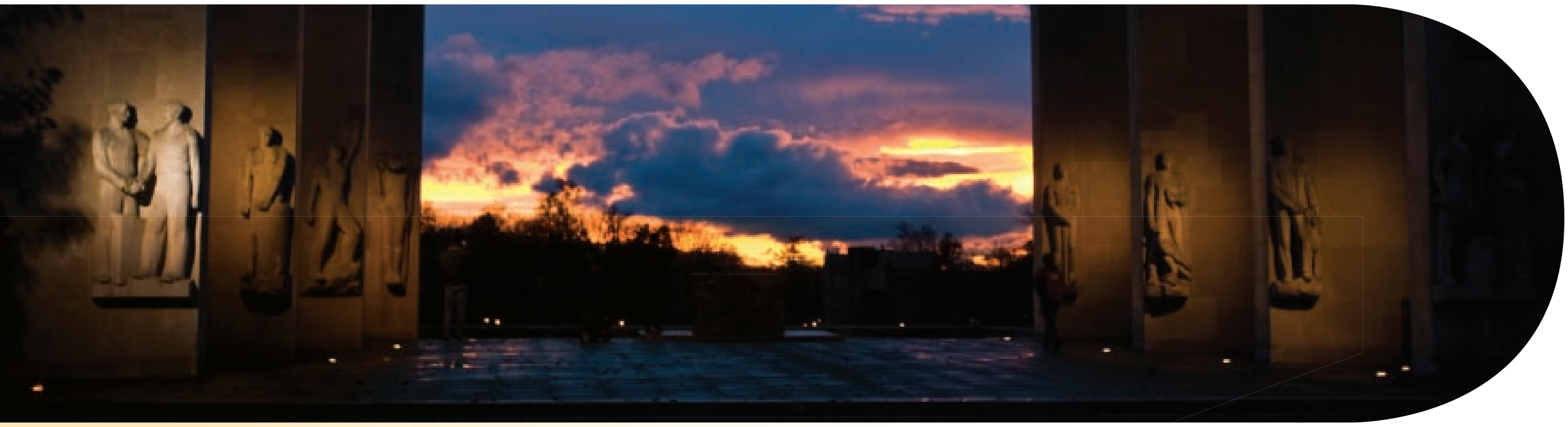
VirginiaTech
Invent the Future



Financial Report 2007-08

MESSAGE FROM THE VICE PRESIDENT FOR FINANCE AND CHIEF FINANCIAL OFFICER

M. Dwight Shelton, Jr.

The past year at Virginia Tech has been both challenging and rewarding. As the university makes strategic investments to move forward in uncertain economic times, we continue to make progress improving the university's infrastructure, expanding research opportunities and automating fiscal operations. We are building on our history of excellence through sound fiscal practices and a structured growth strategy.

Although the university absorbed a reduction in state General Fund support of more than $13 million across all of our programs in the fall of 2007, prior investments in research and growth in enrollments nevertheless enabled an overall increase in expenditures of $61.3 million. In addition, this growth in expenditures was accomplished while improving liquidity as demonstrated by the increase in unrestricted net assets of $26 million for the year. Within this challenging economic environment, the university's financial philosophy continues to ensure that the university budgeting process balances revenues with on-going and emerging needs while positioning the university to make investments in research, infrastructure, and critical needs.

Concerted efforts were made during 2007-08 with the state legislative bodies to secure additional support for our programmatic activities and infrastructure needs. The university was successful in achieving a significant capital package which will deliver $112 million capital funding immediately and $243 million over the life of the approved projects. Additionally, the university continued to realize the benefits of the commonwealth's research initiative, receiving more than $7 million to invest in research activities.

Inventing the Future

As a land-grant institution, one of our core values is the advancement of research within the local, state, and global environment. Virginia Tech has worked diligently to build a world class research program, and we are proud to have been ranked 42nd of 662 colleges and universities for fiscal year 2007 based on research expenditures by the National Science Foundation (NSF), a significant improvement over our previous ranking of 54th. The research and development expenditures reported to NSF increased to $366.9 million in 2007 (the most current reporting year), up from $321.7 million a year before. For 2007, Virginia Tech's research and development activity is ranked among the top 10 for research institutions without a Doctor of Medicine degree-granting medical school. The university anticipates that the submission of the June 30, 2008 NSF Report will reflect additional growth in total NSF expenditures.

This year we expanded our commitment to the growing field of biomedical research. We have strengthened our partnership with Carilion Clinic of Roanoke, Virginia, through the creation of a joint venture establishing the Virginia Tech Carilion School of Medicine and Research Institute. These activities are poised to enhance the overall academic programs of the university as well as the university's research activities, especially in the areas of medical research and health science.

During the year, the university finalized agreements to construct a new research facility in the National Capital Region in Ballston, Virginia in support of our goal to significantly enhance our research program and to solidify and increase our research activities. We believe that a permanent research presence around the nation's capital will facilitate collaborations with federal agencies, private industries, and other institutions located in the region.

Operations

Effective the beginning of this fiscal year, the university implemented the next phase of restructuring which allows the autonomous maintenance of accounting systems and financial data and records. In addition, the university now retains and invests all of its financial resources as well as the interest earnings that accrue from those investments. The continuation of these financial benefits of restructuring is contingent on the university's achievement of a series of performance measures. The commonwealth certified the university had met the performance measure requirements for the fiscal year in May 2008.

The university has long had a strong commitment to the establishment and maintenance of an effective set of internal controls and business practices as evidenced by the historical positive results of our internal and external audit activities. In 2007-2008, the university made further investments in the quality of our control system through the implementation of Agency Risk Management and Internal Controls Systems (ARMICS), the commonwealth's internal control standards. Furthermore, the ongoing automation of administrative processes continues to improve the quality and efficiency of our operations. The university completed the rollout of its electronic procurement system and expanded its scope to include internal services in addition to procurements from vendors. This new procurement system, named the HokieMart, has transformed the university's business activities. The impact and quality of this new system is widely recognized, as it received the National Association of Education Procurement 2008 Award of Excellence in Procurement.

The university has a tradition of strong focus and investment in the quality of current facility assets to ensure on-going use and productivity as reflected in the overall quality of the campus buildings and infrastructure. As we grow, we recognize the importance of our continued ability to maintain the quality of facilities on campus and to address deferred maintenance. In recognition of the growth of the facility inventory and complexity of modern facilities, we enhanced our facility maintenance system through the implementation of the Facilities Inventory and Condition Assessment (FICAS) program to improve monitoring, planning, and reporting of facility needs, with a focus on maintenance. In conjunction, we continued to make significant strides in advancing the maintenance reserve funding program, through both state and university resources, to reduce deferred maintenance in both the Educational and General and auxiliary enterprise facilities. The university allocated annual resources of $8.2 million for Educational and General programs and $5.1 million for auxiliaries. We have also made significant investments in facilities to improve the health, safety and well being of our students, faculty and staff.

While the university has relied on growth in tuition revenue and related fees to support its operations and find new investments in academic programs, we have continued to enhance our commitment to financial aid for students with need. For 2007-08, the university budgeted an additional $1.9 million for student aid through university resources, in addition to incremental funding provided each year through gifts to the Virginia Tech Foundation. Through its Funds for the Future program, the university is committed to providing continued access to a Virginia Tech education to academically qualified students, regardless of their financial resources.

The university continues to experience success with its capital campaign, which has a goal of $1 billion. Through June 30, 2008, the university had raised approximately $683.5 million during the five years of the campaign. Many of the investments in programs, faculty, students, and facilities are the result of the support provided to the university through the capital campaign.

Looking Ahead

General Fund operating budgets for both the university and the Cooperative Extension and Agricultural Experiment Station divisions remain challenging as further reductions of state funding will adversely impact the university during fiscal year 2009. Despite the financial challenges, the demand for a Virginia Tech education continues to grow. Enrollment for the fall of 2008 reached 30,739, our largest student body in history. The coming year promises continued growth and opportunity for success as we strive to balance the university's commitment to academic excellence and access against the fiscal challenges facing Virginia and the nation. Virginia plans to continue to make the investments that provide the groundwork for the future of Virginia Tech. The university will continue to be managed responsibly and openly, with the interests of our students, faculty and staff, and commonwealth at the forefront of our decisions.

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

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING AND INTERNAL CONTROLS

The information in this Annual Financial Report, including the accompanying basic financial statements, notes, management's discussion and analysis, and other information is the responsibility of Virginia Tech executive management. Responsibility for the accuracy of the financial information and fairness of its presentation, including all disclosures, rests with the management of the university. Management believes the information is accurate in all material respects and fairly presents the university's revenues, expenses, and changes in net assets as well as its overall financial position. This report was prepared in accordance with generally accepted accounting principles for public colleges and universities in the United States of America as prescribed by the Governmental Accounting Standards Board. Management is responsible for the objectivity and integrity of all representations herein. The Annual Financial Report includes all disclosures necessary for the reader of this report to gain a broad understanding of the university's operations for the year ended June 30, 2008.

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

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

The Auditor of Public Accounts (APA), the office of the Commonwealth of Virginia's auditors, has examined these annual financial statements and their report thereon appears on the facing page. Their examination includes a study and evaluation of the university's system of internal controls, financial systems, policies, and procedures, resulting in the issuance of a management letter describing various issues they consider worthy of management's attention. The university has implemented policies and procedures for the adequate and timely resolution of such issues. No material weaknesses were found on internal control matters by the APA for the fiscal year ended June 30, 2008.

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

INDEPENDENT AUDITOR'S REPORT
ON FINANCIAL STATEMENTS

October 29, 2008

The Honorable Timothy M. Kaine
Governor of Virginia

The Honorable M. Kirkland Cox
Chairman, Joint Legislative Audit and Review Commission

The Board of Visitors
Virginia Polytechnic Institute and State University

We have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component units of Virginia Polytechnic Institute and State University, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2008, which collectively comprise the university's basic financial statements as listed on pages 14 through 17. These financial statements are the responsibility of the university's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the component units of the university, which are discussed in note 1. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the component units of the university, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the component units of the university that were audited by other auditors upon whose reports we are relying were audited in accordance with auditing standards generally accepted in the United States of America, but not in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and discretely presented component units of the university as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 6 through 13 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic financial statements of the university. The consolidating schedules and affiliated corporations financial highlights are presented for the purpose of additional analysis and are not a required part of the financial statements. The consolidating schedules on pages 42 and 43 and affiliated corporations financial highlights on pages 40 and 41 have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2008, on our consideration of Virginia Polytechnic Institute and State University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

WALTER J. KUCHARSKI
Auditor of Public Accounts

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Virginia Polytechnic Institute and State University, popularly known as Virginia Tech, is a comprehensive, land-grant university located in Blacksburg, Virginia. The university offers 192 graduate, undergraduate, and professional degree programs through its eight academic colleges (Agriculture and Life Sciences, Architecture and Urban Studies, Pamplin College of Business, Engineering, Science, Liberal Arts and Human Sciences, Natural Resources, and the Virginia-Maryland Regional College of Veterinary Medicine). The university serves 29,898 students and employs 2,162 full-time teaching and research faculty members.

Virginia Tech has evolved into a position of increasing national prominence since its founding in 1872, consistently ranking among the nation's top universities for undergraduate and graduate programs. The university also ranks 42nd among the top research institutions in the United States as measured by annual research expenditures reported by the National Science Foundation.

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

Overview

This unaudited Management's Discussion and Analysis (MD&A) is required supplemental information under the Governmental Accounting Standards Board's (GASB) reporting model. It is designed to assist readers in understanding the accompanying financial statements and provides an overall view of the university's financial activities based on currently known facts, decisions, and conditions. This discussion includes an analysis of the university's financial condition and results of operations for the fiscal year ended June 30, 2008. Comparative numbers are included for the fiscal year ended June 30, 2007. Since this presentation includes highly summarized data, it should be read in conjunction with the accompanying basic financial statements, including notes, and other supplementary information. The university's management is responsible for all of the financial information presented, including this discussion and analysis.

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

Using criteria provided in Statement 39, *Determining Whether Certain Organizations Are Component Units,* an amendment of GASB Statement 14, the university's six affiliated corporations were evaluated on the nature and significance of their relationship to the university. The Virginia Tech Foundation Inc. (VTF or 'the foundation') and Virginia Tech Services Inc. (VTS) were determined to be component units and are presented in a separate column on the university's financial statements. The foundation is not part of this MD&A, but additional detail regarding its financial activities can be found in note 26 of the *Notes to the Financial Statements*. Transactions between the university and these component units have not been eliminated in this year's financial statements.

The following GASB statements of standards became effective in fiscal year 2008: Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (OPEBs)*; Statement 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*; and Statement 50, *Pension Disclosures*. Statement 45 establishes standards of accounting and reporting for OPEB expenses and related OPEB liabilities, assets, note disclosures and required supplementary information. Statement 48 establishes accounting and financial reporting standards for transactions related to the exchange of resources for future cash flows or pledges of future cash flows generated from future revenues. Statement 50 amends statements 25 and 27 regarding reporting of pension plans. The university does not conduct any activity that would result in disclosures under GASB 48. Any obligations for university employees' postemployment benefits related to the implementation of GASB 45 and GASB 50 are reflected in the Commonwealth of Virginia's *Comprehensive Annual Financial Report*, not in the university's financial statements.

Statement of Net Assets

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

The data presented aids readers in determining the assets available to continue operations of the university. It also allows readers to determine how much the university owes to vendors, investors, and lending institutions. Finally, the SNA provides a picture of net assets and their availability for expenditure by the university. Sustained increases in net assets over time are one indicator of the financial health of the organization.

The university's net assets are classified as follows:

- Invested in capital assets — Invested in capital assets, net of related debt, represent the university's total investment in capital assets, net of accumulated depreciation and outstanding debt obligations related to those capital assets. Debt incurred, but not yet expended for capital assets, is not included as a component of invested in capital assets, net of related debt.
- Restricted net assets, expendable — Expendable restricted net assets include resources the university is legally or contractually obligated to expend in accordance with restrictions imposed by external third parties. These assets partially consist of quasi-endowments totaling $45.1 million. The quasi-endowments are managed by VTF.
- Restricted net assets, nonexpendable — Nonexpendable restricted net assets consist of endowment and similar type funds where donors or other outside sources have stipulated, as a condition of the gift instrument, the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income to be expended or added to principal. The university's nonexpendable endowments of $0.4 million are included in its column on the SNA.
- Unrestricted net assets — Unrestricted net assets represent resources used for transactions relating to academic departments and general operations of the university, and may be used at the discretion of the university's board of visitors to meet current expenses for any lawful purpose in support of the university's primary missions of instruction, research, and outreach or public service. These resources are derived from student tuition and fees, state appropriations, recoveries of facilities and administrative (indirect) costs, and sales and services of auxiliary enterprises and educational departments. The auxiliary enterprises are self-supporting entities that provide services for students, faculty, and staff. Some examples of the university's auxiliaries are intercollegiate athletics and student residential and dining programs.

Total university assets increased by $41.0 million or 3.1% during fiscal year 2008, bringing the total to $1,339.3 million at year-end. Growth in current and capital assets ($34.4 million and $59.1 million, respectively) was partially offset by the decline in the remaining asset categories of $52.5 million. The majority of the growth in current assets was directly related to increases in the cash and cash equivalents and securities lending categories ($15.7 and $18.5 million, respectively). The increase in invested in capital assets, net, reflects the ongoing construction of major research buildings and the completion of research and instructional facilities discussed in detail in the following section, Capital Asset and Debt Administration. The decline in the other asset category is primarily from reductions in the Due from the Commonwealth of Virginia for Capital Appropriations Receivable line item ($49.8 million) as capital funds were converted from general appropriations to debt financing.

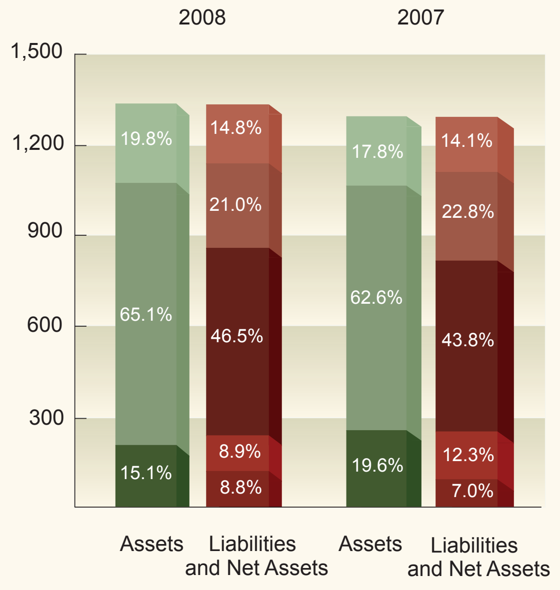
Total university liabilities remained relatively flat, increasing by $1.0 million during fiscal year 2008. However, the current liabilities category increased by $15.1 million with a corresponding decrease in the noncurrent liabilities category of $14.1 million. The majority of the increase in the current liabilities was due to increased obligations under securities lending program ($15.7 million), partially offset by small re-

Summary of Assets, Liabilities and Net Assets

For the years ended June 30, 2008 and 2007

(all dollars in millions)

	2008	2007 (as restated)	Change Amount	Change Percent
Assets				
Current assets	$ 265.5	$ 231.1	$ 34.4	14.9 %
Capital assets, net	871.5	812.4	59.1	7.3 %
Other assets	202.3	254.8	(52.5)	(20.6)%
Total assets	1,339.3	1,298.3	41.0	3.1 %
Liabilities				
Current liabilities	198.5	183.4	15.1	8.2 %
Noncurrent liabilities	281.3	295.4	(14.1)	(4.8)%
Total liabilities	479.8	478.8	1.0	0.3 %
Net Assets				
Invested in capital assets, net	622.9	568.4	54.5	9.6 %
Restricted	118.9	159.4	(40.5)	(25.4)%
Unrestricted	117.7	91.7	26.0	28.4 %
Total net assets	$ 859.5	$ 819.5	$ 40.0	4.9 %



ductions in other current liabilities. The reduction in noncurrent liabilities was primarily due to the normal reclassification of next year's principal commitment to the current liabilities category ($17.1 million) exceeding the amount of new debt issued ($3.9 million). The remaining reductions in noncurrent liabilities were reflected in several categories.

Total assets grew by a greater margin than total liabilities, with the university's net assets increasing by a corresponding amount of $40.0 million. Invested in capital assets, net of related debt, and unrestricted assets increased $54.5 million and $26.0 million, respectively. This was partially offset by the reduction in restricted assets, expendable for capital projects of $42.8 million. This reduction is attributed to the conversion of capital project funding by the commonwealth from capital general fund appropriations to debt financing (see note 21, Capital Appropriations) and the completion of several major capital projects discussed in the next section.

Capital Asset and Debt Administration

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

Note 7 of the *Notes to Financial Statements* describes the university's significant investment in depreciable capital assets with gross additions of $110.9 million in fiscal year 2008. The completion of Life Sciences I ($35.7 million), Bishop-Favrao Hall ($8.0 million), and the Burruss Hall renovation ($2.7 million) were the primary components of building additions totaling $62.4 million in this fiscal year. Ongoing investments in instructional, research, and computer equipment totaled $32.6 million. Depreciation expense was $56.7 million with net retirements of $1.2 million. The net increase in depreciable capital assets for this period was $53.0 million. The largest increase in nondepreciable capital assets was due to construction in progress, primarily due to continuing work on the Institute for Critical Technologies and Applied Science (ICTAS-I) facility ($20.6 million).

Noncurrent liabilities decreased by $14.1 million during fiscal year 2008. The largest decrease in noncurrent liabilities was in the long-term debt category ($12.9 million). The normal reclassification of long-term debt ($17.1 million), to be retired in the next fiscal year, from the noncurrent liabilities category to the current liabilities category was partially offset by the issuance of new debt to upgrade the campus heating plant ($3.9 million). See notes 12 and 13 of the *Notes to Financial Statements* for more details.

Capital projects in progress carry commitments to construction contractors, architects, and engineers totaling $50.2 million at June 30, 2008. These obligations are for future effort and as such have not been accrued as expenses or liabilities on the university's financial statements. Three projects constituted the majority of the financial commitment: a new residence hall ($17.1 million), the Henderson Hall renovation ($10.5 million) and a new basketball practice facility ($3.9 million). These commitments represent only a portion of the university's capital projects currently under construction or authorized by the commonwealth.

The educational and general (E&G) portion of the university's capital outlay program represents 13 projects currently in various stages of completion. The estimated total project costs for two of the larger projects are $31.5 million to upgrade the campus heating plant and $47.9 million for the ICTAS-I facility. In addition to the capital projects underway, there were several approved new construction and renovation projects for instructional and research facilities. The larger of these approved projects are: a new multi-disciplinary research facility for the Institute for Critical Technologies and Applied Science (ICTAS-II), the Administrative Services Building, the Visitor and Undergraduate Admissions Center, and the Performing Arts Center. The Commonwealth of Virginia will provide the majority of the funding for several of these E&G projects.

Funding for Authorized Current and Future Capital Projects

As of June 30, 2008
(all dollars in millions)

	State Funds (1)	Other Funds (2)	University Debt Issued Before June 30, 2008	University Debt To Be Issued After June 30, 2008	Total Funding	Cash Basis Project-To-Date Expenses
Current education and general	$ 120.5	$ 20.6	$ 37.3	$ -	$ 178.4	$ 131.4
Current auxiliary enterprise	-	32.1	87.4	29.7	149.2	68.4
Total current	120.5	52.7	124.7	29.7	327.6	199.8
Future education and general	31.1	21.2	-	99.7	152.0	4.4
Future auxiliary enterprise	-	-	-	95.0	95.0	0.3
Total future	31.1	21.2	-	194.7	247.0	4.7
Total authorized	$ 151.6	$ 73.9	$ 124.7	$ 224.4	$ 574.6	$ 204.5

(1) Includes the general fund, capital appropriations and the general obligation bonds of the Commonwealth of Virginia.
(2) Includes private gifts, auxiliary surpluses, student fees, and other customer revenues.

The voter-approved Virginia Higher Education Bond Referendum provided $900 million of debt financing for capital projects to create quality educational facilities for the commonwealth's universities and colleges. Virginia Tech will receive a total of $95.3 million from these bond proceeds to provide partial funding for ten capital projects, These bonds are the obligation of the Commonwealth of Virginia, however, not the university. During fiscal year 2008, the university received $18.1 million of these bond proceeds from the commonwealth. The university plans to provide additional funding for these and other projects by issuing $99.7 million of long-term debt.

The university's auxiliary enterprises have approval for four new capital projects. These future capital projects include a new residence hall, a parking structure, an indoor athletic training facility, and a new building for recreational, counseling, and clinical space. Since auxiliaries are required to be self-supporting, no state general funds or capital appropriations are provided for these projects. The projects have been or will be funded from a combination of private gifts, student fees, other customer revenues, and debt financing.

Virginia Tech had a total authorization of $574.6 million in capital building projects as of June 30, 2008, requiring approximately $224.4 million in additional debt financing.

The university's bond ratings of Aa3 (upgraded to Aa2 in August 2008) and AA from Moody's and Standard & Poor's, respectively, reflect strong student demand, balanced operating performance, and adequate reserves to address unforeseen expenses.

Statement of Revenues, Expenses, and Changes in Net Assets

Operating and non-operating activities creating changes in the university's total net assets are presented in the *Statement of Revenues, Expenses, and Changes in Net Assets*, found on page 15. The purpose of the statement is to present all revenues received and accrued, all expenses paid and accrued, and gains or losses from investments and capital assets.

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

Operating Revenues

Total operating revenues increased by $41.0 million or 6.9% from the prior fiscal year. The growth in student tuition and fee revenue was $16.7 million or 7.3% from the prior year. This increase was expected given the rise in both in-state and out-of-state tuition rates, effective for the fall 2007 semester. Grants and contracts revenue grew by $10.8 million or 5.2% from the prior year. The increases were primarily from the research areas managed by the Virginia Bioinfor-

Summary of Revenues

Increase (Decrease) in Revenues

For the years ended June 30, 2008 and 2007

(all dollars in millions)

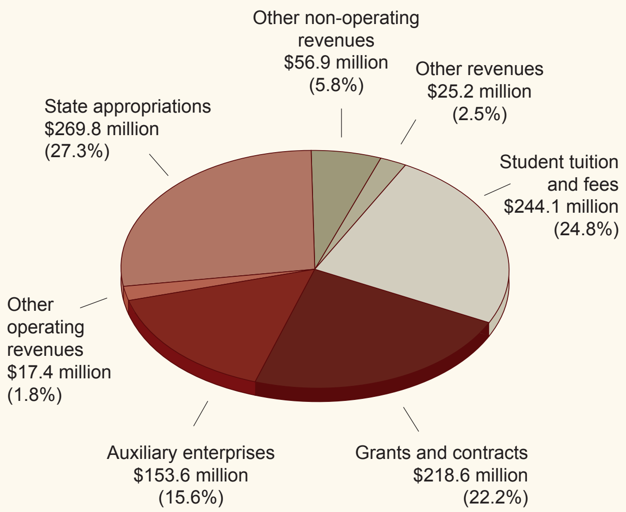
	2008	2007 (as restated)	Change Amount	Change Percent
Operating revenues				
Student tuition and fees, net	$ 244.1	$ 227.4	$ 16.7	7.3 %
Grants and contracts	218.6	207.8	10.8	5.2 %
Auxiliary enterprises	153.6	142.6	11.0	7.7 %
Other operating revenue	17.4	14.9	2.5	16.8 %
Total operating revenues	633.7	592.7	41.0	6.9 %
Non-operating activity				
State appropriations	269.8	261.8	8.0	3.1 %
Other non-operating revenues*	56.9	55.4	1.5	2.7 %
Total non-operating revenues	326.7	317.2	9.5	3.0 %
Other revenues				
Capital appropriations	(12.6)	56.0	(68.6)	(122.5)%
Capital grants and gifts	38.4	67.5	(29.1)	(43.1)%
Gain (loss) on disposal of capital assets	(0.6)	(1.2)	0.6	(50.0)%
Total capital revenues, gains (losses)	25.2	122.3	(97.1)	(79.4)%
Total revenues	$ 985.6	$ 1,032.2	$ (46.6)	(4.5)%

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

Revenues by Source

For the year ended June 30, 2008

(all dollars in millions)



matics Institute, Virginia Tech Transportation Institute, and programs conducted in collaboration with the Institute for Advanced Learning and Research. Auxiliary enterprise revenue also grew by $11.0 million, primarily from athletic department ticket sales and increased conference income. Overall, the university's operating revenue increased to $633.7 million in fiscal year 2008, compared to $592.7 million in fiscal year 2007.

Non-operating and Other Revenues

Non-operating revenue increased by $9.5 million from the previous year's total. The increase in this category came primarily from additional state appropriations ($8.0 million). The balance of the revenue increase in this category came from investment income ($5.3 million) which was partially offset by a net increase in realized/unrealized losses on investments. The prior year's restated other non-operating revenue reflects the reclassification of federal Pell grant funds from the operating revenue category to the non-operating revenue category based on guidance set forth in the GASB implementation guide issued in September 2007. State appropriation revenue grew as a result of continuing legislative efforts to partially restore prior years' funding reductions, support the increased cost of salaries and fringe benefits, and provide funds to support new research efforts in the areas of bioengineering, biomaterials and nanotechnology (Commonwealth Research Initiative or CRI). The increase in state appropriations revenue, gift and investment income, non-operating grants and contracts, and net interest income, resulted in net non-operating revenues of $326.7 million.

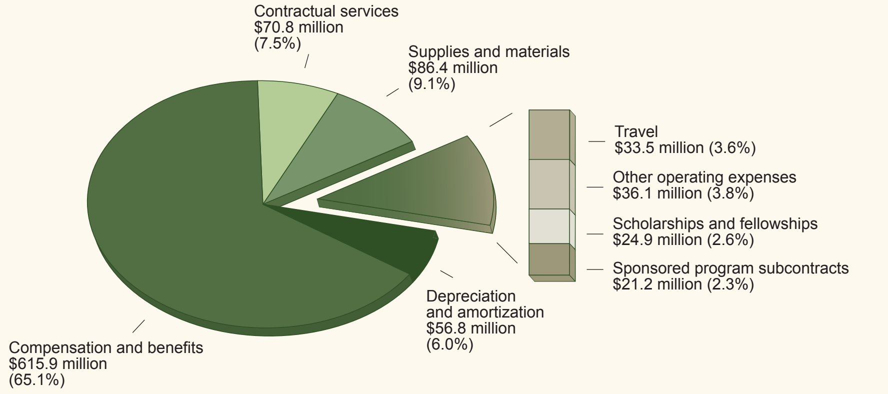
Total other revenue, expenses, gains and losses decreased by $97.1 million compared to the prior year. The year-over-year reductions in capital appropriations ($68.6 million) and capital grants and gifts ($29.1 million) comprise the reduction in this category. During fiscal year 2008, the commonwealth converted existing general fund appropriations for on-going capital projects to debt financing. This resulted in the reversion of general funds appropriated in prior fiscal years, as well as the conversion of planned current year general appropriation for capital projects. The reduction in the capital grants and gifts category is primarily from decreases in the state's general obligation bonds ($22.0 million) and Equipment Trust Fund reimbursements related to nonrecurring special research equipment funding (CRI) received in the prior year ($10.7 million).

As shown in the chart on the previous page, revenues from all sources (operating, non-operating, and other) for fiscal year 2008 totaled $985.6 million, decreasing by $46.6 million from the prior year. Operating expenses (shown in the chart above) totaled approximately $945.6 million for fiscal year 2008 growing by $61.3 million. Total revenues less total expenses resulted in an increase to net assets of $40.0 million for fiscal year 2008. (Details about changes in operating expenses are included in the following section.)

Summary of Expenses by Natural Classification

For the year ended June 30, 2008

(all dollars in millions)



Increase in Operating Expenses by Natural Classification

For the years ended June 30, 2008 and 2007

(all dollars in millions)

	2008	2007 (as restated)	Increase Amount	Increase Percent
Compensation and benefits	$ 615.9	$ 580.3	$ 35.6	6.1%
Contractual services	70.8	69.9	0.9	1.3%
Supplies and materials	86.4	78.3	8.1	10.3%
Travel	33.5	31.0	2.5	8.1%
Other operating expenses	36.1	28.3	7.8	27.6%
Scholarships and fellowships*	24.9	22.1	2.8	12.7%
Sponsored program subcontracts	21.2	20.2	1.0	5.0%
Depreciation and amortization	56.8	54.2	2.6	4.8%
Total operating expenses	$ 945.6	$ 884.3	$ 61.3	6.9%

* Includes research grant and contract fellowships — see note 25 in the Notes to the Financial Statements

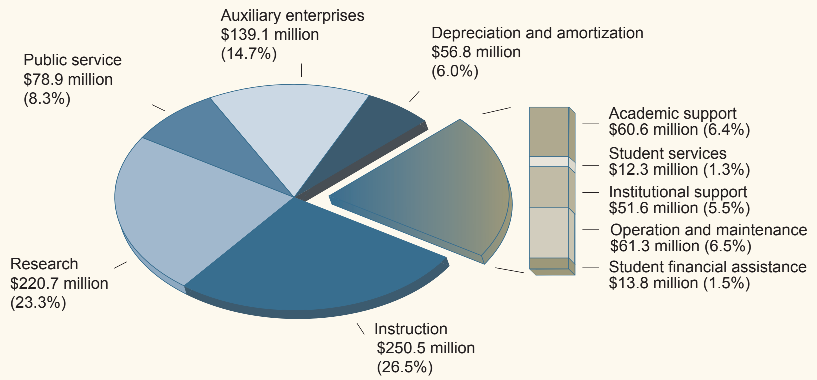
Total Expenses

The university is committed to recruiting and retaining outstanding faculty and staff. The personnel compensation package is one way to successfully compete with peer institutions and nonacademic employers. The natural expense category, compensation and benefits, comprises $615.9 million or 65.1% of the university's total operating expenses. This category increased by $35.6 million (6.1%) over the previous year. The commonwealth provides merit-based and across-the-board salary increases on a periodic basis. During fiscal year 2008, a 4.0% increase was provided to classified staff and an average increase of 4.0% was given to faculty members. Generally, increases to expenses in this category come from three sources: increase in the number of personnel, annual salary increases, and the general upward trend in the costs of fringe benefits. The total fringe benefit expenses increased by $10.5 million or 7.6% during fiscal year 2008. These costs are affected by the year-over-year change in the number of employees as well as rising costs

Summary of Expenses by Function

For the year ended June 30, 2008

(all dollars in millions)



Increase in Operating Expenses by Function

For the years ended June 30, 2008 and 2007

(all dollars in millions)

	2008	2007 (as restated)	Increase Amount	Increase Percent
Instruction	$ 250.5	$ 240.3	$ 10.2	4.2%
Research	220.7	209.5	11.2	5.3%
Public service	78.9	76.1	2.8	3.7%
Auxiliary enterprises	139.1	124.2	14.9	12.0%
Depreciation and amortization expense	56.8	54.2	2.6	4.8%
Subtotal	746.0	704.3	41.7	5.9%
Support, maintenance, and other expenses				
Academic support	60.6	58.6	2.0	3.4%
Student services	12.3	11.6	0.7	6.0%
Institutional support	51.6	45.9	5.7	12.4%
Operations and maintenance of plant	61.3	51.1	10.2	20.0%
Student financial assistance, loan administrative fees and collection costs	13.8	12.8	1.0	7.8%
Total support, maint, and other expenses	199.6	180.0	19.6	10.9%
Total operating expenses	$ 945.6	$ 884.3	$ 61.3	6.9%

in several key fringe benefit categories. The three key categories with the majority of the fringe benefit cost increases were: medical premium expense ($4.2 million or 8.2%), contributions to retirement plans ($3.1 million or 7.9%), and additional F.I.C.A. expenses ($1.8 million).

Operating expenses for fiscal year 2008 totaled $945.6 million, up $61.3 million from fiscal year 2007. The net increase resulted from growth in all functional categories. The largest growth in operating expenses occurred in the auxiliary enterprises category, which grew by $14.9 million. This growth represents increasing costs of services provided to students, faculty and staff. Research and instruction expenses increased $11.2 million and $10.2 million, respectively. The growth in research reflects the continued expansion of existing research efforts and new initiatives supported in part through the expansion of external sponsored research grants and contracts. Growth in the instruction function represents the continuing investment in new instructional programs and initiatives funded by student tuition and fees, and restored state appropriations.

The largest percentage growth was in the operations and maintenance of plant category (20.0% or $10.2 million). The addition of new research facilities contributed to the increase in the university's annual recurring operations and maintenance support costs. In addition, this year was the first year of the new utility contract with American Electric Power. This contract increases the cost per kilowatt hour and includes a provision to annually reevaluate the cost of electricity. The results of the evaluation are used to adjust future pricing and recompute past utility charges. The impact of additional facilities and increasing utility costs is reflected in the year-over-year change in the cost of electricity (up $2.7 million over the past year). Other utility generation using coal, natural gas, and oil also sustained cost increases ($1.2 million or 18.0%) reflecting the volatile market conditions for these commodities. Another area within this category sustaining significant cost increases is operating leases for facilities ($1.6 million or 13.2%). This is due to rising costs and acquiring additional facilities necessary to meet expanding university space requirements. This growth was expected and demonstrates the university's commitment to improve its facilities, further enhancing its instruction and research missions.

The university's operating revenues grew by $41.0 million or 6.9% over the preceding year, while operating expenses increased by $61.3 million or 6.9%. The growth in operations resulted in an increase in the operating loss ($20.3 million) for fiscal year 2008 over fiscal year 2007. The primary

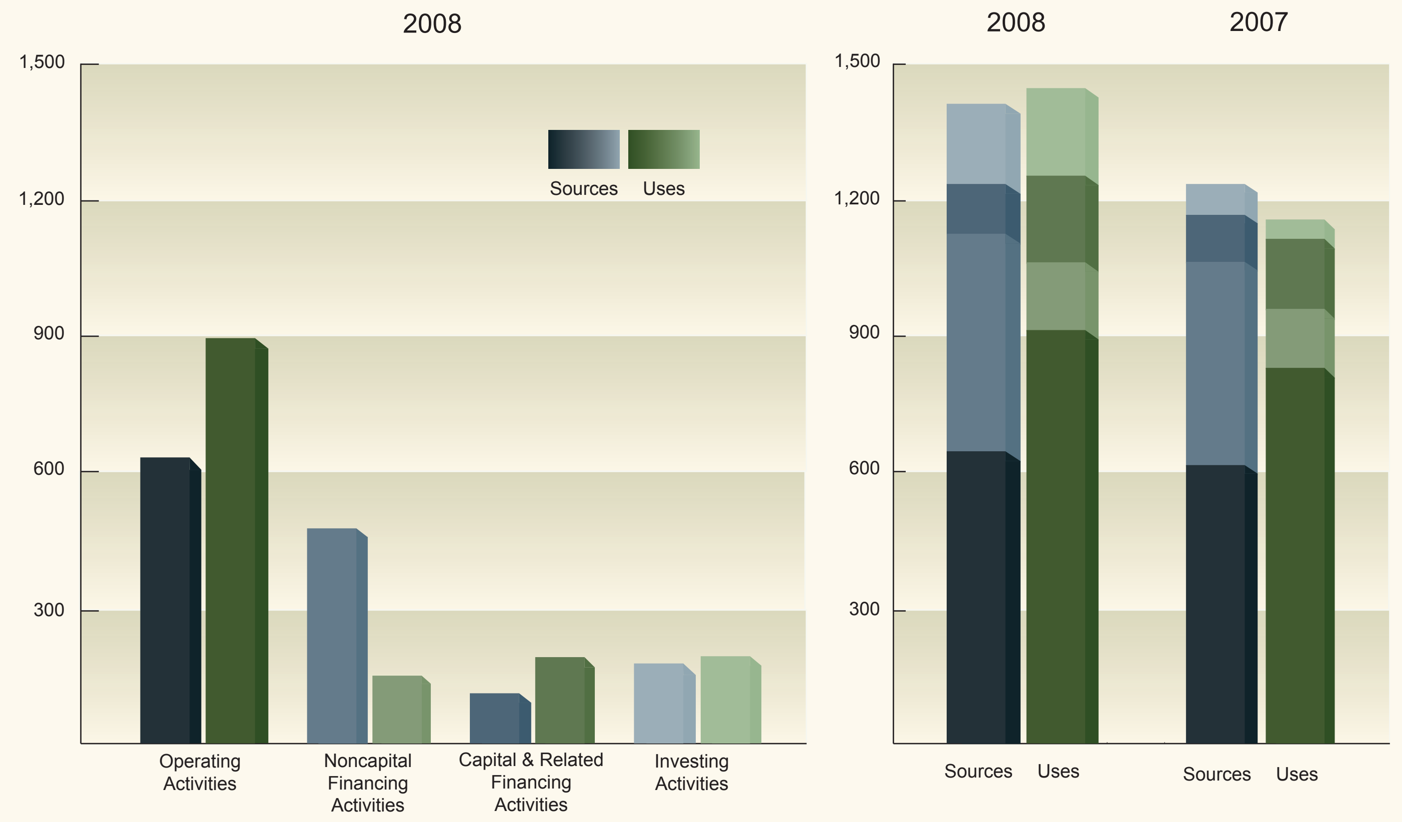
Summary of Revenues, Expenses and Changes in Net Assets

For the years ended June 30, 2008 and 2007

(all dollars in millions)

	2008	2007 (as restated)	Change Amount	Change Percent
Operating revenues	$ 633.7	$ 592.7	$ 41.0	6.9%
Operating expenses	945.6	884.3	61.3	6.9%
Operating loss	(311.9)	(291.6)	(20.3)	7.0%
Non-operating revenues and expenses	326.7	317.2	9.5	3.0%
Income before other revenues, expenses, gains or losses	14.8	25.6	(10.8)	(42.2)%
Other revenues, expenses, gains or losses	25.2	122.3	(97.1)	(79.4)%
Increase in net assets	40.0	147.9	(107.9)	(73.0)%
Net assets — beginning of year	819.5	671.6	147.9	22.0%
Net assets — end of year	$ 859.5	$ 819.5	$ 40.0	4.9%

Summary of Cash Flows



(The graphs above demonstrate the relationship between sources and uses of cash. The graph on the left shows activity for fiscal year 2008 only, grouped by related sources and uses of cash, while the graph on the right compares that same activity across fiscal years 2008 and 2007 in a stacked format.)

For the years ended June 30, 2008 and 2007
(all dollars in millions)

	2008	2007 (as restated)	Change Amount	Change Percent
Net cash used by operating activities	$ (263.0)	$ (217.0)	$ (46.0)	(21.2)%
Net cash provided by noncapital financing activities	324.8	319.6	5.2	1.6 %
Net cash used by capital and related financing activities	(71.8)	(49.7)	(22.1)	(44.5)%
Net cash provided (used) by investing activities	(24.2)	24.6	(48.8)	(198.4)%
Net increase (decrease) in cash and cash equivalents	(34.2)	77.5	(111.7)	(144.1)%
Cash and cash equivalents — beginning of year	257.0	179.5	77.5	43.2 %
Cash and cash equivalents — end of year	$ 222.8	$ 257.0	$ (34.2)	(13.3)%

reason for the increase in the operating loss was the growth in expenses across almost all operating areas affected by growth in personnel compensation expenses and increased energy costs. State appropriations, recorded as non-operating revenues, were used to meet operating expenses not offset by operating revenues.

Statement of Cash Flows

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

The statement is divided into five sections. The first section, *Cash flows from operating activities*, deals with operating cash flows and shows net cash used by operating activities of the university. The *Cash flows from noncapital financing activities* section reflects cash received and disbursed for purposes other than operating, investing and capital financing. GASB requires general appropriations from the commonwealth and noncapital gifts be shown as cash flows from noncapital financing activities. *Cash flows from capital and related financing activities* presents cash used for the acquisition and construction of capital and related items. Plant funds and related long-term debt activities (except depreciation and amortization), as well as gifts to endowments, are included in cash flows from capital financing activities. *Cash flows from investing activities* reflects the cash flows generated from investments which include purchases, proceeds, and interest. The last section reconciles the operating income or loss reflected on the *Statement of Revenues, Expenses, and Changes in Net Assets* for fiscal year 2008 to net cash used by operating activities.

Major operating activity sources of cash for the university included student tuition and fees ($244.8 million), grants and contracts ($198.9 million), and auxiliary enterprise revenues ($148.7 million). Major operating activity uses of cash included compensation and benefits ($614.3 million) and operating expenses ($260.9 million). Operating activity uses of cash significantly exceed operating activity sources of cash due to classification of state appropriations ($269.8 million) and gifts ($43.8 million) as noncapital financial activities. Net cash flows from capital and related financing activities showed a large year-over-year decrease primarily due to the conversion by the commonwealth of existing capital general fund appropriations to debt financing.

Economic Outlook

The university is closely tied to the Commonwealth of Virginia. The commonwealth currently supports 26% of the university's budget through general fund appropriations. During the current fiscal year, the commonwealth reduced general fund support for higher education in October 2007, but returned to reinvest during the legislative session and also sheltered higher education from a second round of reductions in the spring. The commonwealth also maintained the university's board of visitors' authority to establish tuition and fees rates. The university was informed in October 2008 that an additional 5% reduction in general funds will be imposed for 2008-09. The university anticipates that there will be continued pressure on general funds as the national economy and state general fund revenues slow, thus revenues and expenditures are being watched closely moving forward. The university will employ cost containment and income enhancement techniques which have helped to successfully manage such reductions in the past. In addition, the university will employ strategic planning processes to minimize the impact on the university's core missions of instruction, research and public service.

Virginia Tech, along with all other Virginia institutions of higher education, continues to maintain significant decentralized authority from the Commonwealth of Virginia through the requested restructuring of higher education, which built upon the success of the decentralization authority received from the commonwealth over the last decade. Restructuring provides additional flexibility and authority to the participant institutions with the potential for increased efficiencies and cost savings. Additionally, this year the university completed the process of transitioning the investment of university funds from the commonwealth to private investment management. As shown in the notes to the financial statements, the university has limited its exposure to turbulent economic conditions through the implementation of its investment policy. The university's investment policy, established by the board of visitors and monitored by the board's Finance and Audit Committee, requires that its public funds be invested in accordance with the *Investment of Public Funds Act,* Section 2.2-4500 through 2.2-4516, et seq., *Code of Virginia*. The market value of the university's investments at June 30, 2008 was $272.2 million.

The university continually monitors the valuation of its investments. At September 30, 2008 and October 24, 2008 the total market value for the university's investments was $325.3 million and $330.9 million, respectively. Additionally, at September 30, 2008 and October 24, 2008 the unrealized losses on investments were $1.4 million and $1.2 million, respectively.

The university's investment in equities is limited to restricted gift funds designated by management as quasi-endowments and invested in the VTF endowment pool. The market value of these restricted gifts was $44.7 million at June 30, 2008. These endowment pool investments would be subject to fluctuations in equity markets. University management estimates the market value of these investments net of unrealized losses and other changes to be approximately $39.5 million and $33.1 million at September 30, 2008 and October 24, 2008, respectively.

Executive management believes the university will maintain its solid financial foundation and is well positioned to continue its excellence in teaching, research, and public service. Management's policies of cost containment and investing in strategic initiatives will ensure the university is well prepared to manage changes in state support while continuing to grow and expand. The financial position of the university is strong as evidenced by its diversified portfolio of research funding, strengthened National Science Foundation research ranking, strong student demand from increasingly talented students, auxiliary enterprises with high customer satisfaction, low total cost of attendance, growing contributions to endowments, and quality debt ratings from Moody's (recently upgraded to Aa2 in August 2008) and Standard and Poor's (AA). These debt ratings allow the university to obtain funding for capital projects with advantageous terms.

Virginia Tech continues the university's largest private capital campaign and anticipates that private support will continue to grow. The campaign has raised $683.5 million of the $1 billion goal as of June 30, 2008. The university is grounded by an impressive community of students, faculty, and staff. These resources will sustain Virginia Tech's bright future as the commonwealth's largest university offering more career options than any other Virginia university.

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

STATEMENT OF NET ASSETS

As of June 30, 2008, with comparative financial information as of June 30, 2007

(all dollars in thousands)

	2008		2007	
	Virginia Tech	Component Units	Virginia Tech (as restated)	Component Units
Assets				
Current assets				
Cash and cash equivalents (Note 4)	$ 169,163	$ (36,140)	$ 153,438	$ (10,964)
Cash equivalents, securities lending (Note 5)	19,203	-	697	-
Investments, securities lending (Note 5)	-	-	2,747	-
Short-term investments (Notes 4, 26)	990	23,425	804	31,899
Accounts and contributions receivable, net (Notes 1, 6, 26)	47,924	36,802	40,698	28,021
Notes receivable, net (Note 1)	1,232	738	1,122	632
Due from Commonwealth of Virginia (Note 8)	6,141	-	12,702	-
Inventories	12,067	8,315	11,868	6,534
Prepaid expenses	8,806	805	7,033	493
Other assets	-	733	-	624
Total current assets	265,526	34,678	231,109	57,239
Noncurrent assets				
Cash and cash equivalents (Note 4)	53,593	78,799	103,537	91,854
Due from Commonwealth of Virginia (Note 8)	18,903	-	62,161	-
Short-term investments (Note 4)	1,172	-	4,958	-
Accounts and contributions receivable, net (Notes 1, 6, 26)	5,052	41,978	4,870	39,107
Notes receivable, net (Note 1)	13,904	16,159	13,768	16,669
Net investments in direct financing leases	-	7,210	-	7,590
Irrevocable trusts held by others, net	-	9,631	-	10,068
Long-term investments (Notes 4, 26)	107,818	597,162	63,526	593,344
Depreciable capital assets, net (Notes 7, 26)	737,768	112,423	684,749	112,139
Nondepreciable capital assets (Notes 7, 26)	133,682	37,469	127,622	18,628
Intangible assets, net	1,466	679	1,600	705
Other assets	453	2,827	419	5,250
Total noncurrent assets	1,073,811	904,337	1,067,210	895,354
Total assets	1,339,337	939,015	1,298,319	952,593
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities (Note 9)	99,550	12,883	101,641	10,994
Obligations under securities lending (Note 5)	19,203	-	3,444	-
Accrued compensated absences (Notes 1, 15)	18,250	531	16,708	530
Deferred revenue (Notes 1, 10)	36,191	1,444	36,732	5,299
Funds held in custody for others	6,341	-	6,915	-
Commercial paper (Note 11)	1,955	-	-	-
Long-term debt payable (Notes 12, 13, 26)	17,082	22,787	17,903	20,175
Other liabilities	13	2,444	25	2,138
Total current liabilities	198,585	40,089	183,368	39,136
Noncurrent liabilities				
Accrued compensated absences (Notes 1, 15)	19,333	45	20,620	88
Federal student loan program contributions refundable (Note 15)	13,194	-	13,278	-
Deferred revenue	-	6,216	-	1,790
Long-term debt payable (Notes 12, 13, 26)	247,741	68,092	260,655	94,757
Liabilities under trust agreements	-	32,232	-	36,563
Agency deposits held in trust (Note 26)	-	57,406	-	61,308
Other liabilities	990	8,607	862	7,753
Total noncurrent liabilities	281,258	172,598	295,415	202,259
Total liabilities	479,843	212,687	478,783	241,395
Net assets				
Invested in capital assets, net of related debt	622,885	74,737	568,395	48,197
Restricted, nonexpendable	358	294,778	356	271,995
Restricted, expendable				
Scholarships, research, instruction, and other	67,932	310,163	68,262	321,025
Capital projects	9,390	40,901	52,280	42,509
Debt service	41,179	-	38,503	-
Unrestricted	117,750	5,749	91,740	27,472
Total net assets	$ 859,494	$ 726,328	$ 819,536	$ 711,198

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

For the year ended June 30, 2008 with comparative financial information for the year ended June 30, 2007

(all dollars in thousands)

	2008		2007	
	Virginia Tech	Component Units	Virginia Tech (as restated)	Component Units
Operating revenues				
Student tuition and fees, net (Note 1)	$ 244,052	$ -	$ 227,400	$ -
Gifts and contributions	-	57,270	-	53,170
Federal appropriations	16,397	-	15,543	-
Federal grants and contracts	143,022	-	135,845	-
State grants and contracts	15,783	-	17,954	-
Local grants and contracts (Note 3)	16,120	-	13,905	-
Nongovernmental grants and contracts	27,262	-	24,546	-
Sales and services of educational activities	14,379	-	12,271	-
Auxiliary enterprise revenue, net (Note 1)	153,579	50,746	142,580	45,024
Other operating revenues	3,104	29,343	2,670	28,348
Total operating revenues	633,698	137,359	592,714	126,542
Operating expenses				
Instruction	250,506	3,585	240,293	3,712
Research	220,677	4,609	209,526	4,759
Public service	78,899	4,133	76,083	4,017
Academic support	60,581	13,901	58,601	11,239
Student services	12,332	-	11,619	-
Institutional support	51,592	41,168	45,890	31,162
Operation and maintenance of plant	61,306	7,139	51,073	6,434
Student financial assistance	13,608	18,383	12,804	15,873
Auxiliary enterprises	139,135	44,589	124,185	39,802
Depreciation expense (Note 7)	56,666	5,438	54,066	5,393
Amortization expense	133	-	133	-
Other operating expenses	200	9,012	53	5,912
Total operating expenses	945,635	151,957	884,326	128,303
Operating loss	(311,937)	(14,598)	(291,612)	(1,761)
Non-operating revenues (expenses)				
State appropriations (Note 20)	269,767	-	261,798	-
Gifts	43,476	-	42,572	-
Non-operating grants and contracts	4,905	-	3,938	-
Federal student financial aid (Pell)	7,621	-	6,222	-
Investment income, net	12,095	11,117	14,516	14,673
Net gain (loss) on investments	-	(6,943)	-	59,649
Other additions (deductions)	457	-	(471)	-
Interest expense on debt related to capital assets	(11,649)	(3,932)	(11,411)	(3,769)
Net non-operating revenues (expenses)	326,672	242	317,164	70,553
Income (loss) before other revenues, expenses, gains, or losses	14,735	(14,356)	25,552	68,792
Capital appropriations (Note 21)	(12,585)	-	55,966	-
Change in valuation of split interest agreements	-	(3,361)	-	4,379
Capital grants and gifts (Note 8)	38,360	9,141	67,526	7,551
Gain (loss) on disposal of capital assets	(552)	(210)	(1,179)	276
Additions to permanent endowments	-	25,167	-	17,749
Other revenues (expenses)	-	(1,251)	-	(511)
Total other revenues, expenses, gains, and losses	25,223	29,486	122,313	29,444
Increase in net assets	39,958	15,130	147,865	98,236
Net assets—beginning of year (Note 1)	819,536	711,198	671,671	612,962
Net assets—end of year	$ 859,494	$ 726,328	$ 819,536	$ 711,198

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

STATEMENT OF CASH FLOWS

For the year ended June 30, 2008, with comparative financial information for the year ended June 30, 2007

(all dollars in thousands)

	2008	2007 (as restated)
Cash flows from operating activities		
Student tuition and fees	$ 244,798	$ 227,668
Federal appropriations	16,397	15,543
Grants and contracts	198,864	188,787
Sales and services of educational activities	14,379	12,187
Auxiliary enterprises	148,721	144,533
Other operating receipts	2,930	2,453
Payments for compensation and fringe benefits	(614,334)	(558,064)
Payments for operating expenses	(260,890)	(236,759)
Payments for scholarships and fellowships	(13,279)	(12,559)
Loans issued to students	(5,517)	(4,493)
Collection of loans from students	4,879	3,715
Net cash used by operating activities	(263,052)	(216,989)
Cash flows from noncapital financing activities		
State appropriations	269,767	261,798
Gifts received for other than capital purposes	43,823	42,525
Non-operating grants and contracts	4,905	6,836
Federal student financial aid (Pell)	7,621	6,222
Federal Direct Lending Program—receipts	86,197	80,731
Federal Direct Lending Program—disbursements	(86,199)	(80,537)
Hokie Spirit Funds—receipts (see note 31)	6,903	174
Hokie Spirit Funds—disbursements (see note 31)	(6,994)	(83)
Funds held in custody for others—receipts	52,882	49,400
Funds held in custody for others—disbursements	(54,105)	(47,459)
Net cash provided by noncapital financing activities	324,800	319,607
Cash flows from capital and related financing activities		
Capital appropriations	(12,585)	(1,176)
Capital grants and gifts	86,424	54,475
Proceeds from capital debt	19,252	46,875
Proceeds from the sale of capital assets and insurance recoveries	(93)	1,108
Acquisition and construction of capital assets	(120,399)	(123,803)
Principal paid on capital debt and leases	(33,190)	(17,903)
Short-term debt, commercial paper	783	-
Interest paid on capital debt and leases	(11,979)	(9,274)
Net cash used by capital and related financing activities	(71,787)	(49,698)
Cash flows from investing activities		
Proceeds from sales and maturities of investments	162,021	52,205
Interest on investments	9,512	14,394
Purchase of investments and related fees	(195,713)	(42,006)
Net cash provided (used) by investing activities	(24,180)	24,593
Net increase (decrease) in cash and cash equivalents	(34,219)	77,513
Cash and cash equivalents—beginning of year	256,975	179,462
Cash and cash equivalents—end of year	$ 222,756	$ 256,975

Amounts in the FY 2007 column of the Statement of Cash Flows *have been restated to conform with the change in classification of general fund appropriations from the "Cash and cash equivalents" line item to the "Due from the Commonwealth of Virginia" line item, and the reclassification of federal student financial aid (Pell) from the "Cash flows from operating activities" section to the "Cash flows from noncapital financing activities" section.*

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

STATEMENT OF CASH FLOWS (continued)

For the year ended June 30, 2008 with comparative financial information for the year ended June 30, 2007

(all dollars in thousands)

Reconciliation of operating loss to net cash used by operating activities

	2008	2007 (as restated)
Operating loss	$ (311,937)	$ (291,612)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation expense	56,666	54,066
Amortization expense	133	133
Changes in assets and liabilities		
Receivables, net of allowance for doubtful accounts	(6,755)	(5,602)
Inventories	(199)	(979)
Prepaid items	(1,536)	2,134
Notes receivable, net of allowance for doubtful accounts	(782)	(826)
Accounts payable and accrued liabilities	268	(1,131)
Accrued payroll	1,458	17,344
Compensated absences	255	5,065
Deferred revenue	(541)	4,624
Credit card rebate	(82)	(181)
Federal loan program contributions refundable	-	(24)
Total adjustments	48,885	74,623
Net cash used by operating activities	$ (263,052)	$ (216,989)

Noncash investing, capital, and financing activities

	2008	2007
Change in accounts receivable related to non-operating income	$ (653)	$ (1,014)
Capital assets acquired through in-kind donations as a component of capital gifts and grants income	$ 1,905	$ 1,227
Change in fair value of investments recognized as a component of interest income	$ (6,302)	$ 5,667
Change in fair value of interest payable affecting interest paid	$ (78)	$ 362
Capital assets acquired through installment purchase agreements	$ 203	$ 1,635
Change in interest receivable affecting interest received	$ 10	$ (122)

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

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

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

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

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

Virginia Tech Foundation Inc.

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

The foundation serves the university by generating significant funding from private sources and aggressively managing its assets to provide funding which supplements state appropriations. It provides additional operating support to colleges and departments, assists in the funding of major building projects, and provides seed capital for new university initiatives. Although the university does not control the timing or amount of receipts from the foundation, the majority of resources, or incomes which the foundation holds and invests, are restricted to the activities of the university by the donors. Because these restricted resources held by the foundation can only be used by or for the benefit of the university, the foundation is considered a component unit of the university and is discretely presented in the financial statements. The administrative offices of Virginia Tech Foundation Inc. are located on the 4th floor of the University Gateway Center, 902 Prices Fork Road, Blacksburg, Virginia 24061.

During the year ended June 30, 2008, the foundation distributed $60,432,000 to the university, for both restricted and unrestricted purposes.

Virginia Tech Services Inc.

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

During the year ended June 30, 2008, VTS paid $1,830,000 to the university, primarily for the rental of facilities.

Financial Statement Presentation

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

In fiscal year 2008 the following GASB statements of standards were effective, Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (OPEBs),* Statement 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues,* and Statement 50, *Pension Disclosures.* Statement 45 establishes standards of accounting and reporting for OPEB expenses and related OPEB liabilities, assets, note disclosures and required supplementary information. Statement 48 establishes accounting and financial reporting standards for transactions related to the exchange of resources for future cash flows or pledges of future cash flows generated from future revenues. Statement 50 amends statements 25 and 27 regarding reporting of pension plans. The university does not conduct any activity that would result in disclosures under GASB 48. Any required disclosures related to the implementation of GASB 45 and GASB 50 would be included at the statewide level in the commonwealth's *Comprehensive Annual Financial Report*.

Basis of Accounting

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

The university has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The university has elected not to apply FASB pronouncements issued after the applicable date.

Cash Equivalents

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

Investments

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

Accounts Receivable

Accounts receivable consists of tuition and fee charges to students, and auxiliary enterprise services provided to students, faculty and staff. Accounts receivable also include amounts due from federal, state and local governments, and nongovernmental sources, in connection with reimbursement of allowable expenses made pursuant to the university's grants and contracts. Accounts receivable are recorded net of allowance for doubtful accounts. See note 6 for a detailed list of accounts receivable amounts.

Notes Receivable

Notes receivable consists of amounts due from the Federal Perkins Loan Program, the Health Professional Student Loan Program, and from other student loans administered by the university. Notes receivable is recorded net of allowance for doubtful accounts for current and noncurrent notes receivable, which totaled $31,000 and $265,000, respectively, as of June 30, 2008.

Inventories

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

Noncurrent Cash and Investments

Noncurrent cash and investments are externally restricted to make debt service payments or purchase other noncurrent assets.

Capital Assets

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

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

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

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

Interest Capitalization

Interest expense incurred during the construction of capital assets is capitalized, if material, net of interest income earned on resources set aside for this purpose. The university incurred and capitalized net interest expense related to the construction of capital assets totaling $1,136,000 for the fiscal year ended June 30, 2008.

Accrued Compensated Absences

Certain salaried employees' attendance and leave regulations make provisions for the granting of a specified number of days of leave with pay each year. The amount reflects, as of June 30, all unused vacation leave, sabbatical leave, and the amount payable upon termination under the Commonwealth of Virginia's sick leave pay out policy. The applicable share of employer related taxes payable on the eventual termination payments is also included. The university's liability and expense for the amount of leave earned by employees but not taken, as of June 30, 2008, is recorded in the *Statement of Net Assets*, and is included in the various functional categories of operating expenses in the *Statement of Revenues, Expenses, and Changes in Net Assets*.

Deferred Revenues

Deferred revenue represents revenue collected but not earned as of June 30, 2008. This amount is primarily composed of revenue for grants and contracts, prepaid athletic ticket sales, and prepaid student tuition and fees. See note 10 for a detailed list of deferred revenue amounts.

Noncurrent Liabilities

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

Net Assets

The university's net assets are classified as follows:

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

- Restricted net assets, expendable — Expendable restricted net assets include resources for which the university is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

- Restricted net assets, nonexpendable — Nonexpendable restricted net assets consist of endowment and similar type funds where donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, to be expended or added to principal.

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

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

Income Taxes

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

Classifications of Revenues

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

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

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

Scholarship Allowance

Student tuition and fees, certain auxiliary revenues, and student financial assistance expenses are reported net of scholarship allowance in the *Statement of Revenues, Expenses, and Changes in Net Assets*. Scholarship allowance is the difference between the stated charge for goods and services provided by the university and the amount paid by students and/or third parties making payments on the students' behalf. For the fiscal year ended June 30, 2008, the scholarship allowance for student tuition and fee revenue and auxiliary enterprise revenue totaled $52,549,000 and $13,089,000, respectively. Scholarship allowance to students is reported using the alternative method as prescribed by the National Association of College and University Business Officers (NACUBO). The alternative method is an algorithm that computes scholarship allowance on a university-wide basis rather than on an individual student basis.

Restatement of Prior Year Amounts

Adjustments have been made to the July 1, 2007, net asset balance. The first adjustment reflects the change due to the understatement of accounts receivable in the *Statement of Net Assets* for receivables not processed through the university's accounts receivable system. The second adjustment, increase to accumulated depreciation, reflects the reclassification of capital assets resulting from a componentization study of research intensive buildings conducted during FY2008 and the correction to the program used to calculate equipment depreciation expense. The componentization work, conducted by a professional asset evaluation firm, identifies depreciable assets below the general building categories thereby increasing the annual allowable depreciation expense. The restatement is as follows *(all dollars in thousands)*:

Net Assets, June 30, 2007	$	817,952
FY 2006 Accounts Receivable understatement		2,670
FY 2007 Accounts Receivable understatement		242
Adjustment to Accumulated Depreciation		(1,328)
Net assets, July 1, 2007	$	819,536

2. RELATED PARTIES

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

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

3. LOCAL GOVERNMENT SUPPORT

The university, through the operation of its Cooperative Extension Service, maintains offices in numerous cities and counties throughout the Commonwealth of Virginia. Personnel assigned to these locations receive a portion of their compensation from local governments. Also included in the expenses of these extension offices are unit support services, which include such items as rent, telephone, supplies, equipment, and extension program expenses. The amount contributed by the various local governments totaled $12,615,000 in 2008, and has been included in revenues and expenses of the accompanying financial statements. The university received other local government support of $3,505,000 in 2008.

4. CASH, CASH EQUIVALENTS, AND INVESTMENTS

The following information is provided with respect to the university's cash, cash equivalents, and investments as of June 30, 2008. The following risk disclosures are required by GASB Statement 40, *Deposit and Investment Risk Disclosures*:

- Custodial Credit Risk (Category 3 deposits and investments) — The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The university had no category 3 deposits or investments for 2008.

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

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

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

Categorization of credit quality and interest rate risk

Investments held on June 30, 2008 *(all dollars in thousands)*

Investment Type	Credit Rating	Less than 1 Year	1-5 Years	6-10 Years	Fair Value
U.S. Treasury securities (1)	N/A	$ 12,858	$ 3,900	$ -	$ 16,758
Debt securities					
Corporate notes	A+		966		966
Corporate notes	AA-		1,439		1,439
Corporate notes	AA		680		680
Corporate notes (2)	Aa		2,885		2,885
Corporate bonds	A-	333			333
Corporate bonds	A	406			406
Corporate bonds	A+		507		507
Corporate bonds	AA-	504	1,506		2,010
Corporate bonds	AA		2,060		2,060
Corporate bonds	AA+		576		576
Corporate bonds	AAA		753		753
Commercial paper (2)	Aa	37,556			37,556
Negotiable certificates of deposit	N/A	5,000			5,000
Repurchase agreements	N/A	141,926			141,926
Asset backed securities	AAA	7,450	7,815		15,265
Asset backed securities (2)	Aaa	496			496
Agency securities					
Federal National Mortgage Association	N/R	25,730			25,730
Federal Home Loan Mortgage Association	AAA		4,462		4,462
Federal National Mortgage Association	AAA		3,317		3,317
Federal Home Loan Banks	AAA		2,212		2,212
Government National Mortgage Association	AAA		1,565		1,565
U.S. guaranteed note (2)	Aaa		631		631
Mortgage backed securities					
Commercial securities	AAA		3,404		3,404
Commercial securities (2)	Aaa		307		307
Money market and mutual funds					
Money market and mutual funds	AAA	1,674			1,674
Money market and mutual funds (2)	Aaa	1,182			1,182
Other					
Deposits with VTF	N/A	532			532
Dairymen's Equity	BBB+			60	60
Short-term investment fund	AAAm	11			11
SNAP	AAAm	17,261			17,261
Subtotal		$ 252,919	$ 38,985	$ 60	291,964
Investments without specific maturities					
Investments held with VTF					44,698
Total					$ 336,662

(1) Credit quality ratings are not required for U.S. Government securities that are explicitly guaranteed by the United States Government.
(2) Credit ratings are from Standard & Poor's except for these investments which are rated by Moody's Investors Service.

⊡ Foreign currency risk — This risk refers to the possibility that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The university had no foreign investments or deposits for 2008.

Cash and Cash Equivalents

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

Investments

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

Investments fall into two groups: short-term and long-term. Short-term investments have an original maturity of over 90 days but less than or equal to one year. Long-term investments have an original maturity greater than one year. A categorization of university investments is presented below.

Summary of investments

As of June 30, 2008 (*all dollars in thousands*)

Investment type	Current Assets	Noncurrent Assets	Total
Cash equivalents	$ 161,894	$ 64,788	$ 226,682
Short-term investments	990	1,172	2,162
Long-term investments	-	107,818	107,818
Total investments	$ 162,884	$ 173,778	$ 336,662

5. SECURITIES LENDING TRANSACTIONS

GASB Statement 28, *Accounting and Financial Reporting for Securities Lending Transactions*, establishes standards of accounting and financial reporting for transactions where governmental entities transfer securities to broker-dealers and other entities for collateral, and simultaneously agree to return the collateral for the same securities in the future. The enabling legislation for the securities lending program is Section 2.2-4506, Chapter 45, *Code of Virginia*, as amended.

The university's investments included in the securities lending program and the securities lending transactions reported on the financial statements are managed by Bank of New York Mellon Asset Servicing through Mellon Global Securities Lending. In prior years, the university participated in the Virginia treasury securities lending program. During the past year, university investments, consisting of a combination of U.S. Treasury and U.S. Government backed securities, were loaned through the securities lending program. The investments on loan at June 30, 2008 represented approximately 5.6% of the university's total investment portfolio of $336.7 million.

When securities are loaned, the collateral (cash) received is generally 102 percent of fair value of the securities loaned. The university requires cash collateral equal to 100% of the value of securities lent, however, Mellon's Securities Lending Program policies and investment guidelines require initial collateral valued at 102% of securities lent. The reinvestment of the cash collateral is based upon Mellon's conservative philosophy of minimizing risk and achieving the key objectives of preservation of principal, portfolio diversity, liquidity and optimizing spread (earnings generated from the loan transaction). Mellon's program is managed to exceed the "Best Practices for the Investment of Cash Collateral" established by the Risk Management Association, the securities lending industry's recognized association of credit risk and management professionals. The firm's investment managers monitor the collateral value daily to ensure market value is maintained at 100 percent or greater. There are no restrictions on the total amount of securities that can be out on loan. The contract between the university and Mellon indemnifies the university from loss should the borrower fail to return the loaned securities and the collateral is inadequate to replace the securities lent. There were no losses resulting from borrower default during the reporting period.

All security loans can be terminated on demand by either the university's agent or the borrower. The cash collateral is invested in Mellon's short term investment fund, which at year-end has a weighted-average maturity of twenty-three days. Mellon's policy requires that its short-term investment fund maintain a maximum weighted average maturity of 90 days. The investment of the cash collateral in the fund is managed in accordance with the Securities Lending Investment Policy and guidelines. The fund's overnight liquidity level will be targeted at not less than 20% and the combined holdings of securities from one issuer should not constitute more than five percent of the fund, except for repurchase agreements, money market funds or instruments issued or fully guaranteed by the U.S. Government, federal agencies or federally sponsored institutions. The relationship between the maturities of the investment pool and the university's loans is affected by the maturities of the securities loans made by other entities that use the short term investment fund, which the university cannot determine.

Securities loaned as of June 30, 2008 had a carrying value of $18,646,000 and a market value of $18,646,000. The carrying value and fair value of the cash collateral received was $19,203,000 providing coverage of 102.99%. As a result, the university assumes no credit risk with respect to the collateral because the value of the collateral exceeds the value of the loaned securities. Securities on loan are included with the investments on the *Statement of Net Assets*. Information related to the credit risk of these investments is included in footnote 4, *Cash, Cash Equivalents, and Investments*. The university's interest in the cash collateral is included in the *Statement of Net Assets* as an asset with the corresponding securities lending obligation shown as a liability. For the year ended June 30, 2008, securities lending transactions resulted in $1,268,000 of securities lending income and $1,116,000 of securities lending cost. These totals have been included as investment income on the *Statement of Revenues, Expenses, and Changes in Net Assets.*

6. ACCOUNTS RECEIVABLE

Accounts receivable consists of the following as of June 30, 2008 *(all dollars in thousands)*:

Current receivables	
Grants and contracts	$ 40,768
Accrued investment interest	515
Student tuition and fees	2,267
Auxiliary enterprises and other operating activities	5,906
Total current receivables before allowance	49,456
Less allowance for doubtful accounts	1,532
Net current accounts receivable	47,924
Noncurrent receivables	
Capital gifts, grants and other receivables	5,728
Accrued investment interest	191
Total noncurrent receivables before allowance	5,919
Less allowance for doubtful accounts	867
Net noncurrent accounts receivable	5,052
Total receivables	$ 52,976

7. CAPITAL ASSETS

A summary of changes in capital assets follows for the year ending June 30, 2008 *(all dollars in thousands):*

Depreciable capital assets	Beginning Balance (restated)	Additions	Retirements	Ending Balance
Buildings	$ 744,484	$ 62,429	$ -	$ 806,913
Moveable equipment	337,084	32,626	16,654	353,056
Fixed equipment	75,161	1,489	73	76,577
Infrastructure	93,330	12,535	-	105,865
Library books	65,598	1,782	107	67,273
Total depreciable capital assets, at cost	1,315,657	110,861	16,834	1,409,684
Less accumulated depreciation				
Buildings	243,409	20,543	-	263,952
Moveable equipment	227,984	27,665	15,481	240,168
Fixed equipment	35,922	2,878	70	38,730
Infrastructure	71,317	2,989	-	74,306
Library books	52,276	2,591	107	54,760
Total accumulated depreciation	630,908	56,666	15,658	671,916
Total depreciable capital assets, net of accumulated depreciation	684,749	54,195	1,176	737,768
Nondepreciable capital assets				
Land	44,254	220	-	44,474
Livestock	701	-	123	578
Construction in progress	80,010	81,009	74,799	86,220
Equipment in process	2,657	2,410	2,657	2,410
Total nondepreciable capital assets	127,622	83,639	77,579	133,682
Total capital assets, net of accumulated depreciation	$ 812,371	$ 137,834	$ 78,755	$ 871,450

The university contracted in fiscal year 2008 with a professional engineering firm to conduct a building componentization study of research buildings constructed or significantly renovated since the prior study (fiscal year 2005). This engineering study results in a discrete classification of building components, providing a more accurate calculation of the annual depreciation expense attributed to research intensive buildings. The results of the survey are used to reclassify assets primarily between the building and fixed equipment categories, along with any required adjustments to accumulated depreciation. This activity is conducted approximately every three years as part of the federal facilities and administrative cost proposal process.

8. COMMONWEALTH EQUIPMENT AND CAPITAL PROJECT REIMBURSEMENT PROGRAMS

The commonwealth has established several programs to provide state-supported institutions of higher education with bond proceeds for financing the acquisition and replacement of instructional and research equipment and facilities. During fiscal year 2008, funding has been provided to the university from three programs: general obligation bonds [code section 9(b)], and two programs (21st Century program and the Equipment Trust Fund) managed by the Virginia College Building Authority (VCBA). The VCBA issues bonds and uses the proceeds to reimburse the university and other institutions of higher education for expenses incurred in the acquisition of equipment and facilities.

The *Statement of Revenues, Expenses, and Changes in Net Assets* includes the amounts listed below for the year ended June 30, 2008, in "Capital Grants and Gifts" line item for equipment and facilities obtained with funding under these three programs. Part of the funding for these programs is receivable from the commonwealth at June 30, 2008 as shown in the following paragraph *(all dollars in thousands)*:

VCBA 21st Century program	$	1,547
VCBA Equipment Trust Fund program		8,644
General obligation bonds 9(b)		18,107
	$	28,298

The line items, "Due from the Commonwealth of Virginia", on the *Statement of Net Assets* for the year ended June 30, 2008, represents pending reimbursements from the following programs *(all dollars in thousands):*

Capital appropriations receivable	$	16,604
VCBA Equipment Trust Fund program		4,025
Credit card rebate / accrued interest		2,116
VCBA 21st Century program		1,547
General obligation bonds 9(b)		752
	$	25,044

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2008, consist of the following *(all dollars in thousands):*

Accounts payable	$	41,410
Accrued salaries and wages payable		53,970
Retainage payable		4,170
Total current accounts payable and accrued liabilities	$	99,550

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

10. DEFERRED REVENUE

Deferred revenue consists of the following at June 30, 2008 *(all dollars in thousands):*

Grants and contracts	$	14,126
Prepaid athletic tickets		13,313
Prepaid tuition and fees		7,009
Other auxiliary enterprises		1,743
Total deferred revenue	$	36,191

11. SHORT-TERM DEBT

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

At June 30, 2008 the amount outstanding was $1,955,000. The average days-to-maturity was 26 days with a weighted average effective interest rate of 2.44%.

12. SUMMARY OF LONG-TERM INDEBTEDNESS

Bonds Payable

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

Section 9(d) bonds are revenue bonds which are limited obligations of the university, payable exclusively from pledged general revenues, and which are not legal or moral debts of the Commonwealth of Virginia. Pledged general revenues include general fund appropriations, student tuition and fees, facilities and administrative (indirect) cost recoveries, auxiliary enterprise revenues, and other revenues not required by law to be used for another purpose. The university has issued section 9(d) bonds directly through underwriters and also participates in the Public Higher Education Financing Program (Pooled Bond Program) created by the Virginia General Assembly in 1996. Through the Pooled Bond Program, the Virginia College Building Authority issues section 9(d) bonds and uses the proceeds to purchase debt obligations (notes) of the university and various other institutions of higher education. The notes are secured by the pledged general revenues of the university. For more information, see the following description of Notes Payable in note 13, Detail of Long-term Debt Payable.

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

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

Notes Payable

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

Capital Leases

Capital leases represent the university's obligation to Virginia Tech Foundation Inc. for lease agreements related to the Student Services building, Southgate Center addition, and Hunter Andrews Information Systems building addition. The assets under capital lease are recorded at the net present value of the minimum lease payments during the lease term.

Installment Purchase Obligations

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

A summary of the university's long-term indebtedness, including activity for fiscal year 2008, future principal commitments, and future interest commitments, is presented below.

Changes in long-term debt payable activity

As of June 30, 2008 *(all dollars in thousands)*

Bonds payable	Beginning Balance	Additions	Retirements	Ending Balance	Current Portion
Section 9(c) general obligation revenue bonds	$ 50,043	$ -	$ 4,294	$ 45,749	$ 3,058
Section 9(d) revenue bonds	90,404	-	8,138	82,266	8,390
Notes payable	124,489	19,252	19,595	124,146	4,522
Capital lease obligations	11,661	-	515	11,146	623
Installment purchase obligations	1,961	203	648	1,516	489
Total long-term debt payable	$ 278,558	19,455	33,190	$ 264,823	$ 17,082
Current year debt defeasance		(15,590)	(15,195)		
Total additions/retirements, net of current year defeasance		$ 3,865	$ 17,995		

Future principal commitments

For fiscal years subsequent to 2008 *(all dollars in thousands)*

	Section 9(c) Bonds	Section 9(d) Bonds	Notes Payable	Capital Lease Obligations	Installment Purchase Obligations	Total Long-term Debt Payable
2009	$ 3,058	$ 8,390	$ 4,522	$ 623	$ 489	$ 17,082
2010	3,910	5,150	4,857	645	400	14,962
2011	3,947	5,340	5,060	675	406	15,428
2012	3,177	5,540	5,325	709	181	14,932
2013	3,319	5,815	5,569	744	40	15,487
2014 – 2018	12,980	24,020	32,237	4,339	-	73,576
2019 – 2023	7,694	11,935	33,075	3,411	-	56,115
2024 – 2028	6,225	13,380	26,805	-	-	46,410
2029 – 2033	-	3,070	4,065	-	-	7,135
Unamortized premium	1,147	1,047	3,256	-	-	5,450
Deferral on debt defeasance	292	(1,421)	(625)	-	-	(1,754)
Total future principal requirements	$ 45,749	$ 82,266	$ 124,146	$ 11,146	$ 1,516	$ 264,823

Future interest commitments

For fiscal years subsequent to 2008 *(all dollars in thousands)*

	Section 9(c) Bonds	Section 9(d) Bonds	Notes Payable	Capital Lease Obligations	Installment Purchase Obligations	Total Interest
2009	$ 2,143	$ 3,841	$ 5,629	$ 419	$ 48	$ 12,080
2010	1,995	3,490	5,420	395	31	11,331
2011	1,810	3,297	5,187	370	16	10,680
2012	1,619	3,086	4,931	344	4	9,984
2013	1,463	2,820	4,664	317	-	9,264
2014 – 2018	5,124	9,813	18,972	1,128	-	35,037
2019 – 2023	2,661	5,652	11,073	307	-	19,693
2024 – 2028	761	2,691	3,798	-	-	7,250
2029 – 2033	-	146	296	-	-	442
Total future interest requirements	$ 17,576	$ 34,836	$ 59,970	$ 3,280	$ 99	$ 115,761

13. DETAIL OF LONG-TERM DEBT PAYABLE

Bonds payable

As of June, 30, 2008 *(all dollars in thousands)*

Revenue Bonds	Interest rates	Maturity	2008
Dormitory and dining hall system			
Series 1996B, issued $5,475*	3.80% - 5.35%	2009	$ 555
Series 2004A, issued $2,710 – refunding series 1996A*	2.00% - 5.00%	2016	2,245
Series 2004A, issued $1,665 – refunding series 1996A*	2.00% - 5.00%	2016	1,375
Series 2004B, issued $1,265 – refunding series 1996B*	2.00% - 4.00%	2016	1,015
University services systems			
Student Health and Fitness Center			
Series 2004C, issued $15,105 – refunding series 1996C*	2.00% - 5.00%	2016	12,235
Utility system, series 1996D, issued $2,570*	3.80% - 5.35%	2009	260
Athletic system			
Athletic facility improvements – Series 2004D, issued $4,155 – refunding series 1996A*	2.00% - 5.00%	2016	3,440
Lane Stadium west sideline expansion – Series 2004D, issued $52,715	3.00% - 5.13%	2029	44,395
Northern Virginia Graduate Center			
Series 2004A, issued $7,860 – refunding series 1996A*	2.00% - 5.00%	2020	6,955
Architectural / engineering – Series 2004A, issued $4,685 – refunding series 1996A*	2.00% - 5.00%	2016	3,880
Coal fired facility			
Series 2004A, issued $6,005 – refunding series 1996A*	2.00% - 5.00%	2016	4,975
Series 2004A, issued $1,585 – refunding series 1996A*	2.00% - 5.00%	2016	1,310
Unamortized premium (discount)			1,047
Deferral on debt defeasance			(1,421)
Total revenue bonds			82,266
General Obligation Revenue Bonds			
Dormitory and dining hall system			
Series 1998, issued $3,158 – refinanced 1992C*	3.50% - 5.00%	2013	1,813
Series 1998, issued $1,380 – refinanced 1992D*	3.50% - 5.00%	2013	969
Series 1998, issued $1,440 – refinanced 1992D*	3.50% - 5.00%	2013	1,010
Series 1999, issued $1,800 – partial refunding*	4.75% - 4.88%	2009	85
Series 2003A, issued $2,694 – refunding series 1993B*	2.50% - 5.50%	2011	1,104
Series 2004B, issued $9,995 – partial refunding series 1997*	2.00% - 5.00%	2017	9,024
Series 2004B, issued $1,928 – partial refunding series 1998*	2.00% - 5.00%	2018	1,891
Series 2004B, issued $1,168 – partial refunding series 1999*	2.00% - 5.00%	2019	1,143
Series 2004A, issued $4,800	3.75% - 5.00%	2024	4,150
Series 2007A, issued $5,995	4.00% - 5.00%	2027	5,995
Series 2007A, issued $13,130	4.00% - 5.00%	2027	13,130
University services system – student center			
Series 2003A, issued $684 – refunding series 1993B*	2.50% - 5.50%	2010	214
Series 2003A, issued $1,755 – refunding series 1993B*	2.50% - 5.50%	2011	718
Parking facilities			
Series 2002, issued $975	2.50% - 5.00%	2017	650
Series 2003A, issued $2,268 – refunding series 1993B*	2.50% - 5.50%	2011	929
Series 2004B, issued $951 – partial refunding series 1997*	2.00% - 5.00%	2017	855
Series 2006B, issued $685	4.00% - 5.00%	2026	630
Unamortized premium (discount)			1,147
Deferral on debt defeasance			292
Total general obligation revenue bonds			45,749
Total bonds payable			$ 128,015

Notes payable

Notes payable to VCBA under the pooled 9(d) bond program at June 30, 2008 *(all dollars in thousands)*

	Average coupon rate	Maturity	2008
Dormitory and dining hall system			
Series 1998A, issued $10,145 – partial refunding*	4.53%	2019	$ 2,025
Series 1999A, issued $10,905 – partial refunding*	5.73%	2010	1,005
Series 2004B, issued $1,120 – partial refunding series 1999*	5.00%	2014	1,120
Series 2004B, issued $7,420 – partial refunding series 1999A*	3.00% - 5.00%	2020	7,270
Series 2005, issued $2,815	3.50% - 5.00%	2026	2,650
Series 2007B, issued $3,395 – partial refunding series 1998A*	4.00% - 4.50%	2019	3,395
University services system – Career Services building			
Series 2002A, issued $4,405*	5.19%	2023	2,130
Series 2007B, issued $1,621 – partial refunding series 2002A*	4.00% - 4.50%	2020	1,621

Notes payable (continued)

Utility system			
Series 2000A, issued $2,925 – partial refunding*	5.25%	2021	760
Series 2002A, issued $2,875*	5.19%	2023	1,385
Series 2004B, issued $870 – partial refunding series 2000A*	3.00% - 5.00%	2017	850
Series 2007B, issued $646 – partial refunding series 2000A*	4.00% - 4.50%	2020	646
Series 2007B, issued $1,060 – partial refunding series 2002A*	4.00% - 4.50%	2020	1,060
Athletic system – Lane Stadium expansion			
Series 2001A, issued $26,285*	4.70%	2027	14,935
Series 2007B, issued $2,860 – partial refunding series 2001A*	4.00% - 4.50%	2020	2,860
Infectious waste facility			
Series 2000A, issued $1,640 – partial refunding*	5.25%	2021	430
Series 2004B, issued $480 – partial refunding series 2000A*	3.00% - 5.00%	2017	475
Series 2007B, issued $359 – partial refunding series 2000A*	4.00% - 4.50%	2020	359
Biomedical facility			
Series 2002A, issued $21,930	5.11%	2028	14,385
Series 2007B, issued $5,649 – partial refunding series 2002A*	4.00% - 4.50%	2020	5,649
Alumni and conference center, series 2003A, issued $21,585	4.63%	2031	20,610
Life Sciences-I, series 2005, issued $8,295	3.50% - 5.00%	2026	7,805
ICTAS-I, series 2006A, issued $16,145	3.00% - 5.00%	2027	15,650
Boiler pollution controls, series 2006A, issued $1,925	3.00% - 5.00%	2027	1,865
Surge space building, series 2006A, issued $7,025	4.00% - 5.00%	2022	6,695
Campus heating plant, series 2007A, issued $3,880	4.50% - 5.00%	2028	3,880
Unamortized premium (discount)			3,256
Deferral on debt defeasance			(625)
Total notes payable			$ 124,146

* *See Footnote 14 – Long-term Debt Defeasance*

Other long-term debt

At June 30, 2008 (*all dollars in thousands*)

Capital leases payable for agreements related to the Student Services, Southgate Center addition, Hunter Andrews addition buildings and equipment	$ 11,146
Installment purchase obligations for equipment purchases through June 2008 with various interest rates and maturing through 2013	1,516
Total other long-term debt	$ 12,662

14. LONG-TERM DEBT DEFEASANCE

Current Year

The university issued $15,590,000 of section 9(d) notes to refund $15,195,000 of section 9(d) notes in fiscal year 2008. The resulting net loss of $395,000 will be amortized over the life of the new debt. For financial reporting purposes, these bonds are considered an in-substance defeasance and have therefore been removed from the long-term debt payable line item of the *Statement of Net Assets*. The assets in escrow have similarly been excluded. The details of each bond issue refunded are presented below.

Bond issues refunded

As of June 30, 2008 *(all dollars in thousands)*	True Interest Cost	Bonds Refunded	Refunding Bonds Issued	Accounting Gain (Loss)	Reduction in Debt Service	Gain Discounted at TIC	Defeased Debt
Series 1998A, issued $10,145*	3.96%	$ 3,425	$ 3,395	$ 30	$ 211	$ 173	$ 3,425
Series 2000A, issued $2,925*	4.13%	630	646	(16)	37	31	630
Series 2000A, issued $1,640*	4.13%	350	359	(9)	20	17	350
Series 2001A, issued $26,285*	4.13%	2,775	2,860	(85)	150	121	2,775
Series 2002A, issued $4,405*	4.02%	1,560	1,621	(61)	96	76	1,560
Series 2002A, issued $2,875*	4.02%	1,020	1,060	(40)	62	50	1,020
Series 2002A, issued $21,930*	4.02%	5,435	5,649	(214)	333	267	5,435
Total		$ 15,195	$ 15,590	$ (395)	$ 909	$ 735	$ 15,195

* Partial refunding

Previous Years

In previous fiscal years in accordance with Governmental Accounting Standards Board Statement 7, *Advance Refundings Resulting in the Defeasance of Debt*, we have excluded from our financial statements the assets in escrow and the section 9(c) or 9(d) bonds payable that were defeased in-substance. For the year ended June 30, 2008, bonds payable considered defeased in previous years totaled $12,675,000.

15. CHANGE IN OTHER LIABILITIES

A summary of changes in other liabilities for the year ended June 30, 2008, follows *(all dollars in thousands):*

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Accrued compensated absences	$ 37,328	$ 25,457	$ 25,202	$ 37,583	$ 18,250
Federal loan program contribution refundable	13,278	187	271	13,194	-
Total other liabilities	$ 50,606	$ 25,644	$ 25,473	$ 50,777	$ 18,250

16. LEASE COMMITMENTS

The university has entered into numerous agreements to lease land, buildings, and equipment. With some of these agreements, the university is committed under various operating leases for equipment and space. In general, the leases are for a three to five-year term and the university has renewal options. During the normal course of business the university expects similar leases to replace these leases. The total lease expense was approximately $16,857,000 for the year ended June 30, 2008. This amount includes approximately $6,818,000 in lease payments to the Virginia Tech Foundation for office and laboratory space. In addition, the total lease expense includes approximately $2,783,000 of short-term equipment rentals that can be terminated at any time. The short-term equipment rental costs are not included in the summary of future lease payments listed above.

A summary of future minimum lease payments under operating leases as of June 30, 2008, follows *(all dollars in thousands)*:

2009	$ 12,005
2010	8,706
2011	6,988
2012	4,322
2013	624
2014 – 2018	186
2019 – 2023	40
Total	$ 32,871

17. CAPITAL IMPROVEMENT COMMITMENTS

The amounts listed in the following table represent the value of obligations remaining on capital improvement project contracts. These obligations are for future effort and as such have not been accrued as expenses or liabilities on the university's financial statements. Outstanding contractual commitments for capital improvement projects as of June 30, 2008, include:

Capital commitments by project
(all dollars in thousands)

New residence hall	$ 17,136
Henderson Hall renovation	10,537
Basketball practice facility	3,947
Campus heating plant	3,808
Residence-dining hall improvements	3,316
Virginia Bioinformatics building	2,318
New residence hall II	1,868
ICTAS – I	1,812
ICTAS – II	1,566
Infectious disease research facility	750
Other projects	3,185
Total	$ 50,243

The following table shows the sources of funds for the outstanding commitments for capital improvement projects listed previously.

Capital commitments by source of funding
(all dollars in thousands)

General obligation bond proceeds	$ 31,643
Capital appropriations	4,193
Auxiliary enterprise funds	5,152
Private funds	4,965
State general appropriations	2,722
Facilities and administrative (indirect) Cost recoveries and university education and general funds	1,568
Total	$ 50,243

18. CONTRIBUTIONS TO PENSION PLANS

Virginia Retirement System

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

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

The university's expenses include the amount assessed by the commonwealth for contributions to VRS, which totaled approximately $24,423,000 for the year ended June 30, 2008.

Optional Retirement Plan

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

Individual contracts issued under the plan provide for full and immediate vesting of both the university's and the employees' contributions. Total pension costs under this plan were approximately $16,981,000 for fiscal year 2008. Contributions to the optional retirement plan were calculated using the base salary amount of approximately $163,616,000 for this fiscal year.

Deferred Compensation Plan

Employees of the university are employees of the Commonwealth of Virginia. State employees may participate in the commonwealth's Deferred Compensation Plan. Participating employees can contribute to the plan each pay period with the commonwealth matching up to $20 per pay period. The dollar amount match can change depending on the funding available in the commonwealth's budget. The Deferred Compensation Plan is a qualified defined contribution plan under section 401(a) of the *Internal Revenue Code*. The university expense for contributions under the Deferred Compensation Plan, which is an amount assessed by the commonwealth, was approximately $1,875,000 for the fiscal year 2008.

Federal Pension Plans

Certain Cooperative Extension Service (CES) professional employees are participants in either the Federal Employee Retirement System (FERS) or the Federal Civil Service Retirement System (CSRS). FERS and CSRS are defined benefit plans in which benefits are based upon the highest base pay over any three consecutive years and the years of creditable service. Pension costs under these plans were approximately $361,000 for the year ended June 30, 2008. Contributions to FERS and CSRS were calculated using the base salary amount of approximately $4,493,000 for the fiscal year 2008.

In addition, the university contributed $44,000 for the year ended June 30, 2008, in employer contributions to the Thrift Savings Plan. The Thrift Savings Plan is a defined contribution plan in which the university matches employee contributions within certain limitations.

19. POSTEMPLOYMENT BENEFITS

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

During fiscal year 2008 GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (OPEBs) and GASB* Statement 50, *Pension Disclosures* became effective. Statement 45 establishes standards of accounting and reporting for OPEB expenses and related OPEB liabilities, assets, note disclosures and required supplementary information. Statement 50 amends statements 25 and 27 regarding reporting of pension plans. Any required disclosures related to the implementation of GASB 45 and GASB 50 would be included at the statewide level in the commonwealth's *Comprehensive Annual Financial Report*.

20. APPROPRIATIONS

The Appropriation Act specifies that unexpended general fund appropriations that remain on the last day of the current year, ending on June 30, 2008, shall be reappropriated for expenditure in the first month of the next year, beginning on July 1, 2008, except as may be specifically provided otherwise by the General Assembly. The governor may, at his discretion, unallot funds from the reappropriated balances that relate to unexpended appropriations for payments to individuals, aid to localities, or any pass-through grants.

During the year ended June 30, 2008, the following adjustments were made to the university's original appropriation *(all dollars in thousands)*:

Original legislative appropriation (per Chapter 847 as amended)	
Education and general programs	$ 239,705
Student financial assistance	16,556
Commonwealth research initiative	7,825
Uncapitalized maintenance reserve	1,462
Unique military activities	1,499
Eminent scholar program	602
Engineering research center fund	365
Total appropriation	268,014
Adjustments	
Budget reductions	(13,115)
Salary increases	5,166
Health insurance premium	3,584
Virginia Retirement System rate increase	1,990
Immediate response funding (see note 31)	1,301
Tuition incentive program	1,295
Virginia Sickness and Disability rate increase	456
Group life insurance premium	261
Transfer from student financial assistance program for undergraduate internships and graduate assistantships	221
Equine medical center	200
Employee mileage reimbursement	165
Agriculture education program	150
Other	79
Total adjustments	1,753
Adjusted appropriation	$ 269,767

21. CAPITAL APPROPRIATIONS

Capital project general fund appropriations of $14,527,000 were recognized by the university from the commonwealth for the year ended June 30, 2008. During the current year the commonwealth converted existing general fund appropriations for on-going capital projects to debt funding. This resulted in the reversion of general funds appropriated in prior fiscal years as directed by Chapter 847, *2008 Acts of Assembly,* Sections 2-0 R and 2-0 S. Additionally, capital outlays for the current year were reduced. The funding for capital projects affected by the reversions and reductions to general fund appropriations will be replaced by proceeds from debt financing by the commonwealth.

Capital project general fund appropriations reported on the *Statement of Net Assets* for the period ending June 30, 2008 consist of the following *(all dollars in thousands)*:

Capital project general fund appropriations	$ 14,527
Section 2-0 R capital appropriation reversions	(14,469)
Section 2-0 S capital appropriation reductions	(8,821)
Other capital appropriation reductions	(3,822)
Total capital appropriations	$ (12,585)

22. GRANTS AND CONTRACTS CONTINGENCIES

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

In addition, the university is required to comply with various federal regulations issued by the Office of Management and Budget. Failure to comply with certain system requirements of these regulations may result in questions concerning the allowance of related direct and indirect charges pursuant to such agreements. As of June 30, 2008, the university estimates that no material liabilities will result from such audits or questions.

23. FEDERAL DIRECT LENDING PROGRAM

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

These loan programs are treated as student payments with the university acting as a fiduciary agent for the student. Therefore, the receipt of the funds from the federal government is not reflected in the federal government grants and contracts total on the *Statement of Revenues, Expenses, and Changes in Net Assets*. The activity is included in the noncapital financing section of the *Statement of Cash Flows*. For the fiscal year ended June 30, 2008, cash provided by the program totaled $86,197,000 and cash used by the program totaled $86,199,000.

24. RISK MANAGEMENT AND EMPLOYEE HEALTH CARE PLANS

The university is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; nonperformance of duty; injuries to employees; and natural disasters. The university participates in insurance plans maintained by the Commonwealth of Virginia. The state employee health care and worker's compensation plans are administered by the Department of Human Resource Management and the risk management insurance plans are administered by the Department of Treasury, Division of Risk Management. Risk management insurance includes property, general liability, medical malpractice, faithful performance of duty bond, automobile, boiler and machinery, and air and watercraft plans. The university pays premiums to each of these departments for its insurance coverage. In addition, the university contracts with private insurers to provide additional fidelity bonding coverage, automobile physical damage coverage, business interruption coverage for the Equine Medical Center and overseas liability coverage. Information relating to the commonwealth's insurance plans is available in the Commonwealth of Virginia's *Comprehensive Annual Financial Report.*

25. EXPENSES BY NATURAL CLASSIFICATION WITHIN FUNCTIONAL CLASSIFICATION

The university's operating expenses by functional classification were as follows for the year ended June 30, 2008 *(all dollars in thousands)*:

	Compensation and Benefits	Contractual Services	Other Supplies and Materials	Travel	Operating Expenses	Scholarships Fellowships	Sponsored Program Subcontracts	Total
Instruction	$ 226,232	$ 10,587	$ 6,012	$ 5,061	$ 1,702	$ 828	$ 84	$ 250,506
Research	147,240	14,842	17,304	9,907	2,775	9,148	19,461	220,677
Public service	49,626	17,347	2,874	5,960	1,261	163	1,668	78,899
Academic support	42,313	5,378	10,324	816	1,628	118	4	60,581
Student services	9,140	1,695	643	584	197	68	5	12,332
Institutional support	44,057	189	2,085	2,153	2,755	339	14	51,592
Operation and maintenance of plant	27,459	172	18,811	236	14,592	34	2	61,306
Student financial assistance	329	16	114	157	1	12,991	-	13,608
Auxiliary enterprises	69,538	20,564	28,195	8,661	11,208	965	4	139,135
Subtotal before other costs	$ 615,934	$ 70,790	$ 86,362	$ 33,535	$ 36,119	$ 24,654	$ 21,242	888,636
Depreciation expense								56,666
Amortization expense								133
Loan administrative fees and collection costs								200
Total operating expenses								$ 945,635

26. COMPONENT UNITS FINANCIAL STATEMENTS AND FOOTNOTES

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

Component Units
Consolidating Statement of Net Assets

The financial position for the university's component units as of June 30, 2008
(all dollars in thousands)

	Virginia Tech Foundation	Virginia Tech Services	Total Component Units
Assets			
Current assets			
Cash and cash equivalents	$ (36,615)	$ 475	$ (36,140)
Short-term investments	20,140	3,285	23,425
Accounts and contributions receivable, net	36,429	373	36,802
Notes receivable, net	738	-	738
Inventories	499	7,816	8,315
Prepaid expenses	624	181	805
Other assets	733	-	733
Total current assets	22,548	12,130	34,678
Noncurrent assets			
Cash and cash equivalents	78,799	-	78,799
Accounts and contributions receivable, net	41,978	-	41,978
Notes and deeds of trust receivable, net	16,159	-	16,159
Net investments in direct financing leases	7,210	-	7,210
Irrevocable trusts held by others, net	9,631	-	9,631
Long-term investments	597,162	-	597,162
Depreciable capital assets, net	111,532	891	112,423
Nondepreciable capital assets	37,469	-	37,469
Intangible assets, net	679	-	679
Other assets	2,827	-	2,827
Total noncurrent assets	903,446	891	904,337
Total assets	925,994	13,021	939,015
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	6,928	5,955	12,883
Accrued compensated absences	249	282	531
Deferred revenue	807	637	1,444
Long-term debt payable	22,535	252	22,787
Other liabilities	844	1,600	2,444
Total current liabilities	31,363	8,726	40,089
Noncurrent liabilities			
Accrued compensated absences	45	-	45
Deferred revenue	6,216	-	6,216
Long-term debt payable	68,027	65	68,092
Liabilities under trust agreements	32,232	-	32,232
Agency deposits held in trust	57,406	-	57,406
Other liabilities	8,607	-	8,607
Total noncurrent liabilities	172,533	65	172,598
Total liabilities	203,896	8,791	212,687
Net assets			
Invested in capital assets, net of related debt	74,066	671	74,737
Restricted, nonexpendable	294,778	-	294,778
Restricted, expendable			
Scholarships, research, instruction, and other	310,163	-	310,163
Capital projects	40,901	-	40,901
Unrestricted	2,190	3,559	5,749
Total net assets	$ 722,098	$ 4,230	$ 726,328

Component Units
Consolidating Statement of Revenues, Expenses, and Changes in Net Assets

The university's component unit activity for the year ended June 30, 2008
(all dollars in thousands)

	Virginia Tech Foundation	Virginia Tech Services	Total Component Units
Operating revenues			
Gifts and contributions	$ 57,270	$ -	$ 57,270
Auxiliary enterprise revenue			
Hotel Roanoke	19,651	-	19,651
River Course	1,179	-	1,179
Bookstore	-	29,916	29,916
Other revenues			
Rental income	15,044	-	15,044
Other	14,299	-	14,299
Total operating revenues	107,443	29,916	137,359
Operating expenses			
Instruction	3,585	-	3,585
Research	4,609	-	4,609
Public service	4,133	-	4,133
Academic support	13,901	-	13,901
Institutional support			
Other university programs	27,848	-	27,848
Fund-raising	10,502	-	10,502
Management and general	2,818	-	2,818
Operation and maintenance of plant			
Operation and maintenance of plant	3,299	-	3,299
Research center costs	3,840	-	3,840
Student financial assistance	18,383	-	18,383
Auxiliary enterprises			
Hotel Roanoke	13,633	-	13,633
River Course	1,349	-	1,349
Bookstore	-	29,607	29,607
Depreciation expense	5,438	-	5,438
Other expenses	9,012	-	9,012
Total operating expenses	122,350	29,607	151,957
Operating income (loss)	(14,907)	309	(14,598)
Non-operating revenues (expenses)			
Investment income, net	11,117	-	11,117
Net losses on investments	(6,943)	-	(6,943)
Interest expense on debt related to capital assets	(3,932)	-	(3,932)
Net non-operating revenues (expenses)	242	-	242
Income (loss) before other revenues, expenses, gains, and losses	(14,665)	309	(14,356)
Change in valuation of split interest agreements	(3,361)	-	(3,361)
Capital grants and gifts	9,141	-	9,141
Gain (loss) on disposal of capital assets	(210)	-	(210)
Additions to permanent endowments	25,167	-	25,167
Other revenues (expenses)	(1,251)	-	(1,251)
Total other revenue, expenses, gains, or losses	29,486	-	29,486
Increase in net assets	14,821	309	15,130
Net assets—beginning of year	707,277	3,921	711,198
Net assets—end of year	$ 722,098	$ 4,230	$ 726,328

Component Unit Footnotes

Contributions Receivable – Virginia Tech Foundation Inc.

The following summarizes unconditional promises to give at June 30, 2008 *(all dollars in thousands)*:

Current receivables	
Receivable in less than one year, net of discount	$ 32,602
Noncurrent receivables	
Receivable in one to five years, net of discount ($4,092 in 2008)	36,535
Receivable in more than five years, net of discount ($2,338 in 2008)	6,272
Total noncurrent contributions receivable before allowance	42,807
Less allowance for uncollectible contributions	(3,174)
Net noncurrent contributions receivable	39,633
Total contributions receivable	$ 72,235

The discount rates ranged from 2.36% to 4.53% in 2008. The weighted average discount rate was 3.85% in 2008. As of June 30, 2008, there were no conditional promises to give.

Investments – Virginia Tech Foundation Inc.

Investments by type of security at June 30, 2008 *(all dollars in thousands)*:

	Cost	Fair value
Short-term investments		
Corporate debt securities	$ 6,105	$ 4,731
U.S. Government treasuries	14,907	14,266
U.S. Government agencies	1,144	1,144
Total short-term	22,156	20,141
Long-term investments		
Cash and cash equivalents	13,084	13,084
U. S. Government treasuries	44,316	46,014
U. S. Government agencies	5,102	5,218
State, county and municipal securities	7,221	6,309
Corporate debt securities	13,680	15,022
Common and preferred stock	149,842	161,730
Partnerships and other joint ventures	246,034	255,916
Foreign securities	60,637	61,836
Real estate	25,341	25,928
Other	6,104	6,104
Total long-term	571,361	597,161
Total investments	$ 593,517	$ 617,302

As of June 30, 2008, long-term investments include investment assets held in internally managed trust funds with a carrying value totaling $57,158.

As of June 30, 2008, the foundation has committed to make additional capital contributions of approximately $45,400 to various venture capital partnerships over the next five years.

During 2004, the foundation invested $1,000 to become a member of a communications network infrastructure. Additionally, the foundation entered into an agreement to make additional investments in the communications network infrastructure over a four-year period. The foundation contributed $800 in 2008, 2007, 2006, 2005, and 2004, under the agreement. Included in other investments as of June 30, 2008, is $5,000 related to this communications network infrastructure.

The following tabulation summarizes changes in relationships between cost and fair value of investments:

	Fair Value	Cost	Net gains (losses)
June 30, 2008	$ 617,302	$ 593,517	$ 23,785
June 30, 2007	621,962	507,362	114,600
Unrealized net loss for fiscal year 2008, including net loss on agency deposits held in trust of $9,302			(90,815)
Realized net gains for fiscal year 2008, including net gains on agency deposits held in trust of $8,139			83,662
Total net loss for fiscal year 2008, including net loss on agency deposits held in trust of $1,163			$ (7,153)

Investment management fees incurred in 2008 totaled $2,894.

Component Unit Footnotes (continued)

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

A summary of land, buildings, and equipment at cost, less accumulated depreciation for the year ending June 30, 2008 is presented as follows *(all dollars in thousands)*:

Depreciable capital assets	
Buildings	$ 134,311
Equipment and other	23,227
Land improvements	4,303
Total depreciable capital assets, at cost	161,841
Less accumulated depreciation	(50,309)
Total depreciable capital assets, net of accumulated depreciation	111,532
Nondepreciable capital assets	
Land	9,592
Vintage and other collection items	4,126
Livestock	2,375
Construction in process	21,376
Total nondepreciable capital assets	37,469
Total capital assets, net of accumulated depreciation	$ 149,001

As of June 30, 2008 outstanding contractual commitments for projects under construction approximated $9,500.

Long-Term Debt Payable - Virginia Tech Foundation Inc.

Notes payable

The following is a summary of outstanding notes payable at June 30, 2008 *(all dollars in thousands)*:

Unsecured commercial note payable due September 10, 2014, plus interest at 4.65%	$ 993
Unsecured variable rate commercial note payable due June 30, 2009 with automatic yearly renewal, plus interest at the 30-day LIBOR rate plus 35 basis points (2.81% at June 30, 2008), principal balance not to exceed $13.8 million	11,963
Unsecured variable rate promissory note payable due June 1, 2023, plus interest determined weekly by the remarketing agent based on current market conditions (2.67% at June 30, 2008), principal balance not to exceed $55 million	21,220
Unsecured variable rate commercial note payable due January 31, 2009, plus interest at the 30-day LIBOR rate plus 25 basis points (2.71% at June 30, 2008), principal balance not to exceed $4 million	1,495
Secured variable rate promissory note payable upon sale of collateral, or receipt of any insurance payment due to destruction of collateral, plus interest at the LIBOR rate plus 125 basis points (3.71% at June 30, 2008), collateralized by interest in a Citation V Ultra airplane	832
Total VTF notes payable	36,503
Unsecured note payable upon the sale of the hotel and repayment of all debt of the hotel and the Hotel Roanoke Foundation (HRF)	1,775
Unsecured note payable to the City of Roanoke Redevelopment and Housing Authority due in aggregate annual installments of $497, including interest at 4.048%, guaranteed by the U.S. Department of Housing and Urban Development, maturing June 30, 2014	2,976
Total HRF notes payable	4,751
Total notes payable	$ 41,254

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

To comply with the terms of the $55 million unsecured variable rate note agreement, the foundation maintains a back-up line of credit with a lender in the amount of $55 million at an annual fee of 0.13% of the total commitment. The total commitment as of June 30, 2008, was $32.835 million. As of June 30, 2008, no funds were outstanding under this commitment.

The aggregate annual maturities of notes payable for each of the five years and thereafter subsequent to June 30, 2008, are *(all dollars in thousands)*:

2009	$ 19,714
2010	1,525
2011	1,600
2012	1,627
2013	1,655
Later years or as cash becomes available from hotel net operating income	15,133
Total notes payable	$ 41,254

Bonds payable

Hotel Roanoke Foundation Inc. is obligated under City of Roanoke Redevelopment and Housing Authority Taxable Redevelopment Revenue Term Bonds (Series 1998). Bond proceeds were used to prepay the first mortgage notes payable to a lender group and provide long-term financing for the renovation of the Hotel Roanoke. On June 1, 2003, the bonds were remarketed to Virginia Tech Real Estate Foundation Inc. and the new term rate of 4.10% extended through May 31, 2008. On June 1, 2008, the bonds were remarketed and the new term rate of 5.00% will extend through May 31, 2013. The Term Bonds are subject to mandatory annual sinking fund redemption through 2018 in varying amounts ranging from $275 to $490 and are guaranteed by Hotel Roanoke Limited Liability Company. The Term Bonds are eliminated for consolidation purposes as of June 30, 2008.

The foundation is obligated under Industrial Development Authority of Craig County, Virginia Variable Rate Demand Revenue Refunding Bonds (Series 2000). Bond proceeds were used to finance the construction of office facilities and laboratory space being leased to the university. The Series 2000 bonds, which mature on November 1, 2020, bear a fixed interest rate of 3.55%.

The foundation is obligated under Industrial Development Authority of Montgomery County, Virginia Variable Rate Revenue Bonds dated August 25, 2005 (Series 2005). Bond proceeds were used to refinance previously outstanding Series 2001A and Series 2002A bonds. The remainder was used to finance the construction of and equipment purchases for three facilities to be used in support of the university. The bonds, which mature June 1, 2035, bear a variable interest rate, which including remarketing and credit enhancement fees, was 1.485% at June 30, 2008.

The foundation is obligated under Industrial Development Authority of Montgomery County, Virginia Variable Rate Revenue Bonds dated January 23, 2007 (Series 2007). Bond proceeds were used to finance the construction of several facilities to be used in support of the university. The bonds, which mature June 1, 2027, bear a variable interest rate, which including broker-dealer commission fees, was 1.970% at June 30, 2008.

During 2008, the foundation gave the owners of the Series 2007 bonds their notice of borrower intent to bid in auction to repurchase the Series 2007 bonds. Through June 30, 2008, the foundation has incrementally repurchased approximately 88% of the Series 2007 bonds at par value plus accrued interest.

Principal amounts outstanding for these bonds as of June 30, 2008, are as follows *(all dollars in thousands)*:

Bond Series	
Series 2000	$ 2,789
Series 2005	43,575
Series 2007	24,480
Less Series 2007 repurchased and held in treasury	(21,535)
Total bonds payable	$ 49,309

The aggregate annual maturities of bonds payable for each of the five years and thereafter subsequent to June 30, 2008, are as follows *(all dollars in thousands)*:

2009	$ 2,821
2010	2,654
2011	2,777
2012	2,879
2013	2,971
Later years	35,207
Total	$ 49,309

To comply with the terms of the Series 2005 bond agreement, the foundation maintains a letter of credit with a lender in the amount of $46,421 at annual fees equal to 0.20% of the total commitment. At June 30, 2008, no funds were outstanding under this commitment.

Effective April 1, 2003, the foundation entered into an interest rate swap agreement with a lending institution. The agreement was based on the principal balance (notional amount of $2,585) for a promissory note payable. The foundation participates as a fixed rate payer, with a fixed interest rate of 3.715% for a seven-year term ending February 1, 2010. The lending institution participates as a floating rate payer, with a variable interest rate, which is calculated based on the LIBOR and was 2.46% at June 30, 2008. Net interest income associated with these transactions was $11 for fiscal year 2008. The estimated fair value of the interest rate swap agreements approximated $25 as of June 30, 2008 in favor of the lending institution.

Effective September 1, 2005, the foundation entered into an interest rate swap agreement with a lending institution. This agreement was based on the principal balances (notional amount of $21,535) for the Series 2001A and Series 2002A bond issues, which were refinanced by the Series 2005 bonds. The foundation participates as a fixed rate payer, with a fixed rate of 3.265% for a 17-year term ending June 30, 2022. The lending institution participates as a floating rate payer, with a floating interest, which is calculated based on the weighted average of 70% of USD-LIBOR-BBA and was 1.722% at June 30, 2008. Net interest expense associated with these transactions was $89 for fiscal year 2008. The estimated fair value of the interest rate swap agreement approximated $268 as of June 30, 2008 in favor of the lending institution.

On September 1, 2005, the foundation entered into two separate interest rate swap agreements with a lending institution. These agreements were based on the principal balances (notional amount of $17,065) for the Series 2005 bond issue and were effective September 1, 2006. The foundation participates as a fixed rate payer, with a fixed rate of 3.035% and 3.2125% ending August 1, 2010 and June 1, 2025, respectively. The lending institution participates as a floating rate payer, with a floating interest rate, which is calculated based on the weighted average of 70% of USD-LIBOR-BBA and was 1.722% at June 30, 2008. Net interest expense associated with those transactions was $49 for fiscal year 2008. The estimated fair value of the interest rate swap agreements approximated $125 as of June 30, 2008 in favor of the lending institution.

Effective March 12, 2007, the foundation entered into two separate interest rate swap agreements with a lending institution. These agreements were based on the principal balances (notional amount of $24,480) for the Series 2007 bond issue. The foundation participates as a fixed rate payer, with a fixed rate of 3.7367% and 3.4670% ending June 1, 2027 and June 1, 2012, respectively. The lending institution participates as a floating rate payer, with a floating interest rate, which is calculated based on the weighted average of USD-BMA Municipal Swap Index and was 1.58967% at June 30, 2008. Net interest expense associated with these transactions was $191 for fiscal year 2008. The estimated fair value of the interest rate swaps agreements approximated $424 as of June 30, 2008 in favor of the lending institution.

Total interest expense incurred on notes payable and bonds payable in 2008 totaled $3,971.

Agency Deposits Held In Trust - Virginia Tech Foundation Inc.

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

A summary of agency deposits held in trust for the year ending June 30, 2008 is presented as follows *(all dollars in thousands)*:

University—Pratt Estate	$ 43,708
University—Donaldson Brown Endowment	804
University—Other	738
Virginia Tech Alumni Association, Inc.	4,364
Virginia Tech Services, Inc.	3,285
Other	4,507
Total agency deposits held in trust	$ 57,406

27. JOINT VENTURES

The Hotel Roanoke Conference Center Commission was created by a joint resolution of the university and the city of Roanoke. The purpose of the commission is to establish and operate a publicly owned conference center in Roanoke adjacent to the renovated Hotel Roanoke. The powers of the commission are vested in commissioners. Each participating governing body appoints three commissioners for a total of six commissioners. The commission has the authority to issue debt, and such debt is the responsibility of the commission. The intention of the commission is to be self-supporting through its user fees. The university and the city of Roanoke equally share in any operating deficit or additional funding needed for capital expenditures. The university made contributions of $80,000 using private funds to the commission for the fiscal year ended June 30, 2008.

The Virginia Tech Carilion School of Medicine was established as a 501(c)(3) nonprofit organization. This joint venture will receive oversight from an independent board of directors. Virginia Tech and Carilion Clinic will each appoint a specific number of board members. These board members will elect the remaining members of the board of directors. The commonwealth has provided the capital funds for the building's construction on land owned by Carilion Clinic under a public-private partnership. Construction of the $59 million, 154,000 square-foot facility commenced during September 2008 with expected completion within two years. This facility will house the Virginia Tech Carilion School of Medicine and the new Virginia Tech Carilion Research Institute, a part of Virginia Tech. Approximately two-thirds of the building will be occupied by the university's research institute with the remaining space allocated to the School of Medicine.

28. JOINTLY GOVERNED ORGANIZATIONS

Blacksburg-Christiansburg & VPI Water Authority

Created by a concurrent resolution of the university and the towns of Blacksburg and Christiansburg, the authority operates and maintains the water supply system for the university and the other participating governing bodies. A five-member board governs the authority with one member appointed by each governing body and two at-large members appointed by the joint resolution of each of the governing bodies. The authority's indebtedness is not an obligation of the university and is payable solely from the revenues of the authority. The university paid $612,000 to the authority for the purchase of water for the fiscal year ended June 30, 2008.

Blacksburg-VPI Sanitation Authority

Created by a concurrent resolution of the university and the town of Blacksburg, the authority operates and maintains the wastewater treatment system for the participating governing bodies. Each participating governing body appoints one member of the five-member board of directors. Three at-large members are appointed by the joint resolution of each of the governing bodies. The authority's indebtedness is not an obligation of the university and is payable solely from the revenues of the authority. The university paid $574,000 to the authority for the purchase of sewer services for the fiscal year ended June 30, 2008.

Montgomery Regional Solid Waste Authority

Created by a joint resolution of the university, the towns of Blacksburg and Christiansburg, and the county of Montgomery, the authority represents its members in solid waste and recycling issues as well as operating a recycling facility. The authority is governed by its board with each participating governing body appointing one board member, and all governing bodies jointly appointing the fifth at-large member. Each governing body provides collection of solid waste and recyclables from within its jurisdiction and delivers the collected materials to the authority for disposal of the waste, and the processing and marketing of the recyclables. All indebtedness is the obligation of the authority and payable from its revenues. The university paid $258,000 to the authority for tipping fees for the fiscal year ended June 30, 2008.

Virginia Tech/Montgomery Regional Airport Authority

Created by a joint resolution of the university, the towns of Blacksburg and Christiansburg, and the county of Montgomery, this authority serves to develop a regional airport based on the mission of servicing corporate executive markets and other general aviation markets; obtaining grants, loans and other funding for airport improvements and other activities; and in promoting and assisting in regional economic development. The authority is governed by its board, which consists of five members. Each participating governing body appoints one member of the board, and jointly all governing bodies appoint the fifth member. All indebtedness is the obligation of the authority and payable from its revenues. The university's funding commitment for fiscal year 2008 was $50,000, all of which Virginia Tech paid to the authority.

29. PENDING LITIGATION

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

30. SUBSEQUENT EVENTS

The university has entered into two capital leases with the Virginia Tech Foundation Inc. for laboratory and office space located at 1981 Kraft Drive, Blacksburg, Virginia. These two leases are for the Integrated Life Sciences I building and the attached vivarium. The initial term for each lease is twenty years, commencing on August 1, 2008. The net present value of these lease obligations are $19,776,000 and $3,734,000, respectively.

The university has secured short-term financing for capital projects through the Virginia Municipal League/Virginia Association of Counties (VML/VACo) commercial paper program. The university makes monthly withdrawals from this program to meet capital project funding requirements. As of October 15, 2008, the university has a total balance of commercial paper outstanding of $4,835,000.

As a result of the volatility in the financial markets during September and October 2008, the university has conducted a review of its exposure to realized and unrealized losses on its investment portfolio. The university has limited its exposure to turbulent economic conditions through the implementation of its investment policy, as discussed in note 4 to the financial statements. The university's investment policy, established by the board of visitors and monitored by the board's Finance and Audit Committee, requires that its public funds be invested in accordance with the *Investment of Public Funds Act,* Section 2.2-4500 through 2.2-4516, et seq.*, Code of Virginia*. Generally, such investments include obligations issued or guaranteed by the U.S. Government or agencies thereof, repurchase agreements collateralized by securities of the U. S. Treasury or agencies thereof, prime quality commercial paper, etc. These investments are grouped into two pools: a short-term pool comprised primarily of cash equivalents and an intermediate pool with average durations ranging from one to three years. The majority of changes in these investment amounts, especially in the short-term pool, are related to the operating cash flows of the university and not market fluctuations. The market value of these investments at June 30, 2008 was $272.2 million. At September 30, 2008 and October 24, 2008 the total market value for the investments held in these pools was $325.3 million and $330.9 million, respectively. Additionally, at September 30, 2008 and October 24, 2008 the unrealized losses for the investments held in these pools was $1.4 million and $1.2 million, respectively.

The university's investment in equities is limited to restricted gift funds designated by management as quasi-endowments and invested in the Virginia Tech Foundation Inc. endowment pool. The market value of these restricted gifts was $44.7 million at June 30, 2008. These endowment pool investments would be subject to the fluctuations in the equity markets. University management estimates the market value of these investments net of unrealized losses and other changes to be approximately $39.5 million and $33.1 million at September 30, 2008 and October 24, 2008, respectively.

The Virginia Tech Foundation's investments (included in the component unit columns of the *Statement of Net Assets*) have experienced the same declines during this period of market volatility. The market value of the foundation's investments was $617.3 million at June 30, 2008. The estimated market value of these investments, net of unrealized losses and other changes, was $592.4 million (a 4.0% decrease) on September 30, 2008 and $504.6 million (an 18.3% decrease) on October 24, 2008.

The university has taken additional action to limit its exposure to the current market's volatility. The university's investment managers were directed to discontinue the university's participation in the securities lending program and liquidate all investments held as collateral for this activity. The university's investment managers confirmed the participation in the securities lending program ended on September 24, 2008 with no losses accruing to the university.

31. SPECIAL AND EXTRAORDINARY EVENTS

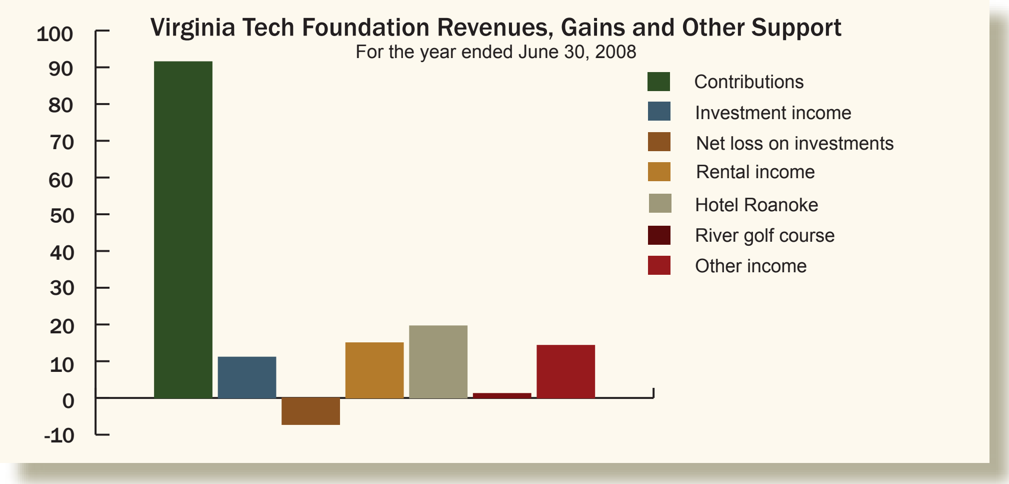
The university continues to fund activities associated with the tragic events that occurred on April 16, 2007. Renovations to directly affected facilities and various improvements to security and infrastructure have been completed or are in progress. These are funded by a combination of special state appropriations, insurance recoveries, and education and general funds. The majority of the victims of the tragedies have entered into settlement agreements with the Commonwealth of Virginia. Part of the settlement agreement established a fund to provide health insurance for future health care of the injured victims to which the university agreed to contribute. The university has accrued expenditures for the estimated cost of its participation of $1.5 million and has included this amount in the Accounts Payable and Accrued Liabilities line item on the *Statement of Net Assets*.

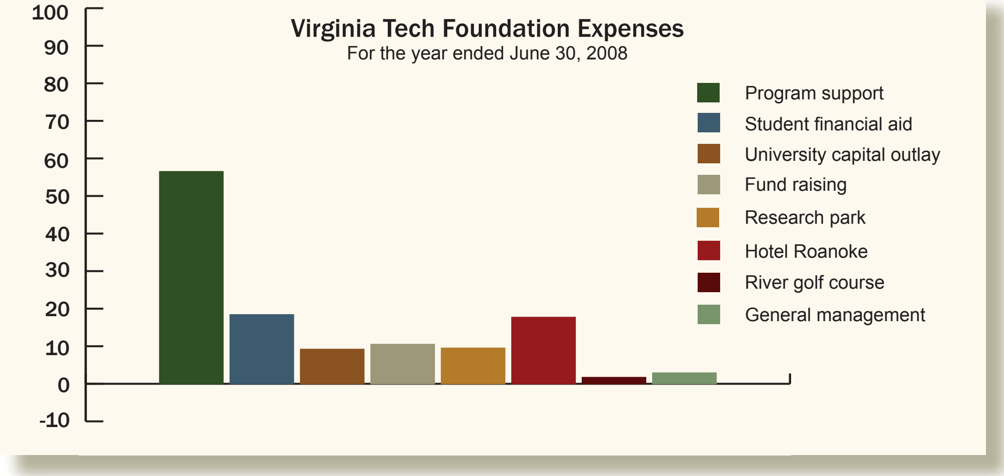
The Virginia Tech Foundation Inc. established several funds (collectively known as the "Hokie Spirit Funds") to receive and manage contributions to the following: Hokie Spirit Memorial Fund, Hokie Spirit Scholarship Fund, 32 Named Memorial Funds, and the Victim Assistance Tuition Fund. Mr. Kenneth R. Feinberg, Special Master of the Federal September 11th Victim Compensation Fund of 2001, served as the Fund Administrator for the Hokie Spirit Funds. Mr. Feinberg issued the Virginia Tech Victim Assistance Program Final Protocol (Protocol) on August 15, 2007. The disbursement process mandated by the Protocol conflicted with VTF's 501(c)(3) status. Therefore, the disbursement process described in the Protocol was transferred to the university as authorized under the authority of the governor's Executive Order 56 (2007). The university established two funds, the Hokie Spirit Memorial Fund and the Victim Assistance Tuition Fund, to receive the funds from the foundation. Disbursements were made by the university pursuant to the Protocol and as approved by the Fund Administrator directly to, or on behalf of, the victims.

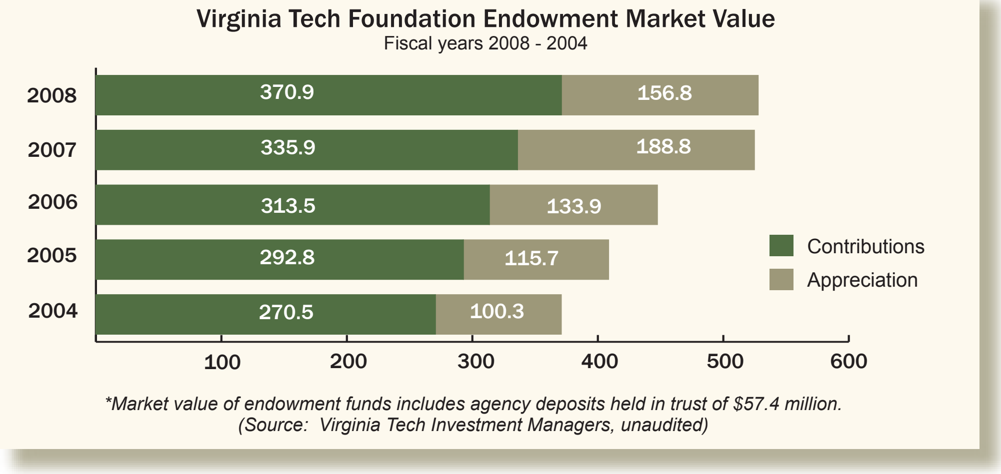
The statement of cash receipts and disbursements and fund balances of the Hokie Spirit Memorial Fund and the Victim Assistance Tuition Fund established by the university and its activities during the period April 16, 2007 to December 31, 2007 were audited by an external public accounting firm. The audit found the financial statements to fairly present, in all material respects, the cash receipts and disbursements and fund balances of the Hokie Spirit Memorial Fund and Victim Assistance Tuition Fund managed by the university. Funds totaling $6,973,000 and $104,000, were received and disbursed from the Hokie Spirit Memorial Fund and the Victim Assistance Tuition Fund, respectively (including additional disbursement on March 14, 2008) during fiscal years 2007 and 2008. Since these funds were considered agency funds for the university, they are not included in the revenues or expenses of the university shown on the *Statement of Revenues, Expenses, and Changes in Net Assets*, but the amounts received and disbursed are shown on the *Statement of Cash Flows* for fiscal years 2008 and 2007. The Virginia Tech Foundation created a companion Victim Tuition Assistance fund to hold funds to meet the estimated future educational expenses of the injured students in accordance with the Protocol.

Virginia Tech Foundation Inc.

The purpose of Virginia Tech Foundation Inc. is to receive, invest, and manage private funds given for the support of programs at Virginia Tech and to foster and promote the growth, progress, and general welfare of the university. During the current fiscal year, the foundation recognized $91.6 million in contributions for support of the university. Investment income of $11.1 million, along with net losses on investments of $7.2 million, resulted in a $3.9 million net gain from investment actitvity. Property rental, hotel operating, and golf course income totaled $35.9 million. Other income accounted for $14.3 million. Total income of $145.7 million was offset by $126.3 million in expenses that supported the university and its programs. Direct support to various university programs aggregated $84.1 million, which included $18.4 million in scholarship support to students and faculty and $9.2 million towards university capital projects. Additional expenses such as fund-raising, management and general, research center, hotel operating, golf course, and other costs totaled $42.2 million. Total net assets increased by $14.8 million over the previous year. The graphs below are categorized as presented in the audited financial statements for the foundation which follows the Financial Accounting Standards Board (FASB) requirements *(all dollars in millions)*:







Affiliated Corporations Financial Highlights

For the years ended June 30, 2008-2004

(all dollars in thousands)

	2008	2007	2006	2005	2004
Assets					
Virginia Tech Foundation Inc.	$ 925,994	$ 940,879	$ 808,912	$ 728,006	$ 670,353
Virginia Tech Services Inc.	13,021	11,713	8,861	10,335	9,760
Virginia Tech Intellectual Properties Inc.	1,035	726	1,180	1,569	2,341
Total Assets	$ 940,050	$ 953,318	$ 818,953	$ 739,910	$ 682,454
Revenues					
Virginia Tech Foundation Inc.	$ 145,715	$ 201,521	$ 167,458	$ 151,870	$ 133,802
Virginia Tech Services Inc.	29,917	24,918	21,946	22,622	20,396
Virginia Tech Intellectual Properties Inc.	1,183	1,193	779	1,129	1,261
Total Revenues	$ 176,815	$ 227,632	$ 190,183	$ 175,621	$ 155,459
Expenses					
Virginia Tech Foundation Inc.	$ 130,894	$ 103,393	$ 102,663	$ 96,936	$ 84,077
Virginia Tech Services Inc.	29,607	23,312	22,338	22,773	20,840
Virginia Tech Intellectual Properties Inc.	1,558	1,708	954	1,095	1,090
Total Expenses	$ 162,059	$ 128,413	$ 125,955	$ 120,804	$ 106,007

The organizations included above are related to the university by affiliation agreements. These agreements, approved by the Virginia Tech Board of Visitors, require an annual audit to be performed by independent auditors. These auditors have examined the financial records of the organizations presented in the table above and copies of their audit reports have been provided to the university. Values presented in this table are based solely upon these audit reports and do not include any consolidation entries to alter these amounts. Affiliated organizations that hold no financial assets and certify all financial activities or transactions through the Virginia Tech Foundation Inc. may be exempt from the independent audit requirement. The Virginia Tech Athletic Fund Inc., the Virginia Tech Corps of Cadets Alumni Inc., and the Virginia Tech Alumni Association meet exemption requirements and are not presented in this table.

Consolidating Schedule Of Net Assets

As of June 30, 2008 *(all dollars in thousands)*

	Current Funds Unrestricted	Current Funds Restricted	Loan Funds	Endowment and Similar Funds	Plant Funds	Agency Funds	Total
Assets							
Current assets							
Cash and cash equivalents	$ 153,164	$ 8,396	$ 1,248	$ -	$ -	$ 6,355	$ 169,163
Cash equivalents, securities lending	19,203	-	-	-	-	-	19,203
Short-term investments	990	-	-	-	-	-	990
Accounts receivable, net	7,634	40,289	1	-	-	-	47,924
Notes receivable	-	-	1,232	-	-	-	1,232
Due from Commonwealth of Virginia	6,141	-	-	-	-	-	6,141
Inventories	12,067	-	-	-	-	-	12,067
Prepaid expenses	7,769	1,037	-	-	-	-	8,806
Due to (from) other funds	4,119	7,292	(70)	555	(11,896)	-	-
Total current assets	211,087	57,014	2,411	555	(11,896)	6,355	265,526
Noncurrent assets							
Cash and cash equivalents	-	-	-	82	53,511	-	53,593
Due from Commonwealth of Virginia	-	-	-	-	18,903	-	18,903
Short-term investments	-	-	-	-	1,172	-	1,172
Accounts receivable, net	-	-	-	-	5,052	-	5,052
Notes receivable	-	-	13,904	-	-	-	13,904
Long-term investments	43,390	-	-	45,058	19,370	-	107,818
Depreciable capital assets, net	-	-	-	-	737,768	-	737,768
Nondepreciable capital assets	-	-	-	-	133,682	-	133,682
Intangible assets, net	-	-	-	-	1,466	-	1,466
Other assets	453	-	-	-	-	-	453
Total noncurrent assets	43,843	-	13,904	45,140	970,924	-	1,073,811
Total assets	254,930	57,014	16,315	45,695	959,028	6,355	1,339,337
Liabilities							
Current liabilities							
Accounts payable and accrued expenditures	64,492	16,248	-	-	18,796	14	99,550
Obligations under securities lending	19,203	-	-	-	-	-	19,203
Accrued compensated absences	14,930	3,320	-	-	-	-	18,250
Deferred revenue	21,735	14,456	-	-	-	-	36,191
Funds held in custody for others	-	-	-	-	-	6,341	6,341
Commercial paper	-	-	-	-	1,955	-	1,955
Long-term debt payable	-	-	-	-	17,082	-	17,082
Other liabilities	13	-	-	-	-	-	13
Total current liabilities	120,373	34,024	-	-	37,833	6,355	198,585
Noncurrent liabilities							
Accrued compensated absences	15,817	3,516	-	-	-	-	19,333
Federal student loan program contributions refundable	-	-	13,194	-	-	-	13,194
Long-term debt payable	-	-	-	-	247,741	-	247,741
Other liabilities	990	-	-	-	-	-	990
Total noncurrent liabilities	16,807	3,516	13,194	-	247,741	-	281,258
Total liabilities	137,180	37,540	13,194	-	285,574	6,355	479,843
Net assets							
Invested in capital assets, net of related debt	-	-	-	-	622,885	-	622,885
Restricted, nonexpendable	-	-	-	358	-	-	358
Restricted, expendable							
Scholarships, research and instruction	-	19,474	3,121	45,337	-	-	67,932
Capital projects	-	-	-	-	9,390	-	9,390
Debt service	-	-	-	-	41,179	-	41,179
Unrestricted	117,750	-	-	-	-	-	117,750
Total net assets	$ 117,750	$ 19,474	$ 3,121	$ 45,695	$ 673,454	$ -	$ 859,494

Consolidating Schedule Of Revenues, Expenses, And Changes In Net Assets

For the year ended, June 30, 2008 *(all dollars in thousands)*

	Current Funds Unrestricted	Current Funds Restricted	Loan Funds	Endowment and Similar Funds	Plant Funds	Total
Operating revenues						
Student tuition and fees	$ 243,415	$ 637	$ -	$ -	$ -	$ 244,052
Federal appropriations	-	16,397	-	-	-	16,397
Federal grants and contracts	30,403	112,619	-	-	-	143,022
State grants and contracts	987	14,796	-	-	-	15,783
Local grants and contracts	362	15,758	-	-	-	16,120
Nongovernmental grants and contracts	5,270	21,992	-	-	-	27,262
Sales and services of educational departments	14,379	-	-	-	-	14,379
Auxiliary enterprise revenue	153,578	1	-	-	-	153,579
Other operating revenues	2,549	520	35	-	-	3,104
Total operating revenues	450,943	182,720	35	-	-	633,698
Operating expenses						
Instruction	243,415	7,091	-	-	-	250,506
Research	72,508	148,169	-	-	-	220,677
Public service	41,613	37,286	-	-	-	78,899
Academic support	58,136	2,445	-	-	-	60,581
Student services	11,512	820	-	-	-	12,332
Institutional support	47,454	4,138	-	-	-	51,592
Operation and maintenance of plant	52,424	10	-	-	8,872	61,306
Student financial assistance	142	13,466	-	-	-	13,608
Auxiliary enterprises	139,135	-	-	-	-	139,135
Loan administrative fees and collection costs	168	-	32	-	-	200
Amortization expense	-	-	-	-	133	133
Depreciation expense	-	-	-	-	56,666	56,666
Total operating expenses	666,507	213,425	32	-	65,671	945,635
Operating loss	(215,564)	(30,705)	3	-	(65,671)	(311,937)
Non-operating revenues (expenses)						
State appropriations	243,398	26,369	-	-	-	269,767
Gifts	13,198	30,185	93	-	-	43,476
Non-operating grants and contracts	-	4,905	-	-	-	4,905
Federal student financial aid	-	7,621	-	-	-	7,621
Investment income, net of investment expense	9,027	(544)	2	(1,019)	4,629	12,095
Other additions and deductions	-	-	3	69	385	457
Interest on capital assets	-	-	-	-	(11,649)	(11,649)
Net non-operating revenues	265,623	68,536	98	(950)	(6,635)	326,672
Income (loss) before other revenues, expenses, gains, and losses	50,059	37,831	101	(950)	(72,306)	14,735
Capital appropriations	-	-	-	-	(12,585)	(12,585)
Capital grants and contracts	(244)	1,359	-	-	37,245	38,360
Gain (loss) on disposal of plant assets	-	-	-	-	(552)	(552)
Total other revenues, expenses, gains and losses	(244)	1,359	-	-	24,108	25,223
Increase (decrease) in net assets before transfers	49,815	39,190	101	(950)	(48,198)	39,958
Mandatory transfers	(34,887)	(298)	-	-	35,185	-
Nonmandatory transfers	14,834	2,101	-	(2,531)	(14,404)	-
Equipment and library book transfers	(15,436)	(5,995)	-	-	21,431	-
Scholarship allowance transfer	31,947	(31,947)	-	-	-	-
Total transfers	(3,542)	(36,139)	-	(2,531)	42,212	-
Increase (decrease) in net assets after transfers	46,273	3,051	101	(3,481)	(5,986)	39,958
Net assets – beginning of year (as restated)	71,477	16,423	3,020	49,176	679,440	819,536
Net assets – end of year	$ 117,750	$ 19,474	$ 3,121	$ 45,695	$ 673,454	$ 859,494

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

Raymond D. Smoot, Jr.
University Treasurer

Sherwood G. Wilson
Vice President for Administrative Services

Michael J. Coleman
Associate Vice President for Facilities

Kenneth E. Miller
University Controller

Melvin L. Bowles, Jr.
Acting Director for Internal Audit

John J. Cusimano
Associate Treasurer

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