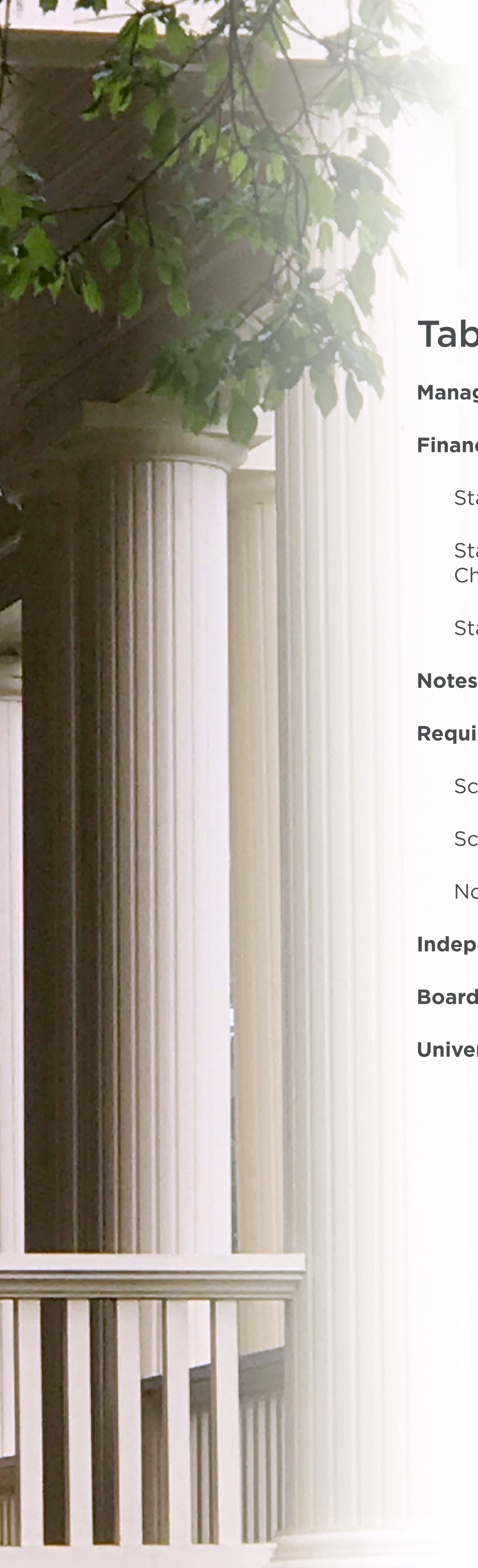
RADFORD UNIVERSITY

Financial Statements

For the Year Ended June 30, 2016 | Radford, Virginia



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Management's Discussion and Analysis

(Unaudited)

Introduction

The following unaudited Management's Discussion and Analysis (MD&A) provides an overview of the financial position and results of activities of Radford University (University) in an objective, easily readable format. This discussion includes an analysis of the University's financial condition and results of operations for the fiscal year ended June 30, 2016. Since this analysis includes highly summarized data, it should be read in conjunction with the accompanying financial statements, footnotes and other required supplementary information. The University's management is responsible for all financial information presented, including this discussion and analysis.

The University's financial report includes the three required financial statements, *Statement of Net Position; Statement of Revenues, Expenses, and Changes in Net Position;* and *Statement of Cash Flows,* and accompanying note disclosures and required supplementary information. These statements are summarized and analyzed in the following paragraphs. The Radford University Foundation, Inc. is included in the accompanying financial statements in a separate column as a component unit. However, the following discussion and analysis does not include Radford University Foundation's financial condition and activities.

University Overview

Founded in 1910 as an all-women's college, Radford University became coeducational in 1972 and was granted university status by the Virginia General Assembly in 1979. On July 1, 2016, the University welcomed its seventh president, Dr. Brian O. Hemphill, who succeeded Penelope W. Kyle, J.D., who retired after 11 years of service as the University's president. President Hemphill has pledged to lead the Highlander family with a steadfast commitment to excellence, accountability, transparency and student-centeredness. Today, the University is a flourishing coeducational, comprehensive public university that is student-centered and focused on providing outstanding academic programs to its 9,401 students (fall 2016 headcount).

The University offers excellent educational opportunities to students from all geographic regions of the Commonwealth. Radford University's student body comprises 93.4 percent Virginia residents; and among undergraduates, 37.9 percent are the first in their family to attend college. Because of its middle size, the University provides its students a winning combination of broad opportunities associated with a large university and highly personalized relationships considered the hallmark of a small institution.

Well-known for its strong faculty/student collaboration, innovative use of technology in the learning environment and vibrant student life on a beautiful residential campus, the University offers many opportunities for success in and out of the classroom. In addition to courses offered at its main campus, Radford University also extends its course offerings to students at the Roanoke Higher Education Center, Southwest Virginia Higher Education Center, New College Institute and Carilion Roanoke Community Hospital. Through its seven colleges, the University offers 67 degree programs in 38 disciplines as well as three certificates at the undergraduate level; 22 master's programs in 17 disciplines and three doctoral programs at the graduate level; 13 post-baccalaureate certificates and one post-master's certificate. A Division I member of the NCAA and Big South Athletic Conference, the University participates in 15 varsity sports — nine for women and six for men.

The University employs many "High Impact Practices" that include such offerings as undergraduate research, Scholar-Citizen Quality Enhancement Plan experiences, leadership courses and programs, the Honors Academy and internship placements, to name a few. Radford University also entered into a Guaranteed Admissions Agreement for Nursing with the Virginia Community College System (VCCS). The agreement will provide an efficient pathway for VCCS's Applied Science in Nursing (AAS) graduates to achieve a Bachelor of Science in nursing (BSN) degree from Radford University. The campus community supports a culturally diverse student population and offers more than 270 clubs and organizations for student participation, growth, leadership development and community service. Students also have the opportunity to participate in faculty-led study-abroad programs in 16 different countries.

Individual colleges and programs have reached significant milestones and received accolades for their accomplishments. The University's School of Nursing was recognized as a top national and regional nursing school by the Nursing School's Almanac for 2016, ranking 75th nationally and 31st in the southeast region among public nursing schools. Also, the University's Departments of Art and Design received accreditation from the National Association of Schools of Art and Design. Fewer than 400 schools in the nation with art and design programs have received this prestigious accreditation. In response to the shortage of behavioral health nursing professionals, the University established a Post-Baccalaureate Psychiatric Mental Health Nurse Practitioner Certificate, which is only one of three such programs in Virginia. The University's Master of Business

Administration program was recognized by the U.S. News & World Report in the 2017 Best Business Schools Part-Time MBA report. Also, the University established a graduate certificate in gerontology, a first-ever, multi-disciplinary, graduate-level certificate to address the issues and problems faced by aging Americans.

The aforementioned examples are but a few of the many accomplishments that all of the colleges and programs have attained during the course of their instructional mission. The University has also received national recognition in numerous areas including:

- In September 2016, the University was recognized by The Princeton Review as one of the 139 institutions in the "Best in the Southeast" section of the "2017 Best Colleges: Region by Region" list. This is the 10th consecutive year that the University has been featured as one of the "Best in the Southeast."

- The University was ranked 47th in the "South" region in the U.S. News & World Report's "2017 Best Regional Universities" report, which includes both public and private higher education institutions. Within this list, the University is ranked 16th among public universities. This is the fifth consecutive year that the University has been named a best regional public university by U.S. News & World Report.

- The University was ranked 29th in the "2017 Best Colleges for Veterans — South" by U.S. News & World Report. This is the second year the University has been recognized for its distinction in serving student-veterans.

- Confirming that the University provides one of the best values in the nation, the University was recognized by Washington Monthly magazine as one of the "Best Bang for the Buck" institutions for the fourth consecutive year. The University was ranked number 10 among Virginia public and private colleges and universities in this report.

- The University was recognized by the College of Distinction organization for 2016-17 for its commitment to four distinctions: student engagement, great teaching, vibrant communities and successful outcomes.

- In June 2016, the University was designated a National Center of Academic Excellence in Cyber Defense Education by the National Security Agency and the U.S. Department of Homeland Security. Through 2021, the University will be at the forefront of preparing graduates in cyber security and meeting the evolving demands of cyber security education. The University is one of six four-year institutions in Virginia and one of 127 four-year institutions in the country to earn this national designation.

The University is dedicated to building and maintaining a sustainable, environmentally friendly campus by obtaining LEED (Leadership in Energy and Environmental Design) Gold certifications for campus buildings; developing a Climate Action Plan with a target climate neutrality date of 2040; and partnering with the City of Radford to provide the Radford Transit system.

Radford Transit, developed as a partnership with the City of Radford and operated by New River Valley Community Services, continues to experience considerable growth. By the end of fiscal year 2016, Radford Transit had transported 340,000 passengers and since inception, Radford Transit has transported a staggering 1.58 million passengers. Radford Transit will continue to serve the needs of students, employees and community residents by giving full campus access and transportation to areas adjacent to the University, including the City of Radford, Fairlawn, Christiansburg, Blacksburg, and connections with the Smart Way Bus and Megabus. These connections provide students and members of the community with multi-state bus routes and transportation to the Roanoke-Blacksburg Regional Airport. The success of Radford Transit reinforces the University's commitment to its students, employees, community residents and sustainable initiatives.

Statement of Net Position

The *Statement of Net Position* presents the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position of the University as of the end of the fiscal year. The purpose of the statement is to present a snapshot of the University's financial position to the readers of the financial statements. The data presented in the *Statement of Net Position* aids readers in determining the assets available to continue the operations of the University as well as determining how much the University owes to vendors and creditors. Furthermore, the *Statement of Net Position* provides a picture of the net position, or available resources of the University, which serves as one indicator of the current financial condition of the University.

Net position is classified into four major components: net investment in capital assets, restricted expendable, restricted nonexpendable and unrestricted. Change in net position is an assessment of whether the overall financial condition has improved or worsened during the year, while sustained increases or decreases in net position over time are one indicator of the financial stability or instability of an organization.

Total University assets increased by $33.3 million or 7.8 percent during fiscal year 2016, resulting in total assets of $461.9 million at year end. The increase in total assets is attributable to a $31.9 million increase in noncurrent assets in addition to a $1.5 million increase in current assets. Capital assets, net of accumulated depreciation, accounts for $34.1 million of the increase and reflects the ongoing expansion and renovation of facilities at the University as discussed in detail in the following section,

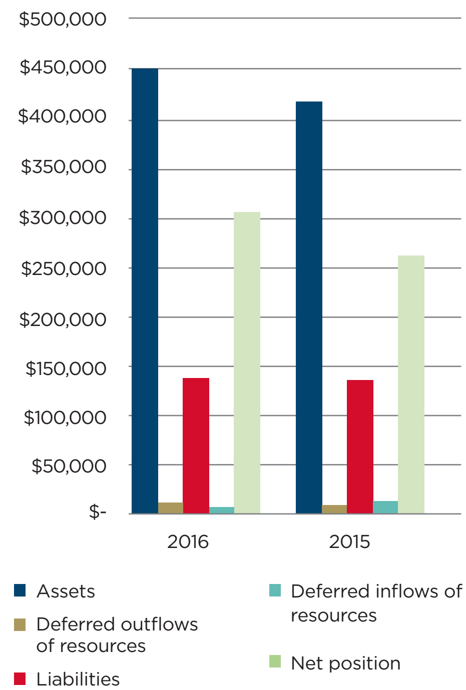
Statement of Net Position - Summary Schedule
($ shown in thousands)

The University's Statement of Net Position at June 30, 2016 and 2015 is summarized as follows:

	2016	2015	Change: Amount	Change: Percent
Assets				
Current assets	$119,952	$118,502	$1,450	1.2
Capital assets, net	340,345	306,289	34,056	11.1
Other noncurrent assets	1,652	3,844	(2,192)	(57.0)
Total assets	$461,949	$428,635	$33,314	7.8
Deferred outflows of resources	$10,284	$6,783	$3,501	51.6
Liabilities				
Current liabilities	$31,457	$37,462	$(6,005)	(16.0)
Noncurrent liabilities	118,278	111,273	7,005	6.3
Total liabilities	$149,735	$148,735	$1,000	0.7
Deferred inflows of resources	$4,773	$10,225	$(5,452)	(53.3)
Net position				
Net investment in capital assets	$293,034	$265,004	$28,030	10.6
Restricted - expendable	4,543	3,541	1,002	28.3
Unrestricted	20,148	7,913	12,235	154.6
Total net position	$317,725	$276,458	$41,267	14.9

Statement of Net Position Comparative Chart *($ shown in thousands)*

The chart below is a snapshot of assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position for the fiscal years ended June 30, 2016 and 2015:



Capital Asset and Debt Administration and in Note 4 of the *Notes to Financial Statements.* The largest decline in assets was in current and noncurrent restricted cash and cash equivalents totaling $9.7 million due to the expenditure of restricted cash and cash equivalents for ongoing capital asset construction. Additionally, the receivable due from the Commonwealth declined by $6.2 million due to capital project construction nearing completion at June 30, 2016, which was offset by a $7.5 million increase in appropriations available.

Total liabilities increased by $1.0 million or 0.7 percent during fiscal year 2016. Current liabilities decreased $6.0 million from the previous year as a result of a $3.4 million decline in accounts payable and accrued expenses and a $2.4 million decline in obligations under securities lending. Accounts payable and accrued expenses decreased due to the timing of capital project construction. Most significant capital projects were nearing completion at June 30, 2016. Obligations under securities lending decreased due to market activity. Noncurrent liabilities increased $7.0 million primarily related to the $9.0 million increase in pension obligation partially offset by a $2.0 million decline in long-term debt. Further information regarding long-term debt can be found in Note 6 of the *Notes to Financial Statements.*

As a result of the accounting for and financial reporting of the University's defined benefit pension plans, the University recognized $10.3 million of deferred outflows of resources and $4.8 million of deferred inflows of resources on the *Statement of Net Position.* The deferred outflows of resources represents, in part, the fiscal year 2016 employer contributions made by the University to the pension plans after the measurement date that will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Deferred outflows of resources increased from the previous fiscal year $3.5 million due to an increase in differences between the University's contributions and proportionate share of contributions, as well as an increase in the University's contributions subsequent to the measurement date. The deferred inflows of resources represents the net difference between projected and actual earnings on pension plan investments, which declined $5.5 million from June 30, 2015. Note 13 of the *Notes to Financial Statements and the Required Supplementary Information* includes additional information regarding the University's deferred outflows of resources, deferred inflows of resources and pension obligations.

The increase in total assets and deferred outflows of resources was greater than the corresponding increase in total liabilities and deferred inflows of resources, thus the University's net position increased by $41.3 million or 14.9 percent. Net investment in capital assets increased $28.0 million, which is a reflection of the University's continued investment in facilities and equipment to support the University's mission.

Capital Asset and Debt Administration

The development and renewal of the University's capital assets is critical to ensure the necessary infrastructure required for achieving the University's ongoing mission. Accordingly, the University has continued to implement its long-range plans to modernize older facilities and to pursue new construction as needed. These investments in renovation and new construction support and enhance the University's high-quality instructional programs, residential lifestyles and student quality of life.

Note 4 of the *Notes to Financial Statements* describes the University's ongoing investment in capital assets. The value of the University's net capital assets increased to $340.3 million at the end of fiscal year 2016, an increase of $34.1 million or 11.1 percent over fiscal year 2015. Net additions and reductions to capital assets during fiscal year 2016 totaled $48.8 million (excluding depreciation). The completion of the Center for the Sciences, intramural fields, and renovation of two residence halls, as well as construction progress on the new academic building for the College of Humanities and Behavioral Sciences, account for the majority of the current year capital activity. Current year depreciation expense totaled $17.1 million.

Capital projects in progress carried commitments to construction contractors, architects and engineers totaling $4.2 million at June 30, 2016. These obligations represent the unperformed portion of construction contracts and, as such, have not been accrued as expenses or liabilities on the University's financial statements. Additional information regarding the University's commitments is included in Note 12 of the *Notes to Financial Statements.*

Financial stewardship requires the effective management of resources, including the use of long-term debt to finance capital projects. Note 6 of the *Notes to Financial Statements* contains additional information about the long-term debt of the University.

Statement of Revenues, Expenses, and Changes in Net Position

The *Statement of Revenues, Expenses, and Changes in Net Position* presents the University's operating and nonoperating activities, which changes the University's total net position. The purpose of the statement is to present the University's operating revenues earned, operating expenses incurred, and all other revenues, expenses, gains and losses.

Generally, operating revenues are received from providing goods and services to students and various customers and constituencies of the University. Operating expenses are expenditures made to acquire or produce the goods and services provided in return for operating revenues and to carry out the mission of the University. Compensation and fringe benefits for faculty and staff are the largest category of operating expense.

Statement of Revenues, Expenses, and Changes in Net Position - Summary Schedule ($ shown in thousands)

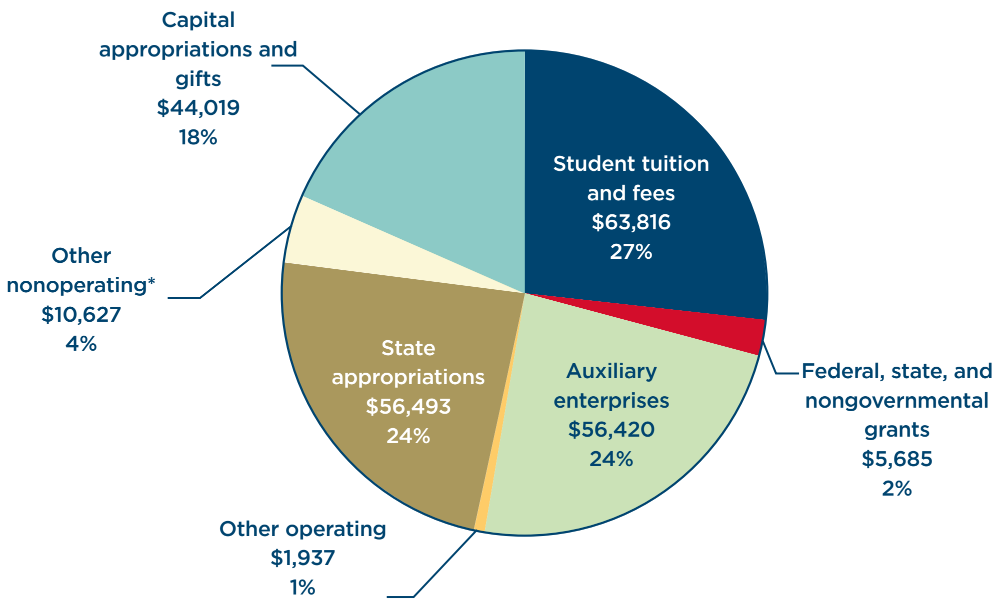
			Change	
	2016	2015	*Amount*	*Percent*
Operating revenues	$127,858	$123,591	$4,267	3.5
Less: Operating expenses	197,730	187,169	10,561	5.6
Operating loss	(69,872)	(63,578)	(6,294)	9.9
Nonoperating revenues (expenses)	67,120	65,881	1,239	1.9
Income before other revenues, expenses, gains or losses	(2,752)	2,303	(5,055)	(219.5)
Other revenues, expenses, gains or losses	44,019	38,052	5,967	15.7
Increase in net position	41,267	40,355	912	2.3
Net position - beginning of year	276,458	236,103	40,355	17.1
Net position - end of year	$317,725	$276,458	$41,267	14.9

Revenues by Source Comparison ($ shown in thousands)

The following chart compares each major revenue source (both operating and nonoperating) for the previous two fiscal years

			Change	
	2016	2015	*Amount*	*Percent*
Revenues by source:				
Student tuition and fees	$63,816	$59,759	$4,057	6.8
Federal, state and nongovernmental grants and contracts	5,685	6,180	(495)	(8.0)
Auxiliary enterprises	56,420	55,727	693	1.2
Other operating	1,937	1,925	12	0.6
State appropriations	56,493	54,903	1,590	2.9
Other nonoperating*	10,627	10,978	(351)	(3.2)
Capital appropriations and gifts	44,019	38,052	5,967	15.7
Total revenues by source	$238,997	$227,524	$11,473	5.0

*Includes federal student financial aid (Pell), investment income, interest on capital asset-related debt, loss on capital assets and nonoperating transfers to the Commonwealth.



Revenues by Source ($ shown in thousands)
The chart illustrates the percentage of the University's total revenue comprised by each major revenue source (both operating and nonoperating) for the year ended June 30, 2016

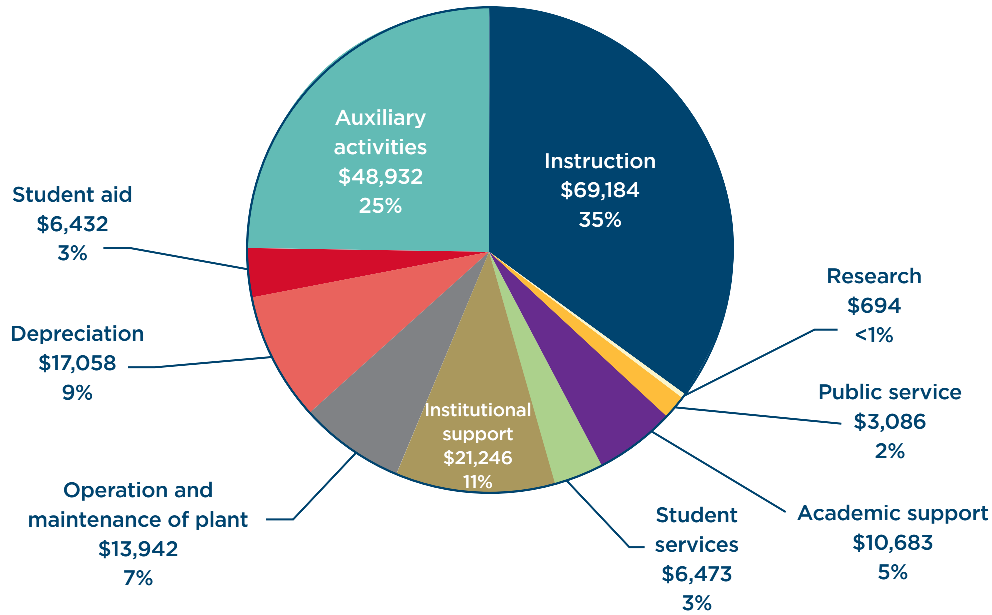
Nonoperating revenues are revenues received for which goods and services are not directly provided. For example, state appropriations are nonoperating revenues because they are provided by the legislature without the legislature directly receiving commensurate goods and services for those revenues. State appropriations provide substantial support for paying operating expenses of the University. Therefore, the University, like most public institutions, does not cover all operating expenses with operating revenues and expects to report an operating loss.

Operating revenues of the University consist primarily of student tuition and fees and revenues generated by various auxiliary enterprises. Operating revenues in total for fiscal year 2016 increased by $4.3 million as compared to fiscal year 2015. This increase was largely due to a $4.1 million increase in tuition and fees, net of scholarship allowances, and a $0.7 million increase in auxiliary enterprises, net of scholarship allowances, offset by $0.5 million decrease in revenue from grants and contracts. The growth in revenues from tuition and fees is attributed to a Board of Visitors approved tuition and fee rate increase. To address continuing programmatic and instructional needs and to cover other mandatory cost increases including fringe benefit and health insurance rate adjustments, tuition rate increases ranged from 0.0 to 6.5 percent.

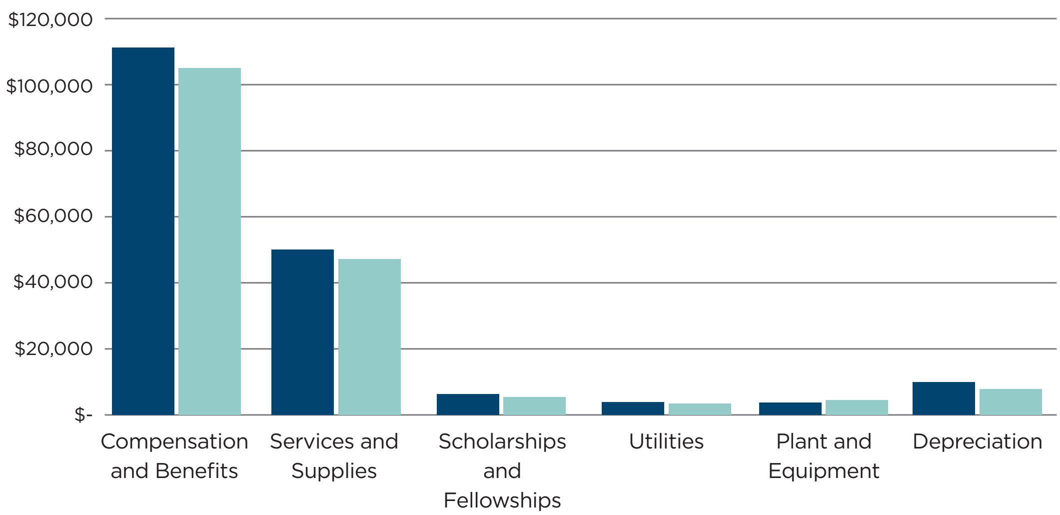
Nonoperating revenues and expenses increased $1.2 million or 1.9 percent from fiscal year 2015 due to a $1.6 million increase in state appropriations and $0.5 million

			Change	
	2016	2015	*Amount*	*Percent*
Operating expenses:				
Instruction	$69,184	$65,067	$4,117	6.3
Research	694	460	234	50.9
Public service	3,086	3,771	(685)	(18.2)
Academic support	10,683	10,233	450	4.4
Student services	6,473	6,377	96	1.5
Institutional support	21,246	18,802	2,444	13.0
Operation and maintenance of plant	13,942	12,501	1,441	11.5
Depreciation	17,058	15,382	1,676	10.9
Student aid	6,432	6,095	337	5.5
Auxiliary activities	48,932	48,481	451	0.9
Total operating expenses	$197,730	$187,169	$10,561	5.6

Expenses by Function ($ shown in thousands)
The chart compares expenses by function for the fiscal years ended June 30, 2016 and 2015.



Expenses by Function
($ shown in thousands)
The graphic illustration presents total expenses by function for fiscal year 2016.



Expenses by Natural Classification Comparison
($ shown in thousands)
The chart compares expenses by natural classification for the years ended June 30, 2016 and 2015.

2016 2015

increase in federal student financial aid (Pell) offset by an increase in loss on capital assets of $0.6 million and a $0.3 million increase in interest expense. The growth in capital appropriations of $6.0 million was a result of an increase in capital construction funding, predominantly related to General Fund capital project appropriations for the renovation of Whitt Hall.

Operating expenses for fiscal year 2016 increased $10.6 million or 5.6 percent over fiscal year 2015. From a natural expense standpoint, compensation and benefits comprise 58.0 percent of the University's operating expenses and services and supplies accounts for 24.4 percent. Compensation and benefits, services and supplies, and depreciation contributed to the majority of the increase in operating expenses for 2016. Compensation and benefits increased $7.3 million or 6.8 percent. Generally, changes to expenses in this category are from three sources: increases or reductions in the number of personnel, annual salary increases and the general trends in the costs of fringe benefits. The increase in compensation and benefits during fiscal year 2016 is largely due to a state-mandated 2.0 percent salary increase for all employees, a salary compression adjustment for eligible classified employees and increases in fringe benefits and health insurance rates. Services and supplies increased $1.8 million or 3.8 percent primarily due to the implementation of the University's rebranding initiative, consulting services, the completion of additional facility improvements and overall increase in contractual obligations related to student, administrative and operational support. Depreciation expense increased $1.7 million or 10.9 percent as a result of a full year of depreciation expense on large capital projects placed in service in fiscal year 2015. Operating expenses are presented on the *Statement of Revenues, Expenses, and Changes in Net Position* by their functional category. Expenses attributable to instruction and auxiliary activities comprise 35.0 and 24.7 percent, respectively, of total operating expenses.

The increase in operating expenses was greater than the increase in operating revenues resulting in an increase in the operating loss of $6.3 million. With the inclusion of state appropriations for the University in the nonoperating category, the University will routinely display an operating loss for the year. This operating loss is primarily covered by state appropriations included in the nonoperating category as well as federal student financial aid (Pell), investment income and capital appropriations.

Statement of Cash Flows

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

The *Statement of Cash Flows* is divided into five sections: cash flows from operating activities; cash flows from noncapital financing activities; cash flows from capital and related financing activities; cash flows from investing activities; and reconciliation of net operating loss to net cash used by operating activities.

Statement of Cash Flows - Summary Schedule ($ shown in thousands)

			Change	
	2016	2015	*Amount*	*Percent*
Net cash used by operating activities	$(48,591)	$(51,737)	$3,146	(6.1)
Net cash provided by noncapital financing activities	68,337	66,541	1,796	2.7
Net cash used by capital and related financing activities	(18,846)	(21,195)	2,349	(11.1)
Net cash used by investing activities	(1,768)	(3,654)	1,886	(51.6)
Net decrease in cash	(868)	(10,045)	9,177	(91.4)
Cash and cash equivalents - beginning of year	101,522	111,567	(10,045)	(9.0)
Cash and cash equivalents - end of year	$100,654	$101,522	$(868)	(0.9)

Overall, the University had a net decrease in cash of $0.9 million from fiscal year 2015. The primary sources of cash for the University were state appropriations of $56.5 million, student tuition and fees of $63.3 million, auxiliary enterprise revenues at $56.1 million, capital appropriations and gifts of $42.5 million and receipts for student loans of $58.2 million. The major uses of cash were employee compensation and benefits at $113.1 million, services and supplies of $45.4 million, student loan disbursements at $57.9 million and the purchase of capital assets at $57.7 million. Net cash used by operating activities decreased $3.1 million from fiscal year 2015 as a result of a $3.4 million and $0.6 million increase in cash inflows from student tuition and fees and auxiliary enterprises, respectively, and a $3.5 million decline in cash outflows for services and supplies, offset by a $4.8 million increase in cash outflows for employee compensation and benefits. Net cash used by capital and related financing activities reflects a decrease of $2.3 million from the prior year as a result of an increase in capital appropriations and gifts of $10.0 million and a decrease in capital asset purchases of $3.0 million offset by a decrease in proceeds from debt of $10.0 million.

Economic Outlook

The University's administration closely monitors the fiscal environment in which the University operates and reviews key assumptions in the annual update of the University's fiscal plan. The University's 2016-17 operating budget was developed with specific consideration to tuition and fees, projected enrollment, institutional priorities, legislative actions by the General Assembly and a regionally forecasted economic outlook.

Each year the fiscal plan builds upon the existing multi-year strategic budget plans developed by each division. This collaborative process provides the framework for the University's Six-Year Plan submission to the state and positions the institution for long-term success. The fiscal plan addresses critical academic and student support programmatic needs, considers unavoidable cost increases and continues the implementation of the goals outlined in Radford University's Strategic Plan, 7-17. It also considers the goals outlined in the Statewide Strategic Plan (SSP) as well as the Virginia Higher Education Opportunity Act of 2011 - Top Jobs for the 21st Century (TJ21).

Today, the Commonwealth continues to face uncertainty even as it turns the corner on a period of anticipated growth. The unemployment rate is below the national average, new business initiatives are underway across Virginia, yet there remains caution in the face of state revenue expectations. The health of the regional economy must continue to be monitored closely. Although it is very encouraging that the perennial approach to conservative and prudent planning exhibited by the University, yet again, has the institution on track for continued success in fiscal year 2017.

Radford University remains committed to providing a quality and affordable educational experience. Among Virginia's four-year public institutions, the University is the second lowest total cost (tuition, fees, room and board) provider for in-state undergraduate students. As a public institution of higher education in Virginia, providing affordable educational opportunities for in-state undergraduate students is a priority, thus Radford University continues to rely heavily on state general fund support for its Educational and General (E&G) program activities.

During the 2016 General Assembly Session, the governor, House and Senate reiterated their commitment toward education by submitting a budget with more than $200 million in support for public higher education. This is a material investment that will make strides in strengthening the educational development of thousands of young men and women across the Commonwealth.

For fiscal year 2017, state general fund support for E&G programming will account for $51.5 million of the total projected program revenues. This represents a 7.2 percent increase from the fiscal year 2016 adjusted budget. This increase in state general fund support reflects new incentives for student access, affordability and completion. Funds are to be allocated as incentive to deliver quality education, limit the impact of future tuition increases and increase graduation rates among in-state students. The additional support will also address central appropriation adjustments for unavoidable cost increases such as health insurance and fringe benefit rate changes. It should be noted that while the 2015-16 yearend general fund collections exceeded those of the prior year, the total was still less than initially projected. Thus, the shortfall in fiscal year 2016 revenue has resulted in a revenue reforecast for the 2016-18 biennium. While the specific changes remain unknown at this time, given the recent infusion of state resources, there is optimism that higher education may be shielded to the extent practical.

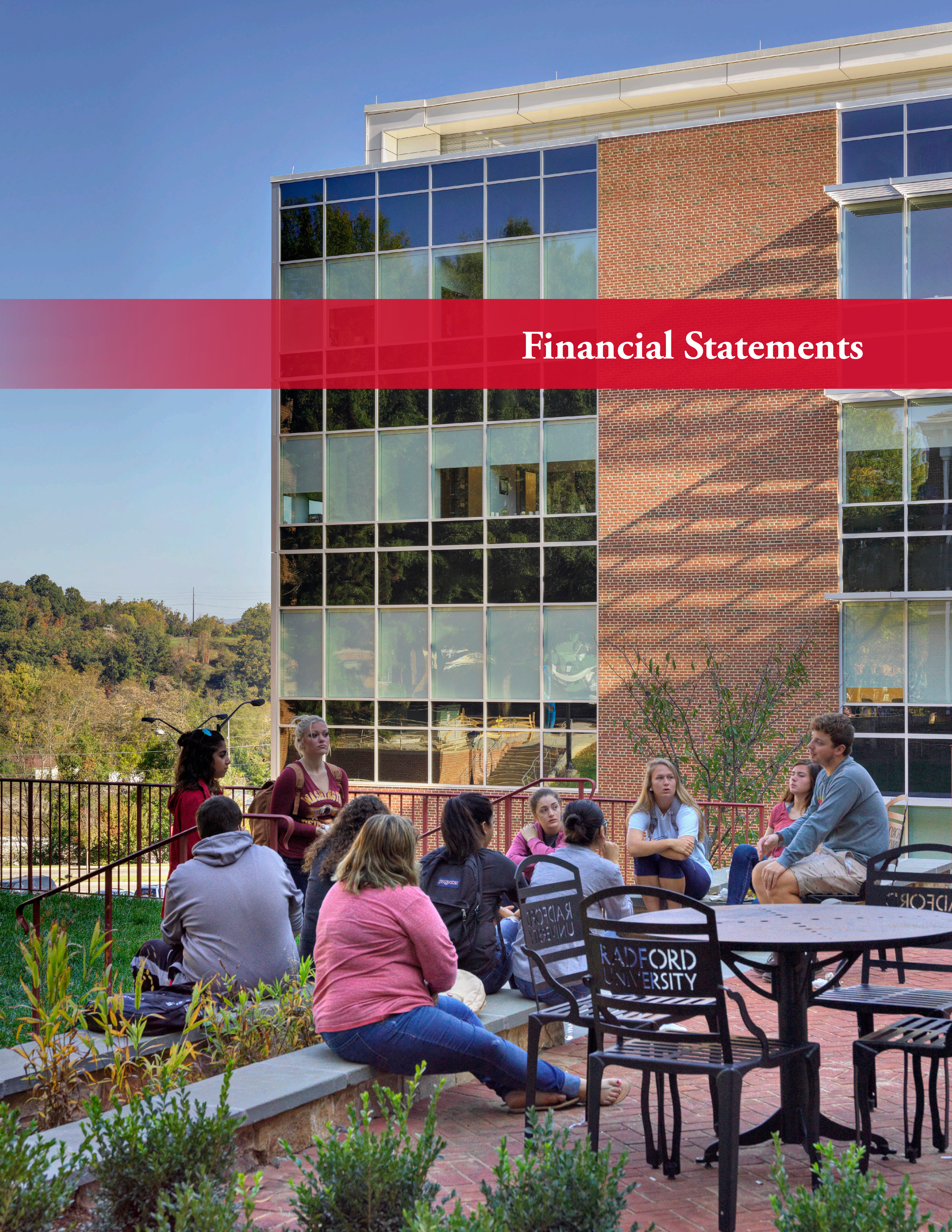
Radford University continues to enjoy a healthy demand for its academic programs among Virginia residents and first-generation students. Reflective of Radford University's growth and diversity, the Class of 2020 is composed of 1,751 new freshmen from 303 Virginia high schools and 128 out-of-state and international high schools, and it represents 19 foreign nations. Almost one-third (31 percent) of Virginia residents in the class are from northern Virginia, and more than 41 percent of the new freshmen are first generation college students. Over 33 percent of the new freshmen class identify themselves as ethnic minorities, with 18.8 percent as African-American and 8.1 percent as Hispanic/Latino.

The University has renewed its emphasis on enrollment planning and management. As a result, the University has recently undertaken a reorganization to create a Division of Enrollment Management with a dedicated Vice President to continue to strengthen the student body and ensure dependable fiscal resources for years to come. As part of this effort, the University also maintains an intensive retention and High Impact Practice effort to engage students immediately upon their arrival to campus. The University contracted with industry leader Ruffalo Noel Levitz to develop a holistic retention plan; is researching best practices for student assistance programs; implemented an undergraduate research initiative; is developing yoked instructional and student engagement opportunities; and is evaluating enhancements for career services and experiential learning opportunities. The University has always been an institution that fosters an environment in which all students can find success both inside and outside of the classroom. Furthermore, retention and graduation rates have historically been above the national average of comparable peer institutions. Enhancing these longstanding achievements is an integral focus for the institution over the next several bienniums.

During fiscal year 2016 substantial progress was made on various capital projects, including, but not limited to, the opening of the Center for the Sciences. In an effort to continue this momentum into fiscal year 2017, the University is expected to move forward on other major capital projects, including the renovations of Whitt and Reed/Curie Halls. The new academic building for the College of Humanities and Behavioral Sciences opened in fall 2016 and Is the largest academic building on campus.

In the coming years, Radford University will continue to demonstrate sound judgment in use of its financial resources and explore innovative strategies for continuous improvement. Future planning efforts have positioned the University to respond immediately to changing economic conditions and will allow the institution to emerge even stronger. Admission applications and student interest in the University continue to be robust in producing a reliable source of enrollment while maintaining a continued focus on student quality. The impact of these planning efforts demonstrates the University's focus on the future and its ability to respond to unforeseen challenges by continuing to evaluate programmatic costs, identify efficiencies in operations and prioritize the most critical needs in establishing and monitoring its operational finances.

Financial Statements



RADFORD UNIVERSITY

Statement of Net Position

As of June 30, 2016

	Radford University		Component Unit Radford University Foundation, Inc.	
ASSETS				
Current assets				
Cash and cash equivalents (Note 2)	$	98,580,933	$	736,466
Restricted cash and cash equivalents (Note 2)		2,072,860		-
Appropriations available		7,549,263		-
Short-term investments (Note 19C)		-		47,621,521
Accounts receivable (net of allowance for doubtful accounts of $408,349) (Note 3)		2,397,333		-
Contributions receivable (net of allowance for uncollectible contributions and discount of $31,155) (Note 19A)		-		1,383,488
Due from the Commonwealth (Note 11)		3,987,594		-
Due from Federal Government		173,779		-
Inventory		515,422		-
Notes receivable (net of allowance for doubtful accounts of $323,280 and $ -) (Notes 3, 19B)		1,210,493		14,794
Prepaid expenses		3,463,991		50,244
Other assets		-		4,925,000
Other receivables		-		33,339
Total current assets		119,951,668		54,764,852
Noncurrent assets				
Other long-term investments (Note 19C)		-		6,985,114
Contributions receivable (net of allowance for uncollectible contributions and discount of $55,660) (Note 19A)		-		459,823
Other assets		-		202,282
Notes receivable (net of allowance for doubtful accounts and discount of $412,846 and $92,268) (Notes 3, 19B)		1,651,902		308,186
Depreciable capital assets, net (Notes 4, 19D)		274,609,054		4,332,288
Nondepreciable capital assets (Notes 4, 19D)		65,735,826		3,565,410
Total noncurrent assets		341,996,782		15,853,103
Total assets	$	461,948,450	$	70,617,955
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows of resources from net pension obligation	$	10,283,668	$	-
Total deferred outflows of resources (Note 13)	$	10,283,668	$	-

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

Statement of Net Position

As of June 30, 2016

	Radford University	Component Unit Radford University Foundation, Inc.
LIABILITIES		
Current liabilities		
Accounts payable and accrued expenses (Note 5)	$ 22,684,311	$ 168,794
Unearned revenue	4,117,201	306,766
Obligations under securities lending	495,597	-
Deposits held in custody for others	616,707	-
Line of credit (Note 19E)	-	1,200,000
Current portion of long-term debt (Notes 6, 19F)	1,777,055	282,528
Current portion of other noncurrent liabilities (Note 7)	1,765,574	-
Trust and annuity obligations	-	58,252
Total current liabilities	31,456,445	2,016,340
Noncurrent liabilities		
Long-term debt (Notes 6, 19F)	46,922,440	760,637
Pension obligations (Note 13)	67,068,000	-
Trust and annuity obligations	-	418,186
Other noncurrent liabilities (Note 7)	4,287,789	-
Total noncurrent liabilites	118,278,229	1,178,823
Total liabilities	$ 149,734,674	$ 3,195,163
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources from net pension obligation	$ 4,773,000	$ -
Total deferred inflows of resources (Note 13)	$ 4,773,000	$ -
NET POSITION		
Net investment in capital assets	$ 293,034,133	$ 7,472,451
Restricted for:		
Expendable:		
Scholarships and fellowships	196,855	11,757,746
Instruction and research	1,954,090	2,379,879
Loans	69,993	-
Debt service	2,321,537	-
Other	-	11,355,155
Nonexpendable:		
Scholarships and fellowships	-	20,706,938
Instruction and research	-	2,281,641
Other	-	3,856,558
Unrestricted	20,147,836	7,612,424
Total net position	$ 317,724,444	$ 67,422,792

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

RADFORD UNIVERSITY

Statement of Revenues, Expenses, and Changes in Net Position

For the Year Ended June 30, 2016

	Radford University	Component Unit Radford University Foundation, Inc.
OPERATING REVENUES		
Student tuition and fees (net of scholarship allowance of $12,468,170)	$ 63,816,321	$ -
Gifts and contributions	-	3,004,456
Federal grants and contracts	4,600,063	-
State grants and contracts	610,823	-
Nongovernmental grants and contracts	473,912	-
Auxiliary enterprises (net of scholarship allowance of $9,586,269) (Note 8)	56,420,159	-
Other operating revenues	1,936,346	585,862
Total operating revenues	127,857,624	3,590,318
OPERATING EXPENSES		
Instruction	69,184,101	21,463
Research	694,069	-
Public service	3,086,340	-
Academic support	10,683,140	2,111,168
Student services	6,473,186	-
Institutional support	21,245,717	1,825,933
Operation and maintenance of plant	13,942,007	-
Depreciation (Note 4)	17,057,950	226,747
Student aid	6,431,625	1,592,341
Auxiliary activities (Note 8)	48,931,780	-
Total operating expenses (Note 9)	197,729,915	5,777,652
Operating loss	(69,872,291)	(2,187,334)
NONOPERATING REVENUES (EXPENSES)		
State appropriations (Note 10)	56,493,108	-
Federal student financial aid (Pell)	12,049,729	-
Investment income	534,287	(7,606,555)
Interest on capital asset-related debt	(824,461)	(24,534)
Loss on capital assets	(716,178)	-
Impairment loss on property held for sale	-	(264,173)
Nonoperating transfers to the Commonwealth	(416,791)	-
Net nonoperating revenues (expenses)	67,119,694	(7,895,262)
LOSS BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES	(2,752,597)	(10,082,596)
Capital appropriations and gifts (Note 11)	44,019,467	84,425
Additions to permanent endowments	-	608,726
Additions to term endowments	-	143,467
Total other revenues	44,019,467	836,618
Increase (decrease) in net position	41,266,870	(9,245,978)
Net position- beginning of year	276,457,574	76,668,770
Net position - end of year	$ 317,724,444	$ 67,422,792

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

RADFORD UNIVERSITY

Statement of Cash Flows

As of June 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES	
Student tuition and fees	$ 63,283,257
Grants and contracts	6,061,251
Auxiliary enterprises	56,133,884
Other receipts	2,001,327
Payments for salaries, wages, and fringe benefits	(113,144,660)
Payments for services and supplies	(45,448,846)
Payments for utilities	(4,584,208)
Payments for scholarships and fellowships	(8,872,693)
Payments for noncapitalized plant improvements and equipment	(4,227,649)
Loans issued to students and employees	(801,511)
Collections of loans from students and employees	1,009,240
Net cash used by operating activities	$ (48,590,608)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State appropriations	$ 56,493,108
Non-General Fund appropriations	(416,791)
Federal student financial aid (Pell)	12,064,161
Federal Direct Lending Program - receipts	58,171,521
Federal Direct Lending Program - disbursements	(57,937,812)
Agency and other receipts and payments, net	(37,305)
Net cash provided by noncapital financing activities	$ 68,336,882
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital appropriations and gifts	$ 42,459,761
Purchase of capital assets	(57,743,031)
Principal paid on capital debt and installments	(1,681,808)
Interest paid on capital debt and installments	(1,881,118)
Net cash used by capital and related financing activities	$ (18,846,196)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	$ (2,403,397)
Proceeds from sale and maturities of investments	101,261
Interest on investments	534,287
Net cash used by investing activities	$ (1,767,849)
Net decrease in cash	$ (867,771)
Cash and cash equivalents - beginning of the year	101,521,564
Cash and cash equivalents - end of the year	$ 100,653,793

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

RADFORD UNIVERSITY

Statement of Cash Flows

As of June 30, 2016

RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating loss	$ (69,872,291)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation expense	17,057,950
Changes in assets, deferred outflows, liabilities, and deferred inflows:	
Accounts receivable, net	(134,853)
Inventory	(49,628)
Prepaid expenses	873,368
Notes receivable, net	175,748
Deferred outflows of resources from net pension obligation	(3,500,894)
Accounts payable and accrued expenses	3,559,323
Net pension obligations	9,040,000
Deferred inflows of resources from net pension obligation	(5,452,000)
Net cash used by operating activities	$ (48,590,608)

NONCASH CAPITAL AND FINANCING ACTIVITIES

Gift of capital assets	220,261
Amortization of bond premium	(235,650)
Loss on disposal of capital assets	(729,982)

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

Notes to Financial Statements

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Notes to Financial Statements

Notes to Financial Statements

For the Year Ended June 30, 2016

NOTE 1: Summary of Significant Accounting Policies

Reporting Entity

Radford University (the University) is a comprehensive university that is part of the statewide system of public higher education in the Commonwealth of Virginia (the Commonwealth). The University's Board of Visitors, appointed by the governor, is responsible for overseeing governance of the University. The Commonwealth prepares a separate financial report that incorporates all agencies, higher education institutions, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority. The University is a component unit of the Commonwealth and is included in the Commonwealth's general purpose financial statements.

Under Governmental Accounting Standards Board (GASB) Statement 61, *The Financial Reporting Entity: Omnibus — an amendment of GASB Statements No. 14 and No. 34,* the Radford University Foundation, Inc. (the Foundation) meets the criteria to qualify as a component unit of the University. The Foundation is a legally separate tax-exempt organization formed to promote the achievements and further the aims and purposes of the University. The Foundation accomplishes its purposes through fundraising and funds management efforts that benefit the University and its programs. The 17-member board of the Foundation is self-perpetuating and consists of alumni, supporters and senior staff of the University. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, which the Foundation holds and invests are restricted to the activities of the University by donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements.

During the year ended June 30, 2016, the Foundation made distributions of $2,571,000 to or on behalf of the University for both restricted and unrestricted purposes. Separate financial statements for the Foundation can be obtained by contacting the Radford University Foundation Administrative Office at P.O. Box 6893, Radford, Virginia 24142.

Basis of Presentation

The University prepares its financial statements in conformity with U.S. generally accepted accounting principles as prescribed by GASB.

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

During the year ended June 30, 2016, the following GASB statements became effective: Statement 72, *Fair Value Measurement and Application*, and Statement 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.* Portions of the following GASB statements are effective for fiscal year 2016 with the remaining portions effective in future fiscal years: Statement 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*; Statement 79, *Certain External Investment Pools and Pool Participants*; and Statement 82, *Pension Issues — an amendment of GASB Statements No. 67, No. 68, and No. 73.*

Statement 72, *Fair Value Measurement and Application,* provides guidance for the determination of fair value and the application of fair value measurements to certain assets, primarily investments, and certain liabilities. Statement 72 also establishes a hierarchy of inputs in valuation techniques used to determine fair value. The University does not have investments required to be measured at fair value as of June 30, 2016. Statement 72 requires donated capital assets, donated works of art, historical treasures and other similar assets previously measured at fair value to be reported at acquisition value. The University reported all donated capital assets received during the fiscal year ending June 30, 2016 at acquisition value.

Statement 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments,* provides a hierarchy of sources of accounting principles used in the preparation of financial statements of state and local governmental entities and a framework for selecting those principles.

The portions of Statement 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68,* that were effective for fiscal year 2016 include the amendments to provisions of GASB Statements 67 and 68. These amendments provide clarification as it relates to required supplementary information; accounting and financial reporting for separately financed liabilities for defined benefit pension plans;

and timing of employer recognition of revenue for the support of nonemployer contributing entities.

Certain provisions of Statement 79, *Certain External Investment Pools and Pool Participants,* were effective for fiscal year 2016. Statement 79 establishes criteria for an external investment pool to qualify for measurement of its investments at amortized cost. The University was not a participant of an external investment pool during the fiscal year ending June 30, 2016.

The portions of Statement 82, *Pension Issues — an amendment of GASB Statements No. 67, No. 68, and No. 73,* effective for fiscal year 2016, includes clarification on the presentation of payroll-related measures in the required supplementary information; the classification of payments made by employers to satisfy employee contribution requirements; and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes.

The Foundation is a nonprofit organization that prepares its financial statements in conformity with U.S. generally accepted accounting principles as prescribed by FASB, including FASB Statement 117, *Financial Statements of Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition and presentation features. Reclassifications have been made to convert the Foundation's financial information to GASB presentation format.

Basis of Accounting

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

Cash and Cash Equivalents

For purposes of the *Statement of Net Position* and *Statement of Cash Flows*, the University considers all highly liquid investments with an original maturity of 90 days or less to be cash equivalents. Restricted cash and cash equivalents are externally restricted for the acquisition or construction of capital assets. Restricted cash and cash equivalents to be used in accordance with restrictions within the next fiscal year are classified as current assets and the remainder is classified as noncurrent assets on the *Statement of Net Position*.

Investments

In accordance with GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, modified by GASB Statement 59, *Financial Instruments Omnibus,* 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), are reported as nonoperating revenue or expense in the *Statement of Revenues, Expenses, and Changes in Net Position*.

Short-term investments are classified as current assets on the *Statement of Net Position* and include investments with an original maturity over 90 days but less than or equal to one year at the time of purchase.

Accounts Receivable

Accounts receivable consist of charges for tuition and fees and auxiliary enterprise services provided to students, faculty and staff. Accounts receivable also include amounts due from federal and state governments and nongovernmental sources, in connection with reimbursement of allowable expenses made pursuant to the University's grants and contracts. Accounts receivable are recorded net of allowance for doubtful accounts. See Note 3 for a detailed list of accounts receivable by major category.

Inventories

Inventories are valued at average cost, generally determined by the average cost method. They consist primarily of expendable supplies and fuel held for consumption.

Notes Receivable

Notes receivable consist of amounts due from the Federal Perkins Loan Program, Nursing Student Loan Program and other student loan programs administered by the University. Notes receivable are recorded net of allowance for doubtful accounts. See Note 3 for a detailed list of notes receivable by major category.

Prepaid Expenses

As of June 30, 2016, the University's prepaid expenses included items such as insurance premiums, membership dues, conference registrations and publication subscriptions for fiscal year 2017 that were paid in advance.

Capital Assets

Capital assets include land, buildings, infrastructure, building and other improvements, equipment, intangibles and library materials. Capital assets are recorded at actual costs or estimated historical costs, if purchased or constructed. Donated capital assets are recognized at acquisition value at the date of donation.

Equipment with an expected useful life of greater than one year and with a value or cost of $5,000 or more at the date of acquisition is capitalized. Intangibles, principally software, are capitalized when acquisition costs are $10,000 or more and the estimated useful life is three years or greater. Library materials are valued using actual costs for library acquisitions. Construction and renovation costs are recorded as construction in progress until the project is substantially complete at which point the costs are removed from construction in progress and capitalized in the appropriate capital asset account (e.g. buildings, improvements, etc.) Such construction projects are capitalized when expenses total more than $100,000. Routine repairs and maintenance that do not add to the value of an asset or extend the useful life of an asset are not capitalized and are charged to operating expenses.

Interest expense incurred during the construction of capital assets is capitalized net of interest income earned on resources set aside for this purpose. The University incurred and capitalized net interest expense related to the construction of capital assets of $800,569 for the fiscal year ended June 30, 2016.

Depreciation is computed using the straight-line method over the estimated useful life of the asset and is not allocated to the functional expense categories. Useful lives by asset categories are listed below:

Buildings	**40 years**
Building improvements	**20 years**
Other improvements and infrastructure	**20 years**
Equipment	**3-15 years**
Intangibles (software)	**3-15 years**
Library materials	**10 years**

Accrued Compensated Absences

The amount of leave earned but not taken by salaried employees is recorded as a liability on the *Statement of Net Position*. The amount reflects, as of June 30, 2016, all unused annual, sick, compensatory and recognition leave, as well as the amount payable upon termination under the Commonwealth of Virginia's sick leave payout policy. The applicable share of employer related taxes payable on the eventual termination payments is also included. See Note 7 for current and noncurrent amounts.

Unearned Revenue

Unearned revenue primarily includes amounts received prior to the end of the fiscal year for tuition and fees and certain auxiliary activities related to the period subsequent to June 30, 2016.

Noncurrent Liabilities

Noncurrent liabilities include the following:

- Principal amounts of notes and bonds payable and installment purchase obligations with maturities greater than one year
- Estimated amounts for accrued compensated absences
- Refundable contributions from the federal government to fund the operations of the Perkins Loan Program and the Nursing Student Loan Program
- Estimated pension obligation for the University's defined benefit pension plans

See Notes 6, 7 and 13 for detailed information and amounts.

Pension Obligation

For purposes of measuring the net pension liability; deferred outflows of resources and deferred inflows of resources related to pensions and pension expense; information about the fiduciary net position of the Virginia Retirement System (VRS) State Employee Retirement Plan and the Virginia Law Officers' System (VaLORS) Retirement Plan; and the additions to/deductions from the VRS State Employee Retirement Plan's and the VaLORS Retirement Plan's net fiduciary position have been determined on the same basis as they were reported by VRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. See Note 13 for general information about the pension plans and calculation of the net pension liability.

Deferred Outflows and Inflows of Resources

Deferred outflows of resources are defined as the consumption of net assets applicable to a future reporting period. Deferred inflows of resources are defined as the acquisition of net assets applicable to a future reporting period. Deferred outflows of resources have a positive impact on net position similar to assets in comparison to deferred inflows of resources which have a negative effect on net position similar to liabilities.

Net Position

GASB Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* as amended by GASB Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position,* requires that the *Statement of Net Position* report the difference between assets, deferred outflows, liabilities and deferred inflows as net position. Net position is classified into four major components: net investment in capital assets, restricted expendable, restricted nonexpendable and unrestricted.

Net investment in capital assets — Net investment in capital assets represents the University's total capital assets, net of accumulated depreciation, reduced by outstanding debt attributable to the acquisition, construction, or improvement of those assets. Debt incurred, but not yet expended for capital assets, net of accounts and retainage payable to be paid with unspent debt proceeds, is not included as a component of net investment in capital assets.

Restricted–expendable — The expendable restricted component of net position includes resources the University is legally or contractually obligated to expend in accordance with restrictions imposed by external third parties.

Restricted–nonexpendable — Restricted nonexpendable net position consists of endowment and similar type funds in which donors or other outside sources have stipulated that the principal is to be maintained in perpetuity and invested for the purpose of producing present or future income to be expended or added to the principal. As of June 30, 2016, the University does not have nonexpendable restricted net position.

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

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

Federal Financial Assistance Programs

The University participates in federally funded Pell Grants, Supplemental Educational Opportunity Grants, Federal Work-Study, Direct Lending and Perkins Loan 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.

Commonwealth Equipment and Capital Project Reimbursement Programs

The Commonwealth has established several programs to provide state-supported institutions of higher education with bond proceeds for financing the acquisition of instructional and research equipment and facilities. During fiscal year 2016, funding has been provided to the University from two programs: 21st Century and Equipment Trust Fund (ETF). The Commonwealth issues bonds and uses the proceeds to reimburse the University, and other institutions of higher education, for expenses incurred in the acquisition of equipment and facilities. The bond liability is assumed by the Commonwealth and is not reflected as a liability of the University.

The *Statement of Net Position* line item, Due from the Commonwealth, includes pending reimbursements from these programs. The *Statement of Revenues, Expenses, and Changes in Net Position* line item, Capital appropriations and gifts, include the reimbursements from these programs.

Income Taxes

The University, as an agency of the Commonwealth, is excluded from federal income taxes under Section 115 of the *Internal Revenue Code*. The Foundation is a 501(c)(3) organization and is exempt from federal income tax under the *Internal Revenue Code*. Certain activities of the University and Foundation may be subject to taxation as unrelated business income.

Revenue Classifications

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

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

Operating expenses include expenses necessary for the operation of the University including compensation and benefits, services and supplies, and operation and maintenance of plant, as well as any expense not classified as nonoperating.

Nonoperating expenses are expenses incurred for interest on debt related to the purchase or construction of capital assets and losses on disposal of capital assets.

Scholarship Discounts and Allowances

Student tuition and fees and certain auxiliary enterprise revenues from students 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 University and the amount paid by students and/or third parties on the students' behalf. Scholarship discounts and allowances are reported using the alternative method as prescribed by the National Association of College and University Business Officers (NACUBO), which calculates scholarship discounts and allowances on a universitywide basis rather than on an individual basis.

Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs are recorded as either operating or nonoperating revenues in the University's financial statements. To the extent that such revenues are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance.

NOTE 2: Cash and Cash Equivalents and Investments

The following information is provided with respect to the University's cash, cash equivalents, and investments and related risk disclosures as of June 30, 2016, in accordance with GASB Statement 40, *Deposit and Investment Risk Disclosures*:

Custodial Credit Risk (category 3 deposits and investments) — The custodial credit risk for deposits is the risk that, in the event of a failure of a depository financial institution, the University 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, the University will not be able to recover the value of the investment or collateral securities that are in possession of an outside party. The University had no category 3 deposits or investments as of June 30, 2016.

Credit Risk — The risk that an issuer or other counterparty to an investment will not fulfill its obligations. The University is required to disclose the credit quality ratings of all investments subject to credit risk.

Concentration of Credit Risk — The risk of loss attributed to the magnitude of an investment in a single issuer. Disclosure of investments with any one issuer that represents 5 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 University does not have investments subject to risks due to concentration of credit.

Interest Rate Risk — The risk that changes in interest rates will adversely affect the fair value of an investment. The University does not have an interest rate risk policy and does not have investments or deposits that are sensitive to changes in interest rates as of June 30, 2016.

Foreign Currency Risk — The risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The University had no foreign investments or deposits during fiscal year 2016.

Cash and Cash Equivalents

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

In accordance with GASB Statement 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting*, cash and cash equivalents represents cash with the treasurer, cash on hand, temporary investments with original maturities of three months or less and cash equivalents with the Virginia State Non-Arbitrage Program (SNAP). SNAP is an open-end management investment company registered with the Securities and Exchange Commission (SEC). The financial institution that holds the University's local cash provides an interest bearing checking account that allows the University to earn a competitive rate of interest on 100 percent of its collected balances.

Investments

Management of the University's investments is governed by the University's investment policy as approved by the Board of Visitors. Authorized investments are set forth in the Investment of Public Funds Act, Section 2.2-4500 through 2.2-4517, et seq., *Code of Virginia*. Investments are categorized as short-term or long-term. Short-term investments have an original maturity of over 90 days but less than or equal to one year. Long-term investments have an original maturity greater than one year.

Securities Lending Transactions

GASB Statement 28, *Accounting and Financial Reporting for Securities Lending Transactions*, establishes accounting and financial reporting standards for security 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. Information related to the credit risk of these investments and securities lending transactions held in the General Account is available on a statewide level in the Commonwealth of Virginia's *Comprehensive Annual Financial Report*. The Commonwealth's policy is to record unrealized gains and losses in the General Fund in the Commonwealth's basic financial statements. When gains or losses are realized, the actual gains and losses are recorded by the affected agencies.

Cash and cash equivalents	Market Value June 30, 2016
Cash on hand and deposited with financial institutions	$8,828,236
Cash with the treasurer of Virginia	89,257,100
Collateral held for securities lending	495,597
Cash equivalents (State Non-Arbitrage Program)	2,072,860
	$100,653,793

Restricted cash and cash equivalents	Market Value June 30, 2016
Current:	
Cash and cash equivalents (State Non-Arbitrage Program)	$2,072,860
Noncurrent:	
Cash and cash equivalents (State Non-Arbitrage Program)	-
	$2,072,860

NOTE 3: Accounts and Notes Receivable

Accounts receivable	June 30, 2016
Student tuition and fees	$1,094,451
Auxiliary enterprises	709,429
Federal, state and nongovernmental grants and contracts	871,201
Other activities	130,601
	2,805,682
Less allowance for doubtful accounts	(408,349)
Net accounts receivable	$2,397,333

Notes receivable	June 30, 2016
Current:	
Federal student loans	$1,379,200
Institutional student loans	154,573
	1,533,773
Less allowance for doubtful accounts	(323,280)
Net current notes receivable	$1,210,493
Noncurrent:	
Federal student loans	$1,959,668
Institutional student loans	105,080
	2,064,748
Less allowance for doubtful accounts	(412,846)
Net noncurrent notes receivable	$1,651,902

NOTE 4: Capital Assets

A summary of changes in the various capital asset categories for the year ending June 30, 2016, is presented as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Nondepreciable capital assets:				
Land	$11,967,656	-	-	$11,967,656
Construction in progress	80,752,289	46,145,040	73,129,159	53,768,170
Total nondepreciable capital assets	92,719,945	46,145,040	73,129,159	65,735,826
Depreciable capital assets:				
Buildings	300,087,626	70,992,785	1,600,285	369,480,126
Infrastructure	22,349,228	77,055	-	22,426,283
Intangibles	8,163,282	-	-	8,163,282
Equipment	34,955,756	3,844,990	1,052,993	37,747,753
Other improvements	10,948,832	2,315,528	-	13,264,360
Library materials	23,853,312	1,597,333	395,816	25,054,829
Total depreciable capital assets	400,358,036	78,827,691	3,049,094	476,136,633
Less accumulated depreciation:				
Buildings	118,617,672	11,264,483	880,482	129,001,673
Infrastructure	20,704,934	199,480	-	20,904,414
Intangibles	4,123,338	536,144	-	4,659,482
Equipment	22,612,505	2,965,634	1,042,814	24,535,325
Other improvements	6,563,179	421,611	-	6,984,790
Library materials	14,167,113	1,670,598	395,816	15,441,895
Total accumulated depreciation	186,788,741	17,057,950	2,319,112	201,527,579
Depreciable capital assets, net	213,569,295	61,769,741	729,982	274,609,054
Total capital assets, net	$306,289,240	$107,914,781	$73,859,141	$340,344,880

NOTE 5: Accounts Payable and Accrued Expenses

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

Employee salaries, wages and fringe benefits payable	$12,185,503
Vendors and suppliers accounts payable	5,566,100
Capital projects accounts and retainage payable	4,564,457
Accrued interest payable	368,251
Total accounts payable and accrued expenses	$22,684,311

Notes Payable—Pooled Bonds

The University issued 9(d) bonds by participating in the Public Higher Education Financing Program (Pooled Bond Program) created by the Virginia General Assembly in 1996. Through the Pooled Bond Program, the Virginia College Building Authority (VCBA) issues 9(d) bonds and uses the proceeds to purchase debt obligations (notes) of the University and various other institutions of higher education. The University's general revenue secures these notes.

The composition of notes payable at June 30, 2016, is summarized as follows:

Notes Payable - Pooled Bonds:	**Interest Rates**	**Final Maturity**
Student Fitness Center		
Series 2009B, $3.720 million par amount	2.00% - 5.00%	September 1, 2029
Series 2011A, $4.235 million par amount	3.00% - 5.00%	September 1, 2031
Series 2012B, $11.155 million par amount	3.00% - 5.00%	September 1, 2032
Series 2013A, $4.865 million par amount	2.00% - 5.00%	September 1, 2033

Bonds Payable—9c

The University has issued bonds pursuant to section 9(c) of Article X of the Constitution of Virginia. Section 9(c) bonds are general obligation bonds issued by the Commonwealth of Virginia on behalf of the University. They are secured by the net revenues of the completed project and the full faith, credit and taxing power of the Commonwealth of Virginia.

The composition of bonds payable at June 30, 2016, is summarized as follows:

Bonds Payable - 9c:	**Interest Rates**	**Final Maturity**
Renovation of Washington Hall (residence hall)		
Series 2013A, $5.040 million par amount	2.00% - 5.00%	June 1, 2033
Renovation of Pocahontas, Bolling, Draper (residence halls)		
Series 2014A, $11.080 million par amount	2.00% - 5.00%	June 1, 2034
Series 2015A, $8.820 million par amount	2.00% - 5.00%	June 1, 2035

Installment Purchase Obligations

The University has future obligations under an installment purchase agreement initiated in January 2009. The capitalized value of the asset purchased under this installment purchase agreement is $114,460 and the repayment term is 10 years at an interest rate of 2.087 percent.

A summary of changes in long-term debt for the year ending June 30, 2016, is presented as follows:

	Beginning Balance	**Additions**	**Reductions**	**Ending Balance**	**Current Portion**	**Noncurrent Portion**
Long-term debt:						
Notes payable — pooled bonds	$23,962,841	$-	$970,156	$22,992,685	$895,000	$22,097,685
Bonds payable — 9c	26,605,375	-	935,495	25,669,880	870,000	24,799,880
Installment purchase obligations	48,737	-	11,807	36,930	12,055	24,875
Total long-term debt	$50,616,953	$-	$1,917,458	$48,699,495	$1,777,055	$46,922,440

Future principal payments on long-term debt are as follows:

Fiscal Year Ending	Notes Payable Pooled Bonds	Bonds Payable - 9c	Installment Purchase
June 30, 2017	$895,000	$870,000	$12,055
June 30, 2018	935,000	905,000	12,308
June 30, 2019	980,000	950,000	12,567
June 30, 2020	1,030,000	1,000,000	-
June 30, 2021	1,080,000	1,045,000	-
2022 – 2026	6,200,000	6,060,000	-
2027 – 2031	7,250,000	7,345,000	-
2032 – 2035	2,820,000	5,300,000	-
Unamortized Premium	1,802,685	2,194,880	-
Total	$22,992,685	$25,669,880	$36,930

Future interest payments on long-term debt are as follows:

Fiscal Year Ending	Notes Payable Pooled Bonds	Bonds Payable - 9c	Installment Purchase
June 30, 2017	$847,931	$934,700	$708
June 30, 2018	802,181	894,100	455
June 30, 2019	756,256	848,850	197
June 30, 2020	710,956	801,350	-
June 30, 2021	663,256	751,350	-
2022 – 2026	2,501,953	2,946,100	-
2027 – 2031	1,151,750	1,662,863	-
2032 – 2035	112,425	395,450	-
Total	$7,546,708	$9,234,763	$1,360

NOTE 7: Other Noncurrent Liabilities

The University's other noncurrent liabilities consist of accruals for compensated absences and federal loan program contributions refundable to the federal government. A summary of changes in other noncurrent liabilities for the year ending June 30, 2016, is presented as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Noncurrent Portion
Other liabilities:						
Accrued compensated absences	$2,691,468	$4,208,077	$4,284,336	$2,615,209	$1,765,574	$849,635
Federal loan program contributions refundable	3,438,154	-	-	3,438,154	-	3,438,154
Total other liabilities	$6,129,622	$4,208,077	$4,284,336	$6,053,363	$1,765,574	$4,287,789

NOTE 8: Auxiliary Activities

Auxiliary operating revenues and expenses consisted of the following at June 30, 2016:

Revenues	
Room contracts (net of scholarship allowances of $2,348,307)	$11,525,618
Dining service contracts (net of scholarship allowances of $2,310,952)	11,456,813
Comprehensive fee (net of scholarship allowances of $4,927,010)	23,886,471
Other student fees and sales and services	9,551,257
Auxiliary enterprises revenue	$56,420,159

Expenses	
Residential facilities	$9,546,563
Dining operations	15,433,347
Athletics	9,676,225
Other auxiliary activities	14,275,645
Auxiliary activities expense	$48,931,780

NOTE 9: Expenses by Natural Classification

	Compensation and benefits	Depreciation	Plant and equipment	Scholarships and fellowships	Services and supplies	Utilities	Total
Instruction	$62,284,275	$-	$1,804,020	$806,470	$4,289,336	$-	$69,184,101
Research	448,334	-	16,687	3,203	225,845	-	$694,069
Public service	1,947,199	-	63,290	7,036	1,068,815	-	$3,086,340
Academic support	9,296,974	-	211,453	8,264	1,166,449	-	$10,683,140
Student services	4,665,265	-	57,190	-	1,750,731	-	$6,473,186
Institutional support	16,052,445	-	394,559	-	4,798,713	-	$21,245,717
Operation and maintenance of plant	5,405,263	-	390,459	-	5,474,047	2,672,238	$13,942,007
Depreciation	-	17,057,950	-	-	-	-	$17,057,950
Student aid	-	-	-	6,431,625	-	-	$6,431,625
Auxiliary activities	14,621,333	-	1,289,991	1,616,095	29,492,390	1,911,971	$48,931,780
Total	$114,721,088	$17,057,950	$4,227,649	$8,872,693	$48,266,326	$4,584,209	$197,729,915

NOTE 10: State Appropriations

The University receives state appropriations from the General Fund of the Commonwealth. The Appropriation Act specifies that unexpended General Fund appropriations that remain on the last day of the current year, ending June 30, 2016, shall be reappropriated for expenditure in the first month of the next year, beginning on July 1, 2016, except as may be specifically provided otherwise by the General Assembly. The governor may, at his discretion, unallot funds from the reappropriated balances that relate to unexpended appropriations. The following is a summary of state appropriations received by the University during the year ended June 30, 2016, including all supplemental appropriations and reversions:

Original legislative appropriation:	
Educational and general (E&G) programs	$46,088,141
Student financial assistance	8,187,230
Supplemental adjustments:	
Virtual Library of Virginia (VIVA) allocation	10,480
Prior year NGF carryforward	2
Security officer amounts	1,756
Virginia Military Survivors and Dependents Education Program	73,037
Two Year College Transfer Grant Program	151,000
Financial assistance for E&G programs	26,856
Central appropriation transfers:	
Employee salary increases	201,555
Salary compression adjustment	161,216
Health insurance contribution	491,816
Retirement rate changes	1,086,883
Other transfers	34,466
Reversion to the General Fund of the Commonwealth	(21,330)
Adjusted appropriation	$56,493,108

NOTE 11: Capital Appropriations

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

The following is a summary of capital appropriations and gifts recognized by the University for the year ended June 30, 2016.

General Fund capital project appropriations	$8,224,170
VCBA 21st Century program	33,993,969
VCBA Equipment Trust Fund program	1,581,067
Capital donations	220,261
Capital appropriations and gifts	$44,019,467

A portion of the funding for these programs is reported as a receivable, due from the Commonwealth, at June 30, 2016, which consisted of the following:

VCBA 21st Century program	$2,581,725
VCBA Equipment Trust Fund program	1,405,869
Due from the Commonwealth	$3,987,594

NOTE 12: Commitments

At June 30, 2016, the University was a party to construction contracts totaling approximately $93.8 million of which $89.6 million has been incurred. Remaining commitments totaling $4.2 million represent the unperformed portion of the construction contracts and, as such, have not been accrued as expenses or liabilities on the University's financial statements.

The University is committed under various operating leases for land and buildings. In most cases, the University has renewal options on the leased assets for another similar term, and expects, in the normal course of business, that these leases will be replaced by similar leases. Operating leases do not give rise to property rights or lease obligations and, therefore, the results of the lease agreements are not reflected in the financial statements. A portion of the University's operating leases are lease agreements with the Radford University Foundation, Inc. (the Foundation), a component unit of the University. Rental expense was approximately $1,421,000 for the year ended June 30, 2016, of which $431,000 was paid to the Foundation.

The University has, as of June 30, 2016, the following future minimum rental payments due under operating leases:

Fiscal Year Ending	Future Minimum Lease Payments
June 30, 2017	$698,266
June 30, 2018	101,905
June 30, 2019	25,600
June 30, 2020	10,517
June 30, 2021	-
	$836,288

NOTE 13: Defined Benefit Plans and Related Pension Obligation

Plan Description

Employees of the University are employees of the Commonwealth. All full-time, salaried permanent employees of the University upon employment have the option to participate in the VRS State Employee Retirement Plan or, if a campus police officer, the Virginia Law Officers' Retirement System (VaLORS) Retirement Plan. These plans are single-employer pension plans treated as cost-sharing plans for financial reporting purposes. They are administered by the Virginia Retirement System (VRS, or the System) along with plans for other employer groups in the Commonwealth. 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 have different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are set out in the following table:

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, and they were vested as of Jan. 1, 2013.	**About Plan 2** Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of Jan. 1, 2013.	**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 Jan. 1, 2014, are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. (see "Eligible Members") The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses and any required fees.

Retirement Plan Provisions by Plan Structure		
Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of Jan. 1, 2013. **Hybrid Opt-In Election** VRS nonhazardous-duty-covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held Jan. 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 have prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.	**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 Jan. 1, 2013. **Hybrid Opt-In Election** Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held Jan. 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.	**Eligible Members** Employees are in the Hybrid Retirement Plan if their membership date is on or after Jan. 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 Jan. 1 through April 30, 2014; the 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 Plan Provisions by Plan Structure		
Retirement Contributions State employees, excluding state elected officials and optional retirement plan participants, contribute 5 percent 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 percent 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** **Defined Benefit Component:** 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. **Defined Contribution Component:** Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.

Retirement Plan Provisions by Plan Structure		
Vesting	**Vesting**	**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 account balance if they leave employment and request a refund. Members are always 100 percent vested in the contributions that they make.	Same as Plan 1.	**Defined Benefit Component:** Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component. **Defined Contribution Component:** Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. Members are always 100 percent 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 percent vested and may withdraw 50 percent of employer contributions. After three years, a member is 75 percent vested and may withdraw 75 percent of employer contributions. After four or more years, a member is 100 percent vested and may withdraw 100 percent of employer contributions. Distribution is not required by law until age 70½.

Retirement Plan Provisions by Plan Structure		
Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement. An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.	**Calculating the Benefit** Same as Plan 1.	**Calculating the Benefit** **Defined Benefit Component:** Same as Plan 1. **Defined Contribution Component:** 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 percent. **VaLORS:** The retirement multiplier for VaLORS employees is 1.70 percent or 2.00 percent.	**Service Retirement Multiplier** **VRS:** Same as Plan 1 for service earned, purchased or granted prior to Jan. 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65 percent for creditable service earned, purchased or granted on or after Jan. 1, 2013. **VaLORS:** The retirement multiplier for VaLORS employees is 2.00 percent.	**Service Retirement Multiplier** **Defined Benefit Component:** **VRS:** The retirement multiplier for the defined benefit component is 1.00 percent. 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. **Defined Contribution Component:** Not applicable.

Retirement Plan Provisions by Plan Structure

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** **Defined Benefit Component:** **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 age and service equal 90. **VaLORS:** Same as Plan 1.	**Earliest Unreduced Retirement Eligibility** **Defined Benefit Component:** **VRS:** Normal Social Security retirement age with at least five years (60 months) of creditable service or when 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 years of creditable service. **VaLORS:** Age 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 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.

Retirement Plan Provisions by Plan Structure

Cost-of-Living Adjustment (COLA) in Retirement	Cost-of-Living Adjustment (COLA) in Retirement	Cost-of-Living Adjustment (COLA) in Retirement
The Cost-of-Living Adjustment (COLA) matches the first 3 percent increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4 percent) up to a maximum COLA of 5 percent **Eligibility:** For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date. For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date. **Exceptions to COLA Effective Dates:** The COLA is effective July 1 following one full calendar year (Jan. 1 to Dec. 31) under any of the following circumstances: • The member is within five years of qualifying for an unreduced retirement benefit as of Jan. 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (Jan. 1 to Dec. 31) from the date the monthly benefit begins.	The Cost-of-Living Adjustment (COLA) matches the first 2 percent increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 2 percent), for a maximum COLA of 3 percent. **Eligibility:** Same as Plan 1. **Exceptions to COLA Effective Dates:** Same as Plan 1.	**Defined Benefit Component:** Same as Plan 2. **Defined Contribution Component:** Not applicable. **Eligibility:** Same as Plan 1. **Exceptions to COLA Effective Dates:** Same as Plan 1.

Retirement Plan Provisions by Plan Structure		
Disability Coverage For members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7 percent 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 percent 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 eligible period of leave or VRS-refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.	**Purchase of Prior Service** Same as Plan 1.	**Purchase of Prior Service** **Defined Benefit Component:** Same as Plan 1, with the following exceptions: Hybrid Retirement Plan members are ineligible for ported service. The cost for purchasing refunded service is the higher of 4 percent 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. **Defined Contribution Component:** 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, including the University, by the Virginia General Assembly. Employees are required to contribute 5.0 percent of their compensation toward their retirement. Prior to July 1, 2012, the 5.0 percent member contribution was paid by the University. Beginning July 1, 2012, state employees were required to pay the 5.0 percent 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. The University's contractually required contribution rate for the year ended June 30, 2016, was 12.33 percent of covered employee compensation for employees in the VRS State Employee Retirement Plan for July 2015, 13.28 percent for August 2015 and 14.22 percent for September 2015 through June 2016. For employees in the VaLORS Retirement Plan, the contribution rate was 17.67 percent of covered employee compensation for July 2015, 18.34 percent for August 2015 and 19.00 percent 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 percent and the actuarial rate for VaLORS Retirement Plan was 21.06 percent. 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 percent of the actuarial rate, and the contributions for the VaLORS Retirement Plan were funded at 83.88 percent of the actuarial rate for the year ended June 30, 2016. Additional funding provided by the General Assembly moved the contribution rates to 90 percent of the actuarial rate by September 2015 and for the remainder of fiscal year 2016. Contributions from the University to the VRS State Employee Retirement Plan were $6,037,976 and $5,064,188 for the years ended June 30, 2016 and June 30, 2015, respectively. Contributions from the University to the VaLORS Retirement Plan were $189,692 and $174,586 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 University reported a liability of $64,986,000 for its proportionate share of the VRS State Employee Retirement Plan net pension liability and a liability of $2,082,000 for its proportionate share of the VaLORS Retirement Plan net pension liability. The University's total pension obligation as reported on the *Statement of Net Position* is $67,068,000 at June 30, 2016. 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. The University's proportion of the net pension liability was based on the University'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, the University's proportion of the VRS State Employee Retirement Plan was 1.061 percent as compared to 1.005 percent at June 30, 2014. At June 30, 2015, the University's proportion of the VaLORS Retirement Plan was 0.293 percent as compared to 0.261 percent at June 30, 2014.

For the year ended June 30, 2016, the University recognized pension expense of $5,665,000 for the VRS State Employee Retirement Plan and $259,000 for the VaLORS Retirement Plan, which had a combined total of $5,924,000. 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 University reported deferred outflows of resources related to the VRS State Employee Retirement Plan and the VaLORS Retirement Plan from the following sources:

Deferred Outflows of Resources	**VRS State Employee Retirement Plan**	**VaLORS Retirement Plan**	**Total**
Differences between expected and actual experience	$468,000	$ -	$468,000
Changes in proportion and differences between employer contributions and proportionate share of contributions	3,409,000	179,000	3,588,000
Employer contributions subsequent to the measurement date	6,037,976	189,692	6,227,668
Total	$9,914,976	$368,692	$10,283,668

At June 30, 2016, the University reported deferred inflows of resources related to the VRS State Employee Retirement Plan and the VaLORS Retirement Plan from the following sources:

Deferred Inflows of Resources	VRS State Employee Retirement Plan	VaLORS Retirement Plan	Total
Net difference between projected and actual earnings on pension plan investments	$4,675,000	$88,000	$4,763,000
Differences between expected and actual experience	-	10,000	10,000
Total	$4,675,000	$98,000	$4,773,000

A total of $6,227,668 of reported deferred outflows of resources related to pensions resulting from the University's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending	VRS State Employee Retirement Plan	VaLORS Retirement Plan	Total
June 30, 2017	$(264,000)	$37,000	$(227,000)
June 30, 2018	(328,000)	33,000	(295,000)
June 30, 2019	(1,025,000)	(6,000)	(1,031,000)
June 30, 2020	819,000	17,000	836,000
June 30, 2021	-	-	-
	$(798,000)	$81,000	$(717,000)

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%
Salary increases, including inflation	3.5% – 5.35%
Investment rate of return	7.0%, 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 percent 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 percent. However, since the difference was minimal, and a more conservative 7.0 percent 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 percent 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:

- Updated 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
- Reduced 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%
Salary increases, including inflation	3.5% – 4.75%
Investment rate of return	7.0%, 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 percent 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 percent. However, since the difference was minimal, and a more conservative 7.0 percent 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 percent 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:

- Updated 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 in service-related disability rate from 60 percent to 50 percent

Net Pension Liability

The net pension liability 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, net pension liability amounts for the VRS State Employee Retirement Plan and the VaLORS Retirement Plan are as follows (amounts expressed in thousands):

	VRS 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	$6,122,555	$710,698
Plan fiduciary net position as a percentage of 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 percent 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 percent, including expected inflation of 2.50 percent.*

Discount Rate

The discount rate used to measure the total pension liability was 7.00 percent. 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 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 University 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 percent 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 University's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the University's proportionate share of the VRS State Employee Retirement Plan net pension liability using the discount rate of 7.00 percent, as well as what the University'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 percent) or one percentage point higher (8.00 percent) than the current rate:

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
University's proportionate share of the VRS State Employee Retirement Plan Net Pension Liability	$93,339,000	$64,986,000	$41,209,000

The following presents the University's proportionate share of the VaLORS Retirement Plan net pension liability using the discount rate of 7.00 percent, as well as what the University'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 percent) or one percentage point higher (8.00 percent) than the current rate:

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
University's proportionate share of the VaLORS Retirement Plan Net Pension Liability	$2,830,000	$2,082,000	$1,466,000

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.

Payables to the Pension Plan

At June 30, 2016, the University had accrued retirement contributions payable to the pension plan of $255,748 including $244,061 payable to the VRS State Employee Retirement Plan and $11,687 payable to the VaLORS Retirement Plan. The payable is based on retirement contributions earned by University employees through June 30, 2016, but not yet paid to the plan.

NOTE 14: Defined Contribution Plans

Optional Retirement Plans

Full-time faculty and certain 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. These plans are fixed contribution programs where the retirement benefits received are based upon employer and employee contributions, plus net investment gains or losses. Employees hired prior to July 1, 2010 (Plan 1) have an employer required contribution rate of 10.4 percent. Employees hired on or after July 1, 2010 (Plan 2) have an employer required contribution rate of 8.5 percent and an employee required contribution rate of 5 percent. Individual contracts issued under the plan provide for full and immediate vesting of both the University's and the employee's contributions.

Total employer pension costs under optional retirement plans were approximately $2.8 million for the year ended June 30, 2016, of which $363,288 is reflected as a current liability on the *Statement of Net Position* at June 30, 2016. Contributions to the optional retirement plan were calculated using the base salary amount of approximately $28.1 million for fiscal year 2016.

Deferred Compensation Plan

Employees of the University are employees of the Commonwealth. State employees may participate in the Commonwealth's deferred compensation plan. Participating employees can contribute to the plan each pay period with the Commonwealth matching up to $20 per pay period. The dollar amount of the match may change depending on the funding available in the Commonwealth's budget. The deferred compensation plan is a qualified defined contribution plan under Section 401(a) of the *Internal Revenue Code*. Employer contributions under the deferred compensation plan were approximately $304,000 for fiscal year 2016.

NOTE 15: Postemployment Benefits

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

NOTE 16: Grants and Contracts Contingencies

The University received 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 expenditures of resources for allowable purposes. Any disallowance resulting from a federal audit may become a liability of the University. In addition, the University is required to comply with the various federal regulations issued by the Office of Management and Budget. Failure to comply with certain system requirements of these regulations may result in questions concerning the allowance of related direct and indirect charges pursuant to such agreements. As of June 30, 2016, the University estimates that no material liabilities will result from such audits or questions.

NOTE 17: Federal Direct Lending Program

The University participates in the Federal Direct Lending Program. Under this program, the University receives funds from the U.S. Department of Education for Stafford and Parent PLUS Loan Programs and disburses these funds to eligible students. The funds can be applied to outstanding tuition and fee charges or refunded directly to the student. These loan proceeds are treated as student payments with the University acting as a fiduciary agent for the student. Therefore, the receipt of the funds from the federal government is not reflected in the federal government grants and contracts total on the *Statement of Revenues, Expenses, and Changes in Net Position*. The activity is included in the noncapital financing section of the *Statement of Cash Flows*. For the fiscal year ended June 30, 2016, cash provided by the program totaled $58.2 million and cash used by the program totaled $57.9 million.

NOTE 18: Risk Management and Employee Health Care Plans

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

NOTE 19: Component Unit Financial Information

(A) Contributions Receivable

The following summarizes the unconditional promises to give at June 30, 2016:

Current:	
Receivables due in less than one year	$1,414,643
Less allowance for uncollectible contributions	(31,155)
Net current contributions receivable	$1,383,488
Noncurrent:	
Receivables due in one to five years	$515,483
Receivables due in more than five years	-
Less discount to net present value	(45,415)
Less allowance for uncollectible contributions	(10,245)
Net noncurrent contributions receivable	$459,823
Total contributions receivable	$1,843,311

The discount rate used in 2016 was 5.66 percent. As of June 30, 2016, there were no conditional promises to give.

(B) Notes Receivable

The following is a summary of notes receivable at June 30, 2016:

Note receivable due in monthly payments of $542 through May 2022 with interest receivable at 5.50 percent, secured by land and building.	$32,980
Non-interest-bearing note receivable with deferred payments for the first five years and $25,000 annual payments for the remaining 12 years. In 2016, $10,000 of the note was forgiven in exchange for guaranteed day care slots for employees of Radford University. Note receivable recorded at fair value net of discount of $92,268 at June 30, 2016.	290,000
Total notes receivable	$322,980
Note receivable, current	$14,794
Note receivable, noncurrent	308,186
Total note receivable	$322,980

(C) Investments

Investments comprise the following as of June 30, 2016:

Short-term:	
Cash and cash equivalents	$208,188
Equities	1,246,463
Investment company	46,166,870
Total short-term	$47,621,521
Long-term:	
Cash and cash equivalents	$19,211
Mutual and money market funds	597,399
Investment company	6,368,504
Total long-term	$6,985,114
Total investments	$54,606,635

(D) Capital Assets

A summary of land, buildings and equipment at cost, less accumulated depreciation, for the year ending June 30, 2016, is presented as follows:

Depreciable capital assets:	
Buildings	$5,246,721
Furniture and equipment	313,344
Vehicles	42,760
Land improvements	534,979
Total depreciable capital assets, at cost	$6,137,804
Less accumulated depreciation	(1,805,516)
Total depreciable capital assets, net of accumulated depreciation	$4,332,288
Nondepreciable capital assets:	
Land	$1,469,809
Construction in progress	7,820
Collections of art	2,087,781
Total nondepreciable capital assets	$3,565,410
Total capital assets, net of accumulated depreciation	$7,897,698

(E) Line of Credit

The following is a summary of the outstanding line of credit at June 30, 2016:

Line of credit agreement originated on June 23, 2016 for $1,500,000, interest payable monthly at LIBOR plus 1.60 percent (2.07 percent at June 30, 2016). Outstanding principal is due at time of lender demand. Annual review to be commenced by Jan. 31, 2017. Unsecured.	$1,200,000

(F) Long-Term Debt

The following is a summary of the outstanding notes payable at June 30, 2016:

Note payable in monthly installments of $10,439 through May 2020 with interest payable at LIBOR plus 1.48 percent (1.94 percent at June 30, 2016), outstanding principal due upon maturity, unsecured	$480,658
Note payable in monthly installments of $17,532 through July 2018, with interest payable at 2.01 percent, unsecured	429,576
Note payable in monthly installments of $2,601 through November 2020, with interest payable at 1.54 percent. Secured by deposit accounts maintained by and investment property held with the institution.	132,931
	1,043,165
Less current portion of long-term debt	(282,528)
	760,637

Future principal payments on notes payable for years ending June 30 are as follows:

2017	$282,528
2018	288,165
2019	100,282
2020	359,415
2021	12,775
Total long-term debt	$1,043,165

(G) Subsequent Events

The line of credit with Suntrust Bank was paid down to $600,000 on July 1, 2016. This remaining balance was paid on August 29, 2016. The balance on the line was $1,200,000 as of June 30, 2016.

Prior to June 30, 2016, one of the Foundation investments in a limited partnership was in the process of liquidating and distributing its assets. At that time, the Foundation was notified that it would receive shares of stock for two publicly traded companies as the liquidating distribution for its investment. At June 30, 2016, the Foundation recorded the value of this limited partnership at $1,528,379 which was representative of the fair value of the shares to be received. Upon receiving the share, the Foundation sold them in late August 2016 for a combined net value of $1,805,429, resulting in a $277,050 gain.

On November 1, 2016, the Foundation sold the property located at 1129 E. Main St. in Radford. The property had been held by an LLC which was controlled by the Foundation. This property was included in held for sale at June 30, 2016, at its fair value of $525,000. The property was sold in exchange for a $306,000 note receivable and $34,000 cash less closing expenses and other costs of $7,480. As a result, the Foundation incurred a loss of $192,480 on the sale which will be included in the results for the 2017 fiscal year.

NOTE 20: Subsequent Events

In July 2016, the Virginia College Building Authority (VCBA) issued Educational Facilities Revenue Refunding Bonds Series 2016A. The University was a borrower in bond Series 2009B for financing the construction of the Student Fitness Center. The Series 2009B bonds were included in the Series 2016A refunding.

In November 2016, the Commonwealth of Virginia issued 9(c) General Obligation Bonds, Series 2016A, on behalf of the University for the continued renovation of residence halls. The University's portion of the bond proceeds was $7.160 million par amount with interest rates ranging from 3.0 percent to 5.0 percent during the term of the bond, which matures June 2036.

Required Supplementary Information

RADFORD UNIVERSITY

Schedule of Employer's Share of Net Pension Liability
VRS State Employee Retirement Plan

For the Years Ended June 30, 2016 and 2015*

	2016	2015
Employer's proportion of the net pension liability	1.061%	1.005%
Employer's proportionate share of the net pension liability	$64,986,000	$56,267,000
Employer's covered payroll	$40,612,813	$38,332,872
Employer's proportionate share of the net pension liability as a percentage of covered-employee payroll	160.01%	146.79%
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.*

RADFORD UNIVERSITY

Schedule of Employer's Share of Net Pension Liability
VaLORS Retirement Plan

For the Years Ended June 30, 2016 and 2015*

	2016	2015
Employer's proportion of the net pension liability	0.293%	0.261%
Employer's proportionate share of the net pension liability	$2,082,000	$1,761,000
Employer's covered payroll	$982,575	$918,334
Employer's proportionate share of the net pension liability as a percentage of covered-employee payroll	211.89%	191.76%
Plan fiduciary net position as a percentage of the 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.*

RADFORD UNIVERSITY

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

Date	Contractually required contribution	Contributions in relation to contractually required contribution	Contribution deficiency (excess)	Employer's covered payroll	Contributions as a percentage of covered payroll
2016	$6,078,232	$6,078,232	$-	$43,206,118	14.07%
2015	$5,043,111	$5,043,111	$-	$40,901,142	12.33%
2014	$3,399,941	$3,399,941	$-	$38,812,116	8.76%
2013	$3,169,199	$3,169,199	$-	$36,178,066	8.76%
2012	$1,107,142	$1,107,142	$-	$34,014,776	3.25%
2011	$697,904	$697,904	$-	$32,765,436	2.13%
2010	$1,635,446	$1,635,446	$-	$32,895,794	4.97%
2009	$2,128,466	$2,128,466	$-	$34,164,779	6.23%
2008	$2,040,308	$2,040,308	$-	$33,175,737	6.15%
2007	$1,876,378	$1,876,378	$-	$32,689,509	5.74%

RADFORD UNIVERSITY

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

Date	Contractually required contribution	Contributions in relation to contractually required contribution	Contribution deficiency (excess)	Employer's covered payroll	Contributions as a percentage of covered payroll
2016	$188,891	$188,891	$-	$1,002,575	18.84%
2015	$175,205	$175,205	$-	$991,540	17.67%
2014	$136,302	$136,302	$-	$920,958	14.80%
2013	$129,797	$129,797	$-	$877,007	14.80%
2012	$58,214	$58,214	$-	$812,193	7.17%
2011	$41,347	$41,347	$-	$807,556	5.12%
2010	$85,638	$85,638	$-	$769,302	11.13%
2009	$100,057	$100,057	$-	$703,139	14.23%
2008	$102,672	$102,672	$-	$647,363	15.86%
2007	$93,333	$93,333	$-	$623,886	14.96%

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2016

Changes of benefit terms

There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014, and not covered by enhanced hazardous duty benefits. Because this 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:

- Updated 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
- Reduced rates of salary increase by 0.25 percent 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:

- Updated 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 in service-related disability rate from 60 percent to 50 percent

Commonwealth of Virginia

Auditor of Public Accounts

Martha S. Mavredes, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

June 26, 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
Radford University

INDEPENDENT AUDITOR'S REPORT

Report on Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component unit of the University, which are discussed in Notes 1 and 19. Those financial statements were audited by another auditor whose report thereon has been furnished to us, and our opinion, insofar as it

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relates to the amounts included for the component unit of the University, 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 unit of the University 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 discretely presented component unit of the University as of June 30, 2016, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 10, the Schedule of Employer's Share of Net Pension Liability, the Schedule of Employer Contributions, and the Notes to Required Supplementary Information on pages 48 through 50, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated June 26, 2017, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the University's internal control over financial reporting and compliance.

Martha S. Mavredes

AUDITOR OF PUBLIC ACCOUNTS

JMR/alh

RADFORD UNIVERSITY

Radford, Virginia

As of June 30, 2016

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