VirginiaTech
Invent the Future®

[financial **report**] 2009-10

VIRGINIA POLYTECHNIC INSTITUTE AND STATE UNIVERSITY

Message from the Vice President for Finance and Chief Financial Officer

M. Dwight Shelton, Jr.

As we complete another year fraught with fiscal challenges, the university continues to grow the quality and reach of its instructional and research programs and remains enthusiastic about the opportunities ahead. Resources continue to be constrained at the state level and the university has had to work harder than ever in the face of diminished resources. Despite these issues, we have had a successful year on several fronts. While continuing to move forward with our academic programs, we have managed operations within structurally balanced budgets, realized growth in unrestricted net assets and capital assets, and maintained a significant ongoing capital campaign.

In support of its research and instructional programs, the university is in the midst of the largest capital construction program in its history, approximately one-half billion dollars, consisting of a significant number of research, educational and instructional, and auxiliary operations support facilities. Expenditures on capital projects totaled $165 million for the year ended June 30, 2010, and we expect capital expenditures of $162 million for fiscal year 2011. In the midst of the constrained economic environment, the university was able to work with the state to realign capital resources to fund the Center for Creative Technologies Laboratory. This success was a linchpin in moving forward with the more comprehensive arts program, and it allowed the university to initiate the construction process for the facility in June 2010. Closely related to the capital program is the need to maintain a strong bond rating in relationship to our issuance of debt for nongeneral fund supported projects. The debt ratings have improved, and the university continues to take explicit actions to strengthen its bond rating such as improving its overall liquidity position and unrestricted net assets balances. The university retains a significant level of debt capacity to support future projects with a yearend debt ratio of 3.18 percent.

Despite resource constraints and losses, the university continues to work and achieve major elements of its strategic plan. One academic goal is the establishment of the Virginia Tech Carilion School of Medicine and Research Institute. The university made significant progress in 2009-10 in establishing the required financial commitments, business practices, and plans for providing the financing for these projects. The School of Medicine accepted its first class of 42 students in August 2010 and the Research Institute opened in October 2010.

As a land-grant institution, one of our core values is the advancement of research within the local, state, and global environment. Continued growth in research remains a significant element of the university's strategic plan. The university has realized growth in its research program over the last several years, and that trend continued in fiscal year 2010. The university continues to support that continued growth with investments in strategic areas such as the Virginia Tech Carilion Research Institute, high performance computing initiatives, and research computing capacity. The recent initiatives and collaborative efforts such as the newly created Virginia Tech Carilion School of Medicine and Research Institute will continue to provide major new research opportunities in biomedical areas in the future. Further, the university expects a growth in research expenditures over the next one to two years resulting from an increase in awards from proposal activity related to federal stimulus grant allocations to the major granting agencies of National Institutes of Health and the National Science Foundation.

The university is in the midst of a capital campaign with a goal of $1 billion. Despite the economic difficulties at the national level, our capital campaign continues on target to meet its goal of $1 billion by the end of December 2010. Pledges to the campaign totaled $946.3 million as of June 30, 2010. Private funds represent an increasing element of support for the university's operations and are creating the incremental funds necessary to ensure the continuation of quality instructional and research programs for our students and the citizens of the commonwealth.

The economic environment continues to require reductions in financial support from the Commonwealth of Virginia. The university has lost approximately $48.4 million of General Fund support during fiscal years 2008, 2009 and 2010 that covered university instructional, land grant, and research programs. Through additional nongeneral fund revenues and operating efficiencies, the university was able to limit reductions to operating units and minimize the impact on personnel resources as well as avoiding a furlough of employees. However, previously assigned reductions to the university totaling an additional $24.8 million of General Fund resources are expected in fiscal year 2012 which will coincide with the end of one-time state stabilization funds from the federal government. Because of cost control and containment efforts, judicious use of new revenue, and some enrollment growth, as well as other budget mitigation strategies, the university minimized the impact to a budget reduction of only 2.9 percent for its academic and administrative units in fiscal year 2011.

Continued General Fund revenue losses accelerate the need for the university to plan for alternative revenue resources to support its programs and identify cost reductions to offset the impact of the loss in state support. We anticipate that the generation of nongeneral fund revenues including tuition and fees, research, business activities, and private support will represent a larger proportion of university financial resources in the future.

The ability of the university to manage resources and strategic increases in tuition and fees to support accessibility and a wide array of undergraduate and graduate programs is integral to ensuring the continued integrity and success of our academic programs. The university continues to be very sensitive to the total costs to students. In comparison to its national peer group, the university is still very competitively positioned, with total costs below the 60th percentile and ranking 21st of the 24 peer institutions. The university is confident that a Virginia Tech education continues to be a significant value for our students. The university continues to maximize the allocation of tuition and fees to the Educational and General programs, primarily instruction. In fact, 84 percent of the university's tuition and required fees are assigned to instructional activities, which is the highest percentage of any higher education institution in Virginia.

While losses in state support have adversely impacted the university's instructional budget, other elements of the operating budget have continued to grow. The university's annual budget exceeded $1 billion in 2009-2010. Tuition and fees budget represents the single largest source of revenue for the university, approximately $297 million. While this amount represents only 28 percent of the total university's budget, it has become the major source of support (61 percent) for the instructional program budget due to the continued erosion of state support. Although the university has been able to sustain or slightly grow its overall operations, there is an ongoing shift in support away from state funding. As the commonwealth's revenues have declined during the economic downturn, it has not been able to maintain traditional funding levels for higher education.

In the midst of those resource constraints, the university has also focused on controlling costs and becoming more efficient wherever possible. These strides are occurring in both the academic and administrative support areas. While the university has captured significant savings in the area of energy management and conservation, the university is making investments in administrative systems to reduce future costs and increase capacity and capabilities for the future.

In closing, the university continues to make progress towards achieving the various elements of its strategic plan to improve the overall quality of mission critical programs. The administration and finance areas are taking actions to fully support these goals and be a part of the solution as Virginia Tech moves forward to be a leader in higher education and research and to Invent the Future.

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, 2010.

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 the report thereon appears on the facing page. The APA 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 considered 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, 2010.

M. Dwight Shelton, Jr.

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Vice President for Finance and Chief Financial Officer

Report of the Independent Auditor

November 4, 2010

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable Charles J. Colgan
Chairman, Joint Legislative Audit
and Review Commission

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, 2010, which collectively comprise the University's basic financial statements as listed in the table of contents. 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. The prior year summarized comparative information has been derived from the University's fiscal year 2009 financial statements, and in our report dated November 5, 2009, we expressed an unqualified opinion on the respective financial statements of the University.

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 aggregate discretely presented component units of the University as of June 30, 2010, 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 the 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 Virginia Polytechnic Institute and State 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 basic financial statements. The consolidating schedules and affiliated corporations' financial highlights have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2010 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

AUDITOR OF PUBLIC ACCOUNTS

Virginia Polytechnic Institute and State University, popularly known as Virginia Tech, is a comprehensive, land-grant university located in Blacksburg, Virginia. The university offers 193 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 Environment, and the Virginia-Maryland Regional College of Veterinary Medicine). The university serves 30,870 students and employs 2,183 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's research program was ranked 44th by the National Science Foundation among the top research institutions in the United States in its latest survey measuring annual research expenditures.

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, 2010. Comparative numbers are included for the fiscal year ended June 30, 2009. 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 GASB 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 24 of the *Notes to 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 2010: Statement 51, *Accounting and Financial Reporting for Intangible Assets;* Statement 53, *Accounting and Financial Reporting for Derivative Instruments*; and Statement 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*. The university has revised its capital asset note disclosure to more clearly describe software and other intangible assets in accordance with Statement 51. The university does not utilize complex financial arrangements, derivative instruments, such as those described in Statement 53. The university does not currently have a reporting requirement based on the implementation of Statement 58.

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.

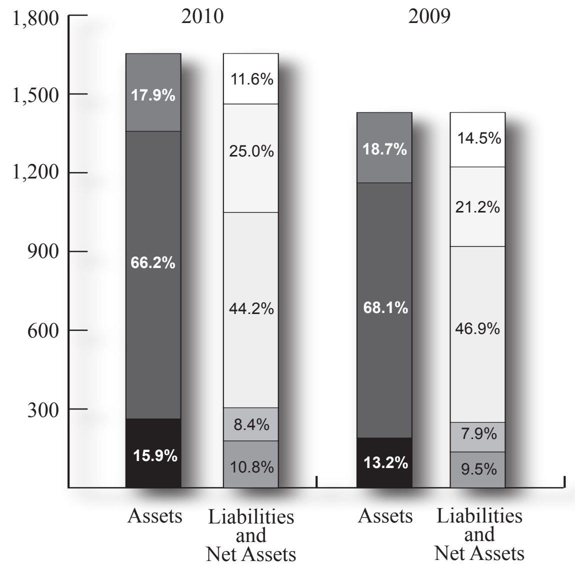
The university's net assets are classified as follows:

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, amortization 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.

Assets, Liabilities and Net Assets

For the years ended June 30, 2010 and 2009
(all dollars in millions)

	2010	2009	Change Amount	Change Percent
Current assets	$ 296.2	$ 268.0	$ 28.2	10.5 %
Capital assets, net	1,095.5	973.5	122.0	12.5 %
Other assets	262.3	188.0	74.3	39.5 %
Total assets	1,654.0	1,429.5	224.5	15.7 %
Current liabilities	192.5	207.5	(15.0)	(7.2)%
Noncurrent liabilities	412.8	303.0	109.8	36.2 %
Total liabilities	605.3	510.5	94.8	18.6 %
Invested in capital assets, net	734.9	669.7	65.2	9.7 %
Restricted	135.3	113.1	22.2	19.6 %
Unrestricted	178.5	136.2	42.3	31.1 %
Total net assets	$ 1,048.7	$ 919.0	$ 129.7	14.1 %



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 $44.0 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. 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 $224.5 million or 15.7% during fiscal year 2010, bringing the total to $1,654.0 million at year-end. Growth in current assets and the major components of noncurrent assets (capital assets, cash equivalents and long-term investments) accounted for the majority of the rise in total assets. The largest increase in current assets was in cash and cash equivalents ($22.7 million). Smaller increases, totaling $5.5 million, were present in the remaining current asset categories. The growth in net capital assets ($122.0 million) reflects the ongoing construction of major research buildings and the capitalization of completed research and instructional facilities discussed in detail in the following section, Capital Asset and Debt Administration. In addition, two noncurrent assets categories, cash and cash equivalents ($68.7 million) and long-term investments ($10.8 million), contributed significantly to the rise in total assets. The majority of this increase was due to unspent bond proceeds from debt issued during the fiscal year to fund capital projects under construction. This growth was partially offset by the reduction in amounts due from the commonwealth ($3.0 million) and noncurrent accounts receivable ($1.7 million).

Total university liabilities increased $94.8 million or 18.6% during fiscal year 2010. The current liabilities category decreased $15.0 million and the noncurrent liabilities category increased $109.8 million. The majority of the decrease in current liabilities was in commercial paper ($17.8 million) used as temporary financing for capital construction and accrued compensated absences ($4.0 million). These decreases partially offset increasing liabilities in accounts payable ($3.0 million), deferred revenue ($2.6 million), and the current portion of long-term debt ($1.0 million). The growth in noncurrent liabilities primarily results from net additions to long-term debt ($108.9 million). For more detailed information, see the Capital Asset and Debt Administration section.

The increase in total assets was greater than the corresponding increase in total liabilities, thus increasing the university's net assets by $129.7 million (14.1%). Invested in capital assets, net of related debt, unrestricted assets and restricted assets increased $65.2 million, $42.3 million, and $22.2 million respectively. This reflects the university's continued investment in new facilities and equipment in support of the university's missions as well as prudent management of the university's fiscal resources.

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 $119.1 million during fiscal year 2010. The completion of the New Hall West residence hall ($29.6 million), Hahn-Hurst Basketball Practice Facility ($20.5 million), and the Henderson Hall renovation and Black Box Theatre ($14.8 million) projects were the significant components of the $83.2 million in building additions this fiscal year. Ongoing investments in instructional, research, and computer equipment totaled $29.0 million. Depreciation and amortization expense related to capital assets was $62.8 million with net asset retirements of $1.5 million. The net increase in depreciable capital assets for this period was $54.8 million. The largest increase in nondepreciable capital assets resulted from the net increase in the construction-in-progress category, primarily related to the continuing construction of the Virginia Tech Carilion School of Medicine and Research Institute, the Institute for Critical Technologies and Applied Science II (ICTAS-II), and the new parking structure. Proceeds from the sale of commercial paper were used to provide temporary funding for some of these projects under construction. The majority of this temporary financing was replaced with permanent debt financing through the issuance of long-term bonds and long-term notes.

Noncurrent liabilities sustained a net increase of $109.8 million during fiscal year 2010. The majority of the net increase in noncurrent liabilities ($108.9 million) resulted from the issuance of debt for the ongoing construction of the following projects: Ambler Johnston Hall renovation ($42.7 million), a new parking structure ($24.6 million), ICTAS-II ($13.0 million), McComas Hall recreation, counseling and clinical space addition ($12.4 million), Hahn-Hurst Basketball Practice Facility ($8.7 million), campus heat plant upgrade ($5.9 million) and McComas Hall exterior repairs ($4.4 million). The increases in the amount of long-term debt, accrued compensated absences and other liabilities reclassified to a current liability partially offset this year's additions to long-term debt in the noncurrent liabilities category. See notes 11 and 12 of the *Notes to Financial Statements* for more details.

Capital projects in progress carried commitments to construction contractors, architects, and engineers totaling $89.6 million at June 30, 2010. These obligations are for future effort and as such have not been accrued as expenses or liabilities on the university's financial statements. The majority of the financial commitment is attributed to three projects: the Ambler Johnston Hall renovation ($32.5 million), the Virginia Tech Carilion School of Medicine and Research Institute ($13.8 million), and the Technology Research and Innovation Center ($9.7 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 five projects currently in various stages of completion. Two of the largest projects in this category are the Virginia Tech Carilion School of Medicine and Research Institute ($62.5 million) and the Institute for Critical Technologies and Applied Science-II ($35.0 million). In addition to the capital projects underway, there were several new construction and renovation projects approved for instructional and research facilities. The larger of the approved new construction projects are: the Center for the Arts, Academic and Student Affairs building, Sciences Research Laboratory I, and the Human and Agricultural Biosciences

Funding for Authorized Current and Future Capital Projects

As of June 30, 2010
(all dollars in millions)

	State Funds (1)	Other Funds (2)	University Debt Issued Before June 30, 2010	University Debt To Be Issued After June 30, 2010	Total Funding	Cash Basis Project-To-Date Expenses
Current education and general	$ 100.0	$ 17.7	$ 17.5	$ 7.1	$ 142.3	$ 85.9
Current auxiliary enterprise	-	27.8	141.3	-	169.1	69.0
Total current	100.0	45.5	158.8	7.1	311.4	154.9
Future education and general	46.1	19.1	-	117.6	182.8	18.0
Future auxiliary enterprise	-	5.1	-	80.5	85.6	0.6
Total future	46.1	24.2	-	198.1	268.4	18.6
Total authorized	$ 146.1	$ 69.7	$ 158.8	$ 205.2	$ 579.8	$ 173.5

(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.

Building I. The Commonwealth of Virginia will provide partial funding for several of these E&G projects.

The university's auxiliary enterprises have approval for six new capital projects. These future capital projects include two new residence hall projects, an indoor athletic training facility, a new chiller plant, installation of a photo voltaic array on the recently completed parking structure, and the renovation of existing dining 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 $579.8 million in capital building projects as of June 30, 2010, requiring approximately $205.2 million in additional debt financing.

The university's bond ratings of Aa1 and AA from Moody's and Standard & Poor's, respectively, reflect strong student demand, balanced operating performance, and adequate reserves to address unforeseen expenses.

Summary of Revenues, Expenses and Changes in Net Assets

For the years ended June 30, 2010 and 2009
(all dollars in millions)

			Change	
	2010	2009	Amount	Percent
Operating revenues	$ 715.1	$ 684.5	$ 30.6	4.5 %
Operating expenses	967.3	970.1	(2.8)	(0.3)%
Operating loss	(252.2)	(285.6)	33.4	(11.7)%
Non-operating revenues and expenses	291.8	299.0	(7.2)	(2.4)%
Income (loss) before other revenues, expenses, gains or losses	39.6	13.4	26.2	195.5 %
Other revenues, expenses, gains or losses	90.1	46.1	44.0	95.4 %
Increase in net assets	129.7	59.5	70.2	118.0 %
Net assets - beginning of year	919.0	859.5	59.5	6.9 %
Net assets - end of year	$ 1,048.7	$ 919.0	$ 129.7	14.1 %

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 $30.6 million or 4.5% over the prior fiscal year. The majority of the growth in operating revenues came from grants and contracts revenue ($16.1 million and 7.7%). The increases in federal grants and contracts ($21.7 million) were offset by reductions in state and local grants and contracts ($2.2 million) and commercial grants and contracts ($3.4 million). The increases were primarily from sponsored research supported by multiple federal agencies in the research areas managed by the Virginia Bioinformatics Institute, Virginia Tech Transportation Institute, and programs conducted in the major engineering and science disciplines.

The remaining revenue increases were in student tuition and fee revenues and auxiliary enterprise revenues ($10.0 million or 3.6% and $7.0 million or 4.2% respectively). The increase in student tuition and fees was expected given the rise in both in-state and out-of-state tuition and fee rates, effective with the fall 2009 semester. Auxiliary enterprise revenue growth was primarily from increased student fees ($6.5 million) and athletic game revenue ($2.6 million) partially offset by an increase in scholarship discount and allowances ($2.1 million). Overall, the university's operating revenue increased to $715.1 million in fiscal year 2010, compared to $684.5 million in 2009.

Non-operating and Other Revenues

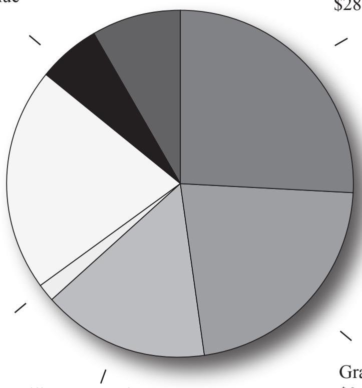
Non-operating revenue totaled $291.8 million, a decrease of $7.2 million from the previous year. The revenue decrease in this category results primarily from the reduction of state

Revenues

Increase (Decrease) in Revenue
For the years ended June 30, 2010 and 2009
(all dollars in millions)

	2010	2009	Change Amount	Change Percent
Operating revenue				
Student tuition and fees, net	$ 285.1	$ 275.1	$ 10.0	3.6 %
Grants and contracts	240.5	225.2	15.3	6.8 %
Auxiliary enterprises	172.6	165.6	7.0	4.2 %
Other operating revenue	16.9	18.6	(1.7)	(9.1)%
Total operating revenue	715.1	684.5	30.6	4.5 %
Non-operating revenue				
State appropriations	229.3	255.4	(26.1)	(10.2)%
Other non-operating revenue*	62.5	43.6	18.9	43.3 %
Total non-operating revenue	291.8	299.0	(7.2)	(2.4)%
Other revenue				
Capital appropriations	0.0	(12.3)	12.3	100.0 %
Capital grants and gifts	91.2	59.7	31.5	52.8 %
Loss on disposal of capital assets	(1.1)	(1.3)	0.2	15.4 %
Total other revenue	90.1	46.1	44.0	95.4 %
Total revenue	$ 1,097.0	$ 1,029.6	$ 67.4	6.5 %

Total Revenue by Source
For the year ended June 30, 2010



* Includes gifts, investment income, interest expense on debt related to capital assets, federal PELL grants, federal ARRA stabilization funds, and other non-operating revenue.

appropriations ($26.1 million), the reversion of nongeneral funds ($4.5 million) to the commonwealth, and the increase to interest expense of $2.6 million. The majority of the reduction in non-operating revenue was offset by federal American Recovery and Reinvestment Act (ARRA) stabilization funds ($11.5 million), increased net investment income ($8.3 million), and additional federal student financial aid ($4.7 million). The state reduced current year appropriation revenues as part of budget adjustments necessary to accommodate declines in statewide general revenue collections.

Total other revenue, expenses, gains and losses increased by $44.0 million, in comparison to the prior year. Increased funding from the 21st Century bond program ($36.6 million), private gifts ($4.8 million) and donated assets ($1.2 million) made up the majority of the rise in revenues in this category.

As shown in the chart above, revenues from all sources (operating, non-operating, and other) for fiscal year 2010 totaled $1,097.0 million, increasing by $67.4 million from the prior year. Operating expenses (shown in the chart on the facing page) totaled approximately $967.3 million for fiscal year 2010, a year-over-year reduction of $2.8 million. Total revenues less total expenses resulted in an increase to net assets of $129.7 million for fiscal year 2010. Details about changes in operating expenses are included in the following section.

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 $615.1 million or 63.6% of the university's total operating expenses. This category decreased by $15.7 million (2.5%) from the previous year. Generally, changes to expenses in this category come from three sources: increases/reductions in the number of personnel, annual salary increases, and the general trends in the costs of fringe benefits. No salary increases were funded by the commonwealth in FY2010 and total fringe benefit expenses decreased by $12.0 million. The reduction in fringe benefit expenses reflects the partial suspension of fourth quarter fringe benefit costs by the commonwealth as part of an overall budget reduction strategy.

Operating expenses for fiscal year 2010 totaled $967.3 million, down $2.8 million from fiscal year 2009. The net decrease resulted from reductions in the functional categories of instruction ($5.9 million) and academic support ($5.7 million), partially offset by increases in student financial assistance ($2.8 million), auxiliary enterprises ($2.6 million), depreciation and amortization ($1.8 million) and research ($1.3 million). The overall decrease in operating expenses reflects the university's efforts to contain and reduce costs where appropriate, thereby managing the budget reductions resulting from declining state appropriations.

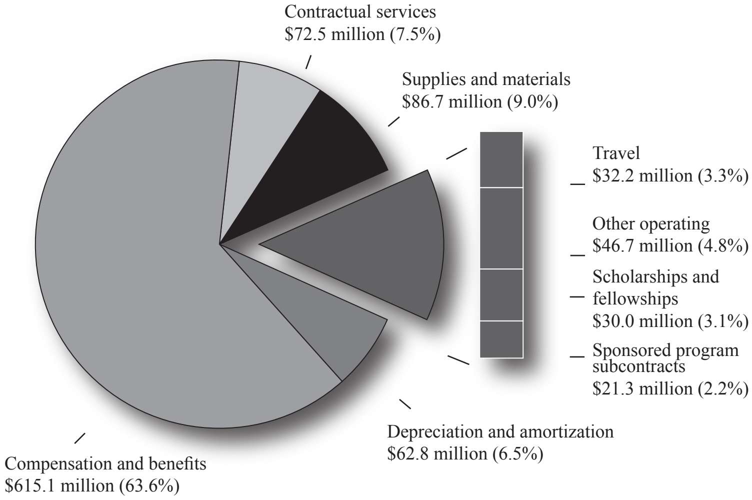
Significant reductions in the educational and general funding for the instruction category ($15.0 million) were partially offset by the allocation of federal ARRA stabilization funds ($9.3 supporting faculty and graduate student salaries and fringe benefits, and $2.2 million used to mitigate increases in student tuition and fees). The university received increased federal research grant and contract funding from several federal agencies. The major funding agencies were the National Science Foundation ($4.0 million), the Department of Defense ($4.8 million) and the Department of Health and Human Services ($4.1 million). The increase in federally supported research expenditures was partially offset by a reduction in grant and contract support from the commonwealth ($4.0 million), commercial sponsors ($2.9 million) and an increase in overhead and fringes cost recoveries ($4.2

Expenses by Natural Classification

Increase (Decrease) in Expenses by Natural Classification
For the years ended June 30, 2010 and 2009
(all dollars in millions)

	2010	2009	Change Amount	Change Percent
Compensation and benefits	$ 615.1	$ 630.8	$ (15.7)	(2.5)%
Contractual services	72.5	69.1	3.4	4.9 %
Supplies and materials	86.7	89.8	(3.1)	(3.5)%
Travel	32.2	32.3	(0.1)	(0.3)%
Other operating expenses	46.7	38.8	7.9	20.4 %
Scholarships and fellowships	30.0	25.7	4.3	16.7 %
Sponsored program subcontracts	21.3	22.4	(1.1)	(4.9)%
Depreciation and amortization	62.8	61.2	1.6	2.6 %
Total operating expenses	$ 967.3	$ 970.1	$ (2.8)	(0.3)%

Total Expenses by Natural Classification
For the year ended June 30, 2010



million) from grants and contracts. The growth in research reflects the continued expansion of existing research efforts and new initiatives supported in part through the expansion of federally sponsored research grants and contracts.

The largest growth in operating expenses was in the student financial assistance category, a direct result of increasing financial support to students due to rising tuition and fees. The auxiliary enterprises category sustained the second largest increase in operating expenses representing the increased cost of services provided to students, faculty and staff. The largest percentage growth in operating expenses was in depreciation and amortization expense (3.0% or $1.8 million). This moderate increase reflects the continued investment by the university in new facilities and equipment.

In the support categories, operations and maintenance expense continues its upward trend ($0.8 million or 1.2%) at a somewhat slower pace than the past year. The impact of additional facilities and moderate cost increases in utility services such as water, sewer and refuse, and, to a smaller extent, power generation (electricity, gas and coal) is reflected in the net increase.

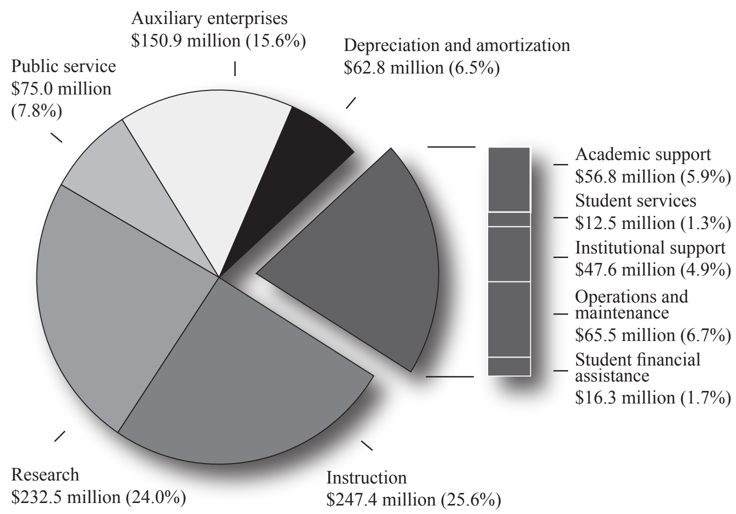
The largest percentage decrease was in the academic support category (9.1% or $5.7 million). This was due to cost reductions reflected in faculty and staff salaries and fringe benefits ($2.8 million), lessened overhead spending ($1.4 million), and reduced purchases of management services and equipment ($1.3 million). Expenses in the instruction category declined by a similar amount ($5.9 million) due to decreases

Expenses by Function

Increase (Decrease) in Expenses by Function
For the years ended June 30, 2010 and 2009
(all dollars in millions)

	2010	2009	Change Amount	Change Percent
Instruction	$ 247.4	$ 253.3	$ (5.9)	(2.3)%
Research	232.5	231.2	1.3	0.6 %
Public service	75.0	75.9	(0.9)	(1.2)%
Auxiliary enterprises	150.9	148.3	2.6	1.8 %
Depreciation and amortization expense	62.8	61.0	1.8	3.0 %
Subtotal	768.6	769.7	(1.1)	(0.1)%
Support, maintenance, other expenses				
Academic support	56.8	62.5	(5.7)	(9.1)%
Student services	12.5	12.8	(0.3)	(2.3)%
Institutional support	47.6	46.9	0.7	1.5 %
Operations and maintenance of plant	65.5	64.7	0.8	1.2 %
Student financial assistance, loan administrative fees and collection costs	16.3	13.5	2.8	20.7 %
Total support, maintenance, other	198.7	200.4	(1.7)	(0.8)%
Total expenses	$ 967.3	$ 970.1	$ (2.8)	(0.3)%

Total Expenses by Function
For the year ended June 30, 2010



in salaries ($2.8 million) and fringe benefits ($3.1 million). The reduction in fringe benefits resulted from the associated reduction in salaries as well as the suspension of fourth quarter payments to the Virginia Retirement System as part of the commonwealth's budget reduction strategy. These cost reductions reflect the university wide application of cost controls to meet budget targets adjusted to manage the effect of declining state appropriations.

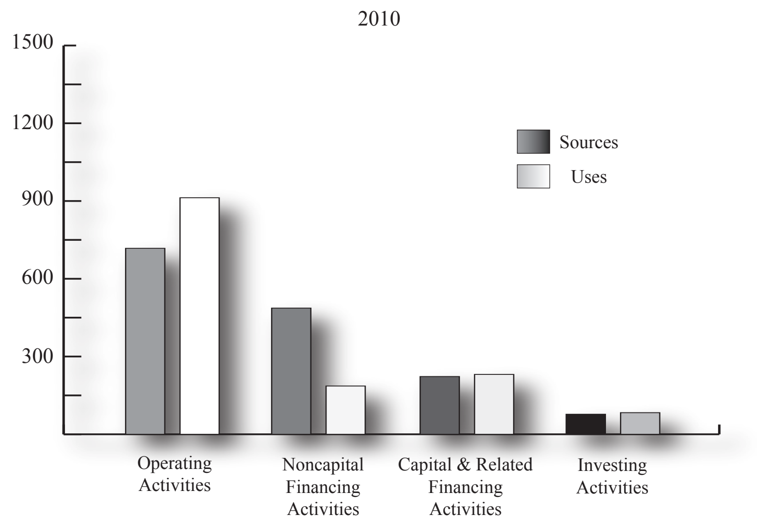
The university's operating revenues grew by $30.6 million or 4.5% over the preceding year, while operating expenses decreased by $2.8 million or 0.3%. This resulted in a smaller operating loss for the current fiscal year ($252.2 million) in comparison to the operating loss ($285.6 million) generated during the past year. The primary reason for the decrease in the operating loss was the growth in revenues across all major operating areas, with the largest increases being in revenues from auxiliary enterprises and external grants and contracts. State appropriations, federal ARRA stabilization funds, and other net non-operating revenues were used to meet operating expenses not offset by operating revenues.

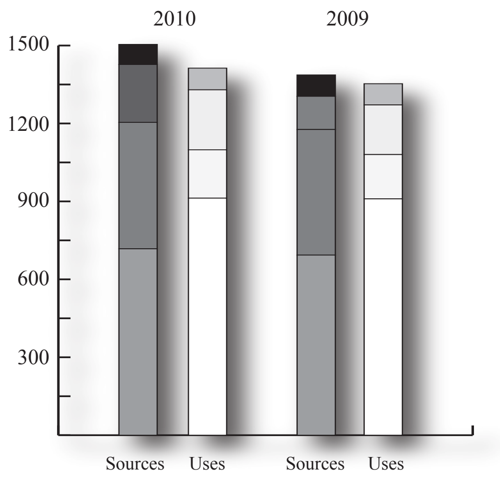
Statement of Cash Flows

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 2010 to net cash used by operating activities.

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 2010 only, grouped by related sources and uses of cash, while the graph on the right compares that same activity across fiscal years 2010 and 2009 in a stacked format.)

For the years ended June 30, 2010 and 2009 *(all dollars in millions)*	2010	2009	Change Amount	Change Percent
Net cash used by operating activities	$ (195.9)	$ (216.3)	$ 20.4	9.4%
Net cash provided by noncapital activities	300.7	312.8	(12.1)	(3.9)%
Net cash used by capital and related financing activities	(8.2)	(63.1)	54.9	87.0%
Net cash provided (used) by investing activities	(5.2)	0.3	(5.5)	(1833.0)%
Net increase in cash and cash equivalents	91.4	33.7	57.7	171.2 %
Cash and cash equivalents - beginning of year	256.5	222.8	33.7	15.1 %
Cash and cash equivalents - end of year	$ 347.9	$ 256.5	$ 91.4	35.6 %

Major operating activity sources of cash for the university included student tuition and fees ($284.8 million), grants and contracts ($227.1 million), and auxiliary enterprise revenues ($171.7 million). Major operating activity uses of cash included compensation and benefits ($619.7 million) and operating expenses ($275.6 million). Operating activity uses of cash significantly exceed operating activity sources of cash due to classification of state appropriations ($224.8 million) and gifts ($48.6 million) as noncapital financial activities.

Economic Outlook

The university, as a public institution, is subject to many of the economic conditions impacting the Commonwealth of Virginia. The commonwealth currently supports 21% of the university's budget through general fund appropriations. While the commonwealth has not assigned any new reductions in general fund support for the fiscal year 2011, the 2010-12 biennial budget includes additional reductions in general fund support for the second year of the biennium (FY2012). The commonwealth did mitigate the significant impact of the general fund reduction in FY2011 on a one-time basis through the allocation of federal funds provided to the commonwealth under the American Recovery and Reinvestment Act (ARRA) to stimulate economic recovery through revenue stabilization. Additional ARRA funds are not expected for FY2012. The Commonwealth of Virginia maintained the university's board of visitors' authority to establish tuition and fee rates. The university anticipates that there will be continued pressure on general fund support from the state given the demands on the state budget and constrained revenues. The university is watching the Governor's Commission on Higher Education Reform, Innovation and Investment, as well as the Governor's Commission on Government Reform and Restructuring to determine the potential impacts of commission outcomes on the operations of the public institutions of higher education in Virginia. The university will continue to employ cost containment and income enhancement techniques which have helped to successfully manage reductions in the past. In addition, the university will continue to 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 has 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. The university is working to leverage existing authorities to drive efficiencies for cost savings and helping to facilitate a statewide discussion of additional restructuring with the commonwealth in an attempt to gain additional efficiencies for higher education in Virginia in the future.

The university has managed its exposure to risk 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 university has limited its investment in securities outside the scope of the Investment in Public Funds Act to restricted gift funds, local funds, and nongeneral fund reserves and balances designated by management as quasi-endowments. These funds are invested in Virginia Tech Foundation's consolidated endowment fund and managed in accordance with the provisions of the *Uniform Prudent Management of Institutional Funds Act* (Section 55-268.11 et seq.). At the end of the fiscal year, the value of the university's quasi-endowments invested in the foundation totaled $44.0 million, an increase of $8.8 million over the preceding year.

The university continually monitors the valuation of its investments. At September 30, 2010 the market value for the university's nonendowed cash, cash equivalents, and investments totaled $437.7 million including unrealized gains on investments of $1.5 million.

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 (Aa1) 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 $946.3 million of its $1 billion goal as of June 30, 2010. The university is grounded by an impressive community of students, faculty, and staff. These assets 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, 2010, with comparative financial information as of June 30, 2009
(all dollars in thousands)

	2010		2009	
Assets	Virginia Tech	Component Units	Virginia Tech	Component Units
Current assets				
Cash and cash equivalents (Note 4)	$ 220,065	$ (14,527)	$ 197,379	$ (16,524)
Short-term investments (Note 4, 24)	1,387	17,111	1,106	19,523
Accounts and contributions receivable, net (Notes 1, 5, 24)	44,363	27,381	41,723	36,726
Notes receivable, net (Note 1)	1,601	232	1,464	469
Due from Commonwealth of Virginia (Note 6)	6,761	-	5,135	-
Inventories	11,354	7,211	10,455	8,389
Prepaid expenses	10,634	938	10,722	419
Other assets	-	2,934	-	2,722
Total current assets	296,165	41,280	267,984	51,724
Noncurrent assets				
Cash and cash equivalents (Note 4)	127,813	64,761	59,141	61,181
Due from Commonwealth of Virginia (Note 6)	6,495	-	9,581	-
Accounts and contributions receivable, net (Notes 1, 5, 24)	6,517	43,706	8,192	41,719
Notes receivable, net (Note 1)	12,927	18,156	13,362	16,730
Net investments in direct financing leases	-	24,066	-	25,291
Irrevocable trusts held by others, net	-	7,968	-	7,404
Long-term investments (Notes 4, 24)	107,741	608,251	96,927	574,868
Depreciable capital assets, net (Notes 7, 24)	866,782	124,844	810,614	115,456
Nondepreciable capital assets (Notes 7, 24)	228,730	98,350	161,539	55,687
Intangible assets, net	-	680	1,333	654
Other assets	841	4,091	798	3,996
Total noncurrent assets	1,357,846	994,873	1,161,487	902,986
Total assets	1,654,011	1,036,153	1,429,471	954,710
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities (Note 8)	112,833	15,165	109,796	12,030
Accrued compensated absences (Notes 1, 14)	14,837	586	18,828	535
Deferred revenue (Notes 1, 9)	38,749	1,833	36,163	2,182
Funds held in custody for others	6,092	-	5,840	-
Commercial paper (Note 10)	2,975	-	20,810	-
Long-term debt payable (Notes 10, 11, 24)	17,070	14,238	16,108	14,816
Other liabilities	-	6,395	-	4,373
Total current liabilities	192,556	38,217	207,545	33,936
Noncurrent liabilities				
Accrued compensated absences (Notes 1, 14)	19,330	38	18,902	30
Federal student loan program contributions refundable (Note 14)	13,260	-	13,210	-
Deferred revenue	-	6,050	-	6,356
Long-term debt payable (Notes 11, 12, 24)	378,671	188,296	269,757	181,546
Liabilities under trust agreements	-	25,231	-	24,334
Agency deposits held in trust (Note 24)	-	55,972	-	46,193
Other liabilities	1,535	14,006	1,106	12,418
Total noncurrent liabilities	412,796	289,593	302,975	270,877
Total liabilities	605,352	327,810	510,520	304,813
Net Assets				
Invested in capital assets, net of related debt	734,875	63,045	669,721	38,050
Restricted, nonexpendable	363	327,775	358	306,297
Restricted, expendable				
Scholarships, research, instruction, and other	65,813	247,267	59,962	243,859
Capital projects	14,074	37,011	7,738	37,011
Debt service	55,063	-	45,018	-
Unrestricted	178,471	33,245	136,154	24,680
Total net assets	$ 1,048,659	$ 708,343	$ 918,951	$ 649,897

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

Statement of Revenues, Expenses and Changes in Net Assets

As of June 30, 2010, with comparative financial information as of June 30, 2009
(all dollars in thousands)

	2010		2009	
	Virginia Tech	Component Units	Virginia Tech	Component Units
Operating revenues				
Student tuition and fees, net (Note 1)	$ 285,135	$ -	$ 275,056	$ -
Gifts and contributions	-	51,893	-	34,714
Federal appropriations	14,466	-	15,379	-
Federal grants and contracts	171,705	-	154,615	-
Federal ARRA grants and contracts	4,641	-	-	-
State grants and contracts	11,179	-	13,656	-
Local grants and contracts (Note 3)	14,133	-	13,806	-
Nongovernmental grants and contracts	24,401	-	27,799	-
Sales and services of educational activities	12,732	-	13,586	-
Auxiliary enterprise revenue, net (Note 1)	172,629	45,374	165,569	48,160
Other operating revenues	4,118	30,011	5,037	30,458
Total operating revenues	715,139	127,278	684,503	113,332
Operating expenses				
Instruction	247,389	4,882	253,313	3,762
Research	232,543	4,858	231,212	5,352
Public service	74,913	4,608	75,928	3,892
Academic support	56,829	13,692	62,485	18,531
Student services	12,524	-	12,751	-
Institutional support	47,632	31,072	46,941	31,333
Operation and maintenance of plant	65,472	9,344	64,715	8,622
Student financial assistance	15,925	21,330	13,281	19,582
Auxiliary enterprises	150,933	39,067	148,252	43,526
Depreciation and amortization (Note 7)	62,800	5,579	60,946	5,158
Other operating expenses	318	14,897	285	9,214
Total operating expenses	967,278	149,329	970,109	148,972
Operating loss	(252,139)	(22,051)	(285,606)	(35,640)
Non-operating revenues (expenses)				
State appropriations (Note 19)	229,305	-	255,423	-
Gifts	48,542	-	46,504	-
Non-operating grants and contracts	1,755	-	2,167	-
Federal student financial aid (PELL)	13,693	-	9,000	-
Federal fiscal stabilization (ARRA)	11,531	-	-	-
Investment income, net	5,379	8,557	(2,918)	9,273
Net gain (loss) on investments	-	39,401	-	(70,149)
Other additions	456	-	585	-
Nongeneral fund reversion	(4,507)	-	-	-
Interest expense on debt related to capital assets	(14,405)	(3,583)	(11,812)	(3,691)
Net non-operating revenues (expenses)	291,749	44,375	298,949	(64,567)
Income (loss) before other revenues, expenses, gains, or losses	39,610	22,324	13,343	(100,207)
Capital appropriations	-	-	(12,338)	-
Change in valuation of split interest agreements	-	2,164	-	(7,034)
Change in valuation of contributions receivables	-	-	-	1,875
Capital grants and gifts (Note 6)	91,193	15,135	59,770	9,537
Loss on disposal of capital assets	(1,095)	(114)	(1,318)	(192)
Additions to permanent endowments	-	19,917	-	20,892
Other expenses	-	(980)	-	(1,302)
Total other revenues, expenses, gains, and losses	90,098	36,122	46,114	23,776
Increase (decrease) in net assets	129,708	58,446	59,457	(76,431)
Net assets—beginning of year	918,951	649,897	859,494	726,328
Net assets—end of year	$ 1,048,659	$ 708,343	$ 918,951	$ 649,897

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

Statement of Cash Flows

As of June 30, 2010, with comparative financial information as of June 30, 2009
(all dollars in thousands)

	2010	2009
Cash flows from operating activities		
Student tuition and fees	$ 284,812	$ 274,771
Federal appropriations	14,466	15,379
Grants and contracts	227,130	213,597
Sales and services of educational activities	12,732	13,586
Auxiliary enterprises	171,671	167,339
Other operating receipts	4,066	5,217
Payments for compensation and fringe benefits	(619,650)	(629,385)
Payments for operating expenses	(275,630)	(263,955)
Payments for scholarships and fellowships	(15,606)	(12,941)
Loans issued to students	(2,488)	(3,394)
Collection of loans from students	2,570	3,479
Net cash used by operating activities	(195,927)	(216,307)
Cash flows from noncapital financing activities		
State appropriations	224,798	255,423
Federal fiscal stabilization (ARRA)	11,531	-
Gifts received for other than capital purposes	48,634	46,428
Non-operating grants and contracts	1,755	2,167
Federal student financial aid (Pell)	13,693	9,000
Federal Direct Lending Program—receipts	122,792	108,903
Federal Direct Lending Program—disbursements	(122,794)	(108,901)
Funds held in custody for others—receipts	63,627	61,513
Funds held in custody for others—disbursements	(63,373)	(61,736)
Net cash provided by noncapital financing activities	300,663	312,797
Cash flows from capital and related financing activities		
Capital appropriations	-	(12,338)
Capital grants and gifts	93,917	66,535
Proceeds from capital debt	128,831	42,380
Proceeds from the sale of capital assets and insurance recoveries	(639)	(733)
Acquisition and construction of capital assets	(176,570)	(143,865)
Principal paid on capital debt and leases	(18,955)	(21,478)
Short-term debt, commercial paper	(17,835)	18,855
Interest paid on capital debt and leases	(16,886)	(12,443)
Net cash used by capital and related financing activities	(8,137)	(63,087)
Cash flows from investing activities		
Proceeds from sales and maturities of investments	76,284	75,756
Interest on investments	1,845	6,098
Purchase of investments and related fees	(83,370)	(81,493)
Net cash provided (used) by investing activities	(5,241)	361
Net increase in cash and cash equivalents	91,358	33,764
Cash and cash equivalents—beginning of year	256,520	222,756
Cash and cash equivalents—end of year	$ 347,878	$ 256,520

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

As of June 30, 2010, with comparative financial information as of June 30, 2009
(all dollars in thousands)

	2010	2009
Reconciliation of operating loss to net cash used by operating activities		
Operating loss	$ (252,139)	$ (285,606)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation and amortization expense	62,800	60,946
Changes in assets and liabilities		
Receivables, net of allowance for doubtful accounts	(2,777)	5,235
Inventories	(899)	1,612
Prepaid items and other assets	45	(2,261)
Notes receivable, net of allowance for doubtful accounts	298	310
Accounts payable and accrued liabilities	(1,358)	1,859
Accrued payroll and other liabilities	(952)	1,240
Compensated absences	(3,562)	147
Deferred revenue	2,586	(28)
Credit card rebate	(19)	223
Federal loan program contributions refundable	50	16
Total adjustments	56,212	69,299
Net cash used by operating activities	$ (195,927)	$ (216,307)
Noncash investing, capital, and financing activities		
Change in accounts receivable related to non-operating income	$ 1,812	$ (2,174)
Capital assets acquired through in-kind donations as a component of capital gifts and grants income	$ 2,395	$ 1,193
Change in fair value of investments recognized as a component of interest income	$ 2,638	$ (3,658)
Change in fair value of interest payable affecting interest paid	$ 1,164	$ (11)
Capital assets acquired through installment purchase agreements	$ -	$ 140
Change in interest receivable affecting interest received	$ (62)	$ (176)

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, and 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 the 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, Virginia Tech Foundation Inc. (VTF) and 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 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 foundation members. 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, 2010, the foundation distributed $68,733,000 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, 2010, VTS paid $1,260,000 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 2010 the following GASB statements of standards became effective: Statement 51, *Accounting and Financial Reporting for Intangible Assets;* Statement 53, *Accounting and Financial Reporting for Derivative Instruments;* and Statement 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*. Statement 51 establishes standards of accounting and reporting for intangible assets to address inconsistencies among state and local governments, particularly in the areas of recognition, initial measurement and amortization. Statement 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments are often complex financial arrangements used by governments to manage specific risks or to make investments. The university is not currently invested in derivative instruments. Statement 58 does not require any additional disclosures by the university as a result of operations during this reporting period.

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 5 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 $41,000 and $299,000, respectively, as of June 30, 2010.

Inventories

Inventories are stated at the lower of cost or market value (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 $2,775,000 for the fiscal year ended June 30, 2010.

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, 2010, 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, 2010. This amount is primarily composed of revenue for grants and contracts, prepaid athletic ticket sales, and prepaid student tuition and fees. Summer Session I tuition and fees received during the fiscal year are considered earned at the end of the refund period, approximately June 15th of each year. Tuition and fees received prior to year end for Summer Session II are deferred and recognized as revenue in the next fiscal year. See Note 9 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, 2010, the scholarship allowance for student tuition and fee revenue and auxiliary enterprise revenue totaled $67,992,000 and $15,844,000 respectively. Scholarship allowance to students is reported using the alternative method 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.

Comparative Data

The university presents its financial information on a comparative basis. The basic financial statements include certain prior year summarized comparative information in total, but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, the prior year information should be read in conjunction with the university's financial statements for the year ended June 30, 2009, from which the summarized information was derived.

2. Related Parties

In addition to the component units discussed in Note 1, Virginia Tech also has related parties that are 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 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 various local governments totaled $12,621,000 in 2010, and has been included in revenues and expenses of the accompanying financial statements. The university received other local government support of $1,512,000 in 2010.

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, 2010. 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 2010.

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

Categorization of credit quality and interest rate risk

Investments held on June 30, 2010 *(all dollars in thousands)*

Investment type	Credit Rating	Less than 1 Year	1-5 Years	6-10 Years	Fair Value
U.S. Treasury and Agency securities (1)	N/A	$ 204,956	$ 688	$ -	$ 205,644
Debt securities					
Corporate notes	Aaa	-	6,476	-	6,476
Corporate notes	Aa2	-	1,172	-	1,172
Corporate notes	Aa3	1,415	1,163	-	2,578
Corporate notes	A2	508	1,222	-	1,730
Corporate notes	A3	-	1,423	-	1,423
Corporate notes	A1	3,000	-	-	3,000
Corporate bonds	Aaa	-	602	-	602
Corporate bonds	A1	-	2,736	-	2,736
Corporate bonds	A2	517	4,183	-	4,700
Corporate bonds	A3	-	725	-	725
Corporate bonds	Aa1	-	948	-	948
Corporate bonds	Aa2	-	786	-	786
Corporate bonds	Aa3	-	1,301		1,301
Repurchase agreements	N/A	37,118	-	-	37,118
Asset backed securities	Aaa	9,028	10,922	-	19,950
Asset backed securities (2)	AAA	254	1,168	-	1,422
Federal agency securities					
Unsecured bonds and notes	Aaa	331	5,601	-	5,932
Mortgage backed securities (2)	AAA	1,862	5,386	-	7,248
Mortgage backed securities	Aaa	142	-	-	142
Money market and mutual funds (2)	AAA	2,988	-	-	2,988
Other:					
Deposits with VTF	N/A	973	-	-	973
Dairymen's Equity (2)	BBB+	-	-	60	60
Short-term investment fund (2)	AAAm	1	-	-	1
SNAP (2)	AAAm	64,150	-	-	64,150
Subtotal		$ 327,243	$ 46,502	$ 60	373,805
Investments without specific maturities, held with VTF					44,036
Total					$ 417,841

(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 Moody's Investors Service except for these investments which are rated by Standard & Poor's.

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 any 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 approximate maturities between 15 to 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.

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 2010.

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*, Section 2.2-4500 through 2.2-4516, et seq., *Code of Virginia*. Authorized investments include: U.S. 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.

A categorization of university investments follows. 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.

Summary of investments
As of June 30, 2010 *(all dollars in thousands)*

Investment type	Current Assets	Noncurrent Assets	Total
Cash and cash equivalents	$ 220,065	$ 127,813	$ 347,878
Short-term investments	1,387	-	1,387
Long-term investments	-	107,741	107,741
Cash and investments	$ 221,452	$ 235,554	457,006
Less cash			39,165
Total investments			$ 417,841

5. Accounts Receivable

Accounts receivable consists of the following as of June 30, 2010 *(all dollars in thousands)*:

Current receivables	
Grants and contracts	$ 37,146
Accrued investment interest	295
Student tuition and fees	3,494
Auxiliary enterprises and other operating activities	6,116
Total current receivables before allowance	47,051
Less allowance for doubtful accounts	2,688
Net current accounts receivable	44,363
Noncurrent receivables	
Capital gifts, grants and other receivables	6,381
Accrued investment interest	136
Total noncurrent receivables	6,517
Total receivables	$ 50,880

6. 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 2010, funding has been provided to the university from three sources: 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, 2010, in the "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, 2010 as shown in the following paragraph *(all dollars in thousands)*:

VCBA 21st Century program	$ 67,602
VCBA Equipment Trust Fund program	8,640
General obligation bonds 9(b)	212
	$ 76,454

The line items, "Due from the Commonwealth of Virginia", on the *Statement of Net Assets* for the year ended June 30, 2010, represent pending reimbursements from the following programs *(all dollars in thousands)*:

Capital appropriations receivable	$ 24
VCBA Equipment Trust Fund program	6,289
Credit card rebate/accrued interest	473
VCBA 21st Century program	6,430
General obligation bonds 9(b)	40
	$ 13,256

7. Capital Assets

The beginning balance in the data listed below has been adjusted to list capitalized software and intangible assets separately. In prior years these assets were included in moveable equipment. A summary of changes in capital assets follows:

For the year ending June 30, 2010 *(all dollars in thousands)*	Beginning Balance	Additions	Retirements	Ending Balance
Depreciable capital assets				
Buildings	$ 895,147	$ 83,175	$ -	$ 978,322
Moveable equipment	365,006	29,081	17,389	376,698
Software and intangible assets	7,160	1,364	-	8,524
Fixed equipment	80,972	2,830	71	83,731
Infrastructure	112,555	335	-	112,890
Library books	69,503	2,335	41	71,797
Total depreciable capital assets, at cost	1,530,343	119,120	17,501	1,631,962
Less accumulated depreciation and amortization				
Buildings	287,178	24,738	-	311,916
Moveable equipment	249,851	28,768	15,915	262,704
Software and intangible assets	4,930	883	-	5,813
Fixed equipment	41,763	3,112	61	44,814
Infrastructure	77,467	2,884	-	80,351
Library books	57,207	2,415	40	59,582
Total accumulated depreciation and amortization	718,396	62,800	16,016	765,180
Total depreciable capital assets, less accumulated depreciation and amortization	811,947	56,320	1,485	866,782
Nondepreciable capital assets				
Land	44,594	1,000	48	45,546
Livestock	636	-	57	579
Construction in progress	115,133	148,443	83,108	180,468
Equipment in process	1,176	2,049	1,150	2,075
Software in development	-	62	-	62
Total nondepreciable capital assets	161,539	151,554	84,363	228,730
Total capital assets, net of accumulated depreciation and amortization	$ 973,486	$ 207,874	$ 85,848	$ 1,095,512

8. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities at June 30, 2010, consist of the following *(all dollars in thousands)*:

Accounts payable	$ 52,490
Accrued salaries and wages payable	53,726
Retainage payable	6,617
Total current accounts payable and accrued liabilities	$ 112,833

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.

9. Deferred Revenue

Deferred revenue consists of the following at June 30, 2010 *(all dollars in thousands)*:

Grants and contracts	$ 15,312
Prepaid athletic tickets	13,989
Prepaid tuition and fees	7,340
Other auxiliary enterprises	2,108
Total deferred revenue	$ 38,749

10. 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 projects under construction that have been previously approved for debt financing by either the board of visitors or the General Assembly of the Commonwealth of Virginia.

At June 30, 2010 the amount outstanding was $2,975,000. The average days-to-maturity was 25 days with a weighted average effective interest rate of 1.08%.

11. 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 other institutions of higher education. The notes are secured by pledged general revenues of the university. For more information, see the following description of notes payable and Note 12, Detail of Long-term Indebtedness.

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, Hunter Andrews Information Systems building addition, and the Integrated Life Sciences building (ILSB), including a separate lease for the Vivarium located within the ILSB. 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 2010, future principal commitments, and future interest commitments, is presented below.

Changes in long-term debt payable activity
As of June 30, 2010)
(all dollars in thousands)

	Beginning Balance	Additions	Retirements	Ending Balance	Current Portion
Bonds payable					
Section 9(c) general obligation revenue bonds	$ 62,147	$ 80,141	$ 7,366	$ 134,922	$ 4,567
Section 9(d) revenue bonds	73,992	-	5,034	68,958	5,340
Notes payable	121,060	48,690	5,044	164,706	5,565
Capital lease obligations	27,506	-	1,100	26,406	1,162
Installment purchase obligations	1,160	-	411	749	436
Total long-term debt payable	$ 285,865	128,831	18,955	$ 395,741	$ 17,070
Current year debt defeasance		(2,633)	(2,633)		
Total additions/retirements, net of current year defeasance		$ 126,198	$ 16,322		

Future principal commitments
For fiscal years subsequent to 2010
(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
2011	$ 4,567	$ 5,340	$ 5,565	$ 1,162	$ 436	$ 17,070
2012	5,982	5,540	6,810	1,230	201	19,763
2013	6,248	5,815	7,125	1,299	58	20,545
2014	5,657	6,105	7,480	1,377	21	20,640
2015	5,977	6,380	7,860	1,458	21	21,696
2016 – 2020	29,152	16,850	44,495	8,669	12	99,178
2021 – 2025	31,765	11,605	43,215	6,716	-	93,301
2026 – 2030	26,680	11,465	34,000	4,495	-	76,640
2031 – 2035	6,460	-	1,420	-	-	7,880
Unamortized premium	12,114	947	7,260	-	-	20,321
Deferral on debt defeasance	320	(1,089)	(524)	-	-	(1,293)
Total future principal requirements	$ 134,922	$ 68,958	$ 164,706	$ 26,406	$ 749	$ 395,741

Future interest commitments For fiscal years subsequent to 2010 *(all dollars in thousands)*	Section 9(c) Bonds	Section 9(d) Bonds	Notes Payable	Capital Lease Obligations	Installment Purchase Obligations	Total Interest
2011	$ 6,019	$ 3,297	$ 7,400	$ 1,449	$ 18	$ 18,183
2012	5,795	3,086	7,117	1,389	6	17,393
2013	5,517	2,820	6,770	1,327	2	16,436
2014	5,211	2,533	6,411	1,260	1	15,416
2015	4,952	2,245	5,432	1,190	1	13,820
2016 – 2020	20,297	7,662	19,870	4,733	-	52,562
2021 – 2025	13,143	4,469	13,613	2,530	-	33,755
2026 – 2030	4,933	1,393	3,774	496	-	10,596
2031 – 2035	827	-	34	-	-	861
Total future interest requirements	$ 66,694	$ 27,505	$ 70,421	$ 14,374	$ 28	$ 179,022

12. Detail of Long-term Indebtedness

Bonds payable

As of June, 30, 2010 *(all dollars in thousands)*

	Interest rates	Maturity	2010
Revenue Bonds			
Dormitory and dining hall system			
Series 2004A, issued $2,710 – refunding series 1996A*	2.00% - 5.00%	2016	$ 1,755
Series 2004A, issued $1,665 – refunding series 1996A*	2.00% - 5.00%	2016	1,075
Series 2004B, issued $1,265 – refunding series 1996B*	2.00% - 4.00%	2016	785
University services systems			
Student Health and Fitness Center			
Series 2004C, issued $15,105 – refunding series 1996C*	2.00% - 5.00%	2016	9,515
Athletic system			
Athletic facility – improvements			
Series 2004D, issued $4,155 – refunding series 1996A*	2.00% - 5.00%	2016	2,685
Lane Stadium west sideline expansion			
Series 2004D, issued $52,715	3.00% - 5.13%	2029	39,295
Northern Virginia Graduate Center			
Series 2004A, issued $7,860 – refunding series 1996A*	2.00% - 5.00%	2020	6,030
Architectural/engineering			
Series 2004A, issued $4,685 – refunding series 1996A*	2.00% - 5.00%	2016	3,040
Coal fired facility			
Series 2004A, issued $6,005 – refunding series 1996A*	2.00% - 5.00%	2016	3,895
Series 2004A, issued $1,585 – refunding series 1996A*	2.00% - 5.00%	2016	1,025
Unamortized premium (discount)			947
Deferral on debt defeasance			(1,089)
Total revenue bonds			68,958
General Obligation Revenue Bonds			
Dormitory and dining hall system			
Series 2003A, issued $2,694 – refunding series 1993B*	2.50% - 5.50%	2011	375
Series 2004B, issued $9,995 – partial refunding series 1997*	2.00% - 5.00%	2017	7,366
Series 2004B, issued $1,928 – partial refunding series 1998*	2.00% - 5.00%	2018	1,586
Series 2004B, issued $1,168 – partial refunding series 1999*	2.00% - 5.00%	2019	1,051
Series 2004A, issued $4,800	3.75% - 5.00%	2024	1,785
Series 2007A, issued $5,995	4.00% - 5.00%	2027	5,775
Series 2007A, issued $13,130	4.00% - 5.00%	2027	12,650
Series 2008B, issued $1,813 – refunding series 1998R*	4.38% - 4.70%	2013	1,108
Series 2008B, issued $969 – refunding series 1998R*	4.38% - 4.70%	2013	591
Series 2008B, issued $1,010 – refunding series 1998R*	4.38% - 4.70%	2013	621
Series 2008B, issued $17,185	3.00% - 5.00%	2028	16,610
Series 2009D, issued $1,891 – partial refunding series 2004A*	5.00%	2022	1,891
Series 2009B, issued $39,005	4.00% - 5.00%	2029	39,005
Series 2009B, issued $3,720	4.00% - 5.00%	2029	3,720
University services system – student center			
Series 2003A, issued $1,755 – refunding series 1993B*	2.50% - 5.50%	2011	243

Parking facilities			
Series 2002, issued $975	2.50% - 5.00%	2017	205
Series 2003A, issued $2,268 – refunding series 1993B*	2.50% - 5.50%	2011	318
Series 2004B, issued $951 – partial refunding series 1997*	2.00% - 5.00%	2017	697
Series 2006B, issued $685	4.00% - 5.00%	2026	390
Series 2008B, issued $1,545	3.00% - 5.00%	2028	1,445
Series 2009D, issued $190 – partial refunding series 2006B*	5.00%	2022	190
Series 2009C, issued $276 – partial refunding series 2002*	3.00% - 4.00%	2017	276
Series 2009B, issued $24,590	4.00% - 5.00%	2034	24,590
Unamortized premium (discount)			12,114
Deferral on debt defeasance			320
Total general obligation revenue bonds			134,922
Total bonds payable			$ 203,880

Notes payable

Notes payable to VCBA under the pooled 9(d) bond program at June 30, 2010 *(all dollars in thousands)*	Average coupon rate	Maturity	2010
Dormitory and dining hall system			
Series 1998A, issued $10,145 – partial refunding*	4.53%	2019	$ 1,055
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	7,205
Series 2005, issued $2,815	3.50% - 5.00%	2026	2,455
Series 2007B, issued $3,395 – partial refunding series 1998A*	4.00% - 4.50%	2019	3,390
University services system – Smith Career Center			
Series 2002A, issued $4,405*	5.19%	2023	1,780
Series 2007B, issued $1,621 – partial refunding series 2002A*	4.00% - 4.50%	2020	1,606
Utility system			
Series 2000A, issued $2,925 – partial refunding*	5.25%	2021	510
Series 2002A, issued $2,875*	5.19%	2023	1,160
Series 2004B, issued $870 – partial refunding series 2000A*	3.00% - 5.00%	2017	844
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	1,050
Athletic system			
Lane Stadium expansion			
Series 2001A, issued $26,285*	4.70%	2027	13,710
Series 2007B, issued $2,860 – partial refunding series 2001A*	4.00% - 4.50%	2020	2,845
Series 2009B, issued $8,705	2.00% - 5.00%	2030	8,705
Infectious waste facility			
Series 2000A, issued $1,640 – partial refunding*	5.25%	2021	285
Series 2004B, issued $480 – partial refunding series 2000A*	3.00% - 5.00%	2017	471
Series 2007B, issued $359 – partial refunding series 2000A*	4.00% - 4.50%	2020	359
Biomedical facility			
Series 2002A, issued $21,930	5.11%	2028	13,175
Series 2007B, issued $5,649 – partial refunding series 2002A*	4.00% - 4.50%	2020	5,594
Alumni and conference center, series 2003A, issued $21,585	4.63%	2031	19,555
Life Sciences-I, series 2005, issued $8,295	3.50% - 5.00%	2026	7,230
ICTAS-I, series 2006A, issued $16,145	3.00% - 5.00%	2027	14,600
Boiler pollution controls, series 2006A, issued $1,925	3.00% - 5.00%	2027	1,740
Surge space building, series 2006A, issued $7,025	4.00% - 5.00%	2022	6,000
Campus heating plant			
Series 2007A, issued $3,880	4.50% - 5.00%	2028	3,755
Series 2009B, issued $5,875	2.00% - 5.00%	2030	5,875
McComas exterior repairs			
Series 2009A, issued $1,475	2.75% - 5.00%	2029	1,420
Series 2009B, issued $4,365	2.00% - 5.00%	2030	4,365
ICTAS-II, series 2009B, issued $13,045	2.00% - 5.00%	2030	13,045
McComas recreation, counseling and clinical space, series 2009B, issued $12,420	2.00% - 5.00%	2030	12,420
Unamortized premium (discount)			7,260
Deferral on debt defeasance			(524)
Total notes payable			$ 164,706

**See Note 13 – Long-term Debt Defeasance*

Other long-term debt

At June 30, 2010 *(all dollars in thousands)*

Capital leases payable for agreements related to the Student Services building, Southgate Center addition, Hunter Andrews addition, Integrated Life Sciences (ILSB) buildings, separate Vivarium lease, and equipment	$	26,406
Installment purchase obligations for equipment purchases through June 2010 with various interest rates and maturing through 2015		749
Total other long-term debt	$	27,155

13. Long-term Debt Defeasance

Current Year

The university issued $2,357,000 of section 9(c) bonds to refund $2,520,000 of section 9(c) bonds in fiscal year 2010. The resulting net gain of $163,000 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, 2010 *(all dollars in thousands)*	True Interest Cost	Bonds Refunded	Refunding Bonds Issued	Accounting Gain	Reduction in Debt Service	Gain Discounted at TIC	Defeased Debt
Series 2002, issued $975	3.17%	$ 325	$ 276	$ 49	$ 69	$ 62	$ 325
Series 2004A, issued $4,800	3.17%	2,005	1,891	114	191	168	2,005
Series 2006B, issued $685	3.17%	190	190	-	4	4	190
Total		$ 2,520	$ 2,357	$ 163	$ 264	$ 234	$ 2,520

Previous Years

In previous fiscal years in accordance with GASB Statement 7, *Advance Refundings Resulting in the Defeasance of Debt*, the university has excluded from its 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, 2010, bonds payable considered defeased in previous years totaled $6,640,000.

14. Change in Other Liabilities

A summary of the changes in other liabilities for the year ended June 30, 2010, follows *(all dollars in thousands)*:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Accrued compensated absences	$ 37,730	$ 20,549	$ 24,112	$ 34,167	$ 14,837
Federal student loan program contribution refundable	13,210	240	190	13,260	-
Total other liabilities	$ 50,940	$ 20,789	$ 24,302	$ 47,427	$ 14,837

15. 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 three to five-year terms 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 $18,255,000 for the year ended June 30, 2010. This amount includes approximately $6,932,000 in lease payments to the Virginia Tech Foundation Inc. for office and laboratory space. In addition, the total lease expense includes approximately $2,086,000 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 in the adjacent table.

A summary of future minimum lease payments under operating leases as of June 30, 2010, follows *(all dollars in thousands)*:

2011	$	12,287
2012		7,649
2013		3,746
2014		2,038
2015		1,237
2016 – 2020		4,338
2021 – 2025		1,333
2026 – 2030		77
2031 – 2034		54
Total	$	32,759

16. 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, 2010 are listed below.

Capital commitments by project *(all dollars in thousands)*		
Ambler Johnston Hall renovation	$	32,532
Virginia Tech Carilion School of Medicine and Research Institute		13,800
Technology Research and Innovation Center		9,706
Visitor and Undergraduate Admissions Center		6,585
ICTAS - II		4,909
Center for the Arts		5,325
Signature Engineering building		4,087
Parking structure		3,056
McComas Hall recreation, counseling and clinical space addition		2,158
Human and Agriculture Biosciences Building I		1,474
Academic and Student Affairs building		1,248
Football locker room addition		1,017
Davidson Hall renovation		883
Other projects		2,857
Total	$	89,637

Capital commitments by source of funding *(all dollars in thousands)*		
General obligation bond proceeds	$	51,088
Capital appropriations		27,279
Facilities and administrative (indirect) cost recoveries, university education and general funds		4,939
Private funds		4,662
Auxiliary enterprise funds		1,338
State general appropriations		331
Total	$	89,637

17. 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.

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 $22,192,000 for the year ended June 30, 2010.

Optional Retirement Plan

Full-time faculty and certain administrative staff participate in a defined contribution plan administered by three different providers other than 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 $18,111,000 for year ended June 30, 2010. Contributions to the optional retirement plan were calculated using the base salary amount of approximately $174,616,000 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 $1,977,000 for the fiscal year 2010.

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 $292,000 for the year ended June 30, 2010. Contributions to FERS and CSRS were calculated using the base salary amount of approximately $3,607,000 for the fiscal year 2010.

In addition, the university contributed $37,000 for the year ended June 30, 2010, 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.

18. Postemployment Benefits

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

19. Appropriations

The Appropriation Act specifies that unexpended general fund appropriations that remain on the last day of the current year, ending on June 30, 2010, shall be reappropriated for expenditure in the first month of the next year, beginning on July 1, 2010, 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.

The following adjustments were made to the university's appropriation during the year ended June 30, 2010 *(all dollars in thousands)*:

Original legislative appropriation *(per Chapter 781 as amended)*	
Education and general programs	$ 245,491
Student financial assistance	17,661
Commonwealth research initiative	3,122
Unique military activities	1,570
Engineering research center fund	221
Total appropriation	268,065
Adjustments	
Budget reductions	(34,626)
Health insurance premium	(439)
Virginia Retirement System	(2,207)
Virginia Sickness and Disability program	(751)
Group life insurance premium	(321)
State employee furlough	(656)
Student financial assistance	103
Other adjustments	137
Total adjustments	(38,760)
Adjusted appropriation	$ 229,305

20. Grants and Contracts Contingencies

The university has received federal grants for specific purposes that are subject to review and audit by the grantor agencies. Claims against these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the 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, 2010, the university estimates that no material liabilities will result from such audits or questions.

21. Federal Direct Lending Program

The university participates in the Federal Direct Lending Program. Under this program, the university receives funds from the U.S. Department of Education for Stafford and Parent PLUS Loan Programs and disburses these funds to eligible students. The funds can be applied to outstanding 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, 2010, cash provided by the program totaled $122,792,000 and cash used by the program totaled $122,794,000.

22. 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*.

23. Expenses by Natural Classification within Functional Classification

The university's operating expenses by functional classification were as follows for the year ended June 30, 2010 (*all dollars in thousands*):

	Compensation and Benefits	Contractual Services	Other Supplies and Materials	Travel	Operating Expenses	Scholarships and Fellowships	Sponsored Program Subcontracts	Total
Instruction	$ 224,754	$ 9,744	$ 5,388	$ 4,194	$ 2,227	$ 958	$ 124	$ 247,389
Research	156,191	12,652	19,562	10,292	1,952	11,410	20,484	232,543
Public service	46,626	16,387	3,347	6,305	1,389	213	646	74,913
Academic support	41,120	3,636	9,645	682	1,539	207	-	56,829
Student services	9,384	1,524	847	593	121	54	1	12,524
Institutional support	40,209	2,513	1,990	1,711	788	417	4	47,632
Operation and maintenance of plant	24,859	6,247	15,488	141	18,721	16	-	65,472
Student financial assistance	319	37	18	174	-	15,377	-	15,925
Auxiliary enterprises	71,674	19,719	30,384	8,120	19,976	1,053	7	150,933
Subtotal before other costs	$ 615,136	$ 72,459	$ 86,669	$ 32,212	$ 46,713	$ 29,705	$ 21,266	904,160
Depreciation and amortization expense								62,800
Loan administrative fees and collection costs								318
Total operating expenses								$ 967,278

24. Component Units Financial Statements and Notes

The component units' statements on the following pages, and subsequent notes, 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, 2010
(all dollars in thousands)

	Virginia Tech Foundation	Virginia Tech Services	Total Component Units
Assets			
Current Assets			
Cash and cash equivalents	$ (15,867)	$ 1,340	$ (14,527)
Short-term investments	13,699	3,412	17,111
Accounts and contributions receivable, net	27,108	273	27,381
Notes receivable, net	232	-	232
Inventories	447	6,764	7,211
Prepaid expenses	725	213	938
Other assets	2,934	-	2,934
Total current assets	29,278	12,002	41,280
Noncurrent assets			
Cash and cash equivalents	64,761	-	64,761
Accounts and contributions receivable, net	43,706	-	43,706
Notes and deeds of trust receivable, net	18,156	-	18,156
Net investments in direct financing leases	24,066	-	24,066
Irrevocable trusts held by others, net	7,968	-	7,968
Long-term investments	608,251	-	608,251
Depreciable capital assets, net	124,297	547	124,844
Nondepreciable capital assets	98,350	-	98,350
Intangible assets, net	680	-	680
Other assets	4,091	-	4,091
Total noncurrent assets	994,326	547	994,873
Total assets	1,023,604	12,549	1,036,153
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	8,645	6,520	15,165
Accrued compensated absences	302	284	586
Deferred revenue	796	1,037	1,833
Long-term debt payable	14,238	-	14,238
Other liabilities	5,895	500	6,395
Total current liabilities	29,876	8,341	38,217
Noncurrent liabilities			
Accrued compensated absences	38	-	38
Deferred revenue	6,050	-	6,050
Long-term debt payable	188,296	-	188,296
Liabilities under trust agreements	25,231	-	25,231
Agency deposits held in trust	55,972	-	55,972
Other liabilities	14,006	-	14,006
Total noncurrent liabilities	289,593	-	289,593
Total liabilities	319,469	8,341	327,810
Net assets			
Invested in capital assets, net of related debt	62,498	547	63,045
Restricted, nonexpendable	327,775	-	327,775
Restricted, expendable			
Scholarships, research, instruction, and other	247,267	-	247,267
Capital projects	37,011	-	37,011
Unrestricted	29,584	3,661	33,245
Total net assets	$ 704,135	$ 4,208	$ 708,343

Component Units

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

The university's component unit activity for the year ended June 30, 2010
(all dollars in thousands)

	Virginia Tech Foundation	Virginia Tech Services	Total Component Units
Operating revenues			
Gifts and contributions	$ 51,893	$ -	$ 51,893
Auxiliary enterprise revenue			
Hotel Roanoke	17,799	-	17,799
River Course	1,148	-	1,148
Bookstore	-	26,427	26,427
Other revenues			
Rental income	19,392	-	19,392
Other	10,619	-	10,619
Total operating revenues	100,851	26,427	127,278
Operating expenses			
Instruction	4,882	-	4,882
Research	4,858	-	4,858
Public service	4,608	-	4,608
Academic support	13,692	-	13,692
Institutional support			
Other university programs	19,766	-	19,766
Fund-raising	8,942	-	8,942
Management and general	2,364	-	2,364
Operation and maintenance of plant			
Operation and maintenance of plant	4,186	-	4,186
Research cost centers	5,158	-	5,158
Student financial assistance	21,330	-	21,330
Auxiliary enterprises			
Hotel Roanoke	11,355	-	11,355
River Course	1,328	-	1,328
Bookstore	-	26,384	26,384
Depreciation expense	5,579	-	5,579
Other expenses	14,897	-	14,897
Total operating expenses	122,945	26,384	149,329
Operating income (loss)	(22,094)	43	(22,051)
Non-operating revenues (expenses)			
Investment income, net	8,557	-	8,557
Net gains on investments	39,401	-	39,401
Interest expense on debt related to capital assets	(3,583)	-	(3,583)
Net non-operating revenues	44,375	-	44,375
Income before other revenues, expenses, gains, or losses	22,281	43	22,324
Change in valuation of split interest agreements	2,164	-	2,164
Capital grants and gifts	15,135	-	15,135
Loss on disposal of capital assets	(114)	-	(114)
Additions to permanent endowments	19,917	-	19,917
Other revenues (expenses)	(980)	-	(980)
Total other revenues, expenses, gains, or losses	36,122	-	36,122
Increase in net assets	58,403	43	58,446
Net assets - beginning of year	645,732	4,165	649,897
Net assets - end of year	$ 704,135	$ 4,208	$ 708,343

Notes to Component Units Statements

Contributions Receivable – Virginia Tech Foundation Inc.

The following summarizes unconditional promises to give at June 30, 2010 *(all dollars in thousands)*:

Current receivables	
Receivable in less than one year	$ 26,236
Noncurrent receivables	
Receivable in one to five years	35,928
Receivable in more than five years	8,490
Total noncurrent receivable before allowance	44,418
Less allowance for uncollectible contributions	(2,504)
Net noncurrent contributions receivable	41,914
Total contributions receivable	$ 68,150

The discount rates ranged from 0.65% to 1.85% in 2010. As of June 30, 2010, there were no conditional promises to give.

Investments – Virginia Tech Foundation Inc.

Investments by type of security at June 30, 2010 *(all dollars in thousands)*:

	Cost	Fair value
Short-term investments		
Corporate debt securities	$ 1,199	$ 1,186
U.S. Government treasuries	6,374	6,218
U.S. Government agencies	6,295	6,295
Total short-term	13,868	13,699
Long-term investments		
Cash and cash equivalents	8,779	8,779
U. S. Government treasuries	36,092	36,905
U. S. Government agencies	26,845	27,436
State, county and municipal securities	2,648	2,783
Corporate debt securities	37,932	39,170
Common and preferred stock	106,440	107,647
Partnerships and other joint ventures	312,430	301,776
Foreign securities	46,127	37,742
Real estate	25,927	26,579
Other	7,154	7,154
Total long-term investments	610,374	595,971
Restricted to investment in land, buildings and equipment		
Cash and cash equivalents	21,549	21,549
U.S. Government treasuries	8,755	8,788
U.S. Government agencies	3,460	3,492
Total restricted	33,764	33,829
Total investments	$ 658,006	$ 643,499

As of June 30, 2010, long-term investments include investment assets held in internally managed trust funds with a carrying value totaling $41,069.

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. During 2010 and 2009, the foundation invested $350 and $700, respectively, as an additional investment outside the original agreement. Included in other long-term investments as of June 30, 2010, is $6,050 related to this communications network infrastructure.

The following tabulation summarizes changes in relationships between cost and fair value of investments *(all dollars in thousands)*:

	Fair Value	Cost	Net gains (losses)
June 30, 2010	$ 643,499	$ 658,006	$ (14,507)
June 30, 2009	609,485	664,684	(55,199)
Unrealized net gain for FY2010, including net gain on agency deposits held in trust of $2,597			40,692
Realized net loss for FY2010, including net gain on agency deposits held in trust of $1,238			(1,406)
Total net gain for FY2010, including net gain on agency deposits held in trust of $3,835			$ 39,286

Investment management fees incurred in 2010 totaled $2,082.

Land, Buildings, Equipment - Virginia Tech Foundation Inc.

A summary of land, buildings, and equipment at cost, less accumulated depreciation for the year ending June 30, 2010 is presented as follows *(all dollars in thousands)*:

Depreciable capital assets	
Buildings	$ 153,612
Equipment and other	17,318
Land improvements	14,412
Total depreciable capital assets, at cost	185,342
Less accumulated depreciation	(61,045)
Total depreciable capital assets, net	124,297
Nondepreciable capital assets	
Land	65,704
Vintage and other collection items	4,495
Livestock	1,713
Construction in progress	26,438
Total nondepreciable capital assets	98,350
Total capital assets, net	$ 222,647

As of June 30, 2010 outstanding contractual commitments for projects under construction approximated $20,983.

Long-Term Debt Payable - Virginia Tech Foundation Inc.

Notes payable

The following is a summary of outstanding notes payable at June 30, 2010 *(all dollars in thousands)*:

Unsecured commercial note payable due September 10, 2014, plus interest at 4.65%	$ 705
Unsecured variable rate commercial note payable due June 30, 2011 with automatic yearly renewal, plus interest at the 30-day LIBOR rate plus 35 basis points (0.70% at June 30, 2010), principal balance not to exceed $13.8 million	10,572
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 300 basis points (3.35% at June 30, 2010) collateralized by interest in a Citation Excel airplane	617
Unsecured fixed rate promissory note payable due December 1, 2019, plus interest at 6.59%	2,789
Total VTF notes payable	14,683
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, interest at 4.05%, guaranteed by the U.S. Department of Housing and Urban Development, maturing June 30, 2014	2,208
Total HRF notes payable	3,983
Secured fixed rate promissory note payable due October 10, 2017, plus interest at 7.00%, collateralized by certain real properties by Virginia Tech Real Estate Foundation, Inc.	8,200
Total VTREF notes payable	8,200
Total notes payable	$ 26,866

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, which requires interest payments only until maturity, 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.

During 2009, the foundation entered into a capital lease obligation with an unrelated party. During 2010, the foundation amended the lease agreement to include additional properties. As of July 1, 2010, annual payments under the lease agreement are $357. The lease agreement terminates in 25 years, at which time the title to the land will transfer to the foundation. The capital lease obligation is included in deferred revenue and other liabilities in the accompanying consolidated statement of financial position. As of June 30, 2010, the capital lease obligation was $4,707.

The aggregate annual maturities of notes payable for each of the five years and thereafter subsequent to June 30, 2010, are *(all dollars in thousands)*:

2011	$ 11,607
2012	814
2013	995
2014	1,047
2015	464
Later years or as cash becomes available from hotel net operating income	11,939
Total notes payable	$ 26,866

Bonds payable

HRF 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 VTREF 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 $310 to $490 and are guaranteed by HRLLC. The Term Bonds are eliminated for consolidation purposes as of June 30, 2010.

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 0.465% at June 30, 2010.

The foundation was previously 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 were to mature on June 1, 2027, bore a variable interest rate. 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 incrementally repurchased approximately 88% of the Series 2007 bonds at par value plus accrued interest. During 2009, the foundation incrementally repurchased the majority of the remaining approximately 12% of the Series 2007 bonds at par value plus accrued interest. These bonds held in treasury were refinanced in February 2009 in connection with the foundation's 2009 bond offering described below.

The foundation is obligated under Industrial Development Authority of Montgomery County, Virginia Revenue Bonds (Series 2009A) and Taxable Revenue Bonds (Series 2009B) dated February 12, 2009. Bond proceeds were used to refinance the previously outstanding Series 2007 bonds, the unsecured variable rate promissory note payable, and the unsecured variable rate commercial note payable, as well as finance the construction of several facilities, primarily for the National Capital Region facility, to be used in support of the university. During 2010, an additional $2,865 was requisitioned on the Series 2009B bonds to finance property acquisitions to be used in support of the university. The Series 2009A bonds, which mature on February 1, 2039, bear a variable interest rate, which including remarketing and liquidity fees, was 0.735% on June 30, 2010. The Series 2009B bonds, which mature on February 1, 2039, bear a variable interest rate, which including remarketing and liquidity fees, was 0.875% on June 30, 2010.

As of June 30, 2010, the majority of the unused proceeds from the Series 2009A and Series 2009B bond offering, which are restricted to investment in land, buildings and equipment, have been temporarily invested in investment securities as disclosed in the investment note above and are separately recorded in the consolidated statement of financial position.

Principal amounts outstanding for these bonds as of June 30, 2010, are as follows *(all dollars in thousands)*:

Bond Series:	
Series 2000	$ 2,418
Series 2005	37,745
Series 2009A	68,820
Series 2009B	66,685
Total bonds payable	$ 175,668

Notes to Component Units Statements (continued)

The aggregate annual maturities of bonds payable for each of the five years and thereafter subsequent to June 30, 2010, are as follows *(all dollars in thousands)*:

2011	$ 2,630
2012	2,728
2013	2,855
2014	2,972
2015	3,115
Later years	161,368
Total	$ 175,668

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 $40,454 at annual fees equal to 0.20% of the total commitment. At June 30, 2010, no funds were outstanding under this commitment.

To comply with the terms of the Series 2009A and Series 2009B bond agreement, the foundation maintains a revolving credit facility in the amount of $149,996 at annual fees equal to 0.45% of the total commitment. At June 30, 2010, no funds were outstanding under this commitment.

Interest Rate Swaps

Effective April 1, 2003, the foundation entered into an interest rate swap agreement (Swap 1) with a lending institution. The agreement was based on the principal balance (notional amount of $2,585) of a promissory note payable. The foundation participated as a fixed rate payer, with a fixed interest rate of 3.715% for a seven-year term which ended February 1, 2010. The lending institution participated as a floating rate payer, with a variable interest rate, which is calculated based on the LIBOR and was 0.31% at June 30, 2009. The change in fair value of Swap 1 was a gain of approximately $59 for fiscal year 2009. The fair value of the interest rate swap agreement approximated $59 in favor of the lending institution as of June 30, 2010.

Effective September 1, 2005, the foundation entered into an interest rate swap agreement (Swap 2) with a lending institution. This agreement was based on the principal balances (notional amount of $21,535) of 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 rate, which is calculated based on the weighted average of 70% of USD-LIBOR-BBA and was 0.245% at June 30, 2010. The change in fair value of Swap 2 was a loss of approximately $562 for fiscal year 2010. The fair value of the interest rate swap agreement approximated $1,813 in favor of the lending institution as of June 30, 2010.

On September 1, 2005, the foundation entered into two separate interest rate swap agreements (Swap 3) with a lending institution. These agreements were based on the principal balances (notional amounts 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 3.213% 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 0.245% at June 30, 2009. The change in fair value of Swap 3 was a loss of approximately $280 for fiscal year 2010. The fair value of the interest rate swap agreements approximated $1,086 in favor of the lending institution as of June 30, 2010.

Effective March 12, 2007, the foundation entered into two separate interest rate swap agreements (Swap 4) with a lending institution. These agreements were based on the principal balances (notional amounts of $24,480) of the Series 2007 bond issue. The foundation participates as a fixed rate payer, with a fixed rate of 3.737% and 3.467% 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 0.295% at June 30, 2010. The change in fair value of Swap 4 was a loss of approximately $772 for fiscal year 2010. The fair value of the interest rate swaps agreements approximated $1,939 in favor of the lending institution as of June 30, 2010.

Effective April 1, 2009, the foundation entered into three separate interest rate swap agreements (Swap 5) with two lending institutions. These agreements were based on principal balances (notional amounts of $103,380) for Series 2009A and Series 2009B bond issue. For two of the agreements, the foundation participates as a fixed rate payer, with a fixed rate of 1.165% and 1.486% ending June 11, 2011. For the third agreement, the foundation participates as a floating rate payer, with a floating interest rate, which is calculated on the weighted average of USD-SIFMA Municipal Swap Index, with a rate of 0.485% as of June 30, 2010, ending June 1, 2027. The lending institutions participate as a floating rate payer, with a floating interest rate, which is calculated based on the weighted average of 59% of USD-LIBOR-BBA plus 0.25%, the weighted average of USD-LIBOR-BBA and the weighted average of 90.10% of USD-LIBOR-BBA and was 0.456%, 0.350%, and 0.295% at June 30, 2010, respectively. The change in fair value of Swap 5 was a loss of approximately $516 for fiscal year 2010. The fair value of the interest rate swap agreements approximated $532 in favor of the lending institution as of June 30, 2010.

The following table summarizes the fair values of the foundation's interest rate swaps and changes in the fair values of the swaps *(all dollars in thousands)*:

	Fair Values	Change in Fair Value
Swap 1	$ -	$ (59)
Swap 2	1,813	562
Swap 3	1,086	280
Swap 4	1,939	772
Swap 5	532	516
Total	$ 5,370	$ 2,071

Total interest expense incurred in the aggregate related to notes payable and bonds payable in 2010 totaled $3,376.

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, 2010 is presented as follows *(all dollars in thousands)*:

University—Pratt Estate	$ 36,172
University—Donaldson Brown Endowment	653
University—Other	8,173
Virginia Tech Alumni Association, Inc.	3,503
Virginia Tech Services, Inc.	3,412
Other	4,059
Total agency deposits held in trust	$ 55,972

25. 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, 2010.

The Virginia Tech Carilion School of Medicine was established as a 501(c)3 nonprofit organization. This joint venture will receive oversight from a 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.

26. Jointly Governed Organizations

Blacksburg-Christiansburg and 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 $595,000 to the authority for the purchase of water for the fiscal year ended June 30, 2010.

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 $680,000 to the authority for the purchase of sewer services for the fiscal year ended June 30, 2010.

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 $186,000 to the authority for tipping fees for the fiscal year ended June 30, 2010.

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 2010 was $50,000, all of which Virginia Tech paid to the authority.

27. Pending Litigation

The university has been named as a defendant in a number of lawsuits. The final outcome of the 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.

28. Subsequent Events

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 draws from this program to meet capital project funding requirements. As of October 15, 2010, the university has a total balance of commercial paper outstanding of $7,475,000.

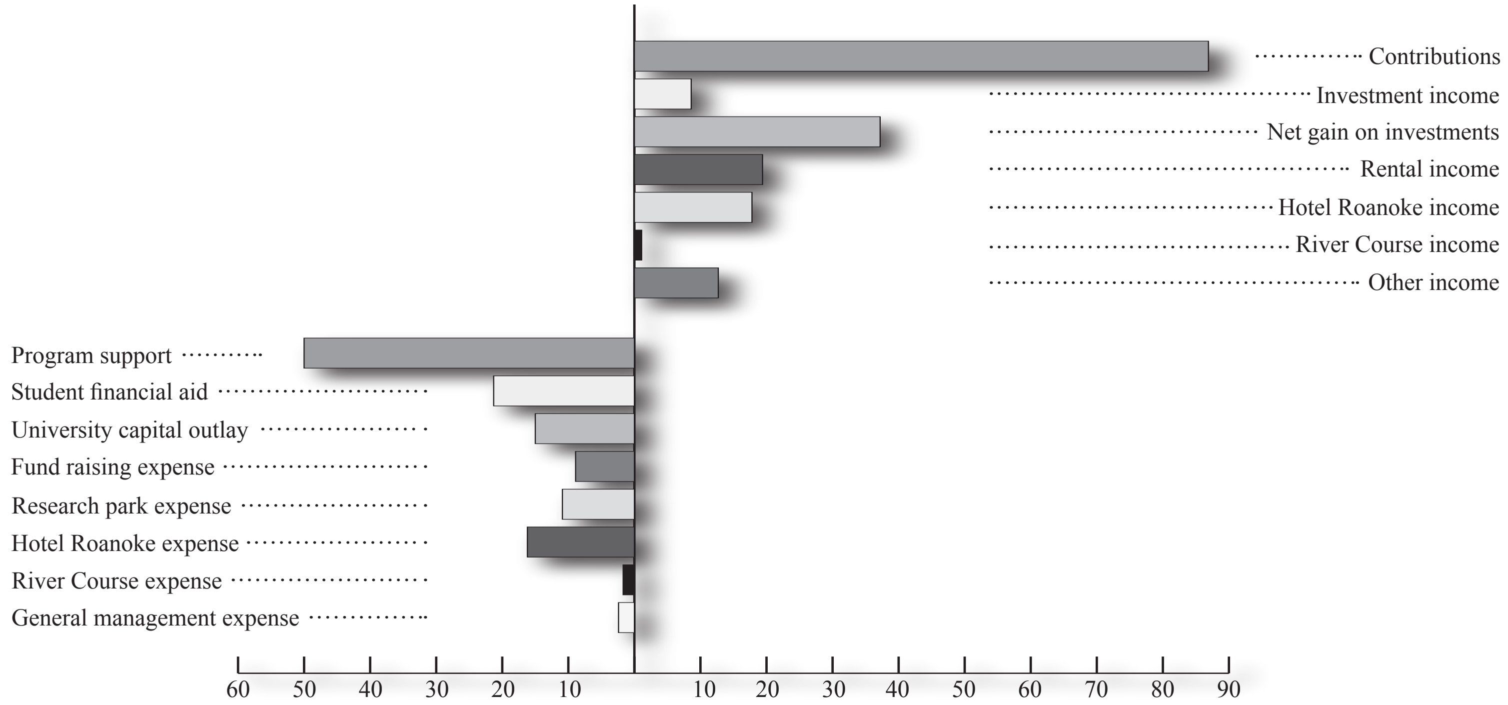
On October 27, 2010, the Virginia Department of the Treasury, on behalf of the university, issued Series 2010 9(c) bonds totaling $35,903,000. Proceeds from the bonds will fund the Academic and Student Affairs building ($35.2 million) and ongoing parking improvement projects ($0.8 million). These bonds are an obligation of the university and are secured by the net revenues of the completed project and the full faith, credit, and taxing power of the Commonwealth of Virginia.

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 $86.9 million in contributions for support of the university. Investment income of $8.6 million, along with net gains on investments of $37.2 million, resulted in a $47.9 million net gain on investment activity. Property rental, hotel operating, and golf course income totaled $38.3 million. Other income accounted for $12.7 million. Total income of $183.7 million was offset by $126.5 million in expenses that supported the university and its programs. Direct support to various university programs aggregated $86.4 million, which included $21.3 million in scholarship support to students and faculty and $15.1 million towards university capital projects. Additional expenses such as fund-raising, management and general, research center, hotel operating, golf course, and other costs totaled $40.1 million. Total net assets increased by $58.4 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) presentation requirements *(all dollars in millions)*:

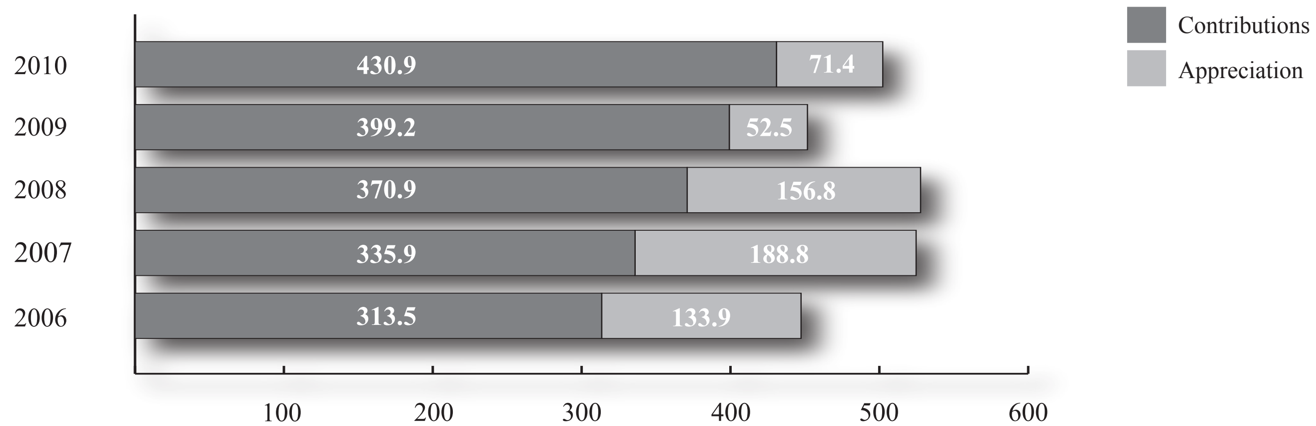
Virginia Tech Foundation Inc. Revenues, Expenses, Gains and Losses

For the year ended June 30, 2010



Virginia Tech Foundation Inc. Endowment Market Value*

Fiscal years 2010 - 2006



*Market value of endowment funds includes agency deposits held in trust of $60.0 million. (Source: Virginia Tech investment managers, unaudited)

Affiliated Corporations Financial Highlights

For the years ended June 30, 2010-2006
(*all dollars in thousands*)

	2010	2009	2008	2007	2006
Assets					
Virginia Tech Foundation Inc.	$ 1,023,604	$ 942,103	$ 925,994	$ 940,879	$ 808,912
Virginia Tech Services Inc.	12,549	12,607	13,021	11,713	8,861
Virginia Tech Intellectual Properties, Inc.	2,283	1,012	1,035	726	1,180
Total Assets	$ 1,038,436	$ 955,722	$ 940,050	$ 953,318	$ 818,953
Revenues					
Virginia Tech Foundation Inc.	$ 183,748	$ 54,884	$ 145,715	$ 201,521	$ 167,458
Virginia Tech Services Inc.	26,427	27,800	29,917	24,918	21,946
Virginia Tech Intellectual Properties Inc.	2,522	1,873	1,183	1,193	779
Total Revenues	$ 212,697	$ 84,557	$ 176,815	$ 227,632	$ 190,183
Expenses					
Virginia Tech Foundation Inc.	$ 124,365	$ 136,313	$ 130,894	$ 103,393	$ 102,663
Virginia Tech Services Inc.	26,384	27,865	29,607	23,312	22,338
Virginia Tech Intellectual Properties Inc.	1,911	1,841	1,558	1,708	954
Total Expenses	$ 152,660	$ 166,019	$ 162,059	$ 128,413	$ 125,955

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 separately in this table.

Consolidating Schedule Of Net Assets

As of June 30, 2010
(all dollars in thousands)

	Current Funds		Loan	Endowment and	Plant	Agency	
	Unrestricted	Restricted	Funds	Similar Funds	Funds	Funds	Total
Assets							
Current assets							
Cash and cash equivalents	$ 193,298	$ 17,190	$ 2,490	$ -	$ -	$ 7,087	$ 220,065
Short-term investments	1,387	-	-	-	-	-	1,387
Accounts receivable, net	7,746	36,617	-	-	-	-	44,363
Notes receivable	-	-	1,601	-	-	-	1,601
Due from Commonwealth of Virginia	6,761	-	-	-	-	-	6,761
Inventories	11,354	-	-	-	-	-	11,354
Prepaid expenses	10,291	343	-	-	-	-	10,634
Due to (from) other funds	16,531	6,262	(70)	186	(21,914)	(995)	-
Total current assets	247,368	60,412	4,021	186	(21,914)	6,092	296,165
Noncurrent assets							
Cash and cash equivalents	-	-	-	(4)	127,817	-	127,813
Due from Commonwealth of Virginia	-	-	-	-	6,495	-	6,495
Accounts receivable, net	-	-	-	-	6,517	-	6,517
Notes receivable	-	250	12,677	-	-	-	12,927
Long-term investments	48,752	-	-	38,868	20,121	-	107,741
Depreciable capital assets, net	-	-	-	-	866,782	-	866,782
Nondepreciable capital assets	-	-	-	-	228,730	-	228,730
Other assets	841	-	-	-	-	-	841
Total noncurrent assets	49,593	250	12,677	38,864	1,256,462	-	1,357,846
Total assets	296,961	60,662	16,698	39,050	1,234,548	6,092	1,654,011
Liabilities							
Current liabilities							
Accounts payable and accrued expenditures	64,723	16,289	1	-	31,820	-	112,833
Accrued compensated absences	12,564	2,273	-	-	-	-	14,837
Deferred revenue	23,299	15,450	-	-	-	-	38,749
Funds held in custody for others	-	-	-	-	-	6,092	6,092
Commercial paper	-	-	-	-	2,975	-	2,975
Long-term debt payable	-	-	-	-	17,070	-	17,070
Total current liabilities	100,586	34,012	1	-	51,865	6,092	192,556
Noncurrent liabilities							
Accrued compensated absences	16,369	2,961	-	-	-	-	19,330
Federal student loan contributions refundable	-	-	13,260	-	-	-	13,260
Long-term debt payable	-	-	-	-	378,671	-	378,671
Other liabilities	1,535	-	-	-	-	-	1,535
Total noncurrent liabilities	17,904	2,961	13,260	-	378,671	-	412,796
Total liabilities	118,490	36,973	13,261	-	430,536	6,092	605,352
Net assets							
Invested in capital assets, net of related debt	-	-	-	-	734,875	-	734,875
Restricted, nonexpendable	-	-	-	363	-	-	363
Restricted, expendable							
Scholarships, research and instruction	-	23,689	3,437	38,687	-	-	65,813
Capital projects	-	-	-	-	14,074	-	14,074
Debt service	-	-	-	-	55,063	-	55,063
Unrestricted	178,471	-	-	-	-	-	178,471
Total net assets	$ 178,471	$ 23,689	$ 3,437	$ 39,050	$ 804,012	$ -	$ 1,048,659

Consolidating Schedule Of Revenues, Expenses, and Changes in Net Assets

For the year ended, June 30, 2010
(all dollars in thousands)

	Current Funds		Loan	Endowment and	Plant	
	Unrestricted	Restricted	Funds	Similar Funds	Funds	Total
Operating revenues						
Student tuition and fees	$ 282,102	$ 3,033	$ -	$ -	$ -	$ 285,135
Federal appropriations	-	14,466	-	-	-	14,466
Federal grants and contracts	39,068	132,637	-	-	-	171,705
Federal ARRA grants and contracts	-	4,641	-	-	-	4,641
State grants and contracts	825	10,354	-	-	-	11,179
Local grants and contracts	186	13,947	-	-	-	14,133
Nongovernmental grants and contracts	4,872	19,576	-	-	(47)	24,401
Sales and services of educational departments	12,732	-	-	-	-	12,732
Auxiliary enterprise revenue	172,628	1	-	-	-	172,629
Other operating revenues	2,717	1,349	51	-	1	4,118
Total operating revenues	515,130	200,004	51	-	(46)	715,139
Operating expenses						
Instruction	231,843	15,546	-	-	-	247,389
Research	73,906	158,637	-	-	-	232,543
Public service	40,236	34,677	-	-	-	74,913
Academic support	54,974	1,855	-	-	-	56,829
Student services	11,502	1,022	-	-	-	12,524
Institutional support	43,704	3,928	-	-	-	47,632
Operation and maintenance of plant	50,887	(43)	-	-	14,628	65,472
Student financial assistance	128	15,797	-	-	-	15,925
Auxiliary enterprises	150,933	-	-	-	-	150,933
Depreciation and amortization	-	-	-	-	62,800	62,800
Other operating expenses	230	-	88	-	-	318
Total operating expenses	658,343	231,419	88	-	77,428	967,278
Operating Loss	(143,213)	(31,415)	(37)	-	(77,474)	(252,139)
Non-operating revenues (expenses))						
State appropriations	207,243	22,062	-	-	-	229,305
Gifts	12,370	36,011	161	-	-	48,542
Non-operating grants and contracts	-	1,755	-	-	-	1,755
Federal student financial aid (PELL)	-	13,693	-	-	-	13,693
Federal fiscal stabilization (ARRA)	-	11,531	-	-	-	11,531
Investment income, net of investment expense	1,710	(723)	-	3,543	849	5,379
Other additions and deductions	-	-	-	-	456	456
Nongeneral fund reversion	(4,507)	-	-	-	-	(4,507)
Interest expense on debt for capital assets	-	-	-	-	(14,405)	(14,405)
Net non-operating revenues (expenses)	216,816	84,329	161	3,543	(13,100)	291,749
Income (loss) before other revenues, expenses, gains, or losses	73,603	52,914	124	3,543	(90,574)	39,610
Capital grants and gifts	1,558	2,347	-	-	87,288	91,193
Loss on disposal of capital assets	-	-	-	-	(1,095)	(1,095)
Total other revenues, expenses, gains, losses	1,558	2,347	-	-	86,193	90,098
Increase (decrease) in net assets before transfers	75,161	55,261	124	3,543	(4,381)	129,708
Mandatory transfers	(33,023)	-	-	-	33,023	-
Nonmandatory transfers	(29,254)	(353)	2	(504)	30,109	-
Equipment and library book transfers	(13,464)	(9,320)	-	-	22,784	-
Scholarship allowance transfer	42,897	(42,897)	-	-	-	-
Total transfers	(32,844)	(52,570)	2	(504)	85,916	-
Increase in net assets after transfers	42,317	2,691	126	3,039	81,535	129,708
Net assets – beginning of year	136,154	20,998	3,311	36,011	722,477	918,951
Net assets – end of year	$ 178,471	$ 23,689	$ 3,437	$ 39,050	$ 804,012	$ 1,048,659

Business and Financial Leadership

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

University Treasurer
Raymond D. Smoot, Jr.

Vice President for Administrative Services
Sherwood G. Wilson

Associate Vice President for Facilities
Michael J. Coleman

University Controller
Kenneth E. Miller

Director of Internal Audit
Sharon M. Kurek

Associate Treasurer
John J. Cusimano

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