



# Annual Financial Report



For Fiscal Year Ended  
June 30, 2017

**VIRGINIA STATE UNIVERSITY  
ANNUAL FINANCIAL REPORT 2017 - 2016**

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## **MANAGEMENT'S RESPONSIBILITY FOR REPORTING AND INTERNAL CONTROLS**

The information in this Annual Financial Report, including the accompanying basic financial statements, notes, management's discussion and analysis, and other information is the responsibility of Virginia State University executive management. Responsibility for the accuracy of the financial information and fairness of its presentation, including all disclosures, rests with the management of the University. Management believes the information is accurate in all material respects and fairly presents the University's revenues, expenses, and changes in net position, as well as its overall financial position. This report was prepared in accordance with generally accepted accounting principles for public colleges and universities in the United States of America as prescribed by the Governmental Accounting Standards Board. Management is responsible for the objectivity and integrity of all representations herein. The Annual Financial Report includes all disclosures necessary for the reader of this report to gain a broad understanding of the University's operations for the year ended June 30, 2017.

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

The Finance, Audit and Facilities Committee of the Virginia State University Board of Visitors reviews the University's accounting practices. The Board meets with external independent auditors annually to review the Annual Financial Report and results of audit examinations. The Committee also meets with internal auditors and University financial officers quarterly. These meetings include a review of the scope, quality, and results of the internal audit program.

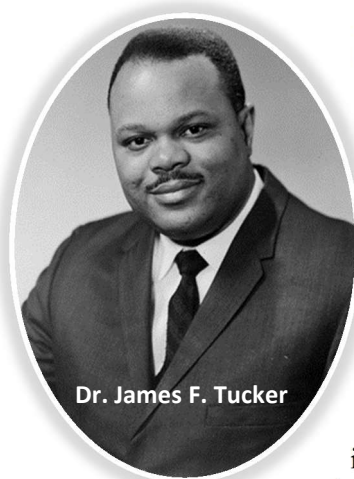
The Auditor of Public Accounts (APA), the office of the Commonwealth of Virginia's auditors, has examined these annual financial statements and their report appears on pages 59 through 61. Their examination includes a study and evaluation of the University's system of internal controls, financial systems, policies, and procedures, resulting in the issuance of a management letter describing various issues they consider worthy of management's attention. The University has implemented policies and procedures for the adequate and timely resolution of such issues. No material weaknesses were found on internal control matters by the APA for the fiscal year ended June 30, 2017.

# MANAGEMENT DISCUSSION AND ANALYSIS

(Unaudited)

## INTRODUCTION

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



Dr. James F. Tucker

**James Franklin Tucker** was born in 1925, and raised in Brooklyn, New York. Prior to his professional career, he was drafted into the Army during World War II, where he was awarded three bronze stars for his heroic achievements. After the war, he graduated magna cum laude from Howard University, an HBCU in Washington, D.C. with a degree in business administration. Mr. Tucker later earned a master's degree, and a doctorate in economics from the University of Pennsylvania. As a banker, author, college professor, and college president, he devoted his career to helping people understand finance. With his love of teaching and strong work ethic, James Tucker became the first African-American officer at the Federal Reserve Bank in Richmond, Virginia. In June 1968, Dr. Tucker was tapped to be the sixth president of *Virginia State College*. After nearly one hundred years of progress, *Virginia State College* became *Virginia State University* in 1979. Today, the University continues as one of two land grant institutions in the Commonwealth. As a land grant institution, the University engages in natural resource related research projects and agriculture extension services. Its mission is to promote and sustain academic programs that

integrate instruction, research, and extension/public service in a design most responsive to the needs and endeavors of individuals and groups within its scope of influence. The University consists of seven colleges, namely: the College of Agriculture, the Reginald F. Lewis College of Business, the College of Engineering and Technology, the College of Education, the College of Graduate Studies, the College of Humanities and Social Sciences, and the College of Natural and Health Sciences. These colleges provide 32 undergraduate degree programs, 15 master's degree programs, two doctoral degree programs, and three certificate programs. Students in the engineering programs conduct research on robotics and unmanned vehicles that will eventually enhance the Commonwealth of Virginia's economy by creating jobs in those areas. In addition, the University has partnerships with Fort Lee, Commonwealth Center for Advanced Manufacturing, and numerous other articulation agreements with industry, institutions of higher education, and other international entities. Virginia State University offers services through its land grant programs to small farmers across the Commonwealth of Virginia.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis provides an overview of the financial position and results of activities of Virginia State University for the fiscal year ended June 30, 2017. Prepared by management, the overview should be read in conjunction with the financial statements and footnotes that follow this section. Comparative information for the fiscal year ended June 30, 2016 has been provided where applicable. The financial statements were prepared in accordance with applicable pronouncements and statements of the Governmental Accounting Standards Board (GASB), which establishes principles and standards for external reporting for colleges and universities.

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

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



These principles require the financial statements be prepared with resources classified for accounting and reporting purposes into the following net position categories: Current Assets, Noncurrent Assets, and Deferred Outflows of Resources; Current Liabilities, Noncurrent Liabilities and Deferred Inflows of Resources. Please note, the University's foundations identified as discrete component units under GASB Statement 39, *Determining Whether Certain Organizations are Component Units* and GASB 61 *The Financial Reporting Entity: Omnibus*, are reported in the component unit column of the financial statements, and this Management Discussion and Analysis excludes reference to the discrete foundations, except where specifically noted. Alternately, the amounts reported by the foundation identified as blended are included with the amounts reported by the University. See Note 1.A. for details regarding the University's foundations.

## STATEMENT OF NET POSITION

The Statement of Net Position (SNP) presents the financial position of the University at the end of the fiscal year and includes all assets, deferred outflows of resources, liabilities and deferred inflows of resources of the University. Net position is the difference between the total assets and deferred outflows of resources less liabilities and deferred inflows of resources. It is one indicator of the current financial condition of the University, while the changes in net position suggest whether the overall financial condition of the University has improved or worsened during the year. Categories of the SNP are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less an allowance for depreciation. For FY2017, the University's total net position increased by \$14.1 million or 7.2% over the previous fiscal year.

Total assets and deferred outflows of resources increased by \$6.9 million or 1.8% when compared to last year. Currents assets increased by \$2.3 million during FY2017 or 7.4 %. Current assets are comprised of cash and cash equivalents, short term investments, accounts, notes and loans receivable, due from the commonwealth and affiliates, prepaid expenses, and securities lending. This was mostly due to a \$3.9 million increase in cash and a \$1.7 million decrease in Due from the Commonwealth.

Noncurrent assets increased by \$1.6 million during FY2017, or 0.5%. Noncurrent assets are comprised of restricted cash and cash equivalents, state appropriations available, investments, notes receivable, and capital assets net of depreciation. Investments increased by \$3.1 million due to market performance. This was offset by a net decrease in capital assets of \$1.0 million and a \$575 decline in restricted cash.

The University also had an increase of \$2.9 million in deferred outflows of resources. This was the result of a rise in costs related to unfunded pension liability of \$3.3 million, offset by a decline in loss of refunding of debts of \$360 thousand.

During FY2017, total liabilities and deferred inflows of resources decreased by \$7.2 million or 3.8%. Total liabilities are comprised of current and noncurrent liabilities. Current liabilities decreased by \$3.5 million. Current liabilities include accounts payable and other accrued liabilities, due to federal government, unearned revenues, obligations under securities lending, deposits held in custody, the current portion of long-term liabilities, and retainage payable. The change was primarily attributable to a reclassification of a \$3.3 million due to the federal government from current liabilities to noncurrent liabilities.

Noncurrent liabilities decreased by \$3.3 million or 2.0% during FY2017. Noncurrent liabilities consist of noncurrent portion of long-term liabilities (bonds, notes payable, installment purchase obligations, pension, compensated absences, federal Perkins loans, and software license agreements). The decrease in noncurrent liabilities was primarily due to the \$3.3 million reclassification of due to the federal government and an \$861 thousand increase in the unfunded pension liability, offset by scheduled debt payments of \$7.3 million. Total deferred inflows of resources declined by \$445 thousand, mostly due to the unfunded pension liability.

A summary of the University's assets, deferred outflows of resources, liabilities, and deferred inflows of resources and net position at June 30, 2017 and 2016 follows:

Summary of the Statement of Net Position	Year Ended June 30,		Increase/(Decrease)	
	2017	2016	Amount	Percent
Assets:				
Current assets	\$ 33,700,252	\$ 31,375,656	\$ 2,324,596	7.4%
Noncurrent assets:				
Restricted cash and cash equivalents	7,722,150	8,297,036	(574,886)	(6.9)%
State appropriations available	494,993	395,760	99,233	25.1%
Investments	36,209,548	33,110,157	3,099,391	9.4%
Capital assets, net	302,547,406	303,589,300	(1,041,894)	(0.3)%
Other	2,036,630	2,015,621	21,009	1.0%
Total noncurrent assets	349,010,727	347,407,874	1,602,853	0.5%
Total assets	382,710,979	378,783,530	3,927,449	1.0%
Deferred outflows of resources	12,191,571	9,245,744	2,945,827	31.9%
Total assets & deferred outflows of resources	394,902,550	388,029,274	6,873,276	1.8%
Liabilities:				
Current liabilities	20,055,960	23,517,030	(3,461,070)	(14.7)%
Noncurrent liabilities	158,815,019	162,116,121	(3,301,102)	(2.0)%
Total liabilities	178,870,979	185,633,151	(6,762,172)	(3.6)%
Deferred inflows of resources	5,185,524	5,630,828	(445,304)	(7.9)%
Total liabilities & deferred inflows of resources	184,056,503	191,263,979	(7,207,476)	(3.8)%
Net position:				
Net investment in capital assets	214,244,379	209,335,911	4,908,468	2.3%
Restricted:				
Nonexpendable	8,922,946	8,784,692	138,254	1.6%
Expendable	28,079,737	25,195,009	2,884,728	11.4%
Unrestricted	(40,401,015)	(46,550,317)	6,149,302	13.2%
Total net position	\$ 210,846,047	\$ 196,765,295	\$ 14,080,752	7.2%

## STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

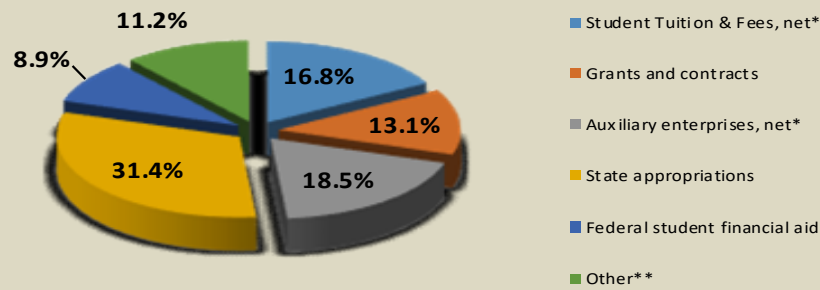
The Statement of Revenues, Expenses, and Changes in Net Position present the University's results of activities for the fiscal year. Presented below is a summarized statement of the University's Revenues, Expenses, and Changes in Net Position for the years ended June 30, 2017 and 2016.

Summary of the Statement of Revenues, Expenses and Changes in Net Position	Year Ended June 30,		Increase/(Decrease)	
	2017	2016	Amount	Percent
Operating revenues	\$ 74,005,051	\$ 63,077,697	\$ 10,927,354	17.3%
Operating expenses	135,610,024	129,643,316	5,966,708	4.6%
Operating income/(loss)	(61,604,973)	(66,565,619)	4,960,646	7.5%
Nonoperating revenues/(expenses):				
State appropriations	47,001,221	45,777,710	1,223,511	2.7%
Federal student aid	13,323,441	13,428,694	(105,253)	(0.8)%
Other nonoperating revenues/(expenses)	2,479,450	(2,550,299)	5,029,749	197.2%
Net nonoperating revenues/(expenses)	62,804,112	56,656,105	6,148,007	10.9%
Income/(loss) before other revenues and reductions	1,199,139	(9,909,514)	11,108,653	112.1%
Other revenues:				
Capital grants and gifts	1,079,474	1,111,920	(32,446)	(2.9)%
State appropriations capital projects	-	341,766	(341,766)	(100.0)%
Additions/(reductions) to permanent endowments	667,015	564,662	102,353	18.1%
VCBA 21st Century bond reimbursement program	11,135,124	28,786,129	(17,651,005)	(61.3)%
Total other revenues	12,881,613	30,804,477	(17,922,864)	(58.2)%
Total increase/(decrease) in net position	14,080,752	20,894,963	(6,814,211)	(32.6)%
Net position, beginning of year	196,765,295	175,870,332	20,894,963	11.9%
Net position, end of year	\$ 210,846,047	\$ 196,765,295	\$ 14,080,752	7.2%

As shown in the table above, there was an increase in net position of \$14.1 million or 7.2% in FY2017 as opposed to an increase of \$20.9 million in the previous year's statement. The net operating loss decreased by \$5.0 million or 7.5%, over FY2016. Net nonoperating revenues and expenses increased by \$6.1 million or 10.9% and total other revenues decreased by \$17.9 million or 58.2%, in FY2017. Revenues and expenses will be discussed in further detail in the following sections.



A summary of the University's revenues for the years ended June 30, 2017 and 2016 appears below:



### Summary of Revenues

For the years ended June 30, 2017 and 2016

			Increase/(Decrease)	
	2017	2016	Amount	Percent
Operating revenues:				
Student tuition and fees, net*	\$ 25,210,716	\$ 23,908,615	\$ 1,302,101	5.4%
Grants and contracts	19,656,544	14,595,886	5,060,658	34.7%
Auxiliary enterprises, net*	27,759,938	23,773,811	3,986,127	16.8%
Other operating revenue**	1,377,853	799,385	578,468	72.4%
Total operating revenues	74,005,051	63,077,697	10,927,354	17.3%
Nonoperating revenues/(expenses):				
State appropriations	47,001,221	45,777,710	1,223,511	2.7%
Federal student financial aid	13,323,441	13,428,694	(105,253)	(0.8)%
Other revenues/(expenses) net**	2,479,450	(2,550,299)	5,029,749	197.2%
Total nonoperating revenues	62,804,112	56,656,105	6,148,007	10.9%
Other revenues/(expenses):				
Capital grants and gifts**	1,079,474	1,111,920	(32,446)	(2.9)%
State appropriations capital projects**	-	341,766	(341,766)	(100.0)%
Additions to permanent endowment**	667,015	564,662	102,353	18.1%
Other capital revenues**	11,135,124	28,786,129	(17,651,005)	(61.3)%
Total other revenues/(expenses)	12,881,613	30,804,477	(17,922,864)	(58.2)%
Total revenues	\$ 149,690,776	\$ 150,538,279	\$ (847,503)	(0.6)%

\* Net of scholarship allowance

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

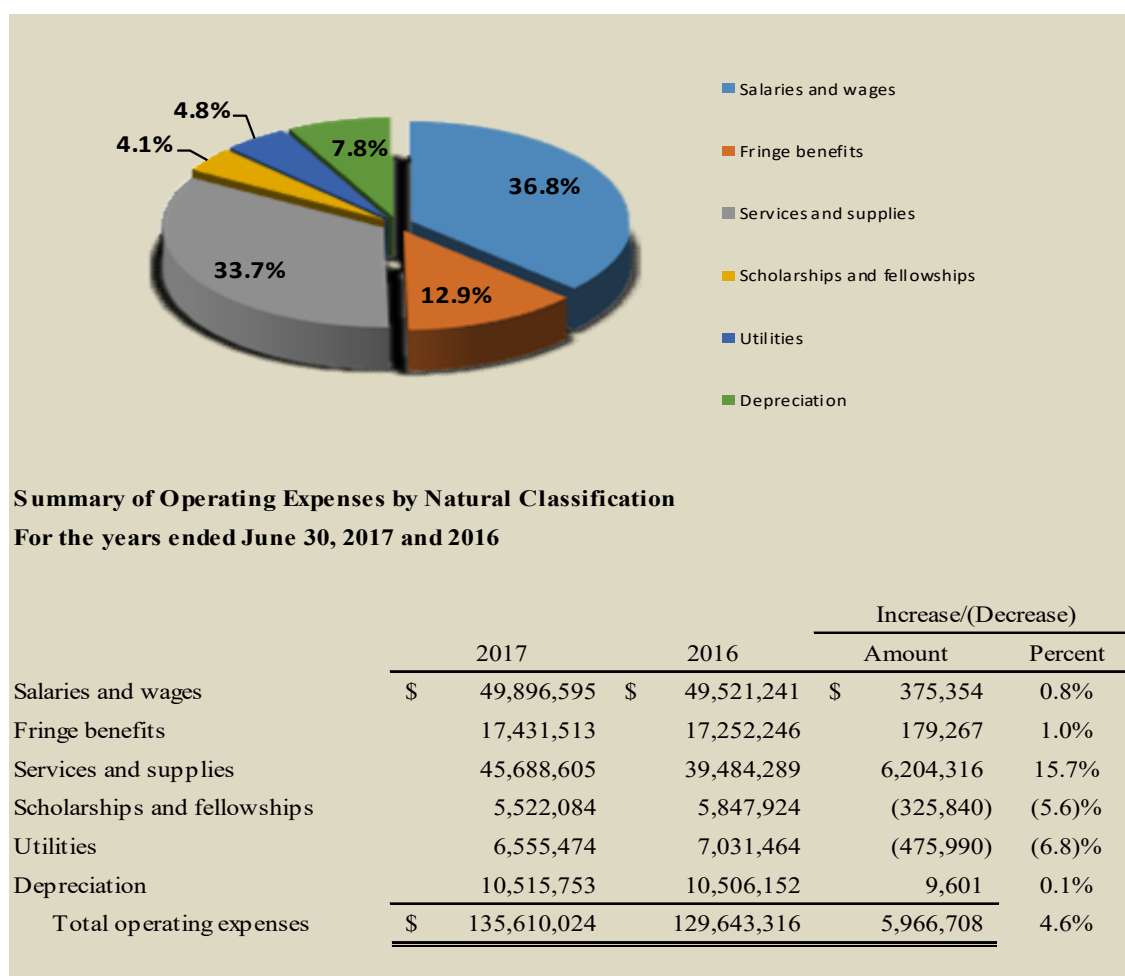
Total operating revenues increased by \$10.9 million in FY2017 to \$74.0 million from \$63.1 million in the previous year, an increase of 17.3%. As shown in the chart above, there were increases in operating revenues from grants and contracts of \$5.1 million, auxiliary enterprises of \$4.0 million, other operating revenues of \$578 thousand, and student tuition and fees of \$1.3 million.

For the fiscal year, total nonoperating revenues increased by \$6.1 million. This was mainly due to an increase of \$5.0 million in net other nonoperating revenues/expenses and an additional \$1.2 million in state appropriations.

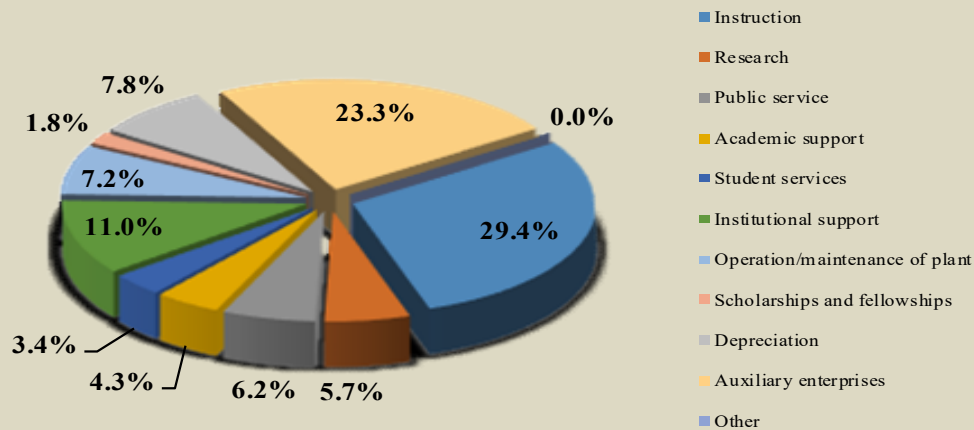
Other revenues decreased by \$17.9 million. This was almost entirely due to a \$17.7 million decline in revenue from 21<sup>st</sup> Century bond program reimbursements.

## SUMMARY OF EXPENSES

Total operating expenses rose by \$6.0 million in FY2017 compared to the previous fiscal year. This represents a 4.6% increase. Comparative summaries of the University's operating expenses by both natural classification and function for the years ended June 30, 2017 and 2016 appear below.



The total increase in operating expenses was mostly attributable to a rise in services and supplies of \$6.2 million. There were also increases in personal services of \$555 thousand and reductions of \$476 thousand for utilities and \$326 thousand for scholarships and fellowships.



**Summary of Operating Expenses by Function  
For the years ended June 30, 2017 and 2016**

	2017	2016	Increase/(Decrease)	
			Amount	Percent
Operating expenses:				
Instruction	\$ 39,810,869	\$ 37,889,098	\$ 1,921,771	5.1%
Research	7,687,826	6,548,726	1,139,100	17.4%
Public service	8,370,073	7,908,274	461,799	5.8%
Academic support	5,846,516	5,009,174	837,342	16.7%
Student services	4,653,109	3,929,499	723,610	18.4%
Institutional support	14,902,461	15,460,265	(557,804)	(3.6)%
Operation/maintenance of plant	9,793,455	11,690,799	(1,897,344)	(16.2)%
Scholarships and fellowships	2,410,658	2,595,891	(185,233)	(7.1)%
Depreciation	10,515,753	10,506,152	9,601	0.1%
Auxiliary enterprises	31,619,304	28,053,956	3,565,348	12.7%
Other	-	51,482	(51,482)	(100.0)%
Total operating expenses	\$ 135,610,024	\$ 129,643,316	\$ 5,966,708	4.6%

By function, expenses rose by \$3.6 million for auxiliary enterprises due to increases in bad debt expenses of \$1.5 million, skilled services of \$795 thousand, utilities of \$301 thousand, and scholarships and fellowships of \$542 thousand. Expenses for Instruction increased by \$1.9 million, primarily as a result of grant related skilled services expenses of \$1.8 million. Research expenses grew by \$1.1 million mainly due to an increase of \$803 thousand for the VSU Research Foundation and a \$466 thousand increase for salaries and wages. An \$841 thousand reclassification of the University's technology fee from institutional support to academic support caused an increase in expenses for academic support. Student services expenses rose by \$724 thousand due to increases in personal services of \$266 thousand and supplies and services of \$457 thousand. In contrast, there was a decrease in expenditures for operation and maintenance of plant of \$1.9 million. The largest factor was a \$791 thousand decrease in utilities due to some decline in prices for commodities in addition to a greater utilization of building

automation controls. The University also had decreases for management services of \$199 thousand, maintenance reserve of \$168 thousand, and a change in accruals related to payables of \$600 thousand.

## STATEMENT OF CASH FLOWS

The Statement of Cash Flows (SCF) is concerned with the flow of cash in and out of the University. The SCF shows changes in the Statement of Net Position (SNP) accounts and the income affect for cash and cash equivalents. GASB principles define four major categories of cash flows: cash flows from operating activities, cash flows from noncapital financing activities, cash flows from capital and related financing activities, and cash flows from investing activities. In addition, it captures both the current operating results and the accompanying changes in the SNP. These cash flows are crucial to funding the operation of the University. From FY16 to FY17 the University's SCF shows a \$3.4 million increase in cash and cash equivalents.

Statement of Cash Flows	Year Ended June 30,		Increase/(Decrease)	
	2017	2016	Amount	Percent
Cash flows from:				
Operating activities	\$ (53,974,385)	\$ (55,387,563)	\$ 1,413,178	2.6%
Noncapital financing activities	62,947,337	61,160,202	1,787,135	2.9%
Capital and related financing activities	(6,329,812)	(7,601,647)	1,271,835	16.7%
Investing activities	716,344	306,556	409,788	133.7%
Net increase/(decrease) in cash and cash equivalents	3,359,484	(1,522,452)	4,881,936	320.7%
Cash and cash equivalents, beginning of year	29,869,535	31,391,987	(1,522,452)	(4.8)%
Cash and cash equivalents, end of year	\$ 33,229,019	\$ 29,869,535	\$ 3,359,484	11.2%

Overall, there was a \$1.4 million decrease in net cash used by operating activities in FY2017. This mainly resulted from increases in cash flows provided by auxiliary enterprises of \$5.2 million and other receipts of \$3.0 million. This was offset by an increase in payments to suppliers of \$5.1 million and a \$1.8 million decrease in cash from tuition and fees.

Cash provided by noncapital financing activities grew by \$1.8 million. This was due to \$1.1 million more in state appropriations and increases in cash provided by other nonoperating revenues of \$610 thousand.

There was a \$1.3 million decrease in cash used for capital and related financing activities in FY2017. This was primarily the result of decreases in cash used for the purchase of capital assets of \$20.2 million, offset by \$19.0 million decline in cash received for the 21<sup>st</sup> Century Bond program.

The last major category on the statement of cash flow is investing activities. In total, net cash provided by investing activities went up by \$410 thousand. Investment income rose by \$4.4 million and there was also a decrease in the purchase of investments of \$239 thousand. This was offset by a decline in proceeds from sales and maturities of investments of \$4.3 million.

## CAPITAL AND DEBT ACTIVITIES

The University continues to invest in capital assets in accordance with its master plan, modernizing its current and older facilities, purchasing new equipment and building new facilities.

Capital assets, net of depreciation, decreased by \$1.0 million in FY2017. VSU had a \$5.9 million net increase in construction in progress mostly due to work on Lockett Hall. There was a decrease in buildings, net of accumulated depreciation, of \$6.1 million. Overall, buildings increased by \$1.0 million due to improvements to

Moore Hall of \$1.1 million, Howard Quad of \$319 thousand, and the Multipurpose Center of \$248 thousand. This was offset by the demolition of Puryear Hall of \$741 thousand. Equipment purchases were \$1.3 million and infrastructure increased by \$425 thousand due to additional work on the water tower. Depreciation expense for the year totaled \$10.5 million.

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

As of June 30, 2017, the University had \$96.0 million in outstanding long-term debt. This debt consists of \$88.9 million of general obligation bonds, \$5.8 million of notes payable, and \$1.3 million of installment purchase obligations. Long-term debt decreased by \$7.3 million. This is the result of making debt payments throughout the year while not issuing any new debt in FY2017.

### **FUTURE ECONOMIC OUTLOOK:**

The continued success and viability of the University first and foremost depends on its ability to recruit and retain students. A large percentage of the University's students rely on some form of financial aid such as scholarships, grants or student loans, to be able to attend. As a result of less aid being available, it is increasingly difficult for these students to be able to afford a college education. The University plans to continue its efforts towards making college affordable for its students by continuing to hold its tuition and fee increases to a minimum. The 3% tuition increase approved in FY17 is among the lowest at four-year institutions in Virginia. Furthermore, the University has the lowest tuition and mandatory E&G fees for both full-time, in-state and out-of-state undergraduate students at four-year institutions in Virginia.

The University is taking proactive steps to improve in a number of areas including: student retention, first-year experience, advising, teaching pedagogy, and technology among others. Specifically, the University has invested significant resources into the establishment of the Academic Center for Excellence (ACE). An expanded staff of full-time advisors works directly with students in this uniquely designed space to provide needed resources and guidance to students in order to assist them in attaining their academic and professional objectives. Furthermore, the University has established a new Welcome Center in its new state of the art Multi-purpose Center. The new Welcome Center is intended to help the University with its existing recruitment efforts. Current plans to further improve recruitment and retention involve the establishment of a new "One-Stop Shop" to streamline all onboarding processes for new students and the development of adaptable financial aid analytical tools to maximize the impact of its student financial aid dollars.

Public financial support is an essential revenue source of the University. However, due to uncertainties regarding the exact extent to which public support will continue to be available, the University continues to take proactive measures in searching for additional private financial support to help VSU take the next steps toward success. This additional financial assistance will help provide the competitive edge that assists in attracting quality faculty, recruiting the brightest students, and in developing mutually beneficial relationships with business and industry. Since the needs of the University change frequently, VSU will actively seek unrestricted gifts which provide the greatest flexibility in channeling resources to the areas of greatest need.

Prudent financial practices also play a key role in the continued success and viability of the University. During FY 17, the University established reserve targets for auxiliary reserves as a key component of the president's Key Performance Indicators (KPI's). The reserve is intended to cover debt service obligations for one year, future working capital needs, reserves for renewal and replacement and reserves for major renovations. Also as a part of the president's KPI's – the University utilizes the Composite Financial Index (CFI) and its four component ratios as supplementary tools for monitoring its financial performance and strength. The CFI serves as an additional means of confirmation that the amount of resources that University directs towards its mission are well within sustainable levels.

The University currently carries a level of debt that is consistent with its policies and mission. For FY17, debt service was 7.7% of total operating expenses. The majority of the University's debt is backed revenue-producing capital projects, as non-revenue backed debt accounted for only 0.9% of total operating expenses.





# Virginia State University

## FINANCIAL STATEMENTS



## STATEMENT OF NET POSITION

As of June 30, 2017 (with comparative financial information as of June 30, 2016)

	2017		2016	
	Virginia State University	Component Units	Virginia State University	Component Units
<b>ASSETS &amp; DEFERRED OUTFLOWS OF RESOURCES</b>				
Current assets:				
Cash and cash equivalents (Note 2)	\$ 25,506,869	\$ 4,034,020	\$ 21,572,499	\$ 4,052,762
Cash and cash equivalents - Securities Lending (Note 2)	-	-	112,983	-
Accounts and loans receivable, net of allowance (Note 3)	3,685,584	53,060	3,482,068	784,003
Due from the Commonwealth (Note 3)	1,642,339	-	3,315,980	-
Prepaid expenses	2,865,460	4,384	2,890,545	5,635
Notes receivable, net of allowance (Note 3)	-	-	1,581	-
Total current assets	33,700,252	4,091,464	31,375,656	4,842,400
Noncurrent assets:				
Restricted cash and cash equivalents (Note 2)	7,722,150	3,457,521	8,297,036	2,830,260
Restricted investments (Note 2)	3,057,421	27,000	2,375,688	366,244
Endowment investments (Note 2)	30,089,101	13,948,400	28,384,142	12,518,338
State appropriation available	494,993	-	395,760	-
Notes receivable, net of allowance (Note 3)	2,031,396	-	2,015,621	-
Other long-term investments (Note 2)	3,063,026	-	2,350,327	-
Other noncurrent	5,234	-	-	80,150
Non depreciable capital assets (Note 4)	32,129,547	542,828	26,195,701	542,828
Depreciable capital assets, net (Note 4)	270,417,859	6,975,494	277,393,599	7,578,233
Total noncurrent assets	349,010,727	24,951,243	347,407,874	23,916,053
Total assets	382,710,979	29,042,707	378,783,530	28,758,453
Deferred outflows of resources: (Note 1.O)				
Pension related	9,434,522	-	6,128,485	-
Loss on refunding of debt	2,757,049	-	3,117,259	-
Total deferred outflows of resources	12,191,571	-	9,245,744	-
Total assets and deferred outflows of resources	394,902,550	29,042,707	388,029,274	28,758,453
<b>LIABILITIES &amp; DEFERRED INFLOWS OF RESOURCES</b>				
Current liabilities:				
Accounts payable and accrued liabilities (Note 5)	8,222,223	132,776	8,129,476	76,844
Due to federal government	96,606	-	3,765,590	-
Unearned revenue	1,893,095	62,345	2,191,942	46,324
Retainage payable	78,333	-	351,875	-
Obligations under securities lending	-	-	112,983	-
Deposits held in custody of others	1,281,297	57,600	1,347,519	53,550
Long-term liabilities-current portion (Notes 6 and 7)	8,177,759	900,000	7,522,986	850,000
Other current liabilities	306,647	46,022	94,659	53,645
Total current liabilities	20,055,960	1,198,743	23,517,030	1,080,363
Long-term liabilities - noncurrent (Notes 6 and 7)	158,815,019	17,876,293	162,116,121	19,382,972
Total liabilities	178,870,979	19,075,036	185,633,151	20,463,335

## STATEMENT OF NET POSITION

As of June 30, 2017 (with comparative financial information as of June 30, 2016) (continued)

	2017		2016	
	Virginia State University	Component Units	Virginia State University	Component Units
Deferred inflows of resources: (Note 1.O)				
Pension related	5,174,000	-	5,617,000	-
Gain on refunding of debt	11,524	-	13,828	-
Total deferred inflows of resources	5,185,524	-	5,630,828	-
Total liabilities and deferred inflows of resources	\$ 184,056,503	\$ 19,075,036	\$ 191,263,979	\$ 20,463,335
<b>NET POSITION</b>				
Net investment in capital assets	\$ 214,244,379	\$ (8,307,055)	\$ 209,335,911	\$ (8,548,789)
Restricted for:				
Nonexpendable:				
Scholarships and fellowships	5,094,550	11,712,901	4,971,784	10,992,662
Instruction	3,266,660	-	3,253,689	-
Other	561,736	-	559,219	-
Expendable:				
Scholarships and fellowships*	24,888,158	3,982,020	23,202,814	3,162,497
Instruction*	1,221,337	-	722,889	-
Loans	1,055,552	-	943,467	-
Capital projects	419,487	-	-	-
Other*	495,203	-	325,839	-
Unrestricted*	(40,401,015)	2,579,805	(46,550,317)	2,688,748
<b>Total net position</b>	<b>\$ 210,846,047</b>	<b>\$ 9,967,671</b>	<b>\$ 196,765,295</b>	<b>\$ 8,295,118</b>

\*These 2016 University amounts have been restated to conform with GASB 34 (See Note 1.P.)

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

# STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the year ended June 30, 2017 (with comparative financial information for the year ended June 30, 2016)

	2017		2016	
	Virginia State University	Component Units	Virginia State University	Component Units
Operating revenues:				
Student tuition and fees (net of scholarship allowance of \$12,210,395)	\$ 25,210,716	\$ -	\$ 23,908,615	\$ -
Federal grants and contracts	16,518,843	-	13,783,245	-
State and local grants and contracts	3,137,701	-	812,641	-
Auxiliary enterprises (net of scholarship allowance of \$16,385,379)	27,759,938	-	23,773,811	-
Other operating revenues	1,377,853	2,589,142	799,385	2,837,953
Total operating revenues	74,005,051	2,589,142	63,077,697	2,837,953
Operating expenses: (Note 9)				
Instruction	39,810,869	-	37,889,098	-
Research	7,687,826	-	6,548,726	-
Public service	8,370,073	-	7,908,274	-
Academic support	5,846,516	-	5,009,174	-
Student services	4,653,109	-	3,929,499	-
Institutional support	14,902,461	2,446,107	15,460,265	1,746,924
Operation and maintenance of plant	9,793,455	-	11,690,799	-
Scholarships and fellowships	2,410,658	-	2,595,891	-
Depreciation	10,515,753	610,426	10,506,152	610,670
Auxiliary enterprises	31,619,304	-	28,053,956	-
Other	-	-	51,482	-
Total operating expenses	135,610,024	3,056,533	129,643,316	2,357,594
Operating income/(loss)	(61,604,973)	(467,391)	(66,565,619)	480,359
Nonoperating revenues/(expenses):				
State appropriations (Note 8)	47,001,221	-	45,777,710	-
Gifts	657,574	1,968,549	538,929	1,984,457
Investment income/(expense)	3,815,735	2,137,846	(628,955)	(39,291)
Interest on indebtedness	(3,457,988)	(835,158)	(3,308,339)	(800,476)
Loss on disposal of assets	(46,512)	-	(5,325)	-
Federal student financial aid	13,323,441	-	13,428,694	-
Other nonoperating revenues	2,681,386	22,230	1,384,380	17,089
Other nonoperating expenses	(1,170,745)	(1,060,493)	(530,989)	(288,373)
Net nonoperating revenues/(expenses)	62,804,112	2,232,974	56,656,105	873,406
Income/(loss) before other revenues	1,199,139	1,765,583	(9,909,514)	1,353,765
Other revenues/(expenses):				
Capital grants and gifts	1,079,474	-	1,111,920	-
State appropriations capital projects (Note 8)	-	-	341,766	-
Additions to permanent endowments	667,015	-	564,662	-
VCBA 21st Century bond reimbursement program	11,135,124	-	28,786,129	-
Total other revenues/(expenses)	12,881,613	-	30,804,477	-
Increase/(decrease) in net position	14,080,752	1,765,583	20,894,963	1,353,765
Net position, beginning of year	196,765,295	8,202,088	175,870,332	6,941,353
Net position, end of year	\$ 210,846,047	\$ 9,967,671	\$ 196,765,295	\$ 8,295,118

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





## STATEMENT OF CASH FLOWS

As of June 30, 2017 (with comparative financial information as of June 30, 2016)

	2017	2016
Cash flows from operating activities:		
Tuition and fees	\$ 24,896,951	\$ 26,712,082
Grants and contracts	18,551,169	17,487,560
Auxiliary enterprises	27,492,417	22,315,361
Departmental sales and services, and other revenues	2,658,756	(340,507)
Payments to employees*	(67,046,939)	(67,836,339)
Payments for employee fringes and pension benefits*	(2,888,037)	-
Payments to suppliers	(45,753,704)	(40,570,908)
Payments for utilities	(6,555,474)	(7,031,464)
Payments for scholarships and fellowships	(5,522,084)	(5,847,924)
Loans issued to students	(218,200)	(213,023)
Collection of loans from students	204,006	213,939
Other payments	206,754	(276,340)
Net cash provided/(used) by operating activities	(53,974,385)	(55,387,563)
Cash flows from noncapital financing activities:		
State appropriations	46,901,988	45,779,996
Direct lending receipts	43,434,208	41,696,983
Direct lending disbursements	(43,434,208)	(41,696,983)
Gifts	1,324,589	1,103,591
Federal student financial aid	13,323,441	13,428,694
Other nonoperating revenue	1,463,541	853,390
Funds held in custody of others - receipts	4,470,034	4,410,646
Funds held in custody of others - disbursements	(4,536,256)	(4,416,115)
Net cash provided/(used) by noncapital financing activities	62,947,337	61,160,202
Cash flows from capital financing activities:		
Capital appropriations	-	-
Capital gifts and grants	1,079,474	1,111,920
VCBA 21st Century bond reimbursement program	12,808,765	31,788,438
Interest paid on capital debt, leases, and installments	(3,441,210)	(3,319,133)
Principal paid on capital debt, leases, and installments	(7,343,138)	(7,521,881)
Principal received on capital debt, leases, and installments	360,210	360,210
Purchase of capital assets	(9,793,913)	(30,021,201)
Net cash provided/(used) by capital financing activities	(6,329,812)	(7,601,647)
Cash flows from investing activities:		
Investment income	3,815,735	(628,955)
Proceeds from sales and maturities of investments	(2,350,711)	1,923,654
Purchase of investments	(748,680)	(988,143)
Net cash provided/(used) by investing activities	716,344	306,556
Net increase/(decrease) in cash	3,359,484	(1,522,452)
Cash and cash equivalents - beginning of the year	29,869,535	31,391,987
<b>Cash and cash equivalents - end of year</b>	<b>\$ 33,229,019</b>	<b>\$ 29,869,535</b>

\*The line item Payments for employee fringes and pension benefits of \$(2,888,037) is a new line item for FY2017. In FY2016 \$(4,410,000) was included in the line item Payments to employees for these fringes and pension benefits.

## STATEMENT OF CASH FLOWS

As of June 30, 2017 (with comparative financial information as of June 30, 2016) (continued)

	2017	2016
Reconciliation of Net Operating Loss to Net cash used by Operating Activities:		
Operating income/(loss)	\$ (61,604,973)	\$ (66,565,619)
Adjustments to reconcile net cash used by operating activities:		
Depreciation expense	10,515,753	10,506,152
Changes in assets & deferred outflows and liabilities & deferred inflows:		
Receivables	(203,516)	(149,220)
Prepaid items	25,085	(826,347)
Other assets	(5,234)	-
Accounts payable	92,747	(283,311)
Less: Interest payable	30,322	10,794
Due to Federal Government	(3,668,984)	3,765,590
Unearned revenue	(298,847)	(519,572)
Other liabilities	211,988	4,133,660
Long term liabilities	3,833,505	-
Net loans	(14,194)	916
Pension liability	861,000	-
Deferred outflows of resources (pension related)	(3,306,037)	(868,606)
Deferred inflows of resources (pension related)	(443,000)	(4,592,000)
<b>Net cash provided/(used) by operating activities</b>	<b>\$ (53,974,385)</b>	<b>\$ (55,387,563)</b>
Noncash investing, capital and financing activities:		
Securities lending	-	112,983
Change in fair value of investments	1,837,694	(2,392,265)
Change in accounts receivable related to non-operating income	(1,673,641)	(3,002,309)
Change in accounts payable related to non-operating expense	30,322	10,794
Amortization of bond premium/discount and gain/loss on debt refunding	585,969	761,893
Gain/(loss) on disposal of capital assets	(46,512)	(5,325)
VRS and VaLORS special revenue allocation	1,511,000	-

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

# Virginia State University

## NOTES TO THE FINANCIAL STATEMENTS

### June 30, 2017

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### A. Reporting Entity

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

The Virginia State University Foundation (VSUF) is a legally separate discrete component unit of the University and was organized as a tax-exempt charitable and educational organization in 1968. The purpose of this foundation is to accept contributions from individual donors and to safeguard, invest, and distribute the funds as designated by the donors or the Foundation's Board of Trustees for the benefit of the University, its students, alumni, and educational community in support of the University's mission. For the year ended June 30, 2017, the VSUF distributed \$1,116,865 to the University for both restricted and unrestricted purposes. Separate financial statements for the VSUF can be obtained by writing Virginia State University Foundation c/o Vice President of Development, Storum Hall, Post Office Box 9071 Petersburg, VA 23806.

Additionally, the Virginia State University Real Estate Foundation (VSUREF) is a legally separate, discrete component unit of the University and was organized as a tax-exempt charitable and educational organization in 2002. Operations began in August 2003. The VSUREF operates on a December 31st year end, and is incorporated into the University's June 30<sup>th</sup> year end financial statements. The purpose of the Real Estate Foundation is to construct and manage the University Apartments at Ettrick (UAE), a 504-bedroom dormitory facility for the University, in support of the University's mission. Financial statements for the VSUREF can be acquired by writing the VSU Vice President of Finance, Post Office Box 9213, Petersburg, Va. 23806.

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

In 2015, the Virginia State University Research Foundation (VSURF) commenced operations, and is included as a blended component unit in the University's financial statements. The purpose of the VSURF is to support the University's objectives for research, public service, economic and technological development. As a representative of the University, VSURF exemplifies the same spirit of entrepreneurship and focuses on the applications of engineering, science and technology to develop new ideas, methods and opportunities. In its capacity, the Foundation will provide several services related to Intellectual Property Management, Technology Transfer and Commercialization, and the Office of Sponsored Research & Programs.

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

copy of the VSURF financial statements, send a written request to Virginia State University Research Foundation, Post Office Box 9005, Petersburg, Va. 23806.

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

<b>Condensed Statement of Net Position As of June 30, 2017</b>			
	<b>Virginia State University</b>	<b>VSU Research Foundation</b>	<b>Total</b>
Assets:			
Current assets:	\$ 33,270,895	\$ 429,357	\$ 33,700,252
Noncurrent assets:			
Restricted cash and cash equivalents	7,722,150	-	7,722,150
State appropriations available	494,993	-	494,993
Investments	36,209,548	-	36,209,548
Capital assets, net	302,547,406	-	302,547,406
Other	2,036,630	-	2,036,630
Total noncurrent assets	349,010,727	-	349,010,727
Deferred outflow of resources	12,191,571	-	12,191,571
Total assets & deferred outflows of resources	394,473,193	429,357	394,902,550
Liabilities:			
Current liabilities	20,047,769	8,191	20,055,960
Noncurrent liabilities	158,815,019	-	158,815,019
Deferred inflow of resources	5,185,524	-	5,185,524
Total liabilities & deferred inflows of resources	184,048,312	8,191	184,056,503
Net position:			
Net investment in capital assets	214,244,379	-	214,244,379
Restricted:			
Nonexpendable	8,922,946	-	8,922,946
Expendable	28,015,089	64,648	28,079,737
Unrestricted	(40,757,533)	356,518	(40,401,015)
Total net position	\$ 210,424,881	\$ 421,166	\$ 210,846,047

**Condensed Statement of Revenues, Expenses and Changes in Net Position**  
**For the year ended June 30, 2017**

	<b>Virginia State University</b>	<b>VSU Research Foundation</b>	<b>Total</b>
Operating revenues	\$ 73,307,301	\$ 697,750	\$ 74,005,051
Operating expenses	134,636,027	973,997	135,610,024
Operating income/(loss)	(61,328,726)	(276,247)	(61,604,973)
Nonoperating revenues/(expenses):			
State appropriations	47,001,221	-	47,001,221
Federal student financial aid	13,323,441	-	13,323,441
Other nonoperating revenues/(expenses)	2,479,450	-	2,479,450
Net nonoperating revenues/(expenses)	62,804,112	-	62,804,112
Income/(loss) before other revenues and reductions	1,475,386	(276,247)	1,199,139
Other revenues:			
Capital grants and gifts	1,079,474	-	1,079,474
State appropriations capital projects	-	-	-
Additions/(reductions) to permanent endowments	667,015	-	667,015
21st Century Bonds Reimbursement Program	11,135,124	-	11,135,124
Total other revenues	12,881,613	-	12,881,613
Total increase/(decrease) in net position	14,356,999	(276,247)	14,080,752
Net position, beginning of year	196,067,882	697,413	196,765,295
Net position, end of year	\$ 210,424,881	\$ 421,166	\$ 210,846,047

**Condensed Statement of Cash Flows**  
**As of June 30, 2017**

	<b>Virginia State University</b>	<b>VSU Research Foundation</b>	<b>Total</b>
Cash flows from:			
Operating activities	\$ (53,907,593)	\$ (66,792)	\$ (53,974,385)
Noncapital financing activities	62,947,337	-	62,947,337
Capital and related financing activities	(6,329,812)	-	(6,329,812)
Investing activities	716,344	-	716,344
Net increase/(decrease) in cash and cash equivalents	3,426,276	(66,792)	3,359,484
Cash and cash equivalents, beginning of year	29,556,144	313,391	29,869,535
Cash and cash equivalents, end of year	\$ 32,982,420	\$ 246,599	\$ 33,229,019

**B. Basis of Presentation**

The University's accounting policies conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). In recent years, three substantial GASB standards were issued, and the applicable requirements for VSU have been implemented.

In February 2015, the GASB released Statement 72, *Fair Value Measurement and Application*. This statement changes the definition of fair value and adds new disclosure requirements. GASB 72 is required for periods beginning after June 15, 2015. On June 2, 2015, GASB 73 *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 & 68* was published. Its primary focus is to establish accounting and financial reporting requirements for government employers that sponsor defined benefit or defined contribution pension plans that are not within the scope of GASBs 67 and 68. Also, this Statement clarifies amendments to Statements 67 and 68, and applies to all government employer pension plans.

GASB Pronouncement 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* was issued in June, 2015 and applies to FY2016. It simplifies the structure of the hierarchy of generally accepted accounting principles (GAAP). The GAAP hierarchy sets forth what constitutes GAAP for all state and local governments. This Standard establishes the order of priority of pronouncements and other sources of accounting and financial reporting guidance governmental entities must apply.

For FY15, GASB Statement 71 *Pension Transition for Contributions Made Subsequent to Measurement Date* is effective for the year ended June 30, 2015. This standard was issued to address and improve the transition provisions of GASB 68. In the year of transition to the new standards, the net pension liability is measured as of a date up to one year prior to the government's fiscal year end. As a result, the University has recognized a beginning deferred outflow of resources for pension contributions, made after the measurement date of the beginning net pension liability.

Also released for FY15, GASB 68 *Accounting and Financial Reporting for Pensions* sets new accounting and financial reporting requirements for government employer pensions administered through irrevocable trusts. For agencies in the Commonwealth of Virginia, with defined benefit plans, this standard replaces GASB 27 *Accounting for Pensions by State and Local Governmental Employees*, as well as the requirements of Statement No. 50 *Pension Disclosures*. Cost Sharing Government employers, like VSU, which sponsor defined benefit plans recognize a proportionate share of the net pension liability on the Statement of Net Position (SNP). This unfunded accrued liability is the difference between total pension liability, or actuarial accrued liability, and the fair value of the plan assets.

Regarding GASBs 68 and 71, The Virginia Retirement System (VRS) State Employee Retirement Plan and the Virginia Law Officers' System (VaLORS) Retirement Plan are single employer pension plans that are treated like cost-sharing plans. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Virginia Retirement System (VRS) State Employee Retirement Plan and the Virginia Law Officers' System (VaLORS) Retirement Plan; and the additions to/deductions from the VRS State Employee Retirement Plan's and the VaLORS Retirement Plan's net fiduciary position have been determined on the same basis as they were reported by VRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. See Note 11 for detailed pension information related to the University.

### C. Basis of Accounting

The University's financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recorded when a liability has been incurred, regardless of the timing of related cash flows. All significant intra-agency transactions have been eliminated as well.



#### D. Cash Equivalents

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

#### E. Prepaid Expenses

Prepaid expenses represent University library books, memberships, subscriptions, postage, system maintenance agreements, service agreements and licenses that were paid in advance as of June 30, 2017.

#### F. Capital Assets

Capital assets consisting of land, buildings, equipment, infrastructure assets, improvements other than buildings, inexhaustible works of art, intangible assets, and construction-in-progress are stated at appraised historical cost or actual cost, where determinable. Purchased or constructed capital assets are reported at actual cost or estimated historical cost. Donated capital assets are reported at fair value on the date of acquisition. Library materials are valued using purchase price for library acquisitions and are capitalized if the annual composite amount is \$5,000 or greater. Buildings and infrastructure are capitalized when the cost is \$100,000 or greater. Building renovations are capitalized when cost is \$100,000 or greater, and the asset value significantly increases or the useful life is significantly extended. Equipment is capitalized when the acquisition cost is \$5,000 or greater and the estimated useful life of greater than one year. Expenses for construction-in-progress are capitalized as they are incurred. Intangible assets are capitalized when the acquisition cost is \$100,000 or greater. Interest expenses relating to construction are capitalized, net of interest income earned on resources set aside for this purpose. For the year ended June 30, 2017, no interest associated with construction was capitalized.

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

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

#### G. Net Position

Net investment in capital assets represents the net value of capital assets (property, plant and equipment) less the debt incurred to acquire or construct the asset. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt are included in this component.

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

Restricted net assets can be expendable or nonexpendable. Nonexpendable restricted net assets are endowments and similar type funds where the donor(s) or some other outside source has stipulated, as a condition

of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal. Expendable restricted net assets are resources which the University is legally or contractually obligated to spend in accordance with the restrictions imposed by external parties.

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

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

#### H. Unearned Revenue

Unearned revenue represents revenues collected, but not earned as of June 30, 2017. This consists primarily of student tuition and fees received in advance of the academic term and advance payments from grant and contract sponsors.

#### I. Accrued Compensated Absences

The amount of leave earned, but not taken by 12-month faculty and salaried employees is recorded as a liability on the Statement of Net Position. The amount reflects all unused vacation leave, overtime leave, compensatory leave, sabbatical leave, and the amount payable upon termination under the Commonwealth of Virginia's sick leave payout policy as of June 30, 2017. The applicable share of employer-related taxes payable on eventual termination payments is also included.

#### J. Revenue and Expense Classifications

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

Nonoperating revenues include activities that have the characteristics of nonexchange transactions such as gifts and other revenue sources that are defined as nonoperating revenues by GASB Statement 9 *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement 34 *Basic Financial Statements – and Management's Discussion and Analysis*, such as state appropriations, investment income, and federal student financial aid.

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

#### K. Discounts, Premiums, and Bond Issuance Costs

Bonds payable on the Statement of Net Position are reported net of related premiums and discounts, which are amortized as revenue or expense over the life of the bond. Bond issuance costs are expensed as incurred, due to the implementation of GASB Statement 65 *Items Previously Reported as Assets and Liabilities*. While prior to FY2014, issuance costs were expensed over the life of the bonds.

## L. Scholarship Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship allowance in the Statement of Revenues, Expenses, and Changes in Net Position. Scholarship allowance is the difference between the stated charge for goods and services provided by the University and the amount paid by students and/or third parties making payments on the students' behalf. The scholarship allowance is reported using the alternative method as recommended by the National Association of College and University Business Officers (NACUBO). The alternative method is a simple proportionality algorithm that computes scholarship allowance on a University-wide basis by allocating the amounts applied to student accounts and the cash payment to students, excluding payments for services, on the ratio of total aid to the aid not considered third-party aid.

## M. Title IV Federal Financial Assistance Programs

The University participates in the following federally funded programs: Federal Pell Grant (PELL) and Teacher Education Assistance for College and Higher Education (TEACH) Grant; Federal Supplemental Educational Opportunity Grant (SEOG); Federal Direct Subsidized and Unsubsidized; Federal Parent Loan for Undergraduate and Graduate Students (PLUS), Federal Perkins Loan and Federal College Work Study (CWS).

## N. 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 June 30, 2016 information should be read in conjunction with the University's financial statements for the year ended June 30, 2017, from which the summarized information was derived.

## O. Deferred Outflows and Deferred Inflows 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 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.

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

Summarized below is the compilation of deferred outflows and inflows of resources at June 30, 2017:

	Pension	Gain/Loss	
	Related	on Debt	
At June 30, 2017		Refunding	Total
Deferred outflows of resources	\$ 9,434,522	\$ 2,757,049	\$ 12,191,571
Deferred inflows of resources	\$ 5,174,000	\$ 11,524	\$ 5,185,524

## P. Restatement of Beginning Net Position Categories

The fiscal year end 2016 net position balances for restricted expendable scholarships and fellowships, instruction, and other categories were reclassified to unrestricted net position, as shown below. Originally, quasi endowments were classified by the three restricted net position line items described, although these endowments are not restricted by a third party. Therefore, the endowments are unrestricted and the amounts are restated as unrestricted.

Net Position Category	FY16		FY16
	Net Position	Restatement	Adjusted Ending Balance
Restricted for:			
Expendable:			
Scholarships and fellowships	\$ 27,029,947	\$ (3,827,133)	\$ 23,202,814
Instruction	\$ 743,720	\$ (20,831)	\$ 722,889
Other	\$ 340,725	\$ (14,886)	\$ 325,839
Unrestricted	\$ (50,413,167)	\$ 3,862,850	\$ (46,550,317)

## 2. CASH AND CASH EQUIVALENTS AND INVESTMENTS

### A. Cash and Cash Equivalents

Pursuant to Section 2.2-1800, et seq., *Code of Virginia*, all State funds of the University are held by the Treasurer of Virginia, who is responsible for the collection, disbursement, custody, and investment of State funds. Cash deposits held by the University are maintained in accounts that are covered by federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 of the *Code of Virginia*. In accordance with the GASB Statement 9 *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds*, definition of cash and cash equivalents, cash represents cash with the Treasurer of Virginia, cash on hand, and cash deposits including certificates of deposit and temporary investments with original maturities of three months or less. At June 30, 2017, the carrying amount of cash and cash equivalents was \$33,229,019.

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

Pursuant to Section 23.1-1301, *Code of Virginia*, the Board of Visitors of Virginia State University has the broad authority to manage the funds of The University. In doing so, the Board created an "Investment Policy" which governs the investment of the University's pooled endowed funds and sets forth the responsibilities of the University, its investment advisors, and external managers. The University's Endowment consists of gifts, Board-designated endowments, and funds connected with the Title III Endowment Challenge Grant Program. It is the intent of the Board that these funds be invested with a long-term approach aimed at generating sustainable levels of income to support the academic mission of the University. In order to do so, the University adheres to the guidelines set forth by the Uniform Prudent Management of Institutional Funds Act, *Code of Virginia* Section 64.2-1100-1108, to evaluate common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. The following disclosures are made in accordance with GASB Statement 40 *Deposit and Investment Risk Disclosures*. As an element of interest rate risk, this statement requires certain disclosures of investments with fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified in this statement must be disclosed. GASB Statement 40 also modifies disclosures required by GASB Statement 3 *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*.

As of June 30, 2017, the University had the following investments:

Spider Management Group	\$18,736,221
Graystone Consulting Richmond	17,473,327
	<hr/>
Total investments	\$36,209,548
	<hr/>

The University also participates in the Commonwealth's security lending program. The Commonwealth's policy is to record unrealized gains and losses in the General Fund in the Commonwealth's basic financial statements. When gains or losses are realized, the actual gains and losses are recorded by the affected agencies. Information related to the credit risk of these investments and securities lending transactions held in the General Account is available on a statewide level in the Commonwealth of Virginia's CAFR. Although in October 2016, the Department of the Treasury suspended participation in the securities lending program for the Commonwealth's General Account. Participation may resume in the future depending upon market conditions.

### C. Fair Value Measurement

The following disclosures are made in accordance with GASB Statement 72 *Fair Value Measurement and Application*. This standard expands fair value disclosures to provide comprehensive information for financial statement users about the impact of fair value measurements on a government's financial position. Furthermore, all investment income, including changes in the fair value of investments (unrealized gains and losses), is reported as nonoperating revenue in the Statement of Revenues, Expenses, and Changes in Net Position.

Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Commercial and residential mortgage-backed securities classified in Level 3 are valued using discounted cash flow techniques. Collateralized debt obligations classified in Level 3 are valued using consensus pricing.

Investments:	Not Applicable to Fair Value Measurement		Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)		Significant Unobservable Inputs (Level 3)		Investments Measured at Net Asset Value (NAV)	Credit Rating
Cash	\$	231,139	\$	-	\$	-	\$	-	\$ -	Not applicable
Stocks		-		1,764,557		-		-	-	Not applicable
ETS & CEFS		-		3,341,615		-		-	-	Not applicable
Mutual Funds		-		12,136,016		-		-	-	Not rated
Unitized Investment Pool (Spider)		-		-		-		-	18,736,221	Not rated
Total	\$	231,139	\$	17,242,188	\$	-	\$	-	\$ 18,736,221	

The Richmond Fund creates a strategic mix of asset classes in order to preserve principal and build long-term capital. Diversification is the core tenant of the Richmond Fund, which invests across asset classes broadly categorized as public equity, private equity/venture capital, multi-strategy/credit, and real assets.

The following chart provides information on the availability of the investment funds:

<b>Investment Manager</b>	<b>Redemption Frequency</b>	<b>Redemption Notice Period</b>
Spider Management	Quarterly	60 days
Graystone Consulting Richmond	Monthly	1 day

#### **D. Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair market value of an investment. The University's does not invest directly in fixed income securities, but rather holds shares of mutual funds which target specific types of fixed income instruments. Doing so allows the University to construct a fixed-income portfolio which carries prudent levels of interest rate risk by targeting and maintaining an average duration congruent with the investment objectives of the University.

#### **E. Credit Risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. Statutes authorize the investment of local funds held by the University in obligations of the Commonwealth; federal government; other states or political subdivisions thereof; Virginia political subdivisions; the International Bank for Reconstruction and Development; the Asian Development Bank; and the African Development Bank. In addition, the University may invest in prime quality commercial paper rated Prime 1 by Moody's Investment Service or A-1 by Standard and Poor's, Incorporated. The University may also invest in overnight term or open repurchase agreements and money market funds. The University does not hold rated debt securities directly but rather constructs a balanced fixed-income mutual fund portfolio which assumes levels of credit risk appropriate with its risk and return objectives.

#### **F. Custodial Credit Risk**

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty, the endowment funds will not be able to recover the value of the investments that are in possession of an outside party. The University does not have a formal investment policy for custodial arrangements. At June 30, 2017, the University endowment funds were held at the custodial banks, the Spider Management Group, and Graystone Consulting Richmond.

#### **G. Concentration of Credit Risk**

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



## H. Foreign Currency Risk

Foreign currency risk is the risk deposits or investments denominated in foreign currencies may lose value due to adverse fluctuations in the value of the U. S. dollar relative to foreign currencies. As of June 30, 2017, the University has no investments or deposits exposed to foreign currency risk.

## I. VSUF – Cash and Investments

The investments of the VSUF consist primarily of equity securities and mutual funds. All investments are stated at fair value as reported by investment managers and reflect readily determinable market prices. All investments are considered available for sale. The amount of cash and investments held by the VSUF at June 30, 2017, was \$16,817,829.

At June 30 2017, the VSUF had \$13,975,400 in total investments. Per GASB Statement 72 *Fair Value Measurement and Application* these investments are classified as follows: \$13,857,522 as Level 1; \$27,000 as Level 2; \$90,878 as Level 3.

## J. VSUREF - Cash and Investments

The investments of the VSUREF consist primarily of U.S. government money market funds. All investments are stated at fair value as reported by investment managers and reflect readily determinable market prices. All investments are considered available for sale. Cost is determined based on the initial purchase price of each individual investment. The amount of cash and investments held by the VSUREF at December 31, 2016 was \$4,649,112.

At December 31, 2016, the VSUREF had (\$2,950,916) related to a derivative interest rate swap agreement. Per GASB Statement 72 *Fair Value Measurement and Application* this investment is classified as Level 2.

### 3. ACCOUNTS AND NOTES RECEIVABLE

#### A. Accounts Receivable

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

<b>Accounts Receivable at June 30, 2017</b>	
<b>University:</b>	
Student tuition and fees	\$ 1,125,393
Federal, state and private grants and contracts	2,864,794
Multi-purpose center	61,429
Auxiliary enterprises	317,043
Third party receivables - students	225,583
Other receivables	7,927
Gross accounts receivable	4,602,169
Less: Allowance for doubtful accounts	(1,097,843)
Net accounts receivable	3,504,326
<b>Research Foundation:</b>	
Gross accounts receivable	181,258
Less: Allowance for doubtful accounts	-
Net accounts receivable	181,258
Total net accounts receivable	\$ 3,685,584

#### B. Due from the Commonwealth

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

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

<b>Due from the Commonwealth at June 30, 2017</b>	
21st Century Bond Reimbursement - Multipurpose Center Project	\$ 52,699
21st Century Bond Reimbursement - Water Storage Tank and Campus Water	81,011
21st Century Bond Reimbursement - Lockett Hall	412,396
21st Century Bond Reimbursement - Erosion & Sediment Control	64,048
21st Century Bond Reimbursement - Maintenance Reserve	710,944
21st Century Bond Reimbursement - Master Plan & Maintenance	51,356
21st Century Bond Reimbursement - Equipment Trust Fund Reimbursement	269,885
Total due from the Commonwealth	\$ 1,642,339

### C. Notes Receivable

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

At June 30, 2017, notes receivable consisted of the following:

<b>Notes Receivable at June 30, 2017</b>	
Noncurrent notes receivables:	
Federal student loans	1,914,261
Trojan Development, LLC	328,000
Less: Allowance for doubtful accounts	<u>(210,865)</u>
Total notes receivable	<u><u>\$ 2,031,396</u></u>

#### 4. CAPITAL ASSETS

A summary of changes in the various capital asset categories for the year ending June 30, 2017, is presented as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Nondepreciable capital assets:				
Land	\$ 19,131,730	\$ 56,513	\$ -	\$ 19,188,243
Inexhaustible works of art and historical treasures	119,000	-	-	119,000
Construction in progress	6,944,971	8,266,070	(2,388,737)	12,822,304
Total nondepreciable capital assets	26,195,701	8,322,583	(2,388,737)	32,129,547
Depreciable capital assets:				
Buildings	386,184,922	1,765,272	(741,000)	387,209,194
Equipment	37,169,561	1,325,250	(665,159)	37,829,652
Infrastructure (includes Improvements other than buildings)	23,558,303	424,894	-	23,983,197
Intangible Assets-Computer Software	3,878,256	-	(531,250)	3,347,006
Library books	20,600,071	71,109	(79,704)	20,591,476
Total depreciable capital assets	471,391,113	3,586,525	(2,017,113)	472,960,525
Less accumulated depreciation for:				
Buildings	126,060,644	7,842,106	(741,000)	133,161,750
Equipment	30,300,408	1,838,052	(618,647)	31,519,813
Infrastructure (includes Improvements other than buildings)	13,608,284	697,240	-	14,305,524
Intangible Assets-Computer Software	3,878,256	-	(531,250)	3,347,006
Library books	20,149,922	138,355	(79,704)	20,208,573
Total accumulated depreciation	193,997,514	10,515,753	(1,970,601)	202,542,666
Net depreciable capital assets	277,393,599	(6,929,228)	(46,512)	270,417,859
Total	\$ 303,589,300	\$ 1,393,355	\$ (2,435,249)	\$ 302,547,406

Net capital assets of the VSUREF consist of \$542,828 for land and \$6,975,494 (net of accumulated depreciation of \$8,503,470) for buildings, land improvements, and equipment as of December 31, 2016.

## 5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following at June 30, 2017:

Employee salaries, wages, and fringe benefits payable	\$ 3,943,642
Matured interest payable	369,869
Vendor and supplier accounts payable (VSURF \$8,191)	<u>3,908,712</u>
Total	<u>\$ 8,222,223</u>

## 6. LONG-TERM LIABILITIES

The University's noncurrent liabilities consist of long-term debt (further described in Note 7) and other noncurrent liabilities. A summary of changes in noncurrent liabilities for the year ending June 30, 2017 is presented as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current	Noncurrent
Long-term debt:						
General obligations revenue bonds	\$ 95,034,389	\$ -	\$ (6,178,133)	\$ 88,856,256	\$ 5,478,258	\$ 83,377,998
Notes payable	6,500,961	-	(741,517)	5,759,444	709,314	5,050,130
Installment purchases	<u>1,770,697</u>	<u>-</u>	<u>(421,184)</u>	<u>1,349,513</u>	<u>364,050</u>	<u>985,463</u>
Total long-term debt	103,306,047	-	(7,340,834)	95,965,213	6,551,622	89,413,591
Other noncurrent liabilities:						
Net pension liability	60,664,000	861,000	-	61,525,000	-	61,525,000
Accrued compensated absences	4,147,178	2,358,608	(2,290,693)	4,215,093	1,207,606	3,007,487
Federal Government - NIFA	-	3,765,590	-	3,765,590	418,531	3,347,059
Federal Perkins loan contributions	<u>1,521,882</u>	<u>-</u>	<u>-</u>	<u>1,521,882</u>	<u>-</u>	<u>1,521,882</u>
Total other noncurrent liabilities	66,333,060	6,985,198	(2,290,693)	71,027,565	1,626,137	69,401,428
Total long-term liabilities	<u>\$ 169,639,107</u>	<u>\$ 6,985,198</u>	<u>\$ (9,631,527)</u>	<u>\$ 166,992,778</u>	<u>\$ 8,177,759</u>	<u>\$ 158,815,019</u>

## 7. LONG-TERM INDEBTEDNESS

### A. Bonds Payable

The University's bonds are issued pursuant to Section 9 of Article X of the Constitution of Virginia. All of the bonds at the University are Section 9(c) bonds. These bonds are backed by the full faith, credit and taxing

power of the Commonwealth, and are issued to finance capital projects which, when completed, will generate revenue to repay the debt.

A summary of future principal and interest requirement of bonds payable for fiscal year as of June 30, 2017, are as follows:

General obligation revenue bonds:	Interest		Total
	Rate	Maturity	
98 Ref of Jones Dining Hall- 2004B Ref Portion, Series 2014B	5.0%	2018	71,141
Construct Residence Halls, Series 2007A	4.0%	2018	100,000
VSU Const Residence Hall 2006B Refunded Portion, Series 2009D	5.0%	2022	4,965,000
VSU Construct Dining Hall Refunded Portion 2006B, Series 2009D	5.0%	2022	1,280,000
Constr Two Res Halls - 2007B Ref Portion, Series 2013B	4.0% - 5.0%	2025	11,231,552
Constr Dining Hall - 2006B Ref Portion, Series 2013B	4.0%	2026	1,219,718
Constr Residence Halls - 2006B Ref Portion, Series 2013B	4.0%	2026	4,719,150
Constr Res Halls - 2007A Ref Portion, Series 2013B	4.0% - 5.0%	2027	1,132,216
Construct Two Residence Halls-2007B Ref Portion, Series 2015B	4.0% - 5.0%	2027	4,994,735
Construct Gateway Residence Hall Phase, Series 2011A	2.2% - 5.0%	2031	27,165,000
Construct Quad Phase II, Series 2011A	2.2% - 5.0%	2031	23,755,000
Add unamortized premium (net of discount)			8,222,744
Total bonds payable			<u><u>\$ 88,856,256</u></u>

Aggregate annual maturities of bonds payable for fiscal years after 2017 are:

Maturity	Principal	Interest	Total
2018	\$ 5,478,258	\$ 3,541,611	\$ 9,019,869
2019	5,549,127	3,294,620	8,843,747
2020	5,785,600	3,038,864	8,824,464
2021	6,006,350	2,789,684	8,796,034
2022	6,299,827	2,530,917	8,830,744
2023 - 2027	33,849,350	8,234,406	42,083,756
2028 - 2031	17,665,000	2,088,900	19,753,900
Add unamortized premium (net of discount)	8,222,744	-	8,222,744
Total	<u><u>\$ 88,856,256</u></u>	<u><u>\$ 25,519,002</u></u>	<u><u>\$ 114,375,258</u></u>

## B. Notes Payable

The University entered into a loan agreement with the Department of Housing and Urban Development (HUD) in 1989 and closed the agreement in 1992 to borrow funds to repair seven dormitories. The loan is to be repaid over 30 years at three percent interest and is secured by a lien on the net revenues from the ownership, operation, and use of the seven dormitories under repair. In prior years, the University participated in the Virginia College Building Authority (VCBA) Pooled Bond Program to fund the renovation of Rogers Stadium and the Student Village Housing Renovation Project. At June 30, 2017, the outstanding principal balances were \$790,282 for the HUD loan and \$4,585,000 for the VCBA notes payable.

A summary of future principal and interest requirements of the VCBA notes and HUD loan payable as of June 30, 2017, are as follows:

<b>Virginia College Building Authority and HUD Notes Payable:</b>	<b>Interest</b>		<b>Total</b>
	<b>Rate</b>	<b>Maturity</b>	
VSU Pooled Bonds - 2002A Rogers Stadium Ref Portion, Series 2007B	4.0 - 4.5%	2019	\$ 1,135,000
VSU 2002A Rogers Stadium Ref Portion, Series 2010B	5.0%	2022	1,320,000
VSU Roger's Stadium Proj. - 2005 A Ref Portion, Series 2012A	3.0 - 5.0%	2024	1,215,000
VSU Student Village Hsg. - 2005 A Ref Portion, Series 2012A	3.0 - 5.0%	2024	630,000
VSU Pooled Bonds-Roger's Stadium-2005A, Ref Portion, Series 2014B	4.0%	2025	190,000
VSU Pooled Bonds-Student Village Hsg-2005A, Ref Portion.Series 2014B	4.0%	2025	95,000
Department of Housing and Urban Development	3.0%	2022	790,282
Add unamortized premium (net of discount)			384,162
Total notes payable			<u>\$ 5,759,444</u>

Aggregate annual maturities of notes payable for fiscal years after 2017 are:

<b>Maturity</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2018	\$ 709,314	\$ 222,385	\$ 931,699
2019	733,978	191,771	925,749
2020	768,783	160,390	929,173
2021	813,733	126,165	939,898
2022	824,474	87,067	911,541
2023 - 2026	1,525,000	97,650	1,622,650
Add unamortized premium:	384,162	-	384,162
Total	<u>\$ 5,759,444</u>	<u>\$ 885,428</u>	<u>\$ 6,644,872</u>

The Commonwealth of Virginia, on behalf of the University, issued bonds and notes in previous fiscal years for which the proceeds were deposited into an irrevocable trust with an escrow agent to provide for all future debt service on the refunded bonds. Accordingly, the trust account assets and the related liability for the defeased bonds are not reflected in the University's financial statements. At June 30, 2017, \$0 of the defeased bonds were outstanding.



### C. Installment Purchases

Installment purchase obligations in FY2017 consisted of the Energy Performance Leasing Program with \$1,053,907 in principal remaining. In addition, the University has outstanding principal of \$295,606 through MELP for the Voiceover Internet Protocol (VoIP) telephone system.

Principal and interest payment commitments as of June 30, 2017, are as follows:

Installment purchase obligations:	Interest		Total
	Rate	Maturity	
Master Equipment Leasing Program - VoIP Phone System Phase I	1.2%	2018	21,893
Master Equipment Leasing Program - VoIP Phone System Phase II	1.2%	2019	199,286
Master Equipment Leasing Program - VoIP Phone System Phase III	2.1%	2019	74,427
Energy Performance Leasing Program	1.1%	2022	1,053,907
Total installment purchase obligations			<u>\$ 1,349,513</u>

The aggregate maturity of installment purchase obligations for fiscal years after 2017 is:

Maturity	Principal	Interest	Total
2018	\$ 364,050	\$ 15,614	\$ 379,664
2019	346,368	11,138	357,506
2020	210,757	6,872	217,629
2021	213,023	4,606	217,629
2022	215,315	2,315	217,630
Total	<u>\$ 1,349,513</u>	<u>\$ 40,545</u>	<u>\$ 1,390,058</u>

### D. Foundation Debt

The VSUREF refinanced and paid off the Series 2006 bonds and obtained \$20,330,000 in Series 2008 bonds of which \$15,825,377 in principal remains at December 31, 2016. The Series 2008 bonds are collateralized by the rental property and equipment. Also, the VSUREF is required to maintain a debt service reserve. The contractual interest rates are variable.

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

Maturity	Principal
2017	900,000
2018	915,000
2019	960,000
2020	1,005,000
2021	1,055,000
Thereafter	10,990,377
Total	<u>\$ 15,825,377</u>

In conjunction with the refinancing of the bonds, loan costs of \$124,371 were incurred and are being amortized over the life of the debt. Amortization expense for the year ended December 31, 2016 and 2015 was \$5,527 and \$5,528 respectively.

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

The fair value of these contracts was a negative \$2,950,916 and \$3,482,972 at December 31, 2016 and 2015 respectively. This is the amount the VSUREF would have to pay to settle the interest rate swaps as of these respective dates.

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

## 8. STATE APPROPRIATIONS

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

The following is a summary of state appropriations received by the University for the year ended June 30, 2017:

<b>Virginia State University:</b>	
Original legislative appropriation:	
Education and general programs	\$ 33,630,728
Higher education student financial assistance	8,583,688
Supplemental adjustments:	
State grants and scholarships	146,842
VIVA interlibrary loan allocation	6,640
FY2017 central appropriation distribution	232,142
Capital outlay fee-FY2017	(739,233)
VCBA debt service appropriations	(108,886)
Year-end cash reversion	(1,019,147)
Reappropriation of FY2016 carry forward	42,009
	<hr/> 40,774,783
Cooperative Extension and Agricultural Research Services:	
Original legislative appropriation:	
Education and general programs	5,518,181
Supplemental adjustments:	
FY2017 central appropriation distribution	15,204
Year-end cash reversion	(380,035)
Reappropriation of FY16 carry forward	1,073,088
	<hr/> 6,226,438
Total state appropriations	<hr/> <hr/> \$ 47,001,221

## 9. EXPENSES BY NATURAL CLASSIFICATION

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

	Salaries & Wages	Fringe Benefits	Services & Supplies	Scholarships & Fellowships	Utilities	Depreciation	Total
Instruction	\$ 21,661,086	\$ 7,453,176	\$ 10,339,862	\$ 183,362	\$ 173,383	\$ -	\$ 39,810,869
Research	3,457,959	1,049,731	2,970,276	92,877	116,983	-	7,687,826
Public Service	3,955,241	1,153,323	3,135,307	5,000	121,202	-	8,370,073
Academic Support	2,712,929	908,539	2,155,391	34,520	35,137	-	5,846,516
Student Services	2,707,869	999,012	887,303	8,716	50,209	-	4,653,109
Institutional Support	10,349,691	3,946,730	302,665	-	303,375	-	14,902,461
Operations & Maintenance of Plant	498,603	391,690	5,765,426	-	3,137,736	-	9,793,455
Scholarships & Fellowships	-	-	12,500	2,398,158	-	-	2,410,658
Depreciation	-	-	-	-	-	10,515,753	10,515,753
Auxiliary Enterprises	4,553,217	1,529,312	20,119,875	2,799,451	2,617,449	-	31,619,304
Total	\$ 49,896,595	\$ 17,431,513	\$ 45,688,605	\$ 5,522,084	\$ 6,555,474	\$ 10,515,753	\$ 135,610,024

## 10. COMMITMENTS

### A. Construction Commitments

As of June 30, 2017, the University was a party to construction contracts totaling \$134,147,180 of which \$200,729 was still outstanding.

### B. Operating Leases

The University entered into an operating lease for warehouse and office space in 2012 and since 2016, there have been issues with the habitability of the leased space. The University has subsequently vacated the premises, referred to as the Cameron Building. Genesis has obtained representation and is claiming damages of \$1,500,000 (one million, five hundred thousand dollars). While, we cannot guarantee or predict the outcome of this matter, the University has very credible defenses which will be advocated, and therefore removed any future obligations from the schedule of combined future rental payments, as shown below. The initial terms of this lease is ten years which began on August 15, 2012, and ends August 14, 2022. Rent payments for this lease were \$179,496.98 in FY2017.

A lease with Radcliffe Warehouse, LLC is for warehouse storage. Rent payments for FY2017 were \$27,000. The lease was originally for a period of three years beginning on July 1, 2014 and ending on June 30, 2017. Effective July 1, 2017 the lease was renewed for an additional two year term and ends on June 30, 2019, with a new rental rate of \$24,000 per year.

The University has another lease with the City of Petersburg to provide rental space related to a federal grant with the Department of Agriculture. The lease began on January 1, 2016 and ends December 31, 2021. No payments were made in FY2017.

For the VSU Research Foundation, there was a five year lease with the City of Petersburg, in which FY2017 was the third year of the lease. Rental payments for the year were \$10,500. The Foundation terminated its lease in February, 2017 (FY2017), and no further payments will be made for this lease.

For the schedule below, the total future payment amount of \$54,600 represents obligations of the University.

The schedule of combined future rental payments is as follows:

2018	26,400
2019	25,200
2020	1,200
2021	1,200
2022	600
Total	<u>\$ 54,600</u>

## 11. RETIREMENT PLANS

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

#### *Plan Description*

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

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

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<b>About Plan 1</b> Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are	<b>About Plan 2</b> Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are	<b>About the Hybrid Retirement Plan</b> The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after

<p>eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p>	<p>eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p>	<p>January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. (see "Eligible Members")</p> <ul style="list-style-type: none"> <li>• The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.</li> <li>• The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.</li> <li>• In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.</li> </ul>
<p><b>Eligible Members</b> Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p> <p><b>Hybrid Opt-In Election</b> VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p>	<p><b>Eligible Members</b> Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p> <p><b>Hybrid Opt-In Election</b> Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p>	<p><b>Eligible Members</b> Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none"> <li>• State employees*</li> <li>• Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014</li> </ul> <p><b>*Non-Eligible Members</b> Some employees are not eligible to participate in the</p>

<p>The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.</p>	<p>The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.</p>	<p>Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> <li>• Members of the Virginia Law Officers' Retirement System (VaLORS)</li> </ul> <p>Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.</p>
<p><b>Retirement Contributions</b> State employees, excluding state elected officials, and optional retirement plan participants, contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.</p>	<p><b>Retirement Contributions</b> State employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction.</p>	<p><b>Retirement Contributions</b> A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.</p>
<p><b>Creditable Service</b> Creditable service includes active service. Members earn creditable service for each month they are employed in a</p>	<p><b>Creditable Service</b> Same as Plan 1.</p>	<p><b>Creditable Service</b> <b><u>Defined Benefit Component:</u></b> Under the defined benefit component of the plan, creditable service includes</p>



<p>covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p>		<p>active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p> <p><b><u>Defined Contributions Component:</u></b></p> <p>Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.</p>
<p><b>Vesting</b></p> <p>Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.</p> <p>Members are always 100% vested in the contributions that they make.</p>	<p><b>Vesting</b></p> <p>Same as Plan 1.</p>	<p><b>Vesting</b></p> <p><b><u>Defined Benefit Component:</u></b></p> <p>Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.</p> <p><b><u>Defined Contributions Component:</u></b></p> <p>Defined contribution vesting refers to the minimum length</p>

		<p>of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.</p> <p>Members are always 100% vested in the contributions that they make.</p> <p>Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.</p> <ul style="list-style-type: none"> <li>• After two years, a member is 50% vested and may withdraw 50% of employer contributions.</li> <li>• After three years, a member is 75% vested and may withdraw 75% of employer contributions.</li> <li>• After four or more years, a member is 100% vested and may withdraw 100% of employer contributions.</li> </ul> <p>Distribution is not required by law until age 70½.</p>
<p><b>Calculating the Benefit</b> The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.</p> <p>An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit</p>	<p><b>Calculating the Benefit</b> See definition under Plan 1.</p>	<p><b>Calculating the Benefit</b> <b><u>Defined Benefit Component:</u></b> See definition under Plan 1</p> <p><b><u>Defined Contribution Component:</u></b> The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.</p>

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

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

<p>additional increase (up to 4%) up to a maximum COLA of 5%.</p> <p><b><u>Eligibility:</u></b> For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</p> <p>For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.</p> <p><b><u>Exceptions to COLA Effective Dates:</u></b> The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none"> <li>• The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.</li> <li>• The member retires on disability.</li> <li>• The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).</li> <li>• The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.</li> <li>• The member dies in service and the member's survivor</li> </ul>	<p><b><u>Eligibility:</u></b> Same as Plan 1</p> <p><b><u>Exceptions to COLA Effective Dates:</u></b> Same as Plan 1</p>	<p><b><u>Eligibility:</u></b> Same as Plan 1 and Plan 2.</p> <p><b><u>Exceptions to COLA Effective Dates:</u></b> Same as Plan 1 and Plan 2.</p>
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<p>or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.</p>		
<p><b>Disability Coverage</b> Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.</p> <p>Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p>	<p><b>Disability Coverage</b> Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.</p> <p>Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>	<p><b>Disability Coverage</b> State employees (including Plan 1 and Plan 2 opt-ins) participating in the Hybrid Retirement Plan are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.</p> <p>Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VSDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p>
<p><b>Purchase of Prior Service</b> Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.</p>	<p><b>Purchase of Prior Service</b> Same as Plan 1.</p>	<p><b>Purchase of Prior Service</b> <b><u>Defined Benefit Component:</u></b> Same as Plan 1, with the following exceptions:</p> <ul style="list-style-type: none"> <li>• Hybrid Retirement Plan members are ineligible for ported service.</li> <li>• The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation.</li> <li>• Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost./</li> </ul>

		<p>After that on-year period, the rate for most categories of service will change to actuarial cost.</p> <p><b><u>Defined Contribution</u></b></p> <p><b><u>Component:</u></b></p> <p>Not applicable.</p>
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### ***Contributions***

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, the 5.00% member contribution was paid by the employer. Beginning July 1, 2012 state employees were required to pay the 5.00% member contribution and the employer was required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. Each state agency's contractually required contribution rate for the year ended June 30, 2017 was 13.49% of covered employee compensation for employees in the VRS State Employee Retirement Plan. For employees in the VaLORS Retirement Plan, the contribution rate was 21.05% of covered employee compensation. These rates were based on an actuarially determined rate(s) from an actuarial valuation as of June 30, 2015. The contribution rate for the VRS State Employee Retirement Plan also reflects the transfer in June 2016 of \$162,406,273 as an accelerated payback of the deferred contribution in the 2010-12 biennium. The contribution rate for the VaLORS Retirement Plan also reflects the transfer in June 2016 of \$16,491,559 as an accelerated payback of the deferred contribution in the 2010-12 biennium. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the University to the VRS State Employee Retirement Plan were \$4,716,140 and \$4,951,607 for the years ended June 30, 2017 and June 30, 2016, respectively. Contributions from the University to the VaLORS Retirement Plan were \$227,382 and \$144,879 for the years ended June 30, 2017 and June 30, 2016, respectively.

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

At June 30, 2017, VSU reported a liability of \$59,991,000 for its proportionate share of the VRS State Employee Retirement Plan Net Pension Liability and a liability of \$1,534,000 for its proportionate share of the VaLORS Retirement Plan Net Pension Liability. The Net Pension Liability was measured as of June 30, 2016 and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. The University's proportion of the Net Pension Liability was based on the state agency's actuarially determined employer contributions to the pension plan for the year ended June 30, 2016 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2016, the VSU's proportion of the VRS State Employee Retirement Plan was 0.91023% as compared to 0.96796% at June 30, 2015. At June 30, 2016, the state agency's proportion of the VaLORS Retirement Plan was 0.19813%, as compared to 0.19707% at June 30, 2015.



For the year ended June 30, 2017, the state agency recognized pension expense of \$3,717,000 for the VRS State Employee Retirement Plan and \$(21,000) for the VaLORS Retirement Plan. Since there was a change in proportionate share between June 30, 2015 and June 30, 2016, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

At June 30, 2017, Virginia State University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

State Employee Retirement Plan	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 256,000	\$ 1,631,000
Net difference between projected and actual earnings on pension plan investments	3,824,000	-
Change in assumptions	-	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	335,000	3,378,000
Employer contributions subsequent to the measurement date	4,716,140	-
Total	<u>\$ 9,131,140</u>	<u>\$ 5,009,000</u>

VaLORS Retirement Plan	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 7,000	\$ 4,000
Net difference between projected and actual earnings on pension plan investments	63,000	-
Change in assumptions	-	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	6,000	161,000
Employer contributions subsequent to the measurement date	227,382	-
Total	<u>\$ 303,382</u>	<u>\$ 165,000</u>

For employers with VaLORS Plans, the data for this schedule will be found on Schedule B – Schedule of Deferred Inflows and Outflows and Pension Expense – VaLORS Employers.

\$4,716,140 for the State Retirement Plan and \$227,382 for the VaLORS Plan were reported as deferred outflows of resources related to pensions resulting from VSU's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the Fiscal Year ending

June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

<b>State Retirement Plan Year Ended June 30:</b>	<b>VaLORS Retirement Plan Year Ended June 30:</b>
2018 \$(1,559,000)	2018 \$(127,000)
2019 \$(1,723,000)	2019 \$(24,000)
2020 \$ 1,122,000	2020 \$37,000
2021 \$ 1,566,000	2021 \$25,000
2022 \$0	2022 \$0

For employers with VaLORS Plans, the data for this schedule will be found on Schedule C – Amortization of Deferred Inflows and Outflows – VaLORS Employers.

### ***Actuarial Assumptions***

The total pension liability for the VRS State Employee Retirement Plan was based on an actuarial valuation as of June 30, 2015, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.

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

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

Mortality rates:

Pre-Retirement:

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

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with females set back 1 year.

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

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

The total pension liability for the VaLORS Retirement Plan was based on an actuarial valuation as of June 30, 2015, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.

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

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

Mortality rates:

Pre-Retirement:

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

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with females set back 1 year.

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

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

### ***Net Pension Liability***

The net pension liability (NPL) is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB Statement No. 67, less that system's fiduciary net position. As of June 30, 2016, NPL amounts for the VRS State Employee Retirement Plan and the VaLORS Retirement Plan are as follows (amounts expressed in thousands):

	<b>State Employee Retirement Plan</b>	<b>VaLORS Retirement Plan</b>
Total Pension Liability	\$ 22,958,593	\$ 1,985,618
Plan Fiduciary Net Position	<u>16,367,842</u>	<u>1,211,446</u>
Employers' Net Pension Liability (Asset)	<u>\$ 6,590,751</u>	<u>\$ 774,172</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	71.29%	61.01%

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

### ***Long-Term Expected Rate of Return***

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

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

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

### ***Discount Rate***

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

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

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

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
Virginia State University's proportionate share of the VRS State Employee Retirement Plan Net Pension Liability	\$84,427,000	\$59,991,000	\$39,476,000

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

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
Virginia State University's proportionate share of the VaLORS Retirement Plan Net Pension Liability	\$2,053,000	\$1,534,000	\$1,107,000

### ***Pension Plan Fiduciary Net Position***

Detailed information about the VRS State Employee Retirement Plan's Fiduciary Net Position or the VaLORS Retirement Plan's Fiduciary Net Position is available in the separately issued VRS 2016 Comprehensive Annual Financial Report (CAFR). A copy of the 2016 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2016-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

#### **B. Optional Retirement Plans**

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

For employees who became members of the respective plans prior to July 1, 2010, there is an employer required contribution of 10.4 percent. Annual pension costs under these plans totaled \$555,292 for the year ended June 30, 2017. Contributions to these retirement programs were calculated using the base salary amount of \$5,339,346.

For employees who became members of the respective plans on or after July 1, 2010, there is an employer required contribution of 8.5 percent and an employee required contribution of 5 percent. Annual pension costs under these plans totaled \$227,927 for the year ended June 30, 2017. Contributions to these retirement programs were calculated using the base salary amount of \$2,681,498.

### **C. Deferred Compensation**

University employees may also voluntarily participate in the Commonwealth's Deferred Compensation Plan. Participating employees can contribute to the plan each pay period with the Commonwealth matching up to \$20 per pay period. The matched dollar amount can change depending on the funding available in the Commonwealth's budget. The Deferred Compensation Plan is a qualified defined contribution plan under section 401(a) of the Internal Revenue Code. The University expense for contributions under the Deferred Compensation Plan, which is an amount assessed by the Commonwealth, was \$169,889 for FY2017.

## **12. OTHER POST-EMPLOYMENT BENEFITS**

The University participates in postemployment benefit programs that are sponsored by the Commonwealth and administered by the Virginia Retirement System. These programs include the Group Life Insurance Program, Virginia Sickness and Disability Program, Retiree Health Insurance Credit Program, and Line of Duty Act Program.

The Group Life Insurance Program provides members basic group life insurance upon employment. In addition to benefits provided to active members during employment, the Virginia Sickness and Disability Program provides inactive members with long-term disability and long-term care benefits. The Retiree Health Insurance Credit Program provides members health insurance credits to offset the monthly health insurance premiums for retirees who have at least 15 years of service. The Line of Duty Act Program provides death and health insurance reimbursement benefits to eligible state employees, such as campus police, who die or become disabled as a result of the performance of their duties as a public safety officer. The university/agency is required to contribute to the costs of participating in these programs.

VSU also participates in the Pre-Medicare Retiree Healthcare Plan, which is sponsored by the Commonwealth and administered by the Department of Human Resources Management. The plan provides the option for retirees who are not yet eligible to participate in Medicare to participate in the Commonwealth's healthcare plan for its active employees. The University does not pay a portion of the retirees' healthcare premium; however, since both active employees and retirees are included in the same pool for purposes of determining health insurance rates, this generally results in a higher rate for active employees. Therefore, the University effectively subsidizes the costs of the participating retirees' healthcare through payment of the employer's portion of premiums for active employees.

Furthermore, the University is in compliance with GASB Statement No. 47 Accounting for Termination Benefits did not have any voluntary termination benefits and/or involuntary termination benefit liabilities outstanding as of June 30, 2017 to recognize in accordance with this standard. Additional information related to all of these plans is available at the state-wide level in the Commonwealth's Comprehensive Annual Financial Report.

## **13. CONTINGENCIES**

The University is a party to various legal actions and other claims in the normal course of business. While the final outcomes cannot be determined at this time, legal counsel and management are of the opinion that a liability, if any, for these legal actions will not have a material effect on the University's financial position.

## **14. RISK MANAGEMENT**

The University is exposed to various risks of loss related to torts; theft, or damage to and destruction of assets; errors, and omissions; non-performance of duty, injuries to employees; and natural disasters. The University participates in insurance plans maintained by the Commonwealth of Virginia. The State employee health care and



worker's compensation plans are administered by the Department of Human Resource Management and the risk management insurance plans are administered by the Department of Treasury, Division of Risk Management.

Risk management insurance includes property, general liability, medical malpractice, faithful performance of duty bond, automobile, and air and watercraft plans. The University pays premiums to each of these departments for its insurance coverage. Information relating to the Commonwealth's insurance plans is available at the statewide level in the CAFR.

## Required Supplementary Information (RSI)

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

The schedules below are intended to show information for 10 years. Since 2017 is the third year for this presentation, only two additional years of data are available. However, additional years will be included as they become available.

#### Schedule of VSU's Share of Net Pension Liability

##### VRS State Employee Retirement Plan

For the Years Ended June 30, 2017, 2016 and 2015\*

	2017	2016	2015
VSU's Proportion of the Net Pension Liability (Asset)	0.91023%	0.96796%	0.97741%
VSU's Proportionate Share of the Net Pension Liability (Asset)	\$ 59,991,000	\$ 59,264,000	\$ 54,719,000
VSU's Covered Payroll (FY2016, FY2015, FY2014)	\$ 44,324,928	\$ 46,066,157	\$ 46,847,249
VSU's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	135.34%	128.65%	116.80%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	71.29%	72.81%	74.28%

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

#### Schedule of VSU's Share of Net Pension Liability

##### ValORS Retirement Plan

For the Years Ended June 30, 2017, 2016 and 2015\*

	2017	2016	2015
VSU's Proportion of the Net Pension Liability (Asset)	0.19813	0.19707%	0.22780%
VSU's Proportionate Share of the Net Pension Liability (Asset)	\$ 1,534,000	\$ 1,400,000	\$ 1,535,000
VSU's Covered Payroll (FY2016, FY2015, FY2014)	\$ 895,436	\$ 852,391	\$ 985,254
VSU's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	171.31%	164.24%	155.80%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	61.01%	64.62%	63.05%

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

## Schedule of Employer Contributions:

The schedule below is intended to show information for 10 years. Since 2017 is the third year for this presentation, only two other years of data are shown. However, additional years will be included as they become available.

Schedule of Employer Contributions VRS State Employee Retirement Plan For the Years Ended June 30, 2015 through 2017						
Date	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Employee Payroll	Contributions as a % of Covered Employee Payroll	
2017	\$ 4,716,140	\$ 4,716,140	\$ -	\$ 44,359,790	11%	
2016	\$ 4,951,607	\$ 4,951,607	\$ -	\$ 44,324,928	11%	
2015	\$ 4,509,880	\$ 4,509,880	\$ -	\$ 46,066,157	10%	

Schedule of Employer Contributions VaLORS Employee Retirement Plan For the Years Ended June 30, 2015 through 2017						
Date	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Employee Payroll	Contributions as a % of Covered Employee Payroll	
2017	\$ 227,382	\$ 227,382	\$ -	\$ 1,005,075	23%	
2016	\$ 144,879	\$ 144,879	\$ -	\$ 895,436	16%	
2015	\$ 126,999	\$ 126,999	\$ -	\$ 852,391	15%	

## Notes to Required Supplementary Information:

**Changes of benefit terms** – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this is still a fairly new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2016 are not material.

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

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

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

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



Martha S. Mavredes, CPA  
Auditor of Public Accounts

# Commonwealth of Virginia

*Auditor of Public Accounts*

P.O. Box 1295  
Richmond, Virginia 23218

March 16, 2018

The Honorable Ralph S. Northam  
Governor of Virginia

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

Board of Visitors  
Virginia State University

## INDEPENDENT AUDITOR'S REPORT

### Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component units of Virginia State University, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditor's Responsibility*

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

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

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

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

#### *Opinion*

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and aggregate discretely presented component units of the University as of June 30, 2017, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

#### *Other Matters*

##### **Prior-Year Summarized Comparative Information**

We have previously audited the University's June 30, 2016, financial statements, and we expressed an unmodified audit opinion on the respective financial statements in our report dated June 22, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, 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 two through ten, and the Schedule of Virginia State University's (VSU) Share of Net Pension Liability, the Schedule of Employer Contributions, and the Notes to Required Supplementary Information on pages 56 through 58, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated March 16, 2018, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the University's internal control over financial reporting and compliance.



AUDITOR OF PUBLIC ACCOUNTS





**VIRGINIA STATE UNIVERSITY BOARD OF VISITORS**  
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**VIRGINIA STATE UNIVERSITY ADMINISTRATIVE OFFICERS**  
**As of June 30, 2017**

**Dr. Makola M. Abdullah**

President

**Dr. Donald Palm**

Provost/Vice President of Academic Affairs

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Vice President for Finance

**Dr. Letizia Gambrell-Boone**

Vice President of Student Success and Engagement

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Vice President of Administration