Committee Minutes

FINANCE AND AUDIT COMMITTEE

North End Center Training Room 2420

April 3, 2017

<u>Audit Closed Session</u>

Board Members Present: Mr. Jim Chapman, Mr. Charles T. Hill, Mr. Wayne Robinson, Mr. Dennis Treacy, Mr. Horacio Valeiras

VPI & SU Staff: Mr. Brian Daniels, Ms. Carolyn Fulk, Ms. Kay Heidbreder, Dr. Timothy Sands, Ms. Savita Sharma, Mr. M. Dwight Shelton Jr.

1. **Review and Acceptance of the following Reports Issued by University Internal Audit:** The Committee reviewed and accepted one internal audit report in closed session due to the presence of specific IT security vulnerabilities. The audit report for IT: Network Security received a rating of significant improvements are needed. Audit recommendations were issued to management in the areas of security hardening of networking device configurations, limiting networking device administrative access and enabling audit trails, administration of networking device configuration backups, upgrading legacy networking devices, and physical and environmental controls over network distribution facilities.

   The Committee asked for an update on the implementation status of the findings in the report at the next meeting.

2. **Update on Fraud, Waste, and Abuse Cases:** The Committee received an update on outstanding fraud, waste, and abuse cases.

3. **Discussion with the Director of Internal Audit:** The Director of Internal Audit discussed audits of specific departments and units where individual employees were identified.

<u>Audit Open Session</u>

Board Members Present: Mr. Charles T. Hill, Mr. Wayne Robinson, Mr. Dennis Treacy, Mr. Horacio Valeiras

VPI & SU Staff: Mr. Bill Abplanalp, Ms. Beth Armstrong, Mr. Bob Broyden, Mr. John Cusimano, Mr. Brian Daniels, Mr. John Dooley, Ms. Deanna Harris, Ms. Natalie Hart, Mr. Tim Hodge, Ms. Katie Huger, Ms. Wendy Meehan, Dr. Scott Midkiff, Mr. Ken Miller, Ms. Terri Mitchell, Mr. Mark Owczarski, Mr. Charles Phlegar, Dr. Scot Ransbottom, Ms. Lisa Royal, Mr. Charlie Ruble, Ms. Savita Sharma, Mr. M. Dwight Shelton Jr., Ms. Sara Simpkins, Dr. Ken Smith, Ms. Barbara Starling, Mr. Brad Sumpter, Mr. Jon Clark Teglas, Mr. Steve Vantine, Mr. Chris Yianilos

1. **Opening Remarks**

2. **Consent Agenda:** The Committee approved and accepted the items listed on the Consent Agenda.

   a. Approval of Minutes of the November 7, 2016 Meeting

   b. Acceptance of University's Update of Responses to all Previously Issued Internal Audit Reports: As of September 30, 2016 the university had four open audit recommendations. Four audit comments have been issued during the second quarter of this fiscal year. As of December 31, 2016, the university has addressed one comment, leaving seven open recommendations in progress.

   c. Acceptance of University Internal Audit's Status Report as of December 31, 2016: University Internal Audit has completed 42 percent of its audit plan in accordance with the fiscal year 2016-17 annual audit plan.

   d. Acceptance of the following Reports Issued by University Internal Audit:

      i. Investments and Debt Management: The audit received a rating of effective.

      ii. Compliance review of Other Executive Offices which included the Global Forum on Urban and Regional Resilience, the Office of the Senior Fellow for Resource Development, and University Legal Counsel. All functional areas reviewed received a rating of effective.

   e. Acceptance of Compliance with Audit Resolution of University-Related Corporations: The university-related corporations include Virginia Tech Foundation, Inc., Virginia Tech Services, Inc., Virginia Tech Intellectual Properties, Inc., Virginia Tech Applied Research Corporation, and Virginia

Tech Innovations Corporation. Consistent with the Board of Visitors' resolution establishing university-related corporations, each corporation is annually required to provide audited annual financial statements, management letters from external auditors, and management's responses to the university's president. Each corporation is also required to submit an annual certification stating that all procedures outlined in the resolution have been met. All corporations are in full compliance with the Board of Visitors' requirements regarding audits.

3. **Review and Acceptance of the following Reports Issued by University Internal Audit:** The committee reviewed and accepted the following seven internal audit reports:

   a. Dining Services: The audit received a rating of improvements are recommended. An audit recommendation was issued where opportunities for further improvement were noted in the area of wage employee management. Additionally, a low-priority recommendation of a less significant nature was noted where opportunities for improvement were identified with regard to cashier training and conviction checks.

   b. Mining and Minerals Engineering: The audit received a rating of improvements are recommended. Audit recommendations were issued where opportunities for further improvement were noted in the areas of research centers and health and safety. Additionally, a low-priority recommendation of a less significant nature was noted where opportunities for improvement were identified with regard to labor cost transfers.

   c. Physics: The audit received a rating of improvements are recommended. An audit recommendation was issued where opportunities for further improvement were noted in the area of royalty agreements. Additionally, low-priority recommendations of a less significant nature were noted where opportunities for improvement were identified with regard to labor cost transfers and fiscal management.

   d. University Scholarships and Financial Aid: The audit received a rating of improvements are recommended. An audit recommendation was issued where opportunities for further improvement were noted in the area of awarding based on fund agreements. Additionally, low-priority recommendations of a less significant nature were noted where opportunities for further improvement were noted with regard to overaward processing and written procedures.

e. IT: Surplus Property: The audit received a rating of improvements are recommended. Audit recommendations were issued where opportunities for further improvement were noted in the areas of properly recording the data sanitization of IT assets prior to submission for auction and ensuring that sensitive university data is removed from IT assets prior to them being transferred to other domestic institutions. Additionally, low-priority recommendations of a less significant nature were noted where opportunities for improvement were identified with regard to maintaining accurate documentation of the processes involved in performing the data sanitization tasks, university departments performing their own data sanitization measures, and in the physical security of devices stored in the warehouse while awaiting certified destruction.

f. Travel and Employee Reimbursements: The audit received a rating of improvements are recommended. An audit recommendation was issued where an opportunity for further improvement was noted in the area of accurate per diem reimbursement. An observation with university-wide impact was noted with respect to prior authorization of international travel, and a low-priority recommendation was noted where opportunities for improvement were identified with regard to timely submission of travel reimbursement requests.

g. College of Architecture and Urban Studies: The compliance review received a rating of significant improvements are needed. Audit recommendations were issued where opportunities for further improvement were noted in the areas of fiscal responsibility, wage payroll, overtime compensation, leave reporting, expenditures, and funds handling.

4. **Presentation of Auditor of Public Accounts Intercollegiate Athletics Programs Report for Year Ended June 30, 2016:** The Committee received a report on the Auditor of Public Accounts (APA) 2016 Intercollegiate Athletics Review. The APA performed certain agreed-upon procedures to the university's intercollegiate Athletics Programs for the fiscal year ended June 30, 2016, solely to assist the university in complying with National Collegiate Athletic Association (NCAA) bylaws. The university is responsible for the Intercollegiate Athletics Programs including preparation of the Schedule of Revenues and Expenses of Intercollegiate Athletics Programs. During the APA review, no matters were brought to the APA's attention that would lead them to believe the amounts of the Schedule of Revenues and Expenses should be adjusted. This review does not constitute an audit and therefore no opinion is issued. For the first time in many years, the expenses exceeded the revenues, resulting in an operating deficit of

$0.8 million. The Committee inquired about the status of current and anticipated capital projects related to Intercollegiate Athletics. The Committee asked for an update from the Athletic Director on the planned changes in Athletics at the June meeting.

5. **Update on the Department of Education Onsite Student Financial Aid Review:** The Committee received an update on the U.S Department of Education's (DOE) onsite program review of the university's Student Financial Aid Programs. The focus of the review was to determine Virginia Tech's compliance with the statutes and federal regulations as they pertain to the institution's administration of Title IV programs. Title IV programs are federal student aid programs authorized under Title IV of the Higher Education Act (HEA) and include federal grants, loans and work-study programs. The review consisted of, but was not limited to, an examination of Virginia Tech's policies and procedures regarding institutional and student eligibility, individual student financial aid and academic files, attendance records, student account ledgers, and consumer information requirements.

   DOE issued the Final Program Review Determination (FPRD) letter on November 16, 2016 reporting the final conclusions from the review. DOE reported six findings – five findings were fully resolved after the university submitted supporting documentation; for one finding, the university implemented additional actions related to maintaining appropriate documentation for providing exit loan counseling to required students to resolve the finding. The FPRD letter reported resolution of all findings.

<u>Finance Closed Session</u>

Board Members Present: Mr. Jim Chapman, Mr. Charles T. Hill, Mr. Wayne Robinson, Mr. Dennis Treacy, Mr. Horacio Valeiras

VPI & SU Staff: Mr. Brian Daniels, Ms. Carolyn Fulk, Ms. Kay Heidbreder, Dr. Timothy Sands, Ms. Savita Sharma, Mr. M. Dwight Shelton Jr.

1. **Motion for Closed Session:** Motion to begin closed session.

* 2. **Ratification of Personnel Changes Report:** The Committee reviewed and took action on the quarterly personnel changes report.

The Committee recommended the personnel changes report to the full Board for approval.

Finance Open Session

Board Members Present: Mr. Jim Chapman, Mr. Charles T. Hill, Mr. Alex Parrish – staff representative, Mr. Wayne Robinson, Mr. Steve Sturgis, Mr. Dennis Treacy, Mr. Horacio Valeiras

VPI & SU Staff: Mr. Bill Abplanalp, Ms. Beth Armstrong, Mr. Bob Broyden, Mr. John Cusimano, Mr. Brian Daniels, Mr. John Dooley, Ms. Deanna Harris, Mr. Tim Hodge, Ms. Katie Huger, Ms. Wendy Meehan, Dr. Scott Midkiff, Mr. Ken Miller, Ms. Terri Mitchell, Ms. Kim O'Rourke, Mr. Mark Owczarski, Mr. Charles Phlegar, Dr. Scot Ransbottom, Ms. Lisa Royal, Mr. Charlie Ruble, Dr. Tim Sands, Ms. Savita Sharma, Mr. M. Dwight Shelton Jr., Ms. Sara Simpkins, Dr. Ken Smith, Ms. Barbara Starling, Mr. Brad Sumpter, Mr. Jon Clark Teglas, Mr. Steve Vantine, Mr. Chris Yianilos

1. **Motion to Reconvene in Open Session:** Motion to begin open session.

2. **Opening Remarks:** The Finance and Audit Committee adopted a consent agenda process for approval and acceptance of routine items and reports.

3. **Consent Agenda:** The Committee approved and accepted the items listed on the Consent Agenda.

    a. Approval of Items Discussed in Closed Session

    b. Approval of Minutes of the November 7, 2016 Meeting

    c. Acceptance of Update on JLARC Study on Higher Education: The reports issued by the Joint Legislative Audit and Review Commission (JLARC) as part of the two-year study on higher education cost efficiency included recommendations to address the cost of public higher education in Virginia. The approved budget passed by the General Assembly in March 2015, included language recommending seven of the 17 JLARC recommendations which they believe should be addressed by the Board of Visitors, to the extent practicable. The university has implemented four of the seven recommendations.

This report provided an update on the implementation status of the three outstanding recommendations related to review of organizational structure including analysis of span of control by the General Assembly. The university has engaged a consultant to focus on these recommendations, with an initial focus on the finance areas and the administrative services areas.

4. **Presentation of University's Annual Financial Report:** The Committee received an overview of the university's annual financial report for the fiscal year ending June 30, 2016. The financial statements were prepared in accordance with generally accepted accounting principles, and the Auditor of Public Accounts issued an unmodified (or clean) opinion.

   At June 30, 2016, the university had a total net position of $1.3 billion, an increase of $121.6 million or 10 percent since fiscal year 2015. Total unrestricted net assets increased by $39 million or 52.5 percent to negative $35.3 million. The negative balance in the unrestricted net assets is due to the implementation of GASB 68 *Accounting and Financial Reporting for Pensions* in FY 2015. GASB 68 required state and local government employers that participate in a state defined benefit retirement plan to recognize their allocable portion of the state's net pension liability. In prior years, the net pension liability was reported in total for all state agencies on the Commonwealth's Comprehensive Annual Financial Report. The report also presented the cash and investments balances as of June 30, 2016.

   Total revenues for fiscal year 2016 were $1.44 billion, an increase of $104.2 million or 7.8 percent over fiscal year 2015. The majority of the increase in revenues came from student tuition and fees, auxiliary enterprises revenues, and capital appropriations received for renovation of academic buildings, Kentland Farm facilities, and maintenance reserve projects. Total operating expenses for fiscal year 2016 were $1.31 billion, an increase of $55.9 million or 4.4 percent. The increase was primarily due to increase in salaries, wages, and fringe benefits related to salary merit programs for faculty and staff.

   The Committee commended the university for receiving an unqualified opinion for another year.

5. **Report on the 2017 Legislative Session:** The Committee received a report on the results of the 2017 legislative session, including the Governor's Executive Budget Amendments presented on December 16, 2016. The General Assembly session opened on January 11, 2017 and completed its work on February 25, 2017. This report presented the major elements of the Executive Budget

Amendments and General Assembly actions for the 2016-2018 biennium. The budget approved by the General Assembly includes $2.36 million for Access and Affordability and approximately $3 million for faculty and staff salary increase. The budget also includes a 5 percent General Fund reduction of $8.6 million for the university division; no budget reduction was assessed for the Cooperative Extension/Agricultural Extension division. Additional one-time funding of $590,000 was provided for Student Financial Aid.

* 6. **Approval of 2017-2018 Compensation for Graduate Assistants:** The Committee reviewed for approval the proposed 2017-18 schedule of stipends and support for the graduate health insurance program for graduate students who work as graduate assistants (including graduate teaching assistants and graduate research assistants) while pursuing master's or doctoral degrees. To be competitive in the recruitment and retention of high quality graduate students, it is important for the university to provide compensation packages that are comparable with those offered by peer institutions. The key components of the compensation packages are competitive stipends, tuition assistance, and health insurance. The university proposes advancing the stipend scale for 2017-18 by providing a 2.0 percent increase, effective August 10, 2017. In addition, the university proposes adjusting the university share of the graduate assistant health insurance coverage from 90 percent to 88 percent based upon university's current estimate of a 14 to 19.5 percent cost increase for graduate student insurance coverage. This aligns the employer share of health insurance for graduate students with the employer share for other university employees.

The Committee recommended the 2017-18 Compensation for Graduate Assistants to the full Board for Approval.

* 7. **Resolution for the Approval of Tuition Rates for 2017–18:** The Committee reviewed for approval the proposed tuition and fee rates for 2017-18 for consideration by the Board. The 2004 General Assembly authorized "The Board of Visitors . . . of institutions of higher education may set tuition and fee charges at levels they deem to be appropriate for all resident student groups based on, but not limited to, competitive market rates…" For 2017-18, the university initially developed a proposal for a $477 or 3.7 percent increase in tuition and fees for in-state undergraduate students, and a $1,039 or 3.5 percent increase in tuition and fees for out-of-state undergraduate students. The university also developed two additional scenarios for consideration.

During the Sunday Information session, the Board received information regarding these three proposals and discussed the merits of each one. The three scenarios were:

Scenario A: a $477 or 3.7 percent increase in in-state undergraduate tuition and fees, and a $1,039 or 3.5 percent increase for out-of-state undergraduate students,

Scenario B: a $465 or 3.6 percent increase in in-state undergraduate tuition and fees, and a $1,068 or 3.6 percent increase for out-of-state undergraduate students, and

Scenario C: a $378 or 2.9 percent increase in in-state undergraduate tuition and fees, and a $1,039 or 3.5 percent increase for out-of-state undergraduate students.

The university also recommended a 3.2 percent increase in room and board.

For on-campus graduate programs, a $540 or 3.7 percent increase was recommended for in-state students, and $1,046 or 3.8 percent increase was proposed for out-of-state students. For off-campus graduate programs, a $544 or 3.9 percent increase was recommended for in-state students and $1,035 or 3.7 percent increase was recommended for out-of-state students.

In Veterinary Medicine, a $580 or 2.5 percent increase was recommended for Virginia/Maryland students, and a $1,243 or 2.4 percent increase was recommended for out-of-state students.

The Committee considered all three scenarios and concluded that it is very important to take actions to manage the increase in cost to students. Accordingly, the Committee recommended the resolution reflecting scenario C with an in-state resident undergraduate tuition and mandatory fee increase of 2.9 percent and an out-of-state undergraduate increase of 3.5 percent for 2017-18 to the full Board for approval, along with all of the other rates proposed in the revised tuition and fee document. The entire package of tuition and fees was revised, as necessary, to reflect the Committees recommendation for undergraduate students.

* 8. **Approval of Year-to-Date Financial Performance Report (July 1, 2016 – December 31, 2016):** The Committee reviewed for approval the Year-to-Date Financial Performance Report for July 1, 2016 – December 31, 2016. For the

second quarter, all programs of the university are on target and routine budget adjustments were made to reflect changes in revenues and expenditure budgets in academic and administrative areas.

During the second quarter, annual budget was increased by $2.2 million for Athletic football Championship and Bowl game; Residential and Dining budget was increased by $304,000 for Innovation and Creativity dorm planning expense; and Rescue Squad budget was increased by $190,000 for ambulance replacement.

For year-to-date ending December 31, 2016, $14.4 million has been expended for Educational and General capital projects, and $23.8 million has been expended for Auxiliary Enterprises capital projects. Capital outlay expenditures for year-to-date ending December 31, 2016 totaled $38.2 million.

The Committee recommended the Year-to-Date Financial Performance Report to the full Board for approval.

Joint Open Session

Board Members Present: Mr. Jim Chapman, Mr. Charles T. Hill, Mr. Alex Parrish – staff representative, Mr. Mike Quillen, Mr. Wayne Robinson, Mr. Steve Sturgis, Mr. Dennis Treacy, Mr. Horacio Valeiras

VPI & SU Staff: Mr. Bill Abplanalp, Mr. Bob Broyden, Mr. John Cusimano, Mr. Brian Daniels, Mr. John Dooley, Ms. Natalie Hart, Mr. Tim Hodge, Ms. Katie Huger, Dr. Chris Kiwus, Ms. Angela Kates, Dr. Steve McKnight, Dr. Scott Midkiff, Mr. Ken Miller, Ms. Terri Mitchell, Ms. Laura Neff-Henderson, Mr. Mark Owczarski, Mr. Charlie Phlegar, Dr. Scot Ransbottom, Ms. Lisa Royal, Mr. Charlie Ruble, Dr. Tim Sands, Ms. Savita Sharma, Mr. M. Dwight Shelton Jr., Mr. Jason Soileau, Dr. Ken Smith, Ms. Barbara Starling, Mr. Brad Sumpter, Mr. Dwyn Taylor, Mr. Jon Clark Teglas, Ms. Tracy Vosburgh, Dr. Sherwood Wilson, Mr. Chris Yianilos

* 1. **Approval of the 2018-2024 Capital Outlay Plan:** The Committees reviewed for approval the 2018-2024 Capital Outlay Plan. The university prepares an updated Six-Year Capital Outlay Plan every two years as part of its normal planning and budgeting cycle. The Plan is a critical component of positioning the university for state support of major Educational and General projects and for advancing high priority projects that may be funded entirely with nongeneral fund resources. The next state capital outlay plan will be for 2018-2024 and will be established in the 2018 budget development process. Traditionally, the state requires each

institution to submit a capital plan in June of the year before a new biennium begins. Based on that timetable, a plan from the university for 2018-2024 will be due to the state in June of 2017.

Preliminary work has been done to identify potential projects for inclusion in the 2018-2024 Capital Outlay Plan in anticipation of future guidance and instructions from the state. These projects are consistent with programmatic needs established for the planning period and with the strategic plan of the university, and they position the university with options to respond to guidance from the state.

Since the submission date for the new Plan may occur before the June 2017 Board of Visitors meeting, the university is requesting the review and approval of the list of potential projects for inclusion in the 2018-2024 Capital Outlay Plan. The report provides a list of projects that can be funded through general fund and nongeneral fund sources and includes both renovation and new construction projects. The university will provide an update to the status of the 2018-2024 Plan at a future Board of Visitors meeting.

The Committees recommended the 2018-2024 Capital Outlay Plan to the full Board for approval.

* 2. **Approval of Resolution for Capital Project for Construction of O'Shaughnessy Hall Renovation:** The Committees reviewed for approval a resolution for capital project for construction of O'Shaughnessy Hall Renovation. In March 2016, the Board of Visitors approved a $1.75 million planning authorization for the O'Shaughnessy Hall Renovation project. The project is in the working drawing phase and will be ready to enter the construction phase this spring. In accordance with the scope of the authorized planning project, the designed solution addresses deferred maintenance, updates the building's interior, residential rooms; bathrooms; mechanical, electrical, and plumbing systems; elevators, installs air conditioning, and converts O'Shaughnessy Hall into a living-learning format to modernize the program space. Converting O'Shaughnessy Hall into a living-learning format will modernize the program space within the building with minimal loss of beds. The programmatic changes include the creation of a faculty principal apartment, five to seven faculty/staff offices, a classroom, and common meeting rooms for student activities. With the new addition, the adjusted gross square feet would be 74,300.

The total project costs inclusive of design, construction, equipment, and administration are $21.5 million. As with all self-supporting projects, the university has developed a financing plan to support the project. This request was for a $19.75 million authorization supplement for construction of the O'Shaughnessy Hall Renovation project.

The Committees recommended the Resolution for Capital Project for Construction of O'Shaughnessy Hall Renovation to the full board for approval.

*3. **Approval of Resolution for New Gas-Fired Boiler at the Central Steam Plant:** The Committees reviewed for approval a resolution for a new gas-fired boiler at the Central Steam Plant. The Central Steam Plant (Plant) includes five operational boilers installed between 1959 and 1996. A sixth boiler located within the plant was decommissioned in 1997. The university currently spends over $9 million to operate the Plant assets. The university evaluates fuel prices, operating costs, and thermal loads to determine which assets to use to meet thermal demands. The gas boilers are more economical and operate the entire year to provide 60 percent of thermal needs of the university with coal-fired boilers providing 40 percent of the needs and redundancy during the winter months. State-of-the-art, high efficiency gas-fired boiler technology with 90 percent operating efficiency is now available. A new 100,000 pound per hour gas-fired boiler could produce 60 percent of the Plant's steam generation with a $495,000 lower annual fuel cost than the current gas assets.

The university's proposal calls for installing a new 100,000 pound per hour gas-fired boiler in place of the decommissioned boiler. The new boiler will maintain the quality and reliability of the steam plant, reduce operating costs, improve operations, and reduce carbon dioxide emissions. The estimated total project costs inclusive of design, construction, and equipment to install a new, high efficiency gas-fired boiler are $6.8 million. The university has developed a 100 percent nongeneral fund resource plan to support the project costs. The combined impact of fuel savings and reduced future operating costs should result in a positive net present value after nine years. This request was for a $6.8 million authorization to install a new gas-fired boiler for the Central Steam Plant.

The Committees recommended the Resolution for New Gas-Fired Boiler at the Central Steam Plant to the full board for approval.

* 4. **Approval of Resolution for Capital Project for Planning the Intelligent Infrastructure and Human-Centered Communities Destination Area:** The

Committees reviewed for approval a resolution for planning authorization for the Intelligent Infrastructure and Human-Centered Communities Destination Area. The university has developed a significant initiative to advance a new model of collaborative education and research. The model creates an innovative learning environment that brings together faculty and students from various disciplines to promote interdisciplinary thinking and doing focused research on solving complex problems. Intelligent Infrastructure and Human-Centered Communities, one of the five original Destination Areas, will be the pioneering implementation of this new interdisciplinary environment. This Destination Area focuses on three themes: smart transportation, smart construction, and smart energy. The overall vision of the Destination Area includes $78.4 million of university facility improvements that will be a multi-phased development occurring on the north side of campus, Plantation Road, and at the Virginia Tech Transportation Institute (VTTI).

The overall initiative includes multiple facilities, several of which will be implemented with $73 million of capital projects and capital leases, while other projects will be developed using $5.4 million of operating funding. The $73 million of capital outlay components include $3.5 million for an Urban Smart Track at VTTI which is underway through an authorized capital lease, leaving an outstanding balance of $69.5 million of capital projects to authorize. At this time, the university was requesting to move forward with a $6 million planning authorization for the $69.5 million of outstanding capital projects and capital lease components. The planning authorization will cover establishing a scope, schedule, delivery method, and complete design documents for each capital component. As with all self-supporting projects, the university has developed a financing plan to provide assurance regarding the financial feasibility of this planning project. The funding plan calls for the use of private gifts, overhead funds, revenues derived from the Dining Services auxiliary, and future external support. This request was for a $6.0 million planning authorization for the Intelligent Infrastructure System.

The Committees recommended the Resolution for Capital Project for Planning the Intelligent Infrastructure and Human-Centered Communities Destination Area to the full board for approval.

There being no further business, the meeting adjourned at 12:27 p.m.

***Requires full Board approval.**

Review and Acceptance of Reports Issued by University Internal Audit

FINANCE AND AUDIT COMMITTEE

March 8, 2017

Background

One audit project will be presented in closed session due to the presence of specific IT security vulnerabilities. This report provides a summary of less than effective ratings issued this period and the full rating system definitions. University Internal Audit continues to make progress on the annual audit plan.

Ratings Issued This Period

IT: Network Security	Significant Improvements are Needed

Summary of Audit Ratings

University Internal Audit's rating system has four tiers from which to assess the controls designed by management to reduce exposures to risk in the area being audited. The auditor can use professional judgment in constructing the exact wording of the assessment in order to capture varying degrees of deficiency or significance.

<u>Definitions of each assessment option</u>

Effective – The audit identified opportunities for improvement in the internal control structure, but business risks are adequately controlled in most cases.

Improvements are Recommended – The audit identified occasional or isolated business risks that were not adequately or consistently controlled.

Significant or Immediate Improvements are Needed – The audit identified several control weaknesses that have caused, or are likely to cause, material errors, omissions, or irregularities to go undetected. The weaknesses are of such magnitude that senior management should undertake immediate corrective actions to mitigate the associated business risk and possible damages to the organization.

Unreliable – The audit identified numerous significant business risks for which management has not designed or consistently applied controls prior to the audit. Persistent and pervasive control weaknesses have caused or could cause significant errors, omissions, or irregularities to go undetected. The weaknesses are of such magnitude that senior management must undertake immediate corrective actions to bring the situation under control and avoid (additional) damages to the organization.

<u>RECOMMENDATION</u>:
That the internal audit report reviewed above be accepted by the Finance and Audit Committee.

April 3, 2017

Update of Responses to Open Internal Audit Comments

FINANCE AND AUDIT COMMITTEE

December 31, 2016

As part of the internal audit process, university management participates in the opening and closing conferences and receives copies of all Internal Audit final reports. The audited units are responsible for implementing action plans by the agreed upon implementation dates, and management is responsible for ongoing oversight and monitoring of progress to ensure solutions are implemented without unnecessary delays. Management supports units as necessary when assistance is needed to complete an action plan. As units progress toward completion of an action plan, Internal Audit performs a follow-up visit within two weeks after the target implementation date. Internal Audit is responsible for conducting independent follow up testing to verify mitigation of the risks identified in the recommendation and formally close the recommendation. As part of management's oversight and monitoring responsibility, this report is provided to update the Finance and Audit Committee on the status of outstanding recommendations. Management reviews and assesses recommendations with university-wide implications and shares the recommendations with responsible administrative departments for process improvements, additions or clarification of university policy, and inclusion in training programs and campus communications. Management continues to emphasize the prompt completion of action plans.

The report includes outstanding recommendations from Compliance Reviews and Audit Reports. Consistent with the report presented at the November Board meeting, the report of open recommendations includes three attachments:

- Attachment A summarizes each audit in order of final report date with extended and on-schedule open recommendations.
- Attachment B details all open high or medium priority recommendations for each audit in order of the original target completion date, and with an explanation for those having revised target dates or revised priority levels.
- Attachment C charts performance in implementing recommendations on schedule over the last seven years. The 100 percent on-schedule rate for fiscal year 2017 reflects closing 17 of 17 recommendations by the original target date.

The report presented at the November 7, 2016 meeting covered Internal Audit reports reviewed and accepted through September 30, 2016 and included 4 open medium and high priority recommendations. Activity for the quarter ended December 31, 2016 resulted in the following:

Open recommendations as of September 30, 2016	4
Add: Medium & High priority recommendations accepted November 7, 2016	4
Subtract: recommendations addressed since September 30, 2016	1
Remaining open recommendations as of December 31, 2016	7

While this report is prepared as of the end of the quarter, management continues to receive updates from Internal Audit regarding auditee progress on action plans. Through March 3, 2017 Internal Audit has closed three of the seven outstanding medium and high priority recommendations for an adjusted total of four open recommendations. All of the items within the Graduate Admissions Application System (GAAS) report, for which the Committee requested detailed quarterly implementation updates, have been completed and closed. The remaining open recommendations are progressing as expected and are on track to meet their respective target due dates. Management continues to work conjointly with all units and provides assistance as needed to ensure action plans are completed timely.

ATTACHMENT A

Open Recommendations by Priority Level

FINANCE AND AUDIT COMMITTEE

December 31, 2016

Report Date	Audit Name	Audit Number	Total Recommendations						
			ISSUED	COMPLETED	OPEN				
					Extended		On-schedule		Total
					High	Medium	High	Medium	Open
04-Aug-16	Graduate Admissions Application System	16-1257	4	1			2	1	3
07-Oct-16	Construction Management	16-1273	1				1		1
19-Oct-16	IT Project Management	16-1288	1					1	1
20-Oct-16	Departmental Scholarships	16-1283	2				1	1	2
Totals:			**8**	**1**	**0**	**0**	**4**	**3**	**7**

ATTACHMENT B

Internal Audit Open Recommendations

FINANCE AND AUDIT COMMITTEE

December 31, 2016

Report Date	Item	Audit Number	Audit Name	Recommendation Name	Priority		Target Date		Follow Up Status	Status of Recommendations with Revised Priority / Target Dates
					Original	Revised	Original	Revised		
04-Aug-16	1	16-1257	Graduate Admissions Application System	Protection of Personally Identifying Information	High		31-Jan-17		1	
04-Aug-16	2	16-1257	Graduate Admissions Application System	Audit Trails	High		31-Jan-17		1	
04-Aug-16	3	16-1257	Graduate Admissions Application System	Review of System Access	Medium		31-Jan-17		1	
07-Oct-16	4	16-1273	Construction Management	Cost Projections	High		01-Apr-17		2	
20-Oct-16	5	16-1283	Departmental Scholarships	Monitoring of Timely Scholarship Awarding	High		01-Jul-17		2	
20-Oct-16	6	16-1283	Departmental Scholarships	Awarding Based on Fund Criteria	Medium		01-Jul-17		2	
19-Oct-16	7	16-1288	IT Project Management	Visibility, Clarity, Implementation and Measurement of the Standard for IT Project Management	Medium		31-Dec-17		2	

(1) As of December 31, 2016, management confirmed during follow up discussions with Internal Audit that actions are occurring and the target date will be met. The Internal Audit department will conduct testing after the due date to confirm that the Management Action Plan is implemented in accordance with the recommendations.

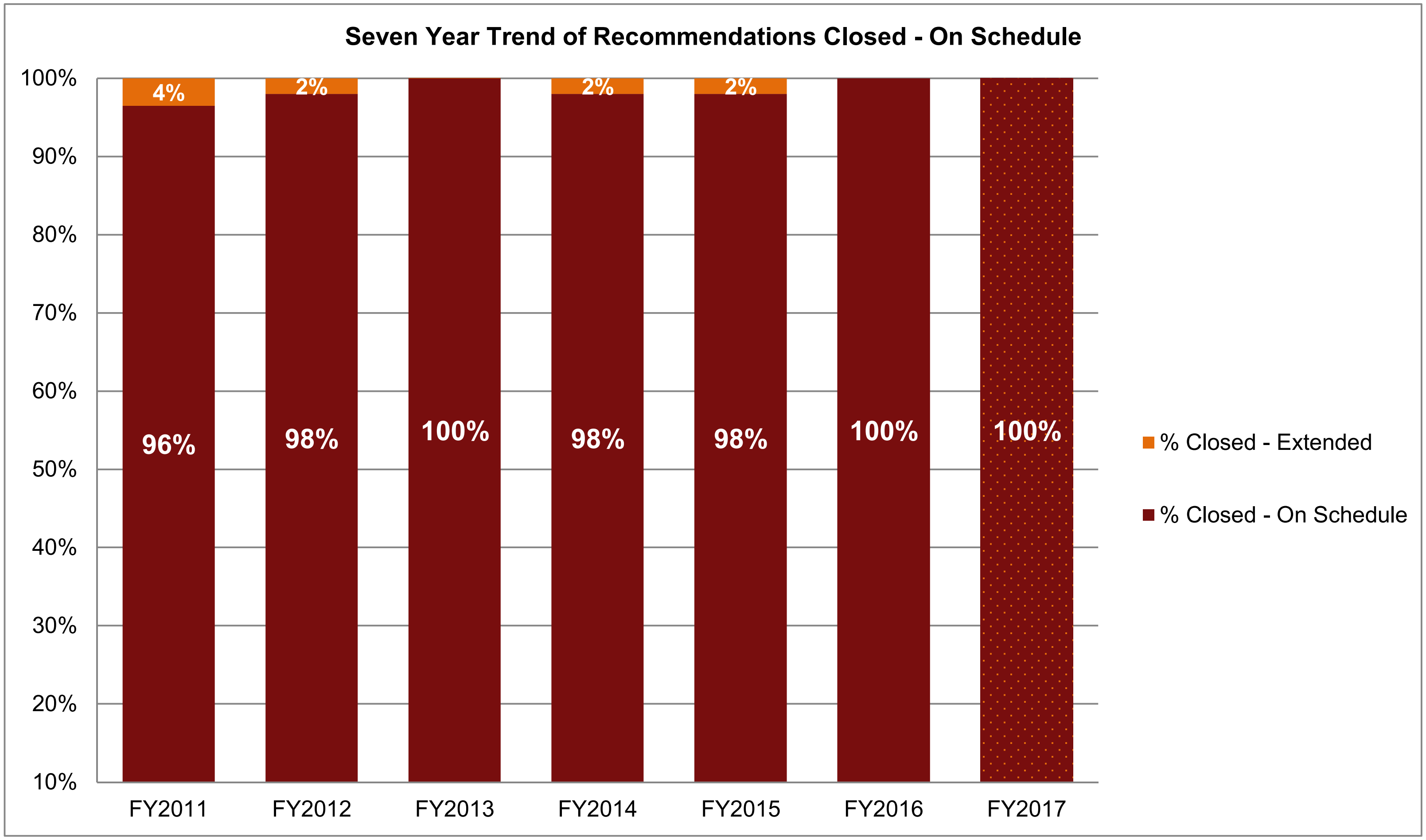
(2) Target date is beyond current calendar quarter. Management has follow-up discussions with the auditor to monitor progress, to assist with actions that may be needed to meet target dates, and to assess the feasibility of the target date.

ATTACHMENT C

Management Performance and Trends Regarding Internal Audit Recommendations

FINANCE AND AUDIT COMMITTEE

December 31, 2016



Presentation Date: April 3, 2017

University Internal Audit Status Report

FINANCE AND AUDIT COMMITTEE

March 3, 2017

Audit Plan Update

Audits were performed in accordance with the fiscal year 2016-17 annual audit plan at a level consistent with the resources of University Internal Audit. Eight risk-based audits and two compliance reviews have been completed since the November board meeting. Additionally, one advisory service project (Athletics ACC Compliance) was completed at the request of management.

Due to personnel turnover and/or management request, the risk-based audits of Biochemistry, Human Resources: Benefits, the Virginia Tech Police Department, and Student Engagement and Campus Life have been deferred until next fiscal year.

The following 11 audit projects are underway: Compliance Program Assessment, Controller's Office – Fixed Assets, Emergency Preparedness, Geosciences, IT: General Controls Review, IT: Printer and Networked Device Security, Research - Lab Safety, University Policy Review, Virginia Tech Carilion Research Institute, and compliance reviews of the Vice President for Finance and the Vice President for Outreach and International Affairs. Additionally, four advisory service projects, requested by management in the areas of Club Sports, the Steger Center for International Scholarship, the Virginia Tech Carilion School of Medicine, and Youth Protection Activities, are underway.

So far in fiscal year 2016-17, University Internal Audit has completed 42 percent of its audit plan as depicted in Exhibit 1.

Exhibit 1
FY 2016-17 Completion of Audit Plan

Audits	
Total # of **Audits** Planned	35
Total # of Supplemental **Audits**	2
Total # of Carry Forwards	3
Total # of Planned **Audits** Canceled and/or Deferred	4
Total **Audits** in Plan as Amended	36
Total **Audits** Completed	15
Audits - Percentage Complete	42%
Audits - Percentage Complete or Underway	83%
Note: Includes Compliance Reviews and Advisory Services	

Review and Acceptance of Reports Issued by University Internal Audit

FINANCE AND AUDIT COMMITTEE

March 8, 2017

Background

This report provides a summary of effective ratings issued this period and the full rating system definitions. University Internal Audit continues to make progress on the annual audit plan.

Ratings Issued This Period

Investments and Debt Management	Effective
Other Executive Offices: Global Forum on Urban and Regional Resilience	Effective
Other Executive Offices: Senior Fellow for Resource Development	Effective
Other Executive Offices: University Legal Counsel	Effective

Summary of Audit Ratings

University Internal Audit's rating system has four tiers from which to assess the controls designed by management to reduce exposures to risk in the area being audited. The auditor can use professional judgment in constructing the exact wording of the assessment in order to capture varying degrees of deficiency or significance.

<u>Definitions of each assessment option</u>

Effective – The audit identified opportunities for improvement in the internal control structure, but business risks are adequately controlled in most cases.

Improvements are Recommended – The audit identified occasional or isolated business risks that were not adequately or consistently controlled.

Significant or Immediate Improvements are Needed – The audit identified several control weaknesses that have caused, or are likely to cause, material errors, omissions, or irregularities to go undetected. The weaknesses are of such magnitude that senior management should undertake immediate corrective actions to mitigate the associated business risk and possible damages to the organization.

Unreliable – The audit identified numerous significant business risks for which management has not designed or consistently applied controls prior to the audit. Persistent and pervasive control weaknesses have caused or could cause significant errors, omissions, or irregularities to go undetected. The weaknesses are of such magnitude that senior management must undertake immediate corrective actions to bring the situation under control and avoid (additional) damages to the organization.

<u>RECOMMENDATION</u>:

That the internal audit reports reviewed above be accepted by the Finance and Audit Committee.

April 3, 2017

Report on Audits of University-Related Corporations

FINANCE AND AUDIT COMMITTEE

February 17, 2016

In accordance with the resolution passed by the Finance and Audit Committee on April 25, 1985, and as amended on November 13, 1995 and March 31, 2008, each university-related corporation is required to provide the University's President audited annual financial statements, management letters from the external auditors, management's responses thereto, and an annual certification that all procedures outlined in the resolution have been met. These financial statements, management letters, and management responses have been reviewed as of June 30, 2016, and found to meet the standards set forth in the audit resolution.

VIRGINIA TECH CORPORATIONS
COMPLIANCE WITH AUDIT RESOLUTION

Corporation	Audited Financial Statement	Management Letter	Response to Management Letter	External Auditor Length of Service	Certification Letter
VT Applied Research Corporation	✓	1	1	2	✓
VT Foundation, Inc.	✓	1	1	2	✓
VT Intellectual Properties, Inc.	✓	1	1	2	✓
VT Services, Inc.	✓	1	1	2	✓
VT Innovations Corporation	✓	1	1	3	✓

1 No management recommendations resulted from the audit.
2 Corporation using same audit firm as in years past; management team has been rotated within the past five years in accordance with the audit resolution.
3 Corporation has not been in existence for five years. Hence, the requirement in the affiliation agreement to rotate the external audit firm or the audit team after a consecutive five year team is not applicable.

Presentation Date: April 3, 2017

Review and Acceptance of Reports Issued by University Internal Audit

FINANCE AND AUDIT COMMITTEE

March 8, 2017

Background

This report provides a summary of less than effective ratings issued this period and the full rating system definitions. University Internal Audit continues to make progress on the annual audit plan. One additional audit project with less than an effective rating will be presented in closed session due to the presence of specific IT security vulnerabilities.

Ratings Issued This Period

Dining Services	Improvements are Recommended
Mining and Minerals Engineering	Improvements are Recommended
Physics	Improvements are Recommended
University Scholarships and Financial Aid	Improvements are Recommended
IT: Surplus Property	Improvements are Recommended
Travel and Employee Reimbursements	Improvements are Recommended
College of Architecture and Urban Studies	Significant Improvements are Needed

Summary of Audit Ratings

University Internal Audit's rating system has four tiers from which to assess the controls designed by management to reduce exposures to risk in the area being audited. The auditor can use professional judgment in constructing the exact wording of the assessment in order to capture varying degrees of deficiency or significance.

Definitions of each assessment option

Effective – The audit identified opportunities for improvement in the internal control structure, but business risks are adequately controlled in most cases.

Improvements are Recommended – The audit identified occasional or isolated business risks that were not adequately or consistently controlled.

Significant or Immediate Improvements are Needed – The audit identified several control weaknesses that have caused, or are likely to cause, material errors, omissions, or irregularities to go undetected. The weaknesses are of such magnitude that senior management should undertake immediate corrective actions to mitigate the associated business risk and possible damages to the organization.

Unreliable – The audit identified numerous significant business risks for which management has not designed or consistently applied controls prior to the audit. Persistent and pervasive control weaknesses have caused or could cause significant errors, omissions, or irregularities to go undetected. The weaknesses are of such magnitude that senior management must undertake immediate corrective actions to bring the situation under control and avoid (additional) damages to the organization.

RECOMMENDATION:

That the internal audit reports reviewed above be accepted by the Finance and Audit Committee.

April 3, 2017

Presentation of Auditor of Public Accounts Intercollegiate Athletics Programs Report for Year Ended June 30, 2016

FINANCE AND AUDIT COMMITTEE

February 17, 2017

The Auditor of Public Accounts (APA) performed certain agreed-upon procedures to evaluate whether the Schedule of Revenues and Expenses of Intercollegiate Athletics Program of the university is in compliance with National Collegiate Athletic Association (NCAA) Bylaw 3.2.4.15, for the year ended June 30, 2016. The APA did not perform an audit of the financial statements of the Intercollegiate Athletics Programs, so no opinion was issued. The APA performed procedures that addressed internal controls, affiliated and outside organizations, Schedule of Revenues and Expenses of Intercollegiate Athletics Programs, and separate procedures for specific revenues and expenses. During the APA review, no matters were brought to the APA's attention that would lead them to believe the amounts on the Schedule of Revenues and Expenses should be adjusted.

The purpose of the Schedule is to present a summary of revenues and expenses of the intercollegiate athletics programs of the university for the year ended June 30, 2016. Total revenues of the Intercollegiate Athletics Programs for the year ended June 30, 2016 were $83.9 million with the majority of the revenues coming from the football and basketball programs. Expenses for the year were $84.6 million, and for the first time in many years the expenses exceeded the revenues, resulting in an operating deficit of $0.8 million.

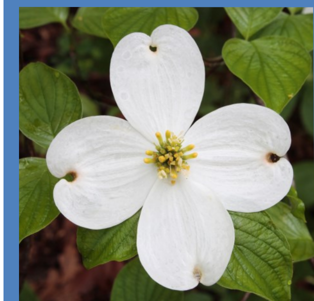
See Attachment B for the APA report on the Schedule of Revenues and Expense of Intercollegiate Athletics Programs for the year ended June 30, 2016.

The changes to the NCAA report line items implemented for fiscal year 2015, were continued in fiscal year 2016 and no further changes were made for fiscal year 2016. The changes implemented satisfied both changes required by the NCAA and for the task force mentioned below.

<u>Additional Activities related to NCAA Reporting</u>

House Bill 1897 passed by the 2015 General Assembly prohibits the total of school funds and student fees used to support intercollegiate athletics programs from exceeding a certain percentage of athletics revenues. The bill requires any school that violates this prohibition to submit to the General Assembly a five-year plan for coming into compliance. Virginia Tech participated in a statewide "athletic task force" as required by Section 23-1.2 Code of Virginia, to develop and implement a standardized reporting format for each higher education institution in Virginia to annually report its intercollegiate athletics revenue and expenses to the Auditor of Public Accounts. This new standardized report will be utilized to assess compliance with the requirements of HB1897. These percentages are larger for smaller institutions which do not have significant ticket sales or conference distributions. All institutions should prepare the FY 2016 schedule using the agreed upon guidance in preparation for the reporting effective for FY 2017. The first measurement period for evaluating HB 1897 will be FY 2017.

Virginia Tech does not anticipate having to make any significant changes to comply with the task force guidance. Additionally, since the university's athletic fees are the lowest in the Commonwealth, the university should not be effected by the fixed percentage of fees ceiling required by the legislation. For Virginia Tech, essentially the requirement states that student fees must remain below 20 percent of total athletic revenues. For FY 2016, student fees were 10.3 percent of total revenues. The second requirement in the legislation states that any percentage increase in student fees must be matched by a similar increase in all other revenues, as calculated on a five year rolling average. Traditionally, the university has kept athletic fee increases very low, but this new requirement must be kept in mind for future increases.




VIRGINIA POLYTECHNIC INSTITUTE AND STATE UNIVERSITY

INTERCOLLEGIATE ATHLETICS PROGRAMS FOR THE YEAR ENDED JUNE 30, 2016

Auditor of Public Accounts
Martha S. Mavredes, CPA
www.apa.virginia.gov
(804) 225-3350

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Commonwealth of Virginia

Auditor of Public Accounts

Martha S. Mavredes, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

January 17, 2017

The Honorable Terence R. McAuliffe
Governor of Virginia

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

Timothy D. Sands
President, Virginia Polytechnic Institute
and State University

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

We have performed the procedures enumerated below, which were agreed to by the President of **Virginia Polytechnic Institute and State University,** solely to assist the University in evaluating whether the accompanying Schedule of Revenues and Expenses of Intercollegiate Athletics Programs of the University is in compliance with National Collegiate Athletic Association (NCAA) Constitution 3.2.4.15, for the year ended June 30, 2016. University management is responsible for the Schedule of Revenues and Expenses of Intercollegiate Athletics Programs (Schedule) and the Schedule's compliance with NCAA requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and generally accepted government auditing standards. The sufficiency of the procedures is solely the responsibility of the University. Consequently, we make no representation regarding sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Agreed-Upon Procedures Related to the Schedule of Revenues and Expenses of Intercollegiate Athletics Programs

Procedures described below were limited to material items. For the purpose of this report, and as defined in the agreed-upon procedures, items are considered material if they exceed one-half of one percent of total revenues or total expenses, as applicable. The procedures that we performed and our findings are as follows:

Internal Controls

1. We reviewed the relationship of internal control over Intercollegiate Athletics Programs to internal control reviewed in connection with our audit of the University's financial statements. In addition, we identified and reviewed those controls unique to Intercollegiate Athletics Programs, which were not reviewed in connection with our audit of the University's financial statements.

2. Intercollegiate Athletics Department management provided a current organizational chart. We also made certain inquiries of management regarding control consciousness, the use of internal audit in the department, competence of personnel, protection of records and equipment, and controls regarding information systems with the information technology department.

3. Intercollegiate Athletics Department management provided us with their process for gathering information on the nature and extent of affiliated and outside organizational activity for or on behalf of the University's Intercollegiate Athletics Programs. We tested these procedures as noted below.

Affiliated and Outside Organizations

4. Intercollegiate Athletics Department management identified all intercollegiate athletics-related affiliated and outside organizations and provided us with copies of audited financial statements for each such organization for the reporting period.

5. Intercollegiate Athletics Department management prepared and provided to us a summary of revenues and expenses for or on behalf of the intercollegiate athletics programs by affiliated and outside organizations included in the Schedule.

6. Intercollegiate Athletics Department management provided to us any additional reports regarding internal control matters identified during the audits of affiliated and outside organizations performed by independent public accountants. We were not made aware of any internal control findings.

Schedule of Revenues and Expenses of Intercollegiate Athletics Programs

7. Intercollegiate Athletics Department management provided to us the Schedule of Revenues and Expenses of Intercollegiate Athletics Programs for the year ended June 30, 2016, as prepared by the University and shown in this report. We recalculated the addition of the amounts in the Schedule, traced the amounts on the Schedule to management's worksheets, and agreed the amounts in management's worksheets to the Intercollegiate Athletics Department's accounts in the accounting records. Certain adjustments to the Schedule were necessary to conform with NCAA reporting

guidance. We discussed the nature of work sheet adjustments with management and are satisfied that the adjustments are appropriate.

8. We compared each major revenue and expense account over ten percent of total revenues or total expenses, respectively, to prior period amounts and budget estimates. Variances exceeding one million dollars or ten percent of prior period amounts or budget estimates are explained below:

Line Item	**Explanation**
Ticket sales	This line item increased by $1 million as the University hosted an additional home football game and also increased football season ticket sales due by $50 per season ticket.
Contributions	This line item increased $2.8 million or almost 15 percent in the current year due to increased contributions from the Virginia Tech Foundation used for the following purposes: scholarship funding, events, and recruiting.
Conference distributions (non-media or bowl)	This line item decreased $3.3 million in the current year primarily due to a $2.6 million one-time payment. The settlement payment during fiscal year 2015 related to the University of Maryland's departure from the ACC and was passed through to the remaining member institutions.
Athletic student aid	This line item increased $1.2 million or nine percent due to increased rates and $900,000 in additional athletic aid to provide the cost of attendance increase for all sports.
Coaching salaries, benefits, and bonuses paid by the University and related entities	This line item increased by $2.6 million or 14 percent due to hiring a new coaching staff for the football team and women's basketball team. Additionally, compensation increased due to expected contractual increases. This line also includes a one-time payment of $500,000 to buy out the head football coach's contract at his previous institution.

Revenues

9. We reviewed a sample of daily ticket sales reconciliations performed for accuracy and proper review and approval. We performed a recalculation of ticket sales revenue by

comparing the number of tickets sold and sale price to total revenue recorded in the Schedule. We determined the reconciliations reviewed to be accurate and the amounts reported in the Schedule to be substantially in agreement with our recalculation.

10. We obtained an understanding of the institution's methodology for allocating student fees to intercollegiate athletics programs. We compared student fees reported in the Schedule to amounts reported in the accounting records and an expected amount based on fee rates and enrollment. We found these amounts to be substantially in agreement.

11. We obtained the amount reported in the Schedule for direct institutional support. This amount was deemed to be immaterial for detailed testing.

12. Intercollegiate Athletics Department management provided us with a listing of settlement reports and game guarantee agreements for away games during the reporting period. We reviewed these settlement reports and guarantee agreements for selected games and agreed selected amounts to proper posting in the accounting records and supporting documentation.

13. Intercollegiate Athletics Department management provided us with a listing of all contributions of moneys, goods or services received directly by the Intercollegiate Athletics Programs from any affiliated or outside organization, agency or group of individuals that constitutes ten percent or more of all contributions received during the reporting period. Except for contributions received from the Virginia Tech Foundation, an affiliated organization, we noted no individual contribution which constituted more than ten percent of total contributions received for Intercollegiate Athletics Programs. We reviewed contributions from the Virginia Tech Foundation, which exceeded ten percent of all contributions, and agreed them to supporting documentation.

14. We obtained the amount reported in the Schedule for in-kind contributions during the reporting period. This amount was deemed to be immaterial for detailed testing.

15. We obtained a summary of compensation and benefits provided by third parties as of the end of the reporting period. This amount was deemed to be immaterial for detailed testing.

16. Intercollegiate Athletics Department management provided us with a listing and copies of all agreements related to participation in revenues from broadcast, television, radio, internet, and e-commerce rights. We gained an understanding of the relevant terms of the agreements and agreed selected amounts to proper posting in the accounting records and supporting documentation.

17. Intercollegiate Athletics Department management provided us with a listing and copies of all agreements related to participation in revenues from tournaments, conference distributions, and NCAA distributions. We gained an understanding of the terms of the agreements and agreed selected amounts to proper posting in the accounting records and supporting documentation.

18. We compared the amount of revenue and a selection of transactions related to program sales, concessions, novelty sales, and parking to the institution's accounting records and supporting documentation.

19. Intercollegiate Athletics Department management provided us with a listing and copies of all agreements related to participation in revenues from royalties, licensing, advertisements, and sponsorships. We gained an understanding of the terms of the agreements and agreed selected amounts to proper posting in the accounting records and supporting documentation. An adjustment was made to record an additional $342,250 in product allowances that were not included in the initial version of the Schedule. Additionally, management reversed an entry that should not have been recorded for fiscal year 2016, which increased the revenue reported in this line item by $150,429. Following the adjustments, the amounts are properly recorded in the Schedule.

20. We obtained and inspected endowment agreements to gain an understanding of the relevant terms and conditions of the agreement. The Virginia Tech Foundation manages athletics-related endowment funds on behalf of the University. The University has access to request endowment income from the Foundation in accordance with certain budgetary restrictions. We confirmed the amount of athletics restricted endowment and investments income used for operations during the fiscal year with Foundation management and agreed it to the amount reported in the Schedule.

21. We traced reimbursements for bowl expenses and ticket sales related to bowl games to supporting documentation and to Bowl revenue reported in the Schedule.

22. We compared the amount of revenue related to other revenue to the amount reported in the Schedule. We reviewed classification of a sample of transactions and agreed those transactions to supporting documentation.

Expenses

23. Intercollegiate Athletics Department management provided us a listing of institutional student aid recipients during the reporting period. Since the University used the NCAA Compliance Assistant software to prepare athletic aid detail, we selected ten percent of individual student-athletes across all sports and agreed amounts from the listing to their award letter. We agreed each student's information to ensure accurate

reporting in the NCAA Membership Financial Reporting System. We also ensured that the total aid amount for each sport materially agreed to amounts reported as Financial Aid in the student accounting system.

24. Intercollegiate Athletics Department management provided us with a listing of settlement reports and game guarantee agreements for home games during the reporting period. We reviewed these settlement reports and guarantee agreements for selected games and agreed selected amounts to proper posting in the accounting records and supporting documentation.

25. Intercollegiate Athletics Department management provided us with a listing of coaches, support staff, and administrative personnel employed and paid by the University during the reporting period. We selected and tested individuals, including football and men's and women's basketball coaches, and compared amounts paid during the fiscal year from the payroll accounting system to their contract or other employment agreement document. We found that recorded expenses equaled amounts paid as salary and bonuses and were in agreement with approved contracts or other documentation.

26. Intercollegiate Athletics Department management provided us with a listing of coaches, support staff, and administrative personnel, including football and men's and women's basketball coaches, employed and paid by third parties during the reporting period. This amount was deemed to be immaterial for detailed testing.

27. Intercollegiate Athletics Department management provided us with a listing of severance payments made during the reporting period. We reviewed selected severance payments and found that each selected payment agreed to the related termination letter or employment contract and was properly recorded in the accounting system.

28. We discussed the Intercollegiate Athletics Department's recruiting expense and team travel policies with Intercollegiate Athletics Department management and documented an understanding of those policies. We compared these policies to existing University and NCAA policies and noted substantial agreement of those policies.

29. We selected a sample of disbursements for: recruiting, team travel, sports equipment, uniforms, and supplies, game expenses, fundraising, marketing, and promotion, direct overhead and administration, medical expenses and insurance, student-athlete meals (non-travel), bowl expenses, and other operating expenses. We compared and agreed the selected operating expenses to adequate supporting documentation. We found all reviewed amounts to be properly approved, reasonable to intercollegiate athletics, and properly recorded in the accounting records.

30. We obtained a listing of debt service payments for athletics facilities for the reporting year. We agreed all significant facility payments included in the Schedule, including the two highest facility payments, to supporting documentation.

31. We obtained an understanding of the University's methodology for charging indirect cost to the athletic department. We evaluated indirect cost charges for reasonableness and noted proper reporting of these charges in the Schedule.

Additional Procedures

32. We compared the sports sponsored, as reported in the NCAA Membership Financial Reporting System, to the squad lists of the institution. We noted agreement of the sports reported.

33. We obtained the institution's Sports Sponsorship and Demographics Forms Report for the reporting year. We validated that the countable sports identified by the institution met the minimum requirements for number of contests and minimum number of participants as defined in NCAA Bylaw 20.9.6.3. We ensured that countable sports have been properly identified in the NCAA Membership Financial Reporting System for the purpose of revenue distribution calculations.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the Schedule of Revenues and Expenses of Intercollegiate Athletics Programs or any of the accounts or items referred to above. Accordingly, we do not express such an opinion. Had we performed additional procedures or had we conducted an audit of any financial statements of the Intercollegiate Athletics Department of Virginia Polytechnic Institute and State University in accordance with generally accepted auditing standards, other matters might have come to our attention that would have been reported to the University. This report relates only to the accounts and items specified above and does not extend to the financial statements of Virginia Polytechnic Institute and State University or its Intercollegiate Athletics Department taken as a whole.

This report is intended solely for the information and use of the President and the University and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

AUDITOR OF PUBLIC ACCOUNTS

EMS/alh

VIRGINIA POLYTECHNIC INSTITUTE AND STATE UNIVERSITY
SCHEDULE OF REVENUES AND EXPENSES OF
INTERCOLLEGIATE ATHLETICS PROGRAMS
For the year ended June 30, 2016

	Football	Men's Basketball	Women's Basketball	Men's Other Sports	Women's Other Sports	Non-Program Specific	Total
Operating revenues:							
Ticket sales	$ 15,665,847	$ 2,237,054	$ 126,566	$ 23,595	$ -	$ -	$ 18,053,062
Student fees	-	-	-	-	2,280,662	6,361,594	8,642,256
Direct Institutional Support	-	-	-	-	-	2,351	2,351
Guarantees	650,000	100,000	-	6,173	-	-	756,173
Contributions	8,003,849	1,738,430	623,284	2,601,275	3,638,577	2,586,976	19,192,391
In-kind	51,281	52,190	7,743	6,465	10,133	28,056	155,868
Compensation and benefits provided by a third party	185,000	-	-	25,000	-	-	210,000
Media rights	15,971,843	4,104,975	294,074	70,000	84,000	-	20,524,892
NCAA distributions	-	1,283,983	3,210	30,736	27,927	2,006,349	3,352,205
Conference distributions (non-media or bowl)	3,874,943	979,117	31,124	90,376	76,554	5,495	5,057,609
Program, novelty, parking, and concession sales	1,337,115	88,274	11,702	20,284	14,704	54,283	1,526,362
Royalties, licensing, advertisement and sponsorships	1,143,080	203,384	89,234	171,500	188,500	483,910	2,279,608
Athletics restricted endowment and investment income	709,987	147,074	125,113	537,136	785,795	75,426	2,380,531
Bowl revenues	1,200,435	-	-	-	-	-	1,200,435
Other operating revenue	7,625	-	-	51,116	51,116	409,528	519,385
Total operating revenues	48,801,005	10,934,481	1,312,050	3,633,656	7,157,968	12,013,968	83,853,128
Operating expenses:							
Athletic student aid	3,862,782	691,602	659,017	2,624,138	4,101,951	1,065,605	13,005,095
Guarantees	695,000	605,891	132,685	18,586	17,978	-	1,470,140
Coaching salaries, benefits, and bonuses paid by the University and related entities	9,034,924	3,443,107	1,145,448	2,244,689	2,284,197	-	18,152,365
Coaching salaries, benefits and bonuses paid by a third party	185,000	-	-	25,000	-	-	210,000
Support staff/administrative compensation, benefits, and bonuses paid by the University and related entities	2,011,573	583,594	322,116	104,387	121,322	9,856,870	12,999,862
Severance payments	886,432	715,189	10,605	27,492	17,447	162,283	1,819,448
Recruiting	449,465	351,032	163,962	210,444	245,101	37,154	1,457,158
Team travel	806,567	732,731	397,027	1,131,032	1,080,013	-	4,147,370
Sports equipment, uniforms and supplies	414,554	150,087	82,844	367,830	349,489	114,785	1,479,589
Game expenses	2,153,708	461,866	301,329	286,629	224,733	320,868	3,749,133
Fundraising, marketing and promotions	178,027	318,740	83,754	99,682	84,164	345,188	1,109,555
Spirit groups	175,082	14,000	2,400	-	-	204,437	395,919
Athletic facility leases, and rental fees	14	402	700	141,359	125,250	-	267,725
Athletic facility debt service	4,094,155	342,594	342,594	-	-	519,076	5,298,419
Direct overhead and administrative expenses	2,570,766	590,564	142,562	315,531	217,930	4,574,380	8,411,733
Indirect cost paid to the institution by athletics	98,511	-	-	-	-	4,476,923	4,575,434
Medical expenses and insurance	210,634	56,420	49,823	219,505	242,734	423,008	1,202,124
Memberships and dues	2,470	1,710	7,225	5,312	8,416	22,205	47,338
Student-athlete meals (non-travel)	734,113	143,005	85,021	104,878	108,099	114,738	1,289,854
Other operating expenses	1,023,357	305,125	89,817	247,696	161,440	418,338	2,245,773
Bowl expenses	1,282,995	-	-	-	-	-	1,282,995
Total operating expenses	30,870,129	9,507,659	4,018,929	8,174,190	9,390,264	22,655,858	84,617,029
Excess (deficiency) of revenues over (under) expenses	$ 17,930,876	$ 1,426,822	$ (2,706,879)	$ (4,540,534)	$ (2,232,296)	$ (10,641,890)	$ (763,901)

Other Reporting Items:	
Total athletics-related debt	$ 47,055,000
Total institutional debt	$ 525,553,000
Value of athletics-dedicated endowments	$ 54,110,148
Value of institutional endowments	$ 842,991,159

The accompanying Notes to the Schedule of Revenues and Expenses of Intercollegiate Athletics Programs are an integral part of this Schedule.

VIRGINIA POLYTECHNIC INSTITUTE AND STATE UNIVERSITY
NOTES TO SCHEDULE OF REVENUES AND EXPENSES OF INTERCOLLEGIATE ATHLETICS PROGRAMS
FOR THE YEAR ENDED JUNE 30, 2016

1. BASIS OF PRESENTATION

The accompanying Schedule of Revenues and Expenses of Intercollegiate Athletic Programs has been prepared on the accrual basis of accounting. The purpose of the Schedule is to present a summary of revenues and expenses of the intercollegiate athletic programs of the University for the year ended June 30, 2016. The Schedule includes those intercollegiate athletics revenues and expenses made in behalf of the University's athletics programs by outside organizations not under the accounting control of the University. Because the Schedule presents only a selected portion of the activities of the University, it is not intended to and does not present either the financial position, changes in fund balances, or cash flows for the year then ended. Revenues and expenses directly identifiable with each category of sport presented are reported accordingly. Revenues and expenses not directly identifiable to a specific sport are reported under the category "Non-Program Specific."

2. AFFILIATED ORGANIZATIONS

The University received $21,463,383 from the Virginia Tech Foundation, Inc. Approximately $12,921,224 of these funds were used for grant-in-aid scholarships for student-athletes. These amounts received are included in the accompanying schedule as follows: $10,650,232 is included in the Contributions line item and $2,270,992 is included in the Athletics Restricted Endowment and Investment Income line item.

3. LONG-TERM DEBT

In October 2001, a $26,285,000 note was issued for the Athletic Department. This note was issued for the South End Zone addition to Lane Stadium. Part of the original debt was refinanced in January 2008 with a $2,860,000 note that will be repaid through 2020 and has an outstanding balance of $2,785,000. The remaining original debt issuance was refinanced in February 2011 with an $11,540,000 note that will be repaid through 2027 and has an outstanding balance of $8,475,000.

In May 2004, a $52,715,000 revenue bond was issued for the Athletic Department. This bond was issued for the West Side Expansion to Lane Stadium which was substantially completed in 2006. The majority of this debt was refinanced in November 2012 with a $32,365,000 note. This note has an outstanding balance of $28,360,000 and will be repaid with private fund raising and operating revenues through 2029. The remaining original debt issuance was repaid with private fund raising and operating revenues during 2014.

In November 2009, an $8,705,000 note was issued for the Athletic Department. This note was issued for the Hahn Hurst Basketball Practice Center which was substantially completed in 2009. This note has an outstanding balance of $6,925,000 and will be repaid with private fund raising and operating revenues through 2030.

In October 2015, a $510,000 revenue bond was issued for the Athletic Department. This bond was issued for the Indoor Practice Facility. This note has an outstanding balance of $510,000 and will be repaid with general operating revenues through 2035.

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

Year Ended June 30,	Principal	Interest	Total
2017	$ 2,825,000	$ 1,961,275	$ 4,786,275
2018	2,955,000	1,820,131	4,775,131
2019	3,095,000	1,674,513	4,769,513
2020	3,250,000	1,523,025	4,773,025
2021	3,435,000	1,360,725	4,795,725
2022-2026	19,545,000	4,207,906	23,752,906
2027-2031	11,690,000	692,481	12,382,481
2032-2036	260,000	36,400	296,400
Total	$ 47,055,000	$ 13,276,456	$ 60,331,456

4. SUBSEQUENT EVENT

In July 2016, a note of $5,385,000 was issued for the Athletic Department. This note refinanced $5,415,000 of the outstanding debt issued for the Hahn Hurst Basketball Practice Center. Both notes will be repaid with private fund raising and operating revenues through 2030.

5. UNIVERSITY ADMINISTRATION FEE

As with all auxiliary enterprises, the University charges the Athletic Department an administrative fee. During the fiscal year, the Department paid $4,575,434 to the University. This amount is included on the Indirect Cost Paid to the Institution by Athletics line item, and includes $98,511 in Football, and $4,476,923 in the Non-Program Specific category.

6. CAPITAL ASSETS

Capital assets consisting of buildings, infrastructure, and equipment are stated at appraised historical cost or actual cost where determinable. Construction in progress (CIP) is capitalized at actual cost as expenses are incurred. All gifts of capital assets are recorded at fair market value as of the donation date.

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

Depreciation is computed using the straight-line method over the useful life of the assets. The useful life is 40 to 60 years for buildings, 10 to 50 years for infrastructure and land improvements, and 3 to 30 years for fixed and movable equipment.

A summary of changes in capital assets follows for the year ending June 30, 2016 (all dollars in thousands):

	Beginning Balance	Additions	Retirements	Ending Balance
Depreciable capital assets				
Buildings	$ 146,130	$ 25,452	$ -	$ 171,582
Moveable equipment	6,872	645	177	7,340
Software	313	-	-	313
Fixed equipment	12,826	416	-	13,242
Infrastructure	19,664	141	-	19,805
Total depreciable capital assets, at cost	185,805	26,654	177	212,282
Less accumulated depreciation				
Buildings	42,496	3,834	-	46,330
Moveable equipment	4,556	533	160	4,929
Software	205	20	-	225
Fixed equipment	5,436	518	-	5,954
Infrastructure	16,006	693	-	16,699
Total accumulated depreciation	68,699	5,598	160	74,137
Total depreciable capital assets, Net of accumulated depreciation	117,106	(21,056)	17	138,145
Non-depreciable capital assets				
Construction in progress	22,861	4,713	25,667	1,907
Total non-depreciable capital assets	22,861	4,713	25,667	1,907
Total capital assets, net of accumulated depreciation	$139,967	$25,769	$ 25,684	$ 140,052

VIRGINIA POLYTECHNIC INSTITUTE AND STATE UNIVERSITY

As of June 30, 2016

BOARD OF VISITORS

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Secretary to the Board of Visitors

UNIVERSITY OFFICIALS

Timothy D. Sands, President

Whit Babcock, Director of Intercollegiate Athletics Programs

Update on the Department of Education Onsite Student Financial Aid Review

FINANCE AND AUDIT COMMITTEE

February 20, 2017

The U.S. Department of Education (DOE) conducted an onsite program review of the university's Student Financial Aid programs. The focus of the review was to determine Virginia Tech's compliance with the statutes and federal regulations as they pertain to the institution's administration of Title IV programs. Title IV programs are federal student aid programs authorized under Title IV of the Higher Education Act (HEA) and include federal grants, loans, and work-study programs. The review consisted of, but was not limited to, an examination of Virginia Tech's policies and procedures regarding institutional and student eligibility, individual student financial aid and academic files, attendance records, student account ledgers, and consumer information requirements. The DOE audit team was on campus from March 15 - March 17, 2016.

Of the 33,701 students enrolled at Virginia Tech during the 2015-16 award year, 37.5 percent or 12,638 students received Title IV Aid. The university disbursed approximately $151 million in total Title IV aid during the scope period.

DOE reviewed a sample of 20 files from the 2015-2016 (year to date) award year. The student files were selected randomly from the list of students who: 1) withdrew or ceased attendance for any reason other than graduation; 2) were selected for verification; or 3) received all non-passing grades ("0" GPA) for any term within the award year.

DOE issued a preliminary program review report on June 28, 2016 listing six findings from their review. The university provided supporting documentation and responses related to clarify the findings for DOE's consideration within the 60 day response deadline.

Final Audit Results

After reviewing the university's response, DOE issued the Final Program Review Determination (FPRD) letter on November 16, 2016 reporting the final conclusions from the audit. The report states that "*Virginia Tech responses have resolved all findings. In addition, Virginia Tech has provided assurances that appropriate corrective actions have been taken to resolve and prevent future occurrences of all findings. Therefore, Virginia Tech may consider the program review closed with no further action required*."

A brief summary of the final audit results is provided below:

- For five of the six findings, DOE determined that Virginia Tech had provided adequate responses and supporting documentation to fully resolve the findings. No further action was needed for these findings. The findings related to return of title IV funds calculation error, failure to provide notice of Right-To-Cancel to students, failure to report and inaccurate reporting to the National Student Loan

Data System, distribution of loan funds to student beyond student need, and failure to report accurate payment data.

- For one of the six findings, DOE determined that additional action was required from the university. According to Title IV regulations, an institution must ensure that exit counseling is conducted with each Direct Subsidized Loan or Direct Unsubsidized Loan borrower shortly before the student borrower ceases at least half-time study at the school. The report noted that for six of the 20 student samples reviewed, the university did not maintain documentation of exit loan counseling. Failure to provide loan counseling to students in accordance with the federal requirements may result in increased student loan defaults and cause increased expense for the DOE.

  Virginia Tech concurred with the finding and noted that the university's exit counseling process was not identifying certain specific situations where such counseling should have been provided. The university modified its exit counseling process to identify all populations requiring such counseling and conducted a file review for exit counseling for all students who graduated, withdrew, or ceased at least half-time enrollment during the 2015-16 award year. The university submitted the results of the file review and supporting documentation of provision of exit loan counseling information to required students to DOE.

  DOE reviewed the results of the file review and supporting documentation and determined that Virginia Tech had adequately conducted exit loan counseling for those students the institution was required to provide such counseling.

Report on JLARC Recommendations to be Addressed by the Board of Visitors

FINANCE AND AUDIT COMMITTEE

February 22, 2017

This report provides an update on the implementation status of the JLARC recommendations to be addressed by the Board of Visitors.

Background

The 2012 General Assembly directed the Joint Legislative Audit and Review Commission (JLARC) to conduct a study on cost efficiency of public higher education institutions in Virginia and to identify opportunities to reduce the cost of public higher education in Virginia. The House Joint resolution that directed JLARC to conduct the study identified 14 areas to consider in its study including both academic and non-academic factors that affect the cost of higher education operations. The study was conducted over a period of two years and was completed on November 30, 2014. JLARC issued a total of five reports during the course of the study. JLARC issued a total of 32 recommendations and seven policy options in the five reports.

The General Assembly considered the JLARC recommendations during the 2014 session. The 2015 Appropriation Act passed by the General Assembly included language recommending implementation of a subset of the JLARC recommendations. The budget language included seven items which the General Assembly believed should be addressed by the Board of Visitors, to the extent practicable. *Attachment A* provides information on the language included in the 2015 Appropriation Act regarding JLARC recommendations.

Status of Institutional Actions on the Outstanding Recommendations by General Assembly

Of the seven recommendations proposed by the General Assembly for Board's consideration, the university has fully implemented four recommendations and the remaining three recommendations are in progress. The following table provides a summary of the implementation status of all recommendations.

Recommendation Numbers	Recommendation Category	Status
1	Display of tuition and fee including mandatory fees on university website and student invoices	Fully Implemented
2	Feasibility and Impact of raising additional revenue through campus recreation and fitness enterprises	Fully Implemented
3, 4, 5	Review of organizational structure including analysis of span of control	In Progress

Recommendation Numbers	Recommendation Category	Status
6, 7	Standardization of Purchases of commonly procured goods and use of institution-wide contracts	Fully Implemented

The university has provided information on the implementation plans and results for each of the four recommendations in prior meetings. This report provides an update on the implementation status of the three outstanding recommendations.

Review of organizational structure including analysis of span of control

Status: *In Progress*

3. Recommendation: *Direct staff to perform a comprehensive review of the institution's organizational structure, including an analysis of spans of control and a review of staff activities and workload, and identify opportunities to streamline the organizational structure. Boards should further direct staff to implement the recommendations of the review to streamline their organizational structures where possible;*

- Virginia Tech established a cross-functional team comprised of Human Resources, IT, and Finance personnel to evaluate the current status of organizational structure, data availability, collection, and assessment, and review of existing span of control studies, etc.
    - The university completed the first phase of the project to populate the university's centralized Enterprise Resource Planning (ERP) system with the required data elements in order to create a consistent platform for conducting the span of control study. University departments reviewed the data sets for their respective areas for validation purposes to ensure data integrity for conducting the study. Completion of this work will enable the university to commence the organizational structure study.

- The university has engaged a consulting firm with specialization in providing Human Resources consulting services to higher education institutions to implement the second phase of the project. The second phase includes conducting an analysis of the current organizational structure to include layers and spans of control for the administrative and academic support functions, benchmarking of the structure and staffing practices against best practices, and developing practical recommendations for improvements in the organizational structure to meet departmental and institutional goals. Based on the results of the assessment, a recommended course of action and an implementation plan that meets the intent of this recommendation will be presented for consideration by the Board.

4. *Require periodic reports on average and median spans of control and the number of supervisors with six or fewer direct reports;*

- Virginia Tech currently provides scorecard metrics on multiple academic and administrative measures. While the university recognizes the value in initial reporting of this information, the university will work with the Board members to evaluate if additional measures related to average and median spans of control should be an ongoing reporting metric.

5. *Direct staff to revise human resource policies to eliminate unnecessary supervisory positions by developing standards that establish and promote broader spans of control. The new policies and standards should (i) set an overall target span of control for the institution, (ii) set a minimum number of direct reports per supervisor, with guidelines for exceptions, (iii) define the circumstances that necessitate the use of a supervisory position, (iv) prohibit the establishment of supervisory positions for the purpose of recruiting or retaining employees, and (v) establish a periodic review of departments where spans of control are unusually narrow;*

- Based upon the results of the university assessment on Recommendation #3 above, the university will evaluate if revisions to human resources policies are necessary.

Next steps

The university will provide a final report to the Board upon completion of the consultant's work.

Excerpt from 2015 Virginia Acts of Assembly

§ 4-9.04 IMPLEMENT JLARC RECOMMENDATIONS

a. The Boards of Visitors at each Virginia public four-year higher education institution, to the extent practicable, shall:

1. require their institutions to clearly list the amount of the athletic fee on their website's tuition and fees information page. The page should include a link to the State Council of Higher Education for Virginia's tuition and fee information. The boards should consider requiring institutions to list the major components of all mandatory fees, including the portion attributable to athletics, on a separate page attached to student invoices;

2. assess the feasibility and impact of raising additional revenue through campus recreation and fitness enterprises to reduce reliance on mandatory student fees. The assessments should address the feasibility and impact of raising additional revenue through charging for specialized programs and services, expanding membership, and/or charging all users of recreation facilities;

3. direct staff to perform a comprehensive review of the institution's organizational structure, including an analysis of spans of control and a review of staff activities and workload, and identify opportunities to streamline the organizational structure. Boards should further direct staff to implement the recommendations of the review to streamline their organizational structures where possible;

4. require periodic reports on average and median spans of control and the number of supervisors with six or fewer direct reports;

5. direct staff to revise human resource policies to eliminate unnecessary supervisory positions by developing standards that establish and promote broader spans of control. The new policies and standards should (i) set an overall target span of control for the institution, (ii) set a minimum number of direct reports per supervisor, with guidelines for exceptions, (iii) define the circumstances that necessitate the use of a supervisory position, (iv) prohibit the establishment of supervisory positions for the purpose of recruiting or retaining employees, and (v) establish a periodic review of departments where spans of control are unusually narrow; and,

6. direct institution staff to set and enforce policies to maximize standardization of purchases of commonly procured goods, including use of institution-wide contracts;

7. consider directing institution staff to provide an annual report on all institutional purchases, including small purchases, that are exceptions to the institutional policies for standardizing purchases.

b. The State Council on Higher Education for Virginia, to the extent practicable, shall:

1. convene a working group of institution financial officers, with input from the Department of Accounts, the Department of Planning and Budget, and the Auditor of Public Accounts, to create a standard way of calculating and publishing mandatory non-E&G fees, including for intercollegiate athletics;

2. update the state's Chart of Accounts for higher education in order to improve comparability and transparency of mandatory non-E&G fees, with input from the Department of Accounts, the Department of Planning and Budget, the Auditor of Public Accounts, and institutional staff. This process should be coordinated with the standardization of tuition and fee reporting;

3. convene a working group of institutional staff to develop instructional and research space guidelines that adequately measure current use of space and plans for future use of space at Virginia's public higher education institutions;

4. coordinate a committee of institutional representatives, such as the previously authorized Learning Technology Advisory Committee. In addition to the objectives set out in the Appropriation Act for the Learning Technology Advisory Committee, the committee should identify instructional technology initiatives and best practices for directly or indirectly lowering institutions' instructional expenditures per student while maintaining or enhancing student learning.

c. Notwithstanding the provisions of § 23-9.14:1, the State Council of Higher Education for Virginia shall annually train boards of visitors members on the types of information members should request from institutions to inform decision making, such as performance measures, benchmarking data, the impact of financial decisions on student costs, and past and projected cost trends. Boards of Visitors members serving on finance and facilities subcommittees should, at a minimum, participate in the training within their first year of membership on the subcommittee. SCHEV should obtain assistance in developing or delivering the training from relevant agencies such as the Department of General Services and past or present finance officers at Virginia's public four-year institutions, as appropriate.

d. The Department of Planning and Budget shall revise the formula used to make allocation recommendations for the state's maintenance reserve funding to account for higher maintenance needs resulting from poor facility condition, aging of facilities, and differences in facility use. Beginning with fiscal year 2016, the Department of Planning and Budget shall submit these recommendations to the Governor and General Assembly no later than November 1 of each year.

e. The Six-Year Capital Outlay Plan Advisory Committee, the Department of Planning and Budget, and others as appropriate shall use the results of the prioritization process established by the State Council of Higher Education for Virginia in *determining which capital projects should receive funding.*

f. Beginning with fiscal year 2016, the Auditor of Public Accounts shall include in its audit plan for each public institution of higher education a review of progress in implementing the JLARC recommendations contained in paragraph § 4-9.04 a.

Presentation of the University's Annual Financial Report

FINANCE AND AUDIT COMMITTEE

February 17, 2017

Fiscal year 2016 represented a transitional period for Virginia Tech. In spite of a continual challenging financial environment, a continued enrollment growth, employment of cost containment and income enhancement techniques have enabled the university to successfully grow the programs of core missions. The university's overall financial position remains strong. Despite the challenges, we had a successful year on several fronts. While continuing to move forward and expand our academic programs, we have managed operations with structurally balanced budgets while increasing capital assets.

Summary of Audit Results

- Unmodified audit opinion *(Previously called an Unqualified audit opinion)*
- No material weakness in internal controls
- No instances of noncompliance or other matters required to be reported under Government Auditing Standards
- No written audit recommendations involving internal control

Assets, Liabilities and Net Position at June 30, 2016 & 2015

(dollars in millions)

	2016	2015	Change Amount	Change Percent
Current assets	$ 324.7	$ 411.8	$ (87.1)	(21.2%)
Capital assets, net	1,666.9	1,625.1	41.8	2.3%
Other assets	511.7	332.3	179.4	54.0%
Total assets	**2,503.3**	**2,369.2**	**134.1**	**5.7%**
Deferred outflows of resources	58.1	42.3	15.8	37.4%
Current liabilities	262.3	278.1	(15.8)	(5.7%)
Noncurrent liabilities	930.6	852.0	78.6	9.2%
Total liabilities	**1,192.9**	**1,130.1**	**62.8**	**5.6%**
Deferred inflows of resources	30.2	64.7	(34.5)	(53.3%)
Invested in capital assets, net	1,163.8	1,112.1	51.7	4.6%
Restricted	209.8	178.9	30.9	17.3%
Unrestricted	(35.3)	(74.3)	39.0	52.5%
Total net position	**$ 1,338.3**	**$ 1,216.7**	**$ 121.6**	**10.0%**

The balance sheet shows positive results for fiscal year 2016 with the key indicators as follows:

- Assets increased by $134.1 million or 5.7% with majority of the rise in capital assets and other assets. The increase in capital assets, net ($41.8 million) reflects the ongoing construction of university research and instructional facilities. The growth in other assets was mainly from long term investments ($188.0 million).

- Total liabilities increased by $62.8 million of 5.6%. The current liabilities category decreased by $15.8 million and the noncurrent liabilities category grew by $78.6 million. The growth in noncurrent liabilities was the result of increases in pension liability ($46.0 million) and long term debt payable ($35.0 million), offset by small reductions in accrued compensated absences ($2.1 million) and other liabilities ($0.3 million).

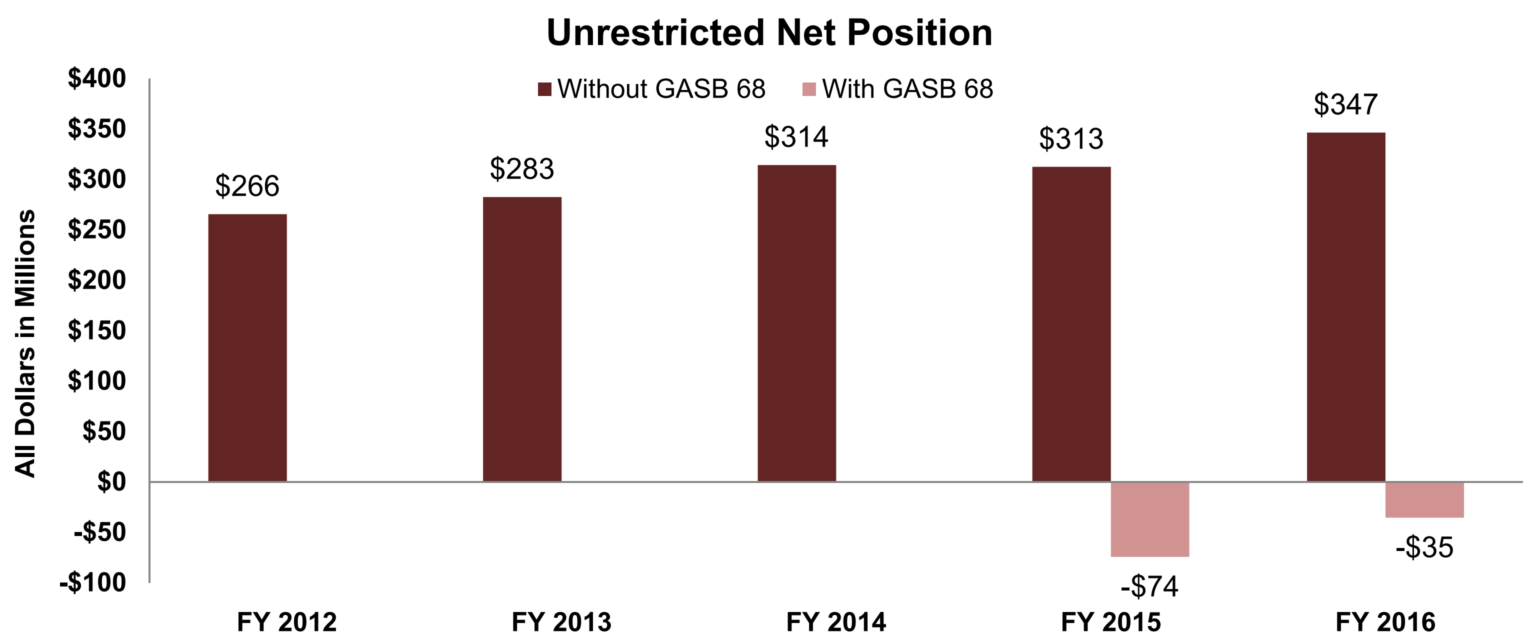
- The growth in total assets exceeded the growth in total liabilities resulting in a year-over-year increase of the university's net position of $121.6 million (10.0%), reflecting the university's continued investment in new facilities and equipment supporting the university's missions as well as prudent management of university's fiscal resources.

Trends in Net Position

For the years ended June 30, 2012-2016

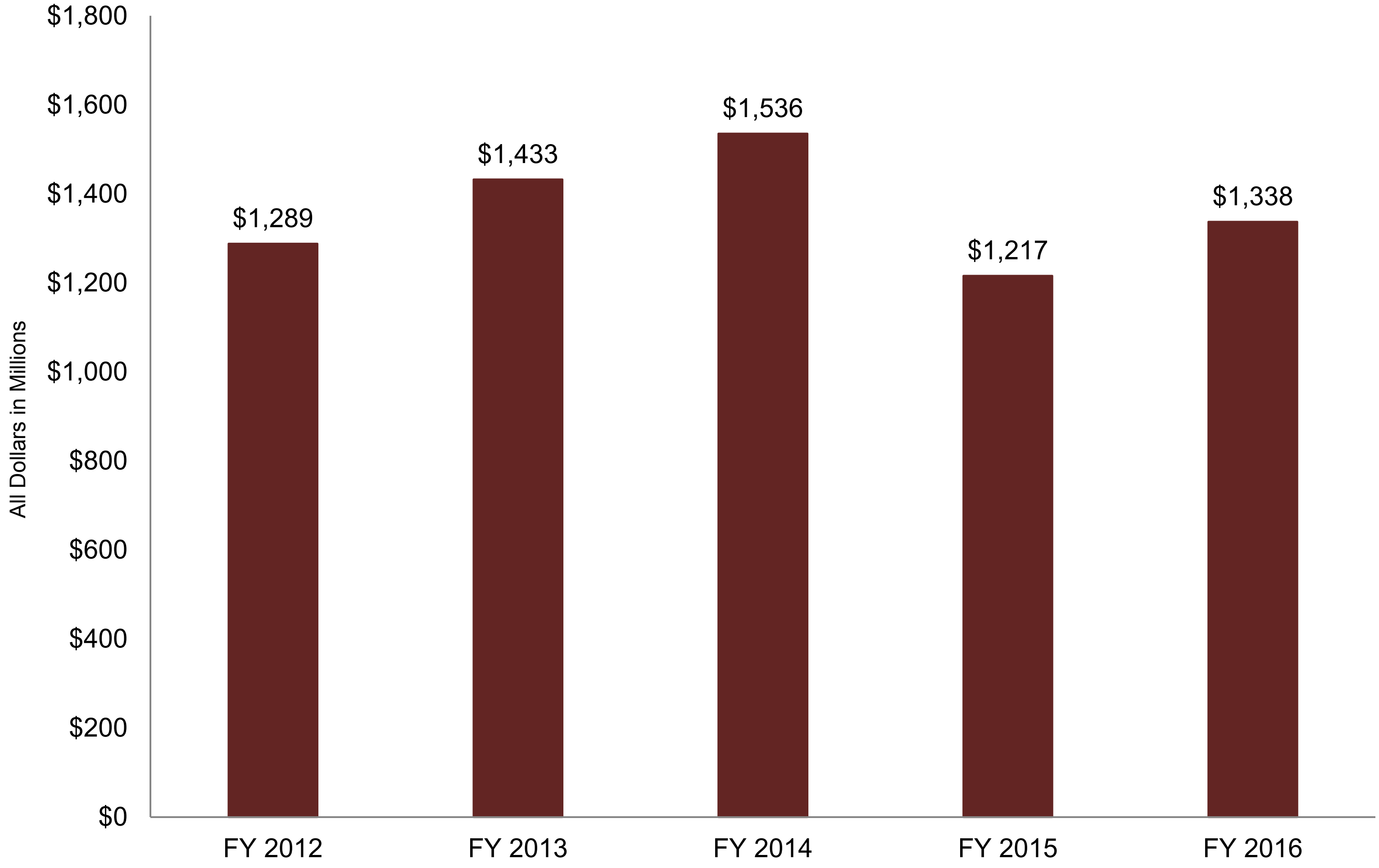
(dollars in millions)

	2012	2013	2014	2015	2016
Capital assets, net of related debt	$ 867.3	$ 992.2	$ 1,056.9	$ 1,112.1	$ 1,163.8
Restricted, nonexpendable	0.4	0.4	0.4	0.4	0.4
Restricted, expendable:					
Capital projects	20.3	11.0	2.9	6.0	36.4
Other	135.3	146.9	161.7	172.5	173.1
Unrestricted	265.6	282.6	314.3	(74.3)	(35.3)
Total Net Position	**$ 1,289**	**$ 1,433**	**$ 1,536**	**$ 1,217**	**$ 1,338**



The implementation of GASB 68 reduced unrestricted net position by $ 382 million in FY 2016 and by $387 million in FY 2015.

Total Net Position



Presentation Date: April 3, 2017

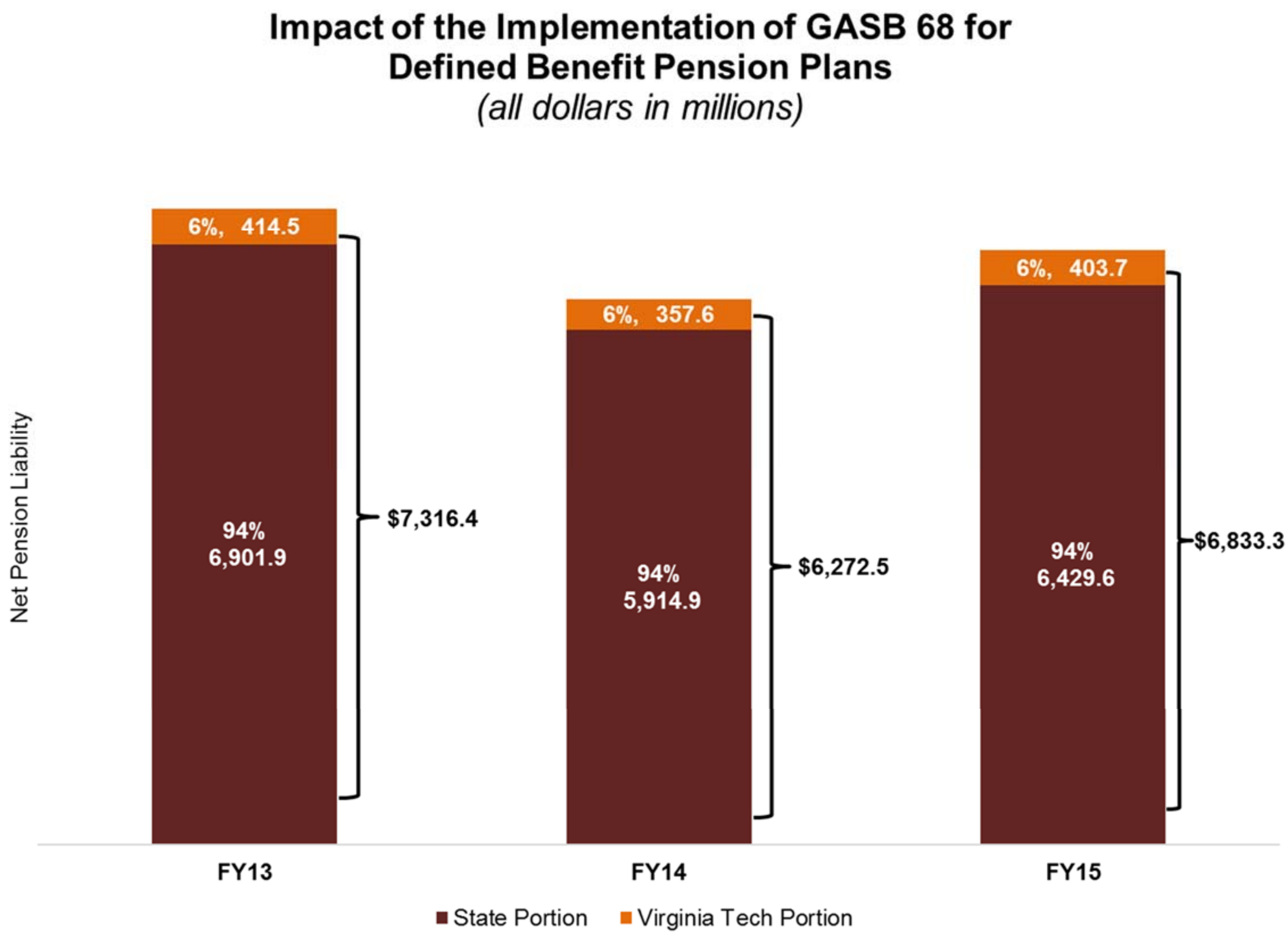
Virginia Tech

Cumulative Impact of the Implementation of GASB 68 for Defined Benefit Pension Plans

On Unrestricted Net Position

(dollars in thousands)

	Cumulative Impact of GASB 68 for Pension Plans	Including GASB 68 Unrestricted Net Position	Excluding GASB 68 Unrestricted Net Position
Unrestricted Net Position at July 1, 2015 (before adjustments)		**$ 314,303**	**$ 314,303**
Beginning Balance Adjustment to July 1, 2015 Unrestricted Net Position	$ (392,768)		
Effect of GASB 68 on FY 2015 Pension Expense	$ 5,955		
Cumulative Effect of GASB 68 through 6/30/2015	**$ (386,813)**	$ (386,813)	
Remaining Net results of operations for FY 2015		$ (1,790)	$ (1,790)
Unrestricted Net Position at June 30, 2015		**$ (74,300)**	**$ 312,513**
Effect of GASB 68 on FY 2016 Pension Expense	$ 4,893	$ 4,893	
Remaining Net results of operations for FY 2016		$ 34,103	$ 34,103
Unrestricted Net Position at June 30, 2016		**$ (35,304)**	**$ 346,616**
Cumulative Effect of GASB 68 through 6/30/2016	**$ (381,920)**		



- Measurement dates for pension amounts will always be one year in arrears from the financial statement dates.
- The total net pension liability for these plans increased by $560.8 million for the Commonwealth, and correspondingly by $46.1 million for the university. However, most of the impact on pension expense and net position is deferred to future periods.

Summary of Composition of Investments at June 30, 2016

(dollars in millions)

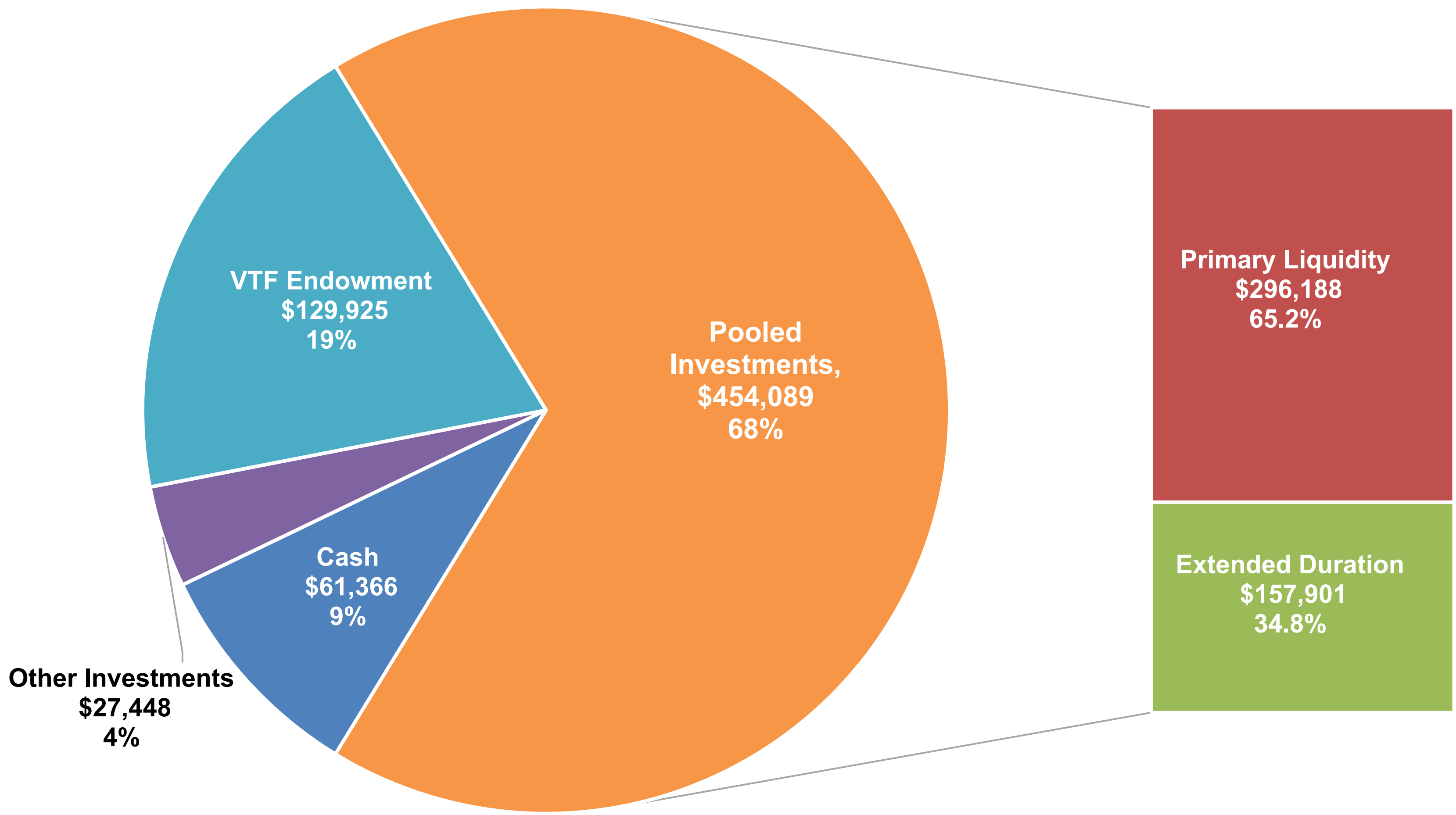
Description and Credit Rating	Cash Equivalents *<90 days*	Short-Term Investments *90 days to 1 year*	Long-Term Investments *>1 year*	Total
U.S. Treasury Securities (N/A)	$ -	$ -	$ 32.0	$ 32.0
Debt Securities (Aaa to A3)	-	-	101.7	101.7
Repurchase Agreements	25.3	-	-	25.3
Federal Agency Securities:				
Unsecured bonds and notes (Aaa)	119.3	-	80.0	199.3
Mortgage backed securities (AAA to Aaa)			31.8	31.8
SNAP	23.1	-	-	23.1
Investments with VTF	2.0		129.9	131.9
Other Investments (Aaa to P-1)	33.1		33.3	66.4
June 30, 2016 Balance	**$ 202.8**	**$ -**	**$ 408.7**	**$ 611.5**
June 30, 2015 Balance	277.0	1.7	220.7	499.4
Change in Investment Balances	**$ (74.2)**	**$ (1.7)**	**$ 188.0**	**$ 112.1**

* SNAP funds consist of unspent tax-exempt bond proceeds pending expenditure.

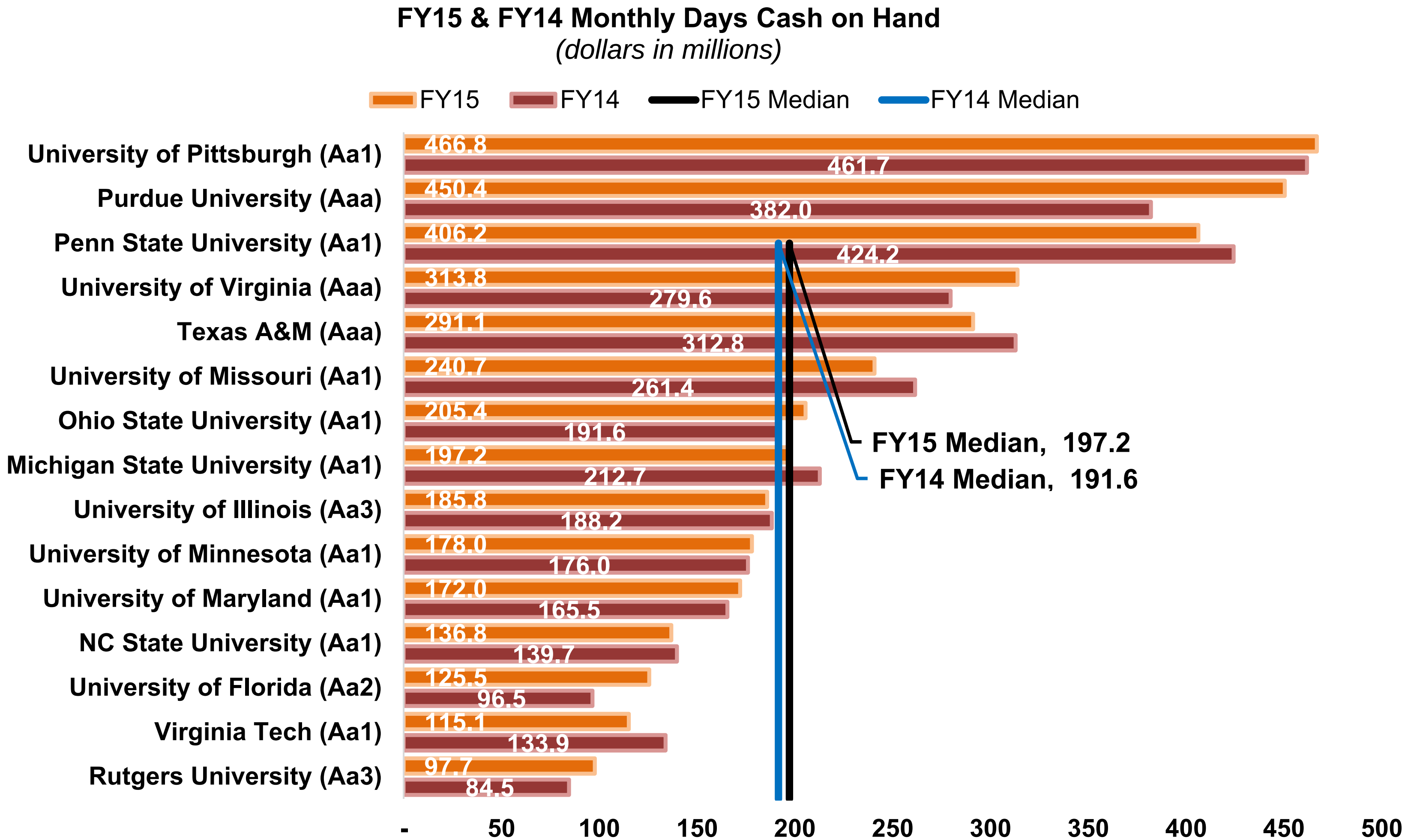
Virginia Tech
Summary Schedule of Cash and Investment Totals
From the Totals Reported in the Audited Financial Statements - June 30, 2016 and June 30, 2015
(dollars in thousands)

	Totals at 6/30/2016			Totals at 6/30/2015	
Financial Statement Totals	**Current Assets**	**Noncurrent Assets**	**Total Cash & Investments**	**Total Cash & Investments**	**Change in Totals**
Cash	$ 50,057	$ 11,309	$ 61,366	$ 117,911	$ (56,545)
Cash equivalents (< 90 days)	174,700	28,071	202,771	277,013	(74,242)
Total Cash & Cash equivalents	$ 224,757	$ 39,380	$ 264,137	$ 394,924	$ (130,787)
Short-term Investments (>90 days < 1 year)	$ -	$ -	$ -	$ 1,752	$ (1,752)
Long-term Investments (> 1 year)					
Invested in the VTF Endowment Pool		$ 129,926	129,926	$ 96,094	$ 33,832
Invested with other investment managers		$ 278,765	278,765	$ 124,566	$ 154,199
Total Long-term Investments	$ -	$ 408,691	$ 408,691	$ 220,660	$ 188,031
Grand totals Cash & Investments	**$ 224,757**	**$ 448,071**	**$ 672,828**	**$ 617,336**	**$ 55,492**

Virginia Tech
Schedule of Cash & Investments by Investment Pool
From the Totals Reported in the Audited Financial Statments for FY 2016
(dollars in thousands)



Presentation Date: April 3, 2017



Monthly Days Cash on Hand measures the number of days a university is able to operate (cover its cash operating expenses) from unrestricted cash and investments that can be liquidated within one month.

Monthly Days Cash on Hand is calculated by taking monthly liquidity times 365 divided by operating expenses less depreciation and additional, unusually large non-cash expenses.

The university transferred cash and cash equivalents to longer term investments during FY16.

Ongoing Investments in Capital Assets

Summary Changes in Capital Assets for the year ending June 30, 2016

(dollars in millions)

	Beginning Balance	Additions	Retirements	Ending Balance
Depreciable capital assets				
Buildings (includes capital leases)	$1,688.1	$54.5	$5.3	$1,737.3
Moveable equipment	500.5	41.7	23.8	518.4
Software and intangible assets	11.4	11.5	0.6	22.2
Fixed equipment	133.5	5.7	6.7	132.5
Infrastructure	121.2	3.4	-	124.6
Library books	76.3	1.7	0.5	77.5
Total depreciable capital assets, at cost	**2,530.9**	**118.5**	**36.9**	**2,612.5**
Less accumulated depreciation				
Total accumulated depreciation	**1,076.5**	**100.1**	**31.7**	**1,144.9**
Total depreciable capital assets, net	**1,454.3**	**18.4**	**5.2**	**1,467.5**
Nondepreciable capital assets				
Land	46.2	0.3	0.0	46.5
Livestock	1.2	-	0.6	0.6
Construction in progress	116.1	92.0	59.7	148.4
Equipment in process	3.6	2.8	3.3	3.1
Software in development	3.7	0.6	3.5	0.8
Total nondepreciable capital assets	**170.8**	**95.7**	**67.1**	**199.4**
Total capital assets, net	**$1,625.1**	**$114.1**	**$72.3**	**$1,666.9**

Major buildings additions completed & capitalized fiscal year 2016: Completion of Indoor Practice Facility ($20.1 million) and the Marching Virginians Center ($4.6 million), replacement of the South Recreation field surface ($3.2 million, and the renovation of a 560-seat classroom in McBryde Hall ($2.4 million).

Major projects contributing to the "Construction in Progress": Upper Quad residential facilities ($69.9 million) and a new classroom building ($34.9 million), an upgrade to the university's unified communications system ($4.0 million) improvement of door access in residence halls ($3.9 million), and on-going capital renovations throughout the university ($18.7 million).

Summary of Revenues, Expenses, and Changes in Net Position

For the years ending June 30, 2016 and 2015

(dollars in millions)

	2016	2015	Change Amount	Change Percent
Operating revenues	$ 1,020.6	$ 965.0	$ 55.6	5.8%
Operating expenses	1,315.4	1,259.5	55.9	4.4%
Operating loss	**(294.8)**	**(294.5)**	**(0.3)**	**0.1%**
State appropriations	250.7	242.8	7.9	3.3%
Other non-operating revenues and expenses	67.3	73.2	(5.9)	(8.1%)
Non-operating revenue	**318.0**	**316.0**	**2.0**	**0.6%**
Income before other revenues & expenses	**23.2**	**21.5**	**1.7**	**7.9%**
Other revenues, expenses, gains or losses	98.4	51.8	46.6	90.0%
Increase in net position	**121.6**	**73.3**	**48.3**	**65.9%**
Net position - beginning of year	1,216.7	1,143.4	73.3	6.4%
Net position - end of year	**$ 1,338.3**	**$ 1,216.7**	**$ 121.6**	**10.0%**

Operating loss: Under GASB reporting, public universities will always show an operating loss because state appropriations, gifts and investment income are all considered non-operating revenues.

Increase (Decrease) in Revenues

For the years ending June 30, 2016 and 2015

(dollars in millions)

	2016	2015	Change Amount	Change Percent
Operating revenue				
Student tuition and fees, net	$ 449.2	$ 411.2	$ 38.0	9.2%
Grants and contracts	301.9	295.5	6.4	2.2%
Auxiliary enterprises	244.3	234.6	9.7	4.1%
Other operating revenue	25.2	23.7	1.5	6.3%
Total operating revenue	**1,020.6**	**965.0**	**55.6**	**5.8%**
Non-operating revenue				
State appropriations	250.7	242.8	7.9	3.3%
Other non-operating revenue	67.3	73.2	(5.9)	(8.1%)
Total non-operating revenue	**318.0**	**316.0**	**2.0**	**0.6%**
Other revenue				
Capital appropriations	36.9	-	36.9	100%
Capital grants and gifts	65.9	52.8	13.1	24.8%
Loss on disposal of capital assets	(4.4)	(1.0)	(3.4)	(340.0%)
Total capital revenue, gains	**98.4**	**51.8**	**46.6**	**90.0%**
Total revenue	**$ 1,437.0**	**$ 1,332.8**	**$ 104.2**	**7.8%**

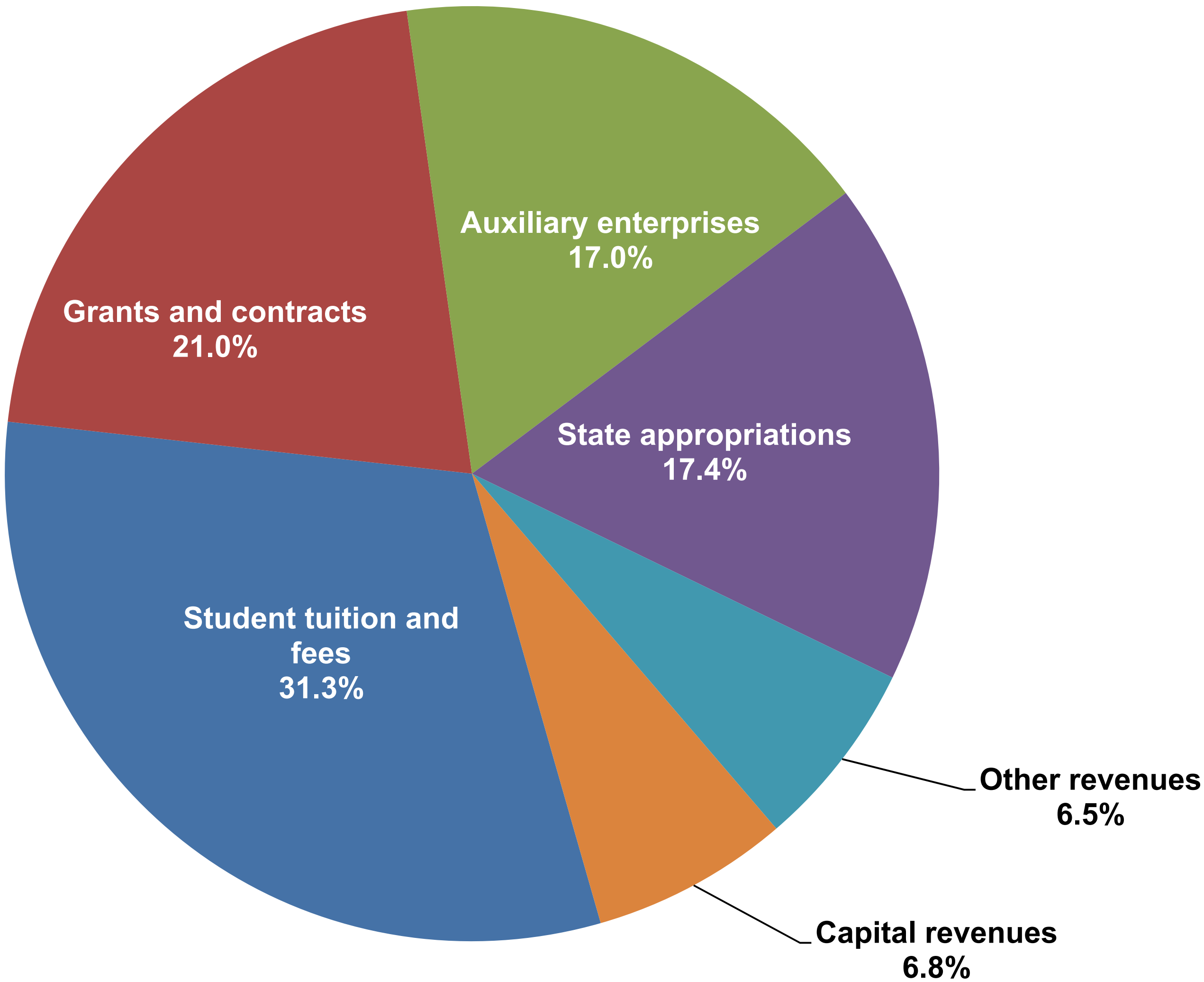
Operating revenues increased by $55.6 million or 5.8%. This growth came primarily from two categories: (1) Student tuition & fees and auxiliary enterprises. ($38.0 million or $9.2%) was expected given an increasing student population and the rise in both in-state and out-of-state tuition and fees rates. (2) The growth in auxiliary enterprise revenue ($9.7 million or 4.1%) followed a similar pattern

Non-operating revenues increased by $2.0 million primarily from larger state appropriations ($7.9 million) and gifts from donors ($4.9 million), offset by decrease in other additions ($8.1 million) and lower returns on investments ($2.4 million).

Capital appropriations were received from the state ($36.9 million) for the renovation of academic buildings, additional Kentland Farm facilities, and maintenance reserve projects.

Capital grants and gifts increased by $13.1 million, largely due to revenue from the 21st Century bond program and a small increase in the Equipment Trust Fund program.

Revenue by Source for Fiscal Year 2016



Presentation Date: April 3, 2017

Changes in Operating Expenses by Function

For the years ending June 30, 2016 and 2015
(dollars in millions)

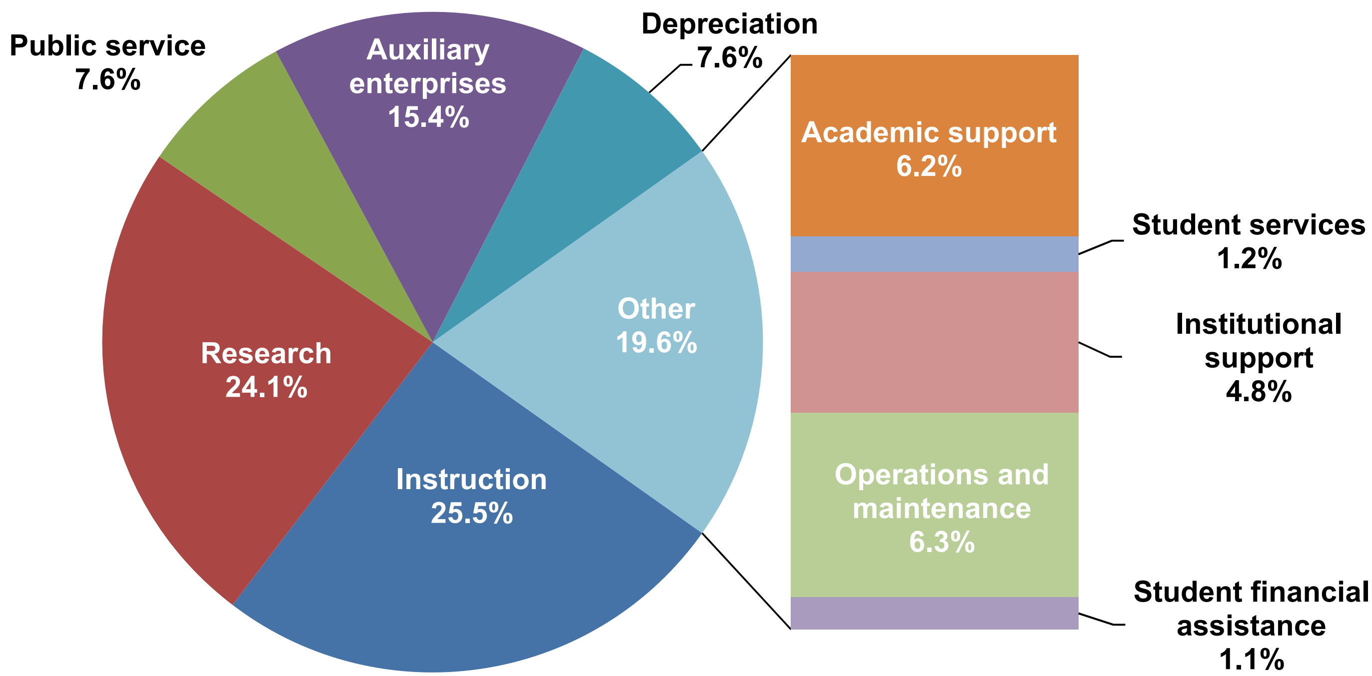
	2016	2015	Change Amount	Change Percent
Instruction	$ 335.8	$ 318.7	$ 17.1	5.4%
Research	316.8	304.6	12.2	4.0%
Public service	100.3	101.4	(1.1)	(1.1%)
Auxiliary enterprises	203.0	196.2	6.8	3.5%
Subtotal	**955.9**	**920.9**	**35.0**	3.8%
Support, maintenance, and other expenses				
Academic support	81.7	80.9	0.8	1.0%
Student services	16.2	14.6	1.6	11.0%
Institutional support	63.1	56.9	6.2	10.9%
Operations and maintenance of plant	84.0	77.5	6.5	8.4%
Student financial assistance*	14.4	13.5	0.9	6.7%
Depreciation and amortization	100.1	95.2	4.9	5.1%
Total support, maintenance, and other expenses	**359.5**	**338.6**	**20.9**	6.2%
Total operating expenses	**$ 1,315.4**	**$ 1,259.5**	**$ 55.9**	4.4%

*Includes loan administrative fees and collection costs.

Instruction had the largest increase ($17.1 million), of which the majority occurred in the compensation and benefits category, reflecting the university's commitment to maintaining a high quality teaching staff.

Research also saw a significant growth ($12.2 million) spread across several categories including compensation and benefits ($6.5 million) and contractual services ($6.0 million), offset by small reductions amount various other categories.

Operating Expenses by Function
For the year ending June 30, 2016



Changes in Expenses by Natural Classification

For the years ending June 30, 2016 and 2015

(dollars in millions)

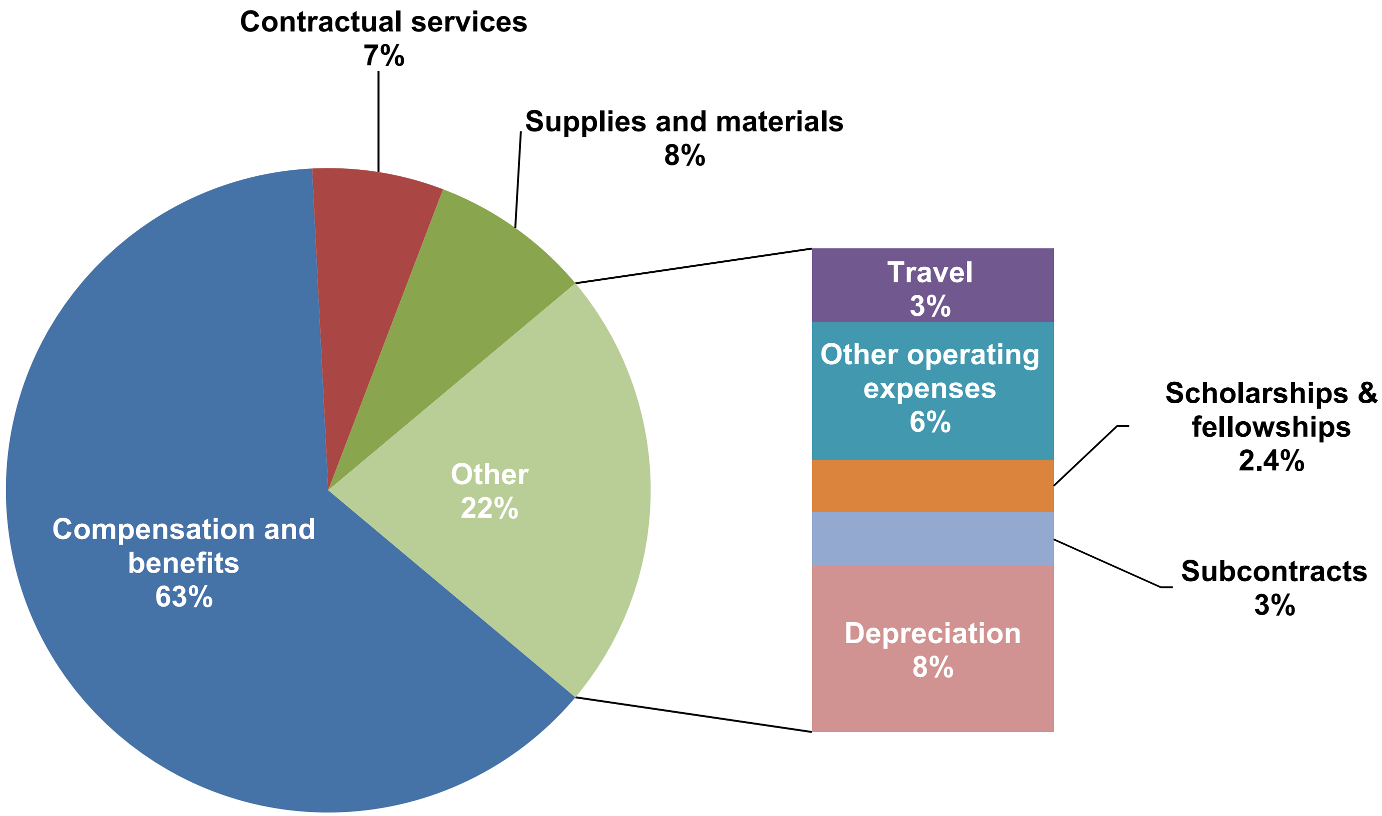
	2016	2015	Change Amount	Change Percent
Compensation and benefits	$ 829.7	$ 787.6	$ 42.1	5.3%
Contractual services	87.1	97.0	(9.9)	(10.2%)
Supplies and materials	106.8	100.8	6.0	6.0%
Travel	44.2	41.8	2.4	5.7%
Other operating expenses	82.7	64.0	18.7	29.2%
Scholarships and fellowships	32.1	34.9	(2.8)	(8.0%)
Sponsored program subcontracts	32.7	38.2	(5.5)	(14.4%)
Depreciation and amortization	100.1	95.2	4.9	5.1%
Total operating expenses	**$ 1,315.4**	**$ 1,259.5**	**$ 55.9**	**4.4%**

Compensation and benefits comprised $829.7 million or 63.1% of the university's total operating expenses. This category increased by $42.1 million (5.3%). The general salary increase funded by the commonwealth was the major contributor to the increase in this category, along with increased costs of fringe benefits.

Other Operating expenses increased by $18.7 million due to a change in the method of allocation of recoveries to more accurately reflect the correct classification of expenses resulting in an overall decrease in contractual services and an overall increase in other operating expenses.

Expenses by Natural Classification

For the year ending June 30, 2016



Long-Term Debt Payable Activity
as of June 30, 2016
(dollars in millions)

	Beginning Balance	Additions	Retirements	Ending Balance	Current Portion
Bonds payable					
Section 9(c) general obligation revenue bonds	$ 154.8	$ -	$ 9.9	$ 144.9	$ 9.1
Section 9(d) revenue bonds	7.8	66.0	9.2	64.6	2.7
Notes payable	250.3	7.9	16.8	241.4	15.5
Capital lease and installment purchase obligations	78.6	-	4.0	74.6	3.4
Total long-term debt payable	**$ 491.5**	**$ 73.9**	**$ 39.9**	**$ 525.5**	**$ 30.8**
Current year debt defeasance		(3.7)	(3.5)		
Total additions/retirements, net of current year defeasance		$ 70.2	$ 36.4		

The university issued Series 2015 Revenue Bonds to finance the following capital projects: $51,425,000 for the Series 2015A Dormitory and Dining Hall Systems, $510,000 for the Series 2015B Athletic Facilities System, $3,280,000 for the Series 2015C University Services System, $4,390,000 for the Series 2015D Utility Systems, and $2,635,000 for the Series 2015E Refunding Bonds.

Sponsored Programs

For the years ending June 30, 2012 – 2016

(dollars in millions)

	2012	2013	2014	2015	2016
Number of awards received	2,589	2,272	2,443	2,189	2,291
Value of awards received	$ 294.1	$ 271.1	$ 303.6	$ 296.6	$ 278.1
Research expenditures reported to NSF	$ 454.4	$ 496.2	$ 513.1	$ 504.3	$ 521.8
NSF Rank	40	38	39	44	N/A*

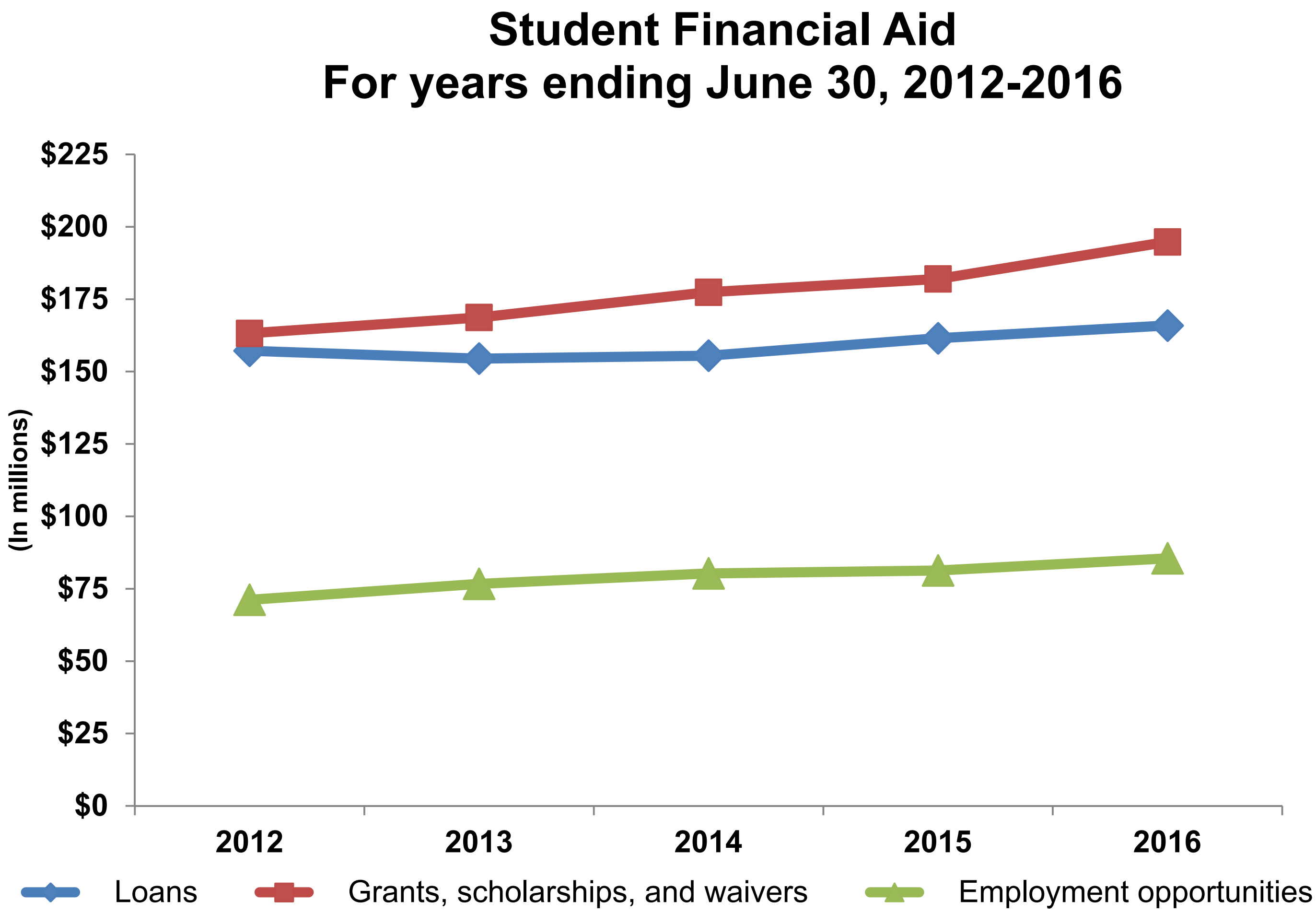
*Data for items marked as "N/A" was not available when this presentation was prepared.

Student Financial Aid

For the years ending June 30, 2012-2016

	2012	2013	2014	2015	2016
Number of students receiving selected types of financial aid					
Loans	13,081	12,506	12,279	12,253	12,282
Grants, scholarships, and waivers* **	18,115	18,353	18,305	18,242	18,409
Employment opportunities	9,331	9,935	10,329	10,437	10,934
Total amounts by major category, *(dollars in millions)*					
Loans	$ 157.2	$ 154.5	$ 155.5	$ 161.5	$ 165.9
Grants, scholarships, and waivers**	163.2	168.7	177.4	182.0	194.8
Employment opportunities	71.2	76.7	80.3	81.3	85.5
Total Financial Aid	**$ 391.6**	**$ 399.9**	**$ 413.2**	**$ 424.8**	**$ 446.2**

**Periods prior to 2014-2015 have been restated to remove prepaid awards from the scholarships total.



Virginia Tech students have lower debt than the national average. Fifty-three percent of the undergraduate Virginia Tech Class of 2015 borrowed an average of $28,873, while nationally 68 percent of the students who graduated from all four year colleges in 2015 borrowed an average of $30,100 in student loans.

Conclusion:

Despite a challenging financial landscape, the university continues to make progress on several fronts including the following:

- Continued investment in facilities supporting the university's strategic plan with the prudent use of debt financing.

- Strong student demand – the university continues to have growth in applications and the successive improvements of overall quality of each entering class.

- Moderation in tuition rate increases has enabled the university to maintain its competitive advantage over peer institutions. With a total cost (including room and board) of $20,711 per year for Virginia undergraduates, Virginia Tech ranked 17th out of a group of 24 SCHEV public peer institutions in 2015-16.

- Virginia Tech's NSF research ranking was 44th in 2015.

2016-18 Appropriation Request
Review of Executive Budget Amendments and 2017 General Assembly Session

FINANCE AND AUDIT COMMITTEE

February 25, 2017

Overview of the Appropriations Process

2016-18 Biennial Budget

On October 7, 2016, the university submitted budget requests, based on its approved Six-Year plan, to the Department of Planning and Budget. The requests were considered by the Executive Branch and used to inform the development of the Governor's proposed 2016-18 Executive Budget amendments. Governor McAuliffe presented the Executive Budget amendments on Friday, December 16, 2016. The General Assembly session opened on January 11, 2017 and completed its work on February 25, 2017.

Traditionally, during the legislative session each chamber of the General Assembly will review the Executive Budget proposal, introduce amendments as necessary, and pass an amended biennial budget proposal to be reviewed by the opposite chamber. As the two chambers' budgets often differ from each other, the budget proposals are taken up by a Conference Committee. The Committee, which is composed of members of each chamber, then produces a compromise budget for final approval by the House and Senate. Once approved, the Governor has 30 days to review the General Assembly's budget and propose any vetoes for consideration at the reconvened session in April. After final General Assembly approval, the budget becomes a chapter within the current year's Acts of Assembly, and is thereafter referred to as the Appropriation Act.

This report presents the major elements of the Executive Budget proposal and General Assembly actions for the upcoming biennium.

Decision Package Summary

In September 2016, the Office of the Governor instructed agencies to work with their respective Cabinet Secretary to limit submissions of decision packages (budget requests) to those that supported the Governor's policies, primarily advancing the health of the commonwealth's economy.

The university shared the institution's budget priorities with the Office of the Secretary of Education and submitted targeted budget requests to the Department of Planning and Budget in October. Specifically, the university submitted four requests totaling $4.9 million in General Fund (GF) support in the second year of the current biennium for the University Division. A request for two items totaling $2.9 million GF in the first year was submitted for the Cooperative Extension and Agricultural Experiment Station Division (CE/AES). The university's budget requests included the following items for 2017-18:

<u>**University Division *($ in millions)***</u>		**FY18**
1)	Expand Partnerships and Economic Development	$3.5
2)	Expand K-12 Pathways	0.6
3)	Address Operation and Maintenance of New Facilities	0.5
4)	Increase Support for Unique Military Activities	0.3
	Subtotal	*4.9*
<u>**CE/AES Division**</u>		
1)	Advance Agricultural Competitiveness with Big Data, Precision Agriculture, and Smart Infrastructure	2.5
2)	Address Operation and Maintenance of New Facilities	0.4
	Subtotal	*2.9*
	Total Request	**$7.8**

Governor McAuliffe's proposed biennial budget amendments included several items that would impact the university's budget and operating processes. These items and impacts are summarized in Attachment 1 under the "Executive Budget" column.

2017 General Assembly Session

The General Assembly session opened on January 11, 2017. The 2016-18 Executive Budget is one of the major legislative proposals being considered by the General Assembly. House and Senate members submitted amendments to the proposed Executive Budget Bill by January 13, 2017 for consideration by the respective body's financial committee. Through that process, the university submitted targeted requests for additional funding in support of:

<u>**University Division *($ in millions)***</u>		**FY18**
1)	Expand Partnerships and Economic Development	$2.5
2)	Advance Cybersecurity Capability	0.5
	Subtotal	*3.0*
<u>**CE/AES Division**</u>		
1)	Correct Fund Split Methodology	0.2
2)	Direct Agency to Study Economic Development Opportunities	N/A
	Subtotal	*0.2*
	Total Request	**$3.2**

<u>General Assembly</u>

The House Appropriations and Senate Finance Committees published their proposed changes to the 2016-18 Executive Budget amendments on February 5. The Conference Committee produced a compromise operating budget on February 22, 2017 that was sent to the General Assembly for review. The General Assembly approved the budget and adjourned on February 25, 2017, sending the compromise budget to the Governor for final approval. Additional details of the amendments to the Executive Budget presented in the Conference budget that impact Virginia Tech are summarized in Attachment 1.

Legislation with Potential Impact

As of January 24, 2,380 pieces of legislation had been filed for consideration by the 2017 General Assembly. The university has followed this legislation, particularly that which may impact the university, and advocated or influenced legislation impacting higher education, when appropriate.

Legislation was proposed for a wide range of higher education-related topics. The following represent a sample of finance-related items that may have an impact on the university, and their final status.

***Legislation that passed**:*

- SB 1376: Requires that institutions provide students and the public with a projected range of proposed tuition and mandatory fee increases and notice of the date and location of any Board of Visitors vote on proposed increases at least 30 days in advance.
- HB 2171: Requires that institutions report the status and planned use of any institutional investment fund cash earnings by December 1 of each year.

Legislation that did not pass:

- HB 1410: Proposed that if out-of-state undergraduate enrollment exceeds 30 percent of total undergraduate enrollment, revenue generated by the excess out-of-state enrollment (after funding the student's cost of education) should be used to lower tuition and fees charged to Virginia students.
- HB 1886: Proposed that at least 75 percent of undergraduate students admitted to the institution be Virginia residents.
- HB 1447: Proposed that public institutions of higher education with at least 25 percent of the undergraduate population living on campus should establish a substance abuse recovery housing program with on-site counseling, mentoring, peer support, and other appropriate services.
- HB 1892: Proposed that public institutions of higher education submit their annual financial statements, as well as the accounts and status of any ongoing capital project, to a certified public accounting firm for the independent audit of such statements at the expense of the institution.
- SB 1379: Proposed that an institution with a "budget surplus or cash reserves" in excess of 150 percent of the cost to educate all students should spend down such resources over five years to mitigate in-state tuition.

- SJ 292: Requested that the State Council of Higher Education for Virginia study the practice of maintaining financial reserves at baccalaureate public universities of higher education.
- Tuition Cap Legislation: Multiple bills were introduced that would limit institutional authority to set tuition rates.
    - Implementation of a four-year “class cap” on tuition increases for each incoming cohort, and
    - Capping tuition increases at various external indices including the Consumer Price Index (CPI), the National Average Wage Index (NAWI), the state’s median income increase, or the percentage of any state required compensation program.

Future Actions

Governor McAuliffe has approximately 30 days to sign the budget as it is or make changes before the scheduled reconvened session in April.

Attachment 1
Schedule 1

PROPOSED APPROPRIATIONS FROM THE EXECUTIVE BUDGET AND 2017 CONFERENCE COMMITTEE

as of February 23, 2017

<u>Operating Budget</u>

General Fund

	Incremental Funding In Original 2016-18 Budget			
2016 General Assembly Session	**2016-17**	**2017-18**	**2016-17**	**2017-18**
Higher Education Equipment Trust Fund				
Traditional Allocation	$ -	$ 10,331,639	$ -	$ 10,331,639
Research Allocation	-	5,240,458	-	5,240,458
Subtotal Equipment Trust Fund	-	15,572,097	-	15,572,097
University Division				
Access & Affordability	-	2,364,440	-	2,364,440

	Executive Budget		Conference Budget		
2017 General Assembly Session	**2016-17**	**2017-18**	**2016-17**	**2017-18**	
University Division					
Incorporate 5 Percent General Fund Reduction	$ -	$ (8,588,385)	$ -	$ (8,588,385)	
2% Faculty Salary Increase - *State Share*	-	-	-	1,940,479	
3% Staff Salary Increase - *State Share*	-	-	-	1,080,638	(a)
Subtotal University Division Operating	-	(8,588,385)	-	(5,567,268)	
Student Financial Aid					
Undergraduate - Continue FY17 One-Time Funding in FY18	-	590,288	-	590,288	
Subtotal - University Division Incremental Funding	**-**	**(7,998,097)**	**-**	**(4,976,980)**	
Cooperative Extension/AES Division (CE/AES)					
Incorporate 5 Percent General Fund Reduction	-	(2,040,693)	-	-	
2% Faculty Salary Increase - *State Share*	-	-	-	524,979	
3% Staff Salary Increase - *State Share*	-	-	-	349,239	(a)
Subtotal - CE/AES Division Incremental Funding	**-**	**(2,040,693)**	**-**	**874,218**	
				-	
Operating Budget General Fund - 2017 Session	**$ -**	**$ (10,038,790)**	**$ -**	**$ (4,102,762)**	

Nongeneral Fund Assessments

Recover Savings from State VRS Prepayment (One-Time)				
University Division	$ (4,110,195)	$ (2,740,130)	$ (4,110,195)	$ (2,740,130)
Cooperative Extension/AES Division (CE/AES)	**-**	**-**	**-**	**-**
Withhold Credit Card Rebate and Interest Earnings				
University Division	(400,000)	(400,000)	(400,000)	(400,000)
Nongeneral Fund Assessment - 2017 Session	**$ (4,510,195)**	**$ (3,140,130)**	**$ (4,510,195)**	**$ (3,140,130)**

(a) University estimate of centrally provided Staff salary support.

Attachment 1
Schedule 2

PROPOSED APPROPRIATIONS FROM THE EXECUTIVE BUDGET AND 2017 CONFERENCE COMMITTEE
as of February 23, 2017

Capital Budget	**Executive Budget**	**Conference Budget**
	State	State
University Division		
Renovate/Renew Academic Buildings Supplement	4,466,000	4,466,000
FF&E - Renovate/Renew Academic Buildings	3,174,000	3,174,000
Cooperative Extension & Agricultural Experiment Station Division		
FF&E - Kentland Improvements	745,000	745,000
Maintenance Reserve FY2018	9,719,156	9,719,156
Capital Budget State Support - 2017 Session	$18,104,156	$18,104,156

2017 GENERAL ASSEMBLY BUDGET

As of February 25, 2017

Each column reflects proposed policy or language adjustments in the proposed budget. Any funding associated with these proposals is summarized in Attachment 1. Actions are incremental adjustments to the 2016-18 biennial budget.

UNIVERSITY OPERATING BUDGET

	Executive	Conference
University Division Budget Reduction	2016-17: No reduction 2017-18: $8,588,385 GF reduction. • Language allows university to spread reduction across any programs excluding Financial Aid.	No Change to Executive Budget.
Cooperative Extension & Agricultural Experiment Station Division Budget Reduction	2016-17: No reduction 2017-18: $2,043,693 (5% of non-matching GF) reduction.	2016-17: No reduction 2017-18: No reduction.
Virginia Retirement System Rate Reduction “Savings”	One-time reversion of University Division resources in each year: • 2016-17: $4,110,195 GF • 2017-18: $2,740,130 GF Agency 229 was exempt from this action.	Assessment amount is unchanged. Technical adjustment to swap GF reduction for NGF reduction. Agency 229 remains exempt from this action.
E&G Interest Earnings and Credit Card Rebate	Suspends this benefit associated with Restructuring and achievement of performance measures. This results in a loss of approximately $400,000 per year.	No change to Executive Budget.

COMPENSATION

	Executive	Conference
Faculty and Staff Salary Increase	2016-17: Planned 3% program is eliminated due to FY16 revenue shortfall. 2017-18: 1.5% employee bonus is proposed for December 1, 2017.	2016-17: Planned 3% program is eliminated due to FY16 revenue shortfall. 2017-18: In lieu of the proposed bonus, a base salary program is proposed, including: • <u>Faculty:</u> 2% salary increase, effective July 10, 2017. • <u>Staff:</u> 3% salary increase, effective July 10, 2017. • *"Nothing in this act shall preclude institutions of higher education from providing base salary increases or bonuses to faculty or staff."*
Other Salary Adjustments	Salary compression plan for State Police, Sheriffs' offices, and regional jails.	Salary compression plan for State Police, Sheriffs' offices, and regional jails. Provides additional 2% increase for employees in nine specific high-turnover roles (Direct Service Associates, Registered Nurse, Therapists, etc.)

LANGUAGE IMPACTING OPERATIONS

	Executive	Conference
Agency 229 (CE/AES) Fund Split Language	No change.	Language is inserted that provides a technical correction to restore the historic fund split used for agency 229 and provides direction that future funding distribution reflects the 95 percent fund split policy. This language was included at the request of the university.

	Executive	Conference
Agency 229 (CE/AES) Economic Development Study Language	No change.	"The agency shall study how best to leverage state investment with industry partnerships that result in the technological and scientific advancements needed to grow the state's agricultural and natural resources economy. A report shall be sent to the Chairmen of the House Appropriations and Senate Finance Committees by November 1, 2017. The findings of the study are to include short-term and long-term goals to grow the state's agricultural and natural resource economy." This language was included at the request of the university.
Agency 229 Study of Teacher Shortage	No change.	"The Virginia Cooperative Extension and Agricultural Experiment Station shall work with the Cooperative Extension and Agricultural Research Services at Virginia State University to jointly study strategies to mitigate the Commonwealth's shortage of career and technical education teachers in the fields of agricultural education, technology education, and family and consumer sciences. The study shall include an evaluation of current offerings, consideration of additional or alternative strategies, and offer recommendations, as appropriate, in a report submitted to the Chairmen of the Senate Finance and House Appropriations Committees by September 1, 2017."
Medicaid Supplemental Payments at VTCSOM	No change.	Authorizes Medicaid supplemental payments to hospitals affiliated with Eastern Virginia Medical School and the Virginia Tech/Carilion School of Medicine.

STUDENT FINANCIAL AID PROGRAMS

	Executive	Conference
Undergraduate Student Financial Aid	$590,288 GF that was provided on a one-time basis in 2016-17 is rolled into the university's base allocation for 2017-18.	No change to Executive Budget.
Cybersecurity Scholarship	No change.	Eliminates cybersecurity scholarship program approved by 2016 General Assembly.

CAPITAL PROJECTS

	Executive	Conference
Capital Project Supplement Funding	Renovate/Renew Academic Buildings: At the university's request, a supplemental appropriation of \$4.5 million GF is provided to support the revised cost of the project.	No change to Executive Budget.
Capital Project FF&E	Funding for Furniture, Fixtures, and Equipment (FF&E) is included for both: *Renovate Renew Academic Buildings* \$3.174M and *Improve Kentland Facilities* \$745,000	No change to Executive Budget.
Maintenance Reserve	2017-18 Allocation: \$9,719,156	No change to existing allocation.

STATE FUNDING POOLS

	Executive	Conference
Global Genomics and Bioinformation Research Institute	Reduced by \$4 million GF in first year.	Restores Executive Budget reduction.
GO Virginia	General Fund reduced by \$4.6 million GF in the first year and by \$10.4 million GF in the second.	Restores \$2.7 million GF in the first year and \$4.9 million GF in the second year of the Executive Budget reductions. This leaves \$3.6 million GF in the first year and \$24.5 million GF in the second year.
Virginia Research Investment Fund	Support for the VRIF is reduced by \$4 million GF in the first year and by \$6 million GF in the second year. Funding of \$4 million GF remains in year one and \$8 million GF remains in year two.	No change to Executive Budget funding. Language changes include having the Virginia Research and Investment Committee conduct a study of Virginia's research assets using previously appropriated funds.
Virginia Biosciences Health Research Consortium	No change.	\$1.25 million GF reduction in the second year.

STUDIES AND REVIEWS

	Executive	Conference
Higher Education	No change.	Joint Subcommittee on the Future Competitiveness of Virginia Higher Education is called on to study: • Access • Affordability • Quality • Autonomy This study will seek to identify opportunities for efficiency in cost and completion. The committee has an open-ended timeline to complete this review.
Student Financial Aid	No change.	SCHEV, along with representatives from the institutions of higher education in the state, shall study student financial aid award letters to develop best practices for providing information to students and families.
Compensation	No change.	Joint Legislative Audit Review Committee is funded to complete a study of employee total compensation.