VIRGINIA MILITARY INSTITUTE

AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview

The Virginia Military Institute (VMI or Institute) is pleased to present its financial statements for the fiscal year ended 30 June 2016, along with the financial statements of its affiliate component units. This management's discussion and analysis (MD&A) is designed to facilitate the reader's understanding of the accompanying financial statements and to provide an objective, easily readable analysis of the Institute's financial activities based on currently known facts, decisions and conditions. The discussion focuses primarily on VMI's fiscal year 2016 in comparison to the prior year and includes highly summarized data that should be read in conjunction with the accompanying financial statements, notes to the financial statements and other supplementary information.

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

Effective for the fiscal year ended 30 June 2016, the GASB issued Statement 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements. Statement 72 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It also provides guidance for determining fair value measurement for financial reporting purposes and for applying fair value to certain investments and disclosures related to all fair value measurements. The Institute's Note 2 to the financial statements, *Cash and Cash Equivalents and Investments*, has been updated to reflect GASB 72 disclosure requirements. Additionally, the Virginia Retirement System (VRS) implemented for 2016 GASB Statement 82, *Pension Issues*, the implications of which are required for periods beginning after 15 June 2016. Early adaption was chosen in order to address presentation of payroll related measures in Required Supplementary Information (RSI) and the classification of employer-paid member contributions.

Financial Highlights

VMI's overall financial position continued to improve during fiscal 2016 as the Institute's total net position, the residual interest in assets after liabilities are deducted, increased by $53 million or 20% to $315 million. The increase in net position was driven by $58 million in capital grants and contributions recognized during 2016 and the resultant $53 million increase in net capital assets. VMI's operating revenues rose $2.7 million or 5.8%, while a corresponding increase in operating costs was contained to $2.4 million or 2.9%. Opening fall enrollment of the Corps of Cadets increased to 1,717 in fiscal 2016 from 1,700 in fiscal 2015, continuing an upward trend over the past several years. The increase in the number of Cadets coupled with increases in the tuition rate of 5.5% (in-state) and 4.9% (out-of-state) contributed to the overall growth in operating revenues. State appropriations (non-capital) increased 5.8% in 2016 to $13.7 million overall, however, the annual amount remains below the $14.6 million received from the Commonwealth for the 2008 fiscal year.

Construction efforts continued during 2016 surrounding VMI's Corps Physical Training Facilities (CPTF), the Institute's highest priority capital project. Phase one, which encompasses construction of the indoor training facility complete with hydraulic track, high ropes course, endurance wall and climbing wall, commenced May 2014 and will conclude in the fall of 2016. Phase two, which includes renovation of Cormack Hall and Cocke Hall, began during the summer of 2014. Cocke and Cormack Halls provide Cadet physical conditioning facilities and support the Institute's Physical Education department. The renovation of Cormack Hall was substantially completed as of June 2015. Cocke Hall is expected to be complete at the beginning of the 2016 fall semester. Project costs for both phases (approximately $120 million) are funded through the Virginia College Building Authority's (VCBA) 21st Century bond issuance (an obligation of the State). Completion of the CPTF will provide state of the art facilities to support the rigorous physical training requirements unique to VMI.

Statement of Net Position

The Statement of Net Position presents the assets, deferred outflows, liabilities, deferred inflows and net position of the Institute as of the end of the fiscal year. The difference between total assets and total liabilities — net position — is one indicator of the current financial condition of the Institute. The purpose of the statement is to present readers with a fiscal snapshot as of 30 June 2016. The data presented facilitates readers' determination of the asset values available to support Institute operations and the amounts owed to vendors, creditors and others.

The Institute's net position is classified as follows:

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

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

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

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

Statement of Net Position

	30 June 2016	30 June 2015	Variance	
Assets:				
Current assets	$ 35,757,351	$ 33,016,722	$ 2,740,629	8.3%
Capital assets, net	330,772,318	277,391,137	53,381,181	19.2%
Other noncurrent assets	22,810,421	19,269,568	3,540,853	18.4%
Total assets	389,340,090	329,677,427	59,662,663	18.1%
Deferred outflows	3,056,893	2,675,015	381,878	14.3%
Total assets and deferred outflows	$ 392,396,983	$ 332,352,442	$ 60,044,541	18.1%
Liabilities:				
Current liabilities	$ 20,926,965	$ 16,401,888	$ 4,525,077	27.6%
Noncurrent liabilities	53,901,092	49,258,555	4,642,537	9.4%
Total liabilities	74,828,057	65,660,443	9,167,614	14.0%
Deferred Inflows	2,235,000	4,351,000	(2,116,000)	-48.6%
Total liabilities and deferred inflows	$ 77,063,057	$ 70,011,443	$ 7,051,614	10.1%
Net position:				
Net investment in capital assets	$ 312,467,433	$ 259,975,328	$ 52,492,105	20.2%
Restricted - expendable	10,479,202	10,733,426	(254,224)	-2.4%
Restricted - nonexpendable	1,256,116	1,256,116	-	0.0%
Unrestricted	(8,868,825)	(9,623,871)	755,046	7.8%
Total net position	$ 315,333,926	$ 262,340,999	$ 52,992,927	20.2%

As of 30 June 2016, VMI's total assets increased by $59.7 million or 18.1% from the prior year to $389.3 million. The change was due to overall net increases within each asset category; current assets, net capital assets and other noncurrent assets. Specifically, the considerable asset growth results from increases in capital assets ($53.4 million), as well as total cash and cash equivalents ($5.8 million) and current accounts receivables ($1.2 million).

Within current assets, the $1.2 million increase in accounts receivable is due to a year-end balance of $1.0 million outstanding from the VMI Alumni Agencies. Current cash and cash equivalents increased $1.9 million as a result of payments-in-process for suppliers, services and capital assets as of year-end. In contrast, cash equivalents held by the Treasurer of Virginia, which relate to securities lending activity facilitated and allocated by the Commonwealth, decreased $0.4 million for 2016. The increase in capital assets, which is inclusive of non-depreciable capital assets (land and construction in progress) and depreciable capital assets (buildings, building improvements, equipment and library books), was driven by net additions of $59.3 million in construction in progress (CIP). The rise in CIP, primarily due to continued CPTF activity, was offset by a $5.9 million decrease in depreciable assets (the result of $2.6 million in net asset additions less a $8.5 million increase in accumulated depreciation). Within noncurrent assets, cash held with the Treasurer of Virginia and the BB&T public fund checking balance increased by a collective $1.6 million. Institute funds held within the State Non-Arbitrage Program (SNAP), increased $2.7 million to $5.9 million in 2016 from $3.2 million in 2015.

Deferred outflows of resources (a consumption of net assets applicable to a future reporting period) remained relatively flat at $3.1 million. The largest component of deferred outflows reflects current year Virginia Retirement System (VRS) pension expense of $2.5 million that must be reclassified as a deferred outflow and subsequently recognized as a reduction of the net pension liability in 2017 per GASB 68/71 implementation requirements. Deferred inflows of resources (an acquisition of net assets applicable to future periods) decreased $2.1 million due to amortization of net deferred outflows and inflows related to pensions and the pension plan assets investment experience (i.e. the difference between projected and actual investment earnings).

The $4.5 million or 27.6% increase in total current liabilities was the result of $4.9 million growth in accounts payable and accrued expenses, of which $2.7 million relates to additional capital construction retainage and $2.1 million to aforementioned payments-in-process for suppliers, services and capital assets at year-end. Noncurrent liabilities increased $4.6 million or 9.4%, primarily due to $2.8 million of long term debt issued in 2016 through the Commonwealth's VCBA Pooled Bond Program for continuation of the Improve Post Facilities Project, offset by principal payments made during the year. The remaining increase relates to a $2.0 million expansion of the Institute's proportionate share of the Commonwealth's VRS and VaLORS Retirement Plans' net pension liability ($26.2 million in 2016 versus $24.2 million in 2015), which was initially recorded in 2015 as a result of GASB 68/71 implementation.

Statement of Revenues, Expenses, and Changes in Net Position

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

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

Nonoperating revenues are funds for which goods and services are not directly provided. Included in this category are State appropriations and gifts, which augment coverage of the Institute's operating expenses and support Cadet scholarships. As a result, VMI, similar to other public higher-education institutions, is expected to show a net operating loss.

Statement of Revenues, Expenses, and Changes in Net Position

	30 June 2016	30 June 2015	Variance	
Operating revenues:				
Tuition and fees	$ 23,877,959	$ 22,491,805	$ 1,386,154	6.2%
Grants and contracts	92,286	98,352	(6,066)	-6.2%
Auxiliary enterprises	21,009,976	19,836,375	1,173,601	5.9%
Unique military activities	3,204,701	3,103,502	101,199	3.3%
Other sources	1,654,339	1,566,292	88,047	5.6%
Total operating revenues	49,839,261	47,096,326	2,742,935	5.8%
Operating expenses:				
Educational and general	49,578,696	48,694,663	884,033	1.8%
Auxiliary enterprises	26,392,366	25,523,898	868,468	3.4%
Unique military activity	8,885,495	8,232,638	652,857	7.9%
Total operating expenses	84,856,557	82,451,199	2,405,358	2.9%
Operating loss	(35,017,296)	(35,354,873)	337,577	-1.0%
Nonoperating revenues (expenses):				
State appropriations	13,702,526	12,951,012	751,514	5.8%
Gifts, grants and contributions	16,511,328	17,339,846	(828,518)	-4.8%
Investments	45,107	547,366	(502,259)	-91.8%
Other	(517,773)	(790,478)	272,705	34.5%
Net nonoperating revenues	29,741,188	30,047,746	(306,558)	-1.0%
Income (loss) before other revenues	(5,276,108)	(5,307,127)	31,019	0.6%
Other revenues/reductions	58,269,035	37,531,499	20,737,536	55.3%
Increase (decrease) in net position	52,992,927	32,224,372	20,768,555	64.4%
Net position - beginning of year	262,340,999	230,116,627	32,224,372	14.0%
Net position - end of year	$ 315,333,926	$ 262,340,999	$ 52,992,927	20.2%

As of 30 June 2016, operating revenues increased by $2.7 million or 5.8%, slightly above the $2.4 million or 2.9% increase in operating expenses. The rise in operating revenues is attributed to tuition and fee increases as well as an increase in year over year enrollment. Opening fall enrollment grew from the prior period by 17 Cadets to 1,717, while total tuition and fees per individual increased by 5.5% and 4.9% for in-state and out-of-state Cadets, respectively. The increase in operating expenses was largely due to a combined growth of $2.40 million in auxiliary enterprises, academic support and unique military activity costs ($0.9 million, $0.8 million, and $0.7 million, respectively). Primary drivers for the additional fees include: Commonwealth initiated August 2015 pay raises; 2016 staffing of previously vacant administrative positions; increased depreciation expenses due to 2015 Cormack Hall completion; and additional athletic expenses incurred for indirect cost allocations, organizational membership fees, and recruiting and team travel expenses. The overall operating expense increase was offset by a $0.7 million decrease in physical plant operation and maintenance expenditures, specifically, $0.2 million in 2015 non-capitalized CPTF equipment expenditures not applicable to 2016, and a drop in utilities fees (natural gas) of approximately $0.2 million.

Net non-operating revenues decreased by $0.3 million or 1.0% due to $0.8 million less in 2016 private gifts and contributions compared to 2015 and a $0.50 million decline in investment income as a result of market conditions and the performance of investments pooled with VMI affiliates. These decreases were offset by a $0.8 million increase in Commonwealth appropriations and a prior year loss on plant assets disposal ($0.3 million) related to Cormack Hall renovations not applicable to 2016.

The $20.7 million increase in other revenues and reductions was due to recognition of an additional $20 million in 2016 Commonwealth capital contributions received through the VCBA 21st Century pooled bond program (an obligation of the Commonwealth) for continued construction of the Corps Physical Training Facilities, which are expected to be substantially complete by December 2016.

Statement of Cash Flows

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

Statement of Cash Flows

	30 June 2016	30 June 2015	Variance	
Net cash used by operating activities	$ (25,014,415)	$ (26,791,073)	$ 1,776,658	-6.6%
Net cash provided by noncapital financing activities	29,431,250	31,447,604	(2,016,354)	-6.4%
Net cash provided or used by capital and financing	876,521	(7,893,157)	8,769,678	111.1%
activities Net cash provided by investing activities	475,345	1,043,845	(568,500)	-54.5%
Net increase (decrease) in cash	5,768,701	(2,192,781)	7,961,482	363.1%
Cash - beginning of year	16,134,250	14,528,934	1,605,316	11.0%
Cash - end of year	$ 21,902,951	$ 12,336,153	$ 9,566,798	77.6%

Cash flows from operating activities will always result in a net use for the Institute as State appropriations and private gifts are treated as cash sources for noncapital or capital financing activities as opposed to operating funds. Tuition and fees ($23.2 million) and auxiliary charges ($20.7 million) represent the largest sources of operating cash, while compensation and benefits ($44.7 million) and supplies and services payments ($28.3 million) account for the most significant use of operating funds. Overall, net cash used by operating activities decreased $1.8 million (6.6%) in 2016 compared to 2015. This was due to $2.6 million of additional cash provided by increases in tuition and fees, auxiliary charges, and unique military activity charges, and decreases in payments for supplies and services, offset by $0.9 million in added salaries, benefits, supplies and services payments.

Net cash provided by noncapital financing activities consists primarily of private fund support ($14.7 million) and State appropriations ($13.7 million). The $2.0 million decrease in cash from noncapital financing activities was primarily due to a $3.0 million decline in private support (driven by 2015 receipt of a 2014 $1.4 million contributions receivable not applicable to 2016), offset by a $0.8 million increase in Commonwealth appropriations.

Net cash provided by capital and related financing activities consists largely of gifts and contributions from the Commonwealth's Virginia College Building Authority (VCBA) bond funding programs and the

VMI Development Board ($58.1 million and $27.9 million for 2016 and 2015, respectively). Current year gifts and contributions receipts were offset by $61.2 million ($34.7 million for 2015) of funds allocated towards the purchase and construction of capital assets primarily related to continued construction of the Corps Physical Training Facilities project ($55.9 million), which has an expected overall completion date of November 2016.

Capital Asset and Debt Administration

30 June 2016 represents the fourteenth year of the implementation of VMI's Vision 2039. Vision 2039 is a leadership plan rather than a construction plan; however, construction of new facilities and the renovation of older buildings on Post are essential components of Vision 2039. Since 2003, VMI has completed significant and comprehensive improvements to its facilities totaling approximately $245 million. This includes renovation of academic buildings, construction of a new Center for Leadership and Ethics, construction of new outdoor Military and Leadership Field Training Grounds, expansion and renovation of the Barracks and the Mess Hall, construction of a new Physical Plant facility, renovation of the Post Hospital and Cormack Hall, improvements to athletic facilities, and construction of parking facilities.

During fiscal year 2016 renovation and construction continued on a number of projects, including repairs to Barracks parapets, stoops, and windows, Postwide Closed Circuit Television installation, New Market waste water system upgrade, and Carroll Hall Psychology Laboratories. These projects were financed through VCBA pooled bonds that were sold in 2013, 2014, and 2015. The pooled bond funds are an obligation of the Institute and are reflected as a liability in the Institute's Statement of Net Position.

As previously highlighted, during fiscal year 2016 construction continued on the Corps Physical Training Facilities (CPTF) project. The CPTF initiative is currently VMI's highest priority project and consists of two phases: Phase I ($80 million) to construct a new Corps Physical Training Facility, and Phase II ($38 million) to renovate Cocke Hall and Cormack Hall which provide Cadet physical conditioning facilities and support VMI's physical education department, respectively. Both phases are funded by capital contributions from the Commonwealth of Virginia through the VCBA 21st Century bond funds which are an obligation of the State. The renovation of Cormack Hall was substantially completed in June 2015. Completion of the new Corps Physical Training Facility and the renovation of Cocke Hall are scheduled for completion in fall 2016.

All of the improvements noted above provide the most modernized and technologically advanced facilities in the long history of VMI. Since VMI began its Vision 2039 capital program, the Institute has incurred long-term debt only on Jackson Memorial Hall, the Cocke Hall Annex, Crozet Hall, South Institute Hill Parking, and several small repair and improvement projects. The remaining projects have been financed with State funds, auxiliary funds, or private gifts and contributions resulting in no debt obligations for the Institute. As of 30 June 2016, the debt outstanding on these projects totaled $24.4 million with annual debt service payments of $2.2 million. VMI's Board of Visitors adopted debt guidelines in August 2005 to help ensure sound management and control of debt and annually monitors the Institute's position relative to those guidelines.

The Institute's long-term debt consists of $7.2 million of bonds and $17.2 million of notes payable. The bonds payable were issued in August 2004 pursuant to Section 9(c) of Article X of the Constitution of Virginia by the Department of Treasury for the Commonwealth of Virginia on behalf of the Institute for renovation and expansion of Crozet Hall, the Institute dining facility, and parking. The bonds bear interest at an average coupon rate of 4.8% and are payable over 20 years through June 2025. The bonds are secured by the net revenues of the facilities, which are comprised primarily of Cadet fees.

The Institute's notes payable consists of debt obligations between VCBA and the Institute. VCBA issued bonds through its Pooled Bond Program and used the proceeds to purchase debt obligations (notes) of the Institute. Notes related to the Cocke Hall Annex and the Jackson Memorial Hall renovations, initially issued in 2002, have an average coupon rate of 4.3% and are payable over 20 years through 2023. Notes related to the South Institute Hill Parking project were issued in 2010 at an average coupon rate of 4.8% and are payable over 20 years through 2031. Notes related to the Post Improvements Phases I, II, and III projects were issued in 2013, 2014, and 2015, respectively, at an average coupon rate of 4.2% and are payable over 20 years through 2036. The Cocke Hall Annex, South Institute Hill Parking, and Post Improvements project notes will be paid from Auxiliary Enterprises Program reserve funds, which consist primarily of Cadet fees. The Jackson Memorial Hall note is secured by funds paid by the VMI Foundation, Inc. on a year-to-year basis as a gift to the Institute. Should the gift be discontinued, repayment will be made from the general revenues of the Institute.

Economic Outlook

The Institute's economic outlook is generally favorable due to its continuing strong Cadet demand and national reputation especially for its engineering programs. The Institute has consistently ranked high on the *U.S. News and World Report* list of public liberal arts colleges with a current ranking of #4 behind the three federal service academies. The magazine also ranks VMI's engineering programs as No. 25 nationally among colleges whose highest degree is a bachelor's or master's. *Money* magazine ranks VMI as the No. 5 college in Virginia and No. 42 overall among all colleges in the United States. The Brookings Institution ranks VMI No. 14 nationally in earnings value. As a public institution with significant private support, the Institute continues to be well positioned to provide excellent programs and services to its Cadets as it maintains a clear educational focus and a well-established niche in the higher education marketplace.

VMI received 1,949 Cadet applications for its fall 2016 new Cadet class resulting in an average for the past three years of 2,005 applications. VMI accepted 50% of the applicants for fall 2016 with a yield of 52% or 506 new Cadets. VMI accepted 52% of the applicants for fall 2015 with a yield of 50% or 495 new Cadets. The academic credentials of the Cadets enrolled continue to be significantly above average with the fall 2016 new Cadet class consisting of 46% in the top quarter and 86% in the top half of their high school class.

VMI remains committed to an average Corps size of about 1,625 Cadets with an appropriate mix of in-state and out-of-state Cadets to help maintain financial stability. In-state Cadets totaled 59% of the Corps for fiscal 2015 and 59% for fiscal 2016. VMI continues to strive to keep its tuition and fees affordable and competitive while offering significant financial assistance for Cadets with demonstrated need. Operating revenues consisting mostly of Cadet tuition and fees provided about $49.8 million or 62% of total revenues and support in fiscal 2016 with this percentage expected to increase in the future.

State support provided $13.7 million or 17% of VMI's total revenues and support for operations in fiscal 2016 excluding funding for capital projects. State support provided $57.7 million for capital projects consisting primarily of Corps Physical Training Facilities. State support for operations is expected to total about $15.2 million in fiscal 2017 for an increase of 10.8% over fiscal 2016. State support for capital projects for fiscal 2017 is estimated to total about $25.1 million and consists primarily of funding for the $118 million Corps Physical Training Facilities capital project.

Because State support is significant, VMI is directly impacted by changes in the State's economic outlook. FY 2016 State revenues fell short of forecasts with little likelihood of a significant economic upturn in the near future. In August 2016, the Governor's Office required State agencies to submit savings plans. Higher education institutions were exempt from this requirement; however, the possibility remains that VMI may experience State funding reductions in FY 2017 and it is very likely VMI will experience reductions in FY 2018.

Private support provided $15.8 million or 19% of VMI's total revenues and support for operations in fiscal 2016 excluding funding for capital projects. Private support provided $189,000 for capital project debt service and $250,000 in capital project planning/construction funds. Private support is derived mostly from VMI's alumni agencies and continues to remain strong due to ongoing fundraising efforts and the professional management of their diversified portfolio of endowment assets. The endowment had a market value of $382 million as of 30 June 2016 reflecting an increase of about 0.6% over fiscal 2015. The alumni agencies are in the final stages of a fund-raising campaign that is expected to significantly increase endowment earnings in support of new and existing programs.

VMI's executive management believes that there will be little growth in State support over the next few years. Because of the success of the ongoing fund-raising campaign, private support in the next few years is expected to increase, providing much needed revenues to help offset any State reductions. VMI remains committed to on-going improvement of academic programs, cost containment, and the affordability and competitiveness of tuition and fees. These commitments, along with continuing major investments and improvements in facilities, are expected to bolster the favorable student demand for the VMI education and keep the Institute's overall financial position strong.

FINANCIAL STATEMENTS

VIRGINIA MILITARY INSTITUTE
Statement of Net Position
As of 30 June 2016

ASSETS	
Current assets	
Cash and cash equivalents (Note 2)	$ 13,536,374
Cash equivalent held by Treasurer of Virginia (Note 2)	93,957
Accounts receivable, *Net of allowance for doubtful accounts of $78,904* (Note 3)	2,104,549
Due from the Commonwealth (Note 4)	11,460,986
Due from Federal Government	26,858
Prepaid expenditures	1,280,761
Inventories (Note 5)	6,914,849
Loans receivable	339,017
Total current assets	35,757,351
Noncurrent assets	
Cash and cash equivalents (Note 2)	2,331,708
Cash equivalent-restricted (Note 2)	5,940,912
Investments held with trustees (Note 2)	13,259,701
Appropriations available	137,057
Accounts receivable (Note 3)	48,804
Loans receivable, *Net of allowance for doubtful accounts of $36,266*	1,092,239
Nondepreciable capital assets (Note 6)	100,984,483
Depreciable capital assets, *Net of accumulated depreciation* (Note 6)	229,787,835
Total noncurrent assets	353,582,739
Total assets	389,340,090
DEFERRED OUTFLOWS OF RESOURCES	
Loss on refunding	574,530
Deferred outflows related to pensions (Note 12)	2,482,363
Total deferred outflows of resources	3,056,893
Total assets and deferred outflows of resources	392,396,983
LIABILITIES	
Current liabilities	
Accounts payable and accrued expenses (Note 7)	17,159,771
Unearned revenue	931,532
Obligations under securities lending	93,957
Deposits held for others	828,882
Long-term liabilities - current portion (Note 8)	672,823
Long-term debt - current portion (Note 8, 9)	1,240,000
Total current liabilities	20,926,965
Noncurrent liabilities	
Accrued liabilities (Note 7)	2,429,219
Federal loan program contributions refundable	1,359,276
Long-term liabilities - noncurrent portion (Note 8)	710,883
Long-term debt - noncurrent portion (Note 8, 9)	23,189,714
Net Pension Liability (Note 12)	26,212,000
Total noncurrent liabilities	53,901,092
Total liabilities	74,828,057

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

DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pensions (Note 12)	2,235,000
Total deferred inflows of resources	2,235,000
Total liabilities and deferred inflows of resources	77,063,057
NET POSITION	
Net investment in capital assets	312,467,433
Restricted-nonexpendable	
Endowment	1,256,116
Restricted-expendable	
Scholarships and other	1,824,330
Loan funds	583,419
Quasi-endowment-restricted	8,071,453
	10,479,202
Unrestricted	(8,868,825)
Total net position	315,333,926
Total liabilities, deffered inflows and net position	$ 392,396,983

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

COMBINED STATEMENT OF FINANCIAL POSITION
Component Units of Virginia Military Institute
As of 30 June 2016

ASSETS	
Current assets:	
Cash and cash equivalents	$ 7,912,412
Contributions receivable (Note 16)	12,745,582
Accounts receivable	120,857
Note receivable	115,574
Other	65,227
Total current assets	20,959,652
Noncurrent assets:	
Contributions receivable (Note 16)	17,225,412
Note receivable	342,279
Investments held by trustees (Note 16)	365,472,684
Investments, other (Note 16)	15,837,391
Investment securities	197,170
Cash surrender of life insurance	5,708,353
Property and equipment, net of accumulated depreciation	233,931
Total noncurrent assets	405,017,220
Total assets	425,976,872
LIABILITIES	
Current liabilities:	
Accounts payable and accrued expenses	1,743,972
Unearned revenue	4,935
Long-term liabilities-current portion:	
Trust and annuity obligations	657,069
Total current liabilities	2,405,976
Noncurrent liabilities:	
Other liabilities	68,249
Long-term liabilities-noncurrent portion:	
Note payable (Note 16)	-
Bonds payable (Note 16)	47,111,866
Trust and annuity obligations	4,739,548
Total noncurrent liabilities	51,919,663
Total liabilities	54,325,639
NET ASSETS	
Unrestricted	48,966,182
Temporarily restricted	146,251,650
Permanently restricted	176,433,401
Total net assets	371,651,233
Total liabilities and net assets	$ 425,976,872

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

VIRGINIA MILITARY INSTITUTE
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended 30 June 2016

Operating revenues:		
Tuition and fees, *Net of scholarship allowances of $7,029,837*	$	23,877,959
Federal grants and contracts		91,286
State and private grants and contracts		1,000
Sales and services of educational departments		361,185
Auxiliary enterprise, *Net of scholarship allowances of $5,873,046*		21,009,976
Unique military activities, *Net of scholarship allowances of $1,017,586*		3,204,701
Other sources:		
Museum programs		632,564
Rents and commissions		416,805
Miscellaneous		243,785
Total operating revenues		49,839,261
Operating expenses:		
Educational and general		
Instruction		22,060,579
Research		214,453
Public service		1,476,358
Academic support		7,659,305
Student services		3,935,264
Institutional support		6,171,389
Operation and maintenance of physical plant		7,024,484
Scholarships and related expense		1,036,864
Auxiliary enterprises		26,392,366
Unique military activities		8,885,495
Total operating expenses (Note 10)		84,856,557
Net operating loss		(35,017,296)
Nonoperating revenues/(expenses):		
State appropriations (Note 11)		13,702,526
Gifts and contributions		15,571,137
Federal student financial aid (Pell)		907,991
Federal stabilization funds (ARRA)		32,200
Investment income (loss)		45,107
Interest on capital asset - related debt		(534,497)
Gain/(loss) on disposal of plant assets		16,724
Net nonoperating revenues		29,741,188
Income (loss) before other revenues and extraordinary items		(5,276,108)
Other revenues and reductions:		
State appropriations - capital		137,057
Grants and contributions - capital		58,111,419
Investment income - capital		20,559
Total other revenues and reductions		58,269,035
Increase/(Decrease) in net position		52,992,927
Net position beginning of the year		262,340,999
Net position end of year	$	315,333,926

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

COMBINED STATEMENT OF ACTIVITIES
Component Units of Virginia Military Institute
For the Year Ended 30 June 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES				
Amounts raised on behalf of VMI	$ 11,168,977	$ 2,887,041	$ 24,523,172	$ 38,579,190
Grants, contributions and contracts	125,887	82,732	-	208,619
Investment income	441,740	1,170	-	442,910
Actuarial gain/(loss) on trust and annuity obligations	(180,615)	83,292	342,107	244,784
Administrative fees	12,500	-	-	12,500
Other income	3,649	-	-	3,649
Net assets released from restrictions and reclassifications	9,110,127	(9,110,127)	-	0
Total revenues	20,682,265	(6,055,892)	24,865,279	39,491,652
EXPENSES				
Amounts remitted directly to or on behalf of VMI:				
Unrestricted	7,595,237	-	-	7,595,237
Designated	10,819,875	-	-	10,819,875
Cost of operations	9,563,836	-	-	9,563,836
Conference, research and education	291,889	-	-	291,889
Total expenses	28,270,837	-	-	28,270,837
Change in net assets before net realized and unrealized gain/(loss) on investments	(7,588,572)	(6,055,892)	24,865,279	11,220,815
Net realized and unrealized gain/(loss) on investments	(2,597,689)	(5,516,234)	-	(8,113,923)
Change in net assets	(10,186,261)	(11,572,126)	24,865,279	3,106,892
NET ASSETS				
Beginning	59,152,443	157,823,776	151,568,122	368,544,341
Ending	$ 48,966,182	$ 146,251,650	$ 176,433,401	$ 371,651,233

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

VIRGINIA MILITARY INSTITUTE
Statement of Cash Flows
For the Year Ended 30 June 2016

Cash flows from operating activities:	
Tuition and fees	$ 23,248,906
Federal grants and contracts	91,286
State and private grants and contracts	1,000
Sales and services - educational and general	378,364
Auxiliary charges	20,746,549
Unique military activity charges	3,205,139
Other operating receipts	1,289,480
Payments to employees for salaries and benefits	(44,732,844)
Payments for supplies and services	(28,337,221)
Payments for scholarships and fellowships	(1,045,656)
Loan funds issued to students	(164,239)
Collections of loans from students	304,821
Net cash used by operating activities	(25,014,415)
Cash flows from noncapital financing activities:	
State appropriations	13,702,526
Nonoperating grants and contracts	960,302
Gifts and contributions for other than capital purposes	14,717,906
Federal Direct Lending Program - receipts	7,408,949
Federal Direct Lending Program - disbursements	(7,408,949)
Agency receipts	1,271,098
Agency disbursements	(1,220,582)
Net cash provided by noncapital financing activities	29,431,250
Cash flows from capital and related financing activities:	
Capital gifts and contributions	58,111,501
Proceeds from capital assets	1,108,484
Purchase and construction of capital assets	(61,165,241)
Proceeds from capital debt	4,226,162
Principal paid on capital debt, leases and installments	(740,308)
Interest paid on capital debt, leases and installments	(684,636)
Investment income - capital	20,559
Net cash used by capital and relating financing activities	876,521
Cash flows from investing activities:	
Interest on investments	91,753
Investment/Endowment income	220,508
Sale of investments	163,084
Net cash provided by investing activities	475,345
Net increase in cash	5,768,701
Cash and cash equivalents- beginning of year	16,134,250
Cash and cash equivalents - end of year	$ 21,902,951

VIRGINIA MILITARY INSTITUTE
Statement of Cash Flows
For the Year Ended 30 June 2016

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

Operating loss	$	(35,017,296)
Adjustments to reconcile net operating expenses to cash used by operating activities:		
Depreciation expense		9,593,404
Changes in assets, liabilities, deferred outflows, and deferred inflows:		
Accounts receivable		(409,095)
Inventories		2,458
Prepaid expenditures		(22,163)
Loans receivable		125,629
Deferred outflows of resources related to pensions		(458,430)
Accounts payable and accrued liabilities		1,738,206
Unearned revenue		(469,450)
Compensated absences		6,781
Federal loan program contributions refundable		12,542
Net Pension Liability		1,999,000
Deferred inflows related to pensions		(2,116,000)
Net cash used in operating activities	$	(25,014,414)

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

Change in fair value of investments recognized as a component of investment income	$	(510,613)
Amoritzation of bond premium/discount and gain/loss on debt refinancing		(261,681)
Capitalization of interest revenue and expense, net		(309,850)
Gain on disposal of capital assets		16,724

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

Cash and cash equivalents classified as current assets	$	13,630,331
Cash and cash equivalents classified as noncurrent assets		8,272,620
	$	21,902,951

- NOTES TO FINANCIAL STATEMENTS -

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

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

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

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

The VMI Research Laboratories (VMIRL) is a legally separate, tax-exempt entity whose purpose is to administer contract and grant research at the Institute. Because of this relationship to the Institute, it also has been determined to be a component unit of VMI. Both the VMI Alumni Agencies and the VMIRL have been discretely presented in these statements in accordance with GASB Statement 39.

Because the VMI Alumni Agencies and the VMIRL report under a different reporting model, the Financial Accounting Standards Board (FASB) standards, the VMI Board of Visitors and the administration of the Institute believe the Institute's financial statements should be presented on a separate page from the Institute's component units as allowed by GASB Statement 39. Separate financial statements for the VMI Alumni Agencies may be obtained by visiting www.vmi.edu/foundation/stewardship or by writing the Chief Financial Officer, VMI Foundation, Inc., 304 Letcher Avenue, P.O. Box 932, Lexington, Virginia 24450. Separate financial statements for the VMI Research Laboratories, Inc., may be obtained by writing the Treasurer, VMI Research Laboratories, Inc., Virginia Military Institute, Lexington, Virginia 24450.

B. Reporting Basis

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

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

C. Basis of Accounting

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

D. Cash, Cash Equivalents and Investments

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

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

In accordance with GASB Statement 72, *Fair Value Measurement and Application*, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value of covered assets or liabilities is measured by either the market, cost or income approaches and is disclosed in accordance with the prescribed fair value hierarchy. The fair value hierarchy is categorized based upon the observability of inputs to valuation techniques used in measurement.

E. Capital Assets

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

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

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

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

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

F. Inventories

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

G. Deferred Outflows of Resources

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

H. Unearned Revenue

Unearned revenue represents revenues collected but not earned as of 30 June 2016. This is primarily composed of revenue for Cadet tuition and fees received in advance of the semester or term.

I. Interest Capitalization

Interest expense incurred during the construction of capital assets is capitalized, if material, net of interest income earned on resources set aside for this purpose. The Institute incurred interest expense totaling $844,347 for the fiscal year ended 30 June 2016, of which $309,850 was capitalized as construction period interest.

J. Accrued Compensated Absences

The amount of leave earned, but not taken by classified salaried employees is recorded as a liability on the Statement of Net Position. The amount reflects, as of 30 June 2016, all unused vacation leave, overtime leave, compensatory leave, and the amount payable upon termination under the Commonwealth's sick leave payout policy. The applicable share of employer related taxes payable on the eventual termination payments is also included.

K. Federal Financial Assistance Programs

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

L. Deferred Inflows of Resources

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

M. Net Position

The Institute's net position is classified as follows:

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

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

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

Unrestricted net position*:* Unrestricted net position represents resources derived from Cadet tuition and fees, Commonwealth appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the Institute, and may be used at the discretion of the Board of Visitors for any lawful purpose in support of the Institute's primary mission. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for Cadets, faculty and staff. Also included in unrestricted net position are funds that have been set aside by the Board of Visitors as quasi-endowments. These funds are treated similar to true endowment funds, however, unlike true endowments, they may be expended.

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

N. Classification of Revenues

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

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

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

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

O. Pensions

The Virginia Retirement System (VRS) State Employee Retirement Plan and the Virginia Law Officers' System (VaLORS) Retirement Plan are single employer pension plans that are treated like cost-sharing plans. For 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 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 Pan'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.

P. Recently Adopted Accounting Pronouncements

In February 2015, the GASB issued Statement 72, *Fair Value Measurement and Application*, which is effective for periods beginning after 15 June 2015 and defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It also establishes standards of accounting and financial reporting for assets and liabilities measured at fair value. The fair value of covered assets or liabilities is measured by either the market, cost or income approaches and is disclosed in accordance with the prescribed fair value hierarchy. The fair value hierarchy is categorized based upon the observability of inputs to valuation techniques used in the measurement. The Institute's Note 2: Cash and Cash Equivalents and Investments, has been updated in accordance with GASB Statement 72.

In March 2016, the GASB issued Statement 82, *Pension Issues*, which is effective for periods beginning after 15 June 2016. The objective of the pronouncement is to address certain issues that have been raised with respect to GASB Statements 67, 68 and 73. Specifically, this Statement addresses issues regarding the presentation of payroll-related measures in required supplementary information, the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The VRS and VMI chose early implementation of Statement 82 to specifically address proper presentation of payroll related measures in RSI and the classification of employer-paid member contributions.

NOTE 2: CASH AND CASH EQUIVALENTS AND INVESTMENTS

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

Custodial Credit Risk (Category 3 deposits and investments) – The custodial risk for deposits is the risk that, in the event of a failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in possession of an outside party. The Institute had no category 3 deposits or investments for fiscal year 2016.

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

Concentration of Credit Risk – The risk of loss attributed to the magnitude of a government's investment in a single issuer. Disclosure of investments with any one issuer that represents five percent or more of total investments is required. However, investments issued or explicitly guaranteed by the U.S. Government and investments in mutual funds, external investment pools and other pooled investments are excluded from the requirement. The Institute does not have investments subject to risks due to concentration of credit.

Interest Rate Risk – The risk that interest rate changes will adversely affect the fair value of an investment. GASB Statement 40 requires disclosure of maturities for any investments subject to interest rate risk. The Institute does not have an interest rate risk policy and does not have investments or deposits that are highly sensitive to changes in interest rates as of 30 June 2016.

Foreign Currency Risk – The risk that investments denominated in foreign currencies may lose value due to adverse fluctuations in the value of the U.S. dollar relative to foreign currencies. The Institute has investments which may be subject to foreign currency risk.

Cash and Cash Equivalents

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

Cash and cash equivalents consist of the following balances as of 30 June 2016:

	Current	Noncurrent	Total
Cash with Treasurer of Virginia	$ 10,583,083	$ 1,967,049	$ 12,550,132
State Non-Arbitrage Program (SNAP)	-	5,940,912	5,940,912
BB&T public fund checking	2,918,141	364,659	3,282,800
Securities under Securities Lending/Treasurer VA	93,957	-	93,957
Petty cash	7,150	-	7,150
Wells Fargo time deposit	28,000	-	28,000
Total cash and cash equivalents	$ 13,630,331	$ 8,272,620	$ 21,902,951

Investments

Investments include endowment and similar funds pooled and invested with VMI affiliates and retirement fund investments for selected employees. Investments consist of the following balances as of 30 June 2016:

	Current	Noncurrent	Total
Investments with trustees:			
Investments pooled with VMI affiliates	$ -	$ 10,972,150	$ 10,972,150
Mutual fund investments (retirement accounts)	-	2,287,551	2,287,551
Total investments	$ -	$ 13,259,701	$ 13,259,701

Fair Value Measurements

Accounting standards establish general principles for measuring fair value, standards of accounting and financial reporting for assets and liabilities measured at fair value and a fair value hierarchy that categorizes the inputs to valuation techniques used to measure fair value into three levels. The fair value hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that a government can access at the measurement date. Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for an asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for an asset or liability.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques utilized need to maximize the use of observable inputs and minimize the use of unobservable inputs. All assets reported at fair value have been valued using the market approach (i.e. using prices and other relevant information generated by market transactions involving identical or similar assets, liabilities, or groups of assets and liabilities). As of fiscal year end, VMI did not hold any assets categorized as Level 2 or 3.

Mutual fund investments (retirement accounts) are valued utilizing the closing price reported on the active market on which the individual funds are traded to derive the net asset value of shares held at year end.

The following table sets forth by level, within the fair value hierarchy, the Institute's assets at fair value at 30 June 2016. Certain investments that are measured at fair value using the net asset value per share (or its equivalent) have not been categorized in the fair value hierarchy. The amounts presented are intended to permit reconciliation of the fair value hierarchy to the Statement of Net Positon.

	Balance at 30 June 2016	Quoted prices in active markets for identical assets (Level 1)	Fair value established using Net Asset Value (NAV)	Amounts not measured at fair value
Cash with Treasurer of Virginia	$ 12,550,132	$ -	$ -	$ 12,550,132
State Non-Arbitrage Program (SNAP)	5,940,912	-	-	5,940,912
BB&T public fund checking	3,282,800	-	-	3,282,800
Securities under Securities Lending/Treasurer VA	93,957	-	-	93,957
Petty Cash	7,150	-	-	7,150
Wells Fargo time deposit	28,000	-	-	28,000
Investments held with trustees:				
Mutual fund investments (retirement accounts)	2,287,551	2,287,551	-	-
Investments pooled with VMI affiliates*	10,972,150	-	10,972,150	-
Total cash, cash equivalents and investments	$ 35,162,652	$ 2,287,551	$ 10,972,150	$ 21,902,951

INVESTMENTS MEASURED AT NET ASSET VALUE (NAV)

	Fair Value at 30 June 2016	**Redemption Frequency (If Currently Eligible)**	**Redemption Notice Period**
Investments pooled with VMI affiliates	10,972,150	(a)	(a)
	$ 10,972,150		

*(a) See * and Note 15 for additional discussion regarding VMI Investment Holdings, LLC operations.*

*VMI's endowment, loan and similar funds are pooled for investment purposes with the endowment funds of its affiliate, the VMI Alumni Agencies (the VMI Foundation, Inc., the VMI Development Board, Inc., and the VMI Keydet Club) and the George C. Marshall Foundation. VMI owns units in the pooled fund (the "Fund") that operates similar to a mutual fund. VMI Investment Holdings, LLC (LLC) manages and operates the unitized investment pool with BNY Mellon, N.A. serving as custodian. The VMI Foundation, Inc. is the sole member of the LLC and acts as an intermediary between the LLC, VMI and the other agencies. Deposits to and withdrawals from the pool by VMI and the other agencies are made through the LLC. There are currently no official restrictions regarding redemption frequency or required notification. A separate board of directors manages the LLC. The board has approved an investment policy that outlines the standards and disciplines adopted, and the investment objectives, principles, and guidelines for managing the Fund. Authorized investments are set forth in the Uniform Prudent Management of Institutional Funds Act, Section 55-268 et seq. of the *Code of Virginia* and may include any real or personal property, whether or not it produces a current return, including mortgages, stocks and bonds, debentures, and other securities of profit or nonprofit corporations, shares in or obligations of associations, partnerships, or individuals, and obligations of any government or subdivision.

The market value of the Fund as of 30 June 2016 was $382 million, of which, VMI owned $11.0 million or 2.9 percent of the Fund assets. The Fund annually approves an asset allocation which directs how assets are invested amongst major categories of investments. The Fund held $32.2 million in debt securities with an average maturity of 8.4 years. The average quality rating was Aa2 (Moody's). The Fund held $76.6 million in US equity investments. The Fund held $49.7 million in developed markets international funds with equities denominated primarily in the Euro, the Pound, and the Yen, and $33.6 million in emerging markets international funds with equities denominated in a variety of currencies. The Fund held $80.3 million in absolute return fund investments, which may also hold fixed income and equity securities. The Fund held $60.7 million in private investments and $15.2 million in master limited partnerships. The remaining investments are held in cash and other diversifying instruments. The custodians for the Fund are independently audited annually.

Funds Held In Trust By Others

Individual assets of funds held by trustees for the benefit of the Institute are not reflected in the accompanying Statement of Net Position. The Institute has irrevocable rights to all or a portion of the income of these funds. However, individual assets of the funds are not under the management discretion of the Institute according to the trust agreements. Income from funds held by trustees for the benefit of the Institute totaled $99,982 for fiscal year 2016 and is included in the endowment income.

Securities Lending Transactions

Securities lending transactions accounting and financial reporting standards are established by GASB Statement 28, *Accounting and Financial Reporting for Securities Lending Transactions*. In these transactions, governmental entities transfer their securities to broker-dealers and other entities for collateral and simultaneously agree to return the collateral for the same securities in the future. Collateral for securities lending transactions reported on the financial statements represent the Institute's allocated share of securities received for securities lending transactions held in the General Account of the Commonwealth. Information related to the credit risk of these investments and securities lending transactions held in the General Account is available on a statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report (CAFR). The Commonwealth's policy is to record unrealized gains and losses in the General Fund in the Commonwealth's basic financial statements. When gains or losses are realized, the actual gains and losses are recorded by the affected agencies.

NOTE 3: ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at 30 June 2016:

	Current	Noncurrent	Total
Student tuition and fees	$ 759,358	$ -	$ 759,358
Other educational and general	56,689	-	56,689
Auxiliary enterprises	237,212	-	237,212
Unique military activity	3,508	-	3,508
Private gifts	1,025,072	-	1,025,072
Agency funds	26,834	-	26,834
Other operating	57,520	48,804	106,324
Retirement of indebtedness	17,260	-	17,260
	$ 2,183,453	$ 48,804	$ 2,232,257
Less: Allowance for doubtful accounts	(78,904)	-	(78,904)
Total accounts receivable, net	$ 2,104,549	$ 48,804	$ 2,153,353

NOTE 4: COMMONWEALTH REIMBURSEMENT PROGRAMS

The Commonwealth has established several programs to provide state-supported institutions of higher education with bond proceeds for financing the acquisition and replacement of instructional and research equipment and facilities. During the 2016 fiscal year, funding has been provided to the Institute from two programs (21^{st} Century Program and the Equipment Trust Fund) managed by the Virginia College Building Authority (VCBA). The VCBA issues bonds and uses the proceeds to reimburse the Institute for expenses incurred in the acquisition of equipment and facilities.

The line item, "Due from the Commonwealth" on the Statement of Net Position for the year ended 30 June 2016 represents pending reimbursements from the following programs:

VCBA Equipment Trust Fund program	$ 614,837
VCBA 21st Century program	10,846,149
Total Due from Commonwealth	$ 11,460,986

NOTE 5: INVENTORIES

Inventories consisted of the following balances at 30 June 2016:

Military Store	$ 6,281,273
Physical Plant	370,150
Museums	242,095
VMI Hospital	21,331
Total	$ 6,914,849

NOTE 6: CAPITAL ASSETS

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

	Beginning Balance 1 July 2015	Additions	Reductions	Ending Balance 30 June 2016
Nondepreciable capital assets:				
Land	$ 3,445,091	$ -	$ -	$ 3,445,091
Construction in progress	38,220,160	61,525,769	(2,206,537)	97,539,392
Total nondepreciable capital assets	41,665,251	61,525,769	(2,206,537)	100,984,483
Depreciable capital assets:				
Buildings	296,421,562	2,206,537	(45,164)	298,582,935
Improvements other than buildings	30,545,269	-	-	30,545,269
Equipment	17,391,477	1,289,425	(576,278)	18,104,624
Library books	11,917,898	192,272	(441,927)	11,668,243
Total depreciable capital assets	356,276,206	3,688,234	(1,063,369)	358,901,071
Less accumulated depreciation for:				
Buildings	87,977,592	6,563,995	(45,164)	94,496,423
Improvements other than buildings	9,045,286	1,466,047	-	10,511,333
Equipment	13,233,016	1,270,015	(543,396)	13,959,635
Library books	10,294,426	293,346	(441,927)	10,145,845
Total accumulated depreciation	120,550,320	9,593,403	(1,030,487)	129,113,236
Depreciable capital assets, net	235,725,886	(5,905,169)	(32,882)	229,787,835
Total capital assets, net	$ 277,391,137	$ 55,620,600	$ (2,239,419)	$ 330,772,318

NOTE 7: ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at 30 June 2016:

	Current	Noncurrent	Total
Employee salaries, wages and benefits payable	$ 3,983,735	$ -	$ 3,983,735
Vendors and supplies accounts payable	8,560,166	-	8,560,166
Accrued interest payable	260,285	-	260,285
Retainage payable	4,113,160	-	4,113,160
Contractual liability	242,425	141,667	384,092
Retirement annuities	-	2,287,552	2,287,552
Total accounts payable and accrued expenses	$ 17,159,771	$ 2,429,219	$ 19,588,990

NOTE 8: LONG-TERM LIABILITIES SUMMARY

The Institute's long-term liabilities primarily consist of long-term debt (further described in Note 9) and accrued compensated absences. A summary of changes in long-term liabilities for the year ending 30 June 2016 is presented as follows:

	Beginning Balance 1 July 2015	Additions	Reductions	Ending Balance 30 June 2016	Current Portion 30 June 2016
Long-term debt:					
Bonds payable	$ 7,591,419	$ -	$ (402,786)	$ 7,188,633	$ 580,000
Notes payable	13,614,122	4,226,162	(599,203)	17,241,081	660,000
Total long-term debt	$ 21,205,541	$ 4,226,162	$ (1,001,989)	$ 24,429,714	$ 1,240,000
Accrued compensated absences	1,376,925	842,863	(836,082)	1,383,706	672,823
Total long-term liabilities	$ 22,582,466	$ 5,069,025	$ (1,838,071)	$ 25,813,420	$ 1,912,823

NOTE 9: LONG-TERM INDEBTEDNESS DETAIL

Bonds payable:

In August 2004, pursuant to Section 9(c) of Article X of the Constitution of Virginia, $11,240,000 of revenue bonds, Series 2004A, were issued by the Department of Treasury for the Commonwealth of Virginia, on behalf of the Institute for renovation and expansion of Crozet Hall, the Institute dining facility, and parking. The bonds bear interest at an average coupon rate of 4.8% and are payable over 20 years through June 2025. Net proceeds after the cost of issuance totaled $11,889,591 and included a premium realized on the sale. The revenue bonds are secured by the net revenues of the facility, which is comprised primarily of Cadet fees.

Bonds Payable:	Interest Rates (%)	Maturity	Balance 30 June 2016
Crozet Hall:			
Series 2009D, issued $4,241,860 - refunding Series 2004A *	2.50 - 5.00	2022	$ 4,311,481
Series 2012A, issued $3,018,620 - refunding Series 2004A *	2.00 - 5.00	2025	2,877,152
			$ 7,188,633

Notes payable:

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

Notes Payable:	Interest Rates (%)	Maturity	Balance 30 June 2016
Cocke Hall Annex:			
Series 2007B, issued $735,000 - refunding Series 2002A *	4.00 - 4.50	2020	$ 518,882
Series 2010B, issued $555,000 - refunding Series 2002A *	2.00 - 5.00	2023	502,044
Jackson Memorial Hall Renovation:			
Series 2007B, issued $850,000 - refunding Series 2002A *	4.00 - 4.50	2020	600,142
Series 2010B, issued $650,000 - refunding Series 2002A *	2.00 - 5.00	2023	584,994
South Institute Hill Parking:			
Series 2010A1/2, issued $2,850,000	3.75 - 5.00	2031	2,507,728
Improve Post Facilities I:			
Series 2013A, issued $4,085,000	2.00 - 4.00	2034	4,103,901
Improve Post Facilities II:			
Series 2014A, issued $3,565,000	2.00 - 5.00	2035	4,206,304
Improve Post Facilities III:			
Series 2015A, issued $3,915,000	3.00 - 5.00	2035	4,217,086
			$ 17,241,081

Maturities on notes and bonds payable for years succeeding 30 June 2016 are as follows:

Year	Bonds Payable	Notes Payable	Total
2017	$ 580,000	$ 660,000	$ 1,240,000
2018	610,000	810,000	1,420,000
2019	640,000	855,000	1,495,000
2020	670,000	890,000	1,560,000
2021	705,000	930,000	1,635,000
2022-2026	3,228,614	4,205,000	7,433,614
2027-2031	-	4,340,000	4,340,000
2032-2036	-	3,235,000	3,235,000
Total principal payments	6,433,614	15,925,000	22,358,614
Unamortized premium	755,019	1,316,081	2,071,100
Total long-term debt, net	$ 7,188,633	$ 17,241,081	$ 24,429,714

A summary of future interest commitments for fiscal years subsequent to 30 June 2016 is presented as follows:

Year	Bonds Payable	Notes Payable	Total
2017	$ 306,907	$ 689,198	$ 996,105
2018	277,907	655,029	932,936
2019	247,407	616,816	864,223
2020	215,407	580,566	795,973
2021	181,907	542,516	724,423
2022-2026	321,304	2,068,526	2,389,830
2027-2031	-	1,142,263	1,142,263
2032-2036	-	275,428	275,428
Total future interest requirements	$ 1,550,839	$ 6,570,342	$ 8,121,181

Operating Leases

VMI is committed under various operating leases for equipment. Operating leases do not give rise to property rights and are not reflected as obligations in the Institute's Statement of Net Position. In general, the leases have a three-year term and the Institute has renewal options. In most cases, the Institute expects that these leases will be replaced by similar leases in the normal course of business. Rental expense was approximately $1,317 for the year ended 30 June 2016. Minimum lease payments for subsequent fiscal years are as follows:

Year Ending 30 June	Amount
2017	1,317
2018	1,317
2019	-
Total	$ 2,634

Capital Improvement Commitments

As of 30 June 2016, the Institute had outstanding construction contract commitments of $14,418,423. This amount represents the value of obligations remaining on capital improvement project contracts. These obligations are for future efforts and, as such, have not been accrued as expenses or liabilities on the Institute's financial statements.

NOTE 10: EXPENSES BY NATURAL CLASSIFICATION

The Institute's operating expenses by natural classification were as follows for the year ended 30 June 2016:

Program	Compensation and benefits	Supplies, Equipment, Utilities and Other Services	Student Aid	Other Expenses	Depreciation	Total
Instruction	$ 18,117,095	$ 1,172,884	$ -	$ 56,381	$ 2,714,220	$ 22,060,580
Research	68,285	53,788	-	92,380	-	214,453
Public service	643,625	486,633	-	10,763	335,336	1,476,357
Academic support	4,641,643	1,888,470	-	44,250	1,084,943	7,659,306
Student services	2,477,429	1,128,973	-	80,735	248,127	3,935,264
Institutional support	3,669,606	2,062,037	-	295,623	144,123	6,171,389
Operation of plant	2,987,268	2,979,042	-	477,011	581,163	7,024,484
Student aid	3,918	39,447	993,499	-	-	1,036,864
Auxiliary enterprises	6,216,060	10,765,500	60,000	5,926,161	3,424,645	26,392,366
Unique military activities	5,422,555	1,824,474	-	577,618	1,060,847	8,885,494
TOTAL	$ 44,247,484	$ 22,401,248	$ 1,053,499	$ 7,560,922	$ 9,593,404	$ 84,856,557

NOTE 11: STATE APPROPRIATIONS

The Institute receives State appropriations from the General Fund of the Commonwealth of Virginia. The Appropriation Act specifies that such unexpended appropriations shall revert, as specifically provided by the General Assembly, at the end of the biennium. For years ending at the middle of the biennium, unexpended appropriations that have not been approved for reappropriation in the next year by the Governor become part of the General Fund of the Commonwealth and are, therefore, no longer available to VMI for disbursement. Fiscal year 2016 ends the biennium.

During the fiscal year ended 30 June 2016, the Institute received the following supplemental appropriations and reversions in accordance with the Appropriation Act:

Original legislative appropriation:		
Educational and general (E&G) programs	$	8,990,148
Unique military activity (UMA)		3,644,904
Student financial assistance		970,928
Adjustments:		
Compensation adjustments		545,805
ETF lease payment – NGF portion		(88,844)
Student financial assistance		10,800
Debt service fee – Non-Virginia Cadets		(377,190)
Appropriation transfers:		
SCHEV programs		5,980
Educational and general (E&G)		(5)
Adjusted appropriation	$	13,702,526

NOTE 12: RETIREMENT AND PENSION SYSTEMS

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 criterion. The specific information for each plan and the eligibility for covered groups within each plan are set out in the table below:

Retirement Plan Provisions by Plan Structure		
Plan 1	**Plan 2**	**Hybrid Retirement Plan**
About Plan 1 Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010,	**About Plan 2** Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010,	**About the Hybrid Retirement Plan** The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were

and they were vested as of January 1, 2013.	or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.	eligible and opted into the plan during a special election window (see "Eligible Members"). • The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. • In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.
Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010 and they were vested as of January 1, 2013. **Hybrid Opt-In Election** VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement	**Eligible Members** Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013. **Hybrid Opt-In Election** Eligible plan 2 members were allowed to make in irrevocable decision to opt into the Hybrid	**Eligible Members** Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes: • State employees* • Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1 – April 30, 2014; the

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

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

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

service credit at retirement. It is one of the benefit payout options available to a member at retirement. An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit		**<u>Defined Contribution Component</u>:** The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.
Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
Service Retirement Multiplier **VRS:** The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70% **VaLORS:** The retirement multiplier for VaLORS employees is 1.70% or 2.00%	**Service Retirement Multiplier** **VRS:** Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013. **VaLORS:** The retirement multiplier for VaLORS employees is 2.00%.	**Service Retirement Multiplier** **<u>Defined Benefit Component</u>:** **VRS:** The retirement multiplier for the defined benefit component is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans. **VaLORS:** Not applicable. **<u>Defined Contribution Component</u>:** Not applicable.
Normal Retirement Age **VRS:** Age 65 **VaLORS:** Age 60	**Normal Retirement Age** **VRS:** Normal Social Security retirement age. **VaLORS:** Same as Plan 1	**Normal Retirement Age** **<u>Defined Benefit Component</u>:** **VRS:** Same as Plan 2 **VaLORS:** Not applicable.

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

and half of any additional increase (up to 4%) up to a maximum COLA of 5%. **<u>Eligibility</u>:** For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date. For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date. **<u>Exceptions to COLA Effective Dates</u>:** The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances: • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member is involuntarily separated from employment for causes other than job	for a maximum COLA of 3%. **<u>Eligibility</u>:** Same as Plan 1. **<u>Exceptions to COLA Effective Dates</u>:** Same as Plan 1.	**<u>Defined Contribution Component</u>:** Not applicable. **<u>Eligibility</u>:** Same as Plan 1 and Plan 2. **<u>Exceptions to COLA Effective Dates</u>:** Same as Plan 1 and Plan 2.

performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.		
Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted. Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.	**Disability Coverage** Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted. Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.	**Disability Coverage** State employees (including Plan 1 and Plan 2 opt-ins) participating in the Hybrid Retirement Plan are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VSDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.
Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an	**Purchase of Prior Service** Same as Plan 1.	**Purchase of Prior Service** **Defined Benefit Component:** Same as Plan 1, with the following exceptions: • Hybrid Retirement

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.		Plan members are ineligible for ported service. • The cost for purchasing refunded service is the higher if 4% of creditable compensation or average final compensation. • Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost. **<u>Defined Contribution Component</u>:** Not applicable.

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, the 5.00% member contribution was paid by the employer. Beginning July 1, 2012 state employees were required to pay the 5.00% member contribution and the employer was required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. Each state agency's contractually required contribution rate for the year June 30, 2016 was 12.33% of covered employee compensation for employees in the VRS State Employee Retirement Plan for July 2015, 13.28% for August 2015 and 14.22% for September 2015 through June 2016. For employees in the VaLORS Retirement Plan, the contribution rate was 17.67% of covered employee compensation for July 2015, 18.34% for August 2015 and 19.00% for September 2015 through June 2016. These rates were based on an actuarially determined rate from an actuarial valuation as of June 30, 2013. The actuarial rate for the VRS State Employee Retirement Plan was 15.80% and the actuarial rate for VaLORS Retirement Plan was 21.06%. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Based on the provisions of §51.1-145 of the *Code of Virginia*, as amended, the contributions for the VRS State Employee Retirement Plan were funded at 78.02% of the actuarial rate and the contributions for the VaLORS Retirement Plan were funded at

83.88% of the actuarial rate for the year ended June 30, 2016. Additional funding provided by the General Assembly moved the contribution rates to 90% of the actuarial rate by September 2015 and for the remainder of FY 2016. Contributions from the Institute to the VRS State Employee Retirement Plan were $2,232,003 and $1,968,153 for the years ended June 30, 2016 and June 30, 2015, respectively. Contributions from the Institute to the VaLORS Retirement Plan were $77,936 and $72,738 for the years ended June 30, 2016 and June 30, 2015, respectively.

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

At June 30, 2016, the Virginia Military Institute reported a liability of $25,348,000 for its proportionate share of the VRS State Employee Retirement Plan Net Pension Liability and a liability of $864,000 for its proportionate share of the VaLORS Retirement Plan Net Pension Liability. The Net Pension Liability was measured as of June 30, 2015 and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. VMI's proportion of the Net Pension Liability was based on the Institute's actuarially determined employer contributions to the pension plan for the year ended June 30, 2015 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2015, VMI's proportion of the VRS State Employee Retirement Plan was 0.414% as compared to 0.418% at June 30, 2014. At June 30, 2015, the Institute's proportion of the VaLORS Retirement Plan was 0.122% compared to 0.123% at June 30, 2014.

For the year ended June 30, 2016, the Virginia Military Institute recognized pension expense of $1,526,000 for the VRS State Employee Retirement Plan and $71,000 for the VaLORS Retirement Plan. Since there was a change in proportionate share between June 30, 2014 and June 30, 2015, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

At June 30, 2016, the Institute reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

VRS Retirement Plan

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 182,000	$ -
Change in assumptions	-	-
Net difference between projected and actual earnings on pension expense	-	1,823,000
Changes in proportion and differences between Employer contributions and proportionate share of contributions	-	357,000
Employer contributions subsequent to the measurement date	2,222,915	-
Total	$ 2,404,915	$ 2,180,000

VaLORS Retirement Plan

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ 4,000
Change in assumptions	-	-
Net difference between projected and actual earnings on pension expense	-	37,000
Changes in proportion and differences between Employer contributions and proportionate share of contributions	-	14,000
Employer contributions subsequent to the measurement date	77,448	-
Total	$ 77,448	$ 55,000

$2,300,363 reported as deferred outflows of resources related to pensions resulting from the Institute'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, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30	**VRS Plan**	**VaLORS Plan**
2017	$ 787,000	$ 21,000
2018	783,000	22,000
2019	748,000	18,000
2020	(320,000)	(6,000)
2021	-	-
	$ 1,998,000	**$ 55,000**

Actuarial Assumptions

The total pension liability for the VRS State Employee Retirement Plan was based on an actuarial valuation as of June 30, 2014, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

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

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

Mortality rates:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

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

The total pension liability for the VaLORS Retirement Plan was based on an actuarial valuation as of June 30, 2014, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

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

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

Mortality rates:

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

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

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

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

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

Net Pension Liability

The net pension liability (NPL) is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB Statement No. 67, less that system's fiduciary net position. As of June 30, 2015, NPL amounts for the VRS State Employee Retirement Plan and the VaLORS Retirement Plan are as follows (amounts expressed in thousands):

	State Employee Retirement Plan	**VaLORS Retirement Plan**
Total Pension Liability	$ 22,521,130	$ 1,902,051
Plan Fiduciary Net Position	16,398,575	1,191,353
Employers' Net Pension Liability (Asset)	$ 6,122,555	$ 710,698
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.81%	62.64%

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

Long-Term Expected Rate of Return

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

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

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

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the Institute 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 Institute's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents VMI'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 Institute'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 Military Institute's proportionate share of the VRS State Employee Retirement Plan Net Pension Liability	$36,407,000	$25,348,000	$16,074,000

The following presents VMI's proportionate share of the VaLORS Retirement Plan net pension liability using the discount rate of 7.00%, as well as what the Institue'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 Military Institute's proportionate share of the VaLORS Retirement Plan Net Pension Liability	$1,175,000	$864,000	$608,000

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

Optional Retirement Plan

Full-time faculty and contracted administrative staff may participate in optional retirement plans as authorized by the *Code of Virginia* rather than VRS retirement plans. These optional retirement plans are defined contribution plans offered through Teachers Insurance and Annuity Association – College Retirement Equities Fund (TIAA–CREF) and Fidelity Investments Tax-Exempt Services Company. The plans are fixed-contribution programs where the retirement benefits received are based upon employer and employee (if applicable) contributions, plus net investment gains or losses. Employees hired prior to 1 July 2010 (Plan 1) have an employer required contribution rate of 10.4%. Employees hired on or after 1 July 2010 (Plan 2) have an employer required contribution rate of 8.5% and an employee required contribution rate of 5%. Individual contracts issued under the plans provide for full and immediate vesting of both the Institute's and the employee's contributions.

Total employer pension costs under optional retirement plans were approximately $1,243,000 for the year ended 30 June 2016. Contributions to the optional retirement plans were calculated using the base salary amount of approximately $13,002,000 for fiscal year 2016.

Deferred Compensation Plan

Employees of the Institute, as employees of the Commonwealth, may participate in Virginia's Deferred Compensation Plan (the Plan). Participating employees can contribute to the Plan each pay period, with the Commonwealth matching up to $20 per pay period ($40 per month). The dollar amount match may change depending on the funding available in the Commonwealth's budget. The Plan is a qualified defined contribution plan under Section 401(a) of the *Internal Revenue Code*. Employer contributions under the Plan were approximately $150,000 for the fiscal year 2016.

NOTE 13: POSTEMPLOYMENT BENEFITS

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

NOTE 14: RISK MANAGEMENT

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

Commonwealth's insurance plans is available at the statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report (CAFR).

NOTE 15: CONTINGENCIES

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

In addition, the Institute is required to comply with various federal regulations issued by the Office of Management and Budget. Failure to comply with certain systems requirements of these regulations may result in questions concerning the allowance of related direct and indirect charges pursuant to such agreements. As of 30 June 2016, the Institute estimates that no material liabilities will result from such audits or questions.

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

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

In July 2014, VMI entered into a contract amendment with ARAMARK. In accordance with the agreement, ARAMARK provided a financial commitment of $300,000 in fiscal 2015 to VMI for food service facility renovations and for the purchase and installation of equipment associated with upgrades to the main dining hall. The amendment requires the financial commitment to be amortized on a straight-line basis through 2017. Upon expiration or termination of the agreement by either party for any reason prior to complete amortization, VMI shall reimburse ARAMARK the unamortized balance as of the date of expiration or termination plus accrued but unbilled interest (prime rate plus two percentage points per annum) within thirty days.

In February 2015, VMI entered into a contract with Follett Higher Education Group (Follett) for service as VMI's bookstore management and operations provider under which VMI received a financial incentive of $250,000. The contract requires VMI to repay the unamortized balance of the financial incentive, using the straight-line method, in the event the contractual relationship is terminated prior to June 2020.

NOTE 16: VMI ALUMNI AGENCIES

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

The VMI Alumni Association

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

VMI Foundation, Incorporated and Subsidiary

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

VMI Development Board, Incorporated

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

VMI Keydet Club, Incorporated

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

Contributions receivable

Contributions receivable consist of the following as of 30 June 2016:

Unconditional promises to give	$ 29,788,441
Charitable trusts held by others	182,553
Total contributions receivable	29,970,994
Less: current portion	(12,745,582)
Noncurrent contributions receivable	$ 17,225,412
Gross amounts expected to be collected in:	
Less than one year	$ 14,352,502
One to five years	17,383,845
More than five years	3,026,042
	34,762,389
Less:	
Discount	(1,333,404)
Allowance for uncollectible contributions	(3,457,991)
Fair value	$ 29,970,994

The distribution of contributions receivable for each class of net assets as of 30 June 2016 is as follows:

Temporarily restricted	$ 17,325,023
Permanently restricted	12,645,971
	$ 29,970,994

At 30 June 2016, the Agencies had also received bequest and other intentions of approximately $169.2 million. These intentions to give are not recognized as assets and, if they are received, they will generally be restricted for specific purposes stipulated by the donors.

For 2016, approximately 37% of the contributions receivable balance was from five donors.

Investments held by trustees

The Agencies participate in a combined investment fund (the “Fund”) controlled by the VMI Investment Holdings, LLC. BNY Mellon, N.A. serves as custodian for the Fund’s assets. The Fund’s investments consist of the following as of 30 June 2016:

Equities	$	168,198,642	46.0 %
Absolute return funds		76,791,122	21.0
Private equities		58,085,198	15.9
Fixed income		30,830,527	8.4
Cash and cash equivalents		17,015,484	4.7
Master limited partnerships		14,551,711	4.0
	$	365,472,684	100.0 %

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

Investments held by trustees activity for the year ended 30 June 2016 is reflected in the table below:

Investments, beginning of year	$	362,165,534
Gifts and amounts available for investments		20,000,000
		382,165,534
Investments returns:		
Dividends and interest		2,520,616
Net realized and unrealized losses		(7,888,062)
Investment fees		(2,325,404)
Total return on investments held by trustee, net		(7,692,850)
Net disbursements used to fund operations		(9,000,000)
Investments, ending of year	$	365,472,684

VMI Investment Holdings, LLC

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

Investments, Other

Investments, other as of 30 June 2016 consist of the following:

	Held by Agent	Held by Foundation	Held in Irrevocable Trusts*	Total at Fair Value**
Equities	$ 874,354	$ 9	$ 8,988,543	$ 9,862,906
Fixed income	4,287	5,891	2,454,364	2,464,542
Real estate	-	1,926,190	-	1,926,190
Alternative investments	-	-	1,152,558	1,152,558
Cash and cash equivalents	176,717	793	236,557	414,067
Limited partnerships	-	17,128	-	17,128
	$ 1,055,358	$ 1,950,011	$ 12,832,022	$ 15,837,391

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

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

Long-term Debt

Long-term debt consists of the following at 30 June 2016:

Fixed Rate Educational Facilities Revenue Bonds, Series 2006, payable in varying installments from $5,000,000 to $22,475,000, commencing 2021 through 2037	$ 10,000,000
Fixed Rate Educational Facilities Revenue Bonds, Series 2016, payable in varying installments from $4,370,000 to $25,860,000, commencing 2031 through 2037	36,230,000
Bond premiums, net	881,866
	$ 47,111,866

Debt matures as follows for future years ending 30 June:

2017	$ -
2018	-
2019	-
2020	-
2021	10,000,000
Thereafter	36,230,000
	$ 46,230,000

Effective 15 July 2010, the Industrial Development Authority of the City of Lexington, Virginia approved a request by the Agencies to remarket Variable Rate Educational Facilities Revenue Bonds, Series 2006. This remarketing superseded the original issuance, dated 13 July 2006. The

bonds were initially issued in a single series bearing interest at a variable rate. The bonds were remarketed in three series, Series 2006A-1 ($5,000,000) and 2006A-2 ($5,000,000), 2006B ($10,000,000), and 2006C ($22,475,000), and interest was converted to a fixed rate on each series.

Effective June 1, 2016, the Industrial Development Authority of the City of Lexington, Virginia approved a request by the Agencies to issue and sell Educational Facilities Revenue Refunding Bonds, Series 2016. The proceeds of the Bonds were used to establish an escrow account which will refund and defease the Series 2006B and 2006C bonds, including the redemption premium, accrued interest thereon, and to finance the costs of issuance of the 2016 Series bonds. The 2006B and 2006C bonds will be redeemed on June 1, 2019. In connection with the refunding and defeasance, the Agencies recognized a loss on extinguishment of debt totaling $2,856,240 for the year ended June 30, 2016, comprised primarily of the interest that will be paid from the escrow account on the 2006B and 2006C bonds until their redemption.

Series 2006A-1 bears interest of 4.25%; Series 2006A-2 bears interest at 5.00%. The 2016 bonds bear fixed interest of 3.0% (on $30,230,000 of principal) and 4.0% (on $6,000,000 of principal). Interest payments are due each June 1 and December 1.

The principal payment of $10,000,000 on Series 2006A-1 and 2006A-2 is due in fiscal year 2021. Upon this conversion, the bonds are no longer collateralized by any credit or liquidity facility, nor are the bonds collateralized by any of the Agencies' assets. Management believes the fair value of long-term debt at June 30, 2016 and 2015 approximated carrying value, in all material respects.

Bond premiums, net of expenses, totaling $1,132,290 and $2,525,000 at June 30, 2016 and 2015, respectively, are being amortized over the life of the loan. Amortization of the premiums totaled $131,245 and $122,662 for 2016 and 2015, respectively.

Endowment Funds

The Agencies employ a total return spending policy that establishes the amount of investment return that is available to support current needs and restricted purposes. This policy is designed to insulate program spending from capital market fluctuations and increase the amount of return that is reinvested in the corpus of the fund in order to enhance its long-term value. For 2016 and 2015, the Board approved spending formula for the endowment provided for an annual spending rate of 4.8% of the average of the prior twelve quarters' market values adjusting these market values upward to reflect subsequent receipt of gifts, or downward to reflect extraordinary withdrawals. If cash yield (interest and dividends) is less than the spending rate, realized gains can be used to make up the deficiency. Any income in excess of the spending rate is to be reinvested in the endowment. The primary investment objective is long-term capital appreciation and total return. The Agencies utilize diversified investment classes that provide the opportunity to achieve the return objective without exposing the funds to unnecessary risk.

NOTE 17: COMPONENT UNITS

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

CONDENSED STATEMENTS OF NET ASSETS As of 30 June 2016	VMI Research Laboratories Inc.	VMI Alumni Agencies	TOTAL
Assets:			
Current assets	$ 507,750	$ 20,451,902	$ 20,959,652
Noncurrent assets	302,709	404,714,511	405,017,220
Total assets	810,459	425,166,413	425,976,872
Liabilities:			
Current liabilities	64,609	2,341,367	2,405,976
Noncurrent liabilities	48,804	51,870,859	51,919,663
Total liabilities	113,413	54,212,226	54,325,639
Net Assets:			
Unrestricted	611,435	48,354,747	48,966,182
Temporarily restricted	75,611	146,176,039	146,251,650
Permanently restricted	10,000	176,423,401	176,433,401
Total net assets	697,046	370,954,187	371,651,233
Total net assets and liabilities	$ 810,459	$ 425,166,413	$ 425,976,872

CONDENSED STATEMENTS OF REVENUES EXPENSES AND CHANGES IN NET ASSETS As of 30 June 2016	VMI Research Laboratories Inc.	VMI Alumni Agencies	TOTAL
Total revenues	$ 220,894	$ 39,270,758	$ 39,491,652
Total expenses	(291,889)	(27,978,948)	(28,270,837)
Total net realized and unrealized losses on investments	-	(8,113,923)	(8,113,923)
Total change in net assets	(70,995)	3,177,887	3,106,892
Total beginning net assets	768,041	367,776,300	368,544,341
Total ending net assets	$ 697,046	$ 370,954,187	$ 371,651,233

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REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Virginia Military Institute's (VMI) Share of Net Pension Liability
VRS State Employee Retirement Plan
For the Year Ended June 30, 2016*

	2016	**2015**
VMI's Proportion of the Net Pension Liability (Asset)	0.4140%	0.4176%
VMI's Proportionate Share of Net Pension Liability (Asset)	$25,348,000	$23,380,000
VMI's Covered Payroll	$15,948,365	$16,113,410
VMI's Proportionate Share of Net Pension Liability (Asset) as a Percentage of its Covered Payroll	158.94%	145.10%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.81%	74.28%

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

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

Schedule of Virginia Military Institute's (VMI) Share of Net Pension Liability
VaLORS State Employee Retirement Plan
For the Year Ended June 30, 2016 *

	2016	**2015**
VMI's Proportion of the Net Pension Liability (Asset)	0.1216%	0.1236%
VMI's Proportionate Share of Net Pension Liability (Asset)	$864,000	$833,000
VMI's Covered Payroll	$411,648	$435,721
VMI's Proportionate Share of Net Pension Liability (Asset) as a Percentage of its Covered Payroll	209.89%	191.18%
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	62.64%	63.05%

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

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

Schedule of Employer Contributions
VRS State Employee Retirement Plan
For the Years Ended June 30, 2007 through 2016

Year	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Payroll
2016	$ 2,231,534	$ 2,231,534	$ -	$ 15,913,493	14.02%
2015	$ 1,967,097	$ 1,967,097	$ -	$ 15,953,744	12.33%
2014	$ 1,412,716	$ 1,412,716	$ -	$ 16,126,899	8.76%
2013	$ 1,365,002	$ 1,365,002	$ -	$ 15,582,212	8.76%
2012	$ 484,495	$ 484,495	$ -	$ 14,967,368	3.24%
2011	$ 304,565	$ 304,565	$ -	$ 14,298,827	2.13%
2010	$ 706,052	$ 706,052	$ -	$ 14,306,918	4.94%
2009	$ 863,468	$ 863,468	$ -	$ 13,859,845	6.23%
2008	$ 854,003	$ 854,003	$ -	$ 13,886,227	6.15%
2007	$ 773,119	$ 773,119	$ -	$ 13,468,976	5.74%

Schedule of Employer Contributions
VaLORS Retirement Plan
For the Years Ended June 30, 2007 through 2016

Year	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Payroll
2016	$ 77,936	$ 77,936	$ -	$ 413,573	18.84%
2015	$ 72,738	$ 72,738	$ -	$ 411,648	17.67%
2014	$ 64,487	$ 64,487	$ -	$ 435,721	14.80%
2013	$ 62,619	$ 62,619	$ -	$ 423,099	14.80%
2012	$ 25,207	$ 25,207	$ -	$ 348,333	7.24%
2011	$ 19,494	$ 19,494	$ -	$ 380,751	5.12%
2010	$ 34,853	$ 34,853	$ -	$ 311,848	11.18%
2009	$ 38,925	$ 38,925	$ -	$ 273,540	14.23%
2008	$ 44,265	$ 44,265	$ -	$ 279,101	15.86%
2007	$ 39,646	$ 39,646	$ -	$ 265,013	14.96%

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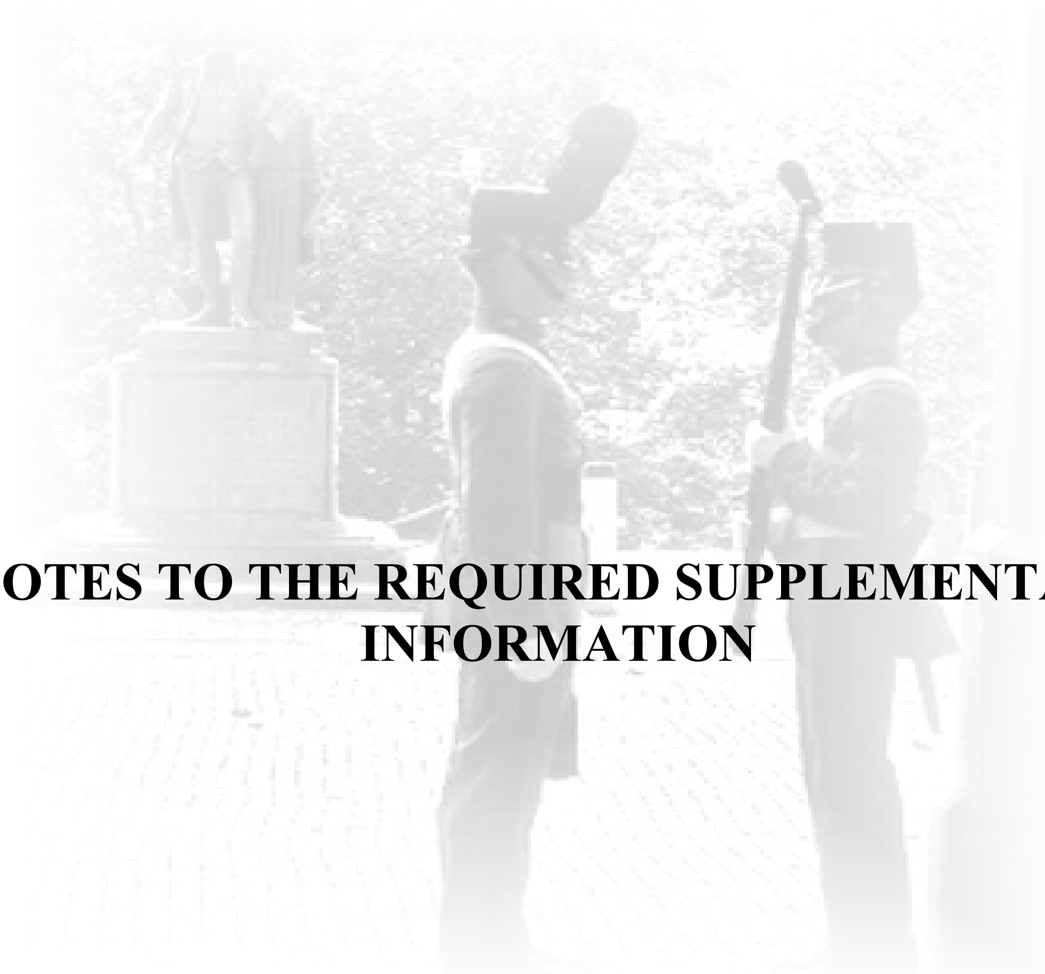

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

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Changes of benefit terms – There have been no significant changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this was a new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2015 are not material.

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

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

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

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

Commonwealth of Virginia

Auditor of Public Accounts

Martha S. Mavredes, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

August 10, 2017

The Honorable Terence R. McAuliffe
Governor of Virginia

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

Board of Visitors
Virginia Military Institute

INDEPENDENT AUDITOR'S REPORT

Report on Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented component units of the Virginia Military Institute, which are discussed in Notes 1 and 16. Those financial statements were audited by another auditor whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the component units of the Virginia Military Institute, is based on the report of the other auditor.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the component units of the Virginia Military Institute that were audited by another auditor upon whose report 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 report of another auditor, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and aggregate discretely presented component units of the Virginia Military Institute as of June 30, 2016, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 1 through 9, the Schedule of Virginia Military Institute's Share of Net Pension Liability on page 56, the Schedule of Employer Contributions on page 57 and the Notes to the Required Supplementary Information on page 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 August 10, 2017, on our consideration of Virginia Military Institute's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Virginia Military Institute's internal control over financial reporting and compliance.

Martha S. Mavredes

AUDITOR OF PUBLIC ACCOUNTS

JRQ/clj

VIRGINIA MILITARY INSTITUTE

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