Financial Statements

For Year Ended June 30, 2010

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LETTER FROM THE PRESIDENT

There is little doubt that universities around the world are operating in an age of uncertainty. The value of the United States Dollar has not been its strongest. Federal and state governments have had record levels of debt. And, interest rates and taxes are difficult to predict. During these times of uncertainty around the world, it is great to focus on the educational and financial stability of Virginia State University.

As a public university in the Commonwealth of Virginia, we have a responsibility to not only provide a high quality educational experience for students, but to do so in a fiscally responsible manner. We strive to be excellent stewards of the Commonwealth's resources. In this report, you will read about how Virginia State University is carrying out this responsibility. We are continuously improving our effectiveness and efficiency.

During this past academic year, there was positive story after positive story. There was one individual or organizational success after another. Trojan pride at Virginia State University abounds.

As you peruse this financial report, please do so with Trojan pride. The financial status of Virginia State University is firm. Additional processes to improve effectiveness and efficiency are consistently being implemented. Our pursuit of excellence is unwavering and our future is extremely bright. I am certain you will find this report comforting as well as a source of pride. Thank you for your continued support of Virginia State University.

Sincerely,

Keith T. Miller, Ph.D.
President

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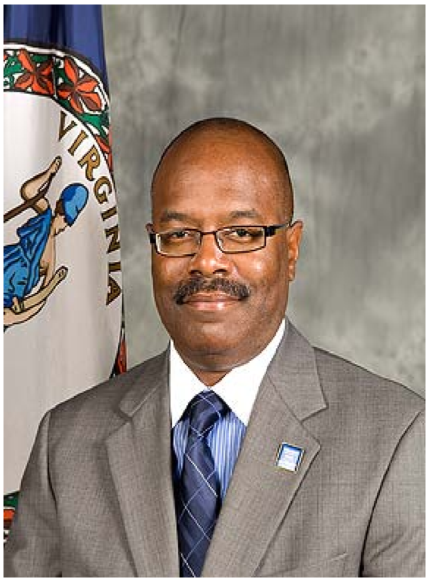
MESSAGE FROM THE VICE PRESIDENT FOR ADMINISTRATION AND FINANCE



What an outstanding year at Virginia State University. On July 1, 2009, Virginia State University began preparations for the retirement of its 12th president, Eddie N. Moore Jr. On June 30, 2010, we bid a fond farewell to President Moore and thanked him for his 17 years of dedication, service and leadership to Virginia State University. During the year, the university continued President Moore's focus on cost containment and operational efficiencies, academic achievement, technology advancement, and facility improvements.

We began the year recognizing that economic challenges remained at the forefront of the higher education spectrum for all public universities within the Commonwealth of Virginia. The culmination of the legislative session that ended April 2010 brought some new challenges to Virginia State University. The actions taken by the General Assembly session caused a decrease in state funding (general fund support) of 15%. These reductions, as well as those from prior years, continue to adversely affect VSU's ability to fund its core instructional activities without supplanting those lost resources with tuition dollars. The university however remains staunchly committed to moving forward with the goals and objectives outlined in our Vision 20/20 Strategic Plan, including revenue diversification and increased gift giving. In the summer of 2010, the university received the largest gift in its history; a $1.5 million gift by the Reginald F. Lewis Foundation creating endowment scholarships, endowed chairs, and other opportunities for students and faculty. This gift resulted in the School of Business being renamed the Reginald F. Lewis School of Business.

Virginia State University continues to face a future that is challenging with unprecedented uncertainty in the global economic markets. Our dollar value of state funding continues to decline, but we have done an outstanding job of minimizing tuition and fee increases to our students, as evidenced by our $498.00 dollar tuition, fee, room and board increase for in-state students for the upcoming 2010-11 academic year. This represented the lowest increase for the FY2011 academic year among all Commonwealth Universities in both absolute dollars and percentage.

In FY 2010, Virginia State University continued to maintain its high standard of financial management and accountability in reporting. As a result of the dedicated efforts of the administration and finance staff, we earned an unqualified opinion on our financial statements for the 17th consecutive year. The Administration and Finance organization supports the strategic direction of the university by carrying out such critical functions as finance, information technology, budget, auxiliary services, risk management, procurement, capital construction, facilities, and more than fifteen other departmental operations. Our focus on enterprise-wide cost containment has led to new and improved contracts in three critical areas of service delivery and operational support. In January 2010, the university welcomed Campus Facility Services as its new facility and maintenance reserve vendor, with the charge to CFS that we expect an improved periodic maintenance function that will generate incremental savings. In May of 2010, we brought on board Verizon to head up IT infrastructure and managed services. Their expertise in VOIP, systems implementation and infrastructure improvements are paramount in meeting many of the university's strategic goals. And in March of 2010, we welcomed Validis as our bookstore vendor, with a mandate to improve offerings, collaborate on new E-Books processes, and visually improve the look and feel of our bookstore to students, faculty, parents and alumni. All of these major changes were accomplished through sound and cost-effective resource management and prudent stewardship and financial accountability of the agency's resources.

MESSAGE FROM THE VICE PRESIDENT FOR ADMINISTRATION AND FINANCE (continued)

In FY 2010, we increased our exploratory conversations with external entities that are seeking to enter into public private partnerships with VSU and the VSU Foundation, for the purpose of economic development. We also continue to drive regional economic growth as evidenced by our involvement in the Commonwealth Center for Advanced Manufacturing (CCAM) and the Rolls Royce Logistics and Manufacturing Engineering program. Our ongoing purchase of properties in the Ettrick community will culminate in the groundbreaking Multi Purpose Center project slated to commence within the next two years. Other geographic footprint changes in various planning stages include a new Student Union, additional parking facilities, major renovations to Singleton Hall and Hunter McDaniel, landscape changes, and our continuing collaboration with Chesterfield County on major streetscape improvements. Our construction of the new 113,000 square foot Quad I residence hall added 458 new student beds, and we are well on our way towards planning and design concepts for the Gateway II Residence Hall.

As we look to the future, we will begin integrating strategic, financial, performance, and operational data in a manner to improve analysis of crucial information. We will bring the information to those who require it in a timely manner, and ensure the information is valuable, straight forward, and accurate. We look forward to continuing our organizational excellence by providing strategic leadership and being a true business partner in achieving the strategic goals of the organization.

Very truly yours,

David J. Meadows

David J. Meadows
Vice President for Administration and Finance

Commonwealth of Virginia

Auditor of Public Accounts

Walter J. Kucharski
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

June 30, 2011

The Honorable Robert F. McDonnell
Governor of Virginia

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

Board of Visitors
Virginia State University

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of Virginia 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.

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and discretely presented component units of the University as of June 30, 2010, and the

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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 9 through 17 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.

In accordance with Government Auditing Standards, we have also issued our report dated June 30, 2011, on our consideration of Virginia State University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

AUDITOR OF PUBLIC ACCOUNTS

SAH/clj

MANAGEMENT'S RESPONSIBILITY FOR 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 State University 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 Controller's Office; and an 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, Audit and Facilities Committee of the Virginia State University Board of Visitors reviews the University's accounting practices. The Board 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 quarterly. These meetings include a review of the scope, quality, and results of the internal audit program.

The Auditor of Public Accounts (APA), the office of the Commonwealth of Virginia's auditors, has examined these annual financial statements and their report thereon appears on the facing page. Their examination includes a study and evaluation of the University's system of internal controls, financial systems, policies, and procedures, resulting in the issuance of a management letter describing various issues they consider worthy of management's attention. The University has implemented policies and procedures for the adequate and timely resolution of such issues. No material weaknesses were found on internal control matters by the APA for the fiscal year ended June 30, 2010.

HIGHLIGHTS FOR FISCAL YEAR 2009-2010

1. Virginia State University Board of Visitors announced the selection of Dr. Keith T. Miller, as the University's 13th President effective July 1, 2010.

2. Virginia State University received an unqualified audit from the Commonwealth of Virginia's Auditor of Pubic Accounts for the fiscal year ended June 30, 2010. This marks the 17th consecutive unqualified audit for VSU.

3. In the summer of 2010, Virginia State University received the largest gift in its history. The $1.5 million dollar gift by the Reginald F. Lewis Foundation created endowments for the School of Business for scholarships, endowed Chairs, and travel opportunities for its students and faculty. As a result, the School of Business proudly took the name of its benefactor and became the Reginald F. Lewis School of Business.

4. The Department of Sociology, Social Work & Criminal Justice received a second year grant award for $51,004 from the Virginia Department of Criminal Justice Services. The ReGENT grant is a partnership with the City of Petersburg. Dr. Isis Walton serves as PI, and Dr. Nicole Parsons-Pollard & Dr. Zoe Spencer serve as Co-PI's. ReGENT involves the mentoring of truants by VSU students in partnership with the 11th District Juvenile Court Services Unit. The project produced 15,799 service learning hours during the fiscal year.

5. The Department of Sociology, Social Work & Criminal Justice received a three-year grant award of $450,000 from the U.S. Department of State. Dr. C. Nana Derby serves as the PI on the grant to Rescue, Rehabilitate & Protect Ghana's Child Domestic Servants. Related to the focus of the grant, Dr. Derby also published a book entitled, *Contemporary Slavery: Researching Child Domestic Servitude.*

6. Virginia State University constructed a new 113,000 square feet residence hall Howard Quad) with a construction value of $26,000,000 that added 458 new student beds.

7. Since 2007, the History Department has been implementing the "Petersburg in the Atlantic World" project, in collaboration with the City of Petersburg and others, funded in two phases by NEH to the tune of almost $150,000. Using Petersburg with its rich history as the center of the tobacco industry and international trade, the project seeks to highlight African American history in the context of the Atlantic World. Resources relating to the project are being made public through the project website http://www.petersburghistory.org/. The project will be concluded by summer 2011.

8. In the Department of Police and Public Safety there were several upgrade made in FY10 to insure maximum security of the campus at all times. Some of these upgrades included: An upgrade to the University Emergency Alert System with an additional outdoor siren. Upgrade to the Emergency Notification System to the RAVE Alert system that includes a "person in distress" option. Initiation of the "Text-a-Tip" Program that allows anonymous reporting of crime to the police via text messaging. An increased number of campus emergency call boxes (36 total). Added exterior video surveillance cameras to aid in crime prevention. And successfully activated the Emergency Operations Center in response to the University Network Refresh Project.

9. In Virginia State University's School of Agriculture three researchers have collectively amassed nearly $1.2 million in external grant funding from USDA to conduct research projects aimed at enhancing profits for farmers, improving quality of life for citizens, and protecting the environment.

10. Virginia State University School of Engineering, Science and Technology and School of Agriculture faculty members have been awarded 10 grants and contracts, totaling over $3.37 million, aimed at curriculum development, service learning and research. The awards came from highly competitive funding agencies, including the National Science Foundation (NSF), National Aeronautics and Space Administration (NASA), National Institutes of Health (NIH), Health and Resources Services Administration (HRSA) and Dominion.

11. In the fall of 2010, The Reginald F. Lewis School of Business became the first School in the country to launch an integrated core curriculum which is predominantly delivered in a digital format. This initiative was intended to

actively model for students the need to be good corporate citizens, as well as to help them increase their financial security by replacing their dependency on books with 21st century, Web 2.0 tools.

12. Two new minors have also been added to the curriculum. The Information Security and Forensics minor, offered in the Management Information Systems department (formerly Computer Information Systems) offers a new, exciting, and cutting edge curricula to address the security needs of the 21st century. In addition, students majoring in Management Information Systems will now graduate with the coveted A+ and/or Network Plus and/or CISCO Certifications. Business students now have a competitive advantage, as no other undergraduate university offers this solution to businesses at this time.

13. The Department of Management and Marketing has also created a minor in International Business aimed at opening the door to cultural sensitivity and understanding. .

14. The School of Business welcomed the New Year back in its home at Singleton Hall. The newly renovated $10 million state of the art facility is the first wireless academic building on the campus of Virginia State. It includes smart classrooms, computer networking labs, student commons and lounges and a Trading Center with an interactive trading wall and a 64 foot stock ticker. Students will be able to trade stocks and manage a portfolio just as on the floor of the New York Stock Exchange.

15. For the fourth consecutive year the University has requested and been awarded $75,000 ($300,000 total) from Chesterfield County government for the multipurpose center project.

16. In response to the submission of an application for funding to Congressman Forbes and Senators Warner and Webb, the University received a $100,000 appropriations award from Congress for the expansion of the nursing program.

17. The Development office received the following Corporate/Foundation Funds - $100,000 and above) from July 1, 2009 to June 30, 2010: Manufacturing Engineering Endowed Chair – Rolls Royce Initiative – Commonwealth of Virginia- $500,000; Dominion Foundation - $100,000; Altria - $240,500.

18. In the University Relations area, they led the production of "Erica's Dream" the companion video, developed by New Millennium Studios, to the Major Gifts Campaign Case Statement.

19. The University hosted the "Army Soldier Story Show" in 2010 in Anderson Turner Auditorium. This was a major stage production by Fort Lee, VA for Generals, Soldiers, Community, etc.

20. Met Financial and Administrative Standards, as identified in the Appropriations Act.

21. Initiated the KRONOS project to automate the University's manual hourly payroll processes.

22. Exceeded the Governor's mandate under Executive Order #33 to spend at least 40 percent of the University's discretionary funds with Small,Women- and Minority-Owned (SWaM) businesses.

23. The University expanded its footprint with the purchase of an additional 29 properties surrounding the University campus for future growth in accordance with Campus Master Plan.

24. Virginia State University is thrilled it was selected as the Tom Joyner Foundation School of the Month for May 2010. The Tom Joyner Foundation has helped to raise tens of millions of dollars to help support dozens of HBCU's across the country.

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)

MANAGEMENT DISCUSSION AND ANALYSIS
(UNAUDITED)

INTRODUCTION

Virginia State University is an agency of the Commonwealth of Virginia and is governed by a fifteen member Board of Visitors. The Commonwealth has the authority to exercise oversight over the University. The University has two major divisions, the Academic Colleges and the Cooperative Extension and Agricultural Research Services. The University is a component unit of the Commonwealth and is included in the Commonwealth's Comprehensive Annual Financial Report (CAFR).

The University is one of two land grant institutions in the Commonwealth. As a land grant institution, the University engages in natural resource related research projects and agriculture extension services. The University, founded in 1882, was designated a land grant institution in 1920, and attained University status in 1979. The University offers programs at the doctoral, graduate, and undergraduate levels in science, education, humanities, social sciences, and business.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis provides an overview of the financial position and results of activities of Virginia State University (the University) for the fiscal year ended June 30, 2010. This overview has been prepared by management and should be read in conjunction with the financial statements and footnotes that follow this section. Comparative information for the fiscal year ended June 30, 2009, has been provided where applicable. The financial statements were prepared in accordance with applicable pronouncements and statements of the Governmental Accounting Standards Board (GASB).

The University's financial report includes three financial statements and related notes:

1. The Statement of Net Assets (SNA)
2. The Statement of Revenues, Expenses, and Changes in Net Assets (SRECNA)
3. The Statement of Cash Flows (SCF)

These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) principles, which establish standards for external reporting for colleges and universities. These principles require that the financial statements be prepared with resources classified for accounting and reporting purposes into four net asset categories: Current Assets, Noncurrent Assets, Current Liabilities and Noncurrent Liabilities. Please note that although the University's foundations identified under GASB Statement 39, *Determining Whether Certain Organizations are Component Units*, are reported in the component unit financial statements, this Management Discussion and Analysis excludes reference to the foundations except where specifically noted.

The University's financial position remained strong at the close of fiscal year 2010. Although the University did suffer from the effects of the economy and the Commonwealth's budget continuing decline, there was an overall increase in net assets of $6.9 million. This increase in net assets would have been greater, except for the impact of a reduction in state appropriations of $2.6 million and a write down of the Gateway Dining/Event Center capital project of $5.9 million. This is explained in greater detail in Footnote no.16.

Summary of the Change in Net Assets

	Year Ended June 30,		Increase/(Decrease)	
	2010	2009	Amount	Percent
Total Operating Revenues	$ 64,824,191	$ 63,788,449	$ 1,035,742	1.6%
Total Operating Expenses	116,665,096	119,113,908	(2,448,812)	(2.1%)
Operating loss	(51,840,905)	(55,325,459)	3,484,554	6.3%
Nonoperating revenues	51,979,804	46,649,581	5,330,223	11.4%
Other revenue	6,721,453	(9,492,373)	16,213,826	170.8%
Total Increase/(Decrease)	$ 6,860,352	$ (18,168,251)	$ 25,028,603	137.8%

On a summary basis, operating revenues increased by $1 million or 1.6%, in FY2010 over the previous fiscal year, while operating expenses decreased by $2.4 million or 2.1%. This resulted in a reduction of the University's operating loss from $55.3 million in FY2009 to $51.8 million in FY2010, a reduced loss of $3.5 million.

The operating loss was offset by $58.7 million in non operating revenues and other revenues primarily composed of state appropriations, reimbursements from the state 21st century bonds reimbursement program and federal student financial aid. This increase was partially offset by the Gateway/Dining Project write-off.

STATEMENT OF NET ASSETS

The Statement of Net Assets presents the financial position of the University at the end of the fiscal year and includes all assets and liabilities of the University. The difference between the total assets and total liabilities - net assets - is one indicator of the current financial condition of the University, while the change in net assets is an indication of whether the overall financial condition of the University has improved or worsened during the year. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less an allowance for depreciation.

Comparing the FY2010 Statement of Net Assets (SNA) to the previous fiscal year, total assets increased by $3.3 million or 1.5% from the prior fiscal year.

Currents assets decreased by $8 thousand during FY2010. Current assets are comprised of cash and cash equivalents, short term investments, notes and loans receivables, due from the commonwealth, and securities lending.

Noncurrent assets increased by $3.3 million during FY2010. Noncurrent assets are comprised of restricted cash and cash equivalents, state appropriations available, investments, and capital assets net of depreciation. This increase was primarily the result of net changes in several categories. While restricted cash and cash equivalents decreased by $19.1 million, this was offset by capital asset increases of $19.3 million, and endowment investment portfolio increases of $3.4 million.

Compared to the previous fiscal year, total liabilities declined by $3.5 million as no new debt was acquired in FY2010 and existing debt service was paid on schedule.

Current liabilities decreased by $236 thousand during FY2010. Current liabilities are comprised of accounts payable and other accrued liabilities, deferred revenues, obligations under securities lending, deposits held in custody, the current portion of long term liabilities, and retainage payable.

Noncurrent liabilities decreased by $3.3 million during FY2010. Noncurrent liabilities are comprised primarily of the noncurrent portion of long term debt (bonds and notes payable). This decrease in noncurrent liabilities was primarily due to a $2.5 million decrease in the noncurrent portion of general obligation revenue bonds, a $559 thousand decrease in notes payable and a $253 thousand decrease in installment purchases in accordance with scheduled debt service payments.

A summary of the University's assets, liabilities, and net assets at June 30, 2010 and 2009 follows:

Summary of the Statement of Net Assets

	Year Ended June 30,		Increase/(Decrease)	
	2010	2009	Amount	Percent
Assets:				
Current Assets:	$ 45,443,906	$ 45,451,683	$ (7,777)	(0.0%)
Noncurrent assets:				
Restricted cash and cash equivalents	13,973,454	33,029,093	(19,055,639)	(57.7%)
State appropriations available	258,723	594,991	(336,268)	(56.5%)
Investments	18,171,385	14,581,994	3,589,391	24.6%
Capitals assets, net	141,650,291	122,398,251	19,252,040	15.7%
Other	2,002,642	2,118,965	(116,323)	(5.5%)
Total noncurrent assets	176,056,495	172,723,294	3,333,201	1.9%
Total assets	221,500,401	218,174,977	3,325,424	1.5%
Liabilities:				
Current liabilities	27,580,094	27,816,192	(236,098)	(0.8%)
Noncurrent liabilities	62,665,689	65,964,519	(3,298,830)	(5.0%)
Total liabilities	90,245,783	93,780,711	(3,534,928)	(3.8%)
Net assets:				
assets, net of related debt	86,463,078	59,898,927	26,564,151	44.3%
Restricted:				
Nonexpendable	6,372,401	4,172,051	2,200,350	52.7%
Expendable	14,465,547	36,887,684	(22,422,137)	(60.8%)
Unrestricted	23,953,592	23,435,604	517,988	2.2%
Total net assets	$ 131,254,618	$ 124,394,266	$ 6,860,352	5.5%

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

The Statement of Revenues, Expenses, and Changes in Net Assets presents the University's results of activities for the fiscal year. Presented below is a summarized statement of the University's Revenues, Expenses, and Changes in Net Assets for the years ended June 30, 2010 and 2009.

Summary of the Statement of Revenues, Expenses, and Changes in Net Assets

	Year Ended June 30,		Increase/(Decrease)	
	2010	2009	Amount	Percent
Operating revenues	$ 64,824,191	$ 63,788,449	$ 1,035,742	1.6%
Operating expenses	116,665,096	119,113,908	(2,448,812)	(2.1%)
Operating loss	(51,840,905)	(55,325,459)	3,484,554	6.3%
Nonoperating revenues/(expenses)				
State appropriations	37,977,396	40,623,539	(2,646,143)	(6.5%)
Federal Student Financial Aid	13,249,393	9,044,612	4,204,781	46.5%
Other nonoperating revenues and expenses	753,015	(3,018,570)	3,771,585	124.9%
Net nonoperating revenues and expenses	51,979,804	46,649,581	5,330,223	11.4%
Income/(loss) before other revenues and reductions	138,899	(8,675,878)	8,814,777	101.6%
Capital grants and gifts	631,745	1,063,473	(431,728)	(40.6%)
Additions to permanent endowments	1,323,591	131,298	1,192,293	908.1%
Other capital revenues	4,766,117	(10,687,144)	15,453,261	144.6%
Total other revenues	6,721,453	(9,492,373)	16,213,826	170.8%
Total increase in net assets	6,860,352	(18,168,251)	25,028,603	137.8%
Net assets, beginning of year	124,394,266	142,562,517	(18,168,251)	(12.7%)
Net assets, end of year	$ 131,254,618	$ 124,394,266	$ 6,860,352	5.5%

As reflected above, operating revenues for the University increased by $1 million or 1.6% from the previous fiscal year. Operating expenses decreased by $2.4 million or (2.1%). The operating loss for the University decreased by $3.5 million in FY2010. The operating loss was offset by non operating revenues of $52.0 million and other capital revenues of $4.8 million. The largest item of non operating revenue is state appropriations, which decreased by $2.6 million or (6.5%) in FY2010. There was a significant increase in non operating revenues for Federal student financial aid (Pell Grants) of $4.2 million or 46.5%. Investments performed well in FY2010 over FY2009 going from a loss of $1.3 million to a gain of $1.4

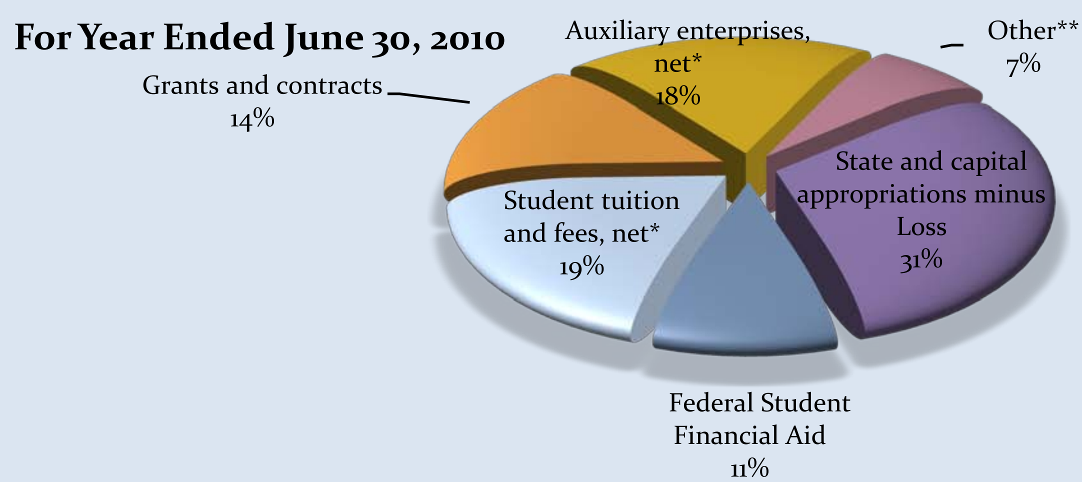
million in FY2010; an increase of $2.7 million or 207.9%. Lastly, interest on indebtedness decreased by approximately $800 thousand going from $3 million in FY2009 to $2.2 million in FY2010. This all resulted in income before other revenues of $139 thousand in FY2010, an increase in net income of $8.8 million from the previous year.

There was a significant increase overall in "other" revenues between FY2010 and FY2009 by $16.2 million or 170.8% primarily due to increased revenue from the 21st Century Bonds Reimbursement Program and a major nonrecurring revenue reduction in FY2009 of $13.8 million in capital appropriations. Total other revenues in FY2010 were $6.7 million.

In summary, there was an increase in net assets of $6.9 million in FY2010 as opposed to a decrease in net assets in the previous fiscal year that totaled $18.2 million.

A summary of the University's revenues for the years ended June 30, 2010 and 2009 appears below:

SUMMARY OF REVENUES



Summary of Revenues
Increase (Decrease) in Revenues
For the years ended June 30, 2010 and 2009

	2010	2009	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Student tuition and fees, net*	$ 23,521,687	$ 22,770,446	$ 751,241	3.3%
Grants and contracts	18,054,272	16,972,263	1,082,009	6.4%
Auxiliary enterprises, net*	22,459,802	23,946,567	(1,486,765)	(6.2%)
Other operating revenue**	788,430	99,173	689,257	695.0%
Total operating revenues	64,824,191	63,788,449	1,035,742	1.6%
Non operating revenues/(expenses):				
State appropriations	37,977,396	40,623,539	(2,646,143)	(6.5%)
Federal Student Financial Aid	13,249,393	9,044,612	4,204,781	46.5%
Other non operating revenues, net**	753,015	(3,018,570)	3,771,585	124.9%
Total non operating revenues	51,979,804	46,649,581	5,330,223	11.4%
Capital revenues and gains:				
Capital grants and gifts	631,745	1,063,473	(431,728)	(40.6%)
Additions to permanent endowment**	1,323,591	131,298	1,192,293	908.1%
Other capital appropriation reduction (OCAR)	-	(13,822,584)	13,822,584	100.0%
Other capital revenues**	4,766,117	3,135,440	1,630,677	52.0%
Total other revenues	6,721,453	(9,492,373)	16,213,826	170.8%
Total revenues	$123,525,448	$100,945,657	$22,579,791	22.4%

* Net of Scholarship Allowance
** Other includes: – Sales and services, other operating revenues, gifts, investment income, interest on indebtness, loss on disposal of assets, federal stabilization funds (ARRA), other nonoperating revenues and expenses, 21st century bonds, general obligation bonds, extraordinary loss.

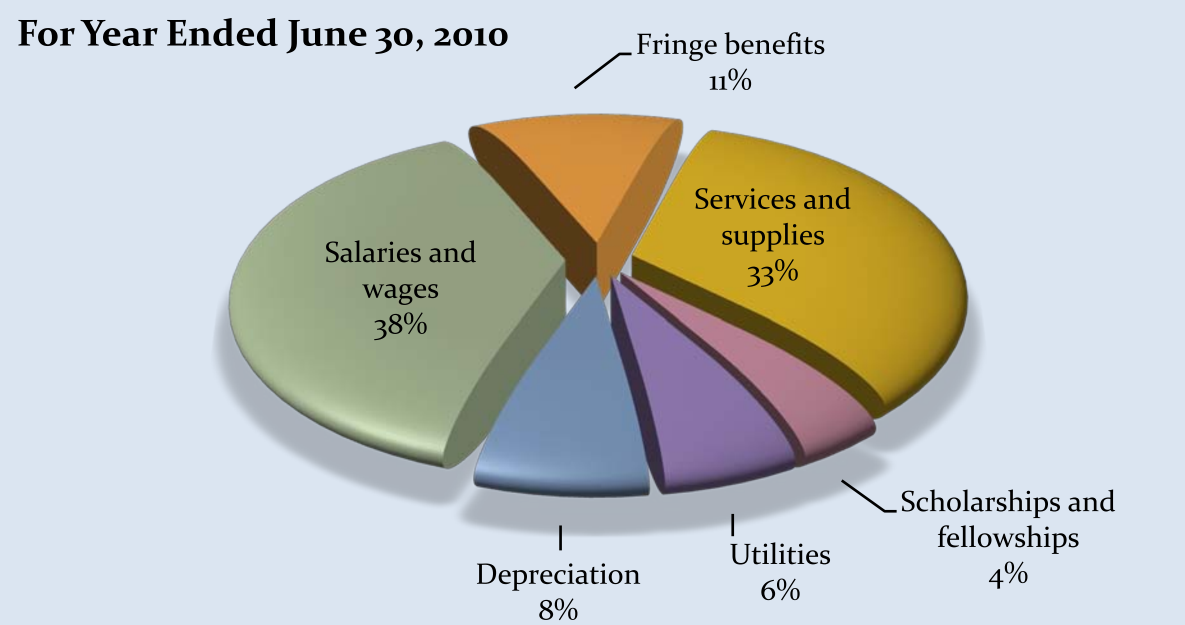
As noted earlier, overall total operating revenues increased in FY2010 from $63.8 million in the previous year to $64.8 million. While auxiliary enterprise revenues declined by $1.5 million, increases in tuition, grant revenues and other operating revenues were $2.5 million for a net operating revenues increase of $1 million. Tuition revenues increased due to increases in fees and student enrollment. Grant revenues increased primarily due to increased federal research program awards.

As noted earlier, non-operating revenues increased overall by $5.3 million. This was attributed primarily to two factors. Federal student financial aid (Pell grants) increased by $4.2 million or 46.5%, in proportion to increased economic need. Investment income increased by $2.7 million or 207.9% as a result of improved market conditions.

SUMMARY OF EXPENSES

A summary of the University's operating expenses for the years ended June 30, 2010 and 2009 appears below. Overall, total operating expenses declined by $2.4 million in FY2010 compared to the previous fiscal year. This represents a 2.1% decrease.

SUMMARY OF EXPENSES BY NATURAL CLASSIFICATION



Increase in Operating Expenses by Natural Classification
For the years ended June 30, 2010 and 2009

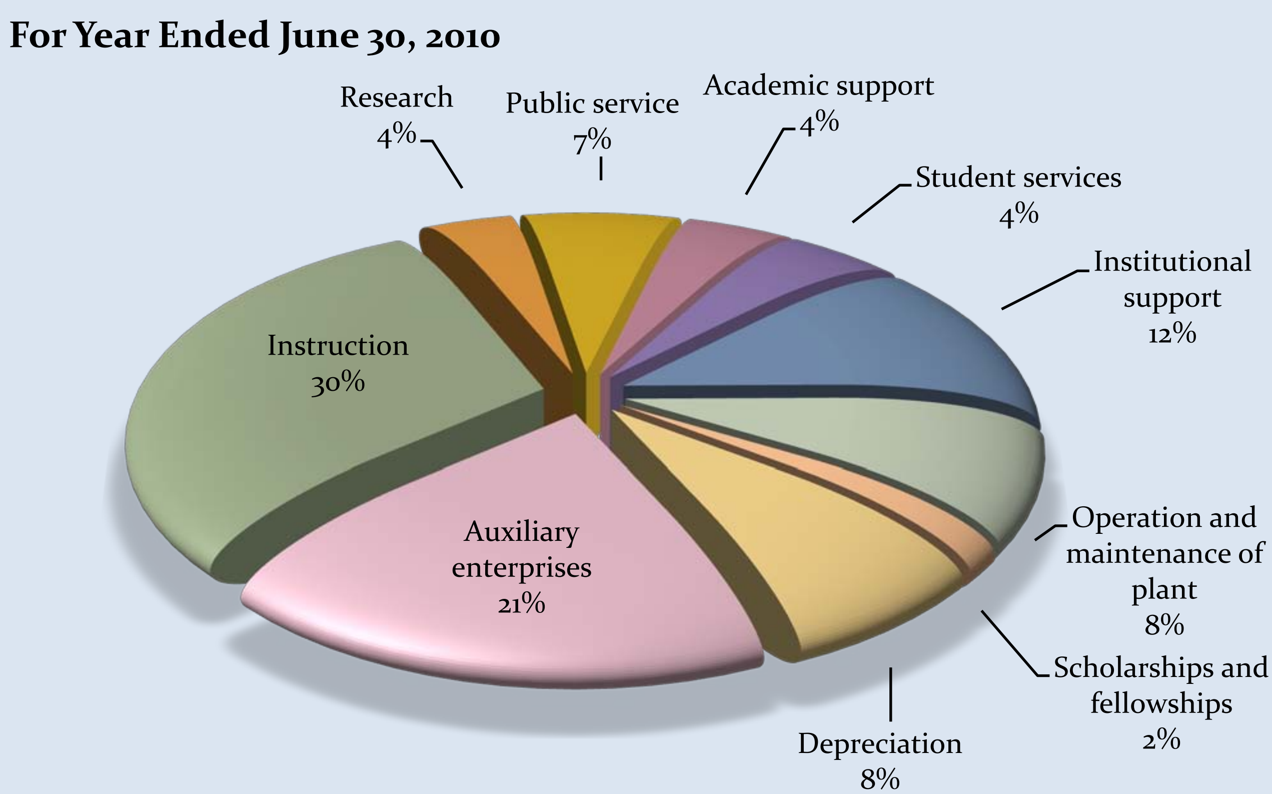
	2010	2009	Increase/(Decrease) Amount	Percent
Salaries and wages	$ 44,144,568	$ 44,011,666	$ 132,902	0.3%
Fringe benefits	12,793,824	13,616,067	$ (822,243)	(6.0%)
Services and supplies	38,175,744	40,904,298	$ (2,728,554)	(6.7%)
Scholarships and fellowships	4,921,165	3,708,637	$ 1,212,528	32.7%
Utilities	7,339,244	7,574,592	$ (235,348)	(3.1%)
Depreciation	9,290,551	9,298,648	$ (8,097)	(0.1%)
Total operating expenses	$ 116,665,096	$ 119,113,908	$ (2,448,812)	(2.1%)

SUMMARY OF EXPENSES BY FUNCTION

The primary factors for the overall decrease in operating expenses of $2.4 million from FY09 were due to an increase of $1.2 million for Scholarships and Fellowships, offset by a decrease of $2.7 million for Services and Supplies and a net decrease of $689 thousand for Personal Services.

Increase in Operating Expenses by Function
For the years ended June 30, 2010 and 2009

	2010	2009	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Operating expenses:				
Instruction	$ 34,703,815	$ 35,239,768	$ (535,953)	(1.5%)
Research	4,302,792	4,560,323	(257,531)	(5.6%)
Public service	7,658,294	7,371,763	286,531	3.9%
Academic support	4,995,689	4,781,439	214,250	4.5%
Student services	5,252,008	4,993,373	258,635	5.2%
Institutional support	14,206,549	13,179,358	1,027,191	7.8%
Operation/maintenance of plant	9,850,093	13,021,091	(3,170,998)	(24.4%)
Scholarships and fellowships	2,026,857	1,201,295	825,562	68.7%
Depreciation	9,290,551	9,298,648	(8,097)	(0.1%)
Auxiliary enterprises	24,378,448	24,950,561	(572,113)	(2.3%)
Other	-	516,289	(516,289)	(100.0%)
Total operating expenses	$ 116,665,096	$ 119,113,908	($2,448,812)	(2.1%)



The overall increase in Institutional Support expenses of $1 million was a result of an increase in Personal Services of $366 thousand, an increase in Services and Supplies of $456 thousand and an increase in Utilities of $206 thousand.

The net decrease in Operation and Maintenance of Plant of $3.2 million was primarily the result of decreases in Services and Supplies $2.8 million, a decrease in Utilities of $514 thousand and an increase in Personal Services of $149 thousand.

STATEMENT OF CASH FLOWS

The Statement of Cash Flows provides additional information about the University's financial results by reporting the major sources and uses of cash. GASB principles define four major categories of cash flows: cash flows from operating activities, cash flows from noncapital financing activities, cash flows from capital and related financing activities, and cash flows from investing activities.

This statement provides a slightly different perspective from the Statement of Revenues, Expenses, and Changes in Net Assets. On the latter statement, state appropriations and gifts are considered nonoperating revenue. However, on the Statement of Cash Flows, these revenues are reflected under noncapital financing activities, while investment income is shown under investing activities. These cash flows are crucial to funding the operation of the University.

Statement of Cash Flows

	Year Ended June 30,		Increase/(Decrease)	
	2010	2009	Amount	Percent
Cash flows from:				
Operating activities	$ (43,043,133)	$ (46,197,158)	$ 3,154,025	6.8%
Noncapital financing activities	47,785,301	51,801,332	(4,016,031)	(7.8%)
Capital and related financing activities	(22,078,958)	(9,517,851)	(12,561,107)	(132.0%)
Investing activities	(2,196,862)	233,619	(2,430,481)	(1040.4%)
Net increase/(decrease) in cash and cash equivalents	(19,533,652)	(3,680,058)	(15,853,594)	(430.8%)
Cash and cash equivalents, beginning of year	60,047,009	63,727,067	(3,680,058)	(5.8%)
Cash and cash equivalents, end of year	$ 40,513,357	$ 60,047,009	$ (19,533,652)	(32.5%)

Overall, there was approximately $3.2 million decrease in net cash used by operating activities in FY2010 compared to FY2009. This overall decrease resulted from net increases in operating revenue and net decreases in operating expenditures. Cash flows from operating revenues were the result of increases in tuition and fees, grants and contracts and a decrease in auxiliary enterprise revenues.

The reduction in cash flows from operating expenditures were the result of primarily a decrease in payments to employees and suppliers and an increase in payments for scholarships and fellowships.

There was a decrease of $4.0 million from cash flows from noncapital financing activities. There was a reduction of $2.6 million from state appropriations which was offset by an increase of $4.2 million from federal student financial aid and $1.4 million from gifts. Lastly, there was a loss on disposal of assets of $6.0 million in cash flows.

There was a significant decrease in capital and related financing activities of $12.6 million in FY2010. There were three major items which accounted for most of this difference. Cash flows from capital appropriations decreased by $3.6 million. There was an increase in 21st Century Bonds of $7.7 million and net cash used for the purchase of capital assets totaled $15.6 million.

The last major category on the statement of cash flow is cash flows from investing activities. Overall, net cash used was $2.2 million. There was an increase in investment income from the prior year totaling $2.7 million. Overall, the proceeds from sales and maturities of investments changed by $4.0 million. Lastly the purchase of investments increased by $1.1 million.

In summary, there was an overall $19.5 million reduction in cash between FY2009 and FY2010.

CAPITAL AND DEBT ACTIVITIES

The renewal and replacement of the University's capital assets is crucial to sustaining the quality of its Academic, Research and Public Service programs. The University continues to invest in capital assets in accordance with its master plan, modernizing its current and older facilities, purchasing new equipment and building new facilities. Capital assets, net of depreciation increased by $19.3 million in FY2010.

During FY2010, the construction of the Howard Quad Residence Hall was substantially completed. There was also a major renovation of the Heating Plant. The University also purchased land for future expansion of the campus.

Proper management of University resources and the replacement and renewal of capital assets requires the prudent use of debt to finance projects. University bonds are issued pursuant to Section 9(c) of Article X of the Constitution of Virginia. These bonds are backed by the full faith, credit and taxing power of the Commonwealth. The use of debt to finance capital projects is handled in accordance with the University's Debt Policy.

As of June 30, 2010, the University had $48.9 million in outstanding general obligation bonds. In addition, the University had a total of $10.0 million in outstanding notes payable. Lastly, the University has an installment purchase agreement in the amount of $2.7 million related to energy performance upgrades and vehicles purchased through the Commonwealth's Master Equipment Leasing Program (MELP).

FUTURE ECONOMIC OUTLOOK

The Executive Management Team of the University is confident that the University is well positioned for the future. There are, however, continuing issues related to the budget situation which will cause the University to re-examine how it does business and this will result in program and other cost reductions. There has been a steady erosion of state appropriations over the last several years which continues in the current biennium budget period. This problem will be further exacerbated in FY 2012 with the end of the American Recovery and Reinvestment Act (ARRA) funds, otherwise known as stimulus funds. The University will lose approximately $3.5 million in FY 2012 from this.

To offset these reductions, Virginia State University, as other State Universities, is having to raise tuition and fees to make up for these revenues shortfalls. This makes it increasingly harder for students to attend the Commonwealth's public universities. One bright spot for the University is the fact that it continues to have steady enrollment increases. This too has a downside as these enrollment increases will eventually require costly infrastructure and other cost increases. The University is also taking new steps to increase its grant funding and to increase donations and gifts.

The University continues to gain stature in such publications as the *U.S. News and World Report* in its annual *College Survey*. The University has also embarked on an ambitious capital improvements plan, including residence halls, in order to remain competitive.

The University began to see an improvement in its endowment investments in FY 2010 and expects to see continued growth in its endowment funds as the economy improves and as new gifts are received.

FINANCIAL STATEMENTS

STATEMENT OF NET ASSETS

As of June 30, 2010 with comparative financial information as of June 30, 2009

	2010		2009	
	Virginia State	Component Units	Virginia State	Component Units
ASSETS				
Current assets:				
Cash and cash equivalents (Note 2)	$ 26,539,904	$ 5,079,355	$ 27,017,916	$ 4,992,798
Cash and cash equivalents - Securities Lending (Note 2)	4,787,428	-	4,240,263	-
Short-term investments (Note 2)	2,580,224	-	5,087,384	1,890,175
Accounts and loans receivable, net of allowance (Note 3)	4,384,381	667,672	3,819,149	806,887
Due from the Commonwealth (Note 3)	3,984,181	-	2,839,101	-
Due from affiliates	51,132	35,505	29,471	226,380
Prepaid expenses	3,086,441	50,213	2,388,750	-
Notes and mortgages receivable, net of allowance (Note 3)	30,215	-	29,649	-
Total current assets	45,443,906	5,832,745	45,451,683	7,916,240
Noncurrent assets:				
Restricted cash and cash equivalents (Note 2)	13,973,453	1,523,274	33,029,093	822,702
Restricted investments (Note 2)	(530,534)	-	(134,668)	3,790,058
Endowment investments (Note 2)	17,484,843	4,383,009	14,073,837	-
State appropriation available	258,723	-	594,991	-
Notes and mortgages receivable, net of allowance (Note 3)	1,859,131	-	1,962,330	-
Other long-term investments (Note 2)	1,217,076	-	642,825	-
Unamortized issuance cost	143,512	113,503	156,635	116,024
Nondepreciable capital assets (Note 4)	40,096,782	542,828	25,190,621	542,828
Depreciable capital assets, net (Note 4)	101,553,509	11,170,334	97,207,630	11,490,471
Total noncurrent assets	176,056,495	17,732,948	172,723,294	16,762,083
Total assets	221,500,401	23,565,693	218,174,977	24,678,323
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities (Note 5)	9,088,308	113,056	6,775,178	99,321
Due to affiliates	35,505	51,132	226,380	29,471
Deferred revenue	3,289,981	45,052	2,979,317	66,605
Retainage payable	1,496,645	-	1,099,095	-
Obligations under securities lending (Note 2)	7,367,652	-	9,327,647	-
Deposits held in custody for others	2,207,300	136,633	2,624,608	128,251
Long-term liabilities - current portion (Notes 6 and 7)	4,046,133	390,000	4,727,966	200,000
Other current liabilities	48,570	567,727	56,001	2,539,914
Total current liabilities	27,580,094	1,303,600	27,816,192	3,063,562
Noncurrent liabilities:				
Long-term liabilities - noncurrent (Notes 6 and 7)	62,665,689	22,489,614	65,964,519	23,312,815
Total liabilities	90,245,783	23,793,214	93,780,711	26,376,377
NET ASSETS				
Invested in capital assets (net of related debt)	86,463,078	(8,303,335)	59,898,927	(8,180,677)
Restricted for:		-		-
Nonexpendable:				-
Scholarships and fellowships	3,473,449	6,559,257	2,622,989	6,669,333
Instruction	2,696,952	-	1,352,230	-
Other	202,000	-	196,832	-
Expendable:				-
Scholarships and fellowships	11,462,970	1,481,135	10,145,871	1,128,286
Instruction	-	-	174,826	-
Loans	900,743	-	793,135	-
Capital projects	512,151	-	24,715,002	-
Other	1,589,683	-	1,058,850	-
Unrestricted	23,953,592	35,422	23,435,604	(1,314,996)
Total net assets	$131,254,618	$ (227,521)	$124,394,266	$ (1,698,054)

The accompanying Notes to Financial Statements are an intergral 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

	2010		2009	
	Virginia State	Component Units	Virginia State	Component Units
Operating revenues:				
Student tuition and fees (net of scholarship allowances of $10,082,447)	$ 23,521,687	-	$ 22,770,446	$ -
Federal grants and contracts	17,868,929	-	16,716,467	-
State and local grants and contracts	185,343	-	255,796	-
Sales and services - educational departments	1,826	-	21,754	-
Auxiliary enterprises (net of scholarship allowance of $11,525,883)	22,459,802	-	23,946,567	-
Other operating revenues	786,604	1,571,494	77,419	2,720,076
Total operating revenues	64,824,191	1,571,494	63,788,449	2,720,076
Operating expenses: (Note 9)				
Education and general:		-		
Instruction	34,703,815	-	35,239,768	-
Research	4,302,792	-	4,560,323	-
Public service	7,658,294	-	7,371,763	-
Academic support	4,995,689	-	4,781,439	-
Student services	5,252,008	-	4,993,373	-
Institutional support	14,206,549	919,219	13,179,358	2,530,317
Operation and maintenance of plant	9,850,093	-	13,021,091	-
Scholarships and fellowships	2,026,857	233,676	1,201,295	191,653
Depreciation	9,290,551	322,658	9,298,648	1,689,186
Auxiliary enterprises	24,378,448	-	24,950,561	-
Other	-	-	516,289	-
Total operating expenses	116,665,096	1,475,553	119,113,908	4,411,156
Operating income/(loss)	(51,840,905)	95,941	(55,325,459)	(1,691,080)
Nonoperating revenues/(expenses):				
State appropriations (Note 8)	37,977,396	-	40,623,539	-
Gifts	1,097,601	1,150,989	855,199	682,107
Investment income	1,392,529	989,769	(1,290,525)	(1,159,128)
Interest on indebtness	(2,191,041)	(493,927)	(2,991,051)	(2,407,924)
Loss on disposal of assets	(110,743)	-	(4,659)	-
Federal student financial aid	13,249,393	-	9,044,612	-
Federal Stabilization Funds (ARRA)	93,972	-	-	-
Other nonoperating revenues	473,843	9,959	467,596	39,179
Other nonoperating expenses	(3,146)	(282,198)	(55,130)	(221,525)
Net nonoperating revenue	51,979,804	1,374,592	46,649,581	(3,067,291)
Income/(Loss) before other revenues	138,899	1,470,533	(8,675,878)	(4,758,371)
Capital grants and gifts	631,745	-	-	-
Additions to permanent endowments	1,323,591	-	1,063,473	-
21st Century Bonds Reimbursement Program	10,667,036	-	131,298	675,910
General Obligation Bonds Reimbursement Program	26,743	-	2,994,321	-
Other capital appropriation reduction	-	-	141,119	-
Extraordinary Loss for Gateway Dining Hall	(5,927,662)	-	(13,822,584)	-
Total other revenues	6,721,453	-	(9,492,373)	675,910
Increase in net assets	6,860,352	1,470,533	(18,168,251)	(4,082,461)
Net assets, beginning of year	124,394,266	(1,698,054)	142,562,517	2,384,407
Net assets, end of year	$ 131,254,618	(227,521)	$ 124,394,266	$ (1,698,054)

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

	2010	2009
Cash flows from operating activities:		
Tuition and fees	$ 24,078,170	$ 22,023,203
Grants and contracts	18,099,188	16,547,222
Auxiliary enterprises	22,350,067	24,337,383
Departmental Sales and Services, and Other revenues	(8,478)	577,165
Payments to employees	(56,434,772)	(58,102,811)
Payments to suppliers	(38,852,649)	(40,425,683)
Payments for utilities	(7,339,245)	(7,574,591)
Payments for scholarships and fellowships	(4,921,165)	(3,708,638)
Loans issued to students	(327,633)	(211,522)
Collection of loans from students	430,265	180,608
Other payments	(116,881)	160,506
Net cash used by operating activities	(43,043,133)	(46,197,158)
Cash flows from noncapital financing activities:		
State appropriations	38,005,762	40,618,660
Gifts	2,421,192	986,497
Federal Student Financial Aid	13,249,392	9,044,612
ARRA Fisal Stabilization	93,972	
Other nonoperating revenue	470,697	412,465
Loss on disposal of assets	(6,038,406)	(4,659)
Funds held in custody for others - receipts	22,432,675	22,560,156
Funds held in custody for others - disbursements	(22,846,961)	(22,017,757)
Federal direct lending program receipts	24,210,277	22,432,904
Federal direct lending program disbursements	(24,213,299)	(22,231,546)
Net cash provided by noncapital financing activities	47,785,301	51,801,332
Cash flows from capital financing activities:		
Capital appropriations	307,904	3,877,717
Capital gifts and grants	1,267,385	1,099,814
21st Century Bonds	8,903,665	1,217,140
General Obligation Bonds	38,409	141,772
Interest paid on capital debt, leases, and installments	(2,206,825)	(3,003,821)
Principal paid on capital debt, leases, and installments	(11,344,265)	(2,428,951)
Principal received on capital debt, leases, and installments	7,486,176	519,865
Purchase of capital assets	(26,531,407)	(10,941,387)
Net cash used by capital financing activities	(22,078,958)	(9,517,851)
Cash flows from investing activities:		
Investment income	1,392,529	(1,290,525)
Proceeds from sales and maturities of investments	(1,022,970)	2,984,167
Purchase of investments	(2,566,421)	(1,460,023)
Net cash used by investing activities	(2,196,862)	233,619
Net increase in cash	(19,533,652)	(3,680,058)
Cash and cash equivalents - beginning of the year	60,047,009	63,727,067
Cash and cash equivalents - end of the year	$ 40,513,357	$ 60,047,009

STATEMENT OF CASH FLOWS (continued)

As of June 30, 2010 with comparative financial information as of June 30, 2009

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

	2010	2009
Operating income (loss)	(51,840,905)	$ (55,325,459)
Adjustments to reconcile net cash used by operating activities:		
Depreciation expense	9,290,552	9,298,648
Changes in assets and liabilities:		
Receivables	(615,908)	456,658
Prepaid items	(697,691)	90,455
Other assets	13,124	9,737
Accounts payable	2,122,254	(99,686)
Less: Interest payable	15,784	12,770
Less: Capital assets payable	(1,613,632)	
Deferred revenue	310,664	(760,135)
Other liabilities	(130,005)	150,769
Net loans	102,633	(30,915)
Net cash used by operating activities	$ (43,043,133)	$ (46,197,158)

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

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The University is a component unit of the Commonwealth of Virginia and is included in the Comprehensive Annual Financial Report (CAFR) of the Commonwealth. These basic financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) applicable to colleges and universities. They are prepared for and at the direction of the Commonwealth of Virginia for inclusion in the Commonwealth's CAFR, which includes all agencies, boards, commissions, and authorities associated with the Commonwealth and over which the Commonwealth exercises or has the ability to exercise oversight authority.

The Virginia State University Foundation (VSUF) is a legally separate component unit of the University and was organized as a tax-exempt charitable and educational organization in 1968. The purpose of this foundation is to accept contributions from individual donors and to safeguard, invest, and distribute the funds as designated by the donors or the Foundation's Board of Trustees for the benefit of the University, its students, alumni, and educational community in support of the University's mission.

The Virginia State University Real Estate Foundation (VSUREF) is a legally separate component unit of the University and was organized as a tax-exempt charitable and educational organization in 2002. Operations began in August 2003. The purpose of the Real Estate Foundation is to construct and manage the University Apartments at Ettrick (UAE), a 504-bedroom dormitory facility for the University, in support of the University's mission.

Effective with the calendar year beginning January 1, 2010, the VSUREF changed from a fiscal year end of June 30 to December 31. A six-month fiscal transition period from July 1, 2009, through December 31, 2009, precedes the start of the new calendar-year cycle.

Although the University does not control the timing or amount of receipts from either the VSUF or the VSUREF, the majority of the resources or income thereof that both foundations hold and invest is restricted to the activities of the University by the donors. Because these restricted resources held by the foundations can only be used by, or for the benefit of, the University, the VSUF and the VSUREF are considered component units of the University and are discretely presented in the University's financial statements.

During the year ended June 30, 2010, the VSUF distributed $293,676 to the University for both restricted and unrestricted purposes. Separate financial statements for the VSUF can be obtained by writing Virginia State University Foundation c/o Vice President of Development, Storum Hall, P.O. box 9027, Petersburg, VA 23806. Separate financial statements for the VSUREF can be obtained by writing Virginia State University Real Estate Foundation c/o Vice President of Development, Storum Hall, P.O. Box 9027, Petersburg, VA 23806.

B. Basis of Presentation

The University's accounting policies conform with generally accepted accounting principles as prescribed by GASB, including all applicable GASB pronouncements, as well as applicable Financial Accounting Standards Board (FASB) statements and interpretations, Accounting Principles Board opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The financial statements have been prepared in accordance with GASB Statement 34, *Basic Financial Statements – and Management's Discussion and Analysis – for Stateand Local Governments*, and GASB Statement 35, *Basic Financial Statements and Management's Discussion and Analysis of Public Colleges and Universities.*

The VSUF and the VSUREF are private, nonprofit organizations that report under FASB standards, including FASB Statement 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition and presentation features. No modifications have been made to the foundations' information in the University's financial reporting entity for these differences.

C. Basis of Accounting

The University's financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recorded when a liability has been incurred, regardless of the timing of related cash flows. All significant intra-agency transactions have been eliminated.

D. Cash Equivalents

The University considers all highly liquid investments with an original maturity of ninety days or less to be cash equivalents. Funds invested through the State Non-Arbitrage Program (SNAP) and portions of the funds invested in the State Securities Lending Program are considered cash equivalents.

E. Investments

In accordance with GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, investments are recorded at fair market value at June 30, 2010. All investment income, including changes in the fair value of investments (unrealized gains and losses), is reported as non operating revenue in the Statement of Revenues, Expenses, and Changes in Net Assets.

F. Prepaid Expenses

Prepaid expenses represent university library books, postage, system maintenance agreements and licenses, utilities, liability insurance and property insurance for FY2011, that were paid in advance as of June 30, 2010.

G. Capital Assets

Capital assets consisting of land, buildings, equipment, infrastructure assets, improvements other than buildings, inexhaustible works of art, and construction-in-progress are stated at appraised historical cost or actual cost, where determinable. Purchased or constructed capital assets are reported at actual cost or estimated historical cost. Donated capital assets are reported at fair value on the date of acquisition. Library materials are valued using purchase price for library acquisitions. Equipment is capitalized when the acquisition cost is $5,000 or greater and the estimated useful life is two years or more. Expenses for construction-in-progress are capitalized as they are incurred. Interest expenses relating to construction are capitalized, net of interest income earned on resources set aside for this purpose. For the year ended June 30, 2010, interest expenses exceeded interest earned by $507,210 and was capitalized. Infrastructure assets are recorded at cost.

Depreciation is calculated using the straight-line method over the estimated useful life as follows:

Buildings	30-60 years
Infrastructure assets	15-20 years
Equipment	2-10 years
Banner administrative systems	5 years
Library books	5 years
Other improvements	20 years

H. Restricted and Unrestricted Net Assets

Resources restricted by outside sources are distinguished from unrestricted resources allocated for specific purposes by action of the Board of Visitors. Externally restricted resources may be utilized only in accordance with the purposes established by the source of such resources and are in contrast with unrestricted resources, of which the governing board retains full control to use in achieving the institutional purpose.

Restricted net assets can be expendable or nonexpendable. Nonexpendable restricted net assets are endowments and similar type funds where the donor(s) or some other outside source has stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal. Expendable restricted net assets are resources which the University is legally or contractually obligated to spend in accordance with the restrictions imposed by external parties.

Unrestricted net assets are resources derived primarily from state appropriations, sales and services of educational departments, student tuition and fees, auxiliary enterprises fees and revenues, and gifts. Auxiliary enterprises are self-supporting activities that provide services for students, faculty, and staff. These unrestricted resources are used for transactions relating to the educational and general operations of the University and at the discretion of the governing board to meet current expenses.

When an expense has been incurred that can be paid using either restricted or unrestricted resources, the University's policy is first to apply the expense toward restricted resources and then toward unrestricted. Restricted funds remain classified as such until restrictions have been satisfied.

I. Deferred Revenue

Deferred revenue represents revenues collected, but not earned as of June 30, 2010. This consists primarily of student tuition and fees received in advance of the academic term and advance payments from grant and contract sponsors.

J. Accrued Compensated Absences

The amount of leave earned, but not taken by 12-month faculty and salaried employees is recorded as a liability on the Statement of Net Assets. The amount reflects all unused vacation leave, overtime leave, compensatory leave, and the amount payable upon termination under the Commonwealth of Virginia's sick leave payout policy as of June 30, 2010. The applicable share of employer-related taxes payable on eventual termination payments is also included.

K. Revenue and Expense Classifications

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

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

Nonoperating expenses include interest on debt related to the purchase of capital assets and investment expenses. All other expenses are classified as operating expenses.

L. Discounts, Premiums, and Bond Issuance Costs

Bonds payable on the Statement of Net Assets are reported net of related discount and premiums, which are expensed over the life of the bond. Bond issuance costs are also expensed over the life of the bonds.

M. Scholarship Allowances

Student tuition and fee revenues, and certain other revenues from students, 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. The scholarship allowance is reported using the alternative method as recommended by the National Association of College and University Business Officers (NACUBO). The alternative method is a simple proportionality algorithm that computes scholarship allowance on a University-wide basis by allocating the amounts applied to student accounts and the cash payment to students, excluding payments for services, on the ratio of total aid to the aid not considered to be third-party aid.

N. Title IV Federal Financial Assistance Programs

The University participates in the following federally funded programs: Federal Pell Grant (PELL), Federal Academic Competitiveness Grant (ACG); Federal Science and Mathematics Access to Retain Talent Grant (SMART); Federal TEACH Grants; Federal Supplemental Educational Opportunity Grant (SEOG); Federal Perkins Loan, Federal Stafford Subsidized Loan; Federal Stafford Unsubsidized Loan; Federal Parent Loan for Undergraduate and Graduate Students (PLUS), and Federal College Work Study (CWS). Federal programs are audited in accordance with the Single Audit Act Amendments of 1996, the Office of Management and Budget Revised Circular A-133, *Audit of States, Local Governments and Non-Profit Organizations, and the Compliance Supplement.*

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS

A. Cash and Cash Equivalents

Pursuant to Section 2.2-1800, et seq., Code of Virginia, all State funds of the University are held by the Treasurer of Virginia, who is responsible for the collection, disbursement, custody, and investment of State funds. Cash deposits held by the University are maintained in accounts that are covered by federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 of the Code of Virginia. In accordance with the GASB Statement 9 *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds*, definition of cash and cash equivalents, cash represents cash with the Treasurer of Virginia, cash on hand, and cash deposits including certificates of deposit and temporary investments with original maturities of three months or less. At June 30, 2010, the carrying amount of cash and cash equivalents was $45,300,785.

B. Investments - Credit Risk, Custodial Credit Risk, and Interest Rate Risk

The University evaluates common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. The following disclosures are made in accordance with GASB Statement 40, *Deposit and Investment Risk Disclosures*. As an element of interest rate risk, this statement requires certain disclosures of investments with fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified in this statement must be disclosed. GASB Statement 40 also modifies disclosures required by GASB Statement 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements.*

As of June 30, 2010, the University had the following investments:

Investments	
Spider Management Group	$ 18,171,385
Treasurer of Virginia	2,580,224
Total investments	$ 20,751,609

Investments held by the Treasurer of Virginia include the University's allocated share of securities totaling $2,580,224 received for securities lending transactions and held in the General Account of the Commonwealth. The Commonwealth's policy is to record unrealized gains and losses in the General Fund in the Commonwealth's basic financial statements. When gains or losses are realized, the actual gains and losses are recorded by the affected agencies. Information related to the credit risk of these investments and securities lending transactions held in the General Account is available on a statewide level in the Commonwealth of Virginia's CAFR.

C. Interest Rate Risk

The following information is provided with respect to the credit risk associated with the University's cash and cash equivalents and investments at June 30, 2010. Interest rate risk is the risk that changes in interest rates will adversely affect the fair market value of an investment. The University's policy for investment of endowment fund assets requires that the investments be allocated as follows as of June 30, 2010:

This asset allocation helps limit the University's exposure to interest rate risk.

Asset Class	Desired Range	Allocation
Domestic Equity	5 - 25%	16.7%
International Equity	5 - 25%	11.1%
Global Equity	5 - 25%	9.3%
Opportunistic (P/E, Venture)	10 - 25%	16.1%
Multi Strategy	5 - 20%	15.6%
Credit	0 - 15%	10.6%
Diversified	0 - 10%	4.6%
Real Estate	0 - 10%	3.7%
Real Assets	0 - 10%	5.3%
Cash	0 - 10%	7.0%

D. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. Statutes authorize the investment of local funds held by the University in obligations of the Commonwealth; federal government; other states or political subdivisions thereof; Virginia political subdivisions; the International Bank for Reconstruction and Development; the Asian Development Bank; and the African Development Bank. In addition, the University may invest in prime quality commercial paper rated Prime 1 by Moody's Investment Service or A-1 by Standard and Poor's, Incorporated. The University may also invest in overnight term or open repurchase agreements and money market funds.

E. Custodial Credit Risk

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty, the endowment funds will not be able to recover the value of the investments that are in possession of an outside party. The University does not have a formal investment policy for custodial arrangements. At June 30, 2010, the University endowment funds were held at the custodial banks, the Spider Management Group and Wachovia.

F. Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government or university in a single issuer. The University does not have a formal policy to reduce concentration of credit risk; however, all of the University's investments were held in various instruments and stocks and were not exposed to this risk.

G. VSUF – Cash and Investments

The investments of the VSUF consist primarily of equity securities and mutual funds. All investments are stated at fair value as reported by investment managers and reflect readily determinable market prices. All investments are considered available for sale. Realized gains are calculated based on the difference between the costs and selling price of the security. The amount of cash and investments held by the Foundation at June 30, 2010, was $7,524,862.

H. VSUREF - Cash and Investments

The investments of the VSUREF consist primarily of U.S. government money market funds. All investments are stated at fair value as reported by investment managers and reflect readily determinable market prices. All investments are considered available for sale. Realized gains are calculated based on the difference between the costs and selling price of the security. Cost is determined based on the initial purchase price of each individual investment. The amount of cash and investments held by the Real Estate Foundation at June 30, 2010 was $3,460,776.

3. ACCOUNTS RECEIVABLE AND NOTES

A. Accounts Receivable

Accounts receivable is shown net of allowance for doubtful accounts in the accompanying Statement of Net Assets.

At June 30, 2010, accounts receivable consisted of the following:

Student tuition and fees	$	1,148,238
Federal, state and private grants and contracts		2,864,918
Auxiliary enterprises		5,734
Special Student Loan		3,336
Third party receivables - students		103,130
Other receivables		1,043,876
Total	$	5,169,232
Less: allowance for doubtful accounts		(784,851)
Net accounts receivable	$	4,384,381

B. Due from Affiliates

Due from VSUF	$	51,132

C. Due from the Commonwealth

Receivables due from the Commonwealth represent reimbursements due for equipment purchases made by the University under the Equipment Trust Fund Program and Bond Reimbursement Programs. On a reimbursement basis, the Equipment Trust Fund program provides State-supported institutions of higher education with bond proceeds for financing the acquisition and replacement of instructional and research equipment.

At June 30, 2010, Due from the Commonwealth consisted of the following:

Equipment Trust Fund Reimbursement	$ 215,365
General Obligation Bond Reimbursement - Construction Engineering Building	627
General Obligation Bond Reimbursement - Gandy Hall Renovation	627
21st Century Bond Reimbursement - Howard Quad Residence Hall	2,165,347
21st Century Bond Reimbursement – Maintenance Reserve	212,491
21st Century Bond Reimbursement – Heating Plant	260,692
21st Century Bond Reimbursement – Singleton Hall	824,150
21st Century Bond Reimbursement – Hunter McDaniel	74,221
21st Century Bond Reimbursement – Steam Tunnels	7,821
Interest Earned on Tuition and Fees and other E&G Revenues	222,840
Total Due from the Commonwealth	$ 3,984,181

D. Notes Receivable

Notes receivable are shown net of an allowance for doubtful accounts in the accompanying Statement of Net Assets.

At June 30, 2010, notes receivable consisted of the following:

Current notes receivable:	
Federal student loans	$ 32,640
Less: Allowance for doubtful accounts	(2,425)
Net current notes receivable	30,215
Noncurrent notes receivables:	
Federal student loans	2,056,841
Less: Allowance for doubtful accounts	(197,710)
Net noncurrent notes receivables	1,859,131
Total notes receivable	$1,889,346

4. CAPITAL ASSETS

A summary of changes in the various capital asset categories for the year ending June 30, 2010, is presented as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Nondepreciable capital assets:				
Land	$ 1,243,627	$ 3,390,665	$ -	$ 4,634,292
Inexhaustible works of art and historical treasures	354,645	-	(235,645)	119,000
Construction in progress	23,592,349	29,556,922	(17,805,781)	35,343,490
Total nondepreciable capital assets	25,190,621	32,947,587	(18,041,426)	40,096,782
Depreciable capital assets:				
Buildings	165,635,780	11,248,331	(110,574)	176,773,537
Equipment	32,397,843	1,619,612	(2,228,110)	31,789,345
Banner administrative system	3,347,006	-	-	3,347,006
Infrastructure(includes Improvements other than buildings)	14,247,288	159,630	-	14,406,918
Library books	21,492,558	1,012,448	(43,451)	22,461,555
Total depreciable capital assets	237,120,475	14,040,021	(2,382,135)	248,778,361
Less accumulated depreciation for:				
Buildings	87,183,312	4,924,474	-	92,107,786
Equipment	23,009,367	1,736,229	(1,936,541)	22,809,055
Banner administrative systems	1,941,617	669,401	-	2,611,018
Infrastructure(includes Improvements other than buildings)	9,274,577	659,774	-	9,934,351
Library books	18,503,972	1,300,673	(42,003)	19,762,642
Total accumulated depreciation	139,912,845	9,290,551	(1,978,544)	147,224,852
Net depreciable capital assets	97,207,630	4,749,470	(403,591)	101,553,509
Total	$ 122,398,251	$ 37,697,057	$ (18,445,017)	$ 141,650,291

Net capital assets of the VSUREF consist of $542,828 for Land and $11,170,334 (net of accumulated depreciation of $4,191,240) for Buildings, Land Improvements, and Equipment as of June 30, 2010.

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following at June 30, 2010:

Employee salaries, wages, and fringe benefits payable	$ 3,194,086
Matured interest payable	322,595
Vendor and supplier accounts payable	5,571,627
Total	$ 9,088,308

6. LONG-TERM LIABILITIES

The University's noncurrent liabilities consist of long-term debt (further described in Note 7) and other noncurrent liabilities. A summary of changes in noncurrent liabilities for the year ending June 30, 2010 is presented as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Noncurrent
Long-term debt:						
General obligation revenue bonds	$ 51,941,061	$ 7,486,176	$ (10,567,039)	$ 48,860,198	$ 2,192,031	$ 46,668,167
Notes payable	10,580,691	-	(535,875)	10,044,816	559,550	9,485,266
Installment purchases	2,957,382	-	(241,351)	2,716,031	254,951	2,461,080
Total long-term debt	65,479,134	7,486,176	(11,344,265)	61,621,045	3,006,532	58,614,513
Other noncurrent liabilities:						
Accrued compensated absences	3,653,339	1,890,221	(1,933,870)	3,609,690	1,039,601	2,570,089
Federal perkins loan contributions	1,560,012	-	(78,925)	1,481,087	-	1,481,087
Total long-term liabilities	$ 70,692,485	$ 9,376,397	$ (13,357,060)	$ 66,711,822	$ 4,046,133	$ 62,665,689

7. LONG-TERM INDEBTEDNESS

A. Bonds Payable

The University's bonds are issued pursuant to Section 9 of Article X of the Constitution of Virginia. All of the bonds at the University are Section 9(c) bonds. These bonds are backed by the full faith, credit and taxing power of the Commonwealth, and are issued to finance capital projects which, when completed, will generate revenue to repay the debt.

Aggregate annual maturities of bonds payable for fiscal years after 2010 are:

	Interest Rate	Maturity	Total
General obligation revenue bonds:			
Jones Dining Hall-96 Refunded Portion, Series 2002 R	4% - 5%	2016	$ 1,054,823
Jones Dining Hall Project, Series 2004 B	4% - 5%	2018	509,431
VSU Const Residence Hall 2006 B Refunded Portion	5%	2022	4,965,000
VSU Construct Dining Hall Refunded Portion 2006B	5%	2022	1,280,000
Construct Residence Halls, Series 2006 B	4% - 5%	2026	10,075,000
Construct Dining Hall, Series 2006 B	4% - 5%	2026	2,600,000
Construct Residence Halls, Series 2007 A	4% - 5%	2027	1,820,000
Construct Two Residence Halls, Series 2007 B	4% - 5%	2027	25,210,000
Add unamortized premiums (net of discounts):			1,345,944
Total bonds payable			$ 48,860,198

Aggregate annual maturities of bonds payable for fiscal years after 2010 are:

Maturity	Principal	Interest	Total
2011	$ 2,081,191	$ 2,212,694	$ 4,293,885
2012	2,191,047	2,108,635	4,299,682
2013	2,296,281	1,999,082	4,295,363
2014	2,410,436	1,884,268	4,294,704
2015	2,530,554	1,763,746	4,294,300
2016 - 2020	13,579,745	6,914,096	20,493,841
2021 - 2025	16,470,000	3,586,856	20,056,856
2026 - 2027	5,955,000	365,575	6,320,575
Add unamortized premiums (net of discounts):	1,345,944	-	1,345,944
Total	$ 48,860,198	$ 20,834,952	$ 69,695,150

B. Notes Payable

The University entered into a loan agreement with the Department of Housing and Urban Development (HUD) in 1989 and closed the agreement in 1992 to borrow funds to repair seven dormitories. The loan is to be repaid over 30 years at three percent interest and is secured by a lien on the net revenues from the ownership, operation, and use of the seven dormitories under repair. In prior years, the University participated in the Virginia College Building Authority (VCBA) Pooled Bond Program to fund the renovation of Rogers Stadium and the Student Village Housing Renovation Project. At June 30, 2010, the outstanding principal balances were $1,750,884 for the HUD loan and $7,960,000 for the VCBA notes payable.

A summary of future principal and interest requirements of the VCBA notes and HUD loan payable as of June 30, 2010, are as follows:

	Interest Rate	Maturity	Total
Virginia College Building Authority and HUD Notes Payable:			
VSU Pooled Bonds - 2002A Rogers Stadium Ref Portion, Series 2007 B	4%	2019	$ 2,185,000
VSU Pooled Bonds, Series 2002 A	5%	2022	2,425,000
VSU Pooled Bonds - Roger's Stadium, Series 2005 A	3% - 5%	2025	2,210,000
VSU Pooled Bonds - Student Village Housing, Series 2005 A	4% - 5%	2025	1,140,000
Department of Housing and Urban Development	3%	2022	1,750,884
Add unamortized premiums (net of discounts):			333,932
Total notes payable			$ 10,044,816

Aggregate annual maturities of notes payable for fiscal years after 2010 are:

Maturity	Principal	Interest	Total
2011	$ 535,279	$ 424,275	$ 959,554
2012	554,066	399,714	953,780
2013	582,967	374,038	957,005
2014	611,986	346,650	958,636
2015	636,126	319,566	955,692
2016 - 2020	3,587,252	1,169,777	4,757,029
2021 - 2025	2,908,208	346,314	3,254,522
2026	295,000	6,452	301,452
Add unamortized premiums:	333,932		333,932
Total	$ 10,044,816	$ 3,386,786	$ 13,431,602

C. Installment Purchases

In July 2007, the University entered into a fifteen-year Energy Performance Program lease agreement with First Municipal Credit Corporation through the Department of the Treasury in the amount of $2,729,129. The interest rate for this financing is 4.3 percent. Installment purchase obligations in FY2010 consisted of the Energy Performance Program Lease with $2,320,402 in principal remaining, and two buses through the Commonwealth's Master Equipment Leasing Program with $395,629 in principal remaining.

Principal and interest payment commitments as of June 30, 2010, are as follows:

	Interest Rate	Maturity	Total
Installment purchase obligation:			
Master Equipment Leasing Program - Motor Coach	3.15%	2014	$ 347,070
Master Equipment Leasing Program - Chevy GMT Van	2.0-2.6%	2013	48,559
Energy Efficiency Program	4.32%	2022	2,320,402
Total Installment Purchase Obligations:			$ 2,716,031

Aggregate maturity of installment purchase obligations for fiscal years after 2010 are:

Maturity	Principal	Interest	Total
2011	$ 254,951	$ 111,805	$ 366,756
2012	263,132	101,944	365,076
2013	261,408	91,904	353,312
2014	262,993	81,917	344,910
2015	179,555	72,326	251,881
2016 - 2020	1,021,102	238,303	1,259,405
2021 - 2022	472,890	30,871	503,761
Total	$ 2,716,031	$ 729,070	$ 3,445,101

D. Foundation Debt

The Real Estate Foundation refinanced and paid off the Series 2006 bonds and obtained $20,330,000 in Series 2008 bonds. The Series 2008 bonds are collateralized by the rental property and equipment. Also, the Real Estate Foundation is required to maintain a debt service reserve. The contractual interest rates are variable.

The Series 2008 bonds mature on July 1, 2031, and the Real Estate Foundation has agreed to prepayment terms of the principal to the Trustee with payments remaining due as follows:

Maturity	Principal
2011	$ 390,000
2012	410,000
2013	490,000
2014	590,000
2015	700,000
2016 and Thereafter	17,550,000
Total	$ 20,130,000

In conjunction with the refinancing of the IDA Bonds, during the year ended June 30, 2010, loan costs of approximately $124,371 were incurred and are being amortized over the debt period. Included in amortization expense for the year ended June 30, 2010 is $953,314 of loan costs related to the original bonds which were written off due to the refinancing. Amortization expense for the year ended December 31, 2009 was $8,347.

The VSUREF had entered into an interest rate swap agreement as part of the provisions of the Series 2006 bond agreement. When the VSUREF issued the 2008 Series bonds, the original swap contract was satisfied and a new interest rate swap agreement was obtained. Per the terms of the 2008 swap agreement, the VSUREF pays a fixed rate of interest of 4.12%. The interest rate swap agreements qualify as derivative financial instruments and are used to mitigate the effect of interest rate fluctuations. The VSUREF accounts for the interest rate swaps as fair value hedges whereby the fair value of these contracts is reflected in other liabilities in the accompanying statement of financial position with the offsets recorded as expenses. The fair value of these contracts was a negative $2,749,614 and $3,182,815 at December 31, 2009 and June 30, 2009, respectively. This is the amount the VSUREF would have to pay to settle the interest rate swaps as of these respective dates.

In conjunction with the bond issuance, the University signed a support agreement with the VSUREF stating that the Project will be an equal part of the Student Housing Program, provide preferential treatment to assign 95 percent occupancy if the debt service coverage ratio is less than 1.2 to 1, and limit additional housing projects.

8. STATE APPROPRIATIONS

The University receives State appropriations from the General Fund of the Commonwealth. The Appropriations Act specifies that such unexpended appropriations shall revert, as specifically provided by the General Assembly, at the end of a biennium.

The following is a summary of State appropriations received by the University for the year ended June 30, 2010:

Virginia State University:		
Original legislative appropriation:		
Education & general programs	$	34,742,880
Higher education student financial assistance		5,077,406
Executive Management savings	$	(3,811,589)
Supplemental adjustments:		
VIVA Interlibrary loan		4,941
Mandatory reappropriation from FY09		1,501,403
Central appropriations E & G interest		163,474
Reduction in personnel services		(595,392)
Appropriations decrease general fund		(1,542,494)
State grants		59,625
SPCC Rebate		7,967
eVA Rebate Reduction		(50,532)
Year end cash reversion		(1,307,682)
Misc savings reductions		(2,699)
Non general fund transfer		(708,501)
	$	33,538,807
Cooperative Extension and Agricultural Research Services:		
Original legislative appropriation:		
Education & general programs	$	4,785,161
Executive Management Savings		(58,875)
Supplemental adjustments:		
Mandatory reappropriation from FY08		934
Appropriations decrease general fund		(92,781)
Year end cash reversion		(195,850)
	$	4,438,589
Total state appropriations	$	37,977,396

9. EXPENSES BY NATURAL CLASSIFICATION

The following table shows a classification of expenses both by function, as listed in the Statement of Revenues, Expenses, and Changes in Net Assets and by natural classification, which is the basis for amounts shown in the Statement of Cash Flows.

	Salaries and Wages	Fringe Benefits	Services and Supplies	Scholarship and Fellowships	Utilities	Depreciation	Total
Instruction	$ 20,912,386	$ 5,782,447	$ 7,631,520	$ 213,526	$ 163,936	$ -	$ 34,703,815
Research	2,220,416	629,604	1,166,362	164,071	122,339	-	$ 4,302,792
Public Service	3,268,930	846,837	3,420,203	28,152	94,172	-	$ 7,658,294
Academic Support	2,946,134	762,605	1,153,250	92,337	41,363	-	$ 4,995,689
Student Services	2,666,440	738,193	1,713,834	92,492	41,049	-	$ 5,252,008
Institutional Support	7,727,334	2,583,399	3,467,888	32,813	395,115	-	$ 14,206,549
Operation and Maintenance of Plant	225,663	275,144	5,501,762	-	3,847,524	-	$ 9,850,093
Scholarships and Fellowships	-	-	300	2,026,557	-	-	$ 2,026,857
Depreciation	-	-	-	-	-	9,290,551	$ 9,290,551
Auxiliary Enterprises	4,177,265	1,175,595	14,120,625	2,271,217	2,633,746	-	$ 24,378,448
Other	-	-	-	-	-	-	$ -
Total	$ 44,144,568	$ 12,793,824	$ 38,175,744	$ 4,921,165	$ 7,339,244	$ 9,290,551	$ 116,665,096

10. COMMITMENTS

As of June 30, 2010, the University was a party to construction contracts totaling $60,542,607 of which $9,956,649 was still outstanding as of June 30, 2010.

11. RETIREMENT PLANS

A. Virginia Retirement System

Employees of the University are employees of the Commonwealth of Virginia. Substantially all full-time classified salaried employees of the University participate in a defined benefit retirement plan administered by the Virginia Retirement System (VRS). VRS is an agent multiple-employer public employee retirement system (PERS) that acts as a common investment and administrative agency for the Commonwealth of Virginia and its political subdivisions.

The VRS does not measure assets and pension benefit obligations separately for individual State institutions. Therefore, all information relating to this plan is available at the statewide level in the Commonwealth's Comprehensive Annual Financial Report. The Commonwealth, not the University, has the overall responsibility for contributions to this plan. The CAFR discloses the unfunded pension benefit obligation at June 30, 2010, as well as the ten-year historical trend information showing VRS's progress in accumulating sufficient assets to pay benefits when due.

The University's total VRS contributions were $3,046,565 for the year ended June 30, 2010, which included the five percent employee contribution assumed by the employer. These contributions represent 10.1 percent of covered payroll for the year. The University's payroll costs for employees covered by the VRS for the year ended June 30, 2010, were $30,326,406. The University's total payroll costs for the year ended was $44,144,568.

B. Optional Retirement Plans

Full-time faculty and certain administrative staff may participate in one of two other retirement plans: 1) Fidelity Investments Institutional Services and 2) Teacher Insurance and Annuity Association/College Retirement Equity Fund. These are fixed-contribution programs where the retirement benefits received are based upon the employee contributions totaling 10.4 percent, plus interest and dividends.

Individual contracts issued under these plans provide full and immediate vesting of both the University and the participants' contributions. Annual pension costs under these plans totaled $771,325 for the year ended June 30, 2010. Contributions to these retirement programs were calculated using the base salary amount of approximately $7,416,587.

C. Deferred Compensation

University employees may also voluntarily 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 matched dollar amount 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 $179,218 for FY2010.

12. POST-EMPLOYMENT BENEFITS

The Commonwealth participates in the VRS administered statewide group life insurance programs, which provides post-employment life insurance benefits to eligible retired and terminated employees. The Commonwealth also provides health care credits against the monthly health insurance premiums for its retirees who have at least 15 years of state service and participate in the State's health plan. Information relating to these plans is available at the statewide level in the Commonwealth of Virginia's CAFR.

The University in compliance with GASB Statement No.47 – Accounting for Termination Benefits did have some voluntary termination benefits and/or involuntary termination benefits as of June 30, 2010 that were recognized in accordance with this statement. The Virginia State University "Early Retirement Incentive Plan" (ERIP) is a volunteer early retirement plan for tenured teaching and research faculty which provides supplemental retirement benefits to faculty members. Eligible participant must be 1) Volunteer 2) 50 yrs of age 3) Tenured or contractual right to continued employment 4) Full-time employee.

The objectives of the plan include providing the University with increased flexibility in the allocation of positions among programs and helping alleviate the financial strain of retirement that may prevent some employees from retiring. The employee receives 66.6% of the employee's base annual salary and the employer paid portion of healthcare insurance for a 12 month period. The total liability of this plan is $2,756.

In addition, the University has an "Alternative Severance Option" (ASO) program which is a voluntary plan for classified, teaching, and research and administrative faculty. This plan provides supplemental severance and enhanced retirement benefits through VRS based on total number of years of service. The plan also includes 12 months of the employer paid portion of healthcare and life insurance. The total liability of this plan is $96,739.

13. RELATED PARTIES

During 2007, the University entered into an agreement with the Virginia State University Foundation, with intentions to expand the University campus through real property acquisitions in the Ettrick, Virginia area. This agreement was entered into because the University may not be able to successfully meet the demands of the open real estate market in the timely manner necessary to secure contracts to purchase real property. As such, the Foundation agreed to undertake the purchase of certain real property as may be designated by the University from time to time, which the University shall then acquire from the Foundation. As of June 30, 2010 the University has acquired all Real property under this agreement. The contract states that the University will reimburse the Foundation for all reasonable expenses incurred as a result of the acquisitions. The contract is in effect for two years from the effective date, but contains an automatic renewal for five one-year terms upon each anniversary unless one of the parties provides written notice to the other of its desire to terminate the agreement at least thirty days prior to the date of the scheduled renewal. Amounts due from the University related to this agreement were $35,505 at June 30, 2010.

14. 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 expenditure 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 regulations issued by the Office of Management and Budget. Failure to comply with these regulations may result in questions concerning the allowability 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.

The University has been a defendant in several legal actions. The final outcome cannot be determined at this time, but management is of the opinion that the liability, if any, for these legal actions will not have a material effect on the University's financial position.

15. RISK MANAGEMENT

The University is exposed to various risks of loss related to torts; theft, or damage to and destruction of assets; errors, and omissions; non-performance 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, and air and watercraft plans. The University pays premiums to each of these departments for its insurance coverage. Information relating to the Commonwealth's insurance plans is available at the statewide level in the CAFR.

16. EXTRAORDINARY ITEM

As noted in the footnotes to the FY 2009 financial statements, the University has experienced major issues with it Gateway Dining/Event Center construction project. During FY 2009, construction was halted and the project was idled for a period of time to determine the seriousness of the construction issues and how to proceed. During FY 2010, the University hired a forensics engineering firm to evaluate the construction to date and determine the next steps to complete the project. Unfortunately, it was determined that there were major construction flaws and that a large portion of the facility would have to be demolished and rebuilt. This has resulted in a write down of the project costs to date in the amount of $5.9 million to reflect the project completion as of June 30, 2010 (approximately 10% complete). Construction is now moving forward and there is a projected completion date of March 2011. This write down is reflected in the accompanying FY 2010 financial statement.

VIRGINIA STATE UNIVERSITY
BOARD OF VISITORS

As of June 30, 2010

VIRGINIA STATE UNIVERSITY
ADMINISTRATIVE OFFICERS

As of June 30, 2010

Mr. Eddie N. Moore, Jr.
President

Mr. David J. Meadows
Vice President for Administration and Finance

Dr. W. Weldon Hill
Provost and Vice President of Academic Affairs

Dr. Robert L. Turner, Jr.
Vice President for Development
And
University Relations

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