaction with the services provided by the auxiliaries. Additionally, other operating revenue, which includes sales and services of educational activities, increased by $5.0 million. The balance of the operating revenue changes resulted from the expansion of sponsored research grants and contracts awarded by federal sponsors ($2.7 million), commercial sponsors ($1.1 million) and local sponsors ($1.1 million). The increase in the grant and contract category was partially offset by continuing reduction of federal funds ($3.2 million) provided through the American Recovery and Reinvestment Act (ARRA) and declining federal appropriations supporting the university's land grant mission ($1.6 million).

Overall, the university's operating revenues increased to $937.5 million in fiscal year 2014, compared to $900.0 million in fiscal year 2013.

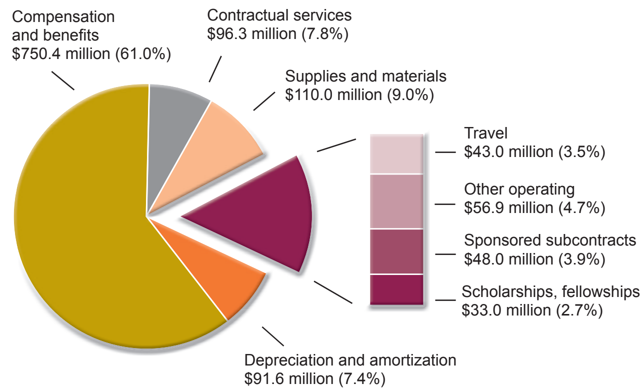
Non-operating and Other Revenues and Expenses

Non-operating revenue and expenses totaled $318.5 million, an increase of $22.5 million from the previous year's total. Revenue increases in this category resulted primarily from the continuing recovery in state appropriations ($11.2

Increase in Expenses by Natural Classification
For the years ended June 30, 2014 and 2013
(all dollars in millions)

	2014	2013	Change Amount	Change Percent
Compensation and benefits	$ 750.4	$ 713.0	$ 37.4	5.2%
Contractual services	96.3	89.6	6.7	7.5%
Supplies and materials	110.0	103.1	6.9	6.7%
Travel	43.0	40.3	2.7	6.7%
Other operating expenses	56.9	51.0	5.9	11.6%
Scholarships and fellowships	33.0	32.8	0.2	0.6%
Sponsored program subcontracts	48.0	46.0	2.0	4.3%
Depreciation and amortization	91.6	81.8	9.8	12.0%
Total operating expenses	$ 1,229.2	$ 1,157.6	$ 71.6	6.2%

Total Expenses by Natural Classification
For the year ended June 30, 2014



million), higher returns on investments ($6.4 million) and increases in gifts from donors ($6.0 million) partially offset by an increase in interest expense on debt related to capital assets ($2.5 million).

Total other revenue, expenses, gains and losses declined by $31.5 million compared to the prior year. The completion of several major capital projects under construction, funded in part from the 21st Century bond program, resulted in a significant decrease in this revenue stream ($38.5 million). This decrease was partially offset by additional funding for capital assets from multiple sources and a reduction in the year-over-year loss on the disposal of capital assets ($1.6 million).

Revenues from all sources (operating, non-operating, and other) for fiscal year 2014 totaled $1,330.3 million, increasing by $28.5 million from the prior year. Operating expenses (shown in the chart above and the chart on the facing page) totaled $1,229.2 million for fiscal year 2014, reflecting a year-over-year increase of $71.6 million. Total revenues, shown in the chart on the previous page, less total operating expenses resulted in an increase to net position of $101.1 million.

Total Expenses

The university is committed to recruiting and retaining outstanding faculty and staff. The personnel compensation package is one way to successfully compete with peer institutions and nonacademic employers. The natural expense category, compensation and benefits, comprises $750.4 million or 61.0% of the university's total operating expenses. This category increased by $37.4 million (5.2%) over the previous year. Generally, changes to expenses in this category come from three sources: increases or reductions in the number of personnel, annual salary increases, and the general trends in the costs of fringe benefits. The general salary increase funded by the commonwealth was the major contributor to the increase in this category along with the in-band adjustment process and growth in personnel ($30.5 million). Additionally, fringe benefits increased $15.5 million largely from medical/hospitalization insurance ($11.5 million). The increases in compensation were partially offset by reductions in the wage category ($8.6 million). This reduction is attributed to the bonus provided by the commonwealth and recorded in the wage category in fiscal year 2013. The commonwealth did not provide a similar bonus in fiscal year 2014. A second category with a significant increase over the prior year was depreciation and amortization expense ($9.8 million). This increase in depreciation expense was due to the completion of several major capital building projects, such as Goodwin Hall, Moss Arts Center, Human & Agriculture Biosciences Building I, and the Davidson Hall renovation. The balance of the increases in operating expenses can be associated with the general price level changes and increase in university support activities.

Operating expenses for fiscal year 2014 totaled $1,229.2 million, up $71.6 million from fiscal year 2013. The net change resulted from moderate increases to expenses in the functional categories of instruction ($15.3 million), research ($6.2 million), public service ($5.4 million) and auxiliary enterprises ($5.2 million). Salaries, wages and fringe benefits account for the majority of the expense increase in these categories.

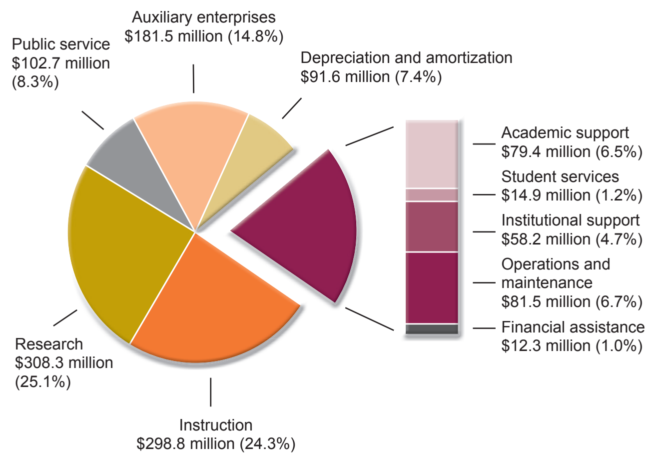
The largest percentage growth in operating expenses was in the operations and maintenance of plant category (15.0%). The significant cost increases in this category were mostly in the supplies and other costs categories, $5.0 million

Increase in Expenses by Function
For the years ended June 30, 2014 and 2013
(all dollars in millions)

	2014	2013	Change Amount	Change Percent
Instruction	$ 298.8	$ 283.5	$ 15.3	5.4%
Research	308.3	302.1	6.2	2.1%
Public service	102.7	97.3	5.4	5.5%
Auxiliary enterprises	181.5	176.3	5.2	2.9%
Depreciation and amortization	91.6	81.8	9.8	12.0%
Subtotal	982.9	941.0	41.9	4.5%
Support, maintenance, other				
Academic support	79.4	68.5	10.9	15.9%
Student services	14.9	14.2	0.7	4.9%
Institutional support	58.2	50.7	7.5	14.8%
Operations and maintenance of plant	81.5	70.9	10.6	15.0%
Student financial assistance*	12.3	12.3	0.0	0.0%
Total support, maintenance, other	246.3	216.6	29.7	13.7%
Total operating expenses	$ 1,229.2	$ 1,157.6	$ 71.6	6.2%

*Includes loan administrative fees and collection costs.

Total Expenses by Function
For the year ended June 30, 2014



and $6.3 million, respectively. The increase in cost of supplies was due to a decline in supply cost recoveries ($4.3 million). The increase in the other cost category was primarily due to rental expense increases of $5.6 million. The largest expense increase ($15.3 million) was in the instruction functional area, largely due to growth in compensation.

In the functional categories for support activities, there were moderate increases in operations and maintenance, academic support and institutional support of $10.6 million, $10.9 million and $7.5 million, respectively. These increases were mainly in the compensation and benefits category, and other costs, discussed earlier in this section.

The student financial assistance category appears flat compared to the previous year which is somewhat misleading. The net student financial assistance expense represents the amount of institutional resources refunded to the student in excess of tuition and fees, not the gross amount of financial aid provided by the university. This does not reflect the increase in waivers and scholarships provided to students, indicated by the $7.6 million growth in scholarship discounts and allowances (from $107.3 million to $114.9 million) which is netted against the gross total of financial aid expenses.

In summary, the university's operating revenues grew by $37.5 million or 4.2% over the preceding year, while operating expenses increased by $71.6 million or 6.2%. This resulted in an operating loss for the current fiscal year of $291.7 million in comparison to the operating loss of $257.6 million generated during the past year. The primary reason for the increase in the operating loss was the growth in expenses across all major operating areas with the largest increases occurring in the compensation and benefits category. State appropriations and other net non-operating revenues were used to meet operating expenses not offset by operating revenues.

Statement of Cash Flows

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

The statement is divided into five sections. The first section, *Cash flows from operating activities*, deals with operating cash flows and shows net cash used by operating activities of the university. The *Cash flows from noncapital financing* *activities* section reflects cash received and disbursed for purposes other than operating, investing and capital financing. GASB requires general appropriations from the commonwealth and noncapital gifts be shown as cash flows from noncapital financing activities. *Cash flows from capital and related financing activities* presents cash used for the acquisition and construction of capital and related items. Plant funds and related long-term debt activities (except depreciation and amortization), as well as gifts to endowments, are included in cash flows from capital financing activities. *Cash flows from investing activities* reflect the cash flows generated from investments which include purchases, proceeds, and interest. The last section reconciles the operating income or loss reflected on the *Statement of Revenues, Expenses, and Changes in Net Position* for fiscal year 2014 to net cash used by operating activities.

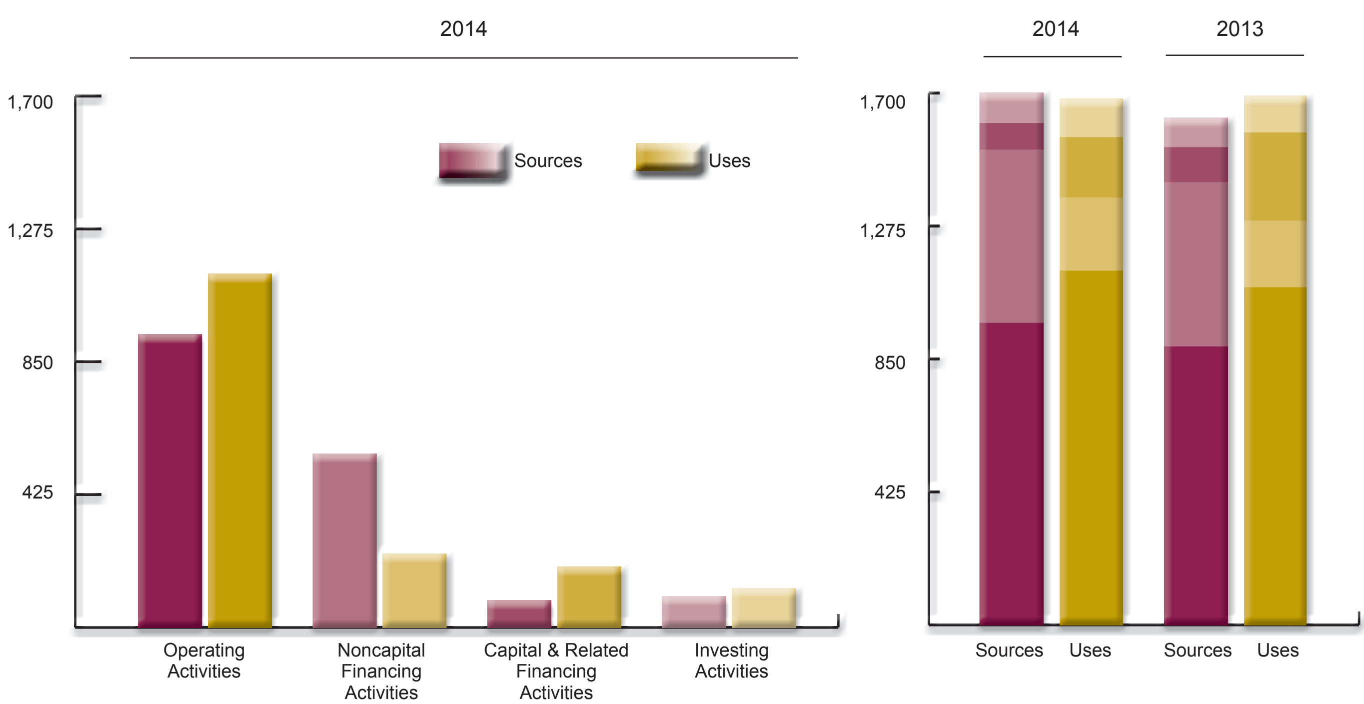
Major operating activity sources of cash for the university included student tuition and fees ($382.3 million), grants and contracts ($289.3 million), and auxiliary enterprise revenues ($221.2 million). Major operating activity uses of cash included compensation and benefits ($742.4 million) and operating expenses ($366.4 million). Operating activity uses of cash significantly exceeded operating activity sources of cash due to classification of state appropriations ($243.6 million) and gifts ($60.1 million) as noncapital financial activities.

Economic Outlook

As a public institution, the university is subject to many of the macro-economic conditions impacting the nation and the

Summary of Cash Flows
For the years ended June 30, 2014 and 2013
(all dollars in millions)

	2014	2013	Change Amount	Change Percent
Net cash used by operating activities	$ (188.6)	$ (188.3)	$ (0.3)	0.2 %
Net cash provided by noncapital activities	319.6	312.1	7.5	2.4 %
Net cash provided (used) by capital and related financing activities	(108.4)	(169.8)	61.4	(36.2)%
Net cash provided (used) by investing activities	(26.1)	(24.5)	(1.6)	6.5 %
Net increase (decrease) in cash and cash equivalents	(3.5)	(70.5)	67.0	(95.0)%
Cash and cash equivalents - beginning of year	359.7	430.2	(70.5)	(16.4)%
Cash and cash equivalents - end of year	$ 356.2	$ 359.7	$ (3.5)	(1.0)%



The graphs above demonstrate the relationship between sources and uses of cash. The graph on the left shows activity for fiscal year 2014 only, grouped by related sources and uses of cash, while the graph on the right displays that same activity for fiscal years 2014 and 2013 in a stacked format.

Commonwealth of Virginia. The commonwealth currently supports 19% of the university's budget through general fund appropriations. The *Virginia Higher Education Opportunity Act of 2011* marked the commonwealth's re-emphasis on positioning institutions of higher education for the future. While the Commonwealth of Virginia maintained the university's board of visitors' authority to establish tuition and fee rates, significant national and state emphasis has been focused on slowing the rate of tuition growth for undergraduate students, particularly state residents. Although the commonwealth has expressed interest in enhancing its investment in higher education, slow growth in state revenue has limited discretionary general fund resources available for higher education. The executive branch notified agencies in August 2014 that mid-year budget reductions would reduce expected state general fund support. Virginia Tech was assigned a $6.1 million general fund reduction for both fiscal years 2015 and 2016, or 0.5% of the total university budget. In response, the university has developed a plan to manage the reduced state support while continuing to move the institution forward.

The university continues to work with state officials to support higher education through the *Virginia Higher Education Opportunity Act of 2011*. The six year academic, enrollment, and financial planning process defined by this legislation has potential implications for future state support and tuition rates. As a part of this funding framework, the commonwealth has moved to an environment that seeks to incentivize certain activities in support of state goals such as increased STEM-H (science, technology, engineering, mathematics, and health) degree completion. As the largest producer of STEM-H graduates in the commonwealth, Virginia Tech is well positioned to leverage its excellence to further advance this goal, as well as other state higher education priorities. As the commonwealth and nation continue to rebuild the economy, Virginia Tech's demonstrated strengths in STEM-H education and critical research will provide valuable opportunities to accelerate development.

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

Virginia Tech, along with all other Virginia institutions of higher education, continues to maintain significant decentralized authority from the Commonwealth of Virginia through the requested restructuring of higher education. Restructuring provides additional flexibility and authority to the participant institutions with the potential for increased efficiencies and cost savings. The university works to leverage existing authorities to drive efficiencies for cost savings.

The university manages its exposure to risk through the implementation of its investment policy. The university's investment policy, established by the board of visitors and monitored by the board's Finance and Audit Committee, requires that its public funds be invested in accordance with the *Investment of Public Funds Act*, Section 2.2-4500 through 2.2-4516, et seq., *Code of Virginia*. The university has limited its investment in securities outside the scope of the *Investment in Public Funds Act* to restricted gift funds, local funds, and nongeneral fund reserves and balances designated by management as quasi-endowments. These funds are invested in the Virginia Tech Foundation's consolidated endowment fund and managed in accordance with the provisions of the *Uniform Prudent Management of Institutional Funds Act* (Section 64.2-1100, et seq., *Code of Virginia*). At the end of the fiscal year, the value of the university's quasi-endowments invested in the foundation totaled $96.4 million, an increase of $36.8 million over the preceding year.

The university continually monitors the valuation of its investments. At June 30, 2014, the market value for the university's non-endowed cash, cash equivalents, and investments totaled $479.6 million, including unrealized losses on investments of $0.4 million, compared to the market value of its investments at September 30, 2014, of $553.2 million and unrealized losses of $0.6 million.

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

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

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

Statement of Net Position

As of June 30, 2014, with comparative financial information as of June 30, 2013
(all dollars in thousands)

	2014		2013	
	Virginia Tech	Component Units	Virginia Tech *(restated)*	Component Units
ASSETS				
Current assets				
Cash and cash equivalents (Note 4)	$ 296,663	$ (12,355)	$ 290,526	$ (4,132)
Short-term investments (Notes 4, 24)	3,687	4,529	2,960	8,536
Accounts and contributions receivable, net (Notes 1, 5, 24)	71,079	32,685	66,884	33,071
Notes receivable, net (Notes 1, 6)	1,811	519	1,748	2,307
Due from Commonwealth of Virginia (Note 10)	12,594	-	12,742	-
Inventories	11,203	6,129	13,321	8,164
Prepaid expenses	16,705	1,141	16,734	1,149
Other assets	-	6,309	-	2,983
Total current assets	413,742	38,957	404,915	52,078
Noncurrent assets				
Cash and cash equivalents (Note 4)	59,555	70,487	69,196	54,042
Due from Commonwealth of Virginia (Note 10)	1,961	-	10,101	-
Accounts and contributions receivable, net (Notes 1, 5, 24)	7,018	54,676	6,545	47,572
Notes receivable, net (Notes 1, 6)	20,033	32,209	17,178	29,513
Net investments in direct financing leases	-	62,087	-	62,601
Irrevocable trusts held by others, net	-	8,117	-	8,354
Long-term investments (Notes 4, 24)	221,525	918,333	182,920	761,007
Depreciable capital assets, net (Notes 9, 24)	1,449,536	218,600	1,199,116	208,246
Nondepreciable capital assets (Notes 9, 24)	107,804	89,628	317,864	86,132
Intangible assets, net	-	580	-	609
Other assets	956	5,605	1,218	4,881
Total noncurrent assets	1,868,388	1,460,322	1,804,138	1,262,957
Total assets	2,282,130	1,499,279	2,209,053	1,315,035
DEFERRED OUTFLOWS OF RESOURCES				
Deferred loss on debt defeasance (Note 14)	6,056	-	6,684	-
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities (Note 7)	125,127	17,550	131,938	19,269
Accrued compensated absences (Notes 1, 15)	23,172	988	19,330	650
Unearned revenue (Notes 1, 8)	35,195	3,765	38,937	9,360
Funds held in custody for others	15,187	-	13,561	-
Commercial paper (Note 11)	11,205	-	6,395	-
Long-term debt payable (Notes 12, 13, 24)	29,044	11,888	27,978	11,711
Other liabilities	-	8,285	-	7,927
Total current liabilities	238,930	42,476	238,139	48,917
Noncurrent liabilities				
Accrued compensated absences (Notes 1, 15)	19,337	137	20,700	271
Federal student loan program contributions refundable (Note 15)	13,659	-	13,620	-
Unearned revenue	-	6,315	-	6,313
Long-term debt payable (Notes 12, 13, 24)	477,069	267,613	505,736	236,632
Liabilities under trust agreements	-	27,148	-	25,677
Agency deposits held in trust (Note 24)	-	110,285	-	71,439
Other liabilities	3,687	10,507	3,113	10,488
Total noncurrent liabilities	513,752	422,005	543,169	350,820
Total liabilities	752,682	464,481	781,308	399,737
DEFERRED INFLOWS OF RESOURCES				
Deferred gain on debt defeasance (Note 14)	1,260	-	1,306	-
NET POSITION				
Net investment in capital assets	1,054,954	124,427	992,220	130,166
Restricted, nonexpendable	356	428,758	357	408,644
Restricted, expendable				
Scholarships, research, instruction, and other	102,319	359,203	88,017	280,770
Capital projects	2,895	57,868	11,024	57,868
Debt service and auxiliary operations	59,417	-	58,856	-
Unrestricted assets	314,303	64,542	282,649	37,850
Total net position	$ 1,534,244	$ 1,034,798	$ 1,433,123	$ 915,298

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

Statement of Revenues, Expenses, and Changes in Net Position

For the year ended June 30, 2014 with comparative financial information for the year ended June 30, 2013
(all dollars in thousands)

	2014		2013	
	Virginia Tech	Component Units	Virginia Tech *(restated)*	Component Units
OPERATING REVENUES				
Student tuition and fees, net (Note 1)	$ 383,566	$ -	$ 360,814	$ -
Gifts and contributions	-	51,692	-	41,487
Federal appropriations	15,123	-	16,747	-
Federal grants and contracts	222,708	-	220,053	-
Federal ARRA grants and contracts	3,399	-	6,561	-
State grants and contracts	12,670	-	12,667	-
Local grants and contracts (Note 3)	13,977	-	12,904	-
Nongovernmental grants and contracts	35,871	-	34,705	-
Sales and services of educational activities	16,279	-	15,009	-
Auxiliary enterprise revenue, net (Note 1)	223,228	44,827	213,683	44,379
Other operating revenues	10,640	60,535	6,868	58,820
Total operating revenues	937,461	157,054	900,011	144,686
OPERATING EXPENSES				
Instruction	298,752	2,920	283,535	6,686
Research	308,297	9,946	302,117	10,858
Public service	102,743	4,610	97,265	4,185
Academic support	79,381	14,746	68,477	14,607
Student services	14,852	-	14,246	-
Institutional support	58,143	39,339	50,678	34,629
Operation and maintenance of plant	81,489	12,294	70,848	11,434
Student financial assistance	12,242	25,110	12,205	23,675
Auxiliary enterprises	181,532	37,613	176,334	35,112
Depreciation and amortization (Note 9)	91,629	10,468	81,806	9,522
Other operating expenses	90	12,510	62	7,446
Total operating expenses	1,229,150	169,556	1,157,573	158,154
OPERATING LOSS	(291,689)	(12,502)	(257,562)	(13,468)
NON-OPERATING REVENUES (EXPENSES)				
State appropriations (Note 20)	243,593	-	232,381	-
Gifts	60,489	-	54,438	-
Non-operating grants and contracts	2,615	-	1,660	-
Federal student financial aid (PELL)	16,830	-	16,606	-
Investment income, net	12,858	11,411	6,495	9,690
Net gain on investments	-	98,796	-	60,995
Other additions	684	-	532	-
Interest expense on debt related to capital assets	(18,605)	(9,751)	(16,113)	(9,197)
Net non-operating revenues (expenses)	318,464	100,456	295,999	61,488
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	26,775	87,954	38,437	48,020
Change in valuation of split interest agreements	-	3,297	-	1,054
Capital appropriations	-	-	(3,276)	-
Capital grants and gifts (Note 10)	75,927	11,796	112,287	14,418
Loss on disposal of capital assets	(1,581)	(10)	(3,268)	(838)
Additions to permanent endowments	-	17,610	-	21,088
Other expenses	-	(1,147)	-	(1,011)
Total other revenues, expenses, gains, and losses	74,346	31,546	105,743	34,711
INCREASE IN NET POSITION	101,121	119,500	144,180	82,731
Net position—beginning of year	1,433,123	915,298	1,288,943	832,567
Net position—end of year	$ 1,534,244	$ 1,034,798	$ 1,433,123	$ 915,298

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

Statement of Cash Flows

As of June 30, 2014, with comparative financial information as of June 30, 2013
(all dollars in thousands)

	2014	2013 (*restated*)
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	$ 382,342	$ 360,877
Federal appropriations	15,271	16,747
Grants and contracts	289,253	277,140
Sales and services of educational activities	16,279	15,009
Auxiliary enterprises	221,233	208,807
Other operating receipts	10,748	6,868
Payments for compensation and fringe benefits	(742,360)	(711,561)
Payments for operating expenses	(366,411)	(346,869)
Payments for scholarships and fellowships	(12,024)	(11,966)
Loans issued to students	(8,573)	(6,280)
Collection of loans from students	5,604	2,925
Net cash used by operating activities	(188,638)	(188,303)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	243,593	232,381
Gifts received for other than capital purposes	60,133	54,446
Non-operating grants and contracts	2,615	1,660
Federal student financial aid (PELL)	16,830	16,606
Federal Direct Lending Program—receipts	125,925	127,063
Federal Direct Lending Program—disbursements	(125,919)	(127,069)
Funds held in custody for others—receipts	104,691	92,995
Funds held in custody for others—disbursements	(108,260)	(85,944)
Net cash provided by noncapital financing activities	319,608	312,138
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations	-	(3,276)
Capital grants and gifts	79,101	99,660
Proceeds from capital debt	-	11,500
Proceeds from the sale of capital assets and insurance recoveries	1,165	1,279
Acquisition and construction of capital assets	(142,869)	(225,858)
Principal paid on capital debt and leases	(27,432)	(24,819)
Short-term debt, commercial paper	4,810	(6,905)
Interest paid on capital debt and leases	(23,129)	(21,343)
Net cash used by capital and related financing activities	(108,354)	(169,762)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	91,515	92,155
Interest on investments	1,159	1,589
Purchase of investments and related fees	(118,794)	(118,282)
Net cash provided (used) by investing activities	(26,120)	(24,538)
Net increase (decrease) in cash and cash equivalents	(3,504)	(70,465)
Cash and cash equivalents—beginning of year	359,722	430,187
Cash and cash equivalents—end of year	$ 356,218	$ 359,722

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

Statement of Cash Flows (continued)

As of June 30, 2014 with comparative financial information as of June 30, 2013
(all dollars in thousands)

	2014	2013 *(restated)*
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	$ (291,689)	$ (257,562)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation and amortization expense	91,629	81,806
Changes in assets and liabilities		
Receivables, net of allowance for doubtful accounts	1,299	(13,379)
Inventories	2,118	1,992
Prepaid items	291	164
Notes receivable, net of allowance for doubtful accounts	(2,918)	(3,412)
Accounts payable and accrued liabilities	6,205	1,716
Accrued payroll and other liabilities	5,543	(183)
Compensated absences	2,479	1,620
Unearned revenue	(3,742)	(1,192)
Credit card rebate	108	8
Federal loan program contributions refundable	39	119
Total adjustments	103,051	67,207
Net cash used by operating activities	$ (188,638)	$ (188,303)

	2014	2013 *(restated)*
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Change in accounts receivable related to non-operating income	$ 766	$ 2,597
Capital assets acquired through in-kind donations as a component of capital gifts and grants income	$ 4,230	$ 2,179
Change in fair value of investments recognized as a component of investment income	$ 7,076	$ 4,288
Change in fair value of interest payable affecting interest paid	$ (310)	$ 456
Capital assets acquired through assumption of a liability	$ 2,950	$ 43,929
Change in interest receivable affecting interest received	$ (86)	$ (29)

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

Notes to Financial Statements

Contents

1. Summary of Significant Accounting Policies

Reporting Entity

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

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

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

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

Virginia Tech Foundation Inc.

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

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

During this fiscal year, the foundation distributed $72,765,000 to the university, for both restricted and unrestricted purposes.

Virginia Tech Services Inc.

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

During the year ended June 30, 2014, VTS paid $970,000 to the university, primarily for the rental of facilities.

Financial Statement Presentation

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

In fiscal year 2014 the following GASB statements of standards became effective: Statement 65, *Items Previously Reported as Assets and Liabilities,* Statement 66, *Technical Correction-2012 an amendment of GASB Statements 10 and 62,* Statement 67, *Financial Reporting for Pension Plans,* Statement 69, *Government Combinations and Disposals of Government Operations,* and Statement 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees.* Statement 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously recorded as assets and liabilities. Statement 66 provides a technical correction to previously issued Statements 10 and 62. The technical correction did not affect the financial information in Virginia Tech's current and prior financial reports. Statement 69 establishes financial reporting standards for mergers, acquisitions and transfers of operations and guidance on disclosures to be made for the disposals of government operations. Virginia Tech was not engaged in activity covered by this statement. Statement 70 provides guidance on reporting of guarantees of obligations of a legally separate entity or individual which requires the guarantor to indemnify a third-party obligation holder under specified conditions. Virginia Tech has no activities that would be reportable under the conditions in this statement.

Basis of Accounting

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

Cash Equivalents

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

Short-term Investments

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

Investments

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

Accounts Receivable

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

Notes Receivable

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

Inventories

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

Noncurrent Cash and Investments

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

Capital Assets

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

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

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

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

Interest Capitalization

Interest expense incurred during the construction of capital assets is capitalized, if material, net of interest income earned on resources set aside for this purpose. The university incurred and capitalized net interest expense related to the construction of capital assets totaling $1,665,000 for this fiscal year.

Accrued Compensated Absences

Certain salaried employees' attendance and leave regulations make provisions for the granting of a specified number of days of leave with pay each year. The amount reflects all unused vacation leave, sabbatical leave and the amount payable upon termination under the Commonwealth of Virginia's sick leave pay out policy. The applicable share of employer related taxes payable on the eventual termination payments is also included. The university's liability and expense for the amount of leave earned by employees but not taken, as of June 30, 2014, is recorded in the *Statement of Net Position*, and is included in the various functional categories of operating expenses in the *Statement of Revenues, Expenses, and Changes in Net Position*.

Unearned Revenue

Unearned revenue represents revenue collected but not earned as of June 30, 2014, primarily composed of revenue from grants and contracts, prepaid athletic ticket sales, and prepaid student tuition and fees. Summer Session I tuition and fees received during the fiscal year are considered earned at the end of the refund period, approximately June 15th of each year. Tuition and fees received prior to year end for Summer Session II are unearned and recognized as revenue in the next fiscal year. See Note 8 for a detailed list of unearned revenue amounts.

Noncurrent Liabilities

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

Deferred Outflows of Resources

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

Deferred Inflows of Resources

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

Net Position

The university's net position is classified as follows:

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

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

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

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

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

Income Taxes

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

Classifications of Revenues

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

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

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

Scholarship Allowance

Student tuition and fees, certain auxiliary revenues and student financial assistance expenses are reported net of scholarship allowance in the *Statement of Revenues, Expenses, and Changes in Net Position*. Scholarship allowance is the difference between the stated charge for goods and services provided by the university and the amount paid by students and/or third parties making payments on the students' behalf. For the fiscal year ended June 30, 2014, the scholarship allowance for student tuition and fee revenue and auxiliary enterprise revenue totaled $93,465,000 and $21,450,000 respectively. Scholarship allowance to students is reported using the alternative method as prescribed by the National Association of College and University Business Officers (NACUBO). The alternative method is an algorithm that computes scholarship allowance on a university-wide basis rather than on an individual student basis.

Restatement of Prior Year Amounts

The university's net position, as of July 1, 2013, has been restated. This restatement results from an increase to accumulated depreciation due to a correction in the program that calculates annual depreciation expense. The program had not correctly calculated the final year of depreciation expense for certain asset categories after a change was made to the useful life estimate of assets within the affected categories. The restatement is as follows *(all dollars in thousands)*:

Net position, June 30, 2013	$ 1,435,175
Increase to accumulated depreciation	(2,052)
Net position, July 1, 2013	$ 1,433,123

Comparative Data

The university presents its financial information on a comparative basis. The basic financial statements include certain prior year summarized comparative information in total, but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, the prior year information should be read in conjunction with the university's financial statements for the year ended June 30, 2013, from which the summarized information was derived.

2. Related Parties

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

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

3. Local Government Support

The university, through the operation of its Cooperative Extension Service, maintains offices in numerous cities and counties throughout the Commonwealth of Virginia. Personnel assigned to these locations receive a portion of their compensation from local governments. Also included in the expenses of these extension offices are unit support services, which include such items as rent, telephone, supplies, equipment, and extension program expenses. The estimated amount contributed by various local governments for these expenses totaled $12,747,000 in 2014, and has been included in revenues and expenses of the accompanying financial statements. The university received other local government support of $1,230,000 in 2014.

4. Cash, Cash Equivalents, and Investments

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

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

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. GASB Statement 40 requires the disclosure of the credit quality rating on any investments subject to credit risk.

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. GASB Statement 40 requires disclosure of any issuer with more than 5% of total investments. The university's investment policy requires its investment pools and sub-portfolios be diversified so that no more than 5% of the value of the respective portfolios is invested in securities of any single issuer. The university does not have investments subject to risks due to the concentration of credit.

Interest rate risk is the risk that interest rate changes will adversely affect the fair value of an investment. GASB Statement 40 requires disclosure of maturities for any investments subject to interest rate risk. The university uses a duration methodology to measure the maturities of its investment portfolios. The university's *Statement of Policy Governing the Investment of University Funds* established two investment pools, Primary Liquidity Pool and Total Return Pool, managed by external investment firms. Asset allocations to the Primary Liquidity Pool are targeted at 75% of total investments with approximate maturities between 15 to 90 days. The Total Return Pool is structured into three sub-portfolios; a Short Duration Portfolio, an Intermediate Duration Portfolio and an Extended Duration Portfolio having investment maturity durations of 1.7 years, 3.8 years and 4.8 years, respectively.

Foreign currency risk refers to the possibility that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The university had no foreign investments or deposits for 2014.

Cash and Cash Equivalents

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

Investments

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

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

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

Summary of investments
As of June 30, 2014
(all dollars in thousands)

	Current Assets	Noncurrent Assets	Total
Cash and cash equivalents	$ 296,663	$ 59,555	$ 356,218
Short-term investments	3,687	-	3,687
Long-term investments	-	221,525	221,525
Cash and investments	$ 300,350	$ 281,080	581,430
Less cash			35,898
Total investments			$ 545,532

Categorization of credit quality and interest rate risk

Investments held on June 30, 2014 (*all dollars in thousands*)

	Credit Rating	Less than 1 Year	1-5 Years	6-10 Years	Fair Value
U.S. Treasury and Agency securities (1)	N/A	$ 11,437	$ 11,982	$ -	$ 23,419
Debt securities					
Corporate bonds & notes (2)	A	-	2,349	-	2,349
Corporate bonds & notes	A1	2,433	3,834	-	6,267
Corporate bonds & notes	A2	1,252	7,162	-	8,414
Corporate bonds & notes	A3	502	3,514	-	4,016
Corporate bonds & notes	Aa1	-	1,393	-	1,393
Corporate bonds & notes	Aa2	-	526	-	526
Corporate bonds & notes	Aa3	738	-	-	738
Corporate bonds & notes (2)	AAA	-	1,908	-	1,908
Corporate bonds & notes	Baa	-	1,014	-	1,014
Corporate bonds & notes	Baa1	-	1,153	-	1,153
Corporate bonds & notes	Baa2	-	2,211	-	2,211
Repurchase agreements	N/A	26,926	-	-	26,926
Asset backed securities (2)	AAA	11,061	20,984	-	32,045
Federal agency securities					
Unsecured bonds and notes	Aaa	285,191	8,483	-	293,674
Unsecured bonds and notes (2)	AAA	1,449	4,071	-	5,520
Mortgage backed securities (2)	AAA	1,291	7,872	-	9,163
Mortgage backed securities	Aaa	2,296	14,127	-	16,423
Money market & mutual funds					
Money market & mutual funds	Aaa	6,622	-	-	6,622
Other					
Deposits with VTF	N/A	1,872	-	-	1,872
Dairymen's Equity	N/A	-	-	63	63
Short-term investment fund (2)	AAAm	168	-	-	168
SNAP (2)	AAAm	3,228	-	-	3,228
Subtotal		$ 356,466	$ 92,583	$ 63	449,112
Investments without specific maturities, held with VTF					96,420
Total					$ 545,532

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

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

5. Accounts Receivable

Accounts receivable consists of the following as of June 30, 2014 (*all dollars in thousands*):

Current receivables	
Grants and contracts	$ 51,792
Federal appropriations	4,938
Accrued investment interest	356
Student tuition and fees	2,919
Auxiliary enterprises & other operating activities	14,109
Total current receivables before allowance	74,114
Less allowance for doubtful accounts	3,035
Net current accounts receivable	71,079
Noncurrent receivables	
Capital gifts, grants and other receivables	6,744
Build America bonds interest receivable	150
Accrued investment interest	124
Total noncurrent receivables	7,018
Total receivables	$ 78,097

6. Notes Receivable

Notes receivable consists of the following as of June 30, 2014 (*all dollars in thousands*):

Current notes receivable	
Federal Perkins student loan program	$ 1,616
Brookings student loan programs	149
Other short-term loans	120
Total current notes receivable before allowance	1,885
Less allowance for doubtful accounts	74
Net current notes receivable	1,811
Noncurrent notes receivable	
Federal Perkins student loan program	12,522
VTT LLC operating & equipment loan	3,900
VT-ARC operating loan	2,000
Brookings student loan programs	1,173
Health Professional student loan program	549
Other long-term notes receivable	291
Total noncurrent notes receivable	20,435
Less allowance for doubtful accounts	402
Net noncurrent notes receivable	20,033
Total notes receivable	$ 21,844

7. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities at June 30, 2014, consist of the following *(all dollars in thousands):*

Accounts payable	$ 46,202
Accounts payable, capital projects	12,789
Accrued salaries and wages payable	62,225
Retainage payable	3,911
Total current accounts payable and accrued liabilities	$ 125,127

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

8. Unearned Revenue

Unearned revenue consists of the following at June 30, 2014 *(all dollars in thousands)*:

Grants and contracts	$ 12,789
Prepaid athletic tickets	11,710
Prepaid tuition and fees	7,515
Other auxiliary enterprises	3,181
Total unearned revenue	$ 35,195

9. Capital Assets

Changes in capital assets for the year ending June 30, 2014 (*all dollars in thousands)*

	Beginning Balance *(restated)*	Additions	Retirements	Adjustments	Ending Balance
Depreciable capital assets					
Buildings	$ 1,368,383	$ 291,082	$ 1,310	$ (16,322)	$ 1,641,833
Moveable equipment	449,346	41,719	18,578	-	472,487
Software and intangible assets	9,138	1,677	75	-	10,740
Fixed equipment	104,171	8,029	183	16,322	128,339
Infrastructure	119,569	879	-	-	120,448
Library books	76,245	694	840	-	76,099
Total depreciable capital assets, at cost	2,126,852	344,080	20,986	-	2,449,946
Less accumulated depreciation and amortization					
Buildings	401,827	42,213	997	-	443,043
Moveable equipment	309,830	38,366	16,920	-	331,276
Software and intangible assets	7,333	829	75	-	8,087
Fixed equipment	56,376	5,436	123	-	61,689
Infrastructure	88,667	2,544	-	-	91,211
Library books	63,703	2,241	840	-	65,104
Total accumulated depreciation and amortization	927,736	91,629	18,955	-	1,000,410
Total depreciable capital assets, less accumulated depreciation and amortization	1,199,116	252,451	2,031	-	1,449,536
Nondepreciable capital assets					
Land	46,184	-	-	-	46,184
Livestock	908	104	-	-	1,012
Construction in progress	261,536	82,576	290,087	-	54,025
Equipment in process	7,443	3,897	7,197	-	4,143
Software in development	1,793	647	-	-	2,440
Total nondepreciable capital assets	317,864	87,224	297,284	-	107,804
Total capital assets, less accumulated depreciation and amortization	$ 1,516,980	$ 339,675	$ 299,315	$ -	$ 1,557,340

The university contracted during fiscal year 2014 with a professional engineering firm to conduct a building componentization study of research buildings constructed since the prior study completed in fiscal year 2011. This engineering study provided a discrete classification of building components attributed to research-intensive buildings. The results of the survey were used to reclassify assets between the building and fixed equipment categories. This adjustment activity is conducted approximately every three years as part of the federal facilities and administrative cost proposal process.

10. Commonwealth Capital Reimbursement Programs and Capital Gifts

The commonwealth has established several programs to provide state-supported institutions of higher education with bond proceeds for financing the acquisition and replacement of instructional and research equipment and facilities. During fiscal year 2014, funding has been provided to the university from three programs (21st Century program, Central Maintenance Reserve program and the Equipment Trust Fund program) managed by the Virginia College Building Authority (VCBA). The VCBA issues bonds and uses the proceeds to reimburse the university for expenses incurred in the acquisition of equipment and facilities. The university also receives capital funding for equipment and facilities from private gifts, grants, and contracts.

The *Statement of Revenues, Expenses, and Changes in Net Position* includes the amounts listed below for the year ended June 30, 2014, in the "Capital Grants and Gifts" line item for equipment and facilities. Part of the funding for these programs is a receivable from the commonwealth at June 30, 2014, as shown in the subsequent paragraph *(all dollars in thousands)*:

VCBA 21st Century program	$	42,433
VCBA Central Maintenance Reserve program		7,941
VCBA Equipment Trust Fund program		12,835
Private gifts		1,695
Grants and contracts		11,023
Total	$	75,927

The line items, "Due from the Commonwealth of Virginia", on the *Statement of Net Position* for the year ended June 30, 2014, represent pending reimbursements from the following programs *(all dollars in thousands):*

	Current	Noncurrent
VCBA Equipment Trust Fund program	$ 12,594	$ -
VCBA 21st Century program	-	1,961
	$ 12,594	$ 1,961

11. Short-term Debt

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

At June 30, 2014, the amount outstanding was $11,205,000. The average days-to-maturity was 28 days with a weighted average effective interest rate of 0.80%.

12. Summary of Long-term Indebtedness

Bonds Payable

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

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

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

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

Notes Payable

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

Capital Leases

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

Installment Purchase Obligations

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

Long-term Debt Payable Activity
As of June 30, 2014
(all dollars in thousands)

	Beginning Balance (restated*)	Additions	Retirements	Ending Balance	Current Portion
Bonds payable					
Section 9(c) general obligation revenue bonds	$ 170,882	$ 5,421	$ 14,284	$ 162,019	$ 7,878
Section 9(d) revenue bonds	18,740	-	6,155	12,585	4,815
Notes payable	277,673	-	12,915	264,758	13,580
Capital lease obligations	66,364	2,950	2,596	66,718	2,750
Installment purchase obligations	55	-	22	33	21
Total long-term debt payable	$ 533,714	8,371	35,972	$ 506,113	$ 29,044
Current year debt defeasance		(5,421)	(5,317)		
Total additions/retirements, net of current year defeasance		$ 2,950	$ 30,655		

*Restated for GASB Statement 65, which changed the accounting for gains and losses on defeased debt. See Note 14 - Long-term Debt Defeasance.

Future Principal Commitments
For fiscal years subsequent to 2014
(all dollars in thousands)

	Section 9(c) Bonds	Section 9(d) Bonds	Notes Payable	Capital Lease Obligations	Installment Purchase Obligations	Total Long-term Debt Payable
2015	$ 7,878	$ 4,815	$ 13,580	$ 2,750	$ 21	$ 29,044
2016	8,666	5,055	14,155	2,895	12	30,783
2017	9,116	635	14,855	3,046	-	27,652
2018	7,972	665	15,540	3,203	-	27,380
2019	8,053	690	16,290	3,366	-	28,399
2020 – 2024	44,814	725	73,000	16,195	-	134,734
2025 – 2029	48,402	-	68,555	16,477	-	133,434
2030 – 2034	12,945	-	23,960	13,100	-	50,005
2035 – 2037	-	-	5,915	5,686	-	11,601
Unamortized premium	14,173	-	18,908	-	-	33,081
Total future principal requirements	$ 162,019	$ 12,585	$ 264,758	$ 66,718	$ 33	$ 506,113

Future Interest Commitments
For fiscal years subsequent to 2014
(all dollars in thousands)

	Section 9(c) Bonds	Section 9(d) Bonds	Notes Payable	Capital Lease Obligations	Installment Purchase Obligations	Total Interest
2015	$ 6,711	$ 595	$ 10,822	$ 3,080	$ 1	$ 21,209
2016	6,339	356	10,155	2,954	-	19,804
2017	5,984	122	9,445	2,817	-	18,368
2018	5,576	94	8,710	2,672	-	17,052
2019	5,230	64	7,943	2,519	-	15,756
2020 – 2024	20,532	32	28,812	10,185	-	59,561
2025 – 2029	9,730	-	13,340	6,007	-	29,077
2030 – 2034	1,525	-	3,282	2,640	-	7,447
2035 – 2037	-	-	351	254	-	605
Total future interest requirements	$ 61,627	$ 1,263	$ 92,860	$ 33,128	$ 1	$ 188,879

13. Detail of Long-term Indebtedness

Bonds Payable
As of June, 30, 2014 *(all dollars in thousands)*

Revenue bonds	Interest rates	Maturity	2014
Dormitory and dining hall system			
Series 2004A, issued $2,710 – refunding series 1996A*	2.00% - 5.00%	2016	$ 640
Series 2004A, issued $1,665 – refunding series 1996A*	2.00% - 5.00%	2016	395
Series 2004B, issued $1,265 – refunding series 1996B*	2.00% - 4.00%	2016	280
University services systems - Student Health and Fitness Center			
Series 2004C, issued $15,105 – refunding series 1996C*	2.00% - 5.00%	2016	3,455
Athletic system			
Series 2004D, issued $4,155 – refunding series 1996A*	2.00% - 5.00%	2016	980
Northern Virginia Graduate Center			
Series 2004A, issued $7,860 – refunding series 1996A*	2.00% - 5.00%	2020	3,930
Architectural/engineering			
Series 2004A, issued $4,685 – refunding series 1996A*	2.00% - 5.00%	2016	1,110
Coal fired boiler facility			
Series 2004A, issued $6,005 – refunding series 1996A*	2.00% - 5.00%	2016	1,420
Series 2004A, issued $1,585 – refunding series 1996A*	2.00% - 5.00%	2016	375
Total revenue bonds			$ 12,585

General obligation revenue bonds	Interest rates	Maturity	2014
Dormitory and dining hall system			
Series 2007A, issued $5,995	4.00% - 5.00%	2018	$ 1,190
Series 2007A, issued $13,130	4.00% - 5.00%	2018	2,605
Series 2008B, issued $17,185	3.00% - 5.00%	2028	14,060
Series 2009D, issued $1,891 – partial refunding series 2004A*	5.00%	2022	1,891
Series 2009B, issued $39,005	4.00% - 5.00%	2029	34,585
Series 2009B, issued $3,720	4.00% - 5.00%	2029	3,300
Series 2011A, issued $18,860	4.34%	2031	17,455
Series 2012A, issued $942 – partial refunding series 2004A*	5.00%	2024	942
Series 2013B, issued $3,576 – partial refunding series 2007A*	4.00% - 5.00%	2027	3,576
Series 2013B, issued $7,842 – partial refunding series 2007A*	4.00% - 5.00%	2027	7,842
Series 2014B, issued $3,151 – partial refunding series 2004B*	2.00% - 5.00%	2017	3,151
Series 2014B, issued $793 – partial refunding series 2004B*	2.00% - 5.00%	2018	793
Series 2014B, issued $587 – partial refunding series 2004B*	2.00% - 5.00%	2019	587
Lavery Hall, series 2010A, issued $34,650	3.00% - 5.00%	2030	30,295
Parking facilities			
Series 2006B, issued $685	4.00% - 5.00%	2016	60
Series 2008B, issued $1,545	3.00% - 5.00%	2028	1,225
Series 2009D, issued $190 – partial refunding series 2006B*	5.00%	2022	190
Series 2009C, issued $276 – partial refunding series 2002*	3.00% - 4.00%	2017	251
Series 2009B, issued $24,590	4.00% - 5.00%	2034	22,695
Series 2010A, issued $745	2.00% - 5.00%	2030	635
Series 2013B, issued $218 – partial refunding series 2006B*	4.00% - 5.00%	2026	218
Series 2014B, issued $300 – partial refunding series 2004B*	2.00% - 5.00%	2017	300
Unamortized premium (discount)			14,173
Total general obligation revenue bonds			162,019
Total bonds payable			$ 174,604

Notes Payable

Notes payable to VCBA under the pooled 9(d) bond program at June 30, 2014
(all dollars in thousands)

Dormitory and dining hall system			
Series 2004B, issued $7,420 – partial refunding series 1999A*	3.00% - 5.00%	2020	$ 4,730
Series 2005, issued $2,815	3.50% - 5.00%	2017	615
Series 2007B, issued $3,395 – partial refunding series 1998A*	4.00% - 4.50%	2019	3,390
Series 2012A, issued $1,350 – partial refunding series 2005*	5.00%	2025	1,350
University services system – Smith Career Center			
Series 2007B, issued $1,621 – partial refunding series 2002A*	4.00% - 4.50%	2020	1,572
Series 2010B, issued $1,190 – partial refunding series 2002A*	5.25%	2023	975
Utility system			
Series 2004B, issued $870 – partial refunding series 2000A*	3.00% - 5.00%	2017	532
Series 2007B, issued $646 – partial refunding series 2000A*	4.00% - 4.50%	2020	640
Series 2010B, issued $345 – partial refunding series 2000A*	5.00% - 5.75%	2021	215
Series 2007B, issued $1,060 – partial refunding series 2002A*	4.00% - 4.50%	2020	1,028
Series 2010B, issued $770 – partial refunding series 2002A*	5.25%	2023	635
Athletic system - Lane Stadium expansion			
Series 2007B, issued $2,860 – partial refunding series 2001A*	4.00% - 4.50%	2020	2,805
Series 2009B, issued $8,705	2.00% - 5.00%	2030	7,575
Series 2010B, issued $11,540 – partial refunding series 2001A*	4.00% - 5.00%	2027	10,070
Series 2012B, issued $32,365 – refunding series 2004D bonds*	3.00% - 5.00%	2029	31,370
Infectious waste facility			
Series 2004B, issued $480 – partial refunding series 2000A*	3.00% - 5.00%	2017	297
Series 2007B, issued $359 – partial refunding series 2000A*	4.00% - 4.50%	2020	355
Series 2010B, issued $190 – partial refunding series 2000A*	5.00% - 5.75%	2021	120
Biomedical facility			
Series 2007B, issued $5,649 – partial refunding series 2002A*	4.00% - 4.50%	2020	5,476
Series 2010B, issued $10,155 – partial refunding series 2002A*	4.00% - 5.25%	2028	9,405
Holtzman Alumni Center and Skelton Conference Center			
Series 2010B, issued $3,215 – partial refunding series 2003A*	4.38% - 5.00%	2021	3,215
Series 2012A, issued $12,320 – partial refunding series 2003A*	4.75%	2031	12,320
Life Sciences-I			
Series 2005, issued $8,295	3.50% - 5.00%	2017	1,805
Series 2012A, issued $3,985 – partial refunding series 2005*	5.00%	2025	3,985
Kelly Hall, series 2006A, issued $16,145	3.00% - 5.00%	2027	12,175
Boiler pollution controls, series 2006A, issued $1,925	3.00% - 5.00%	2027	1,450
Surge space building, series 2006A, issued $7,025	4.00% - 5.00%	2022	4,380
Campus heating plant			
Series 2007A, issued $3,880	4.50% - 5.00%	2028	3,185
Series 2009B, issued $5,875	2.00% - 5.00%	2030	5,110
McComas Hall exterior repairs			
Series 2009A, issued $1,475	2.75% - 5.00%	2029	1,205
Series 2009B, issued $4,365	2.00% - 5.00%	2030	3,915
ICTAS-II, series 2009B, issued $13,045	2.00% - 5.00%	2030	11,710

	Interest rates	Maturity	2014
McComas Hall recreation, counseling and clinical space, Series 2009B, issued $12,420	2.00% - 5.00%	2030	11,145
Moss Arts Center			
Series 2010B, issued $19,445	3.75% - 5.60%	2036	18,430
Series 2011A, issued $19,375	3.00% - 5.00%	2037	18,915
Lavery Hall, series 2010B, issued $9,650	3.75% - 5.50%	2031	8,945
Goodwin Hall			
Series 2011A, issued $13,410	5.00%	2020	11,770
Series 2011A, issued $12,695	3.00% - 5.00%	2032	12,265
Chiller Plant, series 2011A, issued $7,515	3.00% - 5.00%	2032	7,260
Veterinary Medicine Instruction addition, Series 2012B, issued $9,820	3.00% - 5.00%	2033	9,510
Unamortized premium (discount)			18,908
Total notes payable			$ 264,758

*See Note 14 – Long-term Debt Defeasance

Other Long-term Debt

At June 30, 2014 (*all dollars in thousands*)

Capital leases payable	
North End Center building and parking garage	$ 42,502
Integrated Life Sciences (ILSB) building and vivarium	14,370
Student Services building, Public Safety building, Hunter Andrews addition, and Prince Street building	9,846
Total capital leases payable	66,718
Installment purchase obligations for equipment purchases through June 2014	33
Total other long-term debt	$ 66,751

14. Long-term Debt Defeasance

Current Year

The university issued $4,831,000 of section 9(c) bonds to refund $5,317,000 of section 9(c) bonds in fiscal year 2014. The resulting net gain of $486,000 will be amortized over the life of the new debt. For financial reporting purposes, these bonds are considered an in-substance defeasance and have therefore been removed from the long-term debt payable line item of the *Statement of Net Position*. The assets in escrow have similarly been excluded. The details of each refunded debt issue are presented below.

Debt issues refunded as of June 30, 2014

(all dollars in thousands)

	True Interest Cost	Debt Refunded	Refunding Debt Issued	Accounting Gain (Loss)	Reduction in Debt Service	Gain Discounted at TIC	Defeased Debt
Series 2004B, issued $9,995	2.60%	$ 3,476	$ 3,151	$ 325	$ 454	$ 444	$ 3,513
Series 2004B, issued $951	2.60%	330	300	30	42	41	332
Series 2004B, issued $1,928	2.60%	871	793	78	97	95	886
Series 2004B, issued $1,168	2.60%	640	587	53	60	59	634
Total debt issues refunded		$ 5,317	$ 4,831	$ 486	$ 653	$ 639	$ 5,365

Previous Years

In previous fiscal years in accordance with GASB Statement 7, *Advance Refundings Resulting in the Defeasance of Debt*, the university has excluded from its financial statements the assets in escrow and the debt payable that was defeased in-substance. For the year ended June 30, 2014, bonds and notes payable considered defeased in previous years totaled $51,125,000.

Debt Defeasance – Gains (Losses)

In previous fiscal years gains and losses from the defeasance of long-term debt were netted and included in the Long-term debt payable (current and noncurrent) and Depreciable capital assets, net categories on the *Statement of Net Position*. GASB 65, *Items Previously Reported as Assets and Liabilities*, effective this period, reclassifies gains and losses on defeased debt to deferred outflows of resources or deferred inflows of resources. The table below provides detail on the unamortized gains and losses included in the deferred outflows of resources and deferred inflows of resources by bond category for defeased outstanding debt from the current and prior fiscal years *(all dollars in thousands)*.

	Section 9(c) Bonds	Section 9(d) Bonds	Notes Payable	Total
Deferred outflows – debt defeasance	$ (1,667)	$ (425)	$ (3,964)	$ (6,056)
Deferred inflows – debt defeasance	236	-	1,024	1,260

15. Change in Other Liabilities

A summary of the changes in other liabilities follows for the year ended June 30, 2014 *(all dollars in thousands):*

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Accrued compensated absences	$ 40,030	$ 32,645	$ 30,166	$ 42,509	$ 23,172
Federal student loan program contribution refundable	13,620	215	176	13,659	-
Total other liabilities	$ 53,650	$ 32,860	$ 30,342	$ 56,168	$ 23,172

16. Lease Commitments

The university has entered into numerous agreements to lease land, buildings, and equipment. With some of these agreements, the university is committed under various operating leases for equipment and space. In general, the leases are for three- to ten-year terms with renewal options. The university expects similar leases to replace these leases during the normal course of business. The total lease expense was approximately $21,777,000 for the year ended June 30, 2014. This amount includes approximately $15,309,000 in lease payments to the Virginia Tech Foundation Inc. for office and laboratory space. In addition, the total lease expense includes approximately $2,663,000 of short-term equipment rentals that can be terminated at any time. The short-term equipment rental costs are not included in the summary of future lease payments listed in the table below.

A summary of future minimum lease payments under operating leases as of June 30, 2014, follows (*all dollars in thousands*):

2015	$ 19,913
2016	18,289
2017	15,713
2018	12,366
2019	10,326
2020 – 2024	26,615
2025 – 2029	7,669
2030 – 2034	6,640
2035 – 2039	6,390
2040 – 2044	6,390
2045 – 2049	6,390
2050 – 2054	6,390
2055 – 2059	6,390
2060 – 2063	2,008
Total	$ 151,489

17. Capital Improvement Commitments

The amounts listed in the following tables represent the value of obligations remaining on capital improvement project contracts. These obligations are for future effort and as such have not been accrued as expenses or liabilities on the university's financial statements. Outstanding contractual commitments for capital improvement projects at June 30, 2014, are listed in the next column.

Capital Commitments by Project
(all dollars in thousands)

Indoor Athletic Facility	$ 15,977
Upper Quad Residential Facilities	14,204
Goodwin Hall	1,628
Renovate Academic Buildings	1,457
Classroom Building	1,081
Other projects	376
Total	$ 34,723

Capital Commitments by Funding Source
(all dollars in thousands)

Bonds and notes payable	$ 16,354
Capital appropriations	2,034
Private funds	4,943
University recoveries, education and general funds	1,783
Auxiliary enterprise funds	9,609
Total	$ 34,723

18. Contributions to Pension Plans

Virginia Retirement System

Employees of the university are employees of the Commonwealth of Virginia and therefore participate in the commonwealth's defined benefit retirement plan. This plan is administered by the Virginia Retirement System (VRS). The VRS is a multiple-employer public employee retirement system that acts as a common investment and administrative agency for the commonwealth and its political subdivisions.

The VRS does not measure assets and pension benefit obligations separately for individual state institutions. Information related to this plan is available at the statewide level only and can be found in the commonwealth's *Comprehensive Annual Financial Report*. The commonwealth, not the university, has the overall responsibility for contributions to this plan.

The university's expenses for these contributions to the VRS totaled approximately $21,197,000 for the year ended June 30, 2014.

Optional Retirement Plan

Full-time faculty and certain administrative staff participate in a defined contribution plan administered by two different providers other than the VRS. The two providers are TIAA/CREF Insurance Companies and Fidelity Investments Tax-Exempt Services Co. This plan is a defined contribution program where the retirement benefits received are based upon the employer's (5.4%) and employees' (5%) contributions, plus interest and dividends.

Individual contracts issued under the plan provide for full and immediate vesting of both the university's and the employees' contributions. Total pension costs under this plan were approximately $21,772,000 for year ended June 30, 2014. Contributions to the optional retirement plan were calculated using the base salary amount of approximately $218,396,000 for this fiscal year.

Deferred Compensation Plan

Employees of the university are employees of the Commonwealth of Virginia. State employees may participate in the commonwealth's Deferred Compensation Plan. Participating employees can contribute to the plan each pay period with the commonwealth matching up to $20 per pay period. The dollar amount match can change depending on the funding available in the commonwealth's budget. The Deferred Compensation Plan is a qualified defined contribution plan under section 401(a) of the *Internal Revenue Code*. The university expense for matching contributions to this plan, which is an amount assessed by the commonwealth, was approximately $2,323,000 for the fiscal year 2014.

Federal Pension Plans

Certain Cooperative Extension Service (CES) professional employees are participants in either the Federal Employee Retirement System (FERS) or the Federal Civil Service Retirement System (CSRS). The FERS and CSRS are defined benefit plans in which benefits are based upon the highest base pay over any three consecutive years and the years of creditable service. The costs under these plans were approximately $133,000 for the year ended June 30, 2014. Contributions to the FERS and CSRS were calculated using the base salary amount of approximately $1,324,000 for the fiscal year 2014.

In addition, the university contributed $32,000 in employer contributions to the Thrift Savings Plan for the year ended June 30, 2014. The Thrift Savings Plan is a defined contribution plan in which the university matches employee contributions within certain limitations.

19. Postemployment Benefits

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

20. Appropriations

The Appropriation Act specifies that unexpended general fund appropriations remaining on the last day of the current year, ending on June 30, 2014, shall be reappropriated for expenditure in the first month of the next year, beginning on July 1, 2014, except as may be specifically provided otherwise by the Virginia General Assembly. The governor may, at his discretion, unallot funds from the reappropriated balances that relate to unexpended appropriations for payments to individuals, aid to localities, or any pass-through grants.

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

Original Legislative Appropriation
(per Chapter 806 as amended by House Bill 29)

Education and general programs	$ 202,437
Student financial assistance	19,706
Commonwealth research initiative	4,139
Unique military activities	2,084
Engineering research center fund	120
Total appropriation	228,486
Adjustments	
Central appropriation	11,043
Rolls Royce partnership	2,417
Commonwealth Research Commercialization Fund	200
Commonwealth Research Initiative	1,025
Student financial assistance	275
Other adjustments	147
Total adjustments	15,107
Adjusted appropriation	$ 243,593

21. Grants, Contracts, and Other Contingencies

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

The National Science Foundation (NSF) issued their audit report of program expenses for the three years ending December 31, 2012. The audit report identified approximately $1.6 million in questioned costs from a total of $113 million in expenses reimbursed by NSF to Virginia Tech during the three year period. The audit report has been submitted to the NSF Division of Institutional and Award Support for resolution. The final amount of questioned costs cannot be reasonably determined until the audit resolution process is complete.

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

22. Federal Direct Lending Program

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

These loan proceeds are treated as student payments with the university acting as a fiduciary agent for the student. Therefore, the receipt of the funds from the federal government is not reflected in the federal government grants and contracts total on the *Statement of Revenues, Expenses, and Changes in Net Position*. The activity is included in the noncapital financing section of the *Statement of Cash Flows*. For the fiscal year ended June 30, 2014, cash provided by the program totaled $125,925,000 and cash used by the program totaled $125,919,000.

23. Expenses by Natural Classification within Functional Classification

The university's operating expenses by functional classification for the year ended June 30, 2014
(all dollars in thousands)

	Compensation and Benefits	Contractual Services	Other Supplies and Materials	Travel	Operating Expenses	Scholarships and Fellowships	Sponsored Program Subcontracts	Total
Instruction	$ 268,337	$ 12,264	$ 8,176	$ 6,327	$ 2,258	$ 1,050	$ 340	$ 298,752
Research	195,959	23,978	21,819	13,777	4,649	14,209	33,906	308,297
Public service	58,258	17,576	4,124	6,322	2,309	397	13,757	102,743
Academic support	52,209	5,034	17,778	1,260	2,809	288	3	79,381
Student services	11,007	1,961	825	788	127	142	2	14,852
Institutional support	50,741	351	1,840	2,695	1,762	754	-	58,143
Operation and maintenance of plant	25,183	8,782	18,101	296	29,109	18	-	81,489
Student financial assistance	218	3	8	173	15	11,825	-	12,242
Auxiliary enterprises	88,470	26,284	37,324	11,316	13,808	4,309	21	181,532
Subtotal before other costs	$ 750,382	$ 96,233	$ 109,995	$ 42,954	$ 56,846	$ 32,992	$ 48,029	1,137,431
Depreciation and amortization expense								91,629
Loan administrative fees and collection costs								90
Total operating expenses								$ 1,229,150

24. Component Units

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

24. Component Units (continued)

Consolidating Statement of Net Position

The financial position for the university's component units as of June 30, 2014

(all dollars in thousands)

	Virginia Tech Foundation	Virginia Tech Services	Total Component Units
Assets			
Current assets			
Cash and cash equivalents	$ (12,828)	$ 473	$ (12,355)
Short-term investments	2,225	2,304	4,529
Accounts and contributions receivable, net	32,384	301	32,685
Notes receivable, net	519	-	519
Inventories	376	5,753	6,129
Prepaid expenses	755	386	1,141
Other assets	6,309	-	6,309
Total current assets	29,740	9,217	38,957
Noncurrent assets			
Cash and cash equivalents	70,487	-	70,487
Accounts and contributions receivable, net	54,676	-	54,676
Notes and deeds of trust receivable, net	32,209	-	32,209
Net investments in direct financing leases	62,087	-	62,087
Irrevocable trusts held by others, net	8,117	-	8,117
Long-term investments	918,333	-	918,333
Depreciable capital assets, net	217,304	1,296	218,600
Nondepreciable capital assets	89,628	-	89,628
Intangible assets, net	580	-	580
Other assets	5,605	-	5,605
Total noncurrent assets	1,459,026	1,296	1,460,322
Total assets	1,488,766	10,513	1,499,279
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	13,214	4,336	17,550
Accrued compensated absences	705	283	988
Unearned revenue	3,023	742	3,765
Long-term debt payable	11,888	-	11,888
Other liabilities	7,560	725	8,285
Total current liabilities	36,390	6,086	42,476
Noncurrent liabilities			
Accrued compensated absences	137	-	137
Unearned revenue	6,315	-	6,315
Long-term debt payable	267,613	-	267,613
Liabilities under trust agreements	27,148	-	27,148
Agency deposits held in trust	110,285	-	110,285
Other liabilities	10,507	-	10,507
Total noncurrent liabilities	422,005	-	422,005
Total liabilities	458,395	6,086	464,481
Net position			
Net investment in capital assets	123,131	1,296	124,427
Restricted, nonexpendable	428,758	-	428,758
Restricted, expendable			
Scholarships, research, instruction, and other	359,203	-	359,203
Capital projects	57,868	-	57,868
Unrestricted	61,411	3,131	64,542
Total net position	$ 1,030,371	$ 4,427	$ 1,034,798

24. Component Units (continued)

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

The university's component unit activity for the year ended June 30, 2014

(all dollars in thousands)

	Virginia Tech Foundation	Virginia Tech Services	Total Component Units
Operating revenues			
Gifts and contributions	$ 51,692	$ -	$ 51,692
Auxiliary enterprise revenue			
Hotel Roanoke	20,074	-	20,074
River Course	1,272	-	1,272
Bookstore	-	23,481	23,481
Other revenues			
Rental income	37,948	-	37,948
Other	22,587	-	22,587
Total operating revenues	133,573	23,481	157,054
Operating expenses			
Instruction	2,920	-	2,920
Research	9,946	-	9,946
Public service	4,610	-	4,610
Academic support	14,746	-	14,746
Institutional support			
Other university programs	19,924	-	19,924
Fund raising	7,850	-	7,850
Management and general	11,565	-	11,565
Operation and maintenance of plant			-
Operation and maintenance of plant	5,948	-	5,948
Research cost centers	6,346	-	6,346
Student financial assistance	25,110	-	25,110
Auxiliary enterprises			-
Hotel Roanoke	12,820	-	12,820
River Course	1,342	-	1,342
Bookstore	-	23,451	23,451
Depreciation expense	10,468	-	10,468
Other expenses	12,510	-	12,510
Total operating expenses	146,105	23,451	169,556
Operating income (loss)	(12,532)	30	(12,502)
Non-operating revenues (expenses)			
Investment income, net	11,411	-	11,411
Net gains on investments	98,796	-	98,796
Interest expense on debt related to capital assets	(9,751)	-	(9,751)
Net non-operating revenues	100,456	-	100,456
Income before other revenues, expenses, gains or losses	87,924	30	87,954
Change in valuation of split interest agreements	3,297	-	3,297
Capital grants and gifts	11,796	-	11,796
Loss on disposal of capital assets	(10)	-	(10)
Additions to permanent endowments	17,610	-	17,610
Other expenses	(1,147)	-	(1,147)
Total other revenues, expenses, gains, or losses	31,546	-	31,546
Increase in net position	119,470	30	119,500
Net position - beginning of year	910,901	4,397	915,298
Net position - end of year	$ 1,030,371	$ 4,427	$ 1,034,798

24. Component Units (continued)

Notes to Component Units Statements

Contributions Receivable – Virginia Tech Foundation Inc.

The following summarizes unconditional promises to give at June 30, 2014 *(all dollars in thousands)*:

Current receivables		
Receivable in less than one year	$	30,698
Noncurrent receivables		
Receivable in one to five years		42,450
Receivable in more than five years		12,758
Total noncurrent receivables before allowance		55,208
Less allowance for uncollectible contributions		3,338
Net noncurrent contributions receivable		51,870
Total contributions receivable	$	82,568

The discount rates ranged from 0.25% to 1.65% in 2014. As of June 30, 2014, there were no conditional promises to give.

Investments – Virginia Tech Foundation Inc.

Investments by type of security at June 30, 2014 are shown below *(all dollars in thousands):*

	Cost	Fair value
Short-term investments		
Corporate debt securities	$ 572	$ 542
U.S. Government treasuries	1,376	1,417
U.S. Government agencies	267	266
Total short-term investments	2,215	2,225
Long-term investments		
Cash and cash equivalents	43,066	43,066
U. S. Government treasuries	3,722	3,624
U. S. Government agencies	26,644	27,082
State, county and municipal securities	6,930	7,608
Corporate debt securities	44,911	44,995
Common and preferred stock	151,518	198,943
Partnerships and other joint ventures	394,142	528,637
Foreign securities	20,991	23,669
Real estate	32,362	33,206
Other	7,504	7,503
Total long-term investments	731,790	918,333
Total investments	$ 734,005	$ 920,558

As of June 30, 2014, long-term investments include investment assets held in internally managed trust funds with a carrying value totaling $48,076,000.

The foundation is required by Maryland state law to maintain segregated assets for all annuities issued in an amount at least equal to the sum of its outstanding deferred giving arrangements liability discounted to present value. As of June 30, 2014, the foundation had recorded annuity obligations of $6,270,000. As of June 30, 2014, the foundation had separately invested cash reserves of $11,951,000, and has met its minimum reserve requirement under Maryland state law.

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

	Fair Value	Cost	Net gains
June 30, 2014	$ 920,558	$ 734,005	$ 186,553
June 30, 2013	766,464	656,665	109,799
Unrealized net gain for the year, including net gain on agency deposits held in trust of $7,782			76,754
Realized net gain for the year, including net gain on agency deposits held in trust of $6,128			35,942
Total net gain for the year, including net gain on agency deposits held in trust of $13,910.			$ 112,696

Investment management fees incurred in 2014 totaled $1,217,000.

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

A summary of land, buildings, and equipment at cost, less accumulated depreciation for the year ending June 30, 2014, is presented as follows *(all dollars in thousands)*:

Depreciable capital assets		
Buildings	$	246,937
Equipment and other		41,730
Land improvements		21,527
Total depreciable capital assets, at cost		310,194
Less accumulated depreciation		92,890
Total depreciable capital assets, net		217,304
Nondepreciable capital assets		
Land		70,318
Vintage and other collection items		5,264
Livestock		2,341
Construction in progress		11,705
Total nondepreciable capital assets		89,628
Total capital assets, net	$	306,932

As of June 30, 2014, outstanding contractual commitments for projects under construction approximated $4,900,000.

Long-Term Debt Payable - Virginia Tech Foundation Inc.

Notes payable

The following is a summary of outstanding notes payable at June 30, 2014 *(all dollars in thousands)*:

Unsecured note payable upon the sale of the hotel and repayment of all debt of the hotel and the Hotel Roanoke Foundation (HRF)	$	1,775
Secured fixed rate promissory note payable, due in monthly installments of $55 (including interest) with a lump sum payment of $7,602 due October 10, 2017, plus interest at 7.00%, collateralized by certain real properties by Virginia Tech Real Estate Foundation, Inc. (VTREF)		7,886
Total notes payable	$	9,661

The aggregate annual maturities of notes payable for each of the four years and thereafter subsequent to June 30, 2014, are *(all dollars in thousands)*:

2015	$	67
2016		104
2017		113
2018		7,602
Later years or as cash becomes available from hotel net operating income		1,775
Total notes payable	$	9,661

24. Component Units (continued)

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

Bonds payable

The foundation is obligated under Industrial Development Authority of Montgomery County, Virginia Variable Rate Revenue Bonds dated August 25, 2005 (Series 2005). Bond proceeds were used to refinance previously outstanding Series 2001A and Series 2002A bonds. The remainder was used to finance the construction of and equipment purchases for three facilities to be used in support of the university. The bonds, which mature June 1, 2035, bear a variable interest rate, which including remarketing and credit enhancement fees, was 0.485% at June 30, 2014.

The foundation previously issued Industrial Development Authority of Montgomery County, Virginia Revenue Bonds (Series 2009A) and Taxable Revenue Bonds (Series 2009B) dated February 12, 2009. The Series 2009B bonds, which originally matured on February 1, 2039, were paid off on June 27, 2013, but the Series 2009A bonds remain outstanding. Bond proceeds were used to refinance the previously outstanding Series 2007 bonds, an unsecured variable rate promissory note payable, and an unsecured variable rate commercial note payable, as well as finance the construction of several facilities, primarily the National Capital Region facility, to be used in support of the university. The Series 2009A bonds, which mature on February 1, 2039, bear a variable interest rate, which including remarketing and liquidity fees, was 0.495% on June 30, 2014.

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

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

The foundation is obligated under the Economic Development Authority of Montgomery County, Virginia Tax-Exempt Revenue and Refunding Bonds (Series 2012A) and Taxable Revenue and Refunding Bonds (Series 2012B) dated December 1, 2012. Proceeds were used to refinance a portion of the outstanding Series 2009B bonds and to finance the construction of several facilities to be used in support of the university. During 2014, an additional $1,817,000 was borrowed on the Series 2012B bonds to finance the construction of a facility to be used in support of the university. The Series 2012A bonds, which bear a fixed interest rate of 1.99%, have monthly payments of principal and interest beginning February 1, 2013 and concluding June 1, 2022. The Series 2012B bonds, bore a variable interest rate of LIBOR plus 125 basis points (1.44% at June 30, 2013), until the final advance date of October 1, 2013, and thereafter bear a fixed interest rate of 3.05%, have monthly interest commencing on February 1, 2013 and have monthly payments of principal and interest beginning November 1, 2013 and concluding on January 1, 2033. The Series 2012B bonds are subject to mandatory tender on December 27, 2022 at the bondholder's option.

The foundation is obligated under the Economic Development Authority of Montgomery County, Virginia Revenue and Refunding Bonds (Series 2013A) and Taxable Revenue and Refunding Bonds (series 2013B) dated October 30, 2013. Proceeds were used to finance the construction of several commercial facilities and several facilities to be used in support of the university. The bonds, which bear a weighted average fixed interest rate of 3.95% and 3.87%, have annual serial and sinking fund maturities beginning June 1, 2014, and concluding June 1, 2038, in varying amounts ranging from $280,000 to $4,010,000.

Principal amounts outstanding for these bonds as of June 30, 2014, are as follows *(all dollars in thousands)*:

Bond Series:

Series 2005	$ 17,585
Series 2009A	19,890
Series 2010A	49,140
Series 2010B	18,980
Series 2011A	49,960
Series 2011B	53,610
Series 2012A	3,728
Series 2012B	6,685
Series 2013A	17,590
Series 2013B	24,340
Premium on Series 2010A	3,177
Premium on Series 2011A	2,048
Premium on Series 2013A	857
Total bonds payable	$ 267,590

The aggregate annual maturities of bonds payable for each of the five years and thereafter subsequent to June 30, 2014, are as follows *(all dollars in thousands)*:

2015	$ 11,507
2016	11,752
2017	12,480
2018	13,461
2019	13,950
Later years	204,440
Total	$ 267,590

24. Component Units (continued)

To comply with the terms of the Series 2005 bond agreement, the foundation maintains a letter of credit with a lender in the amount of $17,754,000 at annual fees equal to 0.35% of the total commitment. At June 30, 2014, no funds were outstanding under this commitment.

To comply with the terms of the Series 2009A bond agreement, the foundation maintains a revolving credit facility in the amount of $20,081,000 at annual fees equal to 0.35% of the total commitment. At June 30, 2014, no funds were outstanding under this commitment.

Total interest expense incurred in the aggregate related to notes payable and bonds payable in 2014 totaled $9,519,000.

Interest Rate Swaps

Effective September 1, 2005, the foundation entered into an interest rate swap agreement (Swap 1) with a lending institution. This agreement was based on the principal balances of the Series 2001A and Series 2002A bond issues, which were refinanced by the Series 2005 bonds. The foundation participates as a fixed rate payer, with a fixed rate of 3.265% for a 17-year term ending June 1, 2022. The lending institution participates as a floating rate payer, with a floating interest rate, which is calculated based on the weighted average of 70% of USD-LIBOR-BBA and was 0.106% at June 30, 2014.

Effective September 1, 2005, the foundation entered into an interest rate swap agreement (Swap 2) with a lending institution. This agreement was based on the principal balances of the Series 2005 bond issue and was effective September 1, 2006. The foundation participates as a fixed rate payer, with a fixed rate of 3.213% ending June 1, 2025. The lending institution participates as a floating rate payer, with a floating interest rate, which is calculated based on the weighted average of 70% of USD-LIBOR-BBA and was 0.106% at June 30, 2014.

Effective March 12, 2007, the foundation entered into an interest rate swap agreement (Swap 3) with a lending institution. This agreement was based on the principal balances of the Series 2007 bond issue, which was refinanced by the Series 2009 bonds. The foundation participates as a fixed rate payer, with a fixed rate of 3.737% ending June 1, 2027. The lending institution participates as a floating rate payer, with a floating interest rate, which is calculated based on the weighted average of SIFMA Municipal Swap Index and was 0.060% at June 30, 2014.

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

	Fair Values	Change in Fair Value
Swap 1	$ 841	$ 179
Swap 2	919	96
Swap 3	1,888	108
Total	$ 3,648	$ 383

Agency Deposits Held in Trust - Virginia Tech Foundation Inc.

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

A summary of agency deposits held in trust for the year ending June 30, 2014, is presented as follows *(all dollars in thousands)*:

University—Pratt estate	$ 46,003
University—Other	52,258
Virginia Tech Alumni Association, Inc.	4,438
Virginia Tech Services, Inc.	2,304
Other	5,282
Total agency deposits held in trust	$ 110,285

25. Risk Management and Employee Health Care Plans

The university is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; nonperformance of duty; injuries to employees; and natural disasters. The university participates in insurance plans maintained by the Commonwealth of Virginia. The state employee health care and worker's compensation plans are administered by the Department of Human Resource Management and the risk management insurance plans are administered by the Department of Treasury, Division of Risk Management.

Risk management insurance includes property, general liability, medical malpractice, faithful performance of duty bond, automobile, boiler and machinery, and air and watercraft plans. The university pays premiums to the Commonwealth of Virginia for the aforementioned insurance coverage. In addition, the university contracts with private insurers to provide additional fidelity bonding coverage, automobile physical damage coverage, business interruption coverage for the Equine Medical Center and overseas liability coverage. Information relating to the commonwealth's insurance plans is available in the Commonwealth of Virginia's *Comprehensive Annual Financial Report*.

26. Joint Ventures

Hotel Roanoke Conference Center Commission

Created by a joint resolution of the university and the City of Roanoke, the purpose of the commission is to establish and operate a publicly owned conference center in Roanoke adjacent to the Hotel Roanoke. The powers of the commission are vested in commissioners. Each participating governing body appoints three commissioners for a total of six commissioners. The commission has the authority to issue debt, and such debt is the responsibility of the commission. The intention of the commission is to be self-supporting through its user fees. The university and the City of Roanoke equally share in any operating deficit or additional funding needed for capital expenditures. The university made contributions of $80,000 using private funds to the commission for the fiscal year ended June 30, 2014.

Virginia Tech Carilion School of Medicine

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

Virginia Biosciences Health Research Corporation

Founded by Virginia Tech and four other state universities – Eastern Virginia Medical

School, George Mason University, University of Virginia and Virginia Commonwealth University, this corporation was formed to foster collaborative scientific research innovation and to provide a new program for public/private partnerships with Virginia universities. The board of directors for the Virginia Biosciences Health Research Corporation is comprised of one member appointed from each of the five founding universities; five members designated by the Virginia Secretary of Commerce and Trade, including one member from the Virginia Economic Development Partnership, one from the office of Commerce and Trade, two from major statewide health care system providers in Virginia and one from the U.S. Department of Veterans Affairs; one member from the private equity/venture capital community; and two members from life sciences companies. The university made contributions of $50,000 using private funds to the corporation for the fiscal year ended June 30, 2014.

Virginia Tech MARG Swarnabhoomi – India Trust

Founded to develop a university campus in MARG Swarnabhoomi, India, this trust has two members – Virginia Tech and New Chennai Township Private Limited, a wholly-owned subsidiary of MARG Limited. This trust will operate a university campus to deliver programs in India fostering graduate education as well as scientific and technological engagement through a model of collaborative research, education and outreach. The university expended approximately $140,000 in support of this venture in fiscal year 2014.

27. Jointly Governed Organizations

NRV Regional Water Authority

Created by a concurrent resolution of the university, the towns of Blacksburg and Christiansburg and joined by the county of Montgomery in fiscal year 2013, the authority operates and maintains the water supply system for the university and the other participating governing bodies. A six-member board governs the authority with one member appointed by each governing body and two at-large members appointed by the joint resolution of each of the governing bodies. The authority's indebtedness is not an obligation of the university and is payable solely from the revenues of the authority. The university paid $889,000 to the authority for the purchase of water for the fiscal year ended June 30, 2014.

Blacksburg - VPI Sanitation Authority

Created by a concurrent resolution of the university and the town of Blacksburg, the authority operates and maintains the wastewater treatment system for the participating governing bodies. Each participating governing body appoints one member of the five-member board of directors. Three at-large members are appointed by the joint resolution of each of the governing bodies. The authority's indebtedness is not an obligation of the university and is payable solely from the revenues of the authority. The university paid $828,000 to the authority for the purchase of sewer services in fiscal year 2014.

Montgomery Regional Solid Waste Authority

Created by a joint resolution of the university, the towns of Blacksburg and Christiansburg, and the county of Montgomery, the authority represents its members in solid waste and recycling issues as well as operating a recycling facility. The authority is governed by its board with each participating governing body appointing one board member, and all governing bodies jointly appointing the fifth at-large member. Each governing body provides collection of solid waste and recyclables from within its jurisdiction and delivers the collected materials to the authority for disposal of the waste, and the processing and marketing of the recyclables. All indebtedness is the obligation of the authority and payable from its revenues. The university paid $190,000 to the authority for tipping fees for the fiscal year ended June 30, 2014.

Virginia Tech/Montgomery Regional Airport Authority

Created by a joint resolution of the university, the towns of Blacksburg and Christiansburg, and the county of Montgomery, this authority serves to develop a regional airport based on the mission of servicing corporate executive markets and other general aviation markets; obtaining grants, loans and other funding for airport improvements and other activities; and in promoting and assisting in regional economic development. The authority is governed by its board, which consists of five members. Each participating governing body appoints one member of the board, and jointly all governing bodies appoint the fifth member. All indebtedness is the obligation of the authority and payable from its revenues. The university's funding commitment for fiscal year 2014 was $50,000, all of which Virginia Tech paid to the authority.

28. Pending Litigation

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

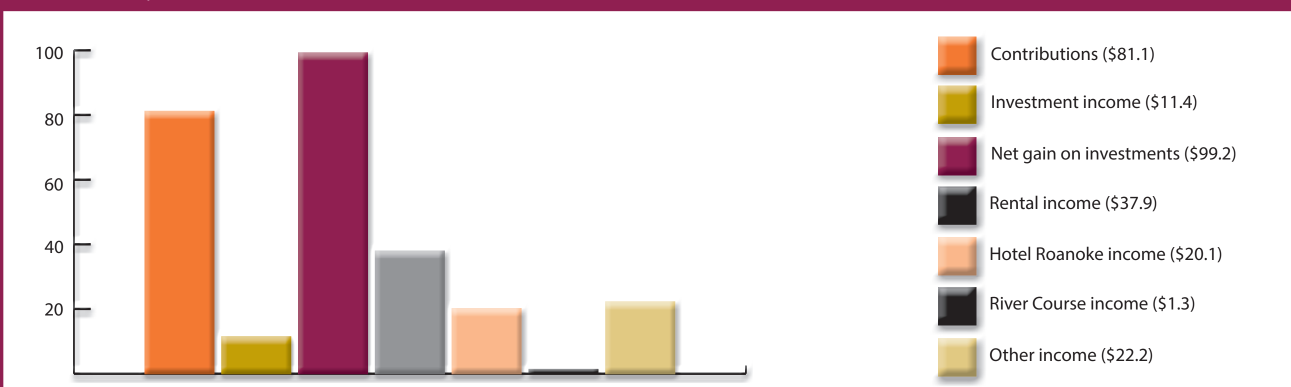
Supplementary Information

Virginia Tech Foundation Inc.

The purpose of Virginia Tech Foundation Inc. is to receive, invest and manage private funds given for the support of programs at Virginia Tech and to promote the growth, progress, and general welfare of the university. During the current fiscal year, the foundation recognized $81.1 million in contributions for support of the university. Investment income of $11.4 million, along with net gains on investments of $99.2 million, resulted in a $110.6 million net gain on investment activity. Property rental, hotel operating, and golf course income totaled $59.3 million. Other income accounted for $22.2 million.

Total income of $273.2 million was offset by $155.9 million in expenses to the university and its programs. Direct support to various university programs aggregated $99.7 million, which included $25.1 million in scholarship support to students and faculty, and $12.6 million towards university capital projects. Additional expenses such as fund-raising, management and general, research center, hotel operating, golf course, and other costs totaled $56.2 million. Total net position increased by $119.5 million over the previous year. The graphs below are categorized as presented in the audited financial statements for the foundation which follows the Financial Accounting Standards Board (FASB) presentation requirements.

Virginia Tech Foundation Inc. Revenues and Investment Gains
For the year ended June 30, 2014
(all dollars in millions)



Virginia Tech Foundation Inc. Expenses
For the year ended June 30, 2014
(all dollars in millions)

Affiliated Corporations Financial Highlights

For the years ended June 30, 2014-2010

(all dollars in thousands)

	2014	2013	2012	2011	2010
Assets					
Virginia Tech Foundation Inc.	$ 1,488,766	$ 1,302,619	$ 1,210,709	$ 1,155,100	$ 1,023,604
Virginia Tech Services Inc.	10,513	12,416	11,101	11,815	12,549
Virginia Tech Applied Research Corporation	5,128	5,557	4,323		
Virginia Tech Intellectual Properties Inc.	1,894	1,795	2,073	1,053	2,283
Total Assets	$ 1,506,301	$ 1,322,387	$ 1,228,206	$ 1,167,968	$ 1,038,436
Revenues					
Virginia Tech Foundation Inc.	$ 273,176	$ 225,897	$ 137,299	$ 242,235	$ 183,748
Virginia Tech Services Inc.	23,481	24,139	25,717	27,523	26,427
Virginia Tech Applied Research Corporation	8,184	2,765	434		
Virginia Tech Intellectual Properties Inc.	2,280	2,202	1,998	2,058	2,522
Total Revenues	$ 307,121	$ 255,003	$ 165,448	$ 271,816	$ 212,697
Expenses					
Virginia Tech Foundation Inc.	$ 155,857	$ 143,303	$ 134,916	$ 118,979	$ 124,365
Virginia Tech Services Inc.	23,451	24,047	25,631	27,513	26,384
Virginia Tech Applied Research Corporation	10,187	7,638	4,654		
Virginia Tech Intellectual Properties Inc.	2,169	2,162	1,954	2,276	1,911
Total Expenses	$ 191,664	$ 177,150	$ 167,155	$ 148,768	$ 152,660

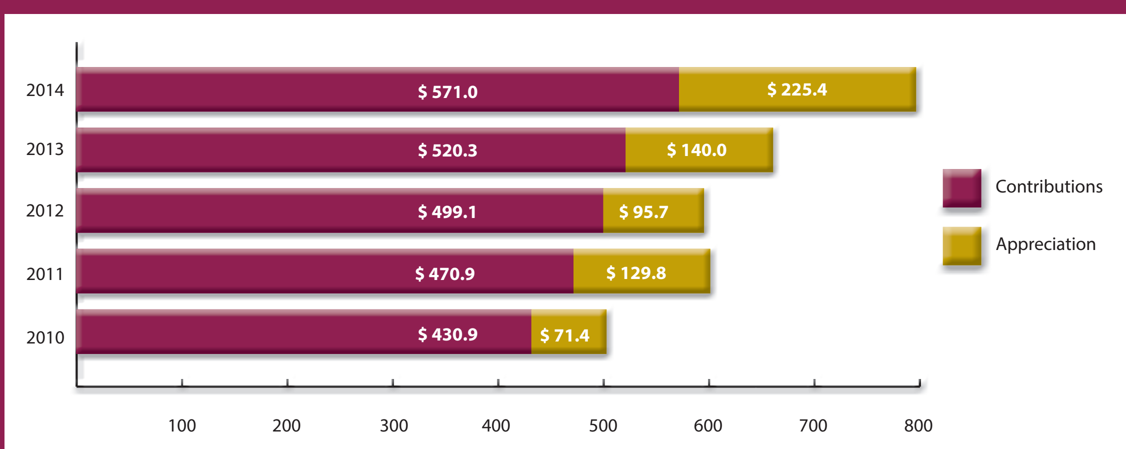
The organizations included above are related to the university by affiliation agreements. These agreements, approved by the Virginia Tech Board of Visitors, require an annual audit to be performed by independent auditors. These auditors have examined the financial records of the organizations presented in the table above and copies of their audit reports have been provided to the university. Values presented in this table are based solely upon these audit reports and do not include any consolidation entries to alter these amounts.

Affiliated organizations that hold no financial assets and certify all financial activities or transactions through the Virginia Tech Foundation Inc. may be exempt from the independent audit requirement. Virginia Tech Athletic Fund Inc., Virginia Tech Corps of Cadets Alumni Inc., Virginia Tech Alumni Association, and Virginia Tech Innovation Corporation meet exemption requirements and are not presented separately in this table.

Virginia Tech Foundation Inc. Endowment Market Value*

For the years 2014 - 2010

(all dollars in millions)



**Market value of Endowment Funds includes agency deposits held in trust of $110.3 million. (Source: Virginia Tech Investment Managers, unaudited)*

Consolidating Schedule Of Net Position

As of June 30, 2014
(all dollars in thousands)

	Current Funds		Loan	Endowment &	Plant	Agency	
	Unrestricted	Restricted	Funds	Similar Funds	Funds	Funds	Total
Assets							
Current assets							
Cash and cash equivalents	$ 269,553	$ 13,959	$ 1,884	$ -	$ -	$ 11,267	$ 296,663
Short-term investments	3,687	-	-	-	-	-	3,687
Accounts receivable, net	10,206	55,683	1	-	-	5,189	71,079
Notes receivable	-	-	1,811	-	-	-	1,811
Due from Commonwealth of Virginia	12,594	-	-	-	-	-	12,594
Inventories	11,203	-	-	-	-	-	11,203
Prepaid expenses	16,761	(56)	-	-	-	-	16,705
Due to (from) other funds	1,546	9,999	(70)	(513)	(10,962)	-	-
Total current assets	325,550	79,585	3,626	(513)	(10,962)	16,456	413,742
Noncurrent assets							
Cash and cash equivalents	-	-	-	-	59,555	-	59,555
Due from Commonwealth of Virginia	-	-	-	-	1,961	-	1,961
Accounts receivable, net	-	-	-	-	7,018	-	7,018
Notes receivable	5,901	-	14,132	-	-	-	20,033
Long-term investments	129,023	-	-	61,055	31,447	-	221,525
Depreciable capital assets, net	-	-	-	-	1,449,536	-	1,449,536
Nondepreciable capital assets	-	-	-	-	107,804	-	107,804
Other assets	825	-	-	-	131	-	956
Total noncurrent assets	135,749	-	14,132	61,055	1,657,452	-	1,868,388
Total assets	461,299	79,585	17,758	60,542	1,646,490	16,456	2,282,130
Deferred Outflows of Resources							
Deferred loss on debt defeasance	-	-	-	-	6,056	-	6,056
Liabilities							
Current liabilities							
Accounts payable and accrued liabilities	88,266	18,890	-	-	16,702	1,269	125,127
Accrued compensated absences	18,792	4,380	-	-	-	-	23,172
Unearned revenue	20,566	14,629	-	-	-	-	35,195
Funds held in custody for others	-	-	-	-	-	15,187	15,187
Commercial paper	-	-	-	-	11,205	-	11,205
Long-term debt payable	-	-	-	-	29,044	-	29,044
Total current liabilities	127,624	37,899	-	-	56,951	16,456	238,930
Noncurrent liabilities							
Accrued compensated absences	15,685	3,652	-	-	-	-	19,337
Federal loan program contributions	-	-	13,659	-	-	-	13,659
Long-term debt payable	-	-	-	-	477,069	-	477,069
Other liabilities	3,687	-	-	-	-	-	3,687
Total noncurrent liabilities	19,372	3,652	13,659	-	477,069	-	513,752
Total liabilities	146,996	41,551	13,659	-	534,020	16,456	752,682
Deferred Inflows of Resources							
Deferred gain on debt defeasance	-	-	-	-	1,260	-	1,260
Net Position							
Net investment in capital assets	-	-	-	-	1,054,954	-	1,054,954
Restricted, nonexpendable	-	-	-	356	-	-	356
Restricted, expendable							
Scholarships, research & instruction	-	38,034	4,099	60,186	-	-	102,319
Capital projects	-	-	-	-	2,895	-	2,895
Debt service and auxiliary operations	-	-	-	-	59,417	-	59,417
Unrestricted	314,303	-	-	-	-	-	314,303
Total net position	$ 314,303	$ 38,034	$ 4,099	$ 60,542	$ 1,117,266	$ -	$ 1,534,244

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

For the year ended, June 30, 2014

(all dollars in thousands)

	Current Funds		Loan	Endowment &	Plant	
	Unrestricted	Restricted	Funds	Similar Funds	Funds	Total
Operating Revenues						
Student tuition and fees	$ 380,846	$ 2,720	$ -	$ -	$ -	$ 383,566
Federal appropriations	-	15,123	-	-	-	15,123
Federal grants and contracts	48,452	173,568	-	-	688	222,708
Federal ARRA grants and contracts	-	3,399	-	-	-	3,399
State grants and contracts	941	11,729	-	-	-	12,670
Local grants and contracts	213	13,764	-	-	-	13,977
Nongovernmental grants and contracts	5,658	30,213	-	-	-	35,871
Sales and services of educational departments	16,231	48	-	-	-	16,279
Auxiliary enterprise revenue	223,224	4	-	-	-	223,228
Other operating revenues	7,851	2,741	48	-	-	10,640
Total operating revenues	683,416	253,309	48	-	688	937,461
Operating Expenses						
Instruction	290,901	7,851	-	-	-	298,752
Research	109,596	198,701	-	-	-	308,297
Public service	49,631	53,112	-	-	-	102,743
Academic support	77,173	2,208	-	-	-	79,381
Student services	13,664	1,188	-	-	-	14,852
Institutional support	49,896	7,460	-	-	787	58,143
Operation and maintenance of plant	69,941	14	-	-	11,534	81,489
Student financial assistance	91	12,151	-	-	-	12,242
Auxiliary enterprises	181,532	-	-	-	-	181,532
Depreciation and amortization	-	-	-	-	91,629	91,629
Other operating expenses	-	-	90	-	-	90
Total operating expenses	842,425	282,685	90	-	103,950	1,229,150
Operating Loss	(159,009)	(29,376)	(42)	-	(103,262)	(291,689)
Non-Operating Revenues (Expenses)						
State appropriations	215,931	27,662	-	-	-	243,593
Gifts	17,504	42,708	277	-	-	60,489
Non-operating grants and contracts	-	2,615	-	-	-	2,615
Federal student financial aid (PELL)	-	16,830	-	-	-	16,830
Investment income, net of investment expense	4,042	(1,115)	-	9,585	346	12,858
Other additions and deductions	-	-	-	-	684	684
Nongeneral fund reversion	-	-	-	-	-	-
Interest expense on debt for capital assets	-	-	-	-	(18,605)	(18,605)
Net non-operating revenues	237,477	88,700	277	9,585	(17,575)	318,464
Income (Loss) before Other Revenues, Expenses, Gains, or Losses	78,468	59,324	235	9,585	(120,837)	26,775
Capital appropriations	-	-	-	-	-	-
Capital grants and gifts	(645)	2,763	-	-	73,809	75,927
Loss on disposal of capital assets	-	-	-	-	(1,581)	(1,581)
Total other revenues, expenses, gains, losses	(645)	2,763	-	-	72,228	74,346
Increase (Decrease) in Net Position before Transfers	77,823	62,087	235	9,585	(48,609)	101,121
Mandatory transfers	(43,190)	(689)	-	-	43,879	-
Nonmandatory transfers	(34,616)	2,258	-	(255)	32,613	-
Equipment and library book transfers	(22,962)	(4,322)	-	-	27,284	-
Scholarship allowance transfer	54,599	(54,599)	-	-	-	-
Total transfers	(46,169)	(57,352)	-	(255)	103,776	-
Increase in Net Position after Transfers	31,654	4,735	235	9,330	55,167	101,121
Net position – beginning of year	282,649	33,299	3,864	51,212	1,062,099	1,433,123
Net position – end of year	$ 314,303	$ 38,034	$ 4,099	$ 60,542	$ 1,117,266	$ 1,534,244

Commonwealth of Virginia

Auditor of Public Accounts

Martha S. Mavredes, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

November 7, 2014

The Honorable Terence R. McAuliffe
Governor of Virginia

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

Board of Visitors
Virginia Polytechnic Institute and State University

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the business-type activities and aggregate discretely presented component units of **Virginia Polytechnic Institute and State University** as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated November 7, 2014. Our report includes a reference to other auditors. We did not consider internal controls over financial reporting or test compliance with certain provisions of laws, regulations, contracts, and grant agreements for the financial statements of the component units of the University, which were audited by other auditors in accordance with auditing standards generally accepted in the United States of America, but not in accordance with Government Auditing Standards.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

We discussed this report with management at an exit conference held on November 5, 2014.

Martha S. Mavredes

AUDITOR OF PUBLIC ACCOUNTS

JMR/clj

Business and Financial Leadership

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

Financial report prepared by
Office of the University Controller
Virginia Tech, Blacksburg, VA 24061

www.co.vt.edu/Financial_Reporting/financial_reporting